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Fitch: U.S. NFP Hospitals See Margin Improvement, but Challenges Mount

Fitch Ratings-Austin/New York/Chicago-26 March 2025: Fitch-rated not-for-profit (NFP) hospitals and healthcare systems with early fiscal year ends (FYE) saw notable improvement in 2024 median financial performance relative to the prior year, Fitch Ratings says. We anticipate full calendar year (CY) 2024 median results for all Fitch-rated NFP hospitals will be at least in line with the audited financial results for those hospitals with a FYE in 1H2024. However, full CY medians will remain well below pre-pandemic levels, even at the higher end of the rating spectrum.

The median operating margin for providers with early FYEs improved to 1.2% in CY2024 from -0.5% in CY2023. A decline in personnel costs, particularly a continued drop in contract labor use, contributed to the improvement in operating profitability. Personnel costs as a percent of total operating revenues fell to 54.5% in 2024 from 55.4% in 2023 when comparing mid-year FYE results.

Persistent labor challenges continue to push base salary and wage expenses higher, leading to a significant median yoy expense increase of 6.9%. This would have been even higher without the sector's ongoing efforts to recruit and retain talent, streamline operations and optimize supply chains. Fitch expects workforce development to remain a central focus for health systems to address labor shortages, enhance staff capabilities and maintain sustainable profitability levels.

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