STANDARD & POOR'S

RATINGSDIRECT®

August 6, 2007

Summary:

Allina Hospital and Clinics; System

Primary Credit Analyst:
Kenneth W Rodgers, New York (1) 212-438-2087; ken_rodgers@standardandpoors.com

Secondary Credit Analyst:
Brian T Williamson, Chicago (1) 312-233-7009; brian_williamson@standardandpoors.com

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Summary:

Allina Hospital and Clinics; System

Credit Profile		
US$220. mil hosp rev bnds (Allina Hosp & Clinics) ser 2007A due 11/15/2034		
Long Term Rating	A/Stable	New
US$139. mil hosp rev bnds (Allina Hosp & Clinics) ser 2007B due 11/15/2034		
Long Term Rating	A/Stable	New
US$125. mil hosp rev bnds (Allina Hosp & Clinics) ser 2007C due 11/15/2034		
Long Term Rating	A/Stable	New
Minneapolis, Minnesota		
Allina Hosp & Clinics, Minnesota		
Minneapolis (Allina Hospital & Clinics)		
Long Term Rating	A/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Minneapolis, Minn.'s. health care system revenue bonds, series 2002A, issued for Allina Hospital and Clinics, to 'A' from 'A-', reflecting the health system's leading market share, significantly improved financial performance for the first half of fiscal 2007, and expected strength for the rest of the year after somewhat uncharacteristic weak financial performance in fiscal 2006. In addition, Standard & Poor's assigned its 'A' rating to Minneapolis and St. Paul Housing and Redevelopment Authority, Minn.'s $484.0 million series 2007A-C health care system revenue bonds, issued jointly for Allina.

All of the series 2007 bonds will be insured and the $220.0 million series 2007A variable rate demand bonds may be dual rated, reflecting a bank liquidity support facility that will be in place for those bonds. Upon issuance of the applicable insurance commitments, the appropriate credit-enhanced ratings will be assigned. At that time, the 'A' rating will be converted to an underlying rating (SPUR). All of the series 2007 bonds are expected to sell the week of Sept. 24 and close two weeks after that. The bonds are unsecured obligations of the credit group, which includes the obligated group members of Allina and the Phillips Eye Institute Foundation (formerly the Mount Sinai Foundation).

Pro forma maximum annual debt service coverage for the first half of 2007 ended June 30 is very strong at 6.0x. Operating and excess margins are strong at 2.4% and 5.0%, respectively, on a net patient revenue base of $1.2 billion. For the full year 2007, Allina is budgeting operating and excess margins of 2.2% and 3.6%, respectively. Allina's pro forma leverage at 42.5% as of June 30, 2007, is consistent with Standard & Poor's median for the revised rating, although liquidity at pro forma 101 days' cash on hand trails the 145-day median. However, other 'A' rated health systems in the market also have liquidity that trail the national median slightly. In previous years, Allina produced strong margins except in 2006 when operating and excess margins fell to 0.9% and 2.6%, respectively, largely due to costs associated with bringing its Excellian integrated electronic medical record system on line, and higher depreciation costs associated with the new Abbott Northwestern Heart Hospital.

The 'A' rating specifically reflects:

- Allina's strength as the leading health provider in a very competitive metropolitan Twin Cities market, with a 32% market share, compared to the next highest health system, Fairview Hospital and Healthcare Services ('A' rating), with 20% market share;
- An extremely strong service area economy, with both Minneapolis and St. Paul (both with 'AAA' GO ratings) enjoying significant economic expansion;
- A stable governance and management team that has raised Allina's profile in the market with the successful opening in mid-year 2005 of the new Abbott Northwestern Heart Hospital, and the near-full implementation of the Excellian integrated electronic medical record throughout most of the health system;
- An extremely strong medical staff of more than 1,100 employed physicians and providers, including 550 employed physicians that are member of the non-obligated Allina Medical Clinic (AMC), which accounts for about 40% of inpatient admissions;
- The breadth and depth of the health system with 11 hospitals with 1,710 staffed beds, 42 AMC sites, 22 hospital based clinics, 17 community pharmacy sites, and four ambulatory care sites; and
- A favorable payer mix with Medicare and Medicaid accounting for just 24% of net patient revenue, and improving financial performance with debt service coverage forecasted to equal or exceed 4.0x through 2009.

Allina's inpatient admissions rose 1.8% to 113,140 in 2006 from the level recorded in 2004. Through the first half of 2007, admissions rose by less than 1% to 57,392 compared to the same period in the previous year.

Minneapolis is Allina's headquarters and the health system benefits from owning and operating hospitals in both of the Twin Cities. Minneapolis and St. Paul, Minn. form the Twin Cities and are the upper Midwest's hub for economic activity. The Minneapolis-St. Paul MSA dominates the state and regional economy. Three of the six largest non-government employers are health systems, including Allina, which is the sixth largest employer in the state with 22,657 employees.

Allina's board and management team are both strong and stable, and 2006 was the health system's final year of a five-year Corporate Integrity Agreement with the federal government. Also, on June 7, 2007 the federal Office of the Inspector General (OIG) released Allina from the terms of the Corporate Integrity Agreement, under which the organization operated for the past five years. Allina had also been subject to state investigations about its business practices that led to some board and management turnover. The concern prompting the investigations largely centered on Allina's former subsidiary Medica Health Plans-one of the Twin Cities' leading HMOs, that was spun off late in 2001 by court order.

Outlook

The stable outlook reflects Standard & Poor's expectation that Allina will continue to enjoy a strong and leading market share, sound governance and management, a favorable service area economy and strong financial performance.

Finances

Allina's financial profile has strengthened considerably in 2007. Operating and excess margins improved to 2.4% and 5.0%, respectively, for the first half of 2007 from 0.9% and 2.6%, respectively for the full year of 2006. In the three years prior to 2006, Allina's operating and excess margins averaged 3.7% and 5.7%, respectively. Essentially, 2006 was a transition year for Allina with a number of one-time adjustments depressing the system's profitability, including $40 million of costs associated with the Excellian implementation and $21 million of costs associated with a uncompensated care increase.

Allina's liquidity should continue to improve from stronger cash flow from rising earnings and a favorable payer mix. The system has a goal of increasing days' cash on hand to 120 days from its current pro forma level of 101 days. Allina's pro forma cash level of $630.1 million is adequate for the rating and provides 93.6% coverage of total pro forma long-term debt of $673.4 million. No additional debt is expected within the period covered by our outlook statement, although Allina's new CFO Michael McAnder, who spent 20 years with Banner Health in Phoenix, will be working with all of the members of the administration to update and possibly revise the long-range capital spending program.

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Ratings Detail (As Of August 6, 2007)		
Minneapolis, Minnesota		
Saint Paul Hsg & Redev Auth, Minnesota		
Allina Hosp & Clinics		
Minneapolis, Saint Paul Housing & Redev Authority (Allina Hospital & Clinics)		
Long Term Rating	A/Stable	New Rating

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