University Of Pittsburgh Medical Center, PA Bond Rating Lowered To 'A' From 'A+' On Strained Financial Position

NEW YORK (S&P Global Ratings) March 19, 2020--S&P Global Ratings lowered its tax-exempt long-term rating and underlying rating (SPUR) to 'A' from 'A+' on various issuers' bonds issued for the University of Pittsburgh Medical Center (UPMC), Pa. We also lowered our rating on UPMC's taxable bonds to 'A' from 'A+'. Additionally, we lowered our long-term rating to 'A' from 'A+' on various issuers' revenue bonds originally issued for Pinnacle Health System and Hanover Hospital. The ratings and outlooks on UPMC Pinnacle and Hanover are on parity with the rating on UPMC because UPMC assumed responsibility for their debt. The outlook on all ratings is stable.

"The downgrade reflects thin margins that have not met expectations for the past two years coupled with the unexpected additional debt issuance of $1 billion that strains the balance sheet and debt service coverage," said S&P Global Ratings credit analyst Cynthia Keller. While UPMC's absolute amount of unrestricted reserves continues to increase, the growth has been tempered by high capital spending and has not kept pace with rising costs or debt. Because of these factors, we no longer view UPMC's financial profile as being in line with an 'A+' rating.

We could consider a lower rating with persistently negative operating margins through the outlook period that fail to generate around 2.5x debt service coverage (DSC). Any further weakening of the balance sheet beyond this additional debt issuance could also pressure the rating or outlook, unless there is a commensurate increase in unrestricted reserves. We view UPMC's enterprise profile, with ample geographic diversity and substantial market presence, as a stabilizing rating factor during the outlook period.

We believe UPMC's enterprise profile could support a higher rating, but given the comparatively weaker financial metrics for the rating level, we
consider a positive outlook or higher rating as more likely outside the outlook period if a trend of improved financial performance can be reestablished. This would include DSC of near 4x, 1.5x unrestricted reserves relative to debt, and near 150 days' cash on hand.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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