

Vermont Educational And Health Buildings Financing Agency University Of Vermont Medical Center

May 12, 2025

This report does not constitute a rating action.

Credit Highlights

- S&P Global Ratings' long-term rating and underlying rating (SPUR) on the Vermont Educational & Health Building Financing Agency's bonds, issued for University of Vermont Medical Center (UVMHC; formerly Fletcher Allen Health Care), is 'A'.
- In addition, S&P Global Ratings' joint rating on UVMHC's 2008A bonds is 'AA+/A-1'.
- The outlook is stable.
- The long-term component of the rating jointly reflects the rating on TD Bank N.A. and the SPUR on UVMHC, assuming low correlation. The short-term component of the rating solely reflects our short-term rating on TD Bank N.A.

Rationale

Security

Securing the bonds is a gross receipts pledge of the obligated group and a mortgage on the medical center campus in Burlington, Vt.

Credit overview

UVMHC is the flagship enterprise of the University of Vermont Health Network (UVMHN). The ratings reflect UVMHN's pre-eminent business position in Vermont as the only academic medical center in the state, and its increased exposure to risk-bearing reimbursement.

UVMHN's financial performance has been weaker over the last few years due to elevated labor costs and some underlying weakness at Champlain Valley Physicians' Hospital (CVPH) and Central Vermont Medical Center. However, we expect continued improvement over the outlook period, as the team has focused on cost containment and efficiencies. Management projects the operating margin will be positive for fiscal 2025 at 1.3%; the team notes that performance

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was weaker than expected for the interim period ended Dec. 31, 2024, with a slight loss. Management expects to receive additional graduate medical education funding in the later part of 2025 that should also boost operations, and the team notes that the second-quarter results are positive.

However, there is less cushion at the current rating based on operating weakness over the last few years, and we will assess the impact of any new-money debt that is issued during the outlook period, as operational improvement will be important to maintaining the current rating. We expect management will continue to focus on capital projects over the outlook period as operations continue to improve.

The ratings also incorporate a positive holistic adjustment reflecting enterprise strength, including leading market share, and management's focus on financial improvement, which we believe will translate into improved and sustained financial metrics over the outlook period.

Specific credit strengths include UVMHN's:

- Commanding market share for tertiary care across its expansive service area, which includes most of Vermont and six counties in upstate New York;
- Standing as a low-cost provider in Vermont and the state's only academic medical center and safety net hospital for tertiary and quaternary services; and
- Historically healthy cash flow and moderate debt burden, resulting in sound maximum annual debt service (MADS) coverage despite recent weakness.

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

- Transition risks, as the organization pivots its reimbursement toward more risk-bearing contracts;
- Recent operational weakness due to industry challenges, notably significantly higher labor costs because of temporary staffing at the system, as well as challenges at CVPH, and significant capital plans through fiscal 2026; and
- Complement of direct-purchase bank debt, which constitutes 57% of the overall debt profile, although all obligated group bank debt is on par with the master trust indenture (MTI), with limited acceleration risk.

Environmental, social, and governance

We view UVMHN's social risks as neutral within our credit rating analysis, although we believe UVMHN, like other providers, has faced additional human capital risks tied to higher wage and salary pressures that will likely continue over the coming year.

In addition, UVMHN has a large percentage of unionized employees, at 55%, which could result in prolonged negotiations. However, this has not been a significant issue to date.

We also view UVMHN's environmental and governance factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that UVMHN will maintain its enterprise strengths and continue on its trajectory of positive operations over the outlook period. Our outlook also incorporates our expectation that management will continue to focus on system integration and

look to slightly rebuild unrestricted reserves over the outlook period. Management's forecasts call for positive operations in fiscal 2025 and continued improvement over the next few years.

Downside scenario

We could revise the outlook to negative or lower the rating if UVMHN fails to largely meet its budget for fiscal 2025 or fails to show continued positive operations, or if it has no incremental improvement in unrestricted reserves. We note that continued positive operating performance will be an important factor in maintaining the stable outlook, given the expectation for potential moderate new-money debt issue in 2025 or early 2026.

Upside scenario

We consider a positive outlook or higher rating unlikely in the two-year outlook period, given the limited trend of positive operating performance over the last few years and our expectations of higher capital spending over the outlook period.

Credit Opinion

Enterprise Profile--Very Strong

UVMMC, Vermont's largest hospital, is an integrated 620-licensed-bed (including 58 bassinets) teaching hospital and multispecialty faculty-practice organization affiliated with the University of Vermont's Larner College of Medicine.

Market position

UVMHN divides its market share into distinct geographic areas: its immediate primary location in Burlington (94% market share), a broader service area in Vermont (47% market share), and business drawn from its New York providers. Management believes its system affiliations with its six Vermont and New York hospitals allow for broader outreach to new patients, improved market share, and reduced outmigration of services.

Vermont hospitals

UVMMC provides a broad range of health services, including high-acuity tertiary and some quaternary services, to the largely rural population of Vermont. In addition, the center has a strong presence in neighboring counties in upper New York state. Vermont also has 13 acute-care hospitals. Eight of these are federally designated critical-access hospitals (with a very small number of beds), and the remaining 5 range from 61 to 188 licensed beds. As a result, UVMMC is the market leader in the area and has only modest competition.

Central Vermont Medical Center (CVMC): Located in central Vermont, CVMC operates 236 beds and offers 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 multiple medical group practices.

Porter Medical Center (PMC): PMC operates Porter Hospital, a critical-access hospital, and Helen Porter Rehabilitation & Nursing Home, a 150-bed skilled nursing facility in Middlebury, Vt., on a campus adjoining Middlebury College.

New York hospitals: CVPH operates 341 beds and is located in Plattsburgh, N.Y., offering a full spectrum of comprehensive inpatient and outpatient care services along with 24-hour emergency care. Elizabethtown Community Hospital (ECH), in Elizabethtown, N.Y., operates a small critical-access hospital with 25 inpatient beds. In 2018, it acquired the existing hospital facilities of Moses Ludington Hospital in Ticonderoga, N.Y., which is now a state-of-the-art 24-hour emergency department and outpatient center owned and operated by ECH. Alice Hyde Medical Center is transitioning to a critical access hospital (currently a 76-bed inpatient hospital) and operates a 135-bed skilled nursing facility in Malone, N.Y.

University of Vermont (UVM) and UVMHN Medical Group: UVMMC has an affiliation agreement with UVM that took effect with the center's formation in 1995 and was most recently renewed in September 2022 for 10 years, through September 2032. 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 UVMHN Medical Group, a UVMHN subsidiary, as the clinical practice group for physician faculty of UVM's Larner College of Medicine, and UVMMC agrees to meet its physician-employee staffing needs primarily through physicians employed by UVMHN Medical Group.

Management and strategy

UVMHN's executive leadership team has been stable; however, it has a relatively new CEO following the retirement of the previous one.

UVMHN's board and management have been progressive in moving the organization toward value-based reimbursement for several years by investing in capabilities and infrastructure to manage risk-bearing payment methodologies.

Management has invested in population health through meaningfully sized accountable care organizations (ACOs), including OneCare Vermont, the Adirondacks ACO, and the ACO of the North Country.

OneCare Vermont, a jointly shared partnership launched by UVMMC and Dartmouth Hitchcock Medical Center in New Hampshire, spans the state and includes both academic medical centers and 10 of the 14 Vermont hospitals, as well as many qualified health centers, physician practices, and the entire non-acute continuum of health care. Beginning in mid-2021, UVMHN became the sole owner of OneCare.

The ACO's goal is to provide greater access to care and share the responsibility of managing the health needs of a defined population of Vermont residents enrolled in Medicare, Medicaid, and commercial payers. The ACO represents a material portion of revenues, about 10% of UVM Health Network's revenues in 2024.

University of Vermont Health Network, Vermont--enterprise statistics

	--Three months ended Dec. 31--	--Fiscal year ended Sep. 30--		
	2024	2024	2023	2022
PSA population	1,000,000	1,000,000	1,000,000	1,000,000
PSA market share (%)	38.5	38.5	38.8	36.4
Inpatient admissions	9,722	39,328	38,671	38,306
Equivalent inpatient admissions	34,683	138,086	134,461	123,869

University of Vermont Health Network, Vermont--enterprise statistics

	--Three months ended Dec. 31--	--Fiscal year ended Sep. 30--		
	2024	2024	2023	2022
Emergency visits	45,178	181,611	175,727	163,805
Inpatient surgeries	1,877	7,939	8,008	7,478
Outpatient surgeries	6,845	27,230	26,896	24,973
FTE employees	13,996	13,656	13,260	12,925
Active physicians	2,262	2,262	2,582	2,438
Based on net/gross revenues	Net	Net	Net	Net
Medicare (%)	33.2	33.1	33.6	33.7
Medicaid (%)	8.8	12.1	12.0	12.9
Commercial/Blues (%)	51.7	49.1	49.2	49.3

Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions. PSA--Primary service area. FTE--Full-time equivalent. N.A.--Not available.

Financial Profile--Adequate

Financial performance improving, with lower reliance on agency staff and positive projections for fiscal 2025 and beyond

UVMHN had historically reported strong operating margins of 3% to 5%; however, results have declined in recent years due to industry pressures, a 2021 cyber attack, and weakness at some affiliates. Management expects significant improvement for the remainder of fiscal 2025, with a projected operating margin of 1.3%, which we believe is achievable based on current projections.

For the three months ended Dec. 31, 2024, the system reported an operating margin of negative 0.22%, relative to 0.16% in fiscal 2023 and a 3.67% negative margin in fiscal 2022.

We note that the team has continued to reduce reliance on agency staff and has benefited from cost containment and productivity.

MADS coverage improved in fiscal 2024 to 3.35x relative to 1.78x in fiscal 2023.

Management prepares a multiyear financial forecast, which includes assumptions that we consider in line with industry conditions. It also sets margin targets for each of the organization's entities as well as entity-specific operational improvement targets.

Liquidity and financial flexibility

We expect balance-sheet measures will remain stable and management will focus on maintaining and improving unrestricted reserves over the outlook period.

Days' cash on hand stood at 132.4 for the interim period ended Dec. 31, 2024, and we note that although contingent liabilities are high at 68.4%, they are more than offset by unrestricted reserves.

The system's overall asset allocation is conservative, with 34.7% in cash and equivalents, 30.1% in fixed income, 15.6% in domestic equities, 16.6% in internal equities, and 3.1% in real estate.

Vermont Educational And Health Buildings Financing Agency University Of Vermont Medical Center

Overall capital expenditures are expected to increase over the next few years, with \$160 million in 2025 and \$231 million in 2026.

In addition, UVMHN had \$100 million in lines of credit for working capital, with \$51.5 million drawn as of Dec. 31, 2024.

Debt and contingent liabilities

At Dec. 31, 2024, total debt was \$635.2 million, with about 57% of UVMHN's debt profile allocated to directly placed bank obligations. Although we consider this somewhat high, the network's ample and liquid unrestricted reserves mitigate the inherent risks. Moreover, the bank debtholders are somewhat diverse. We expect the system could issue some new-money debt over the next few years, but we do not expect it to exceed \$150 million.

UVMHN's direct-purchase loan agreements follow the covenants included in its MTI, with a debt service coverage (DSC) covenant of 1.35x that then requires a consultant review. Some of the bank agreements include a DSC requirement of 1.1x or 1.25x and allow for a 30-day remedy period before assessing an event of default. We believe there is more than sufficient coverage on the contingent debt.

UVMHN has one remaining pension plan at CVPH, having terminated the UVMHC plan in 2021 and the CVMC and PMC plans in March 2024. The CVPH defined-benefit plan had a funded ratio of 93.8% as of fiscal 2024, with a \$16.6 million unfunded liability. UVMHN is working to terminate that remaining plan.

UVMHN is party to five SOFR swaps with total notional amounts outstanding of about \$82.7 million. The agreements are with Citibank N.A., M&T Bank (formerly People's United Bank), and KeyBank as the counterparties. We believe the swap agreements have very low termination risk, and none of the swaps require collateral posting.

University of Vermont Health Network, Vermont--financial statistics

	--Three months ended Dec. 31--	--Fiscal year ended Sep. 30--			Medians for 'A' rated health care systems
	2024	2024	2023	2022	2023
Financial performance					
Net patient revenue (\$000s)	664,232	2,644,001	2,380,531	2,099,049	3,101,674
Total operating revenue (\$000s)	868,393	3,439,133	3,080,733	2,769,482	3,424,212
Total operating expenses (\$000s)	870,313	3,346,702	3,085,784	2,871,154	3,504,106
Operating income (\$000s)	(1,920)	92,431	(5,051)	(101,672)	-21,148
Operating margin (%)	(0.22)	2.69	(0.16)	(3.67)	-1.00
Net nonoperating income (\$000s)	9,104	23,250	4,483	57,153	50,658
Excess income (\$000s)	7,184	115,681	(568)	(44,519)	14,015
Excess margin (%)	0.82	3.34	(0.02)	(1.57)	0.50
Operating EBIDA margin (%)	3.28	6.36	4.02	0.70	4.00
EBIDA margin (%)	4.28	6.99	4.16	2.71	5.80
Net available for debt service (\$000s)	37,547	241,940	128,226	76,516	205,558
Maximum annual debt service (\$000s)	72,198	72,198	72,198	72,198	74,446
Maximum annual debt service coverage (x)	2.08	3.35	1.78	1.06	2.30

University of Vermont Health Network, Vermont--financial statistics

	--Three months ended Dec. 31--	--Fiscal year ended Sep. 30--			Medians for 'A' rated health care systems
	2024	2024	2023	2022	2023
Financial performance					
Operating lease-adjusted coverage (x)	1.77	2.89	1.63	1.05	2.00
Liquidity and financial flexibility					
Unrestricted reserves (\$000s)	1,228,163	1,303,511	1,015,443	880,113	1,503,006
Unrestricted days' cash on hand	132.4	146.4	124.2	116.0	136.6
Unrestricted reserves/total long-term debt (%)	193.3	199.6	140.4	137.3	131.4
Unrestricted reserves/contingent liabilities (%)	282.8	300.2	242.2	250.5	523.3
Average age of plant (years)	14.0	13.7	12.3	11.5	12.2
Capital expenditures/depreciation and amortization (%)	169.8	76.8	67.1	70.7	119.1
Debt and liabilities					
Total long-term debt (\$000s)	635,229	652,995	723,004	641,166	1,145,483
Long-term debt/capitalization (%)	29.0	29.5	36.1	34.9	37.7
Contingent liabilities (\$000s)	434,212	434,212	419,234	351,332	292,325
Contingent liabilities/total long-term debt (%)	68.4	66.5	58.0	54.8	25.3
Debt burden (%)	2.06	2.09	2.34	2.55	2.00
Defined-benefit plan funded status (%)	N.A.	93.78	91.33	93.88	90.80
Miscellaneous					
Medicare advance payments (\$000s)*	50	50	565	29,891	MNR
Short-term borrowings (\$000s)*	51,500	34,300	34,300	12,800	MNR
COVID-19 stimulus recognized (\$000s)	N/A	15,231	13,239	54,779	MNR
Risk based capital ratio (%)	N/A	N/A	N/A	N/A	MNR
Total net special funding (\$000s)	N/A	58,365	72,435	52,500	MNR

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

Credit Snapshot

- Group rating methodology: Core. The rating reflects 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'. The obligated group on the debt includes UVMHN, the sole corporate member of UVMHC, and all affiliated hospitals. CVPH and ECH became part of the obligated group at the end of 2017. Alice Hyde, PMC, and UVMHN Home Health and Hospice joined the obligated group on Oct. 1, 2023.
- Organization description: UVMHN includes UVMHC, CVMC, PMC, and three New York hospitals: CVPH, ECH, and Alice Hyde. Effective Jan. 1, 2018, UVMHN became the sole corporate member of the Visiting Nurse Association of Chittenden and the Grand Isle Counties Inc., a \$35 million home and community care organization.

Ratings List

Current Ratings

Healthcare

Ratings List

University of Vermont Medical Center, VT Stand-Alone Hospital Revenues A/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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