



UST Executive Conference on the Future of Health Care

Current Conditions in the Capital Markets for Health Care Borrowers

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November 7, 2008



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Our Mission

- Provide an overview of the current state of health care capital markets.
- Describe the changes we see on the landscape.
- Offer insight on the challenges and opportunities in health care finance.
- Prevent a mad rush to the bar before we are finished with our remarks!

Over the past decade, Health Systems have enjoyed:

- Low absolute interest rates
- Open access to capital
- Tight credit spreads
- Cost effective financing tools

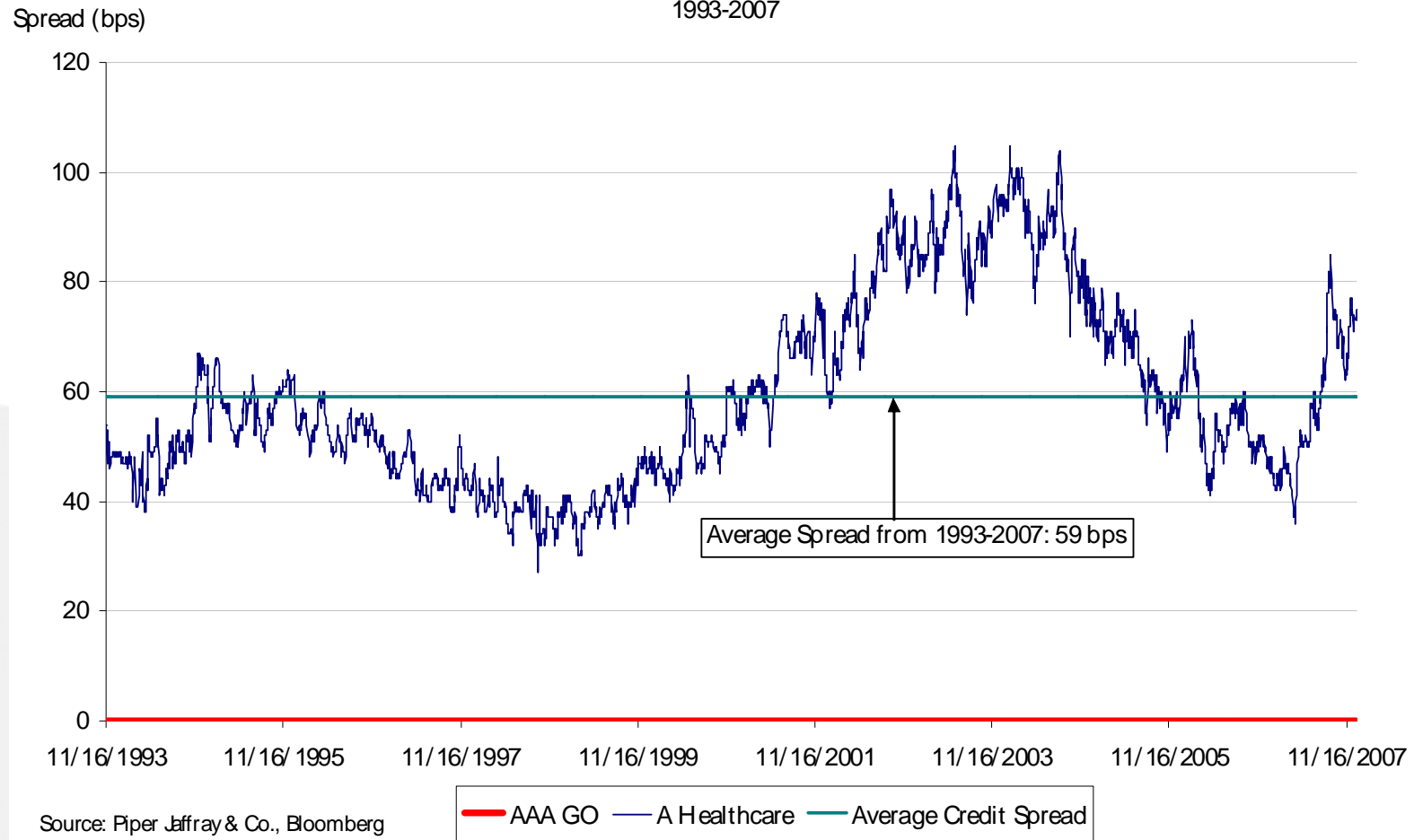
Interest Rate History

The Bond Buyer 30 Revenue Bond Index
25 Rated Issues (average rating equivalent to Moody's A1 and S&P A+)
30 year term - AMT and Non-AMT Issues
1979-2007



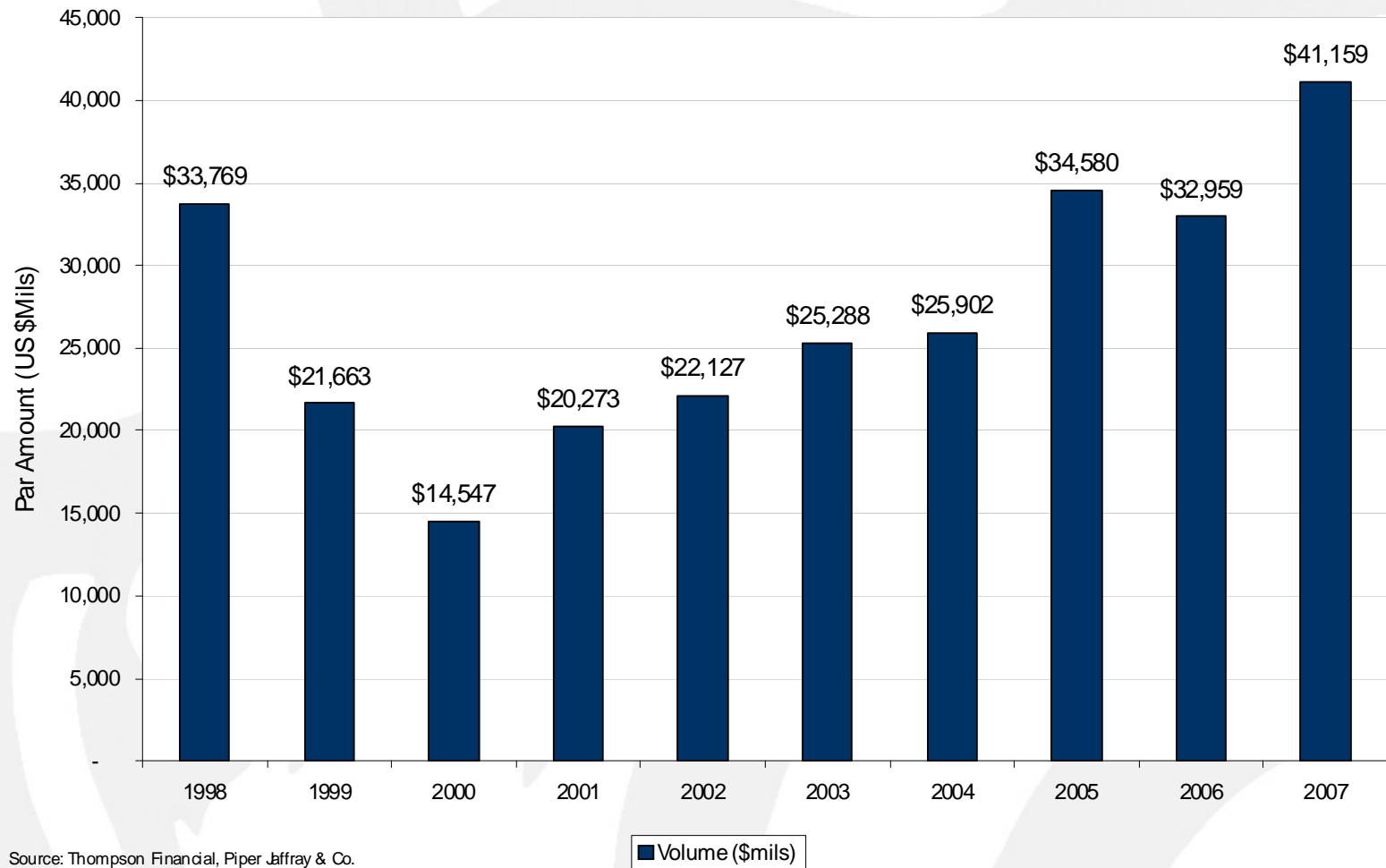
Credit Spread History

Bloomberg Fair Market Value Curve
(AAA General Obligation Bonds versus A Rated Healthcare Bonds)
Spread Analysis (10-Year Maturity)
1993-2007

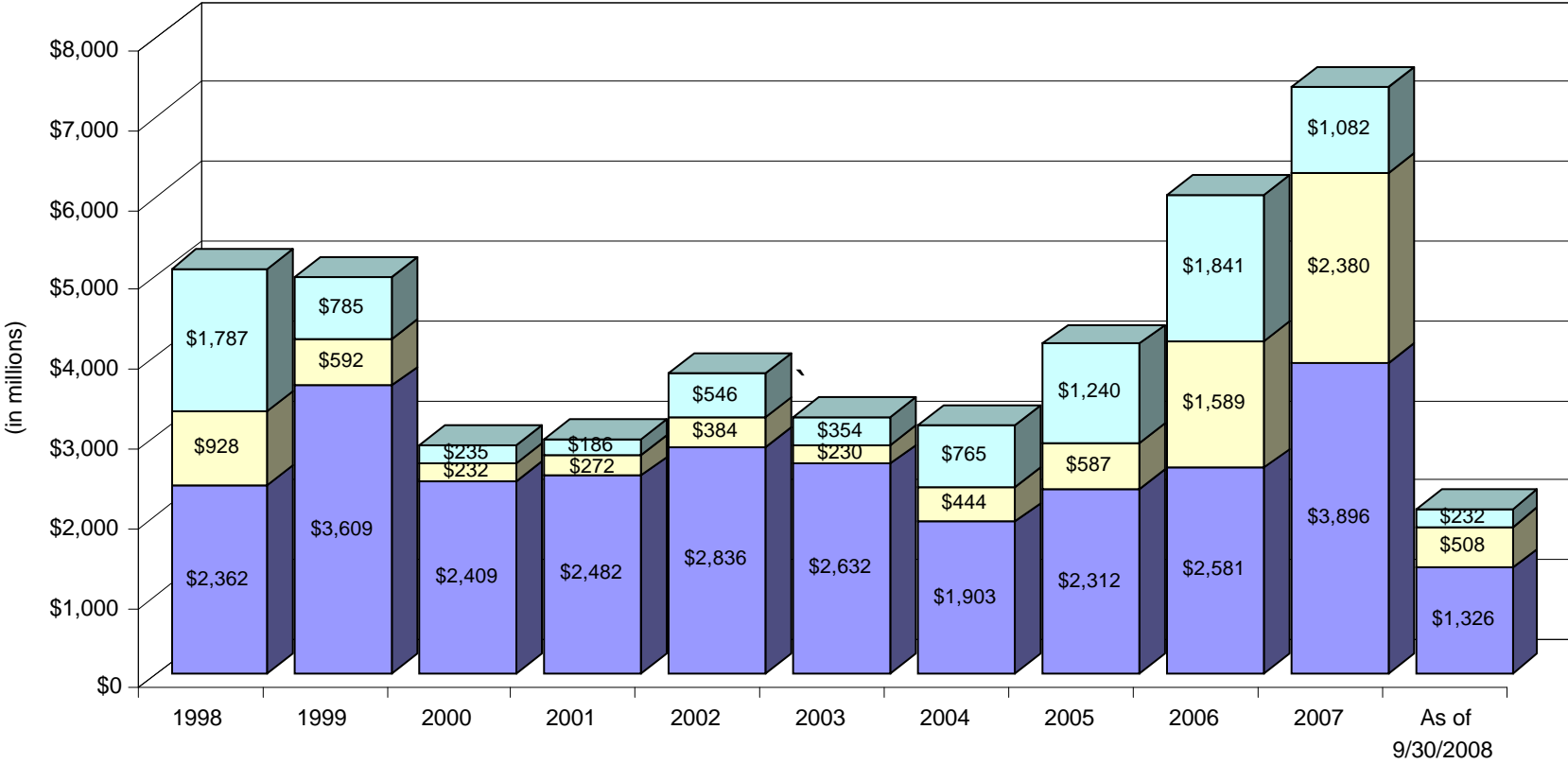


History of Healthcare Debt Issuance

Healthcare New Issue Volume
1998 - 2007



Not-For-Profit Senior Living Financings Volume by New Money and Refunding



Source: Thomson Financial

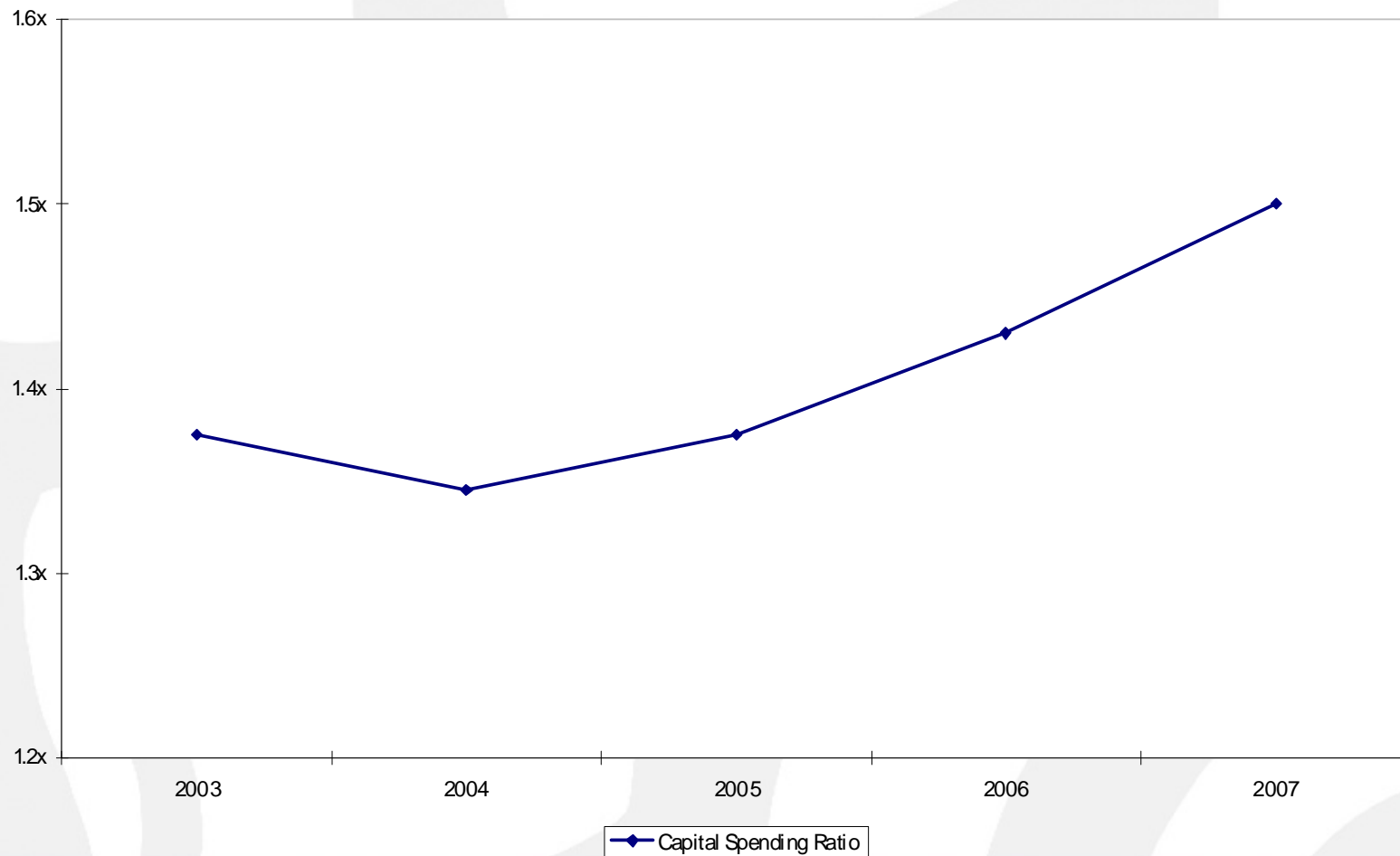
■ New Money
 ■ Refunding & New Money
 ■ Refunding

The Good News...



Health Systems made needed investments in plant and technology

Capital Spending Ratio



Cash was retained and invested in the market during a favorable period

Dow Jones Industrial Average
1979 - 2007



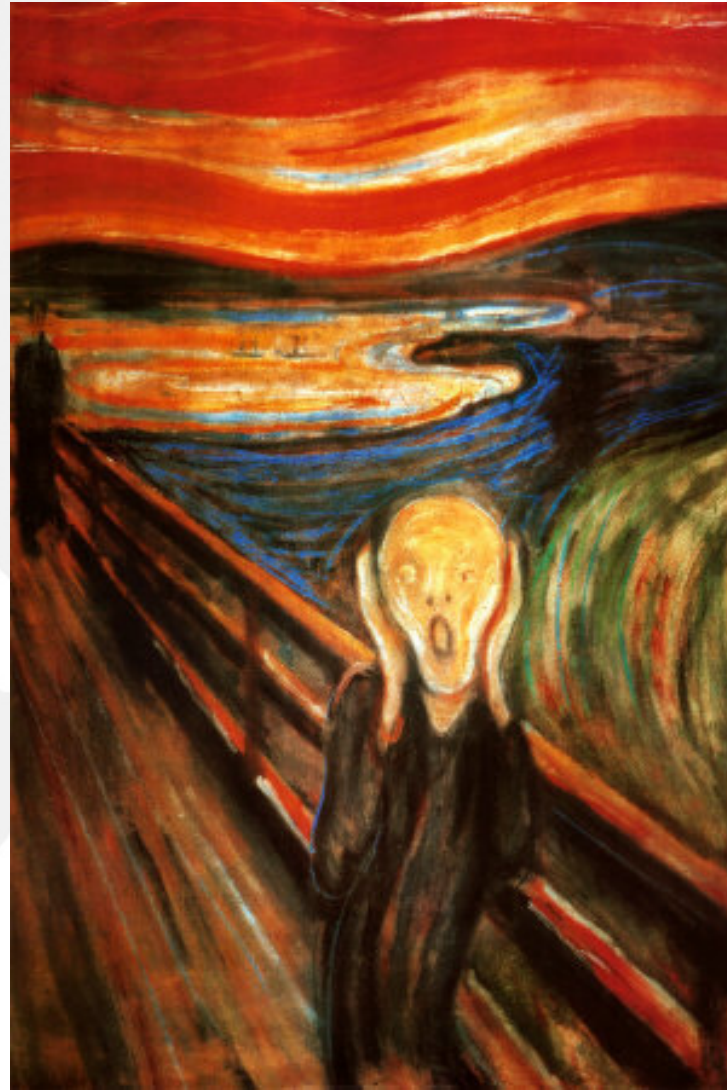
Source: Piper Jaffray & Co., Bloomberg

— Dow Jones Industrial Average

Borrowers Achieved Low Cost of Funding in Part Due to Financing Innovation

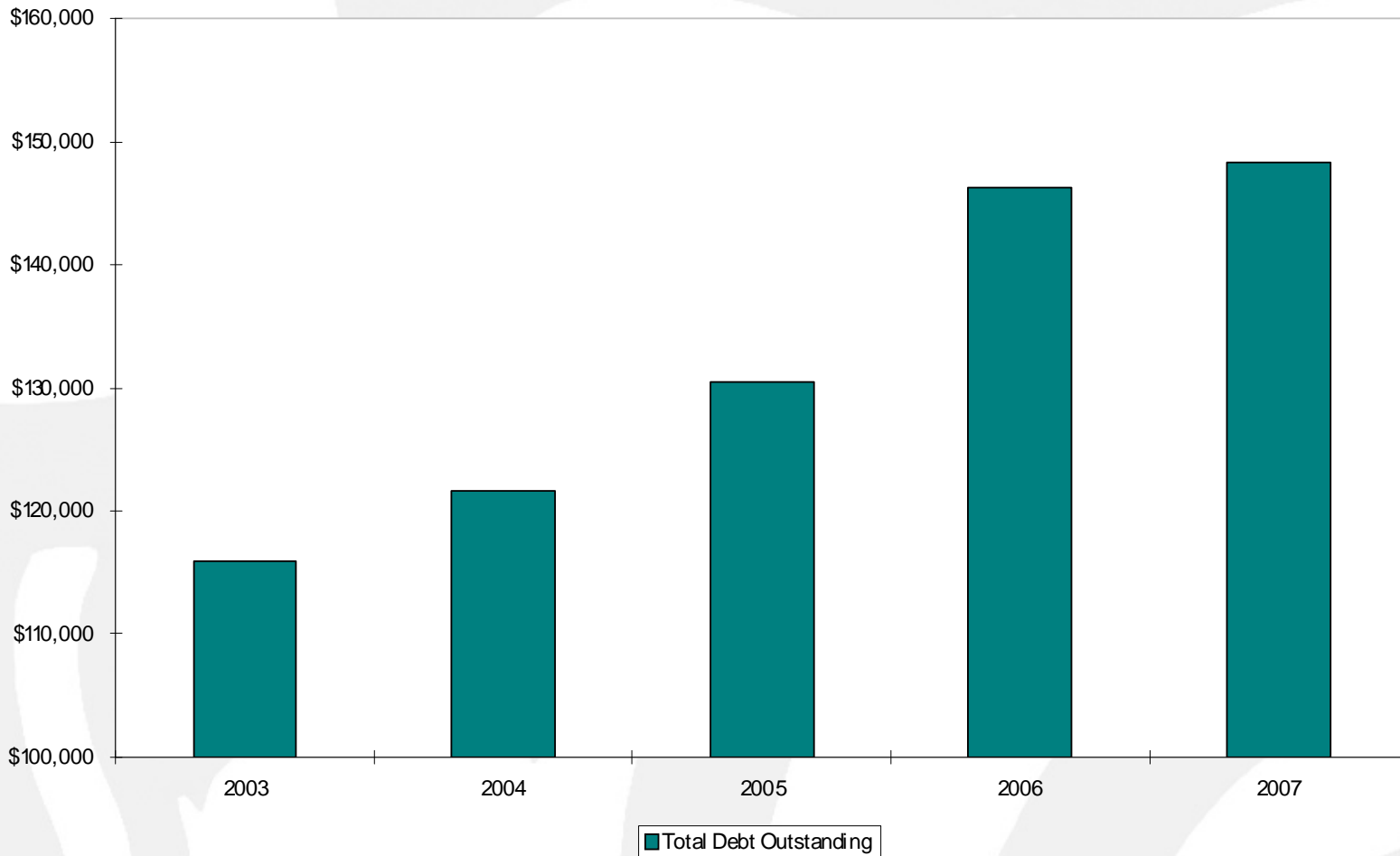
- In addition to favorable interest rate conditions, new products and structures became available to healthcare borrowers:
 - Auction rate debt
 - Variable rate debt
 - Interest rate swaps, caps and hedges
 - Swaptions
 - Bank Loan Participations
 - Private Placements
 - HUD 242
 - Off Balance Sheet

The Bad News...



Borrower Leverage Increased

Total Debt Outstanding



Source: Moody's Investors Service

Borrowers Extended Out on the Risk Continuum

- Heavy reliance on bond insurers.
- Heavy reliance on auction rate debt.
- Greater utilization of derivative structures which provided very low funding costs, but did incrementally raise risk profile.

Borrowers Got Spoiled by Easy Credit

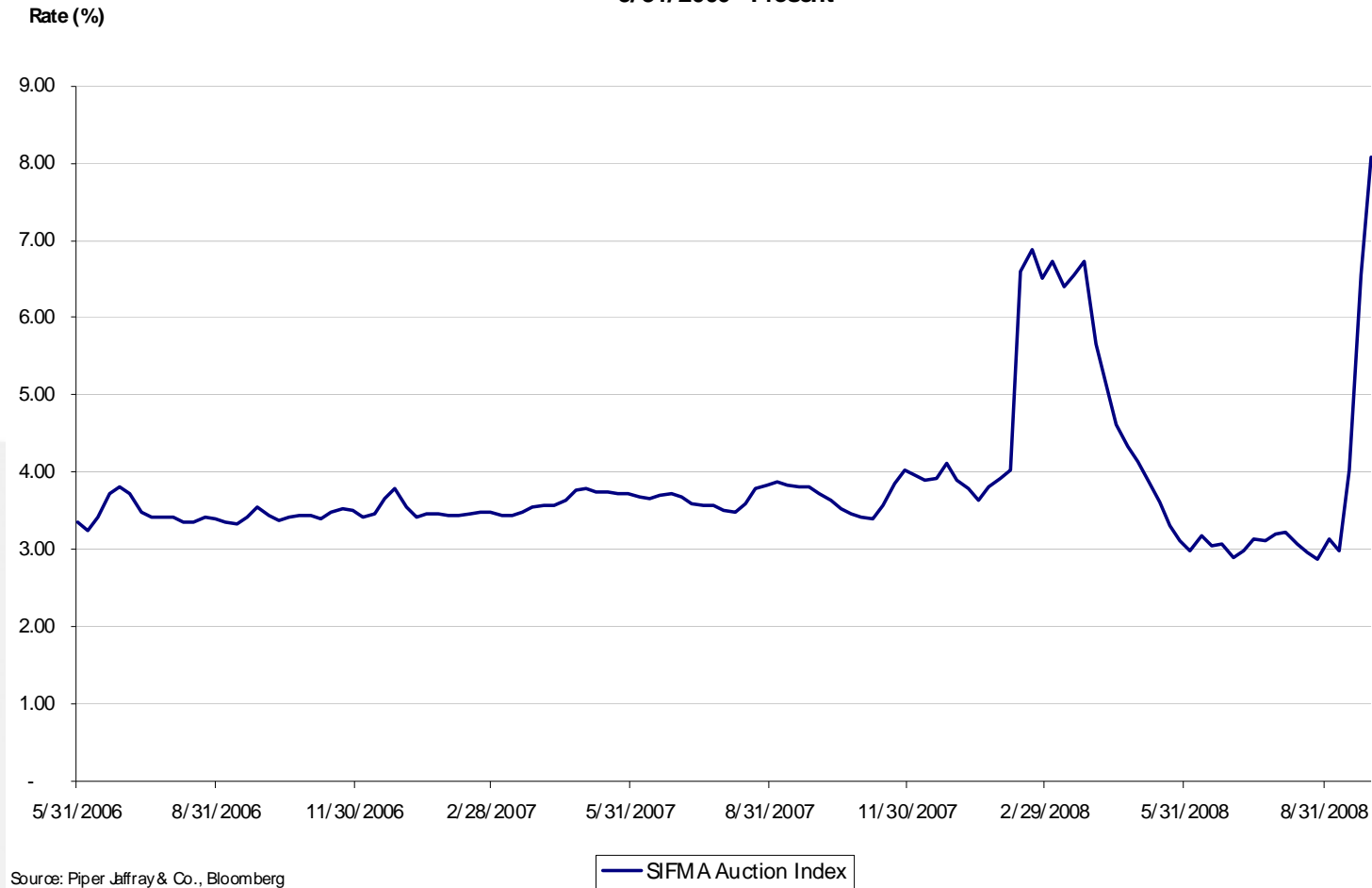
- Multiple credit enhancement opportunities.
- Limited disclosure.
- Less rigorous analysis from rating agencies.
- Very little scrutiny by investors.

The industry's leading bond insurers, MBIA, Ambac and FGIC either die or suffer mortal wounds



The sector's most popular financing tool, Auction Rate Securities completely imploded

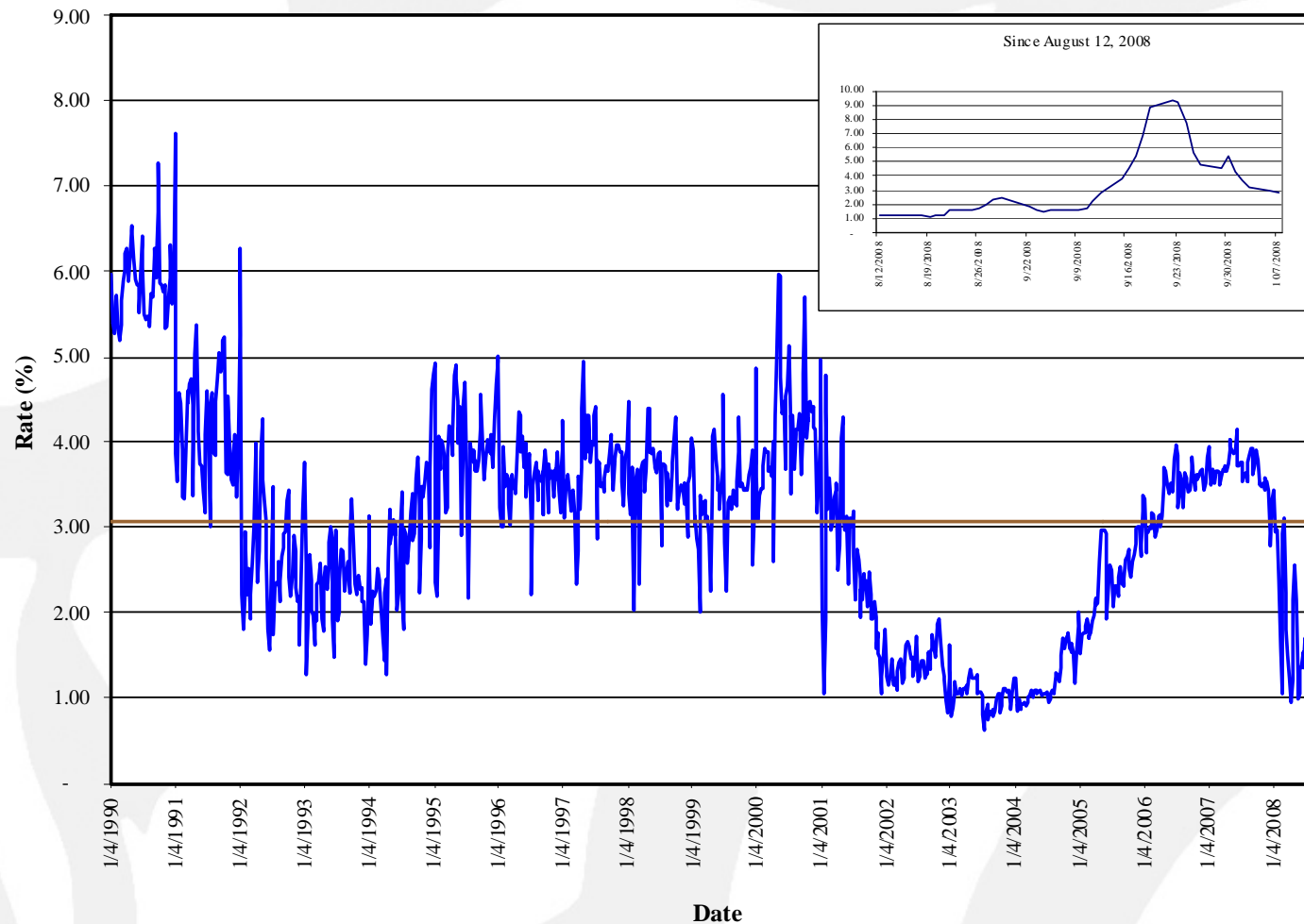
SIFMA Auction Rate Index
5/31/2006 - Present



The Variable Rate Demand Bond (“VRDB”) market, which was a haven for Auction Rate refugees became impaired

Municipal Market Data - Variable Demand Note Network

*General Market, A or better, Non AMT, Street Rates
for Daily Issues since 1990*



Fixed rate market ground to a standstill

Deal	Par Amount	Status
South Central Pennsylvania (Wellspan Health)	\$280,000,000	Day to day
Idaho Health Facilities Authority (St. Luke's Regional Medical Center)	\$275,000,000	Day to day
Indiana Finance Authority (Parkview Health System)	\$270,000,000	Day to day
Colorado Health Facilities Authority Retirement Community Revenue Bonds	\$140,245,000	Day to day
Wisconsin Health and Educational Facilities (Thedacare, Inc.)	\$127,570,000	Day to day
Illinois Finance Authority (Southern Healthcare Enterprises, Inc.)	\$97,775,000	Day to day
Colorado Health Facility Authority (Northern Medical Center)	\$91,185,000	Day to day
Pennsylvania Economic Development Financing Authority, (Albert Einstein Healthcare)	\$88,540,000	Day to day
The Hospital Facility Authority of Deschutes County Oregon (Cascade Healthcare)	\$84,975,000	Day to day
City of Minneapolis (Fairview Health Services)	\$491,290,000	Day to day

What does it mean for Healthcare Borrowers?

What, Me Worry?



Healthcare Borrowers Will Still Get Funded



Different Rules

- Security features
- Covenants
- Continuing disclosure

Different Expectations

- Rating agency scrutiny will increase.
- Promises will be revisited.
- Management and Governance will be examined more closely.
- Financials will be carefully reviewed.

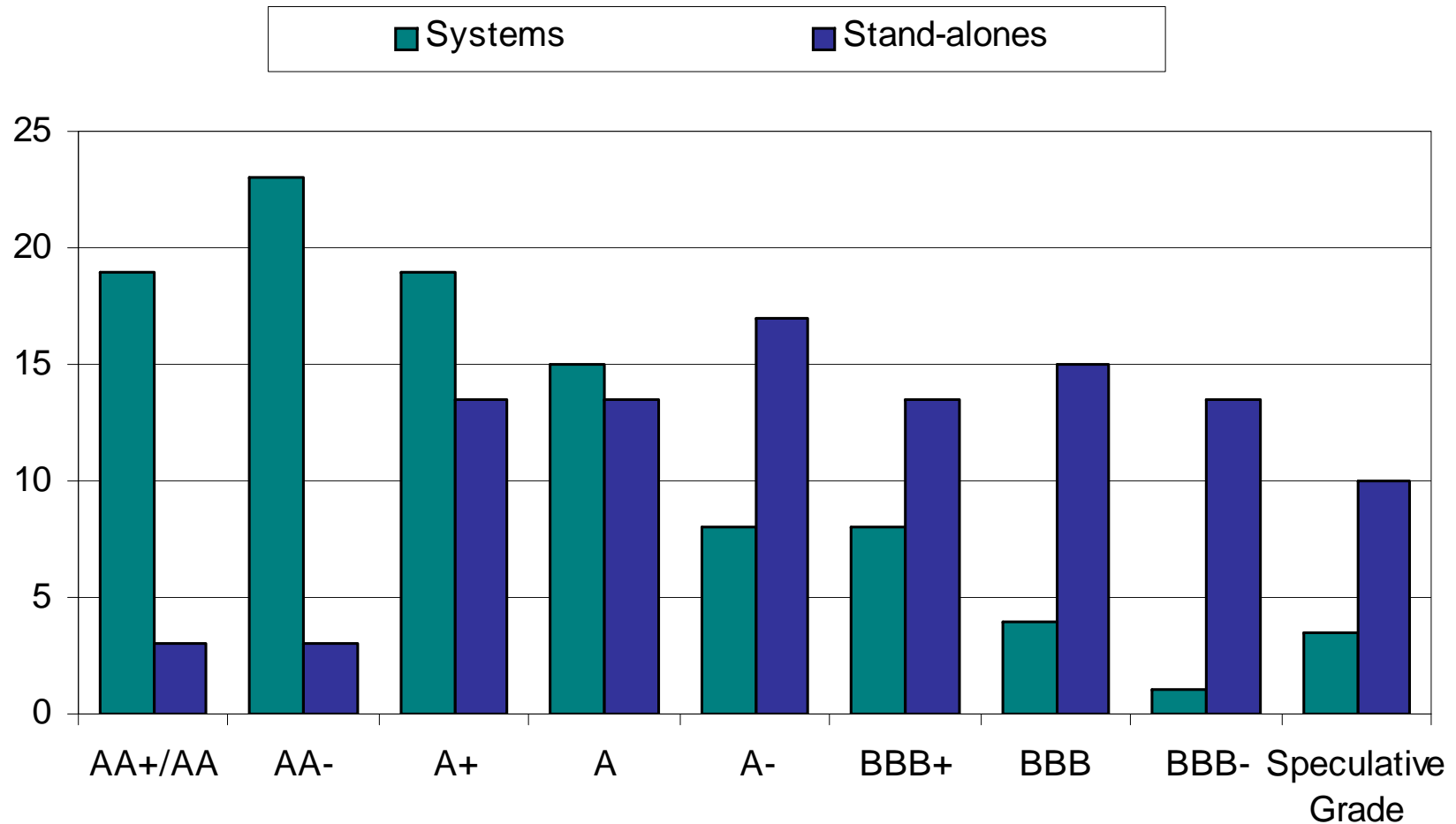
Factors Effecting the Tax Exempt Market

- De-leveraging of the investor market:
 - Tender Option Bond Programs (TOB's) are selling \$300 billion of outstanding bonds flooding the secondary market
 - Tax Exempt Mutual Funds are experiencing net redemptions which results in outstanding bonds being sold into the market
 - Hedge funds that invested in municipal bonds are unwinding their positions due to the short term credit crisis
 - Insurers (i.e. AIG) are selling entire tax exempt bond portfolios due to takeovers and bankruptcies

Expected Disparity Between Haves and Have Nots

- The view from Standard & Poor's:
 - “Credit quality in the U.S. not-for-profit health care sector continues to shift downward, even as market and business forces separate the strong participants from the weak ones.”
 - “While a number of the largest and highest-rate credits continue to perform well, Standard & Poor's believes the sector's overall performance is on a negative trend.”
 - “Most downgrades will likely be concentrated among lower-rated credits, although we believe strong credits are not fully immune to the down draft.”
 - “We generally expect rating stability for the “AA” and “A” categories, given that many top providers, including the large health systems, are thriving.”

Not-For-Profit Health Care Rating Distribution



Ratings are as of July 1, 2008

Source: Standard & Poor's

Differences in Funding Outcomes

- Credit spreads have increased.
- Weaker credits will have greater funding difficulties.
- Consistent performers will be rewarded with greater flexibility and lower costs.

Imperatives for Healthcare Borrowers

- A strong commitment to further improvement in cashflow margins and balance sheet growth.
- A dedication to meeting projections.
- A true ROI-based capital decision-making model.
- Demonstrated results in system expansion and integration efforts.