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HEALTH FACILITIES & SERVICES REVIEW BOARD

E-064-16

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION FOR THE CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY

1. **INFORMATION FOR EXISTING FACILITY**

Current Facility Name **Copley Memorial Hospital, Inc.**
Address **2000 Ogden Avenue**
City **Aurora** Zip Code **60504** County **Kane**
Name of current licensed entity for the facility
Does the current licensee: own this facility ___X___ OR lease this facility________(if leased, check if sublease □)
Type of ownership of the current licensed entity (check one of the following:) ________ Sole Proprietorship
__X__ Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ______ Governmental
______ Limited Liability Company ______ Other, specify ________
Illinois State Senator for the district where the facility is located: **Sen. Linda Holmes**
State Senate District Number **42** Mailing address of the State Senator: **113 State Capitol Building, Springfield, IL 62706**
Illinois State Representative for the district where the facility is located: **Rep. Stephanie Kifowit**
State Representative District Number **84** Mailing address of the State Representative **Stratton Office Building, Springfield, IL 62706**

2. **OUTSTANDING PERMITS**. Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes X No . □ If yes, refer to Section 1130.520(f), and indicate the projects by Project # 14-028

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant **Rush System For Health, Attn: Carl Bergetz**
Address 1700 W. Van Buren
City, State & Zip Code Chicago, IL 60612
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__X__ Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ____ Governmental
______ Limited Liability Company ______ Other, specify ________

4. **NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.**

Exact Legal Name of Entity to be Licensed **See Above #1 (No Change)**
Address ________
City, State & Zip Code ________
Type of ownership of the current licensed entity (check one of the following:) ______ Sole Proprietorship
______ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
______ Limited Liability Company ______ Other, specify ________

5. **BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY**

Exact Legal Name of Entity That Will Own the Site **See Above #1 (No Change)**
Address ________
City, State & Zip Code ________
Type of ownership of the current licensed entity (check one of the following:) ________ Sole Proprietorship
_____ Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ______ Governmental
______ Limited Liability Company ______ Other, specify ________

DM_US 73931749-1.006093.0484

Co-Applicant:

Copley Memorial Hospital, Inc.
2000 Ogden Avenue
Aurora, IL 60504
Not For Profit Corporation

6. **TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**

- o Purchase resulting in the issuance of a license to an entity different from current licensee;
- o Lease resulting in the issuance of a license to an entity different from current licensee;
- o Stock transfer resulting in the issuance of a license to a different entity from current licensee;
- o Stock transfer resulting in no change from current licensee;
- o Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
- o Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
- X Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
- o Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
- o Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
- o Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
- o Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

7. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for $2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

8. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2.**

9. **ANTICIPATED ACQUISITION PRICE: $ Not applicable**

10. **FAIR MARKET VALUE OF THE FACILITY: (estimated) $250,368,000.00 (book value from most recent financials)**
(to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION: On or before 03/31/17**

12. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3. NOTE:** For transactions involving related parties the reason the change of ownership is taking place must be provided.

13. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as **ATTACHMENT #4.**

14. **FINANCIAL STATEMENTS.** (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements AND footnotes and an "A" or better bond rating, and append it to this application as **ATTACHMENT #5.** If the applicant is a newly-formed entity and financial statements are not available, please indicate by checking YES ____ , and indicate the date the entity was formed

15. **LETTER OF INTENT:** A signed and notarized letter of intent must be provided that contains the following information: the terms of the transaction, name and background of the parties, structure of the transaction, the person who will be the licensed or certified entity after the transaction is complete; the ownership or membership interests in such licensed or certified entity both prior to and after the transaction, the fair market value of assets to be transferred, the purchase price or other form of consideration to be provided for these assets and a statement that the transaction will not be completed until after approval of the Illinois Health Facilities and Services Review Board. Append as **ATTACHMENT #6.**
NOTE: For transactions involving related parties a letter of intent is not required.

16. **PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: **Clare Connor Ranalli**
Address: **McDermott Will & Emery, 227 W. Monroe Street**
City, State & Zip Code: **Chicago, IL 60606**
Telephone **(312) 984-3365**

17. **ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this** application and act on behalf of the applicant.
Name: **Carl Bergetz**
Address: **Rush University Medical Center, Office of Legal Affairs**
City, State & Zip Code: **1700 West Van Buren, Suite 301, Chicago, IL 60612**
Telephone: **312-942-6886**

18. CERTIFICATION

I the undersigned certify that the above information and all attached information are true and correct to the best of my knowledge and belief.

I the undersigned certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois.

I the undersigned certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change.

I the undersigned certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

I the undersigned certify that the health care facility will not adopt a charity care policy that is more restrictive than the policy in effect during the year prior to the transaction.

I the undersigned certify that within 90 days after the closing of the transaction that I will provide a letter stating that the change of ownership has been completed in accordance with the letter of intent provided in the application for exemption. If the terms of the letter of intent have changed, those changes will be provided with this letter. I understand if the State Board determines that terms of the transaction have changed a new application for exemption will be submitted to the State Board.

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer: Barry Finn

Title of Authorized Officer: CEO, Copley Memorial Hospital, Inc.

Address: 2000 Ogden Avenue

City, State & Zip Code: Aurora, IL 60504

Telephone (630) 978-6200 Date: 9/28/16

Notary Signature **Date:** 9/28/16

NOTE: **complete a separate signature page for each co-applicant and insert following this page.**

OFFICIAL SEAL
AMY BEYER
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:05/17/17

19. CERTIFICATION

I the undersigned certify that the above information and all attached information are true and correct to the best of my knowledge and belief.

I the undersigned certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois.

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Signature of Authorized Officer Larry Good

Typed or Printed Name of Authorized Officer: Larry J. Goodman, M.D.

Title of Authorized Officer: President, Rush System For Health

Address: 1700 W. Van Buren

City, State & Zip Code: Chicago, IL 60612

Telephone (312) 942-6886 Date: 10/24/16

Notary Signature Cynthia L. I Date: 10/24/16

NOTE: complete a separate signature page for each co-applicant and insert following this page.

OFFICIAL SEAL
CYNTHIA L IRWIN
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:01/22/17

APPENDIX A

Facility Bed Capacity and Utilization

1. Complete the following chart as applicable. Complete a separate chart for each facility that is part of the project and insert following this page. Provide the existing bed capacity and utilization data for the latest 12 month period for which data is available. Any bed capacity discrepancy from the Inventory will result with the application being deemed incomplete.

FACILITY NAME **Copley Memorial Hospital, Inc.** CITY **Aurora**

REPORTING PERIOD DATES: From 01/01/2015 to 12/31/2015

Category of Service	Authorized Beds	Admissions	Patient Days	Bed Changes	Proposed Beds
Medical/Surgical	123	6,711	29,555	N/A	123
Pediatrics				N/A	
Obstetrics	34	3,442	7,070	N/A	34
Intensive Care	22	1,700	5,082	N/A	22
Neonatal ICU	13	277	2,104	N/A	13
Acute Mental Illness				N/A	
Rehabilitation	18	352	4,363	N/A	18
Nursing Care				N/A	
Sheltered Care				N/A	
Other (identify)				N/A	
Other (identify)				N/A	
Other (identify)				N/A	
TOTALS	**210**	**12,482**	**48,174**	**N/A**	**210**

Application Fee

A $2,500 fee is submitted with this application.

Funding

Not Applicable.

The transaction involves a change in the entity that will have final control of Copley Memorial Hospital, Inc. and no consideration is being exchanged.

Narrative Description

Rush-Copley Medical Center, Inc. ("RCMC") the parent of Copley Memorial Hospital, Inc. and whose sole member is Rush/Copley Health Care System, Inc., will restructure so that it will have a new member, the Rush System For Health. While there will be no change in the day to day operations of RCMC as a result of its affiliation with the Rush System For Health, it will benefit from Rush University Medical Center ("RUMC") specialists and from the academic medicine services offered at RUMC, including medical research and education, and enhancing the available academic medicine scope in the Western suburbs. The hospital licensee and owner/operator will not change as a result of this restructuring. The only change will be to the entity with final control of the licensee.

Background of Applicant(s)

See attached certificates of good standing for Rush System For Health and Copley Memorial Hospital, Inc.

Copley Memorial Hospital, Inc. has had no adverse action, as that term is defined in the Illinois HFSRB rules and regulations, taken against it in the past three (3) years. It is a duly licensed health care facility in Illinois, in good standing **(see attached)**.

File Number 0328-142-6

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

COPLEY MEMORIAL HOSPITAL, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON APRIL 03, 1886, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 23RD *day of* SEPTEMBER *A.D.* 2016 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1626702118 verifiable until 09/23/2017
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

File Number 5852-111-6

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

RUSH SYSTEM FOR HEALTH, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON SEPTEMBER 22, 1995, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 12TH *day of* OCTOBER *A.D.* 2016 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1628602920 verifiable until 10/12/2017
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

Financial Statements

See **attached** for Rush System For Health. In addition, **attached** is a copy of Rush-Copley Medical Center Inc.'s audited financials.

S&P Global
Ratings

RatingsDirect®

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

Primary Credit Analyst:
Suzie R Desai, Chicago (1) 312-233-7046; suzie.desai@spglobal.com

Secondary Contact:
Brian T Williamson, Chicago (1) 312-233-7009; brian.williamson@spglobal.com

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

Credit Profile		
Illinois Fin Auth, Illinois		
Rush Univ Med Ctr Obligated Grp, Illinois		
Illinois Fin Auth (Rush Univ Med Ctr Obligated Grp) SYSTEM		
Long Term Rating	A+/Stable	Affirmed
Series 2006B-1		
Unenhanced Rating	NR(SPUR)	Current
Series 2008A		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed

Rationale

S&P Global Ratings affirmed its 'A+' long-term rating on the Illinois Finance Authority's series 2015A and 2015B fixed-rate hospital revenue bonds. We also affirmed our 'A+' underlying rating (SPUR) on the authority's series 2008A revenue bonds. At the same time, S&P Global Ratings 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). Rush University Medical Center (RUMC) is the largest entity of the obligated group. The outlook, where applicable, 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 Sept. 30, 2017.

The 'A+' rating reflects our view of Rush's continued strong cash flow contributing to robust maximum annual debt service (MADS) coverage; good business position, albeit in a very competitive and fragmented market; and improving balance sheet. Rush's unrestricted reserves are down temporarily after a couple years of growth, but we expect this upward trend to return per management expectations and with expected strong cash flow. Rush's strong market and business position continues to be anchored by RUMC, which has benefited from its new patient tower; continued key service-line investments; Rush's integrated approach to research, education, and clinical services; and physician alignment through the Rush Health organization as well as other partnerships. We do view Rush as being on a favorable trajectory with Rush embarking on some key strategic projects, including some specific outpatient projects that we expect will benefit Rush over the medium to long term. However, those projects will likely involve higher capital spending over the next few years and we expect to get clarification on some of the larger projects as well as funding over the next couple of years. That said, we understand from management that balance sheet metrics will continue to improve over the next couple of years.

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

- Large operating revenue base of $2.1 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 coverage of more than 5x for the past three and a half years;
- Strengthening balance sheet, which in our view should continue to improve given the track record of healthy cash flow, although capital expenditures will begin to ramp up beginning in 2017; and
- Proactive approach to preparing for the potential reimbursement changes resulting from the health care reform bill through various initiatives, including investing in outpatient strategies and 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 revenue coming primarily from RUMC; and
- Moderate concentration of Medicaid revenue in the payor mix and correspondingly moderate reliance on the state provider fee program and disproportionate share funds for 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 and the state).

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 secure the bonds:

- RUMC, which consists of Rush University Hospital (a 679-staffed-bed academic medical center in Chicago), Rush University (a health sciences university with more than 2,500 students and a slightly increased $131 million of annual research that consists of four colleges, including nursing and medical schools), and Rush University Medical Group (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. (RCMC), which is the parent company of Copley Memorial Hospital Inc. (CMH, 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 85% of Rush's net assets, 83% of total revenue, and approximately 76% of operating income as of fiscal year-end June 30, 2015. Rush's total long-term debt, including capital leases and other financing arrangements, was $679 million as of Dec. 31, 2015, largely in a conservative 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 increase unrestricted reserves. Although we expect possible increased spending over the next two years, 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 remain strong and that the system will continue to weather the evolving pressures of the health care industry.

Upside scenario

We could consider a higher rating if Rush is able to continue to increase unrestricted reserves amid increasing capital spending, clarify some of the specifics around the larger capital projects that are likely to begin in the next three years, and demonstrate that the balance sheet could absorb the ongoing heightened spending and any contemplated additional debt at a higher rating. In addition, we would expect that Rush would maintain its strong enterprise profile and market position as well as its healthy operations.

Downside scenario

A lower rating, while not anticipated, could result if capital spending increases and cash flow attenuates, if significant debt is issued to pressure the balance sheet, or if cash flow falls out of line with recent years' trends.

Enterprise Profile

Economic fundamentals

Rush consists of three medical centers in three separate areas in the greater Chicago area. It serves eight counties that have an estimated population of 8.7 million. More specifically, because of the services it provides, RUMC considers its service area the larger eight-county area. RCMC is about 40 miles west of Chicago and has a primary service area (PSA) population of slightly more than 360,000, while ROPH is about eight miles west of RUMC and has a PSA population of 78,000. The system benefits from the diverse local economy of Chicago, but the city's wealth indicators slightly trail national averages. Rush's payor mix has improved slightly in the past two years, but Rush continues to derive 15% of net revenue from Medicaid and has seen modest effects from expansion of insurance in Illinois as well as state-related issues.

Market position

Overall, we view Rush as well positioned with a focus on service lines, clinical integration, and partnerships, and a niche position as a health sciences university with a solid research presence. We do view Rush as slightly less diversified than many of the systems in our portfolio with RUMC contributing the vast majority of income and operating revenue for the system. We take a positive view of the growing outpatient strategy and expect that the strategies will continue to support and enhance Rush's larger business position.

We believe RUMC, located in the Illinois Medical District along with the University of Illinois Medical Center, John H.

Stroger Jr. Hospital of Cook County, and the Jesse Brown VA Medical Center, has a good and growing market position despite its location in a competitive market. RUMC largely competes with other Chicago academic medical centers--Northwestern Memorial Hospital, University of Chicago Hospitals and Health System, Loyola University Health System, and University of Illinois Medical Center--as well as with other large providers that provide similar tertiary care such as Advocate Christ Hospital, part of Advocate Health. Although the market is fragmented, several providers have or are pursuing partnerships with other in-state and out-of-state providers, and we believe these partnerships will continue to intensify competition. Rush is also pursuing various partnerships through its telehealth, stroke, and perinatal networks as well as with other physicians and providers through Rush Health, Rush's clinically integrated network that also includes Riverside Medical Center. We view Rush Health as a good tool to prepare for changes related to health care reform. Rush Health was created to integrate specific services that included managed care contracting, but in recent years has focused on population health and quality improvement strategies. Rush's improving market position is due to the strength of and investment in a number of key services and recent investments in its facilities, both of which have led to favorable volumes, along with its integrated strategy with research and education as well as focus on physician alignment. Rush has a large and growing active medical staff of more than 1,900 physicians. Approximately 600 are employed, with the majority being at RUMC. RUMC also employs 667 medical residents and has a significant research focus along with the university. A majority of the physicians participate in Rush Health and are well engaged with the system's strategic initiatives.

RUMC's market share in its total eight-county service area remained stable at 3.2% in 2015 compared with 2014 but was up from 2.9% in 2012, with the highest individual hospital market share going to Northwestern (4.8%) and second-highest to Advocate Christ (4.2%). The CMH competes with five providers in the area, but has the leading and growing PSA market share of 39.5%, with the second leading provider, Presence Health's Mercy Medical Center, capturing 17.9%. Recent facility investments have benefited CMH in fast-growing Kendall County. We believe the additional investments at CMH, specifically the operating room renovations and expansion, will continue to strengthen CMH's position. RUMC also has a cancer facility in the western suburbs with DuPage Medical Group, one of the largest independent multispecialty physician groups in the Chicagoland area. ROPH also has a leading 22.2% market share in its more limited service area.

Volumes at Rush increased almost across the board through fiscal 2015, but inpatient admissions are down through interim 2016. (Outpatient visits continue to trend upward during the interim period.) Acuity of services provided remains high with Medicare acute case mix index increasing to 1.92 through December from 1.81 at fiscal year-end June 30, 2015. RUMC has several nationally recognized programs, including orthopedics, geriatrics, and nephrology, and captures a good share of the markets for neurosciences, cancer care, heart and vascular, transplant, and high-risk infant and mother services. RCMC and ROPH also benefit from some of these programs. We anticipate that the system's volumes will remain strong in the near term as Rush continues to strengthen its breadth and depth of services and expand patient access partly through its specialty care and outpatient networks.

Table 1

Rush University Medical Center Obligated Group Utilization				
	--Six-month interim ended Dec. 31--	--Fiscal year ended June 30--		
	2015	2015	2014	2013
PSA population	N.A.	8,655,312	8,700,000	N.A.
PSA market share %	N.A.	3.2	3.2	N.A.
Inpatient admissions*	22,932	47,282	46,084	45,939
Equivalent inpatient admissions	51,368	103,761	98,192	94,600
Emergency visits	89,286	177,994	162,839	161,160
Inpatient surgeries	8,460	16,907	16,119	15,756
Outpatient surgeries	14,655	29,136	29,459	29,966
Medicare case mix index	1.9200	1.8100	1.8100	1.7900
FTE employees	10,878	10,640	10,144	9,703
Active physicians	1,919	1,902	1,934	N.A.
Top 10 physicians admissions %	N/A	N/A	N/A	N/A
Medicare %§	27	26	26	26
Medicaid %§	15	16	16	13
Commercial/blues %§	52	50	50	52

*Excludes newborns, psychiatric, and rehabiliation admissions. §Based on net revenue. FTE--Full-time equivalent. N/A--Not applicable. N.A.--Not available. PSA--Primary service area.

Management and governance

Rush has a stable and strong management and governance team, in our view, that has improved the organization's competitive and financial position while allowing it to cope with industry trends. Rush also remains focused on research and education and has sustained its investment and growth in both areas.

The executive team consists of well-tenured members that have navigated the evolving pressures of the industry as well as the delayed state payments while investing more than $1 billion in transforming RUMC's campus. One key change is the upcoming retirement of President Peter Butler. However, with succession planning in mind, Rush recruited Michael Dandorph a couple of years ago as chief operating officer (COO) and he will step into the role of president and COO effective July 1, 2016, when Mr. Butler retires. There is also a new role of senior vice president of system integration, filled by the previous chief medical officer (CMO), Dr. David Ansell. The CMO role has been filled by Dr. Omar Lateef, another Rush physician who has been in various leadership roles. There is also a new dean of the medical college, Dr. K. Ranga Rama Krishnan, as well as a couple of other transitions that have been smooth to date.

Long-term forecasts are updated each spring, and management has generally either met or exceeded its budgets during the past several years, indicating its ability to understand its stress points and navigate them. The system is also planning for its next period of strategic investments, which will likely increase capital spending over the next three to five years but will also likely to continue to support and strengthen Rush's presence in the market.

We also take a positive view of Rush's focus on generating strong cash flow through growth as well as expense management and revenue optimization, and we believe that these efforts will serve Rush well as the industry continues to undergo revenue pressures. We take a positive view of Rush's recent investment in its enterprise resource planning (ERP) system and believe it should help Rush implement another wave of efficiencies.

Financial Profile

Financial performance

Rush has posted good operating margins of more than $2 billion in total operating revenue for several years (including after tower completion) as a result of sustained volume growth, expense and clinical resource management efforts, and funding support from supplemental programs. There are always yearly one-time or nonrecurring items, but fiscal 2015 yielded only a net $10 million (compared with about $24 million in the prior year). Cash flow is strong and has considerably strengthened MADS coverage to more than 5x on a fairly consistent basis. Operating results improved in fiscal 2015 and continued to exceed budgeted expectations. While Rush has less revenue dispersion than our typical system, we view all three hospitals contributing to operating income positively. In fiscal years 2015, 2014, and 2013, the system benefited from the state provider tax, which netted approximately $48 million, $44 million, and $21 million, respectively. Operations in fiscal 2016 to date have been good and above budgeted expectations as a result of acuity of services as well as expense management although inpatient volumes are down over the prior-year period for the first time in a few years. Management is optimistic that it will finish ahead of budget in fiscal 2016 (for the 12th straight year) and projects improving cash flow during the next five years as it continues to execute its growth strategies and manage its expense base.

Nonoperating revenue remained steady in recent years, further supporting overall cash flow and MADS coverage. Excess income and EBIDA margins have remained very strong, contributing to robust MADS coverage of more than 5x for the last few years.

Financial flexibility

The system's balance sheet continued to improve as a result of growth in unrestricted reserve (given solid cash flow) and declines in debt as it amortizes. (We adjusted Rush's unrestricted reserves to account for the full self-insurance liability.) All of this should position the organization well for any future spending or investment needs. Despite capital spending surpassing depreciation levels, continued good cash flow and investment gains contributed to the 16% growth in unrestricted reserves in 2015. Some interim declines have occurred as a result of the conversion to ICD-10, a couple of information technology upgrades, the implementation of a large ERP tool, and, to a lesser extent, state delays in payment. However, management expects that Rush should still finish the year with growth in cash on hand. In addition, the system has $530 million endowment for donor-restricted purposes. Rush's investments are largely in fixed income (70%) and cash (23%), with almost all accessible within seven days, which we view as very good liquidity for an organization of this size.

After the completion of the $1 billion, 12-year capital transformation project, capital spending returned to depreciation levels for the past several years. However, we expect increased capital spending will likely resume in 2017 and last for several years. Despite increased capital spending, management expects that strong cash flow will continue to strengthen the overall balance sheet. Key larger capital projects include a new outpatient tower near the main hospital (not likely to begin until 2018), a joint venture orthopedic center in the western suburb of Oak Brook (and not likely to begin until fiscal 2018) and a CMH surgical (and entrance) project. We view these outpatient and surgical projects as positive from a strategic perspective and believe they will help strengthen the obligated group's overall position. Management plans to monitor capital spending while continuing to improve the balance sheet.

Debt and contingent liabilities

We view Rush's debt levels as consistent with rating medians and expect some improvement over the next couple of years as principal amortizes. Total debt increased in fiscal 2015 as a result of refinancing, which contributed about $77 million of premium. We view Rush's mostly fixed-rate debt structure with approximately 14% of debt in variable-rate mode as very conservative. (The inclusion of a swap drops variable-rate debt to about 6%.) Half of Rush's variable-rate bonds are placed with a commercial bank and the other half are issued as VRDBs. Management has announced some larger projects, as indicated above, and while there are no immediate new money debt plans some additional debt will likely be issued as management refines its capital plans. Timing and amount are still under review and a debt issuance may occur in fiscal 2018.

Rush also maintains $100 million in a line of credit as a backup to help manage any unanticipated cash pressures, which we also view as prudent given the state's delay in Medicaid payments.

In addition, given Rush's current credit profile, we don't view its two swaps as a significant concern. Rush was party to two floating- to fixed-rate swaps on a total notional amount of approximately $89.4 million at June 30, 2015. The counterparties on the swaps are Morgan Stanley Capital Services Inc., with a guarantee by Morgan Stanley (A-) and Citibank N.A. (AA). As of June 30, 2015, the mark-to-market value of the swaps was a liability of $18.1 million with no collateral required. Rush is using $50 million of the interest rate swap outstanding to synthetically fix the interest rate on the series 2008A VRDBs, and the remaining swap notional amount is unhedged.

Rush's defined benefit pension plan declined slightly to a still healthy 89% (from 95% in the prior year) at June 30, 2015. The benefit obligation itself has stabilized given some plan changes the organization implemented with employees who had vested but terminated their employment with Rush prior to January 2015. As a result of timing, the system contributed a lower $801,000 relative to its expense of $22.2 million and $51.0 million last year but anticipates contributing $67.3 million in fiscal 2016.

Table 2

Rush University Medical Center Obligated Group Financial Summary					
	--Six-month interim ended Dec. 31--	--Fiscal year ended June 30--			'A+' rated health care system medians
	2015	2015	2014	2013	2014
Financial performance					
Net patient revenue ($000s)	934,683	1,811,272	1,719,676	1,592,707	1,539,478
Total operating revenue ($000s)	1,052,838	2,079,914	1,961,188	1,817,739	MNR
Total operating expenses ($000s)	1,009,515	1,994,419	1,887,093	1,761,550	MNR
Operating income ($000s)	43,323	85,495	74,095	56,189	MNR
Operating margin (%)	4.1	4.1	3.8	3.1	2.9
Net non-operating income ($000s)	19,973	33,857	28,598	45,654	MNR
Excess income ($000s)	63,296	119,352	102,693	101,843	MNR
Excess margin (%)	5.9	5.7	5.2	5.5	5.1
Operating EBIDA margin (%)	10.6	11.8	12.0	12.7	10.1
EBIDA margin (%)	12.3	13.2	13.3	14.8	12.0
Net available for debt service ($000s)	131,562	278,933	264,061	276,340	214,196

Table 2

Rush University Medical Center Obligated Group Financial Summary (cont.)

	--Six-month interim ended Dec. 31--	--Fiscal year ended June 30--			'A+' rated health care system medians
	2015	2015	2014	2013	2014
Maximum annual debt service (MADS; $000s)	46,649	46,649	46,649	46,649	MNR
MADS coverage (x)	5.64	5.98	5.66	5.92	4.60
Operating-lease-adjusted coverage (x)	3.96	4.14	4.00	4.26	3.40
Liquidity and financial flexibility					
Unrestricted reserves ($000s)	993,457	1,036,310	894,700	742,625	905,785
Unrestricted days' cash on hand	189.3	202.0	184.9	166.4	190.6
Unrestricted reserves/total long-term debt (%)	146.3	151.7	143.6	116.0	153.4
Unrestricted reserves/contingent liabilities (%)	1,104.6	1,152.3	934.7	736.0	MNR
Average age of plant (years)	13.1	10.7	10.2	8.4	10.1
Capital expenditures/depreciation and amortization (%)	104.6	105.2	83.6	63.5	110.1
Debt and liabilities					
Total long-term debt ($000s)	679,072	683,206	623,244	640,203	MNR
Long-term debt/capitalization (%)	34.3	35.0	32.1	35.6	33.7
Contingent liabilities ($000s)	89,935	89,935	95,720	100,895	MNR
Contingent liabilities/total long-term debt (%)	13.2	13.2	15.4	15.8	MNR
Debt burden (%)	2.17	2.21	2.34	2.50	2.50
Defined benefit plan funded status (%)	N.A.	88.56	95.12	91.17	82.70

MNR--Median not reported. N/A--Not applicable. N.A.--Not available.

Related Criteria And Research

Related Criteria

- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- General Criteria: Methodology: Industry Risk, Nov. 20, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, Feb. 20, 2015
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009

Related Research

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- U.S. Not-For-Profit Health Care Sector Outlook Revised To Stable From Negative, Though Uncertainties Persist, Sept. 9, 2015

- U.S. Not-For-Profit Health Care System Median Ratios Likely To Remain Stable Through 2016 Despite Industry Pressures, Sept. 1, 2015
- 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 May 5, 2016)

Illinois Fin Auth, Illinois

Rush Univ Med Ctr Obligated Grp, Illinois

Series 2009 A,B,C & D

Long Term Rating	NR	Current

Many issues are enhanced by bond insurance.

MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A1 rating to Rush University Medical Center Obligated Group (IL) Series 2015A&B bonds; outlook stable

Global Credit Research - 09 Jan 2015

$552M rated debt to be outstanding

ILLINOIS FINANCE AUTHORITY
Hospitals & Health Service Providers
IL

Moody's Rating

ISSUE		RATING
Series 2015A Fixed Rate Revenue Bonds		A1
Sale Amount	$410,470,000	
Expected Sale Date	01/14/15	
Rating Description	Revenue: Other	
Series 2015B Fixed Rate Revenue Bonds		A1
Sale Amount	$91,440,000	
Expected Sale Date	01/14/15	
Rating Description	Revenue: Other	

Moody's Outlook STA

NEW YORK, January 09, 2015 --Moody's Investors Service has assigned an A1 rating to Rush University Medical Center Obligated Group's, IL (Rush) $410.5 million of Series 2015A and $91.4 million of Series 2015B fixed rate revenue bonds. The bonds are to be issued by the Illinois Finance Authority. At this time we have upgraded Rush's existing rated debt to A1 from A2 affecting $551 million of rated bonds outstanding (see Rated Debt section). The outlook is revised to stable from positive at the higher rating level.

SUMMARY RATING RATIONALE

The upgrade to A1 reflects Rush's track record of double-digit operating cash flow margins in recent years, improved liquidity ratios, and good pro forma debt coverage ratios. The stable outlook at the higher rating level reflects our expectation that Rush will continue to generate favorable operating margins and maintain liquidity strength, as well as our understanding that Rush does not plan to issue material new debt in the near/immediate term. Offsetting these strengths, Rush operates in a very competitive market with multiple prominent academic medical centers (AMC), somewhat challenging payer environment, and challenges presented by the State of Illinois' budget.

STRENGTHS

*Rush is anchored by a sizeable AMC with a broad array of tertiary and quaternary services and ambulatory locations throughout the Chicago area.

*Rush has a track record of profitability with six consecutive years of double digit operating cash flow margins and particularly strong results in FY 2013 and FY 2014.

*Rush is one of the few health systems in the Chicago area whose inpatient volumes are growing. We expect that, given market realities and changing industry dynamics, Rush's rate of inpatient volume growth will slow in the coming years.

*Rush's pro forma adjusted debt ratios are favorable (6.4 times maximum annual debt service (MADS) coverage).

*Rush's liquidity ratios have improved in recent years, as cash on hand measured an adequate 210 days at FYE 2014. Furthermore, Rush holds significant restricted cash, which bolsters the balance sheet.

*Rush's near-term capital spending plans are manageable and we do not anticipate additional leverage added over the near term.

CHALLENGES

*Rush operates in a very competitive healthcare market in the Chicago area, with four competing AMCs and other sizeable health systems.

*Given its academic mission, Medicaid is above average (16.9% of gross revenues in FY 2014, compared to all ratings median of 13.0%), which is of particular concern in Illinois given the state's budget challenges.

*Longer-term, Rush may consider new debt options to support capital spending plans that are being considered over a multiyear period.

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: Proceeds from the issuance of the Series 2015A&B fixed rate bonds will be used to refund Series 2009A,B,C,&D and Series 2006B fixed rate bonds and pay the costs of issuance. As part of the plan of finance, Rush expects to release the debt service reserve funds (DSRF) currently in place to support the Series 2006B and Series 2009 bonds. The Series 2015 bonds are not expected to be supported by a DSRF.

LEGAL SECURITY: The bonds are expected to be secured by a gross revenue pledge of the Rush Obligated Group, which includes 677 staffed bed Rush University Medical Center (RUMC), 210 staffed bed Rush-Copley Hospital (Rush-Copley), and 128 staffed bed Rush-Oak Park Hospital (Rush-Oak Park). Violating historical debt service coverage rate covenant of 1.1 times requires hiring of consultant in most cases. Additional debt tests include: (1) minimum pro-forma debt service coverage of 1.10 times; or (2) minimum historical debt service coverage of 1.1 times.

INTEREST RATE DERIVATIVES: Rush has two fixed payer swaps, one with Morgan Stanley Capital Services, Inc. and one with Citibank, N.A. with a combined notional amount of $92.7 million. The swaps expire in November 2035. Under the agreements, Rush pays a fixed interest rate of 3.945% and receives 68% of LIBOR. Based on management data, the total net termination value of the swaps is a negative $19.2 million to Rush. Rush's collateral posting requirement on the Citi swap is a negative $12.5 million and negative $12.5 million on the Morgan Stanley swap; no collateral currently is posted.

MARKET POSITION/COMPETITIVE STRATEGY: INCREASING SHARE OF VERY COMPETITIVE MARKET

Rush operates in a very competitive market, as the Chicago area includes four additional AMCs and multiple sizeable health systems that are embarking on various strategies to gain inpatient and outpatient market share and prepare for new payment methodologies. Competing AMCs include Northwestern Memorial HealthCare (Aa2 stable), University of Chicago Medical Center (Aa3 negative), University of Illinois Health Services Facilities System (A2 Negative), and Loyola University Medical Center (which is owned by Trinity Health Credit Group, Aa2 negative). Other prominent health systems include market share leader Advocate Health Care Network (Aa2 stable), NorthShore University HealthSystem (Aa2 stable), Presence Health (Baa2 stable), and Alexian Brothers Health System (A2 stable and owned by Ascension Health Alliance, Aa2).

Since opening its new patient tower in January 2012, RUMC has gained market share, increasing to 3.2% inpatient share of an eight-county service area (based on management data), making RUMC the third largest hospital in the broad market.

While Rush-Copley and Rush-Oak Park also operate in competitive local service areas, both are the market share leader each respective service area. Rush-Copley's service area centers around Aurora, IL in growing Kendall County. Rush-Oak Park's service area centers on Oak Park, IL, just west of the City of Chicago, directly west of downtown Chicago.

OPERATING PERFORMANCE: STRONG RESULTS IN RECENT YEARS

Favorably, Rush has recorded double-digit operating cash flow margins for six consecutive fiscal years.

Performance was particularly good in FY 2013 and FY 2014 (June 30 year end), when Rush recorded adjusted operating cash flow margins of 12.2% and 12.1%, respectively (adjusted to reclassify the portion of investment income included in operating revenue to non-operating; FY 2013 adjusted to include $10.6 million of operating expenses for a favorable FICA settlement). The A1 median operating cash flow margin is 10.4%.

Factors contributing to continued strong results in FY 2014 include: inpatient admission growth (up 0.5%; admissions were up 1.9% including observation stays), which is particularly noteworthy in the current environment where volumes at most area hospitals are down; improved labor productivity, due in part to the new RUMC patient tower; a clinical resource management program to reduce variation in clinical practices and improve operational efficiency; and supply cost savings.

Looking forward, management expects Rush's adjusted operating cash flow margin to be sustained in the 11.5% to 12.5% range. While we believe that Rush may be challenged to match the particularly good results achieved in FY 2013 and FY 2014, the stable outlook at the higher rating level reflects our belief that Rush is positioned to maintain an operating cash flow margin at least in-line with A1 medians. In addition to improvement efforts noted above, future results are expected to benefit from pension expense and interest expense savings. Through three months FY 2015, Rush's operating margins were very strong, with an adjusted operating margin of nearly 13%.

BALANCE SHEET: IMPROVED LIQUIDITY, FAVORABLE DEBT RATIOS, AND MANAGEABLE CAPITAL SPENDING PLANS

Rush's liquidity position has improved considerably in recent years. Absolute unrestricted cash and investments increased to $1.02 billion (210 days cash on hand) at FYE 2014 from $850 million at FYE 2013 (189 days) (A1 median is 227 days). At FYE 2014, Rush's unrestricted cash and investments were allocated among approximately 68% cash and fixed income securities, 19% equities, and 13% other investments, and 100% of unrestricted cash and investments could be liquidated within one month. Rush's balance sheet is bolstered further by $515 million of restricted cash and investments as of FYE 2014.

Rush's adjusted pro forma debt coverage ratios are favorable at the A1 rating level. Based on FY 2014 results and including the Series 2015A&B refunding bonds, adjusted debt-to-cash flow measures 2.4 times (A1 median is 3.0 times), MADS coverage measures 6.4 times (A1 median is 5.1 times), debt-to-total operating revenues measures 33% (A1 median is 37%), cash-to-direct debt measures 157% (A1 median is 151%), and monthly liquidity-to-demand debt measures 1,062% (A1 median is 371%). Factoring direct debt, operating leases, and Rush's cash balance defined benefit pension plan, Rush's pro forma cash-to-comprehensive debt measures 120% (A1 median is 124%).

Rush's capital spending plans in the near/immediate term are manageable. Between FY 2015 and FY 2019, Rush has approximately $670 million of capital plans, translating to an average capital spending ratio of just under 1.1 times (the all ratings median is 1.2 times). Rush does not have new money debt plans over the period, which is a factor in the stable outlook at the A1 rating level. Rush is in the process of updating its long-term master facility plan, however; capital spending plans may increase in the longer-term, which may include new money debt in the out-years.

OUTLOOK

While we do not necessarily expect Rush to match the level of margins recorded in FY 2013 and FY 2014, the stable outlook at the A1 rating level reflects our expectation that Rush will continue to generate favorable operating margins and maintain liquidity strength. Also, the stable outlook incorporates our expectation that Rush does not plan to issue material new debt in the near/immediate term.

WHAT COULD CHANGE THE RATING UP

Further upgrade of the rating may be considered if Rush demonstrates continued notable organic growth while sustaining solidly double-digit operating cash flow margins and improved debt coverage and liquidity ratios.

WHAT COULD CHANGE THE RATING DOWN

A downgrade may be considered if Rush's operating margins deteriorate materially, particularly for a sustained period. Also, a material increase in debt without commensurate increase in cash flow and liquidity could lead to a downgrade.

KEY INDICATORS

Assumptions & Adjustments:

-Based on Rush University Medical Center Obligated Group consolidated financial statements

-First number reflects audited FY 2013 for the year ended June 30, 2013

-Second number reflects pro forma on audited FY 2014 for the year ended June 30, 2014

-Pro forma assumes issuance of Series 2015A&B fixed rate revenue bonds to refund Series 2006B fixed rate bonds and Series 2009A,B,C,&D fixed rate bonds

-FY 2013 adjusted to increase operating expenses by $10.6 million to account for Rush's favorable FICA settlement

-Investment returns reclassified as non-operating and normalized at 6% unless otherwise noted

-Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable

-Monthly liquidity to demand debt ratio is not included if demand debt is de minimis

*Inpatient admissions: 49,539; 49,804

*Observation stays: 12,808; 13,716

*Medicare % of gross revenues: 34.6%; 34.6%

*Medicaid % of gross revenues: 16.9%; 16.9%

*Total operating revenues ($): $1.82 billion; $1.96 billion

*Revenue growth rate (%) (3 yr CAGR): 4.0%; 5.6%

*Operating margin (%): 2.6%; 4.4%

*Operating cash flow margin (%): 12.2%; 12.1%

*Debt to cash flow (x): 2.77 times; 2.38 times

*Days cash on hand: 189 days; 211 days

*Maximum annual debt service (MADS) ($): $56.9 million; $47.4 million

*MADS coverage with reported investment income (x): 4.51 times; 5.53 times

*Moody's-adjusted MADS Coverage with normalized investment income (x): 4.95 times; 6.38 times

*Direct debt ($): $663 million; $647 million

*Cash to direct debt (%): 128%; 157%

*Comprehensive debt: $884 million; $849 million

*Cash to comprehensive debt (%): 96%; 120%

RATED DEBT

Issued through Illinois Finance Authority (debt outstanding as of June 30, 2014):

-Series 2009C&D Fixed Rate Hospital Revenue Bonds ($200.0 million outstanding; expected to be refunded by Series 2015A&B fixed rate bonds), rated A1

-Series 2009A&B Fixed Rate Hospital Revenue Bonds ($208.6 million outstanding; expected to be refunded by Series 2015A&B fixed rate bonds), rated A1

-Series 2008A VRDO Hospital Revenue Bonds ($50.0 million outstanding), supported by a direct-pay LOC from Northern Trust Company and rated Aa2/VMIG1 reflecting Moody's approach to rating jointly supported transactions) (the LOC expires in February 2017), A1 underlying rating

-Series 2006B Fixed Rate Hospital Revenue Bonds ($92.8 million outstanding; expected to be refunded by Series 2015A&B fixed rate bonds), insured by National Public Finance Guarantee Corp (MBIA), rated A1

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Letter of Intent

Per statutory amendment neither a Letter of Intent or transaction document is required. See attached for information regarding the creation of the Rush System For Health, and the terms of the membership substitution at issue.

Terms of Change of Membership

Rush System For Health will replace Rush/Copley Health System as the sole member of Rush-Copley Medical Center, Inc. ("RCMC") via a membership substitution and amendment to RCMC's Articles of Incorporation; RCMC is the sole member of Copley Memorial Hospital, Inc. ("CMH").

The Rush System For Health will be comprised of members of the Rush University Medical Center ("RUMC") Board of Trustees and the RCMC Board of Directors. The CEO of RUMC will be the CEO of the Rush System For Health.

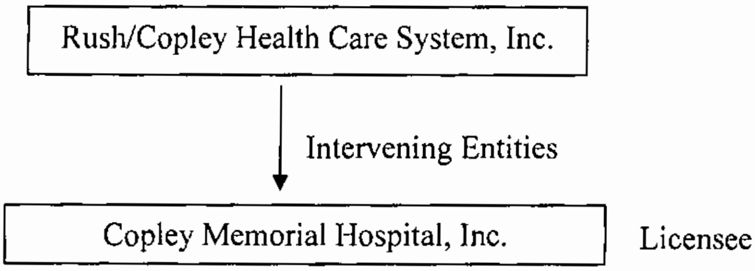
While the day to day operations of RCMC will not change, and it will continue as the sole member of the licensed hospital entity, the Rush System For Health will hold certain reserved powers over RCMC, including

- Set the Rush System strategic plan, and approve the strategic plans for RCMC;
- Set the Rush System budget, and approve the budgets and the financial and capital priorities for RCMC;
- Approve the appointment of the RCMC CEO;
- Approve the appointment of members to the RCMC board;
- Approve RCMC's indebtedness and capital expenditures above-designated thresholds;
- Select the auditor for, and approve all audits of, RCMC;
- Approve any merger, corporate consolidation or similar transaction by RCMC;
- Approve any major acquisitions, joint ventures or lease transactions by RCMC above a designated dollar threshold set by Rush System from time to time; and
- Approve amendments to RCMC's organizational documents.

This will result in Rush System For Health having final control of RCMC.

The change of membership does not involve the exchange of any consideration or transfer of RCMC or CMH assets.

Pre Transaction
COE
Organization Chart



Post Transaction
Organization Chart