

Via Overnight Delivery

October 21, 2014

To: Mike Constantino

From: Ed Parkhurst

Re: Project 14-040
NorthPointe FSEC Permit Application

RECEIVED

OCT 22 2014

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Attached are original and revised replacement pages 119 and 122 for the permit application. The original information was incorrectly reported similar to the related information corrected for the NorthPointe ASTC permit application, project 13-072.

The Applicant's Medicaid revenue was erroneously reported as "Gross" and not "Net" revenue, as required.

In addition, attached is a September 17, 2014 document re-affirming Beloit Health System's "A-" bond rating. Please ensure this information is reflected in both projects 14-040 and 13-072 administrative records.

Please let me know if you have any questions.

Attachments

Page 119 – Original and revised

Page 122 – Original and revised

Business Wire September 17, 2014

Safety Net Impact Statement

Beloit Memorial Hospital				
Safety Net Information per PA 96-0031				
CHARITY CARE				
Charity (# of patients)	Year 2010	Year 2011	Year 2012	Year 2013
Inpatient	118	94	91	102
Outpatient	1,510	1,269	945	1,296
Total	1,628	1,363	1,036	1,398
Charity (cost In dollars)				
Inpatient	1,546,000	1,430,000	1,541,000	1,173,000
Outpatient	3,513,000	3,342,000	3,922,000	3,174,000
Total	5,059,000	4,772,000	5,463,000	4,347,000
MEDICAID				
Medicaid (# of patients)	Year 2010	Year 2011	Year 2012	Year 2013
Inpatient	1,160	1,223	1,097	981
Outpatient	83,679	85,735	81,158	82,376
Total	84,839	86,958	82,255	83,357
Medicaid (revenue)				
Inpatient	16,440,000	20,113,000	17,648,000	19,873,000
Outpatient	49,469,000	57,850,000	61,799,000	63,505,000
Total	65,909,000	77,963,000	79,447,000	83,378,000

Safety Net Impact Statement

Beloit Memorial Hospital				
Safety Net Information per PA 96-0031				
CHARITY CARE				
Charity (# of patients	Year 2010	Year 2011	Year 2012	Year 2013
Inpatient	118	94	91	102
Outpatient	1,510	1,269	945	1,296
Total	1,628	1,363	1,036	1,398
Charity (cost in dollars)				
Inpatient	529,052	474,932	634,850	1,173,000
Outpatient	6,770,073	6,411,582	6,592,680	3,174,000
Total	7,299,125	6,886,514	7,227,530	4,347,000
MEDICAID				
Medicaid (# of patients)	Year 2010	Year 2011	Year 2012	Year 2013
Inpatient	1,160	1,223	1,097	981
Outpatient	83,679	85,735	81,158	82,376
Total	84,839	86,958	82,255	83,357
Medicaid (revenue)				
Inpatient	4,198,000	5,053,000	4,076,000	5,298,000
Outpatient	12,643,000	14,418,000	13,849,000	11,783,000
Total	16,841,000	19,471,000	17,925,000	17,081,000

Beloit Memorial Hospital				
CHARITY CARE				
	Year 2010	Year 2011	Year 2012	Year 2013
Net Patient Revenue	173,906,566	179,208,011	182,334,188	184,990,372
Amount of Charity Care (charges)	12,599,000	13,071,000	15,092,000	13,100,000
Cost of Charity Care	5,059,000	4,772,000	5,463,000	4,347,000

Beloit Memorial Hospital				
CHARITY CARE				
	Year 2010	Year 2011	Year 2012	Year 2013
Net Patient Revenue	173,906,566	179,208,011	182,334,188	184,990,372
Amount of Charity Care (charges)	17,673,425	18,867,162	20,620,625	13,100,000
Cost of Charity Care	7,299,125	6,886,514	7,227,530	4,347,000



Fitch Affirms Beloit Health System (WI) Revs at 'A-'; Outlook Stable

September 17, 2014 03:14 PM Eastern Daylight Time

CHICAGO--(**BUSINESS WIRE**)--Fitch Ratings has affirmed the 'A-' rating on the following bonds issued by the Wisconsin Health & Educational Facilities Authority on behalf of Beloit Health System (BHS):

--\$30,050,000 series 2010B revenue refunding bonds.

The Rating Outlook is Stable.

SECURITY

Bond payments are secured by a pledge of the pledged revenues of the obligated group, a mortgage lien and a debt service reserve fund.

KEY RATING DRIVERS:

SOLID OPERATING PROFITABILITY: Despite a slight compression over the past two years due to a combination of increased observation stays and increased bad debt, operating profitability remains solid for the 'A-' rating with operating EBITDA margin equal to 9.1% in fiscal 2013 and 9.9% in the six-month interim period ending June 30, 2014 (the interim period) relative to Fitch's 'A' category median of 9.5%.

MODERATE DEBT BURDEN: BHS's moderate debt burden and solid profitability combine to provide for solid coverage. Maximum annual debt service (MADS) coverage by EBITDA of 3.1x in fiscal 2013 and 3.7x in the interim period remain solid for the 'A-' rating despite the issuance of approximately \$11 million of new debt in fiscal 2013. Capital plans include the potential issuance of additional debt in fiscal 2015.

LEADING MARKET SHARE: BHS holds a leading market share of approximately 60% in its primary service area (PSA) with no competitor holding greater than 20% market share. The strong market position enhances BHS's overall credit profile and is solidified by a highly aligned medical staff which was strengthened by the acquisition of the Beloit Clinic in 2010.

LIQUIDITY IMPROVED BUT REMAINS LIGHT: Liquidity continued to improve after the Beloit Clinic acquisition in 2010, but was negatively impacted by a slowdown in collection of receivables related to the implementation of a new IT system. Days in accounts receivable improved from 61.2 days to 44.5 days at Aug. 31, 2014 and unrestricted liquidity improved to \$80.4 million, but liquidity metrics remain light for the rating category with 105.8% cash-to-debt and 13.6x cushion ratio.

RATING SENSITIVITIES

CONSISTENT OPERATING CASH FLOW: Fitch expects that current operating cash flow levels will be maintained allowing for further strengthening of liquidity. Continued strengthening of liquidity metrics relative to debt to a level consistent with Fitch's 'A' category medians and continued strong operations could result in positive rating action. Fitch will assess the credit impact of any additional debt as capital plans and funding sources become more certain.

CREDIT PROFILE:

Beloit Health System (BHS) operates a 256 licensed bed community hospital and a multi-specialty physician group in Beloit, Wisconsin, located approximately 75 miles northwest of Chicago. BHS also owns and operates a home care service, independent and assisted living units, urgent care, and related ancillary services. Total operating revenues equaled \$196.4 million in fiscal 2013 (Dec. 31 year end).

SOLID OPERATING PROFITABILITY

Operating profitability has been consistently strong but has been slightly compressed in recent years due to a combination of a shift from inpatient admissions to less profitable observation stays and increased bad debt in fiscal 2013 and the interim period. Operating EBITDA margin decreased from a strong 11.2% in fiscal 2012 to 9.2% and 9.1%, respectively, in fiscal years 2012 and 2013 before increasing to 9.9% in the interim period. Operating profitability remains solid for the rating category relative to Fitch's operating EBITDA margin 'A' category median of 9.5%. Fitch notes that operating profitability has remained solid for the rating category despite the purchase in January 2010 of Beloit Clinic, which had a history of operating losses.

BHS's high exposure to government payors makes BHS's operating profitability vulnerable to federal and state budget cuts and reliant on supplemental funding. Medicaid and Medicare accounted for 62% of gross revenues in fiscal 2013.

MODERATE DEBT BURDEN

Despite the issuance of approximately \$11 million of series 2013 bonds, BHS's debt burden remains moderate with MADS equal to 3% of fiscal 2013 operating revenue. MADS coverage by EBITDA of 3.1x in fiscal 2013 and 3.7x in the interim period remain solid for the 'A-' rating category and relative to Fitch's 'A' category median of 3.8x. BHS may issue approximately \$16 million in additional debt in

fiscal 2015 to fund construction of a new ambulatory surgical center. Fitch will assess the credit impact of any new debt as details become more certain.

LEADING MARKET SHARE

Credit stability is bolstered by BHS's strong leading market share of approximately 60% in its PSA. Mercy-Janesville is BHS's primary competitor in the PSA with 17% market share while UW Health holds 11.1% market share. No other hospital holds greater than 4% market share in the PSA. BHS's market position and operations are bolstered by its strong physician alignment which was further strengthened by the merger with the Beloit Clinic.

LIQUIDITY IMPROVED BUT REMAINS LIGHT

Unrestricted liquidity metrics continued to improve since the clinic acquisition in 2010, but were affected negatively by a large-scale IT implementation in March 2013. While successful on the clinical side, the IT implementation caused a slowdown in the collection of receivables with days in accounts receivable increasing to 61.2 at Dec. 31, 2013 and 60.2 at June 30, 2014 from 40.6 at Dec. 31, 2012. Unrestricted liquidity decreased from \$73.4 million at Dec. 31, 2012 to \$70.2 million at June 30, 2014. Management made significant progress in the interim period ending August 31, 2014 with unrestricted liquidity increasing to \$80.4 million and days in accounts receivable decreasing to 44.5. However, liquidity metrics remain light for the rating category with 154.4 days cash on hand, 13.6x cushion ratio and 105.8% cash-to-debt relative to Fitch's 'A' category medians of 199.2 days, 17.0x and 131.2%.

DISCLOSURE

BHS covenants to provide annual audited disclosure within 150 days of fiscal year-end and quarterly disclosure within 60 days of the first three quarters-end and within 90 days of the end of the fourth quarter. Disclosure is provided through the Municipal Securities Rulemaking Board's EMMA system.

Additional information is available at www.fitchratings.com.

Applicable Criteria and Related Research:

--'U.S. Nonprofit Hospitals and Health Systems Rating Criteria', May 30, 2014.

Applicable Criteria and Related Research:

U.S. Nonprofit Hospitals and Health Systems Rating Criteria

http://www.fitchratings.com/creditedesk/reports/report_frame.cfm?rpt_id=746860

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=874934

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