S&P Global
Ratings

RatingsDirect®

California Health Facilities Financing Authority
Sharp Healthcare; Joint Criteria; System

Primary Credit Analyst:
Martin D Arrick, San Francisco (1) 415-371-5078; martin.arrick@spglobal.com

Secondary Contacts:
Chloe A Pickett, Centennial (1) 303-721-4122; Chloe.Pickett@spglobal.com
Santos Souffront, New York (1) 212-438-2197; santos.souffront@spglobal.com

Table Of Contents

California Health Facilities Financing Authority Sharp Healthcare; Joint Criteria; System

Credit Profile		
US$146.265 mil rev bnds (Sharp Healthcare) ser 2017A due 08/01/2047		
Long Term Rating	AA/Stable	New
US$74.54 mil rev bnds (Sharp Healthcare) (Variable Rate : Loc-backed) ser 2017B due 08/01/2052		
Unenhanced Rating	AA(SPUR)/Stable	New
US$74.535 mil rev bnds (Sharp Healthcare) (Variable Rate : Loc-backed) ser 2017C due 08/01/2052		
Unenhanced Rating	AA(SPUR)/Stable	New
Sharp Healthcare tax-exempt fxd rate rev bnds		
Long Term Rating	AA/Stable	Upgraded
ABAG Fin Auth For Nonprofit Corps, California		
Sharp Healthcare, California		
Series 2009A		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Long Term Rating	AA+/A-1	Affirmed
Series 2009B and 2003C		
Long Term Rating	AA/Stable	Upgraded
Series 2009C		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Long Term Rating	AA+/A-1	Affirmed
Series 2009D		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Long Term Rating	AA+/A-1	Affirmed
Series 2011A		
Long Term Rating	AA/Stable	Upgraded
Series 2012A		
Long Term Rating	AA/Stable	Upgraded
California Hlth Facs Fincg Auth, California		
Sharp Healthcare, California		
California Hlth Facs Fincg Auth (Sharp Healthcare) rev bnds (Sharp Healthcare) (Variable Rate : Loc-backed) ser 2017B due 08/01/2052		
Long Term Rating	AA+/A-1	Rating Assigned
Unenhanced Rating	AA(SPUR)/Stable	Rating Assigned
California Hlth Facs Fincg Auth (Sharp Healthcare) rev bnds (Sharp Healthcare) (Variable Rate : Loc-backed) ser 2017C due 08/01/2052		
Long Term Rating	AA+/A-1	Rating Assigned
Unenhanced Rating	AA(SPUR)/Stable	Rating Assigned
Series 1988A		

Credit Profile (cont.)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term ratings and underlying (SPUR) ratings on ABAG Finance Authority for Nonprofit Corps., Calif.'s $372.1 million series 2009B, 2011A, 2012A, and 2014A bonds; $129.3 million series 2009A, 2009C, and 2009D bonds, Sharp HealthCare (Sharp) to 'AA' from 'AA-'. At the same time, S&P Global Ratings raised its long-term rating on California Health Facilities Financing Authority's $1.9 million series 1988A revenue bonds, also issued for Sharp.

In addition, S&P Global ratings assigned its 'AA' long-term rating to California Public Finance Authority's $146.3 million series 2017A fixed rate revenue bonds issued for Sharp. We also assigned our 'AA+/A-1' dual rating to California Public Finance Authority's $74.5 million series 2017B variable rate revenue bonds, and $74.5 million series 2017C variable rate revenue bonds, both issued for Sharp. On a pro forma basis, Sharp has a total of $825 million of long-term debt outstanding. Under the plan of finance the series 2009B bonds will be refunded on Aug. 1, 2019. The outlook on all relevant series is stable.

We also affirmed our 'AA+/A-1' dual rating on ABAG Finance Authority for Nonprofit Corps.'s series 2009A bonds issued for Sharp. The 'AA+' long-term component of the dual rating is based on S&P Global Ratings' joint criteria and our view that there is a low correlation between the letter of credit (LOC) provided by Bank of America N.A. and the SPUR on Sharp. The long-term component of the rating reflects our view that debt service will likely be paid over the life of the issue. The 'A-1' short-term rating component reflects the short-term rating on the LOC enhancement provided by Bank of America, which expires on April 30, 2020.

We also affirmed our 'dual rating' to 'AA+/A-1' on the series 2009C and 2009D bonds issued by ABAG Finance Authority for Nonprofit Corps. on behalf of Sharp. The 'AA+' long-term component of the rating is based on our joint criteria and our view that there is a low correlation between the LOC provided by Citibank N.A. and the SPUR on Sharp. The 'AA+' long-term component of the dual rating reflects our view of the likelihood that debt service will be paid over the life of the issue. The 'A-1' short-term rating component reflects the short-term rating on the LOC enhancement provided by Citibank, which expires on Dec. 1, 2020.

The 'AA+' long-term component of the series 2017B and C bonds reflects our view of the joint support provided by Barclays Bank PLC, the LOC provider, in the form of an irrevocable direct-pay LOC for each series, respectively, and the SPUR on Sharp, the obligor, assuming a low correlation level between the LOC provider and obligor. The long-term component of our ratings addresses the likelihood that bondholders will receive interest and principal payments when due if they do not exercise the put option. The 'A-1' short-term component of the rating reflects only the short-term rating on Barclays Bank PLC, and addresses the likelihood that bondholders will receive interest and principal payments if they exercise the put option. Pursuant to the terms of the bond documents, the trustee is directed to first pay principal and interest, and the redemption price from amounts received from draws made on the LOC. If the LOC bank fails or refuses to honor a draw, the trustee is directed to make demand on Sharp for the payment of principal and interest. The bonds are subject to mandatory tender prior to expiration or earlier termination of the LOCs or interest rate conversions and at Sharp's discretion with prior consent of the LOC provider. The anticipated expiration date for each LOC is December 28, 2021, unless extended or terminated beforehand. In view of the transactions' structures, changes to our ratings on the daily or weekly rate bonds can result from, among other things, changes to our rating on the LOC provider or obligor, revisions to our correlation assumptions, the expiration or termination of the LOC, or amendments to the transactions' terms.

The upgrade and new ratings reflects our view of Sharp's favorable enterprise profile; integrated delivery model; leading and growing market share in San Diego County; ownership of a profitable, sizable, and well-positioned health plan, combined with maintenance of a very strong balance sheet; and excellent maximum annual debt service (MADS) coverage despite softer performance in fiscal 2017. We also believe Sharp's successful integrated delivery model and its demonstrated success in managing significant capitated business for both commercial and government insured populations position it well for managing health care reform and functioning in today's complex environment.

Recent performance, while still strong, is softer than in prior years due to rising labor costs for union and non-union employees that management believes was needed to allow Sharp to keep pace with wage growth in the San Diego County market. In addition, some of the decline in operating income is the highly variable timing surrounding the receipt and recognition of revenues from California's provider tax program. In addition, this bond issue is somewhat larger than recently expected as management is using the current window before potential tax law changes eliminate or curtail the use of tax-exempt debt for not-for-profit health care providers, perhaps as soon as Jan. 1, 2018. We believe the additional debt is manageable given the refunding which is keeping MADS under our prior expectations.

The rating and outlook are also based on our view of Sharp's:

- Solid business position as the leading provider in the competitive service area of San Diego County, with improving inpatient market share that reached 29% in 2016 from 26% in 2004, which is six percentage points higher than Scripps Health, the next largest system within the County, although we believe the environment remains competitive;
- Maintenance of sound operating margins that are consistent with the revised rating in fiscal 2017, although fiscal year to date excess income includes a very large realized gain stemming from a portfolio rebalance that we view as one-time in nature;
- Excellent coverage of MADS consistently above 9x (smoothing out a small 2019 bullet maturity), and lease-adjusted coverage is also sound at almost 7x;
- Continued strong growth in unrestricted cash and investments to $2.6 billion (293 days' cash on hand) as of Sept. 30, 2017, up from $1.1 billion (173 days' cash on hand) at fiscal 2012 year end, and 312% unrestricted reserves to pro forma long-term debt, combined with low pro forma debt to capitalization of 20% and a light debt burden of 1.3%; and
- Strong physician base through favorable relationships with three physician groups closely identified and connected with Sharp and the Sharp Health Plan.

Overall these strengths are tempered by Sharp's adjustment to lower operating cash flow and historically what we view as only an adequate payor mix with a high dependence on Medi-Cal revenues, combined with a growing dependence on the receipt of disproportionate share and provider tax revenues. While Sharp benefits from these revenue sources, its' overall financial profile is sound even without these revenues. The rating also anticipates higher capital spending over the next five years, which we believe is fully manageable given Sharp's strong reserve levels.

The rating also reflects our favorable view of Sharp's strong and stable management team and sound planning process including the recent retirement and replacement of its long-term chief financial officer with an internal promotion. An example of its strong planning process includes management's annual update to its comprehensive five-year financial plan covering operations, balance sheet, and capital. Management has also built an integrated delivery system that takes considerable capitation risk, including its owned health plan and has successfully managed numerous capital projects over the years, and has substantially met California's seismic requirements through 2030. Management's projections assume no additional debt beyond this issue to help fund its five-year projected capital expenditures of $1.1 billion with the balance coming from cash flow including $98 million from philanthropy.

Sharp bonds are secured by the obligated group's gross revenues. Sharp's obligated group consists of the parent corporation, including the Sharp Rees-Stealy (SRS) Medical Centers, the Sharp Memorial Hospital (including the Stephen Birch Healthcare Center and the Mary Birch Hospital for Women and Newborns), Grossmont Hospital Corp., and Sharp Chula Vista Medical Center. The obligated group constitutes 88% of system revenues for fiscal 2017, 92% of income from operations, 96% of total net assets, 95% of unrestricted cash and investments, and 100% of debt. Nonobligated entities include the Sharp Coronado Hospital and Healthcare Center, the Sharp Health Plan, the Sharp HealthCare Foundation, the Grossmont Hospital Foundation, and Continuous Quality Insurance SPC. Sharp is also closely affiliated with the Sharp Community Medical Group Inc. (SCMG), a multispecialty medical group operating as an independent practice association. Sharp is a party to four swaps with a notional amount of $303.5 million including a forward starting swap executed in 2016. The mark to market as of Sept. 30, 2017, was $2.4 million. Sharp's swaps do not have any collateral posting requirements. The 'AA' rating is based on our view of Sharp's group credit profile (i.e., the system as a whole) and the obligated group's core status to the system. Accordingly, we rate the bonds at the same level as the group credit profile. This analysis refers to the system as a whole unless otherwise noted.

Outlook

The stable outlook is based on our opinion of Sharp's strong and sustained enterprise profile, highlighted by leading market share, strength in its sizable capitated business, a strong financial profile including an excellent balance sheet. We also expect on-going stability in the overall operating profile going forward.

Upside scenario

Given this upgrade, a further upgrade is not expected within the two-year outlook window. However, sustained improvement to its overall financial profile and continued strengthening of overall market share could lead to a higher rating over time.

Downside scenario

A downgrade or negative outlook would be premised on operating margin compression such that coverage consistently dropped below relevant medians without one-time costs or revenues or if unrestricted reserves to debt declined to levels more consistent with 'AA-' medians. Industry wide pressures remain a broad risk to the rating and outlook.

Enterprise Profile

Sharp HealthCare is in San Diego County and is made up of four acute-care hospitals, three specialty hospitals, three affiliated medical groups, three skilled-nursing facilities, the Sharp Health Plan and other related programs and facilities. The flagship medical campus, Sharp Memorial, includes the Stephen Birch Healthcare Center, the Sharp Mary Birch Hospital for Women and Newborns (Mary Birch Hospital), and free-standing psychiatric and chemical dependency hospitals. Sharp Memorial is known for its oncology and cardiology programs, as well as its strong women's health care services. According to management, Mary Birch Hospital is the largest and most extensive free-standing center for women's health care in Southern California, including a 61-bed, level-three neonatal intensive-care unit.

All of the system's hospitals enjoy what we consider to be favorable market positions in their respective service areas, and Sharp Memorial and Sharp Grossmont Hospital have historically had two of the largest market shares of any single hospital site in San Diego County. Sharp, Scripps Health, and Kaiser Permanente dominate this service area. Scripps operates five hospitals, and Kaiser Permanente runs a fully integrated health plan and contracts out San Diego County hospital services that it cannot provide for in its owned county facilities. Although Sharp receives some volume from Kaiser, especially mental health business, it is not material overall. University of California at San Diego is an academic medical center with a moderate market share in the region. It opened up a new facility in a location near Scripps main campus about a year ago. To date management reports Sharp has not been affected by this development.

Sharp's inpatient admissions have remained broadly steady for many years with inpatient volume in fiscal 2017 at 74,587 (excluding psychiatric, rehabilitation and normal newborn volume) that were up slightly from 74,201 the prior year. Equivalent inpatient admissions were also flat at 137,369 in each of the last two years. Observation days were off slightly at 32,106 down from 33,127 in 2016. Overall surgeries were up slightly at 47,846, although the growth was in outpatient surgeries. Physician visits and outpatient visits were steady at just over 2.4 million visits. Births were also down slightly at 15,196 in 2017. Sharp's market share of inpatient discharges rose to 29.1% in 2016 (latest available) from 26.1% in 2004. The overall growth in market share of inpatient admissions has been steadily improving for many years. Scripps' share has leveled off at 23%. Palomar Pomerado Hospital District (11%), the Kaiser Foundation (8%), and UCSD (8%) make up an additional 27% of the San Diego market, with the balance spread among other providers, including Rady Children's Hospital, Prime Healthcare Services, and Tri-City Medical Center.

Sharp is an integrated health care system. Almost 40% of total revenues come from capitated contracts. Premium revenues totaled $1.4 billion in fiscal 2017, of which half came from Sharp's own HMO known as the Sharp Health Plan. It has just over 135,000 commercial enrollees, roughly 21% of which are Sharp's employees and their dependents. There are 1,200 Medicare enrollees as well.

For many years, Sharp has been an active participant in various accountable care organizations as part of its long history of participation in a wide variety of population health management programs. Sharp, in concert with two of its affiliated medical groups was approved to participate in Medicare's "Next Gen ACO" program. Currently Sharp has 32,000 aligned Medicare members in this program. Sharp also works with commercial ACOs and has 23,000 aligned members. Overall, Sharp manages risk for roughly 381,000 covered lives, which is over 10% of the entire population of

San Diego County. Sharp's hospitals, Sharp Rees-Steely Medical Group (SRSMG) and SharpCare Medical Group (SMG) remain self-insured for medical malpractice through its offshore insurance company, which has funded reserves at the 75% confidence level.

The health plan is the largest entity outside of the obligated group from a revenue perspective, with fiscal 2017 revenues of $686 million. In fiscal 2017, management reported modest operating income at the health plan of $7.6 million. In our opinion, the health plan is an important aspect of Sharp's overall strategic focus and is integrated into the overall system's operations, including the medical groups, as the market has a high managed-care penetration and is oriented toward capitation. Both the hospitals and medical groups negotiate jointly with the managed-care providers and have been successful in obtaining good increases in capitated rates.

Sharp's various medical groups have a large presence in the overall San Diego County market. We believe its various clinics help Sharp project itself throughout the service area, particularly in those areas where it does not have an inpatient presence. The oldest group–the Sharp Rees-Stealy Medical Group (SRSMG)–was founded almost 100 years ago and includes 206 primary care physicians and mid-levels providers and 434 specialists representing all specialties. Sharp Rees-Stealy (SRS) Medical Centers is operated as a division of the parent—Sharp HealthCare. SCMG Corp. manages the second medical group, the Sharp Community Medical Group (SCMG), which is multispecialty medical group formed in 1989 as an independent practice association made up of 204 primary care physicians and 672 specialists. Administrative services are provided to SCMG through a management service agreement between SCMG and Sharp HealthCare. The SharpCare Medical Group (SMG) was formed in 2016 as a foundation model alternative to attract additional primary care physicians. At this point SMG is in start-up mode with one site and four primary care physicians.

Grossmont Hospital

Grossmont Hospital, the system's second-largest hospital in terms of revenues and profitability, is currently leased from the Grossmont Healthcare District pursuant to a 30-year lease that runs through May 31, 2051. A lease extension was approved by 87% of the voters of the district in 2014. In 2007 and 2011, the Grossmont Healthcare District issued $85.5 million and $136.9 million, respectively, in general obligation (GO) bonds for the benefit of Grossmont Hospital as part of a voter-approved $247 million GO bond program. The repayment of these bonds is not the responsibility of Sharp or Grossmont Hospital. Sharp's management indicates that it will fund a substantial portion of Grossmont's capital needs through GO bond proceeds. The presence of this funding mechanism, at no cost to Sharp, has, in our opinion, helped keep Sharp's overall debt load low and is an important contributor to Sharp's overall sound financial profile. Grossmont is also an important aspect of Sharp's enterprise profile as the system's second largest facility. The funded capital is not reported within Sharp's capital expenditures and reported separately as a net asset transfer of funds to Sharp although expenditures are incorporated in net property, plant, and equipment. If these funds were included in Sharp's capital expenditures, overall capital expenditures would rise to 170% of depreciation and amortization in fiscal 2017, and 152% in fiscal 2016, respectively. Under certain circumstances, Grossmont could leave the obligated group; however, the Grossmont Healthcare District would be responsible for the liabilities of the revenue bonds associated with Grossmont Hospital. We believe this is highly unlikely in light of the recent and historical support for remaining within Sharp.

Management

Sharp has a very stable cohesive management team that has an extensive planning culture. The team produces detailed monthly reports, as well as a detailed five-year plan every year that serves as an excellent guide for future expectations. The most recent five-year plan for fiscal years 2018-2022 reflects management's current and detailed views of the effects of health care reform, including slimmer annual revenue increases, even though many of the assumptions about reform remain subject to more experience. Management has positioned Sharp well for reform through a low-cost platform, yet has successfully managed its capital cycle and facilities plan to meet all of California's seismic needs through 2030 over the near term. The current plan dated April 2017 projects capital spending of $1.2 billion over the five-year period beginning fiscal 2018 with a broad array of projects including a new tower at its Chula Vista campus. This level of spending is manageable given current levels of operating profitability and overall cash flow and management believes it can increase balance sheet strength despite a higher level of capital spending over this five-year plan versus $641 million over the prior five year period. In addition, management indicates overall spending could be curtailed if warranted. Lastly, Sharp's pension is well funded with its overall funded status at 95%.

Financial Profile

Sharp's operating and excess income for fiscal 2017 were $143.9 million (4.1% operating margin) and $385.6 million (10.4% excess margin), respectively. While excess income was up on the strength of realized gains, which were recognized on a portfolio re-balancing, operating income was down on timing delays in receipt of provider fee income combined with larger than expected labor cost increases, including a three year contract that was signed in fiscal 2017. Income and margins are calculated by S&P Global in accordance with our methodology that insures comparable treatment across many different organizations in the sector.

Historically provider fee income received has ranged from a high of $100 million in fiscal 2015 to $33 million in fiscal 2017. However, variability in the receipt of these funds, separate from the timing of when Sharp qualifies for the funding does create volatility in the overall results as reported. Disproportionate share funding has been steady at roughly $31 million to $36 million over the past four years. While Sharp benefits from special funding streams like disproportionate share funding and provider fee revenues, its overall operating and excess income are sound without these sources.

We consider Sharp's EBIDTA margin in fiscal 2017 and the average for the past four years as strong and consistent with the revised rating. Coverage of MADS on a pro forma basis remains excellent at 10.5x in fiscal 2017, but would still be above the relevant medians at almost 7x even if the one-time realized gains on the portfolio rebalance were eliminated from the calculation. The results from the past seven years are improved over Sharp's results demonstrated in 2010 and the prior few years. This improvement is reflected in Sharp's three prior upgrades since Dec. 20, 2010. Sharp had roughly $33 million of non-cancelable operating lease payments in 2017, weakening lease-adjusted MADS coverage, as calculated by S&P Global Ratings to 8.2x, which we consider very strong. Historically the net positive impact of the California provider tax combined with disproportionate share revenues are important contributions to cash flow and profitability. While disproportionate share revenue is expected to decline over time, perhaps significantly, the California provider tax has recently been approved permanently in the November 2016 election, lending some stability to these revenue sources overall. S&P Global Ratings excludes unrealized gains and losses on investments from the calculation of excess income and MADS coverage. S&P Global Ratings also uses MADS of $49.8 million. The MADS calculation incorporates the current refunding and smooths a small bullet maturity in 2019.

Sharp has raised unrestricted reserves to $2.6 billion as of Sept. 30, 2017, from just $712.4 million at fiscal 2010 year-end due to improved operations, fundraising, stable investment returns, the availability of GO bonds to support Grossmont's capital expansion, and the use of bond proceeds to fund certain long-lived assets. Unrestricted reserves have improved to an excellent 312% of pro forma long-term debt, which is consistent with a higher rating, and days' cash on hand is solid, although slightly below metrics for the revised rating at 293 days. The unrestricted reserves-to-debt strength versus slightly weaker days' cash metrics versus medians reflects the large portion of the net patient revenue base that Sharp derives from premium revenue and overall debt levels that are light. Sharp's pro forma debt at 20% of capitalization is favorable for the rating. In addition, we consider Sharp's debt burden low at 1.3% of expenditures for fiscal 2017.

We expect that balance-sheet metrics will remain sound as Sharp implements its five-year plan for fiscal years 2018-2022, which totals $1.2 billion. The amount of forecast capital spending remains manageable, in our view, as long as profitability remains at or near current levels. Non-operating income has been generally improving over the past few fiscal years, reflecting what we consider a conservative investment policy and allocation of 55% fixed-income investments and cash (including roughly $300 million of investments that are available daily) and 46% diversified equities (largely indexed funds) at fiscal 2017 year-end. Almost the entire portfolio is available within seven days. Sharp's payor mix for net revenues as of Sept. 30, 2017, is roughly 27% Medicare, 21% Medi-Cal, and 51% commercial and small amounts of self-pay and other. We believe the relatively high Medi-Cal percentage could become an issue over time, but note Sharp has managed with relatively high Medi-Cal for many years.

Sharp's overall financial profile and its balance sheet, in particular, has improved significantly over the past five years, in our opinion, in part reflecting continued increases in patient volumes as measured by equivalent inpatient admissions and increased market share, the benefits of the provider tax, and on-going cost containment. Sharp's management indicates it is a low-cost provider in the market and has been successful in handling capitated risk for roughly 19% of its total hospital net revenues to date. Overall use rates for the county (as reported by management) are low for the country and the state, which is an added strength as the widespread decline in use rates predicted across the country has to some extent already been felt in the region.

Sharp's five-year financial forecast shows continued solid income statements, as margins are expected to remain in the 4% to 5% range for the next three years and decline to 3% in the out years due to declines in the provider fee revenue and broader health care reform pressures. Should the provider tax remain as robust as the next few years are expected to be, these performance levels will improve. Unrestricted reserves continue to improve throughout the forecast despite a rise in capital expenditures. Outpatient revenues continue to grow as a percentage of total revenues, although modest increases in admissions are projected, which could be a concern if market share growth levels off.

Sharp has entered into a forward starting swap effective Aug. 1, 2019, with Citibank N.A. with a notional amount of $99.075 million. In addition, Sharp currently has three active swaps, with Citibank N.A. serving as the counterparty for a $44.5 million floating- to fixed-rate swaps, an $80 million yield curve swap, and an $80 million basis-rate swap. Sharp's existing total swap notional outstanding is roughly $303.5 million including the forward starting swap. The mark-to-market value of the four swaps was $2.5 million as of Sept. 30, 2017. Net variable-rate exposure is manageable, in our view, at roughly 39% of Sharp's pro forma debt and only 21% after accounting for the effect of the swaps. None of Sharp's swaps has collateral posting requirements.

Sharp Healthcare, California Enterprise And Financial Statistics

	--Fiscal year ended Sept. 30--			Medians for 'AA' rated health care systems	Medians for 'AA-' rated health care systems
	2017	2016	2015	2016	2016
Enterprise profile					
PSA population	N.A.	3,302,749	3,213,584	MNR	MNR
PSA market share %	N.A.	29.1	28.9	MNR	MNR
Inpatient admissions	74,587	74,201	73,773	MNR	MNR
Equivalent inpatient admissions	137,369	137,369	133,353	MNR	MNR
Emergency visits	288,380	287,220	278,967	MNR	MNR
Inpatient surgeries	18,841	19,148	19,197	MNR	MNR
Outpatient surgeries	29,005	27,704	25,801	MNR	MNR
Medicare case mix index	1.8110	1.8110	1.7735	MNR	MNR
FTE employees	14,705	14,432	13,817	MNR	MNR
Active physicians	2,284	2,227	2,155	MNR	MNR
Based on net/gross revenues	Net	Net	Net	MNR	MNR
Medicare %	26.8	25.4	23.7	MNR	MNR
Medicaid %	21.4	24.2	27.1	MNR	MNR
Commercial/Blues %	51.1	50.0	48.6	MNR	MNR
Financial profile					
Financial performance					
Net patient revenue ($000s)	2,026,070	2,107,784	2,146,195	2,648,196	2,239,550
Total operating revenue ($000s)	3,471,228	3,456,237	3,387,165	MNR	MNR
Total operating expenses ($000s)	3,327,369	3,170,823	3,044,841	MNR	MNR
Operating income ($000s)	143,859	285,414	342,324	MNR	MNR
Operating margin (%)	4.14	8.26	10.11	4.80	3.30
Net nonoperating income ($000s)	241,737	43,196	62,423	MNR	MNR
Excess income ($000s)	385,596	328,610	404,747	MNR	MNR
Excess margin (%)	10.39	9.39	11.73	6.60	4.40
Operating EBIDA margin (%)	8.06	12.14	13.79	11.00	9.60
EBIDA margin (%)	14.05	13.22	15.35	12.70	10.80
Net available for debt service ($000s)	521,520	462,790	529,673	477,823	256,206
Maximum annual debt service ($000s)	49,770	49,770	49,770	MNR	MNR
Maximum annual debt service coverage (x)	10.48	9.30	10.64	5.90	4.60
Operating lease-adjusted coverage (x)	6.70	6.01	6.76	4.20	3.20
Liquidity and financial flexibility					
Unrestricted reserves ($000s)	2,577,468	2,364,017	2,049,407	2,461,025	1,801,580
Unrestricted days' cash on hand	292.6	281.8	254.0	316.10	220.40

Sharp Healthcare, California Enterprise And Financial Statistics (cont.)

	--Fiscal year ended Sept. 30--			Medians for 'AA' rated health care systems	Medians for 'AA-' rated health care systems
	2017	**2016**	**2015**	**2016**	**2016**
Unrestricted reserves/total long-term debt (%)	416.8	347.7	302.0	246.20	189.60
Unrestricted reserves/contingent liabilities (%)	1,236.9	1,089.8	918.2	470.40	567.30
Average age of plant (years)	10.0	11.0	13.0	10.60	9.70
Capital expenditures/depreciation and amortization (%)	158.8	128.0	120.3	130.70	129.10
Debt and liabilities					
Total long-term debt ($000s)	618,335	679,917	678,627	MNR	MNR
Long-term debt/capitalization (%)	15.5	18.6	21.1	24.70	30.10
Contingent liabilities ($000s)	208,388	216,930	223,190	MNR	MNR
Contingent liabilities/total long-term debt (%)	33.7	31.9	32.9	55.70	32.50
Debt burden (%)	1.34	1.42	1.44	2.00	2.30
Defined benefit plan funded status (%)	95.09	89.26	78.22	71.60	73.00
Pro forma ratios					
Unrestricted reserves ($000s)	2,577,468	N/A	N/A	MNR	MNR
Total long-term debt ($000s)	825,000	N/A	N/A	MNR	MNR
Unrestricted days' cash on hand	292.6	N/A	N/A	MNR	MNR
Unrestricted reserves/total long-term debt (%)	312.4	N/A	N/A	MNR	MNR
Long-term debt/capitalization (%)	19.7	N/A	N/A	MNR	MNR
Total net special funding ($000s)	72,162	96,039	132,799	MNR	MNR

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