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Ratings

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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 debt 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.

Credit overview

The 'AA-' rating on SCL Health reflects our view of its solid financial profile, including improving operating margins and a healthy balance sheet. The rating also incorporates our view of SCL Health's stable position across its markets, notably in the competitive and growing Denver metro area.

SCL Health's operating performance weakened somewhat in fiscal 2020 as a result of pressures associated with the COVID-19 pandemic. Still, the system finished the year with a positive operating margin and healthy maximum annual debt service (MADS) coverage, supported by a solid rebound in patient volumes following the cessation of elective procedures in spring 2020. SCL Health also recognized approximately $121 million in revenue from federal and state relief funding in 2020, primarily through the CARES Act. Patient demand remains very strong through the first six months of fiscal 2021, even as SCL Health continues to treat COVID-19 patients. The system's operating margin has improved, and we expect SCL Health to maintain operating results and cash flow at or near current levels over the outlook period.

SCL Health's balance sheet has also improved markedly over the last year, with healthy cash flow and a strong investment market supporting growth in unrestricted reserves. We understand SCL Health is entering a period of elevated capital spending as it begins construction on a replacement hospital for Lutheran Medical Center (LMC), located west of Denver. The project will cost about $684 million, to be funded from reserves, cash flows, and debt. We believe this level of spending can be sustained at the current rating, but it will require continued strong operations and healthy cash flow.

The rating also reflects SCL Health's enterprise profile, including a diversified revenue base, with eight hospitals across three markets in two states. The organization has a proactive leadership team, which has a good history of controlling expenses and sustaining solid quality indicators and employee and patient satisfaction across its facilities. The management team has successfully operated through several surges of COVID-19 patients, and continues to execute on the system's long-range strategy even as it works through the immediate effects of the pandemic.

More specifically, the 'AA-' 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 operating results and MADS coverage through the six-month interim ended June 30, 2021;
- Long-term contract with Kaiser Permanente (Kaiser), which has contributed to growing patient volumes; and
- Management team that has demonstrated good preparation and readiness for clinical integration, population health management, and changing reimbursement models.

In our view, partly offsetting credit factors include:

- The risks inherent in the construction and operationalization of a replacement hospital;

- The system's concentration in the competitive and dynamic Denver market, and
- The system's debt and spending plans that may limit improvement in the balance sheet over the next few years.

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 improved operating performance, which we believe will be sustained at or near current levels. The stable outlook further reflects our opinion that SCL Health's balance sheet will remain healthy, although we expect moderation of balance sheet metrics over the outlook period as capital spending increases.

Environmental, social, and governance (ESG) 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, we believe the pandemic exposes SCL Health and the entire sector to additional social risks that, although improving given widespread vaccine distribution, remain a threat and point of uncertainty, particularly with the spread of COVID-19 variants. We will continue to evaluate these risks as the situation evolves. We also analyzed SCL Health's environmental and governance risks and determined that both are in line with our view of the sector standard.

Stable Outlook

Upside scenario

We could consider a positive outlook if SCL is able to consistently sustain financial profile metrics in line with those of higher-rated peers. A positive outlook or rating action would also be predicated on successful completion of the LMC replacement hospital project. An upgrade of SCL Health's debt would also result in an upgrade on debt rated for USM and the SCL-NJH COH.

Downside scenario

We could consider a negative outlook or rating action on SCL Health, USM, and SCL-NJH COH debt if SCL Health's operating performance or balance sheet declines 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.

Credit Opinion

Enterprise Profile: Very Strong

COVID-19 recovery and long-range strategy

SCL Health has navigated through several waves of COVID-19 patients, including a current surge related to the delta variant. Still, patient demand has been strong, and to date, SCL Health has not needed to defer or cancel any elective procedures in response to the surge in delta variant cases. We expect volumes to remain healthy, but recognize this could be complicated by additional surges in COVID-19 patients. SCL Health has also supported local and statewide vaccination efforts in both Colorado and Montana. 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.

While SCL Health continues to treat COVID-19 patients, its management team remains focused on long-term organizational sustainability, with the goal of providing high-quality, low-cost care. SCL Health is ranked among the top 15% of health care providers for patient experience, and has also focused on empowering and supporting its employees and caregivers. Staff turnover rates remain low relative to national averages, and SCL Health plans to hire more than 6,700 new staff members in 2021. We view this as especially important given regional and national staffing challenges, which can pressure operations. SCL Health is also consistently recognized for quality and safety at its hospitals, even as it controls cost per adjusted admission. We believe the system is well poised for shifting reimbursement models.

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.

SCL Health has a successful, long-standing partnership with Kaiser. Kaiser does not operate its own inpatient facilities in Colorado, and it partners with SCL Health as a provider of these services. In 2020, SCL Health added LMC to its partnership with Kaiser, bringing substantial new volume to the system. Kaiser member admissions at LMC increased from 232 patients in the last six months of 2020 to 776 patients in the first six months of 2021. The LMC replacement hospital project will include increased capacity to better serve Kaiser members and all SCL Health patients.

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, a 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.

Table 1

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

	--Six months ended June 30--	--Fiscal year ended Dec. 31--	
	2021	2020	2019
Inpatient admissions	34,961	67,833	73,937
Equivalent inpatient admissions	72,431	134,547	146,177
Emergency visits	131,104	257,921	300,640

Table 1

Sisters of Charity of Leavenworth Health System Inc., Colorado Enterprise Statistics (cont.)			
	--Six months ended June 30--	--Fiscal year ended Dec. 31--	
	2021	2020	2019
Inpatient surgeries	9,126	18,118	21,386
Outpatient surgeries	15,461	25,177	26,555
Medicare case mix index	2.0200	1.9900	1.9400
FTE employees	13,853	13,491	13,464
Based on net/gross revenues	Net	Net	Net
Medicare (%)	33.1	31.5	31.4
Medicaid (%)	11.4	9.4	9.1
Commercial/Blues (%)	54.0	56.4	56.9

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

Financial Profile: Very Strong

Financial performance

SCL Health's operating performance weakened in fiscal 2020, although cash flow and MADS coverage remained healthy. The system experienced revenue and expense pressure related to the COVID-19 pandemic, most notably the cessation of elective procedures beginning in mid-March 2020. 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, patient volumes largely rebounded by August 2020. SCL Health also received approximately $121.2 million in funding from the CARES Act and other grants, all of which was recognized as revenue in 2020. With healthy volume recovery and ongoing expense management, the system finished the year well above its budgeted operating margin.

SCL Health's operating recovery has continued into fiscal 2021, including strong growth in demand from Kaiser patients. Through June 30, 2021, the system also recognized an additional $46.0 million in CARES Act grants. Our calculation of operating margin and related metrics for the interim period excludes a $111.5 million noncash expense related to impairment and accelerated depreciation of the LMC campus. We expect SCL Health to maintain operating results at or near current levels over the outlook period, and we believe cash flow will be sufficient to support the capital strategy at the current rating.

Balance sheet and capital plans

SCL Health's unrestricted reserves have grown over the last year, with strong operating cash flow (particularly in fiscal 2021), healthy nonoperating gains, and growth in the system's investment portfolio. That said, days' cash on hand has declined through the interim period with growth in the system's expense base. Our calculation of unrestricted reserves and related ratios excludes SCL's $165.6 million in Medicare advance payments (as of June 30, 2021). We anticipate some spend-down in unrestricted reserves over the outlook period as SCL Health commences the replacement hospital project, but believe that days' cash on hand and cash-to-debt metrics will remain in line with rating expectations.

The new replacement Lutheran Medical Center will be located in Wheat Ridge, Colo., about 3.5 miles from the location of the current hospital. The new site is closer to several major roads, including Interstate 70, which runs east-west through Denver and into the Rocky Mountains. This site will serve growing patient demand (including from Kaiser members) and enable easier access for emergency and critical care at LMC, which is a designated Level II trauma center. The 660,000-square-foot facility will include 210 patient beds, with shelled space for an additional 21 beds and room for future growth if needed. The new hospital is designed with larger, all-private patient rooms and expanded clinical and caregiving space. The building is also designed to prioritize sustainability and energy efficiency. The total budget for the replacement hospital is $684 million, funded by reserves, cash flows, and new-money debt. The project is expected to open in summer 2024.

Debt and contingent liabilities

SCL Health has only one series of debt that consists of private placement bonds, a 2016 $52.9 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 23.2%, and its cash-to-debt declines to 243%, both of which remain in line with the system rating.

In 2015, SCL Health consolidated its legacy pension plans into a single consolidated retirement plan. The plan is frozen and overfunded. SCL Health's board has approved termination of the pension plan, which we expect in July 2022. While we have not historically seen the pension plan as a credit risk, given its strong funding status, we view the planned termination favorably.

This report does not constitute a rating action.

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
	2021	**2020**	**2019**	**2019**
Financial performance				
Net patient revenue ($000s)	1,453,800	2,669,400	2,754,200	3,213,282
Total operating revenue ($000s)	1,546,400	2,880,100	2,831,545	3,320,191
Total operating expenses ($000s)	1,454,700	2,777,400	2,699,500	MNR
Operating income ($000s)	91,700	102,700	132,045	MNR
Operating margin (%)	5.93	3.57	4.66	3.00
Net nonoperating income ($000s)	112,400	54,600	57,400	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
	2021	**2020**	**2019**	**2019**
Excess income ($000s)	204,100	157,300	189,445	MNR
Excess margin (%)	12.30	5.36	6.56	5.50
Operating EBIDA margin (%)	13.11	11.35	12.76	9.20
EBIDA margin (%)	19.00	13.00	14.50	10.90
Net available for debt service ($000s)	315,200	381,600	418,845	404,081
Maximum annual debt service ($000s)	78,162	78,162	78,162	MNR
Maximum annual debt service coverage (x)	8.07	4.88	5.36	5.00
Operating lease-adjusted coverage (x)	7.67	3.92	4.46	3.80
Liquidity and financial flexibility				
Unrestricted reserves ($000s)	2,805,600	2,774,500	2,335,700	2,257,133
Unrestricted days' cash on hand	375.7	390.6	337.9	258.80
Unrestricted reserves/total long-term debt (%)	258.0	259.5	202.2	224.70
Unrestricted reserves/contingent liabilities (%)	1,711.8	1,692.8	1,414.7	642.40
Average age of plant (years)	10.0	9.5	12.2	10.40
Capital expenditures/depreciation and amortization (%)	99.1	103.3	113.7	132.60
Debt and liabilities				
Total long-term debt ($000s)	1,087,600	1,069,300	1,155,400	MNR
Long-term debt/capitalization (%)	22.1	22.6	26.2	27.40
Contingent liabilities ($000s)	163,900	163,900	165,100	MNR
Contingent liabilities/total long-term debt (%)	15.1	15.3	14.3	31.50
Debt burden (%)	2.36	2.66	2.71	2.20
Defined-benefit plan funded status (%)	N.A.	104.80	102.46	83.80
Miscellaneous				
Medicare advance payments ($000s)*	165,600	183,200	N/A	MNR
Short-term borrowings ($000s)*	N/A	N/A	N/A	MNR
CARES Act grants recognized ($000s)	46,000	121,200	N/A	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

Ratings Detail (As Of August 26, 2021)

Ratings Detail (As Of August 26, 2021) (cont.)		
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		
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Montana Fac Fin Auth (Sisters of Charity of Leavenworth Hlth Sys) sys		
Long Term Rating	AA-/Stable	Current