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Colorado Health Facilities Authority Sisters of Charity of Leavenworth Health System; System

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Rationale

S&P Global Ratings' long-term rating on bonds (various issuers) issued for Sisters of Charity of Leavenworth Health System (SCL Health), Colo., is 'AA-'. S&P Global Ratings' 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., is 'AA-'. S&P Global Ratings' long-term rating on the Colorado Health Facilities Authority's series 2019 revenue bonds, issued for the NJH-SJH Center for Outpatient Health (COH), is 'A+'. The outlook on all ratings is stable.

The 'AA-' rating on USM reflects SCL Health's unconditional guarantee of 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 $1.1 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 'A+' rating on the NJH-SJH COH reflects the application of S&P Global Ratings' guarantee criteria, with SCL Health as the guarantor. We believe SCL Health is willing and able to make installment sales payments to cover debt service for the NJH-SCL COH series 2019 bonds if necessary. Under the guarantee, SCL Health has committed to the following: timely payments, such that bondholders do not experience any disruption in principal and interest payments; continued willingness to pay even in the event of National Jewish Health (NJH)'s bankruptcy or other event of default; and continued willingness to pay even if the joint operating agreement (JOA) between NJH and SCL Health is dissolved. The rating on the series 2019 bonds is one notch lower than the rating on SCL's debt outstanding, and reflects our opinion of SCL's pledge to make installment sales payments, which is not on parity with its obligation to pay debt service on its debt outstanding.

The 'AA-' rating on SCL Health reflects our view of its solid financial profile, which provides the system with flexibility to weather the pressures associated with the COVID-19 pandemic.

SCL Health's operations and cash flow were healthy over the last three fiscal years, supported by growing patient demand, ongoing focus on expense management, and consistent nonoperating income. The system's strong cash flow and improving investment portfolio supported growth in unrestricted reserves and operating liquidity in fiscal 2019, providing SCL Health with some cushion at the rating coming into fiscal 2020. Beginning in March 2020, SCL Health incurred sizable operating losses as the system cancelled or deferred elective procedures and many patients avoided hospital or clinic visits. The system also incurred expense growth in labor and supplies as it worked to prepare for and operate through a surge in COVID-19 patients.

SCL Health has recognized approximately $69 million in revenue from federal and state support through June 30, 2020, primarily through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. We note that the system received an additional $39.1 million in grant funding in July, which is not reflected in the June data. SCL Health also received approximately $183 million in Medicare advance payments, and the system has drawn $200 million on a line of credit for additional liquidity. We have excluded the Medicare advance payments and draws on lines of credit from our calculation of SCL Health's unrestricted reserves. We expect SCL Health's operating performance to be materially weaker in fiscal 2020, but believe that the system is well-positioned to weather the COVID-19 pandemic and related recession at the current rating.

The rating continues to reflect our view of SCL Health's business position as a major provider of care across its markets, most notably in the competitive and growing Denver region. SCL Health has successfully navigated through an initial surge of COVID-19 patients in April 2020, and continues to execute on the system's long-range strategy even as it works through the immediate effects of the pandemic. SCL Health is currently executing its recovery plan, and we understand that patient volumes have rebounded over the last few months, although some service lines have not fully returned to prepandemic levels. The organization has a proactive management team, which has a good history of controlling expenses, and solid revenue diversity across its facilities. We believe these assets will support SCL Health's operating recovery in the coming months.

More specifically, the ratings and, further, the guarantees secured by SCL Health reflect our view of the system's:

- Sound balance sheet metrics, with healthy liquidity and a relatively conservative debt profile; Improved maximum annual debt service (MADS) coverage through the end of fiscal 2019, due to significant restructuring from the series 2019 refinancing, 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:

- Weaker operations through the first half of fiscal 2020, and ongoing concerns about revenue pressure related to the COVID-19 pandemic and recession;
- Concentration in the competitive and dynamic Denver market, and
- Debt burden that is somewhat elevated for the rating.

The stable outlook on the debt of SCL Health, USM, and the SCL-NJH COH reflects our view of SCL Health's sound business position and stable financial metrics coming into fiscal 2020, which offer it some cushion at the current rating. The stable outlook further reflects our opinion that SCL Health's operating performance will improve following a challenging fiscal 2020, and that the system's balance sheet will remain healthy.

Environmental, social, and governance factors

We view SCL Health's social risk as lower than our view of the sector, due to its concentration in the Denver market, which has experienced very strong population and employment growth over the last several years. That said, COVID-19 has exposed SCL Health and all acute-care providers to additional social risks that could result in financial pressure including significant cash flow challenges. We analyzed SCL Health's environmental and governance risks relative to its economic fundamentals, market position, and management and governance and the corresponding effects on its financial profile and determined that all are in line with the industry as a whole.

Stable Outlook

Downside scenario

We could consider a negative outlook or rating action on SCL Health, USM, and SCL-NJH COH debt if the pandemic or recession pressure SCL Health's operating performance or balance sheet to a level no longer appropriate for the rating. While not expected, we would also view negatively any deterioration in SCL Health's competitive position, notably in the Denver market.

Upside scenario

We could consider a positive rating action if SCL is able improve its operating performance following underlying losses associated with COVID-19, while sustaining or improving its balance sheet and enterprise profile. An upgrade of the SCL Health debt rating would also result in an upgrade on debt rated for USM and the SCL-NJH COH.

Credit Opinion

Enterprise Profile: Very Strong

COVID-19 pandemic and response

Colorado and Montana had their first confirmed cases of COVID-19 on March 5, 2020, and March 13, 2020, respectively. Both states ceased elective procedures in mid-March, and issued stay-at-home orders for all state residents to mitigate the spread of the virus. SCL Health treated over 150 confirmed COVID-19 positive inpatients across its facilities at its peak in mid-April. SCL Health created an incident management team in early March to address the pandemic, and worked throughout the initial surge to maintain appropriate capacity and protective equipment. SCL Health also partnered with several other Colorado providers to form the Colorado COVID-19 Collaborative, which shared best practices and resources to improve treatment protocols for COVID-19 patients.

Throughout the COVID-19 pandemic, SCL Health leveraged its telehealth platform to provide patients safe access to care. The system provided over 15,000 video visits in April 2020, up from 200 in March 2020. Colorado and Montana resumed elective procedures in late April, and through June 30, 2020, patient volumes had begun to rebound across the SCL Health system. Management reports that surgeries were 5% higher than the same period last year, but inpatient volumes were still slightly behind prior year levels. We expect volume recovery to continue, but recognize this could be complicated by additional surges in COVID-19 patients this fall and winter. Overall, we view SCL Health's management of the pandemic positively, and note that the system successfully maintained surge capacity even at peak COVID-19 volumes, and has improved clinical outcomes for COVID-19 patients in coordination with statewide collaborative.

Partnerships and affiliations

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%) 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 about 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.

In 2019, NJH and SCL commenced construction on the NJH-SCL COH. The COH will be a five-story building on NJH's main campus, slated to open in 2021. The facility includes about 100,000 square feet of parking and 100,000 square feet of clinical space. The COH will house NJH's pulmonary clinics, pediatrics, allergy & immunology, oncology, health and wellness, and infusion programs. The COH will add 101 new exam rooms, 18 infusion bays, and a new, expanded pharmacy. We believe this facility will support volume and revenue growth at NJH.

SCL Health also has a successful, long-standing partnership with Kaiser Permanente (Kaiser). Kaiser does not operate its own inpatient facilities in Colorado, and it partners with SCL Health as a provider of these services. In 2019, Kaiser shifted some of its insured outpatient volumes to Kaiser-owned facilities, resulting in a decline in outpatient surgeries. Still, SCL Health's operations remained strong, and we view this relationship positively.

Table 1

Sisters of Charity of Leavenworth Health System Inc., Colorado Enterprise Statistics

	--Six months ended June 30--	--Fiscal year ended Dec. 31--	
	2020	2019	2018
Inpatient admissions	33,036	73,937	75,421

Table 1

Sisters of Charity of Leavenworth Health System Inc., Colorado Enterprise Statistics (cont.)			
	--Six months ended June 30--	--Fiscal year ended Dec. 31--	
	2020	2019	2018
Equivalent inpatient admissions	64,681	146,177	148,407
Emergency visits	128,606	300,640	293,754
Inpatient surgeries	8,819	21,386	22,061
Outpatient surgeries	10,953	26,555	29,635
Medicare case mix index	1.9600	1.9400	1.9100
FTE employees	13,434	13,464	13,346
Active physicians	N.A.	N.A.	N.A.
Based on net/gross revenues	Net	Net	Net
Medicare (%)	30.8	31.4	32.0
Medicaid (%)	9.1	9.1	8.1
Commercial/Blues (%)	56.6	56.9	57.4

N.A.--Not available. Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions.

Financial Profile: Very Strong

Financial performance

SCL Health's operating performance improved in fiscal 2019, with sold margins and sound cash flow. With the series 2019 refinancing, the system smoothed its debt service schedule and materially reduced MADS, leading to significantly improved MADS coverage. Patient demand remained strong, particularly for outpatient services--while some outpatient business shifted to Kaiser-operated facilities in 2019, this did not materially affect volumes or revenue, which we view positively. While SCL Health's management team remains focused on revenue and volume growth, the team remains disciplined in its approach to expense management, further supporting strong operations in fiscal 2019. SCL Health has successfully controlled its cost per adjusted admission, which is 0.8% lower than in 2015 despite significant inflation in medical costs, demonstrating a consistent commitment to expense management.

Through the first six months of fiscal 2020, SCL Health's operating performance is weaker, although the system's operating margin remains positive, and we note that MADS coverage remains adequate and well above the system's bond covenants. The thinner operating margin is due to revenue and expense pressure related to the COVID-19 pandemic, most notably the cessation of elective procedures beginning in mid-March. SCL Health worked to manage expenses through this period of depressed revenues, flexing staffing and supply costs in service lines that saw significant volume declines, freezing all open positions, and decreasing discretionary spending. As discussed above, most patient volumes have rebounded as of August 2020, although demand in some service lines remains below prepandemic levels. Through June 30, 2020, SCL Health had also received approximately $81.7 million in funding from the CARES Act and other grants, and recognized approximately $68.9 million of those funds as revenue (included in S&P Global Ratings' calculation of operating revenue). The system is currently reserving the remaining funds. SCL Health received an additional $39.1 million in CARES Act funding in July 2020, which is not included in the June 30 calculation of operating revenue. Management is budgeting a break-even operating margin at year-end, which we view as achievable given the system's strong volume recovery, receipt of additional grant funding, and demonstrated ability to manage its expense base. We expect further improvement in operations in fiscal 2021 and beyond, although we recognize it may take the system several years to return to historical operating levels.

Liquidity and debt

SCL Health's liquidity position declined in March 2020 as a result of volatility in the investment market, but has since rebounded. While our calculation of unrestricted reserves and related ratios excludes SCL's $183.2 million in Medicare advance payments and $200 million draw on its lines of credit, we view the system's access to these liquidity facilities positively, as they provide flexibility in the event of sustained operating challenges. We understand that SCL Health has limited capital plans over the outlook period, and expect modest improvement in the system's balance sheet, particularly as cash flows improve in 2021 and beyond.

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 have not included the NJH-SJH COH in our calculation of SCL Health's debt metrics. However, we note it has minimal impact on these metrics given the system's scale and excellent liquidity. When including the NJH-SJH COH's $66.5 million in long-term debt, SCL Health's leverage increases to 26.8%, and its cash-to-debt declines to 198.2%, both of which remain in line with the system rating.

Table 2

Sisters of Charity of Leavenworth Health System Inc., Colorado Financial Statistics

	--Six months ended June 30--	--Fiscal year ended Dec. 31--		Medians for 'AA-' rated health care system	Medians for 'A+' rated health care system
	2020	2019	2018	2018	2018
Financial performance					
Net patient revenue ($000s)	1,263,400	2,754,200	2,639,000	2,875,242	1,763,656
Total operating revenue ($000s)	1,368,003	2,831,545	2,712,452	MNR	MNR
Total operating expenses ($000s)	1,341,900	2,699,500	2,623,000	MNR	MNR
Operating income ($000s)	26,103	132,045	89,452	MNR	MNR
Operating margin (%)	1.91	4.66	3.30	3.40	1.60
Net nonoperating income ($000s)	4,800	57,400	141,200	MNR	MNR
Excess income ($000s)	30,903	189,445	230,652	MNR	MNR
Excess margin (%)	2.25	6.56	8.08	4.90	3.30
Operating EBIDA margin (%)	9.92	12.76	11.28	9.50	7.40
EBIDA margin (%)	10.23	14.50	15.67	10.40	10.10
Net available for debt service ($000s)	140,503	418,845	447,252	340,456	201,349
Maximum annual debt service ($000s)	79,128	79,128	79,128	MNR	MNR

Table 2

Sisters of Charity of Leavenworth Health System Inc., Colorado Financial Statistics (cont.)

	--Six months ended June 30--	--Fiscal year ended Dec. 31--		Medians for 'AA-' rated health care system	Medians for 'A+' rated health care system
	2020	2019	2018	2018	2018
Maximum annual debt service coverage (x)	3.55	5.29	5.65	4.80	4.40
Operating lease-adjusted coverage (x)	2.93	4.41	4.41	3.30	3.20
Liquidity and financial flexibility					
Unrestricted reserves ($000s)	2,353,800	2,354,900	2,037,800	2,037,800	941,089
Unrestricted days' cash on hand	342.9	340.7	302.0	234.50	186.00
Unrestricted reserves/total long-term debt (%)	209.7	204.2	178.5	194.70	161.80
Unrestricted reserves/contingent liabilities (%)	1,436.1	1,426.3	734.9	576.00	578.40
Average age of plant (years)	12.2	12.2	13.4	10.20	10.90
Capital expenditures/depreciation and amortization (%)	84.8	113.7	144.3	135.30	120.30
Debt and liabilities					
Total long-term debt ($000s)	1,122,300	1,153,200	1,141,800	MNR	MNR
Long-term debt/capitalization (%)	25.7	26.1	28.5	28.50	31.90
Contingent liabilities ($000s)	163,900	165,100	277,300	MNR	MNR
Contingent liabilities/total long-term debt (%)	14.6	14.3	24.3	39.30	30.40
Debt burden (%)	2.88	2.74	2.77	2.10	2.20
Defined-benefit plan funded status (%)	N.A.	102.46	98.50	88.60	84.90
Miscellaneous					
Medicare advance payments ($000s)*	183,200	N/A	N/A	MNR	MNR
Short-term borrowings ($000s)*	200,000	N/A	N/A	MNR	MNR
Total net special funding ($000s)	31,876	65,995	52,333	MNR	MNR

*Excluded from unrestricted reserves, long-term debt, and contingent liabilities. N.A.--Not available. N/A--Not applicable. 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.

SCL-NJH Center for Outpatient Health

- The COH will be a five-story building on NJH's main campus, slated to open in 2021. The facility includes about 100,000 square feet of parking and 100,000 square feet of clinical space.
- The COH will house NJH's pulmonary clinics, pediatrics, allergy & immunology, oncology, health and wellness, and infusion programs. The COH will add 101 new exam rooms, 18 infusion bays, and a new, expanded pharmacy.

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

Group rating methodology: Core

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

This report does not constitute a rating action.

Ratings Detail (As Of August 21, 2020)		
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 rfdg bnds (Sisters of Charity of Leavenworth Hlth Sys) ser 2019B due 01/01/203		
Long Term Rating	AA-/Stable	Current
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	Current
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	Current