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## **S&P U.S. Not-For-Profit Health Care Children's Hospital Median Financial Ratios -- 2019 vs. 2018**

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Based on fiscal 2019 data, children's hospitals rated by S&P Global Ratings exhibited healthy credit characteristics based on generally favorable enterprise profiles that typically lead to robust balance sheets, often supported by strong fundraising programs. As a result, a larger percent are rated in the higher rating categories relative to the entire universe of ratings and one children's hospital is rated 'AA+', which is the highest rating assigned to any U.S. not-for-profit acute health care provider.

While these medians do not yet reflect financial stress from the COVID-19 pandemic, children's hospitals are not immune to other industry challenges. Although the June 30 rating distribution is comparable (see chart 1), 5% of children's hospitals carry a negative outlook at June 30 (see chart 2) compared with none last year. We expect that the financial repercussions associated with the pandemic, which have largely contributed to a trend of unfavorable rating and outlook actions throughout the sector this year, will be evident in the medians based on fiscal 2020 results published in 2021.

Most children's hospitals did not treat a significant number of COVID-19 patients. However, the hospitals were still subject to mandatory shutdown of non-emergent and non-essential care and associated revenue and expense pressure. In addition, the recession may trigger further revenue stress with rising Medicaid volumes due to higher unemployment rates and potentially lower Medicaid rates as states consider reimbursement cuts to address their own budget shortfalls. We view these trends as unfavorable since Medicaid is traditionally a weak payer.

While our relatively small sample size of rated children's hospitals could affect the median ratios year to year (including the movement of credits from one rating category to another), the 2019 medians are generally comparable to 2018 medians with some weakness evident in the operating EBIDA margin and mixed results between categories relative to unrestricted reserve ratios (see table 1). In addition, by many financial measures children's hospitals continue to compare favorably to stand-alone counterparts with similar ratings, particularly in the 'AA' category (see table 2). Because of the small sample size, we do not calculate financial medians at the individual rating levels and have excluded a single 'BBB+' provider from the medians.

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