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Salem Health, Oregon Salem Hospital Facility Authority; Hospital

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Salem Hospital Facility Authority; Hospital

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Salem Hosp Fac Auth (Salem Hospital Regional Health Services)		
<i>Long Term Rating</i>	A+ / Stable	Current

Credit Highlights

- S&P Global Ratings' long-term rating on the Salem Hospital Facility Authority, Ore.'s series 2016A and 2019A revenue bonds, issued for Salem Health, is 'A+'.
- The outlook is stable.

Security

Salem Health's revenue bonds are secured by a gross receivable pledge of the obligated group.

Credit overview

The rating reflects our view of Salem's healthy enterprise profile, underlined by its long-standing position as market leader, as well as implementation of strategic investments that have resulted in greater patient access and a strong demand for services, expanding primary care base, and a well-tenured leadership team with a keen focus on operating efficiencies. Salem's strategy to expand employed specialty lines reflects management's focus on increasing patient access and maintaining its leading market share.

The rating further reflects our view of the hospital's healthy unrestricted reserves and solid balance-sheet metrics. In addition, the rating reflects our view of Salem Health's good debt profile, with improving unrestricted reserves to long-term debt, debt-to-capitalization, and debt burden. Management has no significant capital plans in the medium term, but there could be potential debt in the long term.

Salem Health's leadership has focused on cost containment to address financial pressures, resulting in positive operating margins in fiscal 2024. However, through the seven-month interim period ended Jan. 31, 2025, operations were slightly negative partially due to new state legislative changes that set staffing ratio requirements, as well as screening requirements for uninsured patients. These headwinds were considered in the fiscal 2025 budget, and management anticipates at least breakeven operating results by fiscal year-end 2025, which we believe is reasonable given conservative assumptions. At the same time, fiscal 2025 cashflow has been positive, contributing to healthy maximum annual debt service (MADS) coverage.

The rating also reflects our assessment of Salem Health's:

- Long-standing position as the market leader in its service area;

- Trend of solid MADS coverage; and
- Solid management team, with well-developed strategic plans and an ongoing commitment to process improvement in both administrative and clinical services.

Somewhat offsetting these factors are the hospital's:

- Somewhat weaker payer mix, with a reliance on governmental payers;
- Recent uneven operations, with a loss through interim 2025, although we note a trend of margin improvement through the end of the year; and
- Risks associated with the limited service-area population.

Environmental, social, and governance

We view Salem's physical risks as elevated due to its location in an area that might be susceptible to earthquakes and wildfires, which could negatively affect utilization and facilities. However, we believe this risk is mitigated by Salem's capital investments, including its seismically-updated parking garage.

We also analyzed Salem health's social and governance factors and view them as neutral in our analysis.

Outlook

The stable outlook reflects our expectation that Salem's operations will achieve at least breakeven results by fiscal year-end 2025 and through the outlook horizon. In addition, the stable outlook reflects our expectation for no new debt plans and that cash flow, MADS coverage, and balance-sheet metrics will remain healthy.

Downside scenario

We could lower the rating or revise the outlook to negative if operations do not improve to at least breakeven, or if there is a meaningful decline in unrestricted reserves from current levels. Although unlikely, we would view a large debt issuance or broad enterprise profile weakening unfavorably.

Upside scenario

We do not view a positive outlook or higher rating as likely during the outlook period, given Salem Health's trend of uneven operations.

Credit Opinion

Enterprise Profile: Strong

Exceptional market share

Salem Health serves the City of Salem, the capitol of Oregon, as well as the City of Keizer and areas of Marion and Polk counties. The hospital has long held the significant and leading market share, as it is the sole provider of most acute-care services within the primary service area, which anchors our view of the enterprise profile. With limited

expansion efforts by competition, this share is expected to remain very robust.

Long-standing management team and expanding medical staff

Salem Health has a stable and well-experienced management team that has used the lean-process management system to implement continuous improvements during the past decade. The system encourages staff at all levels to engage in projects to continuously improve operations and increase efficiency across the hospital, in both administrative and clinical services. A significant portion of the staff has led and completed a lean activity to support these efforts in recent years. Salem is committed to continuous improvement, and the success of this system is evident in the recent trend of improving average length of stay, solid operating performance, and excellent quality and patient-safety outcomes. Management is dedicated to succession planning and has shared several documents that suggest a strong planning culture and demonstrated ability to inform the staff effectively of organizational goals.

Salem Health's medical staff mostly comprises independent physicians, however the number of employed physicians grew through fiscal 2025 as management focused on recruiting employed physicians. Management expects that independent groups could join Salem Health. These shifts would result in increased admissions covered by employed physicians, which we view favorably.

Salem Health, Ore.--enterprise statistics

Table 1

	--Seven months ended Jan. 31--	--Fiscal year ended June 30--		
	2025	2024	2023	2022
	N.A.	436,597	436,388	436,098
PSA population	N.A.	70.0	68.9	69.9
PSA market share (%)	15,927	25,955	23,872	28,644
Inpatient admissions*	26,142	50,415	44,830	43,486
Equivalent inpatient admissions	68,156	113,943	110,391	102,946
Emergency visits	3,850	6,354	6,697	6,686
Inpatient surgeries	6,716	10,118	7,704	7,374
Outpatient surgeries	1,8067	1,8604	1,8982	1,9196
Medicare case mix index	5,482	5,381	4,744	4,518
FTE employees	688	623	583	571
Active physicians	N/A	N/A	N/A	N/A
Top 10 physicians admissions (%)	Net	Net	Net	Net
Based on net/gross revenues	33.4	35.6	35.5	39.3
Medicare (%)	19.0	19.5	19.3	14.3
Medicaid (%)	47.4	44.4	44.7	44.7
Commercial/Blues (%)				

*Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions. PSA--Primary service area. FTE--Full-time equivalent. N.A.--Not available. MNR--Median not reported.

Financial Profile: Very Strong

Solid financial performance despite early operating pressure in fiscal 2025

Salem Health has produced generally good performance, with positive cashflow supporting solid MADS coverage as leadership continues to employ lean management to realize cost savings. These efforts resulted in a profitable operating margin in fiscal 2024.

Through the first seven months of fiscal 2025, operations were affected by new state legislative requirements, such as nurse staffing ratios and patient screening for financial assistance eligibility. Initial projections for these requirements estimated an annual hit of \$35 million on operating income, but newer forecasts estimate that figure to be \$12 million. Although operating margin is negative at the interim, management expects that operations will be at least breakeven by fiscal year-end, but continued volume growth and operational efficiencies. Given the trend of improving operating margins since the early months of fiscal 2025, we view management's expectations as reasonable.

Despite lower days' cash on hand, balance-sheet strength continues with low debt profile

Salem Health has historically maintained a robust balance sheet, which has provided cushion against recent operating pressure. Over the past four years, unrestricted reserves have shown growth, and while days' cash on hand (DCOH) remains excellent, this metric has declined from fiscal year-end 2022 given rising expenses. Management anticipates unrestricted reserves will remain stable, but DCOH could continue to decline with increasing expenditures, although not below its internal target of at least 250 days.

The hospital has no significant capital plans on the horizon as it has budgeted capital spend to be between 105% and 132% of depreciation over the next 10 years. Management's long-term goal is to build debt capacity in that time in anticipation for larger projects.

Salem currently has a relatively light debt burden, no contingent debt, and lacks a defined-benefit pension plan. We note the hospital has access to a \$100 million line of credit, from which there is currently \$3.5 million drawn, which management notes will be paid back by fiscal year-end 2025.

Table 2

	--Seven months ended Jan. 31--		--Fiscal year ended June 30--		--Medians reported for 'A+' rated stand-alone hospitals--
	2025	2024	2023	2022	2023
Financial performance					
Net patient revenue (\$000s)	744,757	1,179,933	1,027,399	965,254	698,193
Total operating revenue (\$000s)	766,197	1,233,969	1,071,495	1,012,298	744,406
Total operating expenses (\$000s)	776,042	1,220,212	1,102,161	1,020,238	773,336
Operating income (\$000s)	-9,845	13,757	-30,666	-7,940	8,666
Operating margin (%)	-1.28	1.11	-2.86	-0.78	1.60
Net nonoperating income (\$000s)	40,610	55,715	40,367	62,811	21,374
Excess income (\$000s)	30,765	69,472	9,701	54,871	31,965
Excess margin (%)	3.81	5.39	0.87	5.10	4.30

Table 2

	--Seven months ended Jan. 31--	--Fiscal year ended June 30--		--Medians reported for 'A+' rated stand-alone hospitals--	
	2025	2024	2023	2022	2023
Operating EBIDA margin (%)	4.17	6.98	3.75	4.99	7.10
EBIDA margin (%)	8.99	11.00	7.24	10.54	10.70
Net available for debt service (\$000s)	72,553	141,801	80,533	113,344	64,860
Maximum annual debt service (\$000s)	27,994	27,994	27,994	27,994	24,199
Maximum annual debt service coverage (x)	4.44	5.07	2.88	4.05	4.60
Operating lease-adjusted coverage (x)	3.75	4.23	2.60	3.56	3.30
Liquidity and financial flexibility					
Unrestricted reserves (\$000s)	1,045,348	992,985	912,344	900,747	702,205
Unrestricted days' cash on hand	299.1	311.1	317.5	337.9	390.5
Unrestricted reserves/total long-term debt (%)	228.7	216.2	193.2	185.8	240.6
Unrestricted reserves/contingent liabilities (%)	N/A	N/A	N/A	N/A	1,029.4
Average age of plant (years)	14.3	13.5	13.2	13.8	12.2
Capital expenditures/depreciation and amortization (%)	214.8	99.3	155.9	275.3	127.4
Debt and liabilities					
Total long-term debt (\$000s)	457,032	459,187	472,222	484,766	316,908
Long-term debt/capitalization (%)	24.1	24.8	27.3	28.4	24.2
Contingent liabilities (\$000s)	0	0	0	0	90,195
Contingent liabilities/total long-term debt (%)	0.0	0.0	0.0	0.0	28.9
Debt burden (%)	2.02	2.17	2.52	2.60	2.20
Defined-benefit plan funded status (%)	N/A	N/A	N/A	N/A	93.70
Miscellaneous					
Medicare advance payments (\$000s)*	0	0	0	0	MNR
Short-term borrowings (\$000s)*	0	0	0	0	MNR
COVID-19 stimulus recognized (\$000s)	0	16,994	9,278	7,765	MNR
Risk based capital ratio (%)	N/A	N/A	N/A	N/A	MNR
Total net special funding (\$000s)	628	114	107	3,949	MNR

*Excluded from unrestricted reserves, long-term debt, and contingent liabilities. N/A--Not applicable. MNR--Median not reported.

This report does not constitute a rating action.

Credit Snapshot

- **Group Rating Methodology:** The obligated group is core to the group credit profile.
- **Organization description:** Salem Health operates two campuses in Salem, with the main campus containing a 577-staffed-bed acute care facility (Oak Street campus), including 25 acute psychiatric and 24 rehabilitation beds. In addition, Salem Health operates West Valley Hospital, a critical-access hospital located about 15 miles away in Dallas, Ore. All data in this report refer to the consolidated parent organization, Salem Health Hospitals and Clinics, which includes Salem Health (the obligated entity), West Valley Hospital, the two hospital foundations, a captive insurance company, and a professional services company that provides billing services to the hospitals.

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