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U.S. Not-For-Profit Health Care System Ratios: Metrics Remain Steady As Providers Navigate An Evolving Environment

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U.S. Not-For-Profit Health Care System Ratios: Metrics Remain Steady As Providers Navigate An Evolving Environment

The 2012 medians for U.S. not-for-profit health care systems remained steady with the prior year as improved operating efficiencies and system growth were almost exactly balanced by numerous operating burdens related to health care reform, growing costs, lower volumes, rising bad debt and charity care, increased costs from employed physicians, and weaker rate increases from payers.

The generally flat ratios were evident in most metrics and rating categories although there was some disparity at individual rating levels, some of which can be attributed to rating changes from year to year. For the second straight year, systems generated healthy growth in net patient service revenue, which has largely been driven by mergers and acquisitions, increased physician employment, and special funding mechanisms such as provider fees. However, revenue growth has not translated into margin improvement, which we believe highlights the underlying strains of the operating environment. In our view, management teams have been willing to tolerate static margins for expected long-term benefits from some strategic acquisitions that are not immediately accretive. We have observed that management teams are also experimenting with various health reform strategies where operating incentives are not yet aligned with payment mechanisms to gain experience with new population management plans and payment mechanisms even in cases where margins may be compressed.

The median ratios also reflect the maintenance of balance-sheet metrics at or near pre-recession highs, indicating that many systems have the financial flexibility to absorb the impact of changing health care delivery and reimbursement dynamics.

Overall, Standard & Poor's Ratings Services views the 2012 medians as a continuation of the peak in metrics reached in 2011, and anticipates ratios will gradually soften in the next one to two years as incremental pressures persist and even intensify amid the ongoing evolution of the industry under health care reform.

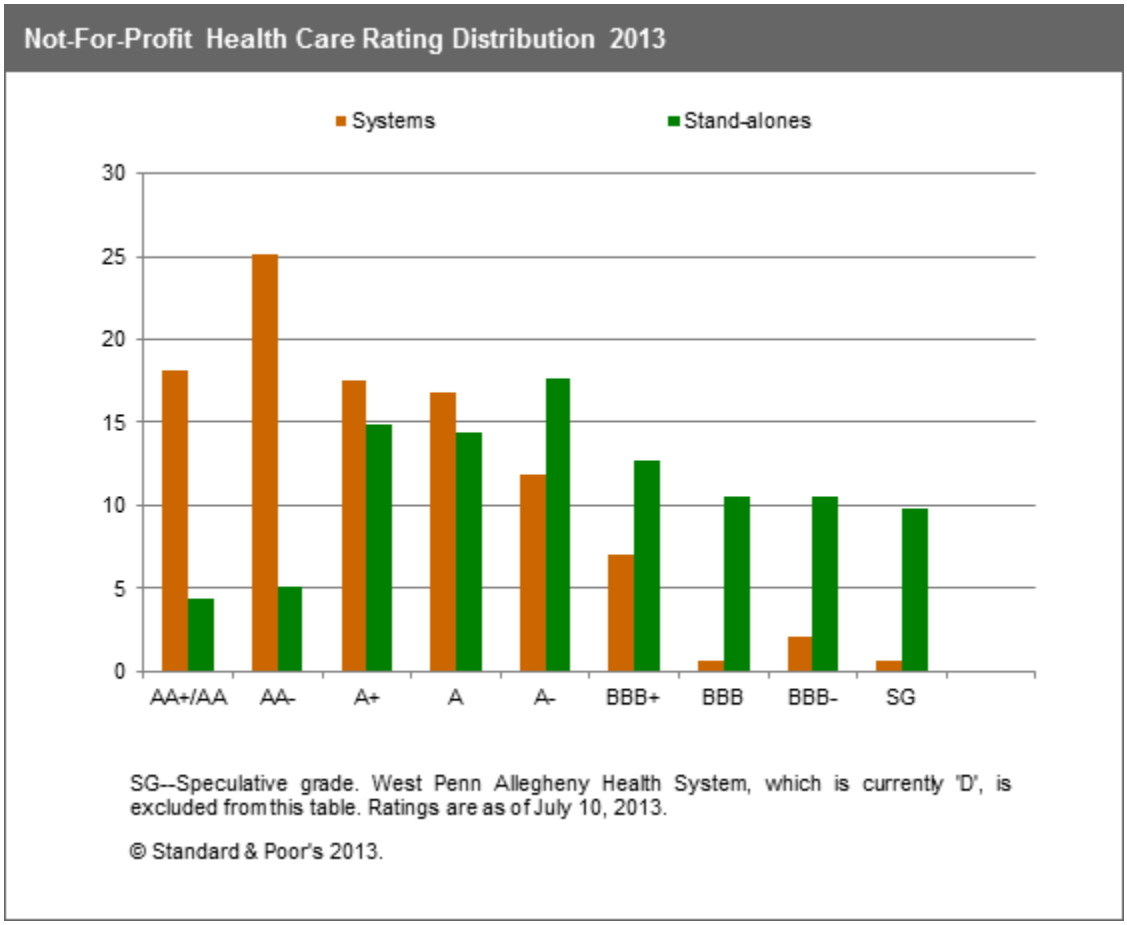
Overview

- The 2012 median ratios were generally stable although there was some variability at certain rating levels.
- Overall revenue growth has not translated into proportionate increases in financial metrics due to other offsetting factors. Health care systems, particularly at the higher end of the credit spectrum, seem to be much better prepared, in general, than stand-alone hospitals to face the headwinds of a changing industry.
- We expect a gradual weakening of metrics in the next two years.
- We expect health care reform to continue to drive industry consolidation.

Standard & Poor's rates the debt of 144 health care systems. The distribution of ratings continues to be significantly higher than that of stand-alone providers, with the majority of ratings in the 'AA' category and the higher end of the 'A' category, while the 'A' and 'BBB' categories dominate the stand-alone realm (see chart 1). In our opinion, systems

remain better positioned than stand-alone providers to manage and adapt to industry forces, in part, due to the benefits of revenue and geographic diversity, overall scale, and capability to attract and retain top-tier physicians and management.

Chart 1



Mergers And Acquisitions Are Likely To Continue

Many systems have pursued mergers and acquisitions in recent years, and we anticipate that this trend will continue as many management teams maintain active discussions about possible system additions. In addition to the benefits of consolidation such as scale and negotiating clout with suppliers and private payers, many systems are motivated to increase revenue diversity and broaden their organizational footprint to prepare for managing the health of populations. Providers are also increasingly pursuing more revenue streams outside of acute care. For example, in August 2012, Dignity Health completed a $455 million acquisition of U.S. HealthWorks, a large occupational health and urgent care business. Some systems have pursued health insurance plan acquisitions to expand vertically and gain experience in managing risk. A recent example is Catholic Health Partners' (CHP) planned acquisition of Kaiser Permanente's health plan in Ohio. It would be CHP's first foray into the health plan business. Highmark Health Services' acquisition of West Penn Allegheny Health System in the past year was another high-profile transaction that

resulted in the formation of a second major integrated delivery system in the Pittsburgh market.

Ratios Are Expected To Weaken Gradually

The general stability of the 2012 ratios demonstrates management teams' success in navigating the myriad pressures of the past year. The sector maintained financial performance despite volume softness in many cases, lower-than-historical rate increases, higher bad debt and charity care costs, and increased operating and capital expenses related to electronic medical record implementation, and the costs of subsidizing physician employment. Organizations have been able to handle these challenges partly through cost-saving initiatives and the benefits of meaningful use payments and provider fee programs in many states. We anticipate that many of these pressures will continue in the near term as health care reform is implemented. However, some of the bright spots that helped maintain financial profiles are going to be less sustainable in many cases. For example, many providers have been successful in cutting costs, but after successive years of intense expense-saving initiatives, providers are finding that the next level of savings is more difficult to achieve. Also, while meaningful use revenues have boosted other operating revenue recently, these monies are temporary and will decline in future years, although we also recognize that some of the costs associated with IT installation will also decline. Similarly, provider fee programs that have significantly helped many systems remain under scrutiny and may not be renewed when they reach their sunset dates. Consequently, we anticipate that systems will gradually experience softening metrics in the next two years. Still, most should likely maintain sound credit profiles. In our opinion, it is likely that the credit gap between systems at the upper end of the credit spectrum and those in the 'BBB' category or lower will widen as the higher-rated credits continue to leverage their strong enterprise profiles and more-robust financial profiles to maintain their ratings.

The outlook distribution for systems supports our view of a likely weakening of credit profiles. In 2012, 11% of systems had a negative outlook compared with 6% in 2011 (see chart 2). Similarly, the spread between upgrades and downgrades is much more balanced than a year earlier when positive outlook and rating actions exceeded negative actions. Through July 10, 2013, Standard & Poor's upgraded 11 systems and downgraded 11, including one that was downgraded twice, (see tables 1 and 2). Notably, six of the 11 raised ratings were in the 'AA' category.

Chart 2

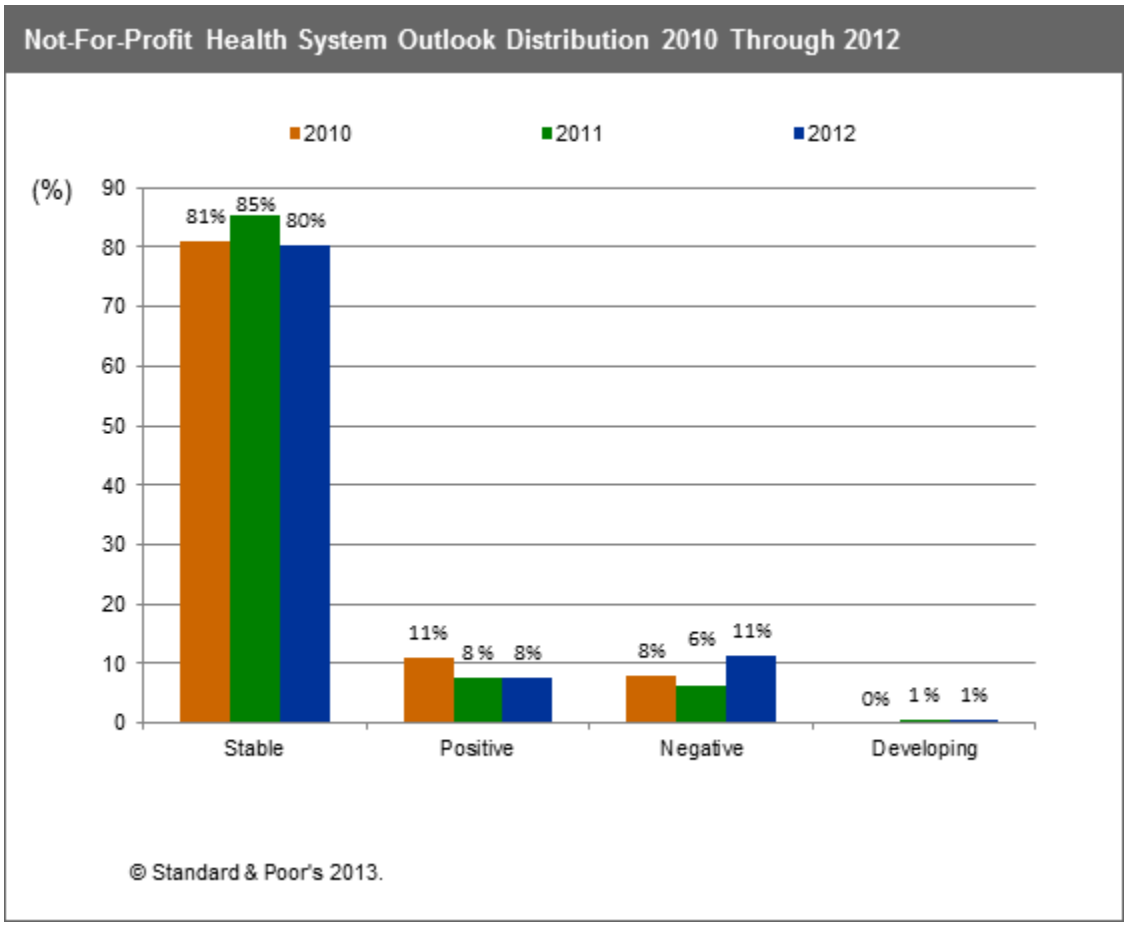


Table 1

Health Care Systems 2012 And 2013 -- Upgrades And Positive Outlook Revisions*

Upgrades

	State	To	From	Outlook
Avera Health	SD	AA-	A+	Stable
Barnabas Health	NJ	BBB+	BBB	Stable
Catholic Health East	PA	A+	A	Positive
Community Foundation of Northwest Indiana	IN	A-	BBB+	Stable
HealthEast Care System	MN	BBB-	BB+	Stable
Indiana University Health	IN	AA-	A+	Stable
Meridian Health System	NJ	A	A-	Stable
Methodist Hospitals of Dallas	TX	AA-	A+	Stable
OhioHealth	OH	AA+	AA	Stable
ProMedica Healthcare	OH	AA	AA-	Stable
St Elizabeth Medical Center	KY	AA	AA-	Stable

Table 1

Health Care Systems 2012 And 2013 -- Upgrades And Positive Outlook Revisions* (cont.)

Positive outlook changes

	State	Rating	To	From
Archbold Medical Center	GA	A	Positive	Stable
Cleveland Clinic Health System	OH	AA-	Positive	Stable
Ministry Health Care	WI	A+	Positive	Stable
Scottsdale Healthcare Corp	AZ	A-	Positive	Stable
Sharp Healthcare	CA	A+	Positive	Stable
St. Joseph Health System	CA	AA-	Positive	Stable
St. Luke's University Health System	PA	BBB+	Positive	Stable
Texas Health Resources	TX	AA-	Positive	Stable

*Rating actions between July 16, 2012, and July 10, 2013.

Table 2

Health Care System 2012 And 2013 -- Downgrades And Negative Outlook Revisions*

Downgrades

	State	To	From	Outlook
Baptist Memorial Health Care Corporation	TN	AA-	AA	Stable
CareAlliance Health Services	SC	BBB+	A-	Stable
Catholic Health Initiatives	CO	AA-	AA	Stable
Daughters of Charity Health System	CA	BBB-	BBB	Developing
Mission Health	NC	AA-	AA	Stable
Sanford	SD	A+	AA-	Stable
Temple University Health System	PA	BB+	BBB-	Stable
University of Maryland Medical System	MD	A-	A	Stable
West Penn Allegheny Health System**	PA	CC	B-	Negative
West Penn Allegheny Health System**	PA	D	CC	Not meaningful
West Virginia United Health System	WV	A	A+	Stable

Negative outlook changes

	State	Rating	To	From
Health Care Authority for Baptist Health	AL	BBB+	Negative	Stable
Henry Ford Health System	MI	A	Negative	Stable
Lifespan	RI	A-	Negative	Stable
Mayo Clinic	MN	AA	Negative	Stable
North Broward Hospital District	FL	A	Stable	Positive
Orlando Health	FL	A	Negative	Stable
PeaceHealth	WA	A+	Negative	Stable
Piedmont Healthcare	GA	AA-	Negative	Stable
Trinity Health	MI	AA	Negative	Stable
UMass Memorial Health Care	MA	A-	Negative	Stable
Wake Forest University Baptist Medical Center	NC	AA-	Negative	Stable
West Penn Allegheny Health System**	PA	B-	Watch Neg	Developing

Table 2

Health Care System 2012 And 2013 -- Downgrades And Negative Outlook Revisions* (cont.)

*Rating actions between July 16, 2012 and July 10, 2013. **Appears more than once because of multiple rating actions in the past year.

A Detailed Comparison Of The Rating Categories

Among all credits, revenue increased at a healthy rate of 6% from 2011, to a $1.5 billion net patient revenue median for all systems in 2012. In both years, the results reflected the adoption of Financial Accounting Standards Board 2011-07, which changes the accounting for bad debt to a contractual adjustment rather than an expense (see table 3). We have not restated 2010 and prior years to reflect the new bad debt accounting treatment. For more information on the bad debt accounting change, see the article "New Bad Debt Accounting Rules Will Alter Some U.S. Not-for-Profit Health Care Ratios But Won't Affect Ratings", published Jan. 19, 2012.

A large portion of the pronounced revenue growth in 2012 was due to increases from several sources, including provider taxes, employed physicians, rural floor (Medicare adjustment payments) budget neutrality, and meaningful use. In addition, many systems enlarged their revenue bases following their merger with and or acquisition of another provider. We believe that only a portion of the growth was organic as most utilization and reimbursement trends were generally flat to negative. The fact that margins are largely flat despite generally higher revenues underscores the burden of health reform, growing costs, increased bad debt and charity care, and expenses for IT and physician employment, the latter of which has essentially added revenues without enhancing profitability.

Table 3

Not-For-Profit Health Care System Medians

Fiscal Year-End	2012§	2011§	2010	2009	2008	2007
Sample Size	143	143	143	140	134	133
Statement of Operations						
Net patient revenue (NPR; $000)	1,471,157	1,383,643	1,341,429	1,292,069	1,226,481	1,149,156
Salaries & benefits/NPR (%)	57.5	56.6	52.4	53.4	53.6	53.8
Maximum debt service coverage (x)	4.2	4.2	4.1	3.3	3.2	4.8
Operating lease-adjusted coverage (x)*	3.1	3.1	3.1	N.A.	N.A.	N.A.
Debt burden (%)	2.7	2.8	2.7	2.6	2.8	2.6
EBIDA ($000)	198,121	192,370	170,792	132,791	129,264	164,423
Nonoperating revenue/total revenue (%)	1.8	2.0	1.7	0.3	1.1	3.3
EBIDA margin (%)	11.6	11.7	11.1	9.1	9.1	12.7
Operating EBIDA margin (%)	9.7	10.1	9.8	9.5	8.9	9.3
Operating margin (%)	2.9	2.9	3.0	3.0	2.4	2.8
Excess margin (%)	4.7	4.9	4.4	2.7	2.5	6.3
Capital expenditures/depr. & amort. exp. (%)	130.2	127.2	121.9	148.3	178.2	171.2
Balance Sheet						
Average age of plant (years)	10.4	10.2	10.0	9.7	9.7	9.8
Cushion ratio (x)	17.3	16.0	16.1	14.9	14.6	16.9
Days' cash on hand	193.8	188.8	175.2	154.0	154.3	180.8
Days in accounts receivable	50.8	49.5	44.8	46.6	47.4	47.8

Table 3

Not-For-Profit Health Care System Medians (cont.)						
Cash flow/total liabilities (%)	14.6	15.5	14.9	12.0	11.3	18.8
Unrestricted reserves ($000)	834,947	754,364	N.A.	N.A.	N.A.	N.A.
Unrestricted reserves/long-term debt (%)	137.3	133.7	122.1	110.4	108.0	126.3
Long-term debt/capitalization (%)	39.2	38.1	39.5	41.8	42.2	38.0
Defined-benefit pension funded status (%)*	68.7	73.6	73.4	N.A.	N.A.	N.A.
Pension-adjusted long-term-debt/capitalization (%)	42.9	42.7	N.A.	N.A.	N.A.	N.A.

Sample size represents health systems providing audited financial reports for each year. The fiscal year 2012 sample represents 99% of systems currently rated by Standard & Poor's. §Fiscal 2012 and 2011 ratios stated by Standard & Poor's incorporating FASB 2011-07 (bad debt accounting treatment). *These two ratios are only for those systems that have defined-benefit (DB) pension plans or operating leases. N.A.--Not available.

Within the rating categories, there was some modest year-to-year change, although there was no clear pattern as some metrics strengthened slightly while others weakened. The 'AA' category systems continued to perform well with margins and coverage metrics that were in line with the prior year and considerably stronger than those of lower-rated peers. At the 'AA+' and 'AA' levels, we observed incremental improvement in balance-sheet metrics and some margin decline, which demonstrates that industry pressures also affect the higher-rated credits. During the year, we raised the ratings on two providers to 'AA' from 'AA-', and added OhioHealth as our fifth 'AA+' rated system. We also lowered the debt ratings on three systems to 'AA-' from 'AA'.

Drilling down further, the 'A' category was quite volatile with increased revenue at the 'A+' and 'A-' rating levels and a sharp decline at the 'A' rating level. Overall, credits in the 'A' category experienced a downward tick in margins and coverage ratios. Our 'BBB' category credits had generally flat metrics and their numbers still pale in comparison to that of higher-rated systems. In our opinion, this illustrates a lower degree of cushion and flexibility for 'BBB' credits given that metrics remain somewhat modest for the category.

While category medians are generally stable, year-to-year comparisons become somewhat murkier at the individual rating level due partly to relatively small sample sizes and nearly 15% of system ratings changing in 2012. While it is possible to discern some factors in year-to-year comparisons, what stands out is the continued disparity in margins and coverage between the upper and lower ends of the rating continuum. Another difference is the ability of higher-rated credits to supplement their cash flow through realized investment earnings due to their more-robust unrestricted reserves. For example, the 'BBB' and 'BBB-' credits had nonoperating revenue equal to less than 1% of total revenue compared with nearly 3% for 'AA+' and 'AA' credits.

Balance-sheet metrics were also stable. Following the 2008 market downturn, unrestricted reserves for all systems recovered nicely in 2011 and 2012. Cash on hand ratios were up from 2008. The increase in reserves largely reflected higher investment values that more than offset capital spending -- much of it on IT -- which was in excess of depreciation expense at all rating levels in 2012 (see tables 4a and 4b). Despite a relatively high level of capital spending, the average age of plant, while still adequate at most rating levels, ticked up slightly at several rating levels.

Table 4a

Not-For-Profit Health Care System Medians By Rating Level -- 2012 vs. 2011

	AA+/AA§		AA-		A+		A	
Fiscal Year-End	2012	2011	2012	2011	2012	2011	2012	2011
Sample Size	26	26	36	33	25	28	24	24
Statement of Operations								
Net patient revenue (NPR; $000)	2,214,240	2,192,351	1,811,816	1,828,650	1,196,035	1,124,515	1,364,524	1,531,428
Salaries & benefits/NPR (%)	58.8	56.2	54.4	56.4	57.7	55.5	58.7	57.6
Maximum debt service coverage (x)	7.2	6.1	5.2	4.9	3.7	4.1	4.1	3.7
Operating lease-adjusted coverage (x)*	4.4	4.2	3.7	3.5	3.0	3.1	2.9	2.9
Debt burden (%)	1.9	2.0	2.6	2.4	3.0	3.0	2.7	3.0
EBIDA ($000)	391,417	414,337	272,221	245,469	183,389	153,491	179,346	182,777
Nonoperating revenue/total revenue (%)	2.7	3.1	2.0	1.8	1.3	1.5	1.6	1.6
EBIDA margin (%)	13.3	13.3	12.8	11.8	10.7	13.3	10.6	10.7
Operating EBIDA margin (%)	10.7	11.1	11.0	10.7	9.7	11.1	8.9	9.0
Operating margin (%)	3.9	4.9	4.3	4.7	2.4	3.1	2.5	2.5
Excess margin (%)	7.6	7.9	6.4	5.7	3.9	5.8	3.8	4.0
Capital expenditures/depr. & amort. exp (%)	137.5	147.9	150.0	151.7	128.8	122.8	116.2	132.4
Balance Sheet								
Average age of plant (years)	9.5	9.5	10.1	9.8	10.1	10.1	10.8	10.8
Cushion ratio (x)	35.3	29.1	22.0	21.9	15.5	15.1	14.3	12.2
Days' cash on hand	293.7	276.3	231.8	229.5	186.6	191.2	157.1	143.4
Days in accounts receivable	51.7	49.8	51.0	48.9	51.0	49.9	52.6	52.5
Cash flow/total liabilities (%)	19.2	20.2	17.6	17.9	14.2	16.3	12.2	12.8
Unrestricted reserves ($000)	2,134,223	2,029,010	1,191,316	1,264,323	750,124	616,754	615,778	578,334
Unrestricted reserves/long-term debt (%)	221.6	207.6	157.4	164.1	125.6	115.3	99.7	95.0
Long-term debt/capitalization (%)	28.4	28.9	32.2	33.1	38.2	39.5	43.9	45.0
Defined benefit pension funded status (%)*	71.9	77.7	68.9	74.3	74.7	78.3	66.6	69.5
Pension-adjusted long-term debt/capitalization (%)	32.5	30.5	34.9	34.3	42.2	42.5	47.7	46.4

Sample size represents health systems providing audited financial reports for each year. The fiscal year 2012 sample represents 99% of systems currently rated by Standard & Poor's. Fiscal 2012 and 2011 ratios stated by Standard & Poor's incorporating FASB 2011-07 (bad debt accounting treatment). *These two ratios are only for those systems that have defined-benefit (DB) pension plans or operating leases. §The 'AA+/AA' rating level includes five 'AA+' rated entities and 21 'AA' rated entities in 2012 (four 'AA+' and 22 'AA' entities in 2011).

Table 4b

Not-For-Profit Health Care System Medians By Rating Level -- 2012 vs. 2011

	A-		BBB+		BBB/BBB-§		Speculative grade**	
Fiscal Year-End	2012	2011	2012	2011	2012	2011	2012	2011
Sample Size	17	17	10	8	4	4	1	3

Table 4b

Not-For-Profit Health Care System Medians By Rating Level -- 2012 vs. 2011 (cont.)

Statement of Operations								
Net patient revenue (NPR; $000)	1,541,632	1,329,174	900,890	880,348	914,543	1,073,925	N/A	852,662
Salaries & benefits/NPR (%)	58.5	58.4	54.6	55.9	62.4	57.5	N/A	59.2
Maximum debt service coverage (x)	3.6	3.6	3.0	2.9	2.5	2.6	N/A	2.3
Operating lease-adjusted coverage (x)*	2.6	2.9	2.4	2.3	1.8	2.0	N/A	1.8
Debt burden (%)	2.9	2.7	3.9	4.1	2.5	2.6	N/A	3.8
EBIDA ($000)	136,916	153,068	103,565	79,869	48,080	59,025	N/A	56,090
Nonoperating revenue/total revenue (%)	1.9	2.1	2.1	1.9	0.6	1.8	N/A	0.9
EBIDA margin (%)	8.5	10.4	11.0	11.6	5.5	6.0	N/A	6.4
Operating EBIDA margin (%)	7.7	8.0	10.2	9.5	5.4	4.3	N/A	6.4
Operating margin (%)	1.5	1.8	1.8	1.6	1.2	-0.7	N/A	2.0
Excess margin (%)	2.7	3.9	3.4	3.7	1.3	1.1	N/A	3.0
Capital expenditures/depr. & amort. exp. (%)	122.7	109.7	128.6	103.0	105.2	86.9	N/A	99.0
Balance Sheet								
Average age of plant (years)	11.1	10.7	12.3	10.8	13.5	17.0	N/A	13.3
Cushion ratio (x)	13.3	13.2	11.0	11.3	9.1	10.7	N/A	5.8
Days' cash on hand	145.2	133.0	157.8	183.2	86.9	97.8	N/A	57.9
Days in accounts receivable	47.5	43.2	55.4	51.1	44.6	45.9	N/A	39.9
Cash flow/total liabilities (%)	11.1	12.7	10.6	9.7	6.6	6.6	N/A	8.6
Unrestricted reserves ($000)	631,933	545,030	353,502	343,071	234,572	274,546	N/A	151,555
Unrestricted reserves/long-term debt (%)	129.3	105.5	87.0	76.7	85.0	79.8	N/A	45.7
Long-term debt/capitalization (%)	45.0	46.6	58.0	61.7	73.9	76.3	N/A	63.9
Defined benefit pension funded status (%)*	62.2	67.9	68.0	76.2	58.4	68.0	N/A	69.9
Pension-adjusted long-term debt/capitalization (%)	50.6	50.9	64.3	63.6	76.9	83.6	N/A	74.6

Sample size represents health systems providing audited financial reports for each year. The fiscal year 2012 sample represents 99% of systems currently rated by Standard & Poor's. Fiscal 2012 and 2011 ratios stated by Standard & Poor's incorporating FASB 2011-07 (bad debt accounting treatment). *These two ratios are only for those systems that have defined-benefit (DB) pension plans or operating leases. §The 'BBB/BBB-' rating level includes one 'BBB' rated entity and three 'BBB-' rated entities in 2012 (two 'BBB' and two 'BBB-' entities in 2011). **2012 median is not applicable (N/A) because the sample size is only one.

Despite considerable debt issuance to take advantage of favorable interest rates, debt to capitalization decreased at all rating levels. Through the first half of 2013, we continued to see refinancing and some new-money issuances for strategic projects, acquisitions, and pension funding. We therefore expect a slight rise in debt-related ratios potentially in the next year. Pension funding remains a drag on finances, with the average fair value of pension assets to projected benefit obligations worsening at every rating category (see table 5), to an overall system median of 68.7%. While the deterioration is largely due to falling discount rates, we anticipate that systems will continue to freeze or otherwise curtail defined-benefit plans to address this growing liability.

Table 5

Not-For-Profit Health Care System Medians By Rating Category -- 2012 vs. 2011

Fiscal Year-End	AA		A		BBB		Speculative grade**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Sample Size	62	59	66	69	14	12	1	3
Statement of Operations								
Net patient revenue (NPR; $000)	2,127,310	2,065,153	1,360,211	1,246,758	911,698	946,234	N/A	852,662
Salaries & benefits/NPR (%)	56.3	56.4	58.5	57.4	57.4	55.9	N/A	59.2
Maximum debt service coverage (x)	5.3	5.2	3.7	3.8	2.9	2.7	N/A	2.3
Operating lease adjusted coverage (x)*	3.9	3.8	2.9	3.0	2.2	2.2	N/A	1.8
Debt burden (%)	2.4	2.4	2.9	3.0	3.2	3.2	N/A	3.8
EBIDA ($000)	348,996	356,940	172,369	169,342	95,298	64,868	N/A	56,090
Nonoperating revenue/total revenue (%)	2.1	2.3	1.5	1.8	1.7	1.8	N/A	0.9
EBIDA margin (%)	13.1	12.6	10.5	11.2	10.7	10.5	N/A	6.4
Operating EBIDA margin (%)	11.0	11.1	8.9	9.1	9.8	8.7	N/A	6.4
Operating margin (%)	4.1	4.7	2.2	2.6	1.8	1.3	N/A	2.0
Excess margin (%)	7.1	6.4	3.7	4.3	2.9	3.4	N/A	3.0
Capital expenditures/ depr. & amort. exp. (%)	138.9	148.5	127.1	117.9	111.5	102.5	N/A	99.0
Balance Sheet								
Average age of plant (years)	9.9	9.8	10.5	10.4	12.3	12.3	N/A	13.3
Cushion ratio (x)	23.8	23.9	14.4	13.5	11.0	11.3	N/A	5.8
Days' cash on hand	259.2	248.1	166.4	165.6	134.4	128.6	N/A	57.9
Days in accounts receivable	51.3	49.5	50.5	49.7	53.7	48.9	N/A	39.9
Cash flow/total liabilities (%)	18.0	18.0	12.3	14.3	9.7	9.5	N/A	8.6
Unrestricted reserves ($000)	1,630,207	1,431,227	665,985	591,953	284,845	324,169	N/A	151,555
Unrestricted reserves/long-term debt (%)	180.8	178.9	114.6	110.5	87.0	76.7	N/A	45.7
Long-term debt/capitalization (%)	30.4	31.2	42.2	43.8	59.0	72.6	N/A	63.9
Defined benefit pension funded status (%)*	70.9	76.1	68.2	71.7	65.1	71.3	N/A	69.9
Pension-adjusted long-term debt/capitalization (%)	33.4	33.5	45.3	46.1	64.3	72.4	N/A	74.6

Sample size represents health systems providing audited financial reports for each year. The fiscal year 2012 sample represents 99% of systems currently rated by Standard & Poor's. Fiscal 2012 and 2011 ratios stated by Standard & Poor's incorporating FASB 2011-07 (bad debt accounting treatment). *These two ratios are only for those systems that have defined-benefit (DB) pension plans or operating leases. **2012 median is not applicable (N/A) because the sample size is only one.

Rating And Outlook Changes Reflect Industry Pressures

While the financial medians are generally stable, they are only one part of the story -- the enterprise characteristics being the other -- and do not reflect interim 2013 performance, which we see as weakening. With the whole picture in

mind, the pace of negative rating and outlook changes has picked up in line with the industry conditions since our fiscal 2011 median ratio report. We note that even systems that have typically benefitted from geographic and financial dispersion aren't immune to industry pressures with regard to volume, expenses, and the impact of health care reform. Furthermore, the pace of upgrades and positive outlooks has steadily declined in the past two years.

In the past, the rating and outlook dispersion changed incrementally. In 2012, the outlook dispersion was more pronounced, with stable outlooks representing only 80% of all system ratings versus 85% at the time of our previous report. The shift was largely due to negative outlooks, which now represent 11% of all system ratings. We believe this reflects a less-predictable industry with some systems reporting substantial and unexpected volume drops, an increasingly fluid and intensive merger and acquisition environment, and the impact of midyear reimbursement changes, such as sequestration. The overall rating distribution was relatively unchanged with 11 upgrades and 11 downgrades and some movement on and off of the system list. As of July 10, 2013, the rating distribution by category was: 43%, 'AA'; 46%, 'A'; '10%', 'BBB'; and 1%, speculative grade.

During 2012, Standard & Poor's upgraded 11 systems, compared with 12 in 2011 and 16 the year before. OhioHealth was upgraded to 'AA+' from 'AA', while HealthEast Care System returned to investment-grade status following its 2001 downgrade to 'BB+'. We made eight positive outlook revisions, down from nine and 19 in 2011 and 2010, respectively. While we have seen many systems strengthen operations and competitive positions -- which can result in upgrades -- we are taking a more cautious approach during these volatile times to make sure that the results are sustainable and that management has solid plans to adjust to reimbursement and other industry-related changes.

Standard & Poor's lowered 11 ratings last year. Most of the downgrades were concentrated in the 'AA' (four) and 'A' (three) categories. We lowered the rating on West Penn Allegheny Health System twice -- ultimately to 'D' after a selective default in conjunction with its acquisition by Highmark Health Services. Ten of the 12 negative outlook revisions were to negative from stable, reflecting the likelihood of several downgrades within our usual two-year outlook horizon. Except for West Penn Allegheny Health System and Temple University Health System, there are no more speculative-grade credits among rated systems after the upgrade of HealthEast Care System and the withdrawal of our rating on Appalachian Regional Healthcare in Kentucky with the refunding of their rated debt.

What Is A Health Care System?

We rate 144 health systems (see table 6), which we define as organizations with three or more hospitals that have some economic, business, or geographic dispersion. When a two-hospital system has other nonhospital business lines such as long-term care, significant ownership of physician practices, or insurance products, we use our analytical judgment to decide whether to classify these organizations as systems. Hospital organizations that do not meet the criteria as a health system are classified as stand-alone providers. Annual changes in system profiles do result in changes to our rated list, as systems are added and deleted. Because of the intertwining of mission and operations among all system members, the financial statements we generally use for the medians and our analyses are the systemwide results, which include results for obligated and nonobligated group members. We based our 2012 medians on 2012 audited financial statements from 99% of rated not-for-profit health systems (only one audit was not available for our sample). The rating and outlook distribution information is as of July 10, 2013. Ratio definitions can be found in

table 7. For the analysis of the median ratios of not-for-profit stand-alone hospitals, which generally mirror the trends for systems, see "U.S. Not-For-Profit Health Care Stand-Alone Ratios: Operating Pressures Led To Mixed Results In 2012", published Aug. 8, 2013.

Table 6

Not-For-Profit Health Care System Ratings

	State	Rating	Outlook
Adventist Health System/Sunbelt Obligated Group	FL	AA-	Stable
Adventist Health System/West	CA	A	Stable
Advocate Health Care Network	IL	AA	Stable
Allina Hospital and Clinics	MN	AA-	Stable
Archbold Medical Center	GA	A	Positive
Ascension Health Alliance	MO	AA+	Stable
Avera Health	SD	AA-	Stable
Banner Health	AZ	AA-	Stable
Baptist Health	AR	A+	Stable
Baptist Health South Florida	FL	AA	Stable
Baptist Health System of Jacksonville	FL	AA-	Stable
Baptist Memorial Health Care Corporation	TN	AA-	Stable
Barnabas Health	NJ	BBB+	Stable
Baylor Health Care System	TX	AA-	Stable
Baystate Medical Center	MA	A+	Stable
BJC HealthCare	MO	AA	Stable
Bon Secours Health System	MD	A-	Stable
Care Alliance Health Services	SC	BBB+	Stable
CareGroup Inc.	MA	A-	Stable
Carilion Clinic	VA	A+	Stable
Catholic Health East	PA	A+	Positive
Catholic Health Initiatives	CO	AA-	Stable
Catholic Health Partners	OH	AA-	Stable
Catholic Health Services of Long Island*	NY	A-	Stable
Catholic Health System	NY	BBB+	Stable
Charlotte Mecklenburg Hospital Authority (Carolinas Healthcare System)	NC	AA-	Stable
CHRISTUS Health	TX	A+	Stable
Cleveland Clinic Health System	OH	AA-	Positive
Community Foundation of Northwest Indiana	IN	A-	Stable
Community Health Network	IN	A	Stable
Cone Health	NC	AA	Stable
Covenant Health**	TN	A-	Stable
Covenant Health Systems	NH	A	Stable
Crozer Chester Medical Center	PA	BBB-	Stable
Dartmouth-Hitchcock	NH	A+	Negative
Daughters of Charity Health System	CA	BBB-	Developing
Dignity Health	CA	A	Stable

Table 6

Not-For-Profit Health Care System Ratings (cont.)			
Duke University Health System	NC	AA	Stable
Eastern Maine Healthcare Systems	ME	BBB	Stable
Essentia Health	MN	A	Stable
Fairview Health Services	MN	A	Stable
FirstHealth of the Carolinas	NC	AA-	Stable
Franciscan Missionaries of Our Lady Health System	LA	A+	Stable
Froedtert and Community Health	WI	AA-	Stable
Geisinger Health System	PA	AA	Stable
Greenville Hospital System	SC	AA-	Stable
Hartford Health Care	CT	A	Stable
Hawaii Pacific Health	HI	A-	Stable
Health Care Authority for Baptist Health	AL	BBB+	Negative
Health Quest Systems	NY	A-	Stable
HealthEast Care System	MN	BBB-	Stable
Henry Ford Health System	MI	A	Negative
Hospital Sisters Services	IL	AA-	Stable
Indiana University Health	IN	AA-	Stable
Infirmary Health	AL	A-	Stable
Inova Health System	VA	AA+	Stable
INTEGRIS Baptist Medical Center	OK	AA-	Positive
Intermountain Health Care	UT	AA+	Stable
Jefferson Health System	PA	AA	Stable
Johns Hopkins Health System	MD	AA-	Stable
Kaiser Permanente	CA	A+	Stable
Kettering Health Network***	OH	A	Negative
Lee Memorial Health System	FL	A	Stable
Legacy Health	OR	A+	Stable
Lifespan	RI	A-	Negative
MaineHealth§	ME	AA-	Negative
Mayo Clinic	MN	AA	Negative
MCG Health Inc.	GA	A	Stable
MedStar Health	MD	A-	Stable
Memorial Health Services	CA	AA-	Stable
Memorial Hermann Healthcare System	TX	A+	Stable
Mercy Health	MO	AA-	Stable
Meridian Health System	NJ	A	Stable
Methodist Hospital of Houston	TX	AA	Stable
Methodist Hospitals of Dallas	TX	AA-	Stable
Methodist Le Bonheur Healthcare	TN	A+	Stable
MidMichigan Health	MI	A+	Stable
Ministry Health Care	WI	A+	Positive
Mission Health	NC	AA-	Stable

Table 6

Not-For-Profit Health Care System Ratings (cont.)			
Mountain States Health Alliance	TN	BBB+	Stable
MultiCare Health System	WA	AA-	Stable
Nebraska Methodist Health System	NE	BBB+	Negative
North Broward Hospital District	FL	A	Stable
North Mississippi Health Services	MS	AA	Stable
North Shore Long Island Jewish Health System	NY	A-	Stable
Northshore University Health System	IL	AA	Stable
Norton Healthcare	KY	A-	Stable
Novant Health	NC	A+	Stable
Oakwood Hospital	MI	A	Stable
OhioHealth	OH	AA+	Stable
Orlando Health	FL	A	Negative
OSF Healthcare System	IL	A	Stable
Palmetto Health	SC	BBB+	Stable
Park Nicollet Health Services	MN	A	Stable
Parkview Health System	IN	A+	Stable
Partners Healthcare System	MA	AA	Stable
PeaceHealth	WA	A+	Negative
Piedmont Healthcare	GA	AA-	Negative
Presbyterian Healthcare Services	NM	AA	Stable
Presence Health	IL	BBB+	Stable
ProMedica Healthcare	OH	AA	Stable
Providence Health & Services	WA	AA	Negative
Sanford	SD	A+	Stable
Scott & White Healthcare	TX	A	Stable
Scottsdale Healthcare Corp	AZ	A-	Positive
Scripps Health	CA	AA-	Stable
Sentara Healthcare	VA	AA	Stable
Sharp Healthcare	CA	A+	Positive
Sisters of Charity of Leavenworth Health System	KS	AA	Negative
South Broward Hospital District	FL	AA-	Stable
Southern Illinois Healthcare Enterprises	IL	A+	Stable
Spectrum Health System	MI	AA	Stable
SSM Health Care System	MO	AA-	Stable
St. Elizabeth Medical Center	KY	AA	Stable
St. Francis Health System of Tulsa	OK	AA+	Stable
St. John Health System§§	OK	A	Positive
St. Joseph Health System	CA	AA-	Positive
St. Luke's Episcopal Health System	TX	AA-	Stable
St. Luke's Health System	ID	A	Stable
St. Luke's Health System	MO	A+	Stable
St. Luke's University Health Network	PA	BBB+	Positive

Table 6

Not-For-Profit Health Care System Ratings (cont.)			
Sutter Health	CA	AA-	Stable
Sylvania Franciscan Health	OH	A-	Stable
Temple University Health System	PA	BB+	Stable
Texas Health Resources	TX	AA-	Positive
Trinity Health	MI	AA	Negative
UMass Memorial Health Care	MA	A-	Negative
University Health Systems of Eastern Carolina	NC	A+	Stable
University Hospitals Health System	OH	A	Stable
University of Maryland Medical System	MD	A-	Stable
University of North Carolina Hospitals	NC	AA	Stable
University of Pennsylvania Health Services	PA	AA-	Stable
University of Pittsburgh Medical Center	PA	A+	Stable
Valley Health	VA	A+	Stable
Via Christi Health System	KS	AA-	Stable
Virtua Health	NJ	A+	Stable
Wake Forest University Baptist Medical Center	NC	AA-	Negative
Wellmont Health System	TN	BBB+	Stable
WellStar Health System	GA	AA-	Stable
West Penn Allegheny Health System†	PA	D	Not meaningful
West Tennessee Healthcare	TN	A+	Stable
West Virginia United Health System	WV	A	Stable
Wheaton Franciscan Services	WI	A-	Stable
William Beaumont Hospital	MI	A	Stable

Ratings are as of July 10, 2013. *Rating lowered to 'BBB+' with a stable outlook on July 31, 2013. **Outlook was revised to negative on July 22, 2013. ***Outlook revised to stable on July 25, 2013. §Rating was changed to 'A+' with a stable outlook on July 24, 2013. §§Rating was raised to 'A+' with a positive outlook on July 17, 2013. †Audit unavailable at the time this report was prepared.

Interpreting The Medians

While we view ratio analysis as an important tool in our assessment of the credit quality of not-for-profit hospitals and health care systems, it is only one of several factors that we take into consideration. Median ratios offer a snapshot of the financial position of all rated providers and help in credit comparisons across rating categories. In addition, we believe tracking median ratios over time allows for a clearer understanding of industrywide trends and provides a tool to better assess the sector's future credit quality. As part of our median ratio analysis, we have traditionally focused on profitability in terms of operating and excess income, cash flow, unrestricted reserve levels, and capital structure. We continue to view those factors as the most meaningful indicators of a hospital's financial profile.

Table 7

Glossary Of Ratios	
Average age of plant (years)	Accumulated depreciation/depreciation expense
Capital expenditures/depreciation & amortization (%)	(Purchases of property, plant, and equipment/depreciation and amortization expense) x 100

Table 7

Glossary Of Ratios (cont.)	
Cash flow/total liabilities (%)	(Net income + depreciation and amortization expenses)/total liabilities) x 100
Cushion ratio (x)	Unrestricted reserves/maximum annual debt service
Days' cash on hand	Unrestricted reserves/((operating expense - depreciation expense)/ 365)
Days in accounts receivable	(Net accounts receivable x 365)/net patient revenue
Debt burden (%)	Maximum annual debt service/total revenue x 100
Defined-benefit pension funded status (%)	(Fair value of plan assets/projected benefit obligation) x 100
EBIDA	Net income + depreciation and amortization expenses + interest expense
EBIDA margin (%)	(EBIDA/total revenue) x 100
Excess margin (%)	(Net income/total revenue) x 100
Long-term debt/capitalization (%)	(Long-term debt*/(unrestricted net assets + long term debt)) x 100
Maximum debt service coverage (x)	EBIDA/maximum annual debt service
Net income	Operating income + net nonoperating revenue
Net nonoperating revenue	Nonoperating revenues - nonoperating expenses (e.g. fundraising expenses)
Nonoperating revenue/total revenue (%)	(Investment earnings, unrestricted contributions, earnings from noncontrolled joint ventures, and other nonoperating revenue, net of nonoperating expenses (excludes unrealized gains or losses from investments, swap valuation changes, and extraordinary items as determined by Standard & Poor's)/total revenue x 100
Operating EBIDA margin (%)	(Operating income + depreciation and amortization + interest expense)/total operating revenue x 100
Operating income	Total operating revenue - total operating expense
Operating lease-adjusted debt service coverage (x)	(EBIDA + operating lease expense)/(maximum annual debt service + operating lease expense)
Operating margin (%)	(Operating income/total operating revenue) x 100
Pension-adjusted long-term debt/capitalization (%)	((Long-term debt* + projected benefit obligation - fair value of plan assets)/(unrestricted net assets + (long term debt + projected benefit obligation - fair value of plan assets))) x 100
Salaries & benefits/net patient revenue (%)	((Salary expense + benefit expense)/net patient revenue)) x 100
Total revenue	Operating revenue + net nonoperating revenue
Unrestricted reserves	Unrestricted cash and investments + unrestricted board designated funds
Unrestricted reserves/long-term debt (%)	(Unrestricted reserves/long-term debt*) x 100

In its reports, Standard & Poor's may adjust numbers in financial statements to ensure analytic consistency. *Long-term debt is net of the current portion.