

**Rating Action: Moody's assigns A3 to Mount Sinai Hospital's (NY) Ser. 2017 taxable bonds; outlook stable**

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Global Credit Research - 03 Dec 2017

New York, December 03, 2017 -- Issue: Taxable Bonds, Series 2017; Rating: A3; Rating Type: Underlying LT; Sale Amount: \$356,300,000; Expected Sale Date: 12/11/2017; Rating Description: Revenue: Other;

Summary Rating Rationale

Moody's Investors Service assigned an A3 to Mount Sinai Hospital's (MSH) proposed \$356 million fixed rate Taxable Bonds, Series 2017. The outlook is stable. We also affirmed the A3 ratings on outstanding bonds, issued through the Dormitory Authority of the State of New York and affecting approximately \$315 million of debt.

The A3 reflects MSH's strong market position as a large, reputable academic medical center in New York City, improved margins and liquidity during a challenging transition period, expected availability of fundraising and further assets sales to support high capital spending, and manageable leverage. The rating incorporates challenges of executing several large scale strategies including a transformation of the downtown operations, weak cashflow at system hospitals, a competitive and consolidating service area, and a high dependency on Medicaid and supplemental funding.

"System" refers to the hospitals that comprise the Mount Sinai Hospital Group, which include MSH, Beth Israel Medical Center (BI), St. Luke's-Roosevelt Hospital Center (SLR), and The New York Eye and Ear Infirmary (NYEEI).

Rating Outlook

The stable outlook reflects expected continued progress on integrating and consolidating service lines across system hospitals, sustained improved operating performance at MSH, maintenance of liquidity at system hospitals boosted by sizable asset sales, and availability of further resources to support the transformation of the downtown operation and large capital investments across system hospitals. While the system faces execution risks as it implements several major strategies, the availability of significant financial resources through fundraising and further asset sales will provide strong flexibility to absorb risks and fund strategies.

Factors that Could Lead to an Upgrade

- Improved and sustained margins at BI and SLR, contributing to longer track record of overall system improvement
- Liquidity growth for system
- Further progress on executing service line strategies while at least maintaining market position

Factors that Could Lead to a Downgrade

- Prolonged or material operating decline at MSH or other system hospitals
- Greater than expected capital spending in absence of additional financial resources to support
- Notable increase in leverage
- Significant increase in financial support of ISMMS or faculty practice plans
- Materially dilutive acquisition or merger

Legal Security

MSH is the sole member of the obligated group. BI, SLR, NYEEI, and the Icahn School of Medicine are not

part of the obligated group. Outstanding bonds have a security interest in MSH's gross receipts and a mortgage lien on the primary hospital facilities. The Series 2010 and 2011A bonds are further secured by debt service reserve funds. The bonds will initially be issued under the existing MSH MTI which includes a mortgage pledge and a security interest in gross receipts.

The bonds will be sold with a springing amended and restated MTI which may take effect in the future after certain other obligations are defeased. While the proposed bonds may create a difference in security among bondholders in the future, MSH's leverage and liabilities are manageable relative to cashflow and enterprise value, including the value of New York City real estate, which provide sufficient coverage of debt.

Among other changes, the new springing amended and restated MTI could change existing financial covenants, including eliminating the days cash on hand requirement (currently 30 days) and changing the debt service coverage requirement. The debt service coverage ratio is currently a minimum of 1.1 times measured semiannually; under the proposal, an event of default occurs if the ratio is under 1.0 times for two consecutive years. The new MTI contemplates continuing the gross receipts pledge.

#### Use of Proceeds

Bond proceeds will be used for general corporate purposes.

#### Obligor Profile

The Mount Sinai Hospital is a large tertiary and quaternary care teaching hospital located in upper Manhattan with a division in Queens, New York. MSH is closely affiliated with the Icahn School of Medicine at Mount Sinai (ISMMS), a separate legal entity located with MSH in Manhattan. On September 30, 2013, MSH, ISMMS, and The Mount Sinai Medical Center, Inc. consummated a transaction with Beth Israel Medical Center (BI), St. Luke's-Roosevelt Hospital Center (SLR), and The New York Eye and Ear Infirmary (NYEEI) to create the Mount Sinai Health System. Pursuant to this transaction, two new not-for-profit entities were formed: Mount Sinai Health System, Inc. (MSHS) and Mount Sinai Hospitals Group, Inc. (MSHG). MSHG was formed to be the sole member of the Hospital, BI, SLR, and NYEEI. MSHS was formed to be the sole member of MSHG, the School of Medicine, and the Medical Center.

#### Methodology

The principal methodology used in this rating was Not-For-Profit Healthcare published in November 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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Lisa Martin  
Lead Analyst

PF Healthcare  
Moody's Investors Service, Inc.  
7 World Trade Center  
250 Greenwich Street  
New York 10007  
US  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Daniel Steingart  
Additional Contact  
PF Healthcare  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653



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