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NYU Hospitals Center, NY Bond Rating Outlook Revised To Stable From Positive On Constrained Balance Sheet

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SAN FRANCISCO (S&P Global Ratings) April 14, 2017--S&P Global Ratings revised its outlook to stable from positive and affirmed its 'A-' rating on New York State Dormitory Authority's $204 million series 2011A, 2014, and 2014 (dated January 2015) tax exempt bonds, issued for NYU Hospitals Center's (NYUHC), and on NYUHC's $900 million taxable series 2012A, 2013A, and 2014A bonds. NYUHC is a subsidiary of the NYU Langone Health System.

In addition, S&P Global Ratings assigned its 'A-' rating to NYUHC's $600 million series 2017A taxable bonds. The outlook is stable.

Proceeds from the series 2017A bonds are expected to permanently finance NYUHC's approximately $291 million outstanding line of credit, refund NYUHC's bank loan, and finance various strategic capital projects in Manhattan and Brooklyn. Among other uses for the line of credit, approximately $91 million was used for the Kimmel Pavilion construction. We did not anticipate any additional debt for the project; however management indicates that the draw was necessary in light of slower-than-expected governmental reimbursement for a variety of programs including reimbursement to the medical center and school of medicine from FEMA relative to Superstorm Sandy. Management anticipates that unrestricted reserves will increase to over $1 billion by the end of fiscal 2017. We expect that the series 2017A bonds will increase debt by approximately $170 million compared with balances on Feb. 28.

"The revision to stable outlook from positive reflects NYU Langone Health System's constrained balance sheet including light unrestricted reserves especially relative to already high debt levels, which will grow again after the series 2017A debt issuance," said S&P Global Ratings Credit analyst Martin Arrick.

The stable outlook reflects NYU Langone Health System's robust and increasingly diverse enterprise profile. The system's position in the greater New York City market is further supported by its solid relationship with the NYU School of Medicine, which has resulted in strong clinical programs and growing physician support through increased employment of faculty physicians. However, significant capital and debt requirements for NYU Langone Health System's expansion and strategic plans have resulted in a balance sheet that is inconsistent with a higher rating for now.

We expect that an upgrade could be possible with continued robust and extremely consistent cash flow sufficient to improve balance sheet metrics so that unrestricted reserves are closer to outstanding debt and cash on hand exceeds 100 days. However, we are also aware that NYU Langone Health System has significant capital needs beyond the Kimmel pavilion including the possible renovation of Tisch Hospital and NYU Lutheran which, while positive for the enterprise profile, may constrain the rating for several years.

Because of the strength of NYU Langone Health System's enterprise profile and strong cash flow, we consider a lower rating or negative outlook unlikely over the near term. However, if balance sheet metrics, and in particular unrestricted reserves and related metrics, do not at least slowly and incrementally improve from current levels the outlook or rating could be negatively affected. Similarly, a persistent drop in the system's cash flow and margins would be a concern because that would impact debt service coverage, which is already only adequate for the rating despite strong cash flow due to high debt levels.

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