


ACCESS TO CAPITAL


2014 in Review and a Look into 2015

Thursday, December 11, 2014







1

©2013 Foley & Lardner LLP • Attorney Advertising • Prior results do not guarantee a similar outcome • Models used are not clients but may be representative of clients • 321 N. Clark Street, Suite 2800, Chicago, IL 60654 • 312.832.4500 12 8794



Presenters

 <p>David Y. Bannard Partner Foley & Lardner LLP dbannard@foley.com</p>	 <p>Christine Doyle Managing Director The PFM Group DOYLEC@pfm.com</p>	 <p>Jim Moloney Managing Director Cain Brothers JMoloney@cainbrothers.com</p>	 <p>Roger D. Strode Partner Foley & Lardner LLP rstrode@foley.com</p>
--	---	---	---

2

©2013 Foley & Lardner LLP 12 8794



The Deal Environment in 2014

Jim Moloney
Managing Director
Cain Brothers

3

©2013 Foley & Lardner LLP

12.0594



Major Themes

- Preparation for the transition from fee for service to value-based reimbursement
- Population Health
- Consumerism

4

©2013 Foley & Lardner LLP

12.0594



Community Health Systems

- **Major Challenges: Transition to value based reimbursement and building to systems to manage risk**
 - Consolidation to achieve scale economies
 - Creation of systems with local market scale and geographical contiguity
 - Heavy investment in IT / EMR
 - Integration / alignment with physicians
 - Partner with or create payer vehicles
 - **Examples:** Scottsdale / John C. Lincoln merger; UnityPoint merger with Meriter; Sutter Health and Providence creating payer entities.

5

©2013 Foley & Lardner LLP

12.0594



Payers

- **Major Challenges: Ability to manage care and to managed health care information**
 - Continuity of coverage across plan types (commercial, MA, exchange, Medicaid)
 - Integration with providers (physicians and systems)
 - Creation of narrow networks
 - **Examples:** Blue Shield of California / Care1st; Anthem's Vivity Network; WellPoint / CareMore.

6

©2013 Foley & Lardner LLP

12.0594



Physicians

- **Major Challenges: Recruiting new physicians and funding the “system-ness” needed for population health**
 - Join health systems models (ownership, foundation)
 - Merge into larger single specialty / multispecialty groups
 - Better utilize physician extenders
 - **Examples:** SSM / Dean Clinic; Providence Health / Pacific Medical Center; City of Hope National Medical Center / City of Hope Medical Group.



Post-Acute

- **Major Challenge: Forging linkages with acute care systems**
 - Align with health systems to access bundled payments
 - Find the optimal cost / quality delivery model
 - Form more accountable networks with concentration in local markets
 - **Examples:** Kindred Healthcare / Centerre Acquisition.



Academic Medicine

- **Major Challenges: High cost and rigid / bureaucratic model**
 - Integrate with or align with large health systems to preserve access to patients
 - Seek to monetize the creation of physicians
 - Develop multiple physician tracks (academic, clinical)
 - Use the “brand” value of academic model to forge ACOs and other contractual affiliations
 - **Examples:** KentuckyOne / University of Louisville; Northwestern Memorial / Northwestern Medical Faculty Foundation; Banner Health / University of Arizona.

9

©2013 Foley & Lardner LLP

12 8594



Financing Structures

Christine Doyle

Managing Director
The PFM Group

10

©2013 Foley & Lardner LLP

12 8594




2014 Market Themes – Seller’s Market

- **“Seller’s Market”** – Traditional public market and direct lending market strong
 - Supply/Demand factors help to drive rates and credit spreads low
- **Risk reduction** in capital structure – in light of myriad healthcare industry risks
- **Tension** – securing **low cost** debt vs. garnering financial **flexibility** to support current or future strategic objectives
- Committed Capital – lock in low long term rates
- Taxable Debt – attractive given absence of use and term restrictions and low rates
- Extend Maturities – some borrowing to 40 – 100 years given low rates
- Refundings – rates low enough to warrant some advance refundings



2014 Market Themes – Light Terms

- **Loosened Terms and Conditions, given the lack of supply**
 - Easier and fewer covenants
 - Absence of debt service reserve funds
 - Narrow or no mortgages
 - Investors are chagrined but the need for paper dominates
- **Organizational mergers and change often lead to new master trust indentures**
 - New base new MTIs with very light security and covenants
 - Additional requirements are in supplemental, as needed




2014 Floating Rate Market – Diversify and De-risk

- **Greater variety** of variable rate products available than in the past
- Borrowers with variable rate portfolio **diversify**
 - Reach broader range of investors
 - Spread risks related to variable rate debt
- Risk reduction with newer products
 - Reduce or eliminate put risk

- Floating Rate Notes
 - ❖ Public
 - ❖ Private
- Window VRDBs
- Variable rate obligations
- Put Bonds

The PFM Group
Foley & Lardner
The PFM Group

13



Private Lending Market – Robust and Diverse Demand

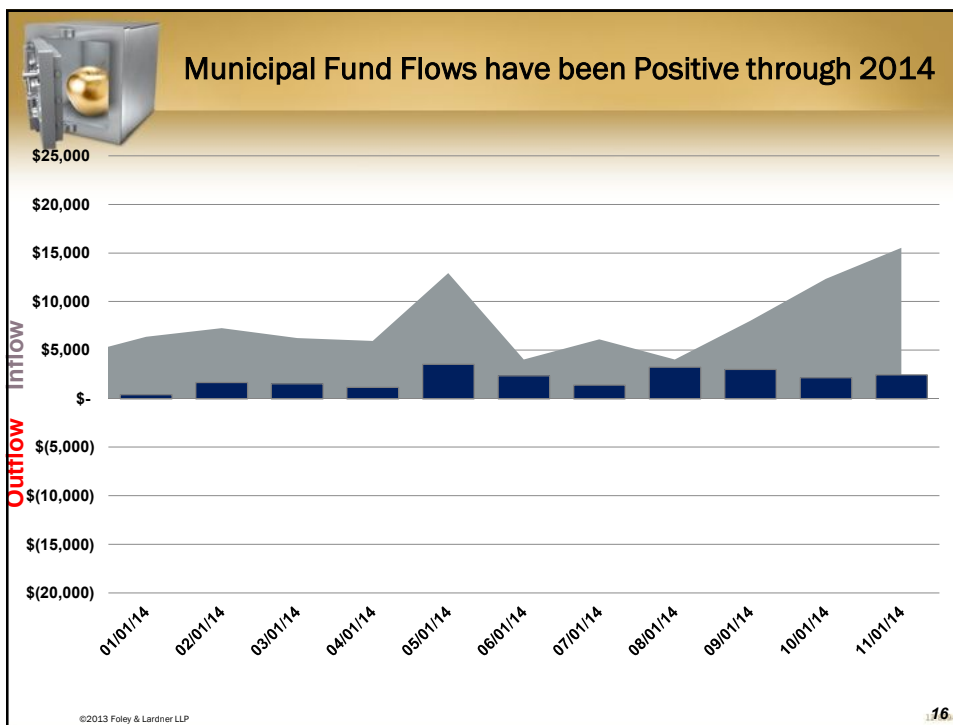
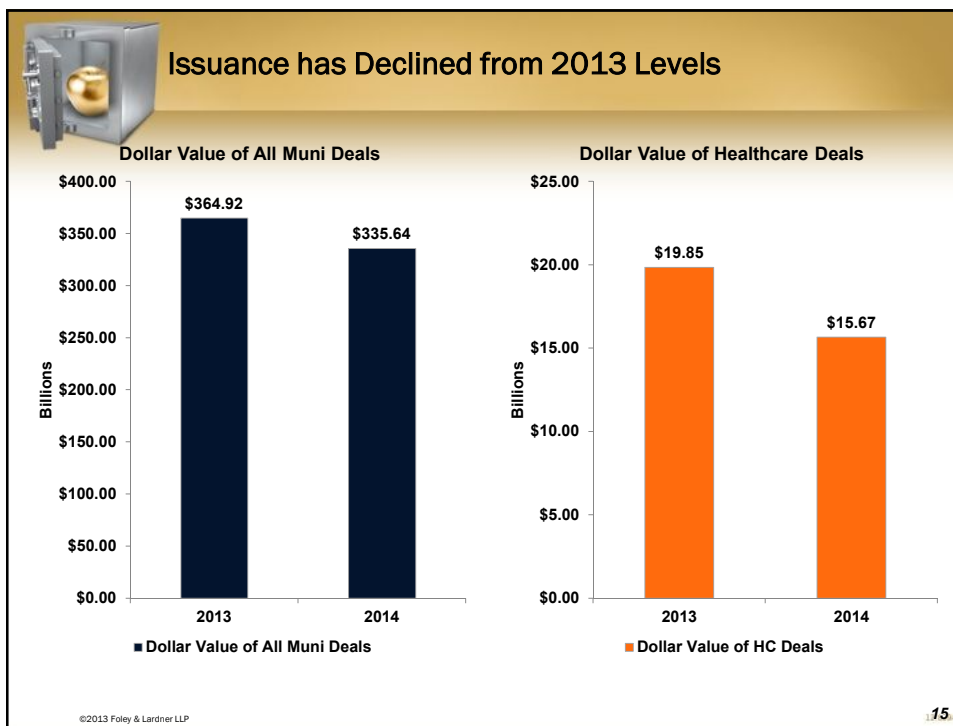
- Active **alternative** to public market
- Lender interest very strong
- Banks preferring direct lending over LOC or SBPA
- **Lender base diverse**
 - National banks & insurance co.
 - Regional and local lenders
- Often replace publicly traded VRDB (swap; target debt mix)
- Disclosure and Rating Agencies

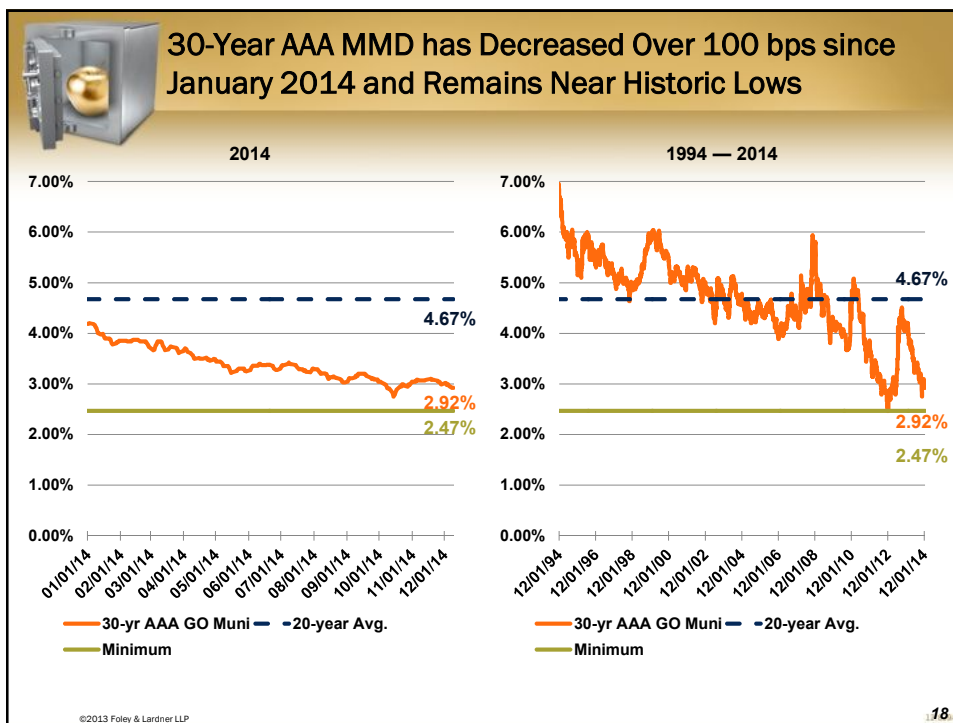
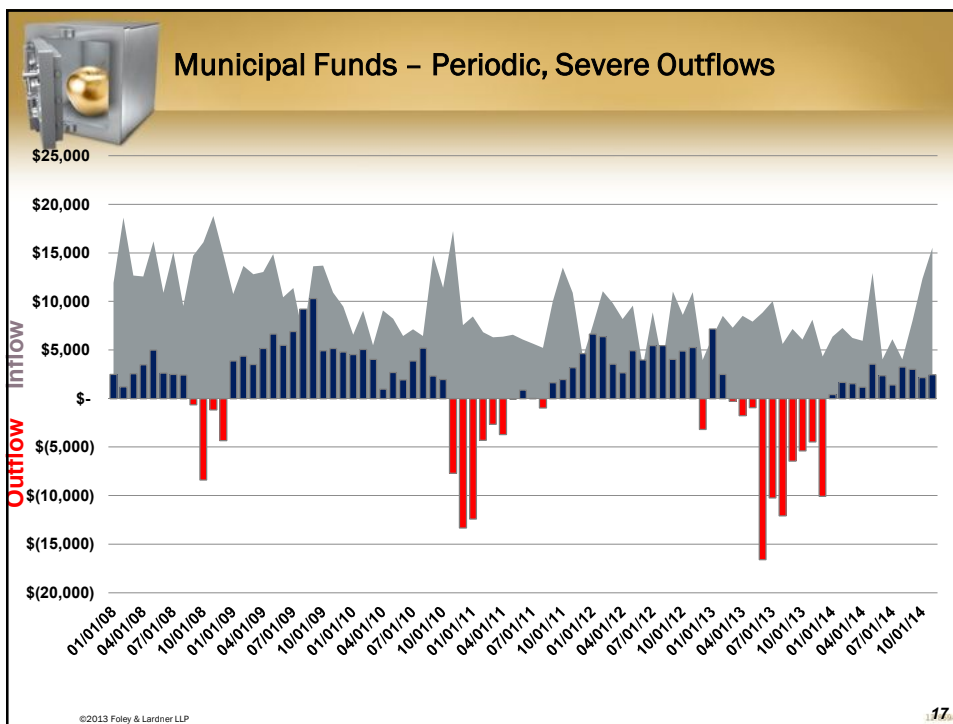
Negotiation Critical – Key Points

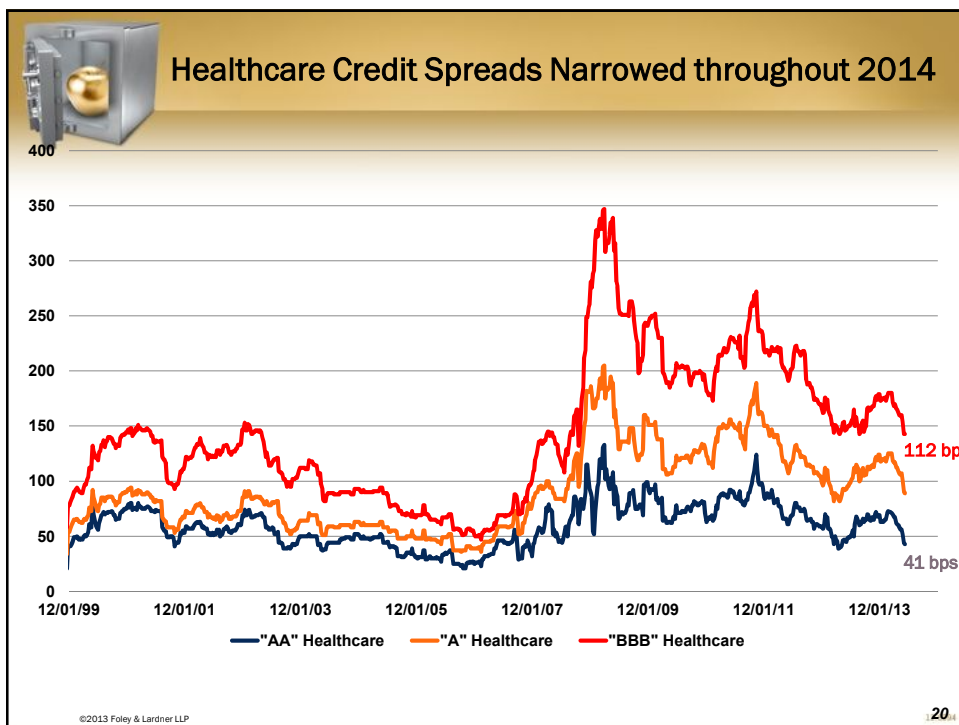
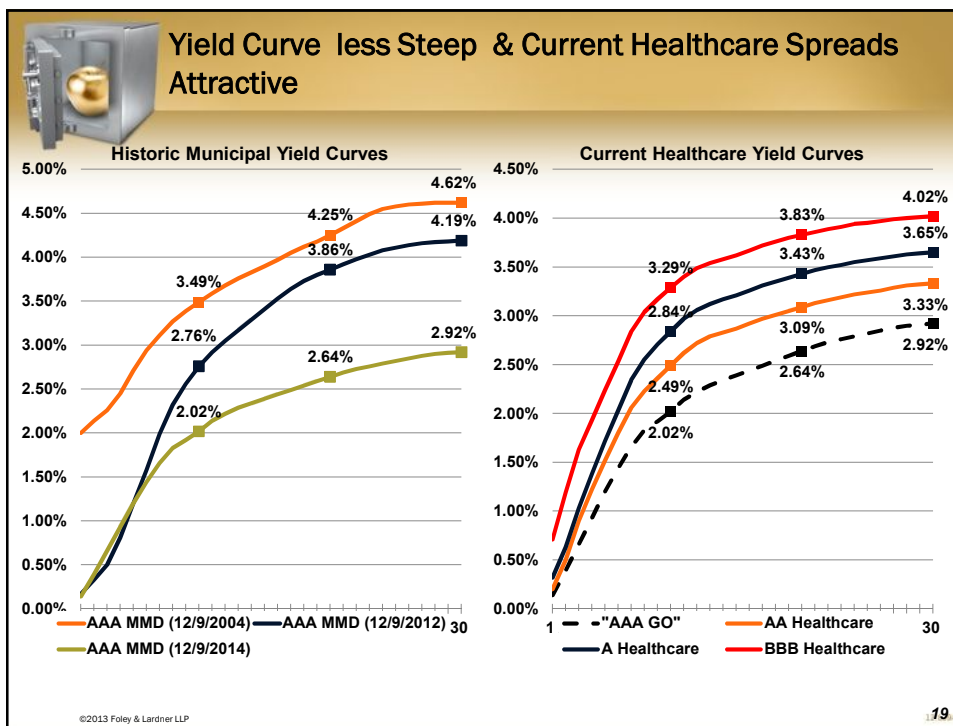
- Term
- Rate formula – seek transparency
- Renewal provisions and risk
- Security and covenants – match
- Gross-up provisions - limit
- Acceleration risk
- Add'l business requirements – value

The PFM Group
Foley & Lardner
The PFM Group

14









Service Contract Safe Harbors Expanded

- Notice 2014-67 significantly expands safe harbors for service contracts, amending Rev. Proc. 97-13
- New safe harbor for 5 year term; not required to be terminable
- Variety of forms of compensation permitted
- Permissible productivity awards expanded
- Helpful, but limited, guidance regarding ACOs

21

©2013 Foley & Lardner LLP

12.9594



Practical Consequences of Notice 2014-67

- Will allow “carve-outs” for private use in tax exempt financings to be reduced or eliminated
- Existing contracts may be amended consistent with new guidance
- Will reduce amount of private use reported on Form 990, schedule K
- Good idea to update compliance procedures
- Will affect VCAPs involving service contracts

22

©2013 Foley & Lardner LLP

12.9594



SEC Scrutiny of Municipal Market

- MDCDC Initiative closed Dec. 1 for borrowers
- Series of SEC actions provide guidance on disclosure issues
- Consider adopting disclosure policies and procedures
- Continued focus on pension disclosure
- SEC bringing actions against borrower/issuer officials

23

©2013 Foley & Lardner LLP

12 8594



Municipal Advisor Rule

- Effective July 1, 2014, all Municipal Advisors must register with SEC and MSRB
- Scope of permissible “advice” by other members of the municipal market limited
- Use of “IRMA” exception to maintain open communication with market participants
- Could cause underwriters or swap providers to become ineligible, absent affirmative steps

24

©2013 Foley & Lardner LLP

12 8594



Q&A Session