FitchRatings

RATING ACTION COMMENTARY

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

Thu 08 Feb, 2024 - 4:26 PM ET

Fitch Ratings - Chicago - 08 Feb 2024: 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.

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

The 'AA-' reflects RUSH's strong financial profile and an expectation that operating margins will rebound despite ongoing macro labor pressures. The system's balance sheet metrics remain strong, and are expected to remain favorable even in a forward-looking stress case. While operating in a competitive metro 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 continued macro pressures, RUSH's operations will remain profitable over time and the operating EBITDA margin will rebound to levels more consistent with a strong operating risk assessment.

SECURITY

Bond payments are secured by a gross revenue pledge 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).

KEY RATING DRIVERS

Revenue Defensibility - 'bbb'

AMC with Broad Reach in Competitive Market

Competition in the Chicago area remains robust, with the inclusion of multiple AMCs and other large health systems with tertiary services. Consequently, Fitch considers RUSH's market position to be comparatively weaker relative to AMC industry peers operating in less competitive areas. More favorably, 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 trended up to 24.9% in FY23 after averaging in the 23%-24% range, just below Fitch's 25% threshold for a midrange assessment. Illinois expanded Medicaid under the ACA, and despite the recent uptick in combined Medicaid/self-pay levels, Fitch does not expect significant payor mix changes over the near term.

Operating Risk - 'a'

Track-Record of Strong Results; Margins Compressed Recently

RUSH has a track-record of good operating margins, which were generally sustained despite the pandemic and macro labor and inflationary pressures. Excluding FY20, when the challenges of the pandemic were particularly acute, the system has remained profitable and the operating EBITDA margin averaged 9.0% between FY17 and FY22. Metrics compressed in FY23 with a 0.5% operating margin and 5.6% operating EBITDA margin (moving the portion of investment income included in operating revenue to non-operating), as RUSH, like most of the rest of the U.S. healthcare sector, contended with considerable macro labor and inflationary pressures (with a June 30 FYE, labor pressures largely did not hit RUSH until the second half of FY22).

Fitch notes that RUSH's operating pressures are largely not the result of deteriorating volume trends, despite operating in a metro area with generally stagnant population trends. Most key volumes continued to trend up in FY23, including admissions (up 2.0% in FY23 over FY22, and up 2.8% including observations), unique patients (up 4.6%), total surgeries (up 3.1%), and outpatient visits (up 4.0%).

Management is implementing an improvement plan, with a long-term goal to rebound to an operating EBITDA of 8%-plus. Initiatives include a mix of top-line revenue opportunities and expense management, including: labor savings (including a recently announced staff reduction, primarily administrative); ambulatory access point and primary care expansion, including an exclusive clinic partnership with CVS in the Chicago area; revenue cycle and clinical documentation improvements; and supply chain and pharmacy restructuring. Cancer services will remain a focus of RUSH's growth strategy.

Through six months unaudited FY24, RUSH recorded a -0.2% operating margin and 5.4% operating EBITDA margin. To put some additional context on the interim period, RUSH recorded negative operating EBITDA in July 2023 and a modest 1.7% operating EBITDA margin in August, but has since averaged an operating EBITDA margin of 7.8%. Moreover, improved results should be sustained in the coming months as RUSH's improvement initiatives are implemented and the system will benefit from 340b settlement payments.

Capital Spending

RUSH has approximately $1.2 billion in capex planned between FY24 and FY28, translating to an average capital spending ratio of about 1.2x. Management notes that capex is dependent in part on hitting operating targets and fundraising goals. Highlighted projects include additional ambulatory access points, expansion of RCMC, and information technology to enhance patient digital experience. RUSH is coming off a period of sustained investment, as the capital spending ratio averaged more than 1.5x between FY19 and FY23. RUSH does not have new money debt plans in the near term.

Financial Profile - 'aa'

Strong Capital-Related Ratios Should be Sustained

RUSH's financial profile remains strong in Fitch's forward-looking scenario analysis, including in a stress case. At FYE 2023, the system had just over $1.0 billion of debt and unrestricted liquidity exceeded $1.8 billion. Days' cash on hand exceeded 205 days, and therefore is not an asymmetric risk to RUSH's financial profile.

Cash-to-adjusted debt exceeded 170% at FYE 2023. RUSH's frozen defined benefit (DB) pension was 101% funded relative to a projected benefit obligation of just over $880 million (Fitch only counts as a debt equivalent the portion of a private DB pension that is below 80% funded).

RUSH's net adjusted debt-to-adjusted EBITDA was favorably negative at -2.5x in FY23. The system's financial profile should remain strong in Fitch's forward-look, including in a stress case. In the stress case, net adjusted debt-to-adjusted EBITDA is favorably negative in all five years and cash-to-adjusted debt does not fall below 140% in any year and exceeds 170% by year four.

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. Maximum annual debt service (MADS) is $63.8 million. MADS coverage measured 4.4x in FY23 and is not an asymmetric risk.

RUSH's MTI financial covenants include minimum MADS coverage of 1.2x, minimum historical debt service coverage of 1.1x, and minimum cash on hand of 65 days. RUSH has headroom to all covenants.

In addition to unrestricted liquidity, RUSH's restricted cash is considerable, measuring about more than $930 million at FYE 2023. While these restricted assets are not included in calculating liquidity, they bolster balance sheet strength.

RUSH has recently made two updates to senior leadership: In January 2024 Matt Walsh joined as system COO, after having previously served in similar roles at Geisinger Health and Henry Ford Health System; and RUSH announced that as of April 2024 Dr. Robert S.D. Higgins is expected to join as President of RUSH University and Chief Academic Officer of RUSH. Dr. Higgins previously served as President of Mass General's Brigham and Woman's Hospital, with prior experience at Johns Hopkins School of Medicine and RUSH College.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Sustained operating EBITDA margin compression expected to remain closer to 7%, leading to a weaker operating risk assessment;

--Notably weaker capital-related ratios, particularly if cash-to-adjusted debt were expected to remain below 120%.

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 stress scenario.

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, a freestanding ED in the western suburbs, research, and a medical-centered university with nearly 2,800 enrolled students in fall 2023 (all graduate).

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 nearly 9% of total operating revenue in FY23.

RUSH recorded more than $3.3 billion in operating revenue in audited FY23. 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.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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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)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub. 12 Jan 2024) (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

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