

FitchRatings

Fitch Affirms Mountain States Health Alliance (TN) Revs at 'BBB+'; Outlook Stable

Fitch Ratings-New York-11 February 2015: Fitch Ratings affirms its 'BBB+' rating on Health and Educational Facilities Board of the City of Johnson City, Tennessee, revenue bonds issued on behalf of Mountain States Health Alliance (MSHA) and the parity debt issued on behalf of MSHA listed at the end of the press release:

The Rating Outlook is Stable.

SECURITY

Bonds are secured by pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of debt.

KEY RATING DRIVERS

STRONG PROFITABILITY FROM CORE OPERATIONS: Despite a slight erosion in operating EBITDA margins since fiscal 2011, MSHA's operating EBITDA of 11.8% in fiscal 2014 well exceeds the 'BBB' category median of 7.9%. Through the first quarter ended September 30, (1Q'15) MSHA posted an improved 1.8% operating margin and 12.9% operating EBITDA margin compared to the prior year period.

IMPROVED MANAGEMENT PRACTICES: Fitch believes the new CEO, who started in FY2014, has had a positive impact on performance by instituting a variety of changes and initiatives designed to leverage MSHA's credit strengths and maximize the return on system assets. MSHA is budgeting for a 2.7% operating margin in FY2015, which Fitch believes is achievable.

HIGH DEBT BURDEN: MSHA's debt burden remains a key credit concern which allows little room for erosion in MSHA's strong historical profitability. Maximum annual debt service (MADS) as a percent of revenue at 7% and debt-to-EBITDA of 7.6x are significantly higher than Fitch's 'BBB' category medians of 3.6% and 3.9x, respectively. MADS coverage by EBITDA in FY2014 was an adequate 2.1x, compared to a median of 2.6x.

MIXED LIQUIDITY METRICS: Days cash on hand (DCOH) has averaged 240 through the four-year historical period, in line with management's target and good for the rating level. However, liquidity metrics relative to debt (cushion ratio and cash-to-debt) are weaker, reflecting the elevated debt burden.

RATING SENSITIVITIES

DELEVERAGING PLAN VIEWED POSITIVELY: Management has stated its intent to reduce its leverage position beginning in fiscal 2015. MSHA has developed a plan to pay down roughly \$350 million of debt (above the \$177.4 million of amortizing principal payments) from FY2016 through FY2022 through excess cash flow. The debt reduction plan would mitigate MSHA's debt burden, which continues to be a major credit concern for Fitch. At Sept. 30, 2014, MADS was a very high 7% of revenue relative to a median of 3.6%.

CONTINUED STRONG PERFORMANCE: Sustained strong profitability - MSHA is projecting higher operating margins over the next five years - combined with manageable capital plans and execution of the system's deleveraging plans would likely result in positive rating momentum. Conversely, a material compression of historical operating performance over the near term could pressure the rating.

CREDIT PROFILE

Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of six hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 13 hospitals (1,671 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In FY2014 (June 30 year-end), MSHA had total operating revenue of \$1 billion.

STRONGER 2015 PERFORMANCE AFTER SOFT 2014

Fiscal performance has rebounded in 1Q'15 from the year prior. Admissions in the interim period were up 8.2% from the year prior, which led to net patient revenue growth of 5.8% year-over-year (YOY). The system posted a 1.8% operating margin through 1Q'15 which is improved from the negative 1.6% generated in the prior year. Management is projecting improved performance in FY2015 compared to FY2014, which will include the impact of an estimated \$4 million in supply chain savings, as well as the reestablishment of a contract with Cigna, effective October 2014. MSHA had been out of network with Cigna for almost three years, which impacted revenues in FY2012 to FY2014. Longer-term initiatives, around physician recruitment, service line enhancement, quality, safety, patient satisfaction, and efficiencies, should help sustain the improved operating performance.

Operating margin declined to 0.2% in FY2014 from 1.1% in FY2013 reflecting the impact of a shift from

inpatient admissions to observation stays. YOY acute admissions fell by 1.8% from FY2013 to FY2014, while observation stays increased 2.8%. However, Fitch notes system financial performance improved in the latter half of the fiscal year and that momentum has continued into FY2015.

Operating cash flow remains strong, which is key to maintaining the rating because of MSHA's high debt burden. In FY2014, operating EBITDA weakened YOY to 11.8% from 13.2%, but was strong relative to category median of 7.9%. Through 1Q'15, operating EBITDA was 12.9%; an improvement from 11.1% in the prior year period.

Strong 1Q'15 performance was driven by strong admissions growth in MSHA's northeast market, where admissions grew over 11% YOY to 2,969, and net patient revenue was up 6.7%. Improvements were offset somewhat by weakness in the northwest and southeast markets. System-wide observation cases declined 1.8% YOY, following MSHA's efforts relative to clinical documentation. Additionally, cost-containment measures begun in FY2014, such as a 6% reduction in workforce and continued Lean processes, appear to have borne fruit.

HIGH DEBT LOAD

MSHA's debt burden is elevated for the rating level which puts added pressure on it to sustain its strong cash flow. Both MADS as a percent of revenue at 7% and debt-to-EBITDA of 7.6x are significantly higher than Fitch's 'BBB' respective category medians of 3.6% and 3.9x. MADS coverage by EBITDA in FY2014 was an adequate 2.1x, compared to the median of 2.6x.

DELEVERAGING PLAN CREDIT POSITIVE

Management has stated its intention to reduce its high debt burden (60.5% debt-to-capitalization in 2014) through 2022 by using excess operations cash flow to prepay outstanding debt. The deleveraging plan follows an extended period of intense capital spending, which averaged 180% of depreciation in the six years leading up to 2013.

Management is targeting a 43% debt-to-capitalization ratio in 2019 while maintaining liquidity of at least 250 DCOH as part of its deleveraging plan. These efforts feature a good degree of flexibility should operational performance become pressured or capital needs increase from current lower projections. MSHA's capital spending is projected at a more manageable level, closer to 100% of depreciation. Fitch views positively management's plan to lower its debt burden and thus mitigate a key credit concern.

AGGRESSIVE DEBT PROFILE

Fitch continues to view MSHA's debt structure as aggressive relative to its rating level, with a number of swaps and approximately \$473 million in variable rate debt representing 42% of MSHA's total outstanding long-term debt. Roughly half of the variable rate debt (\$211 million) is privately placed with three different banks, and put dates for the private placements and letters of credit are adequately staggered. The maximum amount of debt coming due on any single day is a manageable \$106 million

in July 2018.

MSHA's outstanding swaps have a notional amount of \$590 million, composed of basis swaps, constant maturity basis swaps, and total return swaps. Bank of America is the counterparty for all of the swaps, elevating counterparty risk. As of Nov. 24, 2014, the aggregate mark-to-market of the swaps was a negative \$12.2 million. No collateral is currently being posted for the swaps.

ADEQUATE LIQUIDITY

As of Sept. 30, 2014, MSHA had \$645.6 million of unrestricted cash and investments, equating to a solid 252 DCOH, which compares favorably to Fitch's 'BBB' category median of 145 days. Cash-to-debt of 59.6% compared unfavorably to the 'BBB' category median of 93.6%, reflecting MSHA's sizeable debt load. Positively, unrestricted cash and investments continue to grow, up 21.5% since 2012, when it was at \$531.2 million (representing 212 DCOH).

DISCLOSURE

MSHA covenants to provide annual and quarterly financial and operational disclosure to EMMA.

Fitch affirms the following debt:

- \$55,000,000 hospital revenue bonds (Mountain States Health Alliance), series 2012A;
- \$5,415,000 hospital revenue bonds, series 2009A;
- \$167,730,000 hospital first mortgage revenue bonds, series 2006A;
- \$20,400,000 hospital first mortgage revenue bonds, series 2001A;
- \$34,645,000 hospital first mortgage revenue refunding bonds, series 2000A;
- \$30,750,000 hospital first mortgage revenue bonds, series 2000C.

In addition, Fitch affirms the following parity debt issued on behalf of MSHA:

- \$5,400,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
- \$111,265,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C;
- \$13,245,000 Mountain States Health Alliance taxable note, series 2000D.

Contact:

Primary Analyst
Gary Sokolow
Director
+1-212-908-9186
Fitch Ratings, Inc.

33 Whitehall St.
New York, NY 10004

Secondary Analyst
Stephen Friday
Associate Director
+1-212-908-0384

Committee Chairperson
James Lebuhn
Senior Director
+1-312-386-2059

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:
elizabeth.fogerty@fitchratings.com.

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

Applicable Criteria and Related Research:

--'Nonprofit Hospitals and Health Systems Rating Criteria', dated May 30, 2014.

Applicable Criteria and Related Research:

U.S. Nonprofit Hospitals and Health Systems Rating Criteria
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=746860)

Additional Disclosure

Solicitation Status (http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=979551)

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Fitch Ratings

Fitch Affirms Mountain States Health Alliance (TN) Revs at 'BBB+'; Outlook Stable

Fitch Ratings-New York-12 February 2014: Fitch Ratings affirms the 'BBB+' rating on the following Health and Educational Facilities Board of the City of Johnson City, Tennessee, bonds issued on behalf of Mountain States Health Alliance (MSHA):

- \$55,000,000 hospital revenue bonds (Mountain States Health Alliance), series 2012A;
- \$5,415,000 hospital revenue bonds, series 2009A;
- \$167,730,000 hospital first mortgage revenue bonds, series 2006A;
- \$20,400,000 hospital first mortgage revenue bonds, series 2001A;
- \$34,645,000 hospital first mortgage revenue refunding bonds, series 2000A;
- \$30,750,000 hospital first mortgage revenue bonds, series 2000C.

In addition, Fitch affirms the following parity debt issued on behalf of MSHA:

- \$5,400,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
- \$111,265,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C;
- \$13,245,000 Mountain States Health Alliance taxable note, series 2000D.

The Rating Outlook is Stable.

SECURITY

Pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of debt.

KEY RATING DRIVERS

SOFTER FY2013 OPERATING PERFORMANCE: Net patient service revenue fell 2% year over year, which led to a drop in MSHA's operating margin to 1.1% from 1.7%. The weaker performance was driven by lower inpatient volumes and a continued rise in observation days.

OPERATING CASH FLOW SUFFICIENT: In spite of the weaker operating margin, MSHA's operating

EBITDA margin remained steady at 13.2%, exceeding Fitch's 'BBB' category median of 9.9%.

HIGH DEBT BURDEN: MSHA's high debt burden remains a key credit concern. It pressures MSHA to maintain the strong cash flow levels in order to support debt service that has historically been adequate for the rating level.

MARKET FOOTPRINT A CREDIT STRENGTH: MSHA is a 14-hospital system that covers a 29 county service area and maintains a leading 53% market share in its primary service area.

MIXED LIQUIDITY INDICATORS: Through the four-year historical period days cash on hand (DCOH) has been solid at over 200 days; however, liquidity metrics relative to debt (cushion ratio and cash to debt) are weaker reflecting the elevated debt burden.

CAPITAL SPENDING SLOWING: After several years of heavy capital investment, a moderation of capital spending is expected beginning in fiscal 2014, which should provide MSHA with a measure of financial flexibility.

RATING SENSITIVITIES

THINNER OPERATING PERFORMANCE: MSHA has been challenged by lower inpatient volume, which has eroded its operating margin. While first quarter volumes are still down year over year, patient service revenue is up along with inpatient surgery volumes. Additionally, MSHA continues to aggressively manage expenses, but a further erosion of its operating margin could lead to negative rating pressure.

REFORM INITIATIVES: MSHA has made material investments in positioning the organization for health care reform. These initiatives include starting up a health plan, forming a Medicare ACO, and increasing physician engagement across the organization. A key for MSHA will be its ability to realize a financial return on these strategies after the initial investment for these initiatives.

CREDIT PROFILE

Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 14 hospitals (1,623 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2013 (June 30 year end), MSHA had total operating revenue of \$1 billion.

At the end of calendar year 2013, MSHA's long serving CEO retired and a new CEO started. Fitch

views the transition as a credit neutral. The retirement was planned in advance, providing MSHA ample time to undertake a thorough search. The new CEO, whom Fitch met with, has extensive industry background, including most recently managing a group of hospitals at a for profit health care organization.

Softer FY13 Performance

From fiscal 2012 to fiscal 2013, MSHA's operating margin fell to 1.1% from 1.7%. The drop in operating performance was driven by a decline in inpatient volume coupled with a rise in observation days, especially at its main tertiary hospital, Johnson City Medical Center (JCMC). In fiscal 2013, JCMC's inpatient volume declined 6.4% from the prior year (compared to a system decline of 5%), while observation days, which are reimbursed at a lower rate than inpatient days, increased 6.2% at both JCMC and across the system.

The lower inpatient volumes led to a year over year decline in net patient service revenue, which declined 4.8% at JCMC (JCMC accounts for approximately 51% of MSHA's patient service revenue) and 2% system wide. Total operating revenue at MSHA did increase but was helped by an additional \$17 million of federal meaning full use funds in fiscal 2013.

As a result, in fiscal 2013, system operating income fell to \$11.5 million from \$16.9 million in fiscal 2012. MSHA is budgeting for an operational improvement in fiscal 2014. To achieve this, MSHA has a strategy to address observation stays through improved physician documentation and physician education and is also implementing cost reductions, including a recent layoff of 161 full-time equivalents. MSHA continues to manage expenses through its LEAN practices as well.

First quarter performance is generally the weakest quarter and in the first quarter of 2014, MSHA operating margin was negative 1.6%, an improvement from a negative 2.6% in the first quarter of fiscal 2013. As important, net patient service revenue grew year over year. Fitch believes that MSHA will be able sustain the rate of operating improvement through the rest of the fiscal year.

Also helping to mitigate the operating margin concerns is MSHA's operating EBITDA, which has remained above category medians. In fiscal 2013, MSHA's operating EBITDA was 13.2%, and it was 11.1% in first quarter 2014, both above the category median of 9%.

HIGH DEBT BURDEN/CAPITAL SPENDING ABATING

MSHA's debt burden is elevated for the rating level and puts added pressure on MSHA to sustain solid cash flow. Both maximum annual debt service (MADS) as a percent of revenue at 7.6% and debt to EBITDA of 9.1x are significantly higher than Fitch's 'BBB' category medians of 3.5% and 3.8x, respectively. MADS coverage by EBITDA in fiscal 2013 was an adequate 2.1x, compared to a median of 3.1x.

However, MSHA is ending an extended period of intense capital investment. Over the last six years, capital spending averaged approximately 180% of depreciation relative to a median of 110.1%. Major capital projects completed over this time include the building of three replacement hospitals. Moving forward, Fitch expects MSHA's capital spending to reduce to a more manageable level, closer to 100% of depreciation. This should help ease MSHA's leveraged position and provide a measure of financial flexibility as MSHA's works to improve operations.

ADEQUATE LIQUIDITY

As of Sept. 30, 2013, MSHA had \$606.3 million of unrestricted cash and investments, equating to a solid 244.6 days cash on hand, which compares favorably to Fitch's 'BBB' category median of 144.7 days. Cash-to-debt of 54.7% compared unfavorably to the 'BBB' category median of 91.7% and also reflects MSHA's sizeable debt load. Unrestricted cash and investments have grown approximately 14% since fiscal year end 2012, when it was at \$531.2 million.

DEBT STRUCTURE

Fitch continues to view MSHA's debt structure as aggressive relative to its rating level, with a number of swaps and approximately \$425 million in variable rate debt. In the last year, MSHA did restructure most of its variable rate debt to mitigate some of the put, renewal, and remarketing risk. Prior to the restructuring, the vast majority of MSHA's variable debt was supported by bank letters of credit (LOCs), with the LOCs expiring on the same date for approximately \$400 million of the debt.

Post-restructuring, MSHA directly placed about half of the variable rate debt (\$211 million) with three different banks, removing near-term put and remarketing risk for that debt. MSHA also negotiated to stagger the timing of the mandatory put dates for the private placements and the expiration dates on the LOCs. These dates now range from three to 10 years, with a maximum amount of debt coming due on any single date at a much more manageable level of \$192 million. Fitch views these changes positively.

MSHA's total outstanding long term debt is approximately \$1.1 billion with approximately 58% fixed rate and 42% variable. MSHA has approximately \$570 million in outstanding swaps, which are composed of basis swaps and constant maturity basis swaps. Bank of America is the counterparty for all of the swaps. The lack of counterparty diversity exposes MSHA to a higher level of counterparty risk. As of November 30, 2013, the aggregate mark to market of the swaps was a negative \$14.1 million. No collateral is currently being posted for the swaps.

DISCLOSURE

MSHA covenants to provide annual and quarterly financial and operational disclosure to EMMA.

Contact:

Primary Analyst
Gary Sokolow
Director
+1-212-908-9186
Fitch Ratings, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Michael Burger
+1-212-908-0555

Committee Chairperson
Emily Wong
Senior Director
+1-415-732-5620

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:
elizabeth.fogerty@fitchratings.com.

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

Applicable Criteria and Related Research:

--'U.S. Nonprofit Hospitals and Health Systems Rating Criteria' (May 20, 2013).

Applicable Criteria and Related Research:

U.S. Nonprofit Hospitals and Health Systems Rating Criteria
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=708361)

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Fitch : Info Center : Press Releases

Fitch Affirms Mountain States Health Alliance at 'BBB'; Outlook Stable Ratings

13 Mar 2009 4:01 PM (EDT)

Fitch Ratings-New York-13 March 2009: Fitch Ratings affirms the 'BBB' underlying rating on approximately \$883 million of outstanding revenue bonds issued on behalf of Mountain States Health Alliance (MSHA). Additionally, Fitch affirms the 'BBB' rating on the hospital revenue bonds series 2008C, 2008D, and 2008E which were delayed in 2008 due to market conditions and will now be issued as series 2009A, 2009B, and 2009C. The bonds will be issued by the Johnson City Health and Educational Facilities Board (VA), Smyth County Industrial Development Authority (VA), and Washington County Industrial Development Authority (VA), respectively. The Rating Outlook is Stable.

The bonds will be issued as fixed-rate, unenhanced tax-exempt bonds, and the proceeds will be used to refund approximately \$10 million of MSHA's series 2006C bonds and to fund a portion of the costs associated with the pending acquisition of Johnson Memorial Hospital (JMH). The bonds are expected to price the week of March 16, 2009.

The assignment and affirmation of the 'BBB' is supported by MSHA's leading market position, solid liquidity relative to expenses, and a history of financial stability. MSHA's acute inpatient market share in its 29 county service area (including JMH), encompassing northeast Tennessee, southwest Virginia, and southeast Kentucky, was 36.9% as of 2008. This compares favorably to MSHA's only major competitor's (Wellmont Health System; rated 'BBB+' by Fitch) 29.5% market share. As of Dec. 31, 2008, MSHA had \$400 million of unrestricted cash and investments, equating to 196 days cash on hand, which compares favorably to Fitch's 'BBB' category median of 123.5 days. The unrestricted cash and investments are down from \$466 million as of June 30, 2008 primarily due to \$80 million in investment losses (\$56 million of which is unrealized) and a \$61 million collateral posting associated with the negative mark-to-market value of MSHA's swap portfolio through the first six months of fiscal 2009. The current investment allocation policy is being reevaluated with a likely result of a more conservative investment policy focusing on fixed-income assets (currently MSHA's long-term investments are 50% invested equities).

MSHA has been generating positive income from operations since fiscal 2003, averaging a 1.2% operating margin through fiscal 2008, as well as robust operating EBITDA margins during the period, averaging 15.4% annually. Through the six-month interim period, MSHA's operating margin is at negative 0.3% comparing favorably to the negative 1.8% margin of same period last year. Management attributes the improved operating performance to conservative recognition of revenue in the interim periods and expects to realize a year end margin of roughly 2%. The year-to-date operating EBITDA margin is healthy at 12.1%.

Credit concerns include MSHA's leveraged financial profile with significant variable rate debt exposure, sizable short-term capital commitments associated with JMH, an extensive derivative program, a high proportion of self-pay and Medicaid (7.3% and 15.3% of gross revenues, respectively), and high bad debt expense. While debt service coverage remains solid at 1.9 times (x) by EBITDA through Dec. 31, 2008, MSHA's Dec. 31, 2008 debt-to-capitalization and proforma MADS as percentage of revenue are very high at 83% and 6.7% compared to Fitch's 'BBB' category medians of 47.1% and 3.3%, respectively. The total amount committed to JMH is \$132 million (see Fitch's Nov. 21, 2008 research report titled 'Mountain States Health Alliance, Tennessee - hosp rev bonds ser 2008C, D, & E' available on the Fitch web site at 'www.fitchratings.com'). Future debt plans are expected to be minimal, but MSHA plans to fund the remainder of its commitment to JMH through internal cash flow over the next 1.5 years, however, debt financing is still an option if market conditions improve markedly.

Historically, MSHA has utilized a sizable swap portfolio which, as of Jan. 31, 2009, has a negative mark-to-market value of \$101.2 million on a notional amount \$925.2 million. MSHA has been required to post collateral of \$73.5 million as of March 1, 2009. In response to the recent volatility of the derivative markets, MSHA is reevaluating its derivative policies and intends to restructure its derivative portfolio over time as market conditions improve. Also of concern is MSHA's significant variable-rate exposure. Approximately two-thirds of the system's total debt is in the form of variable-rate bonds backed by a letter of credit from Regions Bank (rated 'A+/F1' with a Negative Outlook by Fitch) and a consortium of other lenders. Term-out provisions require that MSHA pay the letter of credit (LOC) bank within 367 days after payment is made on the LOC, which could affect MSHA's solid liquidity ratios leading to negative rating pressure.

The Stable Outlook is based on Fitch's expectation that MSHA's liquidity ratios (relative to expenses) will remain strong compared to the 'BBB' medians and that operating performance will remain stable. MSHA expects to generate \$128 million in operating EBITDA for fiscal 2009 (16.4% operating EBITDA margin). Additionally, MSHA is at the end of its hospital

acquisition program (although considerable capital spending is expected to continue) which should allow management to concentrate on integrating its newly acquired affiliates and improving its core operations.

Headquartered in Johnson City, Tennessee, MSHA is a large, integrated health care system with 14 hospitals (1,699 licensed beds) and other related entities, primarily serving Northeast Tennessee, Southwest Virginia, and two neighboring states. In fiscal year 2008, MSHA had total operating income of \$756.3 million. MSHA covenants to provide annual and quarterly financial and operational disclosure to the nationally recognized municipal information securities repositories (NRMSIRSS).

Contact: Carolyn Tain +1-212-908-0341 or Jonathan Mandel +1-212-908-0230, New York.

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

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Fitch Ratings

Fitch Places Mountain States Health Alliance (TN) Revs on Rating Watch Evolving

Fitch Ratings-New York-06 April 2015: Fitch Ratings has placed on Rating Watch Evolving the 'BBB+' rating for Health and Educational Facilities Board of the City of Johnson City, Tennessee, revenue bonds issued on behalf of Mountain States Health Alliance (MSHA) and parity debt issued on behalf of MSHA listed at the end of the press release.

SECURITY

Bonds are secured by pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of debt.

KEY RATING DRIVERS

MERGER ANNOUNCEMENT: Fitch has placed MSHA's 'BBB+' rating on rating watch evolving due the announcement that MSHA and Wellmont (general revenue bonds rated 'BBB+') have signed an agreement to explore a merger. The announcement states that the two organizations are exploring a plan to combine assets and operations to form a new integrated health care system that will include a combined board.

UNDERTAKING DUE DILIGENCE: The organizations plan to enter a period of due diligence, which is expected to conclude by July or August of 2015, and then submit a Certificate of Public Advantage to the Tennessee and a similar application to Virginia by the end of August seeking approval of a merger. Fitch will take rating action at the appropriate time as the process unfolds and clarifying details emerge on the new health system.

RECENT RATING AFFIRMATION: For more information on MSHA see Fitch's press release 'Fitch Affirms Mountain States Health Alliance (TN) Revs at 'BBB+'; Outlook Stable' dated Feb. 11, 2015.

RATING SENSITIVITIES

COMPLETION OF PENDING TRANSACTION: Resolution of the rating watch will be tied to the completion of the pending transaction and the treatment of MSHA's debt post-transaction.

CREDIT PROFILE

Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of six hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 13 hospitals (1,671 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2014 (June 30 year end), MSHA had total operating revenue of \$1 billion.

RATED DEBT

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--\$5,415,000 hospital revenue bonds series 2009A;
--\$167,730,000 hospital first mortgage revenue bonds series 2006A;
--\$20,400,000 hospital first mortgage revenue bonds series 2001A;
--\$34,645,000 hospital first mortgage revenue refunding bonds series 2000A;
--\$30,750,000 hospital first mortgage revenue bonds series 2000C.

In addition, Fitch places the 'BBB+' rating on the following parity debt issued on behalf of MSHA on Rating Watch Evolving:

--\$5,400,000 Industrial Development Authority of Smyth County hospital revenue bonds series 2009B;
--\$111,265,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds series 2009C;
--\$13,245,000 Mountain States Health Alliance taxable note series 2000D.

Contact:

Primary Analyst

Gary Sokolow

Director

+1-212-908-9186

Fitch Ratings, Inc.

33 Whitehall St.

New York, NY 10004

Secondary Analyst

Stephen Friday

Associate Director

+1-212-908-0384

Committee Chairperson

James Lebuhn

Senior Director

+1-312-386-2059

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

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

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria' (June 16, 2014);

--'U.S. Nonprofit Hospitals and Health Systems Rating Criteria'(May 30, 2014).

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012)

U.S. Nonprofit Hospitals and Health Systems Rating Criteria

(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=746860)

Additional Disclosure

Solicitation Status (http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=982501)

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Fitch Ratings

Fitch Withdraws Underlying Rating on Mountain States Health Alliance, TN VRDBs

Fitch Ratings-New York-08 June 2011: Fitch Ratings withdraws the 'BBB+' unenhanced rating on the following variable rate demand bonds (VRDBs) issued on behalf of Mountain States Health Alliance, TN (Mountain States):

--Johnson City Health & Educational Facilities Board (TN) hospital revenue bonds series 2007B-1, 2007B-2, 2007B-3, and 2008A;

--Russell County Industrial Development Authority (VA) hospital revenue bonds series 2008B.

Fitch was not asked to provide ratings based on the letters of credit supporting these issues, and their unenhanced ratings are not considered by Fitch to be relevant to the agency's coverage of Mountain States.

Fitch's underlying rating for Mountain States' parity obligations remains 'BBB+' with a Stable Rating Outlook.

Contact:

Primary Analyst

Emily Wong

Senior Director

+1-212-908-0651

Fitch, Inc.

One State Street Plaza

New York, NY 10004

Secondary Analyst

Gary Sokolow

Director

+1-212-908-9186

Committee Chairperson

Jeff Schaub

Senior Director
+1-212-908-0680

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

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

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', dated Oct. 8, 2010;

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

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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Fitch Ratings

Fitch Affirms Mountain States Health Alliance (TN) Revs at 'BBB+'; Outlook Stable

Fitch Ratings-New York-23 July 2013: Fitch Ratings affirms the 'BBB+' rating on the following Health and Educational Facilities Board of the City of Johnson City, Tennessee, bonds issued on behalf of Mountain States Health Alliance (MSHA):

- \$55,000,000 hospital revenue bonds (Mountain States Health Alliance), series 2012A;
- \$28,095,000 hospital revenue bonds (Mountain States Health Alliance), series 2012B;
- \$5,490,000 hospital revenue bonds, series 2009A;
- \$168,345,000 hospital first mortgage revenue bonds, series 2006A;
- \$21,400,000 hospital first mortgage revenue bonds, series 2001A;
- \$32,431,000 hospital first mortgage revenue refunding bonds, series 2000A;
- \$32,040,000 hospital first mortgage revenue bonds, series 2000C.

In addition, Fitch affirms the following parity debt issued on behalf of MSHA:

- \$9,785,000 Industrial Development Authority of Wise County (Virginia) hospital revenue bonds (Mountain States Health Alliance), series 2012C;
- \$5,470,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
- \$113,655,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C;
- \$13,800,000 Mountain States Health Alliance taxable note, series 2000D.

The Rating Outlook is Stable.

SECURITY

Pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of debt.

KEY RATING DRIVERS

SOLID MARKET FOOTPRINT A CREDIT STRENGTH: MSHA is a 13-hospital system that covers a 29 county service area and maintains a leading 42% market share in its primary service area.

SUFFICIENT OPERATING CASH FLOW: MSHA maintains excellent operating EBITDA margins that well exceed the median ratios for the rating level.

HIGH DEBT BURDEN: MSHA's high debt burden remains Fitch's main credit concern. It pressures MSHA to maintain the strong cash flow levels in order to support debt service that has historically been adequate for the rating level.

MIXED LIQUIDITY INDICATORS: Through the four year historical period, cash and unrestricted investments have remained stable at above \$500 million, with good cash flow offset by high capital spending and a recent rise in accounts receivable. Through the four year historical period days cash on hand (DCOH) has been solid at over 200 days, with the debt liquidity metrics, cushion ratio and cash to debt weaker, again reflecting the higher debt burden.

CAPITAL SPENDING SLOWING: After several years of heavy capital investment (capital spending as a percent of depreciation averaged 195% a year over the last four years), a moderation of capital spending is expected beginning in fiscal 2014.

RATING SENSITIVITIES

WEAKER VOLUMES: MSHA has seen inpatient volumes trend down-a 5% drop in the nine month year-over-year (YOY) interim period, after lower volumes in fiscal 2012. MSHA has managed expenses and continues to initiate other efficiency and revenue measures, but Fitch is concerned about the long term volume trends and their impact on operating performance.

HEALTH CARE REFORM: MSHA is engaged in a handful of programs piloting different payment methods. In the past year, MSHA was involved in a Medicare ACO that reduced cost and inpatient utilization, and should result in an estimated \$5 million payment back to MSHA for shared savings. MSHA's ability to maintain the robust levels of cash flow needed to service its elevated debt burden is a key rating driver as these various programs evolve and grow in scale, rearranging both patient volumes and payment levels and methodologies.

CREDIT PROFILE

Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 13 hospitals (1,623 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital and Johnston Memorial Hospital). In fiscal 2012 (June 30 year end), MSHA had total operating revenue of \$996 million.

CONSISTENT OPERATING PERFORMANCE

The rating affirmation reflects MSHA's consistent operating performance.

Audited fiscal 2012 results show a 0.8% operating margin, which was lower than last year's 2.1% operating margin. Operating cash flow was stronger at 12.8%, an operating EBITDA margin better than Fitch's 'BBB' category median of 8.3%. Nine month interim results show a 0.2% operating margin and a 12.4% operating EBITDA margin, consistent with the year end performance and slightly better than the prior year nine month period. Inpatient volume was lower through the nine month interim period but MSHA is managing expenses, including a reduction in workforce, and operations were helped by \$16 million in federal meaningful use funds. However, a continued trend of lower inpatient admissions would be a credit concern.

ADEQUATE LIQUIDITY

As of March 31, 2013, MSHA had \$576 million of unrestricted cash and investments, equating to a solid 230.5 DCOH, which compares favorably to Fitch's 'BBB' category median of 138.9 days. Cash-to-debt of 51.2% at March 31, 2013, compares unfavorably to the 'BBB' category median of 82.7% and is reflective of MSHA's sizeable debt load. Over the medium term, Fitch expects MSHA's liquidity to grow as capital spending moderates.

CAPITAL SPENDING ABATING

MSHA has been investing significantly in its plant, which totaled approximately 2 times (x) depreciation expense the last three fiscal years. Major capital projects included three new replacement hospitals. The remaining major capital project is the expansion of surgical space (16 new surgery suites) at MSHA's flagship facility, Johnson City Medical Center. The high intensity of capital spending is expected to drop after fiscal 2012 (\$132.9 million) with projected capital expenditures of \$118.5 million in fiscal 2013, \$90 million in fiscal 2014 and \$50 million in fiscal 2015.

HIGH DEBT BURDEN

Fitch's main credit concerns are MSHA's sizeable debt load and fairly aggressive capital structure. Despite MSHA's strong operating cash flow, maximum annual debt service (MADS) coverage for fiscal 2012 is adequate at 2.1x by EBITDA compared to Fitch's 'BBB' median of 2.8x. MADS as a percentage of revenue is also elevated at 7.4% as of June 30, 2012, much higher than the 'BBB' median of 3.3%. However, MSHA is restructuring much of its variable rate debt, and, once complete, MADS is expected to lower to \$70.2 million from \$73.3 million (MADS does not include Johnson Memorial Hospital debt which is outside the obligated group).

DEBT STRUCTURE RISKS

At March 31, 2013, MSHA's total outstanding debt was approximately \$1.1 billion with \$695.8 million underlying fixed-rate and \$433.2 million underlying variable-rate debt. The vast majority of the variable rate debt is LOC backed variable rate demand obligations. MSHA is in the process of restructuring much of this variable rate debt. With the restructuring, MSHA plans to diversify into direct bank

placement debt, as well as stagger the expiration dates of the LOCs to reduce risk. Fitch was not asked to provide an underlying long term rating to these variable rate debt series.

In spite of the MSHA's risk mitigation on its variable rate debt, Fitch continues to view MSHA's debt profile as aggressive for its rating level due to its exposure to interest rate, put, remarketing, and LOC renewal risk. Unrestricted cash and investments to puttable debt was just over 1x as of March 31, 2013 and the investments are liquid with 96% available within three days.

MSHA has approximately \$597.1 million in outstanding swaps, which are composed of basis swaps and constant maturity basis swaps. Bank of America is the counterparty for all but \$5 million of the swaps. The lack of counterparty diversity exposes MSHA to a higher level of counterparty risk. As of April 30, 2013, the aggregate mark to market of the swaps was a negative \$1.8 million and no collateral is currently being posted. Additionally, a swap that MSHA had with Lehman has been settled with MSHA paying out less than it had reserved.

DISCLOSURE

MSHA covenants to provide annual and quarterly financial and operational disclosure to EMMA.

Contact:

Primary Analyst
Gary Sokolow
Director
+1-212-908-9186
Fitch Ratings, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Michael Burger
+1-212-908-0555

Committee Chairperson
Emily Wong
Senior Director
+1-212-908-0651

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:

elizabeth.fogerty@fitchratings.com.

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

In addition to the sources of information identified in Fitch's Rating Criteria, this action was additionally informed by information from BofA Merrill Lynch.

Applicable Criteria and Related Research:

--Revenue-Supported Rating Criteria, June 3, 2013;

--U.S. Nonprofit Hospitals and Health Systems Rating Criteria, May 20, 2013.

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=709499)

U.S. Nonprofit Hospitals and Health Systems Rating Criteria

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

Additional Disclosure

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ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Fitch Ratings

Fitch Rates Mountain States Health Alliance, TN 2012 Revs 'BBB+'; Affirms Outstanding

Fitch Ratings-New York-14 August 2012: Fitch Ratings assigns a 'BBB+' to the following bonds expected to be issued on behalf of Mountain States Health Alliance (MSHA):

- \$54,900,000 The Health and Educational Facilities Board of the City of Johnson City, TN hospital revenue bonds, series 2012A;
- \$30,230,000 The Health and Educational Facilities Board of the City of Johnson City, TN hospital revenue bonds, series 2012B;
- \$9,785,000 Industrial Development Authority of Wise County, VA hospital revenue bonds, series 2012C.

In addition, Fitch affirms the 'BBB+' rating on MSHA's outstanding debt, which is listed at the bottom of this press release. Some of those ratings are underlying ratings. The Rating Outlook is Stable.

The 2012A bonds are expected to be issued as tax-exempt fixed-rate bonds and the series 2012B and 2012C bonds are expected to be issued as tax-exempt variable rate demand bonds. The 'BBB+' ratings on the series 2012B and 2012C bonds are underlying ratings, and Fitch expects to rate the 2012B and C bonds based on the letter of credit (LOC) support closer to the time of issuance. The 2012A bonds are expected to sell via negotiation the week of Aug. 20.

Proceeds from the series 2012 bonds will be used to fund the expansion of surgical suites at Johnson City Medical Center, fund projects at Norton Community Hospital (VA), reimburse MSHA for prior capital expenditures, and pay the cost of issuance. Maximum annual debt service (MADS), which was provided by the underwriter, increases to \$77.2 million from \$76.3 million. After issuance, MSHA will have approximately \$1.17 billion in outstanding debt, with 57% fixed rate and 43% variable.

SECURITY

The bonds are secured by pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of MSHA debt, but that is not expected for the series 2012 bonds.

KEY RATING DRIVERS

SOLID MARKET FOOTPRINT: MSHA is a 13-hospital system with a leading market position in a sizable 29 county service area.

CONSISTENTLY STRONG OPERATING CASH FLOW: MSHA maintains excellent operating cash flow margins that well exceed the median ratio for its rating level.

HIGH DEBT BURDEN: MSHA's high debt burden remains Fitch's main credit concern. Despite strong operating cash flow, debt service coverage is adequate for the rating level.

CAPITAL SPENDING TO SLOW: MSHA is nearing the end of a cycle of significant capital spending. The last large project remaining is a \$69 million expansion of the operating room suites at Johnson City Medical Center. Bond proceeds of \$55 million from the 2012 debt issuance, along with a cash contribution by MSHA, will pay for the expansion. There is a sizeable reduction in projected capital spending for fiscal 2014-2017, which should facilitate liquidity growth.

CREDIT PROFILE

Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 13 hospitals (1,623 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2012 (June 30 year end; unaudited), MSHA had total operating revenue of \$996 million.

The rating affirmation reflects MSHA's continued sound operating performance. Unaudited fiscal 2012 results show a 1% operating margin, which was lower than last year's 1.9% operating margin. Operating cash flow remained very strong with a 13.2% operating EBITDA margin compared to the 'BBB' category median of 8.5%. While overall inpatient volumes held steady, the slightly lower operating performance partially reflects a shift of inpatient admissions away from surgical admissions, which affected budgeted revenues, but management's continued focus on cost initiatives, which include lean practices, helped sustain the operating performance. MSHA's fiscal 2013 budget is for a 2% operating margin.

MSHA's operating performance was further supported by its leading inpatient market share. MSHA's acute inpatient market share in its 29-county service area was 37.5% in 2011, which compares favorably to MSHA's only major competitor's (Wellmont Health System; rated 'BBB+' by Fitch) 29.7% market share.

As of June 30, 2012, MSHA had \$531.2 million of unrestricted cash and investments, equating to a

solid 214 days cash on hand, which compares very favorably to Fitch's 'BBB' category median of 128.6 days. Days cash on hand was down from the prior year due to a rise in accounts receivable (AR), higher operating expenses, and continued capital spending. MSHA attributes the rise in AR to a software conversion, which disrupted the processing of claims, but believes AR will normalize by calendar year end.

Cash-to-debt of 49.1% at June 30, 2012 compares unfavorably to the 'BBB' category median of 79.8% and is reflective of MSHA's sizeable debt load. Over the medium term, Fitch expects MSHA's liquidity to grow as capital spending moderates. MSHA has been investing significantly in its plant, which totaled approximately 2 times (x) depreciation expense the last three fiscal years. Major capital projects included three new replacement hospitals. The remaining major capital project is the expansion of surgical space (16 new surgery suites) at MSHA's flagship facility, Johnson City Medical Center.

The high intensity of capital spending is expected to drop after fiscal 2012 (\$134.8 million) with projected capital expenditures of \$118.5 million in fiscal 2013, \$74 million in fiscal 2014 and \$58 million in fiscal 2015.

Fitch's main credit concerns are MSHA's sizeable debt load and fairly aggressive capital structure. Despite MSHA's strong operating cash flow, maximum annual debt service (MADS) coverage for fiscal 2012 is adequate at 2.1x by EBITDA compared to 2.3x in fiscal 2011 and Fitch's 'BBB' median of 2.6x. MADS as a percentage of revenue is also elevated at 7.8% as of June 30, 2012, much higher than the 'BBB' median of 3.3%. Beyond the current \$65 million in new money, Fitch expects that MSHA's borrowing will slow as capital spending ebbs, which should provide some easing of the debt burden.

MSHA's pro forma total outstanding debt is approximately \$1.17 billion with \$674.5 million underlying fixed-rate and \$500.1 million underlying variable-rate debt. Of the \$500.1 million of variable rate debt, approximately \$456.8 million are LOC backed variable rate demand obligations. The remaining variable rate exposure is a five year direct bank loan with SunTrust Bank.

Fitch views MSHA's debt profile as aggressive for its rating level due to its exposure to interest rate, put, remarketing, and LOC renewal risk. The LOCs expire between October 2014 and September 2015 and the term-out provision under the agreements is three years. However, unrestricted cash and investments to puttable debt was just over 1x as of June 30, 2012 and the investments are liquid with 96% available within three days.

MSHA has approximately \$592.4 million in outstanding swaps, which are composed of basis swaps and constant maturity basis swaps. Bank of America is the sole counterparty on all of the swaps. The lack of counterparty diversity exposes MSHA to a higher level of counterparty risk. As of July 20, 2012, the aggregate mark to market of the swaps was negative \$11.1 million and no collateral is currently being posted.

Separately, MSHA is posting \$13.8 million on its swaps with Lehman for which MSHA has been negotiating a final termination payment. Fitch expects that the collateral posted will be adequate for the termination payment.

The Stable Outlook is based on Fitch's expectation that MSHA will continue to generate strong operating cash flow to service its debt load. Fitch expects that over time MSHA will continue to grow its liquidity due to a moderation of capital spending, which should allow MSHA to reduce its leverage. Positive rating movement would be dependent on an improvement in debt metrics.

MSHA has continued to move forward on its accountable care organization (ACO). MSHA's ACO contracting entity, Integrated Solutions Health Network (ISHN), is now a recognized ACO and was awarded a three and half year contract with the federal government. The Centers for Medicare and Medicaid Services is in the process of assigning ISHN 17,000 Medicare lives to manage.

MSHA covenants to provide annual and quarterly financial and operational disclosure to EMMA.

Outstanding rated debt:

The Health and Educational Facilities Board of the City of Johnson City, Tennessee:

- \$32,885,459 hospital first mortgage revenue refunding bonds, series 2000A;
- \$33,230,000 hospital first mortgage revenue bonds, series 2000C;
- \$22,300,000 hospital first mortgage revenue bonds, series 2001A;
- \$168,990,000 hospital first mortgage revenue bonds, series 2006A;
- \$5,560,000 hospital revenue bonds, series 2009A;
- \$5,535,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
- \$115,955,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C;
- \$14,315,000 Mountain States Health Alliance first mortgage bonds (taxable), series 2000D.

Contact:

Primary Analyst

Gary Sokolow

Director

+1-212-908-9186

Fitch, Inc.

One State Street Plaza

New York, NY 10004

Secondary Analyst

Emily Wong

Senior Director

+1-212-908-0651

Committee Chairperson

Jeff Schaub

Managing Director

+1-212-908-0680

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Rating Criteria, this action was additionally informed by information from BofA Merrill Lynch.

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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Fitch Ratings

Fitch Rts Mountain States Health Alliance Hospital Rev Bonds, Series 2012B&C 'A-/F1'

Fitch Ratings-New York-12 September 2012: Fitch Ratings assigns ratings of 'A-/F1', Stable Outlook to the \$28,095,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee hospital revenue bonds (Mountain States Health Alliance) series 2012B and the \$9,785,000 Industrial Development Authority of Wise County (Virginia) hospital revenue bonds (Mountain States Health Alliance) series 2012C. The ratings are based on the support provided by two separate irrevocable direct-pay letters of credit (LOCs) issued by Mizuho Corporate Bank, Ltd., New York Branch (rated 'A-/F1', Stable Outlook) securing each series of bonds.

The bank is obligated to make regularly scheduled payments of principal of and interest on the bonds in addition to payments due upon maturity, acceleration and redemption, as well as purchase price for tendered bonds. The ratings will expire upon the earliest of: (a) Sept. 17, 2015, the stated expiration date of each respective LOC; (b) conversion to an interest rate other than the weekly rate mode; (c) any prior termination of each respective LOC; and (d) defeasance of the bonds. The LOCs provide full and sufficient coverage of principal plus an amount equal to 37 days of interest at a maximum rate of 12% based on a year of 365 days and purchase price for tendered bonds while in the weekly rate mode. The Remarketing Agent for the bonds is Merrill Lynch, Pierce, Fenner & Smith Incorporated. The bonds are expected to be delivered on or about Sept. 18, 2012.

The bonds initially bear interest at a weekly rate but may be converted to a medium-term or a fixed interest rate. While bonds are in the weekly rate mode, interest payments are on the first business day of each month, commencing Oct. 1, 2012. The trustee is obligated to make timely draws on the LOCs to pay principal, interest, and purchase price. Funds drawn under the LOCs are held uninvested, and are free from any lien prior to that of the bondholders.

Holders of the bonds may tender their bonds on any business day, provided the trustee is given the requisite prior notice of the purchase. The bonds are subject to mandatory tender: (1) upon conversion of the interest rate; and (2) upon expiration, substitution or termination of the LOC. The bonds shall be accelerated following trustee's receipt of notice of an event of default under the reimbursement agreement for each respective LOC. Optional and mandatory redemption provisions also apply to the bonds. There are no provisions for the issuance of additional bonds.

Bond proceeds will be loaned to the Mountain States Health Alliance (the Alliance) pursuant to separate loan agreements between each issuer and the Alliance and related entities. The proceeds will be used by the Alliance and related entities to: (i) refinance outstanding capital leases; (ii) finance capital improvements and equipment acquisitions at facilities owned by the Alliance and its affiliates; and (iii) pay certain expenses incurred in connection with the issuance of the series 2012B&C bonds.

Contact:

Primary Analyst
Linda Friedman
Senior Director
+1-212-908-0727
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Kasia Reed
+212-908-0500

Committee Chairperson
Joseph Staffa
Senior Director
+1-212-908-0829

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:
elizabeth.fogerty@fitchratings.com.

Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'U.S. Municipal Structured Finance Criteria', Feb. 28, 2012;
--'Rating Guidelines for Letter of Credit-Supported Bonds', June 20, 2012.

Applicable Criteria and Related Research:

U.S. Municipal Structured Finance Criteria
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=672570)
Rating Guidelines for Letter of Credit-Supported Bonds

(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681737)

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Fitch Ratings

Fitch Withdraws Unenhanced Rtgs on Mountain State Health Alliance 2007B, 2008A, & 2008B Revs

Fitch Ratings-New York-05 October 2010: Fitch Ratings withdraws the 'BBB+/F2' enhanced ratings assigned to the Johnson City Health & Educational Facilities Board, TN hospital revenue bonds (Mountain States Health Alliance), series 2007B and series 2008A and the Russell County Industrial Development Authority, VA hospital revenue bonds (Mountain States Health Alliance), series 2008B (the bonds).

The withdrawal of the ratings is in connection with the Sept. 29, 2010 mandatory tender of all the outstanding bonds as a result of the letter of credit (LOC) substitutions. The Regions Bank LOCs supporting the bonds terminated following the mandatory tender. Fitch has not been asked to rate the bonds based on the substitute LOCs.

The long-term rating has been revised to reflect the underlying 'BBB' rating currently assigned to the bonds.

The remarketing of the Johnson City Health & Educational Facilities Board (TN) (Mountain States Health Alliance) hospital revenue bonds series 2007B does not affect its underlying ratings, according to Fitch.

With this remarketing this bond will receive new CUSIPs:

Johnson City Health & Educational Facilities Board 2007B
478271HK8 (original)

Johnson City Health & Educational Facilities Board 2007B-1
478271JK6 (remarketed)

Johnson City Health & Educational Facilities Board 2007B-2
478271JL4 (remarketed)

Johnson City Health & Educational Facilities Board 2007B-3
478271JM2 (remarketed)

Contact:

Primary Analyst
Mario Civico
Senior Director
+1-212-908-0796
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Linda Friedman
+1-212-908-0729

Committee Chairman
Joseph Staffa
Senior Director
+1-212-908-0829

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

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

Applicable Criteria and Related Research:

--'U.S. Municipal Structured Finance Rating Criteria', Aug. 16, 2010;
--'Rating Guidelines for Letter of Credit-Supported Bonds', April 29, 2009.

Applicable Criteria and Related Research:

U.S. Municipal Structured Finance Rating Criteria
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548588)
Rating Guidelines for Letter of Credit-Supported Bonds
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=435132)

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Fitch Upgrades Mountain States Health Alliance bonds to 'BBB+' from 'BBB'; Outlook Stable

Ratings

15 Dec 2010 11:45 AM (EST)

Fitch Ratings-New York-15 December 2010: Fitch Ratings has upgraded the rating on Mountain States Health Alliance's (MSHA) outstanding debt to 'BBB+' from 'BBB'. The Rating Outlook is Stable. MSHA has approximately \$1 billion of total outstanding debt with an underlying debt mix of 64% fixed-rate and 36% variable-rate demand bonds (supported by letters of credit).

SECURITY:

MSHA has granted a security interest in its pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain debt.

RATING RATIONALE:

--The rating upgrade is due to MSHA's strong market position, consistent exceptional operating cash flow margins, and solid days cash on hand.

--MSHA's market position has strengthened over the last two years due to MSHA's acquisition activity, with minimal activity expected in the near future as MSHA continues to integrate the newer facilities into the system.

--MSHA has been significantly investing in its plant with three new replacement facilities and an expansion at its flagship facility, Johnson City Medical Center (JCMC), and capital needs are expected to moderate in the next three to four years.

--MSHA has also reduced the risk in its debt and investment portfolio since 2008.

--The main credit concerns continue to be MSHA's high debt burden, which management has committed to reduce once it reaches their days cash on hand target of 250 (231.5 as of Sept. 30, 2010).

KEY RATING DRIVERS:

--Maintenance of strong operating cash flow and liquidity.

--Upward movement of the rating would be dependent on MSHA reducing its debt burden while maintaining its strong operating cash flow and liquidity position.

--Negative rating pressure would occur if MSHA's financial profile deteriorates.

CREDIT SUMMARY:

The rating upgrade is due to MSHA's strong market position, consistent exceptional cash flow margins, and solid days cash on hand. MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA. Since that time, MSHA has grown to a 14-hospital system through several acquisitions from 2005-2009, which has extended MSHA's service area to Virginia. Management indicated that there are no future acquisitions planned, especially since there are limited sole providers remaining in the service area. MSHA's acute inpatient market share in its 29-county service area was 36.5% in 2009, which compares favorably to MSHA's only major competitor's (Wellmont Health System; rated 'BBB+' by Fitch) 29.5% market share.

MSHA has been investing significantly in its plant, which has totaled approximately 2 times (x) depreciation expense in fiscal 2009 and 2010. Major capital projects include three new replacement hospitals and an expansion of surgical space at the flagship facility. In July 2010, a new 80-bed facility opened (Franklin Woods Community Hospital), which replaced two of MSHA's existing facilities, North Side Hospital and Johnson City Specialty Hospital. The construction was under budget and the new hospital is expected to improve efficiency as a result of the consolidation of services on one campus and better location. The two other replacement facilities are for Johnston Memorial Hospital and Smyth County Community Hospital, which are expected to be completed by May 2011 and November 2011, respectively. MSHA's flagship facility, JCMC, will expand its surgical space with the construction of 16 new surgery suites (by 2013). A portion of this project is expected to be funded by \$45 million of additional debt in fiscal 2012. The high intensity of capital spending is expected through fiscal 2012 with capital commitments of \$99 million in fiscal 2011 and \$110 million in fiscal 2012, and is then expected to return to more moderate levels of approximately \$70 million-\$80 million a year. The main source of funding will be operating cash flow except for \$15 million of unspent bond proceeds and \$45 million of additional debt expected in fiscal 2012. Management's projections include rebuilding the balance sheet to 250 days cash on hand beginning in fiscal 2012.

As of Sept. 30, 2010 MSHA had \$554 million of unrestricted cash and investments, equating to a solid 231.5 days cash on hand, which compares very favorably to Fitch's 'BBB' category median of 122.2 days. Management's target is to maintain approximately 250 days cash on hand and any excess cash flow generated will be used to reduce its debt. MSHA's investment policy was revised in June 2010 and is conservative. The revised policy has allocated at least 110 days cash on hand in highly liquid fixed-income securities, and investments over the 110-day threshold would be invested in no more than 50% equities. Cash-to-debt of 53.6% at Sept. 30, 2010 compares unfavorably to the 'BBB' category median of 75.9% and is reflective of MSHA's sizeable debt load.

MSHA's operating performance in fiscal 2010 has shown improvement despite approximately \$6 million of accelerated depreciation expense. The operating margin improved to 1.7% compared to 0.8% in fiscal 2009 and 0.6% in fiscal 2008. Operating cash flow has consistently been outstanding and is one of the highest in Fitch's portfolio with a 14.8% annual average operating cash flow margin over the last five years compared to the 'BBB' category median of 8.7%. For the interim period (three months ended Sept. 30, 2010), operating performance is ahead of the prior year. Management expects further opportunity for improvement as the Virginia facilities become better integrated into the system in addition to its initiatives related to health care reform.

Fitch's main credit concern is MSHA's sizeable debt load and fairly aggressive capital structure. Despite MSHA's strong operating cash flow,

debt service coverage is adequate at 2.2x by EBITDA for fiscal 2010 compared to 1.8x in fiscal 2009 and Fitch's 'BBB' median of 2.5x. The only future new money debt plans include \$45 million in fiscal 2012, which has been factored into this rating action. Fitch expects MSHA to grow into its debt burden due to limited near-term acquisition activity, moderation of capital spending, and continued strong operating cash flow that should allow for liquidity growth and subsequently the payoff of some debt. Management has stated its intent to reduce its debt load and did pay off an additional \$12 million in capital leases and other debt in fiscal 2010.

MSHA's total outstanding debt is approximately \$1 billion with \$667 million underlying fixed-rate and \$375 million variable-rate demand obligations (VRDOs). The letters of credit (LOC) were successfully replaced in 2010 with three new banks and the agreements contained better covenants. The current LOCs expire in 2013 and the term-out provision under the agreements is three years. MSHA's outstanding swap portfolio includes a \$132 million fixed payor swap, \$438 million of basis swaps, and a \$224 million swaption. The total mark-to-market value of the portfolio was negative \$29.895 million as of Nov. 12, 2010 and MSHA was posting \$5.1 million of collateral (not including the swaption that has a related guaranteed investment contract [GIC] of approximately \$89 million). Management intends to terminate some or all of its fixed payor swaps when market conditions permit and the swaption is expected to terminate in July 2011 when MSHA has the right to terminate, which would result in the release of the GIC. Fitch views MSHA's capital structure as fairly aggressive especially for the rating level; however, Fitch believes its liquidity position as well as strong management and board oversight mitigates this risk.

MSHA recently adopted a new strategic plan that includes the development of an accountable care organization (ACO) to improve the delivery of care. Fitch views MSHA's progress in the ACO strategy favorably, and believes it should lead to lower costs and improved quality of care. MSHA has an integrated network identified and has been participating in various pilot programs (e.g. Premier). Mountain States Medical Group is a key part of the strategy and the number of employed physicians currently totals 230 and is expected to increase further.

The Stable Outlook is based on Fitch's expectation that MSHA will continue to generate strong operating cash flow to service its debt load and capital needs. Fitch expects that over time MSHA will continue to grow its liquidity, which should allow MSHA to reduce its leverage.

Headquartered in Johnson City, Tennessee, MSHA is a large regional health care system with 14 hospitals (1,789 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a ranging membership interest (50.1%-80%) in three of the most recent additions to the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2010, MSHA had total operating revenue of \$944 million. MSHA covenants to provide annual and quarterly financial and operational disclosure to the nationally recognized municipal information securities repositories (NRMSIRS).

Contact:

Primary Analyst
Emily Wong
Senior Director
+1-212-908-0651
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Gary Sokolow
Director
212-908-1186

Committee Chairperson
Jeff Schaub
Managing Director
+1-212-908-0680

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

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

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', dated Oct. 8, 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
Nonprofit Hospitals and Health Systems Rating Criteria

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Fitch Ratings

Fitch Affirms Mountain States Health Alliance (Tennessee) Revs at 'BBB+'; Outlook Stable

Fitch Ratings-New York-13 December 2011: Fitch Ratings affirms the 'BBB+' rating on Mountain States Health Alliance's (MSHA) outstanding debt, which is listed below.

The Rating Outlook is Stable.

SECURITY:

Pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain debt.

KEY RATING DRIVERS:

STRONG MARKET FOOTPRINT: MSHA is a 14-hospital system that covers a 29-county service area with a leading market position.

CONSISTENT STRONG OPERATING CASH FLOW: MSHA maintains excellent operating cash flow margins, which well exceed the median ratio for its rating level.

HIGH DEBT BURDEN: MSHA's high debt burden remains Fitch's main credit concern. Despite strong operating performance, debt service coverage is adequate for the rating level.

MODERATED CAPITAL SPENDING: After several years of heavy capital investment, a moderation in capital spending is expected beginning in fiscal 2013, which should facilitate further liquidity growth.

CREDIT PROFILE:

The rating affirmation reflects MSHA's continued solid financial performance. Good financial performance has been driven by MSHA's strong market position and focus on cost efficiencies. Upward movement of the rating is limited by its heavy debt burden.

MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA. Since that time, MSHA has grown to a 14-hospital system through several acquisitions from 2005-2009, which has extended MSHA's service area to Virginia. Management indicated that there are no future hospital acquisitions planned, especially since there are limited sole providers remaining in the service area. MSHA's acute inpatient market share in its 29-county service area was 36.8% in 2010, which compares favorably to MSHA's only major competitor's (Wellmont Health System; rated 'BBB+' by Fitch) 30.1% market share.

MSHA's operating performance in fiscal 2011 was in line with last year with an operating margin of 1.9% compared to 1.7% the prior year. Operating cash flow has consistently been outstanding and is one of the highest in Fitch's portfolio with a 15.7% operating EBITDA margin in fiscal 2011 compared to the 'BBB' category median of 8.5%. For the interim period (three months ended Sept. 30, 2011), operating performance is ahead of the prior year and the fiscal 2012 budget includes a 2.1% operating margin.

Solid operating performance has been driven by good volume and management's continued focus on cost initiatives, which include Lean practices. Management has been diligent in eliminating duplicative services and consolidating activities with the growth of the system. Management expects more opportunities for cost reductions as the Virginia facilities are further integrated into the system and brought onto a common information technology platform over the next several years.

As of Sept. 30, 2011 MSHA had \$514 million of unrestricted cash and investments, equating to a solid 208 days cash on hand, which compares very favorably to Fitch's 'BBB' category median of 128.6 days, although this is down from historical levels due to investment performance. Through the three months ended Sept. 30, 2011, MSHA had \$14 million of unrealized losses on investments.

MSHA's investment policy was revised in June 2010 and is conservative. The revised policy has allocated at least 110 days cash on hand in highly liquid fixed-income securities, and investments over the 110-day threshold would be invested in no more than 50% equities.

Cash-to-debt of 50% at Sept. 30, 2011 compares unfavorably to the 'BBB' category median of 79.8% and is reflective of MSHA's sizeable debt load. Management's target is to maintain approximately 250 days cash on hand and any excess cash flow generated will be used to reduce its debt.

Liquidity growth should be aided by a moderation of capital spending. MSHA has been investing significantly in its plant, which totaled approximately 2 times (x) depreciation expense the last three fiscal years. Major capital projects include three new replacement hospitals and an expansion of surgical space at the flagship facility.

Johnston Memorial Hospital's replacement facility opened in July 2011 and was completed within budget. The replacement facility for Smyth County Community Hospital is expected to open in spring 2012. The remaining major capital project is the expansion of surgical space (16 new surgery suites) at MSHA's flagship facility, Johnson City Medical Center. This project is expected to cost \$69 million and a portion will be funded by approximately \$45 million of additional debt sometime in calendar year 2012.

The high intensity of capital spending is expected to drop after fiscal 2012 with capital commitments of \$133 million in fiscal 2012, \$114 million in fiscal 2013 and \$70 million-\$80 million a year thereafter,

compared to \$173 million in fiscal 2011 and \$172 million in fiscal 2010.

Fitch's main credit concern is MSHA's sizeable debt load and fairly aggressive capital structure. Despite MSHA's strong operating cash flow, maximum annual debt service (MADS) coverage is adequate at 2x by operating EBITDA for fiscal 2011 compared to 1.8x in fiscal 2010 and Fitch's 'BBB' median of 2.3x. The only future new money debt plans include \$45 million in fiscal 2013, which should not impact MSHA's current rating level.

Fitch expects MSHA to grow into its debt burden due to limited near-term acquisition activity, moderation of capital spending, and continued strong operating cash flow that should allow for liquidity growth and subsequently the paydown of some debt.

MSHA's total outstanding debt is approximately \$1.1 billion with \$631.7 million underlying fixed-rate and \$484.2 million underlying variable-rate debt. Of the \$484.2 million of variable-rate debt, \$434.7 million are letter of credit (LOC) backed variable-rate demand obligations (VRDOs). The remaining variable-rate exposure is a five-year direct bank loan with SunTrust Bank.

Fitch views MSHA's debt profile as aggressive for its rating level due to its exposure to interest rate, put, remarketing, and renewal risk. All the LOCs (US Bank, PNC Bank, Mizuho Bank) expire on Oct. 19, 2014 and the term-out provision under the agreements is three years. However, unrestricted cash and investments to putable debt was 1.2x as of Sept. 30, 2011 and the investments are liquid with 96% available within three days.

MSHA reduced its swap exposure with the termination of a swaption in October 2011 and also converted all of its fixed payor swaps to basis swaps, which should result in less mark-to-market volatility. As of Sept. 30, 2011, MSHA posted \$5.8 million of collateral.

One of MSHA's strategies includes being an accountable care organization (ACO) to improve the delivery of care. MSHA's ACO contracting entity, Integrated Solutions Health Network, is in place and will be ready to begin contracting with the federal government in July 2012. Management expects the ACO to facilitate the transformation of care, which should lead to lower costs and improved quality. Mountain States Medical Group is a key part of the strategy and the number of employed physicians currently totals 400 and is expected to increase further.

The Stable Outlook is based on Fitch's expectation that MSHA will continue to generate strong operating cash flow to service its debt load and capital needs. Fitch expects that over time MSHA will continue to grow its liquidity due to a moderation of capital spending, which should allow MSHA to reduce its leverage. Positive rating movement would be dependent on an improvement in debt metrics.

Headquartered in Johnson City, Tennessee, MSHA is a large regional health care system with 14

hospitals (1,789 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a ranging membership interest (50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2011, MSHA had total operating revenue of \$976 million. MSHA covenants to provide annual and quarterly financial and operational disclosure to the nationally recognized municipal information securities repositories (NRMSIRS).

Outstanding debt:

--\$30,358,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee, hospital first mortgage revenue refunding bonds, series 2000A;
--\$34,325,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee, hospital first mortgage revenue bonds, series 2000C;
--\$14,790,000 Mountain States Health Alliance taxable note, series 2000D;
--\$23,100,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee, hospital first mortgage revenue bonds, series 2001A;
--\$169,630,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee, hospital first mortgage revenue bonds, series 2006A;
--\$5,560,000 The Health and Educational Facilities Board of the City of Johnson City, Tennessee, hospital revenue bonds, series 2009A;
--\$5,535,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
--\$115,955,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C.

Fitch Ratings has withdrawn its rating on the following bonds due to prerefunding activity:

--Johnson City Health & Educational Facilities Board (TN) (Mountain States Health Alliance) Hospital first mortgage revenue refunding bonds, series 2000B (insured: MBIA Insurance Corp.) (all maturities).

The correct rating history for the prerefunded CUSIPs is now reflected on Fitch's web site at 'www.fitchratings.com'.

Contact:

Primary Analyst
Emily Wong
Senior Director
+1-212-908-0651
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst

Gary Sokolow

Director

+1-212-908-9186

Committee Chairperson

James LeBuhn

Senior Director

+1-312-368-2059

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

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Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', dated June 20, 2011;

--'Nonprofit Hospitals and Health Systems Rating Criteria', dated Aug. 12, 2011.

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=637130)

Nonprofit Hospitals and Health Systems Rating Criteria

(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648836)

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Fitch Ratings

Fitch Upgrades Mountain States Health Alliance bonds to 'BBB+' from 'BBB'; Outlook Stable

Fitch Ratings-New York-15 December 2010: Fitch Ratings has upgraded the rating on Mountain States Health Alliance's (MSHA) outstanding debt to 'BBB+' from 'BBB'. The Rating Outlook is Stable. MSHA has approximately \$1 billion of total outstanding debt with an underlying debt mix of 64% fixed-rate and 36% variable-rate demand bonds (supported by letters of credit).

SECURITY:

MSHA has granted a security interest in its pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain debt.

RATING RATIONALE:

- The rating upgrade is due to MSHA's strong market position, consistent exceptional operating cash flow margins, and solid days cash on hand.
- MSHA's market position has strengthened over the last two years due to MSHA's acquisition activity, with minimal activity expected in the near future as MSHA continues to integrate the newer facilities into the system.
- MSHA has been significantly investing in its plant with three new replacement facilities and an expansion at its flagship facility, Johnson City Medical Center (JCMC), and capital needs are expected to moderate in the next three to four years.
- MSHA has also reduced the risk in its debt and investment portfolio since 2008.
- The main credit concerns continue to be MSHA's high debt burden, which management has committed to reduce once it reaches their days cash on hand target of 250 (231.5 as of Sept. 30, 2010).

KEY RATING DRIVERS:

- Maintenance of strong operating cash flow and liquidity.
- Upward movement of the rating would be dependent on MSHA reducing its debt burden while maintaining its strong operating cash flow and liquidity position.
- Negative rating pressure would occur if MSHA's financial profile deteriorates.

CREDIT SUMMARY:

The rating upgrade is due to MSHA's strong market position, consistent exceptional cash flow margins,

and solid days cash on hand. MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA. Since that time, MSHA has grown to a 14-hospital system through several acquisitions from 2005-2009, which has extended MSHA's service area to Virginia. Management indicated that there are no future acquisitions planned, especially since there are limited sole providers remaining in the service area. MSHA's acute inpatient market share in its 29-county service area was 36.5% in 2009, which compares favorably to MSHA's only major competitor's (Wellmont Health System; rated 'BBB+' by Fitch) 29.5% market share.

MSHA has been investing significantly in its plant, which has totaled approximately 2 times (x) depreciation expense in fiscal 2009 and 2010. Major capital projects include three new replacement hospitals and an expansion of surgical space at the flagship facility. In July 2010, a new 80-bed facility opened (Franklin Woods Community Hospital), which replaced two of MSHA's existing facilities, North Side Hospital and Johnson City Specialty Hospital. The construction was under budget and the new hospital is expected to improve efficiency as a result of the consolidation of services on one campus and better location. The two other replacement facilities are for Johnston Memorial Hospital and Smyth County Community Hospital, which are expected to be completed by May 2011 and November 2011, respectively. MSHA's flagship facility, JCMC, will expand its surgical space with the construction of 16 new surgery suites (by 2013). A portion of this project is expected to be funded by \$45 million of additional debt in fiscal 2012. The high intensity of capital spending is expected through fiscal 2012 with capital commitments of \$99 million in fiscal 2011 and \$110 million in fiscal 2012, and is then expected to return to more moderate levels of approximately \$70 million-\$80 million a year. The main source of funding will be operating cash flow except for \$15 million of unspent bond proceeds and \$45 million of additional debt expected in fiscal 2012. Management's projections include rebuilding the balance sheet to 250 days cash on hand beginning in fiscal 2012.

As of Sept. 30, 2010 MSHA had \$554 million of unrestricted cash and investments, equating to a solid 231.5 days cash on hand, which compares very favorably to Fitch's 'BBB' category median of 122.2 days. Management's target is to maintain approximately 250 days cash on hand and any excess cash flow generated will be used to reduce its debt. MSHA's investment policy was revised in June 2010 and is conservative. The revised policy has allocated at least 110 days cash on hand in highly liquid fixed-income securities, and investments over the 110-day threshold would be invested in no more than 50% equities. Cash-to-debt of 53.6% at Sept. 30, 2010 compares unfavorably to the 'BBB' category median of 75.9% and is reflective of MSHA's sizeable debt load.

MSHA's operating performance in fiscal 2010 has shown improvement despite approximately \$6 million of accelerated depreciation expense. The operating margin improved to 1.7% compared to 0.8% in fiscal 2009 and 0.6% in fiscal 2008. Operating cash flow has consistently been outstanding and is one of the highest in Fitch's portfolio with a 14.8% annual average operating cash flow margin over the last five years compared to the 'BBB' category median of 8.7%. For the interim period (three months ended Sept. 30, 2010), operating performance is ahead of the prior year. Management expects further

opportunity for improvement as the Virginia facilities become better integrated into the system in addition to its initiatives related to health care reform.

Fitch's main credit concern is MSHA's sizeable debt load and fairly aggressive capital structure. Despite MSHA's strong operating cash flow, debt service coverage is adequate at 2.2x by EBITDA for fiscal 2010 compared to 1.8x in fiscal 2009 and Fitch's 'BBB' median of 2.5x. The only future new money debt plans include \$45 million in fiscal 2012, which has been factored into this rating action. Fitch expects MSHA to grow into its debt burden due to limited near-term acquisition activity, moderation of capital spending, and continued strong operating cash flow that should allow for liquidity growth and subsequently the paydown of some debt. Management has stated its intent to reduce its debt load and did pay off an additional \$12 million in capital leases and other debt in fiscal 2010.

MSHA's total outstanding debt is approximately \$1 billion with \$667 million underlying fixed-rate and \$375 million variable-rate demand obligations (VRDOs). The letters of credit (LOC) were successfully replaced in 2010 with three new banks and the agreements contained better covenants. The current LOCs expire in 2013 and the term-out provision under the agreements is three years. MSHA's outstanding swap portfolio includes a \$132 million fixed payor swap, \$438 million of basis swaps, and a \$224 million swaption. The total mark-to-market value of the portfolio was negative \$29.895 million as of Nov. 12, 2010 and MSHA was posting \$5.1 million of collateral (not including the swaption that has a related guaranteed investment contract [GIC] of approximately \$89 million). Management intends to terminate some or all of its fixed payor swaps when market conditions permit and the swaption is expected to terminate in July 2011 when MSHA has the right to terminate, which would result in the release of the GIC. Fitch views MSHA's capital structure as fairly aggressive especially for the rating level; however, Fitch believes its liquidity position as well as strong management and board oversight mitigates this risk.

MSHA recently adopted a new strategic plan that includes the development of an accountable care organization (ACO) to improve the delivery of care. Fitch views MSHA's progress in the ACO strategy favorably, and believes it should lead to lower costs and improved quality of care. MSHA has an integrated network identified and has been participating in various pilot programs (e.g. Premier). Mountain States Medical Group is a key part of the strategy and the number of employed physicians currently totals 230 and is expected to increase further.

The Stable Outlook is based on Fitch's expectation that MSHA will continue to generate strong operating cash flow to service its debt load and capital needs. Fitch expects that over time MSHA will continue to grow its liquidity, which should allow MSHA to reduce its leverage.

Headquartered in Johnson City, Tennessee, MSHA is a large regional health care system with 14 hospitals (1,789 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a ranging membership interest (50.1%-80%) in three of the most recent

additions to the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2010, MSHA had total operating revenue of \$944 million. MSHA covenants to provide annual and quarterly financial and operational disclosure to the nationally recognized municipal information securities repositories (NRMSIRS).

Contact:

Primary Analyst

Emily Wong

Senior Director

+1-212-908-0651

Fitch, Inc.

One State Street Plaza

New York, NY 10004

Secondary Analyst

Gary Sokolow

Director

212-908-1186

Committee Chairperson

Jeff Schaub

Managing Director

+1-212-908-0680

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

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

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', dated Oct. 8, 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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Fitch Affirms Mountain States Health Alliance (TN) Revs at 'BBB+'; Outlook Stable

Ratings Endorsement Policy
12 Feb 2014 2:23 PM (EST)

Fitch Ratings-New York-12 February 2014: Fitch Ratings affirms the 'BBB+' rating on the following Health and Educational Facilities Board of the City of Johnson City, Tennessee, bonds issued on behalf of Mountain States Health Alliance (MSHA):

- \$55,000,000 hospital revenue bonds (Mountain States Health Alliance), series 2012A;
- \$5,415,000 hospital revenue bonds, series 2009A;
- \$167,730,000 hospital first mortgage revenue bonds, series 2006A;
- \$20,400,000 hospital first mortgage revenue bonds, series 2001A;
- \$34,645,000 hospital first mortgage revenue refunding bonds, series 2000A;
- \$30,750,000 hospital first mortgage revenue bonds, series 2000C.

In addition, Fitch affirms the following parity debt issued on behalf of MSHA:

- \$5,400,000 Industrial Development Authority of Smyth County hospital revenue bonds, series 2009B;
- \$111,265,000 Industrial Development Authority of Washington County Virginia, hospital revenue bonds, series 2009C;
- \$13,245,000 Mountain States Health Alliance taxable note, series 2000D.

The Rating Outlook is Stable.

SECURITY

Pledged assets and a mortgage on Johnson City Medical Center and Sycamore Shoals Hospital. In addition, there is a debt service reserve fund on certain series of debt.

KEY RATING DRIVERS

SOFTER FY2013 OPERATING PERFORMANCE: Net patient service revenue fell 2% year over year, which led to a drop in MSHA's operating margin to 1.1% from 1.7%. The weaker performance was driven by lower inpatient volumes and a continued rise in observation days.

OPERATING CASH FLOW SUFFICIENT: In spite of the weaker operating margin, MSHA's operating EBITDA margin remained steady at 13.2%, exceeding Fitch's 'BBB' category median of 9.9%.

HIGH DEBT BURDEN: MSHA's high debt burden remains a key credit concern. It pressures MSHA to maintain the strong cash flow levels in order to support debt service that has historically been adequate for the rating level.

MARKET FOOTPRINT A CREDIT STRENGTH: MSHA is a 14-hospital system that covers a 29 county service area and maintains a leading 53% market share in its primary service area.

MIXED LIQUIDITY INDICATORS: Through the four-year historical period days cash on hand (DCOH) has been solid at over 200 days; however, liquidity metrics relative to debt (cushion ratio and cash to debt) are weaker reflecting the elevated debt burden.

CAPITAL SPENDING SLOWING: After several years of heavy capital investment, a moderation of capital spending is expected beginning in fiscal 2014, which should provide MSHA with a measure of financial flexibility.

RATING SENSITIVITIES

THINNER OPERATING PERFORMANCE: MSHA has been challenged by lower inpatient volume, which has eroded its operating margin. While first quarter volumes are still down year over year, patient service revenue is up along with inpatient surgery volumes. Additionally, MSHA continues to aggressively manage expenses, but a further erosion of its operating margin could lead to negative rating pressure.

REFORM INITIATIVES: MSHA has made material investments in positioning the organization for health care reform. These initiatives include starting up a health plan, forming a Medicare ACO, and increasing physician engagement across the organization. A key for MSHA will be its ability to realize a financial return on these strategies after the initial investment for these initiatives.

CREDIT PROFILE

Headquartered in Johnson City, Tennessee, MSHA was formed in 1998 from the acquisition of five hospitals in Tennessee from Columbia/HCA and has grown into a large regional health care system with 14 hospitals (1,623 licensed beds) and other related entities, primarily serving northeast Tennessee and southwest Virginia. MSHA has a membership interest (ranging from 50.1%-80%) in three of the hospitals in the system (Smyth County Community Hospital, Norton Community Hospital, Johnston Memorial Hospital). In fiscal 2013 (June 30 year end), MSHA had total operating revenue of \$1 billion.

At the end of calendar year 2013, MSHA's long serving CEO retired and a new CEO started. Fitch views the transition as a credit neutral. The retirement was planned in advance, providing MSHA ample time to undertake a thorough search. The new CEO, whom Fitch met with, has extensive industry background, including most recently managing a group of hospitals at a for profit health care organization.

Softer FY13 Performance

From fiscal 2012 to fiscal 2013, MSHA's operating margin fell to 1.1% from 1.7%. The drop in operating performance was driven by a decline in inpatient volume coupled with a rise in observation days, especially at its main tertiary hospital, Johnson City Medical Center (JCMC). In fiscal 2013, JCMC's inpatient volume declined 6.4% from the prior year (compared to a system decline of 5%), while observation days, which are reimbursed at a lower rate than inpatient days, increased 6.2% at both JCMC and across the system.

The lower inpatient volumes led to a year over year decline in net patient service revenue, which declined 4.8% at JCMC (JCMC accounts for approximately 51% of MSHA's patient service revenue) and 2% system wide. Total operating revenue at MSHA did increase but was helped by an additional \$17 million of federal meaning full use funds in fiscal 2013.

As a result, in fiscal 2013, system operating income fell to \$11.5 million from \$16.9 million in fiscal 2012. MSHA is budgeting for an operational improvement in fiscal 2014. To achieve this, MSHA has a strategy to address observation stays through improved physician documentation and physician education and is also implementing cost reductions, including a recent layoff of 161 full-time equivalents. MSHA continues to manage expenses through its LEAN practices as well.

First quarter performance is generally the weakest quarter and in the first quarter of 2014, MSHA operating margin was negative 1.6%, an improvement from a negative 2.6% in the first quarter of fiscal 2013. As important, net patient service revenue grew year over year. Fitch believes that MSHA will be able sustain the rate of operating improvement through the rest of the fiscal year.

Also helping to mitigate the operating margin concerns is MSHA's operating EBITDA, which has remained above category medians. In fiscal 2013, MSHA's operating EBITDA was 13.2%, and it was 11.1% in first quarter 2014, both above the category median of 9%.

HIGH DEBT BURDEN/CAPITAL SPENDING ABATING

MSHA's debt burden is elevated for the rating level and puts added pressure on MSHA to sustain solid cash flow. Both maximum annual debt service (MADS) as a percent of revenue at 7.6% and debt to EBITDA of 9.1x are significantly higher than Fitch's 'BBB' category medians of 3.5% and 3.8x, respectively. MADS coverage by EBITDA in fiscal 2013 was an adequate 2.1x, compared to a median of 3.1x.

However, MSHA is ending an extended period of intense capital investment. Over the last six years, capital spending averaged approximately 180% of depreciation relative to a median of 110.1%. Major capital projects completed over this time include the building of three replacement hospitals. Moving forward, Fitch expects MSHA's capital spending to reduce to a more manageable level, closer to 100% of depreciation. This should help ease MSHA's leveraged position and provide a measure of financial flexibility as MSHA's works to improve operations.

ADEQUATE LIQUIDITY

As of Sept. 30, 2013, MSHA had \$606.3 million of unrestricted cash and investments, equating to a solid 244.6 days cash

on hand, which compares favorably to Fitch's 'BBB' category median of 144.7 days. Cash-to-debt of 54.7% compared unfavorably to the 'BBB' category median of 91.7% and also reflects MSHA's sizeable debt load. Unrestricted cash and investments have grown approximately 14% since fiscal year end 2012, when it was at \$531.2 million.

DEBT STRUCTURE

Fitch continues to view MSHA's debt structure as aggressive relative to its rating level, with a number of swaps and approximately \$425 million in variable rate debt. In the last year, MSHA did restructure most of its variable rate debt to mitigate some of the put, renewal, and remarketing risk. Prior to the restructuring, the vast majority of MSHA's variable debt was supported by bank letters of credit (LOCs), with the LOCs expiring on the same date for approximately \$400 million of the debt.

Post-restructuring, MSHA directly placed about half of the variable rate debt (\$211 million) with three different banks, removing near-term put and remarketing risk for that debt. MSHA also negotiated to stagger the timing of the mandatory put dates for the private placements and the expiration dates on the LOCs. These dates now range from three to 10 years, with a maximum amount of debt coming due on any single date at a much more manageable level of \$192 million. Fitch views these changes positively.

MSHA's total outstanding long term debt is approximately \$1.1 billion with approximately 58% fixed rate and 42% variable. MSHA has approximately \$570 million in outstanding swaps, which are composed of basis swaps and constant maturity basis swaps. Bank of America is the counterparty for all of the swaps. The lack of counterparty diversity exposes MSHA to a higher level of counterparty risk. As of November 30, 2013, the aggregate mark to market of the swaps was a negative \$14.1 million. No collateral is currently being posted for the swaps.

DISCLOSURE

MSHA covenants to provide annual and quarterly financial and operational disclosure to EMMA.

Contact:

Primary Analyst
Gary Sokolow
Director
+1-212-908-9186
Fitch Ratings, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Michael Burger
+1-212-908-0555

Committee Chairperson
Emily Wong
Senior Director
+1-415-732-5620

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

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

Applicable Criteria and Related Research:

--'U.S. Nonprofit Hospitals and Health Systems Rating Criteria' (May 20, 2013).

Applicable Criteria and Related Research:

U.S. Nonprofit Hospitals and Health Systems Rating Criteria

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MOODY'S

INVESTORS SERVICE

Rating Update: Moody's affirms Mountain States Health Alliance's (TN) Baa1; outlook stable

Global Credit Research - 10 Mar 2015

\$590m of rated debt outstanding

JOHNSON CITY HEALTH & EDUCATIONAL FACILITIES BOARD, TN
Hospitals & Health Service Providers
TN

NEW YORK, March 10, 2015 --Moody's Investors Service affirms the Baa1 rating on Mountain States Health Alliance's (MSHA) outstanding debt. The rating outlook is stable.

SUMMARY RATING RATIONALE

The Baa1 rating reflects improved financial performance demonstrated by this large multi-hospital system in eastern Tennessee and southeastern Virginia. Performance is showing good momentum with stronger results through the first half of FY 2015 given a re-invigorated focus on operations, expense management and physician relations under the direction of a new CEO and engaged Board. The rating also incorporates the organization's leading market position in Johnson City and the expansive 29-county service area.

These attributes are mitigated by the organization's leverage position which is very high and unfavorable to Moody's medians. Management is endeavoring over the next several years to de-leverage the system with increased cash flow and a new debt reduction strategy. Above average exposure to Medicare and Medicaid is also a credit risk.

OUTLOOK

The rating outlook is stable and based on our expectation that favorable performance should continue over the near term and the system will continue its efforts to de-leverage.

WHAT COULD MAKE THE RATING GO UP

- Material de-leveraging of the organization with improvement in key debt metrics such as debt-to-revenue, debt-to-cash flow, cash-to-debt and maximum annual debt service coverage that are more in line with A-rated health care systems
- Continued maintenance of favorable financial performance through organic growth and expense management

WHAT COULD MAKE THE RATING GO DOWN

- Departure from historically favorable financial performance that results in weaker debt coverage metrics
- Increase in leverage without enterprise growth
- Decline in absolute and relative liquidity metrics
- Loss of market share

STRENGTHS

- Historically strong financial performance with operating cash flow and operating cash flow margins exceeding Baa1 medians; good momentum demonstrated through the first half of FY 2015 with a 12.9% operating cash flow margin (compared to Baa1 median of 7.9%)
- Days cash is favorable at 255 days, providing ample headroom to the 100 days cash covenant in place under bank lending agreements and well exceeding the Baa1 median of 150; absolute and relative liquidity metrics should show improvement due to a forecasted reduction in capital spending and an increase in debt repayment

- Leading market position in Johnson City and the region for this multi-hospital system providing a wide array of tertiary services allows the system to focus on performance improvement
- Sharp focus on cost management strategies, including increasing productivity and labor management, and solidifying physician relations

CHALLENGES

- Highly leveraged enterprise with debt metrics that are unfavorable to Baa1 medians; debt to revenue is very high at 110% (compared to Baa1 median of 41%); despite the strong cash flow, Moody's adjusted maximum annual debt service is below average at 2.2 times (compared to Baa1 median of 3.2 times)
- Competition is present from a sizable system based 25 miles away in Kingsport, with primary hospitals in Kingsport and Bristol.
- Material exposure to government payors (51% Medicare and 14% TennCare/Medicaid gross revenues) while operating in two states that have not elected to expand Medicaid coverage
- Complex debt structure, including multiple bank agreements and a large swap portfolio, although no collateral postings have been required recently

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale section.

DETAILED RATING RATIONALE

MARKET POSITION: DISTINCTLY LEADING MARKET SHARE IN JOHNSON CITY AND THE REGION

MSHA is a multi-hospital system operating 11 acute care hospitals, the region's only children's hospital, an inpatient psychiatric facility, and other services such as home health, urgent care and rehabilitation in a broad service area that encompasses northeastern Tennessee, southwest Virginia, southeast Kentucky and western North Carolina. Credit strength derives from its 90% market share in Washington County, TN, where it is the only provider of acute care services and operates its flagship, 514-licensed bed Johnson City Medical Center (JCMC). Except for Kingsport, the system reports either the leading market share or is the sole provider in its primary service area. MSHA's Indian Path Medical Center (Kingsport) competes with Holston Valley Medical Center, owned by Wellmont Health System (not rated by Moody's).

Wellmont represents MSHA's primary competition and operates six hospitals. Market share trends provided by management through publicly available data show a growing divergence between the two systems with MSHA increasing market share to 41% in its 29-county extended service area compared to Wellmont's 26% market share, a declining trend (for Wellmont) through Q3 2014. Many of the rural hospitals in the primary and secondary service area are affiliated with MSHA, and primarily refer higher acuity patients to its three "hub" hospitals in Abingdon, VA., Johnson City, TN, and Kingsport, TN.

OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLANS: ABOVE AVERAGE OPERATING CASH FLOW MARGINS CONTINUE, ADEQUATELY SUPPORTING A HIGH DEBT LOAD

A historical credit strength, MSHA continues to report above average operating cash flow margins although with some declines in recent years. FY 2014 reported a 12.3% margin, on par with FY 2013 but down from higher levels in FY 2010 through FY 2012. Performance through the first half of FY 2015 ending December 31, 2014 shows good momentum without any one-time revenue enhancements, reporting a 12.9% operating cash flow margin. Management expects it will reach its FY 2015 budget of 14.1%. MSHA's above average operating cash flow adequately supports the high debt load.

Management has set a new goal to reach an annual 4% operating margin; this denotes a material change in financial strategy given years of breakeven operating income. Under the direction of a new CEO, MSHA is focusing on costs, operating efficiencies, and integrating many of the assets the system added through various growth strategies over the past decade. A reinvigorated medical staff has also produced growth in volume trends. Over the past year, MSHA enacted a 10% system-wide reduction in non-patient care FTEs through layoffs and attrition. Additionally, benefit plans were changed. These strategies combined translate into \$25 million of annual labor savings. Further, the recent joint venture with HealthSouth (now 51.1% owner) of the Quillen Rehab Center should improve cash flow by \$2 million annually.

MSHA's payor mix has remained fairly stable, but does present material exposure to government payors (51% Medicare and 14% Medicaid in gross revenues). Neither Tennessee nor Virginia elected to expand Medicaid although management reports that 88,000 individuals are now enrolled in Medicaid given the 'woodworking' effect of the exchanges. Tennessee made no cuts to Medicaid in FY 2015 and held rates steady; Virginia held rates steady in FY 2015 following a 7% increase in FY 2014.

Liquidity

Liquidity is below average as long-term debt out sizes absolute liquidity, resulting in cash to debt ratio of 59% (Baa1 median is 104%). Relative liquidity to the size of the enterprise is favorable at 255 days and has historically exceeded 200 days. Unrestricted cash increased and investments grew to \$646 million at the end of FY 2014 from \$588 million at the end of the prior year due to good cash flow, lower capital spending and the use of bond proceeds for capital.

DEBT AND OTHER LIABILITIES

MSHA is highly leveraged as indicated by relative debt metrics compared to medians. Debt to revenue is 110%, compared to the Baa1 median of 41%. Despite lofty cash flow margins, debt service coverage measures are below Baa1 medians given the amount of leverage that the organization services. Moody's-adjusted maximum annual debt service coverage of 2.2 times in FY 2014 was below the Baa1 median of 3.2 times. Likewise, debt to cash flow of 8.9 times is nearly double the Baa1 median of 4.5 times.

To de-leverage the enterprise, management and the board has approved a new plan to accelerate the repayment of debt in conjunction with annual principal payments. In summary, through a combination of scheduled principal amortization and voluntary prepayment, MSHA anticipates paying down \$532 million of debt from FY 2016 through FY 2022. Given that MSHA has completed a number of large capital projects, management anticipates using more of its cash flow for debt repayment. After FY 2015 (\$53 million in capital planned), capital spending will hover at \$45 million per year. While not covenanted to do so, MSHA plans to repay \$70.5 million of debt in FY 2016, followed by \$16 mm in FY 2017, \$107.8 million in 2019, \$46.0 million in 2020, \$55.6 million in 2021 and \$58.8 million in 2022. This does not include the normal repayment of amortizing bond principal that totals an additional \$177 million.

Debt Structure

MSHA maintains 58% fixed rate debt and 42% variable rate. The expiration dates on the various Letters of Credit and the tenors on the direct placements are staggered with the largest amounts expiring in 2018. Master Trust Indenture covenants are the following: 1.3 times historical and maximum annual debt service; consultant call-in required if fails to meet test; 75 days cash measured at FYE. MBIA has a 110 days cash on hand covenant as long as MBIA-insured debt is outstanding. Letters of credit and private placement bank debt covenants are similar but measured more frequently: 1.3 times maximum annual debt service measured on a quarterly rolling basis; 100 days cash on hand measured semi-annually. MSHA has very comfortable headroom to the days cash on hand covenant although more narrow headroom on the rate covenant.

Debt-Related Derivatives

MSHA is a party to several interest rate swaps and other derivative agreements to establish floating rate exposure and to reduce fixed rate debt service. MSHA holds five basis swaps (\$132 million), 3 CMS Basis Swaps (\$438 million) and one total return swap (\$19 million) for a total notional amount of \$589 million. The swaps are long-dated maturities and all are with the same counterparty (Bank of America) which indicates concentration risk. The fair market value of the swaps at November 24, 2014 was a liability of \$12.2 million against which MSHA has no posted collateral.

Pensions and OPEB

MSHA has a defined contribution plan, limiting demands on liquidity.

MANAGEMENT AND GOVERNANCE

In December 2013 a new CEO joined MSHA with a strong background in hospital operations. His arrival follows the planned retirement of the former CEO. All c-suite positions are filled. The Board is highly engaged as evidenced by the approval to de-leverage the system through debt repayment.

KEY STATISTICS

Assumptions & Adjustments:

- Based on financial statements for Mountain States Health Alliance
- First number reflects audit year ended June 30, 2013
- Second number reflects audited year ended June 30, 2014
- Investment returns smoothed at 6% unless otherwise noted
- Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable
- *Inpatient admissions: 58,103; 57,040
- *Observation stays: 23,554; 24,218
- *Medicare % of gross revenues: 50.6%; 51.3%
- *Medicaid % of gross revenues: 14.6%; 14.4%
- *Total operating revenues (\$): \$994 million; \$1,000 million
- *Revenue growth rate (%) (3 yr CAGR): 2.0%; 1.1%
- *Operating margin (%): -0.5%; 0.7%
- *Operating cash flow margin (%): 12.0%; 12.3%
- *Debt to cash flow (x): 9.5 times; 8.9 times
- *Days cash on hand: 233.8 days; 255.7 days
- *Maximum annual debt service (MADS) (\$): \$77.2 million; \$77.2 million
- *MADS coverage with reported investment income (x): 1.8 times; 2.0 times
- *Moody's-adjusted MADS Coverage with normalized investment income (x): 2.1 times; 2.2 times
- *Direct debt (\$): \$1,123 million; \$1,104 million
- *Cash to debt (%): 52.4%; 58.5%
- *Comprehensive debt (\$): \$1,176 million; \$1,151 million
- *Cash to comprehensive debt (%): 50.0%; 56.1%
- *Monthly liquidity to demand debt (%): 120.8%; 133.9%

OBLIGOR PROFILE

Mountain States Health Alliance is a \$1.0 billion (total revenues in FY 2014) system comprised of 13 hospitals with the flagship, Johnson City Medical Center (514 licensed beds), located in Johnson City, TN (eastern Tennessee).

LEGAL SECURITY

The bonds are secured by a security interest in the Pledged Assets (receivables, inventory, equipment, general intangibles, contracts and contract rights, government approvals, fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets) and a first lien on the Mortgaged Property, which includes the flagship hospital, Johnson City Medical Center, subject to certain permitted liens. Bank debt is parity to the Master Trust Indenture.

USE OF PROCEEDS

Not applicable

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Analysts

Lisa Goldstein
Lead Analyst
Public Finance Group
Moody's Investors Service

Jennifer Ewing
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE

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INVESTORS SERVICE

**New Issue: MOODY'S ASSIGNS Baa1 RATING TO MOUNTAIN STATES HEALTH ALLIANCE'S (TN)
\$228 MILLION OF SERIES 2010A&B BONDS; OUTLOOK IS STABLE**

Global Credit Research - 29 Mar 2010

MOUNTAIN STATES HEALTH ALLIANCE HAS A TOTAL OF \$1.0 BILLION OF RATED DEBT TO BE OUTSTANDING

Johnson City Health & Educ. Fac. Bd., TN
Health Care-Hospital
TN

Moody's Rating

ISSUE	RATING
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Series 2010A Hospital Refunding Revenue Bonds	Baa1
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Sale Amount \$190,220,000

Expected Sale Date 03/31/10

Rating Description Healthcare Revenue Bonds

Series 2010B Hospital Refunding Revenue Bonds	Baa1
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Sale Amount \$37,845,000

Expected Sale Date 03/31/10

Rating Description Healthcare Revenue Bonds

Moody's Outlook Stable

Opinion

NEW YORK, Mar 29, 2010 -- Moody's Investors Service has assigned Baa1 ratings to Mountain States Health Alliance's (MSHA) \$190.2 million of Series 2010A and \$37.8 million of Series 2010B fixed rate refunding revenue bonds to be issued by The Health and Educational Facilities Board of the City of Johnson City, TN and the Industrial Development Authority of Smyth County (Virginia), respectively. The outlook remains stable. At this time we are affirming the Baa1 unenhanced ratings on \$770 million of rated debt to remain outstanding.

USE OF BOND PROCEEDS: The bond proceeds will be used to (1) refund the outstanding Series 2007A, Series 2007C and Series 2008A bonds, (2) establish a debt service reserve fund, and (3) pay the costs of issuance.

LEGAL SECURITY: The bonds are secured by a security interest in the Pledged Assets (receivables, inventory, equipment, general intangibles, contracts and contract rights, government approvals, fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets) and a first lien on the Mortgaged Property, which includes the major hospitals, subject to certain permitted liens.

INTEREST RATE DERIVATIVES: MSHA is a party to interest rate swaps and other derivative agreements to establish floating rate exposure and to reduce fixed rate debt service. MSHA holds three basis swaps, two fixed payer swaps and one total return swap with Merrill Lynch Capital Services Inc. (guaranteed by Merrill Lynch & Co) for a total notional amount of \$594 million. The fair market value of the swaps at March 18, 2010 was a liability of \$14.5 million, against which MSHA posted \$1,844 in collateral.

MSHA holds eight additional agreements (\$106 million notional amount) with Lehman Brothers Special Financing, Inc. (Lehman) for various notional amounts that are linked fixed payer and total return swaps. Fair market value of the swap at January 31, 2009 was a liability of \$11.0 million, against which MSHA has posted \$13.2 million of collateral (collateral is not included in unrestricted cash). Lehman filed for bankruptcy and the swaps were terminated effective January 1, 2009. There is a dispute between MSHA and Lehman regarding the cost of such termination, which is currently under discussion. MSHA has stated that it believes that the amount of the posted collateral should be sufficient to pay the cost of the terminations.

In addition, MSHA has two outstanding interest rate swaptions, four float contracts and five forward sale agreements with Bear Stearns Capital Markets, Inc. (guaranteed by Bear Stearns Companies, Inc., acquired by JP Morgan) whereby MSHA received advance payments that have been placed in a guaranteed investment contract as collateral against the agreements (this collateral is not included in unrestricted cash). As of March 18, 2010, liability on the swaptions, float contracts and forward sale agreements exceeded the collateral by \$2.4 million. MSHA has the option to terminate the swaptions on July 1, 2011 at a predetermined price equal to the value of the collateral on deposit with Bear Stearns or to hold the swaptions to maturity and let them expire. Given the terms of the agreements, the collateral held against the derivative transactions and MSHA's credit profile and strong liquidity position, we believe the transactions do not detract from the Baa1 rating.

STRENGTHS

*Multi-hospital system with strong and growing leading market share in a large geographic region where the flagship facility serves as a regional referral center offering a wide array of high-end services for hospitals in Tennessee and Virginia

*Multi-year growth in volumes with acquisitions

*Strong and stable operating cash flow margins in the 11.4% to 16.7% range in each of the past fifteen audit years, with volume increases contributing to cash flow growth; projected operating cash flow margins remain in the double digits

*Good liquidity position with 242 days cash on hand at fiscal year end (FYE) 2009 (June 30) and 244 days as of December 31, 2009

*Reduction in exposure to variable rate debt and exposure to tenders under letter of credit supported debt, increasing fixed rate debt to 66% from 45% of total debt outstanding; pro forma cash-to-puttable debt at 151%

*Tenured management team

CHALLENGES

*Very high debt burden evidenced by a low 48% cash-to-debt ratio, high 9.9 times debt-to-cash flow ratio and moderate Moody's-adjusted maximum annual debt service coverage of 2.39 times in FY 2009 as compared with Moody's Baa1 medians of 72%, 5.7 times and 3.2 times, respectively

*Capital spending projected to remain high in the near term with major spending on consolidation of two smaller Johnson City facilities into a single replacement facility, and capital commitment for investment into new 80% owned Smyth County Community Hospital and capital commitment for Johnston Memorial Hospital; however, no new debt is currently expected in connection with these projects and several have already been financed with debt in whole or in part;

*Sizable and consistent competition from Wellmont Health System, which holds a close but lesser market share (37% vs. 29%) in the extended 29-county service area and a significantly smaller market share (52% versus 37%) in the 13-county core service area, but has been increasing its presence in the extended service area through acquisition

*High 22.3% TennCare/Medicaid and self-pay load

MARKET POSITION/COMPETITIVE STRATEGY: DOMINANT MARKET POSITION IN JOHNSON CITY, WITH LEADING MARKET POSITION IN 13-COUNTY CORE AREA AND 29-COUNTY EXTENDED SERVICE AREA

MSHA, a multi-hospital system operating ten acute care hospitals and 14 facilities in northeastern Tennessee, southwest Virginia, southeast Kentucky and western North Carolina, gains much credit strength from its dominant 90% market share in Washington County, TN where it operates six of its facilities, including its flagship 583-licensed bed Johnson City Medical Center (JCMC), and is the only provider of acute care services. JCMC includes the 60-licensed bed Quillen Rehabilitation Hospital, providing a complete array of rehabilitative services for brain injury, stroke, and spinal cord injury and the 75-licensed bed Woodridge Hospital offering inpatient psychiatric and substance abuse services (purchased in 2005). MSHA also holds a leading 51.8% market position in its combined 13-county primary and secondary service areas (PSA/SSA), and a leading and consistent 36.6% market share in its 29-county extended service area. Competition is limited to one multi-hospital system (Wellmont Health System) and several small independent rural providers. Wellmont Health System operates four of its eight hospitals in MSHA's core market, garnering a distant 37.4% market share in the core service area, but a close 29.4% market share in the extended 29-county service area. Many of the rural hospitals in the primary and secondary service area are affiliated with MSHA through network affiliations.

JCMC is a regional referral center for northeastern Tennessee offering a full array of acute care services, including one of only five state-designated Level III Regional Perinatal Centers, a Level I trauma center, and performs kidney and pancreatic transplants. Also in Johnson City is 91-licensed bed North Side Hospital offering acute care and skilled nursing services, and 36-licensed bed Johnson City Specialty Hospital offering inpatient and outpatient obstetrical, gynecological and otorhinolaryngologic (ear, nose & throat) services. MSHA also owns Indian Path Medical Center and Pavilion located in Kingsport (Sullivan County), which competes against the much larger Wellmont facilities, Sycamore Shoals Hospital located in Elizabethton (Carter County) with no direct competition, and the designated critical access hospital Johnson County Community Hospital in Johnson County.

MSHA opened its newly constructed free-standing children's hospital in March 2009. It is the region's first free-standing children's hospital. In addition, MSHA is constructing a single 80-bed replacement facility for its North Side Hospital and Johnson City Specialty Hospital facilities. The new hospital will provide much more state-of-the-art care, replacing two much older facilities. Along with the relocation of certain long-term care beds to Quillen and acute care beds to JCMC, the project is estimated to cost \$120 million and to be funded 50% from cash flow and 50% from proceeds of the Series 2008 bonds.

In November 2006, MSHA began an expansion strategy in Virginia with the purchase of an 80% interest in 154-licensed general acute care/109 long-term care bed Smyth County Community Hospital (SCCH) located in Marion, Virginia. MSHA committed to \$48 million in capital improvements with the acquisition, of which \$28 million has yet to be invested. In October 2007, MSHA acquired a 50.1% equity interest in 129-licensed bed Norton Community Hospital and 25-licensed bed Dickenson Community Hospital (Clintwood). The Series 2007 bond issues included \$52 million to support capital commitments at these new facilities. Effective January 31, 2008 MSHA acquired 78-licensed bed Russell County Medical Center in Lebanon, Virginia. Approximately \$53 million of Series 2008 bond proceeds financed this acquisition and provided funds for capital expenditures. In April 2009 MSHA acquired a 50.1% interest in Johnston Memorial Hospital (revenue bonds rated A3) in Abington, VA, committing to invest \$132 million for capital; \$100 million of the proceeds from the Series 2009C bonds will be used to fund a portion of this commitment.

MSHA's main competitor, Wellmont Health System, has also expanded with the acquisition of 133-licensed bed Mountainview Regional Medical Center also located in Norton, VA, and 50-bed Lee Regional Medical Center located in Pennington Gap, VA. Wellmont Health System is an eight hospital system with hospitals in TN, VA and KY, some of which compete directly with MSHA facilities.

OPERATING PERFORMANCE: OPERATING CASH FLOW MARGIN REMAINS CONSISTENTLY STRONG

FY 2009 operating profit grew to \$6.4 million from \$0.4 million the prior year (including capitalized interest of \$596,000 and \$3.7 million in FY 2009 and FY 2008, respectively), but operating margin remains modest at 0.8%. Operating cash flow increased \$12.0 million to \$120.8 million to generate a strong 14.4% margin. MSHA's operating cash flow margins remain strong and have consistently ranged between 11.4% and 16.7% in each of the past fifteen audit years. The expansion into Virginia along with volume growth contributed to a very good 13.1% growth in revenues in FY 2009. Projected operating cash flow margins remain in the double digit teens.

Debt-to-cash flow improved in FY 2009 but remains high at 9.90 times (Baa1 median of 5.7 times). Moody's-adjusted MADS coverage is

adequate at 2.39 times in FY 2009, but again unfavorable to the Baa1 median of 3.2 times. Management is forecasting for improvement in these ratios with major capital projects completed or near completion through 2011. There are no additional facility expansion plans at this time, and management plans to focus on integrating the new Virginia hospitals into the system. Through the first six months of FY 2010 operating profit improved \$4 million over the same period of the prior year and operating cash flow improved \$10 million.

BALANCE SHEET POSITION: DEBT LOAD REMAINS HIGH; ABSOLUTE LIQUIDITY GROWTH BUT RELATIVE LIQUIDITY FLAT TO DECLINING

Unrestricted liquidity improved 12% in FY 2009 to \$515.1 million from \$458.7 million at FYE 2008 despite unfavorable market returns on investments, yet cash on hand remained stable at 242 days due to growth in the expense base with the addition of Johnston Memorial in Virginia. FY 2009 liquidity was unfavorably impacted by the \$18 million cash defeasance of part of the Series 2006C bonds, but favorably impacted by a reduction in capital spending from cash flow. Absolute liquidity continued to grow in the first six months of FY 2010 to reach \$567 million and cash on hand (annualized) was stable to FYE 2009 at 244 days.

The debt load remains high, reaching \$1.072 billion at FYE 2009 with the addition of debt to finance the capital contribution for Johnston Memorial in Virginia and the consolidation of Johnston Memorial's \$34 million of outstanding debt into the financial statements. MSHA's debt-to-revenue of 128% at FYE 2009 is one of the highest in our portfolio. Moody's notes that outstanding debt has increased annually since FY 2002, due largely to expansion into Virginia as well as the major capital projects for the new children's hospital and the replacement hospital for Northside and Johnson Specialty. As a result of the high debt load cash-to-debt remains low at 48% at FYE 2009 (Baa1 median of 72%). Management is forecasting for steady, annual improvement in the cash-to-debt ratio. The only potential near term debt plan is to provide up to \$30 million of capital funding for Smyth Hospital. Moody's will evaluate the impact of additional debt as funding plans are finalized.

With the current refinancing, MSHA is restructuring its debt portfolio to reduce variable rate risk exposure and risk of tendered bonds by refunding certain variable rate debt instruments. We note that approximately \$368 million of outstanding debt is scheduled to remain outstanding as variable rate puttable debt supported by letters of credit (LOCs) that expire in December 2012. MSHA's current liquidity comfortably covers potential puttable debt by 151%. MSHA has 367 days from the provision of a draw for tendered bonds to repay Regions Bank for the draw. Covenants in the LOCs include a maximum annual debt service coverage ratio of no less than 1.3 times for the obligated group, and a days' cash-on-hand ratio for the obligated group. The days cash covenant requires no less than 110 days or a consultant must be brought in, no less than 100 days in any case, and if it falls below 150 days then the debt service reserve funds supported by the LOCs must be fully funded with cash or a letter of credit.

Outlook

The stable outlook reflects our belief that MSHA will continue to generate strong and stable operating cash flow margins to support its high debt load. We believe liquidity will improve barring any major negative fair market value adjustments. Management is considering additional debt in the near-term to support capital investments in recent hospital acquisitions. We will evaluate the rating impact of future debt issues as plans develop.

What could change the rating--UP

Continued growth in operating cash flow to support the high debt load; material improvement in debt measures; regrowth of liquidity; increased diversification of cash flow

What could change the rating--DOWN

Increase in debt load without commensurate increase in cash flow; notable loss in market share; trend of decline in operating cash flow; material decline or loss of supplemental payments for servicing the Medicaid and indigent populations

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Mountain States Health Alliance

-First number reflects the audit year ended June 30, 2008

-Second number reflects audit year ended June 30, 2009

-Expenses include capitalized interest of \$0.6 million and \$3.7 million in FY 2009 and FY 2008, respectively

-Investment returns smoothed at 6% unless otherwise noted

*Inpatient admissions: 54,307; 57,127

*Total operating revenues: \$743.6 million; \$839.9 million

*Moody's-adjusted net revenue available for debt service: \$139.2 million; \$154.1 million

*Total debt outstanding: \$938 million; \$1.072 billion

*Maximum annual debt service (MADS): \$54.9 million; \$64.4 million

*MADS Coverage based on reported investment income: 2.66 times; 2.11

*Moody's-adjusted MADS Coverage: 2.53 times; 2.39 times

*Debt-to-cash flow: 10.32 times; 9.90 times

*Days cash on hand: 2424 days; 242 days

*Cash-to-debt: 49%; 48%

*Operating margin: 0.1%; 0.8%

*Operating cash flow margin: 14.7%; 14.4%

RATED DEBT (as of November 30, 2009):

Issued by The Health and Educational Facilities Board of the City of Johnson City, Tennessee:

-Series 2009A fixed rate term bonds (\$5.6 million outstanding), rated Baa1

-Series 2008A Variable Rate Hospital Revenue Bonds variable rate (\$72.8 million outstanding; \$0 to remain outstanding post financing) rated Aa3/VMIG 2 supported by letter of credit with Regions Bank expiring December 14, 2012; Baa1 unenhanced rating

-Series 2008B Variable Rate Hospital Revenue Bonds variable rate (\$54.1 million outstanding) rated Aa3/VMIG 2 supported by letter of credit with Regions Bank expiring December 14, 2012; Baa1 unenhanced rating

-Series 2007A Variable Rate Hospital Revenue Bonds (\$95.9 million outstanding; \$0 to remain outstanding post financing), joint support rating of Aa3/VMIG 2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

-Series 2007B Variable Rate Hospital Revenue Bonds (\$314.2 million outstanding), joint support rating of Aa3/VMIG 2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

-Series 2006A Fixed Rate First Mortgage Revenue Bonds, serial and term bonds (\$170.3 million outstanding), rated Baa1

-Series 2001A Fixed Rate Hospital First Mortgage Revenue Term Bonds (\$23.9 million outstanding), rated Baa1

-Series 2000A Hospital First Mortgage Revenue Refunding Capital Appreciation Bonds (\$26.6 million outstanding), certain bonds insured by MBIA, Baa1 unenhanced rating

-Series 2000C Fixed Rate Hospital First Mortgage Revenue Term Bonds (Taxable) (\$35.3 million outstanding), insured by MBIA, Baa1 unenhanced rating

Issued by Industrial Development Authority of Smyth County, Virginia:

-Series 2009B fixed rate term bonds (\$5.5 million outstanding), rated Baa1

-Series 2007C Variable Rate Hospital Revenue Bonds (\$34.7 million outstanding; \$0 to remain outstanding post financing), joint support rating of Aa3/VMIG2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

Issued by Industrial Development Authority of Washington County, Virginia:

-Series 2009C fixed rate term bonds (\$116.0 million outstanding), rated Baa1

Direct Obligation of Mountain States Health Alliance:

-Series 2000D Fixed Rate First Mortgage Term Bonds (Taxable) (\$15.2 million outstanding), insured by MBIA, Baa1 unenhanced rating

CONTACTS

Obligor: Marvin Eichorn, Senior Vice President and Chief Financial Officer, Mountain States Health Alliance (423) 431-1017

Underwriter: Jeff Newhams, Managing Director, BofA Merrill Lynch (212) 449-0641

Financial Advisor: Steve Pischke, President, The Public Advisory Corporation (540) 687-6755

The rating assigned to Mountain States Health Alliance was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit www.moody's.com/gsr.

The principal methodology used in rating Mountain States Health Alliance was Moody's Rating Methodology: Not-For-Profit Hospitals and Health Systems, published in January 2008 and available on www.moody's.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating Mountain States Health Alliance can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action on Mountain States Health Alliance was on December 22, 2009 when the Baa1 ratings were affirmed with a stable outlook.

Analysts

Kay Sifferman
Analyst
Public Finance Group
Moody's Investors Service

Sarah A. Vennekotter
Backup Analyst

Public Finance Group
Moody's Investors Service

Lisa Goldstein
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653



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MOODY'S

INVESTORS SERVICE

Rating Update: MOODY'S AFFIRMS MOUNTAIN STATES HEALTH ALLIANCE'S (TN) Baa1 BOND RATING; OUTLOOK REMAINS STABLE

Global Credit Research - 26 Apr 2012

APPROXIMATELY \$1.03 BILLION OF RATED DEBT OUTSTANDING

MOUNTAIN STATES HEALTH ALLIANCE, TN
Hospitals & Health Service Providers
TN

Opinion

NEW YORK, April 26, 2012 --Opinion

Moody's Investors Service has affirmed the Baa1 unenhanced ratings assigned to Mountain States Health Alliance's (MSHA) \$821 million of outstanding bonds issued by The Health and Educational Facilities Board of the City of Johnson City, TN, the Industrial Development Authority of Smyth County (Virginia), the Industrial Development Authority of Russell County (Virginia), and directly by MSHA. The Series 2011 bonds (\$211.8 million) are supported by direct pay letters of credit and do not carry unenhanced ratings. The outlook remains stable.

SUMMARY RATING RATIONALE

Leading market share for this multi-hospital system offering a wide-array of high-end services is a key credit strength. MSHA continues a long history of double digit operating cash flow margins with a good cash balance that remains over 200 days despite decline in market values at the end of calendar year 2011. Major capital spending is nearly complete, enabling future growth in liquidity, minor additional debt plans. These strengths are tempered by one of the highest debt loads in our portfolio, generating weak debt measures. One other multi-facility health system provides competitive pressures.

STRENGTHS

*Multi-hospital system with strong and growing leading market share in a large geographic region where the flagship facility serves as a regional referral center offering a wide array of high-end services for hospitals in Tennessee and Virginia

*Multi-year growth in volumes with acquisitions

*Strong and stable operating cash flow margins in the 11.4% to 16.7% range in each of the past seventeen audit years, with volume increases contributing to cash flow growth; projected operating cash flow margins remain in the double digits

*Good liquidity position with 246 days cash on hand at fiscal yearend (FYE) 2011 (June 30) and 217 days as of December 31, 2011

*Major capital spending nearly complete with upcoming opening of Smyth County Community Hospital; minor additional new debt planned for later this year

*Tenured management team

CHALLENGES

*Very high debt burden evidenced by high 110% debt-to-operating revenue, low 55% cash-to-debt ratio, high 7.7 times debt-to-cash flow ratio, and moderate Moody's-adjusted maximum annual debt service coverage of 2.55 times in FY 2011 as compared with Moody's Baa1 medians of 41.2%, 83.4%, 4.8 times and 3.5 times, respectively

*Sizable and consistent competition from Wellmont Health System, which holds a close but lesser market share (37% vs. 30%) in the extended 29-county service area and a significantly smaller market share (52% versus 38%)

in MSHA's 13-county core service area

*High 22.2% TennCare/Medicaid and self-pay load

DETAILED CREDIT DISCUSSION

LEGAL SECURITY: The bonds are secured by a security interest in the Pledged Assets (receivables, inventory, equipment, general intangibles, contracts and contract rights, government approvals, fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets) and a first lien on the Mortgaged Property, which includes the major hospitals, subject to certain permitted liens.

INTEREST RATE DERIVATIVES: MSHA is a party to interest rate swaps and other derivative agreements to establish floating rate exposure and to reduce fixed rate debt service. MSHA holds four basis swaps and one total return swap with Merrill Lynch Capital Services Inc. (guaranteed by Merrill Lynch & Co) for a total notional amount of \$594 million. The fair market value of the swaps at December 31, 2011 was a liability of \$15.3 million.

MSHA holds eight additional agreements (\$106 million notional amount) with Lehman Brothers Special Financing, Inc. (Lehman) for various notional amounts that are linked fixed payer and total return swaps. Fair market value of these swaps at December 31, 2011 was a liability of \$10.5 million, against which MSHA has posted \$13.2 million of collateral (collateral is not included in unrestricted cash). Lehman filed for bankruptcy and the swaps were terminated effective January 1, 2009. There is a dispute between MSHA and Lehman regarding the cost of such termination, which is currently under discussion. MSHA has stated that it believes that the amount of the posted collateral should be sufficient to pay the cost of the terminations.

In September 2011 MSHA negotiated a full termination of the swaptions at no direct cost.

Two additional swaps, for a notional amount of \$20.2 million and a mark to market liability value of \$618,000 as of December 31, 2011.

RECENT DEVELOPMENTS/RESULTS

Operating cash flow margins continue to be strong at double digit levels, reaching 15.7% in FY 2011 (ended June 30) on operating cash flow of \$153.2 million, up 9.9% and \$139.4 million in FY 2010. As a result, debt-to-cash flow improved to 7.74 times in FY 2011 from 8.88 times in FY 2010 and high 10.22 times just two years earlier in FY 2009. This improvement occurred despite the rapid expansion with facility acquisitions (including equity interests) in Virginia between 2006 and 2009, which contributed to revenue growth to \$976.1 million in FY 2011 from \$678.5 million in FY 2007.

System expansion into southwest Virginia from a concentration in northeastern Tennessee has included the following: November 2006 purchase of 80% interest in Smyth County Community Hospital in Marion; October 2007 purchase of 50.1% interest in Norton Community Hospital that includes Norton Community Hospital in Norton and Dickenson County Community Hospital in Clintwood; January 2008 acquisition of Russell County Medical Center in Lebanon; and April 2009 purchase of 50.1% interest in Johnston Memorial Hospital in Abingdon. Combined, the Virginia hospitals added 627 licensed beds and about 10,000 acute care discharges to the system. Management continues to work on full integration of these facilities into the system with no current plans for additional facility acquisitions.

In addition to expanding in Virginia, in Tennessee MSHA opened a new free standing children's hospital in March 2009, consolidated two smaller facilities in Washington County, and undertook other renovation projects. As a result, the system grew admissions 27% across a four year period to 61,035 admissions in FY 2011 from 48,055 admissions in FY 2007. Outpatient visits and emergency room visits grew a sizable 66.8% and 50.8%, respectively, and total surgeries 26.3% across the same four year period. For the first six months of FY 2012 admissions grew another 3.3%, and outpatient visits by 3.6%.

MSHA's main competitor remains Wellmont Health System (Wellmont). Wellmont, with its flagship hospitals located in Sullivan County in the cities of Bristol and Kingsport, has grown to an eight facility system across northeastern Tennessee and southwest Virginia. MSHA defines its 13 county core service area largely as those nine counties where its acute care facilities are located plus an additional four neighboring counties. Within this 13 county service area MSHA maintains a leading and slightly growing market share, to 51.9% in 2010 from 51.5% in 2007 (management provided data), to Wellmont's 37.9%. In its extended 29 total county service area, management shows a leading 36.8% market share in 2010 compared to Wellmont's 30.1%.

The total system debt load remains high, evidenced through a 110% debt-to-revenue ratio in FY 2011, one of the

highest in our portfolio. The debt structure is a mixture of fixed and variable rate bonds, notes and capital leases. As of December 31, 2011, about 60% of total debt is in a fixed rate mode and 40% in a variable rate mode. Letters of credit on outstanding Series 2007B and Series 2008A & B bonds have been extended to October 19, 2014 (\$252.3 million). The new Series 2011A-E bond letters of credit expire October 19, 2014 (\$211.8 million). Cash-to-demand debt of 116% at December 31, 2011 is down from a stronger 157% at FYE 2011 due to both an increase in debt load and a decline in liquidity. Moody's-adjusted maximum annual debt service (MADS) coverage of 2.55 times in FY 2011 improves in the first half of FY 2012 to an annualized 2.95 times with a decline in MADS with debt restructuring in the fourth quarter of 2011. There is minor additional debt planned for later this year.

Unrestricted liquidity declined \$53.1 million (9%) in the first six months of FY 2012 to \$539.4 million at December 31, 2011 from \$592.5 million at June 30, 2011. Major drivers to the decline included a decline in market value to offset investment returns, debt service payments, capital spending and an increase in accounts receivable. As a result cash on hand declined to 216 days from 246 days, but consistently remains above 200 days. Cash-to-debt, which had improved to 55% in FY 2011 from 48% in FY 2009, declined with the decline in liquidity to 50% as of December 31, 2011, but remains comparable to the 47.9%-64.4% range from 2007-2011.

Outlook

The stable outlook reflects our belief that MSHA will continue to generate strong and stable operating cash flow margins to support its high debt load. We believe liquidity will improve barring any major negative fair market value adjustments.

WHAT COULD MOVE THE RATING UP

Continued growth in operating cash flow to support the high debt load; material improvement in debt measures; regrowth of liquidity; increased diversification of cash flow

WHAT COULD MOVE THE RATING DOWN

Increase in debt load without commensurate increase in cash flow; notable loss in market share; trend of decline in operating cash flow; material decline or loss of supplemental payments for servicing the Medicaid and indigent populations

KEY INDICATORS

Assumptions & Adjustments:

- Based on financial statements for Mountain States Health Alliance
- First number reflects the audit year ended June 30, 2010
- Second number reflects audit year ended June 30, 2011
- Non-operating income excludes loss on early extinguishment of debt and change in fair value of derivatives
- Investment returns smoothed at 6% unless otherwise noted

*Inpatient admissions: 60,101; 61,035

*Total operating revenues: \$944.3 million; \$976.1 million

*Moody's-adjusted net revenue available for debt service: \$175.5 million; \$193.0 million

*Total debt outstanding: \$1.08 billion; \$1.07 billion

*Total comprehensive debt outstanding: \$1.13 billion; \$1.13 billion

*Maximum annual debt service (MADS): \$75.6 million; \$75.6 million

*MADS Coverage based on reported investment income: 2.14 times; 2.32 times

*Moody's-adjusted MADS Coverage: 2.32 times; 2.55 times

*Debt-to-cash flow: 8.88 times; 7.74 times

*Days cash on hand: 235 days; 246 days

*Cash-to-debt: 51%; 55%

*Cash-to-total comprehensive debt: 49%; 53%

*Operating margin: 0.5%; 0.9%

*Operating cash flow margin: 14.8%; 15.7%

RATED DEBT (as of December 31, 2011)

Issued by The Health and Educational Facilities Board of the City of Johnson City, Tennessee:

Series 2011A variable rate bonds (\$65.3 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014

-Series 2011B variable rate bonds (\$20.0 million outstanding), rated A2/VMIG 1 supported by letter of credit from PNC Bank expiring October 19, 2014

-Series 2010A fixed rate bonds (\$161.9 million outstanding), rated Baa1

-Series 2009A fixed rate term bonds (\$5.6 million outstanding), rated Baa1

-Series 2008A Variable Rate Hospital Revenue Bonds (\$13.2 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014; Baa1 unenhanced rating

-Series 2007B-1 Variable Rate Hospital Revenue Bonds (\$26.2 million outstanding), joint support rating of A1/VMIG 1 with letter of credit from US Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2007B-2 Variable Rate Hospital Revenue Bonds (\$102.8 million outstanding), joint support rating of A1/VMIG 1 with letter of credit from PNC Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2007B-3 Variable Rate Hospital Revenue Bonds (\$34.2 million outstanding, \$6.4 million of these redeemed on March 1, 2012), joint support rating of Aa3/VMIG 1 with letter of credit from Mizuho Corporate Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2006A Fixed Rate First Mortgage Revenue Bonds, serial and term bonds (\$169.0 million outstanding), rated Baa1

-Series 2001A Fixed Rate Hospital First Mortgage Revenue Term Bonds (\$22.3 million outstanding), rated Baa1

-Series 2000A Hospital First Mortgage Revenue Refunding Capital Appreciation Bonds (\$31.4 million outstanding), certain bonds insured by MBIA, Baa1 unenhanced rating

-Series 2000C Fixed Rate Hospital First Mortgage Revenue Term Bonds (Taxable) (\$33.2 million outstanding), insured by MBIA, Baa1 unenhanced rating

Issued by Industrial Development Authority of Smyth County, Virginia:

-Series 2011C variable rate bonds (\$49.9 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014

-Series 2011D variable rate bonds (\$60.7 million outstanding), rated A1/VMIG 1 supported by letter of credit from Mizuho Corporate Bank expiring October 19, 2014

-Series 2010B fixed rate bonds (\$32.5 million outstanding), rated Baa1

-Series 2009B fixed rate term bonds (\$5.5 million outstanding), rated Baa1

Issued by Industrial Development Authority of Russell County, Virginia:

-Series 2008B Variable Rate Hospital Revenue Bonds (\$52.9 million outstanding) rated Aa2/VMIG 1 supported by letter of credit with US Bank expiring October 19, 2014; Baa1 unenhanced rating

Issued by Industrial Development Authority of Washington County, Virginia:

-Series 2009C fixed rate term bonds (\$116.0 million outstanding), rated Baa1

Direct Obligation of Mountain States Health Alliance:

-Series 2011E variable rate bonds (Taxable) (\$16.0 million outstanding), rated A1/VMIG 1 supported by letter of credit from Mizuho Corporate Bank expiring October 19, 2014

-Series 2000D Fixed Rate First Mortgage Term Bonds (Taxable) (\$14.3 million outstanding), insured by MBIA, Baa1 unenhanced rating

CONTACTS

Obligor: Marvin Eichorn, Senior Vice President and Chief Financial Officer, Mountain States Health Alliance (423) 302-3346

Underwriter: Jeffrey Newhams, Managing Director, BOA/Merrill Lynch (646) 743-1375

Financial Advisor: Steve Pischke, President, The Public Advisory Corporation (540) 687-6755

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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Analysts

Kay Sifferman
Lead Analyst
Public Finance Group
Moody's Investors Service

Sarah A. Vennekotter
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Baa1 rating to Mountain States Health Alliance's (TN) \$54.9 million of Series 2012A fixed rate revenue bonds; outlook remains stable

Global Credit Research - 15 Aug 2012

Mountain States Health Alliance to have a total of \$1.07 billion of rated debt outstanding

JOHNSON CITY HEALTH & EDUCATIONAL FACILITIES BOARD, TN
Hospitals & Health Service Providers
TN

Moody's Rating

ISSUE

RATING

Fixed Rate Bonds, Series 2012A

Baa1

Sale Amount \$54,920,000

Expected Sale Date 08/28/12

Rating Description Revenue: Government Enterprise

Moody's Outlook STA

Opinion

NEW YORK, August 15, 2012 --Moody's Investors Service has assigned a Baa1 unenhanced rating to Mountain States Health Alliance's (MSHA) \$54.9 million of Series 2012A fixed rate revenue bonds to be issued by The Health and Educational Facilities Board of the City of Johnson City, TN. The outlook remains stable.

SUMMARY RATING RATIONALE

Leading market share for this multi-hospital system offering a wide-array of high-end services is a key credit strength. MSHA continues a long history of double digit operating cash flow margins with a good cash balance that remains over 200 days despite decline in market values at the end of calendar year 2011. Major capital spending is nearly complete, enabling future growth in liquidity. These strengths are tempered by a high debt load in comparison to the rest of our portfolio, generating weak debt measures. One other multi-facility health system provides competitive pressures.

STRENGTHS

*Multi-hospital system with strong and growing leading market share in a large geographic region where the flagship facility serves as a regional referral center offering a wide array of high-end services for hospitals in Tennessee and Virginia

*Multi-year growth in volumes with acquisitions

*Strong and stable operating cash flow margins in the 11.4% to 16.7% range in each of the past thirteen audit years and unaudited fiscal year (FY) 2012, with volume increases contributing to cash flow growth; projected operating cash flow margins remain in the double digits

*Good liquidity position with 212 days cash on hand at fiscal yearend (FYE) 2012 (June 30)

*Tenured management team

CHALLENGES

*Very high debt burden evidenced by high 115% debt-to-operating revenue, low 46% cash-to-debt ratio, high 9.2 times debt-to-cash flow ratio, and moderate Moody's-adjusted maximum annual debt service coverage of 2.20 times in FY 2012 as compared with Moody's Baa1 medians of 41.2%, 83.4%, 4.8 times and 3.5 times, respectively

*Sizable and consistent competition from Wellmont Health System, which holds a close but lesser market share (38% vs. 30%) in the extended 29-county service area and a significantly smaller market share (53% versus 37%) in MSHA's 13-county core service area (market share on 2011 data and provided by management)

*High 22.6% TennCare/Medicaid and self-pay load

DETAILED CREDIT DISCUSSION

USE OF BOND PROCEEDS: The Series 2012A-C bond proceeds will be used to (1) help finance certain capital improvements and equipment acquisitions, mainly the new \$66 million Johnson City Medical Center Surgery Tower project and \$10 million of projects at Norton Community Hospital (approximately \$65 million in total will be borrowed), (2) reimburse for prior capital spending (approximately \$26.5 million), (3) refinance certain capital leases (approximately \$5.0 million), and (4) pay the costs of issuance.

LEGAL SECURITY: The bonds are secured by a security interest in the Pledged Assets (receivables, inventory, equipment, general intangibles, contracts and contract rights, government approvals, fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets) and a first lien on the Mortgaged Property, which includes the flagship hospital, Johnson City Medical Center, subject to certain permitted liens.

INTEREST RATE DERIVATIVES: MSHA is a party to interest rate swaps and other derivative agreements to establish floating rate exposure and to reduce fixed rate debt service. MSHA holds five basis swaps and one total return swap with Merrill Lynch Capital Services Inc. (guaranteed by Merrill Lynch & Co) for a total notional amount of \$591 million. The fair market value of the swaps at July 20, 2012 was a liability of \$11.1 million against which MSHA has no posted collateral.

MSHA holds eight additional agreements (\$106 million notional amount) with Lehman Brothers Special Financing, Inc. (Lehman) for various notional amounts that are linked fixed payer and total return swaps. Fair market value of these swaps at June 30, 2012 was a liability of \$10.4 million, against which MSHA has posted \$13.8 million of collateral (collateral is not included in unrestricted cash). Lehman filed for bankruptcy and the swaps were terminated effective January 1, 2009. There is a dispute between MSHA and Lehman regarding the cost of such termination, which is currently under discussion. MSHA has stated that it believes that the amount of the posted collateral should be sufficient to pay the cost of the terminations.

There are two additional swaps, for a notional amount of \$19.2 million and a mark to market liability of \$221,000 as of June 30, 2012.

MARKET POSITION/COMPETITIVE STRATEGY: DOMINANT MARKET POSITION IN JOHNSON CITY, WITH LEADING MARKET POSITION IN 13-COUNTY CORE AREA AND 29-COUNTY EXTENDED SERVICE AREA

MSHA, a multi-hospital system operating nine acute care hospitals and 12 facilities in northeastern Tennessee, southwest Virginia, southeast Kentucky and western North Carolina, gains much credit strength from its dominant 90% market share in Washington County, TN where it operates seven of its facilities, including its flagship 514-licensed bed Johnson City Medical Center (JCMC), and is the only provider of acute care services. JCMC includes the 60-licensed bed Quillen Rehabilitation Hospital, providing a complete array of rehabilitative services for brain injury, stroke, and spinal cord injury and the 84-licensed bed Woodridge Hospital offering inpatient psychiatric and substance abuse services.

MSHA also holds a leading 52.6% market position in its combined 13-county primary and secondary service areas (PSA/SSA), and a leading and growing 37.6% market share in its 29-county extended service area. Competition is limited to one multi-hospital system (Wellmont Health System) and several small independent rural providers. Wellmont Health System operates four of its eight hospitals in MSHA's core market, garnering a distant 37.0% market share in the core 13-county service area, but a closer 29.6% market share in the extended 29-county service area. Many of the rural hospitals in the primary and secondary service area are affiliated with MSHA through network affiliations.

JCMC is a regional referral center for northeastern Tennessee offering a full array of acute care services, including one of only five state-designated Level III Regional Perinatal Centers and is a Level I trauma center. MSHA also owns Indian Path Medical Center and Pavilion located in Kingsport (Sullivan County), which competes

against the much larger Wellmont facilities, Sycamore Shoals Hospital located in Elizabethton (Carter County) with no direct competition, and the designated critical access hospital Johnson County Community Hospital in Johnson County.

System expansion into southwest Virginia from a concentration in northeastern Tennessee has included the following: November 2006 purchase of 80% interest in Smyth County Community Hospital in Marion; October 2007 purchase of 50.1% interest in Norton Community Hospital that includes Norton Community Hospital in Norton and Dickenson County Community Hospital in Clintwood; January 2008 acquisition of Russell County Medical Center in Lebanon; and April 2009 purchase of 50.1% interest in Johnston Memorial Hospital in Abingdon. Combined, the Virginia hospitals added 627 licensed beds and about 10,000 acute care discharges to the system. Management continues to work on full integration of these facilities into the system with no current plans for additional facility acquisitions.

In addition to expanding in Virginia, in Tennessee MSHA opened a new free standing children's hospital in March 2009, consolidated two smaller facilities in Washington County, and undertook other renovation projects. As a result, the system grew admissions 27% across a four year period to 61,035 admissions in FY 2011 from 48,055 admissions in FY 2007. Outpatient visits and emergency room visits grew a sizable 66.8% and 50.8%, respectively, and total surgeries 26.3% across the same four year period. Several volume metrics continued to grow in FY 2012, with admissions increasing only slightly to 61,154, yet emergency room volumes increasing 1.7% to 246,821 and outpatient visits increasing 3.0% to over 1.59 million. Growth has tempered for surgical cases and births, however. There are no additional facility expansion plans at this time.

OPERATING PERFORMANCE: OPERATING CASH FLOW MARGIN REMAINS CONSISTENTLY STRONG

Operating cash flow margin of 13.3% on unaudited FY 2012 results continues to be strong at double digit levels, though mitigated slightly from the recent peak level of 15.7% in FY 2011 (fiscal year ends June 30). Operating cash flow was tempered 14.5% (\$22 million) by a sizable increase in charity care. As a result, debt-to-cash flow weakened to 9.15 times from 7.74 times in FY 2011, but remains better than levels in fiscal years 2008 and 2009. Correspondingly, Moody's-adjusted maximum annual debt service coverage weakened slightly to 2.20 times from 2.55 times the prior year, and is below the 2.32 times low across the past five audited years.

MSHA continues to work on revenue enhancement and cost reduction efforts. Revenue enhancement initiatives focus on computerized coding, retail initiatives, growth in ambulatory and outpatient volumes, and clinical documentation. For FY 2012 MSHA is budgeting for increases in both admissions and outpatient visits, strategic increases in pricing, meaningful use dollars, increased revenue related to Medicare Shared Savings Program and Medicare Advantage through its health network. Expense initiatives include LEAN, reductions in length of stay, improvements in physician practice losses, reductions in lease expense and control of supply costs. MSHA will reduce contract labor costs, right-size personnel and modify benefits, and focus on other non-clinical expenses. These revenue and expense initiatives are currently underway.

BALANCE SHEET POSITION: DEBT LOAD REMAINS HIGH; LIQUIDITY REMAINS ABOVE 200 DAYS

The total system debt load remains high, evidenced through a 115% debt-to-revenue ratio in FY 2012, one of the highest in our portfolio, along with 9.15 times debt-to-cash flow. The Series 2012 bonds increase debt load 4.1% from our last review based upon December 31, 2011 pro forma debt, and 6.3% over FYE 2011 debt load. No additional debt is planned at this time. The debt structure is a mixture of fixed and variable rate bonds, notes and capital leases. As of June 30, 2012, about 57% of total debt is in a fixed rate mode and 43% in a variable rate mode, and will remain comparable post financing. Pro forma cash-to-demand debt of 106% at June 30, 2012 is down from 116% at December 31, 2011 due to both an increase in debt load and a decline in liquidity. Moody's-adjusted pro forma maximum annual debt service (MADS) coverage of 2.20 times in FY 2012 is down from the prior year and the lowest across the past five audited years, but within range of historical performance.

The current upcoming Series 2012 bond issuances area expected to include Series 2012A fixed rate bonds \$54.9 million new money project bonds, Series 2012B variable rate capital reimbursement and lease refinancing bonds, and Series 2012C variable rate new money project bonds. The variable rate bonds are expected to be supported by letters of credit and rated at a later date. In addition, MSHA will establish an \$18.4 million variable rate taxable note with a bank to refinance existing capital leases for anticipated present value savings (this note will not be rated). Our analysis incorporates all pieces of new debt.

Unrestricted liquidity declined \$68.5 million (11.6%) since FYE 2011 to \$524.1 million at June 30, 2012 from \$592.5 million at June 30, 2011. Major drivers to the decline included a decline in market value to offset investment returns, debt service payments, capital spending and an increase in accounts receivable. As a result cash on

hand declined to 212 days from 246 days, but consistently remains above 200 days. Cash-to-debt, which had improved to 55% in FY 2011, declined with the increase in debt and decline in liquidity to a pro forma 46%, but remains comparable to the 47.9%-64.4% range from 2007-2011.

Outlook

The stable outlook reflects our belief that MSHA will continue to generate strong and stable operating cash flow margins to support its high debt load. We believe liquidity will improve barring any major negative fair market value adjustments.

WHAT COULD MOVE THE RATING UP

Continued growth in operating cash flow to support the high debt load; material improvement in debt measures; regrowth of liquidity; increased diversification of cash flow

WHAT COULD MOVE THE RATING DOWN

Increase in debt load without commensurate increase in cash flow; notable loss in market share; trend of decline in operating cash flow; material decline or loss of supplemental payments for servicing the Medicaid and indigent populations

KEY INDICATORS

Assumptions & Adjustments:

- Based on financial statements for Mountain States Health Alliance
- First number reflects the audit year ended June 30, 2011
- Second number reflects pro forma unaudited year ended June 30, 2012, including the impact from the Series 2012 bonds
- Bad debt is reflected as a revenue reduction in FY 2012
- Non-operating income excludes loss on early extinguishment of debt and change in fair value of derivatives
- Investment returns smoothed at 6% unless otherwise noted
- *Inpatient admissions: 61,035; 61,154
- *Observation stays: 20,894; 22,179
- *Medicare % of gross revenues: 43.7%; 44.1%
- *Medicaid % of gross revenues: 13.7%; 14.1%
- *Total operating revenues (\$): \$976.1 million; \$988.5 million
- *Revenue growth rate (%) (3 yr CAGR): 8.9%; 5.6%
- *Operating margin (%): 0.9%; 1.0%
- *Operating cash flow margin (%): 15.7%; 13.3%
- *Debt to cash flow (x): 7.74x; 9.15x
- *Days cash on hand: 246 days; 212 days
- *Maximum annual debt service (MADS) (\$): \$75.6 million; \$77.2 million
- *MADS coverage with reported investment income (x): 2.32x; 2.16x
- *Moody's-adjusted MADS Coverage with normalized investment income (x): 2.55x; 2.20x
- *Direct debt (\$): \$1.070 billion; \$1.137 billion

*Cash to direct debt (%): 55%; 46%

*Comprehensive debt: \$\$1.126 billion; not available

*Cash to comprehensive debt (%): 53%; not available

*Monthly liquidity to demand debt (%): 149%; not available

RATED DEBT (as of June 30, 2012)

Issued by The Health and Educational Facilities Board of the City of Johnson City, Tennessee:

Series 2011A variable rate bonds (\$65.3 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014

-Series 2011B variable rate bonds (\$20.0 million outstanding), rated A2/VMIG 1 supported by letter of credit from PNC Bank expiring October 19, 2014

-Series 2010A fixed rate bonds (\$161.9 million outstanding), rated Baa1

-Series 2009A fixed rate term bonds (\$5.6 million outstanding), rated Baa1

-Series 2008A Variable Rate Hospital Revenue Bonds (\$13.2 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014; Baa1 unenhanced rating

-Series 2007B-1 Variable Rate Hospital Revenue Bonds (\$26.2 million outstanding), joint support rating of Aa2/VMIG 1 with letter of credit from US Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2007B-2 Variable Rate Hospital Revenue Bonds (\$102.8 million outstanding), joint support rating of A1/VMIG 1 with letter of credit from PNC Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2007B-3 Variable Rate Hospital Revenue Bonds (\$27.8 million outstanding), joint support rating of Aa3/VMIG 1 with letter of credit from Mizuho Corporate Bank expiring October 19, 2014, Baa1 unenhanced rating

-Series 2006A Fixed Rate First Mortgage Revenue Bonds, serial and term bonds (\$169.0 million outstanding), rated Baa1

-Series 2001A Fixed Rate Hospital First Mortgage Revenue Term Bonds (\$22.3 million outstanding), rated Baa1

-Series 2000A Hospital First Mortgage Revenue Refunding Capital Appreciation Bonds (\$32.9 million outstanding), certain bonds insured by MBIA, Baa1 unenhanced rating

-Series 2000C Fixed Rate Hospital First Mortgage Revenue Term Bonds (Taxable) (\$33.2 million outstanding), insured by MBIA, Baa1 unenhanced rating

Issued by Industrial Development Authority of Smyth County, Virginia:

-Series 2011C variable rate bonds (\$49.9 million outstanding), rated Aa2/VMIG 1 supported by letter of credit from US Bank expiring October 19, 2014

-Series 2011D variable rate bonds (\$60.7 million outstanding), rated A1/VMIG 1 supported by letter of credit from Mizuho Corporate Bank expiring October 19, 2014

-Series 2010B fixed rate bonds (\$32.5 million outstanding), rated Baa1

-Series 2009B fixed rate term bonds (\$5.5 million outstanding), rated Baa1

Issued by Industrial Development Authority of Russell County, Virginia:

-Series 2008B Variable Rate Hospital Revenue Bonds (\$52.9 million outstanding) rated Aa2/VMIG 1 supported by letter of credit with US Bank expiring October 19, 2014; Baa1 unenhanced rating

Issued by Industrial Development Authority of Washington County, Virginia:

-Series 2009C fixed rate term bonds (\$116.0 million outstanding), rated Baa1

Direct Obligation of Mountain States Health Alliance:

-Series 2011E variable rate bonds (Taxable) (\$16.0 million outstanding), rated A1/VMIG 1 supported by letter of credit from Mizuho Corporate Bank expiring October 19, 2014

-Series 2000D Fixed Rate First Mortgage Term Bonds (Taxable) (\$14.3 million outstanding), insured by MBIA, Baa1 unenhanced rating

CONTACTS

Obligor: Marvin Eichorn, Senior Vice President and Chief Financial Officer, Mountain States Health Alliance (423) 302-3346

Underwriter: Jeffrey Newhams, Managing Director, BofA/Merrill Lynch (646) 743-1375

Financial Advisor: Steve Pischke, President, The Public Advisory Corporation (540) 687-6755

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

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Analysts

Kay Sifferman
Lead Analyst
Public Finance Group
Moody's Investors Service

Sarah A. Vennekotter
Backup Analyst
Public Finance Group
Moody's Investors Service

Lisa Martin
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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INVESTORS SERVICE

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MOODY'S

INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa3 (ON WATCH FOR DOWNGRADE)/VMIG 1 LETTER OF CREDIT-BACKED RATING TO THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF CITY OF JOHNSON CITY, TN HOSPITAL REVENUE BONDS (MOUNTAIN STATES HEALTH ALLIANCE) SERIES 2007 B-2

Global Credit Research - 29 Sep 2010

\$105.0 MILLION IN DEBT AFFECTED. LONG-TERM JDA RATING BASED ON LONG-TERM RATINGS OF PNC BANK, N.A. AND MOUNTAIN STATES HEALTH ALLIANCE

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Moody's Rating

ISSUE

Ser. 2007B-2 (Taxable)

Sale Amount \$105,000,000

Expected Sale Date 09/29/10

Rating Description Joint Default Analysis

RATING

Aa3/VMIG 1

Opinion

NEW YORK, Sep 29, 2010 -- Moody's Investors Service has assigned Aa3 (on watch for downgrade)/VMIG 1 rating to the Health and Educational Facilities Board of City of Johnson City, TN Hospital Revenue Bonds (Mountain States Health Alliance) Series 2007 B-2 (the Bonds)

RATING RATIONALE

The long-term rating is based on a joint default analysis (JDA) which reflects Moody's approach to rating jointly supported transactions. The JDA rating is based upon the long-term rating of PNC Bank, National Association (Bank) as provider of the letter of credit (LOC); the underlying rating of the Bonds; and the structure and legal protections of the transaction which ensures timely debt service payments to investors. The timely payment of purchase price is reflected in the short-term rating of the Bonds. The short-term rating of the Bonds is based upon the short-term rating of the Bank as provider of the letter of credit.

PNC Bank, National Association is currently rated A1 for long-term other senior obligations (OSO) and Prime-1 for short-term OSO. The long-term rating of the Bank is currently on watch for downgrade. Moody's maintains Baa1 underlying rating on the Bonds.

Since a loss to investors would occur only if both the Bank and Mountain States Health Alliance (the Borrower) default in payment, Moody's has assigned the long-term portion of the rating based upon the joint probability of default by both parties. In determining the joint probability of default, Moody's considers the level of default dependence between the Bank and the Borrower. Moody's has determined that there is a high level of default dependence between the Bank and the Borrower. As a result, the joint probability of default for the Bank and the Borrower results in a credit risk consistent with a JDA rating of Aa3 (on watch for downgrade) for the Bonds.

Interest Rate Modes and Payment

The Bonds will bear interest in a weekly rate mode and interest will be paid on the first business day of each month. The bond trust indenture permits conversion of the Bonds, in whole, to a medium term or fixed interest rate period and upon any conversion the Bonds will be subject to mandatory purchase. The rating applies to the Bonds bearing interest in the weekly period only.

Additional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flow of Funds

The trustee is instructed to draw under the LOC on or before 4:00 p.m., New York City time, on the business day prior to any principal and interest payment date, in accordance with the LOC so as to receive moneys on the next business day in amount sufficient for the payment in full of the principal and interest due on the Bonds. If the Bank fails to honor a draw under the applicable LOC, the trustee shall immediately notify the Borrower and demand payment of such amount. The trustee is also instructed to draw under the LOC by 11:30 a.m., New York City time, on each purchase date to the extent remarketing proceeds are insufficient. Bonds which are purchased by the Bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received confirmation from the Bank stating that the LOC has been reinstated in the amount of the purchase price drawn for such Bonds.

Letter of Credit

The LOC is sized for full principal plus 37 days of interest at the maximum rate applicable to the Bonds (12%) calculated based on 360 days year and will provide coverage for the Bonds while they bear interest in the weekly rate mode.

Draws on the Letter of Credit

Conforming draws for principal and interest presented to the Bank at or before 4:00 p.m., Pittsburgh, PA time, on a business day, will be honored by the Bank no later than 2:30 p.m., Pittsburgh, PA time, on the next business day. Conforming draws for purchase price presented to the Bank at or before 12:00 noon, Pittsburgh, PA time, on a business day, will be honored by such Bank no later than 2:30 p.m., Pittsburgh, PA time, on such business day.

Substitution of the Letter of Credit

The Bonds will be subject to mandatory tender on the fifth (5th) business day prior to substitution of the LOC. Draws for purchase price upon the substitution will be made under the existing LOC and the existing LOC will not be surrendered to the Bank for cancellation until after such tender draw is honored.

Reinstatement of Interest Draws

Draws made under the LOC for interest shall be automatically reinstated at the close of business on the date of payment of such interest drawing unless the trustee receives from the Bank a notice by 4:00 p.m. on such payment date stating that the Bank has not been reimbursed for such drawing or that an event of default under the reimbursement agreement has occurred. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Reimbursement Agreement Defaults

Upon an event of default under the reimbursement agreement, the Bank may direct the trustee to accelerate the Bonds. Upon receipt of such notice, the trustee will declare the principal of and accrued interest on the Bonds immediately due and payable. Interest will cease to accrue one business day following the date on which the Bonds are declared immediately due and payable. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Bond Indenture Events of Default Related to Payment

Upon a failure to pay when due the principal or interest or the purchase price on the Bonds, the trustee may, and at the written request of the Bank or the holders of more than two-thirds (2/3) in aggregate principal amount of the outstanding Bonds shall declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Expiration / Termination of the Letter of Credit

The LOC shall terminate upon the earliest to occur of: (i) September 29, 2013, the stated expiration date; (ii) the business day following conversion of an interest rate of the Bonds to a rate other than a weekly interest rate; (iii)

the day which is fifteen (15) days after trustee's receipt of a notice from the Bank stating that an event of default under the reimbursement agreement has occurred and directing acceleration of the Bonds, (iv) the date an acceleration drawing is honored by the Bank; (v) receipt by the Bank of a certificate from the trustee stating that (A) no Bonds remain outstanding and all draws under the LOC have been made and honored, or (B) a substitute LOC has been issued; or (vi) the date on which a stated maturity drawing that causing the stated amount of the LOC to be reduced to \$0 is honored by the Bank.

Optional Tenders

Bondholders may optionally tender their Bonds on any business day during the weekly rate mode with five (5) business days prior written notice to the trustee and the remarketing agent.

Mandatory Purchases

The Bonds are subject to mandatory purchase on: (i) each interest rate conversion date (ii) any interest reset date, (iii) the fifth (5th) business day prior to the effective date of an alternate letter of credit or (iv) the second (2nd) business day prior to the expiration date of the letter of credit.

What Could Change the Rating-Up

Long-Term: the long-term rating on the applicable series of Bonds could be upgraded if the long-term OSO rating of the Bank or the long-term rating of the Borrower was upgraded, or if

there was a decrease in the level of default dependence between the Bank and the Borrower.

Short-Term: N/A

What Could Change the Rating-Down

Long-Term: the long-term rating on the Bonds could be lowered if the long term OSO rating of the Bank or the long-term rating of the Borrower was downgraded, or if there is an increase in the level of default dependence between the Bank and the Borrower.

Short-Term: the short-term rating on the Bonds would be lowered if the short-term OSO rating, on the Bank was downgraded.

Contacts

Remarketing Agent: Bank of America Merrill Lynch

Trustee: The Bank of New York Mellon Trust Company

The principal methodologies used in rating this issue were Moody's Rating Methodology Letter of Credit Supported Transactions published in August 2005 and Applying Global Joint Default Analysis to Letter of Credit Backed Transactions in the U.S. Public Finance Sector published in September 2010. Other methodologies and factors that may have been considered in the process of rating this issue can also be found on Moody's website.

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Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

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Analysts

Jacek Stolarz
Analyst
Public Finance Group
Moody's Investors Service

Michael J. Loughlin
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

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Rating Update: MOODY'S ASSIGNS Aa1 (ON WATCH FOR DOWNGRADE)/VMIG 1 LETTER OF CREDIT-BACKED RATING TO THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF CITY OF JOHNSON CITY, TN HOSPITAL REVENUE BONDS (MOUNTAIN STATES HEALTH ALLIANCE) SERIES 2007 B-1

Global Credit Research - 29 Sep 2010

\$144.4 MILLION IN DEBT AFFECTED. LONG-TERM JDA RATING BASED ON LONG-TERM RATINGS OF U.S BANK, N.A. AND MOUNTAIN STATES HEALTH ALLIANCE

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Opinion

NEW YORK, Sep 29, 2010 -- Moody's Investors Service has assigned Aa1 (on watch for downgrade)/VMIG 1 rating to the Health and Educational Facilities Board of City of Johnson City, TN Hospital Revenue Bonds (Mountain States Health Alliance) Series 2007 B-1 (the Bonds)

RATING RATIONALE

The long-term rating is based on a joint default analysis (JDA) which reflects Moody's approach to rating jointly supported transactions. The JDA rating is based upon the long-term rating of U.S. Bank National Association (Bank) as provider of the letter of credit (LOC); the underlying rating of the Bonds; and the structure and legal protections of the transaction which ensures timely debt service payments to investors. The timely payment of purchase price is reflected in the short-term rating of the Bonds. The short-term rating of the Bonds is based upon the short-term rating of the Bank as provider of the letter of credit.

U.S. Bank National Association is currently rated Aa1 for long-term other senior obligations (OSO) and Prime-1 for short-term OSO. The long-term rating of the Bank is currently on watch for downgrade. Moody's maintains Baa1 underlying rating on the Bonds.

Since a loss to investors would occur only if both the Bank and Mountain States Health Alliance (the Borrower) default in payment, Moody's has assigned the long-term portion of the rating based upon the joint probability of default by both parties. In determining the joint probability of default, Moody's considers the level of default dependence between the Bank and the Borrower. Moody's has determined that there is a high level of default dependence between the Bank and the Borrower. As a result, the joint probability of default for the Bank and the Borrower results in a credit risk consistent with a JDA rating of Aa1 (on watch for downgrade) for the Bonds.

Interest Rate Modes and Payment

The Bonds will bear interest in a weekly rate mode and interest will be paid on the first business day of each month. The bond trust indenture permits conversion of the Bonds, in whole, to a medium term or fixed interest rate period and upon any conversion the Bonds will be subject to mandatory purchase. The rating applies to the Bonds bearing interest in the weekly period only.

Additional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flow of Funds

The trustee is instructed to draw under the LOC on or before 4:00 p.m., New York City time, on the business day prior to any principal and interest payment date, in accordance with the LOC so as to receive moneys on the next business day in amount sufficient for the payment in full of the principal and interest due on the Bonds. If the Bank fails to honor a draw under the applicable LOC, the trustee shall immediately notify the Borrower and demand

payment of such amount. The trustee is also instructed to draw under the LOC by 11:30 a.m., New York City time, on each purchase date to the extent remarketing proceeds are insufficient. Bonds which are purchased by the Bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received confirmation from the Bank stating that the LOC has been reinstated in the amount of the purchase price drawn for such Bonds.

Letter of Credit

The LOC is sized for full principal plus 37 days of interest at the maximum rate applicable to the Bonds (12%) calculated based on 360 days year and will provide coverage for the Bonds while they bear interest in the weekly rate mode.

Draws on the Letter of Credit

Conforming draws for principal and interest presented to the Bank at or before 3:00 p.m., St. Louis, Missouri time, on a business day, will be honored by the Bank no later than 1:30 p.m., St. Louis, Missouri time, on the next business day. Conforming draws for purchase price presented to the Bank at or before 11:00 a.m., St. Louis, Missouri time, on a business day, will be honored by such Bank no later than 1:30 p.m., St. Louis, Missouri time, on such business day.

Substitution of the Letter of Credit

The Bonds will be subject to mandatory tender on the fifth (5th) business day prior to any substitution of the LOC. Draws for purchase price upon the substitution will be made under the existing LOC and the existing LOC will not be surrendered to the Bank for cancellation until after such tender draw is honored.

Reinstatement of Interest Draws

Draws made under the LOC for interest shall be automatically reinstated at the close of business on the date of payment of such interest drawing unless the trustee receives from the Bank a notice by 4:00 p.m. on such payment date stating that the Bank has not been reimbursed for such drawing or that an event of default under the reimbursement agreement has occurred. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Reimbursement Agreement Defaults

Upon an event of default under the reimbursement agreement, the Bank may direct the trustee to accelerate the Bonds. Upon receipt of such notice, the trustee will declare the principal of and accrued interest on the Bonds immediately due and payable. Interest will cease to accrue one day following the date on which the Bonds are declared immediately due and payable. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Bond Indenture Events of Default Related to Payment

Upon a failure to pay when due the principal or interest or the purchase price on the Bonds, the trustee may, and at the written request of the Bank or the holders of more than two-thirds (2/3) in aggregate principal amount of the outstanding Bonds shall declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Expiration / Termination of the Letter of Credit

The LOC shall terminate upon the earliest to occur of: (i) September 29, 2013, the stated expiration date; (ii) the business day following conversion of an interest rate of the Bonds to a rate other than a weekly interest rate; (iii) the day which is fifteen (15) days after trustee's receipt of a notice from the Bank stating that an event of default under the reimbursement agreement has occurred and directing acceleration of the Bonds, (iv) the date an acceleration drawing is honored by the Bank; (v) receipt by the Bank of a certificate from the trustee stating that (A) no Bonds remain outstanding and all draws under the LOC have been made and honored, or (B) a substitute LOC has been issued; or (vi) the date on which a stated maturity drawing that causing the stated amount of the LOC to be reduced to \$0 is honored by the Bank.

Optional Tenders

Bondholders may optionally tender their Bonds on any business day during the weekly rate mode with five (5) business days prior written notice to the trustee and the remarketing agent.

Mandatory Purchases

The Bonds are subject to mandatory purchase on: (i) each interest rate conversion date (ii) any interest reset date, (iii) the fifth (5th) business day prior to the effective date of an alternate letter of credit or (iv) the second (2nd) business day prior to the expiration date of the letter of credit.

What Could Change the Rating-Up

Long-Term: the long-term rating on the applicable series of Bonds could be upgraded if the long-term OSO rating of the Bank or the long-term rating of the Borrower was upgraded.

Short-Term: N/A

What Could Change the Rating-Down

Long-Term: the long-term rating on the Bonds could be lowered if the long term OSO rating of the Bank or the long-term rating of the Borrower was downgraded.

Short-Term: the short-term rating on the Bonds would be lowered if the short-term OSO rating, on the Bank was downgraded.

Contacts

Remarketing Agent: Bank of America Merrill Lynch

Trustee: The Bank of New York Mellon Trust Company

The principal methodologies used in rating this issue were Letter of Credit Supported Transactions published in August 2005 and Moody's Approach to Applying the Joint Support Methodology to Rating Letter of Credit-Supported Bonds published in May 2003. Other methodologies and factors that may have been considered in the process of rating this issue can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

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Analysts

Jacek Stolarz
Analyst

Public Finance Group
Moody's Investors Service

Michael J. Loughlin
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

Moody's
INVESTORS SERVICE

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MOODY'S

INVESTORS SERVICE

Rating Update: MOODY'S UPGRADES TO Aa1 (ON WATCH FOR DOWNGRADE)/VMIG 1 FROM A3/VMIG 2 LETTER OF CREDIT-BACKED RATING OF THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF CITY OF JOHNSON CITY, TN HOSPITAL REVENUE BONDS (MOUNTAIN STATES HEALTH ALLIANCE) SERIES 2008A

Global Credit Research - 29 Sep 2010

\$13.245 MILLION IN DEBT AFFECTED. LONG-TERM JDA RATING IS BASED ON LONG-TERM RATINGS OF U.S. BANK, N.A. AND MOUNTAIN STATES HEALTH ALLIANCE

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Opinion

NEW YORK, Sep 29, 2010 -- Moody's Investors Service has upgraded to Aa1 (on watch for downgrade)/VMIG 1 from A3/VMIG 2 rating of The Health and Educational Facilities Board of City of Johnson City, TN Hospital Revenue Bonds (Mountain States Health Alliance) Series 2008A (the Bonds) in conjunction with the substitution of the current letter of credit supporting the Bonds provided by Regions Bank with an alternate irrevocable direct-pay letter of credit (LOC) provided by U.S. Bank National Association (Bank).

RATING RATIONALE

The long-term rating is based on a joint default analysis (JDA) which reflects Moody's approach to rating jointly supported transactions. The JDA rating is based upon the long-term rating of the Bank as provider of the letter of credit; the underlying rating of the Bonds; and the structure and legal protections of the transaction which ensures timely debt service payments to investors. The timely payment of purchase price is reflected in the short-term rating of the Bonds. The short-term rating of the Bonds is based upon the short-term rating of the Bank as provider of the letter of credit.

U.S. Bank National Association is currently rated Aa1 for long-term other senior obligations (OSO) and Prime-1 for short-term OSO. The long-term rating of the Bank is currently on watch for downgrade. Moody's maintains Baa1 underlying rating on the Bonds.

Since a loss to investors would occur if both the Bank and Mountain States Health Alliance (the Borrower) default in payment, Moody's has assigned the long-term portion of the rating based upon the joint probability of default by both parties. In determining the joint probability of default, Moody's considers the level of default dependence between the Bank and the Borrower. Moody's has determined that there is a high level of default dependence between the Bank and the Borrower. As a result, the joint probability of default for the Bank and the Borrower results in a credit risk consistent with a JDA rating of Aa1 (on watch for downgrade) for the Bonds.

Interest Rate Modes and Payment

The Bonds will continue to bear interest in a weekly rate mode and interest will be paid on the first business day of each month. The bond trust indenture permits conversion of the Bonds, in whole, to a medium term or fixed interest rate period and upon any conversion the Bonds will be subject to mandatory purchase. The rating applies to the Bonds bearing interest in the weekly period only.

Additional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flow of Funds

The trustee is instructed to draw under the LOC on or before 4:00 p.m., New York City time, on the business day

prior to any principal and interest payment date, in accordance with the LOC so as to receive moneys on the next business day in amount sufficient for the payment in full of the principal and interest due on the Bonds. If the Bank fails to honor a draw under the applicable LOC, the trustee shall immediately notify the Borrower and demand payment of such amount. The trustee is also instructed to draw under the LOC by 11:30 a.m., New York City time, on each purchase date to the extent remarketing proceeds are insufficient. Bonds which are purchased by the Bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received confirmation from the Bank stating that the LOC has been reinstated in the amount of the purchase price drawn for such Bonds.

Letter of Credit

The LOC is sized for full principal plus 37 days of interest at the maximum rate applicable to the Bonds (12%) calculated based on 360 days year and will provide coverage for the Bonds while they bear interest in the weekly rate mode.

Draws on the Letter of Credit

Conforming draws for principal and interest presented to the Bank at or before 3:00 p.m., St. Louis, Missouri time, on a business day, will be honored by the Bank no later than 1:30 p.m., St. Louis, Missouri time, on the next business day. Conforming draws for purchase price presented to the Bank at or before 11:00 a.m., St. Louis, Missouri time, on a business day, will be honored by such Bank no later than 1:30 p.m., St. Louis, Missouri time, on such business day.

Substitution of the Letter of Credit

The Bonds will be subject to mandatory tender on the fifth (5th) business day prior to substitution of the LOC. Draws for purchase price upon the substitution will be made under the existing LOC and the existing LOC will not be surrendered to the Bank for cancellation until after such tender draw is honored.

Reinstatement of Interest Draws

Draws made under the LOC for interest shall be automatically reinstated at the close of business on the date of payment of such interest drawing unless the trustee receives from the Bank a notice by 4:00 p.m. on such payment date stating that the Bank has not been reimbursed for such drawing or that an event of default under the reimbursement agreement has occurred. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Reimbursement Agreement Defaults

Upon an event of default under the reimbursement agreement, the Bank may direct the trustee to accelerate the Bonds. Upon receipt of such notice, the trustee will declare the principal of and accrued interest on the Bonds immediately due and payable. Interest will cease to accrue one day following the date on which the Bonds are declared immediately due and payable. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Bond Indenture Events of Default Related to Payment

Upon a failure to pay when due the principal or interest or the purchase price on the Bonds, the trustee may, and at the written request of the Bank or the holders of more than two-thirds (2/3) in aggregate principal amount of the outstanding Bonds shall declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Expiration / Termination of the Letter of Credit

The LOC shall terminate upon the earliest to occur of: (i) September 29, 2013, the stated expiration date; (ii) the business day following conversion of an interest rate of the Bonds to a rate other than a weekly interest rate; (iii) the day which is fifteen (15) days after trustee's receipt of a notice from the Bank stating that an event of default under the reimbursement agreement has occurred and directing acceleration of the Bonds, (iv) the date an acceleration drawing is honored by the Bank; (v) receipt by the Bank of a certificate from the trustee stating that (A) no Bonds remain outstanding and all draws under the LOC have been made and honored, or (B) a substitute

LOC has been issued; or (vi) the date on which a stated maturity drawing that causing the stated amount of the LOC to be reduced to \$0 is honored by the Bank.

Optional Tenders

Bondholders may optionally tender their Bonds on any business day during the weekly rate mode with five (5) business days prior written notice to the trustee and the remarketing agent.

Mandatory Purchases

The Bonds are subject to mandatory purchase on: (i) each interest rate conversion date (ii) any interest reset date, (iii) the fifth (5th) business day prior to the effective date of an alternate letter of credit or (iv) the second (2nd) business day prior to the expiration date of the letter of credit.

What Could Change the Rating-Up

Long-Term: the long-term rating on the applicable series of Bonds could be upgraded if the long-term OSO rating of the Bank or the long-term rating of the Borrower was upgraded.

Short-Term: N/A

What Could Change the Rating-Down

Long-Term: the long-term rating on the Bonds could be lowered if the long term OSO rating of the Bank or the long-term rating of the Borrower was downgraded.

Short-Term: the short-term rating on the Bonds would be lowered if the short-term OSO rating, on the Bank was downgraded.

Contacts

Remarketing Agent: Bank of America Merrill Lynch

Trustee: The Bank of New York Mellon Trust Company

The principal methodologies used in rating this issue were Moody's Rating Methodology Letter of Credit Supported Transactions published in August 2005 and Applying Global Joint Default Analysis to Letter of Credit Backed Transactions in the U.S. Public Finance Sector published in September 2010. Other methodologies and factors that may have been considered in the process of rating this issue can also be found on Moody's website.

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Analysts

Jacek Stolarz
Analyst
Public Finance Group
Moody's Investors Service

Michael J. Loughlin
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

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MOODY'S

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New Issue: MOODY'S ASSIGNS Aa3/VMIG 1 LETTER OF CREDIT-BACKED RATING TO THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF CITY OF JOHNSON CITY, TN HOSPITAL REVENUE BONDS (MOUNTAIN STATES HEALTH ALLIANCE) SERIES 2007 B-3

Global Credit Research - 29 Sep 2010

\$58.5 MILLION IN DEBT AFFECTED. THE RATING IS BASED ON THE RATING OF MIZUHO CORPORATE BANK, LTD.

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Moody's Rating

ISSUE	RATING
Ser. 2007B-3	Aa3/VMIG 1
Sale Amount	\$58,500,000
Expected Sale Date	09/29/10
Rating Description	LOC

Opinion

NEW YORK, Sep 29, 2010 -- Moody's Investors Service has assigned Aa3/VMIG 1 rating to the Health and Educational Facilities Board of City of Johnson City, TN Hospital Revenue Bonds (Mountain States Health Alliance) Series 2007 B-3 (the Bonds)

RATING RATIONALE

The rating is based upon the irrevocable direct pay letter of credit provided by Mizuho Corporate Bank, Ltd. (the Bank), the structure of the transaction, which ensures timely debt service and purchase price payments to investors; and Moody's evaluation of the creditworthiness of the Bank issuing the letter of credit.

Mizuho Corporate Bank, Ltd. is currently rated Aa3 for long-term bank deposits and Prime-1 for short-term bank deposits.

Interest Rate Modes and Payment

The Bonds will bear interest in a weekly rate mode and interest will be paid on the first business day of each month. The bond trust indenture permits conversion of the Bonds, in whole, to a medium term or fixed interest rate period and upon any conversion the Bonds will be subject to mandatory purchase. The rating applies to the Bonds bearing interest in the weekly period only.

Additional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flow of Funds

The trustee is instructed to draw under the LOC on or before 4:00 p.m., New York City time, on the business day prior to any principal and interest payment date, in accordance with the LOC so as to receive moneys on the next business day in amount sufficient for the payment in full of the principal and interest due on the Bonds. The trustee is also instructed to draw under the LOC by 11:30 a.m., New York City time, on each purchase date to the extent remarketing proceeds are insufficient. Bonds which are purchased by the Bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received confirmation from the Bank stating that the LOC has been reinstated in the amount of the purchase price drawn for such Bonds.

Letter of Credit

The LOC is sized for full principal plus 37 days of interest at the maximum rate applicable to the Bonds (12%) calculated based on 360 days year and will provide coverage for the Bonds while they bear interest in the weekly rate mode.

Draws on the Letter of Credit

Conforming draws for principal and interest presented to the Bank at or before 4:00 p.m., New York City time, on a business day, will be honored by the Bank no later than 2:30 p.m., New York City time, on the next business day. Conforming draws for purchase price presented to the Bank at or before 12:00 noon, New York City time, on a business day, will be honored by such Bank no later than 2:30 p.m., New York City time, on such business day.

Substitution of the Letter of Credit

The Bonds will be subject to mandatory tender on the fifth (5th) business day prior to substitution of the LOC. Draws for purchase price upon the substitution will be made under the existing LOC and the existing LOC will not be surrendered to the Bank for cancellation until after such tender draw is honored.

Reinstatement of Interest Draws

Draws made under the LOC for interest shall be automatically reinstated at the close of business on the date of payment of such interest drawing unless the trustee receives from the Bank a notice by 4:00 p.m. on such payment date stating that the Bank has not been reimbursed for such drawing or that an event of default under the reimbursement agreement has occurred. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Reimbursement Agreement Defaults

Upon an event of default under the reimbursement agreement, the Bank may direct the trustee to accelerate the Bonds. Upon receipt of such notice, the trustee will declare the principal of and accrued interest on the Bonds immediately due and payable. Interest will cease to accrue one day following the date on which the Bonds are declared immediately due and payable. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Bond Indenture Events of Default Related to Payment

Upon a failure to pay when due the principal or interest or the purchase price on the Bonds, the trustee may, and at the written request of the Bank or the holders of more than two-thirds (2/3) in aggregate principal amount of the outstanding Bonds shall declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Expiration / Termination of the Letter of Credit

The LOC shall terminate upon the earliest to occur of: (i) September 29, 2013, the stated expiration date; (ii) the business day following conversion of an interest rate of the Bonds to a rate other than a weekly interest rate; (iii) the day which is fifteen (15) days after trustee's receipt of a notice from the Bank stating that an event of default under the reimbursement agreement has occurred and directing acceleration of the Bonds, (iv) the date an acceleration drawing is honored by the Bank; (v) receipt by the Bank of a certificate from the trustee stating that (A) no Bonds remain outstanding and all draws under the LOC have been made and honored, or (B) a substitute LOC has been issued; or (vi) the date on which a stated maturity drawing that causing the stated amount of the LOC to be reduced to \$0 is honored by the Bank.

Optional Tenders

Bondholders may optionally tender their Bonds on any business day during the weekly rate mode with five (5) business days prior written notice to the trustee and the remarketing agent.

Mandatory Purchases

The Bonds are subject to mandatory purchase on: (i) each interest rate conversion date (ii) any interest reset date, (iii) the fifth (5th) business day prior to the effective date of an alternate letter of credit or (iv) the second (2nd) business day prior to the expiration date of the letter of credit.

What Could Change the Rating-Up

Long-term: The long-term rating on the Bonds would be raised if the long-term bank deposits rating on the Bank was upgraded.

Short-term: Not applicable.

What Could Change the Rating-Down

Long-Term: The long-term rating on the Bonds would be lowered if the long-term bank deposit rating on the Bank was downgraded.

Short-Term: The short-term rating on the Bonds would be lowered if the short-term bank deposit rating on the Bank was downgraded.

Contacts

Remarketing Agent: Bank of America Merrill Lynch

Trustee: The Bank of New York Mellon Trust Company

The principal methodology used in rating this issue was Moody's Rating Methodology for Letter of Credit Supported Transactions rating methodology published in August 2005. Other methodologies and factors that may have been considered in the process of rating this issue can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

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Analysts

Jacek Stolarz
Analyst
Public Finance Group
Moody's Investors Service

Michael J. Loughlin
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

MOODY'S

INVESTORS SERVICE

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New Issue: MOODY'S ASSIGNS LETTER OF CREDIT BACKED RATINGS TO THE MOUNTAIN STATES HEALTH ALLIANCE, SERIES 2011A, 2011B, 2011C, 2011D, AND 2011E

Global Credit Research - 14 Oct 2011

\$211.8 MILLION OF DEBT AFFECTED. RATING IS BASED ON THE JOINT SUPPORT FROM U.S. BANK N.A., PNC BANK, N.A. AND MIZUHO CORPORATE BANK, LTD AS LETTER OF CREDIT PROVIDERS

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Moody's Rating

ISSUE	RATING
Ser. 2011B	A2/VMIG 1
Sale Amount	\$20,000,000
Expected Sale Date	10/19/11
Rating Description	DP LOC

Ser. 2011A	Aa2/VMIG 1
Sale Amount	\$65,260,000
Expected Sale Date	10/19/11
Rating Description	DP LOC

Opinion

NEW YORK, Oct 14, 2011 -- Moody's Investors Service ("Moody's") has assigned ratings of: Aa2/VMIG 1 to the Health and Educational Facilities Board of the City of Johnson City, Tennessee Hospital Revenue Bonds (Mountain States Health Alliance), Series 2011A, and A1/VMIG1 to Series 2011B of that same issue; Aa2/VMIG 1 to the Industrial Development Authority of Smyth County, Virginia Hospital Revenue Bonds (Mountain States Health Alliances), Series 2011C, and Aa3/VMIG 1 to Series 2011D of that same issue; and Aa3/VMIG 1 to the Mountain States Health Alliance Taxable Bonds, Series 2011E (collectively, the "Bonds"). The long-term ratings of Series 2011D and 2011E are on review for downgrade in connection with Moody's ongoing review of Mizuho Corporate Bank, Ltd.

The proceeds of the sale of the Bonds will be used to: (a) finance certain capital expenses at Mountain State Health Alliance facilities; (b) refinance \$11.2 million of the Hospital Refunding and Improvement Revenue Bonds (Norton Community Hospital, Inc.), Series 2001 issued by the Industrial Development Authority of the City of Norton, Virginia; and (c) pay certain expenses incurred in connection with the issuance of the Bonds.

SUMMARY RATINGS RATIONALE

The ratings are based upon: (i) direct-pay letters of credit provided by U.S. Bank National Association for Series 2011A and Series 2011C, PNC Bank, National Association for Series 2011B, and Mizuho Corporate Bank, Ltd. for Series 2011D and Series 2011E; (ii) the structure and legal protections of the transaction which ensure timely payment of debt service and purchase price to bondholders; and (iii) Moody's evaluation of the credit quality of the Banks issuing the letters of credit.

Moody's currently rates U.S. Bank N.A. Aa2 for its long-term other senior obligations ("OSO") and Prime-1 for its short-term OSO. PNC Bank, N.A. is currently rated A2 for its long-term OSO and Prime-1 for its short-term OSO. Mizuho Corporate Bank, Ltd's long-term and short-term issuer ratings are currently A1 (on review for downgrade) and Prime-1, respectively.

DETAILED CREDIT DISCUSSION

Interest Rate Modes

The Bonds will be issued in the weekly rate mode and pay interest on the first business day of each month, commencing November 1, 2011. Each letter of credit provides sufficient coverage for the applicable Series of bonds in the weekly rate mode only. The bond documents permit conversion of the interest rate on the Bonds, in whole, to the medium-term rate or fixed rate modes. The Bonds will be subject to mandatory tender upon each conversion. Moody's rating on the Bonds applies only to Bonds bearing interest in the weekly rate modes.

Flow of Funds

The trustee is instructed to draw under the applicable letter of credit by 4:00 p.m. on the business day prior to the payment date in order to receive funds sufficient to pay the principal, and interest accrued thereon, when the same becomes due. The trustee shall also draw for purchase price under the letter of credit by 11:30 a.m., in accordance with its terms thereof, so as to receive sufficient funds by 2:30 p.m. on the same day to pay the purchase price of Bonds tendered on the purchase date to the extent remarketing proceeds received are insufficient. Bonds which are purchased by the applicable bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received written confirmation from that bank stating that the applicable letter of credit has been reinstated in the amount of the purchase price drawn for such Bonds. (All times refer to Eastern Standard Time).

Letters of Credit

Each letter of credit is sized for the full principal amount plus thirty-seven days of interest at a rate of 12%, the maximum rate on the Bonds. Each letter of credit provides sufficient coverage for the applicable Series of bonds while they bear interest in the weekly rate mode only. Each letter of credit is governed by and construed in accordance with the International Standby Practices 1998, International Chamber of Commerce Publication No. 590 (ISP98).

Draws on the Letters of Credit

Conforming draws for principal or interest received by U.S. Bank N.A., for Series 2011A and 2011C, at or before 3:00 p.m. on a business day will be honored by 1:30 p.m. on the next business day. Conforming draws for purchase price received by U.S. Bank N.A. at or before 11:30 a.m. on a business day will be honored by 1:30 p.m. on the same business day. (All times refer to Central Standard Time).

Conforming draws for principal or interest received by PNC Bank, N.A. or Mizuho Corporate Bank, Ltd., supporting Series 2011B, and 2011D and 2011E, respectively, at or before 4:00 p.m. on a business day will be honored by 2:30 p.m. on the next business day. Conforming draws for purchase price received by those banks at or before 12:30 p.m. on a business day will be honored by 2:30 p.m. on the same business day. (All times refer to Eastern Standard Time).

Reinstatement Of Interest Draws

Draws made under each letter of credit for interest shall be automatically reinstated at the close of business on the date of such payment unless the trustee receives written notice from the applicable bank by 3:00 p.m. (Central Standard Time) in the case of Series 2011A or 2011C bonds, or 4:00 p.m. (Eastern Standard Time) in the case of Series 2011B, 2011D, or 2011E on the date of such payment specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of Bonds. With direction to accelerate the applicable Series of bonds, the trustee shall declare bonds of that Series then outstanding to be immediately due and payable, whereupon they shall become and be immediately due and payable. The trustee is instructed to immediately draw on the letter of credit. Interest will cease to accrue one calendar day following the trustee's declaration of acceleration.

Reimbursement Agreement Defaults

In the event of a default under the reimbursement agreement, the applicable bank may, at its option, deliver written notice to the trustee stating that such event of default under the reimbursement agreement has occurred and direct the trustee to accelerate the applicable Series of bonds. With direction to accelerate the applicable Series of Bonds, the trustee shall declare bonds of that Series then outstanding to be immediately due and payable, whereupon they shall become and be immediately due and payable. The trustee is instructed to immediately draw on the letter of credit. Interest will cease to accrue one calendar day following the trustee's declaration of

acceleration. The applicable letter of credit will terminate on the fifteenth calendar day following the trustee's receipt of notice from the applicable bank specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of bonds.

Expiration/Termination of the Letters of Credit

Each letter of credit will terminate upon the earliest to occur of: (i) close of business on October 19, 2014, the stated expiration date of the applicable letter of credit; (ii) the business day following the conversion of all of the applicable Series of bonds to a rate mode other than the weekly rate; (iii) the date the bank receives notice from the trustee specifying that (a) no applicable bonds of a Series remain outstanding and all required draws available under the applicable letter of credit have been made and honored, or (b) an effective substitute letter of credit has been issued to replace the applicable letter of credit; (iv) the date on which an acceleration drawing is honored by the applicable bank; (v) fifteen calendar days following the trustee's receipt of notice from the applicable bank specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of bonds; or, (vi) the date on which a stated maturity drawing is honored by the applicable bank.

Substitution

The Bonds will be subject to mandatory tender on fifth business day prior to the effective date of a substitute letter of credit. Draws for purchase price upon the substitution of the letter of credit will be made under the existing letter of credit and the existing letter of credit will not be surrendered to the bank for cancellation until such tender draw has been honored.

Optional Tenders

Bondholders may optionally tender their Bonds, while the Bonds are in the weekly rate mode, on any business day by providing written notice to the trustee and remarketing agent by 3:00 p.m. at least five business days prior to the purchase date. (All times refer to Eastern Standard Time).

Mandatory Tenders

The Bonds are subject to mandatory tender on: (i) on any interest rate mode conversion date, or any proposed interest rate mode conversion date; (ii) on the fifth business day preceding the effective date of a substitute letter of credit; (iii) on the adjustment date while the Bonds bear interest at the medium-term rate; (iv) on the first calendar day of a weekly rate period following a medium-term rate period; and (v) on the second business day prior to the expiration date of the letter of credit.

What Could Change the Rating - Up

Long-Term: The long-term rating on the applicable Series of bonds could be raised if the long-term rating of the applicable bank was upgraded.

Short-Term: Not applicable.

What Could Change the Rating - Down

Long-Term: The long-term rating on the applicable Series of bonds could be lowered if the long-term rating of the applicable bank was downgraded.

Short-Term: The short-term rating on the applicable Series of bonds would be lowered if the short-term rating of the applicable bank was downgraded.

Key Contacts:

Trustee: The Bank of New York Mellon Trust Company, N.A.

Underwriter: BofA Merrill Lynch (for Series 2011A, 2011B, 2011D, and 2011E) and U.S. Bank N.A. (for Series 2011C)

Remarketing Agent: Merrill Lynch, Pierce, Fenner & Smith (for Series 2011A, 2011B, 2011D, and 2011E) and U.S. Bank N.A. (for Series 2011C)

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Moody's Methodology for Rating U.S. Public Finance Transactions Based on the Credit Substitution Approach (August 2009). Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

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Analysts

Ian Rogow
Analyst
Public Finance Group
Moody's Investors Service

Robert Azrin
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376

Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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Global Credit Research - 17 Oct 2011

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Smyth County Ind. Dev. Auth., VA
Fully Supported
VA

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The proceeds of the sale of the Bonds will be used to: (a) finance certain capital expenses at Mountain State Health Alliance facilities; (b) refinance \$11.2 million of the Hospital Refunding and Improvement Revenue Bonds (Norton Community Hospital, Inc.), Series 2001 issued by the Industrial Development Authority of the City of Norton, Virginia; and (c) pay certain expenses incurred in connection with the issuance of the Bonds.

SUMMARY RATINGS RATIONALE

The ratings are based upon: (i) direct-pay letters of credit provided by U.S. Bank National Association for Series 2011A and Series 2011C, PNC Bank, National Association for Series 2011B, and Mizuho Corporate Bank, Ltd. for Series 2011D and Series 2011E; (ii) the structure and legal protections of the transaction which ensure timely payment of debt service and purchase price to bondholders; and (iii) Moody's evaluation of the credit quality of the Banks issuing the letters of credit.

Moody's currently rates U.S. Bank N.A. Aa2 for its long-term other senior obligations ("OSO") and Prime-1 for its short-term OSO. PNC Bank, N.A. is currently rated A2 for its long-term OSO and Prime-1 for its short-term OSO. Mizuho Corporate Bank, Ltd's long-term and short-term issuer ratings are currently A1 (on review for downgrade) and Prime-1, respectively.

DETAILED CREDIT DISCUSSION

Interest Rate Modes

The Bonds will be issued in the weekly rate mode and pay interest on the first business day of each month, commencing November 1, 2011. Each letter of credit provides sufficient coverage for the applicable Series of bonds in the weekly rate mode only. The bond documents permit conversion of the interest rate on the Bonds, in whole, to the medium-term rate or fixed rate modes. The Bonds will be subject to mandatory tender upon each conversion. Moody's rating on the Bonds applies only to Bonds bearing interest in the weekly rate modes.

Flow of Funds

The trustee is instructed to draw under the applicable letter of credit by 4:00 p.m. on the business day prior to the payment date in order to receive funds sufficient to pay the principal, and interest accrued thereon, when the same becomes due. The trustee shall also draw for purchase price under the letter of credit by 11:30 a.m., in accordance with its terms thereof, so as to receive sufficient funds by 2:30 p.m. on the same day to pay the

purchase price of Bonds tendered on the purchase date to the extent remarketing proceeds received are insufficient. Bonds which are purchased by the applicable bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received written confirmation from that bank stating that the applicable letter of credit has been reinstated in the amount of the purchase price drawn for such Bonds. (All times refer to Eastern Standard Time).

Letters of Credit

Each letter of credit is sized for the full principal amount plus thirty-seven days of interest at a rate of 12%, the maximum rate on the Bonds. Each letter of credit provides sufficient coverage for the applicable Series of bonds while they bear interest in the weekly rate mode only. Each letter of credit is governed by and construed in accordance with the International Standby Practices 1998, International Chamber of Commerce Publication No. 590 (ISP98).

Draws on the Letters of Credit

Conforming draws for principal or interest received by U.S. Bank N.A., for Series 2011A and 2011C, at or before 3:00 p.m. on a business day will be honored by 1:30 p.m. on the next business day. Conforming draws for purchase price received by U.S. Bank N.A. at or before 11:30 a.m. on a business day will be honored by 1:30 p.m. on the same business day. (All times refer to Central Standard Time).

Conforming draws for principal or interest received by PNC Bank, N.A. or Mizuho Corporate Bank, Ltd., supporting Series 2011B, and 2011D and 2011E, respectively, at or before 4:00 p.m. on a business day will be honored by 2:30 p.m. on the next business day. Conforming draws for purchase price received by those banks at or before 12:30 p.m. on a business day will be honored by 2:30 p.m. on the same business day. (All times refer to Eastern Standard Time).

Reinstatement Of Interest Draws

Draws made under each letter of credit for interest shall be automatically reinstated at the close of business on the date of such payment unless the trustee receives written notice from the applicable bank by 3:00 p.m. (Central Standard Time) in the case of Series 2011A or 2011C bonds, or 4:00 p.m. (Eastern Standard Time) in the case of Series 2011B, 2011D, or 2011E on the date of such payment specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of Bonds. With direction to accelerate the applicable Series of bonds, the trustee shall declare bonds of that Series then outstanding to be immediately due and payable, whereupon they shall become and be immediately due and payable. The trustee is instructed to immediately draw on the letter of credit. Interest will cease to accrue one calendar day following the trustee's declaration of acceleration.

Reimbursement Agreement Defaults

In the event of a default under the reimbursement agreement, the applicable bank may, at its option, deliver written notice to the trustee stating that such event of default under the reimbursement agreement has occurred and direct the trustee to accelerate the applicable Series of bonds. With direction to accelerate the applicable Series of Bonds, the trustee shall declare bonds of that Series then outstanding to be immediately due and payable, whereupon they shall become and be immediately due and payable. The trustee is instructed to immediately draw on the letter of credit. Interest will cease to accrue one calendar day following the trustee's declaration of acceleration. The applicable letter of credit will terminate on the fifteenth calendar day following the trustee's receipt of notice from the applicable bank specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of bonds.

Expiration/Termination of the Letters of Credit

Each letter of credit will terminate upon the earliest to occur of: (i) close of business on October 19, 2014, the stated expiration date of the applicable letter of credit; (ii) the business day following the conversion of all of the applicable Series of bonds to a rate mode other than the weekly rate; (iii) the date the bank receives notice from the trustee specifying that (a) no applicable bonds of a Series remain outstanding and all required draws available under the applicable letter of credit have been made and honored, or (b) an effective substitute letter of credit has been issued to replace the applicable letter of credit; (iv) the date on which an acceleration drawing is honored by the applicable bank; (v) fifteen calendar days following the trustee's receipt of notice from the applicable bank specifying the occurrence of an event of default under the reimbursement agreement and directing the trustee to accelerate the applicable Series of bonds; or, (vi) the date on which a stated maturity drawing is honored by the

applicable bank.

Substitution

The Bonds will be subject to mandatory tender on fifth business day prior to the effective date of a substitute letter of credit. Draws for purchase price upon the substitution of the letter of credit will be made under the existing letter of credit and the existing letter of credit will not be surrendered to the bank for cancellation until such tender draw has been honored.

Optional Tenders

Bondholders may optionally tender their Bonds, while the Bonds are in the weekly rate mode, on any business day by providing written notice to the trustee and remarketing agent by 3:00 p.m. at least five business days prior to the purchase date. (All times refer to Eastern Standard Time).

Mandatory Tenders

The Bonds are subject to mandatory tender on: (i) on any interest rate mode conversion date, or any proposed interest rate mode conversion date; (ii) on the fifth business day preceding the effective date of a substitute letter of credit; (iii) on the adjustment date while the Bonds bear interest at the medium-term rate; (iv) on the first calendar day of a weekly rate period following a medium-term rate period; and (v) on the second business day prior to the expiration date of the letter of credit.

What Could Change the Rating - Up

Long-Term: The long-term rating on the applicable Series of bonds could be raised if the long-term rating of the applicable bank was upgraded.

Short-Term: Not applicable.

What Could Change the Rating - Down

Long-Term: The long-term rating on the applicable Series of bonds could be lowered if the long-term rating of the applicable bank was downgraded.

Short-Term: The short-term rating on the applicable Series of bonds would be lowered if the short-term rating of the applicable bank was downgraded.

Key Contacts:

Trustee: The Bank of New York Mellon Trust Company, N.A.

Underwriter: BofA Merrill Lynch (for Series 2011A, 2011B, 2011D, and 2011E) and U.S. Bank N.A. (for Series 2011C)

Remarketing Agent: Merrill Lynch, Pierce, Fenner & Smith (for Series 2011A, 2011B, 2011D, and 2011E) and U.S. Bank N.A. (for Series 2011C)

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Moody's Methodology for Rating U.S. Public Finance Transactions Based on the Credit Substitution Approach (August 2009). Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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Analysts

Ian Rogow
Analyst
Public Finance Group
Moody's Investors Service

Robert Azrin
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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INVESTORS SERVICE

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MOODY'S

INVESTORS SERVICE

Rating Update: MOODY'S AFFIRMS Aa3/VMIG 1 LETTER OF CREDIT-BACKED RATING TO THE HEALTH AND EDUCATIONAL FACILITIES BOARD OF CITY OF JOHNSON CITY, TN HOSPITAL REVENUE BONDS (MOUNTAIN STATES HEALTH ALLIANCE) SERIES 2007 B-3

Global Credit Research - 25 Oct 2010

\$58.5 MILLION IN DEBT AFFECTED. LONG-TERM JDA RATING BASED ON LONG-TERM RATINGS OF MIZUHO CORPORATE BANK LTD. AND MOUNTAIN STATES HEALTH ALLIANCE

Johnson City Health & Educ. Fac. Bd., TN
Fully Supported
TN

Opinion

NEW YORK, Oct 25, 2010 -- Moody's Investors Service has affirmed Aa3/VMIG 1 rating currently assigned to the Health and Educational Facilities Board of City of Johnson City, TN Hospital Revenue Bonds (Mountain States Health Alliance) Series 2007 B-3 (the Bonds) in connection with the application of the joint default analysis methodology.

RATING RATIONALE

The long term rating which was previously based on the long-term rating of the Bank will now be based on a joint default analysis (JDA) which reflects Moody's approach to rating jointly supported transactions. The JDA rating is based upon the long-term rating of Mizuho Corporate Bank, LTD (Bank) as provider of the letter of credit (LOC); the underlying rating of the Bonds; and the structure and legal protections of the transaction which ensures timely debt service payments to investors. The timely payment of purchase price is reflected in the short-term rating of the Bonds. The short-term rating of the Bonds is based upon the short-term rating of the Bank as provider of the letter of credit.

Mizuho Corporate Bank, LTD is currently rated Aa3 for long-term bank deposits and Prime-1 for short-term bank deposits. Moody's maintains Baa1 underlying rating on the Bonds.

Since a loss to investors would occur only if both the Bank and Mountain States Health Alliance (the Borrower) default in payment, Moody's has assigned the long-term portion of the rating based upon the joint probability of default by both parties. In determining the joint probability of default, Moody's considers the level of default dependence between the Bank and the Borrower. Moody's has determined that there is a high level of default dependence between the Bank and the Borrower. As a result, the joint probability of default for the Bank and the Borrower results in a credit risk consistent with a JDA rating of Aa3 for the Bonds.

Interest Rate Modes and Payment

The Bonds will bear interest in a weekly rate mode and interest will be paid on the first business day of each month. The bond trust indenture permits conversion of the Bonds, in whole, to a medium term or fixed interest rate period and upon any conversion the Bonds will be subject to mandatory purchase. The rating applies to the Bonds bearing interest in the weekly period only.

Additional Bonds

No additional bonds shall be issued under the bond trust indenture.

Flow of Funds

The trustee is instructed to draw under the LOC on or before 4:00 p.m., New York City time, on the business day prior to any principal and interest payment date, in accordance with the LOC so as to receive moneys on the next business day in amount sufficient for the payment in full of the principal and interest due on the Bonds. If the Bank

fails to honor a draw under the LOC, the trustee shall immediately notify the Borrower and demand payment of such amount. The trustee is also instructed to draw under the LOC by 11:30 a.m., New York City time, on each purchase date to the extent remarketing proceeds are insufficient. Bonds which are purchased by the Bank due to a failed remarketing are held by the trustee and will not be released until the trustee has received confirmation from the Bank stating that the LOC has been reinstated in the amount of the purchase price drawn for such Bonds.

Letter of Credit

The LOC is sized for full principal plus 37 days of interest at the maximum rate applicable to the Bonds (12%) calculated based on 360 days year and will provide coverage for the Bonds while they bear interest in the weekly rate mode.

Draws on the Letter of Credit

Conforming draws for principal and interest presented to the Bank at or before 4:00 p.m., New York City time, on a business day, will be honored by the Bank no later than 2:30 p.m., New York City time, on the next business day. Conforming draws for purchase price presented to the Bank at or before 12:00 noon, New York City time, on a business day, will be honored by such Bank no later than 2:30 p.m., New York City time, on such business day.

Substitution of the Letter of Credit

The Bonds will be subject to mandatory tender on the fifth (5th) business day prior to substitution of the LOC. Draws for purchase price upon the substitution will be made under the existing LOC and the existing LOC will not be surrendered to the Bank for cancellation until after such tender draw is honored.

Reinstatement of Interest Draws

Draws made under the LOC for interest shall be automatically reinstated at the close of business on the date of payment of such interest drawing unless the trustee receives from the Bank a notice by 4:00 p.m. New York City time, on such payment date stating that the Bank has not been reimbursed for such drawing or that an event of default under the reimbursement agreement has occurred. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Reimbursement Agreement Defaults

Upon an event of default under the reimbursement agreement, the Bank may direct the trustee to accelerate the Bonds. Upon receipt of such notice, the trustee will declare the principal of and accrued interest on the Bonds immediately due and payable. Interest will cease to accrue one day following the date on which the Bonds are declared immediately due and payable. Upon receipt of such notice the trustee will immediately declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Bond Indenture Events of Default Related to Payment

Upon a failure to pay when due the principal or interest or the purchase price on the Bonds, the trustee may, and at the written request of the Bank or the holders of more than two-thirds (2/3) in aggregate principal amount of the outstanding Bonds shall declare the principal of and accrued interest on the Bonds due and payable and interest on such Bonds will cease to accrue on the day it becomes payable, which day shall be one business day after declaration of acceleration.

Expiration / Termination of the Letter of Credit

The LOC shall terminate upon the earliest to occur of: (i) September 29, 2013, the stated expiration date; (ii) the business day following conversion of an interest rate of the Bonds to a rate other than a weekly interest rate; (iii) the day which is fifteen (15) days after trustee's receipt of a notice from the Bank stating that an event of default under the reimbursement agreement has occurred and directing acceleration of the Bonds, (iv) the date an acceleration drawing is honored by the Bank; (v) receipt by the Bank of a certificate from the trustee stating that (A) no Bonds remain outstanding and all draws under the LOC have been made and honored, or (B) a substitute LOC has been issued; or (vi) the date on which a stated maturity drawing that causing the stated amount of the LOC to be reduced to \$0 is honored by the Bank.

Optional Tenders

Bondholders may optionally tender their Bonds on any business day during the weekly rate mode with five (5) business days prior written notice to the trustee and the remarketing agent.

Mandatory Purchases

The Bonds are subject to mandatory purchase on: (i) each interest rate conversion date (ii) any interest reset date while the Bonds are in the medium-term rate period, (iii) the fifth (5th) business day prior to the effective date of an alternate letter of credit or (iv) the second (2nd) business day prior to the expiration date of the letter of credit.

What Could Change the Rating-Up

Long-Term: the long-term rating on the Bonds could be upgraded if the Bank's long-term deposits rating or the long-term rating of the Borrower was upgraded, or if there was a decrease in the level of default dependence between the Bank and the Borrower.

Short-Term: N/A

What Could Change the Rating-Down

Long-Term: the long-term rating on the Bonds could be lowered if the Bank's long term deposits rating or the long-term rating of the Borrower was downgraded, or if there is an increase in the level of default dependence between the Bank and the Borrower.

Short-Term: the short-term rating on the Bonds could be lowered if the Bank's short-term deposits rating was downgraded.

Methodology

The principal methodologies used in rating this issue were Moody's Rating Methodology for Letter of Credit Supported Transactions published in August 2005 and Applying Global Joint Default Analysis to Letter of Credit Backed Transactions in the U.S. Public Finance Sector published in September 2010. Other methodologies and factors that may have been considered in the process of rating this issue can also be found on Moody's website.

Contacts

Remarketing Agent: Bank of America Merrill Lynch

Trustee: The Bank of New York Mellon Trust Company

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Analysts

Jacek Stolarz
Analyst
Public Finance Group
Moody's Investors Service

Robert Azrin
Senior Credit Officer
Public Finance Group

Moody's Investors Service

Contacts

Journalists: (212) 553-0376

Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

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Moody's Investors Service

**Rating Update: MOODY'S AFFIRMS MOUNTAIN STATES HEALTH ALLIANCE'S (TN) Baa1
UNENHANCED RATING IN ANTICIPATION OF UPCOMING REFINANCING STRUCTURE;
OUTLOOK REMAINS STABLE**

Global Credit Research - 22 Dec 2009

**MOUNTAIN STATES HEALTH ALLIANCE HAS A TOTAL OF \$1.01 BILLION OF RATED DEBT PROPOSED TO BE
OUTSTANDING**

Health Care-Hospital
TN

Opinion

NEW YORK, Dec 22, 2009 -- Moody's Investors Service has affirmed the Baa1 unenhanced rating assigned to Mountain States Health Alliance's (MSHA) \$971 million of rated debt outstanding issued through various authorities (see RATED DEBT section below). The outlook remains stable. MSHA anticipates issuing approximately \$311 million of fixed rate bonds in early 2010 to refund certain outstanding bond issues and establish a debt service reserve fund. The financing documents have not been drafted at this time.

LEGAL SECURITY: The bonds are secured by a security interest in the Pledged Assets (receivables, inventory, equipment, general intangibles, contracts and contract rights, government approvals, fixtures and other personal property, goods, instruments, chattel paper, documents, credits, claims, demands and assets) and a first lien on the Mortgaged Property, which includes the major hospitals, subject to certain permitted liens.

INTEREST RATE DERIVATIVES: MSHA is a party to interest rate swaps and other derivative agreements to establish floating rate exposure and to reduce fixed rate debt service. MSHA holds three basis swaps, two fixed payer swaps and one total return swap with Merrill Lynch Capital Services Inc. (guaranteed by Merrill Lynch & Co) for a total notional amount of \$570 million. The fair market value of the swaps at December 18, 2009 was a liability of \$13.0 million, against which MSHA posted \$0 million in collateral.

MSHA holds eight additional agreements (\$50 million notional amount) with Lehman Brothers Special Financing, Inc. (Lehman) for various notional amounts that are linked fixed payer and total return swaps. Fair market value of the swap at January 31, 2009 was a liability of \$11.0 million, against which MSHA has posted \$12.6 million of collateral (collateral is not included in unrestricted cash). Lehman filed for bankruptcy and the swaps were terminated effective January 1, 2009. There is a dispute between MSHA and Lehman regarding the cost of such termination, which is currently under discussion. MSHA has stated that it believes that the amount of the posted collateral should be sufficient to pay the cost of the terminations.

In addition, MSHA has two outstanding interest rate swaptions, four float contracts and five forward sale agreements with Bear Stearns Capital Markets, Inc. (guaranteed by Bear Stearns Companies, Inc., acquired by JP Morgan) whereby MSHA received advance payments that have been placed in a guaranteed investment contract as collateral against the agreements (this collateral is not included in unrestricted cash). As of November 30, 2009 the liability on the swaptions, float contracts and forward sale agreements exceeded the collateral by \$1.5 million. MSHA has the option to terminate the swaptions on July 1, 2011 at a predetermined price equal to the value of the collateral on deposit with Bear Stearns or to hold the swaptions to maturity and let them expire. Given the terms of the agreements, the collateral held against the derivative transactions and MSHA's credit profile and strong liquidity position, we believe the transactions do not detract from the Baa1 rating.

STRENGTHS

*Multi-hospital system with strong and growing leading market share in a large geographic region where the flagship facility serves as a regional referral center offering a wide array of high-end services for hospitals in Tennessee and Virginia

*Multi-year growth in volumes with acquisitions

*Strong and stable operating cash flow margins in the 11.4% to 16.7% range in each of the past fifteen audit years, with volume increases contributing to cash flow growth; projected operating cash flow margins remain in the double

digits

*Good liquidity position with 242 days cash on hand at fiscal year end (FYE) 2009 (June 30) and 225 days as of September 30, 2009

*Reduction in exposure to variable rate debt and exposure to tenders under letter of credit supported debt, increasing fixed rate debt to 73% from 45% of total debt outstanding; pro forma cash-to-puttable debt at 171%

*Tenured management team

CHALLENGES

*Very high debt burden evidenced by a low 48% cash-to-debt ratio, high 9.9 times debt-to-cash flow ratio and moderate Moody's-adjusted maximum annual debt service coverage of 2.39 times as compared with Moody's Baa1 medians of 72%, 5.7 times and 3.2 times, respectively

*Capital spending projected to remain high in the near term with major spending on consolidation of two smaller Johnson City facilities into a single replacement facility, and capital commitment for investment into new 80% owned Smyth County Community Hospital and capital commitment for Johnston Memorial Hospital; however, no new debt is currently expected in connection with these projects and several have already been financed with debt in whole or in part;

*Sizable and consistent competition from Wellmont Health System, which holds a close but lesser market share (37% vs. 30%) in the extended 29-county service area and a significantly smaller market share (52% versus 37%) in the 13-county core service area, but has been increasing its presence in the extended service area through acquisition

*High 22.3% TennCare/Medicaid and self-pay load

MARKET POSITION/COMPETITIVE STRATEGY: DOMINANT MARKET POSITION IN JOHNSON CITY, WITH LEADING MARKET POSITION IN 13-COUNTY CORE AREA AND 29-COUNTY EXTENDED SERVICE AREA

MSHA, a multi-hospital system operating ten acute care hospitals and 14 facilities in northeastern Tennessee, southwest Virginia, southeast Kentucky and western North Carolina, gains much credit strength from its dominant 90% market share in Washington County, TN where it operates six of its facilities, including its flagship 583-licensed bed Johnson City Medical Center (JCMC), and is the only provider of acute care services. JCMC includes the 60-licensed bed Quillen Rehabilitation Hospital, providing a complete array of rehabilitative services for brain injury, stroke, and spinal cord injury and the 75-licensed bed Woodridge Hospital offering inpatient psychiatric and substance abuse services (purchased in 2005). MSHA also holds a leading 51.8% market position in its combined 13-county primary and secondary service areas (PSA/SSA), and a leading and consistent 36.7% market share in its 29-county extended service area. Competition is limited to one multi-hospital system (Wellmont Health System) and several small independent rural providers. Wellmont Health System operates four of its eight hospitals in MSHA's core market, garnering a distant 37.5% market share in the core service area, but a close 29.5% market share in the extended 29-county service area. Many of the rural hospitals in the primary and secondary service area are affiliated with MSHA through network affiliations.

JCMC is a regional referral center for northeastern Tennessee offering a full array of acute care services, including one of only five state-designated Level III Regional Perinatal Centers, a Level I trauma center, and performs kidney and pancreatic transplants. Also in Johnson City is 91-licensed bed North Side Hospital offering acute care and skilled nursing services, and 36-licensed bed Johnson City Specialty Hospital offering inpatient and outpatient obstetrical, gynecological and otorhinolaryngologic (ear, nose & throat) services. MSHA also owns Indian Path Medical Center and Pavilion located in Kingsport (Sullivan County), which competes against the much larger Wellmont facilities, Sycamore Shoals Hospital located in Elizabethton (Carter County) with no direct competition, and the designated critical access hospital Johnson County Community Hospital in Johnson County.

MSHA opened its newly constructed free-standing children's hospital in March 2009. It is the region's first free-standing children's hospital. In addition, MSHA is constructing a single 80-bed replacement facility for its North Side Hospital and Johnson City Specialty Hospital facilities. The new hospital will provide much more state-of-the-art care, replacing two much older facilities. Along with the relocation of certain long-term care beds to Quillen and acute care beds to JCMC, the project is estimated to cost \$120 million and to be funded 50% from cash flow and 50% from proceeds of the Series 2008 bonds.

In November 2006, MSHA began an expansion strategy in Virginia with the purchase of an 80% interest in 154-licensed general acute care/109 long-term care bed Smyth County Community Hospital (SCCH) located in Marion, Virginia. MSHA committed to \$48 million in capital improvements with the acquisition, of which \$28 million has yet to

be invested. In October 2007, MSHA acquired a 50.1% equity interest in 129-licensed bed Norton Community Hospital and 25-licensed bed Dickenson Community Hospital (Clintwood). The Series 2007 bond issues included \$52 million to support capital commitments at these new facilities. Effective January 31, 2008 MSHA acquired 78-licensed bed Russell County Medical Center in Lebanon, Virginia. Approximately \$53 million of Series 2008 bond proceeds financed this acquisition and provided funds for capital expenditures. In April 2009 MSHA acquired a 50.1% interest in Johnston Memorial Hospital (revenue bonds rated A3) in Abington, VA, committing to invest \$132 million for capital; \$100 million of the proceeds from the Series 2009C bonds will be used to fund a portion of this commitment.

MSHA's main competitor, Wellmont Health System, has also expanded with the acquisition of 133-licensed bed Mountainview Regional Medical Center also located in Norton, VA, and 50-bed Lee Regional Medical Center located in Pennington Gap, VA. Wellmont Health System is an eight hospital system with hospitals in TN, VA and KY, some of which compete directly with MSHA facilities.

OPERATING PERFORMANCE: OPERATING CASH FLOW MARGIN REMAINS CONSISTENTLY STRONG

FY 2009 operating profit grew to \$6.4 million from \$0.4 million the prior year (including capitalized interest of \$596,000 and \$3.7 million in FY 2009 and FY 2008, respectively), but operating margin remains modest at 0.8%. Operating cash flow increased \$12.0 million to \$120.8 million to generate a strong 14.4% margin. MSHA's operating cash flow margins remain strong and have consistently ranged between 11.4% and 16.7% in each of the past fifteen audit years. The expansion into Virginia along with volume growth contributed to a very good 13.1% growth in revenues in FY 2009. Projected operating cash flow margins remain in the double digit teens.

Debt-to-cash flow improved in FY 2009 but remains high at 9.90 times (Baa1 median of 5.7 times). Moody's-adjusted MADS coverage is adequate at 2.39 times in FY 2009, but again unfavorable to the Baa1 median of 3.2 times. Management is forecasting for improvement in these ratios with major capital projects completed or near completion through 2011. There are no additional facility expansion plans at this time, and management plans to focus on integrating the new Virginia hospitals into the system.

BALANCE SHEET POSITION: DEBT LOAD REMAINS HIGH; ABSOLUTE LIQUIDITY GROWTH BUT RELATIVE LIQUIDITY FLAT TO DECLINING

Unrestricted liquidity improved 12% in FY 2009 to \$515.1 million from \$458.7 million at FYE 2008 despite unfavorable market returns on investments, yet cash on hand remained stable at 242 days due to growth in the expense base with the addition of Johnston Memorial in Virginia. FY 2009 liquidity was unfavorably impacted by the \$18 million cash defeasance of part of the Series 2006C bonds, but favorably impacted by a reduction in capital spending from cash flow. Absolute liquidity continued to grow in the first three months of FY 2010 to reach \$544.8 million yet, again, cash on hand (annualized) declined due to expense growth, to 225 days. Nonetheless, MSHA has maintained greater than 200 days' cash on hand in each of the past six audited years.

The debt load remains high, reaching \$1.072 billion at FYE 2009 with the addition of debt to finance the capital contribution for Johnston Memorial in Virginia and the consolidation of Johnston Memorial's \$34 million of outstanding debt into the financial statements. MSHA's debt-to-revenue of 128% at FYE 2009 is one of the highest in our portfolio. Moody's notes that outstanding debt has increased annually since FY 2002, due largely to expansion into Virginia as well as the major capital projects for the new children's hospital and the replacement hospital for Northside and Johnson Specialty. As a result of the high debt load cash-to-debt remains low at 48% at FYE 2009 (Baa1 median of 72%). Management is forecasting for steady, annual improvement in the cash-to-debt ratio. The only potential near term debt plan is to provide up to \$30 million of capital funding for Smyth Hospital. Moody's will evaluate the impact of additional debt as funding plans are finalized.

With the current refinancing, MSHA is restructuring its debt portfolio to reduce variable rate risk exposure and risk of tendered bonds by refunding certain variable rate debt instruments. We note that approximately \$295 million of outstanding debt is scheduled to remain outstanding as variable rate puttable debt supported by letters of credit (LOCs) that expire in December 2012. MSHA's current liquidity comfortably covers potential puttable debt by 171%. MSHA has 367 days from the provision of a draw for tendered bonds to repay Regions Bank for the draw. Covenants in the LOCs include a maximum annual debt service coverage ratio of no less than 1.3 times for the obligated group, and a days' cash-on-hand ratio for the obligated group. The days cash covenant requires no less than 110 days or a consultant must be brought in, no less than 100 days in any case, and if it falls below 150 days then the debt service reserve funds supported by the LOCs must be fully funded with cash or a letter of credit.

Outlook

The stable outlook reflects our belief that MSHA will continue to generate strong and stable operating cash flow margins to support its high debt load. We believe liquidity will improve barring any major negative fair market value adjustments. Management is considering additional debt in the near-term to support capital investments in recent

hospital acquisitions. We will evaluate the rating impact of future debt issues as plans develop.

What could change the rating--UP

Continued growth in operating cash flow to support the high debt load; material improvement in debt measures; regrowth of liquidity; increased diversification of cash flow

What could change the rating--DOWN

Increase in debt load without commensurate increase in cash flow; notable loss in market share; trend of decline in operating cash flow; material decline or loss of supplemental payments for servicing the Medicaid and indigent populations

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Mountain States Health Alliance

-First number reflects the audit year ended June 30, 2008

-Second number reflects audit year ended June 30, 2009

-Expenses include capitalized interest of \$0.6 million and \$3.7 million in FY 2009 and FY 2008, respectively

-Investment returns smoothed at 6% unless otherwise noted

*Inpatient admissions: 54,307; 57,127

*Total operating revenues: \$743.6 million; \$839.9 million

*Moody's-adjusted net revenue available for debt service: \$139.2 million; \$154.1 million

*Total debt outstanding: \$938 million; \$1.072 billion

*Maximum annual debt service (MADS): \$54.9 million; \$64.4 million

*MADS Coverage based on reported investment income: 2.66 times; 2.11

*Moody's-adjusted MADS Coverage: 2.53 times; 2.39 times

*Debt-to-cash flow: 10.32 times; 9.90 times

*Days cash on hand: 2424 days; 242 days

*Cash-to-debt: 49%; 48%

*Operating margin: 0.1%; 0.8%

*Operating cash flow margin: 14.7%; 14.4%

RATED DEBT (as of November 30, 2009):

Issued by The Health and Educational Facilities Board of the City of Johnson City, Tennessee:

-Series 2009A fixed rate term bonds (\$5.6 million outstanding), rated Baa1

-Series 2008A Variable Rate Hospital Revenue Bonds variable rate (\$72.8 million outstanding) rated Aa3/VMIG 2 supported by letter of credit with Regions Bank expiring December 14, 2012; Baa1 unenhanced rating

-Series 2008B Variable Rate Hospital Revenue Bonds variable rate (\$54.1 million outstanding) rated Aa3/VMIG 2 supported by letter of credit with Regions Bank expiring December 14, 2012; Baa1 unenhanced rating

-Series 2007A Variable Rate Hospital Revenue Bonds (\$95.9 million outstanding), joint support rating of Aa3/VMIG 2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

-Series 2007B Variable Rate Hospital Revenue Bonds (\$314.2 million outstanding), joint support rating of Aa3/VMIG 2

with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

-Series 2006A Fixed Rate First Mortgage Revenue Bonds, serial and term bonds (\$170.3 million outstanding), rated Baa1

-Series 2001A Fixed Rate Hospital First Mortgage Revenue Term Bonds (\$23.9 million outstanding), rated Baa1

-Series 2000A Hospital First Mortgage Revenue Refunding Capital Appreciation Bonds (\$26.6 million outstanding), certain bonds insured by MBIA, Baa1 unenhanced rating

-Series 2000C Fixed Rate Hospital First Mortgage Revenue Term Bonds (Taxable) (\$35.3 million outstanding), insured by MBIA, Baa1 unenhanced rating

Issued by Industrial Development Authority of Smyth County, Virginia:

-Series 2009B fixed rate term bonds (\$5.5 million outstanding), rated Baa1

-Series 2007C Variable Rate Hospital Revenue Bonds (\$34.7 million outstanding), joint support rating of Aa3/MMIG2 with letter of credit from Regions Bank expiring December 31, 2012, Baa1 unenhanced rating

Issued by Industrial Development Authority of Washington County, Virginia:

-Series 2009C fixed rate term bonds (\$116.0 million outstanding), rated Baa1

Direct Obligation of Mountain States Health Alliance:

-Series 2000D Fixed Rate First Mortgage Term Bonds (Taxable) (\$15.2 million outstanding), insured by MBIA, Baa1 unenhanced rating

CONTACTS

Obligor: Marvin Eichorn, Senior Vice President and Chief Financial Officer, Mountain States Health Alliance (423) 431-1017

Underwriter: Jeff Newhams, Managing Director, BofA Merrill Lynch (212) 449-0641

Financial Advisor: Steve Pischke, President, The Public Advisory Corporation (540) 687-6755

The last rating action on Mountain States Health Alliance was on March 6, 2009 when the Baa1 ratings were affirmed with a stable outlook.

The principal methodology used in rating Mountain States Health Alliance was Moody's Rating Methodology: Not-For-Profit Hospitals and Health Systems, published in January 2008 and available on www.moody's.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating Mountain States Health Alliance can also be found in the Rating Methodologies sub-directory on Moody's website.

Analysts

Kay Sifferman
Analyst
Public Finance Group
Moody's Investors Service

Sarah A. Vennekotter
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653



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Summary:

Johnson City Health and Educational Facilities Board, Tennessee Mountain States Health Alliance; Joint Criteria

Primary Credit Analyst:

Chi W Tang, New York (1) 212-438-7989; chi.tang@standardandpoors.com

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Rationale

Related Criteria And Research

Summary:

Johnson City Health and Educational Facilities Board, Tennessee Mountain States Health Alliance; Joint Criteria

Credit Profile

The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee

Mountain States Hlth Alliance, Tennessee

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) VRDO ser 2011A

<i>Long Term Rating</i>	AAA/A-1+	Current
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Current

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) VRDO ser 2011B

<i>Long Term Rating</i>	AA+/A-1	Current
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Current

Rationale

Standard & Poor's Ratings Services confirmed its 'AAA/A-1+' and 'AA+/A-1' ratings on Johnson City Health and Educational Facilities Board, Tenn.'s (Mountain States Health Alliance) series 2011A and 2011B variable-rate demand revenue bonds, respectively, due to the issuers' bank facilities being extended to July 30, 2016, for series 2011B and July 30, 2018, for series 2011A. The long-term components of the ratings are based jointly (assuming low correlation) on the ratings on the obligor, Mountain States Health Alliance (BBB+), and the letter of credit providers: PNC Bank N.A. (A/A-1) for series 2011B, and U.S. Bank National Assn. (AA-/A-1+) for series 2011A. The short-term components of the ratings are based solely on the ratings on PNC Bank N.A. (A-1) and U.S. Bank National Assn. (A-1+) for series 2011B and 2011A, respectively.

Related Criteria And Research

Related Criteria

- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

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

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RatingsDirect®

Mountain States Health Alliance, Tennessee; Joint Criteria; System

Primary Credit Analyst:

Karl Propst, Dallas (1) 214-871-1427; karl.propst@standardandpoors.com

Secondary Contact:

Santo F Barretta, Chicago (1) 312-233-7068; santo.barretta@standardandpoors.com

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Mountain States Health Alliance, Tennessee; Joint Criteria; System

Credit Profile

Mountain States Health Alliance ICR

Long Term Rating

BBB+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on existing rated obligations from various issuers for Mountain States Health Alliance (MSHA), Tenn. At the same time, Standard & Poor's affirmed its 'BBB+' issuer credit rating (ICR) on MSHA. The outlook on all ratings is stable.

The 'BBB+' ratings reflect our view of MSHA's strong business position and solid level of unrestricted reserves and corresponding days' cash on hand. These factors are partly offset by the system's just adequate maximum annual debt service (MADS) coverage for the rating level, and improving, but still high, leverage remaining from the past capital spending and acquisition activity. While our ratings and outlook remain unchanged for now, we believe that MSHA's overall operational and financial trends are positive and, if sustained, will support favorable rating action over the near to intermediate term.

More specifically, the 'BBB+' ratings reflect our view of MSHA's:

- Excellent business position, which is characterized by solid demographics, a robust market share relative to its competition, and a broad range of services;
- Strong management and governance, which is reflected in the system's favorable performance record since its creation in 1998;
- Continued strong financial performance, highlighted by solid EBITDA margins, a 12th consecutive year of operating profitability in fiscal 2014 (although results continued to soften compared to previous years), and solid liquidity for the rating level based on days' cash on hand; and
- Reduced capital spending, which will likely support further growth in unrestricted liquidity and a reduction in leverage over time.

Despite MSHA's strong business position and consistent operating profitability, system leverage is elevated and remains an offsetting credit factor, in our opinion. MSHA has a debt-to-capital ratio of approximately 59% and a debt burden of roughly 7% of revenue. One of management's goals is to reduce leverage, and we believe that is key to achieving a higher rating. Also, even with EBITDA margins of 14% to 16%, MADS coverage has historically been below median 'BBB+' levels. MADS coverage was 2.2x at fiscal year end and about 1.4x as of Sept. 30 on an annualized basis, lower than 2.5x for the 'BBB+' rating median.

The 'BBB+' ratings also incorporate our view of MSHA's group credit profile and the obligated group's core status. Accordingly, the bonds are rated at the same level as the group credit profile. Our determination of the group status of MSHA's obligated group is "core," as the obligated group contains the majority of system assets and accounts for most

of its revenues and income.

Bonds that are not otherwise secured by letters of credit (LOCs) are secured by MSHA's gross revenues or are jointly secured by gross revenues and an irrevocable direct-pay LOC. Various debt issues supported by irrevocable direct pay LOCs for which there is no SPUR (including series 2013A and 2013B) are based solely on the long-term and short-term ratings of the LOC provider. While we are not affirming those ratings herein, we have factored the debt amounts into our analysis of MSHA's overall leverage and debt service capacity.

We are affirming the ratings on bonds, including series 2007B1, 2011A, and 2011B, whose ratings are based on the low correlation joint support of both MSHA and the LOC provider. For those bonds, MSHA and the LOC provider are each individually fully responsible for their repayment.

As of its interim period ended Sept. 30, 2014 (unaudited), MSHA had \$590 million of long-term debt and capital lease obligations outstanding. Outstanding debt is split between approximately 58% fixed- and 42% variable-rate obligations. We understand that MSHA has no plans to issue a significant amount of additional debt during the next few years, as management expects to fund its modest capital needs with cash flow and reserves. Also, management plans for an additional \$30.5 million of debt retirement in fiscal 2015, which we view favorably since, as noted, MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risk, in our opinion.

In addition to its outstanding debt obligations, MSHA has \$590 million swaps with Bank of America as the counterparty. The swaps include \$438 million of constant maturity swaps with a mark-to-market (MTM) value of positive \$3.5 million, a \$132 million basis swap with a MTM of negative \$15.7 million, and a \$20 million total return swap with a positive MTM value of \$320,000. Combined, these swaps generate \$5.4 million of positive annual cash flow. All amounts are as of November 2014.

Outlook

The stable outlook reflects our view of MSHA's sound business position, favorable record of integrating acquired facilities, and improvement in debt ratios, which we expect will continue given modest capital spending needs, although we continue to believe the system's high debt burden remains a rating constraint. While we view MSHA's trends favorably, and, if sustained, we may raise the ratings in the future, we would expect to do so once MSHA's MADS coverage and leverage metrics reach levels more consistent with 'A' category medians. We will also expect the system's business position to remain strong -- demonstrated by stable to improving patient volumes and by sustained robust cash flow. Although not anticipated, if balance sheet metrics weaken, coverage declines, or operating margins decline and are sustained at or below 1.0%, we could consider a negative rating action.

Enterprise Profile

Since its formation in 1998, MSHA has tripled its asset base and more than tripled annual net patient revenues to just over \$2 billion and more than \$1 billion, respectively. Today, MSHA owns and operates 13 acute-care facilities led by the flagship Johnson City Medical Center, a 548-licensed-bed tertiary regional provider. The system's hospital facilities

include 1,669 licensed beds (1,305 acute care beds). MSHA also consists of a range of outpatient facilities and ancillary services, such as a home health agency and a hospice, its own provider sponsored health plan, and other activities such as the ownership and management of medical office buildings. In fiscal 2014, MSHA had combined inpatient admissions of just over 57,000, 1.7 million outpatient visits, and 240,000 emergency department visits. As part of its physician integration efforts, MSHA employs 400 physicians through various physician entities, including Mountain States Medical Group.

Management

In January 2014, Alan Levine became President and CEO of MSHA, replacing the retiring Dennis Vonderfecht. Mr. Levine joined MSHA from Health Management Associates, where he served as Group President; before that, he served as Secretary of the Louisiana Department of Health and Hospitals, and Senior Health Policy advisor to Governor Jindal. Also in 2014, Marvin Eichorn became MSHA's COO after having served as the system's CFO for 16 years. Lynn Krutak, who for over 10 years served as Corporate CFO and CFO for MSHA's Blue Ridge Medical Management Corporation, replaced Mr. Eichorn as CFO.

Since the system's creation, MSHA's management and governance have evolved effectively, in our view. A strong central leadership team is focused on maximizing the system's potential as a whole and broadening access to managed-care contracts for all of the facilities while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. We believe that the above, as well as other recent organizational changes, will be favorable for the organization. In addition, we believe that MSHA's capable 13-member board provides sound governance to the organization.

Market position

The system's core service area encompasses 13 counties in Tennessee and Virginia, where MSHA continues to have a dominant market share. Currently, fewer than 30% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 38% share, while Wellmont Health System, MSHA's main competitor, holds about a 27% share. There is no significant third player. While MSHA's market share is strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. However, over the past several years, the two health systems service areas have increasingly overlapped. Although the service area remains competitive, market characteristics remain favorable in terms of population growth, and, in our opinion, the market's size will continue to support two sizable competitors.

Financial Profile

In our view, MSHA's operating performance remained adequate in fiscal 2014, supported by stabilizing inpatient volumes, reduced labor and benefits expense from staff reductions, and improved personnel and productivity management. Net patient revenues, however, continued to be offset by a sizable and growing provision for bad debts despite the commercial exchanges going live in January 2014. Like almost all other acute care providers, MSHA continues to incur sizable costs to transform its processes to succeed in the changing health care landscape and under the Affordable Care Act. In addition, reimbursement from both governmental and commercial sources remains under pressure.

For the fiscal year ended June 30, net operating income was \$7.0 million (as per Standard & Poor's methodology), or a 0.7% margin, on \$1.0 billion in total operating revenues. Results were down from \$11.5 million, or a 1.1% margin, on \$1.01 billion in total operating revenues in fiscal 2013. For the year, inpatient admissions were modestly lower year over year, at 57,040 (or a 1.8% decrease), compared with 58,103 in fiscal 2013. Like the previous year, the inpatient volume decline in fiscal 2014 reflected market and industry conditions. However, since the fiscal year end, MSHA's inpatient volume trends have improved. For fiscal 2015, patient volumes are expected to increase, with inpatient admissions budgeted to increase to 57,904 and outpatient volumes by about 3.5%, to 1.75 million visits.

Net excess income for fiscal 2014 was solid and improved over fiscal 2013, at \$37.6 million (a 3.7% margin), compared with \$35.1 million (a 3.4% margin) the previous year. MSHA's EBIDA margin was 14.9% in fiscal 2014. Coverage, based on MADS of \$67 million, was 2.3x for fiscal 2014.

Interim

On an interim basis for the three months ended Sept. 30, 2014, MSHA had operating income of \$2.0 million (as per Standard & Poor's calculations) and a net excess before extraordinary items of \$5.3 million, generating cash flow adequate to support annualized MADS coverage of 2.0x.

Five-year financial plan

MSHA's five-year forecast calls for inpatient admissions to increase in fiscal 2015 and then decrease by 4.3% to 4.7% per year until fiscal 2019. The forecast further assumes no Medicaid expansion in Tennessee or Virginia, and factors in additional declines in Medicare reimbursement. However, supported by reduced length of stay and other operating and cost containment initiatives, management expects to sustain \$150 million to \$160 million of annual EBIDA, which is adequate to comfortably support debt service and further reduce debt. For fiscal 2015, MSHA is budgeting operating income of \$29.2 million and EBIDA of \$153 million, which would produce 2.3x MADS.

Balance sheet

MSHA's aggressive acquisition spending ended several years ago, and, while we believe that made the system a stronger competitor, it resulted in high leverage, which has been an impediment to MSHA achieving a higher rating. As of Sept. 30, 2014, MSHA's long-term debt to capitalization was 59%, which, due to robust operating cash flow, has continued to improve from as high as 79% in fiscal 2009.

Unrestricted cash and investments totaled \$642 million at Sept. 30, 2014, equal to 251 days' cash, which we view as robust for the rating level. Due to high system leverage, cash to debt is approximately 61%, which remains well below the median for the current rating. MSHA remains in compliance with all bond covenants.

MSHA's current average age of plant is just under 11 years, which we consider in line with the median, and the system has only modest (in our opinion) capital plans during the next several years. As a result, we believe that MSHA will be able to comfortably maintain robust days' cash and be able to accelerate the reduction of outstanding debt. Management plans \$31 million of additional debt reductions beyond the required amortization in fiscal 2015.

Management plans to spend about \$53 million on capital expenditures in fiscal 2015, primarily on IT and other small projects. Spending for fiscal 2015 represents about 75% of fiscal 2014 depreciation. Between fiscal 2016 and fiscal 2019, capital spending is expected to be moderate, at well less than 100% of depreciation. Spending in fiscal years

2017 and 2018 is expected to include the construction of the new 20-bed replacement hospital for Unicoi County, as part of MSHA's hospital affiliation agreement that was effective in November 2013. Management has no future financing plans as Unicoi and other projects will be funded from operations.

Mountain States Health Alliance					
Selected financial statistics	Three-month interim ended Sept. 30, 2014	Fiscal year ended June 30,		Medians	
		2014	2013	Health care system BBB+ 2013	Health care system A- 2013
Financial performance					
Net patient revenue (\$000s)	241,163	927,784	932,748	1,049,981	1,567,503
Total operating revenue (\$000s)	252,684	1,000,924	1,011,206	MNR	MNR
Total operating expenses (\$000s)	250,663	993,880	999,737	MNR	MNR
Operating income (\$000s)	2,021	7,044	11,469	MNR	MNR
Operating margin (%)	0.80	0.70	1.13	0.90	1.50
Net non-operating income (\$000s)	(6,101)	30,604	23,616	MNR	MNR
Excess income (\$000s)	(4,080)	37,648	35,085	MNR	MNR
Excess margin (%)	(1.65)	3.65	3.39	3.00	3.60
Operating EBIDA margin (%)	12.02	12.25	13.44	8.90	8.40
EBIDA margin (%)	9.84	14.85	15.41	10.20	9.50
Net available for debt service (\$000s)	24,271	153,219	159,489	115,667	166,108
Maximum annual debt service (\$000s)	67,252	67,252	67,252	MNR	MNR
Maximum annual debt service coverage (x)	1.44	2.28	2.37	2.50	3.40
Operating lease-adjusted coverage (x)	1.44	2.14	2.21	2.10	2.60
Liquidity and financial flexibility					
Unrestricted reserves (\$000s)	641,902	646,460	588,478	574,523	761,463
Unrestricted days' cash on hand	251.0	255.7	233.8	144.60	163.90
Unrestricted reserves/total long-term debt (%)	61.0	60.1	54.0	106.70	119.60
Average age of plant (years)	11.2	10.6	8.7	11.50	11.40
Capital expenditures/depreciation and amortization (%)		89.7	130.2	114.10	124.60
Debt and liabilities					
Total long-term debt (\$000s)	1,052,372	1,075,069	1,090,348	MNR	MNR
Long-term debt/capitalization (%)	59.0	59.9	62.3	46.20	42.50
Debt burden (%)	6.82	6.52	6.50	3.00	2.70

MNR: Median not reported.

Related Criteria And Research

Related Criteria

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009

- General Criteria: Methodology: Industry Risk, Nov. 20, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 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
- 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
- Health Care Organizations See Integration And Greater Transparency As Prescriptions For Success, May 19, 2014

Ratings Detail (As Of January 9, 2015)

Mountain States Health Alliance, Series 2000D

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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Smyth Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Seies 2010 B and Series 2009B

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee

Mountain States Hlth Alliance, Tennessee

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2000C

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2007B-1

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1+	Affirmed
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Series 2010 A&B, 2006A and 2009A

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Series 2011A

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1+	Affirmed
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Series 2011B

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AA+/A-1	Affirmed
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Series 2012A

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Series 2012B

<i>Unenhanced Rating</i>	NR(SPUR)	Current
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<i>Long Term Rating</i>	NR/NR	Current
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Washington Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Ser 2009 C

Ratings Detail (As Of January 9, 2015) (cont.)

Long Term Rating

BBB+/Stable

Affirmed

Wise Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Series 2012C

Unenhanced Rating

NR(SPUR)

Current

Long Term Rating

NR/NR

Current

Many issues are enhanced by bond insurance.

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The Health & Educational Facilities Board of the City of Johnson City, Tennessee Mountain States Health Alliance; Joint Criteria; System

Primary Credit Analyst:

Karl Propst, Dallas (1) 214-871-1427; karl_propst@standardandpoors.com

Secondary Contact:

Liz Sweeney, New York (1) 212-438-1000; liz_sweeney@standardandpoors.com

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The Health & Educational Facilities Board of the City of Johnson City, Tennessee Mountain States Health Alliance; Joint Criteria; System

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Mountain States Health Alliance ICR

Long Term Rating

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The 'BBB+' ratings reflect our view of MSHA's:

- Excellent business position, which is characterized by solid demographics, a high market share, and a broad range of services;
- Strong management and governance, which is reflected in a favorable performance record since the system's creation in 1998;
- Continued strong financial performance, highlighted by solid EBITDA margins, a 10th consecutive year of operating profitability in fiscal 2012, and solid liquidity for the rating level based on days' cash on hand; and
- More moderate capital spending needs during the next five years and lack of sizable incremental debt plans, which will likely support further growth in unrestricted liquidity and a reduction in leverage over time.

Despite MSHA's strong business position and consistent operating profitability, system leverage is elevated and remains an offsetting credit factor, in our opinion. MSHA has a debt-to-capital ratio of approximately 65% and a debt burden of 7.2% of revenue. One of management's goals is to reduce leverage, and we believe that will be key to achieving a higher rating. Also, even with typical EBITDA margins of 16% to 18%, maximum annual debt service (MADS) coverage has historically been below median 'BBB+' levels. MADS coverage as of Sept. 30 on annualized basis was 1.7x.

In 2012 MSHA issued \$89 million in new-money debt (in series 2012A, 2012B, and 2012C and including unrated bank direct purchase debt). Proceeds from MSHA's series 2012 bonds were used to construct a surgical tower at Johnson City Medical Center, to reimburse \$26.5 million for previous capital spending, and to refinance debt and leases outstanding to achieve interest rate and letter of credit (LOC) fee savings. Concurrent with the issuance of the rated bonds, MSHA issued \$18.4 million of taxable variable-rate direct purchase debt to Bank of America that was not rated.

While the assigned SPURs on MSHA's \$40 million series 2012B and 2012C obligations are 'BBB+', the long- and

short-term ratings on series 2012B and 2012C bonds are 'AAA/A-1' based on the low correlation joint support of MSHA, and of Mizuho Bank as the LOC provider. Both MSHA and Mizuho are fully responsible for repayment.

As of its fiscal year ended Sept. 30, 2012 (unaudited), MSHA had \$1.12 billion of long-term debt and capital lease obligations outstanding. We understand that MSHA has no plans to issue a significant amount of additional debt during the next few years as management expects to fund most of its remaining capital needs with cash flow and reserves. MSHA may convert its remaining \$129 million of taxable debt outstanding to tax exempt; however, the conversion would not represent any additional debt other than costs of issuance and any required reserves. Currently, MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risks, in our opinion.

In October 2012 MSHA came to a resolution with Lehman Brothers and terminated its \$106 million of total return and fixed payer swaps. The settlement allowed Lehman to retain \$7.4 million of the \$13.8 million of collateral that had been posted by MSHA. The remaining \$6.4 million was returned to MSHA.

Bank of America is the counterparty for five other active swaps -- \$438 million constant maturity swaps with a mark-to-market (MTM) value of \$9.8 million and \$5.6 million positive annual cash flow through February 2014, and \$132 million of basis swaps (converted from fixed payer to reduce the negative carry and MTM volatility) with an MTM value of negative \$17.0 million, against which MSHA has no posted collateral (all figures as of November 2012).

Outlook

The stable outlook reflects our view of MSHA's business position, the benefits of the system's acquisition activity during the past several years, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that will likely occur over time. Also adding to credit stability, in our view, is MSHA's history of maintaining solid earnings although we believe the system's high debt burden remains a credit risk. While we could raise the ratings in the future, we do not expect to do so until MSHA's MADS coverage equals or exceeds 3.0x, cash to long-term debt approaches 1.0x, and debt to capitalization declines to roughly 55%. We would also expect that the organization's business position would remain strong, as demonstrated by stable to improving patient volumes and solid cash flow. Although not anticipated, should balance sheet metrics weaken, we could take a negative rating action.

Enterprise Profile

Since its formation in 1998, MSHA has tripled its asset base and more than tripled annual net patient revenues to \$2.0 billion and more than \$950 million, respectively. Due in large part to the system's acquisition strategy, the system's pro forma debt has approximately doubled since 2005 to more than \$1.0 billion, equal to about 65% of capitalization, which we consider elevated. The system accomplished this growth through strategic hospital acquisitions in its core northeastern Tennessee and southwest Virginia service areas.

MSHA owns and operates 11 acute-care facilities and one psychiatric hospital, led by the flagship Johnson City Medical Center, a 514-licensed-bed (including 69 beds associated with Niswonger Children's Hospital) tertiary regional provider. The system's hospital facilities include 1,623 licensed acute-care beds. The system also consists of a range of

outpatient facilities and ancillary services, such as a home health agency, a hospice, and other facilities such as the ownership and management of medical office buildings.

As part of its physician integration efforts, MSHA has consolidated its employed physician practices into Mountain States Medical Group, which currently employs about 400 physicians. MSHA has steadily reduced physician practice losses through increased physician leadership including regional chief medical officers, the attrition of less productive physicians, improvements in compensation when contracts are renewed, and other efficiency measures.

Management

Since the system's creation, management and governance have evolved effectively, in our view. A strong central leadership team is focused on maximizing the system's potential as a whole, as demonstrated by the consolidation efforts in its core market of Washington County. In addition, management has broadened the access to managed-care contracts for all of the facilities while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The board improved its effectiveness by reducing its size to 13 members and has upheld its values of strong planning, education, and transparency.

Today, as it approaches the changing health care landscape MSHA's leadership remains focused on quality, ongoing physician integration, smart growth through service line and revenue cycle opportunities, cost reduction initiatives, and the development and implementation of new accountable care models, initially for the hospital's own employee population (approximately 15,000 lives), and for its Medicare patient base.

Market position

The system's core service area encompasses 13 counties in Tennessee and Virginia, and MSHA has a 53% market share. Currently, only 27% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 38% share. MSHA's main competitor, Wellmont, holds about a 30% share. There is no significant third player.

We believe that the spate of acquisitions by both MSHA and Wellmont have largely played out as there are very few remaining independent hospitals in the region. While the service area remains competitive, market characteristics remain favorable in terms of population growth, and the market's size will continue to support two sizable competitors, in our opinion.

While MSHA's market share is strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. Historically, Sullivan County was the only part of MSHA's primary service area where the two systems competed head to head, whereas in other parts of their service areas, MSHA and Wellmont generally did not overlap. However, they are increasingly overlapping in their service areas. MSHA traditionally had no hospitals in Virginia, while Wellmont did. However, affiliations with five Virginia hospitals during the past few years introduced MSHA into a service area that traditionally fed Wellmont's facilities. The two systems now compete head-on in Norton, Va., a two-hospital town where in 2007 MSHA acquired a 50.1% ownership in Norton Community Hospital, while Wellmont acquired the other one (Mountain View).

Recent projects update

In April 2012, MSHA completed a \$66 million, 44-bed replacement facility for the more than 40-year-old Smyth County Community Hospital. Funding for the project came from the series 2011 bonds (\$14 million) and operating reserves.

In January 2012, MSHA commenced a \$69 million surgery tower project at Johnson City Medical Center. The project is being funded with the series 2012A bonds proceeds, operations, reserves, and a small amount of philanthropy. The number of operating room suites will remain at 16; however, the renovation will expand the space in each suite to accommodate modern equipment. In addition, the project will structurally allow MSHA to build eight additional floors for a future bed tower when additional capacity is needed (although there are currently no plans to construct the tower). The project is estimated for completion in October 2013. We understand that MSHA has no other major committed capital projects beyond 2013.

Financial Profile

MSHA's operating performance was good in fiscal 2012, in our view, but less robust than in fiscal 2011. For the fiscal year ended June 30, net operating income was \$8.3 million, or a 0.9% margin, on \$992 million in total operating revenues, down from \$21 million, or a 2.1% margin, on \$971 million in total operating revenues in fiscal 2011.

According to management, operating performance came in below budget for a variety of reasons, including timing issues surrounding reimbursement; lower-than-budgeted volumes, particularly in inpatient surgeries; and an increase in charity care and bad debts.

For the year, inpatient admissions were flat year over year, at 61,154 (or a 0.2% increase), compared with 61,035 in fiscal 2011, while total surgical cases declined by 4% to 36,972 from 38,521. By contrast, outpatient volumes grew to 1.59 million (or 3%) in fiscal 2012 from 1.55 million in fiscal 2011 as more volumes shifted from an inpatient to outpatient setting consistent with industry trends.

Net excess income for fiscal 2012 was solid, in our view, at \$39.7 million (a 3.9% margin), compared with \$41.1 million (or a 4.2% margin) the previous year. MSHA's EBITDA margin was 13.1% in fiscal 2012, compared with 15.7% for fiscal 2011. Coverage, based on new MADS of \$71 million, was 2.3x for fiscal 2012.

Balance sheet

During the past several years, MSHA's aggressive pace of acquisitions positioned the system to compete effectively in its core service area. However, those investments leveraged the system's balance sheet, and for a while limited the growth in MSHA's unrestricted liquidity despite robust operating cash flow.

Major acquisition and construction activity is completed, and the current average age of plant is eight years, which we consider low. As a result, we believe that MSHA will be able to comfortably maintain more than 200 days' cash and over time build back to its goal of 250 days' cash. We understand that management has targeted to reduce debt outstanding when cash exceeds that level.

Unrestricted cash and investments totaled \$578 million at Sept. 30, 2012, equal to 231 days' cash. Long-term debt to capitalization remains elevated, in our view, at 65%, although we anticipate that leverage and liquidity metrics will

improve during the next several years since the system's acquisition program and major capital spending initiatives have been completed. Due to high system leverage, cash to debt is approximately 51%, which remains well below the median for the current rating. MSHA remains in compliance with all bond covenants.

The system's target asset allocations include maintaining 110 days' cash in high-quality and highly liquid fixed-income investments. Above 110 days' cash, the system may invest in equities up to an allocation limit of 50%. MSHA does not invest in hedge funds or in private equity.

Mountain States Health Alliance				
		Fiscal Year Ended June 30,		
	Three-Month Interim Ended Sept. 30, 2012	2012	2011	2010
Financial performance				
Net patient revenue (\$000s)	227,664	952,133	960,254	928,270
Total operating revenue (\$000s)	238,587	991,540	978,018	945,392
Total operating expenses (\$000s)	245,727	983,215	957,173	931,850
Operating income (\$000s)	(7,140)	8,325	20,845	13,542
Operating margin (%)	(2.99)	0.84	2.13	1.43
Net nonoperating income (\$000s)	7,721	31,369	20,600	24,589
Excess income (\$000s)	581	39,694	41,445	38,131
Excess margin (%)	0.24	3.88	4.15	3.93
Operating EBIDA margin (%)	9.65	13.06	15.85	14.53
EBIDA margin (%)	N.A.	15.73	17.59	16.70
Net available for debt service (\$000s)	30,751	160,902	175,656	161,954
Maximum annual debt service (\$000s)	71,229	71,229	77,236	77,236
Maximum annual debt service coverage (x)	1.73	2.26	2.27	2.10
Operating lease-adjusted coverage (x)	1.98	2.12	2.14	1.99
Liquidity and financial flexibility				
Unrestricted cash and investments (\$000s)	572,688	518,624	597,435	578,452
Unrestricted days' cash on hand	230.8	208.5	251.5	248.3
Unrestricted cash/total long-term debt (%)	51.3	49.5	57.4	54.8
Average age of plant (years)	8.3	8.3	6.5	7.0
Capital expenditures/depreciation and amortization (%)	N.A.	176.5	191.9	211.2
Debt and liabilities				
Total long-term debt (\$000s)	1,117,046	1,048,098	1,040,923	1,054,842
Long-term debt/capitalization (%)	64.5	63.6	64.5	76.9
Contingent liabilities (\$000s)	499,605	459,605	386,418	N.A.
Contingent liabilities/total long-term debt (%)	44.7	43.9	37.1	N.A.
Debt burden (%)	7.23	6.96	7.71	7.96

N.A.: Not available.

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Ratings Detail (As Of January 16, 2013)

Mountain States Health Alliance, Series 2000D

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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Series 2011E

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

Russell Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Ser 2008B

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1+	Affirmed

Smyth Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Seies 2010 B and Series 2009B

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Series 2011C

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1+	Affirmed

Series 2011D

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee

Mountain States Hlth Alliance, Tennessee

ser 2007B2

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AA+/A-1	Affirmed

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), ser 2008A

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1+	Affirmed

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2000C

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2007B-1

Ratings Detail (As Of January 16, 2013) (cont.)

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1+	Affirmed
Series 2007B1-3		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed
Series 2010 A&B, 2006A and 2009A		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Series 2011A		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1+	Affirmed
Series 2011B		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AA+/A-1	Affirmed
Series 2012A		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Series 2012B		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed
Washington Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Ser 2009 C		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Wise Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Series 2012C		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed
Many issues are enhanced by bond insurance.		

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January 19, 2011

Johnson City Health and
Educational Facilities Board,
Tennessee
Mountain States Health Alliance;
Joint Criteria; System

Primary Credit Analyst:

Karl Propst, Dallas (1) 214-871-1427; karl_propst@standardandpoors.com

Secondary Contact:

Liz Sweeney, New York (1) 212-438-2102; liz_sweeney@standardandpoors.com

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Johnson City Health and Educational Facilities Board, Tennessee

Mountain States Health Alliance; Joint Criteria; System

Credit Profile

Mountain States Health Alliance ICR

Long Term Rating

BBB+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' issuer credit rating (ICR) on Mountain States Health Alliance (MSHA), Tenn. Standard & Poor's also affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on rated bonds issued for MSHA by various issuers. The outlook is stable.

The 'BBB+' ratings reflect our view of:

- MSHA's excellent business position, which is characterized by solid demographics, a high market share, and a broad range of services;
- Strong management and governance, which is reflected in a favorable performance record since the system's creation in 1998;
- Continued strong financial performance, highlighted by very strong fiscal-year EBIDA margins, a seventh consecutive year of operating profitability in fiscal 2010, and solid liquidity for the rating level based on days' cash on hand; and
- The leveling-off of MSHA's sizable capital and debt financing needs as there are few remaining independent hospital acquisition targets in the service area.

According to management, future debt increases will likely be limited as the system can handle most of its remaining capital needs with cash flow. MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risk. The system has a debt-to-capital ratio of 77% and a debt burden of 6.7% of revenue. Even with typical EBIDA margins of 14%-18%, maximum annual debt service (MADS) coverage has historically been below median 'BBB+' levels, although MADS coverage improved to 2.5x based on fiscal year-end 2010 results.

Standard & Poor's Debt Derivative Profile (DDP) overall score on MSHA's swap portfolio is '2.5' on a scale of '1.0' to '4.0', whereby '1.0' represents the lowest risk. The overall DDP score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure reflects low to moderate credit risk at this time. MSHA has two total return swaps with a total notional amount of \$50 million, whose counterparty was Lehman Brothers Special Financing Inc., guaranteed by Lehman Brothers Inc. The timing for the termination of those swaps is uncertain pending the resolution of issues related to Lehman's bankruptcy. MSHA estimates the mark-to-market value of the Lehman swaps to be negative \$11 million, against which MSHA has posted \$12.6 million of collateral. Standard & Poor's does not count collateral funds as unrestricted liquidity, so the possibility of paying a termination cost is not likely to have a material credit impact.

Merrill Lynch is the counterparty for two other swaps, including a \$438 million constant maturity swap with a mark-to-market value in MSHA's favor of \$3.9 million and more than \$2 million positive annual cash flow, and a \$132 million fixed-payer swap with a mark-to-market value of negative \$27 million, against which MSHA had \$5.1 million of posted collateral (all figures as of Nov. 30, 2010).

MSHA had \$550 million of unrestricted liquidity on Sept. 30, 2010, net of \$17.7 million of posted swap collateral. Should the swaps terminate, MSHA will lose the more than \$2 million positive annual cash flow from the swaps; however, MSHA will also be relieved of more than \$4 million of negative carry on its fixed payor swaps if the full portfolio is terminated.

Outlook

The stable outlook reflects our view of MSHA's business position, the benefits of the system's acquisition activity over the past several years, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that has started to occur as the system's results have begun to reflect the acquired facilities for a full year. Also adding to credit stability is MSHA's history of maintaining solid earnings. However, given that debt service coverage is low for the rating level, the system's high debt burden remains a credit concern. We do not expect to raise the rating until MSHA's debt levels moderate. Although not expected, should balance sheet metrics weaken, a lower rating or negative outlook would be likely.

Organizational Profile

Since its formation in 1998, MSHA has roughly tripled its asset base and net patient revenues to more than \$1.9 billion and \$930 million, respectively. Due in large part to its acquisition strategy, the system's pro forma debt has doubled since 2005 and is now very high at over \$1 billion. The system's growth was accomplished through strategic hospital acquisitions in its core northeastern Tennessee and southwest Virginia service areas.

MSHA owns and operates 11 acute-care facilities and one psychiatric hospital led by the flagship Johnson City Medical Center, a 623-licensed-bed tertiary regional provider. The system's hospital facilities include 1,780 licensed acute-care beds. The system also includes a range of outpatient facilities and ancillary services, such as a home health agency, a hospice, and other facilities including the ownership and management of medical office buildings. The affiliation with Johnston Memorial Hospital (JMH) in 2009 completed MSHA's hospital acquisition strategy, which has included the acquisition of five Virginia hospitals over the past four years.

As part of its physician integration efforts, MSHA has consolidated its employed physician practices into Mountain States Medical Group, which currently employs about 230 physicians. MSHA has steadily reduced physician practice losses through attrition of less productive physicians, improvements in compensation when contracts are renewed, and other efficiency measures.

Since the system's creation in 1998, management and governance have evolved effectively. A strong central leadership is focused on maximizing the system's potential as a whole, as evidenced by the consolidation efforts in its core market of Washington County. In addition, management has broadened the access to managed-care contracts for all of the facilities, while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The board improved its effectiveness by reducing its size to a very manageable 13 members, and has upheld its values of strong planning, education, and

transparency.

Market Position

The system's defined market area has broadened significantly due to its acquisition activity. The core service area encompasses 13 counties in Tennessee and Virginia, of which MSHA has approximately 52% market share. Today only about 30% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 37% share; MSHA's main competitor, Wellmont, holds about a 30% share. There is no significant third player.

Wellmont has acquired three hospitals in its secondary service area within the past few years and completed a sizable renovation of its largest campus, Holston Valley Medical Center, during the past year. We believe that the spate of acquisitions by both health systems over the past several years has largely played out as there are very few remaining independent hospitals in the region. While the service area remains very competitive, its market characteristics remain favorable in terms of population growth, and the market's size will continue to support two sizable competitors.

While MSHA's market share is extremely strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. Historically, Sullivan County was the only part of MSHA's primary service area where the two systems competed head to head, whereas in other parts of their service areas, MSHA and Wellmont generally did not overlap. However, they are increasingly overlapping in their service areas. For example, MSHA traditionally had no hospitals in Virginia, while Wellmont did. However, recent affiliations with the five Virginia hospitals have thrust MSHA into a service area that traditionally has fed Wellmont's facilities. The two systems now compete head-on in Norton, Va., a two-hospital town where in 2007, MSHA acquired a 50.1% ownership Norton Community Hospital, while Wellmont acquired the other one (Mountain View).

Projects Update

Smyth County Community Hospital is a \$60 million, 44-bed replacement hospital for the more than 40-year-old local community hospital. Funding for the project is coming from operating reserves, a new market tax credit loan, and vendor financing. The project is expected to be complete by November 2011.

Franklin Woods Community Hospital (FWCH) is a new \$114 million, 80-bed (plus 20 shelled beds) hospital replacement facility that replaced inpatient acute-care services at MSHA's North Side Hospital and its Johnson City Specialty Hospital. FWCH opened in July 2010. North Side Hospital has remained open and provides skilled-nursing care.

Series 2009E bonds funded MSHA's acquisition of a 50.1% interest in the 135-bed JMH in April 2009. MSHA is building a 250,000-square-foot replacement hospital next to the JMH cancer center in Abingdon, Va., which opened in 2007. The new hospital is scheduled to open in May 2011.

Finances

MSHA demonstrated solid operating performance improvement during fiscal 2010. For the year ended June 30, 2010, net operating income climbed to \$13.5 million, or a 1.4% margin, on \$945 million in total operating

revenues, compared with \$7.0 million, or a 0.83% margin, on \$840 million in revenues in fiscal 2009. Although inpatient admissions grew to 60,101 in fiscal 2010 from 57,127 in fiscal 2009, volume growth was largely generated from acquisitions, and not same-store volumes, which were flat. Fiscal 2010 was the first full year of operating results with the acquired facilities, and MSHA's operating performance was slightly weaker than the \$16 million budgeted (1.6% margin). The system is forecasting flat inpatient volume growth of 0.42% (to 60,355) in fiscal 2011. MSHA estimates that it will be eligible for about \$57 million in stimulus payments between 2010 and 2015; however, no stimulus funds are included in the system's five-year forecast.

EBIDA margin was 16.7% for fiscal 2010. MADS coverage, based on MADS of \$65 million, was 2.5x (or 2.3x on an operating lease-adjusted basis) based on June 30, 2010, fiscal year-end results.

Net excess income for the year was \$38.1 million due to \$24.6 million of interest-, dividend-, and derivative-related income.

Interim financial performance

Through the first three months of fiscal 2011 (Sept. 30, 2010), MSHA reported an operating loss of \$2.7 million on \$241 million in operating revenues. First-quarter losses are typical for MSHA since it is the system's practice is to be very conservative in realizing income early in the year. Last year the system reported a first-quarter operating loss of \$2.4 million on \$235 million of operating revenues.

Balance Sheet

MSHA's aggressive pace of acquisitions has positioned the system to compete effectively in its core service area; however, those investments have leveraged the system's balance sheet and limited the growth in unrestricted liquidity despite solid operating cash flow.

Unrestricted cash and investments totaled \$576 million (or \$550 million net of cash collateral posted against swaps) at fiscal year-end 2010, equal to 247 days' cash. Long-term debt to capitalization is high, at 77%. Due to high system leverage, year-end cash to debt was 53%, which is well below the median for the current rating. MSHA remains in compliance with all bond covenants. We expect that leverage and liquidity metrics will improve over the next several years since the system's acquisition program has been complete. We understand that other than about \$45 million of additional debt that MSHA expects to issue for a surgery center project in 2012, the system's current capital spending plans can be funded with cash flow.

The system's target asset allocations include maintaining 110 days' cash in high-quality and highly liquid fixed-income investments. Above 110 days' cash, the system may invest in equities up to an allocation limit of 50%. MSHA does not invest in hedge funds or in private equity.

Debt Derivative Profile

MSHA's DDP overall score is a '2.5' on a scale of '1' to '4', whereby '1' represents the lowest risk. The score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure is a low to moderate credit risk at this time.

The key components of the overall DDP score of '2.5' are:

- Management practices are strong, and include a written swap policy, frequent communication of swap

performance to the board, good audit disclosure related to swaps, and the use of independent financial advisers to assist in evaluating swap strategies and performance.

- The termination and collateral-posting risk is offset from a credit standpoint by MSHA's collateral being clearly segregated from unrestricted liquidity, and none of the collateral is included in any of Standard & Poor's unrestricted liquidity calculations.

Related Criteria And 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 January 19, 2011)

Mountain States Health Alliance

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2008A		
<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO Taxable ser 2007B-1		
<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Hlth Alliance) hosp rfdg rev bnds ser 2007B-2		
<i>Long Term Rating</i>	AAA/A-1	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Hlth Alliance) hosp rfdg rev bnds ser 2007B-3		
<i>Long Term Rating</i>	AAA/A-1	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed

Russell Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee		
Russell Cnty Indl Dev Auth (Mountain States Health Alliance)		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Russell Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2008B		
<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed

Smyth Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee
Smyth Cnty Indl Dev Auth (Mountain States Health Alliance)

Ratings Detail (As Of January 19, 2011) (cont.)

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Washington Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Washington Cnty Indl Dev Auth (Mountain States Health Alliance)		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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January 22, 2010

Johnson City Health and
Educational Facilities Board,
Tennessee
Industrial Development Authority of
Smyth County, Virginia
Industrial Development Authority of
Russell County, Virginia
Mountain States Health Alliance,
Tennessee; Joint Criteria; System

Primary Credit Analyst:

Karl Propst, Dallas (1) 214-871-1427; karl_propst@standardandpoors.com

Secondary Credit Analyst:

Liz Sweeney, New York (1) 212-438-2102; liz_sweeney@standardandpoors.com

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Related Research

Johnson City Health and Educational Facilities Board, Tennessee

Industrial Development Authority of Smyth County, Virginia

Industrial Development Authority of Russell County, Virginia

Mountain States Health Alliance, Tennessee; Joint Criteria; System

Credit Profile

US\$107.495 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2010A due 07/01/2038

<i>Long Term Rating</i>	BBB+/Stable	New
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US\$104.165 mil taxable hosp rev bnds (Mountain States Hlth Alliance) ser 2010B due 07/01/2038

<i>Long Term Rating</i>	BBB+/Stable	New
-------------------------	-------------	-----

US\$60.525 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2010D due 07/01/2038

<i>Long Term Rating</i>	BBB+/Stable	New
-------------------------	-------------	-----

US\$38.905 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2010C due 07/01/2038

<i>Long Term Rating</i>	BBB+/Stable	New
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Mountain States Health Alliance ICR

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' long-term rating to the Health and Educational Facilities Board of the City of Johnson City, Tenn.'s \$107.495 million tax-exempt series 2010A and \$104.165 million taxable series 2010B fixed-rate bonds. Standard & Poor's also assigned its 'BBB+' long-term rating to the Industrial Development Authority of Smyth County, Va.'s \$38.905 million series 2010C tax-exempt fixed-rate bonds, and the Industrial Development Authority of Russell County, Va.'s \$60.525 million series 2010D tax-exempt fixed-rate bonds. All series were issued for Mountain States Health Alliance, Tenn. (MSHA). Standard & Poor's also affirmed its 'BBB+' issuer credit rating (ICR) on MSHA and its 'BBB+' long-term rating underlying rating (SPUR) on all other rated bonds issued for MSHA by various issuers. The outlook is stable.

Series 2010A, C, and D bonds will fully refund \$184.8 million of combined 2007A, 2007C, and 2008B series bonds. The series 2010B taxable fixed-rate bonds will refund the next 10 years of principal payments of the series 2007B bonds, an amount equal to \$91.7 million. Other than the funding of a debt service reserve and costs of issuance, no new money is being borrowed.

More specifically the 'BBB+' rating reflects:

- MSHA's excellent business position, which is characterized by solid demographics, a high market share, and a broad range of services;
- Strong management and governance, which is reflected in a favorable performance record since the system's creation in 1998;
- Continued strong financial performance, highlighted by very strong fiscal-year EBIDA margins, a sixth consecutive year of operating profitability in fiscal 2009, and solid liquidity for the rating level based on days' cash on hand; and
- The leveling-off of MSHA sizable capital and debt financing needs as there are few remaining independent hospital acquisition targets in the service area. Future debt increases should be limited as the system can handle most of its remaining capital needs with cash flow.

MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risk. The system has a pro forma debt-to-capital ratio of 78% and a debt burden of 6.8% of revenue. Even with typical EBIDA margins of 14%-18%, maximum annual debt service (MADS) coverage has historically been below median 'BBB+' levels. On a pro forma basis, MADS coverage is 2.0x based on fiscal year-end 2009 results.

Standard & Poor's Debt Derivative Profile (DDP) overall score on MSHA's swap portfolio is '2.5' on a scale of '1.0' to '4.0', whereby '1.0' represents the lowest risk. The overall DDP score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure is a low to moderate credit risk at this time. MSHA has two total return swaps with a total notional amount of \$50 million whose counterparty was Lehman Brothers Special Financing Inc., guaranteed by Lehman Brothers Inc. The timing for termination of those swaps is uncertain pending resolution of issues related to Lehman's bankruptcy. MSHA estimates the mark-to-market value of the Lehman swaps to be negative \$11 million, against which MSHA has posted \$12.6 million of collateral. Standard & Poor's does not count collateral funds as unrestricted liquidity, so the possibility of paying a termination cost is not likely to have a major credit impact.

Merrill Lynch is the counterparty for two other swaps, including a \$438 million constant maturity swap with a mark-to-market value in MSHA's favor of \$7.1 million, and a \$132 million fixed-payer swap with a mark-to-market value of negative \$16.3 million, against which MSHA has no posted collateral (all figures as of Jan. 15, 2010).

MSHA had \$532 million of unrestricted liquidity on Sept. 30, 2009, net of \$13.1 million of posted swap collateral. Should the swaps terminate, there will be a modest negative effect since the swaps generate positive cash flow, including \$1.1 million for the first three months of fiscal 2010. However, MSHA will easily be able to absorb the lost income, given its \$37 million of EBIDA for the first quarter (EBIDA was \$123 million for the full year ended June 2009).

Outlook

The outlook is stable. Additional risk related to MSHA's high debt levels is offset by the business position, benefits of the system's acquisition activity over the past several years, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that will occur as the system's results begin to reflect the acquired facilities for a full year in fiscal 2010. Also adding to credit stability is MSHA's history of maintaining solid earnings. However, given that debt service coverage is low for the rating level, the system's high debt burden remains a credit concern. We do not expect a higher rating until MSHA's debt levels moderate. Although not

expected, should balance sheet metrics become more constrained, a lower rating or negative outlook would be likely.

Organizational Profile

Since its formation in 1998, MSHA has nearly tripled its asset base and net patient revenues to roughly \$1.9 billion and \$840 million, respectively. Due in large part to its acquisition strategy, the system's pro forma debt has doubled since 2005 and is now very high at over \$1 billion. The system's growth was accomplished through strategic hospital acquisitions in its core northeastern Tennessee and southwest Virginia service areas. With the 2009 acquisition of a 50.1% stake in Johnston Memorial Hospital (JMH) in Abingdon, Va., MSHA now owns and operates 11 acute-care facilities and one psychiatric hospital, led by the flagship Johnson City Medical Center, a 623-licensed-bed tertiary regional provider. The system's hospital facilities include 1,780 staffed acute-care beds. The system also includes a range of outpatient facilities and ancillary services, such as a home health agency, a hospice, and other facilities including the ownership and management of medical office buildings. The affiliation with JMH completed MSHA's hospital acquisition strategy, which has included the acquisition of five Virginia hospitals over the past three years.

MSHA also operates a number of physician practices employing about 172 physicians. MSHA has steadily reduced losses at the physician practices through a modest attrition in the number of physicians, improvements in compensation when contracts were renewed, and other efficiency measures. However, MSHA does not intend to discontinue the employment of physicians, nor does its competitor, Wellmont, which also has staff physicians as part of its recruiting, retention, and market share strategies.

Since the system's creation in 1998, management and governance have evolved effectively, with a strong central leadership focused on maximizing the system's potential as a whole, as evidenced by the consolidation efforts in its core market of Washington County. In addition, management has broadened the access to managed-care contracts for all of the facilities, while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The board improved its effectiveness by reducing its size to a very manageable 13 members, and has upheld its values of strong planning, education, and transparency.

Market Position

The system's defined market area has broadened significantly over with its acquisition activity. The core service area now has 13 counties in Tennessee and Virginia, of which MSHA has approximately 52% market share, including JMH. Today only about 30% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 37% share, and Wellmont, 30%, with no significant third player.

Wellmont has acquired three hospitals in its secondary service area within the past two to three years and is in the midst of a sizable renovation of its largest campus, Holston Valley Medical Center. We believe that the spate of acquisitions by both health systems over the past several years has largely played out as there are very few remaining independent hospitals in the region. While the service area remains very competitive, its market characteristics remain favorable in terms of population growth and the market's size will continue to support two sizable competitors.

While MSHA's market share is extremely strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. The nine-hospital Wellmont has two flagship hospitals in Sullivan County, with combined admissions of roughly 30,000, while MSHA has a relatively modest-size facility, Indian Path Medical Center (7,873 admissions in fiscal 2009). Historically, Sullivan County was the only part of MSHA's primary service area where the two systems competed head to head, whereas in other parts of their service areas, MSHA and Wellmont generally did not overlap. However, they are increasingly overlapping in their service areas. For example, MSHA traditionally had no hospitals in Virginia, while Wellmont did. However, recent affiliations with the five Virginia hospitals have thrust MSHA into a service area that traditionally has fed Wellmont's facilities. The two systems now compete head-on in Norton, Va., a two-hospital town where in 2007, MSHA acquired a 50.1% ownership Norton Community Hospital, while Wellmont acquired the other one (Mountain View).

Competition in Sullivan County is likely to heat up soon due to Wellmont's major renovation of its flagship campus, Holston Valley Medical Center, at an estimated cost of more than \$100 million.

Projects Update

Niswonger Children's Hospital

MSHA completed and opened the \$34 million Niswonger Children's Hospital on March 2, 2009. The project, which created the region's first free-standing children's hospital, expanded pediatric services at the Johnson City Medical Center by seven beds. About \$25 million of the project's cost was funded through philanthropy.

Franklin Woods Community Hospital (FWCH)

FWCH is a new \$118 million, 80-bed hospital replacement facility that will replace the inpatient acute-care services at MSHA's North Side Hospital and its Johnson City Specialty Hospital. FWCH is expected to open in May/June 2010. North Side Hospital will remain open and serve outpatients and provide skilled nursing care.

Johnston Memorial Hospital (JMH)

Series 2009E bonds funded MSHA's acquisition of a 50.1% interest in the 135-bed JMH in April 2009. MSHA is building a 250,000-square-foot replacement hospital next to the JMH cancer center in Abingdon, Va., which opened in 2007. The new hospital is scheduled to open in March 2011.

Finances

MSHA demonstrated modest operating performance improvement during fiscal 2009. For the year ended June 30, net operating income climbed to \$7 million, or a 0.83% margin on \$840 million in total operating revenues, compared with \$6.2 million, or a 0.82% margin, on \$756 million in revenues in fiscal 2008. Although inpatient admissions grew to 57,127 in fiscal 2009 from 54,307 in fiscal 2008, volume growth was largely generated from acquisitions, and not same-store volumes, which were flat. Fiscal 2010 will be the first full year of operating results with the acquired facilities, and MSHA is budgeting \$16 million in operating revenues (1.6% margin) on \$1.0 billion in total operating income. The system is forecasting 9.1% inpatient volume growth to 62,305 from 57,127 in 2009. MSHA estimates that it will be eligible for about \$46 million in stimulus payments over the next five years. However, no stimulus funds are included in the system's 2010 budget or five-year forecast.

In 2009 MSHA implemented revenue and expense initiatives including eliminating 126 staffers, restricting hiring,

limiting travel, and eliminating pay increases for management. Additionally, the system closed its Indian Path Pavilion (a behavioral health facility), which will create about \$3 million in annual savings. Management has also identified about \$7.5 million of revenue enhancement opportunities for its operations in southwest Virginia. No TennCare cuts are expected for 2010 and management expects no increase in Virginia Medicaid for 2010. But TennCare cuts are a possibility for 2011. Other expected major payor increases are 5%-7% for fiscal 2010.

EBIDA margin was 14.4% for fiscal 2009. Pro forma MADS coverage, based on MADS of \$71 million, was 1.9x based on June 30, 2009, fiscal year-end results.

Net excess income for the year was \$21.2 million due to \$19.1 million of interest, dividend, and derivative related income that was offset by realized investment losses.

Interim Financial Performance: Sept. 30, 2009 (Three Months)

Through the first three months of fiscal 2010, MSHA reported an operating loss of \$2.4 million on \$235 million in operating revenues. First quarter losses are typical for MSHA since it is their practice is to be very conservative in realizing income early in the year. Last year the system reported a first quarter operating loss of \$546,000 on \$204 million of operating revenues.

Balance Sheet

MSHA's aggressive pace of acquisitions has positioned the system to compete effectively in its core service area; however, those investments have leveraged the system's balance sheet and limited the growth in unrestricted liquidity despite solid operating cash flow.

Unrestricted cash and investments totaled \$515 million at fiscal year-end 2009, equal to 242 days' cash. The system's target asset allocations include maintaining 165 days' cash in high-quality and highly liquid fixed-income investments. Above 165 days' cash, the system may invest in equities up to an allocation limit of 50%. MSHA does not invest in hedge funds or in private equity. Long-term debt to capitalization is high at 79%. Due to high system leverage, year-end cash to debt was 48%, which is well below the median for the current rating. MSHA remains in compliance with all bond covenants. We expect that leverage and liquidity metrics will improve over the next several years now that the system's acquisition program is essentially complete.

Debt Derivative Profile

MSHA's DDP overall score is a '2.5' on a scale of '1' to '4', whereby '1' represents the lowest risk. The score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure is a low to moderate credit risk at this time.

The key components of the overall DDP score of '2.5' are:

- There are strong management practices, including a written swap policy, frequent communication of swap performance to the board, good audit disclosure related to swaps, and the use of independent financial advisers to assist in evaluating swap strategies and performance.
- The termination and collateral-posting risk is offset from a credit standpoint by MSHA's collateral being clearly segregated from unrestricted liquidity, and none of the collateral is included in any of Standard & Poor's

unrestricted liquidity calculations.

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 January 22, 2010)

Mountain States Health Alliance

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2007A		
<i>Long Term Rating</i>	AA/A-2	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2007B		
<i>Long Term Rating</i>	AA/A-2	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2008A		
<i>Long Term Rating</i>	AA/A-2	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Hlth Alliance) hosp rev bnds (Mountain States Hlth Alliance) ser 2010A due 07/01/2038		
<i>Long Term Rating</i>	NR	
Johnson City Hlth & Ed Fac Brd (Mountain States Hlth Alliance) taxable hosp rev bnds (Mountain States Hlth Alliance) ser 2010B due 07/01/2038		
<i>Long Term Rating</i>	NR	

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Russell Cnty Indl Dev Auth, Virginia		
Mountain States Hlth Alliance, Tennessee		
Russell Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2008B		
<i>Long Term Rating</i>	AA/A-2	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed

Smyth Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee		
Smyth Cnty Indl Dev Auth (Mountain States Health Alliance)		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
Smyth Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2007C		
<i>Long Term Rating</i>	AA/A-2	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed

Ratings Detail (As Of January 22, 2010) (cont.)

Washington Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Washington Cnty Indl Dev Auth (Mountain States Health Alliance)

Long Term Rating

BBB+/Stable

Affirmed

Many issues are enhanced by bond insurance.

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The Health & Educational Facilities Board of the City of Johnson City, Tennessee Mountain States Health Alliance; Joint Criteria; System

Primary Credit Analyst:

Karl Propst, Dallas (1) 214-871-1427; karl.propst@standardandpoors.com

Secondary Contact:

Liz E Sweeney, New York (1) 212-438-2102; liz.sweeney@standardandpoors.com

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Related Criteria And Research

The Health & Educational Facilities Board of the City of Johnson City, Tennessee Mountain States Health Alliance; Joint Criteria; System

Credit Profile

Mountain States Health Alliance ICR

Long Term Rating

BBB+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on existing rated obligations from various issuers for Mountain States Health Alliance (MSHA), Tenn. At the same time, Standard & Poor's affirmed its 'BBB+' issuer credit rating (ICR) on MSHA. The outlook on all ratings is stable.

The 'BBB+' ratings reflect our view of MSHA's strong business position and solid level of unrestricted reserves and corresponding days' cash on hand. These factors are partially offset by the system's light maximum annual debt service (MADS) coverage for the rating level, and high leverage remaining from the aggressive acquisition activity that ended a few years ago.

More specifically, the 'BBB+' ratings reflect our view of MSHA's:

- Excellent business position, which is characterized by solid demographics, a high market share relative to its competition, and a broad range of services;
- Strong management and governance, which is reflected in the system's favorable performance record since its creation in 1998, and our expectation that the system's solid leadership will continue under Alan Levine, who joined MSHA as CEO in January;
- Continued strong financial performance, highlighted by solid EBITDA margins, and an 11th consecutive year of operating profitability in fiscal 2013 -- although results softened compared to previous years -- and solid liquidity for the rating level based on days' cash on hand; and
- Declining capital spending, which will likely support further growth in unrestricted liquidity and a reduction in leverage over time.

Despite MSHA's strong business position and consistent operating profitability, system leverage is elevated and remains an offsetting credit factor, in our opinion. MSHA has a debt-to-capital ratio of approximately 61% (down from 64% at fiscal year-end 2012) and a debt burden of roughly 7% of revenue. One of management's goals is to reduce leverage; we believe that will be key to achieving a higher rating. Also, even with typical EBITDA margins of 15% to 18%, MADS coverage has historically been below median 'BBB+' levels. MADS coverage as of Sept. 30 on an annualized basis was 2.0x.

The 'BBB+' ratings also incorporate our view of MSHA's group credit profile and the obligated group's core status.

Accordingly, the bonds are rated at the same level as the group credit profile. Our determination of the group status of MSHA's obligated group is "core" as the obligated group contains the majority of system assets and accounts for most of its revenues and income.

Bonds that are not otherwise secured by letters of credit (LOCs) are secured by MSHA's gross revenues, or are jointly secured by gross revenues and an irrevocable direct-pay LOC. Various debt issues supported by irrevocable direct pay LOCs for which there is no SPUR (including series 2013A and 2013B) are based solely on the long-term and short-term ratings of the LOC provider. While we are not affirming those ratings herein, we have factored the debt amounts into our analysis of MSHA's overall leverage and debt service capacity.

We are affirming the ratings on several series of bonds, including series 2007B1, 2007B2, 2007B3, 2008A, 2011A, and 2011B, whose ratings are based on the low correlation joint support of both MSHA and the LOC provider. For those bonds, MSHA and the LOC provider are each individually fully responsible for their repayment.

As of its interim period ended Sept. 30, 2013 (unaudited), MSHA had \$1.1 billion of long-term debt and capital lease obligations outstanding. Outstanding debt is split between 58% fixed- and 42% variable-rate obligations. We understand that MSHA has no plans to issue a significant amount of additional debt during the next few years, as management expects to fund its modest capital needs with cash flow and reserves. MSHA may continue to convert its remaining \$117 million of taxable debt to tax-exempt obligations; however, conversion would not result in any additional debt other than for costs of issuance and any required reserves. In our opinion, MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risks.

In addition to its outstanding debt obligations, MSHA has \$570 million of active swaps with Bank of America as the counterparty. The swaps include \$438 million of constant maturity swaps with a mark-to-market (MTM) value of positive \$5.7 million. These swaps generate \$4.9 million of positive annual cash flow. MSHA also has \$132 million of basis swaps with a MTM value of negative \$20 million, against which MSHA has no posted collateral. All amounts are as of November 2013.

Outlook

The stable outlook reflects our view of MSHA's business position supported by the system's past acquisition activity, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that is occurring, and that we expect to continue over time. Also adding to credit stability is MSHA's history of maintaining solid earnings, although we believe the system's high debt burden remains a credit risk. While we may raise the ratings in the future, we do not expect to do so until MSHA's MADS coverage equals or exceeds 3.0x, cash to long-term debt reaches 70% to 75%, and debt to capitalization declines to roughly 55%. We will also expect the system's business position to remain strong --demonstrated by stable to improving patient volumes and by sustained robust cash flow. Although not anticipated, if balance sheet metrics weaken, coverage declines to less than 1.7x, or operating margins decline and be sustained at or below 1.0%, we could take a negative rating action.

Enterprise Profile

Since its formation in 1998, MSHA has tripled its asset base and more than tripled annual net patient revenues to just over \$2 billion and more than \$1 billion, respectively. Today, MSHA owns and operates 14 acute-care facilities led by the flagship Johnson City Medical Center, a 514-licensed-bed tertiary regional provider.

The system's hospital facilities include 1,717 licensed acute-care beds, including 94 beds acquired in the October 2013 acquisition of Unicoi County Memorial Hospital. MSHA also consists of a range of outpatient facilities and ancillary services, such as a home health agency and a hospice, and other activities such as the ownership and management of medical office buildings.

MSHA acquired the Unicoi hospital for \$2.5 million plus \$4 million of outstanding Unicoi debt, which was retired at closing. The agreement included a commitment from MSHA to build a 20-bed replacement hospital by 2018. MSHA expects the acquisition will be accretive within 15 months as Unicoi transitions to MSHA's rates, which are current at about 50% of MSHA system levels.

As part of its physician integration efforts, MSHA has consolidated its employed physician practices into Mountain States Medical Group, which employs about 400 physicians. MSHA has steadily reduced physician practice losses through increased physician leadership, including regional chief medical officers, the attrition of less productive physicians, improvements in compensation when contracts are renewed, and other efficiency measures.

Management

Effective Jan. 1, Alan Levine became President and CEO of MSHA, replacing the retiring Dennis Vonderfect. Mr. Levine joined MSHA from Health Management Associates where he served as Group President. Before that he served as Secretary of the Louisiana Department of Health and Hospitals, and Senior Health Policy advisor to Governor Jindal.

Since the system's creation, MSHA's management and governance have evolved effectively, in our view. A strong central leadership team is focused on maximizing the system's potential as a whole and broadening access to managed-care contracts for all of the facilities while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The 13-member board has upheld its values of strong planning, education, and transparency.

Today, as it approaches the changing health care landscape, MSHA's leadership, in our view, remains focused on quality, ongoing physician integration, smart growth through service line and revenue cycle opportunities, cost reduction initiatives, and the development and implementation of new accountable care models, for the system's own employed population, and for its Medicare patient base.

Market position

The system's core service area encompasses 13 counties in Tennessee and Virginia where MSHA has about a 53% market share. Currently, fewer than 30% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 38% share, while Wellmont Health System, MSHA's main competitor, holds about a 30% share. There is no significant third player. While MSHA's market

share is strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. But, over the past several years the two health systems service areas have increasingly overlapped. Although the service area remains competitive, market characteristics remain favorable in terms of population growth, and the market's size will continue to support two sizable competitors, in our opinion.

Recent projects update

In October 2013 MSHA completed its \$69 million surgery tower project at Johnson City Medical Center. The project was funded with series 2012A bond proceeds, and through operations, reserves, and a small amount of philanthropy. The project left the number of operating room suites at 16, but expanded the space in each suite to accommodate modern equipment. MSHA also renovated and expanded the radiation oncology suite. The project structurally allows MSHA to add eight floors for a future bed tower if the capacity is needed, although there are currently no plans to build those additional floors.

Other than a \$20 million replacement hospital project for the recently acquired Unicoi County Memorial Hospital, we understand that MSHA has no other major committed capital projects beyond 2014.

Financial Profile

Change in accounting for bad debt

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," published Jan. 19, 2012 on RatingsDirect, we recorded MSHA's fiscal 2012 audit and all subsequent financial statements incorporating the adoption of Financial Accounting Standards Board 2011-07, but not in prior periods. The new accounting treatment means that MSHA's fiscal 2012 and subsequent financial statistics are not directly comparable to the results for fiscal 2011 and prior years. 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 article.

In our view, MSHA's operating performance remained good in fiscal 2013 but it was less robust than it had been in fiscal 2012, primarily due to lower inpatient volumes and the ongoing shift to observations, and to more patient care occurring in an outpatient setting. Reimbursement from both governmental and commercial sources remains under pressure and MSHA, like almost all other acute care providers, continues to incur sizable costs to transform its processes to succeed in the changing health care landscape and under the Affordable Care Act.

For the fiscal year ended June 30, net operating income was \$11.5 million (as per Standard & Poor's methodology), or a 1.1% margin, on \$1.01 billion in total operating revenues. Results were down from \$19.6 million, or a 2% margin, on \$1.00 billion in total operating revenues in fiscal 2012. For the year, inpatient admissions were lower year over year, at 58,103 (or a 5.0% decrease) compared with 61,154 in fiscal 2012 and 61,035 in fiscal 2011. Inpatient volume declines in fiscal 2013 reflect marketwide conditions, as MSHA's system market share remains stable to slightly improved. Management is expecting a same-store reduction in inpatient volumes of about 3% in fiscal 2014 although total admissions will likely be down only about 2% (at 57,809) due to approximately 800 admissions from Unicoi Memorial, which joined MSHA in October (the 800 admissions from Unicoi represent about eight months of inpatient volume from the hospital). Observation volumes continue to grow, increasing by 6% in 2013 to 23,554. Management projects

another 3% growth in observations for fiscal 2014. Management sees an opportunity to reduce the number of observations as a percentage of total admissions through appropriate physician documentation and is working toward that goal. Every 1% shift in observations has a financial impact of approximately \$1.4 million to the system. Outpatient volumes continued their strong growth to 1.67 million (a 4.7% increase) in fiscal 2013 from 1.59 million in fiscal 2012 as more volumes shifted from an inpatient to outpatient setting consistent with industry trends.

Net excess income for fiscal 2013 was solid, in our view although less robust, at \$35.1 million (a 3.4% margin), compared with \$39.7 million (a 3.9% margin) the previous year. MSHA's EBIDA margin was 15.4% in fiscal 2013, compared with 15.7% for fiscal 2012. Coverage, based on MADS of \$71 million, was 2.3x for fiscal 2013.

Interim

On an interim basis for the three months ended Sept. 30, 2013, MSHA had an operating loss of \$3.6 million (as per Standard & Poor's calculations) and excess income of \$4.2 million (1.7% margin), generating cash flow of \$35 million, producing annualized MADS coverage of just under 2.0x. Results year to date reflected continued weak inpatient volume trends.

Five-year financial plan

MSHA's five-year forecast assumes modest 0.5% to 2.7% decreases in inpatient admissions out to 2018. The forecast further assumes no Medicaid expansion in Tennessee or Virginia, and factors in additional declines in Medicare reimbursement. However, supported by reduced length of stay and other operating and cost containment initiatives, management expects to sustain \$150 million to \$160 million of annual EBIDA, which is adequate to comfortably support debt service and further reduce debt, once cash exceeds 250 days.

Balance sheet

MSHA's aggressive acquisition spending ended a few years ago, and while we believe the spending put the system in a better competitive position, it nevertheless resulted in very high leverage, which remains elevated and an impediment to a higher rating. As of Sept. 30, 2013, MSHA's long-term debt to capitalization was 61%, which, due to robust operating cash flow, has continued to improve after being having been as high as 79% in fiscal 2009.

Unrestricted cash and investments totaled \$606 million at Sept. 30, 2013, equal to 245 days' cash, which we view as robust for the rating level; due to high system leverage, however, cash to debt is approximately 56%, which remains well below the median for the current rating. MSHA remains in compliance with all bond covenants.

MSHA's current average age of plant is just under nine years, which we consider low, and the system has only modest capital plans, in our opinion, during the next several years. As a result, we believe that MSHA will be able to comfortably maintain more than 200 days' cash, and over time build back to its goal of 250 days' cash. We understand that management has targeted to reduce debt outstanding when cash exceeds 250 days.

Management plans to spend about \$91 million on capital expenditures in fiscal 2014, primarily on small projects not exceeding \$20 million on an individual basis. Spending for fiscal 2014 represents about 114% of fiscal 2013 depreciation. Between fiscal 2015 and fiscal 2018 capital spending is expected to be moderate, at less than 100% of depreciation. Spending in fiscal years 2015 and 2016 is expected to include the construction of the new 20-bed replacement hospital for Unicoi County, as part of MSHA's hospital affiliation agreement that was effective in

The Health & Educational Facilities Board of the City of Johnson City, Tennessee Mountain States Health Alliance; Joint Criteria; System

November 2013. Management has no future financing plans as Unicoi and other projects will be funded from operations.

Mountain States Health Alliance				
		Fiscal Year Ended June 30,		
	Three-Month Interim Ended Sept. 30, 2013	2013	2012	2011
Financial performance				
Net patient revenue (\$000s)	227,934	932,748	952,133	960,254
Total operating revenue (\$000s)	242,424	1,011,206	1,002,776	978,018
Total operating expenses (\$000s)	246,020	999,737	983,215	957,173
Operating income (\$000s)	(3,596)	11,469	19,561	20,845
Operating margin (%)	(1.48)	1.13	1.95	2.13
Net nonoperating income (\$000s)	7,822	23,616	20,133	20,600
Excess income (\$000s)	4,226	35,085	39,694	41,445
Excess margin (%)	1.69	3.39	3.88	4.15
Operating EBIDA margin (%)	11.23	13.44	14.04	15.85
EBIDA margin (%)	14.01	15.41	15.73	17.59
Net available for debt service (\$000s)	35,053	159,489	160,902	175,656
Maximum annual debt service (\$000s)	70,909	70,909	70,909	70,909
Maximum annual debt service coverage (x)	1.98	2.25	2.27	2.48
Operating lease-adjusted coverage (x)	2.2	2.11	2.13	2.3
Liquidity and financial flexibility				
Unrestricted cash and investments (\$000s)	606,340	588,478	531,151	597,435
Unrestricted days' cash on hand	244.6	233.8	213.5	251.5
Unrestricted cash/total long-term debt (%)	56.1	54	50.7	57.4
Average age of plant (years)	9.1	8.7	8.3	6.5
Capital expenditures/depreciation and amortization (%)	N.A.	130.2	176.5	191.9
Debt and liabilities				
Total long-term debt (\$000s)	1,081,596	1,090,348	1,048,098	1,040,923
Long-term debt/capitalization (%)	61.4	62.3	63.6	64.5
Contingent liabilities (\$000s)	N.A.	478,189	459,605	386,418
Contingent liabilities/total long-term debt (%)	N.A.	43.9	43.9	37.1
Debt burden (%)	7.08	6.85	6.93	7.08

N.A.: Not available.

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: Municipal Swaps, June 27, 2007
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

- Criteria: Joint Support Criteria Update, April 22, 2009

Related Research

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- The Outlook For U.S. Not-For-Profit Health Care Providers Is Negative From Increasing Pressures, Dec. 10, 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 To Manage Transition Risk, May 16, 2012
- U.S. Not-For-Profit Health Care Providers Hone Their Strategies For Reform, May 16, 2011

Ratings Detail (As Of January 22, 2014)

Mountain States Health Alliance, Series 2000D

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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Series 2011E

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1	Affirmed
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Russell Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Ser 2008B

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1+	Affirmed
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Smyth Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Seies 2010 B and Series 2009B

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee

Mountain States Hlth Alliance, Tennessee

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2000C

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2007B-1

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1+	Affirmed
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Series 2010 A&B, 2006A and 2009A

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Series 2011A

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1+	Affirmed
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Series 2011B

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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Ratings Detail (As Of January 22, 2014) (cont.)

<i>Long Term Rating</i>	AA+/A-1	Affirmed
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Series 2012A

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Series 2012B

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1	Affirmed
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Washington Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Ser 2009 C

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Wise Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Series 2012C

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1	Affirmed
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Many issues are enhanced by bond insurance.

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January 23, 2012

Johnson City Health and Education Facilities Board, Tennessee Mountain States Health Alliance; Joint Criteria; System

Primary Credit Analyst:

Karl Propst, Dallas (1) 214-871-1427; karl_propst@standardandpoors.com

Secondary Contact:

Liz Sweeney, New York (1) 212-438-2102; liz_sweeney@standardandpoors.com

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Credit Profile

Johnson City Hlth & Ed Fac Brd, Tennessee

Mountain States Hlth Alliance, Tennessee

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2011A

<i>Long Term Rating</i>	AAA/A-1	Upgraded
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Rating Assigned

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2011B

<i>Long Term Rating</i>	AA+/A-1	Upgraded
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Rating Assigned

Smyth Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Smyth Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2011D

<i>Long Term Rating</i>	AAA/A-1	Upgraded
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Rating Assigned

Smyth Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO 2011C

<i>Long Term Rating</i>	AAA/A-1	Upgraded
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Rating Assigned

Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' underlying rating (SPUR) to Mountain States Health Alliance (MSHA), Tenn.'s series 2011A, 2011B, 2011C, 2011D, and 2011E bonds from various issuers. At the same time, Standard & Poor's affirmed its 'BBB+' issuer credit rating (ICR) on MSHA and its 'BBB+' long-term rating and SPUR on existing rated bonds from various issuers for MSHA. The outlook is stable.

The 'BBB+' ratings reflect our view of MSHA's:

- Excellent business position, which is characterized by solid demographics, a high market share, and a broad range of services;
- Strong management and governance, which is reflected in a favorable performance record since the system's creation in 1998;
- Continued strong financial performance, highlighted by very strong fiscal-year EBITDA margins, an eighth consecutive year of operating profitability in fiscal 2011, and solid liquidity for the rating level based on days' cash on hand; and
- More moderate capital spending needs during the next five years and no sizable incremental debt plans, which will likely support further growth in unrestricted liquidity and a reduction in leverage over time.

MSHA's \$235 million series 2011A, 2011B, 2011C, 2011D, and 2011E bonds were issued for a variety of purposes, including refunding taxable series 2007B bonds to convert them to tax-exempt obligations, reimbursing MSHA for projects and equipment funded from cash reserves, funding \$14 million of the \$66 million Smyth County replacement hospital construction project, achieving interest rate and letter of credit (LOC) fee savings, and diversifying the institutions that provide credit enhancements. With the series 2011 debt refinancing, MSHA added Norton Community Hospital and Smyth County Community Hospital to its obligated group -- although analytically Standard & Poor's evaluates the consolidated Mountain States Health Alliance, not the obligated group.

On Oct. 19, 2011, MSHA's series 2011A and series 2011C bonds were assigned an 'A+/A-1' rating based on the irrevocable direct-pay LOCs provided by U.S. Bank N.A. (A+/A-1). Series 2011B was assigned an 'A/A-1' rating based on the LOC provided by PNC Bank N.A. (A/A-1). Series 2011D and series 2011E were assigned an 'A+/A-1' rating based on LOCs provided by Mizuho Corp Ltd (A+/A-1).

With the assignment of the SPURs to the series 2011A, 2011B, 2011C, 2011D, and 2011E bonds, MSHA has requested that Standard & Poor's apply its criteria for rating jointly supported obligations to the bonds, for which both MSHA as the obligor and the direct-pay LOC provider are fully responsible for repayment. Based on the low correlation joint support of MSHA and U.S. Bank N.A., Standard & Poor's assigned its 'AAA/A-1' long-term rating to MSHA's series 2011A and 2011C obligations. Based on low correlation joint support of MSHA and PNC Bank N.A., Standard & Poor's assigned its 'AA+/A-1' long-term rating to MSHA's series 2011B bonds. And, based on the low correlation joint support of MSHA and Mizuho Bank Ltd., Standard & Poor's assigned its 'AAA/A-1' rating to MSHA's 2011D and 2011E series obligations.

As of its June 30, 2011 fiscal year-end, MSHA had \$1.04 billion of long-term debt and capital lease obligations outstanding. We understand MSHA's plans for additional debt during the next few years will likely be limited to a \$50 million issue in fiscal 2013 for the surgery tower project, as the system expects to be able to fund most of its remaining capital needs with cash flow and reserves. However, currently, MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risks, in our view. The system has a debt-to-capital ratio of 69.5% and a debt burden of 6.8% of revenue. Even with typical EBITDA margins of 16% to 18%, maximum annual debt service (MADS) coverage has historically been below median 'BBB+' levels, although MADS coverage levels have improved during the past two years to be consistent with the 'BBB+' median of 2.7x.

Standard & Poor's Debt Derivative Profile (DDP) overall score on MSHA's swap portfolio is '2.5' on a scale of '1.0' to '4.0' in which '1.0' represents the lowest risk. The overall DDP score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure reflects low to moderate credit risk at this time. MSHA has two total return swaps with a total notional amount of \$50 million, whose counterparty was Lehman Brothers Special Financing Inc., guaranteed by Lehman Brothers Inc. The timing for the termination of those swaps is uncertain pending the resolution of issues related to Lehman's bankruptcy although a mediation hearing was scheduled in early December to discuss a settlement related to swap termination. MSHA has posted \$13.8 million of collateral against the Lehman swaps. Standard & Poor's does not count collateral funds as unrestricted liquidity, so the possibility of paying a termination cost is not likely to have a material credit impact.

Bank of America is the counterparty for two other swaps -- a \$438 million constant maturity swap with a negative mark-to-market (MTM) value of \$2.0 million, and \$5.6 million positive annual cash flow, and a \$132 million basis swap (converted from fixed payer to reduce the negative carry and MTM volatility) with an MTM value of negative \$22 million, against which MSHA had \$5.8 million of posted collateral (all figures as of November 2011).

MSHA had \$514 million of unrestricted liquidity on Sept. 30, 2011. Should the swaps terminate, MSHA will lose the positive annual cash flow from the swaps, which historically has exceeded \$2 million annually; however, MSHA will also be relieved of the negative carry on its swaps (currently about \$800,000 per year) if the full portfolio is terminated.

Outlook

The stable outlook reflects our view of MSHA's business position, the benefits of the system's acquisition activity during the past several years, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that has started to occur. Also adding to credit stability, in our view, is MSHA's history of maintaining solid earnings. However, the system's high debt burden remains a credit risk, in our view. While we could raise the ratings in the future, we do not expect to do so until MSHA's debt levels moderate, and we would expect long-term debt to total capitalization to decline to a level below 50% without a diminution of MSHA's liquidity. We would also expect that the organization's business position would remain strong, as demonstrated by stable to improving patient volumes and solid cash flow. Although not anticipated, should balance sheet metrics weaken, we could take a negative rating action.

Enterprise Profile

Since its formation in 1998, MSHA has tripled its asset base and more than tripled net patient revenues to almost \$2.0 billion and \$960 million, respectively. Due in large part to the system's acquisition strategy, the system's pro forma debt has doubled since 2005 and is now very high, in our view, at more than \$1 billion. The system's growth has been accomplished through strategic hospital acquisitions in its core northeastern Tennessee and southwest Virginia service areas.

MSHA owns and operates 11 acute-care facilities and one psychiatric hospital led by the flagship Johnson City Medical Center, a 514-licensed-bed (including 69 beds associated with Niswonger Children's Hospital) tertiary regional provider. The system's hospital facilities include 1,749 licensed acute-care beds although MSHA's licensed beds will decline to 1,623 once the new, smaller 44-bed Smyth county replacement hospital is completed. The system also includes a range of outpatient facilities and ancillary services, such as a home health agency, a hospice, and other facilities such as the ownership and management of medical office buildings.

As part of its physician integration efforts, MSHA has consolidated its employed physician practices into Mountain States Medical Group, which currently employs about 400 physicians. MSHA has steadily reduced physician practice losses through increased physician leadership including regional Chief Medical Officers, the attrition of less productive physicians, improvements in compensation when contracts are renewed, and other efficiency measures.

Since the system's creation, management and governance have evolved effectively, in our view. A strong central leadership is focused on maximizing the system's potential as a whole, as evidenced by the consolidation efforts in its core market of Washington County. In addition, management has broadened the access to managed-care contracts for all of the facilities while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The board improved its effectiveness by reducing its size to a very manageable 13 members, and has upheld its values of strong planning, education, and transparency.

Today, as it approaches the changing health care landscape MSHA's leadership remains focused on quality, ongoing physician integration, smart growth through service line and revenue cycle opportunities, cost reduction initiatives, and on the development and implementation of new accountable care models, initially for the hospital's own employee population (15,000 lives), and for its Medicare patient base.

Market position

The system's defined market area has broadened significantly due to its acquisition activity. The core service area encompasses 13 counties in Tennessee and Virginia, of which MSHA has a 52.3% market share. Currently only 27% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 37% share; MSHA's main competitor, Wellmont, holds about a 30% share. There is no significant third player.

We believe that the spate of acquisitions by both MSHA and Wellmont have largely played out as there are very few remaining independent hospitals in the region. While the service area remains very competitive, its market characteristics remain favorable in terms of population growth, and the market's size will continue to support two sizable competitors, in our opinion.

While MSHA's market share is extremely strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. Historically, Sullivan County was the only part of MSHA's primary service area where the two systems competed head to head, whereas in other parts of their service areas, MSHA and Wellmont generally did not overlap. However, they are increasingly overlapping in their service areas. For example, MSHA traditionally had no hospitals in Virginia, while Wellmont did. However, recent affiliations with the five Virginia hospitals have introduced MSHA into a service area that traditionally has fed Wellmont's facilities. The two systems now compete head-on in Norton, Va., a two-hospital town where in 2007 MSHA acquired a 50.1% ownership Norton Community Hospital, while Wellmont acquired the other one (Mountain View).

Projects update

Smyth County Community Hospital is a \$66 million, 44-bed replacement hospital for the more than 40-year-old local community hospital. Funding for the project is coming from series 2011 bonds (\$14 million) and operating reserves. Management expects the project to be complete by April 2012.

Series 2009E bonds funded MSHA's acquisition of a 50.1% interest in the 135-bed Johnson Memorial Hospital (JMH) in April 2009. In July 2011 MSHA completed and opened a 250,000-square-foot Gold LEED certified replacement hospital next to the JMH cancer center in Abingdon, VA.

In January 2012 MSHA commenced a \$69 million surgery tower project at Johnson City Medical Center. The number of operating room suites will remain at 16; however, the renovation will expand the space in each suite to accommodate modern equipment. In addition, the project will structurally allow MSHA to build eight additional floors for a future bed tower when additional capacity is needed (although there are currently no plans to construct the tower). The surgery project will be funded by a \$50 million bond issue in fiscal 2013 and from operations and reserves and a small amount of philanthropy. The project is estimated for completion in October 2013. We understand that MSHA has no other major committed capital projects beyond 2013.

Financial Profile

MSHA again demonstrated solid operating performance improvement during fiscal 2011, in our view. For the fiscal year ended June 30, 2011, net operating income climbed to \$20.5 million, or a 2.1% margin, on \$960 million in total operating revenues, compared with \$13.5 million, or a 1.4% margin, on \$928 million in revenues in fiscal 2010. MSHA's operating performance in fiscal 2011 was on target with budget. Inpatient admissions grew to 61,035 (or 1.6%) in fiscal 2011 from 60,101 in fiscal 2010. Volume growth was supported by an increase in medical admissions. Following several years of growth, outpatient volumes declined to 1.59 million (or 0.82%) in 2011 from 1.60 million in 2010 as MSHA's medical screening initiative shifted many patients to clinics and away from the emergency department, and as payers took a more stringent posture on certain procedures such as imaging. The system is forecasting modest increases in both inpatient and outpatient volume of 1.1% and 2.6%, respectively, in fiscal 2012. MSHA is projecting a fiscal 2012 operating margin of 2.5% and an excess margin of 4.0%, which we consider reasonable, particularly given management's historical ability to meet its targets.

No stimulus funds are included in MSHA's five-year operating income forecast; however, the system estimates that it will be eligible for about \$57 million in stimulus payments between 2012 and 2016 related to its IT investments. Management believes that within three years all of its hospitals will be on one IT platform

For fiscal 2011 MSHA's EBITDA margin was 17.6%, compared with 16.7% for fiscal 2010. MADS coverage, based on MADS of \$68.2 million, was 2.6x (or 2.4x on an operating lease-adjusted basis) based on June 30, 2011 fiscal year-end results.

Net excess income for fiscal 2011 was \$41.1 million due to \$23.3 million of interest, dividend, and derivative-related income.

Interim financial performance

Through the first three months of fiscal 2012 (Sept. 30, 2011), MSHA reported an operating income of \$8.8 million (inclusive of minority interests, as per Standard & Poor's methodology) on \$254 million in operating revenues, which compared favorably with MSHA's first-quarter fiscal 2010 operating loss of \$2.7 million on \$241 million in operating revenues. Historically, first-quarter losses have been typical for MSHA since it is the system's practice to be very conservative in realizing income early in the year. For fiscal 2012 total operating revenues increased by 3.7% relative to the same period last year while operating expenses climbed a more modest 1.4%, on reduced use of contract labor, lower supplies expenses, and reductions in bad debt expense, interest, and depreciation.

Balance sheet

During the past several years MSHA's aggressive pace of acquisitions positioned the system to compete effectively in its core service area. However, those investments leveraged the system's balance sheet and for a while limited the growth in MSHA's unrestricted liquidity despite robust operating cash flow. Given that major acquisition and construction activity is completed, and with a low current 6.5-year average age of plant, we believe that MSHA will likely be able to remain at or near its goal of 250 days' cash and reduce debt outstanding when cash exceeds that level. However, in fiscal 2012 MSHA projects days' cash will decline to 232 from funding capital spending out of cash reserves.

Unrestricted cash and investments totaled \$597 million at fiscal year-end 2011, equal to 251 days' cash. Long-term debt to capitalization is high, in our view, at 69.5%, although MSHA continues to pay down its long-term debt, and

prior to fiscal year-end paid off about \$9.3 million of notes. Due to high system leverage, year-end cash to debt was 57%, which was improved over last year but remains well below the median for the current rating. MSHA remains in compliance with all bond covenants. We anticipate that leverage and liquidity metrics will improve over the next several years since the system's acquisition program and major capital spending initiatives have been completed. We understand that other than about \$50 million of additional debt that MSHA expects to issue for a surgery center project during fiscal 2013, the system's current capital spending plans can be funded with cash flow.

The system's target asset allocations include maintaining 110 days' cash in high-quality and highly liquid fixed-income investments. Above 110 days' cash, the system may invest in equities up to an allocation limit of 50%. MSHA does not invest in hedge funds or in private equity.

Debt Derivative Profile

MSHA's DDP overall score is a '2.5' on a scale of '1' to '4' in which '1' represents the lowest risk. The score of '2.5' reflects Standard & Poor's view that MSHA's swap exposure is a low to moderate credit risk at this time.

The key components of the overall DDP score of '2.5' are:

- Management practices are strong and include a written swap policy, frequent communication of swap performance to the board, good audit disclosure related to swaps, and the use of independent financial advisers to assist in evaluating swap strategies and performance.
- The termination and collateral posting risk is offset from a credit standpoint by the clear segregation of MSHA's collateral from unrestricted liquidity, and none of the collateral is included in any of Standard & Poor's unrestricted liquidity calculations.

In fiscal 2011 MSHA reconfigured its swaps to lock in positive cash flow of \$16 million over three years on \$435 million of constant maturity swaps, and converted its \$132 million of fixed payer swaps to basis swaps, which will reduce their overall MTM volatility and collateral posting requirements. In addition, in 2011 MSHA terminated its swaption agreement with JP Morgan at no incremental cost. MSHA plans to terminate the \$132 million of basis swaps when market conditions allow, and to resolve the Lehman swap termination on \$106 million of total return and fixed payer swaps as soon as possible.

Mountain States Health Alliance, Tennessee Financial Statistics

		Fiscal Year Ended		
	Year-to-date as of Sept. 30, 2011	2011	2010	2009
Financial performance				
Net patient revenue (\$000s)	244,499	960,254	928,270	822,898
Total operating revenue (\$000s)	254,344	978,018	945,392	839,944
Total operating expenses (\$000s)	245,498	957,518	931,850	832,941
Net nonoperating income (\$000s)	5,739	20,600	24,589	14,234
Operating margin (%)	3.48	2.10	1.43	0.83
Excess margin (%)	5.61	4.12	3.93	2.49
Operating EBIDA margin (%)	15.57	15.82	14.53	14.38
EBIDA margin (%)	17.44	17.56	16.7	15.8
Net available for debt service (\$000s)	45,351	175,311	161,954	134,985

Mountain States Health Alliance, Tennessee Financial Statistics (cont.)				
Maximum annual debt service (\$000s)	68,199	68,199	65,000	65,000
Maximum annual debt service coverage (x)	2.66	2.57	2.49	2.08
Operating lease-adjusted coverage (x)		2.38	2.29	1.94
Liquidity and financial flexibility				
Unrestricted cash and investments (\$000s)	514,263	597,435	578,452	515,066
Unrestricted days' cash on hand	206.6	251.4	248.3	245.9
Unrestricted cash/total long-term debt (%)	50.0	57.4	54.8	49.5
Cash available within 30 days/contingent liability (%)				
Average age of plant (years)	8.2	6.5	7	7.4
Capital expenditures/Depreciation and amortization (%)		191.9	211.2	187.6
Debt and Liability				
Total long-term debt (\$000)	1,029,138	1,040,923	1,054,842	1,040,944
Long-term debt/capitalization (%)	72.4	69.5	77.2	78.5
Contingent liability (\$000)				
Contingent liability/total long-term debt (%)				
Debt burden (%)	6.55	6.81	6.70	7.61

Related Criteria And 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 January 23, 2012)		
Mountain States Health Alliance hosp VRDO		
Long Term Rating	AAA/A-1	Upgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Rating Assigned
Mountain States Health Alliance		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Mountain States Health Alliance ICR		
Long Term Rating	BBB+/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd, Tennessee		
Mountain States Hlth Alliance, Tennessee		
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)		
Long Term Rating	BBB+/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2007B2		
Long Term Rating	AA+/A-1	Downgraded
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2007B3		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Ratings Detail (As Of January 23, 2012) (cont.)

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance)

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Downgraded

Russell Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Russell Cnty Indl Dev Auth (Mountain States Health Alliance)

<i>Long Term Rating</i>	NR	
Russell Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2008B		
<i>Long Term Rating</i>	AAA/A-1	Downgraded
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed

Smyth Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Smyth Cnty Indl Dev Auth (Mountain States Health Alliance)

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Washington Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Washington Cnty Indl Dev Auth (Mountain States Health Alliance)

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

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Mountain States Health Alliance, Tennessee; Joint Criteria; System

Primary Credit Analyst:

Karl Propst, Dallas (1) 214-871-1427; karl_propst@standardandpoors.com

Secondary Contact:

Liz Sweeney, New York (1) 212-438-2102; liz_sweeney@standardandpoors.com

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Credit Profile

US\$54.90 mil fixed rate bonds ser 2012A

Long Term Rating

BBB+/Stable

New

US\$30.230 mil hosp rev bonds ser 2012B due 07/01/2035

Unenhanced Rating

BBB+(SPUR)/Stable

New

US\$9.785 mil var rate structure bonds ser 2012C

Unenhanced Rating

BBB+(SPUR)/Stable

New

Mountain States Health Alliance ICR

Long Term Rating

BBB+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' long-term rating to Mountain States Health Alliance (MSHA), Tenn.'s \$54.9 million series 2012A bonds, and its 'BBB+' underlying rating (SPUR) to MSHA's \$30.2 million series 2012B bonds, issued by The Health and Educational Facilities Board of the City of Johnson City, Tenn., and \$9.8 million series 2012C variable-rate structure bonds issued by Wise County Industrial Development Authority.

At the same time, Standard & Poor's affirmed its 'BBB+' issuer credit rating (ICR) on MSHA, and its 'BBB+' long-term rating and SPUR on existing rated bonds from various issuers for MSHA. The outlook on all ratings is stable.

The 'BBB+' ratings reflect our view of MSHA's:

- Excellent business position, which is characterized by solid demographics, a high market share, and a broad range of services;
- Strong management and governance, which is reflected in a favorable performance record since the system's creation in 1998;
- Continued strong financial performance, highlighted by solid EBITDA margins, a 10th consecutive year of operating profitability in fiscal 2012, and solid liquidity for the rating level based on days' cash on hand; and
- More moderate capital spending needs during the next five years, and no sizable incremental debt plans, which will likely support further growth in unrestricted liquidity and a reduction in leverage over time.

Proceeds from MSHA's series 2012 bonds will be used to construct a surgical tower at Johnson City Medical Center, to reimburse \$26.5 million for previous capital spending, and to refinance debt and leases outstanding to achieve interest rate and letter of credit (LOC) fee savings. Concurrent with the issuance of the rated bonds, MSHA is issuing \$18.4 million of taxable variable-rate direct purchase debt to Bank of America that is not being rated. Combined, new money associated with the 2012A, 2012B, and 2012C bonds and unrated direct purchase debt is approximately \$89 million.

While the assigned SPURs on MSHA's \$40 million series 2012B and 2012C obligations are 'BBB+', we expect to assign long-term and short-term ratings of 'A+/A-1' based on credit enhancement provided by irrevocable direct-pay LOCs

from Mizuho Corp. Ltd. (A+/A-1). MSHA has also requested that Standard & Poor's apply its criteria for rating jointly supported obligations, for which both MSHA as the obligor, and Mizuho Bank as LOC provider, are fully responsible for repayment. Based on the low correlation joint support of MSHA and Mizuho, we expect to assign a 'AAA/A-1' joint support rating to the series 2012B and 2012C obligations.

As of its fiscal year ended June 30, 2012 (unaudited), MSHA had \$1.07 billion of long-term debt and capital lease obligations outstanding. We understand that MSHA has no plans to issue a significant amount of additional debt during the next few years as management expects to fund most of its remaining capital needs with cash flow and reserves. MSHA may convert its remaining \$125 million of taxable debt outstanding to tax exempt; however, the conversion would not represent any additional debt other than costs of issuance and any required reserves. Currently MSHA's sizable debt and accompanying high leverage remain the system's most significant credit risks, in our opinion. One of management's goals is to reduce leverage. The system has a pro forma debt to capital ratio of approximately 66% and a debt burden of 7.5% of revenue. Even with typical EBITDA margins of 16% to 18%, maximum annual debt service (MADS) coverage has historically been below median 'BBB+' levels. However, MADS coverage improved modestly during the past two years to approximately 2.6x, and will be 2.1x to 2.3x on a pro forma basis, which is in line with the 'BBB+' median.

MSHA has \$106 million total notional amount of total return and fixed payer swaps whose counterparty was Lehman Brothers Special Financing Inc., guaranteed by Lehman Brothers Inc. The timing for the termination of those swaps is uncertain pending the resolution of issues related to Lehman's bankruptcy and mediation of settlement terms. MSHA has posted \$13.8 million of collateral against the Lehman swaps. Standard & Poor's does not count collateral funds as unrestricted liquidity, so the possibility of paying a termination cost is not likely to have a material credit impact.

Bank of America is the counterparty for five other swaps -- \$438 million constant maturity swaps with a mark-to-market (MTM) value of \$6.6 million and \$5.6 million positive annual cash flow, and \$132 million of basis swaps (converted from fixed payer to reduce the negative carry and MTM volatility) with an MTM value of negative \$17.7 million, against which MSHA has no posted collateral (all figures as of July 20, 2012). MSHA also has a \$21.4 million total return swap in place related to the series 2001A bonds outstanding.

Outlook

The stable outlook reflects our view of MSHA's business position, the benefits of the system's acquisition activity during the past several years, MSHA's favorable record of integrating acquired facilities, and the natural improvement in debt ratios that will likely occur over time. Also adding to credit stability, in our view, is MSHA's history of maintaining solid earnings although we believe the system's high debt burden remains a credit risk. While we could raise the ratings in the future, we do not expect to do so until MSHA's MADS coverage equals or exceeds 3.0x, cash to long-term debt approaches 1.0x, and debt to capitalization declines to roughly 55%. We would also expect that the organization's business position would remain strong, as demonstrated by stable to improving patient volumes and solid cash flow. Although not anticipated, should balance sheet metrics weaken, we could take a negative rating action.

Enterprise Profile

Since its formation in 1998, MSHA has tripled its asset base and more than tripled net patient revenues to almost \$2.0 billion and \$978 million, respectively. Due in large part to the system's acquisition strategy, the system's pro forma debt has approximately doubled since 2005 to more than \$1.0 billion, equal to about 66% of capitalization, which we consider elevated. The system's growth was accomplished through strategic hospital acquisitions in its core northeastern Tennessee and southwest Virginia service areas.

MSHA owns and operates 11 acute-care facilities and one psychiatric hospital, led by the flagship Johnson City Medical Center, a 514-licensed-bed (including 69 beds associated with Niswonger Children's Hospital) tertiary regional provider. The system's hospital facilities include 1,623 licensed acute-care beds. The system also consists of a range of outpatient facilities and ancillary services, such as a home health agency, a hospice, and other facilities such as the ownership and management of medical office buildings.

As part of its physician integration efforts, MSHA has consolidated its employed physician practices into Mountain States Medical Group, which currently employs about 400 physicians. MSHA has steadily reduced physician practice losses through increased physician leadership including regional chief medical officers, the attrition of less productive physicians, improvements in compensation when contracts are renewed, and other efficiency measures.

Management

Since the system's creation, management and governance have evolved effectively, in our view. A strong central leadership team is focused on maximizing the system's potential as a whole, as demonstrated by the consolidation efforts in its core market of Washington County. In addition, management has broadened the access to managed-care contracts for all of the facilities while centralizing the negotiations at the system level. It has also centralized other functions like billing and collections, purchasing, and laboratory services. The board improved its effectiveness by reducing its size to 13 members and has upheld its values of strong planning, education, and transparency.

Today, as it approaches the changing health care landscape MSHA's leadership remains focused on quality, ongoing physician integration, smart growth through service line and revenue cycle opportunities, cost reduction initiatives, and the development and implementation of new accountable care models, initially for the hospital's own employee population (approximately 15,000 lives), and for its Medicare patient base.

Market position

The system's core service area encompasses 13 counties in Tennessee and Virginia, and MSHA has a 53% market share. Currently, only 27% of the system's patients originate from its original home county of Washington County, Tenn. In the broader 29-county service area, MSHA has a 38% share. MSHA's main competitor, Wellmont, holds about a 30% share. There is no significant third player.

We believe that the spate of acquisitions by both MSHA and Wellmont have largely played out as there are very few remaining independent hospitals in the region. While the service area remains competitive, market characteristics remain favorable in terms of population growth, and the market's size will continue to support two sizable competitors, in our opinion.

While MSHA's market share is strong in the core Washington County market, Wellmont Health System dominates in adjacent Sullivan County. Historically, Sullivan County was the only part of MSHA's primary service area where the two systems competed head to head, whereas in other parts of their service areas, MSHA and Wellmont generally did not overlap. However, they are increasingly overlapping in their service areas. MSHA traditionally had no hospitals in Virginia, while Wellmont did. However, affiliations with five Virginia hospitals during the past few years introduced MSHA into a service area that traditionally fed Wellmont's facilities. The two systems now compete head-on in Norton, Va., a two-hospital town where in 2007 MSHA acquired a 50.1% ownership in Norton Community Hospital, while Wellmont acquired the other one (Mountain View).

Recent projects update

In April 2012, MSHA completed a \$66 million, 44-bed replacement facility for the more than 40-year-old Smyth County Community Hospital. Funding for the project came from the series 2011 bonds (\$14 million) and operating reserves.

In January 2012, MSHA commenced a \$69 million surgery tower project at Johnson City Medical Center. The project is being funded with the series 2012A bonds proceeds, operations, reserves, and a small amount of philanthropy. The number of operating room suites will remain at 16; however, the renovation will expand the space in each suite to accommodate modern equipment. In addition, the project will structurally allow MSHA to build eight additional floors for a future bed tower when additional capacity is needed (although there are currently no plans to construct the tower). The project is estimated for completion in October 2013. We understand that MSHA has no other major committed capital projects beyond 2013.

Financial Profile

MSHA again demonstrated good but less robust operating performance in fiscal 2012 compared with fiscal 2011. For the fiscal year ended June 30, net operating income was \$10 million, or a 1.0% margin, on \$996 million in total operating revenues, down from \$21 million, or a 2.1% margin, on \$960 million in total operating revenues in fiscal 2011. According to management, operating performance came in below budget for a variety of reasons, including timing issues surrounding reimbursement; lower-than-budgeted volumes, particularly in inpatient surgeries; and an increase in charity care and bad debts.

For the year, inpatient admissions were flat year over year, at 61,154 (or a 0.2% increase), compared with 61,035 in fiscal 2011, while total surgical cases were down 4% to 36,972 from 38,521. By contrast, outpatient volumes grew to 1.59 million (or 3%) in fiscal 2012 from 1.55 million in fiscal 2011 as more volumes shifted from an inpatient to outpatient setting consistent with industry trends.

Net excess income for fiscal 2012 was solid, in our view, at \$37.9 million (a 3.7% margin) compared with \$41.1 million (or a 4.1% margin) the previous year. MSHA's EBITDA margin was 15.5% in fiscal 2012, compared with 17.6% for fiscal 2011. MADS coverage, based on pro forma MADS of \$68 million to \$77 million, depending upon final pricing, is 2.1x to 2.3x.

Balance sheet

During the past several years, MSHA's aggressive pace of acquisitions positioned the system to compete effectively in its core service area. However, those investments leveraged the system's balance sheet, and for a while limited the growth in MSHA's unrestricted liquidity despite robust operating cash flow. Major acquisition and construction activity is completed, and that the current average age of plant is eight years, which we consider low. As a result, we believe that MSHA will be able to comfortably maintain more than 200 days' cash and over time build back to its goal of 250 days' cash. We understand that management has targeted to reduce debt outstanding when cash exceeds that level.

Unrestricted cash and investments totaled \$534 million at fiscal year-end 2012, equal to 214 days' cash. Pro forma long-term debt to capitalization remains elevated, in our view, at 66%, although we anticipate that leverage and liquidity metrics will improve during the next several years since the system's acquisition program and major capital spending initiatives have been completed. Due to high system leverage, pro forma cash to debt is approximately 48%, which remains well below the median for the current rating. MSHA remains in compliance with all bond covenants. We understand that capital spending plans can be funded with cash flow, in addition to the series 2012 bonds.

The system's target asset allocations include maintaining 110 days' cash in high-quality and highly liquid fixed-income investments. Above 110 days' cash, the system may invest in equities up to an allocation limit of 50%. MSHA does not invest in hedge funds or in private equity.

Mountain States Health Alliance				
		Fiscal Year Ended June 30,		
	Fiscal Year Ended June 30, 2012 (Unaudited)	2011	2010	2009
Financial performance				
Net patient revenue (\$000s)	958,003	960,254	928,270	822,898
Total operating revenue (\$000s)	995,562	978,018	945,392	839,944
Total operating expenses (\$000s)	985,523	957,518	931,850	832,941
Operating income (\$000s)	10,039	20,500	13,542	7,003
Operating margin (%)	1.01	2.10	1.43	0.83
Net nonoperating income (\$000s)	27,884	20,600	24,589	14,234
Excess income (\$000s)	43,038	41,100	38,131	21,237
Excess margin (%)	3.71	4.12	3.93	2.49
Operating EBIDA margin (%)	13.16	15.82	14.53	14.38
EBIDA margin (%)	15.52	17.56	16.70	15.80
Net available for debt service (\$000s)	166,727	175,311	161,954	134,985
Maximum annual debt service (\$000s)	77,236	77,236	77,236	77,236
Maximum annual debt service coverage (x)	2.16	2.27	2.10	1.75
Operating lease-adjusted coverage (x)	1.94	2.13	1.99	1.67
Liquidity and financial flexibility				
Unrestricted cash and investments (\$000s)	533,713	597,435	578,452	515,066
Unrestricted days' cash on hand	214.0	251.4	248.3	245.9
Unrestricted cash/total long-term debt (%)	50.9	57.4	54.8	49.5
Average age of plant (years)	8.3	6.5	7.0	7.4
Capital expenditures/depreciation and amortization (%)	179.5	191.9	211.2	187.6

Mountain States Health Alliance (cont.)**Debt and liabilities**

Total long-term debt (\$000s)	1,049,098	1,040,923	1,054,842	1,040,944
Long-term debt/capitalization (%)	63.6	72.2	76.9	79.3
Debt burden (%)	7.51	7.71	7.96	9.04

Pro forma ratios

Unrestricted days' cash on hand	223.56
Unrestricted cash/total long-term debt (%)	47.84
Long-term debt/capitalization (%)	66.02

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Ratings Detail (As Of August 16, 2012)**Mountain States Health Alliance, Series 2000D**

Unenhanced Rating BBB+(SPUR)/Stable Affirmed

Russell Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Ser 2008B

Unenhanced Rating BBB+(SPUR)/Stable Affirmed

Long Term Rating AAA/A-1 Affirmed

Smyth Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Seies 2010 B and Series 2009B

Long Term Rating BBB+/Stable Affirmed

The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee

Mountain States Hlth Alliance, Tennessee

ser 2007B2

Unenhanced Rating BBB+(SPUR)/Stable Affirmed

Long Term Rating AA+/A-1 Affirmed

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), ser 2008A

Unenhanced Rating BBB+(SPUR)/Stable Affirmed

Long Term Rating AAA/A-1 Affirmed

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2000C

Unenhanced Rating BBB+(SPUR)/Stable Affirmed

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance), Series 2007B-1

Ratings Detail (As Of August 16, 2012) (cont.)

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

Series 2007B1-3

<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

Series 2010 A&B, 2006A and 2009A

<i>Long Term Rating</i>	BBB+/Stable	Affirmed
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Washington Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Ser 2009 C

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

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The Health and Educational Facilities Board of the City of Johnson City, Tennessee Mountain States Health Alliance; Letter of Credit

Primary Credit Analyst:

Adam F Cray, San Francisco (1) 415-371-5082; adam.cray@standardandpoors.com

Secondary Contact:

Lawrence R Witte, CFA, San Francisco (1) 415-371-5037; larry.witte@standardandpoors.com

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The Health and Educational Facilities Board of the City of Johnson City, Tennessee Mountain States Health Alliance; Letter of Credit

Credit Profile

US\$99.68 mil taxable hosp rfdg rev bnds (Mountain States Hlth Alliance) ser 2013B

Long Term Rating

AA-/A-1+

Affirmed

US\$16.235 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2013A

Long Term Rating

AA-/A-1+

Affirmed

Rationale

Profile

Expected closing date: July 30, 2013

Maturity date: Aug. 15, 2043

Structure type: Direct-pay letter of credit

Obligor: Mountain States Health Alliance

LOC provider: U.S. Bank National Association

Trustee: The Bank of New York Mellon Trust Company N.A. (AA-/Stable/A-1+)

Standard & Poor's Ratings Services assigned its 'AA-/A-1+' rating to The Health and Educational Facilities Board of the City of Johnson City, Tenn.'s series 2013A hospital revenue bonds and series 2013B taxable hospital revenue refunding bonds, both issued on behalf of Mountain States Health Alliance.

The 'AA-' long-term component of the rating is based on the long-term issuer credit rating (ICR) of U.S. Bank National Association (AA-/Stable/A-1+), which has entered into an irrevocable letter of credit (LOC) with the trustee, and reflects our opinion of the likelihood that bondholders will receive principal and interest payments when due if they do not exercise the put option. The 'A-1+' short-term component of the rating is based on the LOC provider's short-term ICR and reflects our opinion of the likelihood that bondholders will receive principal and interest payments if they do exercise the put option.

The initial interest rate mode for the bonds, which is fully supported by the LOC, is the weekly mode. The bonds can also be converted to term and fixed rate modes, which are not supported by the LOC. However, pursuant to the trust indenture, any rate mode conversion must be preceded by a mandatory tender (See the Structural Analysis section below for more information).

Transaction Highlights

The debt is variable rate with a bondholder option to demand repayment before the bonds mature (the put or tender option). The bondholders may exercise the put option at any time during the covered mode with appropriate notice to

the trustee. Those bondholders choosing to exercise the put option will receive a price equal to par plus accrued interest funded with remarketing proceeds or amounts available under the LOC.

Structural Analysis

When evaluating the bonds, Standard & Poor's considers various risk factors, as described below.

LOC coverage for the covered mode

The LOC covers the entire bond principal amount, plus interest accruals equal to 37 days. We believe this LOC coverage is sufficient to pay principal, interest, and, in the event of a tender, the purchase price while the bonds are in the weekly mode (the covered mode), even assuming maximum interest rate accruals (see table below).

Maximum bond rate:	12%
Next interest payment date:	Aug. 1, 2013
Covered mode interest payment date:	1st business day of each month
LOC interest reinstatement period:	Automatic reinstatement by close of business on an interest payment date unless prior notice of non-reinstatement is provided
Remedy for nonreinstatement:	Acceleration
Interest accrual for covered mode:	Accrual from the preceding interest payment date to, but not including, the next interest payment date

Interest rate mode changes

The current (and covered) mode is the weekly mode; the transaction terms do not provide for the bonds to operate in multiple modes concurrently. In addition to the covered mode, the transaction documents provide that the bonds may be converted to term and fixed rate modes. While we offer an opinion of the sufficiency of interest coverage only as to the covered mode, it should be noted that the bonds are subject to a mandatory tender at par plus accrued interest before the rate mode can be changed.

LOC termination and expiration

Termination risk is addressed, in our opinion, because by its terms, the LOC cannot terminate prior to expiration while the bonds are outstanding in the covered mode unless the LOC provider is replaced or, following certain events of default, the LOC provider has directed the trustee to draw on the LOC to cover an acceleration.

LOC provider replacement

The transaction documents generally provide that the obligor may replace the LOC provider with appropriate notice to bondholders. However, a mandatory tender must occur prior to the date proposed for the replacement of the LOC provider. In our view, this and other requirements related to LOC provider replacement sufficiently mitigate any risk that the existing bondholders would see the rating on the bonds lowered as a consequence of the LOC provider being replaced.

Additional bonds

The transaction terms do not provide for additional bond issuances.

Ratings Sensitivity

In view of the bond structure, changes to our rating on the bonds in the covered mode can result from, among other things, changes to our rating on the LOC provider or amendments to the transaction's terms. We will maintain a rating on the bonds as long as they are in the covered mode and the LOC has not expired or otherwise terminated. If either of these conditions changes, we will likely withdraw our rating on the bonds.

Call And Put Provisions

The bonds are subject to redemption and tender, both mandatory and optional, under various scenarios. In all cases in the covered mode, the redemption or tender price will at least equal par plus accrued interest and will be fully supported by the LOC. Premiums for tenders or redemptions are not currently supported by the bond documents.

Related Criteria And Research

Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

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Mountain States Health Alliance, Tennessee; Joint Criteria

Primary Credit Analyst:

Ryan Butler, New York (1) 212-438-2122; ryan_butler@standardandpoors.com

Secondary Contact:

Chris A Littlewood, Chicago (1) 312-233-7072; chris_littlewood@standardandpoors.com

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Credit Profile

The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee

Mountain States Hlth Alliance, Tennessee

Johnson City Hlth & Educl Facs Brd (Mountain States Hlth Alliance) ser 2012B

Long Term Rating	AAA/A-1	Rating Assigned
Unenhanced Rating	BBB+(SPUR)/Stable	Rating Assigned

Wise Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Wise Cnty Indl Dev Auth (Mountain States Hlth Alliance) ser 2012C

Long Term Rating	AAA/A-1	Rating Assigned
Unenhanced Rating	BBB+(SPUR)/Stable	Rating Assigned

Profile:

Expected closing date:	Sept. 18, 2012
Maturity date:	Aug. 15, 2042
Structure type:	Direct-pay letter of credit (LOC)
Obligor:	Mountain States Health Alliance
LOC provider:	Mizuho Corp. Bank Ltd. (rating dependency*)
Trustee:	Bank of New York Mellon Trust Co.

*Standard & Poor's rating on the bonds is linked to its rating on the letter of credit provider.

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA/A-1' rating to Johnson City Health & Educational Facilities Board, Tenn.'s (the issuer's) hospital revenue bonds series 2012B and Wise County Industrial Development Authority, Va.'s series 2012C, both issued on behalf of Mountain States Health Alliance (MSHA). At the same time, Standard & Poor's assigned its 'BBB+' underlying rating (SPUR) to the bonds. The 'AAA' long-term component of the rating is based on the application of joint criteria (assuming low correlation) between the irrevocable direct-pay letter of credit (LOC) and the obligor, and reflects our opinion of the likelihood that bondholders will receive interest and principal payments when due if they do not exercise the put option. The 'A-1' short-term component of our rating is based on the short-term component of the rating on Mizuho Corp. Bank Ltd. (A+/A-1), and reflects our opinion of the likelihood that bondholders will receive interest and principal payments if they exercise the put option.

The LOC fully supports all bond payment obligations when the bonds are in the weekly interest mode. Therefore, our rating applies only during this covered mode. If the bonds are converted to a non-covered rate mode, we will likely withdraw our rating (see the Structural Analysis section for more information).

The SPUR reflects our opinion of MSHA's excellent business position, strong management and governance, and

continued solid operating performance, highlighted by a 10th consecutive year of operating profitability, robust EBITDA margins, and good liquidity for the rating level. Additionally, MSHA has no sizable capital needs or incremental debt plans, so it should benefit from growth in its unrestricted liquidity and a reduction in leverage over time.

For more information, please see the report published Aug. 16, 2012, on RatingsDirect on the Global Credit Portal.

Transaction Highlights

The debt is variable rate with a bondholder option to demand repayment before the bonds mature (the put or tender option). The bondholders may exercise the put option at any time during the covered mode with appropriate notice to the trustee. Those bondholders choosing to exercise the put option will receive a price equal to par plus accrued interest funded with remarketing proceeds that the trustee holds and, in the event of a failed remarketing, with the amounts available under the LOC.

Structural Analysis

When evaluating the bonds, Standard & Poor's considers various risk factors, as described below.

LOC coverage for the covered mode

The LOC covers 37 days of interest accruals at a maximum interest rate and the entire bond principal amount. We believe the LOC's coverage is sufficient to pay interest and principal while the bonds are in the covered rate mode, even assuming maximum interest rate accruals (see table).

Maximum bond rate:	12%
First interest payment date:	Oct. 1, 2012
Covered mode interest payment date:	First business day of month
LOC interest reinstatement period:	One calendar day
Remedy for non-reinstatement:	Trustee will accelerate the bonds' maturity date and interest shall cease to accrue one calendar day after declaration.
Interest accrual for covered mode(s):	The accrual period begins on an interest payment date and continues up to, but excluding, the next interest payment date.

In addition to covered modes, the transaction documents provide that the bonds may be converted to a medium-term or fixed interest rate mode (uncovered modes). While the bonds are in the uncovered modes, a put option is not available. Furthermore, we believe the LOC does not provide enough interest coverage to account for the additional days of interest that would accrue between interest payment dates during the uncovered modes. Despite these issues, we do not believe there is any mode conversion-related risk of a put option loss or an interest shortfall because the bonds are subject to a mandatory tender at par plus accrued interest before the rate mode can be changed.

The transaction terms do not provide for the bonds to operate in multiple modes concurrently.

LOC termination

The transaction structure is such that the LOC could terminate before the bonds mature. If this happens, the bond documents call for the trustee to declare a date to repay the bonds in full before the LOC terminates. Therefore, we believe LOC termination risk is addressed. The LOC is scheduled to expire on Sept. 17, 2015, unless it is extended or earlier terminates. The trustee shall declare a mandatory tender on the second business day prior to the LOC expiration date.

LOC provider replacement

The transaction documents provide that the obligor may replace the LOC provider with appropriate notice to bondholders. The condition for replacing an existing LOC provider is that a mandatory tender must occur on the fifth business day prior to LOC replacement.

In our view, the conditions for replacing the LOC mitigate any risk that the existing bondholders would see the rating on their bonds lowered as a consequence of the LOC provider being replaced.

Additional bonds

The transaction terms do not provide for additional bond issuances under the same series.

Ratings Sensitivity

In view of the bond structure, changes to our rating on the bonds in the covered mode can result from, among other things, changes to our rating on the LOC provider or amendments to the transaction's terms. We will maintain a rating on the bonds as long as they are in the covered mode and the LOC has not expired or otherwise terminated. If either of these conditions changes, we will likely withdraw our rating on the bonds.

Other Call Provisions

During the covered mode, bonds are subject to mandatory and optional redemptions. In all cases, the redemption price will at least equal par plus accrued interest and the repayments are backed by the LOC provider.

Related Criteria And Research

- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009

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Summary:

Johnson City Health And Education Facilities Board, Tennessee Mountain States Health Alliance; Joint Criteria

Primary Credit Analyst:

Chi W Tang, New York (1) 212-438-7989; chi.tang@standardandpoors.com

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Related Criteria And Research

Summary:

Johnson City Health And Education Facilities Board, Tennessee Mountain States Health Alliance; Joint Criteria

Credit Profile

Russell Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Russell Cnty Indl Dev Auth (Mountain States Health Alliance) VRDO ser 2008B

<i>Long Term Rating</i>	AAA/A-1+	Current
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Current

The Hlth & Educl Facs Brd of the City of Johnson City, Tennessee

Mountain States Hlth Alliance, Tennessee

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) VRDO ser 2007 B1 B2 B3

<i>Long Term Rating</i>	AAA/A-1+	Current
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Current

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) VRDO ser 2007 B1 B2 B3

<i>Long Term Rating</i>	AA+/A-1	Current
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Current

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) VRDO ser 2008A

<i>Long Term Rating</i>	AAA/A-1+	Current
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Current

Rationale

Standard & Poor's Ratings Services confirmed its 'AAA/A-1+' and 'AA+/A-1' ratings on Johnson City Health and Education Facilities Board, Tenn.'s (Mountain States Health Alliance) series 2007-B1, 2007-B2, 2007-B3, and 2008A hospital revenue bonds. At the same time, Standard & Poor's confirmed its 'AAA/A-1+' rating on Russell County Industrial Development Authority, Va.'s (Mountain States Health Alliance) series 2008B hospital revenue bonds. The confirmations reflects extensions of the letters of credit provided by U.S. Bank National Association (for series 2008A and 2008B) and PNC Bank N.A. (for 2007B-1 and 2007B-2) to July 30, 2018, for 2007-B1 and Oct. 19, 2014, for 2007B-2, 2008A, and 2008B. The long-term components of the ratings are based jointly (assuming low correlation) on the ratings on the issues' respective obligors and letter of credit (LOC) providers. The short-term components of the ratings are based solely on the ratings on the respective LOC providers.

Related Criteria And Research

- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

*Summary: Johnson City Health And Education Facilities Board, Tennessee Mountain States Health Alliance; Joint
Criteria*

- Criteria: Joint Support Criteria Update, April 22, 2009

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SEPTEMBER 18, 2013 4

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September 29, 2010

Summary:

**Mountain States Health Alliance,
TN's Series 2008B Bonds Rating
Raised To 'AAA/A-1+'; Joint Criteria**

Primary Credit Analyst:

Santos Souffront, New York (1) 212-438-2197; santos_souffront@standardandpoors.com

Secondary Credit Analyst:

Ryan Butler, New York (1) 212-438-2122; ryan_butler@standardandpoors.com

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Summary:

Mountain States Health Alliance, TN's Series 2008B Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Credit Profile

Russell Cnty Indl Dev Auth, Virginia

Mountain States Hlth Alliance, Tennessee

Russell Cnty Indl Dev Auth (Mountain States Health Alliance) hosp VRDO ser 2008B

Long Term Rating

AAA/A-1+

Upgraded

Unenhanced Rating

BBB+(SPUR)/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services raised its rating on Russell County Industrial Development Authority, Va.'s hospital revenue bonds series 2008B, issued on behalf of Mountain States Health Alliance, Tenn. (MSHA), to 'AAA/A-1+' from 'AA-/A-2', based on the substitution of the letter of credit (LOC) to one provided by U.S. Bank N.A. (AA-/A-1+) from one provided by Regions Bank (BBB/A-2). The long-term component of the rating is based jointly (assuming low correlation) on the combined rating of MSHA (BBB+) and the LOC provided by US Bank N.A. The short-term component of the rating is based solely on the LOC provided by U.S. Bank NA.

The LOC provides coverage for the payment of principal of and interest on the bonds, including the payment of unremarketed tendered bonds. The LOC provides for a maximum of 37 days of interest coverage at the maximum rate of 12% per annum. If interest is not re-instated following an interest drawing, then the trustee is directed to declare an acceleration with interest ceasing to accrue on the first business day following declaration of acceleration. The LOC is scheduled to expire on Sept. 29, 2013, unless earlier extended or terminated pursuant to their terms.

For more information on MSHA's 'BBB+' issuer credit rating, see "Mountain States Health Alliance, Tennessee," published Jan. 22, 2010, on RatingsDirect on the Global Credit Portal.

Related Criteria And Research

- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

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McGRAW-HILL

September 29, 2010

Summary:

**Mountain States Health Alliance,
TN's Series 2008A Bonds Rating
Raised To 'AAA/A-1+'; Joint Criteria**

Primary Credit Analyst:

Santos Souffront, New York (1) 212-438-2197; santos_souffront@standardandpoors.com

Secondary Credit Analyst:

Ryan Butler, New York (1) 212-438-2122; ryan_butler@standardandpoors.com

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Mountain States Health Alliance, TN's Series 2008A Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Credit Profile

Johnson City Hlth & Ed Fac Brd, Tennessee

Mountain States Hlth Alliance, Tennessee

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO ser 2008A

Long Term Rating

AAA/A-1+

Upgraded

Unenhanced Rating

BBB+(SPUR)/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services raised its rating on Johnson City Health and Educational Facilities, Tenn.'s hospital revenue bonds series 2008A, issued on behalf of Mountain States Health Alliance (MSHA), to 'AAA/A-1+' from 'AA-/A-2' based on the substitution of the letter of credit (LOC) to one provided by U.S. Bank N.A. (AA-/A-1+) from the LOC provided by Regions Bank (BBB/A-2). The long term component of the rating is based jointly on the combined rating of MSHA (BBB+) and the LOC provided by U.S. Bank N.A. The short term component of the rating is based solely on the LOC provided by U.S. Bank N.A.

The LOC provides coverage for the payment of principal of and interest on the bonds, including the payment of unremarketed tendered bonds. The LOC provides for a maximum of 37 days of interest coverage at the maximum rate of 12% per annum. If interest is not re-instated following an interest drawing, then the trustee is directed to declare an acceleration with interest ceasing to accrue on the first business day following declaration of acceleration. The LOC is scheduled to expire on Sept. 29, 2013, unless earlier extended or terminated pursuant to their terms.

For more information on MSHA's 'BBB+' issuer credit rating, see "Mountain States Health Alliance, Tennessee," published Jan. 22, 2010, on RatingsDirect on the Global Credit Portal.

Related Criteria And Research

- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

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McGRAW-HILL

September 30, 2010

Summary:

**Mountain States Health Alliance,
TN's Series 2007B Bonds Rating
Raised To 'AAA/A-1+'; Joint Criteria**

Primary Credit Analyst:

Santos Souffront, New York (1) 212-438-2197; santos_souffront@standardandpoors.com

Secondary Credit Analyst:

Ryan Butler, New York (1) 212-438-2122; ryan_butler@standardandpoors.com

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Summary:

Mountain States Health Alliance, TN's Series 2007B Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Credit Profile

Johnson City Hlth & Ed Fac Brd, Tennessee

Mountain States Hlth Alliance, Tennessee

Johnson City Hlth & Ed Fac Brd (Mountain States Health Alliance) hosp VRDO Taxable ser 2007B-1

Long Term Rating

AAA/A-1+

Upgraded

Unenhanced Rating

BBB+(SPUR)/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services raised its rating on Johnson City Health and Educational Facilities Board, Tenn.'s (Mountain States Health Alliance) hospital revenue bonds series 2007B (taxable) to 'AAA/A-1+' from 'AA-/A-2', following the splitting of the series 2007B bonds into sub-series 2007B-1 (taxable), sub-series 2007B-2 (taxable), and sub-series 2007B-3 (taxable); and the substitution of current letter of credit (LOC) with individual LOCs. The long-term component of the rating on all three sub-series will be based on joint criteria (assuming low correlation). The obligor is rated 'BBB+/Stable'. The series 2007B-1 (taxable) bonds will be enhanced with a LOC provided by U.S. Bank N.A. (AA-/A-1+). The series 2007B-2 (taxable) bonds will be enhanced with a LOC provided by PNC Bank National Association (A+/A-1). The series 2007B-3 (taxable) bonds will be enhanced with a LOC provided by Mizuho Corporate Bank (A+/A-1). The short-term component on the individual series will be based solely on the LOC providers.

The LOCs provide coverage for the payment of principal of and interest on the bonds, including the payment of unremarketed tendered bonds. The LOCs provide for a maximum of 37 days of interest coverage at the maximum rate of 12% per annum. If interest is not reinstated following an interest drawing, then the trustee is directed to declare an acceleration, with interest ceasing to accrue on the first business day following declaration of acceleration. The LOCs are scheduled to expire on Sept. 29, 2013, unless earlier extended or terminated pursuant to their terms.

For more information on MSHA's 'BBB+' ICR rating, see "Mountain States Health Alliance, Tennessee," published Jan. 22, 2010, on RatingsDirect on the Global Credit Portal.

Related Criteria And Research

- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007

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Summary: Mountain States Health Alliance, TN's Series 2007B Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

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October 20, 2011

Johnson City Health & Educational Facilities Board, Tennessee Mountain States Health Alliance; Letter of Credit

Primary Credit Analyst:

Santos Souffront, New York (1) 212-438-2197; santos_souffront@standardandpoors.com

Secondary Contact:

Beatriz Peguero, New York (1) 212-438-2164; beatriz_peguero@standardandpoors.com

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Johnson City Health & Educational Facilities Board, Tennessee

Mountain States Health Alliance; Letter of Credit

Credit Profile

US\$65.26 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2011A dtd 10/19/2011 due 07/01/2033

<i>Long Term Rating</i>	AA-/A-1+	New
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US\$20.0 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2011B dtd 10/19/2011 due 07/01/2033

<i>Long Term Rating</i>	A+/A-1	New
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Profile

Expected closing date: Oct. 19, 2011

Maturity date: July 1, 2033

Structure type: Direct-pay letter of credit (LOC)

Obligor: Mountain States Health Alliance

LOC providers: Series 2011A: U.S. Bank N.A. (rating dependency*); series 2011B: PNC Bank N.A. (rating dependency*)

Trustee: Bank of New York Mellon Trust Co.

*Standard & Poor's rating on the bonds is linked to its rating on the LOC provider.

Rationale

Standard & Poor's Ratings Services assigned its 'AA-/A-1+' and 'A+/A-1' rating to Johnson City Health & Educational Facilities Board, Tenn.'s (Mountain States Health Alliance) hospital revenue bonds series 2011A and 2011B. The 'AA-' long-term component of the rating on the 2011A bonds is based on the irrevocable direct-pay letter of credit (LOC) provided by U.S. Bank N.A. (AA-/A-1+). The 'A+' long-term component of the rating on the 2011B bonds is based on the irrevocable direct-pay LOC provided by PNC Bank N.A. (A+/A-1). The long-term component of each rating reflects our opinion of the likelihood that bondholders will receive interest and principal payments when due if they do not exercise the put option. The 'A-1+' short-term component of the rating on the 2011A bonds is based on the short-term component of the issuer credit rating on U.S. Bank N.A. The 'A-1' short-term component of the rating on the 2011B bonds is based on the short-term component of the issuer credit rating on PNC Bank N.A. The short-term component of the rating reflects our opinion of likelihood that bondholders will receive interest and principal payments if they exercise the put option.

Each LOC fully supports all bond payment obligations when the bonds are in the weekly interest mode. Therefore, our rating applies only during this covered mode. If the bonds are converted to a non-covered rate mode, we will likely withdraw our rating (see the Structural Analysis section for more information).

Transaction Highlights

The debt is variable rate with a bondholder option to demand repayment before the bonds mature (the put or tender option). The bondholders may exercise the put option at any time during the covered mode with appropriate notice to the trustee. Those bondholders choosing to exercise the put option will receive a price equal to par plus accrued interest funded with remarketing proceeds that the trustee holds and, in the event of a failed remarketing, with the amounts available under the LOC.

Structural Analysis

When evaluating the bonds, Standard & Poor's considers various risk factors, as described below.

LOC coverage for the covered mode

Each LOC covers 37 days of interest accruals at a maximum interest rate and the entire bond principal amount. We believe each LOC's coverage is sufficient to pay interest and principal while the bonds are in the covered rate mode, even assuming maximum interest rate accruals (see table).

Maximum bond rate:	12%
First interest payment date:	Nov. 1, 2011
Covered mode interest payment date:	First business day of month
LOC interest reinstatement period:	One calendar day
Remedy for non-reinstatement:	Trustee will accelerate the bonds' maturity date, and interest shall cease to accrue one calendar day after declaration.
Interest accrual for covered mode(s):	The accrual period begins on an interest payment date and continues up to, but excluding, the next interest payment date.

Interest rate mode changes

In addition to covered modes, the transaction documents provide that the bonds may be converted to a medium-term or fixed interest rate mode (uncovered modes). While the bonds are in the uncovered modes, a put option is not available. Furthermore, we believe the LOC does not provide enough interest coverage to account for the additional days of interest that would accrue between interest payment dates during the uncovered modes. Despite these issues, we do not believe there is any mode conversion-related risk of a put option loss or an interest shortfall because the bonds are subject to a mandatory tender at par plus accrued interest before the rate mode can be changed.

The transaction terms do not expressly provide for the bonds to operate in multiple modes concurrently.

LOC termination

The transaction structure is such that the LOCs could terminate before the bonds mature. If this happens, the bond documents call for the trustee to declare a date to repay the bonds in full before the LOCs terminate. Therefore, we believe LOC termination risk is addressed. Each LOC is scheduled to expire on Oct. 19, 2014, unless it is extended or earlier terminates. The trustee shall declare a mandatory tender on the second business day prior to the LOC expiration date. In addition, for other events that cause the LOC to terminate, a mandatory tender funded by the LOC provider is a precondition for LOC cancellation.

LOC provider replacement

The transaction documents provide that the obligor may replace each LOC provider with appropriate notice to bondholders. The condition for replacing an existing LOC provider is that a mandatory tender must occur on the fifth business day prior to LOC replacement.

In our view, the conditions for replacing the LOC mitigate any risk that the existing bondholders would see the rating on their bonds lowered as a consequence of the LOC provider being replaced.

Additional bonds

The transaction terms do not expressly provide for additional bond issuances under the same series.

Ratings Sensitivity

In view of the bond structure, changes to our rating on the bonds in the covered mode can result from, among other things, changes to our rating on each LOC provider or amendments to the transaction's terms. We will maintain a rating on the bonds as long as they are in the covered mode and each LOC has not expired or otherwise terminated. If either of these conditions changes, we will likely withdraw our rating on the bonds.

Other Call Provisions

During the covered mode, bonds are subject to mandatory and optional redemptions. In all cases, the redemption price will at least equal par plus accrued interest and the repayments are backed by the LOC provider.

Related Criteria And Research

Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

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McGRAW-HILL

October 20, 2011

Smyth County Industrial Development Authority, Virginia Mountain States Health Alliance; Letter of Credit

Primary Credit Analyst:

Santos Souffront, New York (1) 212-438-2197; santos_souffront@standardandpoors.com

Secondary Contact:

Beatriz Peguero, New York (1) 212-438-2164; beatriz_peguero@standardandpoors.com

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Smyth County Industrial Development Authority, Virginia Mountain States Health Alliance; Letter of Credit

Credit Profile

US\$60.705 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2011D dtd 10/19/2011 due 07/01/2031

Long Term Rating

A+/A-1

New

US\$49.875 mil hosp rev bnds (Mountain States Hlth Alliance) ser 2011C dtd 10/19/2011 due 07/01/2031

Long Term Rating

AA-/A-1+

New

Profile:

Expected closing date: Oct. 19, 2011

Maturity date: July 1, 2031

Structure type: Direct-pay letter of credit (LOC)

Obligor: Mountain States Health Alliance

LOC providers: Series 2011C: U.S. Bank N.A. (rating dependency*), series 2011D: Mizuho Corp. Bank Ltd. (rating dependency*)

*Standard & Poor's rating on the bonds is linked to its rating on the LOC provider.

Rationale

Standard & Poor's Ratings Services assigned its 'AA-/A-1+' and 'A+/A-1' ratings to Smyth County Industrial Development Authority, Va.'s (Mountain States Health Alliance) hospital revenue bonds series 2011C and 2011D, respectively. The 'AA-' long-term component of the rating on series 2011C is based on the irrevocable direct-pay letter of credit (LOC) provided by U.S. Bank N.A. (AA-/A-1+). The 'A+' long-term component of the rating on series 2011D is based on the irrevocable direct-pay LOC provided by Mizuho Corp. Ltd. (A+/A-1). The long-term component of each rating reflects our opinion of the likelihood that bondholders will receive interest and principal payments when due if they do not exercise the put option. The 'A-1+' short-term component of the rating on series 2011C is based on the short-term component of the issuer credit rating on U.S. Bank N.A. The 'A-1' short-term component of the rating on series 2011D is based on the short-term component of the issuer credit rating on Mizuho Corp. LTD (A-1). The short-term component of the rating reflects our opinion of the likelihood that bondholders will receive interest and principal payments if they exercise the put option.

Each LOC fully supports all bond payment obligations when the bonds are in the weekly interest mode. Therefore, our rating applies only during this covered mode. If the bonds are converted to a non-covered rate mode, we will likely withdraw our rating (see the Structural Analysis section for more information).

Transaction Highlights

The debt is variable rate with a bondholder option to demand repayment before the bonds mature (the put or tender option). The bondholders may exercise the put option at any time during the covered mode with appropriate notice to the trustee. Those bondholders choosing to exercise the put option will receive a price equal to par plus accrued interest funded with remarketing proceeds that the trustee holds and, in the event of a failed remarketing, with the amounts available under the LOC.

Structural Analysis

When evaluating the bonds, Standard & Poor's considers various risk factors, as described below.

LOC coverage for the covered mode

Each LOC covers 37 days of interest accruals at a maximum interest rate and the entire bond principal amount. We believe each LOC's coverage is sufficient to pay interest and principal while the bonds are in the covered rate mode, even assuming maximum interest rate accruals (see table).

Maximum bond rate:	12%
First interest payment date:	Nov. 1, 2011
Covered mode interest payment date:	First business day of month
LOC interest reinstatement period:	One calendar day
Remedy for non-reinstatement:	Trustee will accelerate the bonds' maturity date, and interest shall cease to accrue one calendar day after declaration.
Interest accrual for covered mode(s):	The accrual period begins on an interest payment date and continues up to, but excluding, the next interest payment date.

Interest rate mode changes

In addition to covered modes, the transaction documents provide that the bonds may be converted to a medium-term or fixed interest rate mode (uncovered modes). While the bonds are in the uncovered modes, a put option is not available. Furthermore, we believe the LOC does not provide enough interest coverage to account for the additional days of interest that would accrue between interest payment dates during the uncovered modes. Despite these issues, we do not believe there is any mode conversion-related risk of a put option loss or an interest shortfall because the bonds are subject to a mandatory tender at par plus accrued interest before the rate mode can be changed.

The transaction terms do not expressly provide for the bonds to operate in multiple modes concurrently.

LOC termination

The transaction structure is such that the LOCs could terminate before the bonds mature. If this happens, the bond documents call for the trustee to declare a date to repay the bonds in full before the LOCs terminate. Therefore, we believe LOC termination risk is addressed. Each LOC is scheduled to expire on Oct. 19, 2014, unless it is extended or earlier terminates. The trustee shall declare a mandatory tender on the second business day prior to the LOC expiration date. In addition, for other events that cause the LOC to terminate, a mandatory tender funded by the LOC provider is a precondition for LOC cancellation.

LOC provider replacement

The transaction documents provide that the obligor may replace each LOC provider with appropriate notice to bondholders. The condition for replacing an existing LOC provider is that a mandatory tender must occur on the fifth business day prior to LOC replacement.

In our view, the conditions for replacing the LOC mitigate any risk that the existing bondholders would see the rating on their bonds lowered as a consequence of the LOC provider being replaced.

Additional bonds

The transaction terms do not expressly provide for additional bond issuances under the same series.

Ratings Sensitivity

In view of the bond structure, changes to our rating on the bonds in the covered mode can result from, among other things, changes to our rating on each LOC provider or amendments to the transaction's terms. We will maintain a rating on the bonds as long as they are in the covered mode and each LOC has not expired or otherwise terminated. If either of these conditions changes, we will likely withdraw our rating on the bonds.

Other Call Provisions

During the covered mode, bonds are subject to mandatory and optional redemptions. In all cases, the redemption price will at least equal par plus accrued interest and the repayments are backed by the LOC provider.

Related Criteria And Research

Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

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McGRAW-HILL

October 20, 2011

Mountain States Health Alliance, Tennessee; Letter of Credit

Primary Credit Analyst:

Santos Souffront, New York (1) 212-438-2197; santos_souffront@standardandpoors.com

Secondary Contact:

Beatriz Peguero, New York (1) 212-438-2164; beatriz_peguero@standardandpoors.com

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Mountain States Health Alliance, Tennessee; Letter of Credit

Credit Profile

US\$15.96 mil hosp rev bnds ser 2011E due 07/01/2026

Long Term Rating

A+/A-1

New

Profile

Expected closing date: Oct. 19, 2011

Maturity date: July 1, 2026

Structure type: Direct-pay letter of credit (LOC)

Obligor: Mountain States Health Alliance

LOC providers: Mizuho Corp. Bank Ltd. (rating dependency*)

Trustee: Bank of New York Mellon Trust Co.

*Standard & Poor's rating on the bonds is linked to its rating on the LOC provider.

Rationale

Standard & Poor's Ratings Services assigned its 'A+/A-1' rating to Mountain States Health Alliance, Tenn.'s taxable bonds series 2011E. The 'A+' long-term component of the rating is based on the irrevocable direct-pay letter of credit (LOC) provided by Mizuho Corp. Bank Ltd. (A+/A-1) and reflects our opinion of the likelihood that bondholders will receive interest and principal payments when due if they do not exercise the put option. The 'A-1+' short-term component of our rating is based on the short-term component of the issuer credit rating on Mizuho Corp. Bank Ltd. (A+/A-1) and reflects our opinion of the likelihood that bondholders will receive interest and principal payments if they exercise the put option.

The LOC fully supports all bond payment obligations when the bonds are in the weekly interest mode. Therefore, our rating applies only during this covered mode. If the bonds are converted to a non-covered rate mode, we will likely withdraw our rating (see the Structural Analysis section for more information).

Transaction Highlights

The debt is variable rate with a bondholder option to demand repayment before the bonds mature (the put or tender option). The bondholders may exercise the put option at any time during the covered mode with appropriate notice to the trustee. Those bondholders choosing to exercise the put option will receive a price equal to par plus accrued interest funded with remarketing proceeds that the trustee holds and, in the event of a failed remarketing, with the amounts available under the LOC.

Structural Analysis

When evaluating the bonds, Standard & Poor's considers various risk factors, as described below.

LOC coverage for the covered mode

The LOC covers 37 days of interest accruals at a maximum interest rate and the entire bond principal amount. We believe the LOC's coverage is sufficient to pay interest and principal while the bonds are in the covered rate mode, even assuming maximum interest rate accruals (see table).

Maximum bond rate:	12%
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Interest accrual for covered mode(s):	The accrual period begins on an interest payment date and continues up to, but excluding, the next interest payment date.

Interest rate mode changes

In addition to covered modes, the transaction documents provide that the bonds may be converted to a medium-term or fixed interest rate mode (uncovered modes). While the bonds are in the uncovered modes, a put option is not available. Furthermore, we believe the LOC does not provide enough interest coverage to account for the additional days of interest that would accrue between interest payment dates during the uncovered modes. Despite these issues, we do not believe there is any mode conversion-related risk of a put option loss or an interest shortfall because the bonds are subject to a mandatory tender at par plus accrued interest before the rate mode can be changed.

The transaction terms do not expressly provide for the bonds to operate in multiple modes concurrently.

LOC termination

The transaction structure is such that the LOC could terminate before the bonds mature. If this happens, the bond documents call for the trustee to declare a date to repay the bonds in full before the LOC terminates. Therefore, we believe the LOC termination risk is addressed. The LOC is scheduled to expire on Oct. 19, 2014, unless it is extended or earlier terminates. The trustee shall declare a mandatory tender on the second business day prior to the LOC expiration date. In addition, for other events that cause the LOC to terminate, a mandatory tender funded by the LOC provider is a precondition for LOC cancellation.

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Additional bonds

The transaction terms do not expressly provide for additional bond issuances under the same series.

Ratings Sensitivity

In view of the bond structure, changes to our rating on the bonds in the covered mode can result from, among other things, changes to our rating on the LOC provider or amendments to the transaction's terms. We will maintain a rating on the bonds as long as they are in the covered mode and the LOC has not expired or otherwise terminated. If either of these conditions changes, we will likely withdraw our rating on the bonds.

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During the covered mode, bonds are subject to mandatory and optional redemptions. In all cases, the redemption price will at least equal par plus accrued interest and the repayments are backed by the LOC provider.

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