

# **Bond Case Briefs**

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## **Fitch: Not-for-Profit Hospital Medians Improved Prior to Coronavirus**

Fitch Ratings-New York/Austin-16 July 2020: Fitch Ratings is currently compiling the latest median financial ratios for its not-for-profit (NFP) hospital and health system portfolio, and early indications show across the board improvement among Fitch's key rating metrics. The medians that will be profiled in our 2020 median ratio report are based on 2019 audited data and therefore do not reflect the impact of the coronavirus pandemic on hospital operating performance in 2020. The 2019 metrics highlight the stronger position in which NFP hospitals found themselves at the onset of the outbreak, providing some financial cushion to withstand pressures. We expect the 2020 medians will represent peak performance levels until the sector is able to recover from the effects of the pandemic on operations.

Audited data show that the sector had stabilized after a period of prior operational softness, with improvements first seen in our 2019 medians (2018 audited data). The 2020 medians are expected to show operating margin expansion driven by higher revenues and targeted cost reductions along with improvement in liquidity and debt service ratios due in part to a favorable investment market in 2019 and increased cash flow. This is despite robust capital spending that normally limits yoy improvement in the sector's unrestricted liquidity levels and industry challenges such as a competitive labor market, high cost of speciality pharmaceuticals, modest yoy increases in contractual amounts, and the ongoing shift to value-based payments from fee-for-service.

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