S&P Global
Ratings

RatingsDirect®

Colorado Health Facilities Authority CommonSpirit Health, Colorado; Hospital; System

Primary Credit Analyst:
Suzie R Desai, Chicago + 1 (312) 233 7046; suzie.desai@spglobal.com

Secondary Contact:
Patrick Zagar, Dallas + 1 (214) 765 5883; patrick.zagar@spglobal.com

Table Of Contents

Colorado Health Facilities Authority CommonSpirit Health, Colorado; Hospital; System

Credit Profile		
US$1800.0 mil taxable bnds (CommonSpirit Health) ser 2024 dtd 03/20/2024 due 12/01/2054		
Long Term Rating	A-/Stable	New
US$775.3 mil rev bnds (CommonSpirit Health) (Cohfa) ser 2024A dtd 03/20/2024 due 12/01/2054		
Long Term Rating	A-/Stable	New
US$246.565 mil rev bnds (CommonSpirit Health) (Chffa) ser 2024A dtd 03/20/2024 due 12/01/2054		
Long Term Rating	A-/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'A-' long-term rating to CommonSpirit Health (CommonSpirit), Colo.'s $1.8 billion series 2024A fixed-rate taxable revenue bonds.
- In addition, S&P Global Ratings assigned its 'A-' long-term rating to the California Health Facilities Financing Authority's $246.6 million series 2024A tax-exempt fixed-rate revenue bonds and the Colorado Health Facilities Authority's $775.3 million series 2024A tax-exempt fixed-rate revenue bonds, all issued for CommonSpirit.
- At the same time, S&P Global Ratings affirmed its 'A-' long-term rating and underlying rating (SPUR) on various series of bonds issued for CommonSpirit.
- S&P Global Ratings also affirmed its 'BBB+' long-term rating on the Washington Health Care Facilities Authority's series 2017 tax-exempt fixed-rate bonds and series 2013 taxable fixed-rate bonds issued for Virginia Mason Medical Center (VMMC) and its 'BBB+' SPUR on an insured portion of the authority's series 2013 bonds also issued for VMMC.
- S&P Global Ratings affirmed its 'A-/A-2' dual rating on certain series of CommonSpirit's variable-rate demand bonds. The long-term component is based on CommonSpirit, while the short-term component is based on CommonSpirit's self-liquidity.
- Finally, S&P Global Ratings affirmed its 'A-2' short-term rating on CommonSpirit's commercial paper (CP).
- The outlook, where applicable, is stable.

Security

The series 2024 bonds and previously issued bonds, including those issued for legacy Dignity Health and Catholic Health Initiatives(CHI), are secured under CommonSpirit's master trust indenture and a gross receivable pledge of the obligated group.

Financial covenants include a minimum of 1.1x historical debt service coverage under the master trust indenture as well as a minimum of 75 days' cash on hand and a maximum of 65% debt to capitalization under CommonSpirit's bank and swap agreements. There are also rating triggers on certain swap agreements if the CommonSpirit rating falls below 'BBB-'.

Proceeds from the series 2024 bonds, along with expected premium, will go toward refinancing certain debt outstanding (mostly term loans, puts, line of credit draws, and CP used to refinance previously refunded debt), will provide about $500 million of net new money that will be used to reimburse prior capital spending (about $300 million) and fund future expenditures ($200 million), and will pay for issuance costs. Specifically, debt outstanding that could be refinanced consists of $600 million of term loans with Wells Fargo and Citi (partial amount used to acquire assets in Utah from Steward Health Care System or Steward), $156 million on the line of credit used to refund various series of debt a couple of years ago, $265 million of a PNC term loan that was used to refinance the series 2013D taxable bonds, and $295 million of CP outstanding that was used to refinance existing debt. The 2024 bonds will also refinance taxable bonds maturing in the fall including $700 million of CommonSpirit series 2019 and $250 million of Dignity Health series 2014A. Management could increase the taxable bond issuance for additional refinancing opportunities, depending on market conditions.

Under our group rating methodology criteria, we have designated VMMC as highly strategic to CommonSpirit given its integration with the strategically important Franciscan Health system as well as management's intention to refinance VMMC's debt when costs are more in line. Given VMMC's status as a highly strategic entity, the debt rating will remain one notch below the CommonSpirit debt rating.

Credit overview

The 'A-' rating reflects our view of CommonSpirit's exceptionally broad geographic reach with meaningful market presence in several key regions and support for a financially diversified health system across 24 states with a large revenue base of more than $34 billion. The rating further reflects our view of management's heightened imperative to garner system benefits and the team's communication of urgency to improve performance with additional operating initiatives focused on supply chain, payer contracts and revenue cycle, growth initiatives, and other performance improvement areas including ongoing portfolio rationalization. The organization has adjusted the portfolio through divestitures where a different partner might serve the community better (MercyOne in Iowa in 2023, and upcoming sales of two smaller legacy Dignity Health facilities in San Francisco), while increasing ambulatory care as well as inpatient services in certain markets with favorable demographics and complementary footprints. That said, most of CommonSpirit's stronger markets remain competitive and we note that some of CommonSpirit's larger markets (e.g., California, the Northwest, and Colorado) have experienced higher cost inflation, including a more challenging labor environment.

Interim 2024 second-quarter performance is closer to break-even following another year of sizable losses in fiscal 2023, but CommonSpirit's underlying financial performance, excluding one-time funds and normalized for California's quality assurance fee (QAF) program, remains challenged, although we note slow improvement over prior-year period results. Pro forma balance sheet metrics have weakened since our previous review largely related to the $2.0 billion increase in debt and capital leases from the acquisition of Steward's facilities in Utah in spring 2023. The upcoming debt issuance has a muted impact on pro forma debt-related ratios but will meaningfully reduce contingent debt, including near-term bullets.

Meaningful one-time benefits such as COVID-19-related funds in 2023 as well as its 340B settlement in interim 2024 lowered losses in those periods. After adjusting for those one-time funds, CommonSpirit garnered almost $200 million of underlying improvement through the six-month interim 2024 period compared with the prior-year period.

Management expects to meet its budgeted operating EBITDA for 2024 (meaningfully improved from fiscal 2023 although it will still record an operating loss), which requires additional improvement in the remainder of fiscal 2024 and has set a goal of further improvement into 2025. Potential of $1.5 billion in additional one-time funds (COVID-19-related expenses from Federal Emergency Management Agency and Employee Retention Credits or ERC, as well as cyber recovery) may result in an even stronger fiscal 2024 but could come in fiscal 2025 and provide some additional cushion as management continues to improve performance. Pro forma MADS coverage remains adequate at 2x and we note that large bullets and slow principal amortization could slow improvement to debt-related ratios.

CommonSpirit has also made significant changes to its management team as a result of planned retirements with a new chief operating officer, chief strategy officer (CSO), and chief administrative officer, and we believe that this new leadership should help with execution of the system's One CommonSpirit efforts and operating improvement initiatives, as well as with review of CommonSpirit's markets and how best to invest and support the different markets while improving cash flow. Given the system's formation five years ago and the pandemic years in between, we understand some of the inherent challenges that CommonSpirit has had in creating operating efficiencies and systemization. That said, we will need to see meaningful progress on CommonSpirit's initiatives and performance over the outlook period to maintain the rating.

Like many providers, management has noted some disruption of delayed billing from the recent cyber event at its vendor Change Healthcare that serves as a clearinghouse for submitting payments to insurers, but doesn't expect this to meaningfully affect CommonSpirit's margins or reserves and has access to short-term liquidity for any immediate needs.

The 'A-' rating further reflects our view of CommonSpirit's:

- Significant scale as one of the largest health care systems in the country with good service line and geographic diversity and solid business positions in most of its markets;
- Commitment and urgency to continue to generate operating improvement through performance improvement initiatives and with opportunities to standardize and centralize key areas in order to gain additional efficiencies and continue to improve clinical quality;
- Underlying improvement through the first half of 2024 with potential receipt of one-time COVID-19 related funds later in 2024 or early 2025 for additional runway as management executes on its initiatives and targets breakeven operating margins over the outlook period; and
- Adequate smoothed pro forma maximum annual debt service (MADS) coverage through interim 2024 but healthier pro forma average annual debt service coverage as a result of an uneven schedule with several near- and medium-term bullets.

Partly offsetting the above strengths, in our view, are CommonSpirit's:

- Continued weak underlying performance through interim 2024 coupled with the complexities of robust earnings improvement given sector profitability difficulties and diversity of the system's markets;
- Weaker key balance sheet ratios as a result of debt associated with the acquisition of Steward's facilities, coupled with minimal growth in reserves, which provides little cushion for continued weak performance at the rating;

- Reliance on special funding sources, including disproportionate share hospital and state provider fees, though the system's diversity of programs across states partially offsets; and
- Location in generally competitive markets.

Environmental, social, and governance

We analyzed CommonSpirit's environmental risk as elevated given the location of a substantial portion of hospital assets in areas prone to earthquakes, wildfires, areas of drought, and, to a lesser extent, hurricanes--especially in Houston. Despite these risks, we believe the diversity of the system's assets in a wide range of locations and reserves and access to liquidity help mitigate the risks. We also recognize that CommonSpirit has steadily invested in seismic retrofits and rebuilds to adhere to California's seismic regulations.

We view CommonSpirit's large and broad service area with multiple distinct markets across 24 states and with some of those markets showing healthy population growth and economics as factors that could lower its social capital risk. However, recent inflationary pressures, particularly around labor, that have led to increased salary and agency costs tied to human capital risks and that ultimately are depressing cash flow and margins offset this. While the team has multi-pronged strategies to address these issues, we expect human capital risks to continue to offset the favorable demographics in some of CommonSpirit's markets. Furthermore, slightly more than half of legacy Dignity Health employees participate in collective bargaining agreements, and a much smaller percentage at legacy CHI do.

We view CommonSpirit's governance factors as neutral to the credit rating.

Outlook

The stable outlook reflects our expectation that CommonSpirit will execute on its financial improvement plan, return closer to break-even performance over the outlook period excluding any material one-time events, and generate solid pro forma MADS coverage of more than 2x. The outlook also reflects our expectation that the system will maintain its balance sheet profile. We view success of ongoing improvement initiatives as important, as we see limited flexibility for continued underlying losses of this scale at the rating, given that balance sheet metrics have weakened.

Downside scenario

We believe that CommonSpirit has exhausted its cushion at the rating given its weakened balance sheet ratios and below-target fiscal years 2022 and 2023. We could consider a negative action without a trend of meaningful underlying operating improvement over the outlook period to help support capital spending needs that have slowed in the past year and a half. Given the weaker operating profile and the sizable debt increases in 2023, we see no room for meaningful declines in cash on hand or additional debt at the rating.

Upside scenario

While we believe CommonSpirit's enterprise profile could support a higher rating over time, operating pressures along with weakened balance sheet ratios lead us to view a positive outlook or higher rating as unlikely within the outlook period.

Credit Opinion

Enterprise Profile: Very Strong

Market focus expands from inpatient to ambulatory and digital care

The organization has healthy revenue and service line dispersion and manages the system by divisions, which have been consolidated to five (from eight): California, Central (which includes Nebraska, Arizona, and Nevada), Mountain, Northwest, and the South. Market positions are generally sound and improving with recent investments in physicians and ambulatory care, inpatient assets, and digital capabilities. Performance challenges persist in almost all the divisions given the inflationary pressures over the past couple of years, with the South being the weakest performer and likely requiring ongoing stronger performance in other markets as offsets. That said, management reports good demand for services, particularly outpatient as care delivery transitions in that direction, but the inpatient side has seen improvements with progress on productivity.

Management is reviewing all of its markets and the particular capital, physician, and ambulatory investments (or divestitures) required. Different operating dynamics, including labor, payer, regulatory, and competitive dynamics, will entail different strategies and emphasis. Specific to the South market and Houston, management is completing a series of ambulatory investments and working on maintaining services in network and better coordination with physicians (both employed and with Baylor College of Medicine), and coordinating its academic medical center partner with its other CommonSpirit regional facilities. Operations have improved somewhat, and new leadership in that region has aided these efforts. Certain capital expenditures (mostly for inpatient facilities) have been delayed in that market. Finally, salary inflation has challenged all of its markets, but particularly the entire Northwest market, and management is making inroads with productivity work, potential additional funds from a new provider fee program in Washington, and payer contract negotiation.

As a system, CommonSpirit continues to focus on outpatient services as well as expanding the continuum of care and strengthening infrastructure for value-based payments. To that end, management has a number of joint ventures and has accelerated use of technology for remote monitoring, hospital at home, and other technology-enabled solutions both for clinical care and workforce management. In addition, and as a byproduct of identifying certain solutions with partner entities, management holds a diverse portfolio of strategic investments from which it has benefited both organizationally and financially. The organization also continues to make strides in annual clinical goals as well as in increased Magnet-designated hospitals and the number of four- and five-star Centers for Medicare & Medicaid Services hospitals.

New management with increased focus on One CommonSpirit and performance improvement signals urgency around obtaining meaningful results

After disappointing results for fiscal 2023, albeit with an unexpected cyber event in fall 2022, management reports updated and more aggressive strategies beginning in early calendar 2023 to obtain the efficiencies it deems necessary to generate adequate cash flow to reinvest and provide appropriate services to its communities. Wright Lassiter, who was named CEO in summer 2022, completed the buildout of several key members of his team over the past year (highlighted above). While the system has shown improvement in clinical quality metrics, certain labor retention metrics, and underlying operating improvement initiatives, management has highlighted more progress toward improved financial targets as urgent and believes it has the leadership and organizational structure in place to meet those goals.

While most major corporate areas of integration are complete with achievement of its original $2 billion synergy target, the team is now focused on more systemness and performance improvement. The systemness work should help clinical quality and care delivery, but also help manage costs and expenses as well as growth and revenue opportunities. Streamlining the regions to five from eight was an initial step, and detailed workflows have been devised for areas where consistency can be improved. With a new CSO, the team has also taken a new comprehensive and structured approach to each of its markets to make strategic decisions on the right types of investments (and potentially select divestitures). Management has adjusted full-time employees by about 2,000 in 2023 and continues to review appropriate staffing, mostly in non-clinical areas. Also, management is now considering consolidating some of its electronic health record and enterprise resource planning systems, which we think could further streamline these areas and generate efficiencies. Demonstration of ongoing progress through initiatives and their translation to the bottom line will be critical to maintaining the rating as CommonSpirit is moving into a third year of still meaningful, albeit narrowed, operating losses.

Table 1

CommonSpirit Health, Colorado--Enterprise statistics

		--Fiscal year ended June 30--		
	Six months ended Dec. 31, 2023*	2023	2022	2021
Inpatient admissions	395,053	754,225	757,662	745,793
Equivalent inpatient admissions	858,125	1,624,468	1,588,884	1,532,867
Emergency visits	2,009,520	3,919,548	3,873,484	3,361,252
Inpatient surgeries	103,971	198,392	199,560	203,375
Outpatient surgeries	176,740	344,747	350,234	333,314
Medicare case mix index	1.9700	1.9622	2.0200	2.0300
FTE employees	133,000	131,000	134,000	128,086
Active physicians	N.A.	18,869	18,908	19,106
Top 10 physicians admissions (%)	N.A.	N.A.	N.A.	N.A.
Based on net/gross revenues	Gross	Gross	Gross	Gross
Medicare (%)	45.9	45.7	44.6	45.0
Medicaid (%)	20.6	21.2	21.2	21.0
Commercial/Blues (%)	27.6	27.0	27.5	28.0

Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions. PSA--Primary service area. FTE--Full-time equivalent. N.A.--Not available. *Q2 2024 excludes volumes related to two San Francisco facilities likely to be divested in fiscal 2024.

Financial Profile: Adequate

Signs of improvement in 2024 absent one-time items and resolve to demonstrate additional gains in coming years

Underlying performance has improved in 2024, demonstrating some urgency around improvement initiatives, higher accountability, and lower tolerance for unnecessary variations across the system, in our view. This follows a challenged 2023 when normalizing the California QAF program (whose funds are generally received on an uneven basis, depending on Centers for Medicare & Medicaid Services and state approvals) and excluding COVID-19-related funds. In addition, the organization incurred approximately $160 million of expenses and lost revenue related to the cyber event that occurred in October 2023 and for which management is still targeting meaningful insurance receipts over the next year. Cash flow continues to benefit from significant disproportionate share funds and various states' provider fee fund programs, but we view the diversity across states as a partial mitigant.

Performance, even in 2024, is still weak relative to the rating, but we view favorably the generally improved underlying run rate and the comprehensive initiatives that should generate continued improvement as labor expense management initiatives mature, coupled with the possibility of additional revenue sources, such as new provider fee programs in Washington, Nevada, and Nebraska. (The net provider fee program in Washington could benefit the organization by about $70 million to $80 million annually, while the Nebraska program could have significantly higher benefit but is more uncertain.) As mentioned above, one-time COVID-19-related funds and cyber insurance recovery, if received, could reduce losses for 2024 even more than budgeted and meaningfully help unrestricted reserves. Management is targeting steady and incremental cash flow improvement with targets for break-even margins over the next couple of years with medium-term targets still at 8% operating EBITDA.

Along with labor management and productivity, other key areas of operating improvement include revenue cycle and payor contracts, supply chain initiatives, and initiatives around real estate, labs, and pharmacies. Management reports that various consultants are supporting plans in each of these areas. The team is also using its systemness to take lessons learned in one region to other regions as well and decreasing variation in various areas, including staffing models, supplies, and payer contracting.

Unrestricted reserves have declined since 2021, though access to liquidity remains good

CommonSpirit's unrestricted reserves have declined through 2024 and have generally experienced low growth after weak investment performance in 2022. We view days' cash on hand somewhat light for the rating, particularly with the given operating profile, but also recognize that the large operating expense base of the organization affects the ability to increase that figure and that the organization has access to other liquidity, including a $900 million line of credit (of which about $450 million will be available after refinancing of the $156 million draw) and $300 million of available CP (after refinancing). CommonSpirit is managing capital expenditures to cash flow. Capital spending is budgeted at $1.8 billion for 2024, about level with depreciation. We view liquidity of the investment portfolio as good with about 65% of reserves available within 30 days. A portion of the draw on the line ($156 million of $607 million drawn) has been included in long-term debt, as it was used to pay down debt and part of the upcoming refinancing. The remaining approximately $450 million draw for working capital purposes is excluded from long-term debt and unrestricted reserves.

Capital spending has decreased over the past couple of years, related partly to reduced cash flow but also to timing of spending. (Average age of plant is good, although the age of fixed assets may be underreported given the purchase accounting reflected at the time of the 2019 consolidation.) Management reports its commitment to maintain the strength of the balance sheet with targets of 150 to 160 days' cash on hand. Capital management may be more directed across the system as the team works through some of its strategic plans in each market. Some of the newly approved strategic capital projects include projects in Arizona (both inpatient and outpatient), inpatient expansion in Colorado, and additional ambulatory expansion in Houston following the recent ambulatory tower completion. In future reviews, we will evaluate the layering of increased information technology spending into forecasts if decisions are made to consolidate platforms.

CommonSpirit has three main pools of funds: the operating pool, the retirement trust, and the captive insurance trust. At June 30, 2023, the combined operating investment pool was quite liquid, as mentioned, at about 39% public equities, 33% private equity and hedge funds and other, and 29% fixed income and cash--all of which seems reasonable for an investment portfolio of this size along with the external liquidity availability noted.

Moderate pro forma debt with good diversity of products and structure

As mentioned, pro forma long-term debt has increased by around $2.5 billion primarily related to the increase in debt and capital leases tied to the facilities acquired from Steward as well as the $500 million issuance of 2024 pro forma debt and limited amortization of annual principal payments. We view flexibility on the balance sheet as low given the increase in debt and associated debt burden, weak cash flow, and limited reserve growth. S&P Global Ratings estimates contingent liability debt at a high $5.3 billion, or about 25% of debt outstanding, but lower on a pro forma basis. Contingent liabilities primarily consist of variable-rate demand bonds, near-term bullets and tenders, direct placements, term loans, and CP outstanding. In addition, we recognize that the system's swap portfolio includes some event-based risk, such as if the long-term rating were to fall below 'BBB-' on S&P Global Ratings' scale or below 'Baa3' on Moody's scale.

With termination of one of the larger Employee Retirement Income Security Act plans, improvement in the discount rate, and long-term returns from investment markets on the assets, the unfunded portion of CommonSpirit's multiple defined-benefit pension and postretirement benefit plans' liability has continued to decrease, to $1.8 billion. Management maintains good funding discipline on its pension plans, most of which are considered church plans and are not subject to Employee Retirement Income Security Act funding guidelines. A small percentage of the plans are closed with benefits frozen, but the majority are open with ongoing accrual of benefits.

Table 2

CommonSpirit Health, Colorado--Financial summary

		--Fiscal year ended June 30--			A- rated health care system medians
	Six months ended Dec. 31, 2023*	2023	2022	2021	2022
Financial profile					
Financial performance					
Net patient revenue ($000s)	17,765,000	32,260,000	31,646,000	30,185,000	2,485,744
Total operating revenue ($000s)	18,656,000	34,447,000	33,633,000	32,666,000	2,615,198
Total operating expenses ($000s)	18,782,937	35,978,865	35,261,000	32,584,000	2,538,202
Operating income ($000s)	(126,937)	(1,531,865)	(1,628,000)	82,000	13,198

Table 2

CommonSpirit Health, Colorado--Financial summary (cont.)

		--Fiscal year ended June 30--			A- rated health care system medians
	Six months ended Dec. 31, 2023*	2023	2022	2021	2022
Operating margin (%)	(0.68)	(4.45)	(4.84)	0.25	0.50
Net nonoperating income ($000s)	258,000	505,099	1,363,815	1,378,000	42,512
Excess income ($000s)	131,063	(1,026,766)	(264,185)	1,460,000	36,130
Excess margin (%)	0.69	(2.94)	(0.75)	4.29	0.90
Operating EBIDA margin (%)	5.14	1.45	1.05	6.39	5.70
EBIDA margin (%)	6.43	2.87	4.91	10.18	6.00
Net available for debt service ($000s)	1,217,000	1,004,099	1,716,815	3,466,000	151,926
Maximum annual debt service ($000s) - Pro forma	1,095,496	1,095,496	1,095,496	1,095,496	74,446
Maximum annual debt service coverage (x)	2.22	0.92	1.57	3.16	3.30
Operating lease-adjusted coverage (x)	N.A.	0.94	1.42	2.58	2.10
Liquidity and financial flexibility					
Unrestricted reserves ($000s)	14,139,000	15,006,000	15,422,000	18,153,000	1,295,432
Unrestricted days' cash on hand	143.0	158.6	166.5	213.1	177.0
Unrestricted reserves/total long-term debt (%)	79.9	84.5	100.7	117.6	115.1
Unrestricted reserves/contingent liabilities (%)	265.0	281.3	530.0	857.7	586.6
Average age of plant (years)	9.4	9.1	7.9	7.4	14.1
Capital expenditures/depreciation and amortization (%)	64.5	89.6	101.6	100.7	110.0
Debt and liabilities					
Total long-term debt ($000s)	17,686,000	17,755,000	15,317,000	15,442,000	1,218,340
Long-term debt/capitalization (%)	46.7	47.0	43.5	42.6	41.6
Contingent liabilities ($000s)	5,335,356	5,335,356	2,910,000	2,116,400	415,810
Contingent liabilities/total long-term debt (%)	30.2	30.0	19.0	13.7	22.8
Debt burden (%)	2.90	3.13	3.13	3.22	2.00
Defined benefit plan funded status (%)	N.A.	84.30	81.88	77.02	96.50
Pro forma ratios - approx. $500 million net new money with partial reimbursement					
Unrestricted reserves ($000s)	14,439,000	N/A	N/A	N/A	MNR
Total long-term debt ($000s)	18,191,000	N/A	N/A	N/A	MNR
Unrestricted days' cash on hand	146.0	N/A	N/A	N/A	MNR
Unrestricted reserves/total long-term debt (%)	79.4	N/A	N/A	N/A	MNR
Long-term debt/capitalization (%)	47.5	N/A	N/A	N/A	MNR
Contingent liabilities/total long-term debt (%)	16.5	N/A	N/A	N/A	MNR
Unrestricted reserves/contingent liabilities (%)	481.7	N/A	N/A	N/A	MNR

Table 2

CommonSpirit Health, Colorado--Financial summary (cont.)

		--Fiscal year ended June 30--			A- rated health care system medians
	Six months ended Dec. 31, 2023*	2023	2022	2021	2022
Miscellaneous					
Medicare advance payments ($000s)§	0	0	825,000	2,510,000	MNR
Short-term borrowings ($000s)§	450,000	450,000	0	0	MNR
COVID-19 related funds ($000s)	0	498,029	265,919	690,000	MNR
Risk-based capital ratio (%)	N/A	N/A	N/A	N/A	MNR
Total net special funding ($000s)	N.A.	1,392,339	1,059,136	1,737,384	MNR

Note that contingent liabilities for 2023 and interim 2024 include bullets due within five years. *Results from two San Francisco facilities are not included in Q2 2024 financials, as they are part of discontinued operations. §Excluded from unrestricted reserves, long-term debt, and contingent liabilities. N/A--Not applicable. N.A.--Not available. MNR--Median not reported.

Credit Snapshot

- Organization description: CommonSpirit Health is one of the largest health care systems in the country, with 142 hospitals and approximately 2,250 clinical locations across 24 states as of Dec. 31, 2023, with health care services across the continuum of care.
- Group status--CommonSpirit Health: The obligated group established pursuant to CommonSpirit's master trust indenture (MTI) is considered core, according to our group rating methodology. The obligated group accounted for 88% of total revenue as of Dec. 31, 2023. The MTI also has a provision creating restricted affiliates of the obligated group. Members of the obligated group can direct restricted affiliates to transfer funds to enable the obligated group to comply with provisions of the MTI. Baylor St. Luke's Medical Center is the only restricted affiliate.
- Group status--VMMC: Highly strategic (see analysis above).
- Swaps: CommonSpirit (including legacy Dignity Health and CHI) is party to 31 floating- to fixed-rate swaps, seven total return swaps, and one basis swap. The counterparties are Bayerische Landesbank, JPMorgan Chase Bank N.A., Morgan Stanley Capital Services LLC, Piper Jaffrey, Bank of America/Merrill Lynch, Barclay's Bank PLC, Mizuho Capital Markets LLC, SMBC Capital Markets, Inc., PNC Bank, N.A., and BMO Harris Bank N.A. As of Dec. 31, 2023, the total notional amount of the swap portfolio was $2.3 billion, with a negative mark-to-market of $87 million, net of $51 million of collateral. Swap termination triggers could occur at ratings below 'BBB-', days' cash on hand at 75, and other events of default such as failure to pay and cross-default provisions, which we don't view as likely over the near term.
- Self-liquidity: The 'A-2' short-term component of the rating on two series of VRDBs ($96.7 million) and the $851.0 million CP outstanding (authorized to $881.0 million with pro forma at approximately $556.0 million) reflects our view of the credit strength inherent in the 'A-' long-term rating on CommonSpirit's debt and the sufficiency of unrestricted reserves to provide liquidity support for that debt. Our Fund Ratings and Evaluations Group assesses the liquidity of CommonSpirit's unrestricted investment portfolio monthly to determine the adequacy and availability of these funds to guarantee the timely purchase of the bonds tendered in the event of a failed remarketing. CommonSpirit identified approximately $3.1 billion of discounted assets as of Dec. 31, 2023, to provide self-liquidity. The assets are invested in highly rated money market funds, U.S. Treasuries, agencies, investment-grade debt, speculative-grade debt, and domestic equities, providing sufficient coverage in the event of a failed remarketing. Management has established clear and detailed procedures to ensure the maintenance of sufficient asset coverage and to meet liquidity demands on a timely basis.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of February 28, 2024)		
Catholic Health Initiatives taxable bnds		
Long Term Rating	A-/Stable	Affirmed

Ratings Detail (As Of February 28, 2024) (cont.)		
Catholic Health Initiatives taxable bnds ser 2017A due 10/01/2027		
Long Term Rating	A-/Stable	Affirmed
Catholic Health Initiatives US$900.mil taxable hosp CP nts ser A&B		
Short Term Rating	A-2	Affirmed
CommonSpirit Health sys		
Long Term Rating	A-/Stable	Affirmed
CommonSpirit Health sys (AGM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
CommonSpirit Health sys (AGM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
CommonSpirit Health sys (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
CommonSpirit Health sys (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
CommonSpirit Health (BAM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Dignity Health (BAM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Dignity Hlth sys		
Long Term Rating	A-/Stable	Affirmed
Dignity Hlth sys (AGM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Dignity Hlth (Dignity Hlth) SYSTEM		
Long Term Rating	A-/Stable	Affirmed
Virginia Mason Med Ctr taxable rev bnds		
Long Term Rating	BBB+/Stable	Affirmed
Virginia Mason Med Ctr (AGM) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Arizona Health Facilities Authority, Arizona		
Dignity Health, California		
Arizona Hlth Fac Auth (Dignity Health)		
Long Term Rating	A-/Stable	Affirmed
California Health Facilities Financing Authority, California		
CommonSpirit Health, Colorado		
California Hlth Facs Fincg Auth (CommonSpirit Health) sys		
Long Term Rating	A-/Stable	Affirmed
California Hlth Facs Fincg Auth (CommonSpirit Health) sys (AGM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
California Hlth Facs Fincg Auth (CommonSpirit Health) sys (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Ratings Detail (As Of February 28, 2024) (cont.)		
California Health Facilities Financing Authority, California		
Dignity Health, California		
California Hlth Facs Fincg Auth (Dignity Hlth) SYSTEM		
Long Term Rating	A-/Stable	Affirmed
California Statewide Communities Development Authority, California		
Dignity Health, California		
California Statewide Comntys Dev Auth (Dignity Health) (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Chattanooga Health Educational & Housing Facility Board, Tennessee		
Catholic Health Initiatives, Colorado		
Chattanooga Hlth Ed & Hsg Fac Brd (Catholic Hlth Initiatives)		
Long Term Rating	A-/A-2/Stable	Affirmed
Chattanooga Health Educational & Housing Facility Board, Tennessee		
CommonSpirit Health, Colorado		
Chattanooga Hlth, Educl & Hsg Fac Brd (CommonSpirit Health) sys		
Long Term Rating	A-/Stable	Affirmed
Chattanooga Health Educational & Housing Facility Board, Tennessee		
Dignity Health, California		
Chattanooga Hlth, Educl & Hsg Fac Brd (Dignity Hlth) tax exempt rev bnds (Dignity Health) ser 2019A-1 due 07/01/2049		
Long Term Rating	A-/Stable	Affirmed
Colorado Health Facilities Authority, Colorado		
Catholic Health Initiatives, Colorado		
Colorado Hlth Fac Auth (Catholic Health Initiatives)		
Long Term Rating	A-/Stable	Affirmed
Colorado Hlth Fac Auth (Catholic Health Initiatives) SYSTEM		
Long Term Rating	A-/Stable	Affirmed
Colorado Health Facilities Authority, Colorado		
CommonSpirit Health, Colorado		
Colorado Health Facilities Authority (CommonSpirit Health) tax exempt fixed rate rev bnds (CommonSpirit Health) ser 2019A-2 dtd 08/21/2019 due 08/01/2		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Colorado Hlth Facs Auth (CommonSpirit Health) sys		
Long Term Rating	A-/Stable	Affirmed
Colorado Hlth Facs Auth (CommonSpirit Health) sys (AGM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Colorado Hlth Facs Auth (CommonSpirit Health) sys (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Colorado Hlth Facs Auth (CommonSpirit Health) sys (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Colorado Hlth Facs Auth (CommonSpirit Health) sys (BAM) (SECMKT)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Colorado Hlth Fac Auth (CommonSpirit Health) sys		
Long Term Rating	A-/Stable	Affirmed

Ratings Detail (As Of February 28, 2024) (cont.)		
Colorado Hlth Fac Auth (CommonSpirit Health) sys		
Long Term Rating	A-/Stable	Affirmed
Colorado Health Facilities Authority, Colorado		
Dignity Health, California		
Colorado Health Facilities Authority (Dignity Health) (BAM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Colorado Health Facilities Authority (Dignity Health) (BAM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Colorado Hlth Fac Auth (Dignity Hlth) tax exempt fixed rate rev bnds (Dignity Health) ser 2019A-1 due 07/01/2049		
Long Term Rating	A-/Stable	Affirmed
Kentucky Economic Development Finance Authority, Kentucky		
Catholic Health Initiatives, Colorado		
Kentucky Econ Dev Fin Auth (Catholic Health Initiatives)		
Long Term Rating	A-/A-2/Stable	Affirmed
Kentucky Econ Dev Fin Auth (Catholic Health Initiatives)		
Long Term Rating	A-/Stable	Affirmed
Kentucky Econ Dev Fin Auth (Catholic Health Initiatives) SYSTEM		
Long Term Rating	A-/Stable	Affirmed
Kentucky Economic Development Finance Authority, Kentucky		
CommonSpirit Health, Colorado		
Kentucky Econ Dev Fin Auth (CommonSpirit Health) sys		
Long Term Rating	A-/Stable	Affirmed
Kentucky Economic Development Finance Authority, Kentucky		
Dignity Health, California		
Kentucky Econ Dev Fin Auth (Dignity Hlth) tax exempt rev bnds (Dignity Hlth) ser 2019A-1 due 07/01/2049		
Long Term Rating	A-/Stable	Affirmed
Kentucky Economic Development Finance Authority, Kentucky		
Sylvania Franciscan Health Obligation Group, Ohio		
Kentucky Econ Dev Fin Auth (Sylvania Franciscan Health Obligated Group)		
Long Term Rating	A-/Stable	Affirmed
Louisville and Jefferson County Metropolitan Government, Kentucky		
Catholic Health Initiatives, Colorado		
Louisville & Jefferson Cnty Metro Govt (Catholic Hlth Initiatives) sys		
Long Term Rating	A-/Stable	Affirmed
Montgomery County, Ohio		
Catholic Health Initiatives, Colorado		
Montgomery Cnty (Catholic Health Initiatives)		
Long Term Rating	A-/Stable	Affirmed
Montgomery County (Catholic Health Initiatives)		
Long Term Rating	A-/Stable	Affirmed
Short Term Rating	NR	Affirmed
Montgomery County (Catholic Health Initiatives)		
Long Term Rating	A-/Stable	Affirmed

Ratings Detail (As Of February 28, 2024) (cont.)		
Umatilla County Hospital Facility Authority, Oregon		
Catholic Health Initiatives, Colorado		
Umatilla Cnty Hosp Fac Auth (Catholic Health Initiatives)		
Long Term Rating	A-/Stable	Affirmed
Washington Health Care Facilities Authority, Washington		
Catholic Health Initiatives, Colorado		
Washington Hlth Care Fac Auth (Catholic Health Initiatives) SYSTEM		
Long Term Rating	A-/Stable	Affirmed
Washington Health Care Facilities Authority, Washington		
CommonSpirit Health, Colorado		
Washington Hlth Care Fac Auth (CommonSpirit Health) sys		
Long Term Rating	A-/Stable	Affirmed
Washington Hlth Care Fac Auth (CommonSpirit Health) sys		
Long Term Rating	A-/Stable	Affirmed
Washington Hlth Care Fac Auth (CommonSpirit Health) sys		
Long Term Rating	A-/Stable	Affirmed
Washington Hlth Care Fac Auth (CommonSpirit Health) sys		
Long Term Rating	A-/Stable	Affirmed
Washington Health Care Facilities Authority, Washington		
Dignity Health, California		
Washington Hlth Care Fac Auth (Dignity Hlth) tax exempt rev bnds (Dignity Health) ser 2019A-1 due 07/01/2049		
Long Term Rating	A-/Stable	Affirmed
Washington Health Care Facilities Authority, Washington		
Virginia Mason Medical Center, Washington		
Washington Health Care Facilities Authority (Virginia Mason Medical Center)		
Long Term Rating	BBB+/Stable	Affirmed

Many issues are enhanced by bond insurance.