

Hospitals Sell Muni Debt at Fastest Pace in More Than a Decade

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Summary by Bloomberg AI

- US hospitals have sold more than \$17 billion of municipal bonds so far this year, roughly double the pace of 2025.
- Many facilities are borrowing to upgrade aging buildings and expand their footprints ahead of potential credit rating hits from Medicaid cuts.
- Investors say buyers looking at hospital debt should be discerning, as the healthcare market is bifurcated, with small, single site hospitals in rural areas facing more challenging pressures.

Hospitals across the country are bracing for financial pain ahead of sweeping Medicaid cuts from the Trump administration. But that hasn't stopped them from borrowing at the fastest pace in more than a decade.

So far this year, US hospitals have sold more than \$17 billion of municipal bonds, roughly double the pace of 2025, and more in the first four months than any year since at least 2015, according to data compiled by Bloomberg. The surge also surpasses the broader muni market, where issuance is up about 9% this year.

Many facilities are taking advantage of what looks like a prime window to sell debt. Balance sheets have recovered since the pandemic, but most Medicaid changes have yet to take **effect**. Ahead of a potential credit rating hit, many are choosing to borrow to upgrade aging buildings and expand their footprints.

"Clients generally have improved financial performance relative to the last several years – focusing on strengthening both the income statements and balance sheets. In many cases, they are as strong as they've been for a while," said Robert Turner, managing director and practice lead at healthcare consultant Kaufman Hall. "When you look

around the corner at Medicaid cuts and federal funding pressures, they're wondering if this is as good as it's going to be for some time."

Not-for-profit hospitals have largely seen their finances rebound from post-pandemic lows, according to a December report by Fitch Ratings, and the ratio of downgrades to upgrades has improved. The ratings company forecasts hospitals will accelerate efforts to boost revenue and cut expenses ahead of the anticipated cuts from the federal government, which don't go into full effect until after 2026 and are expected to **increase** the number of uninsured people by 10 million in 2034.

Still, analysts at Nuveen LLC see the issuance surge in the muni market continuing "as waning fiscal stimulus and federal funding reductions push more projects toward public financing markets than at any point in recent years," according to an April **note**. And for the time being, it doesn't seem to be denting appetite from investors. An index of hospital muni revenue bonds outperformed every other muni sector in April, returning 1.5% as of Wednesday.

Financially-strained hospitals are seeing demand for their debt. Earlier this month, the Children's Hospital Los Angeles sold \$187.5 million of junk-rated debt via the California Public Finance Authority. The **deal**, which was in part to fund working capital, was oversubscribed by 2.4 times, according to Fifth Third Bank, financial adviser on the deal.

Healthcare credits backed by revenue tend to offer slightly higher spreads than comparably rated bonds in other sectors, said Kaufman Hall's Turner. That's helped boost their appeal among investors looking for more yield.

"We haven't had a lot of supply in the higher yielding space," said Andrew Clinton, chief executive officer of Clinton Investment Management. "In the absence of other parts of the market that offer yield spread, hospitals still do for the same underlying credit quality."

Still, investors say buyers looking at hospital debt should be discerning. "Similar to higher ed, healthcare is kind of a bifurcated market," said Jennifer Johnston, senior vice president and director of research for municipal bonds at Franklin Templeton Fixed

Income. “For small, single site hospitals, particularly in rural areas, pressures are that much more challenging.”