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## **Fitch: Profitability of US NFP Children's Hospitals Rebounds, but Medicaid Risks Loom**

Fitch Ratings-Chicago/Austin-07 August 2025: Standalone U.S. not-for-profit children's hospitals demonstrated signs of financial recovery in fiscal 2024, with improved profitability and strengthened liquidity, according to Fitch Ratings' latest annual median ratios report. However, persistent structural challenges — particularly heightened Medicaid funding risks — continue to weigh on the sector's outlook.

After two years of declining profitability, children's hospitals reported a rebound in operating margins and healthy capital investment. The median operating margin rose to 3.2% in 2024, while median days cash on hand increased to 356, underscoring strong sector liquidity and credit fundamentals. Despite these gains, operating margins remain below pre-pandemic levels and the sector faces continued cost pressures — especially from staffing.

"Children's hospitals are adapting with operational innovations and technology adoption, but staffing costs remain high and pending changes to Medicaid funding will test the sector's resilience," said Director Richard Park.

The recently enacted U.S. tax and spending bill, which imposes new limits on state Medicaid payments and supplemental funding, poses a significant long-term risk to the financial flexibility of children's hospitals, many of which serve patient populations with 70%-80% Medicaid reliance. Most Medicaid changes in the bill will not take effect until late 2026, with provider tax and directed payment rate adjustments phased in over several years, allowing some time for hospitals to adapt. However, if federal funding streams are reduced, hospitals may ultimately face difficult decisions regarding specialized service lines and uncompensated care. Ongoing demographic shifts, including declining fertility rates, add to the long-term strategic challenges. Meanwhile, competition from general acute care hospitals expanding pediatric services continues to intensify.

"Children's hospitals benefit from robust market positions, philanthropic support, and a commitment to capital investment — key credit differentiators that help offset ongoing policy and operating headwinds," said Park.

Fitch's "2025 Median Ratios for Not-for-Profit Children's Hospitals" report is available at [www.fitchratings.com](http://www.fitchratings.com)

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