THE BOND BUYER

San Diego healthcare district gets negative Moody's outlook

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San Diego County-based Palomar Health, California's largest healthcare district, had the outlook on its general obligation unlimited tax bond rating revised to negative by Moody's Investors Service on concerns about cash on hand.

The outlook revision affects $672.5 million in general obligation unlimited tax bond debt.

Moody's also affirmed in its June 16 report Palomar's A1 rating based on its favorable market position within San Diego County, which has a growing assessed valuation, a diverse economy and above-average income levels.

The rating also "reflects its strategic growth initiatives that will continue to translate into good demand trends and revenue growth," Moody's analysts Helen Cregger and Douglas Goldmacher wrote.

Palomar, the largest public healthcare district in California, reported $900 million in revenues for fiscal 2022, according to Moody's. **Fotolia**

Palomar, the largest public healthcare district in the state, reported $900 million in revenues for fiscal 2022, generating 23,000 admissions, according to Moody's.

The district operates acute care facilities in the towns of Escondido and Poway, and "captures 44.5% of the market share within the district," Moody's wrote.

The healthcare district has also implemented initiatives that are expected to drive growth in operating cash flow.

The benefits, however, are counteracted by the fact that "operating performance, through March 31, 2023, has moderated due to increased labor expense and a delay in the consolidation and expansion of NICU beds at PMC Escondido, as well as a delay in the reconversion of a number of beds to medical," Moody's analysts wrote. That combined with "a delay in intergovernmental transfer funds receivables stressed cash on hand (42 days), and cash to debt (16%), to historical lows through March 31, 2023."

Liquidity will improve by yearend, June 30, but will remain below 2022 levels; and growth is expected in 2024, analysts added.

The outlook revision also incorporates elevated risks in clearing financial covenants, related to the number of days of cash on hand, analysts wrote.

A spokeswoman for Palomar Health couldn't be reached for comment.