FitchRatings

RATING ACTION COMMENTARY

# Fitch Affirms Rush System for Health's (IL) IDR at 'AA-'; Outlook Stable

Thu 17 Feb, 2022 - 4:47 PM ET

Fitch Ratings - Chicago - 17 Feb 2022: Fitch Ratings has affirmed Rush System for Health's (RUSH) Issuer Default Rating (IDR) at 'AA-' and the 'AA-' ratings on series 2015A&B fixed rate tax-exempt revenue bonds issued by the Illinois Finance Authority on behalf of RUSH and series 2020 taxable fixed rate revenue bonds issued directly by RUSH.

The Rating Outlook is Stable.

### SECURITY

Bond payments are secured by a pledge of the gross revenues of the obligated group. The obligated group includes the vast majority of RUSH operating assets, including the Rush University Medical Center (RUMC) flagship academic medical center (AMC) and the two community hospitals, Rush Oak Park Hospital (ROPH) and Rush Copley Medical Center (RCMC).

### ANALYTICAL CONCLUSION

The 'AA-' IDR reflects RUSH's strong financial profile in the context of its midrange revenue defensibility and strong operating risk profile assessments. Despite pressure from the coronavirus pandemic, RUSH has maintained strong capital-related ratios. While operating in a competitive metropolitan area, RUSH has a broad reach for high-acuity services as a leading AMC.

The Stable Outlook considers Fitch's anticipation that notwithstanding the ongoing effects of the coronavirus pandemic and economic uncertainty, RUSH's operations will remain profitable over time. Moreover, Fitch expects the system will continue to sustain sound operating margins leading to maintenance of strong capital-related ratios in the forward-looking scenario analysis, even in a stress case.

### KEY RATING DRIVERS

**Revenue Defensibility: 'bbb'**

AMC with Broad Reach in Very Competitive Market

RUSH operates in a highly competitive market with a number of competing AMCs and other large health systems. In addition to RUSH, the eight-county primary service area includes Advocate Aurora Health, AMITA Health (a joint venture between Ascension Health and Adventist Health that is scheduled to unwind), Northwestern Memorial HealthCare, the recently merged NorthShore - Edward-Elmhurst Health, the University of Chicago Medicine, Loyola Medicine (a member of Trinity Health), and University of Illinois Health, among others.

Due to the highly fragmented market, with the inclusion of multiple AMCs and health systems with tertiary level services, Fitch considers RUSH's market position to be comparatively weaker relative to industry peers operating in less competitive areas. Positively, RCMC and ROPH have distinct market share leads in their respective local markets (Aurora, IL and Oak Park, IL, respectively).

The broader service area economy is considered to be generally stable despite uncertainty about the macro economy and state budget pressures. As a major metro area, Chicago benefits from a diversified economy. RUSH's combined gross Medicaid/self-pay is generally in the 23% - 24% range, just below Fitch's 25% threshold for a midrange assessment. Fitch notes that if the payor mix were to weaken moderately, RUSH's payor mix assessment could be revised to moderately weak. Illinois expanded Medicaid under the Affordable Care Act (ACA).

**Operating Risk: 'a'**

Track-Record of Strong Results Despite Pandemic

RUSH has a track-record of profitability and good operating margins. Excluding fiscal 2020, when the fiscal challenges of the pandemic were particularly acute, the system's operating margin and operating EBITDA margin averaged 3.0% and 9.2%, respectively, between fiscals 2017 and 2021. After recording a pandemic-induced operating loss of approximately $95 million in fiscal 2020 (-3.6% operating margin; 3.4% operating EBITDA margin, adjusted to move investment returns included in operating revenue to non-operating), margins rebounded to 3.6% and 9.7%, respectively, in fiscal 2021. Drivers behind the improved operations include: volume rebounds in areas such as inpatient admissions (up nearly 7% in fiscal 2021), observations stays (up 2.5%), and total surgeries (up about 25%). RUSH also benefited from CARES Act grants, recording $61.2 million in fiscal 2021 (following $86.0 million in fiscal 2020).

Going forward, management expects industry-wide labor and inflationary macro trends to persist. Nevertheless, over the long term, Fitch expects RUSH to remain profitable and generate an operating EBITDA margin broadly in the 9% range over time. Through six-months fiscal 2022, the system recorded an operating EBITDA margin of 8.5%.

Capital spending plans are manageable over the long term. The capital spending ratio averaged approximately 1.4x between fiscals 2017 and 2021. The average age of plant measured 12.6 years at FYE 2021. Capex should be elevated in fiscal 2022, as the system works to complete the Joan and Paul Rubschlager Building, an estimated $440 million-$460 million ambulatory and cancer center located on the RUMC campus (expected to be completed by fall 2022, funded by a combination of fundraising and taxable bond proceeds). Thereafter, capital spending should moderate.

RUSH does not have formal new money debt plans in the near term.

**Financial Profile: 'aa'**

Strong Capital-Related Ratios Should be Sustained

RUSH's capital-related metrics should remain consistent with a strong financial profile in Fitch's forward-looking scenario analysis, including in the stress case. At FYE 2021, the system had nearly $1.1 billion of debt and unrestricted cash and investments measured nearly $2 billion (excluding Medicare advance payments). RUSH's defined benefit pension (DB) plan was 98% funded at FYE 2021 (relative to a projected benefit obligation of nearly $1.1 billion). Because Fitch's calculation of adjusted debt includes only the portion of a DB plan below an 80% funded level, RUSH's adjusted debt is equivalent to its direct debt. Therefore, at FYE 2021, net adjusted debt was favorably negative.

Based on fiscal 2021, RUSH's net adjusted debt-to-adjusted EBITDA was favorably negative at -1.8x and cash-to-adjusted debt measured a robust 185%. In Fitch's forward-looking scenario analysis, net adjusted debt-to-adjusted EBITDA remains favorably negative in all five years and cash-to-adjusted debt does not fall below 140% in any year, including in a stress case scenario.

**Asymmetric Additional Risk Considerations**

There are no asymmetric risk factors associated with RUSH's rating.

RUSH's unrestricted cash and investments measured nearly $2 billion at FYE 2021 (excluding Medicare advances). Cash on hand was approximately 265 days at FYE 2021 and therefore does not pose an asymmetric risk. In addition to unrestricted liquidity, RUSH's restricted cash is considerable and continues to grow, with restricted net assets measuring in excess of $1 billion at FYE 2021. While restricted net assets are not included in calculating liquidity or capital-related ratios, they do bolster balance sheet strength.

RUSH had nearly $1.1 billion of debt at FYE 2021, with only approximately 5% variable rate. Maximum annual debt service (MADS) is $62.8 million (based on smoothing debt service; actual pro forma debt service includes a $330 million bullet in 2030). Smoothed MADS coverage was a good 7.6x in fiscal 2021 and does not pose an asymmetric risk. RUSH's financial covenants include minimum MADS coverage of 1.20x, minimum historical debt service coverage of 1.10x, and minimum cash on hand of 65 days.

**RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Reversion to stronger operating EBITDA margins sustained above 10% in the long term;

--Material liquidity growth leading to considerably stronger capital-related ratios, including cash-to-adjusted debt in excess of 250% even in a downside scenario.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Unexpected compression of operating EBITDA such that the margin were sustained notably below 9% over time, leading to an operating risk profile more consistent with a midrange assessment;

--Unanticipated material increase in net debt resulting in notably weaker capital-related ratios.

**BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

## CREDIT PROFILE

RUSH owns three hospitals: RUMC, the AMC flagship located in Chicago; ROPH in Oak Park; and RCMC in Aurora. Additional operations include a medical group with over 870 employed physicians, a rehabilitation facility, multiple ambulatory facilities in the metro area, a freestanding ED in the western suburbs, research, a medical-centered university with more than 2,800 enrolled students in fall 2021 (all graduate), and a graduate medical education program.

RUSH is unique among AMCs in that the hospital founded the university and both entities are under a common governance and management structure. While patient services account for the vast majority of RUSH's operations, tuition/educational programs and research accounted for approximately 8% of total operating revenue in fiscal 2021.

RUSH recorded nearly $3 billion in operating revenue in audited fiscal 2021 (June 30 YE). RUSH is a part of the Illinois Medical District along with the University of Illinois Hospital & Health Sciences (UI Health), the John H. Stroger, Jr Hospital (a member of the Cook County Health and Hospitals System), the Jesse Brown VA Medical Center, and other healthcare entities.

## SUMMARY OF FINANCIAL ADJUSTMENTS

In fiscal 2018, proceeds from the sale of property and equipment is so high (nearly $80 million) that it dilutes RUSH's net five-year average capital spending ratio (because Fitch nets the sale of property & equipment to calculate net additions to PP&E). To account for this, acquisition of property and equipment is removed from the calculation of net additions to PP&E in fiscal 2018 to create a more accurate reflection of RUSH's capital spending ratio.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

## RATING ACTIONS

| ENTITY / DEBT | RATING | | | PRIOR |
|---|---|---|---|---|
| Rush System for Health (IL) | LT IDR | AA- Rating Outlook Stable | Affirmed | AA- Rating Outlook Stable |
| Rush System for Health (IL) /General Revenues/1 LT | LT | AA- Rating Outlook Stable | Affirmed | AA- Rating Outlook Stable |

VIEW ADDITIONAL RATING DETAILS

## FITCH RATINGS ANALYSTS

**Mark Pascaris**
Director
Primary Rating Analyst
+1 312 368 3135
mark.pascaris@fitchratings.com
Fitch Ratings, Inc.
One North Wacker Drive Chicago, IL 60606

**Kevin Holloran**
Senior Director
Secondary Rating Analyst
+1 512 813 5700
kevin.holloran@fitchratings.com

**Eva Thein**
Senior Director
Committee Chairperson
+1 212 908 0674
eva.thein@fitchratings.com

## MEDIA CONTACTS

**Sandro Scenga**
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

## PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria (pub. 18 Nov 2020) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.3 (1)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

| | |
|---|---|
| Rush System for Health (IL) | EU Endorsed, UK Endorsed |

## DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, THE FOLLOWING HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

READ LESS

## COPYRIGHT

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information

are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.
The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

**READ LESS**

## SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

US Public Finance | Healthcare and Pharma | North America | United States