

Special Comment

Moody's U.S. Public Finance

April 2009

Table of Contents:

Summary	1
Overview: Challenging Business Model for Not-for-Profit Hospitals, Even in the Best of Credit Times	2
Six Critical Factors Driving 2009 Rating Reviews	3
Credit Risks	3
Credit Mitigants	6
Conclusion	8
Related Research	8
Recession & Credit Market Risks: Health Care Rating Guidance	9

Analyst Contacts:

New York	1.212.553.1653
Lisa Goldstein	212.553.4431
<i>Senior Vice President/Team Leader</i>	
Lisa Martin	212.553.1423
<i>Senior Vice President</i>	
John C. Nelson	212.553.4096
<i>Team Managing Director</i>	
Gail Sussman	212.553.0819
<i>Group Managing Director</i>	
Bart Oosterveld	212.553.7914
<i>Chief Credit Officer</i>	

Not-for-Profit Healthcare Rating Roadmap: Hospitals Under Stress, but Strong Management and Federal Stimulus May Mitigate Risks

Summary

U.S. not-for-profit hospitals have been among the earliest sectors to suffer rapid financial weakening due to the nation's deep recession and credit crisis. Lower patient demand, declining operating performance, loss of balance sheet strength and weakened liquidity have already affected most hospitals, and these are just some of the effects of the economic recession. We expect nearly all rated hospitals to report weaker financial performance in 2009. These problems, which accelerated throughout 2008, were the basis for our revised outlook on not-for-profit hospitals to negative from stable in November 2008.¹

Not-for-profit hospitals have experienced challenging financial times before, most recently in the years following the Balanced Budget Act of 1997 (BBA), which cut funding to many hospitals. We believe that today's challenges are different and wider in scope-- unemployment has risen sharply, market access to capital has become more restricted, and traditional liquidity and swap counterparties utilized by hospitals have weakened as well. Nonetheless, as we saw during the BBA years, strong management and governance can stabilize financial performance and preclude rating downgrades in many cases. In combination with significant federal government stimulus, strong management and governance will be more important than ever in mitigating the impact of the current economy on hospital bond ratings.

¹ See *Not-for-Profit Healthcare Sector Outlook Revised to Negative from Stable* November 2008.



Not-for-Profit Healthcare Rating Roadmap: Hospitals Under Stress, but Strong Management and Federal Stimulus May Mitigate Risks

During this turbulent period, Moody's will still rely on the core metrics and methodology used to evaluate hospitals' ratings during more stable times². However, attention must be paid to the special risks now confronting hospitals. The following six factors will be critical in determining the impact of these challenges on hospital ratings in 2009:

RISKS

1. Weaker Market Demand and Declining Cash Flow Margins
2. Investment Losses and Weaker Balance Sheets
3. Debt Structure And Liquidity Stress
4. Market Access Problems

RISK MITIGANTS

1. Management & Governance Actions
2. Federal Government Stimulus

This special comment is part of a series publications authored by Moody's Public Finance Group that will outline the nature of the challenges facing each of the major sectors that we rate. The publication series will also provide guidance on how we will assess the impact of the challenges on the credit ratings in each sector and will discuss the factors that may offset, in whole or in part, downward rating pressure.

Overview: Challenging Business Model for Not-for-Profit Hospitals, Even in the Best of Credit Times

Even in the most favorable operating environments, not-for-profit hospitals operate a challenging business model. Hospitals operate, for the most part, in local markets where most actions are easily observed by competitors and insurers; hospitals often respond rapidly to each other's capital and clinical program initiatives, putting constant pressure on boards and management teams. Hospitals are cash-flow reliant, capital-intensive businesses that must skillfully balance their not-for-profit mission to provide high quality affordable healthcare with the need to compete for commercially insured patients and recruit top physicians. Reimbursement by commercial payers is subject to tough contract negotiations with insurers, and success is essential if hospitals are to offset the costs of indigent care, subsidize losses from inadequate governmental reimbursement and fund other public services such as teaching and research.

In 2008, the tax-exempt market experienced a severe dislocation with the widening of credit spreads, the loss of Aaa-rated bond insurance, failed remarketings and absence of once-abundant liquidity available from commercial banks. Hospitals were perhaps the most severely affected by these problems as investors and lenders pulled back from the perceived credit risk of these competitive, capital-intensive organizations. Management teams were forced to reassess their capital needs and projected use of traditional sources for capital, including tax-exempt debt. The worsening economic crisis and drop in stock market values that took hold in mid to late 2008 caused a decline in balance sheet strength and liquidity -- in some cases quite severe -- for most hospitals. Rising unemployment caused patient volumes to soften and shifted the payer mix toward more charity care and self pay patients. We expect these trends to continue in 2009.

With Moody's rating methodology serving as an overarching framework, the remainder of this report provides guidance on how we will assess each hospital's risk profile during this turbulent period. We will pay special attention to six critical factors -- 4 risks and 2 mitigants (please see *Recession & Credit Market Risks: Health Care Rating Guidance* on page 9 for a summary of this guidance by rating category). A hospital's financial performance against these metrics will be a factor in ultimate rating decisions.

² See *Rating Methodology - Not-for-Profit Hospitals and Health Systems* January 2008

Not-for-Profit Healthcare Rating Roadmap: Hospitals Under Stress, but Strong Management and Federal Stimulus May Mitigate Risks

Falling below the guidance level for any individual financial metric will not necessarily trigger a rating review for a hospital, unless that single variance is extreme and creates the potential for additional credit stress by itself. Many stable hospitals will fall below the guidance metric for an individual indicator. However, rating reviews will be more likely triggered for hospitals that fall below multiple metrics, especially if they are higher in their rating category and have deteriorated from long held stable positions.

The financial metrics were developed from our experience with stressed situations assessed over the past twelve months and are broadly consistent with our recently published FY 2008 Preliminary Medians which already show deterioration in all major financial and liquidity ratios.

This report also provides a list of fourteen universal warning signs – irrespective of rating category -- that would also likely trigger a rating review by Moody's (please see box on page 7). In particular, many investors have inquired as to whether we will take rating action if a hospital breaches a covenant (usually a debt service rate covenant) in the bond documents. We do not anticipate automatic rating downgrades solely due to a covenant breach in the bond documents (also known as a "technical" default rather than a payment default) but rather will review the factors causing the breach. We will assess the relevance of the covenant to credit and liquidity considerations and determine if rating action is needed. For example, some hospitals may breach their rate covenants because the definition for debt service coverage includes non-cash losses such as losses on debt refundings, negative swap valuations or unrealized losses. Factors such as these may not result in a rating downgrade if core operating performance is stable. However, if the cause of the rate covenant breach reflects a downturn in core operating performance, liquidity and balance sheet position, rating action may occur.

Six Critical Factors Driving 2009 Rating Reviews

Credit Risks

1. Weaker Market Demand and Declining Cash Flow Margins

As unemployment rises and the uninsured population increases, demand for inpatient and outpatient services is declining. In growing number, patients are self-rationing their medical needs and delaying elective inpatient and ambulatory care. Hospitals are reporting softer volume growth and, in many cases, actual declines in admissions and surgeries, two key indicators of demand.

At the same time, hospitals are reporting a shift in their payer mix away from insured patients toward self-pay and Medicaid-eligible patients. Employed patients are also consuming less hospital care as many employers are now offering high deductible or high co-pay health plans as a way to trim their healthcare expenses and shift these costs to employees. Some employers, particularly smaller ones, have discontinued healthcare coverage altogether citing cost as the reason. Hospitals are finding it much harder to collect payment from individuals than commercial payers, resulting in higher bad debt expense. Therefore, the shift in payer mix, combined with volume declines, has produced weaker financial performance for many hospitals.

We anticipate weaker financial performance for nearly every provider in 2009. However, we do not anticipate broad rating downgrades simply because of moderately weaker results. Rating downgrades will be more likely for providers who show a severe impairment in financial performance that we believe is outside a manageable, cyclical decline.

Key Ratios and Metrics. To determine demand, we are evaluating trends in patient volumes, revenue growth and bad debt expense. For patient volumes, we expect Aa rated hospitals to show some volume growth or at least flat volume trends; for A rated hospitals, we expect volume declines to be limited to no more than 2% and for Baa rated hospitals, volume declines to be limited to no more than 4%. Regarding revenue growth, we expect Aa rated hospitals to show at least 4% net patient revenue growth, at least 2% for A rated hospitals and for Baa rated hospitals, at least a flat trend of net patient revenue growth. A decline in same-store absolute patient revenue will trigger a rating review. We are also evaluating the trend in bad debt expense, which we expect to increase for most hospitals given the economy. For Aa rated hospitals, we expect no more than 30% growth in bad debt expense; for A rated hospitals we expect no more than 15% growth and for Baa rated

Not-for-Profit Healthcare Rating Roadmap: Hospitals Under Stress, but Strong Management and Federal Stimulus May Mitigate Risks

hospitals, no more than 10% growth. Growth in bad debt beyond these levels would likely be difficult for a hospital in the respective rating category to absorb.

One of the primary ratios we use to evaluate financial performance is the operating cash flow margin which measures operating profitability after removing capital-related expenses (interest expense, depreciation and amortization expense). For Aa rated hospitals we would expect at least 9.0% operating cash flow margin; for A rated hospitals, 7.5% and for Baa rated hospitals, 6.0%.

2. Investment Losses and Weakened Balance Sheets

Many hospitals are suddenly facing sharp declines in net worth as losses in long term investment pools have hit hospitals harder during this downturn than in previous market declines. This deleterious position is partly a result of asset allocation decisions made over the past five to ten years that resulted in much heavier exposures to the public and private equity markets. Most hospitals now invest a meaningful portion of their unrestricted cash and investments in equities with a growing number investing in alternative investments (private equity or hedge funds, for example). While these investment decisions were driven by a view that a more diverse, equity-based portfolio will yield higher risk-adjusted returns over the long run, the recent nature of many hospital portfolio changes has made the losses seem especially abrupt and unexpected. The losses come at a time of sharply increased need for immediate cash as the recession has reduced cash flow and left many hospitals struggling to assess the liquidity implications of their new strategies. We expect all hospitals with defined benefit pension plans to face significantly higher funding as asset value has declined materially, creating yet another demand on liquidity.

Ability to liquidate investments quickly, as well as report credible valuations of alternative holdings are now especially important credit factors, especially for management teams that have significant allocations to alternative investments which are generally less liquid and transparent. To varying degrees, we anticipate a decline in absolute and relative balance sheet strength for most hospitals, as well as a decline in liquidity in the weakened portfolio. Any rating action will depend on the magnitude of the cash decline and the trend in core operating performance. We do not expect rating downgrades to occur solely because the balance sheet position has declined for higher-rated organizations. However, for lower-rated, weaker providers, a material decline in the total cash portfolio, even with stable core operating performance, may result in a rating downgrade as hospitals with inherently thin cash flow are now facing greater reliance on their own resources and may no longer be able to access the capital debt market.

Key Ratios and Metrics. Our two key metrics for measuring balance sheet position are days cash on hand and cash-to-debt. For Aa-rated hospitals and health systems, we expect at least 190 days cash and 140% cash-to-debt. For A rated hospitals, we will look for at least 115 days and 80% cash to debt, and for Baa rated hospitals, at least 90 days and 55% cash-to-debt. Our analysis is also expanding with a more detailed review of a hospital's asset allocation and risk tolerance on its investment philosophy.

3. Debt Structure and Liquidity Stress

In addition to the reduced liquidity caused by certain long-term investment strategies, some management teams are now also facing liquidity challenges from their debt structures due to reduced confidence among bond investors and more expensive and scarce bank liquidity. The unprecedented collapse of the auction rate market in February 2008 and the spike in short-term interest rates in 2008 have underscored the risks of variable rate debt. Explicit risks include counterparty risk, interest rate risk, renewal risk, and risk of payment acceleration if there is an event of a default under the letter of credit or standby bond purchase agreement.

These risks are amplified if a hospital with a sizable variable rate program uses only one liquidity provider (concentration risk). Significant exposure to a downgraded liquidity provider can subject a hospital to tenders that are supported by the liquidity provider. These tenders are largely unrelated to the underlying credit quality of the borrower. Many hospitals saw failed remarketings of variable rate debt in October 2008 as bank downgrades occurred. The mitigants that hospitals previously relied on to manage these problems, such as the conversion to fixed rate and market access are now more challenging and for some lower rated credits, unavailable at cost effective rates.

Not-for-Profit Healthcare Rating Roadmap: Hospitals Under Stress, but Strong Management and Federal Stimulus May Mitigate Risks

Most bank liquidity facilities have a days cash on hand test or rate coverage requirements measured at least once during a fiscal year. Failure to meet these tests is an event of default in most bank documents. Upon breaching a covenant, the bank can declare an event of default, give notice of a mandatory tender and require immediate repayment by the hospital which can easily wipe out all or a large portion of a hospital's cash, leaving no liquidity for the fixed rate bondholders.

Hospitals that have limited headroom to bank covenants may face rating or outlook pressure. We will use our best judgment to determine the near-term or long-term possibility of a covenant violation. For example, if we believe there is a 50% chance of a covenant violation happening in the next several months, we may downgrade the rating a notch, depending on the severity of the consequences of the violation.

We will provide guidance to investors on potential future rating actions if the bank elects to accelerate the bonds in the event of a covenant violation. If that risk increases to a 90% chance of a covenant violation, we may downgrade the rating closer to where it would be after acceleration. In the event of an actual acceleration by the bank, the rating impact may be very severe with a downgrade well into the below investment grade categories.

In addition to the risks of variable rate debt structures, liquidity risks have also become a major concern due to some interest rates swap agreements. Many hospitals have used these derivatives to hedge the variable rate risk on their bonds (known as fixed payer swaps). Mark-to-market liabilities on long-dated fixed payer interest rate swaps have grown considerably since mid-2008 due to falling long interest rates. Many hospitals have seen the fair value of their swap agreements decline significantly, and some have been forced to post large amounts of cash collateral.³ For those hospitals with large swap programs that use only one counterparty, concentration risk is also present.

Key Ratios and Metrics. Our key ratio for measuring the risk of variable rate debt is unrestricted cash-to-puttable debt. Puttable debt is debt that has a variable interest rate with provisions for investors to tender their bonds and demand full payment at par. In cases where this ratio may be weak, we will pay particular attention to the actual liquidity of the investments. For example, cash held in hedge funds and private investment vehicles will not be considered to be liquid. We would expect the higher-rated hospitals with above average liquidity levels be able to withstand a bank acceleration because their liquidity is comfortably higher than their variable rate debt. After such acceleration, we would expect there to be enough liquidity to fund operating needs, routine capital needs and make fixed rate debt payments. Lower-rated hospitals will have a harder time absorbing the impact of an acceleration given their lower liquidity levels. For Aa rated hospitals, we expect at least 150% cash to puttable debt; for A, at least 90% cash to puttable debt and for Baa rated hospitals, a minimum of 70% cash to puttable debt.

We also evaluate headroom under the bank and swap covenants (usually days cash on hand and debt service coverage). For Aa rated hospitals we would expect to see at least 55% clearance of the covenants; for A rated hospitals at least 40% clearance; and for Baa rated hospitals, at least 25% clearance. Falling below these clearance levels may warrant a rating review.

4. Market Access Problems

Until recently, access to the economical tax-exempt market was virtually assured for all investment grade hospitals and was a key resource for funding routine and strategic capital needs. Amid the recent market dislocation, many lower rated hospitals are now unable to access the market and fund necessary capital. Higher-rated hospitals and systems will likely have access to the market, although at higher rates and wider spreads to high-grade government credits. Each management team will need to determine what borrowing rate is tolerable for their capital structure and financial goals.

In the short-term, if market access is no longer a source of capital or deemed unaffordable, we anticipate that hospitals may increase their use of capital or operating leases, which we have always viewed as a debt equivalent and incorporated into our leverage ratios. We also expect some hospitals to cut operating budgets, restrict contributions to their long-term investment pools and allocate larger amounts of cash flow to capital

³ See *Interest Rate Swaps Cause New Liquidity Stress for Some Healthcare, Higher Education and other Not-for-Profit Borrowers* February 2009.

Not-for-Profit Healthcare Rating Roadmap: Hospitals Under Stress, but Strong Management and Federal Stimulus May Mitigate Risks

spending. Finally, others may severely reduce capital spending, which could put them at a disadvantage depending on a hospital's competitive position as it could cause market share erosion over the longer term as competitor hospitals maintain adequate routine and growth-oriented capital spending.

Key Ratios and Metrics. Our metric for measuring risks associated with reduced market access is an analysis of a hospital's amount of variable rate debt (before interest rate swaps). This metric measures the risk that a hospital will be in a position of having to refinance its variable rate debt at a time of limited market access. This evaluation of the amount of variable rate debt does not prescribe the appropriate mix of variable and fixed rate debt that a hospital should have, which is a much deeper review of a hospital's capital needs and asset/liability strategies.

As expressed above, the inherent risks of variable rate debt are amplified given current market conditions. Many hospitals and health systems – even those with high ratings, are being notified of non-renewals of bank agreements by their liquidity providers. The higher the exposure to variable rate debt, the more likely the hospital may need to return to the debt market to refinance with fixed rate debt. Presently, the ability to issue fixed rate debt at affordable rates is largely restricted to the stronger-rated credits, and even the amount of debt that a higher-rated hospital can issue may be limited by investor capacity. If a lower-rated hospital has high exposure to variable rate debt, market access may be very limited, leaving the hospital in a precarious position to repay the bank in an accelerated term-out period. For Aa rated hospitals, we look for no more than 50% variable rate debt; for A rated hospitals, no more than 35% and for Baa rated credits, no more than 20% variable rate debt.

Credit Mitigants

1. Management and Governance Actions

Decisive action taken by a hospital management team and its board of trustees to promptly identify current and looming financial problems and implement immediate corrective strategies is a strong factor in avoiding rating downgrades. Because market challenges usually require quick, decisive and flexible responses to prevent serious damage to the financial health of a hospital, Moody's views effective management as an essential element of rating analysis. By the same token, a lagging and less effective management response is often a significant negative factor.

We anticipate that well managed hospitals will swiftly execute operational, liquidity and capital strategies with full board support, even if the ill-effects of the economy have not yet materialized. Indeed, we have seen organizations that have maintained strong core financial performance through December 31, 2008 implement operational plans largely focused on improving labor productivity measures and preserving liquidity, effectively "getting ready" for what other hospitals have already experienced. Effective management teams are also considering changes to defined benefit pension plans given looming funding requirements, including converting to a contribution plan. Hospitals will face much higher funding levels over the next couple of years representing yet another demand on liquidity. In other cases, we have seen management that is slow to respond or in denial of the looming problems facing their organization also prompt rating action. We believe that the management and board of most lower-rated credits need to evaluate their future liquidity needs and determine whether finding a capital partner through a merger or acquisition should be considered.

Every hospital has a different risk tolerance when it comes to managing their financial future. We expect management to determine their risk appetite and then build strategies to mitigate those risks. Clear articulation of risk appetite and strategies to protect financial performance is another key element in our rating analysis.

In particular, liquidity preservation strategies are very important given the sizable market losses that nearly all hospitals are incurring. The liquidity strategies we are observing are numerous and include:

1. Securing operating lines of credit from local commercial banks that can be used for working capital needs
2. Revisiting asset allocation to mitigate riskier investment strategies

Not-for-Profit Healthcare Rating Roadmap: Hospitals Under Stress, but Strong Management and Federal Stimulus May Mitigate Risks

3. Restructuring debt to remove auction rate risk and convert to fixed rate; replacing LOCs with weaker counterparties with new LOCs from stronger counterparties; diversification of counterparties; amending SBPAs so that financial guarantors with credit issues are no longer causing failed remarketings and bank bonds
4. Terminating interest rate swaps (even if a termination payment is necessary)
5. Re-evaluating all capital needs, routine and strategic, to assess a new return on investment given current economic conditions, with many delays or abatement of plans already occurring
6. Converting defined benefit pension plans to contribution plans
7. Renewing efforts to improve revenue cycle and receivables management

2. Deployment of Federal Fiscal Stimulus

The American Recovery and Reinvestment Act of 2009 (the federal stimulus plan) will have a positive impact on hospitals for the next two years. There will be more than \$87 billion to increase the federal share of Medicaid funding that states will need to effectively deploy. This will help many hospitals, especially those with high Medicaid exposure such as safety net hospitals, academic medical centers and children's hospitals. Another \$40 billion will aid unemployed individuals with greater temporary health care insurance through COBRA benefits (Consolidated Omnibus Budget Reconciliation Act). This aid should help maintain and preserve insurance coverage of the recently unemployed, resulting in some lowering of bad debt and self pay. Additional funding to facilitate investment in electronic medical records is also forthcoming.

Over the longer term, actions of the federal government are likely to be mixed. The President's promise for health care reform to cover the 47 million uninsured is a bold agenda with the funding for the reform yet to be determined. It is highly likely that Medicare reimbursement to hospitals could be reduced to fund the program, along with commercial payers being asked to contribute financially to the plan. As a result, hospitals will be paid less per procedure as healthcare costs continue to rise, placing more strain on financial performance. We will provide further comment on the reform plan and its impact on hospital ratings once it is developed.

Analytical Red Flags for All Not-for-Profit Hospitals

1. Decline in total operating revenue (same-store basis)
2. 30% decline in operating cash flow
3. Greater notional amount of swaps than debt
4. Days in account receivables rise to 100 and sustained at this level for two consecutive years
5. Failure to deliver audit 6 months after the fiscal yearend; tardy interim statements
6. Qualified audit opinion
7. Technical default under bond covenants; covenant breach in bank documents
8. Unexpected change in CFO
9. Unexpected increase in debt (20% or more)
10. Investment allocation with more than 10% in one fund
11. More than 70% of debt is variable rate (before swaps)
12. Unusually high investment returns
13. Pension liability funded at less than 80%
14. Bank bonds with short payout or auction rate debt with high rates

Not-for-Profit Healthcare Rating Roadmap: Hospitals Under Stress, but Strong Management and Federal Stimulus May Mitigate Risks

Conclusion

The sharp declines in the stock market and broader economy pressures have quickly weakened many hospitals' financial performance. The unsettled capital markets have limited hospital access to long-term fixed rate debt and nearly closed access for lower-rated hospitals. Various counterparties that serve important roles in hospital financings have been downgraded as well, removing a historically abundant vehicle to the bond market. Our rating analysis will focus on four key risk factors in 2009 to determine when rating action is warranted. The most effective measures to mitigate these challenges will result from strong management and governance decision-making. A proactive and forward-looking approach to resolving near-term and looming challenges may reduce the challenges facing not-for-profit hospitals, as well as the potential for rating downgrades. Likewise, the aid from the federal stimulus program serves as another potential mitigant if these funds are deployed efficiently.

Related Research

Special Comments:

- Diagnosing Not-for-Profit Hospital Downgrades, December 2008 (113041)
- U.S. Federal Stimulus Likely to Relieve Short-Term Credit Pressures Facing a Number of Municipal Issuers, February 2009 (114765)
- Not-for-Profit Healthcare Preliminary Medians Show Weakening Across All Major Ratios and All Rating Categories, March 2009 (115194)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Not-for-Profit Healthcare Rating Roadmap: Hospitals Under Stress, but Strong Management and Federal Stimulus May Mitigate Risks

RECESSION & CREDIT MARKET RISKS: Health Care Rating Guidance

Rating Category	Weaker Market Demand & Declining Cash Flow Margins		Investment Losses & Weaker Balance Sheet	Debt Structure & Liquidity Stress		Market Access Problems		Management and Governance Actions	Federal Government Actions
Aa	Patient volume still growing or flat; net patient revenue growth at least 4%; bad debt expense growth no more than 30%	Operating Cash Flow Margin at least 9.0%	Days Cash at least 190 days; Cash-to-Debt at least 140%	Significant headroom under bank and swap covenants (at least 55% clearance); strong diversification of investment managers and funds, banks and counterparties	Unrestricted Cash-to-puttable Debt at least 150%	Viable market access still assured although at elevated spreads	No more than 50% variable rate debt	<p>1) NEAR TERM ACTIONS: Evidence of operational, capital and liquidity decisions to mitigate effects of downturn even if impairment of cash flow or liquidity has not fully materialized yet, including establishing operating lines of credit with banks, restructuring debt structures, reducing or abating large capital projects to conserve cash.</p> <p>2) LONG TERM ACTIONS & BOARD SUPPORT: Evidence that management and board agree to take defensive actions if needed; including changes in strategic plans for possible M&A, capital program, compensation, staffing and clinical services; also including re-visiting of investment allocation; consideration to change benefit pension plan.</p>	<p>1) STIMULUS PROGRAM: Stimulus Act is expected to help most hospitals in short-term to some degree through grants for information technology and expansion of COBRA insurance for unemployed; urban safety-net hospitals, children's hospitals, academic medical center likely to see greatest benefit given higher Medicaid & charity care</p> <p>2) HEALTH CARE REFORM: Likely will provide broader health care coverage for previously uninsured although may come at the expense of more stringent Medicare reimbursement compliance and possibly lower profitability for each procedure as costs rise</p>
A	Patient volume declines limited to no more than 2%; net patient revenue growth at least 2%; bad debt expense growth no more than 15%	Operating Cash Flow Margin at least 7.5%	Days Cash at least 115 days; Cash-to-Debt at least 80%	Significant headroom under bank and swap covenants (at least 40% clearance); strong diversification of investment managers and funds, banks and counterparties	Unrestricted Cash-to-puttable Debt at least 90%	Strained but still viable market access at much higher spreads	No more than 35% variable rate debt		
Baa	Patient volume declines limited to no more than 4%; net patient revenue growth at least flat; bad debt expense growth no more than 10%	Operating Cash Flow Margin at least 6.0%	Days Cash at least 90 days; Cash-to-Debt at least 55%	Headroom under bank and swap covenants narrowing (at least 25% clearance); moderate to strong diversification of investment managers and funds, banks and counterparties	Unrestricted Cash-to-puttable Debt at least 70%	Limited or no market access to capital	No more than 20% variable rate debt		

Not-for-Profit Healthcare Rating Roadmap: Hospitals Under Stress, but Strong Management and Federal Stimulus May Mitigate Risks

Report Number: 115867

Author(s)	Editor	Production Specialist
Lisa Goldstein	John Nelson	Cassina Brooks

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S (MIS) CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

© Copyright 2009, Moody's Investors Service, Inc., and/or its licensors and affiliates (together, "MOODY'S"). All rights reserved. **ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.** All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. **NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.** Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."



Moody's Investors Service