Fitch Ratings

# Fitch Rates Mt. Sinai Hospital (NY) 2017 Revs at 'A'; Affirms Outstanding; Outlook Stable

Fitch Ratings-New York-06 December 2017: Fitch Ratings has assigned an 'A' rating to the following taxable bonds expected to be issued on behalf of The Mount Sinai Hospital (MSH or obligated group):

--$356,340,000 Mount Sinai Obligated Group Taxable bonds series 2017.

The bonds will be issued as fixed rate. Proceeds will be used for general corporate purposes. Maximum annual debt service (MADS) of $72.3 million includes capital leases and is smoothed for bullet maturities. Bonds will be sold via negotiation the week of Dec. 12.

Fitch has also affirmed the 'A' rating on other parity debt issued on behalf of MSH and listed at the end of the press release.

The Rating Outlook is Stable.

SECURITY

A security interest in the obligated group's (OG) gross receipts and a mortgage on MSH's hospital property. The bonds will initially be issued under the existing MTI. 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.

MSH is the OG and is comprised of a large academic medical center on the upper east side of Manhattan and a second community hospital in Queens.

Fitch's rating is based on the financial results of the OG, which is quoted throughout this press release (unless otherwise noted), and is additionally informed by the results at the Mount Sinai Hospitals Group (MSHG). MSHG consists of MHS as well as Beth Israel Medical Center (BI), St. Luke's-Roosevelt Hospital Center (SLR), and The New York Eye and Ear Infirmary (NYEEI). Currently the hospitals in the MSHG are obligated on their own debt (except MSH, which guarantees BI's debt); however, a full asset merger of the MSHG hospitals is expected at the end of 2019. The MSHG hospitals, including MSH, currently share the same board of directors and executive leadership team.

KEY RATING DRIVERS

FINANCIAL PROFILE IMPROVES: MSH's financial performance has steadily improved over the last four audited years, with its operating EBTIDA margin improving to 11.6% in 2016 from 8% in 2013. The improved cash flow has helped grow unrestricted cash and investments and lifted pro forma MADS coverage to 5.3x in 2016 compared to Fitch's 'A' median of 3.7x. MSH maintained this performance through the first nine months of 2017.

UNDERLYING CREDIT STRENGTHS: MSH's financial profile is supported by its solid reputation in a competitive New York healthcare market, strategic initiatives that support its tertiary and quaternary services, its level of integration with the Icahn School of Medicine at Mount Sinai (ISMMS), and strong philanthropic support.

IMPROVING RESULTS AT MSHG: Interim nine month results (as calculated by Fitch) for 2017 shows the first positive operating margin at the MSHG since the hospitals came together in 2013 and after a much improved 2016. The improved performance reflects the integration achieved in the last four years with BI and SLR physicians having fully transitioned to the ISMMS, corporate services consolidated, and individual clinical service lines under single leadership across the system. MSH has begun to benefit through the decanting of lower acuity services to the other system hospitals and increased numbers of higher level tertiary and quaternary patient referrals coming to MSH from across the system.

FUTURE MERGER: MSHG has committed to a full asset merger of the MSHG hospitals by the end of 2019 as part of an agreement with the New

York State Department of Health to participate in the State's Vital Access Provider/Safety Net Program (VAP). In 2015, MSHG was awarded approximately $81.4 million in VAP funding over three years.

MSHG CAPITAL SPENDING: While MSH's capital spending is expected to remain manageable over the next three years, there are capital plans across the system, most notably a sizable transformation project at BI, which will include a new, smaller inpatient tower. Capital costs are expected to be offset by the monetizing of property and philanthropy, with the system at the early stages of a new capital campaign.

RATING SENSITIVITIES
OPERATIONAL STABILITY: Fitch expects Mount Sinai Hospital's (MSH) performance to remain stable over next two years. A sustained fall off in operations, including weaker coverage and a drop in liquidity could pressure the rating. A continued trend of improvement at MSH, coupled with significant improvement at the consolidated Mount Sinai Hospitals Group (MSHG) would be needed for an upgrade.

LONGER TERM MERGER: Longer term the rating could be affected by the financial merging of the hospitals within the MSHG and the consolidated performance, as well as the system's capital plans, at that time. The first full year of operations for the consolidated hospitals is expected to be 2020.

CREDIT PROFILE

Mount Sinai Health System (MSHS) is the corporate parent of ISMMS and the MSHG, which includes MSH. MSH is a 1,134-bed quaternary care teaching hospital located on the upper east side of Manhattan. MSH also includes a 228-bed acute-care community hospital located in the Astoria section of Queens, New York. MSH is the primary clinical teaching facility for the ISMMS.

Total operating revenue for MSH was approximately $2.3 billion in 2016. Total operating revenue for the MSHG, which includes MSH, BI, SLRH, and NYEEI, was approximately $4.6 billion. Fitch bases its rating on the financial performance of the MSH OG. However, the financial results of the larger system and MSH's interaction with MSHS are analyzed as well.

## SOLID 2017 INTERIM RESULTS

Nine month 2017 results for MSH show a 6.9% operating margin, 12.3% operating EBITDA margin and pro forma MADS coverage of 6.0x, relative Fitch's 'A' medians of 3%, 9.4% and 3.7x, respectively. The good performance was supported by a high Medicare case mix index of 2.4, which was up from the prior year, and good growth in outpatient services, driven by growth in MSH's oncology services. MSH's cancer program has National Cancer Institution designation. The performance was also helped by $15.5 million of enhanced Medicaid rates through VAP funding, which was included in operations. These funds were transferred to BI and was recorded in 'Other Changes to Unrestricted Net Assets.' Backing out the $15.5 million from MSH's performance still shows solid results for the period.
Unrestricted cash and investments increased 15% to $1.2 billion from 2015 to 2016 and grew further to $1.4 billion through the nine months of 2017. The $1.4 billion in unrestricted liquidity equated to 236 days cash on hand and 261% cash to debt, both of which compare well to the Fitch's 'A' category medians.

## MSH CAPITAL SPENDING

MSH's capital spending is expected to remain manageable over the next three years, with no major projects expected. The largest recent project for MSH was a major upgrade at its Queens, NY, campus.

The project, completed in 2016 cost approximately $160 million and was funded largely from the 2013 bond issue. The main component of the project was a new five-story poly-clinic building, which was built adjacent to the main hospital. The building has diagnostic and laboratory services, a 36 bay emergency department, with eight observation beds, and seven new operating rooms and houses a mix of primary care physicians and specialists.

MSH's information technology needs are expected to remain manageable as well as with MSH having undergone an EPIC installation in 2013.

MSHG Update

The MSGH's consolidated performance has steadily improved over the last two years, with MSHG's results coming in $80 million above its budget in 2016 and the positive operating margin achieved through the first nine months of 2017. Mount Sinai West, one of the hospitals in SLR, is the strongest performer in MSHG, besides MSH. Mount Sinai West is located in a growing west side area of Manhattan and has limited immediate competition in the surrounding neighborhoods.

BI's performance remains challenged. BI lost $92 million (on a $1.1 billion revenue base) in 2016. However, BI continues to narrow bottom line losses, but operations are expected to remain negative as the current inpatient tower at BI winds down over the next few years.

Currently the hospitals within MSHG are obligated on their own debt (except MSH, which guarantees BI's debt). That is expected to change at the end of 2019, when a full asset merger of the MSHG hospitals is expected to occur. MSHG agreed to merge the hospitals as part of its participation in VAP, a New York State Department of Health program. The program provides additional funding to certain hospitals that have programs that align with the goals of the DSRIP program. DSRIP is a federal Medicaid waiver program with the goal to restructure the health care delivery system by reinvesting in the Medicaid program, with the primary goal of reducing avoidable hospital use by 25% over 5 years. MSH has one of the largest DSRIP projects with over 240 provider organizations, 4,000 unique providers, and nearly 5,000 physicians.

Capital spending at MSHG is expected to be robust over the next four to six years. The largest part of the capital plan is a variety of projects as part of a downtown strategy. The projects include the redevelopment of BI through the building of a new, full-service facility, which is expected to include an emergency department and up to 70 inpatient and observation beds. The building is expected to be built on 14th street on the campus of NYEEI. Other projects include expanding the area's outpatient resources. These projects will include a new multi-specialty practice, the building of Mount Sinai Cancer Center West, and 16 other ambulatory sites in the downtown area.

The projects in the downtown strategy are expected to take four years to complete. The costs of and funding for the projects have yet to be finalized. A portion of the funding is expected to come from the monetizing of property and philanthropy.

DEBT PROFILE

At Sept. 30, 2017, MSH had approximately $570 million in long term debt, the vast majority of which is fixed rate. Included in that is a private placement of approximately $108 million, which has a 10 year maturity. The private placement bonds were issued under the MTI and have the same covenants. MSH has no swaps.

Fitch views MSH's conservative debt structure as offsetting some of the risks of MSH's aggressive investment allocation. Approximately 81% of MSH's allocation for its long term investments (which includes some restricted funds) is in hedges funds and private equity.

DISCLOSURE

MSH covenants to disclose annual and quarterly financial information and operating statistics through MSRB's EMMA system, and disclosure has been excellent in terms of timeliness and content. Quarterly statements include a balance sheet, income statement, cash flow statement, utilization statistics, and management discussion and analysis}

Fitch affirms the 'A' rating on the following parity debt also issued on behalf of MSH:

--$108,267,000 Build NYC Resource Corporation Tax-Exempt Revenue Bonds (Mount Sinai Hospital Project), Series 2013
--$60,095,000 Dormitory Authority of the State of New York (Mount Sinai Hospital Obligated Group) Revenue Bonds, Series 2011A;
--$255,265,000 Dormitory Authority of the State of New York (Mount Sinai Hospital Obligated Group) Revenue Bonds, Series 2010A.

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**Applicable Criteria**
Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017) (https://www.fitchratings.com/site/re/898969)
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015) (https://www.fitchratings.com/site/re/866807)

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