S&P Global Ratings

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Summary:

Atrium Health, North Carolina; System

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Summary:

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Credit Profile		
US$50.0 mil var rate hlth care rev bnds ser 2018H due 01/15/2048		
Long Term Rating	AA-/A-1/Stable	New
US$50.0 mil var rate hlth care rev bnds ser 2018G due 01/15/2048		
Long Term Rating	AA-/A-1/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-/A-1' rating to Charlotte-Mecklenburg Hospital Authority, N.C.'s $50 million series 2018G and $50 million series 2018H variable-rate revenue bonds. The authority does business as Atrium Health (formerly known as Carolinas HealthCare System). The outlook is stable.

The short-term component of the rating for series 2018 G and H bonds reflects our assessment of the liquidity support provided by JP Morgan Chase Bank N.A. ('A-1') in the form of two standby bond purchase agreements (SBPAs).

The series 2018G and H bonds are the final component of Atrium Health's series 2018 plan of finance, which also includes the series 2018A-E bonds and has a total par amount of about $564 million, of which $400 million is new debt (including the series 2018G and H bonds).

The long-term rating reflects Atrium Health's continued healthy operating profile, highlighted by sustained volume growth and service line demand, favorable economic fundamentals within its core Charlotte service area, coupled with considerable geographic reach across the Carolinas, and a strong inpatient market share across most specialties. The aforementioned strengths underpin Atrium Health's robust financial performance that remains good for the rating and well ahead of budget through the first half of fiscal 2018. Atrium Health's solid balance sheet has strengthened further over the past several years as a result of robust cash flow and capital spending purposefully held below historical levels. Though we expect incremental weakening in leverage metrics following the added $400 million in debt, we believe the pro forma balance sheet remains healthy and in line with our expectations for the rating.

The SBPAs provide coverage for the payment of purchase price for optional and mandatory tenders upon a failed remarketing at 34 days of interest coverage at the 12% maximum rate. The SBPAs only enhance bonds in the daily rate, weekly rate, and two-day rate (the covered modes) and will terminate upon a conversion of all of the bonds to a mode that is other than the respective covered modes. The SBPAs are scheduled to expire on March 6, 2024, at which time we will remove the short-term component of the ratings on series 2018 G and H unless the related SBPAs are either extended or terminated beforehand pursuant to its terms. The respective SBPA provider's obligations to purchase tendered bonds will automatically terminate should certain events of default set forth in the SBPA occur. These events, which we have deemed consistent with our published criteria, include the lowering of the rating on the bonds or any Atrium Health senior debt below 'BBB-'.

For additional information on Atrium Health, please see the full analysis published Oct. 1, 2018, on RatingsDirect.

Outlook

The stable outlook reflects our assessment of Atrium Health's robust and stable enterprise strengths, as well as our expectation that its overall financial profile will remain commensurate with the 'AA-' rating level. We expect Atrium Health will continue to post healthy financial performance metrics and maintain its balance sheet cushion throughout the outlook period. We also anticipate leadership will continue to respond to national and state-level challenges appropriately to preserve Atrium Health's financial strength.

Upside scenario

As Atrium Health's growth plans develop, we believe a positive outlook or higher rating could be considered if it is able to successfully integrate Navicent Health and execute on its capital plans while growing balance sheet metrics to a level in line with 'AA' rated systems. We would also expect Atrium Health to maintain its existing enterprise strengths, while producing financial performance metrics in line with 2017 and interim 2018 levels.

Downside scenario

Though we consider Atrium Health to have some cushion at the rating, we could revise the outlook to negative if there is a sharp and sustained decline in financial performance. We believe Atrium Health's balance sheet partly mitigates its material exposure to supplemental funds and, as a result, any sizable dilution of its balance sheet cushion could result in negative pressure on the rating.

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.