Debt Rating On Temple University Health System, PA Lowered To 'BBB-' On Decreased Reimbursement And Volumes

<table>
<thead>
<tr>
<th><strong>Issue:</strong></th>
<th>Revenue Bonds</th>
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<tbody>
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<td><strong>Issuer:</strong></td>
<td>Philadelphia Hospital &amp; Higher Educational Facilities Authority</td>
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<tr>
<td><strong>State:</strong></td>
<td>PA</td>
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<td><strong>Country:</strong></td>
<td>USA</td>
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<td><strong>Date:</strong></td>
<td>10/14/2011</td>
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<tr>
<td><strong>Rating:</strong></td>
<td>BBB-</td>
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<tr>
<td><strong>Rating Action:</strong></td>
<td>Downgrade/Lower</td>
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<td><strong>Outlook Action:</strong></td>
<td>Downgrade/Lower</td>
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NEW YORK Oct. 14, 2011--Standard & Poor's Ratings Services lowered its long-term rating on Philadelphia Hospital & Higher Educational Facilities Authority, Pa.'s revenue bonds, issued for Temple University Health System (TUHS) to 'BBB-' from 'BBB'.

"The downgrade to 'BBB-' reflects our view of the continued uncertainty regarding state reimbursement, soft inpatient volumes, and an expectedly weaker, though adequate, balance sheet in fiscal 2011 as TUHS has increased plant reinvestment, funded its pension, and subsidized historical operating losses," said Standard & Poor's credit analyst Charlene Butterfield. "State budget pressures have led to an initial reduction in reimbursement rates for fiscal 2012 that management hopes to reverse, and a budgeted fiscal 2012 operating loss if the state delays supplemental funding or it is otherwise not secured in the coming months," said Ms. Butterfield.

Standard & Poor's understands that TUHS has secured some additional funding for fiscal 2012, and expects state reimbursement levels to remain consistent with that of fiscal 2011. However, the potential exists for a delay in the supplemental funds or further cuts, which could lead to a considerable operating loss in fiscal 2012. It is Standard & Poor's view that the lower rating allows for potential variability in operating performance, as state reimbursement for TUHS as a safety-net provider remains unpredictable from year to year.

Credit factors that Standard & Poor's believes support the rating include TUHS's:

Role as the leading provider in uncompensated care in Pennsylvania;
Relationship with Temple University, which is the parent and sole member of TUHS;
Excellent management team with a strong planning culture; and
Significant improvement in fiscal 2012 operating results despite continued operating deficits.

Also factored into the rating is a very challenging local demographic and payor mix.
The stable outlook reflects Standard & Poor's assessment of TUHS's substantial improvement in operating performance, adequate debt service coverage for the rating, and balance sheet metrics that are consistent with the rating.

A negative outlook is possible during the next one to two years if TUHS's balance sheet decreases from current levels, operating losses escalate significantly for a sustained period, or potential strategic developments substantially weaken the current financial profile during the next one to two years.

RELATED CRITERIA AND RESEARCH

USPF Criteria: Not-For-Profit Health Care, June 14, 2007
USPF Criteria: Physician Groups And Faculty Practice Plans, June 13, 2007

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