Health Systems Agency of Northern Virginia

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**April 2, 2025**

**TO: HSANV Board of Directors**

**Interested Parties**

**FROM: Dean Montgomery**

**SUBJECT: Certificate of Public Need Application**

**Inova Health Care Services, Add 48 Beds at Inova Fairfax Hospital**

**(COPN Request VA-8803)**

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**I. Background and Summary of the Proposal**

**A. Issue**

Inova Health Care Services (Inova) seeks a certificate of public need (COPN) to add 48 medical-surgical beds at Inova Fairfax Hospital (IFH).

# B. Inova Fairfax Hospital

Inova Fairfax Hospital (IFH) is Northern Virginia’s largest community hospital and the region’s medical referral center. It is located near the center of the planning district (Map 1) and has the largest primary service area in the region. It is licensed to operate 928 beds, 506 of which are used as adult general medical-surgical beds.[[1]](#footnote-1)

Inova seeks authorization to add forty-eight (48) beds at IFH. The beds added would be used to serve adult medical-surgical patients. The project would increase IFH’s total licensed bed complement to 976 beds, 554 of which would be for general medical-surgical use.

Capital costs are projected to total $32,944,386, the majority of which ($17,142,896) would be construction expense. All capital costs would be paid from internal Inova funds. Current capacity and 2023 inpatient use at IFH, and at other local hospitals, are shown in Table 1.

Inova justifies the proposal on the grounds that:

* Inpatient use at Inova Fairfax Hospital is high. Annual average occupancy of the hospital’s medical-surgical beds is substantially above planning guidelines. Demand is increasing. Essentially, IFH medical-surgical beds are used to capacity.
* Additional beds are required to meet current and projected near-term demand.
* Adding beds at IFH to meet an internal (*institution specific*) need for inpatient capacity should not affect operations at other hospitals.
* Projected capital costs are reasonable for the space to be renovated and the number of beds to be added.
* The proposal is consistent with the institutional need provision (Section 12VAC5-230-80) of the Virginia State Medical Facilities Plan (SMFP).

If authorized, the project would be completed in late 2026.



**II. Discussion**

**A. Context: Northern Virginia Hospital Capacity, Use, Trends**

Northern Virginia has eleven acute care community hospitals.[[2]](#footnote-2) These hospitals are authorized to operate 3,033 beds. Table 1 summarizes operating capacity and inpatient service volumes in 2023, the most recent year for which comparable vetted service volumes are available. The average regional occupancy of licensed beds was about 75% in 2023. This is about 6% below the service volume planning standard of 80%.



Hospital service volumes vary widely. In 2023, only two facilities reported occupancy levels of 80% or higher: Inova Fairfax Hospital (85.4%) and Inova Loudoun Hospital (81.6.%). No other acute care community hospital had a service volume that approached the *minimum* recommended occupancy level of 80% specified in the Virginia State Medical Facilities Plan (Table 1). Excluding Inova Fairfax and Inova Loudoun, the reported average occupancy of the acute care community hospitals was about 62% in 2023, nearly 23% below the planning standard.

Market conditions and the relatively low regional occupancy rate reported in 2023 are not anomalous. Service volumes (discharges, patient days) vary considerably from year to year, but hospital *use rates* among residents of northern Virginia have been decreasing for decades. For example:

* Northern Virginia’s population *increased* by about 131% between 1980 and 2023, growing from 1,105,714 in 1980 to 2,556,143 in 2023. The compound annual growth rate (CAGR) was 1.97%.
* The regional hospital inpatient day use rate *decreased* by about 57% over this period of rapid population growth, dropping from 798 hospital days per 1,000 population in 1980 to 340 days per 1,000 in 2023.[[3]](#footnote-3) The inpatient day CAGR was negative (-2.01%) over this period.

With sharply decreasing use rates, aggregate regional use (expressed demand) has increased modestly, much slower than the population growth rate. Most of the net increase in aggregate inpatient service volumes is attributable to increasing migration to the region’s hospital for inpatient cares, not to regional population growth and aging.

The extraordinary decrease in use rates between 1980 and 2000 has attenuated over the last two decades but remains strong. Population changes and inpatient demand over the last two decades illustrate the nature and strength of regional hospital market conditions and trends:

* Though population growth rate is attenuating, as it grows from a larger base each year, it remains unusually strong. Northern Virginia’s population grew by about 40% between 2000 and 2023, increasing from 1,829,434 in 2000 to 2,556,143 in 2023. The compound annual growth rate over the last two decades was 1.47%. A notable decrease from the previous two decades but strong, nonetheless.
* The regional hospital discharge *rate decreased* by about 14% over this period, dropping from 71.7 community hospital discharges in 2000 to 61.4 discharges per 1,000 in 2023. The discharge rate CAGR was negative (-0.67%).
* The *number (count)* of hospital discharges increased by about 20%, growing from 131,239 discharges in 2000 to 156,937 in 2023. The service volume CAGR, (0.78%) was about half the population CAGR.

It is noteworthy that during this period Northern Virginia shifted from a net exporter of hospital patients, largely to District of Columbia hospitals, to a net importer of patients, largely from bordering Virginia jurisdictions. This pattern is now well established and not likely to change soon.

As these gross statistics suggest, the secular decrease in regional inpatient hospital use rates continues to offset most of the demand generated by population growth and aging. The decrease in resident hospital use rates is statewide in Virginia. It has been underway longer and steeper in northern Virginia than elsewhere, but significant statewide (Table 2). Over the last two decades the indigenous discharge rate in northern Virginia has been between 30% and 35% lower than the statewide rate.



These trends and patterns of use are not likely to change soon. Consequently, there is no indication of a near term (within the next five to 10 years) regional need for additional hospital capacity.

***Inova Fairfax Hospital Argument***

Inova proposes adding 48 beds at Inova Fairfax Hospital (IFH). This would increase the hospital’s licensed complement to 976 beds, 554 of which would be for general medical-surgical use. The project entails the conversion of the second and sixth floors of the hospital’s north patient tower to two twenty-four (24) bed nursing units. The space to be reallocated now houses administrative offices and an observation nursing unit.

IFH acknowledges that the bed need determination analysis called for in Virginia State Medical Facilities Plan projects a regional bed surplus of more than one hundred beds. The regional bed surplus notwithstanding, Inova argues that IFH has an *institution specific need* for additional beds to meet current and projected near term demand. The hospital’s medical-surgical occupancy reached 89% in 2023 and, without an increase in capacity, is expected to reach 98% within two years.

Some may perceive the expansion of IFH as problematic. Inova Fairfax is part of a health care system, Inova Health System, which has five local hospitals, two of which, Inova Mount Vernon Hospital (IMVH) and Inova Alexandria Hospital (IAH), reported lower than average service volumes recently. Arguably, unused medical-surgical capacity might be “transferred” or otherwise used to reduce demand at Inova Fairfax Hospital.

As explained in the application, the Inova Fairfax proposal takes fully into account the pending replacement of Inova Alexandria Hospital with smaller facilities at Landmark and in Springfield, VA and the redirection of patients who would otherwise use IFH to those hospitals. Likewise, changes underway at Inova Mount Vernon Hospital should result in efficient use of its licensed capacity.

In any event, it should be noted that transferring the license for a number of these beds to offset any increase in capacity at Inova Fairfax Hospital, or to any other facility, would be a technicality, a paper transaction. It would reduce the number of licensed beds at the donor facility, but would not affect the cost of the Inova Fairfax Hospital project or generate other benefits.

IFH service volumes, current and projected, and the absence of unused capacity within Inova Health System facilities that could be reallocated to respond to increasing demand at IFH, qualify the proposal for consideration under Section 12VAC5-230-80(A) of the Virginia State Medical Facilities Plan.

At 80% occupancy, adding the 48 beds requested would permit IFH to serve about 3,000 additional medical-surgical patients annually.

***Planning Guidance***

The Virginia State Medical Facilities Plan (SMFP) provides direct guidance in determining the need for medical-surgical services and beds. The applicable plan sections read:

**Part VI**

**Inpatient Bed Requirements**

**12VAC5-230-520. Travel time.**

*Inpatient beds should be within 30 minutes driving time one way under normal conditions of 95% of the population of a health planning district using a mapping software as determined by the commissioner.*

**12VAC5-230-530. Need for new service.**

*A. No new inpatient beds should be approved in any health planning district unless:*

*1. The resulting number of beds for each bed category contained in this article does not exceed the number of beds projected to be needed for that health planning district for the fifth planning horizon year; and*

*2. The average annual occupancy based on the number of beds in the health planning district for the relevant reporting period is:*

*a. 80% at midnight census for medical/surgical or pediatric beds;*

*b. 65% at midnight census for intensive care beds.*

*B. For proposals to convert under-utilized beds that require a capital expenditure of $15 million or more, consideration may be given to such proposal if:*

*1. There is a projected need in the applicable category of inpatient beds; and*

*2. The applicant can demonstrate that the average annual occupancy of the converted beds would meet the utilization standard for the applicable bed category by the first year of operation.*

*For the purposes of this part, "underutilized" means less than 80% average annual occupancy for medical-surgical or pediatric beds, when the relocation involves such beds and less than 65% average annual occupancy for intensive care beds when relocation involves such beds.*

**12VAC5-230-540. Need for medical/surgical beds.**

*The number of medical-surgical beds projected to be needed in a health planning district shall be computed as follows:*

*1. Determine the use rate for the medical/surgical beds for the health planning district using the formula:*

*BUR = (IPD/Pop) Virginia Department of Health Office of Licensure and Certification where:*

*BUR = the bed use rate for the health planning district.*

*IPD = the sum of total inpatient days in the health planning district for the most recent five years for which inpatient day data has been reported by VHI; and*

*Pop = the sum of total population 18 years of age and older in the health planning district for the same five years used to determine IPD as reported by a demographic program as determined by the commissioner.*

2. *Determine the total number of medical/surgical beds needed for the health planning district in five years from the current year using the formula:*

*Pro Bed = ((BUR x Pro Pop)/365)/0.80*

*Where:*

*ProBed = The projected number of medical/surgical beds needed in the health planning district for five years from the current year.*

*BUR = the bed use rate for the health planning district determined in subdivision 1 of this section.*

*ProPop = the projected population 18 years of age and older of the health planning district five years from the current year as reported by a demographic program as determined by the commissioner.*

*3. Determine the number of medical/surgical beds that are needed in the health planning district for the five planning horizon years as follows:*

*New Bed = Pro Bed – Current Bed*

*Where:*

*New Bed = the number of new medical/surgical beds that can be established in a health planning district, if the number is positive. If New Bed is a negative number, no additional medical/surgical beds should be authorized for the health planning district.*

*Pro Bed = the projected number of medical/surgical beds needed in the health planning district for five years from the current year determined in subdivision 2 of this section.*

*Current Bed = the current inventory of licensed and authorized medical/surgical beds in the health planning district.*

The proposal does not qualify for consideration to expand under this provision. Inova acknowledges that there are substantial numbers of unused beds in the region and, hence, no region wide need for additional medical-surgical beds.

Inova asserts an *institution specific need* for additional capacity. The Virginia SMFP provides general guidance in assessing the need for “institutional expansion” absent a general regional need for additional capacity:

**“12VAC5-230-80. When institutional expansion needed**.

1. *Notwithstanding any other provisions of this chapter, the commissioner may grant approval for the expansion of services at an existing medical care facility in a health planning district with an excess supply of such services when the proposed expansion can be justified on the basis of a facility's need having exceeded its current service capacity to provide such service or on the geographic remoteness of the facility.*
2. *If a facility with an institutional need to expand is part of a health system, the underutilized services at other facilities within the health system should be reallocated, when appropriate, to the facility with the institutional need to expand before additional services are approved for the applicant. However, underutilized services located at a health system's geographically remote facility may be disregarded when determining institutional need for the proposed project****.”***

**Subsection 12 VAC 5-230-80, pp. 7-8, Virginia SMFP**

Inova argues that its proposal qualifies for approval under Section 12VAC5-230-80(A), that current service volumes exceed service volume planning standards, and that demand will exceed capacity by the time the additional beds can be placed in service.

The proposal appears to be fully consistent with Section 12VAC5-230-80. Inova makes a credible argument that additional medical-surgical beds are warranted at Inova Fairfax Hospital.

**B. Access Considerations**

Inova Fairfax Hospital (IFH) offers an array of inpatient acute care medical-surgical services. It is the region’s largest community hospital and the regional referral center. It has the broadest and least concentrated primary service area in the region. More than half of the zip codes in the region are in the IFH primary service area. Adding the beds requested would not affect the size or configuration of the hospital’s service area or the referral patterns within it.

Inova has charity care policies that make free care available to uninsured patients with annual family income of less than 200% of the federal poverty level (about $42,300 for a family of two and $64,300 for a family of four). There are also limited discounts from charges available to uninsured (self-pay) patients with family income between 200% and 400% of the federal poverty level. The current proposal would not alter these policies and practices.

Adding beds at IFH is not necessary to improve regional access to inpatient care. There is no regional shortage of acute care hospital beds. Though additional beds are not necessary to ensure reasonable access, it is axiomatic that having adequate capacity is necessary to permit IFH to operate efficiently and to remain responsive to the communities it serves.

**C. Cost Considerations**

Inova proposes a capital outlay of $32,944,386 to add 48 medical-surgical beds at Inova Fairfax Hospital, an average cost of $686,342 per bed. The project entails the conversion of existing hospital space in IFH’s north tower building to accommodate two 24-bed nursing units, one on the second floor and one on the sixth floor.

Projected aggregate and unit costs (capital expense per square foot and per bed) are lower than most recent local acute care hospital projects. This is because the proposal entails renovating existing space for which a substantial part of the capital cost has already been incurred. All capital costs would be paid from internal Inova Health System funds. There would be no direct financing expense.[[4]](#footnote-4)

The *pro for*ma budget for the project assumes serving 2,952 patients in the forty-eight beds in 2027, with gross revenue (charges) of $59,005 per case, $22,688 net revenue per case, and an operating margin (profit) of $1,471 per case.



It is worth noting that capital investment and charges for hospital services in northern Virginia are notably lower than those reported statewide (Table 3). The average charge per case in the region, $46,450 in 2023, was more than 25% below the Virginia statewide average of $64,419.

The average charge among local acute care medical surgical hospitals ranged from $30,120 at Inova Fair Oaks Hospital to $87,430 at Reston Hospital Center. The average charge at Inova Fairfax Hospital was $50,460, about 9% above the regional average. Reflecting its referral center status, Inova Fairfax also had the highest case mix index in the region (2.41) and a longer than average length of stay (5.7 days). The average charge at the five Inova Health System hospitals was $43,198, about 7% below the regional average.

**D. Health System Considerations**

Inova’s proposal would add 48 beds to the region’s licensed complement, an increase of 5.2% in the Inova Fairfax Hospital licensed complement and a regional increase of about 1.6%. Inova does not assert a regional wide need for additional medical-surgical beds. It notes the high use of the hospital and increasing demand as evidence of an internal, *institution specific* need for additional capacity, necessary to respond to current and projected near-term demand.

Recent and current service volumes at IFH qualify the proposal for consideration to expand under the institutional need provision of Virginia SMFP. Restricting capacity at Inova Fairfax Hospital will not rectify, or otherwise address, the regional surplus capacity situation. Demand has steadily increased at IFH for more than a decade as unused beds have remained vacant at several chronic low volume services. Adding beds at IFH to meet near-term demand will not affect this segment of the market in a meaningful way.

**III. Conclusions and Alternatives for Agency Action**

**A. Findings and Conclusions**

Inova seeks authorization to add capacity under the *institutional need provision* of the Virginia State Medical Facilities Plan (SMFP). Current and projected service volumes qualify the hospital for consideration to add capacity in the presence of unused capacity regionally.

The nature and substance of the application, examined in the light of local hospital use, trends and market conditions, support several findings and conclusions:

1. Low hospital use rates are endemic in Northern Virginia. Hospital discharge and patient day rates have been substantially below national, state and metropolitan Washington area rates for more than three decades. They remain so.
2. Though any negative service use rate is necessarily asymptotic, the falling hospital use rate in Northern Virginia has proven resilient. There is no indication that it will stabilize or, as some assume, reverse in the near term.
3. Increases in aggregate demand among northern Virginia acute care facilities are largely the result of increasing net migration to the region for hospital care. Use of northern Virgina hospitals by residents from outside the region increased from 6.5% to 14.3% of total discharges over the last two decades. With the resident inpatient use rate continuing to decrease, migration to the region now accounts for most of the net gain in aggregate discharges and inpatient days of care.
4. Inpatient hospital use rates are decreasing nationally and statewide. The decreases in northern Virginia are steeper (greater) than those reported nationally, statewide, and in the Washington metropolitan area.
5. Application of the medical-surgical bed need formula specified in the Virginia SMFP suggests there is no regional need for additional hospital beds, medical-surgical and otherwise, within the next five years.
6. Inova makes a strong case for adding medical-surgical beds at Inova Fairfax Hospital as quickly as they can be added.
7. Inova’s assessment of its capacity and projected demand is system wide. The currently unused licensed capacity at Inova Alexandria Hospital and Inova Mount Vernon Hospital are taken into account,
8. The projected capital cost of the project is reasonable for the space to be renovated and for the number of beds developed.
9. The project qualifies under, and is consistent with, the provisions of Section 12VAC5-230-80, the institutional need provision, of the Virginia State Medical Facilities Plan.

# B. Alternatives for Agency Action

1. The Health Systems Agency of Northern Virginia may recommend to the Commissioner of Health that a certificate of public need authorizing the project be granted.

Approval of the proposal could be based on concluding that Inova has shown that:

* Though there continues to be a substantial number of unused medical-surgical beds in the region, Inova Fairfax Hospital the largest and most heavily used facility in the region, needs additional beds to accommodate demand and remain responsive to those it serves..
* There is no indication that adding the beds requested would affect operations of other service providers.
* Projected capital and operating costs are reasonable, and
* The proposal is consistent with the *institutional need* provisions of the Virginia State Medical Facilities Plan (SMFP) as it is normally applied.

1. The Health Systems Agency of Northern Virginia may recommend to the Commissioner of Health that a Certificate of Public Need not be granted.

An unfavorable recommendation could be based on concluding that:

* There is no projected regional need for additional acute care beds within the next five years
* .
* There are unused acute care hospital beds in the planning region that could be an alternative to the expansion of IFH.
* Northern Virginia residents have reasonable access to inpatient hospital care, including the full array of medical-surgical care.

**IV. Checklist of Mandatory Review Criteria**

* + 1. **Maintain or Improve Access to Care**

There are eleven widely distributed acute care community hospitals in Northern Virginia. These facilities are located such that virtually all Northern Virginia residents have ready access to multiple facilities. Expanding IFH would not alter the underlying structure and associated operations of the local inpatient care delivery system in any meaningful way.

The project, about a ten percent increase in Inova Fairfax Hospital’s adult medical-surgical capacity, appears to be essential to permit continued efficient operations.

Inova has acceptable charity care policies and practices. There would be no material change in access to care among uninsured and low-income residents.

1. **Meet the Needs of Residents**

Inova is an established provider of acute care hospital services with a well-defined service area. It serves large numbers of northern Virginians and is highly regarded.

An incremental increase in capacity would not change the IFH service area or alter in any meaningful way its service to local communities. There is no indication that Inova health System and Inova Fairfax Hospital are not trying to meet the needs of the communities and populations they serve.

1. **Consistency with Virginia State Medical Facilities Plan (SMFP)**

Inova seeks authorization to add medical-surgical beds under the *institutional need* provision of the Virginia State Medical Facilities Plan. It does not assert a general regional need for additional inpatient capacity. Current and projected IFH service volumes, and the absence of unused capacity within Inova Health System facilities that could be reallocated to respond to increasing IFH demand, qualify the proposal for consideration under Section 12VAC5-230-80(A) of the SMFP.

The proposal takes fully into account the pending replacement of Inova Alexandria Hospital with smaller facilities at Landmark and in Springfield, VA and the redirection of patients who would otherwise use IFH to those hospitals. Likewise, changes underway at Inova Mount Vernon Hospital should result in efficient use of its licensed capacity. There are no surplus medical-surgical beds within Inova Health System that could be used to respond to demand at IFH.

It is worth noting that transferring the license for any number of licensed beds to offset an increase in capacity at Inova Fairfax Hospital would be a technicality, a paper transaction that would reduce the number of licensed beds at the donor facility but would not affect the cost of the Inova Fairfax Hospital project or generate other benefits.

1. **Beneficial Institutional Competition while Improving Access to Essential Care**

The proposal is to expand an existing service provider, the largest in the region. It does not entail the introduction of a new service provider or establishing a new service delivery site. Inova’s five community hospitals have a regional market share of about 60%. Inova Fairfax Hospital’s market share is about 32%. Both shares decreased slightly over the last decade.

Inova is an energetic competitor. Adding beds would permit it to continue to be so. It is arguable that adding beds at IFH would permit the hospital to operate more efficiently and effectively and be more responsive to the communities it serves. It is unclear whether this would result in greater price competition or in other beneficial effects.

1. **Relationship to Existing Health Care System**

Inova is an established provider of a wide array of inpatient hospital services, at Inova Fairfax Hospital and region wide. It proposes a 48-bed expansion of IFH to accommodate current and near-term demand. There is no indication of likely or potential negative effects.

1. **Economic, Financial Feasibility**

The capital outlay proposed by Inova, $32,944,386, is relatively low, about $686,342 per bed. The project does not entail new construction or site acquisition expense.

The project would be financed with internal corporate funds. It does not entail direct long-term financing costs. It is financially feasible and likely to be profitable with a high internal rate of return on the investment.

**7. Financial, Technological Innovations**

The proposal does not entail innovative technologies, practices or economic elements that warrant special consideration.

**8. Research, Training Contributions and Innovations**

The proposal does not have significant research or training elements that warrant special consideration.

1. Most acute care hospital beds in Virginia are licensed as “medical-surgical” beds. Beds allocated to obstetrics, pediatrics, intensive care and other specialized services are licensed as medical-surgical beds. Exceptions are psychiatric, substance abuse treatment, and rehabilitation beds which are licensed separately. Hospitals may configure and use medical-surgical beds as experience dictates as long as the licensed bed

   complement is not exceeded. [↑](#footnote-ref-1)
2. This count excludes three specialty hospitals: two private freestanding psychiatric facilities (Dominion Hospital [116 beds] in Falls Church and North Spring Behavioral Healthcare [40 beds] in Loudoun County, and one rehabilitation hospital (Encompass Rehabilitation Hospital of Northern Virginia [60 beds] in Loudoun County. North Spring did not report usable 2023 service volumes for its 40 hospital beds. Its service volumes are not included in Table 1.

   Note: Inova Alexandria Hospital is being relocated and replaced by two smaller facilities (at Landmark and in Springfield (Fairfax County) later this decade. These changes should be complete within the next three to four years. There will be no increase in licensed bed capacity. [↑](#footnote-ref-2)
3. These data and calculations are for facility-based hospital discharge and inpatient day data. Population based (northern Virginia resident) hospital use rates (discharges and inpatient days per 1,000 northern Virginia residents) are lower, substantially lower than national, state, and Washington metropolitan area rates. Inpatient hospital use rates are decreasing nationally and statewide. The decreases in northern Virginia have been and remain steeper (larger) than those in Virginia statewide. [↑](#footnote-ref-3)
4. Though there is no direct financing expense assigned to the project, there are substantial financing costs inherent in large capital investments. Inova and other health care systems obtain funds from operations, from earnings on retained capital, and from borrowing. The unstated financing cost is essentially the market investment grade corporate bond rate.

   The bond interest rate is determined by the credit rating assigned to the borrower by a handful of rating services. Inova Health System has strong, investment grade ratings. Last summer (July 2024) S&P Global Ratings assigned a 'AA+' long-term rating to the Fairfax County Industrial Development Authority, $400 million tax exempt series 2024 health care revenue bonds, issued on behalf of Inova Health System Foundation. Among other considerations, the assessment stated:

   “The 'AA+' rating reflects our opinion of Inova's excellent enterprise profile, which is characterized by its leading business position as an integrated delivery system with a comprehensive network of hospitals, outpatient services and facilities, primary and specialty care physician practices, and health and wellness initiatives serving the economically robust northern Virginia-Washington, D.C. metropolitan area, and contiguous counties in Virginia and Maryland.

   The rating also reflects our view of Inova's extremely strong financial profile, generating improved operating results, contributing to solid coverage of pro forma maximum annual debt service and a balance sheet that remains a core credit strength. Inova's operating performance showed steady improvement in fiscal 2023 and through the three-month interim period ended March 31, 2024, driven by strong demand for services, higher case mix and revenue growth, offset by continued wage and inflationary pressures in the health care sector.”

   See <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3218014> [↑](#footnote-ref-4)