



UWHCA Finance Committee

June 24, 2021, 9:00 - 11:00 AM

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Meeting number: inc JiF nJFW // Password: cCnWni

Telephone: 1-415-655-0003 US TOLL // Access code: inc JiF nJFW

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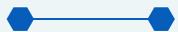
UWHCA Finance Committee - June 24, 2021 - Public Meeting Notice

Agenda

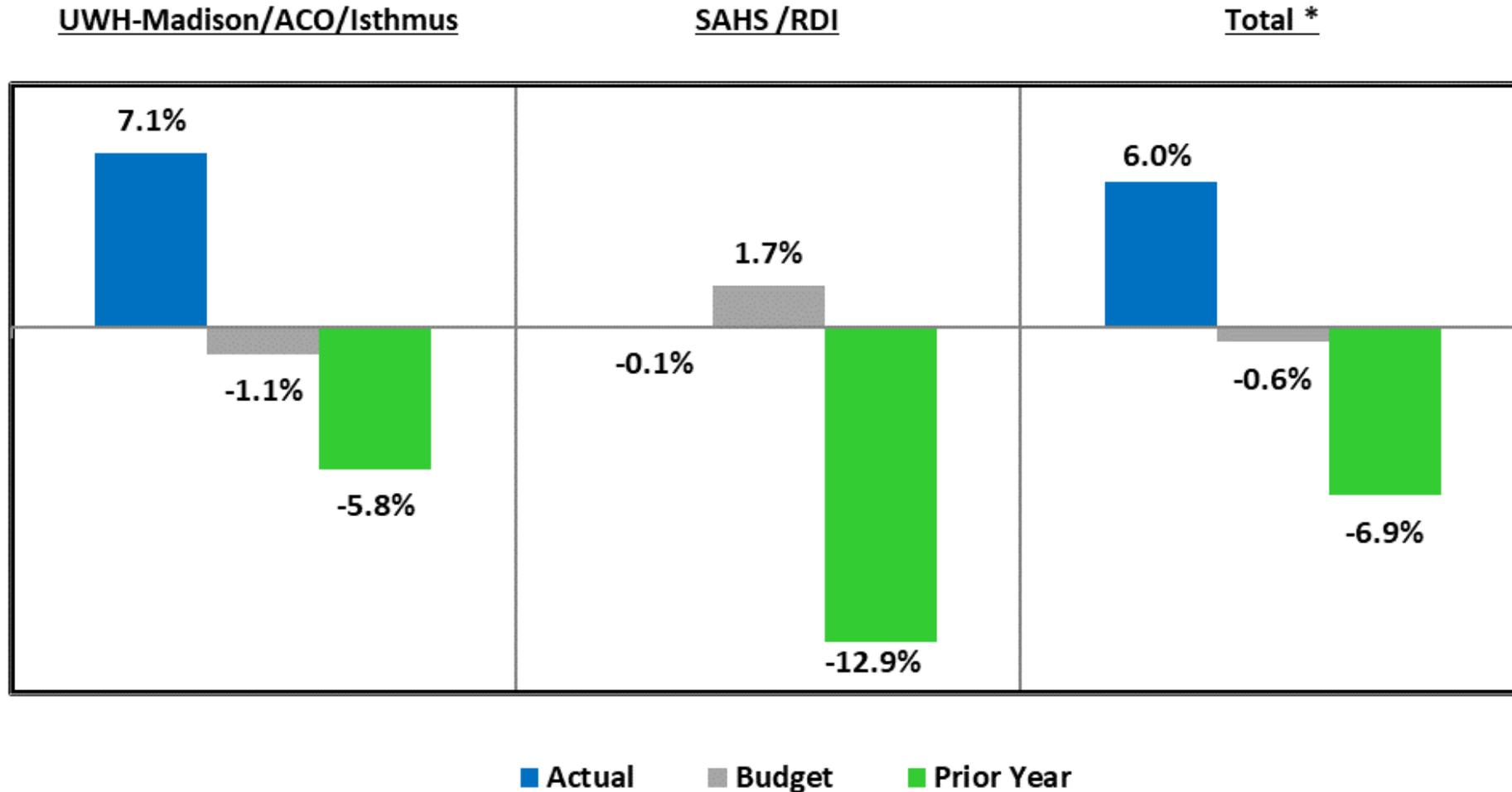
| | | |
|----------|--|-------------------|
| 9:00 AM | <hr/> I. Call to Order Mr. Kenneth Mount | |
| 9:00 AM | <hr/> II. Meeting Minutes - Open Session Mr. Kenneth Mount | Approval |
| 9:02 AM | <hr/> III. UW Health Financial Report Mr. Robert Flannery, Ms. Jodi Vitello, Ms. Patti DeWane | Report/Discussion |
| | Presentation - UW Health Consolidated Financials - YTD May 31, 2021 | 3 |
| | Attachment - S&P Global Ratings for University of Wisconsin Hospitals & Clinics Authority (June 2021) | 11 |
| 9:12 AM | <hr/> IV. Closed Session 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, review and discuss FY22 UW Health Enterprise Capital and Operating Budget, UW Health Financing Recommendation; and pursuant to Wisconsin Statutes section 19.85(1)(g) to confer with legal counsel regarding these and other matters. | |
| 10:55 AM | <hr/> V. Return To Open Session | |
| 10:56 AM | <hr/> VI. ACTION: FY22 UW Health Enterprise Capital and Operating Budget and the Joint Operating Agreement Entities Capital and Operating Budget Mr. Kenneth Mount (Motion to endorse approval of the FY22 Capital and Operating Budgets to the UWHCA Board of Directors as discussed in Closed Session) | Endorsement |
| 10:58 AM | <hr/> VII. ACTION: UW Health Financing Recommendation Mr. Kenneth Mount (Motion to endorse Intent to Finance to the UWHCA Board of Directors as discussed in Closed Session) | Endorsement |
| 11:00 AM | <hr/> VIII. Adjourn | |



UW Health Consolidated Financials May 31, 2021



UW Health Current Month Operating Margin – May 31, 2021



Summary of Enterprise-wide May 31, 2021 Operating Results

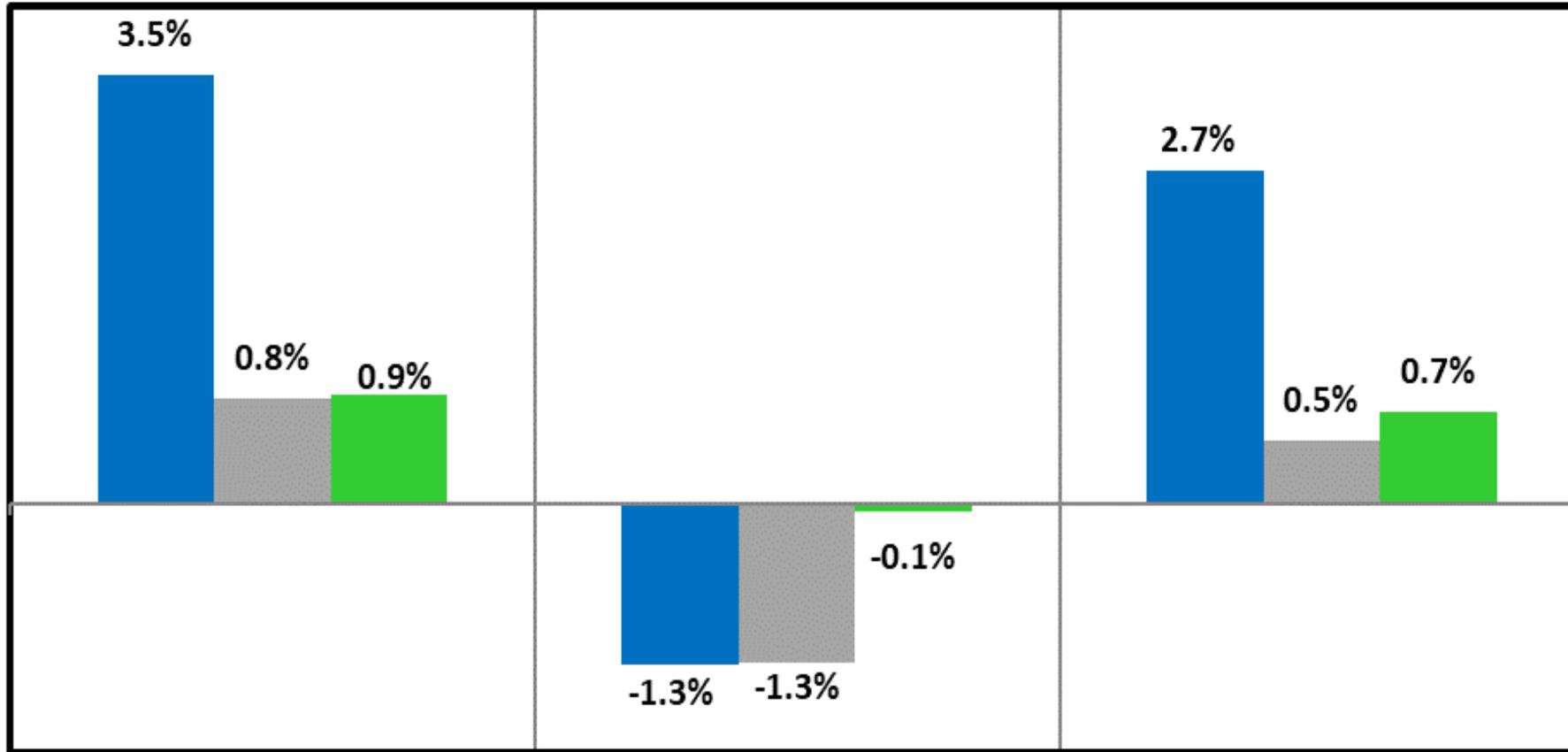
| | Actual May- FY21 | Budget May- FY21 | Variance vs. Budget | Var. % vs. Budget | Actual May- FY20 | Variance vs. PY | Var. % vs. PY |
|--|---------------------|---------------------|------------------------|----------------------|---------------------|---------------------|------------------|
| <u>TOTAL OPERATING REVENUE</u> | | | | | | | |
| Net patient service revenue | 321,915,021 | 300,125,271 | 21,789,750 | 7% | 234,025,458 | 87,889,563 | 38% |
| Other operating revenues | 4,789,249 | 6,531,195 | (1,741,946) | -27% | 6,112,269 | (1,323,020) | -22% |
| Total operating revenues, net | 326,704,270 | 306,656,466 | 20,047,804 | 7% | 240,137,727 | 86,566,543 | 36% |
| <u>TOTAL OPERATING EXPENSES</u> | | | | | | | |
| Salaries and benefits | 171,414,453 | 173,645,141 | (2,230,688) | -1% | 140,201,357 | 31,213,096 | 22% |
| Non-cash pension and other OPEB expenses | 0 | 0 | - | 0% | 0 | - | 0% |
| Other expenses | 2,685,904 | 3,421,586 | (735,682) | -22% | 1,587,512 | 1,098,392 | 69% |
| Purchased services and agency costs | 18,739,171 | 21,460,643 | (2,721,472) | -13% | 19,053,711 | (314,540) | -2% |
| Medical materials and supplies | 23,073,041 | 21,687,763 | 1,385,278 | 6% | 16,149,600 | 6,923,441 | 43% |
| Pharmaceuticals | 52,075,348 | 47,184,725 | 4,890,623 | 10% | 42,856,985 | 9,218,363 | 22% |
| Interest expense | 2,124,202 | 2,087,370 | 36,832 | 2% | 1,888,908 | 235,294 | 12% |
| Depreciation and amortization | 10,099,934 | 9,938,130 | 161,804 | 2% | 9,450,785 | 649,149 | 7% |
| Public aid assessment | 5,100,346 | 5,160,502 | (60,156) | -1% | 4,799,627 | 300,719 | 6% |
| Facilities and equipment | 15,614,186 | 17,980,538 | (2,366,352) | -13% | 14,411,996 | 1,202,190 | 8% |
| Nonoperating expenses - academic support | 6,224,047 | 5,873,249 | 350,798 | 6% | 6,259,229 | (35,182) | -1% |
| Net Operating Expenses | 307,150,632 | 308,439,647 | (1,289,015) | 0% | 256,659,710 | 50,490,922 | 20% |
| Income from operations | 19,553,638 | (1,783,181) | 21,336,819 | -1197% | (16,521,983) | 36,075,621 | -218% |
| <u>NON-OPERATING REVENUE/EXPENSES</u> | | | | | | | |
| Net increase/decrease in fair value of investments | 21,119,038 | 310,693 | 20,808,345 | 6697% | 37,365,611 | (16,246,573) | -43% |
| Investment income | 481,841 | 2,286,058 | (1,804,217) | -79% | 2,016,096 | (1,534,255) | -76% |
| Equity interest in income/loss of joint ventures | 745,513 | 1,490,518 | (745,005) | -50% | (2,078,639) | 2,824,152 | -136% |
| Net inc/dec in fair value of derivative instrument | (25,913) | 0 | (25,913) | 0% | 31,348 | (57,261) | -183% |
| Other, net | 587,595 | 415,645 | 171,950 | 41% | (152,456) | 740,051 | -485% |
| Net Non Operating Revenue/Expenses | 22,908,074 | 4,502,914 | 18,405,160 | 409% | 37,181,960 | (14,273,886) | -38% |
| Net Profit | 42,461,712 | 2,719,733 | 39,741,979 | 1461% | 20,659,977 | 21,801,735 | 106% |

UW Health YTD Operating Margin – May 31, 2021

UWH-Madison/ACO/Isthmus

SAHS /RDI

Total *



■ Actual ■ Budget ■ Prior Year

Summary of Enterprise-wide YTD May 31, 2021 Operating Results

 Favorable Variance
 Unfavorable Variance

| | Actual | | Budget | | Variance | | Var. % | |
|--|----------------------|----------------------|--------------------|-------------|----------------------|--------------------|-------------|--|
| | May_YTD- FY21 | May_YTD- FY21 | vs. Budget | vs. Budget | vs. PY | vs. PY | | |
| TOTAL OPERATING REVENUE | | | | | | | | |
| Net patient service revenue | 3,370,488,661 | 3,292,929,164 | 77,559,497 | 2% | 3,018,078,633 | 352,410,028 | 12% | |
| Other operating revenues | 83,047,079 | 87,903,583 | (4,856,504) | -6% | 125,775,937 | (42,728,858) | -34% | |
| Total operating revenues, net | 3,453,535,740 | 3,380,832,747 | 72,702,993 | 2% | 3,143,854,570 | 309,681,170 | 10% | |
| TOTAL OPERATING EXPENSES | | | | | | | | |
| Non-physician salaries and benefits | 1,367,439,940 | 1,374,976,918 | (7,536,978) | -1% | 1,262,406,054 | 105,033,886 | 8% | |
| Physician salaries and benefits | 499,969,118 | 498,617,440 | 1,351,678 | 0% | 459,663,155 | 40,305,963 | 9% | |
| Salaries and benefits | 1,867,409,058 | 1,873,594,358 | (6,185,300) | 0% | 1,722,069,209 | 145,339,849 | 8% | |
| Non-cash pension and other OPEB expenses | - | - | - | 0% | - | - | 0% | |
| Other expenses | 24,778,547 | 35,219,237 | (10,440,690) | -30% | 54,510,374 | (29,731,827) | -55% | |
| Purchased services and agency costs | 224,729,370 | 245,331,023 | (20,601,653) | -8% | 219,976,114 | 4,753,256 | 2% | |
| Medical materials and supplies | 249,595,800 | 249,036,819 | 558,981 | 0% | 211,024,071 | 38,571,729 | 18% | |
| Pharmaceuticals | 571,528,269 | 514,181,991 | 57,346,278 | 11% | 484,592,174 | 86,936,095 | 18% | |
| Interest expense | 20,804,039 | 23,134,027 | (2,329,988) | -10% | 23,176,567 | (2,372,528) | -10% | |
| Depreciation and amortization | 103,245,170 | 105,485,780 | (2,240,610) | -2% | 106,703,948 | (3,458,778) | -3% | |
| Public aid assessment | 55,744,055 | 56,765,522 | (1,021,467) | -2% | 52,795,897 | 2,948,158 | 6% | |
| Facilities and equipment | 177,542,450 | 197,405,774 | (19,863,324) | -10% | 179,038,070 | (1,495,620) | -1% | |
| Provision For Bad Debt | 0 | - | 0 | 0% | - | 0 | 0% | |
| Nonoperating expenses - academic support | 65,741,626 | 63,638,168 | 2,103,458 | 3% | 66,712,794 | (971,168) | -1% | |
| Net Operating Expenses | 3,361,118,384 | 3,363,792,699 | (2,674,315) | 0% | 3,120,599,218 | 240,519,166 | 8% | |
| Income from operations | 92,417,356 | 17,040,048 | 75,377,308 | 442% | 23,255,352 | 69,162,004 | 297% | |
| NON-OPERATING REVENUE/EXPENSES | | | | | | | | |
| Net increase/decrease in fair value of investments | 247,079,204 | 3,417,623 | 243,661,581 | 7130% | (35,338,460) | 282,417,664 | -799% | |
| Investment income | 49,134,121 | 28,746,637 | 20,387,484 | 71% | 49,448,296 | (314,175) | -1% | |
| Equity interest in income/loss of joint ventures | 12,712,068 | 14,820,038 | (2,107,970) | -14% | 21,378,446 | (8,666,378) | -41% | |
| Net inc/dec in fair value of derivative instrument | 1,512,930 | - | 1,512,930 | 100% | (1,456,715) | 2,969,645 | -204% | |
| Other, net | 22,955,013 | (2,174,421) | 25,129,434 | -1156% | 8,293,668 | 14,661,345 | 177% | |
| Net Non Operating Revenue/Expenses | 333,393,336 | 44,809,877 | 288,583,459 | 644% | 42,325,235 | 291,068,101 | 688% | |
| Net Profit | 425,810,692 | 61,849,925 | 363,960,767 | 588% | 65,580,587 | 360,230,105 | 549% | |

Enterprise-wide May 31, 2021 YTD Performance Ratios

| | Favorable Direction | FY 21 | Healthcare System Industry Comparisons | |
|---|------------------------|------------------|---|----------------------------|
| | | | S&P "AA-" Rated (1) | Moody's "Aa3" Rated (2) |
| Operating Margin* | ↑ | 2.7% | 3.0% | 3.6% |
| Total Margin | ↑ | 11.2% | 5.5% | 6.6% |
| Days Cash on Hand* | ↑ | 295 [^] | 259 | 264 |
| Days in Accounts Receivable ** | ↓ | 48 | 46 | 47 |
| Long Term Debt to Capitalization | ↓ | 19.1% | 27.4% | 24.9% |
| Operating Cash Flow | ↑ | 6.3% | 7.2% | 9.4% |
| Cash-to-Debt | ↑ | 386.2% | 224.7% | 237.3% |

* excludes provision for bad debt and retiree health insurance, includes academic support

** average for 12 months

(1) S&P's 2019 financial ratios based on 36 obligators rated "AA-" by S&P. Based on 2018 audited financials.

(2) Moody's 2019 financial ratios based on 32 "Aa3" rated hospitals. Based on 2018 audited financials.

[^] The significant increase to DCOH is related to the advanced received from Medicare, which is over 25 days and some rebounds in the investment portfolio

Balance Sheet – May 31, 2021

| | UWHCA | UWMF | ACO/Isthmus | Total UWHCA and UWMF | Discrete Components | UW Health Consolidated |
|--|-------------------------|-------------------------|---------------------|-------------------------|-------------------------|---------------------------|
| Cash & Investments | | | | | | |
| Unrestricted | 1,652,039,420 | 588,571,349 | 4,337,660 | 2,244,948,429 | 553,579,129 | 2,798,527,558 |
| Restricted by Trustee & Donors | 21,444,131 | - | - | 21,444,131 | 23,705,838 | 45,149,969 |
| Accounts Receivable | 330,951,328 | 104,221,835 | - | 435,173,163 | 80,402,983 | 515,576,146 |
| Property, Plant & Equipment, Net | 766,904,407 | 64,210,388 | 8,517 | 831,123,312 | 422,111,367 | 1,240,538,087 |
| Other Assets & Deferred Outflows of Resources | 1,727,252,602 | 650,463,567 | 376,018 | 951,146,193 | 71,241,534 | 772,411,374 |
| Total Assets & Deferred Outflows of Resources | \$ 4,498,591,888 | \$ 1,407,467,139 | \$ 4,722,195 | \$ 4,483,835,228 | \$ 1,151,040,851 | \$ 5,372,203,133 |
| Current Liabilities | 1,078,247,119 | 1,009,717,848 | 1,327,236 | 665,741,169 | 238,725,866 | 659,003,092 |
| Long-term Debt & Deferred Inflows of Resources | 1,260,414,553 | 40,520,000 | - | 1,300,934,553 | 296,874,657 | 1,597,809,210 |
| Net Position | | | | | | |
| Unrestricted | 2,118,224,709 | 357,229,291 | 3,394,959 | 2,475,454,000 | 605,646,907 | 3,063,891,903 |
| Restricted | 41,705,507 | - | - | 41,705,507 | 9,793,421 | 51,498,928 |
| Total Liabilities, Deferred Inflows of Resources & Net Position | \$ 4,498,591,888 | \$ 1,407,467,139 | \$ 4,722,195 | \$ 4,483,835,228 | \$ 1,151,040,851 | \$ 5,372,203,133 |

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

Key Takeaways

-We performed very strong to budget in the month of May. We had a positive variance by more than \$21.3M. Also, strong compared to prior year, which was a loss of \$16.5M.

-In May, we continued to see strong volumes, including ED visits which again exceeded budget, which contributed to the positive variance.

-In addition to the strong volumes, we also saw expenses come in slightly underbudget, which contributed to the strong performance.

-On the non-operating side, saw the investment portfolio's unrecognized gains grow \$21.1M for the month.

The logo for UW Health, featuring the letters 'UW' in red and 'Health' in blue, set against a background of a light gray hexagonal grid pattern.

UW Health

Attachment

**University of Wisconsin
Hospitals & Clinics Authority**

**S&P Global Ratings
June 2021**

University of Wisconsin Hospitals & Clinics Authority; Joint Criteria; System

Primary Credit Analyst:

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Table Of Contents

Rationale

Stable Outlook

Credit Opinion

Enterprise Profile: Very Strong

Financial Profile: Very Strong

Credit Snapshot

Related Research

University of Wisconsin Hospitals & Clinics Authority; 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' rating on UWHCA's series 2009B bonds is 'AAA/A-1+'. 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 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.

Strong operations at Quartz Health have also helped offset operating challenges associated with the COVID-19 pandemic, which have pressured UW Health's financial results in fiscal 2020 and through the first nine months of fiscal 2021 (ended March 31, 2021). The system's operating margins through these periods have thinned, although maximum annual debt service (MADS) coverage remains healthy, supported by solid nonoperating cash flow, largely as a result of good investment returns. UW Health's operating margins have also been bolstered by grant support from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. We understand that UW Health's volumes have largely

rebounded following COVID-19-related pressures, and we expect gradual operational improvement over the outlook period. UW Health's balance sheet has also offered cushion through this period of operating stress, and the system's unrestricted reserves have improved with growth in its investment portfolio and a reduction in capital spending over the last nine months.

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
- Solid management team that continues to execute on growth and access strategies even as the system navigates through the COVID-19 pandemic.

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
- Somewhat weaker operating performance in fiscal 2020 and through the nine-month interim period, reflecting pressures associated with the COVID-19 pandemic.

The stable outlook reflects our view that UW Health will maintain or improve its financial performance over the next two years as it recovers from the COVID-19 pandemic. The outlook further reflects our view that UW Health will maintain or improve its market position, and that the system's balance sheet offers sufficient financial flexibility to execute on its capital strategy.

Environmental, social, and governance (ESG) factors

We also analyzed UW Health's ESG risks relative to its economic fundamentals, market position, and management and governance, and the corresponding effects on its financial profile, and determined that all are in line with the industry as a whole. However, COVID-19 has exposed UW Health to additional social risk, similar to other health systems, resulting in some financial pressure stemming from increased costs and governmental directives aimed at protecting the health and safety of the population.

Stable Outlook

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.

Upside scenario

We could consider a positive outlook or higher rating over time if UW Health is able to generate operating margins and MADS coverage in line with a higher rating, supporting gradual 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.

Credit Opinion

Enterprise Profile: Very Strong

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. The flagship academic medical center is consistently ranked among the country's best hospitals, and has been Magnet-designated since 2009. The system also 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 the two organizations to look at eliminating services in the market that had been duplicated for a number of years. We view this JOA positively, as it has enabled 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, and Advocate-Aurora Health, which acquired a minority stake in the tax-exempt portion of the plan in 2020. Quartz has a revenue base of \$1.8 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 more than 368,000 members. Quartz has been profitable in each of the last three years, and has strong quality rankings, including a five-star rating for its Medicare Advantage plan.

Table 1

| University of Wisconsin Hospitals & Clinics Authority, Wisconsin Enterprise Statistics | | | |
|---|---------------------------------------|--------------------------------------|-------------|
| | --Nine months ended March 31-- | --Fiscal year ended June 30-- | |
| | 2021 | 2020 | 2019 |
| PSA population | N.A. | 654,230 | 586,000 |
| PSA market share (%) | N.A. | 44.0 | 44.0 |
| Inpatient admissions | 34,549 | 45,158 | 48,362 |
| Equivalent inpatient admissions | 87,546 | 111,620 | 121,331 |
| Emergency visits | 104,152 | 149,330 | 154,959 |
| Inpatient surgeries | 19,491 | 25,179 | 25,873 |
| Outpatient surgeries | 19,112 | 21,459 | 22,942 |
| Medicare case mix index | 2.0500 | 2.0537 | 1.9229 |
| FTE employees | 16,877 | 16,281 | 16,272 |
| Active physicians | N.A. | 1,878 | 1,846 |
| Based on net/gross revenues | Gross | Gross | Gross |
| Medicare (%) | 37.7 | 37.7 | 37.6 |
| Medicaid (%) | 16.3 | 13.1 | 13.0 |
| Commercial/Blues (%) | 41.7 | 40.4 | 41.9 |

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

Financial Profile: Very Strong

Financial performance

While UW Health's operations were strong through the first eight months of fiscal 2020, the system incurred a material decline in revenues beginning in March 2020 with the state-mandated cessation in elective procedures. At the same time, UW Health incurred some expense growth as it stockpiled supplies and prepared for a possible surge in COVID-19 patients. Still, the system generated a positive operating margin in fiscal 2020, supported in part by \$68.5 million in realized CARES Act grants. We note that UW Health was proactive in controlling expenses through this period, including pay reductions for senior leadership, flexing staffing where possible, and reviewing all open positions.

Through the first nine months of fiscal 2021, UW Health's operating margin is somewhat weaker, although still adequate for the rating. Management continues to control expenses, and we understand that volumes have largely rebounded. We expect operating improvement at fiscal year-end, with further growth in fiscal 2022. UW Health's nonoperating income has also been excellent over the last two years, and has helped support robust MADS coverage even through this period of somewhat strained operations.

Liquidity and capital plans

UW Health's balance sheet remains quite solid, with healthy unrestricted reserves that have grown over the last three years, supported by good cash flows and strong investment portfolio performance. Capital spending slowed with the onset of COVID-19, as management worked to preserve capital. We note 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.

Our calculation of UW Health's unrestricted reserves excludes approximately \$213 million in Medicare advanced payments. UW Health also had access to three lines of credit totaling \$350 million, although we understand it did not draw on these lines over the last year. We view UW Health's access to liquidity positively, as it offers the system additional financial flexibility in the event of prolonged operating challenges.

Debt and contingent liabilities

UW Health is party to three floating- to fixed-rate swaps that have a total notional amount outstanding of \$38.2 million, with JPMorgan and the Goldman Sachs Group Inc. as the counterparties. Mark-to-market value was negative \$6.1 million as of June 30, 2020, and no collateral postings were required.

UW Health participates in the Wisconsin Retirement System (WRS), the state's cost-sharing, multiple-employer retirement system. WRS reported what we consider a very strong 103% funded ratio as of June 30, 2020. 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

| University of Wisconsin Hospitals & Clinics Authority, Wisconsin Financial Statistics | | | | |
|---|-----------------------------------|-------------------------------|-----------|---|
| | --Nine months ended March 31-- | --Fiscal year ended June 30-- | | Medians for 'AA-' rated health care system |
| | 2021 | 2020 | 2019 | 2019 |
| Financial performance | | | | |
| Net patient revenue (\$000s) | 2,726,525 | 3,297,586 | 3,305,412 | 3,213,282 |
| Total operating revenue (\$000s) | 2,799,014 | 3,455,436 | 3,405,131 | 3,320,191 |
| Total operating expenses (\$000s) | 2,736,754 | 3,348,440 | 3,255,013 | MNR |
| Operating income (\$000s) | 62,260 | 106,996 | 150,118 | MNR |
| Operating margin (%) | 2.22 | 3.10 | 4.41 | 3.00 |
| Net nonoperating income (\$000s) | 51,737 | 74,025 | 48,694 | MNR |
| Excess income (\$000s) | 113,997 | 181,021 | 198,812 | MNR |
| Excess margin (%) | 4.00 | 5.13 | 5.76 | 5.50 |
| Operating EBIDA margin (%) | 5.83 | 7.27 | 8.68 | 9.20 |
| EBIDA margin (%) | 7.54 | 9.21 | 9.97 | 10.90 |

Table 2

| University of Wisconsin Hospitals & Clinics Authority, Wisconsin Financial Statistics (cont.) | | | | |
|---|-----------------------------------|-------------------------------|-----------|---|
| | --Nine months ended March 31-- | --Fiscal year ended June 30-- | | Medians for 'AA-' rated health care system |
| | 2021 | 2020 | 2019 | 2019 |
| Net available for debt service (\$000s) | 215,011 | 325,065 | 344,218 | 404,081 |
| Maximum annual debt service (\$000s) | 45,296 | 45,296 | 45,296 | MNR |
| Maximum annual debt service coverage (x) | 6.33 | 7.18 | 7.60 | 5.00 |
| Operating lease-adjusted coverage (x) | 3.46 | 3.80 | 4.03 | 3.80 |
| Liquidity and financial flexibility | | | | |
| Unrestricted reserves (\$000s) | 2,452,206 | 1,994,406 | 1,811,878 | 2,257,133 |
| Unrestricted days' cash on hand | 253.0 | 225.4 | 211.1 | 258.80 |
| Unrestricted reserves/total long-term debt (%) | 336.2 | 279.0 | 249.0 | 224.70 |
| Unrestricted reserves/contingent liabilities (%) | 1,083.1 | 880.9 | 790.4 | 642.40 |
| Average age of plant (years) | 11.0 | 9.6 | 8.4 | 10.40 |
| Capital expenditures/depreciation and amortization (%) | 80.8 | 110.9 | 134.1 | 132.60 |
| Debt and liabilities | | | | |
| Total long-term debt (\$000s) | 729,418 | 714,920 | 727,708 | MNR |
| Long-term debt/capitalization (%) | 19.8 | 21.3 | 24.1 | 27.40 |
| Contingent liabilities (\$000s) | 226,405 | 226,405 | 229,250 | MNR |
| Contingent liabilities/total long-term debt (%) | 31.0 | 31.7 | 31.5 | 31.50 |
| Debt burden (%) | 1.19 | 1.28 | 1.31 | 2.20 |
| Defined-benefit plan funded status (%) | N/A | N/A | N/A | 83.80 |
| Miscellaneous | | | | |
| Medicare advance payments (\$000s)* | 213,046 | 213,046 | N/A | MNR |
| Short-term borrowings (\$000s)* | N/A | N/A | N/A | MNR |
| CARES Act grants recognized (\$000s) | 10,400 | 68,529 | N/A | MNR |

*Excluded from unrestricted reserves, long-term debt, and contingent liabilities. N/A--Not applicable. MNR--Median not reported. Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions.

Credit Snapshot

- Security: Revenue of the obligated group of UW Health secures the bonds.
- Organizational description: UWHCA operates acute care facilities in Madison, Wisconsin and northern Illinois. In Wisconsin, this includes 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. In Illinois, this includes SwedishAmerican Hospital-Rockford, a 339 bed community based hospital and SwedishAmerican-Belvidere, a 34-bed community based hospital. 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: Core.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

| Ratings Detail (As Of June 15, 2021) | | |
|--|----------------|---------|
| University of Wisconsin Hosp & Clinics Auth hosp rev & rfdg bnds | | |
| <i>Long Term Rating</i> | AA-/Stable | Current |
| University of Wisconsin Hosp & Clinics Auth var rate dem rev rfdg bnds | | |
| <i>Long Term Rating</i> | AA-/A-1/Stable | Current |
| University of Wisconsin Hosp & Clinics Auth var rate dem rev rfdg bnds | | |
| <i>Long Term Rating</i> | AA-/A-1/Stable | Current |

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