

# THE BOND BUYER

## Texas health system hit with multi-notch rating downgrades

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Bond ratings sank deeper into junk territory for financially troubled Wise Health System in Texas as it eyes closing a deal later this quarter to be acquired by a division of HCA Healthcare.

S&P Global Ratings on Sept. 15 dropped its rating five notches to B-minus from BB-plus with a negative outlook due to the potential for an event of default. On Friday, Fitch Ratings downgraded its rating three notches to B-plus from BB-plus and placed the lowered rating on negative watch.



Wise Health System, which has its main campus in Decatur, Texas, is expecting to close on a deal this quarter to be acquired by a division of HCA Healthcare. **Wise Health System**

"The rating action reflects our view of Wise's escalating operating losses, with a negative 21% operating margin in the six-month interim period, which have produced negative cash flow and continue to erode unrestricted reserves at an unsustainable rate," S&P analyst Concy Richards said in a statement.

In addition to deteriorated operating performance in fiscal 2022 and an expectation of sizable operating and new losses in fiscal 2023, Fitch said its downgrade reflects "very weak balance sheet metrics characterized by deteriorating liquidity and a very constrained cash to adjusted debt metric driven by the reduction in cash, as outstanding debt has not increased."

As of the end of September, the system had \$109 million of revenue bonds outstanding, according to Wise Health, which issued debt through the Decatur Hospital Authority.

Jason Wren, Wise Health's president and chief executive officer, said, the "high-quality health system" has been unable to avoid challenges facing many hospitals, particularly smaller, independent ones.

"Despite the diligent efforts by our staff to reduce costs and increase revenue streams, declining reimbursements and escalating industry-wide costs are continuing to take a toll," he said in an email. "The most recent ratings analysis reflects these ongoing struggles."

In January, the system announced it entered into [exclusive discussions to be acquired](#) by Medical City Healthcare, a division of for-profit HCA Healthcare that has 16 facilities in the northern part of Texas.

Wren said those discussions are continuing and a deal is expected to close this quarter.

"After closing, it is expected that Wise Health System's outstanding bonds will be defeased," he added.

Wise Healthcare's main hospital is located in Decatur, the county seat of Wise County. Located northwest of Fort Worth, the county had an [estimated population of 74,895 in July 2022](#) with 10.2% living in poverty and nearly 21% lacking health insurance, according to the U.S. Census Bureau.

The system is owned and operated by the Decatur Hospital Authority and is not funded with taxes, according to Fitch.