FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns 'AA' to New York and Presbyterian Hospital (NY) 2020 Taxable Revs; Outlook Stable

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Fitch Ratings - New York - 05 Aug 2020: Fitch Ratings has assigned a 'AA' rating to the expected issuance of the following bonds issued by The New York and Presbyterian Hospital (NYP):

--$750 million taxable bonds series 2020.

Fitch also affirms NYP's 'AA' Issuer Default Rating and the 'AA' revenue bond rating for the following bonds:

--$500 million taxable bonds series 2019.

--$750 million taxable bonds series 2015;

--$850 million taxable bonds series 2016.

The Rating Outlook is Stable.

Proceeds from the taxable bonds will be used for general corporate purposes. Maximum annual debt service is expected to be approximately $307 million, smoothing for bullet maturities on certain bond series. Bonds are expected to sell via negotiation the week of Aug. 10.

SECURITY

The series 2020 taxable bonds, along with the 2015, 2016 and 2019 taxable bonds, are an unsecured obligation of NYP and will not be secured by a pledge of or lien on any revenue or property of the Obligated Group (OG), of which NYP is the only member.

ANALYTICAL CONCLUSION

The long-term 'AA' rating reflects Fitch's expectation that NYP will maintain its market position as a major regional academic medical health system in the highly competitive and fragmented New York region. The rating also reflects NYP's strong operating risk assessment, which is supported by operating EBITDA margins that averaged 10.3% and capital spending that averaged approximately 186% of depreciation over the last four audited years, both of which are consistent with the 'AA' assessment. While Fitch expects 2020 and 2021 to be challenging operating years for

NYP, Fitch's forward look shows NYP's operating metrics beginning to return to historical levels afterwards, as expenses normalize and volumes stabilize. Fitch expects adjusted leverage metrics to remain consistent with the 'AA' rating category throughout the forward look, which reflects in part NYP's very strong balance sheet heading into the coronavirus pandemic.

The largest current capital project at NYP is a systemwide EPIC installation. The project will run through 2022 and cost approximately $964 million -- approximately $317 million in capital costs and approximately $647 million in operating expenses. NYP absorbed approximately $138 million of the $317 million in capital costs to date. Overall, NYP's ability to fundraise in support of capital projects coupled with a manageable capital spending program over the next two years should provide NYP with a measure of financial flexibility as it navigates through the pandemic.

The coronavirus pandemic created an uncertain environment for the entire healthcare sector, which may result in a number of different plausible scenarios in the coming periods. Fitch's ratings are forward looking and Fitch will monitor developments in the sector as it relates to severity and duration, and will incorporate revised expectations for future performance and assessment of key risks as necessary.

KEY RATING DRIVERS

Revenue Defensibility: 'bbb'

Sizable Clinical Footprint Across New York Region

NYP's midrange revenue defensibility is supported by its competitive market share and sizable clinical footprint in the greater New York metropolitan area. NYP includes one academic medical center in New

York City; affiliations with two medical schools; and affiliated hospitals in Queens, Brooklyn and Westchester County, NY.

Operating Risk: 'aa'

Solid Operating Metrics and Capital Spending

The strong operating risk assessment reflects historically strong operating EBITDA margins around 10% and ongoing capital investments, supported by a steady and sizable flow of philanthropic funds. While Fitch expects near-term stress on NYP's margins, NYP performance should begin to return to historical levels after 2021.

Financial Profile: 'aa'

Financial Profile Resilient Through the Cycle

Fitch's forward looking analysis shows NYP's financial profile remaining consistent with the rating.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric factors were applied to this rating determination.

RATING SENSITIVITIES

Fitch believes NYP's balance sheet supports the rating during this period of uncertainty brought on by the pandemic.

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

--System growth such that NYP significantly diversifies its geographic reach while maintaining its current operational and financial profile.

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

--A trend of operating EBITDA margins after 2021 that falls well below 10% coupled with a weakening in unrestricted liquidity.

--A larger than expected debt issuance that moves cash to adjusted debt below 120% (measured at approximately 172% at May 31, 2020).

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].

CREDIT PROFILE

Created in January 1998 through the merger of The Society of The New York Hospital and The Presbyterian Hospital in the City of New York, NYP is a not-for-profit corporation that operates at seven campuses: Weill Cornell, Columbia Irving, Morgan Stanley Children's Hospital, Lower Manhattan, Westchester, Lawrence Hospital and Allen Hospital, in Manhattan and Westchester County, New York. NYP is the primary clinical teaching facility for The Joan and Sanford I. Weill Medical College of Cornell University and the Columbia University Vagelos College of Physicians & Surgeons. NYP has three non-OG regional hospitals operated through an active parent, of which NYP is the sole member: NYP/Hudson Valley, NYP/Queens and NYP/Brooklyn Methodist. For purposes of its financial analysis, Fitch uses the consolidated audited results of NYP, which includes the regional hospitals. NYP had consolidated operating revenues of approximately $9 billion in 2019.

REVENUE DEFENSIBILITY

NYP's payor mix shows Medicaid and self-pay combined at just above 26.7% of gross revenues. NYP has a children's hospital, which has a high level of Medicaid, but Medicaid reimbursement for neonatal and pediatric services is generally higher than Medicaid reimbursement for adult services. The modest amount of regional diversity should help insulate NYP from employment disruptions due to the pandemic that might affect NYP's payor mix.

The midrange market position assessment reflects NYP's competitive position across New York City and Westchester County. NYP figures show an inpatient market share of approximately 18% in its primary service area

(PSA), from which approximately 80% of admissions come. NYP's two academic affiliations, the acuity of the services it provides (NYP's Medicare case mix index is above 2.0x), and a large base of physicians through the faculty group practices at both academic medical centers and four regional captive physician groups secure NYP's market position. These system components combined with NYP's ability to make strategic capital investments, such as in the recently opened state-of-the-art outpatient David H. Koch Center, should keep NYP's market position stable.

NYP's PSA encompasses four of the five boroughs of New York City (Manhattan, Queens, Brooklyn and the Bronx) and Westchester County. The demographics in the PSA vary, but are generally in line or better than New York state and the U.S., with smaller pockets of weaker demographics.

OPERATING RISK

Prior to the coronavirus pandemic, NYP's operating performance was consistently strong and stable, with operating EBITDA margins averaging 10.3% over the past four years (most recently 9.8% in 2019). Increasing volumes, a high level of acuity, and growth in NYP's outpatient settings and at its regional hospitals, all supported good top-line revenue growth over this period. Management is also committed to cost management. NYP has saved over $579 million since 2012 with a focus on hospital efficiency, revenue, clinical utilization, length of stay and enhanced sourcing. NYP also worked to more deeply integrate the system through standardization, employee and physician engagement, regionalization and virtualization, as well as investments in key service lines, such as women's heath, neurology and neurosurgery, pediatrics, cardiac, cancer and orthopedics.

NYP's YTD performance has been affected by the coronavirus, especially as New York City was one of the earliest epicenters of the virus and NYP treated some of the first patients that contracted the virus. In terms of revenue, NYP already stopped elective surgeries by March 16, the date when New York City curtailed non-emergent procedures, and NYP's revenues are consequently approximately $738 million behind budget through May 31, 2020. On the expense side, NYP estimates it absorbed approximately $600 million in extra costs due to the coronavirus. These costs include those related to establishing more inpatient capacity, with NYP creating over 680 surge beds, including the construction of a field hospital at its own cost; and by reconfiguring cafeterias, conference rooms and lobby spaces to intensive-care units and medical inpatient areas. NYP provided over $163 million in wellness and support services to its employees across the system in the form of mental health support, food, housing, transportation, child care and bonus payments for frontline staff. Nonpatient-facing staff was redeployed for frontline support and 690 new staff members were hired to support patient care. The procurement of personal protection equipment also led to additional costs.

NYP consequently reported a loss of $141 million through the first five months of 2020. These results include $724 million of federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding -- NYP has another $139 million in CARES funding it has yet to recognize into revenue. NYP began to resume elective surgeries on June 8, 2020, and they are expected to improve revenues. NYP management reports volumes are returning (surgical volumes reached over 65% of pre-coronavirus volumes by the end of June) and are exceeding NYP's near-term projections. NYP has been budgeting very conservatively throughout the pandemic, including planning for additional coronavirus surges. However, Fitch expects 2020 and 2021 to be challenging years, with negative operating margins expected in 2020 and likely in 2021, although with a smaller operating loss in 2021. Fitch expects NYP's operating performance to be positive in 2022 and begin to return to historical performance levels thereafter.

NYP's historical capital spending metrics were also very strong, with an average age of plant of 6.4 years at YE 2019 and capital spending as a percentage of depreciation averaging approximately 184% over the last four audited years. In 2020, NYP was in the first year of an eight-year, $5 billion capital plan. NYP undergoes a rigorous process in forming these eight-year plans prioritizing projects, by analyzing if they have an acceptable level of return on investment, and building in a certain amount of timing flexibility, where available. With the onset of the pandemic, NYP has been able to reduce its near-term capital spending to provide financial flexibility. The EPIC project is the largest project underway and NYP plans to keep it on its current timetable. The next largest project, the $329 million Alexandra Cohen Hospital for Women & Newborns, opened on Aug. 2. The next largest project, a cancer center, is in the planning phase, and there is flexibility in commencement timing.

With EPIC as NYP's largest capital commitment and no other major projects underway, Fitch believes NYP can reduce its near-term capital spend in 2020 and 2021, and return to historical levels thereafter without affecting its competitive position or its financial profile. Fitch also expects philanthropy in support of capital project to remain strong at NYP, with over $1.4 billion raised since 2007.

No additional considerations informed the rating assessment.

FINANCIAL PROFILE

NYP's financial profile is supported by its strong balance sheet, which supports leverage metrics consistent with the rating. NYP's cash to adjusted debt was 172% in 2019 and net adjusted debt to adjusted EBITDA was negative 2.7x, which indicates NYP could pay down all its long-term debt in less than one year. NYP's days cash on hand was a solid 278 days at YE 2019. No debt equivalents were included in the adjusted debt figures, per Fitch's criteria, as NYP's frozen defined benefit plan is over 80% funded and its operating leases are capitalized consistent with the recent changes to accounting board standards.

Through the five-year cycle in Fitch's baseline scenario that assumes lower margins in 2020 and 2021 and a portfolio sensitivity of 13% that is customized to NYP's portfolio asset allocation, net adjusted debt to adjusted EBITDA remains solidly negative, while cash to adjusted debt remains comfortably within the thresholds for a 'AA' assessment for a hospital with a midrange revenue defensibility and strong operating risk profile. Capital spending figures show NYP being able to continue to fund its major projects during this time. The results demonstrate resilience at the 'aa' financial profile assessment with a strong operating risk driver.

There were no additional considerations.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric risks were factored into the rating determination. After issuance, NYP's total long-term debt, including bonds, capitalized leases and draws on lines of credit, will total approximately $5 billion, or approximately $2.1 billion of it is the 2015, 2016 and 2019 fixed-rate taxable issuances in terms of the long-term debt composed of bonds. Of the remaining $1.2 billion of bonds (including the debt of the regional hospitals), $757 million is FHA-insured, fixed-rate debt.

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

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
New York and Presbyterian Hospital (NY)	LT IDR	AA Rating Outlook Stable	Affirmed
• New York and Presbyterian Hospital (NY) /General Revenues/1 LT	LT	AA Rating Outlook Stable	Affirmed

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria (pub. 27 Nov 2019) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Not-For-Profit Hospitals - Fitch Analytical Stress Test Model, v1.4.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

New York and Presbyterian Hospital (NY)	EU Endorsed

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