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S&P U.S. Not-For-Profit Health Care Children's Hospital Median Financial Ratios - 2023

Rating And Outlook Overview

The number of rated children's hospitals remains stable. Year over year, the number of children's hospitals rated by S&P Global Ratings has remained steady at 22 providers. Rating activity remains limited, as mergers and acquisitions are rare, business positions remain healthy, and financial performance has historically been stable. Most of our rated children's hospitals are considered stand-alone hospitals per our criteria, with the exception of Houston-based Texas Children's Hospital and Children's Hospital Colorado, which own multiple hospitals and are considered systems.

Ratings distribution is skewed toward the 'AA' category. Children's hospital ratings remain skewed toward higher rating categories relative to the broader group of not-for-profit acute care providers, with 91% rated in the 'AA' or 'A' categories reflecting the cohort's generally strong credit quality. The higher ratings are supported by the hospitals' institutional strengths and positions in their respective markets, as often they are the only provider of tertiary and quaternary pediatric services. The hospitals' generally healthy financial profiles, albeit with support from supplemental funds, and sound balance sheets also support our higher ratings and help offset higher Medicaid exposure.

Downgrades are concentrated in lower-rated organizations. We lowered the ratings on two children's hospitals, both in the 'BBB' category, with one falling to speculative-grade. The organizations had experienced multiple years of operating losses, diminishing unrestricted reserves, and weaker debt-related metrics.

Outlooks remain predominantly stable. The outlooks for the vast majority of ratings in this group are stable, speaking to the generally higher ratings and overall credit strength of the segment. However, one issuer has a positive outlook and two have negative outlooks. Of the negative outlooks, one reflects the intense rating pressure on our only speculative-grade rated issuer; the other entity has a higher rating, but has a negative outlook that reflects weakening performance in an expanding system. Overall, children's hospitals have been able to absorb industrywide expense pressures better than the sector at large; however, the spreads between children's hospital and stand-alone medians did narrow in 2023.

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