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Illinois Finance Authority RUSH Obligated Group; System

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Illinois Finance Authority
RUSH Obligated Group; System

Credit Profile		
RUSH Obligated Grp taxable rev bnds (RUSH Obligated Grp) ser 2020 due 06/30/2050		
Long Term Rating	A+/Stable	Current
Illinois Finance Authority, Illinois		
RUSH Obligated Grp, Illinois		
Illinois Fin Auth (RUSH Obligated Grp) SYSTEM		
Long Term Rating	A+/Stable	Current

Credit Highlights

- S&P Global Ratings' long-term rating on the Illinois Finance Authority's series 2015A and 2015B fixed-rate tax-exempt hospital revenue bonds, issued for the Rush Obligated Group, and its series 2020 fixed-rate taxable bonds is 'A+'.
- The outlook is stable.
- Rush University Medical Center (RUMC), located in Chicago, is the largest entity of the obligated group. Rush System for Health (RUSH) is the parent organization.

Security

The obligated group's gross revenue secures the bonds.

Credit overview

The 'A+' rating reflects our view of RUSH's continued solid operating performance over the last two years and stable market presence, despite its location in an extremely competitive market with several large academic medical centers (AMCs) and systems. While RUSH is a less geographically diverse system, it has a niche position as an AMC with an integrated university and research enterprise. This, along with expansion of key clinical service lines, as well as a focus on alignment and partnerships, has expanded and diversified RUSH's position in the broader Chicagoland region. In addition, RUSH uses Rush Health, a clinically integrated network, to further expand its presence by working with its employed and independent physicians and its partner providers. RUSH continues to embrace partnerships and plans to use existing networks, physician relationships, and other health care participants to implement its strategies. Management continues to systemize and garner strategic and operating benefits to prepare for increased value-based payments. The recent agreement with CVS Health based on the ACO REACH model is an example, whereby RUSH expects to see several strategic benefits. For instance, RUSH has the opportunity to continue its success in governmental shared savings programs, with CVS as a partner. RUSH has also agreed to prioritize CVS referrals for minute clinic patients who need follow-up care, which will further strengthen RUSH's competitive position through volume growth and improvements in the payer mix.

RUSH has successfully navigated the headwinds from the COVID-19 pandemic, generating operating profits over the last two years, albeit with the support of approximately $146 million in CARES Act grant funds recognized over that period. However, operating performance weakened through the Sept. 30, 2022, interim period, as a deterioration in payer mix, continued labor and wage pressures, planned strategic expenses relating to programmatic investments and performance improvements, and capital projects such as the Joan and Paul Rubschlager Building weighed on operating margins. Management currently expects to generate operating profits in fiscal 2023, although at a lower level, as it continues to contend with ongoing labor headwinds, elevated expenses, and a weaker payer mix. That said, reaching these objectives may be more challenging than anticipated given the losses over the interim period, which are expected to persist through the second quarter of fiscal 2023.

The 'A+' rating further reflects our view of RUSH's:

- Solid business position, with a large operating revenue base of almost $3 billion from three served markets, continued strong market recognition for RUMC as an AMC with broad clinical services (and as a market leader in certain key clinical areas), broadening education and research capabilities, and a focus on outpatient services and partnerships for growth in a competitive market;
- Historically good financial operations and cash flow that remained solid despite pandemic headwinds, along with maximum annual debt service (MADS) coverage topping 5x over the last two fiscal periods; and
- Disciplined and strategic management team that looks to strengthen its business position and prepare for potential reimbursement changes through various initiatives and partnerships, including investing in outpatient strategies and Rush Health, and with a focus on systemizing the organization.

Partly offsetting the above strengths, in our view, are RUSH's:

- Location in the highly competitive and still fragmented Chicago service area, which continues to consolidate, with three other hospitals in its immediate service area and with three other AMCs across Chicago as well as other community hospitals and health systems;
- Recent deterioration in payer mix, with an increasing concentration in governmental payers, although management is undertaking several initiatives to improve the mix; and
- Limited income and revenue dispersion from an acute care perspective (compared with other rated not-for-profit health care systems) with operating income and revenue coming primarily from RUMC.

Environmental, social, and governance

We view RUSH's social risk as neutral in our credit rating analysis. That said, RUSH is experiencing widespread human capital social risks associated with higher labor and wage pressures, which are expected to persist through 2023. We view health and safety risks tied to the COVID-19 pandemic and its variants as easing, but continue to monitor COVID-19 and its variants. We view RUSH's environmental and governance risk as neutral in our credit rating analysis. RUSH appointed a new CEO in 2022 with extensive health care experience, and we consider the current management team to have breadth and depth.

Outlook

The stable outlook reflects our view of RUSH's solid balance sheet, along with our expectation that the system will remain profitable over the outlook period even as it invests in clinical programs, broader outpatient and consumer strategies, and performance-enhancing initiatives. The outlook also reflects our expectation that RUSH's business position, including market share, will remain sound, and that the Rubschlager facility will shortly be opened, coming in under budget.

Downside scenario

We could consider lowering the rating if cash flow attenuates for a sustained period, if a future debt issuance significantly outpaces expectations and pressures the balance sheet, or if unrestricted reserves weaken outside of expected declines related to planned capital projects. Although not expected over the outlook period, any weakness in the enterprise profile could pressure ratings.

Upside scenario

We could consider a higher rating or positive outlook if RUSH is able to consistently generate performance while continuing to improve balance-sheet strength to levels in line with a higher rating. Finally, we could raise the rating if, in addition to the above, RUSH's clinical enterprise and revenue base continue to benefit from recent physician and outpatient investments and partnership strategies.

Enterprise Profile: Strong

Location in broad service area but with limited inpatient geographic diversity

RUSH's three medical centers (RUMC; Rush Oak Park Hospital, or ROPH, which is included in RUMC's operations; and Rush Copley Medical Center, or RCMC) are in three separate areas of the greater Chicago area. The system benefits from the diverse local economy of the Chicago market and a large population base. RUMC serves eight counties of the large Chicagoland market, while RCMC and ROPH serve more limited primary service areas. RCMC is about 40 miles west of Chicago, while ROPH is about eight miles west of RUMC. Wealth indicators in the city (where RUMC is located) exceed national averages.

RUSH has a good market position, led by RUMC, that has remained stable in the past couple of years, despite its location in a competitive and evolving market. While RUMC largely competes with other Chicago AMCs--Northwestern Memorial Hospital, University of Chicago Hospitals and Health System, Loyola University Health System, and University of Illinois Medical Center--it also competes with other large tertiary providers. RUSH's market share in its total eight-county service area remains stable, at around 3.6%. However, RUSH is less geographically diversified as a system, with reliance on RUMC, which accounts for a large portion of the system's operating revenues and income.

RUMC remains focused on clinical service line, outpatient services, and partnerships

We view RUSH as well-positioned, with comprehensive clinical services across the system and a focus on specific service lines (particularly neurosciences, cancer care, heart and vascular, and primary care), and with a niche position as a health sciences and research university.

RUSH is also pursuing several partnerships, outpatient investments, and joint ventures for clinical enhancement and revenue diversity. Recent examples include the collaboration between CVS Accountable Care Organization (a division of CVS Health) and RUSH. The collaboration, based on the Center for Medicare and Medicaid Innovation's redesigned direct contracting model, ACO REACH (Realizing Equity, Access, and Community Health), will allow Medicare patients seeking care at ACO REACH-participating MinuteClinic locations in Chicago and Evanston to access care with RUSH for follow-up primary and specialty care. RUSH, which will be the only academic medical center in the Chicagoland participating in the program, should benefit from an expanded presence in its primary service area through the clinics, along with an improved payer mix. Other significant efforts include the construction of the Joan and Paul Rubschlager Building, which is set to open in February 2023 and will house RUSH's Cancer Center, as well as several of RUSH's neurosciences programs and other programs.

RUSH management and board positioning the organization for future delivery model

In July 2022, Dr. Omar Lateef was appointed CEO of Rush System for Health, having previously been named president of the system in 2021. In addition to his new position, Dr. Lateef will remain as president and CEO of Rush University Medical Center. Previously, Dr. Lateef had been RUMC's chief medical officer. Dr. Ranga Krishnan, RUSH's prior CEO, will remain at RUSH and act as a senior advisor to Dr. Lateef. In addition, in July 2022, Dr. Sherine Gabriel, president of Rush University, retired and was replaced on an interim basis by Dr. Larry Goodman, M.D., who was previously the CEO of the system and Rush University Medical Center.

The team has continued to make headway on its strategic efforts while navigating pandemic-related challenges to maintain the overall competitiveness and strength of RUMC and the system. More specifically, the strategies will likely incorporate continued build-out of ambulatory centers, including the large outpatient building on the main campus, along with digital and retail strategies with partnerships, clinical and research investments, and other partnerships to improve operations. The organization is also using its strengths as an education and research institution to further its overall position as an AMC in the region, and this should help manage ongoing labor challenges within the sector.

Table 1

Rush System for Health, Illinois--Enterprise Statistics				
	--Three months ended Sept. 30--	**--Fiscal year ended June 30--**		
	2022	**2022**	**2021**	**2020**
PSA population	N.A.	8,662,510	N.A.	8,525,610
PSA market share (%)	N.A.	3.4	3.6	3.6
Inpatient admissions	11,613	45,934	49,717	46,551
Equivalent inpatient admissions	29,423	112,885	113,362	99,557
Emergency visits	45,976	174,950	165,614	172,032
Inpatient surgeries	3,389	13,744	15,907	15,733
Outpatient surgeries	10,875	43,579	41,301	29,931
Medicare case mix index	2.0885	2.0700	2.0415	1.9759
FTE employees	13,040	12,809	12,723	12,468
Active physicians	N.A.	2,305	2,051	2,150
Based on net/gross revenues	Gross	Gross	Gross	Net

Table 1

Rush System for Health, Illinois--Enterprise Statistics (cont.)				
	--Three months ended Sept. 30--	--Fiscal year ended June 30--		
	2022	2022	2021	2020
Medicare (%)	41.9	40.7	39.1	25.9
Medicaid (%)	22.6	21.6	21.1	14.3
Commercial/Blues (%)	31.7	34.9	36.6	48.1

N.A.--Not available. Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions.

Financial Profile: Very Strong

Weaker interim financial performance in fiscal 2023 follows solid 2022 results

In fiscal 2022, RUSH generated solid, although slightly weaker, operating profits, which were largely spurred by improving volumes, particularly in outpatient surgeries and ER, as well as higher acuity and the recognition of about $84 million in governmental relief funds. These results were achieved despite a deterioration in payer mix, as well as ongoing pandemic headwinds, including labor staffing and wage pressures, which were particularly severe in the second half of fiscal 2022, as well as continued programmatic investments in the organization, including service line investments and additional expenses associated with productivity initiatives.

Interim results through Sept. 30, 2022, were weaker, with operating losses driven by further deterioration in payor mix, as well as ongoing labor and staffing challenges, and additional budgeted expenses associated with initiatives such as the establishment of a digital footprint, the hiring of performance consultants, and the construction and staffing of the $470 million Rubschlager Building. Management expects operating margins in fiscal 2023 to be positive, although weaker than the previous fiscal period, as the system continues to incur additional costs associated with various previously planned strategic initiatives, which should improve the system's overall performance and competitiveness over the longer term.

In recent years, RUSH has reported MADS coverage (smoothed) that was robust and in line with rating medians, although coverage declined through Sept. 30, 2022, due to weaker operating performance. For fiscal 2023, management expects MADS coverage to improve from current interim levels, although we believe that it may be weaker than prior-year levels.

Liquidity remains solid despite weaker days' cash on hand

The system's liquidity and financial flexibility remains robust, although days' cash on hand and unrestricted reserves to long-term debt have steadily declined since 2021, in part due to market volatility as well as the execution of capital projects, such as the Rubschlager Building, which is set to open under budget in early 2023, and the recognition of initial costs associated with programmatic and performance initiatives. That said, RUMC has almost $674 million in restricted funds as of Sept. 30, 2022, that are not included in unrestricted reserves, as they are intended to be used for specific purposes, but that are helpful in furthering RUSH's strategic investments. We expect capital expenditures-to-depreciation will remain at a higher clip for fiscal 2023 before returning to more moderate levels, which should, over time, support the build-up of unrestricted reserves.

RUSH's investments are largely in fixed-income and cash (about 62%), public and private equities (about 30%), and other (8%), with a meaningful portion accessible within seven days. We view this as very good liquidity for an organization of this size.

Debt profile remains robust

We view RUSH's debt ratios as in line with rating expectations, although its leverage and debt burden are slightly higher than rating medians. That said, we still view the debt structure as fairly conservative from the perspective of interest rate (almost all synthetically fixed) and contingent liability (less than 15% of long-term debt). No debt plans are expected over the outlook period.

The series 2016 variable-rate bonds and series 2019 fixed-rate bonds are placed with commercial banks ($50 million series 2016 bonds placed with Northern Trust and $34.9 million series 2019 with Bank of America). The series 2016 are long-dated until 2045 with a mandatory tender on June 29, 2026, and the series 2019 bonds are long-dated until 2049 with a mandatory tender on Aug. 29, 2029. Certain covenants, such as debt service coverage, are slightly stricter within the series 2016 and 2019 bank documents (MADS coverage of 1.2x) and there are certain additional covenants, including cash on hand of 65 days. Given RUSH's credit profile, we don't view its two swaps as a significant concern.

RUSH's defined-benefit pension plans are slightly underfunded, by approximately $48.6 million as of June 30, 2022, which we view as relatively small given the system's unrestricted reserves. Over the years, RUSH has taken a variety of actions to de-risk its pension; we view this favorably, and expect that RUSH will continue to look for such opportunities.

Table 2

Rush System for Health, Illinois--Financial Statistics

	--Three months ended Sept. 30--	--Fiscal year ended June 30--			Medians for 'A+' rated health care systems
	2022	2022	2021	2020	2021
Financial performance					
Net patient revenue ($000s)	694,300	2,702,767	2,574,590	2,233,576	2,574,590
Total operating revenue ($000s)	789,901	3,160,358	2,998,072	2,650,363	2,998,072
Total operating expenses ($000s)	796,555	3,072,828	2,890,886	2,745,117	2,883,645
Operating income ($000s)	(6,654)	87,530	107,186	(94,754)	94,222
Operating margin (%)	(0.84)	2.77	3.58	(3.58)	3.80
Net nonoperating income ($000s)	(3,272)	54,377	53,023	(31,625)	92,594
Excess income ($000s)	(9,926)	141,907	160,209	(126,379)	207,165
Excess margin (%)	(1.26)	4.41	5.25	(4.83)	5.30
Operating EBIDA margin (%)	5.12	8.43	9.67	3.42	9.00
EBIDA margin (%)	4.73	9.98	11.24	2.25	11.20
Net available for debt service ($000s)	37,179	320,704	342,865	58,920	409,123
Maximum annual debt service ($000s)	62,797	62,797	62,797	62,797	62,797
Maximum annual debt service coverage (x)	2.37	5.11	5.46	0.94	5.50
Operating lease-adjusted coverage (x)	N.A.	3.33	3.66	0.96	4.20

Table 2

Rush System for Health, Illinois--Financial Statistics (cont.)

	--Three months ended Sept. 30--	--Fiscal year ended June 30--			Medians for 'A+' rated health care systems
	2022	2022	2021	2020	2021
Liquidity and financial flexibility					
Unrestricted reserves ($000s)	1,769,105	1,843,368	1,988,101	1,512,839	1,595,093
Unrestricted days' cash on hand	213.1	230.1	264.7	213.3	243.9
Unrestricted reserves/total long-term debt (%)	195.5	203.2	214.9	160.7	193.8
Unrestricted reserves/contingent liabilities (%)	1,442.0	1,502.5	1,593.7	935.3	943.3
Average age of plant (years)	12.5	13.0	12.6	11.2	12.0
Capital expenditures/depreciation and amortization (%)	92.9	142.8	116.1	140.7	106.2
Debt and liabilities					
Total long-term debt ($000s)	904,721	907,068	925,028	941,659	817,382
Long-term debt/capitalization (%)	32.5	32.0	31.8	37.5	28.8
Contingent liabilities ($000s)	122,687	122,687	124,748	161,752	222,398
Contingent liabilities/total long-term debt (%)	13.6	13.5	13.5	17.2	25.1
Debt burden (%)	2.00	1.95	2.06	2.40	1.90
Defined-benefit plan funded status (%)	N.A.	94.70	97.80	91.48	92.10
Miscellaneous					
Medicare advance payments ($000s)*	146	33,900	192,472	231,700	MNR
Short-term borrowings ($000s)*	N/A	N/A	N/A	75,000	MNR
COVID-19 stimulus recognized ($000s)	N/A	84,497	61,200	85,100	MNR
Risk based capital ratio (%)	N/A	N/A	N/A	N/A	MNR
Total net special funding ($000s)	25,744	103,941	71,384	62,648	MNR

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

Credit Snapshot

- Group rating methodology: The obligated group is almost entirely the same as the system, so the 'A+' rating is based on our view of RUSH's group credit profile and the obligated group's core status.
- Credit profile: RUSH is an integrated delivery system serving Chicago--primarily the western and southwestern suburbs--but considers the eight-county Chicago metro area its service area. In addition to its parent entity, Rush System for Health, the system includes RUMC, RCMC (a 210-staffed-bed acute care medical center in Aurora), ROPH (an 84-staffed-bed acute care hospital in Oak Park), and Rush Health, a physician hospital organization and clinically integrated network. RUMC dominates the system with its 674-staffed-bed academic medical center in Chicago, Rush University (a health sciences university with more than 2,800 students and more than $170 million of annual research funding that consists of four colleges, including nursing and medical schools), and Rush University Medical Group (a faculty practice plan). There are also a few joint venture entities.
- Swaps: The total notional amount was approximately $63.2 million at June 30, 2022, with a mark-to-market value of $6.78 million. The counterparties on the swaps are Morgan Stanley Capital Services Inc., with a guarantee by Morgan Stanley Capital Services and Citibank N.A. RUSH is using $50 million of the interest rate swap to synthetically fix the interest rate on the series 2016 bonds, and the remaining swap notional amount is an orphan swap. No collateral is being posted.

Related Research

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