



## UWHCA Finance Committee

March 26, 2020, 10:00 - 11:30 AM

WebEx: [https://uwhealth.webex.com/uwhealth/onstage/g.php?  
MTID=ea800ecde176b64acaf7bd4cc2077d3a8](https://uwhealth.webex.com/uwhealth/onstage/g.php?MTID=ea800ecde176b64acaf7bd4cc2077d3a8)

Meeting number: 629 512 076 // Password: uwhgov

Tele-Conference: 1-415-655-0003 TOLL / Access Code: 629 512 076

# UWHCA Finance Committee - March 26, 2020 - PUBLIC MEETING NOTICE

## Agenda

- |          |  |                   |         |
|----------|--|-------------------|---------|
| 10:00 AM | <hr/> <b>I. Call to Order</b><br>Mr. Kenneth Mount   |                   |         |
| 10:00 AM | <hr/> <b>II. Meeting Minutes - Open Session Minutes from February 27, 2020</b><br>Mr. Kenneth Mount  | Approval          |         |
|          | Open Session Minutes from February 27, 2020  |                   | Page 3  |
| 10:05 AM | <hr/> <b>III. UW Health Consolidated Financials - YTD February 29, 2020</b><br>Mr. Robert Flannery, Ms. Jodi Vitello, Ms. Patti DeWane   | Report/Discussion |         |
|          | Presentation - UW Health Consolidated Financials - YTD February 29, 2020   |                   | Page 6  |
| 10:20 AM | <hr/> <b>IV. Closed Session</b><br><br>Motion to enter into closed session pursuant to Wisconsin Statutes section 19.85(1)(e) for the discussion of the following confidential strategic matters, which for competitive reasons require a closed session: review and approval of closed session minutes; FY21 budget process update, Managed Care update, COVID-19 update, and Rural Referral Center update; and pursuant to section 19.85(1)(g) to confer with legal counsel regarding these and other matters. |                   |         |
| 11:27 AM | <hr/> <b>V. Return to Open Session</b>   |                   |         |
| 11:27 AM | <hr/> <b>VI. ACTION: Financial Line of Credit</b><br>Mr. Kenneth Mount<br>Motion to recommend to UWHC Authority Board of Directors approval of initiating a line of credit as discussed in closed session  | Endorsement       |         |
| 11:30 AM | <hr/> <b>VII. Adjourn</b>  |                   |         |
|          | <hr/> <b>VIII. FYI Attachment - UW Health S&amp;P Global Ratings</b><br><br>FYI Attachment - UW Health S&P Global Ratings  |                   | Page 13 |

# Attachment

Open Session Minutes  
February 27, 2020

# UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

## Minutes of the Finance Committee Meeting

### Open Session

February 27, 2020, 10:00 a.m. – 11:30 a.m.  
Room H6/215

A meeting of the University of Wisconsin Hospitals and Clinics Authority (“UW Health”) Finance Committee was held at 600 Highland Avenue, Room H6/215, Madison, Wisconsin, pursuant to notice duly given. Committee Chair, Kenneth Mount, chaired the meeting; Kelly Wilson, Secretary of the UW Health Board, served as Secretary of the meeting.

#### Members Present:

Kenneth Mount (Chair), Representative Mark Born (via phone), Dean Robert Golden (Board Chair), Dr. Rebecca Minter, Regent Janice Mueller, Senator Luther Olsen, Paul Seidenstricker, Regent Karen Walsh, Gary Wolter (Board Vice Chair)

#### Members Excused:

Vice Chancellor Laurent Heller, Dr. Alan Kaplan (non-voting), Mike Weiden

#### UW Health/SwedishAmerican Health System (SAHS) Staff:

Ruth Bindl (Corporate Governance Coordinator); Patti DeWane (SAHS VP Finance/Treasurer); Kelsie Doty (VP/Practice Plan & UW MF CAO) (via phone); Bob Flannery (SVP/Chief Financial Officer); Rich Lovitt (SAHS Director Corporate Accounting); Jodi Vitello (VP, Finance), Kelly Wilson (Chief Legal Officer, Secretary of the Board)

### 1. Call to Order

Chair Kenneth Mount called the duly noticed meeting of the University of Wisconsin Hospitals and Clinics Authority (“UWHCA”) Finance Committee to order at 10:03 a.m.

### 2. Meeting Minutes – Open Session

Upon a motion duly made by Senator Luther Olsen, seconded by Regent Janice Mueller and unanimously carried, the open session minutes of November 21, 2019 were approved.

### 3. Moody’s Rating Update

Mr. Robert Flannery shared in February 2020 Moody’s Investor Service affirmed UWHCA’s Aa3 rating. He reviewed their ratings rationale, rating outlook, factors that could lead to an upgrade and/or downgrade, and UW Health’s profile.

Mr. Flannery also noted once S&P Global rating for UWHCA is available, expected in March 2020, he will share with the UWHCA Finance Committee.

Mr. Flannery and the Committee engaged in discussion regarding this matter.

#### **4. UW Health Consolidated Financials – YTD January 31, 2020**

Mr. Flannery reviewed the YTD January 31, 2020 financials including operating income, operating margin, and variance to budget and income. He then reviewed January 2020 non-operating revenue and expenses.

The Committee and Mr. Flannery engaged in discussion regarding this matter.

#### **5. Closed Session**

There being no other matters for discussion in open session, Chair Mount proposed to take the meeting into closed session pursuant to Wisconsin Statutes section 19.85(1)(e) for the discussion of the following confidential strategic matters, which for competitive reasons require a closed session: review and approval of closed session minutes; YTD financial and budgetary report; FY20 6-Month Joint Operating Agreement update, business transformations update, FY21 budget update, and SwedishAmerican Health System financial update; and pursuant to section 19.85(1)(g) for obtaining legal advice relating to such matters.

Regent Karen Walsh moved to go into closed session; Senator Luther Olsen seconded the motion; and there was a unanimous roll call vote approving entering into closed session. The following members voted for the motion: Kenneth Mount (Chair), Representative Mark Born (via phone), Dean Robert Golden (Board Chair), Dr. Rebecca Minter, Regent Janice Mueller, Senator Luther Olsen, Paul Seidenstricker, Regent Karen Walsh and Gary Wolter (Board Vice Chair).

The meeting was adjourned in Closed Session.

Respectfully Submitted,

Kelly Wilson, Secretary

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# **UW Health Financial Reports**

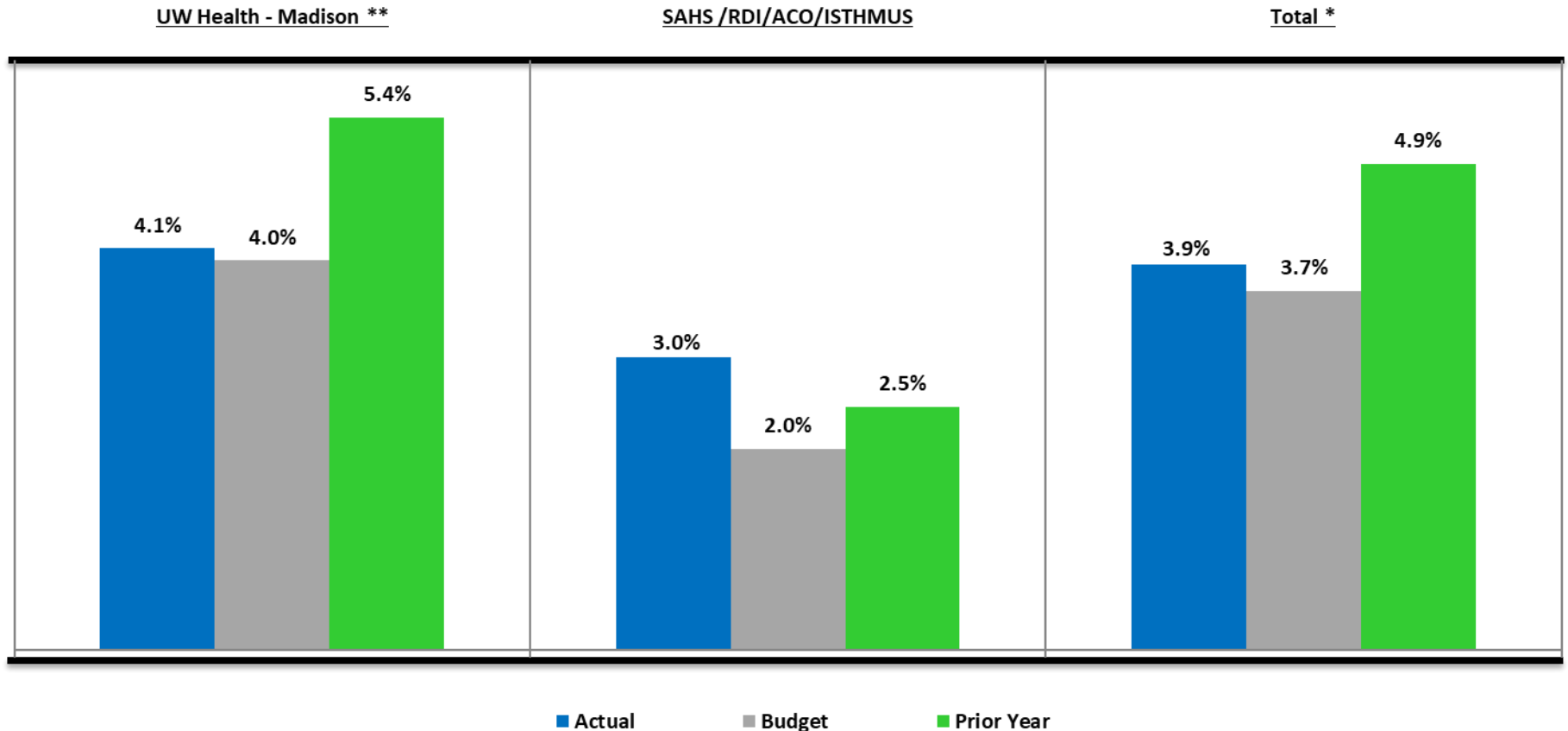
## **Preliminary Financial Statements**

### **Consolidated Financial Review**

February 29, 2020

# UW Health Current Month Operating Margin

Preliminary February 29, 2020



- Combined total includes eliminations and the Academic support included as an operating expense.
- \*\* Combined HC/MF without eliminations
- ACO is included as a discrete component with SAHS & RDI

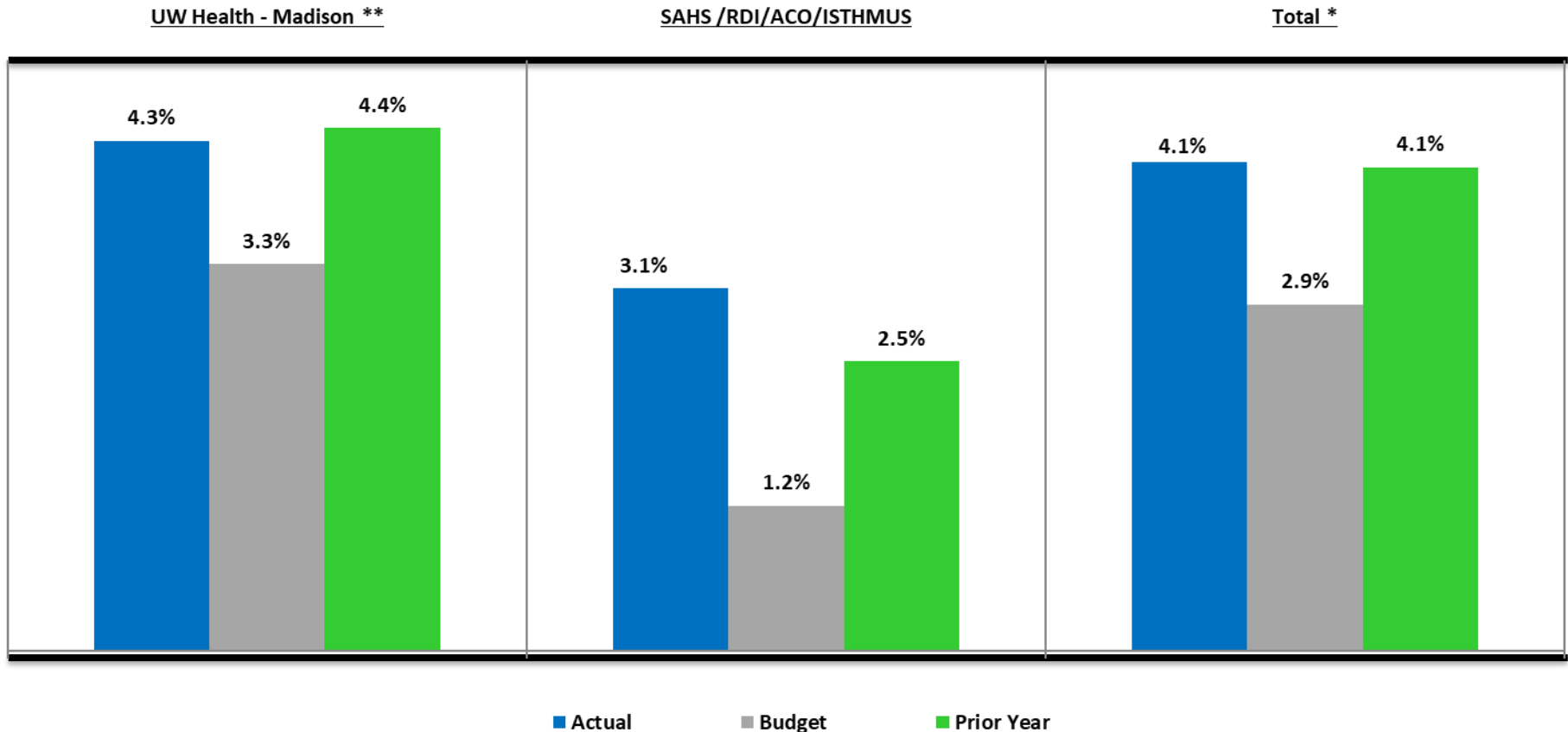
# Summary of Enterprise-Wide February 29, 2020 Operating Results

	Actual February- FY20	Budget February- FY20	Variance vs. Budget	Var. % vs. Budget	Actual February- FY19	Variance vs. PY	Var. % vs. PY
<b><u>TOTAL OPERATING REVENUE</u></b>							
Net patient service revenue	275,732,019	279,808,285	(4,076,266)	-1%	262,178,394	13,553,625	5%
Other operating revenues	6,650,241	6,406,619	243,622	4%	9,867,459	(3,217,218)	-33%
<b>Total operating revenues, net</b>	<b>282,382,260</b>	<b>286,214,904</b>	<b>(3,832,644)</b>	<b>-1%</b>	<b>272,045,853</b>	<b>10,336,407</b>	<b>4%</b>
<b><u>TOTAL OPERATING EXPENSES</u></b>							
Non-physician salaries and benefits	113,249,711	113,243,710	6,001	0%	101,793,883	11,455,828	11%
Physician salaries and benefits	45,610,807	40,545,916	5,064,891	12%	26,877,634	18,733,173	70%
<b>Salaries and benefits</b>	<b>158,860,518</b>	<b>153,789,626</b>	<b>5,070,892</b>	<b>3%</b>	<b>128,671,517</b>	<b>30,189,001</b>	<b>23%</b>
Other expenses	1,172,981	4,974,240	(3,801,259)	-76%	6,092,232	(4,919,251)	-81%
Purchased services and agency costs	11,844,643	18,117,567	(6,272,924)	-35%	29,063,250	(17,218,607)	-59%
Medical materials and supplies	17,320,058	18,477,987	(1,157,929)	-6%	18,189,604	(869,546)	-5%
Pharmaceuticals	42,585,608	39,953,481	2,632,127	7%	37,372,561	5,213,047	14%
Interest expense	2,080,548	2,427,779	(347,231)	-14%	2,390,104	(309,556)	-13%
Depreciation and amortization	9,788,807	10,252,587	(463,780)	-5%	10,049,482	(260,675)	-3%
Public aid assessment	4,799,627	4,992,003	(192,376)	-4%	4,829,727	(30,100)	-1%
Facilities and equipment	16,865,311	16,698,391	166,920	1%	15,219,781	1,645,530	11%
Nonoperating expenses - academic support	5,987,049	6,078,642	(91,593)	-2%	6,713,339	(726,290)	-11%
<b>Net Operating Expenses</b>	<b>271,305,150</b>	<b>275,762,303</b>	<b>(4,457,153)</b>	<b>-2%</b>	<b>258,591,597</b>	<b>12,713,553</b>	<b>5%</b>
			-				
<b>Income from operations</b>	<b>11,077,110</b>	<b>10,452,601</b>	<b>624,509</b>	<b>6%</b>	<b>13,454,256</b>	<b>(2,377,146)</b>	<b>-18%</b>
<b><u>NON-OPERATING REVENUE/EXPENSES</u></b>							
Net increase/decrease in fair value of investments	(57,408,888)	696,371	(58,105,259)	-100%	16,813,348	(74,222,236)	-441%
Investment income	7,815,550	2,568,590	5,246,960	204%	1,570,634	6,244,916	398%
Equity interest in income/loss of joint ventures	3,692,314	1,249,284	2,443,030	196%	1,361,968	2,330,346	171%
Net inc/dec in fair value of derivative instrument	(431,267)	-	(431,267)	-100%	77,284	(508,551)	-658%
Other, net	1,028,165	(182,727)	1,210,892	-663%	235,865	792,300	336%
<b>Net Non Operating Revenue/Expenses</b>	<b>(45,304,126)</b>	<b>4,331,518</b>	<b>(49,635,644)</b>	<b>-1146%</b>	<b>20,059,099</b>	<b>(65,363,225)</b>	<b>-326%</b>
<b>Net Profit</b>	<b>(34,227,016)</b>	<b>14,784,119</b>	<b>(49,011,135)</b>	<b>-332%</b>	<b>33,513,355</b>	<b>(67,740,371)</b>	<b>-202%</b>



# UW Health YTD Operating Margin

Preliminary February 29, 2020



- Combined total includes eliminations and the Academic support included as an operating expense.
- \*\* Combined HC/MF without eliminations
- ACO is included as a discrete component with SAHS & RDI, in September they received a \$4.6M payment from CMS

# Summary of Enterprise-Wide YTD February 29, 2020 Operating Results

	Actual Feb_YTD- FY20	Budget Feb_YTD- FY20	Variance vs. Budget	Var. % vs. Budget	Actual Feb_YTD- FY19	Variance vs. PY	Var. % vs. PY
<b><u>TOTAL OPERATING REVENUE</u></b>							
Net patient service revenue	2,333,004,780	2,281,332,074	51,672,706	2%	2,121,193,738	211,811,042	10%
Other operating revenues	61,232,856	54,272,139	6,960,717	13%	80,609,560	(19,376,704)	-24%
<b>Total operating revenues, net</b>	<b>2,394,237,636</b>	<b>2,335,604,213</b>	<b>58,633,423</b>	<b>3%</b>	<b>2,201,803,298</b>	<b>192,434,338</b>	<b>9%</b>
<b><u>TOTAL OPERATING EXPENSES</u></b>							
Non-physician salaries and benefits	931,127,754	937,191,381	(6,063,627)	-1%	860,627,305	70,500,449	8%
Physician salaries and benefits	337,462,353	327,401,184	10,061,169	3%	221,203,802	116,258,551	53%
<b>Salaries and benefits</b>	<b>1,268,590,107</b>	<b>1,264,592,565</b>	<b>3,997,542</b>	<b>0%</b>	<b>1,081,831,107</b>	<b>186,759,000</b>	<b>17%</b>
Other expenses	42,283,878	41,618,771	665,107	2%	47,321,742	(5,037,864)	-11%
Purchased services and agency costs	156,015,125	145,729,814	10,285,311	7%	233,099,686	(77,084,561)	-33%
Medical materials and supplies	161,946,624	151,502,402	10,444,222	7%	150,971,064	10,975,560	7%
Pharmaceuticals	354,448,247	337,150,534	17,297,713	5%	298,024,107	56,424,140	19%
Interest expense	16,964,845	19,461,979	(2,497,134)	-13%	16,955,225	9,620	0%
Depreciation and amortization	77,908,047	82,320,702	(4,412,655)	-5%	78,791,214	(883,167)	-1%
Public aid assessment	38,397,016	39,936,022	(1,539,006)	-4%	38,584,008	(186,992)	0%
Facilities and equipment	130,089,273	136,041,421	(5,952,148)	-4%	118,133,757	11,955,516	10%
Nonoperating expenses - academic support	48,479,462	48,629,137	(149,675)	0%	47,913,490	565,972	1%
<b>Net Operating Expenses</b>	<b>2,295,122,624</b>	<b>2,266,983,347</b>	<b>28,139,277</b>	<b>1%</b>	<b>2,111,625,400</b>	<b>183,497,224</b>	<b>9%</b>
<b>Income from operations</b>	<b>99,115,012</b>	<b>68,620,866</b>	<b>30,494,146</b>	<b>44%</b>	<b>90,177,898</b>	<b>8,937,114</b>	<b>10%</b>
<b><u>NON-OPERATING REVENUE/EXPENSES</u></b>							
Net increase/decrease in fair value of investments	(6,427,264)	5,570,968	(11,998,232)	-215%	(3,390,208)	(3,037,056)	90%
Investment income	31,038,202	20,548,718	10,489,484	51%	15,900,559	15,137,643	95%
Equity interest in income/loss of joint ventures	17,083,895	9,994,277	7,089,618	71%	9,885,400	7,198,495	73%
Net inc/dec in fair value of derivative instrument	(847,261)	-	(847,261)	-100%	(182,010)	(665,251)	366%
Other, net	6,288,084	(2,107,368)	8,395,452	-398%	3,847,536	2,440,548	63%
<b>Net Non Operating Revenue/Expenses</b>	<b>47,135,656</b>	<b>34,006,595</b>	<b>13,129,061</b>	<b>39%</b>	<b>26,061,277</b>	<b>21,074,379</b>	<b>81%</b>
<b>Net Profit</b>	<b>146,250,668</b>	<b>102,627,461</b>	<b>43,623,207</b>	<b>43%</b>	<b>116,239,175</b>	<b>30,011,493</b>	<b>26%</b>

# Enterprise-Wide Preliminary February 29, 2020 YTD Performance Ratios

	Favorable Direction	FY 20	Healthcare System Industry Comparisons	
			S&P "AA-" Rated (1)	Moody's "Aa3" Rated (2)
Operating Margin (including Academic Support)	↑	4.1%	2.6%	3.0%
Total Margin	↑	6.0%	4.5%	5.8%
Days Cash on Hand * (including Academic Support)	↑	212	243	234
Days in Accounts Receivable **	↓	49	48	48
Long Term Debt to Capitalization	↓	22.8%	29.2%	27.7%
Operating Cash Flow	↑	8.1%	8.7%	8.3%
Cash-to-Debt	↑	263.3%	187.7%	206.7%

\* excludes provision for bad debt and retiree health insurance

\*\* average for 12 months

(1) S&P's 2017 financial ratios based on 35 obligators rated "AA-" by S&P. Based on 2017 audited financials.

(2) Moody's 2017 financial ratios based on 37 "Aa3" rated hospitals. Based on 2017 audited financials.

# Summary of Enterprise-Wide YTD February 29, 2020 Balance Sheet

	UWHCA	UWMF	Total UWHCA and UWMF	Discrete Components	UW Health Consolidated
Cash & Investments					
Unrestricted	1,167,789,577	367,434,324	1,535,223,901	368,825,293	1,904,049,194
Restricted by Trustee & Donors	25,719,586	-	25,719,586	76,105,961	101,825,547
Accounts Receivable	328,736,479	98,153,620	426,890,099	83,459,113	510,349,212
Property, Plant & Equipment, Net	787,689,893	71,044,216	858,734,109	396,449,582	1,248,724,506
Other Assets & Deferred Outflows of Resources	1,147,875,502	381,540,772	842,512,070	35,224,791	674,949,334
<b>Total Assets &amp; Deferred Outflows of Resources</b>	<b>\$ 3,457,811,037</b>	<b>\$ 918,172,932</b>	<b>\$ 3,689,079,765</b>	<b>\$ 960,064,740</b>	<b>\$ 4,439,897,794</b>
Current Liabilities	596,259,560	519,099,629	428,454,985	144,997,103	380,396,495
Long-term Debt & Deferred Inflows of Resources	1,125,229,606	51,305,000	1,176,534,606	257,927,327	1,434,461,933
Net Position					
Unrestricted	1,565,245,285	347,768,303	1,913,013,588	547,223,492	2,444,045,961
Restricted	171,076,586	-	171,076,586	9,916,818	180,993,404
<b>Total Liabilities, Deferred Inflows of Resources &amp; Net Position</b>	<b>\$ 3,457,811,037</b>	<b>\$ 918,172,932</b>	<b>\$ 3,689,079,765</b>	<b>\$ 960,064,740</b>	<b>\$ 4,439,897,794</b>

Elimination Entries are not displayed but are part of the Consolidated Numbers

# RatingsDirect®

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## University of Wisconsin Health System; Hospital; Joint Criteria; System

**Primary Credit Analyst:**

Allison Bretz, Chicago (1) 303-721-4119; allison.bretz@spglobal.com

**Secondary Contact:**

Wendy A Towber, Centennial (1) 303-721-4230; wendy.towber@spglobal.com

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Stable Two-Year Outlook

Credit Opinion

Enterprise Profile: Very Strong

Financial Profile: Very Strong

Credit Snapshot

# University of Wisconsin Health System; Hospital; Joint Criteria; System

## Credit Profile

University of Wisconsin Hosp & Clinics Auth (University of Wisconsin Hosp & Clinics Auth) JOINTCRIT		
<i>Long Term Rating</i>	AAA/A-1+	Current
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Current

## Rationale

S&P Global Ratings' long-term rating on the University of Wisconsin Hospitals and Clinics Authority's (UWHCA) bonds outstanding is 'AA-'. S&P Global Ratings' long-term rating on the Illinois Finance Authority's series 2012 fixed-rate bonds, issued for SwedishAmerican Hospital (SAH), is 'A+'. The rating on SAH reflects our view of the organization as strategically important to UWHCA. Hereafter, we will refer to the combined system, including UWHCA and SAH, as UW Health.

S&P Global Ratings' rating on UWHCA's series 2009B bonds is 'AAA/A-1+'. The outlook is stable. The rating is based on the application of our joint criteria with a low correlation between U.S. Bank N.A., the letter-of-credit (LOC) provider, and the UWHCA debt rating. The short-term component of the rating is based solely on the LOC provider. The LOC expires on July 1, 2025.

S&P Global Ratings' rating on UWHCA's series 2018B and 2018C variable-rate demand revenue refunding bonds is 'AA-/A-1'. The series 2018B and 2018C bonds receive liquidity support in the form of standby bond purchase agreements (SBPAs) from JPMorgan Chase Bank N.A. for series 2018B and BMO Harris for series 2018C. The long-term component of the rating reflects our view of UWHCA's credit characteristics. The short-term component of the rating reflects our assessment of the SBPAs provided by JPMorgan Chase Bank N.A. for series 2018B and BMO Harris for series 2018C. The SBPAs are scheduled to expire on Nov. 14, 2024, for JPMorgan and Nov. 14, 2023, for BMO Harris.

The outlook on all ratings, where applicable, is stable.

## Credit overview

The ratings reflect our view of UW Health's financial profile, highlighted by a multiyear trend of improved operating margins. UW Health has successfully executed on an operating improvement strategy, and has also experienced strong patient demand across its facilities. UW Health was able to outpace both its budget and prior-year results and looks to sustain the current level of operations through fiscal 2020. Coupled with the operational improvement, UW Health continues to improve its financial flexibility as it looks to address capital plans and build the balance sheet. The rating further reflects UW Health's strong business position as the state's only academic medical center, with an integrated medical staff at its flagship facility in Madison. Also supporting the enterprise profile is a joint operating agreement (JOA) with UnityPoint-Meriter, which has bolstered the business position in Madison, and the system's partial ownership of Quartz Health, which is the second-largest health insurance plan in the state. We believe this

experience with risk-based contracting prepares UW Health well for changing reimbursement models.

The stable outlook reflects our view that, as UW Health moves forward with strategic plans to help bolster its leading business position for the markets in which it operates, the system will be able to sustain its operational improvements and maintain its balance sheet, even as capital spending increases.

We understand that UW Health expects to increase its capital spending over the next two years, and its capital strategy may include new debt. We believe the system can sustain a moderately sized debt issuance at the current rating level. However, the ultimate determination would be made at the time of issuance, and would depend on the size and nature of the capital plans, along with the system's operating results and overall credit profile at the time of issuance.

The rating continues to reflect our assessment of UW Health's:

- Role as one of the premier health care providers in Wisconsin, attracting patients from across the state and the broader region;
- Strong and long-standing relationship with the University of Wisconsin; and
- Strong management team that has successfully executed the organization's strategy, is expanding its access, and is preparing for value-based reimbursement methodologies.

Partly offsetting the above strengths, in our view, are UW Health's:

- Historically competitive landscape in Wisconsin that continues to evolve through consolidation and growth strategies;
- Midsize primary service area, which may limit revenue and volume growth; and
- Operating liquidity that is slightly below the rating median.

## **Stable Two-Year Outlook**

### **Upside scenario**

We could consider a positive outlook or higher rating over time if UW Health is able to sustain its improved financial performance and continue to generate improvement in the balance sheet. A positive rating action would also be predicated on maintenance or improvement of UW Health's market position and overall enterprise profile.

### **Downside scenario**

We could consider a negative outlook or rating action if UW Health experiences material and sustained weakening in its operating performance or unrestricted reserves. We could also consider a negative rating action if UW Health experiences a significant disruption to its market position. Finally, we would view negatively any debt plans beyond what is expected with UW Health's current capital strategy, or any issuance that put pressure on debt-related metrics such that they were no longer appropriate for the rating.

## Credit Opinion

### Enterprise Profile: Very Strong

UW Health has a robust regional partnership strategy, which supports its growing market presence.

Effective July 1, 2017, UW Health executed its JOA with UnityPoint-Meriter, which also operates hospitals in the Madison market. The JOA has alleviated many of UW Health's capacity issues at its flagship hospital, as lower-acuity patients can now be served at the legacy UnityPoint-Meriter facility. The agreement has also allowed two organizations look at eliminating services in the market that had been duplicated for a number of years. We view this JOA positively, as it has allowed UW Health to provide better care in the right setting. We further note that this agreement has been financially beneficial to UW Health, as it is able to keep more patients in the system for care.

UW Health also has a 62% ownership interest in Quartz Health Plans, which it operates along with Gundersen Health and UnityPoint. Quartz has a revenue base of \$1.7 billion, and is the second-largest health insurer in the state. The combination of the plans helps extend the system's reach, as plans under the Quartz umbrella are offered in 35 counties in Wisconsin as well as in Illinois, Minnesota, and Iowa. In total the plan has about 343,000 members.

UW Health continues to bolster its strong market position as the premier referral center for the state as well as parts of Illinois, Iowa, and Minnesota.

**Table 1**

University of Wisconsin Hospitals & Clinics Authority			
Selected financial statistics	--Fiscal year ended June 30--		
	Six months interim ended Dec. 31, 2019	2019	2018
<b>Enterprise profile</b>			
PSA population	N.A.	586,000	586,000
PSA market share %	N.A.	44.0	35.0
Inpatient admissions	24,137	48,362	49,042
Equivalent inpatient admissions	71,666	142,683	124,789
Emergency visits	80,808	154,959	161,356
Inpatient surgeries	13,408	25,873	22,803
Outpatient surgeries	12,075	22,942	25,445
Medicare case mix index	1.9229	2.0600	2.0000
FTE employees	16,272	15,859	14,184
Active physicians	1,846	1,846	1,734
Top 10 physicians admissions %	N/A	N/A	N/A
Based on net/gross revenues	Net	Net	Net
Medicare %	38.3	37.6	37.8
Medicaid %	13.1	13.0	13.7



**Table 1**

<b>University of Wisconsin Hospitals &amp; Clinics Authority (cont.)</b>			
<b>Selected financial statistics</b>	<b>--Fiscal year ended June 30--</b>		
	<b>Six months interim ended Dec. 31, 2019</b>	<b>2019</b>	<b>2018</b>
Commercial/Blues %	41.8	41.9	43.6

N/A--Not applicable. N.A.--Not available. Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions.

## Financial Profile: Very Strong

### Financial performance

UW Health's financial performance has improved significantly over the last two years and through the six-month interim ended Dec. 31, 2019. The system successfully implemented an operational improvement plan, which began in fiscal 2018 and included improvements in clinical documentation and clinical performance by reviewing access, throughput, the admission and discharge process, and appropriate utilization of the staff. Management estimates that its operational improvement initiatives generated approximately \$120 million in improvements in fiscal 2019. UW Health is targeting another \$47 million in operating improvements for fiscal 2020, including ongoing focus on supply chain and pharmacy expenses.

In addition to management's disciplined execution of its operating improvement strategy, the system has also experienced healthy demand, supported in part by its JOA strategy and solid regional referral network. Through the first six months of fiscal 2020, UW Health is ahead of its targeted 3.6% operating margin. We believe the system is on track to meet or exceed this target at year-end.

### Liquidity and capital plans

UW Health's balance sheet remains quite solid, with healthy unrestricted reserves that have grown as the system's cash flows have improved over the last two years. Capital spending at the system has been consistently above depreciation levels, and we note the average age of plant is quite low. The system is currently developing plans to construct a large multispecialty ambulatory facility in east Madison. The planned facility would be approximately 350,000 square feet, and would include clinic space, diagnostic and treatment facilities, and support services, along with patient parking. The facility is designed to decant outpatient and ambulatory business from the flagship campus in downtown Madison, to improve patient access and experience. The budget and final plans for this facility are still under development, but we understand it could be partly funded with debt. We believe this project and possible debt issuance is sustainable at the current rating level, although the ultimate determination would be made at the time of issuance.

### Debt and contingent liabilities

UW Health is party to three floating- to fixed-rate swaps that have a total notional amount outstanding of \$44.4 million, with JPMorgan and the Goldman Sachs Group Inc. as the counterparties. Mark-to-market value was negative \$4.9 million as of Dec. 31, 2019, and no collateral postings were required.

SAH's series 2010 bonds (approximately \$17.5 million outstanding) are bank-qualified debt. The debt has a six-year put

option, which was last updated in September 2016, and a 20-year amortization as well as covenants consistent with the master trust indenture. Given that the put date (2022) is more than five years away, we do not consider this series contingent debt. We note that UWHC and UWMF guarantee this series of debt.

UW Health participates in the Wisconsin Retirement System (WRS), the state's cost-sharing, multiple-employer retirement system. WRS reported what we consider a strong 96.5% funded ratio as of June 30, 2019. The state continues to pay its full annual required contribution to the WRS. The system is funded through employer and employee contributions that are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution (ADC), and employers are required to contribute the remainder of ADC. The employer may not pay the employee required contribution unless an existing collective bargaining agreement provides for this.

This report does not constitute a rating action.

**Table 2**

<b>University of Wisconsin Hospitals &amp; Clinics Authority</b>						
Selected financial statistics	Six months interim ended Dec. 31, 2019	--Fiscal year ended June 30--		Medians		
		2019	2018	Health care system AA- 2018	Health care system A+ 2018	
<b>Financial profile</b>						
<b>Financial performance</b>						
Net patient revenue (\$000s)	1,762,796	3,319,038	3,132,546	2,875,242	1,763,656	
Total operating revenue (\$000s)	1,837,326	3,409,608	3,213,871	MNR	MNR	
Total operating expenses (\$000s)	1,735,838	3,257,516	3,090,751	MNR	MNR	
Operating income (\$000s)	101,488	152,092	123,120	MNR	MNR	
Operating margin (%)	5.52	4.46	3.83	3.40	1.60	
Net nonoperating income (\$000s)	22,498	42,434	85,863	MNR	MNR	
Excess income (\$000s)	123,986	194,526	208,983	MNR	MNR	
Excess margin (%)	6.67	5.64	6.33	4.90	3.30	
Operating EBIDA margin (%)	9.40	8.73	8.22	9.50	7.40	
EBIDA margin (%)	10.50	9.85	10.61	10.40	10.10	
Net available for debt service (\$000s)	195,233	339,932	350,135	340,456	201,349	
Maximum annual debt service (\$000s)	45,296	45,296	45,296	MNR	MNR	
Maximum annual debt service coverage (x)	8.62	7.50	7.73	4.80	4.40	
Operating lease-adjusted coverage (x)	4.47	4.08	4.09	3.30	3.20	
<b>Liquidity and financial flexibility</b>						
Unrestricted reserves (\$000s)	1,928,812	1,811,878	1,670,560	2,037,800	941,089	
Unrestricted days' cash on hand	209.8	210.9	205.2	234.50	186.00	
Unrestricted reserves/total long-term debt (%)	266.3	249.0	295.9	194.70	161.80	

**Table 2**

University of Wisconsin Hospitals & Clinics Authority (cont.)						
Selected financial statistics	Six months interim ended Dec. 31, 2019	--Fiscal year ended June 30--			Medians	
		2019	2018	Health care system AA- 2018	Health care system A+ 2018	
Unrestricted reserves/contingent liabilities (%)	841.4	790.4	710.2	576.00	578.40	
Average age of plant (years)	8.7	8.4	7.9	10.20	10.90	
Capital expenditures/depreciation and amortization (%)	101.6	134.1	96.6	135.30	120.30	
<b>Debt and liabilities</b>						
Total long-term debt (\$000s)	724,240	727,708	564,612	MNR	MNR	
Long-term debt/capitalization (%)	22.7	24.1	20.6	28.50	31.90	
Contingent liabilities (\$000s)	229,250	229,250	235,225	MNR	MNR	
Contingent liabilities/total long-term debt (%)	31.7	31.5	41.7	39.30	30.40	
Debt burden (%)	1.22	1.31	1.37	2.10	2.20	
Defined benefit plan funded status (%)	N/A	N/A	N/A	88.60	84.90	

N/A--Not applicable. MNR--Median not reported.

### Credit Snapshot

- Security: Revenue of the obligated groups of UW Health secures the UW Health bonds, and revenue of the obligated group of SAH secures the SAH bonds.
- Organizational description: UWHCA operates University Hospital, which consists of a 505-bed regional referral center that is also a Level 1 adult and pediatric trauma center that provides quaternary care, an 87-bed pediatric facility on the UW-Madison campus, and a 56-bed community-based health and wellness facility on the east side of Madison known as the America Center. It has an affiliation agreement with University of Wisconsin School of Medicine and Public Health and thus serves as its primary teaching hospital. UWHCA develops its strategies along with other components of UW Health.
- Group rating methodology: UW Health's obligated group is viewed as core to the credit. We also note that we view SAH as highly strategic to UW Health, and thus we rate it one notch below the core group. We expect that UW Health will add SAH to the system obligated group when doing so is opportune.

### Ratings Detail (As Of March 4, 2020)

University of Wisconsin Hosp & Clinics Auth hosp rev & rfdg bnds		
Long Term Rating	AA-/Stable	Current
University of Wisconsin Hosp & Clinics Auth var rate dem rev rfdg bnds		
Long Term Rating	AA-/A-1/Stable	Current
University of Wisconsin Hosp & Clinics Auth var rate dem rev rfdg bnds		
Long Term Rating	AA-/A-1/Stable	Current

**Ratings Detail (As Of March 4, 2020) (cont.)**

**Illinois Finance Authority, Illinois**

SwedishAmerican Hosp, Illinois

Illinois Fin Auth (SwedishAmerican Hosp) rev bnds, Series 2012

*Long Term Rating*

A+/Stable

Current

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