(/en_US/web/guest/home)

The Mount Sinai Hospital Obligated Group, NY's Taxable Revenue Bonds Rated 'A-' With A Stable Outlook

05-Dec-2017 13:39 EST

View Analyst Contact Information

NEW YORK (S&P Global Ratings) Dec. 5, 2017--S&P Global Ratings assigned its 'A-' rating to The Mount Sinai Hospital Obligated Group (MSH), N.Y.'s $356 million fixed-rate taxable revenue bonds, series 2017. At the same time, S&P Global Ratings affirmed its 'A-' rating on MSH's $315 million series 2010A bonds and 2011A bonds issued by the Dormitory Authority of the State of New York. The outlook on all debt is stable.

The Mount Sinai Hospital Group (MSHG) is the active parent of MSH, Beth Israel Hospital (BI), Saint Luke's - Roosevelt Hospital (SLR; doing business as Mount Sinai West and Mount Sinai St. Luke's), and The New York Eye & Ear Infirmary (NYEEI). The Mount Sinai Health System (MSHS) is the parent of MSHG; Icahn School of Medicine at Mount Sinai; The Mount Sinai Medical Center, Inc. which handles the system's pooled investments; and various real estate companies jointly owned by members of MSHS, including MSH.

We expect the series 2017 bonds to refinance MSH's $40 million bank loan as well as all BI's outstanding debt (which is currently guaranteed by MSH). The $200 million new money component of the series 2017 bonds will be used for general corporate purposes. However, management indicates that the funds will likely be targeted toward construction and renovation at Mount Sinai West, which is developing into a west side hub for the system and requires additional operating rooms and related support space, a neonatal intensive care unit, and an infusion center.

The affirmation reflects our view of MSHG's:

Solid business position centered around the group's flagship facility, MSH, which is one of the country's premier academic medical centers located in Manhattan, a large faculty practice plan servicing all of MSHG, and diversified locations with campuses in Manhattan, Queens, and Brooklyn;
Potential addition of South Nassau Communities Hospital, which we believe would help cement referrals from this area;
Well-respected and fully integrated, but separately rated medical school, which supports strong faculty recruitment and research;
Meaningful scale, with total revenue of about $5 billion and a sizable admission base in 2016;
Considerable opportunities for improved operations, service line consolidation, and cost-saving synergies;
Adequate and improving excess income and cash flow in 2016 and year-to-date 2017;
Relatively stable unrestricted reserves for the rating level supported by recent asset sales and successful annual philanthropy, which will be bolstered by MSHS's recently announced $1.5 billion capital campaign;
Benefits from special governmental funding sources including the Vital Access Provider program and an enhanced Medicaid rate; and
Experienced senior management team leading both the hospitals and medical school that provides stability and continuity to strategic and financial planning.

```
Offsetting rating factors include MSHG's:
```

Significant losses at BI and modest performance at SLR and NYEEI;
Declining inpatient volume due to increased ambulatory presence, shift to observation, and purposeful downsizing of clinical services at BI;
Transition challenges inherent in implementing such a wide ranging strategic plan, which involves moving services to new locations and an extensive capital plan including construction risk;
Balance-sheet pressure from this additional debt; and
Reliance on special funding sources, which can be volatile, for operating profits.

The stable outlook reflects our belief that MSHG, led by MSH, will continue to incrementally improve its margins despite substantial ongoing transition issues. The outlook is also supported by MSHG's solid enterprise profile.

We expect overall financial performance will remain below medians for the rating. However, if the overall financial profile does not sustain its gradual trend of improvement over the two years covered by our outlook period, a revision to a negative outlook or downgrade is possible. Similarly, any material increases in debt without a commensurate increase in reserves or cash flow could pressure the rating. The rating could also be negatively affected if the strategic transformation plans at BI are not successful.

We view a positive outlook or higher rating to be unlikely in the short term because of the significant projects and strategic repositioning underway at MSHG and the accompanying material losses at BI. However, we could consider a positive outlook or higher rating if the overall financial profile improved to be in line with a higher rating level and when the strategic repositioning is largely complete.

RELATED RESEARCH

Glossary: Not-For-Profit Health Care Ratios (/en_US/web/guest/article/-/view/sourceId/6925567), Oct. 26, 2011
U.S. Not-For-Profit Health Care Sector 2017 Outlook: Stable, Yet A Pen Stroke Away From Unprecedented Change (/en_US/web/guest/article/-/view/sourceId/9928890), Jan. 10, 2017
U.S. Not-For-Profit Health Care System Median Financial Ratios -- 2016 vs. 2015 (/en_US/web/guest/article/-/view/sourceId/10208172), Aug. 24, 2017
Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties (/en_US/web/guest/article/-/view/sourceId/7944918), May 9, 2013
Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries (/en_US/web/guest/article/-/view/sourceId/8337654), Nov. 20, 2013
Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance (/en_US/web/guest/article/-/view/sourceId/8463571), Feb. 18,
Health Care Organizations See Integration And Greater Transparency As Prescriptions For Success (/en_US/web/guest/article/-/view/sourceId/8597897), May 19, 2014
The Time Dimension of Standard & Poor's Ratings (/en_US/web/guest/article/-/view/sourceId/6196504), Sept. 22, 2010
U.S. Not-For-Profit Health Care: Competition And Reform Continue To Spur Mergers (/en_US/web/guest/article/-/view/sourceId/8863821), Oct. 24, 2014
The Growing And Evolving Role Of Provider-Sponsored Health Plans In U.S. Health Care (/en_US/web/guest/article/-/view/sourceId/9177496), June 8, 2015
U.S. Not-For-Profit Acute Health Care Ratios: Operating Performance Weakens While Balance Sheets Are Stable (/en_US/web/guest/article/-/view/sourceId/10206753), Aug. 24, 2017
The U.S. Health Care Sector Outlook Is Stable, Though Industry Pressures Persist (/en_US/web/guest/article/-/view/sourceId/9805572), Sept. 27, 2016
Innovation Strategies Are Transforming The U.S. Health Care Industry (/en_US/web/guest/article/-/view/sourceId/9619429), May 12, 2016
Medicaid's Status As An Open-Ended Entitlement Is On Life Support Following The Election (/en_US/web/guest/article/-/view/sourceId/9878018), Nov. 17, 2016

Primary Credit Analyst: Cynthia S Keller, New York (1) 212-438-2035;
cynthia.keller@spglobal.com (mailto:cynthia.keller@spglobal.com)
Secondary Contact: Martin D Arrick, San Francisco (1) 415-371-5078;
martin.arrick@spglobal.com (mailto:martin.arrick@spglobal.com)