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Ratings

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California Health Facilities Financing Authority
CommonSpirit Health, Illinois; Hospital; Joint Criteria; System

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California Health Facilities Financing Authority CommonSpirit Health, Illinois; Hospital; Joint Criteria; System

Credit Profile		
US$1500.0 mil taxable bnds ser 2020 due 06/30/2050		
Long Term Rating	BBB+/Stable	New
US$626.0 mil rev bnds (CommonSpirit Health) ser 2020A due 06/30/2050		
Long Term Rating	BBB+/Stable	New
Arizona Hlth Facs Auth, Arizona		
Dignity Hlth, California		
Arizona Hlth Facs Auth (Dignity Hlth) JOINTCRIT		
Long Term Rating	A+/A-1	Downgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Arizona Hlth Facs Auth (Dignity Hlth) JOINTCRIT		
Long Term Rating	A+/A-1	Downgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
California Hlth Facs Fincg Auth, California		
Dignity Hlth, California		
California Hlth Facs Fincg Auth (Dignity Hlth) JOINTCRIT		
Long Term Rating	A+/A-1	Downgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Colorado Hlth Fac Auth, Colorado		
Catholic Health Initiatives, Colorado		
Colorado Hlth Fac Auth (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'BBB+' long-term ratings to CommonSpirit Health, Ill.'s $1.5 billion series 2020 taxable fixed-rate bonds and to the California Health Facilities Financing Authority's $626 million series 2020A tax-exempt fixed-rate revenue bonds, issued for CommonSpirit. At the same time, we affirmed our 'BBB+' long-term ratings and underlying ratings (SPUR) on all debt outstanding secured under CommonSpirit Health's master trust indenture (MTI), including bonds previously issued by multiple issuers for the legacy Dignity Health and Catholic Health Initiatives (CHI). The outlook on all ratings is stable.

S&P Global Ratings also affirmed its 'A-2' short-term ratings on CommonSpirit's debt where applicable, including the commercial paper (CP) rating and the short-term component of its dual ratings backed by self-liquidity. S&P Global Ratings monitors the self-liquidity program on a monthly basis.

Next, S&P Global Ratings affirmed its 'AA-/A-1' dual ratings on certain series of CommonSpirit's variable-rate demand bonds (VRDBs), based on the application of our joint criteria. The long-term component of the joint criteria ratings is based jointly on the SPUR on CommonSpirit, and the long-term rating of each of the individual letter-of-credit (LOC) banks, while the short-term components are based solely on our rating on the LOC banks.

Finally, S&P Global Ratings corrected its joint criteria ratings on CommonSpirit Health's series 2005B, 2008A, and 2009H bonds, by lowering them to 'A+/A-1' from 'AA/A-1'. Due to an error, our internal systems failed to properly identify and process these related ratings, and, therefore, we did not lower these ratings in accordance with our joint criteria at the time of the downgrade of the SPUR in July 2019.

The plan of finance is expected by management to provide $2.2 billion of bond proceeds (inclusive of premium), the majority of which will be used to refinance multiple series of bonds. The refinancing is expected to address upcoming maturities, lower actual debt service through 2025, and provide net present value savings based on current rates. While all existing ratings are being maintained for now, the ratings on the various series being fully refunded will be withdrawn after the refundings are completed. Approximately $600 million of net new debt is included in the plan of finance, and CommonSpirit intends to use the funds to reimburse previous capital expenditures. These funds will be added back to unrestricted reserves and will be available to support future capital investments. Total pro forma long-term debt of CommonSpirit is approximately $14.8 billion (including short-term debt and current portion). The bonds are secured by the gross revenues of the obligated group pursuant to the CommonSpirit Health MTI.

Credit overview

The 'BBB+' rating on CommonSpirit's debt reflects a very strong enterprise profile offset by a financial profile that we consider adequate. The very strong enterprise profile reflects our view of CommonSpirit's exceptionally broad geographic and financial dispersion, with 137 hospitals and more than 700 clinical sites across 21 states, making it one of the largest health systems in the country. While the system is large in scale, we believe these enterprise strengths are tempered by the system's historical operating losses, elevated leverage, and our expectation that operating losses may persist in the near term.

The ministry alignment between Dignity Health and CHI to form CommonSpirit Health occurred Feb. 1, 2019. Since that time, the management team has made substantial progress in integrating the new system on several fronts, in our view. Key accomplishments include establishing its new operating company with realigned divisions and leadership, completing a significant refinancing and unification into one credit group, divestiture of challenged assets in Kentucky, and progress toward management's $2 billion value-creation target. While progress has been made through the first 17 months of the system being formed, we believe CommonSpirit has further progress to make to fully realize the benefits of the merger and to stem underperformance in several key regions. We believe the system's material operating losses in audited fiscal years 2019 and 2020 reflect the expected gradual pace of integration, the ongoing operating issues in certain markets, and the negative impact from the pandemic.

The system experienced the stress of the COVID-19 pandemic and related recessionary pressures beginning in March 2020. In our view, management has navigated the challenges well to date, quickly establishing a national command team to coordinate and track cases across the system and direct resources as needed based on demand. To help offset the sharp decline in revenues and increased expenses from the pandemic, CommonSpirit obtained grant funds available through the CARES Act and quickly shored up its liquidity through accessing Medicare Advanced and Accelerated Payments (MAP) and drawing on short term liquidity sources. Despite improved operating results near breakeven through February and while CARES Act funding was substantial, it was not nearly sufficient to fully offset revenue losses due to the pandemic, which resulted in CommonSpirit's fiscal 2020 operating loss.

We expect that the lingering effects of the pandemic and recession will continue to weigh on CommonSpirit's earnings in the near term as volumes, while on the path to recovery, remain below pre-pandemic levels, and as payor mix could deteriorate. CommonSpirit's pre-pandemic operating challenges combined with these pressures will further emphasize the need for management to execute on its operating enhancement and synergy initiatives. While we expect these improvement efforts will continue to bear fruit, the current operating environment will likely make the path to operating profitability more difficult in the near term. Consequently, our rating also reflects a one-notch negative rating adjustment in accordance with our criteria. In our view, the 'BBB+' rating more accurately reflects our view of the credit profile, including our expectation that operating losses may continue in the near term.

More specifically, the 'BBB+' ratings reflect our view of the following credit strengths:

- Significant scale and leverage opportunities for CommonSpirit as one of the largest health care systems in the country, with 137 hospitals and more than 700 clinical sites in 21 states generating approximately $30 billion in annual revenue;
- The system's solid pro forma days' cash on hand;
- A strong management team anchored by key executives that helped in the initial turnaround of Dignity Health, when it was known as Catholic Healthcare West;
- Management's ongoing operational improvements, which are targeted to add $2 billion to cash flow over the first several years of the system's formation; and
- Adequate pro forma maximum annual debt service (MADS) coverage supported by healthy, but potentially volatile nonoperating income.

Key credit risks include our view of CommonSpirit's:

- Historical losses and expected continuation of losses from operations in the near term;
- High pro forma debt to capitalization;
- Ongoing execution risks as the system continues to mature its operating model and evaluate strategic investment and divestiture opportunities;
- Heavy reliance on special funding sources including DSH and provider fees; and
- Sizable pension liability driven by historically low discount rates.

The stable outlook reflects our expectation that CommonSpirit will continue to execute on its financial improvement plans and effectively navigate the challenges of the pandemic while making progress toward its margin targets. The outlook also reflects our expectation of general stability in the system's current balance-sheet profile. Our outlook also incorporates our favorable view of management's work toward its comprehensive plan of improvement and integration, which has made meaningful progress over the past year.

Environmental, social, and governance factors

We analyzed CommonSpirit's environmental risk as elevated relative to those of industry peers given the location of a substantial portion of its hospital assets in areas prone to earthquakes, wildfires, and, to a more limited extent, hurricanes--notably in Houston. While these risks exist, we do believe the diversity of the system's assets in a wide range of locations helps to mitigate the risks to an extent. We also recognize that CommonSpirit has steadily invested in seismic retrofits and rebuilds to adhere to California's seismic regulations.

We view CommonSpirit's social risk as lower than industry peers, given its large and broad service area, which includes multiple distinct markets across 21 states. That said, COVID-19 has exposed CommonSpirit and all health care providers to additional social risks that could result in additional financial pressure in the near term.

We evaluated CommonSpirit's governance risks relative to its economic fundamentals, market position, and management and governance and the corresponding effects on its financial profile and determined it to be in line with the industry as a whole.

Stable Outlook

Upside scenario

A positive outlook or upgrade would be premised largely on CommonSpirit achieving a trend of improvement in underlying operations toward breakeven results coupled with continued progress of synergies achieved. In our view, the enterprise profile and pro forma balance sheet are already strong enough to support a much higher rating, leaving ample upside rating potential that will largely be dependent on execution toward much stronger operating performance.

Downside scenario

We believe that CommonSpirit has cushion at the 'BBB+' rating to withstand the challenges of the pandemic while it executes on operational improvements toward its earnings targets. A negative outlook or lower rating would be premised on operating results that significantly miss management's targets. We think the balance sheet is sound for the rating, aside from leverage that is elevated. Therefore, a substantial increase in debt, without demonstrated progress on improving underlying cash flow and growth in unrestricted net assets, could also pressure the rating.

Credit Opinion

Enterprise Profile: Very Strong

COVID-19 pandemic and response

CommonSpirit Health began to experience the strains of the COVID-19 pandemic and associated recessionary pressures in March 2020, consistent with the broader health care industry. Volumes and patient revenues were at their lowest point in March and April 2020, due to government restrictions on certain medical care. CommonSpirit reactivated services as restrictions were lifted and steadily rebuilt volumes through September 2020, despite regional surges in infections in some of the system's markets, notably Phoenix and Houston. In our view, this is notable as it helps demonstrate the system's ability to navigate and coexist with the pandemic even during peaks. While volumes have recovered nicely, overall volumes remain below the pre-COVID-19 baseline.

Management quickly established a central command led by the system's chief medical officer in January 2020 to monitor and respond to the pandemic. CommonSpirit used a combination of the data available through its electronic medical records and a comprehensive data collection and validation process to establish a real-time system dashboard to monitor trends and direct supplies and personnel across the system to respond to resource needs based on fluctuations in demand. The system also opened a national lab in Arizona for COVID-19 testing, which management expects will result in quicker and more cost-effective testing across the system.

The organization is further leveraging the data available through its systems to develop predictive models to anticipate local surges in demand as part of its ongoing efforts to effectively manage through the pandemic. CommonSpirit has used its virtual infrastructure during this period as well, as seen with a doubling of its virtual visits to more than 400,000 in the fourth quarter of 2020. In addition to allowing patients to receive care, the virtual capabilities also allowed the system to leverage expertise across its footprint remotely, for example, using tele-intensive care unit (ICU) to support care in the Houston market during its peak in cases with clinicians located in another state.

Integration progress

CommonSpirit initially established an Office of Transformation and Integration in 2019, with executive oversight including from the CEO. This body consisted of a team of leaders across the organization, who were tasked with leading the multiple workstreams aimed at structural changes, performance improvement and integration. This structure was established to promote accountability and to ensure that progress was being made toward the nearly $2 billion of merger- and transformation-related synergies that CommonSpirit is pursuing. This formal structure has concluded and accountability has shifted toward departmental leaders with executive leadership team oversight. About half the target relates to synergies that CommonSpirit expects to achieve as a result of the merger and the other half relates to transformation initiatives.

Management estimates that it had achieved $350 million toward its performance goals through February 2020, prior to the pandemic. Included in this figure are multiple achievements such as moving to a single group-purchasing organization, vendor consolidation, elimination of duplicate administrative functions, a systemwide standard for labor productivity, expansion of the 340B program where appropriate, standardization efforts on pharmaceuticals and physician preference items as well efforts to improve clinical documentation in the revenue-cycle process. Management recognizes that the pandemic slowed some efforts particularly on the labor productivity front, but the team is steady in its overall $2 billion savings target and financial goals articulated at the time of our previous analysis. Specifically, this includes reaching a 6% EBITDA margin by the end of fiscal 2021 and a long-term EBITDA goal of 8%, while maintaining a minimum of 150 days' cash on hand. While the targets are consistent, management indicates that the timeline to fully achieve the targets will likely be later due to the pandemic.

Management and strategic updates

CommonSpirit prioritized the establishment of its operating model and placement of its leadership positions very early in the formation of the system. All key executive positions were filled relatively quickly, mostly with individuals from the historical organizations. Initially, CommonSpirit was led by the office of the CEO, which comprised the two CEOs from the legacy Dignity Health and CHI organizations. Effective June 30, 2020, Lloyd Dean became the sole CEO of CommonSpirit Health following the retirement of Kevin Lofton.

We understand that in addition to this change other aspects of the executive leadership and regional leadership structures are under evaluation and may be simplified. In our view, the streamlining of the executive team's structure should be beneficial for the system in terms of agility, strategy, and execution. Multiple members of the legacy Dignity Health leadership team, including the CEO, CFO, and chief operating officer, are members of CommonSpirit's executive leadership team. We have historically viewed that team's strong managerial culture and broad success functioning in difficult markets as supportive of credit quality. We believe the team has led an effective beginning to the new system as demonstrated by progress toward its integration goals, including traction on synergy realization and the successful completion of the exit from the struggling Louisville market in November 2019, which had long lingered and predated the merger.

We believe that the team has considerable work ahead of it though to fully realize the benefits of the combined system. In addition, we understand that a portfolio review is in process led by executive leadership and the board. We expect that this work will include an assessment of the system's portfolio of assets, which will likely evaluate growth markets as well as assets that do not strategically fit into the future of the system. Currently, CommonSpirit has disclosed that it is in discussions with Virginia Mason Health System (BBB-/Stable) in Washington and Yavapai Regional Medical Center (not rated) in Arizona, to potentially join the system. We understand that management is also in confidential discussions to acquire a controlling interest in a multi-site health care provider. Given the early stage of these discussions and the fact that definitive agreements are not in place, we have not factored these possible additions to the system into our rating affirmation. We will evaluate the effect on the credit rating, if any, when details become available.

Table 1

CommonSpirit Health, Illinois Enterprise Statistics

	--Fiscal year ended June 30--	
	2020	**2019****
PSA population	N/A	N/A
PSA market share (%)	N/A	N/A
Inpatient admissions*	744,666	788,201
Equivalent inpatient admissions	1,539,180	1,640,581
Emergency visits	3,661,255	3,994,286
Inpatient surgeries	241,703	264,489
Outpatient surgeries	332,700	376,556
Medicare case mix index	1.9400	1.9000
FTE employees	125,000	N/A
Active physicians	19,784	20,101
Based on net/gross revenues	Gross	Gross
Medicare (%)	44.0	44.0
Medicaid (%)	21.0	21.0

Table 1

CommonSpirit Health, Illinois Enterprise Statistics (cont.)		
	--Fiscal year ended June 30--	
	2020	2019**
Commercial/Blues (%)	28.0	28.0

*Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions. **Includes 12 months of activity assuming the ministry alignment occurred on July 1, 2018. PSA--Primary service area. FTE--Full-time equivalent. N/A--Not applicable.

Financial Profile: Adequate

Financial performance

We consider CommonSpirit Health's financial performance as vulnerable due to the significant operating losses posted in audited fiscal years 2020 and 2019. While there were signs of progress in improving cash flow pre-COVID, overall margins remain relatively thin, in our view.

The effects of the pandemic weighed heavily on CommonSpirit's results in 2020. While funds obtained from the CARES Act grants have offset the strain to a large extent through fiscal 2020, they've been insufficient to offset the full losses. The system recognized $826 million of revenues (of $1.1 billion received) from the CARES Act in fiscal year 2020. Subsequent to year end, the system received additional funds bringing total CARES Act grant receipts to $1.3 billion through Aug. 30, 2020. While the grant funds have indeed helped blunt the blow from the pandemic to date, allowing generally steady year-over-year operating losses for the system, long-term questions remain. Specifically, the extent to which volumes remain below pre-pandemic levels and potential long-term payor-mix shifts caused by recent economic shocks will likely continue to weigh on the system's results in the near term, consistent with the sector more broadly. In our view, this adds a degree of difficulty to achieving margin targets in the outlook period.

Despite the thin operating margins and operating EBIDA margins, we note that CommonSpirit has generated strong returns on its sizable investment portfolio, resulting in pro forma MADS coverage that is healthy, in our view, based on fiscal 2020's results. Our pro forma MADS incorporates the system's plan of finance and also takes in to account small amounts of debt outside of the MTI. We have included those obligations in our debt figures as well. MADS increases very slightly with the new debt to $841 million. This MADS figure also smooths out several bullet payments, the first of which is in 2023. We fully expect the team will be proactive in managing upcoming bullet maturities through refinancings or using the sizable unrestricted reserves or short-term facilities at its disposal.

Liquidity and financial flexibility

CommonSpirit's balance sheet is generally solid for the rating and helps support our view of the overall financial profile. We estimate total pro forma unrestricted reserves at $12.9 billion based on the June 30, 2020 financials. Our estimate assumes $600 million of proceeds reimbursed to the balance sheet from the 2020 plan of finance and also accounts for an $800 million repayment by CommonSpirit on its liquidity facility in September 2020 . We exclude MAP funds from our pro forma unrestricted reserves as well. This results in a very solid 165 pro forma days' cash on hand and sound 87% of total pro forma debt.

The organization's investments regained the losses experienced in the sharp market decline in the third quarter of

2020. Management was quick to respond by shoring up liquidity during that time frame, including drawing down $2.6 billion of MAP funds. We have excluded this amount from our unrestricted reserve calculations, consistent with our treatment across the sector, since they will ultimately be recouped from future Medicare billings. We do recognize that this is a significant source of additional liquidity further bolstering the system's balance sheet. The system is also deferring payroll taxes through 2020 that will ultimately be paid half in December 2021 and half in December 2022. This provides about $410 million of cash flow relief through the end of the calendar year. In addition, CommonSpirit drew $800 million on its existing liquidity facility to further supplement financial flexibility. Collectively, we view these actions favorably as it provides substantial liquidity flexibility for the system to help absorb the ongoing effects of the pandemic and recession. CommonSpirit paid off the $800 million line of credit in the first quarter of fiscal 2021.

CommonSpirit has invested considerably in physical assets over time, resulting in a good average age of plant of less than 10 years as estimated at the time of our previous analysis. Due to the purchase accounting reflected in the audit since that time, the number has decreased to 6.5 years.

Management projects capital spending to be approximately 80%-90% of depreciation through fiscal 2021, but we note that the team has slowed capital spending since the beginning of the pandemic. Over the long term, given the size of the system and the development of the strategy of the combined organizations, we think it is realistic that capital investment could change as management evaluates its portfolio and assesses strategic needs and possible divestitures or perhaps other partnerships. We understand that the system does not plan to make any wholesale changes to merge the entire system in to one common electronic medical record (EMR), so we don't anticipate a massive EMR overhaul.

CommonSpirit initially maintained the individual legacy capital investment pools governed by its historical investment policies and guidelines. Over the past year, the treasury team completed a holistic review of the program including desired mix, risk tolerance, and liquidity needs for the next several years, resulting in a revised asset allocation policy. Also, CommonSpirit recently consolidated the operating investment pools. At June 30, 2020, the combined operating investment portfolio was quite liquid, in our view, with 75% of funds available within seven days ($11.8 billion inclusive of MAP funds).

Debt and contingent liabilities

On a pro forma basis, CommonSpirit will have approximately $14.8 billion of total debt outstanding, inclusive of short-term debt and current portion of long-term debt. Our pro forma debt figure includes the plan of finance as well as the $800 million repayment on CommonSpirit's liquidity facility in September 2020. The system's pro forma debt-to-capitalization ratio is elevated at 54%. This has risen from an estimated pro forma figure of 49% since the time of our last report, primarily due to a further decline in the discount rate, which has caused the pension underfunding to widen. This change then negatively affects unrestricted net assets, thereby pushing the debt-to-capitalization ratio higher. Management's target is to maintain it at no higher than 45%.

CommonSpirit has been active in the capital markets with its 2020 and 2019 issuances. We view these favorably as the collective financings since the system was formed have helped reduce the risk of the debt portfolio by increasing long-term fixed-rate committed capital in place of short-term obligations. The financing activity has also locked in low fixed rates and yielded considerable near-term cash flow savings for CommonSpirit, which we believe will be important particularly in the near term, as cash flow remains muted.

CommonSpirit has also derisked its debt portfolio considerably by refinancing a large portion of its contingent liability debt. S&P Global Ratings estimates contingent liability debt at about $3 billion from more than $5 billion prior to the 2019 financing. CommonSpirit's contingent liabilities primarily consist of the remaining self-liquidity backed debt, VRDBs, direct placements, and the CP program. In addition, we recognize that the system's swap portfolio does include some event-based risk. Specifically, about $294 million of swaps are subject to a termination event if the ratings on CommonSpirit drop below 'BBB+' or 'Baa1' by either S&P Global Ratings or Moody's, respectively.

CommonSpirit maintains multiple defined benefit pension plans from legacy CHI and Dignity Health. With the continued drop in the discount rate, the valuation of plan liabilities has grown much greater than the fair value of plan assets. On a combined basis, the plan assets are about $5 billion less than the projected benefit obligations, resulting in a 63% funded status. In our view, the organization has historically maintained sound funding discipline and the current decline is a function of the estimation of future liabilities, which changes year to year based on assumptions including the fluctuating discount rate.

Table 2

CommonSpirit Health, Ill.--Financial Statistics

	--Fiscal year ended June 30--		--Medians reported for 'BBB+' rated health care systems--	--Medians reported for 'A-' rated health care systems--
	2020	2019*	2019	2019
Financial performance				
Net patient revenue ($000s)	26,207,000	26,570,000	1,767,828	2,089,994
Total operating revenue ($000s)	29,517,000	28,798,000	2,034,197	2,450,143
Total operating expenses ($000s)	30,156,000	29,514,000	MNR	MNR
Operating income ($000s)	(639,000)	(716,000)	MNR	MNR
Operating margin (%)	(2.16)	(2.49)	(1.10)	1.70
Net nonoperating income ($000s)	697,000	710,000	MNR	MNR
Excess income ($000s)	58,000	(6,000)	MNR	MNR
Excess margin (%)	0.19	(0.02)	0.40	3.90
Operating EBIDA margin (%)	4.56	4.16	4.60	7.20
EBIDA margin (%)	6.77	6.47	5.70	9.30
Net available for debt service ($000s)	2,044,000	1,909,000	100,739	236,171
Pro forma maximum annual debt service ($000s)	840,761	840,761	MNR	MNR
Pro forma maximum annual debt service coverage (x)	2.43	2.27	2.70	3.40
Pro forma operating lease-adjusted coverage (x)	1.87	1.80	2.10	2.70
Liquidity and financial flexibility				
Unrestricted reserves ($000s)	13,136,000	11,599,000	763,598	1,059,182
Unrestricted days' cash on hand	167.5	150.7	142.90	138.30
Unrestricted reserves/total long-term debt (%)	87.3	85.9	138.00	100.90
Unrestricted reserves/contingent liabilities (%)	465.8	227.6	828.90	444.90

Table 2

CommonSpirit Health, Ill.--Financial Statistics (cont.)

	--Fiscal year ended June 30--		--Medians reported for 'BBB+' rated health care systems--	--Medians reported for 'A-' rated health care systems--
	2020	**2019***	**2019**	**2019**
Average age of plant (years)	6.5	5.8	11.30	11.50
Capital expenditures/depreciation and amortization (%)	84.1	80.7	81.20	133.50
Debt and liabilities				
Total long-term debt ($000s)**	15,040,000	13,507,000	MNR	MNR
Long-term debt/capitalization (%)	54.1	47.5	35.00	46.70
Contingent liabilities ($000s)	2,820,000	5,096,000	MNR	MNR
Contingent liabilities/total long-term debt (%)	18.8	37.7	15.80	19.70
Debt burden (%)	2.78	2.87	1.90	2.50
Defined-benefit plan funded status (%)	63.05	72.39	71.10	74.80
Pro forma balance sheet ratios^^				
Unrestricted reserves ($000s)	12,936,000	N/A		
Total long-term debt ($000s)	14,840,000	N/A		
Unrestricted days' cash on hand	164.9	N/A		
Unrestricted reserves/total long-term debt (%)	87.2	N/A		
Long-term debt/capitalization (%)	53.8	N/A		
Miscellaneous				
Medicare advance payments ($000s)***	2,600,000	N/A		
CARES Act grants recognized ($000s)	826,000	N/A		
Risk based capital ratio (%)	N/A	N/A		
Total net special funding ($000s)^	781,790	862,497		

*Includes 12 months of financial performance assuming the ministry alignment occurred on July 1, 2018. **Including current portion and short term lines. ^^Assumes the 2020 plan of finance and also the $800 million payment by CommonSpirit on its liquidity facility in September 2020. ***Excluded from unrestricted reserves, long-term debt, and contingent liabilities. N.A.--Not available. N/A--Not applicable. MNR--Median not reported. ^DSH and provider fee net income. N/A--Not applicable. N.A.--Not available. MNR--Median not reported.

Credit Snapshot

- Organization description: CommonSpirit Health was formed through the combination of Dignity Health and CHI on Feb. 1, 2019. The organization is one of the largest health care systems in the country, with 137 hospitals and more than 700 clinical locations across 21 states.
- Group status: The obligated group established pursuant to CommonSpirit's MTI is considered "Core" according to our Group Rating Methodology. The obligated group comprised 88% and 83% of total revenue and assets, respectively, as of June 30, 2020. 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.
- Security and Covenants: Gross revenue pledge of the obligated group. Financial covenants include a minimum of 75 days' cash on hand, a minimum of 1.1x historical DSC under the MTI and a maximum of 65% debt-to-capitalization ratio.
- Swaps: The swaps of the legacy Dignity Health and CHI remain outstanding. CommonSpirit (from CHI) is party to 15 floating-to-fixed-rate swaps, multiple total return swaps and one basis swap. There are nine counterparties: Bayerische Landesbank, JPMorgan Chase Bank N.A., UBS AG, Morgan Stanley, Piper Jaffrey, Bank of America/Merrill Lynch, Barclay's, Mizuho Capital Markets and BMO Harris Bank, N.A. CommonSpirit (from Dignity Health) has 16 floating-to-fixed-rate swaps, one total return swap and five fixed-to-floating risk participation agreements, with J.P. Morgan, Sumitomo, Barclays, BMO Harris Bank, N.A. and Deutsche Bank as counterparties for the swaps. As of June 30, 2020, the total notional amount of the swap portfolio is $3.1 billion, with a negative mark to market of $630 million. Approximately $353 million of collateral is posted against the liability.

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 October 9, 2020)		
Catholic Health Initiatives taxable bnds		
Long Term Rating	BBB+/Stable	Affirmed
Catholic Health Initiatives taxable bnds ser 2017A due 10/01/2027		
Long Term Rating	BBB+/Stable	Affirmed
Catholic Health Initiatives US$900.mil taxable hosp CP nts ser A&B		
Short Term Rating	A-2	Affirmed
CommonSpirit Health taxable fixed rate rev bnds ser 2019 due 07/01/2049		
Long Term Rating	BBB+/Stable	Affirmed
CommonSpirit Health (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Dignity Hlth rev bnds		
Long Term Rating	BBB+/Stable	Affirmed

Ratings Detail (As Of October 9, 2020) (cont.)		
Dignity Hlth (Dignity Hlth) SYSTEM		
Long Term Rating	BBB+/Stable	Affirmed
Arizona Hlth Facs Auth, Arizona		
Dignity Hlth, California		
Arizona Hlth Fac Auth (Dignity Health)		
Long Term Rating	BBB+/Stable	Affirmed
Arizona Hlth Fac Auth (Dignity Health) hosp VRDO ser 2008B		
Long Term Rating	AA-/A-1	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Arizona Hlth Fac Auth (Dignity Health) hosp VRDO ser 2009F		
Long Term Rating	AA-/A-1	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Arizona Hlth Fac Auth (Dignity Health) (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Breckenridge, Minnesota		
Catholic Health Initiatives, Colorado		
Breckenridge (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
California Hlth Facs Fincg Auth, California		
Dignity Hlth, California		
California Hlth Facs Fincg Auth (Dignity Hlth) JOINTCRIT		
Long Term Rating	AA-/A-1	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
California Hlth Facs Fincg Auth (Dignity Hlth) JOINTCRIT		
Long Term Rating	AA-/A-1	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
California Hlth Facs Fincg Auth (Dignity Hlth) SYSTEM		
Long Term Rating	BBB+/Stable	Affirmed
California Hlth Facs Fin Auth (Dignity Health)		
Long Term Rating	BBB+/Stable	Affirmed
California Hlth Facs Fin Auth (Dignity Health) (AMBAC)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
California Hlth Facs Fin Auth (Dignity Hlth) VRDO hosp rev bnds ser 2004K		
Long Term Rating	AA-/A-1	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
California Statewide Communities Dev Auth, California		
Dignity Hlth, California		
California Statewide Comntys Dev Auth (Dignity Health) (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Chattanooga Hlth, Educl & Hsg Fac Brd, Tennessee		
Catholic Health Initiatives, Colorado		
Chattanooga Hlth Ed & Hsg Fac Brd (Catholic Hlth Initiatives)		
Long Term Rating	BBB+/A-2/Stable	Affirmed

Ratings Detail (As Of October 9, 2020) (cont.)		
Chattanooga Hlth Ed & Hsg Fac Brd (Catholic Hlth Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
Chattanooga Hlth, Educl & Hsg Fac Brd, Tennessee		
CommonSpirit Health, Illinois		
Chattanooga Hlth, Educl & Hsg Fac Brd (CommonSpirit Health) tax exempt rev bnds (CommonSpirit Health) ser 2019A-2 due 07/01/2049		
Long Term Rating	BBB+/Stable	Affirmed
Chattanooga Hlth, Educl & Hsg Fac Brd, Tennessee		
Dignity Hlth, 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	BBB+/Stable	Affirmed
Colorado Hlth Fac Auth, Colorado		
Catholic Health Initiatives, Colorado		
Colorado Hlth Fac Auth (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Colorado Hlth Fac Auth (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Colorado Hlth Fac Auth (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
Colorado Hlth Fac Auth (Catholic Health Initiatives) SYSTEM		
Long Term Rating	BBB+/Stable	Affirmed
Colorado Hlth Fac Auth (Catholic Health Initiatives) (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Colorado Hlth Fac Auth (Catholic Health Initiatives) (FGIC)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Colorado Hlth Fac Auth, Colorado		
CommonSpirit Health, Illinois		
Colorado Hlth Fac Auth (CommonSpirit Health) tax exempt fixed rate rev bnds		
Long Term Rating	BBB+/Stable	Affirmed
Colorado Hlth Fac Auth (CommonSpirit Health) 6 year put bnds		
Long Term Rating	BBB+/Stable	Affirmed
Colorado Hlth Fac Auth (CommonSpirit Health) 7 year put bnds		
Long Term Rating	BBB+/Stable	Affirmed
Colorado Hlth Fac Auth, Colorado		
Dignity Hlth, California		
Colorado Hlth Fac Auth (Dignity Hlth) tax exempt fixed rate rev bnds (Dignity Health) ser 2019A-1 due 07/01/2049		
Long Term Rating	BBB+/Stable	Affirmed
Kentucky Econ Dev Fin Auth, Kentucky		
Catholic Health Initiatives, Colorado		
Kentucky Econ Dev Fin Auth (Catholic Health Initiatives)		
Long Term Rating	BBB+/A-2/Stable	Affirmed

Ratings Detail (As Of October 9, 2020) (cont.)		
Kentucky Econ Dev Fin Auth (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
Kentucky Econ Dev Fin Auth (Catholic Health Initiatives) SYSTEM		
Long Term Rating	BBB+/Stable	Affirmed
Kentucky Econ Dev Fin Auth, Kentucky		
CommonSpirit Health, Illinois		
Kentucky Econ Dev Fin Auth (CommonSpirit Health) tax exempt rev bnds (CommonSpirit Health) ser 2019A-2 due 07/01/2049		
Long Term Rating	BBB+/Stable	Affirmed
Kentucky Econ Dev Fin Auth, Kentucky		
Dignity Hlth, California		
Kentucky Econ Dev Fin Auth (Dignity Hlth) tax exempt rev bnds (Dignity Hlth) ser 2019A-1 due 07/01/2049		
Long Term Rating	BBB+/Stable	Affirmed
Kentucky Econ Dev Fin Auth, Kentucky		
Sylvania Franciscan Hlth Oblig Grp, Ohio		
Kentucky Econ Dev Fin Auth (Sylvania Franciscan Health Obligated Group)		
Long Term Rating	BBB+/Stable	Affirmed
Louisville & Jefferson Cnty Metro Govt, Kentucky		
Catholic Health Initiatives, Colorado		
Louisville & Jefferson Cnty Metro Govt (Catholic Hlth Initiatives) rev rfdg bnds		
Long Term Rating	BBB+/Stable	Affirmed
Montgomery Cnty, Ohio		
Catholic Health Initiatives, Colorado		
Montgomery Cnty (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
Montgomery County (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
Short Term Rating	NR	Affirmed
Montgomery County (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
Umatilla Cnty Hosp Fac Auth, Oregon		
Catholic Health Initiatives, Colorado		
Umatilla Cnty Hosp Fac Auth (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
Washington Health Care Facilities Authority, Washington		
Catholic Health Initiatives, Colorado		
Washington Health Care Facilities Authority (Catholic Health Initiatives)		
Long Term Rating	BBB+/Stable	Affirmed
Washington Hlth Care Fac Auth (Catholic Health Initiatives) SYSTEM		
Long Term Rating	BBB+/Stable	Affirmed
Washington Hlth Care Fac Auth (Catholic Health Initiatives) SYSTEM		
Long Term Rating	BBB+/Stable	Affirmed

Ratings Detail (As Of October 9, 2020) (cont.)		
Washington Health Care Facilities Authority, Washington		
CommonSpirit Health, Illinois		
Washington Hlth Care Fac Auth (CommonSpirit Health) tax exempt rev bnds (CommonSpirit Health) ser 2019A-2 due 07/01/2049		
Long Term Rating	BBB+/Stable	Affirmed
Washington Hlth Care Fac Auth (CommonSpirit Health) 5 year put bnds ser 2019B-1 due 07/01/2049		
Long Term Rating	BBB+/Stable	Affirmed
Washington Hlth Care Fac Auth (CommonSpirit Health) 6 year put bnds (CommonSpirit Health) ser 2019B-2 due 07/01/2049		
Long Term Rating	BBB+/Stable	Affirmed
Washington Hlth Care Fac Auth (CommonSpirit Health) 7 year put bnds (CommonSpirit Health) ser 2019B-3 due 07/01/2049		
Long Term Rating	BBB+/Stable	Affirmed
Washington Health Care Facilities Authority, Washington		
Dignity Hlth, California		
Washington Hlth Care Fac Auth (Dignity Hlth) tax exempt rev bnds (Dignity Health) ser 2019A-1 due 07/01/2049		
Long Term Rating	BBB+/Stable	Affirmed

Many issues are enhanced by bond insurance.