Bond-rating agency flags labor cost uncertainty at Berkshire Health Systems

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DARLENE RODOWICZ, CHIEF FINANCIAL OFFICER FOR BERKSHIRE HEALTH SYSTEMS

By Larry Parnass, The Berkshire Eagle

PITTSFIELD — Uncertainty over future labor costs facing Berkshire Health Systems could contribute to a lower bond rating, an outside agency said this week.

In its annual review of the nonprofit company, Moody's Investors Service flagged protracted labor negotiations and a past strike as among reasons to list the company's outlook as "negative" instead of "stable."

The change did not alter the "A3" bond rating the company holds, but if the Moody's outlook worsens, it could lead to higher borrowing costs for the hospital, officials said Wednesday.

"It's a warning sign," said Darlene Rodowicz, chief financial officer for Berkshire Health Systems. "The work stoppages were the tipping point for us."

The advisory comes as the hospital prepares for a second one-day strike by members of the Massachusetts Nurses Association.

Another bargaining session is scheduled for Friday, but unless the two sides come to terms, registered nurses with Berkshire Medical Center will stage a second one-day action Feb. 27.

As with a similar strike Oct. 3, the hospital plans to bring in replacement nurses for five days. It cost $4 million to cover nursing shifts at the hospital in October, the hospital said. That figure factors in savings from wages it did not pay the nurses.

Rodowicz said the cost this month, if the strike occurs, would be about $3.5 million.

In a report released Tuesday, Moody's analyst Daniel Steingart said Berkshire Health Systems holds a "very strong market position" as operator of the only acute-care inpatient hospitals in its coverage area, Berkshire Medical and Fairview Hospital in Great Barrington.

Steingart noted the company's "modest" level of debt, but said its operating margins are lower than in the previous fiscal year.

The nonprofit faces "several challenges," he wrote, including "growth in staffing and labor costs and the uncertainty of the work stoppages with the nursing union over a new contract."

At the same time, the company is facing the expense of a new electronic medical records system and lower reimbursements for Medicaid and Medicare patients.

The region's aging population is a factor in the outlook, since that shift increases the number of patients who rely on government insurance and its lower reimbursements, the Moody's analysis notes.

"There is little we can do to affect the underlying dynamics of our communities," Rodowicz said.

She said that in his review of the hospital's financial data, Steingart noted concerns not only about the cost of the October strike, but the possibility that labor costs could rise with a new agreement with nurses. The union is seeking changes in staffing rules.

"That's a whole different level of concern to Moody's," Rodowicz said.

The agency cited the potential rise in labor costs as a "credit challenge" for Berkshire Health.

"Ongoing labor negotiations likely to raise labor costs: Berkshire is out of contract with its nursing union; the union held one strike and authorized another," the agency said.

An effort to reach Steingart at Moody's in New York City for comment on his analysis was unsuccessful. The nurses union was invited to comment but did not.

The agency is also keeping an eye on higher labor costs for all Massachusetts hospitals, according to Rodowicz, in the event that a referendum question about minimum nursing staff levels makes the 2018 ballot.

Moody's has provided bond ratings for the company since 2011.

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