

SECTOR COMMENT

Temperatures Rise in the Twin Cities as Hospitals Prepare for Largest Nurses Strike in U.S. History

Extracted from "[Moody's Weekly Credit Outlook](#)", dated June 28, 2010

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As soon as 6 July, the 12,000-member Minnesota Nurses Association (MNA) may begin what could be the largest nurses strike in U.S. history, according to the union. A walkout, after several months of contentious negotiations, would be a significant credit negative for the six hospital systems in the Minneapolis-St. Paul area, as it could lead to margin declines and lower patient volumes and revenues.

On 21 June, the MNA voted overwhelmingly (84%) to authorize an open-ended strike, to begin as early as 6 July should a contract not be negotiated. The strike will follow a limited one-day work stoppage by MNA members on 10 June, which created added costs in transporting, housing, and training more than 2,800 nurses from temporary agencies. Many hospitals affected by the 10 June stoppage also postponed non-emergency medical procedures, resulting in lost revenue.

A prolonged strike will ultimately cause rating pressure on these health systems if they suffer declining margins because of the expense of using agency nurses, which usually cost much more than permanent nurses. Patient volumes and revenues could also weaken due to a prolonged decline in hospital census as the higher nursing costs, as well as rising utility and supply costs, will reduce operating margins.

Even the non-unionized hospitals in the Twin Cities could be pressured as they may need to hire additional temporary nurses to adjust to capacity challenges as patients seek health care at these hospitals.

The contract negotiations between MNA and the hospitals focus largely on three core issues: nurse-to-patient staffing ratios, wages, and benefits. The MNA is requesting fixed staffing ratios while hospitals are seeking staffing flexibility in order to help control costs. The MNA has requested salary increases of 3% each year for the three-year contract, while the affected hospitals have proposed raises of zero in the first year, 1% in the second, and 2% in the third, which are in addition to automatic step increases that many nurses receive (ranging from 1.5% to 3%).

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As the exhibit below shows, the four affected rated hospital systems in the area generated \$7.2 billion in revenue and \$284 million in operating income in 2009. Thus, if the strike raises costs even slightly, it will have a significant effect on margins. For example, if revenues remain unchanged while expenses rise just 1%, operating income will fall by 24%.

Minnesota Nurses Strike Affects Four Moody's Rated Health Systems

OBLIGOR NAME	RATING	OUTLOOK	OPERATING REVENUE (\$'000)	TOTAL EXPENSES (\$'000)	OPERATING INCOME	OPERATING MARGIN (%)	SALARIES AND BENEFITS AS A % OF TOTAL EXPENSES
Allina Health System, MN	A1	Stable	\$ 2,978,926	\$ (2,801,547)	\$ 177,379	5.95	60%
Fairview Health Services, MN	A2	Stable	\$ 2,744,562	\$ (2,634,320)	\$ 110,242	4.02	53%
Healtheast Care System, MN	Ba1	Stable	\$ 826,402	\$ (822,035)	\$ 4,367	0.53	60%
North Memorial Health Care, MN	A3	Negative	\$ 653,953	\$ (661,538)	\$ (7,584)	-1.16	56%
Total			\$ 7,203,843	\$ (6,919,440)	\$ 284,404		

Source: Fiscal year 2009 audited financial statements

The MNA strike comes at time when hospitals are increasingly focused on preparing for the implications of healthcare reform. Over the long term, Twin Cities providers will find it difficult to maintain current levels of financial performance, as inflexible labor costs and the effects of healthcare reform put pressure on operating margins. Top-line revenue growth is likely to stagnate as payment per procedure is reduced by Medicare, Medicaid, and private payers. Financial sustainability will be increasingly driven by a hospital's ability to control expense growth through flexible staffing and limited salary increases. Salaries and benefits comprise at least half of a hospital's expense base given the labor-intensive nature of the services provided.

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