

# CommonSpirit Health, Colorado

Fitch Ratings believes CommonSpirit's substantial size, diversity and national scale suggest credit strength beyond the face value metrics that will support the achievement of its goals.

The system experienced an operational setback in fiscal 2022 (unaudited full year results through June 30, 2022), with an operating margin loss of 4.1% and an operating EBITDA margin of just 1.6%. Fitch believes CommonSpirit is still positioned to build on fiscal 2021 improvements and make demonstrable progress toward its longer-term financial goal of achieving an approximate 8% operating EBITDA margin. Fitch anticipates CommonSpirit will begin to generate a consistent operating EBITDA margin of 8% or above within four years, with expectations of operating EBITDA margins in a band of roughly 5%-7% over the next one to three years given industry headwinds. Even a breakeven operating income margin would result in an operating EBITDA margin of approximately 5.5% and operating EBITDA cash flow of approximately \$2.0 billion.

In addition to Fitch's expectation of operational enhancement, there have been significant improvements in unrestricted cash and liquidity, reaching \$15.2 billion as of fiscal 2022, compared to \$12.8 billion in fiscal 2020. Liquidity should continue to increase in fiscal 2023, supporting the upgrade to 'A-'.

CommonSpirit's revenue and geographic diversity could warrant further upgrades even if profitability and balance sheet metrics lag medians. Nevertheless, the system will need to show continued progress in efficient cost management and revenue growth in key markets and realize further synergies to enhance unrestricted liquidity while still funding long-term strategy initiatives.

## Rating Strengths

- National scale, size and diversity – sizable markets that generate over \$2.0 billion in net revenue annually, including Northern California, Southern California, the Southwest, the Pacific Northwest, the Southeast, the Midwest, Colorado and Texas.
- Improving balance sheet – with the addition of up to \$750 million for reimbursement, along with another \$1.33 billion in other liquidity infusions, cash to debt will comfortably surpass 100%.
- Operating income potential – CommonSpirit's goals are attainable, with break-even operating income generating an approximate 5.5% operating EBITDA margin and operating EBITDA cash flow of approximately \$2.0 billion.

## Rating Challenges

- CommonSpirit needs to rebound from operational losses sustained in fiscal 2022, during which it saw just a 1.6% operating EBITDA margin amid still strong industry headwinds.
- Capex that is expected to remain above annual depreciation for the near term, which could slow or limit additional balance sheet accretion.



## Ratings

Long-Term Issuer Default Rating<sup>a</sup> A-

## New Issues

\$1,235,000,000 CommonSpirit Health Bonds (Taxable), Series 2022 A-  
 \$360,765,000 Colorado Health Facilities Authority (CommonSpirit Health) Revenue Bonds, Series 2022A A-  
 \$174,370,000 Colorado Health Facilities Authority (CommonSpirit Health) Revenue Bonds, Series 2022B-1 A-  
 \$173,255,000 Colorado Health Facilities Authority (CommonSpirit Health) Revenue Bonds, Series 2022B-2 A-

<sup>a</sup>Upgraded from 'BBB+' on Sept. 21, 2022.

## Outstanding Debt

See Outstanding Debt details on Page 3.

## Rating Outlook

Stable

## Applicable Criteria

Public Sector, Revenue-Supported Entities Rating Criteria (September 2021)

## Related Research

Fitch Rates CommonSpirit Health, CO's 2022 Revs 'A-'; Upgrades Existing Ratings (September 2022)

## Key Metrics

Pre-Transaction	
Total Revenues	\$33.8B
Days' Cash on Hand	164.9
Cash to Debt	88.1%
Debt Burden	2.6%
EBIDA Margin	5.5%

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**New Issue Summary**

**Sale Date:** The week of Oct. 17, 2022

**Series:** \$1,235,000,000 CommonSpirit Health Bonds (Taxable), Series 2022; \$360,765,000 Colorado Health Facilities Authority (CommonSpirit Health) Revenue Bonds, Series 2022A; \$174,370,000 Colorado Health Facilities Authority (CommonSpirit Health) Revenue Bonds, Series 2022B-1; and \$173,255,000 Colorado Health Facilities Authority (CommonSpirit Health) Revenue Bonds, Series 2022B-2

**Purpose:** The bond proceeds will be used for refinancing, reimbursement for prior capex and general corporate purposes involving CommonSpirit Health (CommonSpirit, or the system).

**Security:** The bonds are a joint and several obligation under CommonSpirit's Master Trust Indenture (MTI) and secured by a gross revenue pledge of the obligated group (OG).

**Rating History  
(Issuer Default Rating)**

Rating	Action	Outlook/ Watch	Date
A-	Upgraded	Stable	9/21/22
BBB+	Assigned	Stable	7/15/19

**Key Rating Drivers**

**Extensive Size and Revenue Diversity:** CommonSpirit's revenue defensibility is supported by its broad revenue composition, ranging across different services and markets. Its revenue defensibility is midrange, which is Fitch's most favorable assessment without meaningful taxing authority. Fitch defines revenue defensibility as an organization's ability to influence future reimbursement levels through volume or rate increases.

Providers are more limited than in 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 21.2% of gross patient revenues and self-pay represents 3.0% of gross patient revenues. The payor mix has been stable at these levels, and Fitch does not expect any significant changes in the coming years.

Revenue defensibility also depends on the organization's market share and market position, along with the economic outlook of the organization's service area(s). Many CommonSpirit hospitals are in high growth, competitive markets where they command a leading or very solid market share. Aside from its broad geographic diversity, the system exhibits revenue diversity from a portfolio that includes a wide array of acute and non-acute healthcare services.

Across its markets, CommonSpirit has a combined payor mix comprising 24.2% of gross revenues derived from Medicaid and self-pay, which is factored into the midrange revenue defensibility assessment. CommonSpirit has not experienced a significant shift in payor mix; however, as with most in the sector, CommonSpirit will likely seek rate increases from commercial payors given the pattern of rising staffing and overall system costs.

CommonSpirit has a number of sizable markets that individually generate over \$2.0 billion in net revenue annually. These markets include Northern California, Southern California, the Southwest, the Pacific Northwest, the Southeast, the Midwest, Colorado and Texas.

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

The system is reviewing its market assets and overall asset mix to comprehensively evaluate the long-term potential for a full continuum of care model, as well as the relative contribution of each market. Fitch believes CommonSpirit will better leverage its higher performing assets to find a sustainable balance between profitability and support of its mission. The system remains committed to providing healthcare access and a "voice" to otherwise underrepresented communities.

Markets deemed to have a limited path to financial sustainability will, in the context of CommonSpirit's mission, be considered for alternate models or partnerships to improve operating results while still honoring community impact. New geographies and capabilities may be added to an already extensive list of pre- and post-acute service offerings, even as other locations may see less investment. CommonSpirit's new CEO has also made it clear that additional synergies must also be found, along with new growth.

**Stress in Fiscal 2022; Financial Results Expected to Improve and Stabilize:** After operating EBITDA margins improved notably in fiscal 2021, reaching 8.7%, CommonSpirit experienced the near sectorwide operational challenges of fiscal 2022, resulting in an operating margin loss of 4.1% and an operating EBITDA margin of 1.6%. Fiscal 2021 benefited from \$690 million recognized in

Coronavirus Aid, Relief and Economic Security (CARES) Act funding (\$826 million was previously recognized in fiscal 2020), a one-time gain on sale of joint venture shares (\$523 million), the consolidation of the Yavapai Regional Medical Center and Virginia Mason Health System and improved volumes via a mix of coronavirus and non-coronavirus patients.

CommonSpirit's original cash flow target was hindered by added expenses in fiscal 2022 from labor and supply costs, inflationary pressures and the cascading challenge of managing coronavirus patients in an inpatient setting. This had a heavy impact on staffing, particularly since it was not possible to move some patients out of the inpatient setting to a more suitable location or facility for an appropriate level of care. Even with close to full realization of \$2.0 billion in financial synergies targeted for implementation by 2023, CommonSpirit has reached a point where additional financial actions are necessary.

Capex has averaged \$1.4 billion over the past three fiscal years and is expected to be approximately \$1.4 billion again this year. With higher liquidity reserves and expected improving cash flow, the system is likely to increase capex in the coming years to levels above depreciation but is still committed to funding capital within annual EBITDA expectations and limitations.

For purposes of this analysis, Fitch assumes an approximate \$2.7 billion annual average on capex in fiscal years 2024 through 2027, with less in the earlier years and more in the latter years. Fitch views this as a maximum spending threshold to be allocated only if there is certainty in achieving specific operational performance in a given year. Prior years have demonstrated that the system will curtail capital, even to levels below annual depreciation expense, to reflect the realities of operating performance.

**Improved Liquidity Overall; Additions Expected:** Fitch has upgraded its financial profile assessment for CommonSpirit to 'a' (or 'strong'), from the prior 'bbb' (or 'midrange') assessment, reflecting the system's improved balance sheet cushion. Unrestricted cash and investments stood at \$15.2 billion as of fiscal YE22 (June 30), excluding \$793 million in remaining Medicare accelerated funds and \$208 million in remaining deferred payroll taxes.

Unrestricted cash, not including any impact from operations, will improve in fiscal 2023 via several one-time liquidity infusions, including: up to \$750 million in reimbursement of prior capex and to fund general corporate purposes from the new issuance, roughly \$500 million generated from the sale of MercyOne, approximately \$650 million through the California Provider Fee Program and receipt of remaining provider relief funding and a final \$180 million in combined Federal Emergency Management Agency (FEMA) and other stimulus funding, expected to be recognized this year. This extra \$2.08 billion, on a pro forma basis and not including any positive or negative impact from 2023 operations or capex, will boost cash to long-term debt to 107%, cash to long-term debt with operating leases included to 102% and days' cash on hand to 187, using fiscal 2022 as the base year for expenses.

Adjusted debt improved in fiscal 2022 as pension funding increased, eliminating this debt equivalent from \$2.4 billion just two years ago. Fitch includes the operating lease liability as reported on the balance sheet as part of total debt. With higher liquidity and lower adjusted debt for the year, cash to adjusted debt improved materially to 89.4%, from 65.8% in 2020, not including the \$2.08 billion in pending additional liquidity.

Fitch's forward-looking base case scenario (the agency's best estimate of performance given sector conditions), individual issuer analysis and the larger macroeconomic environment all indicate improvement in CommonSpirit's key leverage metrics. Cash to debt should increase to about 120% in the outer years of the base case, even with an aggressive capex plan modeled into Fitch's analysis. Similarly, net adjusted debt will remain negative (favorable) for the entire forward base case scenario analysis; this means that CommonSpirit could repay its long-term debt outstanding from available liquidity at any time.

Fitch's stress case scenario only includes a stress on the system's investment portfolio. There are no operational stresses in this analysis, as the system arguably suffered an operational stress event in fiscal 2022. To remain conservative and consistent in Fitch's approach, no additional liquidity was returned to CommonSpirit's balance sheet given its losses of 6.5%, or about \$1.1 billion, through fiscal 2022 while modeling an asset allocation stress event. In Fitch's forward-looking stress case scenario, CommonSpirit's key leverage metrics remain within the 'a' or 'strong'

### Outstanding Debt

Arizona Health Facilities Authority (Dignity Health) Revenue Bonds	A-
California Health Facilities Financing Authority (Catholic Healthcare West) Variable-Rate Health Facilities Revenue Bonds	A-
California Health Facilities Financing Authority (CommonSpirit Health) Revenue Bonds	A-
California Health Facilities Financing Authority (Dignity Health) Revenue Bonds	A-
California Statewide Communities Development Authority (Catholic Healthcare West) Health Facilities Revenue Bonds	A-
Catholic Health Initiatives CP Notes (Taxable)	F1
Catholic Health Initiatives Taxable Bonds	A-
Chattanooga Health, Educational and Housing Facility Board (Catholic Health Initiatives) Variable-Rate Demand Bonds	A-/F1
Chattanooga Health, Educational and Housing Facility Board (CommonSpirit Health) Revenue Bonds	A-
Colorado Health Facilities Authority (Catholic Health Initiatives) Revenue Bonds	A-
Colorado Health Facilities Authority (CommonSpirit Health) Revenue Bonds	A-
CommonSpirit Health Bonds (Taxable)	A-
Dignity Health Taxable Bonds	A-
Kentucky Economic Development Finance Authority (Catholic Health Initiatives) Revenue Bonds	A-
Kentucky Economic Development Finance Authority (Catholic Health Initiatives) Variable-Rate Demand Bonds	A-/F1
Kentucky Economic Development Finance Authority (CommonSpirit Health) Revenue Bonds	A-
Montgomery County (Catholic Health Initiatives) Revenue Bonds	A-
Washington Health Care Facilities Authority (CommonSpirit Health) Revenue Bonds	A-

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assessment, assuming adherence to past capex practices to match financial results, with cash to adjusted debt of roughly 115% in the recovery years after the stress event.

**Asymmetric Additional Risk Considerations:** No asymmetric risk considerations were applied in this rating determination. Additionally, Wright Lassiter III has taken over as CEO of CommonSpirit, replacing Lloyd Dean, who retired in the summer of 2022.

## Rating Sensitivities

### Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Margin compression over a prolonged period such that operating EBITDA remains at 6% or less.
- Higher levels of capex, requiring significant additional cash or debt commitments without commensurate EBITDA growth.
- Cash to adjusted debt decreasing to 80% with expectations to remain at that level for a prolonged period.

### Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Sustained operating EBITDA margins of 8% or improved operating EBITDA margins of 9% or above.
- An ability to generate higher cash flows, allowing for a continuous level of capital reinvestment to remain competitive without diminishing cash.
- Sustained cash to adjusted debt expectations of 100% while maintaining a solid midrange (or better) operating risk assessment or improved cash to adjusted debt metrics of 120% or higher.

## Credit Profile

CommonSpirit was created by the alignment of Dignity Health and Catholic Health Initiatives (CHI) that closed on Feb. 1, 2019, forming the largest not-for-profit and largest Catholic healthcare system in the U.S. The integrated system currently operates 142 hospitals and over 2,200 care centers across 21 states. The system has combined revenue of approximately \$34 billion and 25,000 affiliated physicians and practitioners, with more than 6,000 of those providers employed. In addition to hospitals, the system offers a wide continuum of care in its individual market divisions, which may include micro hospitals, imaging centers, urgent care centers, specialty clinics, virtual care and home health and hospice services.

## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

**Utilization Data**

(Fiscal Years Ended June 30)	2019	2020	2021	2022
Operated Beds	17,166	17,024	17,614	17,578
Acute Adult Admissions/Discharges	832,727	782,549	780,437	788,862
Acute Adult Patient Days	3,805,583	3,592,979	3,903,919	4,113,429
Average Length of Stay (Days)	4.6	4.6	5.0	5.2
Average Daily Census	10,426	9,844	10,696	11,270
Occupancy (%)	60.7	57.8	60.7	64.1
Observation Cases	–	176,667	172,485	301,205
Hospital Stays (Admissions plus Observation Cases)	832,727	959,216	952,922	1,090,067
Births	–	87,080	82,592	85,841
Inpatient Surgeries	240,150	217,942	203,375	199,560
Outpatient Surgeries	347,126	306,391	333,314	350,234
Emergency Department Visits, Net of Admissions	3,497,943	3,185,088	2,866,858	3,354,229
Outpatient/Clinic Visits	21,850,778	24,385,619	26,432,061	28,133,835
Medicare Casemix Index	1.89	1.90	2.00	2.00

Source: Fitch Ratings, Fitch Solutions, CommonSpirit Health.

**Payor Mix**

(% Gross Revenues; Fiscal Years Ended June 30)	2019	2020	2021	2022
Medicare	44.0	44.0	44.0	44.6
Medicaid	21.0	21.0	21.0	21.2
Commercial and Managed Care	28.0	28.0	28.0	27.5
Self-Pay	3.0	3.0	3.0	3.0
Other	4.0	4.0	4.0	3.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Fitch Ratings, Fitch Solutions, CommonSpirit Health.

## Financial Summary

(\$000, Audited Fiscal Years Ended June 30)	2019	2020	2021	2022 <sup>a</sup>
<b>Balance Sheet Data</b>				
Unrestricted Cash and Investments	11,599,000	12,772,000	17,747,000	15,246,000
<b>Total Assets</b>	<b>40,625,000</b>	<b>46,773,000</b>	<b>54,876,000</b>	<b>50,314,000</b>
<b>Total Debt (Including Current Portion)</b>	<b>13,507,000</b>	<b>17,015,000</b>	<b>17,561,000</b>	<b>17,316,000</b>
Adjusted Debt	16,521,600	19,404,800	17,990,200	17,316,000
Net Adjusted Debt	4,922,600	6,632,800	243,200	2,070,000
Unrestricted Net Assets	14,914,000	12,736,000	20,833,000	19,887,000
<b>Income and Cash Flow Data</b>				
<b>Net Patient Revenue</b>	<b>19,476,000</b>	<b>26,207,000</b>	<b>28,996,000</b>	<b>30,490,000</b>
Other Revenue	1,443,000	3,310,000	4,193,000	3,333,000
<b>Total Revenues</b>	<b>20,919,000</b>	<b>29,517,000</b>	<b>33,189,000</b>	<b>33,823,000</b>
Depreciation and Amortization	1,087,000	1,530,000	1,487,000	1,463,000
Interest Expense	391,000	456,000	451,000	459,000
<b>Total Expenses</b>	<b>21,568,000</b>	<b>30,129,000</b>	<b>32,255,000</b>	<b>35,203,000</b>
Income from Operations	(649,000)	(612,000)	934,000	(1,380,000)
Operating EBITDA	829,000	1,374,000	2,872,000	542,000
Non-Operating Gains (Losses)	471,000	724,000	2,143,000	1,405,001
Excess (Deficiency) of Revenues over Expenses	(178,000)	112,000	3,077,000	25,001
EBITDA	1,300,000	2,098,000	5,015,000	1,947,001
Operating Lease Expense	410,000	—	—	—
Total Pension Expense	113,000	240,000	310,000	82,000
Adjusted EBITDA	1,823,000	2,338,000	5,325,000	2,029,001
Net Unrealized Gains (Losses)	162,000	(334,000)	2,046,000	(2,052,000)
<b>Net Capex</b>	<b>1,076,000</b>	<b>1,286,000</b>	<b>1,497,000</b>	<b>1,486,000</b>
Maximum Annual Debt Service (MADS)	842,736	888,028	888,028	888,028
<b>Liquidity Ratios</b>				
Days Cash on Hand	206.7	163.0	210.5	164.9
Days in Accounts Receivable	69.8	49.9	54.4	53.5
Cushion Ratio (x)	13.8	14.4	20.0	17.2
MADS Coverage – EBITDA (x)	1.5	2.4	5.7	2.2
MADS Coverage – Operating EBITDA (x)	1.0	1.6	3.2	0.6
MADS to Total Revenue (%)	4.0	3.0	2.7	2.6
<b>Profitability and Operational Ratios (%)</b>				
Operating Margin	(3.1)	(2.1)	2.8	(4.1)
Operating EBITDA Margin	4.0	4.7	8.7	1.6
EBITDA Margin	6.1	6.9	14.2	5.5
<b>Capital-Related Ratios</b>				
Cash to Debt (%)	85.9	75.1	101.1	88.1
Cash to Adjusted Debt (%)	70.2	65.8	98.7	88.1
Net Adjusted Debt to Adjusted EBITDA	2.7	2.8	0.1	1.0
Average Age of Plant (Years)	7.6	6.5	7.2	7.9
Capex to Depreciation (%)	99.0	84.1	100.7	101.6

<sup>a</sup>Unaudited. Note: Fitch may have reclassified certain financial statement items for analytical purposes.  
Source: Fitch Ratings, Fitch Solutions, CommonSpirit Health.





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