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California Health Facilities Financing Authority
Stanford Health Care; Hospital

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California Health Facilities Financing Authority Stanford Health Care; Hospital

Credit Profile		
US$524.417 mil taxable bnds ser 2020 due 08/15/2055		
Long Term Rating	AA-/Stable	New
US$148.945 mil rev bnds (Stanford Hlth Care) ser 2020A due 08/15/2051		
Long Term Rating	AA-/Stable	New
US$145.975 mil rev bnds (Stanford Hlth Care) ser 2020B due 08/15/2054		
Long Term Rating	AA-/Stable	New
US$127.69 mil rev bnds (Stanford Hlth Care) ser 2020C due 08/15/2051		
Long Term Rating	AA-/Stable	New
Stanford Hlth Care rev bnds ser 2018 due 08/15/2048		
Long Term Rating	AA-/Stable	Affirmed
California Hlth Facs Fincg Auth, California		
Stanford Hlth Care, California		
California Health Facilities Finance Authority (Stanford Hlth Care)		
Long Term Rating	AA-/A-1+/Stable	Current
California Health Facilities Finance Authority (Stanford Hlth Care)		
Long Term Rating	AA-/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
California Hlth Facs Fincg Auth (Stanford Hlth Care) rfdg hosp rev bnds (Stanford Hlth Care) ser 2008B-2 dtd 06/02/2008 rmktd dtd 06/15/2011 due 11/15		
Long Term Rating	AA-/A-1+/Stable	Current
California Hlth Facs Fin Auth (Stanford Hlth Care) variable rate rev bnds		
Long Term Rating	AA-/A-1+/Stable	Current

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to the California Health Facilities Financing Authority's $149.0 million series 2020A, $146.0 million series 2020B, and $127.7 million series 2020C revenue bonds, issued for Stanford Health Care (SHC; formerly known as Stanford Hospitals and Clinics). In addition, S&P Global Ratings assigned its 'AA-' long-term rating to SHC's $524.4 million series 2020 taxable revenue bonds. S&P Global Ratings also affirmed its series 'AA-' long-term rating on the authority's fixed-rate revenue bonds outstanding issued for SHC and SHC's series 2018 taxable revenue bonds. Finally, we affirmed our 'AA-/A-1+' dual rating on the authority's variable-rate series 2008B and 2012C revenue bonds, issued for SHC. We based our 'A-1+' short-term rating component on our view of SHC's own liquidity and related procedures for handling any potential tenders. The outlook is stable.

The $422 million series 2020A, 2020B, and 2020C tax-exempt bond proceeds, and premium, will go toward reimbursing SHC for some of its capital spending on its recently completed $2.2 billion new hospital project that

opened in fall 2019 (about $280 million) and refunding the series 2012C ($60 million), 2012D ($100 million), and 2015B bonds ($75 million). The proceeds from the taxable issuance will go toward general corporate purpose needs ($150 million) and the defeasance of the series 2012A bonds ($340 million).

SHC's bonds and pro forma issuance are secured by the gross revenue of the obligated group.

Credit overview

Our rating reflects our assessment of SHC's very strong enterprise and financial profiles. The enterprise profile reflects our view of SHC's comprehensive service mix, including its tertiary and quaternary focused business mix, exceptionally high case mix index, overall market share, and brand strength as one of the region's two academic medical centers in a generally competitive market. These factors are aided by enterprise strengths, including SHC's close relationship with Stanford University and its sister organization, the Lucille Packard Children's Hospital; a large, widely regarded, and well-distributed academic and medical faculty; and solid research funding. We believe outpatient growth as well as ValleyCare, an acquisition from 2015, helps extend SHC's brand into the East Bay area and the broader region overall. Other credit strengths supporting the rating and stable outlook are a solid fundraising program, favorable payer mix, and SHC's location in Silicon Valley. In addition, we view the recent completion of the new SHC hospital (fall 2019) positively given SHC's historically high occupancy and the need for additional capacity.

The overall financial operating profile reflects our view of historically solid operating margins and cash flow, but the additional debt slightly weakens pro forma maximum annual debt service (MADS) coverage. The additional debt is manageable, but we continue to view pro forma debt levels as elevated for the rating and reflective of SHC's recent completion of the SHC hospital on its main campus in Palo Alto, Calif. Generally sound reserves and stable pro forma cash on hand complement operations. However, pro forma unrestricted reserves as a percentage of pro forma debt is only adequate for the rating. In addition, the new hospital is already filling up and we expect margins and cash flow to remain strong. This is important in light of SHC's plan for ongoing elevated capital spending for the next several years, although we note some flexibility in those plans as needed.

Our rating reflects a positive adjustment for SHC's close relationship with the higher-rated Stanford University. In addition, under our criteria for acute care hospital providers, we can adjust the final rating by one notch to reflect peer comparisons and a more holistic view of the credit profile, which we have done to arrive at the 'AA-' rating.

The stable outlook reflects our view of SHC's enterprise strengths, including its ties to Stanford University, and our expectation that SHC will meet budgeted expectations in fiscal 2020 given the increased capacity and volume growth to help offset the higher depreciation expenses. In addition, the stable outlook reflects our view that SHC will be able to improve operating performance to levels consistent with those of recent years and generate pro forma coverage generally in line with the rating. Given the ongoing capital spending and increased pro forma debt, we see limited flexibility in the rating.

The long-term rating reflects our opinion of SHC's:

- Sound enterprise position as a premier academic medical center in Silicon Valley highlighted by continued sound patient volumes with strong growth in equivalent inpatient admissions, and a comprehensive tertiary and quaternary mix of services as reflected in a very high Medicare case mix index;

- Solidly improving operations for a number of years, demonstrating revenue growth and operating margins, and that we expect will be sustained given additional capacity with slightly weaker pro forma MADS coverage and light pro forma lease-adjusted MADS coverage;
- Improvement to pro forma unrestricted reserves, which helps keep pro forma cash on hand stable, but with continued weaker pro forma unrestricted reserves to pro forma debt relative to the rating; and
- Sound strategy of trying to expand its overall footprint through significant outpatient expansion, physician recruitment, and partnerships, combined with a needed hospital expansion on the main campus to position SHC well for growth, including the ability to accept many transfers it previously had not been able to accept as a result of space constraints.

Risks to the rating include broad industry pressures, a fairly competitive environment, and some dependence of investment markets to maintain overall balance reserve growth, particularly given the lighter balance sheet relative to the rating and the recent debt issuance.

Stable Two-Year Outlook

Downside scenario

Given slightly less flexibility at the rating, we believe a lower rating or negative outlook could result from reductions in overall cash flow and MADS coverage falling to less than 3.5x, combined with lack of improvement in modest unrestricted reserves to debt.

Upside scenario

We continue to believe SHC's enterprise profile is consistent with a higher rating, and a positive outlook or rating action could result from sustained overall operating margins and improvement to MADS coverage to more than 5x, combined with substantive improvement in balance sheet metrics over time amid completion of larger capital projects for capacity needs.

Enterprise Profile: Very Strong

Market position remains sound with new hospital providing additional capacity

SHC is centered in Palo Alto, with one additional facility in Alameda County and a wide regional ambulatory care network. SHC is a controlled and wholly owned subsidiary of Stanford University and is adjacent to the Stanford University School of Medicine (SOM). Approximately two-thirds of the medical staff are members of the SOM faculty and account for roughly 90% of SHC's total admissions. SHC's flagship facility is an academic medical center on Stanford University's campus and provides many tertiary and quaternary services, as reflected in its high case mix index of 2.27 in fiscal 2019. SHC has a significant outpatient presence, including a 360,000-square-foot outpatient facility in Redwood City with a total of about 60% of gross revenue coming from outpatient business. Other new facilities and expansions include a South Bay cancer center, a women's cancer center, and a major new outpatient facility in Emeryville near Oakland and Berkeley as well as a variety of outpatient centers in and around the San Francisco Bay Area. The new SHC hospital provides additional inpatient capacity on the main campus. SHC is also the sole member of a small health system known as ValleyCare Health System in Alameda County. ValleyCare has shown

improvement with a small positive performance in fiscal 2019 compared with its loss of roughly $41 million in fiscal 2018. Management reports that further mergers are not likely and that it continues to focus on partnerships with acute care providers in the market. An example of this includes a recent letter of intent to expand and integrate oncology services with Sutter Health in the East Bay.

Stanford University and its other wholly owned hospital subsidiary, the Lucille Salter Packard Children's Hospital (also known as Stanford Children's Health), are separately rated, as the university does not guarantee SHC's debt, although numerous ties exist. The SOM employs the medical faculty, but SHC reimburses the school and university. While considerable funds flow to and from the university, these funds are for services rendered or received. In addition, SHC transferred $120.1 million in fiscal 2019, $98.2 million in fiscal 2018, and $69.4 million in fiscal 2017 to Stanford University to support the SOM's academic mission and related initiatives, including faculty recruitment, the academic community, and the school's physical plant. A portion of this funding is determined based on operating performance of SHC. We have included most of the noncapital payments as part of operating or nonoperating income, depending on the type of payment. The university provides other types of support to the hospital, including management of some of SHC's investments, occasional inclusion in the university's broader fundraising program, and co-joint-venture partnerships in certain physician-related and imaging businesses. The SOM faculty also conducts significant third-party-funded research annually, and many faculty members are on the hospital staff. SHC also has an advanced electronic medical record and has achieved recognition as one of the few Health Information Management Systems Society Stage 7 hospitals in the country. In addition, it has received nursing magnet status.

SHC has a large 21-county service area encompassing the broad San Francisco Bay region. Its more centralized market is the large nine-county area in and around San Francisco Bay, where it captures roughly 2.8% inpatient market share (on a population of about 7.7 million). In its immediate local market of Santa Clara and San Mateo counties, it captures roughly 6.8% inpatient market share, which has been stable given the high occupancy. SHC also has a broad patient draw, reflecting its tertiary and quaternary service mix and Level 1 trauma center.

The new hospital came on line in November 2019, and certain one-time expenses are contributing to a lighter first quarter of fiscal 2020. While the organization has been able to accept more transfers with additional beds, the organization is still operating at high occupancy and will continue to open up space and beds as it renovates its 300 Pasteur building. Overall inpatient admissions were down slightly in fiscal 2019 but up through interim 2020. Equivalent inpatient admissions and total surgical volume are also rising. We expect incremental inpatient growth, as new capacity has come on line and as additional capacity will come on line at the 300 Pasteur building over the next several years. Management attributes the broad volume trends to continued integration of University HealthCare Alliance (UHA; an affiliated medical group), additional recruitment of clinical faculty, and the opening of many large outpatient facilities in the primary service area.

Stable management team focuses on partnerships and growth

Overall, SHC's management team has been stable since our previous review, having completed a major change in management several years ago. The current CEO started in the summer of 2016, with the current chief operating officer and chief financial officer starting in 2017. Other senior members of the management team were also hired. We believe these management changes have proceeded well and have driven SHC to strong operating performance and improved quality results.

Management and the board completed an update to SHC's strategic plan two years ago. The plan essentially confirms SHC's strategy to remain an academic medical center with an exceptionally strong academic faculty and the ability to attract high-end tertiary and quaternary business from a large multicounty service area while also attending to the primary care needs of the local population. The local strategy incorporates community physicians, increasingly through its University HealthCare Alliance, to augment its faculty locally, and a robust outpatient facility strategy to expand its coverage of the local market, ultimately throughout the entire San Francisco Bay area. Management reports that the ValleyCare Health acquisition is not likely to be repeated, as the main strategy is to maintain a largely single high-end campus on the inpatient side while expanding ambulatory care presence across the Bay Area and with an eye toward partnerships in the region, including with other acute care hospitals. SHC has also emphasized supporting its own faculty and their research ideas to develop digital strategies that help augment and improve care, but is also partnering with outside technology companies when appropriate.

The heart of SHC's strategy is strong quality of care across the system focused on recruitment of strong physician faculty with expansion centered on outpatient sites, amid conclusion of construction of a large inpatient facility at the main campus. The conclusion of the construction in fall 2019 is the central initiative to meet current and future growth and help attract top-flight faculty. In our view, the high occupancy at the main facility at around 90% of staffed beds is a good indicator of further demand for services at SHC. In addition, management reports that the new facility should alleviate the occasional high-occupancy bottlenecks that have necessitated turning away many transfers. The new facility incrementally added 130 single rooms, which will help the capacity-constrained inpatient business on the main campus. Under the updated plan, capital expenditures are expected to remain high, as some renovation of vacated space and further outpatient growth are expected.

SHC is also working to expand its presence into population health management with its own health plan and numerous agreements with local technology firms, although to date these efforts remain relatively modest. SHC's close ties to Silicon Valley's high-tech companies have enhanced fundraising, but have also helped SHC develop a customer-focused consulting network for subscribing employers and remain abreast of many key trends in health care, such as virtual health and telemedicine developments.

Table 1

Stanford Hospital and Clinics Utilization

	--Three months ended Nov. 30--	--Fiscal year ended Aug. 31--		
	2019	**2019**	**2018***	**2017***
PSA population - nine-county Bay Area	N.A.	N.A.	7,700,000	7,760,000
PSA market share (%)	N.A.	N.A.	2.8	2.8
Inpatient admissions§	9,089	33,687	33,955	33,563
Equivalent inpatient admissions	20,553	76,957	74,680	62,755
Emergency visits	28,509	113,872	111,133	108,998
Inpatient surgeries	5,451	22,115	21,638	N.A.
Outpatient surgeries	10,980	42,888	41,253	40,244
Medicare case mix index	2.4800	2.2700	2.4201	2.3903
FTE employees	14,552	13,542	11,993	12,966
Active physicians	3,159	3,207	3,009	2,785

Table 1

Stanford Hospital and Clinics Utilization (cont.)

	--Three months ended Nov. 30--	--Fiscal year ended Aug. 31--		
	2019	2019	2018*	2017*
Medicare (%)±	23.1	22.7	22.8	19.9
Medicaid (%)±	5.5	7.0	7.3	6.6
Commercial/Blues (%)±	70.0	67.3	66.3	61.6

*Fiscal 2018 and fiscal 2017 market share is calendar year information. §Excludes normal newborn, psychiatric, rehabilitation, and long-term care facility admissions. ±Based on net revenue. FTE--Full-time equivalent. N.A.--Not available. PSA--Primary service area.

Financial Profile: Very Strong

Operating profile remains healthy, with lighter performance in early 2020 as new hospital opens

Growing equivalent admissions, strong revenue growth, minimal dependence on provider tax and disproportionate share revenue, and strong fundraising are key operating strengths for SHC. In addition, SHC has focused on operating improvement through reductions in length of stay and other expense and revenue initiatives. In addition to its focus on complex care, SHC has boosted overall patient activity by adding outpatient space, renovating and expanding operating rooms, and expanding access through its SOM faculty and UHA physicians. The new hospital opened on the main campus in fall 2019 and will add much needed capacity, which we believe will support ongoing healthy performance. Operating improvement in fiscal 2019 reflected ongoing growth in equivalent inpatient admissions, the provision of high-acuity services, and improvement in operations at ValleyCare. For the first quarter of fiscal 2020, we saw a dip in performance as SHC staffed up for and opened the new hospital in November 2019. We expect operating income to still be sound in fiscal 2020 at around 5% margins, though likely lower than in fiscal 2019 given the costs of opening the new hospital, with improvement expected in fiscal 2021. We note that we've moved certain fixed payments to the SOM into operating expense and included variable payments to SOM based on SHC performance, into nonoperating expense. Excluded are transfers to SOM for capital projects that were sizable in fiscal 2019.

Excess income is supported by investment income and contributions but offset by transfer payments to SOM that are based on SHC's operating results. As mentioned, these transfer payments have risen as operating results have improved at SHC. Pro forma MADS coverage has decreased partly as a result of the additional debt as well as the incorporation of certain SOM payments into operations and nonoperations. We view pro forma MADS coverage as consistent with the rating, although the additional pro forma debt does cause slight weakening relative to medians. Noncancelable operating leases have risen over time and reduced lease-adjusted pro forma MADS coverage to to less than 3x, which we consider weak for the rating. S&P Global Ratings historically does not include unrealized gains or losses in its income calculation, and management reports that the change in value of its unrestricted cash and investments managed by Stanford University (which is a sizable amount) will be unrealized until the investments are liquidated. As a result, investment income, cash flow, and coverage are slightly understated.

Unrestricted reserve growth has been more limited in recent years as capital expenditures remain high

While unrestricted reserves have improved incrementally over the past year and a half and reached $3.1 billion at Nov. 30, 2019 compared with $2.9 billion at Aug. 31, 2018, cash on hand has decreased as expenses have increased and as

unrestricted reserves to long-term debt have remained stable. Unrestricted cash and investments, while at healthy absolute levels, is only adequate as relates to cash on hand at 215 days and unrestricted reserves to long-term debt at 169% at Nov. 30, 2019. Both of these metrics are well below those of comparably rated providers. With the reimbursement from the debt issuance (and excluding the taxable proceeds that will likely be used for increased capital spending in the next several years), pro forma cash on hand is around 235 days and pro forma unrestricted reserves to pro forma debt is at 149%, both still well below rating medians. Approximately half of SHC's investments reside within Stanford University's merged pool. The remaining mix at SHC is cash and cash equivalents, fixed-rate investments, and some equities.

SHC's new hospital was completed in 2019 and opened in the first quarter of fiscal 2020. The hospital substantially increases the overall footprint, adding 1.1 million square feet of space, with a net total increase of 130 beds, a total of 549 staffed beds at Nov. 30, 2019, along with clinics, ancillary space, operating and emergency rooms, and medical and administrative offices. The project totaled $2.2 billion and was funded by $595 million of cash flow, $1 billion of debt (including 2020 issuance), and about $556 million of fundraising (to date). Total costs didn't change materially after some increases communicated last year given management changes in the project's scope over the construction period and delays related to labor availability in the highly competitive construction market in the greater San Francisco Bay area.

We expect capital expenditures to remain heightened (over $600 million annually for the next few years), keeping the overall balance sheet generally stable over the medium term, assuming cash flow remains sound. In our view, this will limit rating improvement in the near term. Upcoming capital projects include renovations at the existing hospital that will take place over several years, likely a new outpatient facility in Redwood City, and other routine and information technology needs.

SHC's fundraising program remains a credit strength, and includes recent success through a corporate partners program with many widely known Silicon Valley high-tech companies and other substantial donations. As of Nov. 30, 2019, SHC raised around $652 million toward its $700 million for the "New Stanford Hospital," with roughly $550 million in cash received.

Pro forma debt-related metrics weaken slightly after incremental improvement in recent few years

We consider overall pro forma leverage above average for the rating at 35% of capitalization. The debt burden is generally consistent with the rating at 2.2%. The overall debt structure remains fairly conservative with multiple counterparties and banks for swaps and direct purchase debt, although a couple bullet payments create some long-term risk and pro forma put bonds create medium-term remarketing risk. The series 2020 taxable issuance has a bullet in 35 years, and the series 2020B and 2020C will likely have seven- and 10-year bullets, respectively.

Under Financial Accounting Standards Board Accounting Standards Update 2016-02, SHC's operating lease liability was $220.5 million with a commensurate $260 million operating lease right-of-use asset as of Nov. 30, 2019. We have historically incorporated lease risk into lease-adjusted debt service coverage, and we believe this continues to capture risk associated with lease exposure. Including the operating lease liability in our calculation of leverage brings debt as a percentage of capitalization to 37%. The audit presentation provides more clarity on the actual value of the lease liability, and while the actual leases have increased slightly from last year, the obligations that SHC incurs are largely

unchanged, in our view, and therefore are not a new credit factor.

With the upcoming refinancing, SHC's $403 million of contingent liability debt will decrease to about $168.2 million and will consist of SHC's $84.1 million of 2008B weekly variable-rate demand bonds and two tranches of variable-rate demand bonds in commercial paper mode of $42.05 million each, designated as series B-2-1 and B-2-2. We expect, however, that puts associated with the series 2020 tax-exempt issuance could come to be considered contingent.

In addition, SHC has a diverse but sizable swap portfolio with a notional amount of $575 million of floating- to fixed-rate swaps. Certain swap agreements require SHC (or the counterparties) to post collateral, based on then-current ratings, if fair market value of the swap agreements exceeds a predetermined threshold dollar amount. As of November 2019, SHC was posting approximately $19.3 million collateral, while the mark-to-market on the swap portfolio was a liability of $281 million. SHC's overall counterparty exposure has been diversified over the past few years and is now divided among four major institutions, with total notional exposure at $103 million to $182 million each.

As of Jan. 31, 2020, SHC identified $1.1 billion in fixed-income and money market assets from its various investments to guarantee the full and timely purchase price of $228.2 million in debt outstanding supported by self-liquidity. S&P Global Ratings monitors liquidity monthly. The debt supported by self-liquidity consists of the abovementioned series as well as $60 million series 2012C issued in a Windows mode (which is to be refunded). A range of assets made up of various investments in actively managed diversified portfolios backs the debt. The bonds in commercial paper mode are multimodal and carry a dual rating.

SHC's pension is well funded with a small $17.1 million unfunded pension liability (92% funded) because the plan was frozen in 1997, combined with a $101.1 million postretirement benefit liability at fiscal year-end Aug 31, 2019.

Table 2

Stanford Hospital and Clinics Financial Summary

	--Three months ended Nov. 30--	--Fiscal year ended Aug. 31--			'AA-' rated stand-alone hospital medians
	2019	2019	2018	2017	2018
Financial performance					
Net patient revenue ($000s)	1,320,141	5,113,052	4,677,929	4,234,526	777,926
Total operating revenue ($000s)	1,388,422	5,384,436	4,910,485	4,444,369	MNR
Total operating expenses ($000s)	1,361,021	5,037,241	4,622,282	4,236,519	MNR
Operating income ($000s)	27,401	347,195	288,203	207,850	MNR
Operating margin (%)	1.97	6.45	5.87	4.68	4.60
Net nonoperating income ($000s)	10,165	(3,602)	(8,070)	67,456	MNR
Excess income ($000s)	37,566	343,593	280,133	275,306	MNR
Excess margin (%)	2.69	6.39	5.71	6.10	8.30
Operating EBIDA margin (%)	7.19	11.00	10.50	9.14	10.90
EBIDA margin (%)	7.87	10.94	10.36	10.50	13.60
Net available for debt service ($000s)	110,024	588,833	507,704	473,635	132,787
MADS ($000s)	120,339	120,339	120,339	120,339	MNR
MADS coverage (x)	3.66	4.89	4.22	3.94	6.00

Table 2

Stanford Hospital and Clinics Financial Summary (cont.)

	--Three months ended Nov. 30--	--Fiscal year ended Aug. 31--			'AA-' rated stand-alone hospital medians
	2019	**2019**	**2018**	**2017**	**2018**
Operating-lease-adjusted coverage (x)	2.52	2.93	2.64	2.62	4.90
Liquidity and financial flexibility					
Unrestricted reserves ($000s)	3,053,809	3,031,163	2,941,380	2,284,878	699,530
Unrestricted days' cash on hand	213.6	228.3	241.5	204.3	310.6
Unrestricted reserves/total long-term debt (%)	168.7	166.4	151.6	161.2	265.7
Unrestricted reserves/contingent liabilities (%)	757.4	751.8	729.5	566.7	558.1
Average age of plant (years)	8.3	9.6	9.3	9.5	11.1
Capital expenditures/depreciation and amortization (%)	192.5	291.0	268.6	410.9	112.2
Debt and liabilities					
Total long-term debt ($000s)	1,810,683	1,821,179	1,940,167	1,417,729	MNR
Long-term debt/capitalization (%)	30.0	33.9	37.0	32.9	20.8
Contingent liabilities ($000s)	403,200	403,200	403,200	403,200	MNR
Contingent liabilities/total long-term debt (%)	22.3	22.1	20.8	28.4	40.2
Debt burden (%)	2.15	2.24	2.45	2.67	2.10
Defined-benefit plan funded status (%)		91.91	96.45	78.90	88.00
Pro forma ratios					
Unrestricted reserves ($000s)	3,333,809	N/A	N/A	N/A	MNR
Total long-term debt ($000s)	2,240,683	N/A	N/A	N/A	MNR
Unrestricted days' cash on hand	233.2	N/A	N/A	N/A	MNR
Unrestricted reserves/total long-term debt (%)	148.8	N/A	N/A	N/A	MNR
Long-term debt/capitalization (%)	34.6	N/A	N/A	N/A	MNR

MADS--Maximum annual debt service. MNR--Median not reported. N/A--Not applicable.

Credit Snapshot

- Security: The bonds are secured by the gross revenue of the of obligated group, which includes SHC, along with numerous outpatient physician clinics in the greater San Francisco region. Nonobligated subsidiaries of SHC include ValleyCare Medical Center, an insurance captive, joint ventures with Stanford University, and an outpatient oncology center with Emanuel Medical Center. UHA, a physician medical foundation with around 300 affiliated physicians, is also outside of the obligated group.
- Group rating methodology: The rating is based on our view of SHC's group credit profile (i.e., the consolidated audit for the system as a whole) and the obligated group's core status within the system. The obligated group is considered core to SHC's revenue and assets, and thus is rated at the same level as the group as a whole.
- Organization description: SHC is an academic medical center closely tied to the Stanford University School of Medicine. SHC's sole corporate member is Stanford University and its board elects all of SHC's board of directors. SHC's main campus includes a 549-staffed-acute-care-bed hospital directly adjacent to Stanford University. In addition, SHC includes the 242-licensed-bed ValleyCare Health System, which operates in a number of locations in and around Pleasanton, Calif.
- Rating framework: Under our criteria "U.S. And Canadian Not-For-Profit Acute Care Health Care Organizations," published March 19, 2018 on RatingsDirect, SHC is considered a stand-alone acute care provider. The presence of ValleyCare, a medical foundation, and other subsidiaries do not provide enough revenue diversity to make SHC a health care system under the criteria.