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# Illinois Finance Authority
# RUSH Obligated Group; System

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# Illinois Finance Authority
# RUSH Obligated Group; System

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|---|---|---|
| RUSH Obligated Grp taxable rev bnds (RUSH Obligated Grp) ser 2020 due 06/30/2050 | | |
| *Long Term Rating* | A+/Stable | Affirmed |
| **Illinois Finance Authority, Illinois** | | |
| RUSH Obligated Grp, Illinois | | |
| Illinois Fin Auth (RUSH Obligated Grp) SYSTEM | | |
| *Long Term Rating* | A+/Stable | Affirmed |

## Rating Action

S&P Global Ratings affirmed its 'A+' long-term rating on the Illinois Finance Authority's series 2015A and 2015B fixed-rate tax-exempt hospital revenue bonds issued for the RUSH obligated group (Rush) and on Rush's series 2020 fixed-rate taxable bonds. The outlook is stable.

Rush University Medical Center (RUMC), located in Chicago, is the largest entity of the obligated group. Rush University System for Health (Rush parent) is the parent organization.

### Credit overview

The 'A+' rating reflects our view of Rush's improved performance in 2021 following losses in 2020 (primarily resulting from the pandemic) and growing market presence despite its location in an extremely competitive market with several academic medical centers (AMCs) and systems and ongoing consolidation. Rush's balance sheet has strengthened over the past couple of years, and underlying operations remain sound but have weakened from earlier years' highs as the system has made strategic investments and, more recently, has experienced industry pressures, particularly related to labor. Rush is a less geographically diverse system, but has a niche position as an AMC with an integrated university and research enterprise. This, along with expansion of key clinical service lines as well as a focus on alignment and partnerships, has expanded and diversified Rush's position in the broader Chicagoland region. In addition, Rush uses Rush Health, a clinically integrated network, to further expand its presence by working with its employed and independent physicians and its partner providers. Rush has embraced partnerships and plans to use existing networks, physician relationships, and other health care participants to implement its strategies, and will likely make fewer significant brick-and-mortar investments related to mergers and acquisitions. Management continues to systemize and garner strategic and operating benefits to prepare for increased value-based payments.

The team has managed the challenges of COVD-19 well (with the support of approximately $146 million of CARES Act grant funds) while executing on key strategies in clinical service areas and partnerships to expand outpatient services and diversify the revenue base. One new joint venture is with SelectMedical and may result in a new long-term care rehabilitation hospital, though Rush has not received final approvals. We do not expect the project to be sizable for Rush, especially compared with the construction of the $473 million Joan and Paul Rubschlager Building (a

480,000-square-foot, 10-story outpatient center focused on neurosciences and orthopedics that will open in early fiscal 2023). Rush's reserves have strengthened with investment gains, cash flow recovery in 2021, improvement in timeliness of payments from the state's Medicaid program, and more limited spending. We note that unrestricted reserves include remaining proceeds from the 2020 taxable issuance (about $200 million), which will be spent over the next year or so. We expect reserves to attenuate somewhat as capital spending continues but remain stronger than historically.

The 'A+' rating further reflects our view of Rush's:

- Solid business position with a large operating revenue base of almost $3 billion from three served markets, continued strong market recognition for RUMC as an AMC with broad clinical services (and as a market leader for certain key clinical areas), broadening education and research capabilities, and a focus on outpatient services and partnerships for growth in a competitive market;
- Historically good financial operations and cash flow that weakened in 2020 but has rebounded in 2021 with maximum annual debt service coverage again topping 5x;
- Improved balance sheet, including growth of unrestricted reserves although these could attenuate from highs as RUMC completes some larger capital plans and spends down some reserves for the larger project ($373 million remaining at June 30, 2021); and
- Disciplined and strategic management team that looks to strengthen its business position and prepare for potential reimbursement changes through various initiatives and partnerships, including investing in outpatient strategies and Rush Health, and with a focus on systemizing the organization.

Partly offsetting the above strengths, in our view, are Rush's:

- Location in the highly competitive and still fragmented Chicago service area, which continues to consolidate, with three other hospitals in its immediate service area and with three other AMCs across Chicago as well as other community hospitals and health systems providing strong competition for quaternary, tertiary, and secondary clinical services, coupled with a moderately concentrated Medicaid payer mix (although this is typical of AMCs);
- Increased capital spending over the next couple of years related mostly to RUMC's large outpatient project, which will likely result in some draw from the higher reserves; and
- Limited income and revenue dispersion from an acute care perspective (compared with other rated not-for-profit health care systems) with operating income and revenue coming primarily from RUMC.

The stable outlook reflects our view of Rush's good balance sheet and that the system will continue to generate cash flow and coverage as projected as it invests in clinical programs, broader outpatient and consumer strategies, and operating performance improvement. In addition, we expect Rush to maintain its overall financial profile despite increased capital investments. The outlook also reflects our anticipation that Rush's business position will remain sound given its investments and that the Rubschlager facility will be completed on time and on budget.

### Environmental, social, and governance (ESG) factors

We view ESG risks as in line with the sector. While COVID-19 has caused increased social risk for many hospitals and health care systems as relates to health and safety concerns, Rush has navigated those risks well thus far. We will

monitor how the virus and the delta variant affect expenses related to caring for those patients and if patients' safety concerns slow care. Within the governance framework, the team is focused on cybersecurity and has allocated additional capital to further strengthen infrastructure and reduce areas of vulnerabilities.

## Stable Outlook

### Downside scenario

We could consider lowering the rating if cash flow attenuates for a sustained period, if a future debt issuance significantly outpaces expectations and pressures the balance sheet, or if unrestricted reserves weaken outside of expected declines related to spending-down of series 2020 taxable bond proceeds.

### Upside scenario

We could consider a higher rating or positive outlook if Rush is able to consistently generate stronger cash flow and performance in line with the higher rating while continuing to improve balance sheet strength. Finally, we could raise the rating if, in addition to the above, Rush's clinical enterprise and revenue base continue to benefit from recent physician and outpatient investments and partnership strategies.

## Enterprise Profile: Strong

### Location in broad service area but with limited inpatient geographic diversity

Rush's three medical centers (RUMC; Rush Oak Park Hospital, or ROPH, which is included in RUMC's operations; and Rush Copley Medical Center, or RCMC) are in three separate areas of the greater Chicago area. The system benefits from the diverse local economy of the Chicago market and a large population base. RUMC serves eight counties of the large Chicagoland market, while RCMC and ROPH serve more limited primary service areas with populations of 370,000 and 77,000, respectively. RCMC is about 40 miles west of Chicago, while ROPH is about eight miles west of RUMC. Wealth indicators in the city (where RUMC is located) slightly trail national averages. Rush's payer mix is favorable but, as in other parts of the country, Medicare as a percentage has continued to increase.

### RUMC leads Rush's market position with a focus on clinical service line, outpatient services, and partnerships for revenue diversity

We view Rush as well positioned with comprehensive clinical services across the system, but with focus on specific service lines (particularly neurosciences, cancer care, heart and vascular, and primary care), clinical integration, and broadening partnerships and service offerings to a larger service area, and with a niche position as a health sciences and research university. We continue to view RUMC's position in the Chicago market as a robust AMC as core to Rush's solid enterprise profile. However, Rush is less geographically diversified as a system with reliance on RUMC, which contributes the vast majority of income and operating revenue to the system. We do take a positive view of the growing outpatient and clinical strategies over an expanded and regionally diversified footprint, and expect that the expansion strategies will continue to support and enhance Rush's business position.

Rush is also pursuing several partnerships, outpatient investments, and joint ventures for clinical enhancement and revenue diversity. Recent examples include Select Medical joint venture, the partnership for orthopedics with Midwest Orthopedics in Oakbrook, and the investment in the large Rubschlager outpatient building on the main campus. While

Rush's focus on expansion orients toward the west and southwest as well as the Loop, Rush has expanded discussions to other parts of the market, already having established partnerships across a wider geographic region through its telehealth, stroke, and perinatal networks. In addition, Rush is using Rush Health, its clinically integrated network that includes Riverside Medical Center, to expand and to integrate with physicians in the larger community as well as manage care and costs for the community. Rush has a large and growing active medical staff of more than 2,000 physicians with slightly fewer than 900 employed; the majority employed are at RUMC. A majority of the physicians participate in Rush Health and are well engaged with the system's strategic initiatives, and employed physicians account for significant share of admissions at RUMC/ROPH and slightly fewer than half at RCMC.

Rush has a good market position, led by RUMC, that has remained stable the past couple years and despite its location in a competitive market and evolving market. While RUMC largely competes with other Chicago AMCs--Northwestern Memorial Hospital, University of Chicago Hospitals and Health System, Loyola University Health System, and University of Illinois Medical Center--it also competes with other large tertiary providers, such as Advocate Christ Hospital, part of Advocate Health. Rush's market share in its total eight-county service area remains stable around 3.6% and, although RUMC remains competitive with other AMCs, Rush's total inpatient market share lags that of the bigger health systems such as AMITA Health and Advocate Aurora Health. Traction is improving on the outpatient side, as there is more focus through partnerships.

Volumes are recovering, although not all areas are back to 2019 levels. Acuity of services provided remains high with the Medicare acute case mix index trending upward over the past several years. We anticipate that the system's inpatient volumes will remain stable in the near term and that outpatient volumes will continue to grow as the system recovers from the pandemic and Rush strengthens its breadth and depth of services and expands patient access through its specialty care, outpatient, and partnership networks.

### Rush management and board positioning the organization for future delivery model

Since Rush's new CEO (Dr. K. Ranga Rama Krishnan) was appointed in May 2019 as part of a planned transition, a couple of additional changes have taken place, including the appointment of a new chief operating officer for the system (new position), Wayne Keathley (spring 2020), and the recent appointment of a new chief financial officer (CFO), Patti O'Neil, following the departure of Rush's previous CFO to another state in spring 2020. While the CFO transition was not expected, Patti O'Neil has been with the organization for a number of years, providing continuity and a smooth transition. We expect no meaningful changes over the next couple of years.

The team has continued to make headway on its strategic efforts while navigating pandemic-related challenges to maintain the overall competitiveness and strength of Rush and the system. More specifically, the strategies will likely incorporate continued buildout of ambulatory centers, including the large outpatient building on the main campus, digital and retail strategies with partnerships, clinical and research investments, and other partnerships to improve operations. The organization is also using its strengths as an education and research institution to further its overall position as an AMC in the region, and this should help manage the expected labor challenges for the sector.

**Table 1**

**Rush University Medical Center Obligated Group Utilization**

| | --Fiscal year ended June 30-- | | | |
|---|---|---|---|---|
| | **2021*** | **2020** | **2019** | **2018** |
| PSA population | N.A. | 8,525,610 | 8,628,015 | N.A. |
| PSA market share (%) | N.A. | 3.6 | 3.4 | N.A. |
| Inpatient admissions§ | 49,717 | 46,551 | 51,376 | 47,256 |
| Equivalent inpatient admissions | 113,362 | 99,557 | 113,254 | 110,348 |
| Emergency visits | 165,614 | 172,032 | 176,501 | 181,126 |
| Inpatient surgeries | 15,907 | 15,733 | 17,182 | 16,172 |
| Outpatient surgeries | 41,301 | 29,931 | 34,259 | 30,624 |
| Medicare case mix index | 2.0415 | 1.9759 | 1.9900 | 1.9844 |
| FTE employees | 12,723 | 12,468 | 12,058 | 11,709 |
| Active physicians | 2,051 | 2,150 | 2,065 | 2,024 |
| Based on net/gross revenue | Gross | Net | Net | Net |
| Medicare (%) | 39.1 | 25.9 | 27.1 | 25.8 |
| Medicaid (%) | 21.1 | 14.3 | 15.3 | 15.6 |
| Commercial/Blues (%) | 36.6 | 48.1 | 48.0 | 49.8 |

*Unaudited. §Excludes normal newborn, psychiatric, rehabilitation, and long-term care facility admissions. FTE--Full-time equivalent. N.A.--Not available. PSA--Primary service area.

## Financial Profile: Very Strong

### Slight weakening in performance and cash flow primarily as a result of COVID-19 and industry pressures

We still view Rush's operating performance as good for the rating, although the pandemic impacted fiscal 2020 results heavily (despite recognition of $85 million of CARES Act funds) given the June 30 fiscal year end. Good recovery occurred in fiscal 2021, which included $61.2 million of CARES Act funds, and management expects operating margin closer to 2% for fiscal 2022, which is in line with rating expectations. The organization continues to make programmatic investments in the organization, including clinical service line investments, and this also affects margins. We view management's ability to implement expense and revenue initiatives as favorable, and those initiatives, in addition to the strategic investments and clinical service line and physician enhancements, are likely contributing to overall cash flow recovery. While management continues to target higher operating margins of closer to 3.5%, we believe that in the near term margins will likely remain around 2% given labor costs as well as volume recovery, but that they should be sufficient to support near-term capital spending. We expect certain initiatives to bring diversity of revenue, but believe that this will likely take time as ventures and initiatives mature. Historically, the organization has met its targeted budget, as it understands its stress points and has navigated them successfully.

One-time pension settlements in 2020 and 2019 and a one-time settlement on a rate lock (which was sizable) in 2020 affected nonoperating performance. Investment income and gains, however, came back strong in 2021. We note that nonoperating income has been slightly uneven in recent years given the aforementioned one-time challenges to nonoperating income.

Actual debt service coverage should be healthy in near years if cash flow remains sound. Using a smoothed debt service, maximum annual debt service coverage has been good except in fiscal 2020, and average debt service coverage would be stronger than MADS [coverage?].

### Growth of unrestricted reserves helps maintain flexibility

The system's unrestricted reserves remain quite healthy with some cushion for increases in capital spending. In addition, RUMC has almost $750 million in restricted funds that are not included in unrestricted reserves, as they are for specific purposes, but that are helpful to furthering strategic investments of Rush. We expect reserves to remain healthy, but they could attenuate somewhat as the large $473 million Rubschlager Building is completed and taxable proceeds in reserves are used along with some cash flow (with fundraising supporting a portion). Through fiscal year-end June 30, 2021, $185 million has been spent on the project. We expect capital expenditures to depreciation to remain at a higher clip for fiscal 2022 and likely fiscal 2023, before returning to more moderate levels. Other capital spending will go toward routine needs. Management purchased its joint venture partner's share of the ambulatory/surgery center in Oakbrook for $13 million with $42 million of debt that now fully resides on Rush's financial statements and that we had previously factored in.

Rush's investments are largely in fixed income and cash (about 56%), public and private equities (about 42%), and other (2%), with almost all accessible within seven days, and we view this as very good liquidity for an organization of this size.

### Taxable debt provides funding for projects but with near-term moderation of debt-related metrics

We view Rush's debt ratios as in line with rating expectations, and furthermore expect ratios to improve given principal payments and expectation of steady cash flow and growth in net assets. RUMC expects to conservatively set aside annual debt service internally to ensure that payment can be made when the time comes for its large taxable bullet on the series 2020 debt. Furthermore, we still view the debt structure as fairly conservative from the perspective of interest rate (almost all synthetically fixed) and contingent liability (less than 15% of long-term debt).

Rush's series 2016 variable rate bonds and series 2019 fixed-rate bonds are placed with commercial banks ($50 million series 2016 bonds placed with Northern Trust and $36 million series 2019 with Bank of America). The series 2016 are long-dated until 2045 with a mandatory tender on June 29, 2026, and the series 2019 bonds are long-dated until 2045 with a mandatory tender on Aug. 29, 2029. Certain covenants such as debt service coverage are slightly more strict within the series 2016 and 2019 bank documents (1.2x vs. 1.1x in the amended master trust indenture) and there are certain additional covenants, including cash on hand of 65 days.

Given Rush's credit profile, we don't view its two swaps as a significant concern.

Rush's defined benefit pension plans' funded status dipped temporarily in 2020 as a result of investment market movement, but will improve when the final audit is released for 2021 based on updated actuarial reporting. The liability was relatively small at $90 million at fiscal year-end 2020, but will be even lower with final fiscal 2021 reporting. Over the years Rush has taken a variety of actions to de-risk its pension, and we view this favorably and expect that Rush will continue to look for such opportunities. In addition, Rush has been disciplined about funding and has contributed at or above expense levels over recent years, maintaining a healthy funded status for several years.

Rush's long-term operating lease liability was $109 million with a commensurate $131 million operating lease right-of-use asset as of June 30, 2021. We have historically incorporated lease risk into lease-adjusted debt service coverage, and we believe this continues to capture risk associated with lease exposure. Including the operating lease liability in our calculation of leverage brings debt as a percentage of capitalization to 35%.

**Table 2**

**Rush University Medical Center Obligated Group Financial Summary**

| | --Fiscal year ended June 30-- | | | | 'A+' rated health care system medians |
|---|---|---|---|---|---|
| | **2021*** | **2020** | **2019** | **2018** | **2020** |
| **Financial performance** | | | | | |
| Net patient revenue ($000s) | 2,574,590 | 2,233,576 | 2,315,770 | 2,142,514 | 2,260,420 |
| Total operating revenue ($000s) | 2,992,361 | 2,650,363 | 2,605,220 | 2,427,087 | 2,552,547 |
| Total operating expenses ($000s) | 2,891,410 | 2,745,117 | 2,553,391 | 2,338,655 | MNR |
| Operating income ($000s) | 100,951 | (94,754) | 51,829 | 88,432 | MNR |
| Operating margin (%) | 3.37 | (3.58) | 1.99 | 3.64 | 1.60 |
| Net nonoperating income ($000s) | 53,040 | (31,365) | 1,076 | 36,037 | MNR |
| Excess income ($000s) | 153,991 | (126,389) | 52,905 | 124,469 | MNR |
| Excess margin (%) | 5.06 | (4.83) | 2.03 | 5.05 | 3.10 |
| Operating EBIDA margin (%) | 9.68 | 3.42 | 7.79 | 9.90 | 8.10 |
| EBIDA margin (%) | 11.05 | 2.25 | 7.83 | 11.22 | 8.90 |
| Net available for debt service ($000s) | 336,647 | 58,910 | 203,969 | 276,248 | 232,016 |
| MADS ($000s) | 62,797 | 62,797 | 62,797 | 62,797 | MNR |
| MADS coverage (x) | 5.36 | 0.94 | 3.25 | 4.40 | 3.90 |
| Operating-lease-adjusted coverage (x) | 3.92 | 0.96 | 2.40 | 3.22 | 2.80 |
| **Liquidity and financial flexibility** | | | | | |
| Unrestricted reserves ($000s) | 1,987,573 | 1,512,839 | 1,300,284 | 1,299,080 | 1,323,540 |
| Unrestricted days' cash on hand | 264.6 | 213.3 | 195.6 | 214.4 | 208.1 |
| Unrestricted reserves/total long-term debt (%) | 214.6 | 160.7 | 197.5 | 189.3 | 172.9 |
| Unrestricted reserves/contingent liabilities (%) | 1,593.3 | 935.3 | 1,102.8 | 1,072.2 | 675.2 |
| Average age of plant (years) | 12.6 | 11.2 | 12.6 | 11.9 | 11.6 |
| Capital expenditures/depreciation and amortization (%) | 118.6 | 140.7 | 147.8 | 149.9 | 120.0 |
| **Debt and liabilities** | | | | | |
| Total long-term debt ($000s) | 926,138 | 941,659 | 658,522 | 686,341 | MNR |
| Long-term debt/capitalization (%) | 32.4 | 37.5 | 27.6 | 29.3 | 31.7 |
| Contingent liabilities ($000s) | 124,748 | 86,752 | 117,905 | 121,165 | MNR |
| Contingent liabilities/total long-term debt (%) | 13.5 | 17.2 | 17.9 | 17.7 | 25.50 |
| Debt burden (%) | 2.06 | 2.40 | 2.41 | 2.55 | 2.10 |
| Defined benefit plan funded status (%) | N.A. | 91.48 | 96.12 | 98.23 | 82.00 |
| **Miscellaneous** | | | | | |
| Medicare advance payments ($000s)§ | 193,000 | 231,700 | N/A | N/A | MNR |
| Short-term borrowings ($000s)§ | 0 | 75,000 | 0 | 0 | MNR |

**Table 2**

**Rush University Medical Center Obligated Group Financial Summary (cont.)**

| | --Fiscal year ended June 30-- | | | | 'A+' rated health care system medians |
|---|---|---|---|---|---|
| | 2021* | 2020 | 2019 | 2018 | 2020 |
| CARES Act ($000s) | 61,200 | 85,100 | N/A | N/A | MNR |
| Risk-based capital ratio (%) | N/A | N/A | N/A | N/A | MNR |
| Total net special funding ($000s) | 71,384 | 62,648 | 62,611 | 64,811 | MNR |

*Unaudited. §Excluded from unrestricted reserves, long-term debt, and contingent liabilities. MADS--Maximum annual debt service. MNR--Median not reported. N/A--Not applicable. N.A.--Not available.

## Credit Snapshot

- Security: The obligated group's gross revenue secures the bonds.
- Group rating methodology: The obligated group is almost entirely the same as the system, so the 'A+' rating is based on our view of Rush's group credit profile and the obligated group's core status.
- Credit profile: Rush is an integrated delivery system serving Chicago--primarily the western and southwestern suburbs--but considers the eight-county Chicago metro area its service area. In addition to its parent entity, Rush System for Health, the system includes RUMC, RCMC (a 210-staffed-bed acute care medical center in Aurora), ROPH (a 107-staffed-bed acute care hospital in Oak Park), and Rush Health, a physician hospital organization and clinically integrated network. RUMC dominates the system with its 660-staffed-bed academic medical center in Chicago, Rush University (a health sciences university with more than 2,500 students and more than $155 million of annual research funding that consists of four colleges, including nursing and medical schools), and Rush University Medical Group (a faculty practice plan). There are also a few joint venture entities.
- Swaps: The total notional amount was approximately $67.4 million at June 30, 2021, with a mark-to-market value of $14 million. The counterparties on the swaps are Morgan Stanley Capital Services Inc., with a guarantee by Morgan Stanley (A-) and Citibank N.A. (AA). Rush is using $50 million of the interest rate swap to synthetically fix the interest rate on the series 2016 bonds, and the remaining swap notional amount is an orphan swap. No collateral is being posted.

## Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020