Fitch Ratings
KNOW YOUR RISK

Fitch Affirms Memorial Sloan-Kettering Cancer Center's (NY) Revs at 'AA'; Outlook Stable

Ratings
22 Apr 2010 10:16 AM (EDT)

Fitch Ratings-New York-22 April 2010: Fitch Ratings affirms at 'AA' the following revenue bonds issued on behalf of Memorial Sloan-Kettering Cancer Center (MSKCC), New York by the Dormitory Authority of the State of New York:

--$287,425,000 series 2008A-1;
--$162,575,000 series 2008A-2;
--$100,000,000 series 2006-1;
--$115,000,000 series 2006-2;
--$351,710,000 series 2003 and series 2003-1;
--$146,300,000 series 1998.

The series 2003 and series 1998 bonds carry an underlying rating of 'AA' as the bonds are insured by a bond insurer who Fitch does not rate.

The Rating Outlook is Stable.

RATING RATIONALE:
--MSKCC has a superior reputation as one of the world's premier cancer care and research institutions and is consistently ranked as one of the best cancer hospitals in terms of quality and cost outcomes.
--MSKCC's 2009 liquidity indicators continued to be excellent as the hospital had 536 days cash on hand, a cushion ratio of 28.9 times (x), and cash to debt of 247.7%. All measures compare favorably with Fitch's 'AA' category medians of 209.9 days, 18x, and 144.2%, respectively.
--Fitch believes MSKCC's very solid management team and involved board of directors have helped advance the quality, finances, fundraising goals, and business strategy of the organization.
--MSKCC has the leading market position in New York City (NYC) with 14% of all inpatient cancer discharges. Their market position, among other factors, continues to support solid volume growth.

KEY RATING DRIVERS:
--The affirmation takes into account MSKCC's plans to borrow approximately $80 million in the third-quarter of fiscal 2010 in association with the acquisition of its new East 19th Street facility in NYC. Over the next five fiscal years, MSKCC plans to spend approximately $1 billion in capital.
--Fitch expects MSKCC to continue to be one the world's leading providers in cancer care, which will support the current financial profile and positive utilization trends.

SECURITY:
--All bonds are secured by a pledge of revenues from certain facilities and springing collateral of real property. Certain series of bonds are secured with bond insurance.

CREDIT SUMMARY:
MSKCC includes a 514-licensed bed specialty hospital located on the Upper East Side of Manhattan, an institute for cancer research, a graduate school, and other affiliates following the mission of the prevention, treatment, and cure of cancer. In fiscal 2009, MSKCC had total operating revenues of approximately $2.2 billion.

The 'AA' rating and Stable Outlook are supported by MSKCC's excellent liquidity position, strong fundraising ability, superior clinical reputation, effective management team, and increasing volume trends. MSKCC's excellent liquidity position is supported by the organization's philanthropic program, which has strongly supported MSKCC's capital building projects and overall mission. In 2009, philanthropic revenues were approximately $166 million, which was down from 2008's total of $279 million that included a one-time gift of $79.5 million. Over the past five fiscal years, MSKCC has averaged approximately $236 million on an annual basis from philanthropy, which Fitch views favorably.

As one of the world's leaders in providing cancer care, MSKCC has an excellent clinical reputation and is consistently ranked at or near the top of U.S. cancer hospitals, according to U.S. News and World Report. Further, MSKCC had an approximate 14% market share of all cancer discharges in NYC in 2009, which is the highest share of any hospital in the city for inpatient cancer services. Inpatient and outpatient utilization continues to be positive for the organization as management focuses on expanding MSKCC's scope in the region. In fiscal 2009, inpatient admissions increased to 23,469 from 22,689 in 2008. Further, outpatient volume is positive as outpatient surgeries and clinic visits increased by 6% and 7%, respectively, in 2009 from 2008. MSKCC recently purchased the former Cabrini Medical Center in Manhattan for approximately $83 million and plans to finance the acquisition with an $80 million fixed-rate tax-exempt debt transaction in the third-quarter of fiscal 2010.

Credit concerns include MSKCC's capital plans that call for the continued development of ambulatory care facilities, which management expects to total $300 million over the next five years. Additionally, MSKCC's income from operations was depressed in 2009 as the organization made approximately $11.7 million, which was down from 2008's $110.2 million. Management attributes 2009's profitability drop to the opening of several new network care sites, higher pension obligation, unexpected MTA tax, and higher employees expenses as MSKCC hired approximately 531 individuals in 2009. Management is budgeting for further profitability decline in fiscal 2010. Maximum annual debt service (MADS) as a percentage of revenue at 4.6% is moderately elevated for the rating category, but is offset by the organization's strong liquidity position. Coverage of MADS was 2.2x in 2009, which compared unfavorably against Fitch's 'AA' category median of 3.8x. However, MSKCC has historically averaged coverage of approximately 3.5x.

DISCLOSURE:
MSKCC has covenanted to provide financial information to the Municipal Securities Rulemaking Board's EMMA system. Fitch views MSKCC's disclosure positively and notes that disclosure to date has been timely and thorough.

Applicable criteria available on Fitch's web site at 'www.fitchratings.com':
--'Nonprofit Hospitals and Health Systems Rating Criteria', Dec. 29, 2009;
--'Revenue-Supported Rating Criteria', Dec. 29, 2009.

Contact: Michael Burger +1-212-908-0555, New York or Anthony Houston +1-312-368-3180, Chicago.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.