

September 11, 2009

Southcoast Health System Obligated Group, MA 2009D, 1998A Revenue Bonds Rated 'A', Outlook Stable

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BOSTON (Standard & Poor's) Sept. 11, 2009--Standard & Poor's Ratings Services assigned its 'A' rating, and stable outlook, to Massachusetts Health & Educational Facilities Authority's \$57.4 million series 2009D revenue bonds and the \$63.5 million remaining on the series 1998A revenue bonds, issued for Southcoast Health System Obligated Group.

In the coming weeks, Standard & Poor's expects to assign a joint-criteria rating on Southcoast's \$47.4 million series 2008C bonds outstanding. The rating service will base its rating on Southcoast Health System's combined credit quality and Bank of America's rating, the letter of credit provider.

Southcoast's strengths include a strong balance sheet with ample liquidity and light leverage for the rating, as well as a dominant business position in its core market, highlighted by a 70% market share in its primary service area. Southcoast also benefits from a strong and unified management team across all three of its hospitals and across the system overall.

The stable outlook reflects Southcoast's healthy balance sheet and improved financial operating performance through the fiscal 2009 interim period. Standard & Poor's understands fiscal 2010 will be a challenging Medicaid reimbursement year for the organization. Management's quick action to contain costs and the knowledge that management expects offsetting growth in other areas of reimbursement, however, mitigate the rating service's concerns.

"If Southcoast is able to stabilize its operating margins over the next few years, without diluting liquidity, we believe a positive outlook and/or a higher rating is possible," said Standard & Poor's credit analyst Jennifer Soule. "It is also our opinion that a lower rating would likely only occur if Southcoast's financial profile, specifically its strong liquidity, were to deteriorate significantly."

Organizational challenges include volatile operating earnings over the past five fiscal years due to fluctuating government reimbursement and declines in some areas of utilization and the effect of recessionary and investment market pressures over the past 12 months on the system. While Southcoast's income statement metrics are below Standard & Poor's medians for an 'A' rating, its balance sheet metrics are far more favorable.

This balance of credit characteristics, coupled with its dominant business position, supports the current rating.

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- USPF Criteria: "Debt Derivative Profile Scores," March 27, 2006

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