"MOODY'S ASSIGNS MIG 1 SHORT-TERM RATING TO TEMPLE UNIVERSITY'S (PA) UNIVERSITY FUNDING OBLIGATIONS, SERIES OF 2011; LONG-TERM OUTLOOK IS NEGATIVE"

**Issue:** UNIVERSITY FUNDING OBLIGATIONS, SERIES OF 2011

**Issuer:** TEMPLE UNIVERSITY

**State:** PA

**Country:** USA

**Date:** 3/23/2011

**Rating:** MIG 1

**Rating Action:** Assign

**Outlook:** Negative

**Outlook Action:** Assign

NEW YORK, March 23, 2011 -- Moody's Investors Service has assigned a MIG 1 short-term rating to Temple University's (PA) (Temple's) University Funding Obligations (UFOs), Series of 2011. At the same time, we have affirmed the Aa3 long-term rating on the university's rated long-term debt. The long-term rating outlook remains negative.

**SUMMARY RATING RATIONALE**

The Aa3 rating for Temple University reflects its established market position as the largest Pennsylvania public university in southeastern Pennsylvania with good enrollment growth, strong University operating performance and good financial resource levels supporting debt and operations. These are offset by...
the weak operations and market challenges of Temple University Health System, proposed dramatic cuts in state funding and expected substantial capital plans. The negative outlook reflects potential operating and liquidity pressures on the University due to financial stress at Temple University Health System (TUHS) as well as the impact of the dramatic reductions in state operating funds. The MIG 1 rating is based on Temple's market access for its notes issuance and its strong liquidity position.

**STRENGTHS**

*Established student market position due to the franchise position as the principal Pennsylvania public university in the Philadelphia region, with enrollment of 34,623 full-time equivalent (FTE) students for Fall 2010, up over 4% from the prior year and expected continued growth, although at a more moderate pace.

*Strong operating performance of the University able to offset deep operating losses of the Health System, with a three year average operating margin of 0.3% for fiscal years (FYs) 2008-2010 that includes the losses of TUHS ($45 million or a negative 5% operating margin) and 11.1% operating cash flow margin.

*Solid financial resource levels on a consolidated basis including TUHS, with expendable financial resources of $820 million at fiscal year (FY) 2010 cushioning proforma debt, including the current issue, by 0.74 times; annual operations are cushioned 0.4 times, which we note include the operations of the health system.

*Relatively moderate but growing research activity, with $106 million of research expenditures for FY 2010, up 41% from FY 2006.

*Regular market access for note issuance and strong liquidity supporting MIG 1 rating.

**CHALLENGES**

*Poor operating performance and weak cash flow margins, coupled with substantial market challenges, at Temple University Health System (TUHS), currently rated Baa3 with a negative outlook. TUHS is an incorporated subsidiary of the University, although University and Health System credits are legally separate organizations each issuing debt under separate indentures with no cross support across organizations.

*Dramatic 50% reduction in state operating appropriations proposed by the Governor for the upcoming FY 2012 starting July 1, 2011 that, if approved, results in a loss of over $80 million in state funding.
*Extensive capital plans for University through its Temple 20/20 facilities plan, with additional debt issuance possible within the next twelve months to provide partial funding, although a timeline for the projects remains fluid pending other funding sources.

*Enrollment recruiting challenges from an extremely competitive higher education landscape, with public and private Commonwealth higher education institutions recruiting from a declining pool of Pennsylvania high school graduates, which could result in future tuition pricing challenges.

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: Proceeds from the Series 20110 Funding Obligations will provide reimbursement of capital expenditures, fund planned capital projects and pay issuance costs.

LEGAL SECURITY: The University's notes are unsecured general obligations of Temple University. Neither TUHS nor any affiliate of the University is liable for the debt. The University's long-term debt is secured by a gross revenue pledge.

DEBT-RELATED INTEREST RATE DERIVATIVES: None

MARKET/COMPETITIVE PROFILE: ESTABLISHED STUDENT MARKET POSITION AS THE PRINCIPAL PUBLIC UNIVERSITY IN REGION, WITH GROWING STUDENT DEMAND

Moody's believes Temple University will maintain its established student demand due to its franchise position as the principal public university in the Philadelphia region and diverse program offerings at the undergraduate, graduate and professional levels. The University has experienced good enrollment growth, with a 4% increase in enrollment to 34,623 FTEs at Fall 2010 from the prior year. For Fall 2010, 16.4% of the incoming freshman was from Philadelphia and 36.8% from the four surrounding counties, compared to 27% of its freshmen from Philadelphia and only 22% from the suburban counties in Fall 2000.

Temple has shown good growth in net tuition per student to $16,166 in FY 2010, up 23% since 2005. The University's net tuition per student is among the highest of Moody's rated public universities, although significantly lower than Pennsylvania State University and University of Pittsburgh and well below levels of many private colleges and universities in the Commonwealth. We expect net tuition to continue to increase in the foreseeable future as Temple raises tuition to at least partially absorb the substantial operating appropriation cuts proposed by the Governor.

Comment [p10]: Other sources? Given the state of the State, will there be capital funds given by Harrisburg? Are donors making contributions?

Comment [p11]: Our great strength as a regional university. Do we give that up if we "go national"?

Comment [p12]: Calculation by State of Pennsylvania.

Comment [p13]: Is there marketing data on the appeal to non-resident students? Is it a good "buy" for them?
The University competes with other Pennsylvania public institutions, including Pennsylvania State University (rated Aa1/Stable), University of Pittsburgh (rated Aa1/Stable), and the regional campuses of the State System of Higher Education (rated Aa2/Stable), as well as private higher education institutions in Eastern Pennsylvania. Competition with public and private urban universities in New Jersey, New York and other nearby states is expected to intensify as they seek to retain their high school graduates and recruit out-of-state students. This is likely to pressure the University's pricing elasticity as it competes with others for a pool of Commonwealth high school graduates that are projected to decline over the next ten years. A mitigant for Temple is that it draws students from the southeastern region of the Commonwealth, an area that is showing good enrollment and population trends and is less impacted by the demographic decline than other regions.

The University has a growing, although still moderate, base of sponsored research, with FY 2010 expenditures of over $106 million, up 41% since FY 2006. The research is largely conducted through the School of Medicine and with Temple University Health System. We expect the research activity to continue to show modest increases in the foreseeable future with the continued collaboration amongst the Temple organizations.

Temple University Health System (TUHS) is an incorporated subsidiary of the University, its sole member, and owns and operates Temple University Hospital (TUH) and affiliated patient care providers. It is currently rated Baa3 with a negative outlook. The Baa3 rating reflects the significant and long standing trend of financial support from the Commonwealth of Pennsylvania (rated Aa1 with a negative outlook) which has increased in each of the last few years, high alignment and integration with strategies and educational objectives of Temple University (rated Aa3 with a negative outlook), and essential role as the largest safety net provider of clinical care in Southeastern Pennsylvania with a particular concentration in the north quadrant of the City of Philadelphia, but is tempered by an operating profile that is weak and expected to remain thin through FYE 2011 resulting in further reductions in cash into the medium-term. The negative rating outlook reflects TUHS' growing reliance on supplemental funding and inability to translate growing supplemental funding into at least a break-even level of operating performance, with expected thin operating performance through FYE 2011 in spite of increasing support from the Commonwealth. For more information on TUHS, please see Moody's report dated March 2, 2011.

Although Temple University has no legal liability for the debt of either Temple University Hospital or Temple University Health System, the University's bondholders have indirect exposure as the poor operating performance of TUHS exposes Temple to potential operating pressures, diminished cash flow and possible liquidity decline.
has exercised its governance privileges through building the new management
team and more active oversight and strategic support. Although the University
has given no indication of financial support, Moody's believes that the Health
System's importance to the University's mission and strategies with the School
of Medicine and research emphasis underscore the connections between the
University and the Health System and its interest in the continuing financial
viability and operation of TUHS. Additionally, Temple University operates a
clinical faculty practice plan, which remains part of the security of the
University bonds.

An anchor of the Aa3 rating of the university is that Temple to date has
provided no direct financial support of TUHS coupled with the favorable,
although thinning, cash position of the Health System. We will continue to
assess the relationship and interactions between Temple University and TUHS,
coupled with monitoring the operating performance and cash flow of the Health
System, to determine the potential impact of any strategic or operational
measures to be taken by the Health System to attempt to restore its operations
and cash flow to more positive performance and diminish the likelihood of
negatively impacting the University's overall credit profile.

OPERATING PERFORMANCE: CONSISTENTLY FAVORABLE UNIVERSITY
OPERATIONS PROVIDE
FOUNDATION FOR ENTERPRISE PERFORMANCE THAT OFFSET LOSSES AT
HEALTH SYSTEM

Temple University has continued to produce consistently favorable operating
performance as calculated by Moody's, driven by diverse revenue sources,
enrollment growth and tuition increases, and continued expense management. The
university's academic operations absorbed TUHS' losses which amounted to about
$45 million for FY 2010 alone. As a result, the consolidated three-year
average operating margin is breakeven at 0.3%. Operating cash flow is good,
with a 11.1% operating margin for FY 2010 and annual debt service coverage of
2.6 times. We expect consolidated operating performance to remain thin as the
University's operating performance continues to offset the expected losses at
TUHS and seeks to offset proposed state funding cuts.

On a consolidated basis, Temple University shows only modest revenue
diversity. For FY 2010, 51% of operating revenues, as calculated by Moody's,
are from patient care, including TUHS' operations and the faculty practice
plan. The next largest revenue contributors are 29% from student charges for
tuition and auxiliaries with only 8% from state appropriations. Following
state funding supported by ARRA federal stimulus funding in FY 2010, Temple
implemented operating expense reductions to absorb the expected decline in
appropriations in FY 2011 with the cessation of the federal stimulus money.
However, the Governor's proposed budget for the upcoming FY 2012 includes a
dramatic 50% reduction in the state operating appropriations. If enacted as
Temple would lose over $90 million in total state university funding without factoring in the impact on TUHS from proposed Medicaid reductions. The university is currently examining options to bridge the likely funding shortfall. Even if the cuts are not fully implemented, we expect that Temple, with the other Pennsylvania public universities, will incur a substantial cut in state operating funds that will need to be filled through tuition increases or expense efforts.

Moody's rates the Commonwealth of Pennsylvania Aa1 with a negative outlook. The Aa1 rating is based on moderate debt position that is well-controlled with tax-supported debt ratios roughly at national average levels, and comparatively well-funded pension systems, although the commonwealth faces a large increase in retirement payments in the upcoming years and diverse, broad, and relatively stable economy, with wealth levels slightly above the national average, buttressed by its large health and higher education sectors. Offsetting credit challenges are the weakened financial position; declines in liquidity, which have led Pennsylvania to undertake cash-flow borrowing; a long trend of below-average growth economic and population growth, and the continuing loss of manufacturing jobs reflecting the mature nature of the state's economy; and budgetary pressure driven by the need for increased employer contributions into the commonwealth's pension plans. The negative outlook reflects the commonwealth's available fund balances and the challenge it faces in rebuilding reserves, as well as uncertainties surrounding the economic recovery, and the state's ability to reach a long-term structural balance as it faces the end of federal stimulus funds and an impending increase in pension contributions. For more information please review our report on the Commonwealth of Pennsylvania dated November 17, 2010.

BALANCE SHEET POSITION: FINANCIAL RESOURCE LEVELS PROVIDE SOUND CUSHION FOR DEBT AND OPERATIONS

Moody's believes that Temple University's financial reserves provide a good cushion for its debt and operating base. Consolidated expendable resources of $820 million for FY 2010 cushion total proforma direct debt of $1.01 billion (including the current note issue) by 0.8 times and 0.4 times (or over five months) of operations. Total financial resources for fiscal year end 2010 were $1.06 billion, up nearly 7% from the previous year. If the university should issue up to $100 million of debt, the expendable resource's cushion supporting debt would show little diminishment and remain at a level consistent with its rating category.

Temple demonstrates good liquidity for the rating level and its expense base. At 6/30/10, it maintained over $1.03 billion of unrestricted funds available within one month or 195 days cash on hand (see definition in Key Data section). Most of the funds are in operating cash accounts or in treasuries.
Temple's current portfolio allocations are: domestic equities - 31%; international equities - 33%; marketable alternatives - 9%; fixed income - 26%; cash and equivalents - 1%. The University reported an investment return of 12.4% for FY 2010; for the six month period ending 12/31/2010, the return was a gain of 14.6%. The University utilizes Cambridge Associates as its outside investment consultant.

Temple University successfully completed its recent capital campaign in 2009, with $380 million raised against the $350 million target. Cash and pledges are about $320 million, with the rest in deferred gifts. For FY 2008-2010, total reported gift revenues were $51 million on a consolidated basis. With the momentum from its successful campaign, Moody's expects Temple will continue to generate good gift levels that will be a contributor to financial resources growth in the long-term.

Temple University is implementing its master facilities plan under Temple 20/20, with the first phase - a student residence/dining facility and a structured parking facility - funded by the previously issued Series 2010 bonds. The plan includes a 21st Century Library, a research/multi-purpose facility and other projects. The university expects significant funding to come from the Commonwealth and gifts but anticipates it may issue additional debt depending upon the other funding sources. However, each project is distinct, with the timing able to be individually addressed by the Board depending upon funding status. Currently the university expects to issue up to $100 million of debt within the next twelve to eighteen months for projects under its master facilities plan but that is subject to change.

SHORT TERM RATING RATIONALE

The MIG 1 rating for the Series 2011 notes reflects the university market access as Temple is a regular issuer of the Notes since 1990, with annual issuance to refund the current outstanding note obligations and to fund various capital projects on its campus. The rating also reflects Temple's good liquidity on hand to repay the maturing Series 2011 Notes in April 2012 should market conditions at the time prevent the University from refinancing the notes upon maturity. As of 6/30/2010, Temple University on a consolidated basis had $963 million of unrestricted investments available within one month, with much of the holdings in Treasuries or money market funds; the monthly liquidity translates to 181 days monthly cash (see definition in Key Data section). Monthly liquidity to demand debt is very strong at 819%, with most of the university's debt fixed rate.

OUTLOOK:

The negative outlook reflects Moody's concerns of potential operating and...
liquidity pressures on the University due to financial stress at TUHS as well as the impact of the dramatic reductions in state operating funds. Any action of the University to provide financial support to the Health System or further deterioration of TUHS operations and reduction in Health System liquidity could result in a rating downgrade of the University.

WHAT COULD MAKE THE RATING GO UP

Not likely in the near-term but could be driven by substantial increase in the university's financial resource from operations, philanthropy and investments to enhance cushion supporting debt and operations; strengthening of student demand, with higher non-resident enrollment and greater tuition pricing elasticity than anticipated; growth in research revenues.

WHAT COULD MAKE THE RATING GO DOWN

Closer integration of the Health System and the University resulting in financial or other support of the Health System, impacting University operations and financial resources; substantial decline in financial resources; decrease in enrollment and greater than expected market resistance to tuition levels stemming from regional demographics or from large tuition increases implemented to offset state funding cuts; unanticipated debt issuance.

KEY INDICATORS (FY 2010 consolidated University and TUHS financial results; Fall 2010 University enrollment)

Total Enrollment: 34,623 full-time equivalent students
Total Proforma Debt: $1.01 billion (includes current issue)
Total Financial Resources: $1.06 billion
Expendable Resources to Proforma Debt: 0.8 times
Expendable Resources to Operations: 0.4 times
Monthly Liquidity: $1.03 billion
Monthly Days Cash on Hand (unrestricted funds available within 1 month divided by operating expenses excluding depreciation, divided by 365 days): 195 days
Three-Year Average Operating Margin: 0.3%
Operating Cash Flow Margin: 11.1%
Patient Care as % of Total Operating Revenues: 51%

State Appropriations as % of Total Operating Revenues: 8%

Commonwealth of Pennsylvania GO: Aa1, negative

RATED DEBT:

Revenue Bonds, First Series A of 2010 (Tax-Exempt) and First Series B of 2010 (Federally Taxable - Build America Bonds - Direct Payment): rated Aa3


Series 2011 University Funding Obligations: MIG 1

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PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Public College and Universities published in November 2006.

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