

## **Fitch downgrades Citrus Memorial Hospital's bonds to 'BB+'**

*Outlook revised to negative*

May 23, 2011 (Business Wire) -- As part of its ongoing surveillance review process, Fitch Ratings has downgraded the following bonds issued by the Citrus County Hospital Board (Citrus Memorial Health Foundation, Inc.), on behalf of Citrus Memorial Hospital (CMH) to 'BB+' from 'BBB'.

--\$40.3 million series 2002

The Rating Outlook is revised to Negative from Stable.

### **RATING RATIONALE:**

--The downgrade reflects a sharp deterioration in CMH's financial profile due to an ongoing dispute with the Citrus County Hospital Board (CCHB) which collected \$9.3 million in tax revenue in fiscal 2010, of which \$1.6 million was remitted to CMH. This resulted in a \$7.5 million operating loss (-4.3% operating margin) for fiscal 2010;

--CMH's financial profile is no longer reflective of an investment grade rated entity with weak liquidity metrics, negative operating profitability and weak debt service coverage;

--The Outlook revision to Negative reflects the risks and uncertainties surrounding the acrimonious relationship between CCHB and CMH and CMH's ability adjust operations to maintain profitability without the benefit of its historical tax revenue stream.

### **What Could Trigger a Downgrade?**

--Further decline in balance sheet and profitability metrics.

**SECURITY:** The series 2002 bonds are secured by a pledge of gross revenues of the Foundation.

### **CREDIT SUMMARY:**

The rating downgrade to 'BB+' and Outlook revision to Negative reflect the impact and future uncertainty over property tax receipts that historically been levied by CCHB and received by CMH. Citrus Memorial Health Foundation (Foundation) operates CMH under a long-term lease with the CCHB. When the lease was executed, CCHB entered into a hospital care agreement, which stated that CCHB would provide funds to the Foundation to assist in meeting the cost of providing medical services to the residents of Citrus County through its ability to levy ad valorem taxes as an independent special district in Citrus County. The CCHB can levy taxes up to 3 mills of assessed value. The CCHB has reduced the millage rate to 0.25 mills for fiscal 2011 from 1 mill in fiscal 2010 and 1.5 mills in fiscal 2009

Furthermore, the CCHB began withholding tax revenue from CMH in 2009. Of the \$12 million of tax revenue in fiscal 2009, CCHB withheld \$1.2 million. In 2010, CCHB collected \$9.3 million in taxes and withheld all but \$1.6 million from CMH. As result, CMH posted a \$7.4 million operating loss (-4.3% operating margin) and just \$5.4 million of EBITDA. With MADS of \$4.9 million, coverage was just 1.1 times (x) in 2010 which nearly triggered a violation of its debt service coverage covenant. In addition to the non-receipt of tax revenue CMH also experienced volume declines which negatively impacted 2010 profitability.