Summary:
Illinois Finance Authority
Rush University Medical Center
Obligated Group; Joint Criteria; System

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Credit Profile

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<td>A+/Stable</td>
<td>New</td>
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<tr>
<td>US$91.44 mil rev rdfg bnds (Rush Univ Med Ctr Obligated Grp) ser 2015B dtd 02/05/2015 due 06/30/2040</td>
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Illinois Fin Auth, Illinois
Rush Univ Med Ctr Obligated Grp, Illinois

Series 2008A

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<td>AAA/A-1+</td>
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Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'A+' from 'A' on the Illinois Finance Authority's series 2009A through 2009D and 2006B fixed-rate hospital revenue bonds. Standard & Poor's also raised its underlying rating (SPUR) to 'A+' from 'A' on the authority's series 2008A and 2006B revenue bonds. In addition, we assigned our 'A+' long-term rating to the authority's $410.47 million series 2015A fixed rate-bonds and the $91.4 million series 2015B fixed-rate bonds. At the same time, Standard & Poor's affirmed its 'AAA/A-1+' rating on the authority's series 2008A variable-rate demand bonds (VRDBs). All bonds were issued for the Rush University Medical Center Obligated Group (Rush). The series 2015 bonds will be used to advance refund the series 2009 and series 2006B bonds. Rush University Medical Center (RUMC) is the largest entity of the obligated group. The outlook on all applicable ratings is stable.

The 'AAA/A-1+' dual rating on the series 2008A VRDBs is based on our joint criteria, with the 'AAA' long-term component of the rating based jointly on the Northern Trust Co. (AA-/Stable/A-1+) and the SPUR on Rush. The 'A-1+' short-term component of the rating is based on the Northern Trust short-term rating. The letter of credit expires on Feb. 15, 2017.

The upgrade to 'A+' reflects strong cash flow contributing to robust pro forma coverage; an improving business position, albeit in a very competitive and fragmented market; and the decreased pro forma debt levels. Although unrestricted reserves are still below rating medians, Rush's unrestricted reserves have grown well over the past couple of years, and we expect this trend to continue given the limited capital spending plans over the next couple of years and with continued strong cash flow. The upgrade incorporates the decrease in pro forma debt levels and improvement of pro forma coverage from the refinancing referenced above. Rush's strong market and business

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position continues to be anchored by Rush University Medical Center (RUMC), which has benefitted from the completed campus transformation project, as well as continued key service-line investments; Rush's integrated approach to research, education, and clinical services; and physician alignment through the Rush Health organization.

The 'A+' rating further reflects our view of Rush's:

- Large revenue base of almost $2 billion from three served markets and favorable volumes at the academic medical center along with continued strong market recognition for RUMC as an academic medical center with broad clinical services, extensive education and research capabilities, and an improving market position as a result of its offering of several key service lines in the competitive Chicago-area market;
- Track record of solid financial operations and cash flow that have exceeded budgeted expectations and that management projects will remain consistent with recent years' metrics, as well as robust pro forma coverage of over 5x for the past two years;
- Strengthening balance sheet with reduced pro forma debt levels (as a result of the refinancing) and unrestricted revenue growth, which in our view should continue for the next few years as a result of anticipated lower capital spending; and
- Proactive approach to preparing for the potential reimbursement changes resulting from the health care reform bill through the various initiatives, including Rush Health, the system's clinically integrated network.

Partly offsetting the above strengths, in our view, are Rush's:

- Location in the highly competitive and fragmented Chicago service area, with RUMC in close proximity to three other hospitals in its immediate service area and with three other academic medical centers as well as community hospitals or health systems providing strong competition for key services;
- Limited income and revenue dispersion (compared with other not-for-profit health care systems) with operating income and revenues driven primarily off RUMC; and
- Some concentration of Medicaid revenue in the payor mix and correspondingly moderate reliance on the state provider fee program and disproportionate share funds for Rush's solid operating income (however, management has focused on expense management and revenue improvements through service line focus and expansion to provide cushion against any potential stress from these programs).

Rush is an integrated delivery system serving Chicago and primarily the western suburbs but considers its service area as the greater eight-county Chicago metro area. The 'A+' rating is based on our view of Rush's group credit profile and the obligated group's "core" status. Accordingly, we rate the bonds at the same level as the group credit profile. The obligated group consists of the following entities, whose gross revenue and mortgages on the main hospital facilities' property, plant, and equipment secure the bonds (post refinancing, there will be no mortgage security):

- RUMC, which consists of Rush University Hospital (a 679-staffed-bed academic medical center in Chicago), Rush University (a health sciences university with 2,450 students and $129 million of annual research that consists of four colleges, including nursing and medical schools), and Rush University Medical Group (RUMG, a faculty practice plan);
- Rush Oak Park Hospital (ROPH), a 128-staffed-bed acute care center in the neighboring suburb of Oak Park; and
- Rush-Copley Medical Center Inc., which is the parent company of Copley Memorial Hospital Inc. (a 210-staffed-bed acute care medical center in Aurora, a far southwest suburb of Chicago), Rush-Copley Foundation, Copley Ventures Inc. and Rush-Copley Medical Group NFP.
RUMC (which includes ROPH) is the largest member of the obligated group, accounting for 86% of Rush's net assets, 83% of total revenue, and approximately 88% of operating income as of fiscal year-end June 30, 2014. Rush's total long-term debt, including capital leases and other financing arrangements, was $622 million as of Sept. 30, 2014 (about $578 million, including $57.8 million of premium, on a pro forma basis), largely in fixed interest rate mode.

Outlook

The stable outlook reflects our view that the system will continue to generate strong cash flow and coverage while continuing to grow unrestricted reserves due to the more limited capital spending over the next couple of years. While we expect that there could be some modest incremental spending (above routine depreciation), we believe that unrestricted reserves should still benefit given the strong cash flow. The outlook also reflects our anticipation that Rush's business position will continue to remain strong and that the system will continue to manage the evolving pressures of the health care industry.

A lower rating, while not anticipated, could occur if capital spending increases, if debt is issued without an increase in unrestricted reserves, or if cash flow doesn't remain consistent with recent years’ trends. We could also consider a lower rating if unrestricted reserves doesn't continue to grow as anticipated and, particularly, if cash flow attenuates.

A higher rating could be considered after unrestricted reserves strengthen materially off current levels while the operating and enterprise profile remain strong.

Related Criteria And Research

Related Criteria

• USPF Criteria: Not-For-Profit Health Care, June 14, 2007
• General Criteria: Group Rating Methodology, Nov. 19, 2013
• USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
• USPF Criteria: Contingent Liquidity Risks, March 5, 2012
• USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
• Criteria: Joint Support Criteria Update, April 22, 2009
• General Criteria: Methodology: Industry Risk, Nov. 20, 2013

Related Research

• Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
• U.S. Not-For-Profit Health Care Outlook Remains Negative Despite A Glimmer Of Relief, Dec. 17, 2014
• U.S. Not-For-Profit Health Care System Ratios: Operating Performance Weakened In 2013, Aug. 13, 2014
• Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
• Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries, Nov. 20, 2013
• Health Care Organizations See Integration And Greater Transparency As Prescriptions For Success, May 19, 2014

Ratings Detail (As Of January 10, 2015)

Illinois Fin Auth, Illinois
Rush Univ Med Ctr Obligated Grp, Illinois
Series 2006B-1
Ratings Detail (As Of January 10, 2015) (cont.)

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<td>A+/Stable</td>
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Many issues are enhanced by bond insurance.

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