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](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

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VIEW ADDITIONAL RATING DETAILS
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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)

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ENDORSEMENT STATUS

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

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