STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Vermont Education & Health Building Finance Agency
University of Vermont Medical Center; Joint Criteria; System

Primary Credit Analyst:
Jennifer J Soule, Boston (1) 617-530-8313; jennifer.soule@standardandpoors.com

Secondary Contact:
Martin D Arrick, San Francisco (1) 415-371-5078; martin.arrick@standardandpoors.com

Table Of Contents

Vermont Education & Health Building Finance Agency
University of Vermont Medical Center; Joint Criteria; System

Credit Profile		
US$72.6 mil rev rfdg bnds (Univ of Vermont Med Ctr) ser 2016 due 12/01/2036		
Long Term Rating	A-/Stable	New
Vermont Ed & Hlth Bldg Fin Agy, Vermont		
Univ of Vermont Med Ctr, Vermont		
Ser 2007A		
Long Term Rating	A-/Stable	Affirmed
Ser 2008A		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating to Vermont Educational & Health Building Financing Agency's series 2016 refunding bonds ($72.6 million) issued for University of Vermont Medical Center (UVMMC; formerly Fletcher Allen Health Care), the flagship enterprise of the University of Vermont Health Network (UVMHN; not rated).

We also affirmed our existing 'A-' long-term and underlying ratings (SPURs) on UVMMC's debt and affirmed the 'AAA/A-1+' joint-criteria rating on UVMMC's 2008A bonds. We are withdrawing the rating on UVMMC's 2015B bonds with this update because the bonds never sold. The outlook is stable.

Proceeds from the series 2016 bonds will be used to refund all of UVMMC's series 2007A and a portion of its 2004B debt outstanding. In June 2015, we rated UVMMC's $100 million series 2015B bonds that were contingent upon certificate of need (CON) state regulatory approval for an inpatient construction project at UVMMC. The CON was approved in July 2015 but the bonds never sold because the approval contained conditions that UVMMC expects to satisfy in 2016. Site work for the construction has already started and the construction could begin in spring 2016, subject to satisfying the CON conditions. For this analysis, we have assumed the project will begin soon and that the debt will be incurred. We will assign a new rating when the inpatient project debt is formally issued. We expect this will be sometime within the next few months.

The 'A-' rating on UVMMC reflects our view of UVMHN's solid enterprise profile across an expanded network of affiliates, along with a financial profile that is very healthy compared to our expectations for the rating. We expect UVMHN will continue to post healthy operating and financial results through the next several years, all while maintaining its enterprise strengths.

Future debt beyond the $100 million inpatient project bonds could include up to $50 million as part of a real estate strategy for the health system to own more of its operating facilities than lease. The timing for this debt is not currently available but we think the addition of the inpatient project and real estate bonds is manageable at the current rating level as long as other favorable credit factors remain constant. We will reevaluate UVMHN's credit characteristics when future debt is issued and update our view of its credit ratings at that time.

Credit strengths also include UVMHN's:

- Healthy operating margins of 3% to 5% in recent years;
- Stable balance sheet metrics, on a pro forma basis, including the $100 million inpatient bed project;
- Dominant market share for tertiary care across its expansive service area that includes most of Vermont and six counties in upstate New York; and
- Standing as the low-cost provider in Vermont and the state's only academic medical center and safety net hospital for tertiary and quaternary services.

Partially offsetting credit factors include our view of UVMHN's:

- Significant capital plans through fiscal 2019, to include about $700 million to $800 million in routine and expansion capital projects; and
- Complement of direct purchase bank debt within its overall debt profile, which constitutes about 38%, although all obligated group bank debt is on parity with its master trust indenture with limited acceleration risk.

UVMHN includes the UVMMC, Central Vermont Medical Center and two New York hospitals, Champlain Valley Physicians Hospital and Elizabethtown Community Hospital (both are part of Community Providers Inc.). UVMMC is Vermont's largest hospital, an integrated 620-licensed-bed (including 58 bassinets) teaching hospital and multispecialty faculty-practice organization affiliated with the University of Vermont College of Medicine.

The obligated group on the debt includes UVMHN, the sole corporate member of UVMMC and Central Vermont Medical Center (CVMC; as of Nov. 1, 2011), as well as UVMMC and CVMC. The rating is based on our view of the obligated group's 'core' status as part of its parent organization and the group credit profile (GCP) of the larger UVMHN. We assess the GCP at 'a-' and because of its core status, the obligated group bonds are rated at the same level as the GCP. The information provided throughout this report will focus on the credit characteristics of the GCP, and will be referred to as UVMHN, unless otherwise specified.

Management indicates it intends to fold its New York hospital affiliates into a system-wide obligated group later in 2016, with the approval of New York State regulators now complete. We view this pending structure favorably as the organization continues to evolve into more of a system. The audit for fiscal years 2014 and 2015 were reported at the UVMHN level and included all new affiliates. We expect the system will continue to pursue other affiliations and partnerships as opportunities arise; however, management indicates it would only consider entities that are accretive to its overall business profile and a benefit to its long-term financial position. The system is currently in negotiations with three small acute care providers that fit that requirement—they are all located in New York State.

Outlook

The stable outlook reflects our view that UVMHN will maintain its enterprise strengths and healthy financial profile through the two-year outlook period. We also expect it will move forward with its inpatient project and real estate strategy, keeping each within its original financial projections.

Upside scenario

We could consider a positive outlook or a higher rating through the outlook period if UVMHN completes its inpatient project and overall capital plan without an unexpected drain on unrestricted reserves or the need for debt beyond its current plan of finance. We would also expect a long-term trend of financial metrics in-line with 'A' rating medians and maintenance of the system's enterprise strengths.

Downside scenario

While not expected, we could consider a negative outlook or a lower rating if UVMHN reports a sharp decline in operating performance, and/or unexpected balance sheet pressure, either through a sizable debt issuance or a significant use of its unrestricted cash reserves.

Enterprise Profile

Economic fundamentals

UVMHN's overall demographics are favorable and the median household income for its service areas is higher than state and national measures. Chittenden County, where the majority of UVMMC's local market resides, has also reported population growth but neighboring Grand Isle County has reported a decrease. Overall, we believe the demographics in UVMMC's current primary service area are moderate, with Medicaid revenue equal to about 11% of overall net patient revenue.

Market position

UVMMC divides its market share into distinct geographic areas, including its immediate primary location in Burlington, VT (96% market share); a broader service area in VT (71% market share), as well as business drawn from its New York providers (39.6%). Management believes its system affiliations with CVMC and its New York hospitals allow for broader outreach to new patients, improve market share, and reduce the outmigration of services.

Across the system, UVMHN reports stable inpatient admissions with some growth in observation visits following national trends. Management is focused on strategic growth in key service areas, as well as an emphasis on increasing higher acuity referrals to UVMMC and keeping lower acuity patients in the UVMHN community hospitals.

We recognize that management and the board are also keenly focused on population health management, as evidenced by the creation of OneCare Vermont, a jointly shared partnership between UVMMC and Dartmouth Hitchcock Medical Center in New Hampshire. The accountable care organization (ACO) spans Vermont and includes both academic medical centers, all Vermont hospitals, as well as many qualified health centers, physician practices, and the entire non-acute continuum of health care. The goal of the ACO is to provide greater access to care and share the responsibility of managing the health needs of a defined population of Vermont residents currently enrolled in

Medicare. Management indicates that similar efforts are underway in New York through the Adirondacks ACO.

UVMHN is increasingly focused on improving population health rather than to pursuing volume or market share strategies. System priorities include unique partnerships developed to improve health, reduce potentially avoidable admissions, reduce re-admissions, develop pathways of care for chronic disease and respond to alternative payment methodologies that do not depend on a traditional fee-for-service approach. As a part of this plan, UVMMC has established a goal of 80% of the care it provides paid for based on quality and outcomes rather than traditional fee-for-service by 2018. We think this goal may be aggressive but view the overall strategy favorably.

University of Vermont Medical Center

UVMMC provides a broad range of health services, including high acuity tertiary and certain quaternary services, to the largely rural population of Vermont. In addition, UVMMC has a strong presence in the neighboring counties in upper New York State. Vermont has 13 acute-care hospitals. Eight of these are federally designated critical access hospitals (with a very small number of beds) and the remaining five hospitals range from 61 to 188 licensed beds. As a result, UVMMC is the market leader in the area and has just modest competition. UVMMC reported net patient revenue of about $1 billion in fiscal 2015, which is now about 68% of the net patient revenue for UVMHN overall.

Central Vermont Medical Center

CVMC operates 236 beds and is located in central Vermont, offering a full spectrum of comprehensive inpatient and outpatient care services along with 24-hour emergency care, Woodridge Rehab and Nursing, The National Life Cancer Treatment Center and 18 medical group practices. CVMC reported about $165 million in net patient service revenue for fiscal 2015 and an operating profit of $5.3 million.

Community Providers Inc. (CPI)

CPI includes Champlain Valley Physicians Hospital (CVPH) and Elizabethtown Community Hospital (ECH). CVPH operates 341 beds and is in Plattsburgh, N.Y. offering a full spectrum of comprehensive inpatient and outpatient care services along with 24-hour emergency care. ECH is located in Elizabethtown, N.Y. and operates as a small critical access hospital with just 25 inpatient beds. CPI reported an operating gain of $1.3 million for fiscal 2015. Management indicates it is working through a balance of volume performed at the CPI locations versus referrals to UVMMC with continued stable operating performance as the goal for each hospital.

University of Vermont (UVM) and UVM Medical Group

UVMMC has an affiliation agreement with the University of Vermont (UVM) that became effective on the date of UVMMC's formation in 1995 and was most recently renewed on June 19, 2014, for a five-year term (automatic five-year renewals). The affiliation agreement expresses the shared goals of UVM and UVMMC for teaching, clinical care, and research; documents the many points of close collaboration between the two organizations; and provides the underpinnings for UVMMC's status as an academic medical center. Pursuant to the agreement, UVM also recognizes UVM Medical Group, an UVMMC subsidiary, as the clinical practice group for physician faculty of UVM's College of Medicine, and UVMMC agrees to meet its physician-employee staffing needs primarily through physicians employed by UVM Medical Group.

UVMMC reported about 663 employed physicians in the UVM Medical Group in fiscal 2015. The majority are primary care physicians and physicians practicing in major subspecialties. The larger UVMHN is dedicated to integrating all of its employed physicians into the UVM Medical Group over time.

Management and board

The president and CEO of UVMHN, Dr. John R. Brumsted, took the CEO position in 2012 but has been with UVMMC for more than 30 years, holding previous leadership roles that included chief medical officer and chief quality officer, as well as medical director of The Vermont Health Plan and Vermont Managed Care and senior associate dean for clinical affairs at the University of Vermont's College of Medicine.

In June 2014, UVMHN hired a new chief financial officer to replace his retired predecessor. Todd Keating comes to the organization after serving most recently as the senior vice president of business development at UMass Memorial Healthcare where he also served as the chief financial officer for several years.

Since 2012, UVMHN's board structure has evolved and in January 2014, it announced it would significantly reduce its count of board members to 17 from 27 to improve operational effectiveness. We understand that fifteen board members have been elected from the boards of the four affiliate hospitals and that upon expiration of their terms, replacements will be elected by the UVMHN board and that new members do not need to be trustees of any existing subsidiary board. Two seats of the board will remain ex officio, including the president and CEO of UVMHN, as well as the dean of the University of Vermont College of Medicine. Two seats remain vacant and are reserved for possible future affiliations. The UVMHN board has governing powers over its four member hospitals and its rights include rights of approval over significant matters within each organization such as budget, strategic plans, major financial decisions, and selection of the CEO.

Financial Profile

Financial performance

UVMHN has reported strong operating margins of 3% to 5% in recent years, a trend that we view very favorably. We expect this level of financial performance will continue into fiscal 2016. Management indicates that its goal is to support a minimum 3% margin to achieve its long-term goals and capital spending plans.

UVMHN reported excess revenues over expenses of $90.1 million for fiscal 2015, which generated solid pro forma maximum annual debt service coverage of 4.0x on a maximum obligation of $45.3 million. This pro forma view includes the $100 million inpatient project debt and the current refunding, although the impact of the refunding is very minimal. We expect additional debt service of about $3.8 million when and if the $50 million real estate debt is added later in 2016; however, according to management UVMHN's overall expense base should only increase by about $800,000 to $900,000 net of reduced operating lease costs. We think this is manageable at the existing rating level.

Liquidity and financial flexibility

UVMHN's balance sheet has improved overall. Management reported an unrestricted cash reserve balance of $646 million as of September 30, 2015, equal to what we view as an adequate measure of days' cash on hand (157 days') and pro forma unrestricted reserves to debt (including the $100 million inpatient project) of about 125%. Based on management's projections, through fiscal 2019, we expect each of these measures to remain flat. We think this is manageable at the current rating level.

Debt and contingent liability

Pro forma debt based on Sept. 30, 2015, was $518 million with about 38% of UVMHN's pro forma debt profile allocated to directly placed bank obligations. Management maintains a comprehensive financial framework that projects its sources and uses of funds for the next several years. Through fiscal 2019 it estimates that it will spend about $770 million in total on capital related projects, including $340 million on routine capital across the system and about $430 million on possible CON related projects. Funding sources include about $169 million in new debt, a capital campaign of about $30 million-$35 million, and the remaining funded by system-wide operating cash flow. We expect UVMHN will issue its real estate debt of $50 million later in 2016 with minimal impact to its overall financial profile.

UVMMC's inpatient facility project will convert the majority (90%), of its shared inpatient rooms to single-occupancy and allow for them to be multipurpose swing space to meet bed needs as they arise over time. We calculated a moderate age-of-plant ratio of 9.2 years for UVMHN as of Sept. 30, 2015.

UVMHN's direct purchase loan agreements follow the covenants included in its master trust indenture, with a debt service coverage covenant of 1.35x that then requires a consultant review. Some of the bank agreements include the requirement of 1.1x or 1.25x debt service coverage and allow for a 30-day remedy period before assessing an event of default. The most recent bank loan was finalized in January 2015 (unrated 2015A bonds) and explicitly states that defaults and remedies mirror the master trust indenture. We expect the system to issue a small $8 million bank loan to refinance debt for CVMC with similar terms. Management indicates it is in compliance with all covenants and that all of its unrestricted reserves can be liquidated from investments in less than 30 days. We think there is more than sufficient coverage on the contingent debt.

Derivative overview

UVMHN is party to two floating-to-fixed swap agreements with total outstanding notional amounts of about $65 million. The agreements are with Citibank N.A. and People's United Financial listed as the counterparties, respectively. Another four swaps exist at CPI, with a total outstanding notational amount of about $40 million. The counterparty for those swap agreements is Key Bank. We believe the swap agreements have very low termination and collateral posting risk and adequate management oversight. In our opinion, the agreements hold moderate counterparty strength with moderately high rated banks serving as counterparties on the larger swap amounts.

University of Vermont Health Network (formerly Fletcher Allen Health Care) Financial Statistics

	--Fiscal year ended Sept. 30--				Medians for 'A-' rated health care systems	Medians for 'A' rated health care systems
	2015	2014	2013	2012	2014	2014
Financial performance						
Net patient revenue ($000s)	1,531,069	1,443,046	1,327,209	1,001,403	1,594,812	1,750,447
Total operating revenue ($000s)	1,646,371	1,567,551	1,515,190	1,144,549	MNR	MNR
Total operating expenses ($000s)	1,571,579	1,507,530	1,458,849	1,115,483	MNR	MNR
Operating income ($000s)	74,792	60,021	56,341	29,066	MNR	MNR
Operating margin (%)	4.54	3.83	3.72	2.54	2.30	2.90
Net non-operating income ($000s)	15,286	17,466	44,795	27,553	MNR	MNR

University of Vermont Health Network (formerly Fletcher Allen Health Care) Financial Statistics (cont.)						
Excess income ($000s)	90,078	77,487	101,136	56,619	MNR	MNR
Excess margin (%)	5.42	4.89	6.48	4.83	3.70	4.70
Operating EBIDA margin (%)	10.13	10.07	9.77	9.27	9.00	9.10
EBIDA margin (%)	10.96	11.06	12.36	11.40	10.20	11.60
Net available for debt service ($000s)	182,082	175,325	192,806	133,674	190,681	247,243
Maximum annual debt service ($000s)*	45,289	45,289	45,289	45,289	MNR	MNR
Maximum annual debt service coverage (x)*	4.02	3.87	4.26	2.95	3.60	4.00
Operating lease-adjusted coverage (x)*	3.19	3.11	3.41	2.53	2.80	3.10
Liquidity and financial flexibility						
Unrestricted reserves ($000s)	646,161	617,270	566,567	467,965	753,278	917,857
Unrestricted days' cash on hand	157.4	157.5	148.9	161.4	148.60	196.40
Unrestricted reserves/total long-term debt (%)	154.7	140.6	120.4	116.5	123.10	129.90
Unrestricted reserves/contingent liabilities (%)	338.9	307.8	221.9	796.9	MNR	MNR
Average age of plant (years)	9.2	7.9	7.7	8.3	11.00	11.30
Capital expenditures/depreciation and amortization (%)	119.3	85.0	121.2	69.2	115.10	127.60
Debt and liabilities						
Total long-term debt ($000s)	417,618	439,051	470,721	401,833	MNR	MNR
Long-term debt/capitalization (%)	34.5	36.8	40.8	44.5	40.50	41.50
Contingent liabilities ($000s)	190,688	200,510	255,368	58,720	MNR	MNR
Contingent liabilities/total long-term debt (%)	45.7	45.7	54.3	14.6	MNR	MNR
Debt burden (%)	2.73	2.86	2.90	3.86	2.50	2.80
Defined benefit plan funded status (%)	78.35	83.08	82.46	70.75	84.80	81.20
Pro forma ratios*						
Unrestricted reserves ($000s)	646,161	N.A.	N.A.	N.A.	MNR	MNR
Total long-term debt ($000s)	517,618	N.A.	N.A.	N.A.	MNR	MNR
Unrestricted days' cash on hand	157.36	N.A.	N.A.	N.A.	MNR	MNR
Unrestricted cash/total long-term debt (%)	124.83	N.A.	N.A.	N.A.	MNR	MNR
Long-term debt/capitalization (%)	39.47	N.A.	N.A.	N.A.	MNR	MNR

N/A--not applicable. N.A.--not available. MNR--median not reported Inpatient admissions exclude newborns, psychiatric, and rehabiliation admissions *MADS and pro forma figures include $100 million new debt expected later in 2016.

Related Criteria And Research

Related Criteria

- USPF Criteria: U.S. Not-For-Profit Acute-Care Stand-Alone Hospitals, Dec. 15, 2014
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, Feb. 20, 2015
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009
- General Criteria: Methodology: Industry Risk, Nov. 20, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria Update: Joint-Support Criteria Refined, Feb. 3, 2006

Related Research

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- U.S. Not-For-Profit Health Care Sector Outlook Revised To Stable From Negative, Though Uncertainties Persist, Sept. 9 , 2015
- U.S. Not-For-Profit Health Care System Median Ratios Likely To Remain Stable Through 2016 Despite Industry Pressures, Sept. 1, 2015
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
- Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries, Nov. 20, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Health Care Organizations See Integration And Greater Transparency As Prescriptions For Success, May 19, 2014

Ratings Detail (As Of January 8, 2016)		
Vermont Ed & Hlth Bldg Fin Agy, Vermont		
Univ of Vermont Med Ctr, Vermont		
Vermont Ed & Hlth Bldg Fin Agy (Univ of Vermont Med Ctr) SYSTEM		
Long Term Rating	NR	
Ser 2004B		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.