

Fitch Rates Yale New Haven Health (CT) Revs 'AA-'; Outlook Stable

Written by Australian Business

SAN FRANCISCO--([BUSINESS WIRE](#))--Fitch Ratings has assigned an 'AA-' rating to the approximately \$859 million State of Connecticut Health and Educational Facilities Authority various series of revenue bonds, Yale New Haven Health Issue, that will be issued on behalf of Yale New Haven Health Obligated Group (YNHHOG). See the specific series of bonds rated at the end of the press release.

Bond proceeds will be used to refund various series of outstanding bonds, fund approximately \$140 million of capital projects, and pay costs of issuance.

The Rating Outlook is Stable.

Fitch's historical financial analysis is based on the consolidated system (Yale New Haven Health System; YNHHS), which includes non-obligated member Greenwich Hospital (revenue bonds rated 'AA-'; Stable Outlook by Fitch). However, Fitch's analysis regarding the fiscal 2014 interim performance (five-months ended Feb. 28, 2014; unaudited) and going forward will be based on the YNHHOG entity, which includes YNHHS (the parent), Yale-New Haven Hospital (YNHH), Bridgeport Hospital (BH), Bridgeport Hospital Foundation, North East Medical Group, Inc. (NEMG), and Care Continuum (120-bed skilled nursing facility). Overall, Fitch believes the financial difference between the consolidated and YNHHOG entities are immaterial as removing non-obligated members has less than a 10% impact on assets and revenues.

SECURITY

Bonds will be secured by a pledge of gross revenues and respective letters of credit (LOC) defined below.

KEY RATING DRIVERS

RENOWNED FOR CLINICAL REPUTATION: YNHHS' reputation and brand

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recognition for excellent tertiary and quaternary care and state of the art clinical research are primary credit strengths. Additionally, YNHH serves as the primary teaching hospital for the Yale University School of Medicine (YUSM), which also provides a strong tertiary and quaternary service stream, and is a relationship that dates back to 1826.

STRONG REGIONAL PROVIDER: YNHHS operates three delivery care networks (YNHH, BH, and GH), which provide a wide range of clinical services throughout Connecticut, portions of New York, and the greater tri-state region. Fitch views YNHHS' integral place in providing the top-quality continuum of care (including pediatrics, oncology, and psychiatric services) within its region as a market differentiator and a strong credit positive.

LOW DEBT BURDEN: YNHOG's pro forma maximum annual debt service (MADS) of \$60.5 million represented a low 1.8% of total revenues in fiscal 2013 (Sept. 30, 2013; audited) and compared favorably against Fitch's 'AA' category median of 2.6%. The organization's relatively low debt burden and satisfactory profitability metrics support solid pro forma MADS coverage by EBITDA and operating EBITDA of 6.6x and 5.4x in 2013, respectively. Fitch views YNHHS' solid ability to cover its long-term debt obligations as a primary credit strength.

HEALTHY CAPITAL SPENDING: YNHHS intends to spend approximately \$1.07 billion on capital over the next five years with approximately \$640 million from debt (including 2014's issuance) to fund various projects. While the system's debt burden is manageable at the current rating level, Fitch would expect revenue growth to be commensurate with any additional borrowings and leverage metrics not to significantly deteriorate.

ADEQUATE LIQUIDITY METRICS: At Feb. 28, 2014 (five-months unaudited), YNHOG had approximately \$1.2 billion in unrestricted cash and investments, which translated into 161.2 days cash on hand (DCOH), 19.9x pro forma cushion ratio, and 125.3% pro forma cash to debt. Fitch views these metrics as somewhat light, but adequate for the rating level. Importantly, Fitch views the system's absolute unrestricted liquidity growth, which has increased by approximately 45% from fiscal 2010, favorably.

RATING SENSITIVITIES

MAINTENANCE OF CURRENT PERFORMANCE: Fitch expects YNHOG to maintain performance consistent with historical levels and in line with current 2014 interim profitability (3.6% operating margin and 10% operating EBITDA margin). Fitch would view significant balance sheet deterioration negatively.

Credit Profile & Organizational Structure

Yale New Haven Health System is a fully integrated regional healthcare delivery system headquartered in New Haven, CT and consists of several operating entities and affiliates. In fiscal 2013, YNHHS had approximately \$3.28 billion in total revenue. The system's three delivery networks include YNH, BH, and GH; as well as a physician foundation - NEMG. Specifically, YNH is a general acute care hospital located on two campuses in New Haven, CT and is one of the largest hospitals in the United States. On Sept. 12, 2012, YNH acquired substantially all of the assets of Saint Raphael Healthcare System, Inc. (SRHS), which is also located in New Haven. In total, YNH has 1,541 licensed beds (including 134 bassinets), which includes Smilow Cancer Center, Yale-New Haven Children's Hospital (YNHCH), and Yale-New Haven Psychiatric Hospital. BH is located in Bridgeport, CT with 383 licensed beds and 42 additional beds under the YNHCH's license. In fiscal 2013, BH had \$442 million in total revenue and approximately 2,500 employees. GH, which is not a part of the YNHOG, is located in Greenwich, CT with 174 licensed beds and 32 bassinets. In fiscal 2013 GH had \$333 million in total revenue.

Unique Credit Characteristics & Market Presence

YNHHS' reputation and brand recognition for excellent tertiary and quaternary care and state of the art clinical research are primary credit strengths. Additionally, YNH serves as the primary teaching hospital for YUSM, which also provides a strong tertiary and quaternary service stream, and is a relationship that dates back to 1826. Operating three delivery care networks located in the state of Connecticut provides a wide range of clinical services offered throughout the greater tri-state region. Further, YNHHS is currently working with Tenet Healthcare Corp. (senior secured debt rated 'BB'; Stable Outlook by Fitch) on creating a community hospital acquisition strategy with the intent to expand the system's presence within the region, which Fitch views as a favorable strategy.

Financial Performance

The system's financial profile is characterized by good liquidity growth, consistent operations, and a low debt burden, which helps support solid debt service coverage. At Sept. 30, 2013, YNHHS had \$1.28 billion in unrestricted cash and investments, which translated into 157.5 DCOH, 24.6x pro forma cushion ratio, and 148.4% cash to debt, which Fitch views as adequate for the rating level. For the same period, YNHHS earned \$136.1 million in operating income, which equaled a 4.2% operating margin and 10% operating EBITDA margin and is consistent with Fitch's 'AA' medians of 4.2% and 11.8%, respectively. Consistent operational profitability coupled with the organization's low debt burden enabled the system to produce solid pro forma MADS coverage of 7.6x by EBITDA and 6.3x by operating EBITDA in 2013.

Long-term Capital Spending Plan

Over the next five years YNHHS intends to spend approximately \$1.07 billion on various capital projects throughout the system. Approximately \$640 million will come from additional debt with the remainder being funded from cash flow and philanthropy. Fitch views the healthy capital spend and increased incremental borrowing as manageable at the current rating level, but would expect commensurate revenue growth to offset any significant increase to the organization's relatively low debt burden. Although unexpected, Fitch would view negatively any substantial deterioration to the system's solid leverage metrics.

New Issue Details & Debt Profile

Post issuance, YNHOG's debt structure will be approximately 52.5% traditional fixed rate and 47.5% variable rate. The financing will be primarily to refund some of YNH's prior outstanding debt and fund approximately \$40 million of BH capital projects in addition to approximately \$100 million of various YNH projects, and pay associated costs of issuance. YNHOG will have four outstanding floating-to-fixed swaps, post issuance, for a total notional amount of \$322.5 million. The current swap counterparties are Goldman Sachs and Barclays Bank. Currently, YNH has three outstanding swaps for a total notional amount of approximately \$154.5 million. As of Feb. 28, 2014 the mark-to-market valuation was negative \$24 million. No collateral was necessary to be posted.

Disclosure

YNHHS covenants to disclose annual audits within 150 days of fiscal year end and unaudited quarterly information within 60 days of quarter end (first three quarters) to the MSRB's EMMA system.

Fitch rates the following debt 'AA-' :

--\$44.8 million State of Connecticut Health and Educational Facilities Authority, series N

--\$50 million State of Connecticut Health and Educational Facilities Authority, series O (variable-rate demand bonds; VRDBs, supported by LOC from Wells Fargo Bank)

--\$132 million State of Connecticut Health and Educational Facilities Authority, series 2013

--\$105.5 million State of Connecticut Health and Educational Facilities Authority, (Yale New Haven Health Issue), series A

--\$168.4 million State of Connecticut Health and Educational Facilities Authority, (Yale New Haven Health Issue), series B

--\$83.5 million State of Connecticut Health and Educational Facilities Authority, (Yale New Haven Health Issue), series C (variable-rate demand bonds; VRDBs, supported by LOC from JPMorgan Bank)

--\$108.2 million State of Connecticut Health and Educational Facilities Authority, (Yale

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New Haven Health Issue), series D (variable-rate demand bonds; VRDBs, supported by LOC from Bank of America)

--\$74.8 million State of Connecticut Health and Educational Facilities Authority, (Yale New Haven Health Issue), series E

--\$60.8 million State of Connecticut Health and Educational Facilities Authority, (Yale New Haven Health Issue), series 2014

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

Applicable Criteria and Related Research:

--'Nonprofit Hospitals and Health Systems Rating Criteria', dated May 20, 2013.

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U.S. Nonprofit Hospitals and Health Systems Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=708361

Additional Disclosure

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