
S&P U.S. Not-For-Profit Health Care System Median Financial Ratios -- 2019 vs. 2018

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Health care systems generally follow median trends exhibited across the acute care sector, however with benefits from increased economic, business, and geographic dispersion that can lower volatility, the trends can sometimes be more moderate. This has led to a generally stable rating distribution overall compared with the distribution in August 2019 (see chart 1). However, a longer three-year view shows incremental shifts away from the 'AA' category and increases in the 'BBB' category.

While these financial medians do not yet reflect financial stress from the COVID-19 pandemic, we are already seeing a negative shift in the outlook distribution, which we believe could unfavorably influence the future rating distribution and fiscal 2020 medians. The June 30 health care system outlook distribution is significantly less favorable this year compared to the distribution published last year with 17% of health care systems carrying a negative rating outlook compared with just 5% last year (see chart 2). The number of positive outlooks has been relatively modest over the years, but has also been declining. While we have seen a rise in negative outlooks assigned to health care systems, the percent of negative outlooks is still lower when compared with our stand-alone hospitals.

The medians for all health care systems in 2019 remained generally stable overall compared with 2018 (see table 1). Notable exceptions include a four-year decline in operating EBIDA margin, although solid improvement of nonoperating revenue helped cushion debt service coverage. Additionally, unrestricted reserves relative to contingent liabilities continues a multi-year trend of improvement accelerated by recently low interest rates incentivizing long term public fixed rate financings. The defined benefit pension plan funding ratio dipped slightly due to declining discount rates. Rating trends by category (see table 2) and rating level (see tables 3A and 3B) are similar and especially consistent at the 'A' and 'AA' rating levels and categories. We have excluded medians on the speculative grade systems due to the small sample size of two.

S&P Global Ratings has ratings outstanding on 153 health care systems of which 146 (95%) are included in these median ratios. The number of rated health care systems has been fairly stable (we rated 151 systems last year), although revenue growth has been healthy as systems continue to actively participate in mergers and acquisitions.

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