

**Tarrant County Cultural Educational
Facilities Finance Corp., Texas
Texas Health Resources; System**

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Tarrant County Cultural Educational Facilities Finance Corp., Texas

Texas Health Resources; System

Credit Profile

US\$67.0 mil sys rev bnds (Texas Hlth Resources) ser 2017B due 11/15/2047		
<i>Long Term Rating</i>	AA/A-1+/Stable	New
US\$67.0 mil sys rev bnds (Texas Hlth Resources) ser 2017A due 11/15/2047		
<i>Long Term Rating</i>	AA/A-1+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA/A-1+' long-term rating to Tarrant County Cultural Educational Facilities Finance Corp., Texas' \$134 million series 2017A and 2017B revenue bonds, issued for Texas Health Resources (Texas Health). In addition, S&P Global Ratings affirmed its 'AA' and 'AA/A-1+' dual ratings, respectively, on various series of bonds, all issued for Texas Health. The outlook on all the ratings is stable.

The 'AA' long-term component of the dual ratings is based on our rating on Texas Health's debt. The 'A-1+' short-term component of the dual rating is based on Texas Health's self-liquidity. The figures and ratios in this report apply to Texas Health in its entirety, unless otherwise noted.

In the event of a failed remarketing for its \$149.180 million series 2008A, 2008B, and 2008C, \$50.0 million series 2012B, and \$133.5 million series 2017A and 2017B system revenue bonds, Texas Health has identified more than \$1 billion in unrestricted cash/cash equivalents and fixed-income securities to guarantee its unconditional tender offer to purchase the \$332.655 million of the bonds outstanding. Texas Health has established clear and detailed procedures to ensure the maintenance of sufficient asset coverage and to meet liquidity demands fully and in a timely manner. The identified assets represent balances held in short-term investment funds that provide daily liquidity as well as U.S. Treasury and U.S. Agency securities and other fixed-income assets that provide next-day liquidity.

Texas Health saw a continued favorable operating trend for fiscal 2016, but is experiencing some softness in the operations for the first half of fiscal 2017 ended June 30. The leadership team continues to implement plans that will target \$500 million in savings over a five-year period (fiscal years 2015 to 2019). In conjunction with the solid operations, Texas Health has sustained its balance sheet such that pro forma measures remain in line with the current metrics and thus further support the rating.

The 'AA' rating continues to reflect our view of Texas Health's:

- Strong pro forma maximum annual debt service coverage;
- Excellent operational liquidity of over 400 days' cash on hand on a pro forma basis;
- Leading market share in the rapidly growing Dallas-Fort Worth (DFW) metropolitan area marketplace at over 25%;
- and

- Highly capable management team, which is continuing to change the organization's structure, composition and operations to compete in an industry moving toward value based payments.

Partly offsetting the above strengths, in our view, are Texas Health's current operations in the first half of fiscal 2017. If this level of operational performance is sustained over a longer period, this could have an impact on the outlook or rating.

The 'AA' ratings are based on our view of Texas Health's group credit profile (GCP) and the obligated group's core status. Accordingly, we rate the bonds at the same level as the GCP.

Bond proceeds of approximately \$134 million will be used to current refund Texas Health's outstanding 2007B bonds, and also to provide about \$30 million of new money to help fund the joint venture hospital that is being constructed in Frisco, Texas.

After this transaction, Texas Health's total long-term debt will be approximately \$1.72 billion, secured by revenue of the obligated group, which consists of Texas Health and seven tax-exempt hospitals that represent the majority of Texas Health's patient service revenue and assets. Texas Health also has various bank loans and other debt and guarantees, which we have fully factored into the rating.

Outlook

The stable outlook reflects our anticipation that Texas Health will be able to address the operational challenge that it has experienced in the first half of fiscal 2017 and return to more historical levels in the coming years. We also anticipate that Texas Health will remain focused on building its unrestricted reserves, and neither the rating nor the outlook incorporates significant additional debt, although there is an expectation of continued capital and strategic spending, which could limit additional balance sheet accretion.

Upside scenario

We do not anticipate raising the rating within the two-year outlook period. Over the longer term, should operations return to historical levels and cash flow continue to support additional growth in size/scale and also in unrestricted liquidity, we could positively revise the outlook or rating.

Downside scenario

We could revise the outlook to negative if Texas Health were to sustain decline in operations such that MADS coverage fell below 3.5x, or if it were to experience significant balance-sheet erosion.

Enterprise Profile

Economic fundamentals

Texas Health has a prominent position in the growing and generally economically favorable Dallas-Fort Worth Metroplex. The primary service area includes all of Dallas, Collin, Tarrant, and Denton counties, as well as the additional 12 surrounding counties, which together have a population of about 7.4 million. We anticipate that the area's very rapid population growth will continue, yet strong competition remains in the form of Baylor Scott & White

Health, Methodist Hospitals of Dallas, and the for-profit HCA system, each having multiple hospitals in the DFW area.

Market position/strategy

Texas Health is a regional health care system with 13 wholly owned acute-care hospitals, one long-term care hospital, and six consolidated joint-venture (JV) hospitals in and around the Dallas-Fort Worth area operating 3,369 beds. The two largest hospitals are Texas Health Presbyterian Hospital Dallas and Texas Health Harris Methodist Hospital Fort Worth, which together represent about 34% of net patient service revenue.

The majority of Texas Health's discharges are from Dallas, Tarrant, Collin, and Denton counties, which anticipate continued population growth during the next five years. Texas Health has the leading share of the inpatient market (estimated at 26% and at 29% when combined with UT Southwestern). Baylor Scott & White Health and HCA are close behind in terms of market share, based on Texas Health's market definition. Texas Health's broad geographic reach supports its strong market share across the major four counties of the Dallas-Fort Worth area, and Texas Health facilities blanket the larger overall 16-county service area.

The rapid demographic growth in the market has historically necessitated capital expansion in the form of inpatient beds, additional access points, primary-care physicians, outpatient and sub-acute service lines. Texas Health will continue to invest in its existing facilities and anticipates a few moderately sized projects over the near term, along with strategic acquisitions and affiliations. One of the new projects is the facility in Frisco, Texas, a joint venture with UT Southwestern with Texas Health being the majority holder. We believe that Texas Health has the financial flexibility at the existing rating level to absorb some additional debt or accommodate some additional spending, due to its robust cash flow and highly disciplined capital approval and spending process.

Strategic partnerships

Texas Health has created a jointly owned health plan company with Aetna. The partnership between Texas Health and Aetna shares ownership and accountability equally, and began offering fully insured and self-insured commercial products in the 14-county DFW service area in 2017.

In addition to the Aetna partnership, Texas Health and UT Southwestern Medical Center have created an integrated regional health network named Southwestern Health Resources (SWHR). The two systems are combining their strengths to increase access to primary and specialty care and improve the quality of care. The SWHR integration will allow physicians and hospitals to better share data and coordinate care. In addition, this could have the added benefit of increased access to clinical trials and medical specialists, as well as opportunities to expand medical education and research initiatives.

In May 2016, Texas Health partnered with Adeptus Health to form a joint venture that includes 30 plus freestanding First Choice Emergency Rooms in North Texas, adding additional access points to the larger Texas Health system, providing convenient access for consumers.

Management and governance

We continue to view Texas Health's management team as very solid, stable, and innovative. Texas Health has grown consistently over the past several years and has managed to maintain consistently strong operations and boost balance-sheet strength.

There has been significant growth in physician practice acquisitions, and Texas Health's successful work with regard to its physician integration, alignment, and employment efforts.

More recent strategic affiliations such as Texas Health's integrated network with UT Southwestern and its joint venture affiliation with Aetna are positioning the organization for an environment that will begin to demand more at-risk population management.

Table 1

Texas Health Resources Utilization			
	--Six-month interim ended June 30--	--Fiscal year ended Dec. 31--	
	2017	2016	2015
PSA population	7,447,708	N/A	N/A
PSA market share %	29.4	N/A	N/A
Inpatient admissions*	81,891	164,928	161,850
Equivalent inpatient admissions	145,151	290,549	282,913
Emergency visits	361,571	721,446	715,764
Inpatient surgeries	20,647	41,296	40,275
Outpatient surgeries	30,206	61,519	59,573
Medicare case mix index	1.653	1.646	1.623
FTE employees	23,265	22,700	22,296
Active physicians	6,104	6,032	5,606
Medicare %¶	27.2	26.8	27.6
Medicaid %¶	4.9	5.6	5.4
Commercial/Blues %¶	66.0	65.1	65.3

*Excludes newborns, psychiatric, and rehabilitation admissions. ¶Based on net revenue. FTE--Full-time equivalent. N/A--Not applicable.
PSA--Primary service area.

Financial Profile

Operational performance

Texas Health's revenue growth continues to reflect the strong demographic trends in the DFW metropolitan area, as well as management's successful implementation of strategic plans to both capitalize on that growth, but also to position the organization for the eventual shift toward value based payments. Texas Health has posted very solid operating surpluses and cash flow over the past several years.

For the first six months of fiscal 2017 ended June 30, Texas Health experienced some softness in its operations. The leadership team reports that a rise in bad debt (as relates to patients with high-deductible health plans not covering their out-of-pocket expense), labor and supply costs and startup costs for the affiliation with UTSW has offset the strong revenue growth. Texas Health saw its labor expense increase by 5% over the prior-year period as a result of more use of contract labor and overtime cost. The leadership team has implemented plans to help address the rise in the labor cost. An increase of almost 9% for supply cost as Texas Health sees more surgical procedures that require implants and an increase in interest expense related to the debt issuance in fiscal 2016 are also affecting operations in fiscal 2017.

To help offset the rising expense base, Texas Health began cost-containment initiatives that target \$500 million of savings for the system. The initiatives began in fiscal 2015 and target an average of \$100 million in savings for the final two years after targeting \$115 million in fiscal 2017; Texas Health is on pace to meet both targets.

Balance sheet and liquidity

Unrestricted reserves for Texas Health continued to see growth in the first half of fiscal 2017, up approximately \$280 million and remaining a strength for the credit. With the new issuance, pro forma leverage remains consistent with the current measure while unrestricted reserves to long term debt dips only slightly to 2.77x on a pro forma basis.

S&P Global Ratings anticipates that Texas Health will continue to engage in capital spending and strategic ventures over the near term, as the DFW service area is a rapidly growing market; however, we believe that Texas Health will continue to balance capital spending with its unrestricted reserves and its cash flow with the same discipline as it has in the past.

Debt and contingent liabilities

Texas Health has joint venture bank loans of \$151.0 million at various consolidated joint ventures that are not secured under the MTI. Covenants for the joint venture bank loans vary from maintenance of fixed charge coverage of at least 1.05x to 1.20x, at least 50 to 60 days' cash on hand, debt to capitalization not to exceed 85%, and/or debt to earnings before interest, taxes, depreciation and amortization not to exceed 1.5x to 2.5x. There are no rating covenants.

Generally an event of default could occur at the joint venture should it not address or remedy any of the covenants stipulated after 30 days. In the event of default, banks have the right to accelerate the bonds, at which time the joint venture would be responsible to repay some or all of the loans from the bank immediately, or else remarket them. Due to Texas Health's distance from any financial triggers, combined with its growing unrestricted reserves, we view the risk of acceleration as minimal. Finally it should be noted that if any of the joint venture loans were to default there is no provision in the Master Trust Indenture that calls for cross default.

A Texas Health joint venture has entered into one swap with Bank of America, with a total notional amount outstanding of \$17.8 million, as of June 30, 2017. There are no collateral posting requirements for this swap.

Table 2

Texas Health Resources Financial Summary				
	--Six-month interim ended June 30--	--Fiscal year ended Dec. 31--		'AA' rated health care medians
	2017	2016	2015	2016
Financial performance				
Net patient revenue (\$000s)	2,153,193	4,300,547	4,033,160	2,648,196
Total operating revenue (\$000s)	2,236,213	4,461,038	4,193,251	MNR
Total operating expenses (\$000s)	2,172,250	4,266,223	3,989,486	MNR
Operating income (\$000s)	63,963	194,815	203,765	MNR
Operating margin (%)	2.86	4.37	4.86	4.80
Net nonoperating income (\$000s)	137,898	158,553	198,762	MNR
Excess income (\$000s)	201,861	353,368	402,527	MNR
Excess margin (%)	8.50	7.65	9.16	6.60

Table 2

Texas Health Resources Financial Summary (cont.)				
Operating EBIDA margin (%)	9.99	11.29	11.99	11.00
EBIDA margin (%)	15.22	14.33	15.97	12.70
Net available for debt service (\$000s)	361,371	662,004	701,414	477,823
Maximum annual debt service (MADS; \$000s)	133,136	133,136	133,136	MNR
MADS coverage (x)	5.43	4.97	5.27	5.90
Operating-lease-adjusted coverage (x)	3.88	3.61	3.76	4.20
Liquidity and financial flexibility				
Unrestricted reserves (\$000s)	4,763,709	4,483,612	4,084,684	2,461,025
Unrestricted days' cash on hand	422.6	404.9	395.5	316.1
Unrestricted reserves/long-term debt (%)	278.4	260.7	262.8	246.2
Unrestricted reserves/contingent liabilities (%)	946.9	880.3	808.5	470.4
Average age of plant (years)	9.8	9.6	9.0	10.6
Capital expenditures/depreciation and amortization (%)	110.3	188.7	106.3	130.7
Debt and liabilities				
Long-term debt (\$000s)	1,710,878	1,719,571	1,554,411	MNR
Long-term debt/capitalization (%)	23.7	25.2	25.4	24.7
Contingent liabilities (\$000s)	503,083	509,325	505,215	MNR
Contingent liabilities/long-term debt (%)	29.4	29.6	32.5	55.7
Debt burden (%)	2.80	2.88	3.03	2.00
Defined benefit plan funded status (%)	N/A	N/A	N/A	71.6
Pro forma ratios				
Unrestricted reserves (\$000s)	4,763,709	N/A	N/A	MNR
Total long-term debt (\$000s)	1,716,196	N/A	N/A	MNR
Unrestricted days' cash on hand	422.58	N/A	N/A	MNR
Unrestricted cash/total long-term debt (%)	277.57	N/A	N/A	MNR
Long-term debt/capitalization (%)	23.71	N/A	N/A	MNR

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

Ratings Detail (As Of October 6, 2017)

Texas Hlth Resources (Texas Hlth Resources) SYSTEM

Long Term Rating

AA/Stable

Affirmed

Tarrant Cnty Cult Educ Facs Fin Corp, Texas

Texas Hlth Resources, Texas

Tarrant Cnty Cult Educ Fac Fin Corp (Texas Health Resources) (MBIA) (SEC MKT) (National)

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

Series 2007A, 2007B, Series 2010

Long Term Rating

AA/Stable

Affirmed

Series 2008A 2008B

Long Term Rating

AA/A-1+/Stable

Affirmed

Series 2012A

Ratings Detail (As Of October 6, 2017) (cont.)		
Long Term Rating	AA/Stable	Affirmed
Series 2012B		
Long Term Rating	AA/A-1+/Stable	Affirmed
Tarrant Cnty Cult Educ Facs Fin Corp (Texas Hlth Resources) sys rev hosp bnds, ser 2008C		
Long Term Rating	AA/A-1+/Stable	Affirmed
Tarrant Cnty Hlth Facs Dev Corp, Texas		
Texas Hlth Resources, Texas		
Tarrant Cnty Hlth Facs Dev Corp (Texas Hlth Resources) rev bnds (Texas Hlth Resources)		
Long Term Rating	AA/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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