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Fitch: U.S. Children's Hospitals Medians Stumble Amid Inflation and Investment Pressures

Fitch Ratings-Austin-10 July 2023: The resiliency of U.S. children's hospitals medians is being put to the test due to labor, inflation and investment portfolio pressures, according to Fitch Ratings' latest medians report.

On top of investment losses and crippling staffing shortages, children's hospitals have had to contend with a 'tridemic' of increased COVID-19, RSV and flu cases in late 2022/early 2023 that caused providers to experience capacity challenges, a decline in patient acuity and a temporary increase in contract labor utilization. Not surprisingly, 2023 children's hospital medians show operational deterioration and liquidity dilution with median cash flow metrics falling to the lowest level in a decade.

Despite these formidable challenges, the stand-alone children's hospitals' median rating remains strong at 'AA-'. "Children's hospitals continue to be able to drive positive operating results as a result of favorable reimbursement for higher acuity services and distinct market positions that provide for more consistent volumes compared to the overall acute care sector," said Director Richard Park.

Standalone pediatric facilities remain well positioned through their key market roles as the only providers of highly specialized pediatric tertiary and quaternary services in their respective service area. That said, children's hospitals face a laundry list of challenges longer term. "The sector will continue to be faced with the pediatric mental health crisis that was exacerbated by the COVID-19 pandemic," said Park. "Additionally, children's hospitals will have to be prepared for the downstream effects of declining births in the nation."

Fitch's "2023 Median Ratios for Not-for-Profit Children's Hospitals" is available at www.fitchratings.com.

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