

FITCH PLACES TULARE LOCAL HEALTH CARE DISTRICT (CA) REVS ON RATING WATCH POSITIVE

Fitch Ratings-San Francisco-23 August 2016: Fitch Ratings has placed the following bonds issued by the Tulare Local Health Care District, CA (d/b/a Tulare Regional Medical Center, TRMC) on Rating Watch Positive:

--\$14,725,000 series 2007 fixed rate bonds 'BB-'.

In addition, Fitch has assigned the district a 'BB-' Issuer Default Rating (IDR).

SECURITY

Debt payments are secured by a pledge of the gross revenues of Tulare Local Health Care District. A fully funded debt service reserve fund provides additional security for bondholders.

KEY RATING DRIVERS

BALLOT MEASURE PENDING: The Rating Watch Positive reflects the likelihood of upward rating movement pending the outcome of Measure I, a ballot measure to the residents of the hospital district to issue \$55 million of general obligation bonds to finish its new building project. The ballots are due by Aug. 30, 2016, and management states that polling is favorable.

SUSTAINED STRONG OPERATING PERFORMANCE: TRMC has sustained the trend of strong operating performance since Fitch's last rating review in August 2015. Ongoing work by the management team in place since January 2014 has brought a financial turnaround, and double digit operating EBITDA margins are expected to continue. Operating EBITDA was 14.1% in fiscal 2016 and 16.6% in fiscal 2015 compared to 4.4% in fiscal 2014.

NEW BUILDING PROJECT: TRMC has been plagued by an unfinished construction project that was supposed to be completed in 2012 due to numerous construction issues and litigation with the contractor. After settling with the contractor, TRMC has spent its own funds to prepare the building for completion. The building could open as early as July 2018 pending the outcome of Measure I. Management has not indicated plans if the ballot measure fails, and Fitch will reassess the rating and updated capital plans at that time.

RATING SENSITIVITIES

RESOLUTION OF LONG-TERM PROJECT FUNDING: The Rating Watch Positive reflects Fitch's expectation of upward rating movement if Measure I passes since funding will be secured to complete the new building project and Tulare Regional Medical Center's strong operating performance has been sustained. However, if Measure I fails, Fitch will need an updated plan from management and will reassess the rating at that time.

CREDIT PROFILE

Tulare Local Health Care District, d/b/a Tulare Regional Medical Center owns and operates a 112-bed hospital in the city of Tulare, CA. Total operating revenue in FYE June 30, 2016 (unaudited interim results) was \$81 million (excluding tax revenues related to GO bonds debt service). Since January 2014, TRMC has been managed by HealthCare Conglomerate Associates (HCCA). The current management agreement runs until 2029 with possible extensions.

DISCLOSURE

TRMC covenants to disclose annual financial statements within six months of year-end and quarterly unaudited financial statements within 30 days through the MSRB EMMA website.

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VARIATION FROM PUBLISHED CRITERIA

The assignment of and analysis supporting the 'BB-' IDR includes a variation from Fitch's 'U.S. Nonprofit Hospitals and Health Systems Rating Criteria'. Enhanced analysis under the variation relates to the assessment of the benefits and risks of supplemental tax revenues available to the healthcare provider. This evaluation is supported by Fitch's new 'U.S. Tax-Supported Rating Criteria' dated April 21, 2016 that includes refinements to the analysis of both tax revenue volatility, through the new Fitch Analytical Sensitivity Tool (FAST), and the value of taxing capacity relative to the issuer's potential revenue stress in a downturn.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014)

<https://www.fitchratings.com/site/re/750012>

U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015)

<https://www.fitchratings.com/site/re/866807>

U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)

<https://www.fitchratings.com/site/re/879478>

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