

S&P Global: National Association of Health and Educational Facilities Finance Authorities Fall 2018 Conference

Charlene Butterfield
Director & Lead analyst
S&P Global Ratings, USPF
Higher Education

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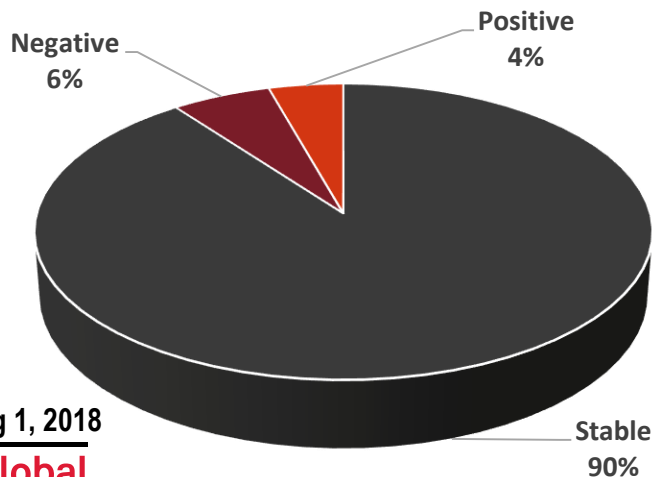
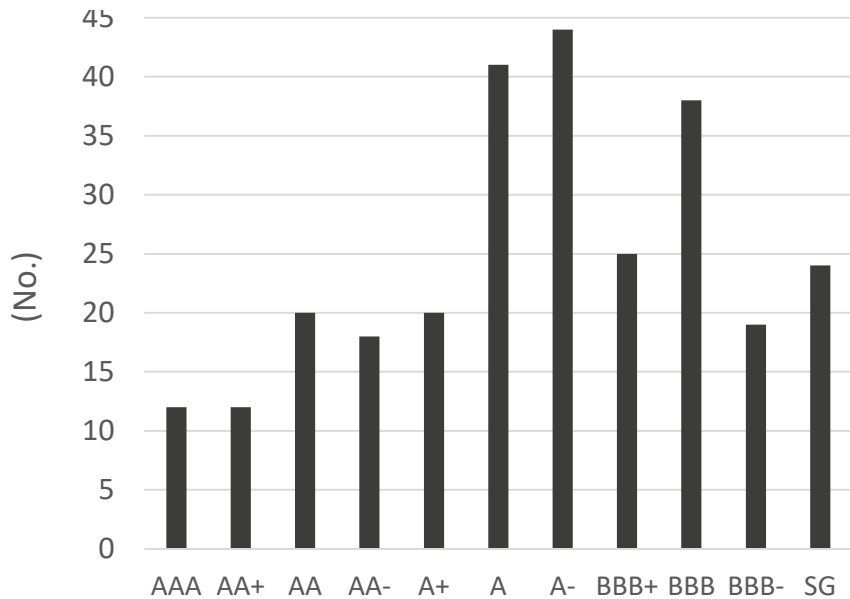
Agenda

- 1 Higher Education Sector Summary**
- 2 Non-Traditional Not-For-Profits Summary**
- 3 Health Care Summary**

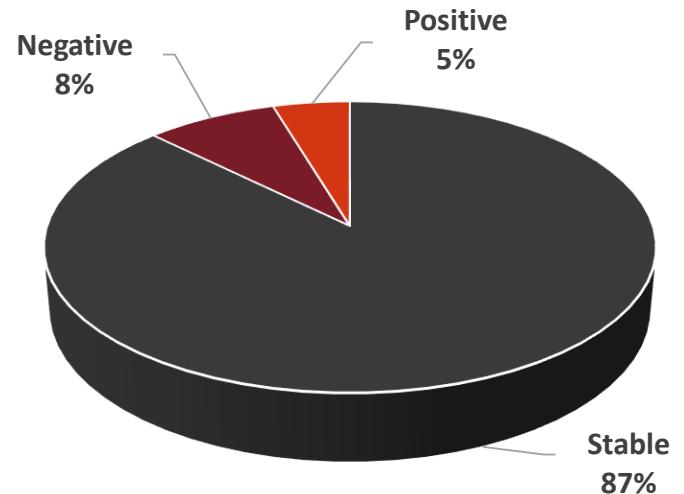
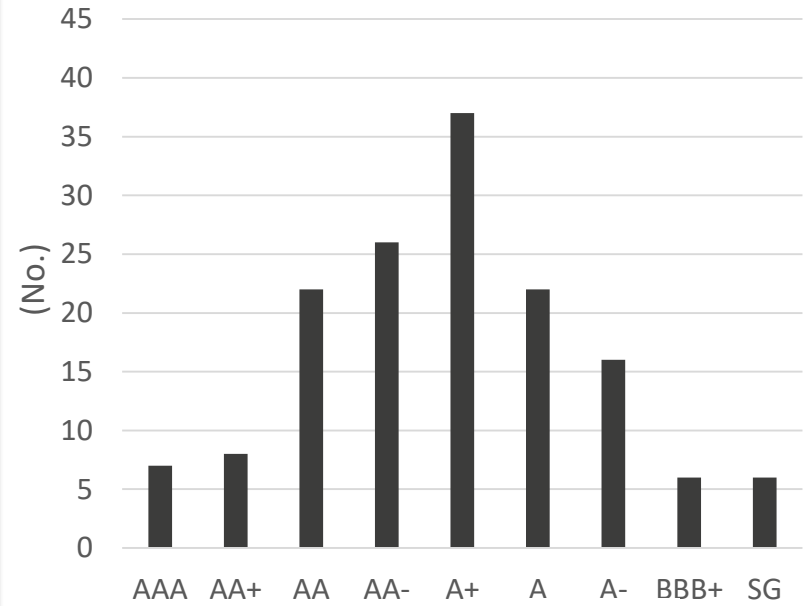
Higher Education Sector Summary

U.S. Higher Education Rating Distributions and Outlooks

Private Universities



Public Universities



As of Aug 1, 2018
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- **S&P Global has 427 public ratings for private and public universities**

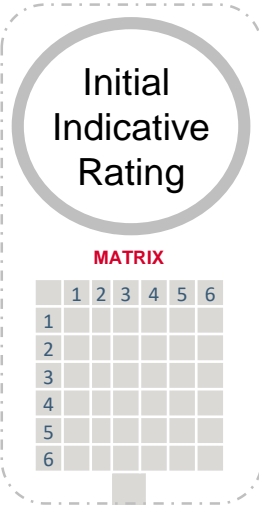
Analytical Framework

- Economic fundamentals* 10%
- Industry risk 10%
- Market position* 70%
- Management and governance 10%

- Financial Policies 10%
- Financial performance 20%
- Liquidity and financial flexibility 35%
- Debt 35%

Enterprise profile

Financial profile*



Indicative Rating

Final Issuer Credit Rating

Final Issue Credit Rating

- Overriding factors and caps
- Holistic analysis
- Rating above the sovereign
- Group rating methodology
- Government-related entity
- Legal structure/pledge

Determining the Initial Indicative Rating

Enterprise Profile	Financial Profile					
	1	2	3	4	5	6
	Extremely Strong	Very strong	Strong	Adequate	Vulnerable	Highly Vulnerable
1 Extremely strong	aaa	aa+	aa-	a	bbb+/bbb	bb+/bb
2 Very strong	aa+	aa/aa-	a+	a-	bbb/bbb-	bb/bb-
3 Strong	aa-	a+	a	bbb+/bbb	bbb-/bb+	bb-
4 Adequate	a	a/a-	a-/bbb+	bbb/bbb-	bb	b+
5 Vulnerable	bbb+	bbb/bbb-	bbb-/bb+	bb	bb-	b
6 Highly Vulnerable	bbb-	bb	bb-	b+	b	b-

We use lower case letters to highlight that the outcomes above are not ratings themselves, but rather indicative credit levels suggested by the enterprise and financial profile assessments. In cases where the table above presents two potential outcomes, the choice between the two outcomes is based on our forward-looking view of the factors composing the enterprise and financial profiles.

Current Issues and Trends

2018 Issues and Trends

Enrollment and Demand

- Enrollment trends: on average stable at best
- Stronger economy impacting graduate enrollment

Tuition/Pricing Strategy

- Net tuition revenue compression
- Tuition discounting-getting more scrutiny in light of demand for greater transparency
- Publics competing more with privates as state operating appropriation declines

Asset/Liability Management

- Long-range capital planning
- Endowment spending policy

Current Trends/Issues: Debt and Liquidity

- No more advance refundings: 40% of \$19 billion 2017 higher-ed issuance

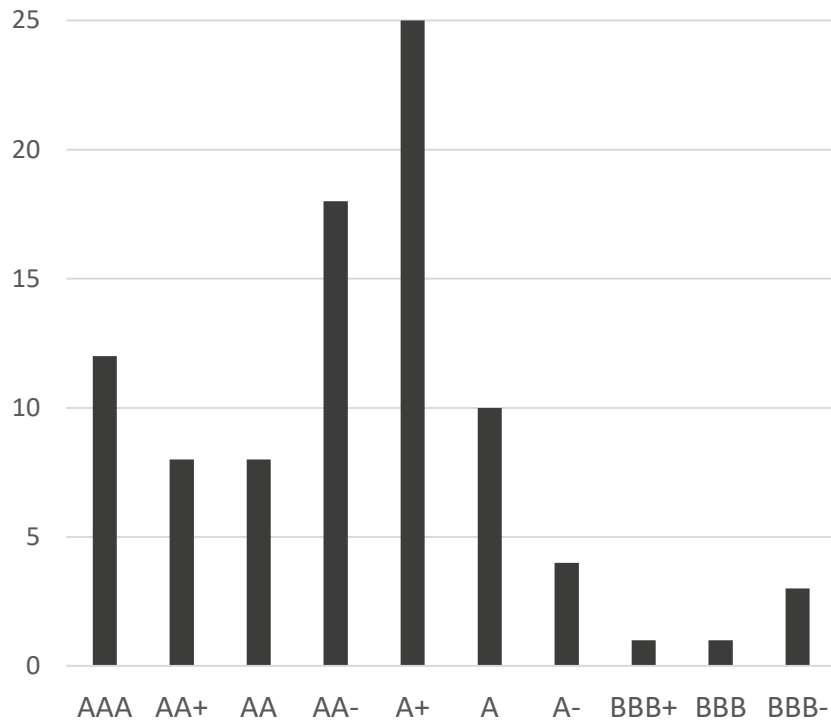
Management and Governance

- Senior leadership turnover-seeing an uptick due to aging and industry pressure

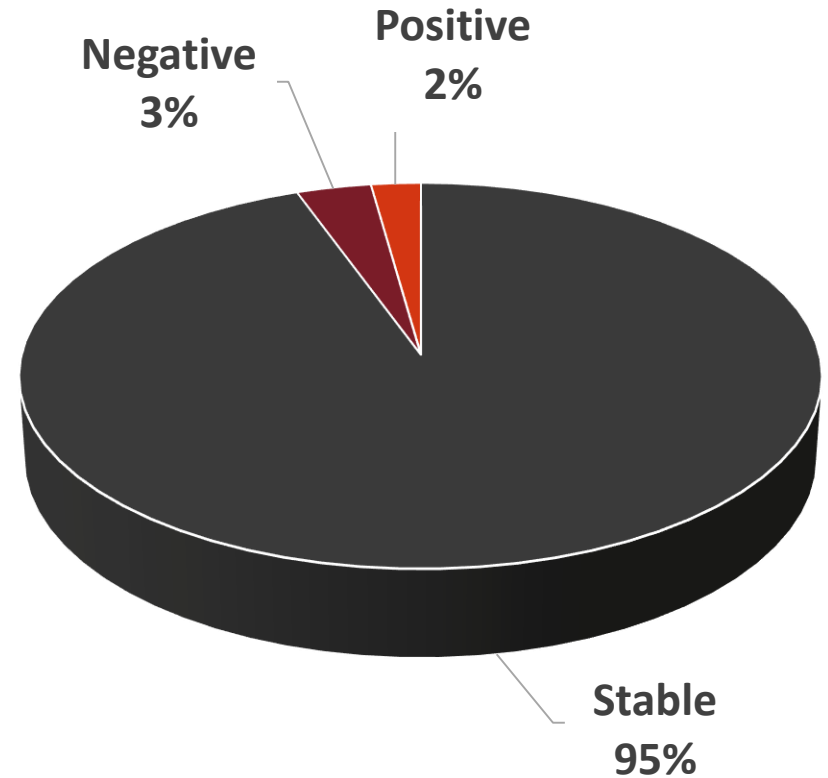
Non-Traditional Not- For-Profits Sector Summary

U.S. Not-for-Profit Rating and Outlook Distributions

Rating Distribution



Outlook Distribution



As of Aug 31, 2018

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Elements of Non-Traditional Not-For-Profit Criteria

Rating Methodology

Demand for the organization's products and services

Management and governance

Financial performance and resources

Debt and capital structure

Broad Areas of Not-for-Profits (Not higher ed or health care)

Cultural Institutions and attractions

Voluntary membership organizations

Endowed and charitable foundations and corporations

Research Institutions

Current Issues and Trends

2018 Issues and Trends

Volume/Membership

- Attendance stable to increasing
- Stronger economy impacting cultural institution attendance, membership

Available Resources & Operating Performance

- Healthy investment returns for the last two fiscal years provides cushion
- Operations improved in fiscal 2017 compared with prior years
- Expect stable operations and modest resources growth going forward

Fundraising

- Successful efforts, with campaign goals met or exceeded
- Expanding donor base and fundraising efforts

Current Trends/Issues: Debt and Liquidity

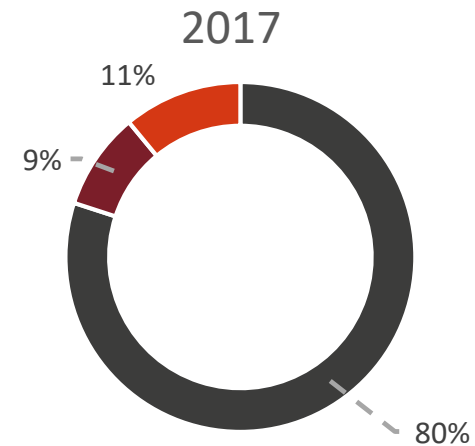
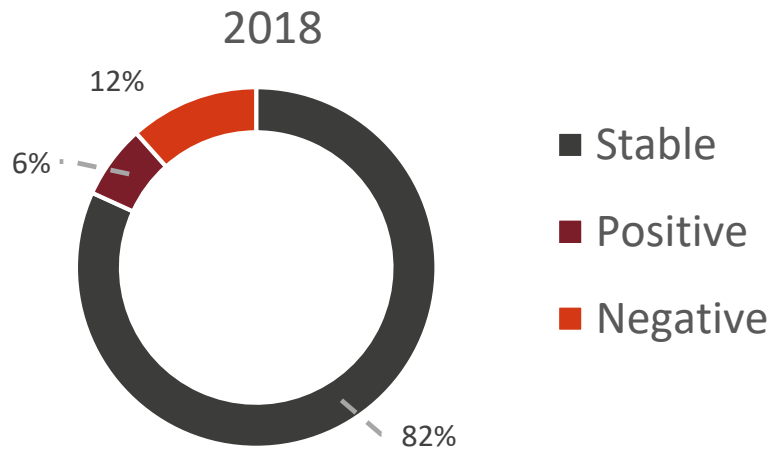
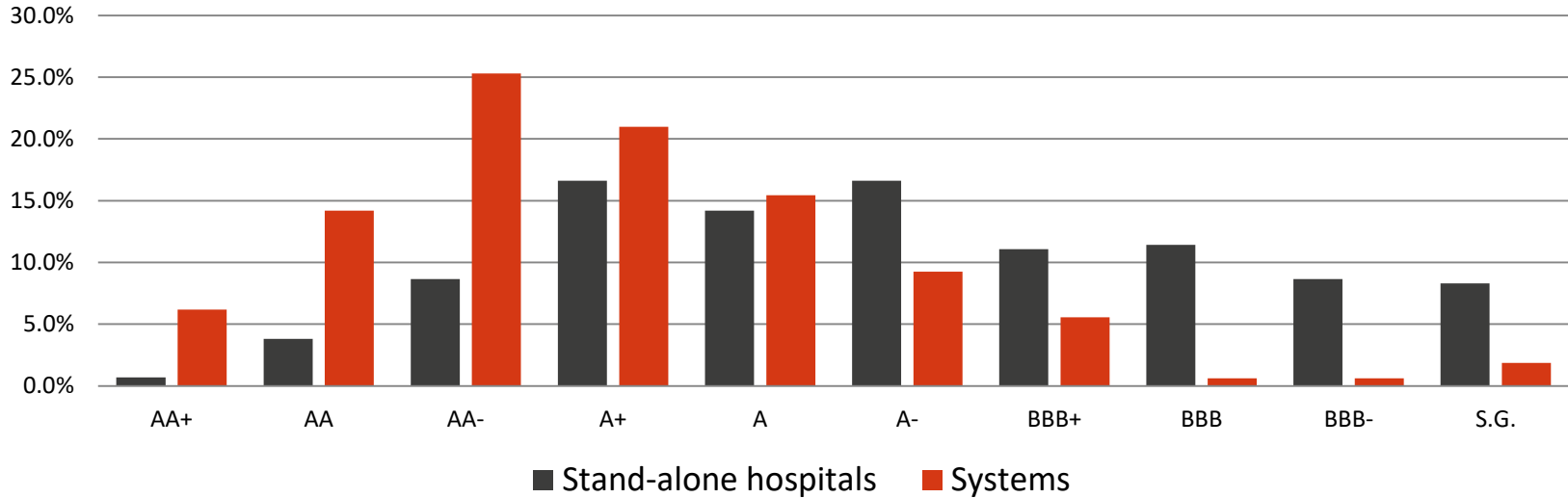
- Stable debt issuance, reduced opportunities for refundings

Management and Governance

- Senior leadership turnover similar to university leadership

Not-for-profit Healthcare Sector Summary

Not-For-Profit Health System vs. Stand-Alone Rating Distribution

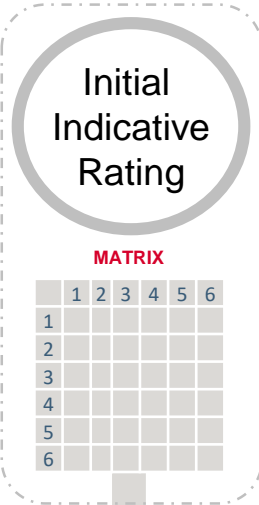


As of June 22, 2018 and June 30, 2017 for all outstanding ratings. S.G.--speculative grade.

Analytical Framework

- Economic fundamentals* 20%
- Industry risk 20%
- Market position* 50%
- Management and governance 10%

Enterprise profile



- Financial performance 40%
- Liquidity and financial flexibility 30%
- Debt 30%

Financial profile*

***Economic fundamentals, market position and financial profile ratios are assessed differently for stand-alone hospitals and health care systems.**

Indicative Rating

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Final Issue Credit Rating

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Determining the Initial Indicative Rating

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Analytical Framework: Overrides and Caps

Applies to All Health Care Organizations

Negative Overriding Factors

- Weak management
- Insufficient health plan capital adequacy levels

Rating Caps

- Extraordinarily low reserves
- Health care organizations emerging from financial crisis
- Lack of willingness to pay or potential bankruptcy

Positive Overriding Factors

- Extraordinarily high reserves
- Academic medical center with closely related higher-rated university
- Tax supported health care organizations

Applies to Stand-Alone Hospitals Only

Negative Overriding Factors

- Limited revenue base
- Specialty hospital

Positive Overriding Factors

- Not applicable

Indicative
Rating

Current Issues and Trends

STANDALONE HOSPITALS

Hospital rating and outlook distributions remain similar to last year, though we note a slight shift to the 'BBB' category and the 2nd consecutive year of increased negative outlooks (%).

Operating margins declined across all rating categories as management teams cited softer patient volumes, payor mix weakening, drug and labor expense pressure, and increased pressure from commercial payors.

Balance sheets largely held stable and capital spending was sustained at levels in excess of depreciation expense.

The total stand-alone hospital sample size continued to contract largely due to acquisitions by larger organizations and ensuing refinancings.

HEALTH SYSTEM

Enterprise profiles remain a key credit strength, driven by investment in information technology, growth in outpatient services, and mergers and acquisitions

Operating margins declined across all rating categories due to expense pressures and slowing net patient revenue growth.

Balance sheets improved modestly, and capital spending was sustained at levels in excess of depreciation expense.

The total system sample size remained relatively stable, but many individual systems experienced growth through mergers and acquisitions