New Issue: Texas Health Resources

MOODY'S ASSIGNS Aa3/VMIG1 RATINGS TO TEXAS HEALTH RESOURCES (TX) $115 MILLION OF SERIES 2008A AND SERIES 2008B BONDS; OUTLOOK IS STABLE

SYSTEM HAS A TOTAL OF $1.0 BILLION OF RATED DEBT TO BE OUTSTANDING

Tarrant Co. Cultural Ed. Facs.Fin. Corp., TX
Health Care-Hospital
TX

Moody's Rating

ISSUE		RATING
Revenue Bonds, Series 2008A		Aa3/VMIG 1
Sale Amount	$65,000,000	
Expected Sale Date	10/30/08	
Rating Description	Revenue	
Revenue Bonds, Series 2008B		Aa3/VMIG 1
Sale Amount	$50,285,000	
Expected Sale Date	10/30/08	
Rating Description	Revenue	

Moody's Outlook Stable

Opinion

NEW YORK, Oct 23, 2008 -- Moody's Investors Service has assigned Aa3/VMIG1 ratings to Texas Health Resources' (THR) Series 2008A Variable Rate Demand bonds ($65.0 million) and Series 2008B Variable Rate Demand bonds ($50.285 million) to be issued by the Tarrant County Cultural Education Facilities Financing Corporation. The outlook is stable. The Series 2008A and 2008B bonds will be issued in the weekly mode and secured solely on THR's liquidity in the unlikely event of a failed remarketing. At this time, we are affirming our Aa3 rating on $697 million of debt to remain outstanding (see debt list below). THR will also issue the Series 2008C, D, E, F and G bonds (totaling $249 million) that will be secured with standby bond purchase agreements from three commercial banks. A separate report on these bonds will be issued shortly.

USE OF PROCEEDS: Proceeds from all of the Series 2008 issuance will be used to (1) refund the Series 1989 VRDB bonds and the Series 2003A and 2003B Ambac-insured auction rate securities; (2) provide $36 million in new money and (3) pay the costs of issuance. Prior to this issuance, THR redeemed the remaining Series 1985C and D bonds ($36 million outstanding). Prior plans to issue $100 million of new money in FY 2008 have been suspended at this time.

LEGAL SECURITY: Revenue pledge of the obligated group which includes seven non-profit hospitals (out of thirteen wholly-controlled non-profit hospitals) and the parent. The obligated hospitals and four smaller designated member hospitals represented 93% of system net patient revenues in FY 2007.

INTEREST RATE DERIVATIVES: There are no swaps that hedge the debt of the obligated group. Presbyterian Hospital of Rockwall (Rockwall), a controlled general acute care hospital owned by THR, physicians, and other investors has a $50 million swap on a commercial borrowing with Bank of America. Flower Mound Hospital Partners, L.L.C. (Flower Mound), a planned controlled 120-bed general acute care hospital owned by THR and physicians has negotiated a $74 swap on a $125 million commercial borrowing with JPMorgan Chase Bank, NA and Wachovia Bank NA. THR is expected to guarantee its proportionate share of the debt. Given the size of the swaps compared to THR's cash position; we view any termination risks as immaterial to THR. No additional swaps are planned at this time.

STRENGTHS

*Leading and increasing market share in the competitive Dallas-Ft. Worth Metroplex despite the presence of other large for-profit and non-profit systems

*History of strong financial performance (5.7% operating margin, 12.7% operating cash flow margin in FY 2007) resulting in very favorable debt service coverage measures; some tempering of these results is anticipated in FY 2008 but remain acceptable for the Aa3 rating category

*Good liquidity position with 201 days as of June 30, 2008, although we note that this represents a decline from the end of FY 2007 (221 days) due to large unrealized losses that have continued though mid October; fundraising goal of $60 million was exceeded with $85 million raised

*Location in high-growth, well-insured areas of north Texas provides for a very favorable payer mix and contributes to strong earnings; market position has also translated into favorable terms with payers

*Sufficient self-liquidity comprised of Aaa-rated money market funds, US Treasuries and government agencies, well-tenured treasury management, and appropriate liquidation procedures to support the Series 2008A and 2008B bonds (see SHORT-TERM RATIONALE section)

CHALLENGES

*Increasingly competitive and fluid market place with growing number of new hospitals, hospital expansions and ambulatory services, many of which are joint ventures with physician investors; the market's competitive makeup creates opportunities for THR to joint venture with physicians and add to bottom-line results but continues to place demands on limited capital; THR plans to increase its employed physician strategy to solidify further its market position which will also require financial resources in the near-term

*Expectations of sizable capital needs going forward given the growth of the Metroplex and its competitive profile; however, THR has put all substantial capital plans on hold as it undergoes a re-evaluation of its capital needs and allocation process with the assistance of outside consultants

MARKET POSITION/COMPETITIVE STRATEGY: RECENT INCREASE IN MARKET SHARE REPRESENTS FLUIDITY OF THE DALLAS-FT. WORTH MARKET

With 13 acute care hospitals, plus a small long-term care hospital, and 136,048 discharges, THR enjoys the leading market position in its four-county primary service area. The system is anchored by two tertiary flagship facilities: Presbyterian Hospital of Dallas and Harris Methodist Ft. Worth which combined represent 48% of system net patient service revenues. The system is further supported by eleven community hospitals of various sizes, many of which are located in high growth markets of the expansive service area. Market share returned to its historical level of 22.3% in 2006 following the opening of over 200 beds in the system after a slight decrease to 21.6% in 2005 due to capacity constraints. HCA, the second largest provider, continues to show declining market share, to 18.6% in 2006 from 19.6% in 2005. Baylor Healthcare System remains the third largest system with 17.7% market share in 2006, on par with 2005 levels after reporting an increasing trend in recent years. THR has begun a process to employ more physicians (currently about 85 are employed) to further solidify its market position; the other large systems are engaging in similar strategies.

THR has embraced joint ventures with physicians for several years as both a growth and risk management strategy and is another indication of the market's fluidity. Currently, THR has ownership in six operating joint venture hospitals (mainly short-stay facilities) as well as multiple outpatient partnerships. These facilities are highly profitable and strong contributors to system results although earnings are now shared with the joint venture partners, typically a "below the line" reduction to operating results. Most recently, THR entered into a joint venture with physicians to build a 120-bed hospital in Flower Mound, TX; THR will guarantee its proportionate share of the approximate $125 million of debt associated with this facility which will be a taxable borrowing from a commercial bank.

Population growth in the Dallas-Ft. Worth-Arlington metropolitan area is very strong (12.7% growth from 2000 to 2005) and should support the operations of numerous providers of this market. As mentioned, HCA and Baylor represent the more "traditional" competitors that have co-existed with THR in this market for decades. THR along with the other traditional systems will need to be wary of the recent entry of privately-funded joint venture operations with physician investors to take advantage of the growing and well-insured population.

OPERATING PERFORMANCE: HISTORICALLY STRONG PERFORMANCE SHOULD CONTINUE ALTHOUGH WITH SLIGHT TEMPERING IN FY 2008 EXPECTED

Performance through the first six months of FY 2008 remains strong with a 12.5% operating cash flow margin compared to 12.3% operating cash flow margin for the comparable prior year period. Revenues are up 8.6% through the six month period, slightly ahead of expense growth and reflect THR's favorable contracts and pricing power as the market leader, as well as new capacity that has been added. (Moody's calculations exclude the release of a $36 million litigation-related reserve that was released during FY 2008 following the favorable conclusion of an outstanding case. Earnings have also been adjusted to show Presbyterian Village North (PVN) as a discontinued operation. PVN is a continuing care retirement community that was recently merged into an unaffiliated organization.) We expect that THR will approximate the projections provided to Moody's with last year's financing which showed a 10.8% operating cash flow margin in FY 2008. We predict that maximum annual debt service coverage will exceed four times based on performance through the first half of the year. Year-to-date results are on par with FY 2007 results, although FY 2007 was a decline from a stronger year of performance in FY 2006 due to rising bad debt expense and increased operating expenses associated with the additional capacity. Given the growing size of the joint venture relationships, we note that $49 million of FY 2007 operating income of $168 million represented income generated from these profitable joint ventures (before earnings are split with the partners).

BALANCE SHEET POSITION: DECLINE IN UNRESTRICTED LIQUIDITY DUE TO UNREALIZED LOSSES; BONDHOLDERS SHOULD EXPECT MORE DEBT FOR NEW JOINT VENTURE HOSPITAL

Unrestricted liquidity as of June 30, 2008 was down to $1.277 billion from $1.294 billion primarily due to $94 million of unrealized losses. Days' cash on hand declined to a still strong at 201 days but down from 221 days at year end of FY 2007. Management reports that net unrealized and realized losses have grown to $170.9 million through September 30, 2008 which computes to 185 days cash on hand. Through mid-October the losses continue to increase. THR's unrestricted cash is conservatively invested; long-term board designated is invested in 65% equities and 35% fixed income; no alternative investments are allowed at this time. Management has decided to not make any changes to its investment allocation at this time. We note that THR has successfully completed its fundraising goal of $60 million with $85 million in cash and pledges received.

Prior plans to issue $100 million of bonds in FY 2008, which was part of a larger five-year capital plan of $1.4 billion, has been suspended, although THR will guarantee its proportionate share of a $125 million commercial bank borrowing to construct 120-bed Flower Mound Hospital. THR management recently completed an evaluation of its long-term capital plans with the assistance of an outside consulting firm. THR now has a valuation framework to reassess the capital needs and funding sources going forward. No decisions have been made regarding future capital plans at this time. Like many large systems in competitive, growing, non-Certificate of Need states, THR must balance the need for growth and capital spending on both wholly-owned assets and for joint venture projects which are outside of the obligated group and unlikely to qualify for tax-exempt financing. However, future joint venture opportunities may be stymied by current economic times given the hesitation of commercial banks to lend capital to joint-venture arrangements. This may actually provide THR with some time to absorb and focus on its current joint ventures and core operations and not be obligated to respond quickly to multiple physician requests.

SHORT-TERM RATIONALE: TENDER FEATURES SUPPORTED WITH THR'S INTERNAL LIQUIDITY

The tender short-term features of the Series 2008A and Series 2008B Bonds ($115 million in total principal) will be supported by THR's own liquidity. We believe THR's holdings in high quality investment in a Moody's Aaa-rated money market fund as well as ample US Treasuries and Agency securities provides over 1.00 times coverage of the $115 million of variable rate demand debt that will be in a weekly mode. There are no securities lending practices with these funds (or any other investments) and no use of a hybrid line of credit to support the self liquidity program. We believe that THR's long-standing financial management and well-tenured treasury functions have appropriate expertise and procedures in place to ensure the timely liquidation of securities to meet the purchase price in the unlikely event of a failed remarketing of variable rate demand debt.

As stated in the First Supplemental Trust Indenture, THR receives notice from the trustee six days prior to the tender date of the principal amount of bonds to the purchased. On days five through two prior to the purchase date, THR will proactively contact the remarketing agent for periodic updates regarding the remarketing efforts as outlined in the system's process document. Two days prior to the purchase date, THR will determine which funds will be used to meet the anticipated tender. If needed, liquidation will be initiated at this time. One day prior to the purchase date by 1 pm EST, the remarketing agent notifies THR of the amount of the bonds that were remarketed per the Trust Indenture. By 4 pm EST, the trustee notifies the system of the amount of bonds that were not remarketed or for which no notice of remarketing was received. THR is required to make payment for any amount of unremarketed bonds by 2:30 pm EST on the day of the tender.

Outlook

The stable outlook reflects THR's leading market position and good financial performance should continue to provide ample debt service coverage.

What could change the rating--UP

Much improved financial results and liquidity growth; completion of major capital additions; continued increases in market share

What could change the rating--DOWN

Departure from forecasted results; material decline in liquidity; inability to maintain market share

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Texas Health Resources

-First number reflects audit year ended December 31, 2006 with modifications to present the operations of Presbyterian Village North as a discontinued operation provided by management

-Second number reflects audit year ended December 31, 2007 with modifications to present the operations of Presbyterian Village North as a discontinued operation provided by management

-Excludes a one-time $33.7 million of non-recurring expense related to outstanding litigation reserve in FY 2006

- Both years of the maximum annual debt service includes the non-obligated group debt for the Rockwall facility and the proposed Flower Mound facility; coverage numbers include 100% of the joint venture income and 100% of the debt of the joint ventures

-Investment returns normalized at 6% unless otherwise noted

*Inpatient discharges: 133,903; 136,048

*Total operating revenues: $2.227 billion; $2.396 billion

*Moody's-adjusted net revenue available for debt service: $419.9 million; $434.2 million

*Total debt outstanding: $974 million; $1.157million

*Maximum annual debt service (MADS): $89 million; $89 million

*Moody's-adjusted MADS Coverage with normalized investment income: 4.72 times; 4.88 times

*Debt-to-cash flow: 2.6 times; 3.1 times

*Days cash on hand: 201 days; 221 days

*Cash-to-debt: 113%; 112%

*Operating margin: 7.0%; 5.7%

*Operating cash flow margin: 14.0%; 12.7%

RATED DEBT (debt outstanding as of 12/31/2007)

Series 1989 Variable Rate Demand Obligations ($27.9 million outstanding); Aa3/VMIG3 insured by MBIA with SBPA from JPMorgan Chase Bank issued through Plano Health Facilities Development Corporation (to be refunded)

Series 1985 C and D Variable Rate Demand Obligations ($35.9 million outstanding); Aa3/VMIG3 insured by MBIA with SBPA from JPMorgan Chase Bank, issued through North Central Texas Development Corporation (cash defeased in September 2008)

Series 2003A and B: ($300 million outstanding) issued through Tarrant County Health Facilities Corporation; Aa3; insured by Ambac (to be current refunded)

Series 2007: ($697.8 million outstanding) issued through Tarrant County Cultural Education Facilities Finance Corporation; Aa3

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