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Summary:

Memorial Sloan Kettering Cancer Center; Hospital

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Credit Profile		
US$400.0 mil rev bnds ser 2011 due 12/31/2041		
Long Term Rating	AA-/Stable	New
New York State Dorm Auth, New York		
Memorial Sloan Kettering Cancer Ctr, New York		
New York St Dorm Auth (Memorial Sloan Kettering Cancer Center) Series 1998		
Unenhanced Rating	AA-(SPUR)/Stable	Downgraded
New York St Dorm Auth (Memorial Sloan Kettering Cancer Center) Series 2008A-1, 2008A-2, 2006 and 2003-1		
Long Term Rating	AA-/Stable	Downgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has lowered its long-term rating and underlying rating (SPUR) on various series of New York State Dormitory Authority's health care revenue bonds, issued for Memorial Sloan Kettering Cancer Center (MSKCC), to 'AA-' from 'AA'. Standard & Poor's has also assigned its 'AA-' long-term rating to MSKCC's $400 million series 2011 taxable revenue bonds. The outlook is stable.

The 'AA-' rating on the series 2011 bonds and the downgrade on MSKCC's existing rated debt reflects a sizable debt increase that occurs over a two-year period (2010 to 2012) that negatively affects key financial metrics, including cash to pro forma debt, pro forma leverage, pro forma debt burden, and pro forma coverage of maximum annual debt service (MADS), all of which are no longer consistent with a 'AA' rated hospital. The rating continues to incorporate what we consider an excellent business position and historically strong fund raising capacity. The additional debt includes the $400 million series 2011 bonds coupled with an unrated $80 million series 2010 debt issue (September 2010) that was used to finance the purchase of real estate of the former Cabrini Medical Center, and the expectation of an additional $100 million of tax-exempt debt in the first quarter of 2012. Other factors considered include MSKCC's projected total capital spending plan of $3.5 billion over the next 10 years, to be funded by a combination of excess cash flow, fundraising, and debt. In our opinion, MSKCC's current level of cash flow is not robust enough to materially strengthen key financial metrics in the near term to bring the certain balance sheet metrics up to 'AA' levels, while supporting higher levels of capital spending and future carrying charges. MSKCC's EBIDA margin (excluding unrealized gains and losses), which historically averaged a strong 16% annually from fiscal 2001 through fiscal 2008, has averaged just 9.2% over the past two fiscal years (unrealized gains totaled $275 million and $504 million in fiscals 2010 and 2009, respectively). In addition, while we recognize that there will be fluctuations in nonoperating revenue from year to year due to the variability of contributions and realized compared with unrealized gains, the nine-month results ended Sept 30, 2011, indicate a continuation of the softer cash-flow trend.

The 'AA-' rating further reflects our view of MSKCC's:

- Very strong institutional characteristics, highlighted by demonstrated clinical quality, a large research base, and a leading market position in the broad, but fragmented, New York metropolitan oncology market;
- Strong unrestricted cash balances and operational liquidity, with $2.85 billion of cash and investments equal to 483 days' cash on hand at fiscal year-end 2010;
- Good revenue diversity, with patient care, research, fundraising, and royalties all contributing to a robust revenue stream that provides flexibility;
- Improving operating results for the nine-month interim period ended Sept. 30, 2011, in part due to volume and rate increases, but also due to management's success at containing costs, and
- Strong management team with a history of financial planning, coupled with above-average financial flexibility that includes a strong payor mix, the flexibility to reduce expenditures through limiting research and clinical subsidies, and the capacity to increase demand by lifting current self-imposed limits on caseloads.

Offsetting credit factors include:

- Weakening of debt-related metrics with the issuance of the $400 million series 2011 bonds and expected $100 million series 2012 bonds, reducing cash to debt to approximately 152% and increasing leverage to 38% as of Sept. 30, 2011;
- Risks that are typical of a single-specialty institution, including changes in the provision of cancer care and exposure to medical breakthroughs in cancer treatment;
- MSKCC's unfunded pension liability for the defined-benefit pension plan, which as of Dec. 31, 2010, had a $292 million unfunded liability (based on PBO) or a 64% funded status as a percent of the total benefit obligation, both vested and unvested; and
- A large capital plan that totals approximately $3.5 billion over a 10-year period (2011-2020), but management has demonstrated an ability to reduce capital spending, if needed, in a challenging financial environment.

Other credit factors include a conservative debt profile that consists of all fixed-rate debt, with no exposure to variable-rate debt or derivatives and a complicated legal structure that offers different springing security pledges for different bondholders, but is weak in certain respects--specifically, the rate covenant is not a true income statement test and permitted liens are very broad for a general obligation (GO) pledge. MSKCC has approximately $1.26 billion of long-term debt as of fiscal year-end 2010, rising to $1.66 billion with the series 2011 taxable debt and again to approximately $1.76 billion with the expected $100 million tax exempt issuance in the first quarter of 2012. Management has indicated that the expected amortization of existing debt over the next 10 years will total approximately $325 million.

Memorial Sloan-Kettering Cancer Center is one of the three major entities forming MSKCC and its related corporations. The center holds the majority of the assets, including most of the endowments and unrestricted liquidity. The entities are the center, the Memorial Hospital for Cancer and Allied Diseases, and the Sloan-Kettering Institute for Cancer Research. Boards of overseers and managers that are virtually identical govern the three entities. Other entities include SKI Realty Inc. and one professional and general insurance company. As the various entities are managed on a unified basis and the boards are almost entirely overlapping, Standard & Poor's analysis and all the figures cited in this analysis apply to the entire group of corporations, which is referred to as MSKCC. Furthermore, all financial calculations and ratios are presented based on Standard & Poor's guidelines and may differ from the audited financial statement presentation.

The series 2011 bonds are being issued to finance future capital needs. MSKCC bonds are GOs of the center, guaranteed by the institute and the realty corporation. The hospital is not directly obligated on the bonds. If MSKCC fails certain tests, springing collateral pledges--including gross receipts, pledges of portions of MSKCC, and springing mortgages--become activated until the tests are subsequently met. The specifics of the springing revenue pledges and the springing mortgages are different for each of the various series of bonds. The series share certain common security, but each also has unique collateral that is specific to the series individually. Simply, each series has its own security--the ratings on each are the same.

Outlook

The outlook is stable. We believe MSKCC's operating and excess income can be quite volatile in any given year, due to the variability of nonoperating income, which includes realized gains and losses and contributions. However, we believe operating losses have historically been manageable and understand they are planned as part of the normal business model. While cash flow as measured by Standard & Poor's has been weaker of late, over the longer term we expect improvement, especially given the anticipated benefit of the incremental revenue and cash flow once the projects are complete and operations ramp up. Furthermore, management has demonstrated a willingness to delay projects to preserve financial stability should operational performance or market conditions shift.

In our opinion, MSKCC's still-large balance sheet resources and management's operating flexibility (due to its ability to control certain discretionary patient services, if needed) lend stability to the current outlook at the 'AA-' level and a lower rating or outlook is unlikely. However, if cash flow remains below 10% and coverage of MADS remains weak on a consistent basis, or future debt increases weaken the financial profile further; we could consider a negative outlook or lower rating. A higher rating can be achieved if cash flow improves and is sustained at historical levels in the 13% to16% range such that MSKCC can fund future capital needs while improving key balance sheet metrics to levels more consistent with a higher rating, such as cash to debt above 2x and leverage below 30%. For more information, see the full analysis published Nov. 29, 2011, on RatingsDirect on the Global Credit Portal.

Related Criteria And Research

USPF Criteria: Not-For-Profit Health Care, June 14, 2007

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.