

Rating Action: Moody's affirms Berkshire Health System's (MA) A3; outlook revised to negative

Global Credit Research - 13 Feb 2018

New York, February 13, 2018 -- Moody's Investors Service has affirmed Berkshire Health System's (BHS) (MA) A3 revenue bond rating. The outlook has been revised to negative from stable.

RATINGS RATIONALE

Affirmation of the A3 reflects BHS' very strong market position as the operator of the only acute care inpatient hospitals in its service area and the organization's balanced financial profile with a modest level of debt outstanding relative to operations and routine capital spending needs that can be covered through cash flow. The rating agency notes that margins were lower than recent trend in fiscal 2017 and that the organization faces several challenges to restoring margins to historical levels over the next several years including growth in staffing and labor costs and the uncertainty of the work stoppages with the nursing union over a new contract, expenses associated with the implementation of a new electronic medical record, and changes to supplemental payments and Medicaid reimbursement.

RATING OUTLOOK

Revision in the outlook to negative from stable reflects our expectation that margins will be lower than historical trend and under pressure for the next several years, which will limit balance sheet growth over time.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Improvement in core operating performance, absent the rural wage index payments
- Material growth in enterprise size and balance sheet reserves

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Continued weakening of operating cash flow
- Inability to achieve favorable resolution of long term labor agreements
- Material losses under risk contracts
- Material additional debt absent revenue growth

LEGAL SECURITY

The bonds are secured by a pledge of gross receipts and a mortgage on the core of the Berkshire Medical Center. The obligated group is comprised solely of the medical center, however Moody's analysis incorporates results of the entire health system (nursing homes not included). The obligated group represented 91% of revenues and 96% of assets in FY 2015. There is no debt service reserve fund.

PROFILE

Berkshire is a two hospital system headquartered in Pittsfield, MA. The system operates approximately 300 beds and operates a number of physician practices and ambulatory sites. The system is the only provider of acute care services in its primary market.

METHODOLOGY

The principal methodology used in this rating was Not-For-Profit Healthcare published in November 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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