S&P Global
Ratings

RatingsDirect®

Colorado Health Facilities Authority/Montana Facility Finance Authority
Sisters of Charity of Leavenworth Health System, Colorado; System

Primary Credit Analyst:
Allison Bretz, Chicago (1) 303-721-4119; allison.bretz@spglobal.com

Secondary Contact:
Cynthia S Keller, New York (1) 212-438-2035; cynthia.keller@spglobal.com

Table Of Contents

Colorado Health Facilities Authority/Montana Facility Finance Authority
Sisters of Charity of Leavenworth Health System, Colorado; System

Credit Profile		
US$415.41 mil rev rfdg bnds (Sisters of Charity of Leavenworth Hlth Sys) ser 2019A dtd 10/01/2019 due 12/31/2039		
Long Term Rating	AA-/Stable	New
US$130.86 mil rev rfdg bnds (Sisters of Charity of Leavenworth Hlth Sys) ser 2019A due 01/01/2039		
Long Term Rating	AA-/Stable	New
Colorado Hlth Fac Auth, Colorado		
Sisters of Charity of Leavenworth Hlth Sys, Colorado		
Colorado Hlth Fac Auth (Sisters of Charity of Leavenworth Hlth Sys)		
Long Term Rating	AA-/Stable	Affirmed
Kansas Indpt Coll Fin Auth, Kansas		
University of St. Mary, Kansas		
Kansas Indpt Coll Fin Auth (University of St. Mary)		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the Colorado Health Facilities Authority's $415.41 million fixed-rate series 2019A bonds and the Montana Facility Finance Authority's $130.86 million fixed-rate series 2019A bonds, both issued for Sisters of Charity of Leavenworth Health System, Colo. (SCL Health). At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating and 'AA-/A-1+' dual rating on various issuers' bonds issued for SCL Health. Finally, we affirmed our 'AA-' long-term rating on the Kansas Independent College Finance Authority's series A-2013 and series B-2013 educational facilities revenue refunding bonds, issued for the University of Saint Mary (USM), in Leavenworth, Kan. The outlook on all long-term ratings is stable.

The 'A-1+' short-term rating on the 2016A and C series is based on our view of SCL Health's self-liquidity. The rating reflects our analysis of both the ample liquidity and assets' sufficiency to cover the variable-rate demand bond obligations (series 2016) based on self-liquidity. The short-term ratings on SCL Health's other variable-rate issues reflect bank liquidity facilities from Wells Fargo (A-1+). We expect to withdraw this rating with completion of the series 2019 transaction, which will fully refund the series 2016 A and C bonds.

SCL Health unconditionally guarantees the full and prompt payment of principal and interest on USM's series A-2013 and series B-2013 bonds on parity with the approximately $1.2 billion of debt issued and outstanding on behalf of SCL Health. The rating reflects the structural support provided by the guaranty agreement and is based on our view of SCL Health's group credit profile (GCP) and the obligated group's core status. Accordingly, the bonds are rated at the same level as the GCP of SCL Health, and as a result, we have not assessed the stand-alone credit profile of USM.

The ratings reflect our view of SCL Health's position as a diversified health system serving three distinct markets, with the largest concentration of facilities in the rapidly growing but competitive Denver region. The ratings also incorporate SCL Health's management team, which continues to focus on providing high-quality, low-cost care across the system. The ratings also incorporate our view of SCL Health's financial profile, including its healthy balance sheet, with solid operating liquidity and improving cash to debt. We expect continued growth in the balance sheet over the next few years, supported by healthy cash flow and limited capital needs.

More specifically, the 'AA-' ratings and, further, the unconditional guarantee of SCL Health, reflect our view of the system's:

- Improved pro forma maximum annual debt service (MADS) coverage due to significant restructuring from the series 2019 refinancing;
- Improving balance sheet metrics; and
- Preparations and readiness for clinical integration, population health management, and changing reimbursement models.

In our view, partly offsetting credit factors include the system's:

- Concentration in the competitive and dynamic Denver market, and
- Pro forma debt burden that remains somewhat elevated for the rating.

The series 2019 issuance totals $658.1 million (par) and comprises several components.

- The series 2019A Colorado bonds ($415.41 million par, $66.586 expected premium) will partly refund SCL Health's series 2010 A and B Colorado bonds.
- The series 2019A Montana bonds ($130.86 million par, $20.714 million expected premium) will partly refund SCL Health's series 2010 A and B Montana bonds.
- The series 2019 B and C bonds ($55.915 million par each) will refund SCL Health's series 2016 A and C variable-rate demand bonds (VRDBs). We expect to rate these bonds shortly.
- As part of the series 2019 transaction, SCL Health will also convert the mode on its series 2016 B and D VRDBs (which we do not rate) to daily mode from weekly mode.

We will withdraw our ratings on all refunded debt following the completion of the transaction.

Outlook

The stable outlook on the debt of SCL Health and USM reflects our view of SCL Health's sound business position and stable financial metrics. Given the system's clinical integration and population health initiatives, as well as its limited capital needs, we expect SCL Health's financial metrics to continue to improve over the two-year outlook period.

Upside scenario

We could consider a positive rating action if SCL is able to maintain or improve its financial profile while improving its enterprise profile, including evidence of stable volumes and improving market share across its markets. An upgrade of SCL Health's debt would also result in an upgrade on debt rated for USM given the unconditional guarantee.

Downside scenario

While unlikely, should weaker operating performance or significant capital spending activity occur during the next two years and stress the system's balance sheet, we could revise the outlook to negative or lower the ratings on SCL Health's and USM's debt.

Enterprise Profile: Very Strong

Model of care

SCL Health's management team remains highly focused on building a high-quality, low-cost model of care. We view these efforts positively, as they position the system well as it transitions to value-based reimbursement. SCL Health has seen meaningful improvement in patient safety over the last few years, with a 65% reduction in serious safety events affecting patients since 2014. The management team has also focused on reducing hospital-acquired infections. These efforts are further supported by SCL Health's ongoing efforts to standardize clinical care at all sites across the system. Management is also focused on controlling expenses, and has successfully reduced its cost per adjusted admission by about 3% over the last four years. SCL Health recently embarked on a multiyear clinical and operational transformation to further support these efforts, and build sustainable change into clinical and administrative processes.

Medical staff

SCL Health's management team has identified clinical integration as a major strategic priority. Clinical integration is critical to achieving SCL Health's objectives in providing high-quality, cost-effective care, allowing the system to establish and execute on systemwide best practices, eliminate clinical variation, and consistently adhere to evidence-based clinical protocols. The system has worked to grow its medical staff over the last few years, with about 60 net new providers recruited in 2018, including the acquisition of an orthopedic group in its Grand Junction market. Through its medical group, SCL Health is targeting expanded patient access and improved patient experience, with a strengthened digital platform and streamlined experience in its clinics.

Growth and partnerships

SCL Health, in our view, continues to position itself to operate successfully for the changes brought about by health care reform, including targeting strategic growth and forming thoughtful partnerships to enhance the system's enterprise profile in the markets it serves.

In August 2014, SCL Health and National Jewish Health (NJH) entered into a (75%/25%) joint operating agreement (JOA) under which NJH provides inpatient and outpatient care at Saint Joseph Hospital, which opened a new replacement hospital in December 2014. Each hospital continues to own all of its own assets and has areas of its business that operate outside of the joint entity, including certain education and research activities. NJH, which has 150 employed physicians, is a world leader for research and treatment of respiratory, cardiac, and immune diseases. The JOA has proven a successful partnership for St. Joseph, with significant growth in admissions and operating income over the last several years.

SCL Health continues to target strategic growth in each of its markets, including ongoing investment in expanding its primary care base. In the Denver region, along with its JOA with NJH, SCL Health is expanding patient access with two new ambulatory surgery centers, one of which opened in 2018, and one of which will open in 2020. The system has also partnered with an imaging provider, Touchstone, which operates 11 freestanding imaging centers across Denver. In Montana, SCL Health partnered with two other providers to open a rehabilitation hospital in August 2019, and opened its first imaging center in collaboration with Touchstone. Finally, in western Colorado, SCL Health is extending its Epic electronic medical record platform to two rural facilities. The system has also partnered with six rural hospitals in a joint venture air medical transport service.

SCL Health has also developed a number of more creative partnerships, including a collaboration with Lyft, a ride-sharing company. The agreement gives SCL Health patients access to reliable nonemergency transport to its facilities, and helps ensure that patients are able to consistently access necessary care. SCL Health is also the first health system in Colorado and Montana to partner with ZocDoc, an online scheduling platform. Since the partnership launched in February 2019, over 2,200 appointments have been booked through the platform, with 78% of bookings coming from patients that are new to the system.

These initiatives, along with the system's successful relationship with Kaiser Permanente, SCL Health's accountable care organizations, and its developing clinically integrated network, will help support efforts to enhance the quality of care provided while reducing the costs of providing that care.

Table 1

SCL Health, Colorado Enterprise Statistics

	--Six months ended June 30--	--Fiscal year ended Dec. 31--		
	2019	**2018**	**2017**	**2016**
Inpatient admissions	39,864	75,421	77,457	76,745
Equivalent inpatient admissions	78,911	148,407	147,437	142,712
Emergency visits	150,666	305,218	297,992	294,537
Inpatient surgeries	10,652	22,061	23,487	24,474
Outpatient surgeries	23,104	48,887	29,139	29,636
Medicare case mix index	1.9200	1.9100	1.8700	1.8500
FTE employees	13,345	13,346	13,024	12,874
Based on net/gross revenues	Net	Net	Net	Net
Medicare (%)	31.9	32.0	30.0	30.0
Medicaid (%)	9.8	8.1	9.4	14.0
Commercial/Blues (%)	55.6	57.4	56.9	54.0

Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions.

Financial Profile: Very Strong

Financial performance

SCL Health's operating performance softened somewhat in fiscal 2018, although cash flow and MADS coverage remained appropriate for the rating. The softer operations reflected some decline in inpatient admissions, coupled with growth in the expense base related to the system's strategic investments. Management also reports that some elective surgeries for Kaiser patients moved from SCL Health facilities to outpatient clinics operated by Kaiser. This migration has largely plateaued, and we do not expect significant further declines related to this issue.

Through the first six months of fiscal 2019 (ended June 30, 2019), SCL Health's operating performance has improved. Inpatient volumes remain somewhat stagnant, but outpatient volumes continue to grow. Management also remains focused on managing the system's expense base carefully. We note that management is budgeting a slower second half to fiscal 2019, with an expected operating margin of 4.7% at year-end. In our view, SCL Health remains well positioned to produce consistent operating performance in the future, particularly given revenue and expense initiatives that management has undertaken and continues to pursue.

SCL Health has generated consistently healthy cash flow over the last several years. With the series 2019 refinancing, the system will smooth its debt service schedule and materially reduce maximum annual debt service, leading to significantly improved pro forma MADS coverage.

Liquidity and debt

The series 2019 issuance does not include any new debt, and consequently has no impact on SCL Health's debt-related metrics, although we note the system's pro forma debt burden has declined with the 2019 restructuring, reflecting the improvement in MADS coverage. SCL Health's liquidity position declined in fiscal 2018, reflecting volatility in the investment market in the last quarter of that year. Liquidity has improved markedly over the six-month interim period. We view the system's operating liquidity as a credit strength, reflecting healthy ongoing expense management. Management reports relatively limited capital needs over the next few years, with capital spending between 1.0x and 1.5x deprecation. We expect the balance sheet to continue to strengthen, given the system's recent history of healthy cash flow coupled with limited capital needs.

SCL Health has only one series of debt that consists of private placement bonds, a 2016 $54.1 million series. This series carries minimal termination risk, which is defined as the risk of triggering a redemption event with 30 days' notice, based on financial covenants and events of default characteristic of this type of transaction. The debt service coverage ratio is set at 1.1x. Given SCL Health's consistent operations, good coverage levels, and solid and liquid cash position compared to its limited direct-placement exposure, it is S&P Global Ratings' opinion that SCL Health's direct placement does not pose a credit risk.

We understand that NJH is contemplating a financing for a new facility on its Denver campus, which will primarily be used by NJH. SCL Health would be the ultimate guarantor on this financing. We have not yet evaluated this transaction, but we understand the potential debt, about $80 million, could ultimately be considered an obligation of SCL Health. We have evaluated the impact of this additional debt on SCL Health's financial profile, and do not believe it would materially affect the system's MADS coverage or its debt and liquidity metrics. We do not believe this guarantee would have any effect on the SCL Health rating. However, we will make the ultimate determination at the time of the transaction.

Table 2

SCL Health, Colorado Financial Statistics

	--Six months ended June 30--	--Fiscal year ended Dec. 31--			Medians for 'AA-' rated health care system
	2019	2018	2017	2016	2017
Financial performance					
Net patient revenue ($000s)	1,375,900	2,639,000	2,542,700	2,401,300	2,403,147
Total operating revenue ($000s)	1,411,400	2,714,500	2,628,500	2,477,003	MNR
Total operating expenses ($000s)	1,319,200	2,623,000	2,481,000	2,356,200	MNR
Operating income ($000s)	92,200	91,500	147,500	120,803	MNR
Operating margin (%)	6.53	3.37	5.61	4.88	2.60
Net nonoperating income ($000s)	18,300	139,200	78,000	28,197	MNR
Excess income ($000s)	110,500	230,700	225,500	149,000	MNR
Excess margin (%)	7.73	8.08	8.33	5.95	4.50
Operating EBIDA margin (%)	14.47	11.35	13.76	13.61	8.70
EBIDA margin (%)	15.56	15.67	16.25	14.58	10.80
Net available for debt service ($000s)	222,500	447,300	439,700	365,300	337,797
Maximum annual debt service ($000s)	79,208	79,208	79,208	79,208	MNR
Maximum annual debt service coverage (x)	5.62	5.65	5.55	4.61	4.80
Operating lease-adjusted coverage (x)	4.48	4.40	4.38	3.57	3.50
Liquidity and financial flexibility					
Unrestricted reserves ($000s)	2,225,100	2,037,800	2,106,300	1,823,300	1,813,269
Unrestricted days' cash on hand	328.7	302.0	330.5	302.1	243.20
Unrestricted reserves/total long-term debt (%)	200.5	178.5	179.5	151.5	187.70
Unrestricted reserves/contingent liabilities (%)	802.4	734.9	756.6	652.3	509.10
Average age of plant (years)	12.6	13.4	12.8	12.1	9.70
Capital expenditures/depreciation and amortization (%)	122.2	144.3	119.5	123.6	131.40
Debt and liabilities					
Total long-term debt ($000s)	1,109,600	1,141,800	1,173,700	1,203,800	MNR
Long-term debt/capitalization (%)	26.2	28.5	29.2	32.0	29.20
Contingent liabilities ($000s)	277,300	277,300	278,400	279,500	MNR
Contingent liabilities/total long-term debt (%)	25.0	24.3	23.7	23.2	39.60
Debt burden (%)	2.77	2.78	2.93	3.16	2.20
Defined-benefit plan funded status (%)	N.A.	98.50	99.83	94.81	81.30

MNR--Median not reported.

Credit Snapshot

Organization description:

SCL Health

- SCL Health operates as a diversified tertiary health care system serving regional health care needs through eight hospitals, three safety-net clinics, and more than 190 ambulatory care sites in Colorado, Kansas, and Montana.

University of Saint Mary

- USM is sponsored by the Sisters of Charity of Leavenworth, which was also the sponsor of SCL Health until 2011, when the Sisters of Charity of Leavenworth formed Leaven Ministries, a new canonical entity approved by the Catholic Church. In 2011, Leaven Ministries became the sponsor of SCL Health. Sisters of Charity of Leavenworth has provided financial support to USM and for more than 140 years has overseen ministries in health care, education, social welfare, spiritual development, and foreign missions.
- USM is a four-year Catholic, co-educational liberal arts university accredited by the Kansas State Department of Education, The Higher Learning Commission of the North Central Association of Colleges and Schools, The International Assembly of Collegiate Business Education, the Commission on Collegiate Nursing Education, and the National Council for the Accreditation of Teacher Education.
- USM has an enrollment of about 1,400. Historically, about 64% of its enrollment has been undergraduate students. Graduate programs include Doctor of Physical Therapy and master's degrees in business, education, teaching, psychology, counseling-psychology, and nursing. USM has become increasingly selective, accepting about half of applicants.

Security pledge: Gross revenue of the obligated group secures the bonds.

Group rating methodology: Core

Ratings Detail (As Of August 7, 2019)		
Colorado Hlth Fac Auth, Colorado		
Sisters of Charity of Leavenworth Hlth Sys, Colorado		
Colorado Hlth Fac Auth (Sisters of Charity of Leavenworth Hlth Sys) rev bnds (Sisters of Charity of Leavenworth Hlth Sys) ser 2016A dtd 05/12/2016 due		
Long Term Rating	AA-/A-1+/Stable	Affirmed
Colorado Hlth Fac Auth (Sisters of Charity of Leavenworth Hlth Sys) rev bnds (Sisters of Charity of Leavenworth Hlth Sys) ser 2016C dtd 05/12/2016 due		
Long Term Rating	AA-/A-1+/Stable	Affirmed
Kansas Dev Fin Auth, Kansas		
Sisters of Charity of Leavenworth Hlth Sys, Colorado		
Kansas Dev Fin Auth (Sisters of Charity of Leavenworth Hlth Sys) sys		
Long Term Rating	AA-/Stable	Affirmed

Ratings Detail (As Of August 7, 2019) (cont.)		
Montana Fac Fin Auth, Montana		
Sisters of Charity of Leavenworth Hlth Sys, Colorado		
Montana Fac Fin Auth (Sisters of Charity of Leavenworth Hlth Sys) sys		
Long Term Rating	AA-/Stable	Affirmed