FitchRatings

Public Finance
Healthcare
United States

CommonSpirit Health, Colorado

Ratings

Long-Term IDR	A–

Outlooks

Long-Term IDR	Stable

New Issues

$2.335,700,000 Common Spirit Health Taxable Bonds, Series 2025	A-
$504,115,000 Washington Health Care Facilities Authority Series 2025A	A-
$513,980,000 Colorado Health Facilities Authority Series 2025A	A-

Outstanding Debt

Issuer Ratings Information

Key Metrics

Cash to Debt (%)	75.3
Days' Cash on Hand	154.9
MADS Coverage (x)	1.8
Operating EBITDA (%)	4.2

Sources: Fitch Ratings, Fitch Solutions, CommonSpirit Health (CO)

Applicable Criteria

U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria (pub. 12 Nov 2024) (including rating assumption sensitivity)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub. 10 Jan 2025) (including rating assumption sensitivity)

Related Research

Fitch Affirms CommonSpirit (CO) IDR at 'A-'; Outlook Stable (February 2025)

Analysts

Kevin Holloran
+1 512 813 5700
kevin.holloran@fitchratings.com

Michael Burger
+1 415 796 9960
michael.burger@fitchratings.com

CommonSpirit has produced two consecutive years of generally improved financial performance, mainly through reduced use of external contract labor, sound patient volumes and various productivity initiatives in fiscal 2024 and fiscal 2025. The two years of improvement follow notable operational challenges in the prior two years (fiscal 2022 and fiscal 2023).

The system incurred total operational losses of $687 million in fiscal 2025, following a loss of $581 million in fiscal 2024 and losses that averaged $1.35 billion in fiscal 2023 and 2022. Fiscal 2025's operations resulted in an operating margin of negative 1.8% and an operating EBITDA margin of 3.7%, still below CommonSpirit's longer-term expectations. Fiscal results have been presented here without material adjustments for FEMA revenues or the normalization of California's Provider Fee program, and mimic published audited financial statements.

Despite meaningful progress, the planned return to operating profitability on an annual basis will likely not occur until fiscal 2026 or 2027. Fitch continues to view this as a delay in, not a rejection of, CommonSpirit's multiyear journey to operational profitability and a return to notable balance sheet accretion.

CommonSpirit realized all its initial merger-driven operational goals; however, operational challenges remained in the background and still played a role in both fiscal 2025's and 2024's operating results. CommonSpirit is continuing its margin improvement initiatives already in place and launching Project ImpACT, a comprehensive expense reduction and revenue generation effort focused on accelerating these already in-flight initiatives, and identify a range of other opportunities. The initial focus is on a broad range of systemwide initiatives in a number of its markets, and continued rollout expected by Fitch.

Fitch expects that, over the longer term, CommonSpirit will generate a consistent operating EBITDA margin of about 6%+ with a positive operating margin achieved by no later than fiscal 2027. Fitch expects operating EBITDA margins at approximately 6% over the next one to two years, given current industry headwinds, but also acknowledges CommonSpirit's more recent progress combined with the expected operational lift of Project ImpACT in the out years.

Building on recent improvements in general accordance with management's articulated timing will be a key component in maintaining the current rating and Stable Outlook. Capital spending is expected to generally track improvements in operating performance, remain at or above annual depreciation, and continue supporting CommonSpirit's long-term mission as the sector shifts toward more outpatient access points. Notably, even a break-even operating income would result in an operating EBITDA margin of approximately 6% and operating EBITDA cash flow of about $2.5 billion, demonstrating CommonSpirit's significant size and scale. While some current financial metrics could indicate a lower rating than 'A-', Fitch believes CommonSpirit's substantial size, diversity and national scale suggest rating strength beyond the face value of these metrics.

Security

The bonds are joint and several obligations under CommonSpirit's master trust indenture (MTI) and are secured by a gross revenue pledge of the obligated group (OG).

Credit Strengths

- National scale, size and diversity, generating almost $39.1 billion in net revenue annually, across five regions, each with revenues of between $3.9 billion and $13.3 billion.

- Improving patient volumes, highlighted by continued volume growth across inpatient and outpatient services.
- Sustained operational improvements in fiscal 2025, with an expectation of additional velocity of improvement given the launch of Project ImpACT.

Credit Challenges

- The need to build upon improved, but still less than break-even, operating results in fiscal 2025.
- A balance sheet that has not significantly improved in the last few years, despite market improvement and one-time cash infusions, largely due to operating losses and capital expenditure levels.
- An expectation that capex will remain robust for the nearer term, particularly as operating margins recover, which could slow or limit future balance sheet accretion.

Key Rating Drivers

Revenue Defensibility - bbb

Extensive Size and Revenue Diversity

CommonSpirit's revenue defensibility is assessed as midrange, which is the highest assessment absent significant taxing authority to support bond repayment or operations. CommonSpirit's revenue defensibility is supported by its broad revenue composition, ranging across different services and multiple markets.

The system has a combined payor mix in fiscal 2025, consisting of 22.5% of gross revenues derived from combined Medicaid and self-pay, which is factored into the midrange revenue defensibility. CommonSpirit has not experienced a significant shift in payor mix but, like most in the sector, continues to focus on rate increases from commercial payors given the sector trajectory of higher staffing costs and overall expenses on provider systems.

CommonSpirit garners a leading or a near-leading market share in many of its key markets, most of which are competitive with strong regional providers. The system has experienced growth and expansion in Colorado, Arizona and the Pacific Northwest in recent years, and remains focused on stabilizing its Texas (South) operations.

CommonSpirit reorganized into fewer geographical regions, and Fitch expects that system assets will continually be evaluated on their long-term potential contribution to each market. Markets that are deemed to have a limited path to financial sustainability may, in the context of CommonSpirit's mission, need to be considered for alternate models or partnerships to improve operating results, while still honoring community needs. Notably, CommonSpirit's net community benefit expense totaled $5.2 billion in fiscal 2025 (including the unpaid cost of Medicare).

Fitch does not currently expect any material divestitures of assets over the near term.

Fitch believes that CommonSpirit should be able to leverage its higher-performing assets and find a sustainable balance between profitability and support of its mission. New geographies and new capabilities have been added to an already extensive list of pre- and post-acute service offerings.

Operating Risk - bbb

Improved Operational Results in Fiscal 2024 and 2025; Continued Improvements Expected

CommonSpirit generally maintained progress on its improvements despite sector-wide operational pressures in fiscal 2025, resulting in an operating margin of -1.8%, an operating EBITDA margin of 3.7% and an EBITDA margin of 6.2% (as calculated by Fitch). Fiscal 2025 results are similar to fiscal 2024's results, where CommonSpirit saw margins of -1.6%, 4.2% and 5.5%, respectively.

Results have been driven by volume growth, incremental lowering of the average length of stay and productivity (labor) initiatives.

CommonSpirit is intensely engaged in labor standardization, organizational design changes and other value capture initiatives in its revenue cycle, supply chain and ancillary services, which Fitch expects to result in additional operational improvements over the next two years. Fitch expects that positive operating margins will begin to be realized in fiscal 2026, with full year better than break-even results occurring in 2027.

Capital spending averaged $1.57 billion over the past three fiscal years. Fitch projects capital spending to be north of $2.0 billion on average over the next five years as margins and EBITDA improve and CommonSpirit invests in growth opportunities. Fitch considers CommonSpirit's intended capital spending as generally aggressive when compared to the last five years historically, and views it as unlikely that CommonSpirit will spend at planned levels. Rather, CommonSpirit's planned spending will likely occur at a slower pace, improving unrestricted liquidity levels and creating additional spending flexibility, with lower levels of spending expected by Fitch in the earlier years and then ramping up as operations are expected to improve.

Financial Profile - bbb

Gradual Improvement in Liquidity Expected

Unrestricted cash and investments were $16.8 billion at fiscal year-end 2025 (FYE25). Debt at FYE25 stood at $21.5 billion, inclusive of short-/long-term debt, as well as short-/long-term lease liabilities, resulting in cash to debt of 78%, which is highly consistent with (and slightly improved from) the prior years' level. Days cash on hand remains sound at 159 days as of FYE25 which is, again, slightly improved from FYE24.

Unrestricted liquidity should grow in fiscal 2026 due to several small liquidity infusions, reimbursement from this debt issuance, and philanthropic efforts. CommonSpirit is focused on building on its record level of annual philanthropy and fundraising (achieving $314 million in fiscal 2024 and $316 million in fiscal 2025).

CommonSpirit's fiscal 2025 pension funding increased and now stands at a total funding level of 88.3% on a PBO basis. Fitch only includes as a debt equivalent the portion of a defined benefit (DB) pension that is below 80% funded. As a result, cash-to-debt and cash-to-adjusted debt are the same ratio.

Capital-related ratios should remain stable and eventually improve. Even in a forward-looking stress case, cash-to-adjusted debt does not fall below 65% and approaches 90% by year five.

Asymmetric Additional Risk Considerations

No asymmetric risk considerations were applied in this rating determination.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Should CommonSpirit be unable to adhere to articulated improvement initiatives or miss key financial milestones in fiscal years 2026 or 2027;
- Similarly, should cash-to-debt levels fail to gradually improve and not be expected to be sustained above 80%;
- Higher levels of capital spending that require significant additional cash or debt commitments without commensurate EBITDA growth.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Sustained operating EBITDA margins of 8% or above;
- Sustained cash-to-total debt expectations of 100% while maintaining a midrange (or better) operating risk assessment.

Credit Profile

CommonSpirit is the largest Catholic healthcare system in the U.S. The integrated system operates 158 hospitals, including 20 additional hospitals through unconsolidated joint ventures, and more than 2,300 care sites across 24 states. It has 25,000 affiliated physicians and practitioners, including over 6,000 employed providers, and records 25 million patient encounters annually.

In fiscal 2025 (results through June 30, 2025), the system had combined revenue of approximately $39.1 billion. In addition to hospitals, the system offers a wide continuum of care in its individual market divisions that includes micro hospitals, imaging centers, urgent care centers, specialty clinics, virtual care, and home health and hospice services.

Revenue Defensibility

Providers are more limited than other municipal sectors due to Medicare, Medicaid and self-pay volumes, which constrain a provider's ability to increase future reimbursement rates. Medicaid represents just 19.7% of gross patient revenues and self-pay, 2.8%, for fiscal 2025. The payor mix has generally been stable at these levels, and Fitch does not expect any significant changes in the coming years, although there has been a slight shift upward in Medicare and a shift downward in commercial insurance patients.

CommonSpirit consolidated its eight divisions into just five regions (California, Mountain, Northwest, Central and South) to streamline reporting and centralize more functions. At the same time, CommonSpirit engaged in several strategic agreements transferring ownership of its San Francisco assets to University of California San Francisco; expanding into Utah through the acquisition of Steward Health Care assets (five hospitals and over 40 clinics, along with imaging and urgent care); and continued affiliations with partners to further develop its ambulatory strategy, including behavioral health, imaging, surgery centers and micro hospitals.

Revenue defensibility is also dependent on the organization's market share and market position, along with the economic outlook of its service areas. CommonSpirit garners a leading or a near-leading market share in many of its key markets, which are generally competitive markets with strong regional providers. With CommonSpirit in 24 states, service area characteristics generally reflect national figures, but many of its markets are in higher-population growth markets. This is considered a credit positive but also necessitates consistent levels of ongoing capital spending to keep up with local market needs. Aside from the system's broad geographic diversity, there is also revenue diversity from a portfolio that includes a wide array of acute and non-acute healthcare services.

Payor Mix

(% Gross Revenues; Fiscal Years Ended June 30)	2021	2022	2023	2024	2025
Medicare	44.0	44.6	45.7	46.0	46.6
Medicaid	21.0	21.2	21.2	20.2	19.7
Commercial & Managed Care	28.0	27.5	27.0	27.5	27.3
Self-Pay	3.0	3.0	2.6	2.7	2.8
Other	4.0	3.7	3.5	3.6	3.6
Total	100.0	100.0	100.0	100.0	100.0

Sources: Fitch Ratings, Fitch Solutions, CommonSpirit Health (CO)

Utilization Data

(Fiscal Years Ended June 30)	2021	2022	2023	2024	2025
Operated Beds	17,614	17,578	17,088	17,147	17,303
Acute Adult Admissions/Discharges	780,437	787,225	777,623	827,522	856,528
Acute Adult Patient Days	3,903,919	4,061,688	3,844,256	3,940,302	4,026,814
Average Length of Stay (Days)	5.0	5.2	4.9	4.8	4.7
Average Daily Census	10,696	11,128	10,532	10,795	11,032
Occupancy (%)	60.7	63.3	61.6	63.0	63.8
Observation Cases	172,485	301,205	345,630	295,554	226,689
Hospital Stays (Admissions plus Observation Cases)	952,922	1,088,430	1,123,253	1,123,076	1,083,217
Births	82,592	85,841	82,226	79,295	79,425
Inpatient Surgeries	203,375	199,560	201,395	207,235	209,131
Outpatient Surgeries	333,314	350,234	341,631	350,814	348,279
Emergency Department Visits, Net of Admissions	2,866,858	3,354,229	3,370,562	3,482,355	3,487,014
Outpatient/Clinic Visits	26,432,061	24,779,606	22,872,546	24,571,509	25,888,994
Medicare Casemix Index	2.00	2.02	2.00	1.98	1.95

Sources: Fitch Ratings, Fitch Solutions, CommonSpirit Health (CO)

Operating Risk

In fiscal 2025, CommonSpirit reported similar operating results compared to the prior year (notably better than the previous two years), with an operating margin loss of 1.8% (1.6% in 2024FYE) and an operating EBITDA margin of 3.7% (4.2% in 2024FYE). The last two years of results have been driven by improved volume levels, incremental lowering of both external contract labor and the average length of stay and productivity (labor) initiatives.

Even with full realization of its $2 billion in financial synergies from the initial merger, and a more successful two fiscal years than the prior two (fiscal 2022 and 2023 FYE), CommonSpirit is expected to continue, even intensify, operating improvement and growth initiatives to see improved financial results in fiscal 2026 and into fiscal 2027. CommonSpirit is currently engaged in labor standardization, organizational design changes and other value capture initiatives in its revenue cycle, supply chain and ancillary services, all to be augmented by Project ImpACT, a comprehensive expense reduction and revenue generation effort focused on accelerating these already in-flight initiatives.

Full-year fiscal 2025 was expected to show an operating loss, even as improvement initiatives continued to ramp up to full realization of a break-even operating performance to begin 2026 and continue into 2027. A break-even operating margin would result in an operating EBITDA margin of about 6% to 6.5%, which generates around $2.5 billion of operating EBITDA.

CommonSpirit's intended capital spending is generally planned to be aggressive; however, Fitch views it as unlikely that CommonSpirit will spend at such levels. The entity's planned spending will likely be achieved at a slower pace, more like historical levels, improving unrestricted liquidity and creating additional financial flexibility.

Nevertheless, capex is expected to continue for service areas with good population growth or significant competition. Fitch believes that spending will be at or above annual depreciation expense over the next five years, gradually bringing down average age of plant.

Should liquidity reserves and cash flow exceed expectations, the system is likely to amplify capital spending in the coming years. Under either circumstance, CommonSpirit remains committed to funding capital within annual EBITDA expectations and limitations.

Financial Summary

($000, Audited Fiscal Years Ended June 30)	2021	2022	2023	2024	2025[a]
Balance Sheet Data					
Unrestricted Cash & Investments	17,747,000	15,454,000	15,456,000	15,550,000	16,755,000
Total Assets	54,876,000	50,314,000	51,872,000	54,734,000	57,260,000
Total Debt (Including Current Portion)	17,561,000	17,316,000	20,210,000	20,654,000	21,488,000
Adjusted Debt	17,990,200	17,316,000	20,210,000	20,654,000	21,488,000
Net Adjusted Debt	243,200	1,862,000	4,754,000	5,104,000	4,733,000
Unrestricted Net Assets	20,833,000	19,887,000	20,022,000	21,055,000	22,429,000
Income & Cash Flow Data					
Net Patient Revenue	28,996,000	30,490,000	30,866,000	33,960,000	34,575,000
Other Revenue	4,193,000	3,417,000	3,640,000	3,557,000	4,541,000
Total Revenues	33,189,000	33,907,000	34,506,000	37,517,000	39,116,000
Depreciation & Amortization	1,487,000	1,463,000	1,438,000	1,458,000	1,403,000
Interest Expense	451,000	459,000	573,000	696,000	728,000
Total Expenses	32,255,000	35,203,000	35,904,000	38,098,000	39,803,000
Income from Operations	934,000	-1,296,000	-1,398,000	-581,000	-687,000
Operating EBITDA	2,872,000	626,000	613,000	1,573,000	1,444,000
Non-Operating Gains (Losses)	2,143,000	1,263,000	423,000	497,000	1,054,000
Excess (Deficiency) of Revenues over Expenses	3,077,000	-33,000	-975,000	-84,000	367,000
EBITDA	5,015,000	1,889,000	1,036,000	2,070,000	2,498,000
Total Pension Expense	310,000	82,000	252,000	436,000	150,000
Adjusted EBITDA	5,325,000	1,971,000	1,288,000	2,506,000	2,648,000
Net Unrealized Gains (Losses)	2,046,000	-2,052,000	637,000	841,000	778,000
Capital Expenditures	1,497,000	1,486,000	1,288,000	1,270,000	2,140,000
Maximum Annual Debt Service (MADS)	1,102,844	1,102,844	1,166,058	1,166,058	1,166,058

[a] Unaudited. EBITDA: Earnings before interest, taxes, depreciation & amortization.
Note: Fitch may have reclassified certain financial statement items for analytical purposes.
Sources: Fitch Ratings, Fitch Solutions, CommonSpirit Health (CO)

Financial Profile

Fitch's base case forward-looking scenario (our best estimate of performance given sector conditions), individual issuer analysis and the larger macroeconomic environment indicate that CommonSpirit's key leverage metrics should improve, albeit still slowly. Cash to debt should increase to approximately 90% in the outer years of the base case, even with the fairly aggressive capital spending plan fully modeled into our analysis.

Fitch's stress case scenario includes only a stress on the system's investment portfolio, with no operational stress included in this analysis as the system arguably is continuing to emerge from operational stress seen in fiscal years 2022 through 2025. In Fitch's forward-looking stress case scenario, CommonSpirit's key leverage metrics remain just outside the 'a' or 'strong' assessment, assuming adherence to past capital spending practices to match financial results, with cash-to-adjusted debt of roughly 85% in the recovery years after the stress event.

Key Ratios

	2021	2022	2023	2024	2025
Days Cash on Hand	210.5	167.2	163.7	154.9	159.3
Days in Accounts Receivable	54.4	53.5	57.9	58.1	55.7
Cushion Ratio (x)	16.1	14.0	13.3	13.3	14.4
MADS Coverage - EBITDA (x)	4.6	1.7	0.9	1.8	2.1
MADS Coverage - Operating EBITDA (x)	2.6	0.6	0.5	1.4	1.2
MADS/Total Revenue (%)	3.3	3.3	3.4	3.1	3.0
Profitability & Operational Ratios (%)					
Operating Margin	2.8	-3.8	-4.1	-1.6	-1.8
Operating EBITDA Margin	8.7	1.9	1.8	4.2	3.7
EBITDA Margin	14.2	5.4	3.0	5.5	6.2
Capital Related Ratios					
Cash/Debt (%)	101.1	89.3	76.5	75.3	78.0
Cash/Adjusted Debt (%)	98.7	89.3	76.5	75.3	78.0
Net Adjusted Debt/Adjusted EBITDA	0.1	0.9	3.7	2.0	1.8
Average Age of Plant (Years)	7.2	7.9	9.1	9.8	11.1
Capital Expenditures/Depreciation (%)	100.7	101.6	89.6	87.1	152.5

[a] Unaudited. EBITDA: Earnings before interest, taxes, depreciation & amortization.
Note: Fitch may have reclassified certain financial statement items for analytical purposes.
Sources: Fitch Ratings, Fitch Solutions, CommonSpirit Health (CO)

Asymmetric Additional Risk Considerations

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.