

August 24, 2009

Wellmont Health System, Tennessee; System

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<i>Long Term Rating</i>	BBB+/Stable	Outlook Revised
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Rationale

Standard & Poor's Ratings Services revised its rating outlook to stable from negative on bonds issued for Wellmont Health System, Tenn. by various issuers. At the same time, Standard & Poor's rating services affirmed its 'BBB+' long-term rating and 'BBB+' underlying ratings (SPUR) on the bonds.

The outlook revision reflects better-than-expected operating performance through the fiscal year ended June 30 (unaudited); the initial implementation of various expense and revenue cycle improvements expected to support improved performance on an ongoing basis; and the culmination of Wellmont's look-back into the previous management's historical accounting practices, which ultimately led to the restatement of fiscal 2007 audited results and a long delay in the release of the system's fiscal 2008 audit.

Wellmont's former CEO and its chief financial officer (CFO) left the organization in July 2008 and December 2008, respectively. After serving in an interim capacity since July 2008, Wellmont named Mike Snow permanent CEO in March 2009. Wellmont is currently operating with an experienced interim CFO while conducting the search for a permanent CFO.

The affirmed 'BBB+' rating reflects Wellmont's:

- Improving financial metrics, including positive (unaudited) fiscal 2009 operating income of \$6.5 million (a 0.9% margin), which compared with operating losses in the previous two years;
- Acceptable 2.1x maximum annual debt services (MADS) coverage (or 1.8x on an operating lease adjusted basis), which remained consistent with prior years, despite the significant decline of investment income and other nonoperating revenues in fiscal 2009;
- A stabilized, although still constrained, balance sheet due to Wellmont's acquisition activity over the past five years. Current balance sheet metrics are characterized by 131 days' cash on hand, a moderately high 58% long-term debt to total capitalization, and unrestricted cash to long-term debt of 54%; and
- The system's solid business position characterized by good market share in a demographically favorable region that is largely dominated by two health care systems that have recently become more collaborative.

Further supporting the rating are revenue cycle, staffing, expense, and other identified operating improvements that generated \$7 million of incremental operating income for fiscal 2009 and are budgeted to produce about \$15 million in improvements for fiscal 2010.

Offsetting factors include current uncertainty related to Wellmont's direct-pay letter of credit (LOC) agreement with Bank of America N.A. (BofA). Wellmont is currently out of compliance with its debt-to-capitalization covenant related to the BofA reimbursement agreement. Wellmont had been operating under a forbearance agreement with BofA and management is in discussions with the bank over debt covenants and the extension of a \$64 million direct-pay LOC related to Wellmont's series 2005 bonds. The LOC expires in December 2010. Management expects to reach a successful extension with BofA, but should an agreement not be reached, the level of puttable debt relative to unrestricted cash is manageable at 26%. Other potentially negative credit factors include the ultimate outcome of health care reform, which may result in a significant reduction in reimbursement to system hospitals, a decrease in current-year inpatient and surgical volumes relative to fiscal 2008 at Wellmont's two newest hospitals, Lee Regional and Mountain View Regional, which represent approximately 7% of Wellmont's net revenue, and additional competitive pressure facing Wellmont's Bristol Regional Medical Center, from a competitor's replacement hospital that is under construction in Abingdon, Va.

In connection with its year-end 2008 audit, Wellmont changed its outside auditing firm to KPMG. KPMG and the audit committee of Wellmont's board identified a number of accounting entries that it believed warranted further review and possible reclassification. That process resulted in a protracted delay in the release of 2008 audited results and the restatement of audited results for fiscal 2007.

Restated results

Although Wellmont's fiscal 2006 results were not restated, accounting errors related to 2006 were recorded as a negative \$15.1 million adjustment to beginning fiscal 2007 net assets. Had 2006 results been restated, reported operating income would have been revised to \$2.8 million. Fiscal 2007 restated results reflected a decrease in operating income to a negative \$6.5 million, as per Standard & Poor's calculation, which treated the \$8.5 million gain on sale of Wellmont's home-care affiliate as a nonoperating item. Management originally reported fiscal 2007 operating income as \$9.2 million, excluding the \$8.5 million gain. The accounting restatements related to numerous accounting entries including the reconciliation of cash, accounts receivable, third-party payor settlement liabilities, prepaid expenses, goodwill amortization, the capitalization and depreciation of buildings and equipment, accounts payable and accruals, as well as other assets and liabilities. There was no fraud or personal gain associated with any of the restatements.

A gross revenue pledge of the obligated group, and a mortgage on Wellmont's two largest hospitals, and the Lee Regional and Mountain View hospitals secure the bonds. The obligated group includes the parent, Hawkins County Memorial Hospital (a leased facility), a for-profit subsidiary, and the system's fundraising arm. Six of the system hospitals are included by virtue of operating as unincorporated divisions of the parent: Holston Valley Medical Center, Bristol Regional Medical Center, Lonesome Pine Hospital, and the three hospitals recently acquired. All of the systems entities are included in the analysis and all numbers cited in this report.

As of June 30, 2009, Wellmont had \$454.3 million of bonded debt. Based upon the increased counterparty risk associated with Lehman bankruptcy, Standard & Poor's revised its Debt Derivative Profile (DDP) on Wellmont to an overall score of '3' on a scale of '1' to '4' with '1' representing the lowest risk and '4' the highest. The overall score of '3' reflects Standard & Poor's view that the risks associated with Wellmont's derivatives portfolio are

moderate at this time.

As of June 30, Wellmont's swap liability was \$10.2 million; however, there was no required posted collateral. There have been no changes to Wellmont's swap portfolio since our last published report in January 2009.

Outlook

The return to a stable outlook reflects our increased comfort that Wellmont has identified and corrected the accounting issues that led to the restated 2007 results and the 2008 audit delay. Additionally, while current economic conditions, and the uncertainty whether limits on future Medicare, TennCare, and Virginia Medicaid reimbursement may constrain operations, we believe that management initiatives to reduce costs and improve Wellmont's revenue cycle will support a generally improving operating trend. In addition, as market conditions improve, Wellmont's liquidity metrics and cash flow coverage will improve. While we remain concerned about the system's balance sheet, particularly leverage, Wellmont's future capital spending plans are modest, as \$45 million remains in the 2006C Project Fund, and management has no current plans to issue additional long-term debt. Should the balance sheet or operations unexpectedly weaken, a downgrade or the return to a negative outlook would be likely. By contrast, significant improvement to the balance sheet over time would be cause for a positive outlook revision and possibly an upgrade.

System And Market Profile

Wellmont Health System, created in 1996 with the merger of Bristol Regional Medical Center and Holston Valley Medical Center, began a series of acquisitions that significantly expanded its geographic footprint. In 1997, the system added Lonesome Pine Hospital, a 60-bed facility in Big Stone Gap, Va. In 2000, the 50-bed Hawkins County Memorial Hospital, located in Rogersville, Tenn., joined the system. In 2005, Wellmont opened Hancock county Hospital a 10-bed, critical-access hospital. In 2007, Wellmont acquired Lee Regional Medical Center, an 80-bed facility, and Mountain View Regional Medical Center, a 133-bed facility. Both hospitals are located in relatively rural areas of southwest Virginia.

Also in 2007, Wellmont acquired a 60% interest in Takoma Regional Hospital from Adventist Health System Sunbelt ('A+'). The 108-bed hospital is located in Greene County, Tenn., southwest of Wellmont's core markets. Although Wellmont acquired a 60% equity stake, Adventist Health System Sunbelt is the manager of the facility so it is not consolidated but is accounted for as an equity investment.

On April 30, 2009, Wellmont closed Jenkins Community Hospital and sold the hospital's property plant and equipment for a \$1 million. Jenkins was a 25-bed critical-access hospital in Jenkins, Ky., about an hour and a half north of Kingsport. Jenkins, acquired in 2007, failed to meet management's financial targets -- having lost \$1.1 million from operations in fiscal 2008. The sale of Jenkins resulted in a fiscal 2008 impairment charge of \$6.3 million.

Other key components of the system include a cancer center in Norton Va., an assisted-living and adult day care center; a hospice; a wellness and fitness center; a fundraising foundation; and a number of relatively small for-profit subsidiaries, including a physician-hospital organization, a billing-and-collection service, two retail pharmacies, and a regional laundry.

The system currently consists of eight hospitals with about 1,286 licensed beds serving Tennessee and Virginia markets. Wellmont's primary service area (PSA) encompasses three Tennessee counties and six Virginia counties. The system's two largest hospitals, Bristol Regional Medical Center and Holston Valley Medical Center, are both in Tennessee but are very close to the Virginia border. Portions of Bristol's facility are across the border in Virginia. The Virginia side of the service area is more rural and has a lower population density than the Tennessee side but also less competition. Even though Wellmont has no hospitals located in some of its PSA counties that are in Virginia, the system draws sizable market share from those counties. For example, market share in Scott County, Va. is 68%. In its core county of Sullivan, Tenn., there are three hospitals: Bristol, Holston Valley, and Mountain State's Indian Path Medical Center. Wellmont draws a solid 59% market share in Sullivan County, while Mountain States Health Alliance (MSHA) garners a 36% market share. Overall, market share for the nine PSA counties is solid at 56% and continues to grow. County-by-county market share ranges from 28% to 85%.

Bristol Regional Medical Center was a brand-new hospital in 1994 and is an attractive facility with a sizable campus and a broad range of services. Holston Valley Medical Center is the core tertiary provider in the primary service area, with a very active cardiac program, a level-one trauma center, a neonatal program, and other programs typical of a tertiary center. Both hospitals should benefit from the "Project Platinum" expansion and renovation plans funded with series 2006C bond proceeds.

Although MSHA and Wellmont have historically been fiercely competitive, both have benefitted from regional population growth. With the change in leadership at Wellmont over the past year, there appears to be a desire for a more collaborative working relationship between the two systems.

Finances: Improved Financial Metrics

For the fiscal year ended June 30, 2009 (unaudited), Wellmont generated operating income of \$6.5 million (a 0.87% margin) on \$739 million of total net revenues. Operating results reflect an \$11.1 million positive swing from fiscal 2008, although 2008 was negatively affected by a \$6.3 million impairment charge related to the April 30, 2009 sale of Jenkins Community Hospital. Net operating income improved from Wellmont's implementation of revenue and expense cycle initiatives, which generated \$7.5 million of incremental income for fiscal 2009, and are expected to produce \$15 million of operational improvements in 2010. Wellmont's 2010 budgeted operating income is \$19.8 million.

Acute discharges were up slightly to 42,558 relative to fiscal 2008 inpatient volumes of 42,401. Combined inpatient and outpatient surgery volumes grew by 3.9% to 25,128. Emergency department visits declined 2% to 222,560 from 227,181 in 2008.

Wellmont's excess revenues, as per Standard & Poor's calculations, were \$10.3 million, which included \$8.4 million of realized investment income offset by discontinued operations and other nonoperating expenses. While positive, investment income was well short of budget and substantially below 2008 when Wellmont's investments generated realized income of \$31.6 million. Unrealized investment losses in fiscal 2009 were \$65 million. Wellmont also had a \$5.7 million unrealized loss on its swaps at year-end. Both unrealized investment and swap losses are treated as below the line for purposes of Standard & Poor's analysis.

Cash flow remains acceptable as evidenced by a 9% EBIDA margin, generating 2.2x coverage of Wellmont's \$30.6 million maximum debt service. Historically operating leases have been relatively modest in amount. However, as

Wellmont monetizes its medical office buildings, operating leases have become more material to its overall financial profile. Adjusted for the growing operating lease expense, MADS coverage is diluted by 0.42x to 1.8x .

Wellmont's balance sheet remains acceptable, although due to the decline in capitalization over the past couple of years, leverage metrics are now at a level where the system has very limited flexibility to issue more debt without a rating implication. However, there are currently no plans to issue new debt, and Wellmont has \$37 million of unspent series 2006C bond proceeds, which is adequate to complete its "Project Platinum," which includes a new surgical suite, intensive care unit, and emergency department projects that are currently underway at Holston Valley Medical Center.

Unrestricted cash and investments totaled \$248.8 million at year-end, equal to 131 days' cash on hand, and 54% of long-term debt. Cash was flat relative to last year. Wellmont's long-term debt to capitalization increased to 58%, from 54% in 2008, although the increase was strictly a function of a smaller denominator. Other than information-technology-related capital spending, Wellmont has limited capital spending plans that should support the continued growth of unrestricted cash and investments. The system's 2010 budget reflects an 18-day increase in day's cash on hand to 149 days, and 62% cash to debt.

About 85% of the system's cash and investment assets are liquid with maturities of less than one year. Less than 10% (\$23.2 million) are invested in real assets and private equity. Wellmont has a moderate level of future private equity capital funding commitments equal to \$15 million.

Debt Derivative Profile: '3.0'

Wellmont's overall DDP score has been revised to '3.0' on a scale of '1' to '4', whereby '1' represents the lowest risk and '4' is the highest. The overall score of '3.0' reflects Standard & Poor's view that Wellmont's swap exposure represents a moderate credit risk at this time.

The overall score of '3.0' includes the following factors:

- Above-average collateral posting risk due to the requirement that Wellmont post collateral when its rating falls to 'BBB-' or lower, a somewhat narrow spread for a 'BBB+' credit (there are no termination-rating triggers);
- High counterparty risk, based on the credit quality of the counterparty, Lehman Brothers Special Financing, guaranteed by Lehman Brothers Holdings (not rated), which filed for bankruptcy in September 2008;
- Low economic viability risk based on projected performance under stressful economic scenarios; and
- Strong management practices, including a written swap policy, thorough audit disclosure, frequent communication of swap performance to the board, and the use of independent financial advisors to assist in evaluating swap strategies and performance.

Wellmont has four swaps in place, all of which are with Lehman Brothers Special Financing. The swaps include a \$66.3 million notional basis swap that matures in 2032, under which Wellmont pays the Securities Industry and Financial Markets Municipal Assn. (SIFMA) swap index rate and receives 73.8% of LIBOR. In 2006, Wellmont executed a total return swap related to its series 2006A bonds, which it placed were privately. Under the total return structure, Wellmont synthetically converted its cost on the bonds to the SIFMA index rate plus 85 basis points from the index rate. The remaining two swaps synthetically fix \$99.3 million of variable-rate debt. They are traditional floating- to fixed-rate swaps using one-month LIBOR as the receive index. Variable-rate debt is 30.9% of the total,

but inclusive of the effects of the swaps, Wellmont's current net variable-rate exposure is 9.1%.

Related Research

- USPF Criteria: "Not-For-Profit Health Care," June 14, 2007
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: "Debt Derivative Profile Scores," March 27, 2006

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Sullivan County Health, Educational, and Housing Facilities Board, Tennessee Wellmont Health System; System

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Debt Derivative Profile: '3'

Related Research

Sullivan County Health, Educational, and Housing Facilities Board, Tennessee Wellmont Health System; System

Credit Profile

Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee

Wellmont Hlth Sys, Tennessee

Sullivan Cnty Hlth Ed & Hsg Fac Brd (Wellmont Health System)

Long Term Rating

BBB+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on bonds issued for Wellmont Health System, Tenn. by various issuers. The outlook is stable.

The rating affirmations and stable outlook reflect improved operating and financial metrics following management's implementation last year of various expense and revenue cycle improvements, which it expects to support Wellmont's improved performance on an ongoing basis.

More specifically the ratings reflect Wellmont's:

- Stronger financial metrics, including positive fiscal 2009 operating income of \$6.5 million (a 0.88% margin) and six-month year-to-date operating income of \$15.2 million as of Dec. 31;
- Acceptable 2.1x fiscal year-end maximum annual debt service (MADS) coverage (or 1.7x on an operating lease-adjusted basis), which remained consistent with prior years, despite the significant decline of investment income and other nonoperating revenues in fiscal 2009;
- Stabilized, although still constrained, balance sheet due to its acquisition activity over the past five years. Current (Dec. 31) balance sheet metrics are characterized by 146 days' cash on hand, a moderately high 56% long-term debt to total capitalization, and unrestricted cash to long-term debt of 55%; and
- Solid business position characterized by good market share in a demographically favorable region that is largely dominated by two health care systems.

Further supporting the ratings are revenue cycle, staffing, expense, and other operating improvements that generated \$7.5 million of incremental operating income for fiscal 2009 and are expected to produce about \$15 million in improvements for fiscal 2010. Additionally, accounting issues leading to the delayed release of the system's fiscal 2008 audit and the restatement of fiscal 2007 results have been resolved.

Wellmont recently hired a permanent CFO, Beth Ward, who was formerly CFO of Moses Cone Health System in Greensboro N.C. Also, Mike Snow, Wellmont's CEO, announced his resignation effective March 1, 2010. Bob Burgin, who serves on Wellmont's board and who had previously retired as Mission Health's (Asheville, N.C.) president and CEO in 2004, will take over as interim CEO for Wellmont while a search is conducted for his permanent replacement. During his tenure as interim CEO, Mr. Burgin has taken a leave of absence from Wellmont's board.

As of June 30, 2009, Wellmont had \$452.2 million of bonded debt. A gross revenue pledge of the obligated group and a mortgage on Wellmont's two largest hospitals, Lee Regional Hospital, and Mountain View Hospital secure the bonds. The obligated group includes the parent, Hawkins County Memorial Hospital (a leased facility), a for-profit subsidiary, and the system's fundraising arm. Six of the system hospitals are included by virtue of operating as unincorporated divisions of the parent: Holston Valley Medical Center, Bristol Regional Medical Center, Lonesome Pine Hospital, and three recently acquired hospitals. All of the system's entities are included for the purpose of our calculations in this report.

Wellmont's direct-pay letter of credit agreement with Bank of America N.A. (BoFA) expires in December 2010. Management expects to reach a successful extension with BoFA, but should an agreement not be reached, the level of puttable debt relative to unrestricted cash is manageable at about 26%. The system is currently in compliance with its bank and bond covenants.

Wellmont's overall Debt Derivative Profile (DDP) score is '3' on a scale of '1' to '4', with '1' representing the lowest risk. The overall score of '3' reflects Standard & Poor's view that the risks associated with Wellmont's derivatives portfolio are moderate at this time due to risks associated with the Lehman bankruptcy. As of Dec. 31, Wellmont's swap liability was \$7.7 million. There is no required collateral posting at this time. Additionally there have been no changes to Wellmont's swap portfolio since our last published report on Aug, 24, 2009.

Outlook

The stable outlook reflects our increased comfort that Wellmont has corrected the accounting issues that led to the restated fiscal 2007 results and the fiscal 2008 audit delay. Additionally, while reimbursement, competitive issues, or other factors may constrain Wellmont's operations in the future, we believe that management's initiatives to reduce costs and improve the revenue cycle will support a generally improving operating trend over the outlook period. In addition, we believe that as market conditions continue to improve, Wellmont's liquidity metrics and cash flow coverage will likewise improve. While we remain focused on certain credit weaknesses, including leverage, we understand that Wellmont's future capital spending plans are modest and management has no current plans to issue additional long-term debt. Should the balance sheet or operations unexpectedly weaken, a downgrade or the return to a negative outlook would be likely. By contrast, significant improvement to the balance sheet over time would be cause for a positive outlook revision and possibly an upgrade.

Finances

For the fiscal year ended June 30, 2009, Wellmont generated operating income of \$6.5 million (a 0.88% margin) on \$737 million of total net revenues. Operating results reflect an \$11.1 million positive swing from fiscal 2008, although 2008 was negatively affected by a \$6.3 million impairment charge related to the April 30, 2009, sale of Jenkins Community Hospital. Net operating income improved from Wellmont's implementation of revenue and expense cycle initiatives, which generated \$7.5 million of incremental income for fiscal 2009, and are expected to produce \$15 million of operational improvements in fiscal 2010. Wellmont's fiscal 2010 budgeted operating income is \$19.8 million.

Acute discharges rose slightly to 42,558 in fiscal 2009 from 42,401 in fiscal 2008. Combined inpatient and outpatient surgery volumes grew by 3.9% to 25,128. Emergency department visits declined 2% to 222,560 from

227,181 in fiscal 2008.

Wellmont's excess revenues, as per Standard & Poor's calculations, were \$6.1 million, which included \$8.8 million of realized investment income offset by discontinued operations and other nonoperating expenses. While positive, investment income was well short of budget and substantially below fiscal 2008's \$31.6 million. Unrealized investment losses in fiscal 2009 were \$60 million. Wellmont also had a \$5.7 million unrealized loss on its swaps at year-end. Both unrealized investment and swap losses are treated as below the line for purposes of Standard & Poor's analysis.

Cash flow remains acceptable as evidenced by a 9% EBIDA margin, generating 2.1x coverage of Wellmont's \$30.6 million MADS. Historically operating leases have been relatively modest in amount. However, as Wellmont monetizes its medical office buildings, operating leases have become more material to its overall financial profile. Adjusted for the growing operating lease expense, MADS coverage is diluted to 1.7x.

Wellmont's balance sheet remains acceptable, although due to the decline in capitalization over the past couple of years, leverage metrics are now at a level where the system has very limited flexibility to issue more debt without a rating implication. Wellmont recently completed its "Project Platinum," which includes a new surgical suite, intensive care unit, and emergency department project at Holston Valley Medical Center. We understand that management currently no plans to issue new debt.

Unrestricted cash and investments totaled \$250.3 million at year-end, equal to 133 days' cash on hand and 50% of long-term debt. Cash was flat relative to last year. Wellmont's long-term debt to capitalization rose to 60% from 55% in 2008, although the increase was strictly a function of a smaller denominator. Other than information-technology-related capital spending, Wellmont has limited capital spending plans that should support the continued growth of unrestricted cash and investments.

About 85% of the system's cash and investment assets are liquid with maturities of less than one year. Less than 10% (\$23.2 million) are invested in real assets and private equity. Wellmont has a moderate level of future private equity capital funding commitments equal to \$15 million.

Interim Financial Metrics

Through the first six months ended Dec. 31, 2009, Wellmont generated \$15.2 million of operating income (a 4.1% margin) on \$374.4 million of total operating revenues. Operations compared favorably with Wellmont's \$5.2 million loss for the first six months of last year. Excess income was \$19.8 million (a 5.2% margin) compared with an excess loss of \$627,000 in 2009, as per Standard & Poor's calculations, which treat unrealized derivative valuation adjustments as below the line items. Same-facility patient volumes were flat relative to the prior year. Management attributes improved fiscal 2010 operating performance to revenue and expense cycle initiatives implemented in late fiscal 2009.

Unrestricted cash and investments grew to \$270 million by Dec. 31, equal to 146 days of operating expenses and 55% of Wellmont's total debt outstanding. The system's debt to capitalization improved to 56%. All figures are based on Standard & Poor's calculations.

Debt Derivative Profile: '3'

Wellmont's overall DDP score has been revised to '3' on a scale of '1' to '4', whereby '1' represents the lowest risk. The overall score of '3' reflects Standard & Poor's view that Wellmont's swap exposure represents a moderate credit risk at this time.

The overall score of '3.0' includes the following factors:

- Above-average collateral posting risk due to the requirement that Wellmont post collateral when its rating falls to 'BBB-' or lower, a somewhat narrow spread for a 'BBB+' credit (there are no termination-rating triggers);
- High counterparty risk, based on the credit quality of the counterparty, Lehman Brothers Special Financing, guaranteed by Lehman Brothers Holdings (not rated), which filed for bankruptcy in September 2008;
- Low economic viability risk based on projected performance under stressful economic scenarios; and
- Strong management practices, including a written swap policy, thorough audit disclosure, regular communication of swap performance to the board and investors, and the use of independent financial advisors to assist in evaluating swap strategies and performance.

Wellmont has four swaps in place, all of which are with Lehman Brothers Special Financing. At Dec. 31 the swaps had a combined marked to market value of negative \$7.7 million. At that level of swap liability, no collateral posting is required. Variable-rate debt is about 31% of the total, but inclusive of the effects of the swaps, Wellmont's current net variable-rate exposure is about 9.0%.

Related Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Ratings Detail (As Of February 19, 2010)		
Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee		
Wellmont Hlth Sys, Tennessee		
Sullivan Cnty Hlth Ed & Hsg Fac Brd (Wellmont Health System)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Virginia Small Business Fin Auth, Virginia		
Wellmont Hlth Sys, Tennessee		
Virginia Small Business Fin Auth (Wellmont Health System)		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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Sullivan County Health, Educational, and Housing Facilities Board, Tennessee Wellmont Health System; System

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Sullivan County Health, Educational, and Housing Facilities Board, Tennessee Wellmont Health System; System

Credit Profile		
US\$76.265 mil hosp rev rfdg bnds (Wellmont Hlth Sys) ser 2011 dtd 05/03/2011 due 09/01/2032		
<i>Long Term Rating</i>	BBB+/Stable	New
Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee		
Wellmont Hlth Sys, Tennessee		
Sullivan Cnty Hlth Ed & Hsg Fac Brd (Wellmont Health System)		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' long-term rating to Sullivan County Health, Educational, and Housing Facilities Board, Tenn.'s \$76.2 million series 2011 fixed-rate refunding bonds issued for Wellmont Health System. At the same time, Standard & Poor's affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on Wellmont's other rated bonds from various issuers. Standard & Poor's expects to assign an 'A-1+' short-term rating to Wellmont's series 2005 bonds based on the support of JP Morgan Chase Bank N.A. (AA-/A-1+), the replacement letter of credit provider. The outlook is stable.

The series 2011 bonds will fully refund Wellmont's series 2006A variable-rate obligations outstanding (not rated) with fixed-rate debt of the same maturity. For the series 2005 variable-rate demand bonds (not rated), Wellmont plans to obtain a replacement direct-pay letter of credit from JP Morgan Chase. The letter of credit is currently provided by Bank of America.

The ratings and stable outlook reflect our view of improved operating and financial metrics following management's implementation in 2009 of various expense and revenue cycle initiatives, which it expects to support Wellmont's improved performance on a sustained basis.

More specifically, the ratings reflect our opinion of Wellmont's:

- Solid financial metrics, including positive fiscal 2010 operating income of \$22.8 million (a 3.2% margin) and six-month year-to-date operating income of \$4.4 million as of December 31;
- Acceptable 2.8x fiscal year-end maximum annual debt service (MADS) coverage (or 2.1x on an operating lease-adjusted basis), which improved from prior years;
- Improved, although still constrained balance sheet due to its acquisition activity over the past several years. As of December 31, Wellmont had 193 days' cash on hand, moderately high 53% long-term debt to total capitalization, and unrestricted cash to long-term debt of 80%; and
- Solid business position characterized by good market share in a demographically favorable region that is largely dominated by two health care systems.

Further supporting the ratings is our view of revenue cycle, staffing, expense, and other operating improvements that

helped Wellmont generate net operating income of \$7.0 million in fiscal 2009 (a \$4.7 million improvement over fiscal 2008) and an operating profit of \$22.8 million in fiscal 2010. In addition, the system's major acquisition activities are completed, which will likely allow Wellmont to continue to build balance sheet strength.

In June 2010, Wellmont named Margaret "Denny" DeNarvaez president and CEO of the health system. She assumed the role in August 2010 from Bob Burgin, who served as Wellmont's interim CEO following the resignation of Mike Snow in March. Ms. DeNarvaez joined Wellmont from St. John's Mercy Healthcare in St. Louis, where she served as its CEO.

As of June 30, 2010, Wellmont had \$447 million of bonded debt. Gross revenues of the obligated group and a mortgage on Wellmont's two largest hospitals, Bristol Regional Medical Center and Holston Valley Medical Center, as well as two of its community hospitals, Lee Regional Medical Center and Mountain View Regional Medical Center, secure the bonds. The obligated group includes the parent, Hawkins County Memorial Hospital (a leased facility), a for-profit subsidiary, and the system's fundraising arm. Six of the system's hospitals are included by virtue of operating as unincorporated divisions of the parent: Holston Valley Medical Center, Bristol Regional Medical Center, Lonesome Pine Hospital, Hancock County Hospital, Lee Regional Medical Center, and Mountain View Regional Medical Center. All of the system's entities are included for the purpose of our calculations in this report.

Wellmont's direct-pay letter of credit agreement with Bank of America N.A. expires on July 1, 2011. As noted above, management plans to obtain a replacement letter of credit for its series 2005 variable-rate demand bonds from JP Morgan Chase. The level of puttable debt relative to unrestricted cash as of Dec. 31, 2010, is manageable, in our view, at about 16%. The system is currently in compliance with all bank and bond covenants.

Wellmont's overall Debt Derivative Profile (DDP) score is '3' on a scale of '1' to '4', with '1' representing the lowest risk. The overall score of '3' reflects Standard & Poor's view that the risks associated with Wellmont's derivatives portfolio are moderate at this time due to risks associated with the Lehman bankruptcy. As of March 31, 2011, Wellmont's swap liability was \$10.0 million. There is no required collateral posting at this time. In addition, there have been no changes to Wellmont's swap portfolio since our last published report on Feb. 19, 2010.

Outlook

The stable outlook reflects our view of management's initiatives to reduce costs and improve the revenue cycle. While we remain focused on certain credit weaknesses, including leverage, we understand that Wellmont's future capital spending plans are modest and that management has no current plans to issue additional long-term debt. Should the balance sheet or operations unexpectedly weaken, a downgrade or a negative outlook would become more likely. By contrast, significant improvement to the balance sheet over time, provided good operating performance is sustained, could be cause for a positive outlook revision and possibly an upgrade.

Finances

For the fiscal year ended June 30, 2010, Wellmont generated operating income of \$22.8 million (a 3.2% margin) on \$724 million of total net revenues. Operating results reflect a \$15.8 million improvement over fiscal 2009. Net operating income has materially improved over the past two years, principally due to Wellmont's implementation of revenue and expense cycle initiatives. Wellmont's fiscal 2011 budgeted operating income was \$24 million; however, operating results are more likely to be about half that amount, resulting in an operating margin of about 1.5%

(down from more than 3% last year). Wellmont attributes this year's decline mainly to weather-related volume decreases at its Virginia hospitals: due to harsh winter weather conditions, volumes in those hospitals declined by 6% to 10% and patient no-show rates exceeded 50%.

Acute discharges dipped 2.8% to 41,380 in fiscal 2010 from 42,558 in fiscal 2009, although with observation patients included, those patient volumes increased by 0.5% to 50,910 in fiscal 2010. Combined inpatient and outpatient surgery volumes declined by 6.0% to 36,559 while emergency department visits decreased 4.6% to 212,383 from 222,560 in fiscal 2009. According to management, those declines were attributed to economic weakness but also transportation problems due to winter weather conditions in 2010.

For the fiscal year, Wellmont's excess revenues, as per Standard & Poor's calculations, were \$20.8 million, which included \$1.0 million of realized investment income offset by discontinued operations and other nonoperating expenses. While positive, investment income was substantially lower than two previous fiscal years; however, unrealized investment gains in fiscal 2010 were \$22.3 million, compared to more than \$60 million of unrealized losses in 2009. Wellmont also had a \$2.7 million unrealized loss on its swaps at year-end. Both unrealized investment gains and the swap loss are treated as below the line for purposes of Standard & Poor's analysis.

Cash flow remains acceptable, in our view, as evidenced by an 11.7% EBIDA margin, generating 2.8x coverage of Wellmont's \$30.6 million MADS. Operating leases have historically been relatively modest in amount. However, as Wellmont monetizes its medical office buildings, operating leases have become more material to its overall financial profile. Adjusted for the growing operating lease expense, MADS coverage is diluted to 2.1x.

Wellmont's balance sheet remains acceptable, in our opinion, although due to the decline in capitalization over the past few years, leverage metrics are now at a level where the system has very limited flexibility to issue more debt at the current rating level. However, we understand that management has no current plans to issue any additional debt, other than for refunding purposes.

Unrestricted cash and investments totaled \$316 million at year-end, equal to 175 days' cash on hand and 64% of long-term debt, as per Standard & Poor's calculation methodology. Wellmont excludes the less liquid investments from the days' cash calculation, resulting in 156 days' cash at the fiscal year-end, compared with its minimum covenant level of 100 days. Robust cash flow and minimal capital spending needs allowed cash to grow by more than \$65 million relative to last year. Other than modest strategic, information technology, and equipment-related capital spending, Wellmont has limited spending plans that will likely support the continued growth of the system's liquidity.

About 85% of the system's cash and investment assets are liquid with maturities of less than one year. Less than 10% (\$23.5 million) are invested in real assets and private equity. Wellmont has a moderate level of future private equity capital funding commitments equal to \$12 million.

Interim Financial Metrics

Through the six months ended Dec. 31, 2010, Wellmont generated \$4.4 million of operating income (a 1.1% margin) on \$390 million of total operating revenues despite an increase in patient volumes. Operations compared unfavorably with Wellmont's \$15 million in operating revenue for last year principally due to expense increases related to drug costs, higher personnel, and other expenses and interest expense and depreciation associated with the

completion of Project Platinum. Excess income for the six months was \$10.7 million (a 2.7% margin), down from \$19.8 million (a 5.2% margin) for the same period in fiscal 2010.

Unrestricted cash and investments grew to \$383 million by December 31, equal to 193 days of operating expenses and 80% of Wellmont's total debt outstanding. The system's debt to capitalization improved to 53%. All figures are based on Standard & Poor's calculations.

Debt Derivative Profile

Wellmont's overall DDP score has been revised to '3' on a scale of '1' to '4', whereby '1' represents the lowest risk. The overall score of '3' reflects Standard & Poor's view that Wellmont's swap exposure represents a moderate credit risk at this time.

The overall score of '3.0' reflects our view of:

- Above-average collateral posting risk due to the requirement that Wellmont post collateral when its bond rating falls to 'BBB-' or lower, a somewhat narrow spread for a 'BBB+' credit (there are no termination-rating triggers);
- High counterparty risk, based on the credit quality of the counterparty, Lehman Brothers Special Financing, guaranteed by Lehman Brothers Holdings (not rated), which filed for bankruptcy in September 2008;
- Low economic viability risk based on projected performance under stressful economic scenarios; and
- Strong management practices, including a written swap policy, thorough audit disclosure, regular communication of swap performance to the board and investors, and the use of independent financial advisors to assist in evaluating swap strategies and performance.

Wellmont has four swaps in place, all of which are with Lehman Brothers Special Financing. At March 31, 2011, the swaps had a combined mark-to-market value of negative \$10 million. At that level of swap liability, no collateral posting is required. Variable-rate debt is about 34% of the total, but inclusive of the effects of the swaps, Wellmont's current net variable-rate exposure is about 15%

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006

Ratings Detail (As Of April 29, 2011)		
Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee		
Wellmont Hlth Sys, Tennessee		
Sullivan Cnty Hlth Ed & Hsg Fac Brd (Wellmont Health System)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Virginia Small Business Fin Auth, Virginia		
Wellmont Hlth Sys, Tennessee		
Virginia Small Business Fin Auth (Wellmont Health System)		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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FITCH RATES WELLMONT HEALTH SYSTEM, TN'S 2011 REVS 'BBB+'; OUTLOOK STABLE

Fitch Ratings-New York-02 May 2011: Fitch Ratings assigns a 'BBB+' rating to the expected issuance of approximately \$76 million of Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee hospital revenue refunding bonds (Wellmont Health System Project), series 2011, issued on behalf of Wellmont Health System (Wellmont).

In addition, Fitch affirms the 'BBB+' rating on the following bonds:

- \$76,595,000 revenue refunding bonds, series 2006A;
- \$200,000,000 hospital revenue bonds, series 2006C;
- \$59,580,000 hospital revenue refunding bonds, series 2005;
- \$36,665,000 hospital revenue refunding bonds, series 2003;
- \$55,000,000 Virginia Small Business Financing Authority hospital revenue bonds, series 2007A.

The Rating Outlook is Stable.

Proceeds from the 2011 fixed rate bonds will be used to refinance the series 2006A bonds. In March 2011, Wellmont put out a tender notice for the 2006A bonds, which was accepted by all outstanding bondholders. The 2006A bonds were variable rate index bonds and redeemable in whole at any time. After issuance, Wellmont's long-term debt will total \$457.4 million, which includes a \$30 million variable-rate, bank qualified loan secured in 2010. After replacing the 2006A variable-rate bonds, Wellmont's debt structure will be comprised of 80% of fixed rate bonds, a relatively conservative debt portfolio. The 2011 bonds will be sold the week of May 4th.

RATING RATIONALE:

- Most of Wellmont's financial and capital metrics are consistent with the rating category.
- Wellmont benefits from a leading inpatient market share of 60% (2009) in its primary service area and a stable market share in its secondary markets.
- Operating margins are expected to be approximately 1.5% over the next few years as a new CEO and new senior management team implement strategic initiatives around quality, information technology, and physician alignment.
- Six month fiscal 2011 interim figures show an operating margin of 1.1%, which supports solid pro forma maximum annual debt service (MADS) coverage of 2.6 times (x).
- With no new debt issuance expected over the next two to three years, Fitch expects Wellmont's elevated leverage indicators to moderate.

KEY RATING DRIVERS

- A new senior management team implements its strategy over the medium term, bringing a measure of stability at the senior management level that has eluded Wellmont over the last few years and has been a credit concern.
- In spite of the strategic investments, Wellmont is able to maintain its current level of operations keeping its financial profile relatively stable.

SECURITY

Bonds are secured by gross receipts and mortgage pledge of the obligated group (OG). A fully funded debt service fund and a liquidity covenant provide additional security. For the fiscal year ended June 30, 2010, the OG accounted for 89.4% of the system's total net assets, 87.6% of its operating revenues and 64.7% of its operating income.

CREDIT SUMMARY

The 'BBB+' rating is supported Wellmont's overall financial profile that is consistent with most rating category medians and its leading inpatient market share in its primary service area (PSA).

Credit concerns include the continued turnover in senior management and a slightly elevated debt burden.

Wellmont finished fiscal 2010 (year end June 2010) with a 3.1% operating margin and pro forma MADS coverage of 2.5x, both solid for the 'BBB' category. Six-month interim results show an operating margin of 1.1% and MADS coverage of 2.6x. The lower operating margin is more in line with where Fitch expects Wellmont's operations to be over the next few years, given softer volumes and expenses related to strategic initiatives of the new management team. The former management team was more focused on expense management and efficiency, which contributed to the higher operating margin in fiscal 2010.

Senior management turnover at Wellmont has been a credit concern over the past few years; the new CEO has been in place nine months and has added new members to the management team. A key rating driver for Wellmont is maintaining stability at the senior management level, especially as the management team pursues critical strategic initiatives around quality, information technology, and physician alignment.

Liquidity is good for the rating category. As of Dec. 31, 2010, Wellmont had cash and unrestricted investments of \$315.5 million (adjusted for \$14 million line of credit), which equated to days cash on hand (DCOH) of 167.4, a cushion ratio of 9.2x, and cash to debt of 69.2%. DCOH and the cushion ratio were above their respective category medians, while cash to debt was below. In January 2011, Wellmont paid down \$7 million of the line of credit.

Wellmont's debt burden remains elevated for the rating level, as represented by MADS as a percentage of revenue of 4.4%, Debt-to-EBITDA of 5.1x, and debt to capitalization of 56.6% as of Dec. 31, 2010, all of which are above the category medians. Mitigating this concern is the expectation that Wellmont will be issuing no new debt over the next two to three years, which should help ease some of these ratios.

The Stable Outlook reflects Fitch's belief that Wellmont will maintain its current level of operating performance, which should continue to support solid debt service coverage. The service area remains fairly competitive with Mountain States Health Alliance (general revenue bonds rated 'BBB+' by Fitch) a formidable competitor. However, the competitive pressures have subsided in the past few years, and Wellmont's leading 60% market share in its PSA has been stable. Capital expenditures over the next two to three years are expected to be reasonable at approximately \$45 to \$50 million per year (representing just over 100% of depreciation). The biggest short-term outlay will be \$14 million for information technology. Wellmont expects to be ready for meaningful use within the next 18 months.

Wellmont has four swaps in place. Lehman is the counterparty for all the swaps and there are no collateral posting requirements at the current rating level. The aggregate mark to market as of March 31, 2011 was a negative \$10 million.

Wellmont Health System (WHS) is a large regional health care system with eight acute hospitals (856 staffed beds) and other related entities located in northeastern TN and southwestern VA. Wellmont had approximately \$724.4 million in total revenue in fiscal 2010. WHS covenants to provide audited financial statements to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (EMMA), as well as quarterly unaudited statements.

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Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', dated Oct. 10, 2010;

--'Nonprofit Hospitals and Health Systems Rating Criteria', dated Dec. 29, 2009.

For information on Build America Bonds, visit 'www.fitchratings.com/BABs'.

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564565

Nonprofit Hospitals and Health Systems Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493186

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Sullivan County Health Educational & Housing Facilities Board, Tennessee

Wellmont Health System; System

Credit Profile

Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee

Wellmont Hlth Sys, Tennessee

Ser 2006C

Long Term Rating

BBB+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on \$360.4 million in bonds, including series 2003, 2006C, 2007A, and 2011, issued for Wellmont Health System, Tenn. by various issuing authorities. The outlook is stable.

In addition, Standard & Poor's 'AA-/A-1+' long-term and short-term ratings on Wellmont's \$54.8 million series 2005 variable-rate demand obligations are based solely on the support of JP Morgan Chase Bank N.A. (AA-/A-1+), the letter of credit provider.

The affirmed ratings and stable outlook reflect our view of Wellmont's improving operating and financial metrics as well as its stable enterprise profile. We believe that Wellmont is well positioned for operational success with respect to its markets, competition, and changing reimbursement environment.

More specifically, the ratings reflect our opinion of Wellmont's:

- Solid financial metrics, including positive fiscal 2012 unaudited operating income of \$20.7 million (a 2.6% margin), as per Standard & Poor's calculations;
- Acceptable 3.0x fiscal year end maximum annual debt service (MADS) coverage, which continues to improve from prior years;
- Improved balance sheet highlighted by the system's 192 days' cash on hand, moderately elevated 50% long-term debt to total capitalization, and unrestricted cash to long-term debt of 83%, as per Standard & Poor's calculations; and
- Solid business position characterized by good market share in a demographically favorable region that is largely dominated by two health care systems.

Further supporting the ratings is our view of revenue cycle, staffing, expense, and other operating improvements that have helped Wellmont generate consistently robust operating results during the past three fiscal years. In addition, we anticipate that as the system's major acquisition activities are completed, Wellmont will likely be able to continue to build balance sheet strength over time.

Partially offsetting the above-noted strengths, in our opinion, is Wellmont's plan to issue roughly \$55 million of new

debt in fiscal 2013, as well as management's plan to transition the health system over to an Epic IT Platform, which during the next five years will involve about \$100 million of capital spending. While the transition to Epic could potentially involve some disruption to Wellmont's operations, management believes that it is very well prepared to undertake the implementation and had a very successful recent implementation of its electronic health record.

In addition, while we believe that major facilities acquisitions are done now that most of the desirable candidates in the markets served by Wellmont and its major competitor have been acquired, we continue to believe that competition for patient volumes between these two sizable systems remains intense.

As of June 30, 2012, Wellmont had \$459 million of bonded debt and capital leases. About \$82 million of Wellmont's outstanding debt is variable-rate obligations, including \$24.8 million in bank qualified directly placed index floating-rate bonds (not rated). The variable-rate obligations have tender provisions that may allow the bonds to be redeemed before maturity. In our opinion, the amount of puttable debt relative to unrestricted cash as of June 30, 2012 is manageable, at about 17%. In addition, Wellmont has more than adequate unrestricted liquidity available to cover these potential tender obligations by a ratio of 4.6x. We understand that Wellmont may issue approximately \$55 million of incremental debt in fiscal 2013, and, in our opinion, the system has capacity to issue some additional debt, including the amount contemplated, without negatively affecting the ratings.

Wellmont uses interest rate swaps to partially hedge its interest rate risk. Wellmont has three swaps totaling \$161 million notional principal; Lehman Brothers Special Financing is the counterparty. In our opinion, the risks associated with Wellmont's derivatives portfolio are moderate at this time. As of June 30, 2012, Wellmont's swap liability was \$16.7 million and there is no required collateral posting. In addition, there were no changes to Wellmont's swap portfolio since our last published report on April 29, 2011.

The system remains in compliance with all bank and bond covenants. Gross revenues of the obligated group and a mortgage on Wellmont's two largest hospitals, Bristol Regional Medical Center and Holston Valley Medical Center, as well as two of its community hospitals, Lee Regional Medical Center and Mountain View Regional Medical Center, secure the bonds. The obligated group includes the parent, Hawkins County Memorial Hospital (a leased facility), a for-profit subsidiary, and the system's fundraising arm. Six of the system's hospitals are included by virtue of operating as unincorporated divisions of the parent: Holston Valley Medical Center, Bristol Regional Medical Center, Lonesome Pine Hospital, Hancock County Hospital, Lee Regional Medical Center, and Mountain View Regional Medical Center. All of the system's entities are included for the purpose of our calculations in this report.

Outlook

The stable outlook reflects our view of management's initiatives to control expenses and increase incremental revenues through its ambulatory strategy and oncology and cardiology service line focus. We anticipate that balance sheet metrics will likely remain stable or improve during the two-year outlook period as most of Wellmont's major bricks-and-mortar capital spending initiatives have been completed -- although the system's transition to Epic for its clinical information system will represent a sizable level of spending during the next five years. We are aware that Wellmont plans to issue about \$55 million of new debt in fiscal 2013 and while the details are uncertain at this time,

the system maintains adequate capacity to support this level of incremental debt at the existing rating level, in our opinion.

Should the system's balance sheet or its operations unexpectedly weaken, such that Wellmont's MADS coverage declines and is sustained below 2.0x, or if unrestricted liquidity falls to fewer than 150 days or 70% of long-term debt, then a downgrade or a negative outlook would become more likely. By contrast, improvement to the balance sheet over time, provided operating performance remains good, could be cause for a positive outlook revision and possibly an upgrade.

Enterprise Profile

Wellmont is an eight-hospital system headquartered in Kingsport, Tenn. and is composed of 1,253 licensed (856 staffed including managed (not owned acute), psych, rehab, and skilled nursing facility) inpatient beds. The system's facilities are located in Tennessee and Virginia. Acute discharges totaled 40,121 in fiscal 2012, down 4.6% from fiscal 2011. Total bedded volumes, including observations, increased to 53,790, or by 1.7%, compared with the previous fiscal year. The system's outpatient registrations continue to grow, and totaled 236,437 in fiscal 2012, up 5.1% from fiscal 2011, partially driven by the system's acquisition of a cardiology practice earlier this year. Emergency department and combined surgery volumes were essentially flat.

Management remains focused on the system's ambulatory strategy, which includes the creation of a strategic infrastructure around oncology and cardiology centers of excellence. Pulmonology is also a service line that management considers a strategic focus. Although in the past several years Wellmont had been focused on the acquisition of hospitals and facilities, both in Tennessee and in Virginia, major facilities acquisition activity is completed as there are few desirable remaining hospital acquisition candidates in the system's service area that are not already affiliated with Wellmont or its major competitor. Management's current strategy is to maintain or develop outposts to draw patients from a larger geographic area without having to have a hospital located in those areas. In addition, management plans to capitalize on its strengths in core service lines supported by its new dyad leadership model, which appears to be creating favorable results through improved patient satisfaction scores.

Management

Wellmont named Alice Pope CFO of Wellmont in August 2012. Ms. Pope previously served as SVP finance managed care and revenue cycle for the system, and has served in various roles with the organization during the past 12 years.

Financial Profile

For the fiscal year ended June 30, 2012 (unaudited), Wellmont generated operating income of \$20.7 million (a 2.6% margin) on \$789.7 million of total net revenues. Commencing with these fiscal 2012 results, and this review, Standard & Poor's analysis conforms to accounting rule ASU 2011-07, which changes the classification of bad debt expense to a deduction from revenues. This change had the effect of elevating days' cash on hand and reflecting modestly higher operating and excess margins.

Operating results reflect a \$4.8 million improvement over fiscal 2011 principally due to Wellmont's implementation of revenue and expense cycle initiatives, including a narrow network agreement with Cigna for a major local employer and physician practice acquisitions, as well as a greater focus on documentation and coding, increasing its case mix, and reducing lengths of stay.

For the fiscal year, Wellmont's excess revenues, as per Standard & Poor's calculations, were \$38 million (or a 4.7% margin), which included \$17.3 million of realized investment income. Wellmont also had a \$5.1 million unrealized loss on its swaps at year end, and unrealized investment losses of \$9.5 million. Both unrealized investment losses and the swap loss are treated as below the line for purposes of Standard & Poor's analysis.

Cash flow remains acceptable, in our view, as evidenced by a 13.2% EBIDA margin, generating just over 3.0x coverage of Wellmont's \$35.2 million MADS. Operating leases have historically been relatively modest in amount; however, with the monetization of Wellmont's medical office buildings, operating leases have become more material to the system's overall financial profile. Adjusted for operating lease expense, MADS coverage is diluted to 2.3x.

Wellmont's fiscal 2013 budgeted operating income is \$15 million, resulting in an operating margin of about 1.9%, a level comparable to fiscal 2011 results, but below fiscal 2012. Wellmont expects to grow its operating margin over time, once the full Epic clinical information system has been implemented in 2014/2015.

Balance sheet

Wellmont's balance sheet remains acceptable, in our view, and although management plans to issue \$55 million of new debt in fiscal 2013, we believe that the system has some flexibility to issue additional debt at the existing rating level given its solid operating performance and improved capitalization during the past three years.

Unrestricted cash and investments totaled \$380 million at year end, equal to 192 days' cash on hand and 83% of long-term debt. As part of its methodology Wellmont excludes the less liquid investments from the days' cash calculation. By making that adjustment, days' cash declines to about 173 days at fiscal year end, which remains solid and in compliance with Wellmont's minimum covenant level of 100 days. Robust cash flow and minimal capital spending needs allowed cash to grow by more than \$32 million relative to last year.

Wellmont's systemwide combined routine and strategic capital budget is \$40 million for fiscal 2013, not including the system's budget for converting to a new Epic IT Platform, which will represent a \$100 million capital spend during the next five years (plus \$84 million of operating costs). Wellmont is budgeting for about \$45 million of meaningful use stimulus money, which will help to offset the cost of its Epic conversion. Other than modest strategic and equipment-related capital spending and the planned spending for its Epic IT Platform conversion, Wellmont has limited other capital spending plans. As a result, we anticipate that the system's liquidity will continue to grow.

Wellmont Health System

	Fiscal Year Ended June 30,			
	Fiscal Year Ended June 30, 2012 (Unaudited)	2011	2010	2009
Financial performance				
Net patient revenue (\$000s)	741,822	767,450	692,920	699,303
Total operating revenue (\$000s)	789,726	797,249	724,392	737,073

Wellmont Health System (cont.)				
Total operating expenses (\$000s)	769,074	781,322	701,580	730,567
Operating income (\$000s)	20,652	15,927	22,812	6,506
Operating margin (%)	2.62	2.00	3.15	0.88
Net nonoperating income (\$000s)	17,360	9,908	(1,967)	(359)
Excess income (\$000s)	38,012	25,835	20,845	6,147
Excess margin (%)	4.71	3.20	2.89	0.83
Operating EBIDA margin (%)	11.24	10.38	11.96	8.89
EBIDA margin (%)	13.15	11.48	11.72	8.84
Net available for debt service (\$000s)	106,092	92,644	84,666	65,148
Maximum annual debt service (\$000s)	35,157	35,157	35,157	35,157
Maximum annual debt service coverage (x)	3.02	2.64	2.41	1.85
Operating lease-adjusted coverage (x)	2.30	2.28	2.14	1.73
Liquidity and financial flexibility				
Unrestricted cash and investments (\$000s)	379,544	346,881	315,776	250,331
Unrestricted days' cash on hand	191.7	172.2	175.2	132.9
Unrestricted cash/total long-term debt (%)	82.6	75.5	67.5	52.7
Average age of plant (years)	11.4	10.5	10.5	9.7
Capital expenditures/depreciation and amortization (%)	103.6	92.0	127.4	201.5
Debt and liabilities				
Total long-term debt (\$000s)	459,654	459,260	467,833	474,608
Long-term debt/capitalization (%)	49.6	51.2	56.6	59.7
Debt burden (%)	4.36	4.35	4.85	4.74
Defined benefit plan funded status (%)	N.A.	85.61	77.52	83.24
Pro forma ratios				
Unrestricted days' cash on hand	191.70			
Unrestricted cash/total long-term debt (%)	73.75			
Long-term debt/capitalization (%)	52.44			

N.A.: Not available.

Related Criteria And Research

- USPF Criteria: Assessing Construction Risk, June 22, 2007
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

Ratings Detail (As Of September 25, 2012)

Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee

Wellmont Hlth Sys, Tennessee

Ser 2003

Unenhanced Rating

BBB+(SPUR)/Stable

Affirmed

Ser 2011

Ratings Detail (As Of September 25, 2012) (cont.)

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Virginia Small Business Fin Auth, Virginia

Wellmont Hlth Sys, Tennessee

Ser 2007A

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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FITCH AFFIRMS WELLMONT HEALTH SYSTEM, TN'S REVS AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-New York-22 April 2013: Fitch Ratings affirms the 'BBB+' rating on the following bonds issued on behalf of Wellmont Health System (Wellmont):

--\$76,165,000 The Health, Educational and Housing Facilities Board of the County of Sullivan, Tennessee hospital revenue refunding bonds (Wellmont Health System Project), series 2011;
--\$55,000,000 Virginia Small Business Financing Authority hospital revenue bonds, series 2007A (Wellmont Health System Project);
--\$200,000,000 The Health, Educational, and Housing Facilities Board of the County of Sullivan, Tennessee hospital revenue bonds, series 2006C (Wellmont Health System Project);
--\$59,580,000 The Health, Educational and Housing Facilities Board of the County of Sullivan, TN hospital revenue refunding bonds, series 2005 (Wellmont Health System Project);
--\$33,035,000 The Health, Educational and Housing Facilities Board of the County of Sullivan, TN hospital revenue refunding bonds, series 2003 (Wellmont Health System Project).

The Rating Outlook is Stable.

SECURITY

The bonds are secured by gross receipts and mortgage pledge of the obligated group (OG). A fully funded debt service fund provides additional security. In addition, there is a liquidity covenant.

KEY RATING DRIVERS:

STRONG OPERATING EBITDA: Wellmont's operating EBITDA is consistently above Fitch's 'BBB' category medians, averaging 11.2% over the past four audited years and at 10.2% in the six month fiscal 2013 (June 30 year end) interim period.

CATEGORY CONSISTENT METRICS: Most of Wellmont's financial and capital metrics are consistent with the rating category, with liquidity strengthening over the last four audited years to above category medians.

LEADING MARKET SHARE: Wellmont maintains leading 55% inpatient market share in its defined primary service area. Although its market share has declined slightly in the past few years, it is not a credit concern.

ELEVATED DEBT BURDEN: Maximum annual debt service (MADS) as a percentage of revenue is high at 5.3% in the six month interim period relative to a Fitch's 'BBB' median of 3.3%. Wellmont is drawing down a \$42.5 million loan (\$3.1 million has been drawn to date) as part of its EPIC implementation (a separate \$12.5 million was closed and drawn upon last year for a total of \$55 million in additional debt for EPIC), all of which is factored into the MADS figure. With no other additional debt anticipated, Fitch expects Wellmont's debt burden to moderate over next few years.

RATING SENSITIVITIES:

OPERATING PRESSURE: Like many hospitals, Wellmont has seen inpatient volumes decline as services have shifted to an outpatient setting, with Wellmont's operating performance slightly weaker in the six month interim due, in part, to the reduction in inpatient services. Wellmont's ability to adjust to this volume shift and maintain its operating performance is key to the current rating. A weakening of its operating EBITDA would be a credit concern, given Wellmont's elevated debt burden.

CREDIT PROFILE:

The 'BBB+' rating is supported by an overall financial profile consistent with Fitch's 'BBB' rating category medians and Wellmont's leading inpatient market share in its primary service area (PSA). Wellmont finished fiscal 2013 with a 2.8% operating margin and MADS coverage of 2.6x, both solid for the 'BBB' category.

Six month fiscal 2012 interim figures show the operating margin sliding to 1.1%, which is off Wellmont's budget. Wellmont is adjusting its budget and expects to improve operations over the second half of the year, helped by an additional \$6.5 million in meaningful use funds.

Liquidity has strengthened materially over the last four years, with unrestricted cash and investments growing by approximately 45% over that time, and Wellmont's key liquidity ratios now exceeding Fitch's 'BBB' medians. At Dec. 31, 2012, Wellmont had cash and unrestricted investments of \$395.6 million (excluding \$38.4 million in illiquid investments), which equated to days cash on hand of 197.1, a pro forma cushion ratio of 9.5x, and pro forma cash to debt (assuming full draw down on \$45 million loan - only \$3.2 million has been drawn to date) of 76.1%.

Wellmont's debt burden remains elevated for the rating level, as represented by MADS as a percentage of revenue of 5.3% and debt-to-EBITDA of 4.6x, and debt to capitalization of 51.8% as of Dec. 31, 2012, all of which compare unfavorably to 'BBB' category medians. An additional credit concern is competitive service area with Mountain States Health Alliance (general revenue bonds rated 'BBB+'/Outlook Stable by Fitch) a formidable competitor.

The Stable Outlook reflects Fitch's belief that Wellmont will maintain a level of operating performance to support consistent debt service coverage. Capital expenditures over the next two to three years are expected to be reasonable at approximately \$40 million to \$50 million per year, excluding \$100 million EPIC implementation.

Wellmont's debt portfolio is relatively conservative with approximately 12% of its \$481 million of long-term debt in variable rate mode. However, Wellmont does have four swaps. Lehman is the counterparty for three of the swaps. There are no collateral posting requirements at the current rating level. The aggregate mark to market as of Dec. 31, 2012 was a negative \$8.5 million.

Wellmont Health System (WHS) is a large regional health care system with seven acute hospitals (816 staffed beds) and other related entities located in northeastern TN and southwestern VA. Wellmont had approximately \$790 million in total revenue in fiscal 2012. WHS covenants to provide audited financial statements to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (EMMA), as well as quarterly unaudited statements.

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Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', June 12, 2012;
--'Nonprofit Hospitals and Health Systems Rating Criteria', July 23, 2012.

For information on Build America Bonds, visit 'www.fitchratings.com/BABs'.

Applicable Criteria and Related Research

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015

Nonprofit Hospitals and Health Systems Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=683418

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Research

Sullivan County Health Educational & Housing Facilities Board, Tennessee Wellmont Health System; System

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Related Criteria And Research

Sullivan County Health Educational & Housing Facilities Board, Tennessee

Wellmont Health System; System

Credit Profile

Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee

Wellmont Hlth Sys, Tennessee

Ser 2006C

Long Term Rating

BBB+/Negative

Outlook Revised

Rationale

Standard & Poor's Ratings Services revised its outlook to negative from stable and affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on \$356.4 million in bonds, including series 2003, 2006C, 2007A, and 2011, issued for Wellmont Health System, Tenn. by various issuing authorities.

The long-term and short-term ratings on Wellmont's \$54.8 million series 2005 variable-rate demand obligations are 'A+/A-1' and are based solely on the support of JP Morgan Chase Bank N.A. (A+/A-1), the letter of credit provider.

The 'BBB+' rating is based on our view of Wellmont Health System's group credit profile and core status as the obligated group that includes Wellmont Health System (as parent); Hawkins County Memorial Hospital (a leased facility), a for-profit subsidiary; and the system's fundraising arm. Accordingly, the bonds are rated at the same level as the group credit profile. The negative outlook and affirmed 'BBB+' ratings reflect our view of Wellmont's operating and financial metrics, which while still adequate for the rating level have trended lower and are expected to weaken during fiscal 2014. The rating is supported by the system's stable enterprise profile. In addition, we believe that Wellmont is well positioned for operational success with respect to its markets, its competition, and the changing reimbursement environment.

More specifically, the ratings reflect our opinion of Wellmont's:

- Solid financial metrics, including positive fiscal 2013 operating income of \$11.7 million (a 1.5% margin), as per Standard & Poor's calculations;
- Acceptable 2.5x fiscal year-end maximum annual debt service (MADS) coverage;
- Improved balance sheet, highlighted by the system's 218 days' cash on hand, moderately elevated 48% long-term debt to total capitalization, and unrestricted cash to long-term debt of 90% as of Sept. 30, 2013, and as per Standard & Poor's calculations; and
- Solid business position characterized by good market share in a demographically favorable region that is largely dominated by two health care systems.

Further supporting the ratings is our view of revenue cycle, staffing, expense, and other operating improvements that have helped Wellmont generate favorable operating results during the past four years. In addition, we expect

Wellmont's balance sheet will remain robust, since it has limited capital spending needs for the foreseeable future.

Partially offsetting the above-noted strengths, in our opinion, is Wellmont's plan to issue roughly \$13.5 million of new debt in fiscal 2014, as well as management's ongoing Epic IT Platform implementation, which over last year and during the next four years will involve a total of about \$95 million to \$100 million of capital spending. While the transition to Epic could still potentially involve some disruption to Wellmont's operations, management believes that it is very well prepared to undertake the implementation and successfully implemented its electronic health record during the previous two years.

In addition, while we believe that major facilities acquisitions are done now that most of the desirable candidates in the markets served by Wellmont and its major competitor have been acquired, we continue to believe that competition for patient volumes between these two sizable systems remains intense.

As of June 30, 2013, Wellmont had \$476 million of bonded debt and capital leases. About \$78 million of Wellmont's outstanding debt is variable-rate obligations, including \$23 million in bank qualified directly placed index floating-rate bonds (not rated). The variable-rate obligations have tender provisions that may allow the bonds to be redeemed before maturity. In our opinion, the amount of puttable debt relative to unrestricted cash as of June 30, 2013, is negligible, at less than 10%. We understand that Wellmont may issue approximately \$13.5 million of incremental debt in fiscal 2014, and, in our opinion, the system has capacity to issue this level of additional debt without negatively affecting the ratings.

Wellmont uses interest rate swaps to partially hedge its interest rate risk. Wellmont has four swaps totaling \$220 million notional principal; Lehman Brothers Special Financing is the counterparty for three of the swaps, and Bank of America Merrill Lynch is the counterparty for a \$76.1 million total return swap entered into in 2011. In our opinion, the risks associated with Wellmont's derivatives portfolio are moderate at this time. Wellmont's swap liability was \$7.4 million at June 30, 2013, and there is no required collateral posting. The estate of Lehman Brothers recently filed suit seeking \$21 million of damages from Wellmont in disputed claims related to Wellmont's termination of a total return swap on its series 2006A bonds. Management believes that the suit is without merit and plans to vigorously defend itself.

The system remains in compliance with all bank and bond covenants. Gross revenues of the obligated group and a mortgage on Wellmont's two largest hospitals, Bristol Regional Medical Center and Holston Valley Medical Center, as well as a mortgage on Mountain View Regional Medical Center, a community hospital, secure the bonds. Gross revenues from Lee Regional Medical Center also formerly secured the bonds; however, the facility was recently closed. The obligated group includes the parent, Hawkins County Memorial Hospital (a leased facility), a for-profit subsidiary, and the system's fundraising arm. Six of the system's hospitals are included by virtue of operating as unincorporated divisions of the parent: Holston Valley Medical Center, Bristol Regional Medical Center, Lonesome Pine Hospital, Hancock County Hospital, Lee Regional Medical Center, and Mountain View Regional Medical Center. All of the system's entities are included for the purpose of our calculations in this report.

Outlook

The negative outlook reflects our view of Wellmont's weaker fiscal 2013 and year-to-date operating performance reflecting a decline in patient volumes, higher drug costs, and the step down in meaningful use funds (as expected) leading to more modest coverage at MADS. Management is also expecting a further downturn in operating income for fiscal 2014. While we believe that Wellmont's balance sheet remains robust enough to support current rating, we believe that operating results are likely to be challenged during the two-year outlook period by the changes being brought about by health reform, potentially leading to weaker balance sheet metrics and substandard coverage for the rating level. Should Wellmont's coverage at MADS fall to and be sustained below 2.0x or if unrestricted liquidity falls to fewer than 150 days or 70% of long-term debt, then a downgrade would become more likely. We do not expect to raise the ratings during the outlook period.

While most of Wellmont's major bricks-and-mortar capital spending initiatives have been completed, the system continues to incur capital spending for its Epic IT Platform. We are also aware that Wellmont plans to incur about \$13.5 million of new debt in fiscal 2014, and while the details are uncertain at this time, we believe that the system maintains adequate capacity to support this level of incremental debt at the existing rating level.

Enterprise Profile

Wellmont is a seven-hospital system headquartered in Kingsport, Tenn., and is composed of 781 staffed beds including managed (not owned acute), psych, rehab, and skilled nursing facility) inpatient beds. The system's facilities are located in Tennessee and Virginia. Acute discharges totaled 37,798 in fiscal 2013, down 5.8% from fiscal 2012 (which was down 4.6% from fiscal 2011). Total bedded volumes, including observations, declined to 51,539 from 53,790, or by 4.2%, compared with the previous fiscal year. The system's outpatient registrations continue to grow, and totaled 210,044 in fiscal 2013, up from 209,024 in fiscal 2012. Combined surgery volumes were essentially flat while emergency department volumes were lower (by 6.7%), reflecting the presence of three urgent-care centers that are treating patients in a lower-cost setting.

Management remains focused on the system's ambulatory strategy, which has included the creation of a strategic infrastructure around oncology and cardiology centers of excellence. Pulmonology is also a service line that management considers a strategic focus. Although in the past several years Wellmont had focused on the acquisition of hospitals and facilities, both in Tennessee and in Virginia, facilities acquisition activity is completed and there are very few desirable remaining acquisition candidates in the system's service area that are not already affiliated with Wellmont or its major competitor.

Management's current strategy is to maintain or develop outposts to draw patients from a larger geographic area without having to have a hospital located in those areas and to focus on its strategy regarding the continuum of care including the recently announced acquisition of Wexford House, a post-acute care facility. In addition, management plans to capitalize on its strengths in core service lines supported by its new dyad leadership model, which appears to be creating favorable results through improved patient satisfaction scores.

To address the decline in patient volumes and the resultant effect on operations, Wellmont has eliminated the duplicative administrative overhead at each hospital and consolidated most administrative functions to the system level. In addition, the system has closed inpatient units to improve occupancy and efficiency, established 24/7 case management coverage in its emergency departments, and opened dedicated observation units to better match the cost of care to revenues.

Management

We believe that Wellmont is led by a capable leadership team headed by Denny DeNarvaez, CEO, who joined Wellmont in 2010 following her service to St. John's Mercy Healthcare as CEO. In August 2012 Wellmont named Alice Pope CFO. Ms. Pope previously served as SVP finance managed care and revenue cycle for the system, and has served in various roles with the organization during the past 12 years.

Financial Profile

In accordance with the publication of our article, "New Bad Debt Accounting Rules Will Alter Some U.S. Not-for-Profit Health Care Ratios But Won't Affect Ratings," on Jan.

19, 2012, we have reflected Wellmont's 2012 and 2013 audited results and the year to date interims with the adoption of Financial Accounting Standards Board statement 954 in 2012, but not for prior periods. The new accounting treatment means that Wellmont's fiscal 2012 and subsequent financial statistics are not directly comparable to the results for 2011 and prior years, nor are they directly comparable to the 2011 median ratios. For an explanation of how each financial measure is affected by the change in accounting for bad debt, including the direction and size of the change, please see the above-mentioned article.

For the fiscal year ended June 30, 2013, Wellmont generated operating income of \$11.7 million (a 1.5% margin) on \$798 million of total net revenues. Results compared with \$20.7 million (a 2.6% margin) on \$789.7 million of total net revenues for fiscal 2012. The decline in operating results in fiscal 2013 and for the year to date ended Sept. 30, which saw net operating income of \$580,000 (a 0.3% margin), reflects weaker volumes, the more challenging reimbursement environment, and Wellmont's cost structure, which was too high given the declining revenues. Management is addressing its costs through reduced staffing and the efficiency initiatives noted earlier, including the opening of a dedicated observation units and the elimination of administrative overhead at individual system hospitals.

For the fiscal year, Wellmont's excess revenues, as per Standard & Poor's calculations, were \$29 million (or a 3.6% margin), which included \$19.4 million of realized investment income and gains. Wellmont also had a \$2.1 million loss from discontinued operations.

Cash flow remains acceptable, in our view, as evidenced by a 12.5% EBIDA margin, generating just under 2.5x coverage of Wellmont's \$41.3 million MADS. Operating leases have historically been relatively modest in amount; however, with the monetization of Wellmont's medical office buildings, operating leases have become more material to the system's overall financial profile. Adjusted for operating lease expense, MADS coverage is diluted to 2.0x.

Wellmont's fiscal 2014 budgeted operating income is \$3.9 million inclusive of almost \$9 million of meaningful use

stimulus funds, resulting in an operating margin of about 0.5%. According to management, however, recent reimbursement changes related to CMS's two-midnight rule could have a \$3 million to \$4 million negative impact on Wellmont's reimbursement, which was not known at the time the budget was prepared. In our view, operating performance is becoming more constrained and could be a key issue leading to a lower credit rating in the future.

Balance sheet

Wellmont's balance sheet remains acceptable, in our view, and although management plans to issue \$13.5 million of new debt in fiscal 2014, we believe that the system has some flexibility to issue additional debt at the existing rating level given its improved capitalization during the past four years.

Unrestricted cash and investments totaled \$434 million at Sept. 30, equal to 218 days' cash on hand and 90% of long-term debt, which we view as solid for the rating level. As part of its methodology Wellmont excludes the less liquid investments from the days' cash calculation. By making that adjustment, days' cash declines to about 202 days at Sept. 30, which remains solid and in compliance with Wellmont's minimum covenant level of 100 days. Robust cash flow and minimal capital spending needs allowed cash to grow by more than \$54 million relative to fiscal year-end 2012.

Wellmont's systemwide combined routine and strategic capital budget is \$41.5 million for fiscal 2014 inclusive of approximately \$6 million of funds not yet allocated. The spending budget does not include the remaining spending under the system's budget for converting to a new Epic IT Platform, which is expected to come in below the original \$100 million five-year budget. Wellmont is budgeting for about \$45 million of meaningful use stimulus money, which will help to offset the cost of its Epic conversion. Other than modest strategic and equipment-related capital spending and the planned spending for its Epic IT Platform conversion, Wellmont has limited other capital spending plans. As a result, we anticipate that the system's liquidity will continue to grow.

	Wellmont Health System			
	Three-Month Interim Ended Sept. 30, 2013	Fiscal Year Ended June 30,		
		2013	2012	2011
Financial performance				
Net patient revenue (\$000s)	185,220	754,488	741,822	767,450
Total operating revenue (\$000s)	194,051	798,223	789,726	797,249
Total operating expenses (\$000s)	193,471	786,507	769,073	781,322
Operating income (\$000s)	580	11,716	20,653	15,927
Operating margin (%)	0.30	1.47	2.62	2.00
Net nonoperating income (\$000s)	1,807	17,300	17,360	9,908
Excess income (\$000s)	2,387	29,016	38,013	25,835
Excess margin (%)	1.22	3.56	4.71	3.20
Operating EBIDA margin (%)	9.40	10.63	11.24	10.38
EBIDA margin (%)	10.24	12.53	13.15	11.48
Net available for debt service (\$000s)	20,052	102,241	106,093	92,644
Maximum annual debt service (\$000s)	41,310	41,310	41,310	41,310
Maximum annual debt service coverage (x)	1.94	2.47	2.57	2.24
Operating lease-adjusted coverage (x)	N.A.	2.02	2.07	1.86

Wellmont Health System (cont.)

Liquidity and financial flexibility

Unrestricted cash and investments (\$000s)	433,634	426,182	379,544	346,881
Unrestricted days' cash on hand	218.5	211.6	191.7	172.2
Unrestricted cash/total long-term debt (%)	90.0	89.5	82.6	75.5
Capital expenditures/depreciation and amortization (%)	84.6	112.4	99.2	92.0

Debt and liabilities

Total long-term debt (\$000s)	481,710	475,946	459,654	459,260
Long-term debt/capitalization (%)	48.1	48.4	49.9	51.2
Debt burden (%)	5.27	5.05	5.12	5.11

N.A.: Not available.

Related Criteria And Research

Related Criteria

- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Not-For-Profit Health Care, June 14, 2007

Related Research

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- U.S. Not-For-Profit Health Care Sector Outlook: Providers Prove Adaptable But Face A Test In 2013 As Reform Looms, Jan. 4, 2013
- U.S. Not-For-Profit Health Care System Ratios: Metrics Remain Steady As Providers Navigate An Evolving Environment, Aug. 8, 2013
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
- U.S. Not-For-Profit Health Care Providers Hone Their Strategies For Reform, May 16, 2011

Ratings Detail (As Of December 18, 2013)

Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee

Wellmont Hlth Sys, Tennessee

Ser 2003

Unenhanced Rating BBB+(SPUR)/Negative Outlook Revised

Ser 2011

Long Term Rating BBB+/Negative Outlook Revised

Virginia Small Business Fin Auth, Virginia

Wellmont Hlth Sys, Tennessee

Ser 2007A

Long Term Rating BBB+/Negative Outlook Revised

Many issues are enhanced by bond insurance.

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FITCH AFFIRMS WELLMONT HEALTH SYSTEM, TN REVS AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-New York-10 April 2014: Fitch Ratings affirms the 'BBB+' rating on the following Health, Education and Housing Facilities Board of the County of Sullivan, Tennessee bonds issued on behalf of Wellmont Health System (Wellmont):

--\$76,165,000, hospital revenue refunding bonds (Wellmont Health System Project), series 2011;
--\$200,000,000 hospital revenue bonds, series 2006C (Wellmont Health System Project);
--\$54,820,000 hospital revenue refunding bonds, series 2005 (Wellmont Health System Project);
--\$25,225,000 hospital revenue refunding bonds, series 2003 (Wellmont Health System Project).

In addition, Fitch affirms at 'BBB+' the following parity debt also issued on behalf of Wellmont:

--\$55,000,000 Virginia Small Business Financing Authority hospital revenue bonds, series 2007A (Wellmont Health System Project).

The Rating Outlook is Stable.

KEY RATING DRIVERS:

STRONG OPERATING EBITDA: Wellmont's operating EBITDA is consistently above Fitch's 'BBB' category median, averaging 11.5% over the past four audited years and at 9.9% in the six-month fiscal 2014 (June 30 year-end) interim period.

LIQUIDITY A CREDIT STRENGTH: Wellmont has \$419.6 million in unrestricted cash and investments (not including \$27 million in illiquid funds) at Dec. 31, 2013, a 6% year-over-year increase. Wellmont's key liquidity figures compare favorably to Fitch's 'BBB' medians.

ADEQUATE DEBT SERVICE: Most of Wellmont's financial and capital metrics are consistent with the rating category.

LEADING MARKET SHARE: Wellmont maintains a leading 56% inpatient market share in its defined primary service area (PSA). Although market share has declined slightly in the past few years, Fitch is not concerned, as Wellmont remains competitive in key strategic service lines.

ELEVATED DEBT BURDEN: Maximum annual debt service (MADS) as a percentage of revenue was high at 5.4% in the six-month interim period relative to a Fitch's 'BBB' median of 3.5%. However, after completing a large EPIC implementation at a cost of approximately \$100 million, for which it assumed additional debt, Wellmont's capital spending should slow, which should allow it to moderate its debt burden.

RATING SENSITIVITIES

SEEKING STRATEGIC PARTNER: Wellmont is in the process of evaluating potential strategic partnerships. The process of evaluating and choosing a potential partner is expected to be completed in the next 12 months. The effect of a strategic partnership on Wellmont is not factored into the rating. Fitch will continue to monitor the process and will evaluate a partnership once the process is completed. For the remaining fiscal year, Fitch expects Wellmont's performance to improve slightly as the expenses related to EPIC implementation have been fully absorbed.

Credit Profile

Wellmont Health System (WHS) is a large regional health care system with seven acute hospitals (816 staffed beds) and other related entities located in northeastern TN and southwestern VA. Wellmont had approximately \$798.2 million in total revenue in fiscal 2013.

Financial Summary

The 'BBB+' rating is supported by an overall financial profile consistent with Fitch's 'BBB' rating category medians and Wellmont's leading inpatient market share in its defined PSA. Wellmont finished fiscal 2013 with a 1.6% operating margin and MADS coverage of 2.6x, both adequate for the 'BBB' category, but below category medians. Wellmont's operating EBITDA was stronger at 10.8%, above the category median of 9%.

Operations were lower in the first six months of fiscal 2014 due largely to EPIC implementation costs, as Wellmont went live with its physicians in December 2013 and live in its hospitals in late March 2014. For fiscal 2014, Wellmont budgeted for \$13.5 million of implementation expenses that cannot be capitalized, with a portion of those expenses coming in the first half of the fiscal year. However, Wellmont did anticipate these expenses and is tracking ahead of budget for the first six months. In the first six months of fiscal 2014, Wellmont posted a 1.2% operating margin and 2.2x debt service coverage, compared to a 1.6% operating margin and 2.5x debt service coverage for the first six months of fiscal 2013. Wellmont's management reports that performance continues to be ahead of budget through February 2014, and Fitch expects Wellmont's operating performance to continue to improve through the end of the fiscal year.

Liquidity has continued to strengthen with unrestricted cash growing 6% in the year-over-year interim period and 49% from fiscal year-end 2010. At Dec. 31, 2013, Wellmont had cash and unrestricted investments of \$419.6 million (excluding \$27 million in illiquid investments), which equated to days cash on hand of 213.3, a cushion ratio of 10x, and cash-to-debt of 82.6%, which compare well to 'BBB' category medians of 144.7, 10.2, and 91.7, respectively.

Wellmont's debt burden remains elevated for the rating level, as represented by MADS as a percentage of revenue of 5.4% and debt-to-EBITDA of 5.5x. as of Dec. 31, 2013, both of which compare unfavorably to 'BBB' category medians. However, Fitch expects debt to moderate with the EPIC implementation completed. Wellmont is issuing bank debt to acquire a skilled nursing facility, Wexford House, but the facility is producing enough cash flow to cover the additional debt.

Fitch views the acquisition as credit neutral. The skilled nursing facility will build on Wellmont's efforts to prepare for population health management and other aspects of health care reform. Other initiatives in this effort include participating in an Accountable Care Organization, structuring shared savings contracts with select payors, and continuing to position the organization as the low-cost, high-quality provider for the region.

Potential Strategic Partnerships

Wellmont is actively exploring a strategic partnership through a formal RFP process.

Wellmont plans to evaluate the RFP responses, and Fitch expects a decision to be made within the next rating cycle. The financial arrangement of a potential partnership is not clear and could range from a loose affiliation to a full asset merger. Fitch views the potential partnership as credit neutral as much will depend on the outcome of the process and the final partner. However, Fitch notes positively that Wellmont is entering the process from a position of credit strength with a strong balance sheet, good market position, and consistent levels of operations and debt service coverage.

Debt Profile

Wellmont's debt portfolio is relatively conservative with approximately 15% of its \$508 million of long-term debt in variable-rate mode. However, Wellmont does have four swaps. Two are fixed payor swaps, one is a basis swap, and one is a total return swap.

There are no collateral posting requirements at the current rating level. The aggregate mark to market as of Dec. 31, 2013 was a negative \$7.2 million.

In addition, Wellmont is planning to restructure some of its debt in the next three months. Fitch expects that the covenants for that debt will remain consistent with the current covenants.

Disclosure

WHS covenants to provide audited financial statements to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (EMMA), as well as quarterly unaudited statements.

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Applicable Criteria and Related Research:

--Rating Guidelines for Nonprofit Hospitals and Health Systems, May 20, 2013

For information on Build America Bonds, visit 'www.fitchratings.com/BABs'.

Applicable Criteria and Related Research:

Rating Guidelines for Nonprofit Continuing Care Retirement Communities
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=40171

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Related Criteria And Research

Wellmont Health System, Tennessee; System

Credit Profile

Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee

Wellmont Hlth Sys, Tennessee

Ser 2006C

Long Term Rating

BBB+/Stable

Outlook Revised

Rationale

Standard & Poor's Ratings Services revised its outlook to stable from negative and affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on \$135 million in bonds, including series 2006C, 2007A, and 2011, issued for Wellmont Health System, Tenn. by various issuing authorities.

The 'BBB+' rating is based on our view of Wellmont Health System's group credit profile and core status as the obligated group, which includes Wellmont Health System (as parent); Hawkins County Memorial Hospital (a leased facility), a for-profit subsidiary; and the system's fundraising arm. Accordingly, the bonds are rated at the same level as the group credit profile. The stable outlook and affirmed 'BBB+' ratings reflect our view of Wellmont's operating and financial metrics, which were adequate for the rating level in fiscal 2014 and showed improvement during the first fiscal quarter of 2015. The rating is supported by the system's stable enterprise profile. While we understand that management is considering strategic options to strengthen the system's operational viability under health reform, we still believe that Wellmont is adequately positioned for operational success with respect to its markets, its competition, and the changing reimbursement environment.

More specifically, the ratings reflect our opinion of Wellmont's:

- Light but adequate financial metrics, including positive fiscal 2014 operating income of \$3.3 million (a 0.43% margin), as per Standard & Poor's calculations;
- Acceptable 2.0x fiscal year-end maximum annual debt service (MADS) coverage;
- Acceptable balance sheet, highlighted by the system's 212 days' cash on hand, moderately elevated 47% long-term debt to total capitalization, and unrestricted cash to long-term debt of 89% as of Sept. 30, 2014, and as per Standard & Poor's calculations; and
- Solid business position characterized by good market share in a demographically favorable region that is largely dominated by two health care systems.

Further supporting the ratings is our view of revenue cycle, staffing, expense, and other operating initiatives that will likely help Wellmont generate better operating results over time. In addition, we expect Wellmont's balance sheet will remain robust since Wellmont has limited capital spending needs for the foreseeable future.

Partly offsetting rating factors include Wellmont's reliance on supplemental reimbursement and meaningful-use stimulus funds to generate the system's positive net from operations during the past two to three years. In addition, we believe that competition for patient volumes between Wellmont and its main competitors remains intense.

As of Sept. 30, 2014, Wellmont had \$484 million of bonded debt and capital leases. About \$123 million of Wellmont's outstanding debt is variable-rate bank direct purchase obligations. The variable-rate obligations have tender provisions that may allow the bonds to be redeemed before maturity. In our opinion, unrestricted cash to puttable debt as of Sept. 30, 2014, was robust, at about 3.5x.

Wellmont uses interest rate swaps to partly hedge its interest rate risk. Wellmont has four swaps totaling \$260 million notional principal; Lehman Brothers Special Financing is the counterparty for three of the swaps, and Bank of America Merrill Lynch is the counterparty for a \$74.4 million total return swap entered into in 2011. In our opinion, the risks associated with Wellmont's derivatives portfolio are moderate at this time. Wellmont's swap liability was \$5.7 million at Dec. 31, 2014, and there is no required collateral posting.

The system remains in compliance with all bank and bond covenants. Gross revenues of the obligated group and a mortgage on Wellmont's two largest hospitals, Bristol Regional Medical Center and Holston Valley Medical Center, secure the bonds. The obligated group includes the parent, Hawkins County Memorial Hospital (a leased facility), a for-profit subsidiary, and the system's fundraising arm. All of the system's entities are included for the purpose of our calculations in this report.

Outlook

The stable outlook reflects our view of Wellmont's weak fiscal 2014, but improved fiscal 2015 year-to-date, results, supported by the service line expansions, the completion of Wellmont's Epic installation last year, and operational improvement initiatives. While we believe that Wellmont's balance sheet remains robust enough to support the current rating, we believe that operating results may continue to be challenged during the two-year outlook period by the changes being brought about by health reform, potentially leading to weaker balance sheet metrics and lower-than-desirable coverage relative to the rating level.

Downside scenario

Should Wellmont's fiscal 2015 results fall short of budgeted expectations, MADS coverage fall to and be sustained at below 2.0x, or unrestricted liquidity fall to fewer than 150 days or 70% of long-term debt, then a downgrade would become more likely.

Upside scenario

While we do not expect to raise the ratings during the outlook period, we could do so over time in response to, at a minimum, sustained improved operating performance, a moderation in Wellmont's leverage, and no material decline in the system's enterprise profile, which includes market share.

Enterprise Profile

Following the closure of Lee Regional in October 2013, Wellmont is a six-hospital system headquartered in Kingsport, Tenn., and is composed of 711 staffed beds, including acute, psych, rehab, and skilled nursing facility inpatient beds. The system's facilities are located in Tennessee and Virginia. Acute discharges totaled 34,917 in fiscal 2014, down 7.6% from fiscal 2013 (which was down 5.8% from fiscal 2012), although we note that patient volume declines have

not been adjusted for the closure of Lee Regional in October 2013. Inclusive of the same-store adjustment, inpatient volumes declined about 5.7%. Likewise, but also not adjusted on a same-store basis, equivalent inpatient admissions declined to 85,112 from 87,434, or by 2.7%. Combined surgery volumes were essentially flat while emergency department volumes were lower (by 7.1%), reflecting the presence of five urgent-care centers that are treating patients in a lower-cost setting.

Management remains focused on the system's ambulatory strategy, which has included the creation of a strategic infrastructure around oncology and cardiology centers of excellence. Orthopedics, neurology, and pulmonology are also service lines that management considers a strategic focus, along with post-acute and long-term care. Management plans to capitalize on its strengths in core service lines, supported by its dyad leadership model.

Also, in recognition of the challenging operating environment, Wellmont is exploring its strategic options around alignment with another health system. We understand that the system's board will likely reach a decision in early 2015. In our view, alignment with another strong provider will be a credit positive for the system.

Management

We believe that Wellmont is led by a capable leadership team headed by Bart Hove, CEO, who formerly served as the president of Wellmont's Bristol Regional Hospital and took over the system's CEO responsibilities in September 2014, following the departure of Denny DeNarvaez. Wellmont's CFO is Alice Pope, who has served in her current role since 2012 and has been with Wellmont for 15 years. Wellmont's COO is Eric Deaton, who recently rejoined the system after previously having worked for Wellmont for four years.

Financial Profile

For the fiscal year ended June 30, 2014, Wellmont generated operating income of \$3.3 million (a 0.4% margin), under Standard & Poor's methodology, on \$773 million of total net revenues. Results were down from \$11.7 million (a 1.5% margin) on \$798 million of total net revenues for fiscal 2013. The decline in operating results in fiscal 2014 reflects continued weaker volumes; the challenging reimbursement environment, including the effects of Medicare's two-midnight rule for observation patients; and operational inefficiencies. Management is addressing operational inefficiencies through supply chain, labor, and service line initiatives with a goal of reducing expenses by about \$25 million per year. Wellmont's excess revenues, as per Standard & Poor's calculations, were \$33 million (or a 4.1% margin), which included \$15 million of realized investment income and gains.

Cash flow remains acceptable, in our view, as evidenced by an 11% EBIDA margin, generating 2.0x coverage of Wellmont's \$42.8 million MADS. Operating leases have historically been relatively modest in amount; however, with the monetization of Wellmont's medical office buildings, operating leases have become more material to the system's overall financial profile. Adjusted for operating lease expense, MADS coverage is diluted to 1.8x.

Year-to-date results through September 2014 reflected an improvement in operating income of \$4.5 million (or a 2.2% margin) on \$205 million of operating revenues, producing 2.6x MADS coverage on an annualized basis. We understand that through six months Wellmont's consolidated results exceed budget and results for the same period last year.

Wellmont's fiscal 2015 budgeted operating income is just over break even, inclusive of \$4 million of meaningful-use stimulus funds, although results year to date point to a stronger-than-budgeted fiscal 2015. While the operating environment remains challenging, we believe that the Wellmont board's decision to consider an alignment with another system is positive strategic step to help Wellmont remain a healthy system over the long term.

Balance sheet

Wellmont's balance sheet remains acceptable, in our view. Unrestricted cash and investments totaled \$431 million at Sept. 30, equal to 212 days' cash on hand and 89% of long-term debt, which we view as solid for the rating level and in compliance with Wellmont's minimum covenant level of 100 days. We view the system's 47% leverage to be manageable and in line with the median for the rating level. We understand that management has no current plans to issue additional debt.

Wellmont's systemwide combined routine and strategic capital budget is \$35 million for fiscal 2015, inclusive of approximately \$3 million of funds not yet allocated. With the completion of the system's Epic implementation last year, capital spending needs are more limited and approximate about 70% of depreciation. As a result, we anticipate that the system's liquidity will continue to grow.

	Fiscal year ended June 30,				Medians	
	Three-month interim ended Sept. 30, 2014	2014	2013	2012	Health care system BBB+ 2013	Health care system A- 2013
Selected financial statistics						
Inpatient admissions	8,347	34,917	37,798	40,121	MNR	MNR
Emergency visits	45,588	170,331	183,378	208,013	MNR	MNR
Inpatient surgeries	2,353	9,430	9,101	9,418	MNR	MNR
Outpatient surgeries	6,442	24,896	25,118	26,839	MNR	MNR
Based on net/gross revenues	Gross	Gross	Gross	Gross	MNR	MNR
Medicare %	54.4	54.3	53.2	52.9	MNR	MNR
Medicaid %	10.9	11.1	11.5	11.4	MNR	MNR
Commercial/blues %	28.7	27.7	24.8	25.3	MNR	MNR
Financial profile						
Financial performance						
Net patient revenue (\$000s)	198,716	743,266	754,488	741,822	1,049,981	1,567,503
Total operating revenue (\$000s)	204,521	772,707	798,223	789,726	MNR	MNR
Total operating expenses (\$000s)	200,040	769,403	786,507	769,073	MNR	MNR
Operating income (\$000s)	4,481	3,304	11,716	20,653	MNR	MNR
Operating margin (%)	2.19	0.43	1.47	2.62	0.90	1.50
Net nonoperating income (\$000s)	3,554	14,749	17,300	17,360	MNR	MNR
Excess income (\$000s)	8,035	18,053	29,016	38,013	MNR	MNR
Excess margin (%)	3.86	2.29	3.56	4.71	3.00	3.60
Operating EBIDA margin (%)	11.59	9.28	10.63	11.24	8.90	8.40
EBIDA margin (%)	13.10	10.98	12.53	13.15	10.20	9.50

Wellmont Health System (cont.)						
Net available for debt service (\$000s)	27,248	86,461	102,241	106,093	115,667	166,108
Maximum annual debt service (\$000s)	42,797	42,797	42,797	42,797	MNR	MNR
Maximum annual debt service coverage (x)	2.55	2.02	2.39	2.48	2.50	3.40
Operating lease-adjusted coverage (x)	2.55	1.75	1.97	2.02	2.10	2.60
Liquidity and financial flexibility						
Unrestricted reserves (\$000s)	430,895	447,156	426,182	379,544	574,523	761,463
Unrestricted days' cash on hand	211.8	226.9	211.6	191.7	144.60	163.90
Unrestricted reserves/total long-term debt (%)	89.3	91.2	89.5	82.6	106.70	119.60
Average age of plant (years)	N.A.	12.5	11.2	11.4	11.50	11.40
Capital expenditures/depreciation and amortization (%)	36.0	173.6	112.4	99.2	114.10	124.60
Debt and liabilities						
Total long-term debt (\$000s)	482,617	490,443	475,946	459,654	MNR	MNR
Long-term debt/capitalization (%)	47.2	47.5	48.4	49.9	46.20	42.50
Debt burden (%)	5.14	5.43	5.23	5.30	3.00	2.70
Defined benefit plan funded status (%)	N.A.	80.39	79.52	68.03	80.20	79.90

MNR: Median not reported. N.A.: Not available. Note: Fiscal 2012 and 2013 patient volumes include Lee Regional, which as of Oct. 1, 2013, became a discontinued operation.

Related Criteria And Research

Related Criteria

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- General Criteria: Methodology: Industry Risk, Nov. 20, 2013

Related Research

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- U.S. Not-For-Profit Health Care Outlook Remains Negative Despite A Glimmer Of Relief, Dec. 17, 2014
- U.S. Not-For-Profit Health Care System Ratios: Operating Performance Weakened In 2013, Aug. 13, 2014
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
- Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries, Nov. 20, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Health Care Organizations See Integration And Greater Transparency As Prescriptions For Success, May 19, 2014

Ratings Detail (As Of February 4, 2015)

Sullivan Cnty Hlth Ed & Hsg Fac Brd, Tennessee

Wellmont Hlth Sys, Tennessee

Ser 2011

Long Term Rating

BBB+/Stable

Outlook Revised

Ratings Detail (As Of February 4, 2015) (cont.)

Virginia Small Business Fin Auth, Virginia

Wellmont Hlth Sys, Tennessee

Ser 2007A

Long Term Rating

BBB+/Stable

Outlook Revised

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Research

Bulletin:

Mountain States Health Alliance-Wellmont Health System Merger Does Not Affect Ratings

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DALLAS (Standard & Poor's) April 2, 2015--Standard & Poor's Ratings Services said today that Mountain States Health Alliance's (BBB+/Stable) and Wellmont Health System's (BBB+/Stable) agreement of intent to merge has no immediate effect on ratings. The proposed merger will be a true merger, with equal representation of board members, under a new name for the combined organization to be agreed upon at a later date. We understand that Wellmont and Mountain States will enter into due diligence with anticipated finalization of an agreement by the end of August 2015, completion of regulatory review within 90 days after that, and closing of the merger not later than Dec. 31, 2015.

Mountain States is a 13-hospital system with facilities in Tennessee and Virginia and more than 1,300 staffed acute-care beds along with numerous outpatient facilities. Wellmont is a six-hospital system with facilities in Tennessee and Virginia and operates more than 700 acute-care beds.

While details of the merger remain to be addressed, we understand that the two entities will likely combine their balance sheets and that both organizations are committed to reducing debt. In our view, the merged organization will likely have opportunities for cost reduction and other operating synergies, but at this point detailed benefits of the merger cannot be fully evaluated.

Bulletin: Mountain States Health Alliance-Wellmont Health System Merger Does Not Affect Ratings

We believe that it is likely the two systems will successfully reach a final agreement to merge and that any regulatory issues will be addressed. We are not taking rating action at this time.

Standard & Poor's will review and evaluate the merger integration plan and wait on a final agreement between Mountain States and Wellmont before forming a rating opinion later this year.

For more information on Wellmont Health System, please see our report published Feb. 4, 2015, on RatingsDirect. For more information on Mountain States Health Alliance, please see our report published Jan. 9, 2015.

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