## **Bond Case Briefs**

Municipal Finance Law Since 1971

## <u>S&P U.S. Brief: Energy As A Service Is Off-Balance-Sheet,</u> <u>But On-Credit For Not-For-Profit Health Care Providers</u>

While not-for-profit health care providers are increasingly embracing Energy as a Service (EaaS) to protect their balance sheets, we believe the arrangements could carry credit risks.

U.S. not-for-profit health care providers are more frequently entering into energy asset concession or lease arrangements as a means of catching up on deferred infrastructure spending while preserving balance-sheet flexibility. These arrangements can include benefits beyond those of direct capital investment, but a primary consideration for management, in our view, is keeping associated debt off their balance sheets. While this trend is perhaps in the early stages of growth across the sector, S&P Global Ratings has maintained a consistent analytical approach to off-balance-sheet obligations when assessing credit risk. In our view, the provider's unconditional pledge to make annual payments, as well as the corresponding liability, are factors capable of diminishing credit quality. Put simply, we view these arrangements as debt substitutes.

## What's Happening

Although balance sheets remain a principal strength of the sector, pressure has built in recent years as a result of compressed operating cash flow and ongoing capital needs. This, coupled with a tendency on the part of management to prioritize revenue-generating projects over core infrastructure, has left many providers operating with dated, or perhaps unreliable, energy infrastructure on their hospital campuses. As a result, more providers are expressing an openness to asset monetization and nontraditional financing arrangements.

Continue reading.

## [Free Registration Required]

31 Mar, 2025

Copyright © 2025 Bond Case Briefs | bondcasebriefs.com