STANDARD & POOR'S RATINGS SERVICES

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Illinois Educational Facilities Authority Southern Illinois Healthcare Enterprises; Joint Criteria; System

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Illinois Educational Facilities Authority Southern Illinois Healthcare Enterprises; Joint Criteria; System

Credit Profile		
Illinois Educl Fac Auth, Illinois		
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(Southern Illinois Healthcare Enterprises) series 2005		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A+' underlying rating (SPUR) on the Illinois Educational Facilities Authority's series 2005 bonds issued for Southern Illinois Healthcare Enterprises (SIHE).

At the same time, Standard & Poor's affirmed its 'AAA/A-1' rating and 'A+' SPUR on the authority's series 2008 variable-rate demand revenue refunding bonds, issued for SIHE. The outlook, where applicable, is stable.

The 'AAA/A-1' rating on the series 2008 bonds is based on our application of the joint criteria, and assumes a low correlation between SIHE (A+) and letter of credit (LOC) provider JPMorgan Chase. The LOC provides coverage for the payment of principal of, and interest on, the bonds, including the payment of unremarketed tendered bonds. The LOC provides for a maximum 48 days' interest coverage at 12% annually. The LOC's anticipated expiration date is Nov. 15, 2016, unless terminated or extended according to its terms. Upon expiration, we will withdraw the short-term rating unless the LOC is extended pursuant to its terms or unless an alternate LOC is delivered.

The rating reflects our assessment of SIHE's balance sheet, which has historically been a major strength. Also, SIHE experienced markedly improved operations as the management team implemented its turnaround plan in fiscal 2013. Finally, SIHE plans to issue debt to support capital expenditures during the next 12 months. We believe that SIHE has some debt capacity and anticipate that it will be able to maintain the rating after the issuance.

The 'A+' rating reflects our opinion of SIHE's:

- Operations that improved for fiscal 2013 and into the first four months of fiscal 2014,
- Excellent maximum annual debt service (MADS) coverage, and
- Robust business position.

SIHE, through its Southern Illinois Hospital Services division, operates three hospitals:

- Memorial Hospital of Carbondale, a 146-staffed-bed, acute care hospital in Carbondale;
- Herrin Hospital, a 114-staffed-bed, acute care hospital in Herrin that includes 29 rehabilitation beds through a joint venture with the Rehabilitation Institute of Chicago; and

St. Joseph Memorial Hospital, a 25-staffed-bed, critical access hospital in Murphysboro.

Outlook

The stable outlook reflects our anticipation that SIHE will likely maintain its strong balance sheet while operating at the new level that was set in fiscal 2013. We do not anticipate lowering the ratings if SIHE can meet its 2014 budget and keep its balance sheet stable.

We could lower the rating or revise the outlook to negative if operations were to turn soft again and lead SIHE to underperform, if MADS coverage were to drop to less than 4.5x, and if balance sheet ratios were to decline by 10% or more.

Although we do not anticipate raising the rating given the impending debt issuance, we could raise the rating or revise the outlook to positive if SIHE were able to perform at budgeted fiscal 2014 levels and unrestricted reserves improved to 350 days while leverage remained below 30%.

Enterprise Profile

Utilization

For fiscal 2013, SIHE's utilization remained relatively flat. Management attributes this to a rise in patients deferring health care because of out-of-pocket costs and an increase in patients' being declared outpatient as opposed to inpatient. SIHE management also anticipates improvement in inpatient utilization in fiscal 2014. The area will be adding 15 new physicians in various specialties, 10 of whom SIHE will employ. The new physicians will help to fill the areas of need for SIHE and the community as a whole.

Table 1

Southern Illinois Healthcare Enterprises Utilization				
	--Four-month interim ended July 31--	**--Fiscal year ended March 31--**		
	2014	**2013**	**2012**	**2011**
Inpatient admissions	5,325	16,013	16,018	15,661
Patient days	18,208	53,043	56,273	60,027
Observation days	3,249	9,568	9,700	9,652
Emergency room visits	22,963	67,985	66,569	64,924
Outpatient visits	108,259	311,723	276,895	269,358
Inpatient surgeries	1,745	5,108	4,940	4,995
Outpatient surgeries	1,767	4,962	5,603	4,969
Births	688	2,020	2,054	2,057
Rehabilitation admissions	188	648	620	638
Medicare case mix index	1.541	1.550	1.507	1.550

SIHE experienced a 1.0% increase in surgeries, a 12.6% increase in outpatient visits, and a 2.1% increase in emergency room visits. The service area includes eight additional acute care hospitals, four of which are critical access. One of the eight is the for-profit Heartland Regional Medical Center. Although competition in the area is sizable, SIHE continues to make inroads with critical access hospitals to refer their more complex patients to its facilities.

Management

We believe SIHE has a very capable management team. Because the team has been able to build up the balance sheet over the years, it has also adapted to a changing operating environment. After implementing its turnaround plan in fiscal 2013, management remains focused on its cost structure while also examining areas where it can enhance top line revenue amid the launch of health care reform.

During fiscal 2012 and into fiscal 2013, management has adopted the lean methodology. This methodology remains an integral part of the leadership and has helped SIHE plan to achieve a 4% operating margin in fiscal 2014.

During fiscal 2013, SIHE moved forward with developing a physician hospital organization (PHO). The PHO is working with a regional health insurer, and we believe that the PHO will continue to build on SIHE's relationship with physicians. Management's plan is to build the PHO up to 300 or more providers in the area.

Financial Profile

Operations

SIHE posted operating margins of 3.9% at fiscal year-end 2013 and 0.7% at fiscal year-end 2012. During fiscal 2013, management implemented a turnaround plan based on the aforementioned lean methodology. One of the steps that leadership took during fiscal 2013 was to flex its employee base by 100 full-time equivalent workers given the low volume, resulting in annual savings of $5 million to $6 million.

For the first four months of fiscal 2014 ended July 31, SIHE posted an operating margin of 5%. Management attributes the continued improvement to the steps that it took during fiscal 2013. The SIHE's budget for fiscal 2014 includes a 4% operating margin. With the strong operations, MADS coverage is what we consider a strong 8.7x for the first four months of fiscal 2014.

Balance sheet

SIHE's balance sheet remains what we consider its strong point. Unrestricted reserves of SIHE equated to 289 days' cash on hand. Other balance sheet measures include leverage of 22% and cash to long-term debt of 260% as of July 31, 2013.

According to management, it could issue as much as $70 million of new debt to support a surgery project for its Memorial campus. As of this report, however, SIHE has not presented us with any immediate financing plans. Once management presents its debt plans to us, we will review what effect, if any, we believe the new debt will have on the rating. We believe SIHE has some capacity for new debt.

Table 2

Southern Illinois Healthcare Enterprises Financial Summary				
	--Four-month interim ended July 31--	--Fiscal year ended March 31--		
	2014*	2013*	2012*	2011
Financial performance				
Net patient revenue ($000s)	155,548	432,809	379,649	390,686
Total operating revenue ($000s)	157,561	440,260	385,746	394,566
Total operating expenses ($000s)	149,766	423,144	382,930	382,113
Operating income ($000s)	7,795	17,116	2,816	12,453
Operating margin (%)	4.95	3.89	0.73	3.16
Net non-operating income ($000s)	9,642	20,248	12,529	27,587
Excess income ($000s)	17,437	37,364	15,345	40,040
Excess margin (%)	10.43	8.11	3.85	9.48
Operating EBIDA margin (%)	12.36	11.74	9.48	11.19
EBIDA margin (%)	17.42	15.62	12.33	16.99
Net available for debt service ($000s)	29,124	71,929	49,106	71,730
Maximum annual debt service (MADS; $000s)	9,992	9,992	9,134	9,193
MADS coverage (x)	8.74	7.20	5.38	7.80
Operating lease-adjusted coverage (x)	7.87	6.25	N.A.	N.A.
Liquidity and financial flexibility				
Unrestricted cash and investments ($000s)	333,975	334,060	302,099	305,015
Unrestricted days' cash on hand	289.2	308	309.1	310.9
Unrestricted cash/total long-term debt (%)	260.1	259.9	229.8	224.7
Average age of plant (years)	8.5	8.3	7.8	7.6
Capital expenditures/Depreciation and amortization (%)	N.A.	130.2	103.8	127.2
Debt and liabilities				
Total long-term debt ($000s)	128,418	128,517	131,468	135,759
Long-term debt/capitalization (%)	22.0	22.6	25.1	26.0
Contingent liabilities ($000s)	79,920	79,920	79,920	68,960
Contingent liabilities/total long-term debt (%)	62.2	62.2	60.8	50.8
Debt burden (%)	1.99	2.17	2.29	2.18

*FASB 2011-07 adopted related to the treatment of bad debt. Standard & Poor's recorded bad debt expense as if FASB 2011-07 were adopted related to the treatment of bad debt beginning in fiscal 2012. N.A.--Not available.

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011

- U.S. Not-For-Profit Health Care Stand-Alone Ratios: Operating Pressures Led To Mixed Results In 2012, Aug. 8, 2013
- U.S. Not-For-Profit Health Care Providers Hone Their Strategies To Manage Transition Risk, May 16, 2012

Ratings Detail (As Of September 24, 2013)

Illinois Hlth Fac Auth, Illinois

Southern Illinois Healthcare Enterprises , Illinois

Illinois Hlth Fac Auth (Southern Illinois Hlthcare Enterprises) hosp VRDO hosp ser 2008

Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed

Many issues are enhanced by bond insurance.