

## Deal Spotlight: Health Care

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### **Mountain States Health Alliance**

#### **The Health and Educational Facilities Board of Johnson City, Tennessee**

\$66,500,000

UW: Merrill Lynch & Co.

Variable Rate Revenue Bonds, Series 2006B

Dated Date: 4/12/06

Ratings: Aa3/AA/AA

Underlying Ratings: Baa2/BBB+/BBB

Mountain State Health Alliance (“MSHA” or the “System”) issued \$66.5 million of auction rate bonds to refinance existing debt and fund routine capital expenditures. The System also issued \$173 million of uninsured fixed rate bonds in January of this year.

MSHA is based in Johnson City, Tennessee, 110 miles northeast of Knoxville. The System was created in 1998 when Johnson City Medical Center purchased five hospitals and related assets from Columbia/HCA (now known as HCA). Today, MSHA provides an integrated, comprehensive continuum of care to people in 28 counties in Tennessee, Virginia, Kentucky, and North Carolina. MSHA’s operates 6 hospitals in 3 cities with 1,199 licensed beds in addition to 21 primary/preventive care centers and 13 outpatient care sites.

MSHA has a leading and stable market share of 52% in its eight-county core market (480,000 residents) coupled with its 90% market share in Washington and Carter counties (123,000 residents).

The System has experienced an improvement in liquidity over the last few years, resulting in strong 214 Days’ Cash as of June 30, 2005, up from 119 Days’ Cash in fiscal 2001. Cash to debt has also increased to 54% from 24% during the same period. Net patient revenues reached \$500 million in 2005. The bonds are secured by the Gross Revenues of the System and a mortgage on all but one of the hospitals.

The System accessed the market at lower interest rates based on Radian’s “AA” ratings. The rate on the initial auction, set out to 14-days, was 3.40%, compared to a weekly BMA index of 3.44%. Subsequent auctions have been conducted on a weekly basis.

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