

Fitch Affirms Sierra View Local Health Care District (California) Revs at 'A'

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the 'A' rating on the following bonds for the Sierra View Local Health Care District (the district):

--\$18.555 million (Tulare County, California) refunding revenue bonds, series 2010;
and

--\$51.52 million (Tulare County, California) revenue bonds, series 2007

The Rating Outlook is Stable.

SECURITY

Debt payments are secured by a gross revenue pledge of the district.

KEY RATING DRIVERS

STRONG LIQUIDITY: The rating affirmation is primarily driven by the district's strong balance sheet with 425.8 days cash on hand and 183.6% cash to debt at Dec. 31, 2013. Fitch expects the balance sheet to remain strong.

HIGH DEBT BURDEN: Fitch's main credit concern is the district's high debt burden with maximum annual debt service (MADS). At 5.7% of total revenue% in FY 2013 (June 30 year-end), Fitch finds this number unfavorable compared to its 'A' category median of 3.1% and debt service coverage is low at 2.8x in fiscal 2013, despite solid profitability.

RELIANCE ON SUPPLEMENTAL FUNDS: The district's profitability levels are healthy.

However, there is a significant reliance on supplemental funds for profitability. Supplemental funds include about \$7-8 million of Medicare and Medi-Cal disproportionate share funds a year.

ONGOING CAPITAL SPENDING: The district has ongoing capital needs to address seismic retrofit regulatory requirements as well as growth initiatives in various service lines. The district has over \$50 million of remaining bond and capital lease proceeds to fund these projects. The district indicated that there are no plans for additional debt.

CHALLENGING SERVICE AREA: The district's revenue base is small and its operations in a relatively rural service area are challenging, which has resulted in an unfavorable payor mix with over 30% of gross revenue from Medi-Cal.

RATING SENSITIVITIES

MAINTAIN OPERATING PERFORMANCE: Fitch expects the district to maintain profitability consistent with fiscal 2013 performance. A notable decline in profitability or debt service coverage would likely result in downward rating pressure. Fitch also expects the strong balance sheet to be maintained.

CREDIT PROFILE

The district owns and operates a 167 licensed-bed hospital, a cancer center, an outpatient imaging and laboratory center, an outpatient dialysis center, and an ambulatory surgery center operated as a department of the hospital--all located within the city of Porterville, California. The district generated total operating revenue of \$135.8 million in fiscal 2013. There has been management turnover since Fitch's last rating review. Additionally, the district is under new leadership with a new chief executive officer and chief financial officer in 2013.

Strong Liquidity

The district maintains strong liquidity for its rating level with \$132.7 million of unrestricted cash and investments at Dec. 31, 2013. This translated to 425.8 days cash on hand and 183.6% cash to debt. Fitch expects the district to maintain strong liquidity as capital needs are funded from previously issued debt proceeds.

High Debt Burden

The district's debt burden is high with a total of \$79.3 million of debt outstanding including \$70 million of fixed rate revenue bonds and \$9 million of notes payable (equipment financing loan). MADS is now \$7.8 million and comprised a high 5.7% of revenue compared to Fitch's 'A' category median of 3.1%. Debt service is front loaded and debt service drops significantly after 2022.

Despite strong profitability, debt service coverage is low for the rating category due to the high debt burden. Debt service coverage was 2.8x in fiscal 2013, 3.2x in fiscal 2012 and was only 1.8x for the six months ended Dec. 31, 2013. A further decline in debt service coverage would likely result in Fitch taking a negative rating action.

Reliance on Supplemental Funds

The district has healthy profitability, though it declined in fiscal 2013 due to continued pressure on volume. Net patient revenue declined to \$133 million in fiscal 2013 from \$139 million the prior year. Operating margin was a strong 7.3% in fiscal 2013 but down from 11.9% the prior year. Supplemental funds influence profitability and the district receives approximately \$7-8 million of Medicare and Medi-Cal disproportionate share funds (DSH) annually. This amount is projected to decline to \$6.6 million in fiscal 2014 from \$8.4 million in fiscal 2011.

The district has also benefited from the provider fee as well as received meaningful use funds. Meaningful use funds totaled \$1.8 million in fiscal 2012, \$1.4 million in fiscal 2013 and expected to be \$2.2 million in fiscal 2014. Net provider fee funds received totaled \$6.9 million in fiscal 2011, \$1.6 million in fiscal 2012, \$1.7 million in fiscal 2013 and expected

to be \$959,000 in fiscal 2014. Given continued pressure on reimbursement, management has budgeted a 1.8% operating margin for fiscal 2014, which excludes Medicare DSH and meaningful use funds. Fitch expects the district to exceed its budget and performance more in line with the budget would likely result in negative rating pressure.

The new management team has implemented several initiatives to preserve profitability. Among them include a \$5 million cost reduction initiative in the latter part of fiscal 2013 as well as enhancing revenue through new services such as cardiac catheterization and wound care. Other items under evaluation include a rural health clinic and urgent care facility.

Ongoing Capital Spending

The district is in the process of seismically retrofitting its campus, which includes several phases. The first phase is the construction of a new lab (near completion). Other phases include continuing to move services out of its oldest building (1957), which will not be seismically retrofitted as well as expanding its emergency room. Other projects focus on service line growth including a new cardiac catheterization lab. Fitch expects that the district's capital plan over the near term will be funded from previously issued debt. Any future capital needs that would result in liquidity deterioration of liquidity metrics or additional debt would be viewed negatively.

Challenging Service Area

The district operates in a challenging service area with over 30% of its revenue from Medi-Cal. The hospital has had some recent success with physician recruiting, which should aid in the recovery of volume. The hospital does maintain a dominant market share in its service area, which has garnered favorable managed care reimbursement to date.

Disclosure

The district covenants to provide annual and quarterly disclosure through the Municipal

Rule Making Board's EMMA system

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).

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

Additional Disclosure

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