FitchRatings

RATING ACTION COMMENTARY

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

Mon 13 Feb, 2023 - 2:55 PM ET

Fitch Ratings - Chicago - 13 Feb 2023: Fitch Ratings has affirmed Rush System for Health's (RUSH) Issuer Default Rating (IDR) at 'AA-'. Fitch has also affirmed at 'AA-' the ratings on tax-exempt revenue bonds issued by the Illinois Finance Authority on behalf of RUSH and taxable revenue bonds issued directly by RUSH.

The Rating Outlook is Stable.

Analytical Conclusion

The 'AA-' IDR reflects RUSH's strong financial profile despite ongoing macro labor and inflationary pressures, as RUSH has maintained generally sound operating metrics and strong capital-related ratios. While operating in a competitive metropolitan area, RUSH has a broad reach for high-acuity services as a leading academic medical center (AMC).

The Stable Outlook considers Fitch's anticipation that notwithstanding the ongoing macro pressures, RUSH's operations will remain profitable over time, although recognize that metrics will likely be more modest in fiscal 2023. Capital-related ratios should remain strong in the forward-looking scenario analysis, including in a stress case.

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

SECURITY

Bond payments are secured by a pledge of the gross revenues of the obligated group (OG). The OG includes the vast majority of RUSH operating assets, including the Rush University Medical Center (RUMC) flagship AMC and the two community hospitals, Rush Oak Park Hospital (ROPH) and Rush Copley Medical Center (RCMC). RUSH's financial covenants include minimum maximum annual debt service (MADS) coverage of 1.20x, minimum historical debt service coverage of 1.10x, and minimum cash on hand of 65 days.

KEY RATING DRIVERS

Revenue Defensibility - 'bbb'

AMC with Broad Reach in Competitive Market

Due to the high degree of competition in the Chicago area, with the inclusion of multiple AMCs and large health systems with tertiary level services, Fitch considers RUSH's market position to be comparatively weaker relative to AMC industry peers operating in less competitive areas. Positively, RCMC has a distinct market share lead of its local market around Aurora, IL, and ROPH is the leader (when combined with RUMC) in its market around Oak Park. RUSH's university operations benefit from strong enrollment demand and student quality.

The broader service area economy is considered to be generally stable. As a major metro area, Chicago benefits from a diversified economy. RUSH's combined gross Medicaid/self-pay is in the 23%-24% range (23.6% in fiscal 2022), just below Fitch's 25% threshold for a midrange assessment. Illinois expanded Medicaid under the ACA. RUSH has experienced a shift of about two percentage points over the last two years from commercial to Medicare.

Operating Risk - 'a'

Track-Record of Strong Results Despite Pandemic and Macro Pressures

RUSH has a track-record of good operating margins. Excluding fiscal 2020, when the challenges of the pandemic were particularly acute, the system's operating margin and operating EBITDA margin averaged 3.0% and 9.2%, respectively, between fiscal years 2016 and 2022 (including an 8.4% operating EBITDA margin in fiscal 2022). Sound margins were sustained in fiscal 2022 despite pronounced labor and inflationary pressures.

Looking forward, while labor pressures are expected to continue, management expects RUSH to remain profitable and Fitch's strong operating risk assessment factors in our belief that over the long-term the system should sustain an operating EBITDA margin at least in the 8% range. Nevertheless, near-term pressures persist, as management budgeted a more modest 7.0% operating EBITDA margin for fiscal 2023. Indeed, the first half of fiscal 2023 has been challenged with a 4.7% operating EBITDA margin (compared to 6.1% budgeted for the period).

Management reports that interim 2023 continues to be hampered by inflation and labor challenges, as well as investments to increase access and one-time preparation expenses related to the new Joan and Paul Rubschlager Building (which includes RUSH's new cancer center).

Management is implementing a number of strategic initiatives to drive margin improvement, including revenue opportunities with the recently opened Rubschlager Building, continued ambulatory growth and RUSH's new partnerships with CVS. RUSH is also implementing expense management tools, highlighted by efforts to sustain employee retention and minimize contract labor.

Capex is manageable. The capital spending ratio averaged approximately 1.4x between fiscal years 2018 and 2022. The average age of plant measured 13 years at FYE 2022. The capital spending ratio is expected to be elevated in fiscal 2023 at about 2.7x as the system completed the Rubschlager Building. Thereafter, capex should moderate to a routine pace. RUSH does not have additional debt plans in the near term.

Financial Profile - 'aa'

Strong Capital-Related Ratios Should be Sustained

RUSH's capital-related metrics remain strong in Fitch's forward-looking scenario analysis. At FYE 2022, the system had just over $1.0 billion of debt and unrestricted liquidity exceeded $1.8 billion (excluding Medicare advances), translating to cash-to-adjusted debt of nearly 180%. At FYE 2022, RUSH's defined benefit pension was 95% funded (relative to a projected benefit obligation of just over $915 million), which does not give rise to a debt equivalent under Fitch's calculation of adjusted debt.

RUSH's net adjusted debt-to-adjusted EBITDA was favorably negative at -5.7x in fiscal 2022. Cash on hand of was approximately 230 days and smoothed MADS coverage was 4.7x in fiscal 2022, and therefore not asymmetric risks. In Fitch's forward-looking scenario analysis stress case, 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 and approaches 180% by year five.

Asymmetric Additional Risk Considerations

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

Only approximately 5% of RUSH's debt is variable rate.

In addition to unrestricted liquidity, RUSH's restricted cash is considerable, measuring about $900 million at FYE 2022. While these restricted assets are not included in calculating liquidity, they do bolster balance sheet strength.

RATING SENSITIVITIES

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

--Sustained operating EBITDA margin compression expected to remain below 8%, leading to a weaker operating risk assessment;

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

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

--Long-term reversion to stronger operating EBITDA margin sustained above 10%;

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

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.

PROFILE

RUSH owns three hospitals: RUMC, the AMC flagship in Chicago; ROPH in Oak Park; and RCMC in Aurora. Additional operations include a large multidisciplinary medical group, a rehabilitation facility, multiple ambulatory facilities in the metro area, a freestanding emergency department in the western suburbs, research, a medical-centered university with nearly 2,900 enrolled students in fall 2022 (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 operations, tuition/educational programs and research accounted for approximately 8% of total operating revenue in fiscal 2022.

RUSH recorded nearly $3.2 billion in operating revenue in audited fiscal 2022. 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), and the Jesse Brown VA.

In fall 2022, a RUMC subsidiary formed a joint venture (JV) with Select and closed on a $75 million five-year debt to finance the construction of a five-story specialty hospital. The operating JV is 73.5% Select and 26.5% RUMC subsidiary (the ownership of the building is 50/50). RUSH has provided a guarantee on the debt until certain conditions are met (RUSH's debt would measure about $1.1 billion if the guarantee were included).

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.

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

Rebecca Greive
Associate Director
Secondary Rating Analyst
+1 312 205 3399
rebecca.greive@fitchratings.com

Margaret Johnson, CFA
Senior Director
Committee Chairperson
+1 212 908 0545
margaret.johnson@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), v2.0.0 (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 & DISCLOSURES

https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

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