



Rating Action: Moody's assigns Aa2 to Children's Health System of TX's Ser. 2017A & 2017; negative outlook

Global Credit Research - 06 Dec 2017

New York, December 06, 2017 -- Issue: Hospital Revenue Bonds, Series 2017A; Rating: Aa2; Rating Type: Underlying LT; Sale Amount: \$327,660,000; Expected Sale Date: 12/11/2017; Rating Description: Revenue: Other; Issue: Taxable Bonds, Series 2017; Rating: Aa2; Rating Type: Underlying LT; Sale Amount: \$25,320,000; Expected Sale Date: 12/11/2017; Rating Description: Revenue: Other;

Summary Rating Rationale

Moody's Investors Service assigned Aa2 ratings to Children's Health System of Texas' (CHST, previously Children's Medical Center of Dallas) proposed Hospital Revenue Bonds, Series 2017A (\$327.7 million) and Taxable Bonds, Series 2017 (\$25.3 million). The rating outlook is negative. The bonds are fixed rate; the Series 2017A bonds will be issued through the New Hope Cultural Education Facilities Finance Corporation. We affirmed the Aa2 on outstanding bonds, affecting approximately \$352 million of debt.

The Aa2 reflects CHST's leading market position supported by volume growth, strong liquidity, moderate proforma leverage and manageable debt structure risks.

Rating Outlook

The negative outlook reflects modest operating cashflow margins, lower than the historical average and expectations, and challenges to improve margins given risks to Medicaid funding and underperformance in the health plan business.

Factors that Could Lead to an Upgrade

Significant enterprise growth and geographic diversification

Notable reduction in Medicaid dependency

Material and sustained increase in margins, combined with marked decrease in leverage

Factors that Could Lead to a Downgrade

Inability improve operating cashflow margin from FY16 level

Large adverse change to Medicaid funding

Notable increase in leverage or weakening of metrics

Material decline in liquidity

Legal Security

Bonds are secured by a gross revenue pledge of CHST, Children's Medical Center (CMC) and Children's Medical Center Foundation (the Foundation).

Use of Proceeds

Bond proceeds will be used to refinance the Series 2009 bonds and part of the Series 2012 bonds as well as provide funds for capital and general corporate purposes.

Obligor Profile

The system includes two full-service hospitals (in Dallas and Plano) and one specialty hospital (Our Children's House), multiple specialty centers and Pediatric Group practices, a pediatric research institute, a health maintenance organization, and a network of physicians. CMC is the primary teaching hospital for the pediatrics

program of The University of Texas Southwestern Medical Center at Dallas ("UTSMC").

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 for a copy of this methodology.

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