



Rating Action: Moody's Downgrades Memorial Hospital at Gulfport (MS) to Baa2; Outlook Revised to Stable

Global Credit Research - 13 Jun 2017

New York, June 13, 2017 -- Summary Rating Rationale

Moody's Investors Service downgrades Memorial Hospital at Gulfport, MS (MHG) revenue bonds to Baa2 from Baa1. The rating action affects \$49.3 million of outstanding revenue bonds issued through the City of Gulfport. The outlook is revised to stable from negative at the lower rating level. The downgrade to Baa2 reflects the system's wide variance to budgeted expectations in FY 2016. Additionally, FY 2016 represents the third year of a material departure in both operating and liquidity measures from historical performance following a financially disruptive electronic medical records (EMR) installation in FY 2014, rapid clinic expansion and more recently, pressures related to case mix index. While results show improvement during the first half of FY 2017, financial performance is cyclical and subject to seasonality. The system plays an essential role as the leading provider of tertiary services within the region and operates with a low debt burden, allowing some room for variability at the Baa2 rating.

Rating Outlook

The stable outlook at the lower rating level reflects the system's low debt burden with no plans to issue additional debt, allowing for some tolerance of variable financial performance at the Baa2 rating level. Additionally, the system has manageable future capital plans which should help bolster the balance sheet.

Factors that Could Lead to an Upgrade

Higher sustained operating margins

Significant and sustained liquidity growth resulting in absolute cash and days cash on hand more in line with similarly rated peers

Factors that Could Lead to a Downgrade

Inability to improve liquidity performance more in line with Baa2 peers

Inability to continue to reduce accounts receivable, resulting in significant write off of accounts

Disruption or reduction in Medicaid supplemental funding

Legal Security

The bonds are secured by a gross revenue pledge of the obligated group, which consists of Memorial Hospital, exclusive of several subsidiary components. The Series 2016 Hospital Revenue bonds are not secured by a debt service reserve fund.

Use of Proceeds

Not Applicable

Obligor Profile

MHG is a tertiary acute care provider located on the coast of Mississippi. The system also includes 90 physician clinics across the region. The hospital provides a full range of patient care services including cardiovascular procedures, cancer, level II trauma and NICU. MHG draws patients from a six county region with primary operations located within Harrison County.

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.moody's.com for a copy of this methodology.

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