



Rating Action: Moody's affirms Montefiore Obligated Group's (NY) Baa3; outlook negative

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New York, April 06, 2023 -- Moody's Investors Service has affirmed Montefiore Obligated Group's (NY) Baa3 rating. Montefiore Obligated Group is the borrowing entity for Montefiore Health System (MHS). The outlook remains negative. MHS maintains about \$2.55 billion in total debt (including guaranteed debt).

RATINGS RATIONALE

Affirmation of the Baa3 reflects MHS's leading market share in the Bronx, supported by its clinical excellence and its flagship's status as the primary teaching hospital for Albert Einstein College of Medicine (AECOM). MHS's credit profile also reflects its relative scale and experience with value-based contracting, aided by its large integrated base of faculty and primary care physicians. This essential system's commitment to its community and surrounding counties adds presence but also provides financial challenges. MHS met its 2022 coverage covenant due in part to higher state funding, which is expected to rise in fiscal 2023. However, management projects fiscal 2023 operating losses and very modest margins will be in line with fiscal 2022. Flat inpatient volume, higher wages, and increased transfers to AECOM will be contributing factors. MHS's days cash and cash to debt levels will trail below expectations due to both operating and investment losses. However, management expects days cash to get closer to its targeted 100 days with operating improvements in fiscal 2024; receipt of additional FEMA funds could also help support this. However, even if OCF margins return to the 3%-4% range, MHS's operating leverage will remain very high, further burdened by operating leases and post-retirement benefit obligations. Increasing reliance on state funding, as well as atypically high levels of Medicaid will continue to provide uncertainty.

RATING OUTLOOK

The negative outlook reflects Moody's view that MHS will face challenges in achieving better operating cash flow margins as well as targeted days cash and cash to debt measures over the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained material improvement in OCF margins
- Significant reduction in leverage or material increase in days cash or cash to debt
- Indication that state funding levels would be sustained

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to show continual improvement in OCF margins during fiscal 2023 that support a

return to 3%-4% (including AECOM as operating expenses) by fiscal 2024

- Inability to shore up days cash and cash to debt metrics
- Reduction in state funding
- Dilutive merger or acquisition
- Although not expected, covenant breach

LEGAL SECURITY

Under the MTI, bonds are secured by a gross receivables pledge of MMC, the sole current member of the obligated group. Based on unaudited fiscal 2022 financials, MMC represents about 65% of the revenues of MHS and about 70% of the assets of the system. Bondholders have a mortgage lien on the main campus buildings of MMC's flagship facility, the Moses Division.

PROFILE

Montefiore Health System (MHS) is the parent of Montefiore Medical Center (MMC), which is comprised of three inpatient campuses with 1,558 licensed beds located in the Bronx, NY, as well as several other affiliated "member" organizations in Westchester, Rockland and Orange Counties. Member hospitals include 292 bed White Plains Hospital, 121 bed Montefiore Mount Vernon Hospital, 223 bed Montefiore New Rochelle Hospital, 391 bed Nyack Hospital, 242 bed St. Luke's Cornwall Hospital, and 150 bed Burke Rehabilitation Hospital. MHS's medical staff (about 6,000 physicians), is comprised of employed providers including faculty practice physicians as well as non-employed independent physicians. Montefiore Medicine Academic Health System (MMAH) is the parent above MHS that also controls Albert Einstein College of Medicine (AECOM).

METHODOLOGY

The principal methodology used in these ratings was Not-For-Profit Healthcare published in December 2018 and available at <https://ratings.moodys.com/api/rmc-documents/70886>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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