



Insight beyond the rating.

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Rating Canadian Public Hospitals

In Canada, public hospitals are under provincial jurisdiction. DBRS recognizes that health care is the top priority of the Canadian population and provincial governments, accounting for 45% to 50% of provincial program spending; that hospitals are fully consolidated on the books of provincial governments; and that generally more than 90% of hospital revenues come from provincial grants. For this reason, DBRS views hospitals as being closely tied to the credit profile of their provincial government funder for rating purposes. However, since there is a degree of distance between governments and their hospitals, which are distinct legal entities, and since hospitals are faced with a challenging operating environment characterized by steady demand, cost pressures and tight funding, DBRS will generally rate the financial obligations of a hospital one notch below that of its parent government, but only if all of the following conditions are met:

- (1) An adequate level of monitoring and control is exerted by the government over its health-care system, with reasonable policies and procedures in place to guide institutions in their management and to prevent major financial issues.
- (2) The operating position and debt burden of the hospital are viewed as sustainable.
- (3) The institution is an important component of the provincial health-care system.

Significant weakness exhibited in any of the above considerations could result in a rating more than one notch below that of the parent government.

On the other hand, there may be instances where a hospital could warrant the same rating as its parent government if the institution proves to be an essential component of the provincial health-care system, with a superior profile and financial flexibility. In order to qualify for an equal rating, the institution would need to exhibit the following characteristics:

- (1) The hospital is one of the province's flagship institutions, serving a significant portion of the population and providing unique expertise.
- (2) Significant uncommitted financial resources are available to the institution (e.g., large foundations assets), providing a significant liquidity cushion and protection against unexpected shocks.
- (3) The institution has maintained a superior track record of management, with sound operating results consistently above the system average, and a tight and well-established management framework.

However, given the dependence of Canadian hospitals on provincial funding, under no circumstances can the rating of a hospital exceed that of its government funder.



Note: All figures are in Canadian dollars unless otherwise noted.

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