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Rating Action: Moody's Upgrades Children's Hospital & Medical Center, Omaha (NE) to A1 and Assigns A1 to Series 2017

Global Credit Research - 15 Feb 2017

New York, February 15, 2017 -- Issue: Series 2017 Revenue Bonds; Rating: A1; Rating Type: Underlying LT; Sale Amount: $100,000,000; Expected Sale Date: 02/28/2017; Rating Description: Revenue: Other;

Summary Rating Rationale

Moody's Investors Service assigns an A1 rating to Children's Hospital & Medical Center, Omaha, Nebraska's proposed $100 million, Series 2017 fixed rate revenue bonds. Bonds are to be issued by Hospital Authority No. 2 of Douglas County, Nebraska, and are expected to have their final maturity in 2047. At this time, we are also upgrading Children's parity debt to A1 from A2, affecting $93 million of revenue bonds. (Total proforma debt outstanding, inclusive of unrated debt, is $199 million.) The rating outlook is revised from positive to stable at the higher rating level.

The upgrade to A1 reflects Children's strong operating performance, strong balance sheet measures, and its favorable market position as the only independent specialty hospital in the State of Nebraska. Children's market share has continued to improve, and financial resources have become considerably stronger in the last five years. Challenges include its relatively small size, the existence of competition from nearby adult hospitals, the issuance of material additional debt, and the undertaking of a very large expansion project.

Rating Outlook

The stable outlook at the higher rating category reflects the expectation that the organization will continue to produce strong performance measures, and will be able to execute its large capital project while staying within the operating and balance sheet measures of its projections.

Factors that Could Lead to an Upgrade

Significant expansion of the organization's revenue base, and footprint, and diversification of revenue streams

Improved debt measures and maintenance of excellent operating and balance sheet measures

Factors that Could Lead to a Downgrade

Material decline in operating performance

Issuance of debt beyond current expectations

Decline in liquidity beyond current expectations

Complications relating to execution of project

Legal Security

Bonds are secured by a gross revenue pledge of the Obligated Group, which includes Children's Hospital and Children's Hospital Foundation. Moody's analysis is based on Children's Hospital & Medical Center and Affiliates (Children's), which includes the Obligated Group, Children's Physicians, and Children's Health Network. The Obligated Group represents 90% of system revenues, and 97% of system net assets.

Use of Proceeds

Bonds will help finance the new patient tower project, and pay costs of issuance.

Obligor Profile

Children's Hospital & Medical Center is a 501-c-3 corporation headquartered in Omaha, Nebraska. It operates

a 145-bed acute care pediatric hospital, is a joint member in two physician groups, and offers significant out-patient services. Children's is the only independent children's hospital in the State of Nebraska, and it has a 79% local market share in pediatrics.

Methodology

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in November 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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