S&P Global
Ratings

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Summary:

Health and Educational Facilities Board of the City of Johnson City, Tennessee
Ballad Health; Joint Criteria; System

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Credit Profile		
US$121.9 mil var rate hosp rev rfdg bnds (Ballad Hlth) ser 2022B due 07/01/2045		
Unenhanced Rating	A-(SPUR)/Stable	New
US$53.1 mil var rate hosp rev imp bnds (Ballad Hlth) ser 2022C due 07/01/2035		
Unenhanced Rating	A-(SPUR)/Stable	New
The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee		
Ballad Hlth, Tennessee		
The Hlth & Educl Facs Brd of the City of Johnson City (Ballad Hlth) var rate hosp rev imp bnds (Ballad Hlth) ser 2022C due 07/01/2035		
Long Term Rating	AA/A-1	Rating Assigned
Unenhanced Rating	A-(SPUR)/Stable	Rating Assigned
The Hlth & Educl Facs Brd of the City of Johnson City (Ballad Hlth) var rate hosp rev rfdg bnds (Ballad Hlth) ser 2022B due 07/01/2045		
Long Term Rating	AA/A-1	Rating Assigned
Unenhanced Rating	A-(SPUR)/Stable	Rating Assigned

Rating Action

S&P Global Ratings assigned its 'AA/A-1' long-term rating and 'A-' underlying rating to the Health and Educational Facilities Board of the City of Johnson City, Tenn.'s $121.9 million series 2022B revenue refunding bonds (Ballad Health) and $53.1 million series 2022C hospital revenue improvement bonds. At the same time, S&P Global Ratings affirmed its 'A-' long-term rating and underlying rating (SPUR) on various bonds outstanding issued for Ballad Health (Ballad). The outlook is stable.

The long-term component of the rating assigned to the series 2022B and 2022C bonds is based on the application of our joint criteria assuming low correlation between the obligor and the irrevocable direct-pay letter of credit (LOC) provided by Truist Bank N.A. ('A/A-1'). The long-term component of the rating addresses the likelihood that bondholders will receive interest and principal payments when due if they don't exercise the put option. The short-term component of the rating is based on our short-term issuer credit rating on Truist Bank N.A. The short-term component of the rating addresses the likelihood that bondholders will receive interest and principal payments if they exercise the put option.

The LOC fully supports all bond payment obligations when the bonds are in the weekly and daily interest modes. Therefore, our rating applies only during these covered modes. If the bonds are converted to a non-covered rate mode, we will likely change our rating.

Bond proceeds will be used to refund series 2012A bonds and 2018C bonds outstanding and reimburse project costs. This issuance also includes $75 million of private-placement bonds with PNC Bank, which S&P Global Ratings does not rate. However, we have incorporated this debt into our analysis and have classified it as contingent. Shortly after the bonds are issued, Ballad expects to pay down a portion of the series 2018D bonds, with funds unrelated to the financing.

Securing the bonds is a gross revenue pledge of the obligated group, which includes the parent Ballad Health, Mountain States Health Alliance (MSHA), Wellmont Health System (Wellmont), and a majority of the hospital facilities. The only Ballad hospital that is not a member of the obligated group is Johnston Memorial. The obligated group members comprise approximately 79% of Ballad's total assets and 89% of its total revenues.

Credit overview

The rating reflects our opinion of Ballad's strong enterprise profile, with a solid business position covering a wide geographic area, good size and scale, and experienced management team. Ballad also maintains a sound financial profile, highlighted by favorable and solid balance sheet metrics consistent with the rating despite the recent operating pressure as a result of COVID-19 pandemic-related challenges. Management continues to execute on key strategies following the 2018 merger of MSHA and Wellmont, some of which include enhancing its digital and information technology (IT) capabilities, focusing on opportunistic growth initiatives, with increased access and expansion of services in its core markets, and continued consolidation where necessary to gain efficiencies and improve patient quality. In our opinion, management remains focused on pursuing the integration strategy and realizing synergies, despite the disruption caused by the pandemic and increased labor and supply pressures. Liquidity continues to provide a cushion to offset any near-term operating pressure that could arise due to the challenging operating environment and near-term uncertainty associated with higher costs.

The rating also reflects a negative holistic adjustment that reflects the industry challenges, notably increased labor and supply costs, as well as continued integration of two sizable health systems. In addition, the adjustment reflects underlying challenges due to high leverage and high reliance on a weaker payer mix and reliance on special funding that create a financial profile in line with an 'A-' rating but not higher.

In our view, management has navigated the challenges well to date and has realized about $194.2 million in synergies, which is above target. In addition, Ballad has recognized significant CARES Act and other relief funding, with $56.7 million and $96.7 million recognized through the nine months ended March 31, 2022, and fiscal 2021, respectively. Ballad also bolstered its liquidity by accessing the Medicare Accelerated and Advance Payment Program and currently has $99 million outstanding, which will continue to be repaid through fiscal 2022. We note that the recent omicron surge led to increased agency staffing costs as well as higher supply costs that we do not expect to be recurring. Ballad also rolled out its health care IT implementation across the system over the past few years and it was on time and budget with minimal disruption.

The rating further reflects our assessment of Ballad's:

- Excellent business position, with a leading inpatient market share at 74% in its 21-county primary service area with relatively stable demographics, although limited economic characteristics;
- Generally solid balance sheet metrics with days' cash on hand of 238.7 and healthy pro forma maximum annual

debt service (MADS) coverage of 4.5x as of March 31, 2022; and

- Experienced management team that continues to focus on integration of the larger system and care coordination to transform Ballad into a high-performing consolidated system.

In our view, partially offsetting rating factors include our assessment of Ballad's:

- Near-term uncertainty about the pace of the rebound in business volume, and likely elevated expense pressures related to labor and supplies;
- Challenged payer mix with a modestly declining commercial mix, increasing reliance on governmental payers, and high reliance on special funding; and
- High leverage with debt to capitalization of 44.6% and a debt burden of 3.52%.

The stable outlook reflects our expectation that Ballad will retain its financial strength and business position while it complies with certificate of public advantage (COPA) and cooperative agreement (CA) guidelines. In addition, we believe management will continue positioning the organization to sustain its leading market position while pursuing strategic growth and continued integration opportunities, contributing to an overall credit profile that is consistent with the rating despite industry challenges. Ballad does not expect to issue additional debt and therefore we have not factored it into the rating.

Environmental, social, and governance

We analyzed Ballad's environmental, social, and governance risks relative to its economic fundamentals, market position, and the corresponding effects on its financial profile and determined that all are neutral. That said, the pandemic has exposed Ballad and its peers to additional social risks that have resulted in headwinds, including higher staffing and supply costs. We note that the primary service area also has a lower vaccination rate relative to that of the nation. In addition, the pandemic and higher costs have resulted in recent financial pressures that could persist in the near term. We note that Ballad also has a somewhat high reliance on special funding and a high percentage of governmental payers.

Stable Outlook

Downside scenario

We could revise the outlook to negative or lower the rating if there is a significant and prolonged deterioration in operations or a large decline in unrestricted reserves. In addition, an increase in debt could result in a downgrade given already-high leverage. We could also lower the rating if there is significant weakness in the enterprise profile. We will also continue to assess the impact of any issues related to operating under the COPA.

Upside scenario

We are unlikely to raise the rating during the outlook period due in part to industry pressures, notably higher labor and supply costs as well as decreased unrestricted reserves since fiscal 2021. However, over time, we could consider revising the outlook to positive or raising the rating if Ballad continues to realize the benefits of integration and attains the projected synergies that are needed to spur improvement in operations and balance sheet metrics in line with a higher rating.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 27, 2022)		
Mountain States Health Alliance (MBIA) (National)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Greeneville Hlth and Ed Facs Brd, Tennessee		
Ballad Hlth, Tennessee		
Greeneville Hlth & Ed Fac Brd (Ballad Health) Hosp		
Long Term Rating	A-/Stable	Affirmed
Greeneville Hlth & Ed Fac Brd (Ballad Hlth) Hosp		
Long Term Rating	AA/A-1+	Affirmed
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee		
Wellmont Health System, Tennessee		
Sullivan Cnty Hlth Ed & Hsg Fac Brd (Wellmont Hlth Sys)		
Long Term Rating	A-/Stable	Affirmed
Sullivan Cnty Hlth Ed & Hsg Fac Brd (Wellmont Hlth Sys)		
Long Term Rating	A-/Stable	Affirmed
The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee		
Mountain States Health Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
Long Term Rating	A-/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) (MBIA) (National)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
The Hlth & Educl Facs Brd of the City of Johnson City (Mountain States Hlth Alliance) SYSTEM		
Long Term Rating	A-/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.