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Capital Markets Update – *What's Happening in the Capital Markets and What Does it Mean for You?*

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Discussion Topics

- **Overview of Economic Conditions and Outlook**
- **Municipal Market Overview**
  - Where are we today?
  - Interest rate levels
  - Current hot topic: threats to tax-exemption
- **Healthcare Sector Analysis**
  - What does this all mean for me?
  - Access to capital
  - Financing takeaways

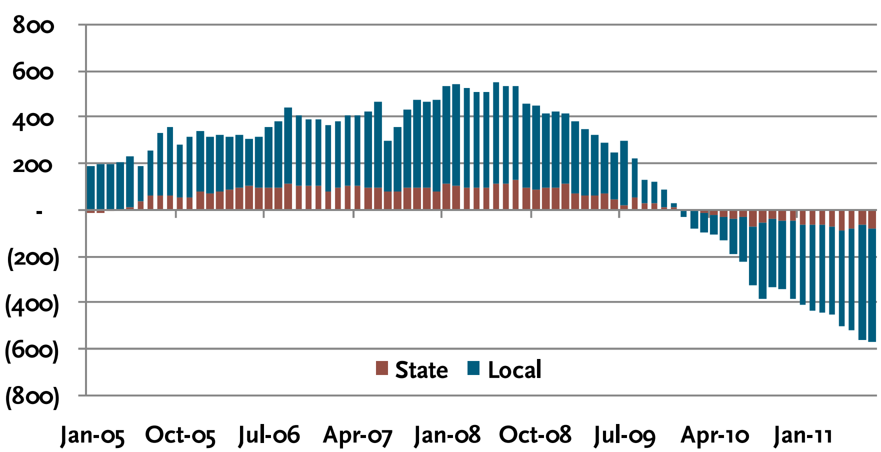
Economic Update: Running on Empty

- The U.S. economic recovery hit a wall in 2011
  - Recent shift in market consensus from temporary to longer term slowdown
- In August, fears of a "double dip" recession became elevated
  - Continued weak economic data, debt ceiling debacle and S&P downgrade of the U.S.
- Consumer confidence has waned; negatively impacted by political dysfunction
- Housing and the job market continue to drag on the economy
- Political "Tug-of-War" – short-term efforts to improve economy/employment vs. long-term deficit reduction/austerity measures
- Last week, the Fed unveiled "Operation Twist" in an effort to further reduce long-term rates
- The Eurozone economic and sovereign debt crisis is the wild card

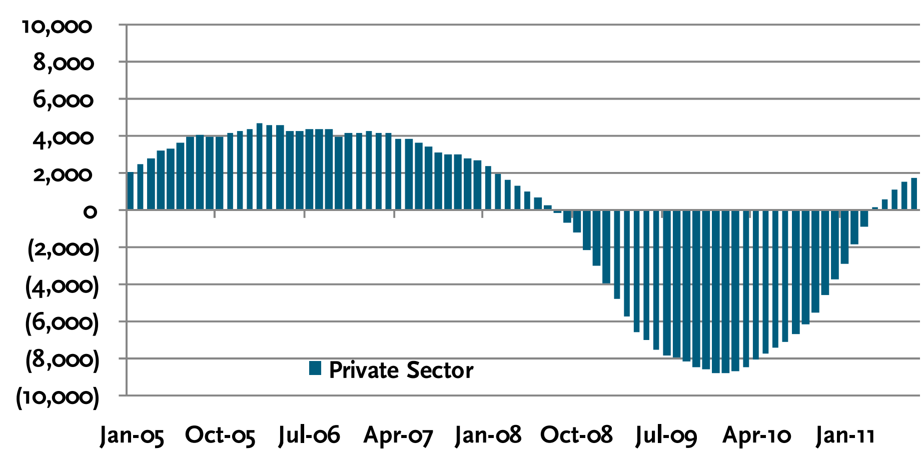
Jobless Recovery Continues

- Jobs were unchanged in August, marking the third consecutive month of essentially no growth
    - Unemployment rate held steady at 9.1%
- State and local governments continue to shed jobs in an effort to close budget gaps
- Monthly job growth of 250,000+ is needed for several consecutive months to make a dent in the unemployment rate

Two Year Change in Monthly State and Local Employment, BLS (000's)



Two Year Change in Monthly Private Sector Employment, BLS (000's)

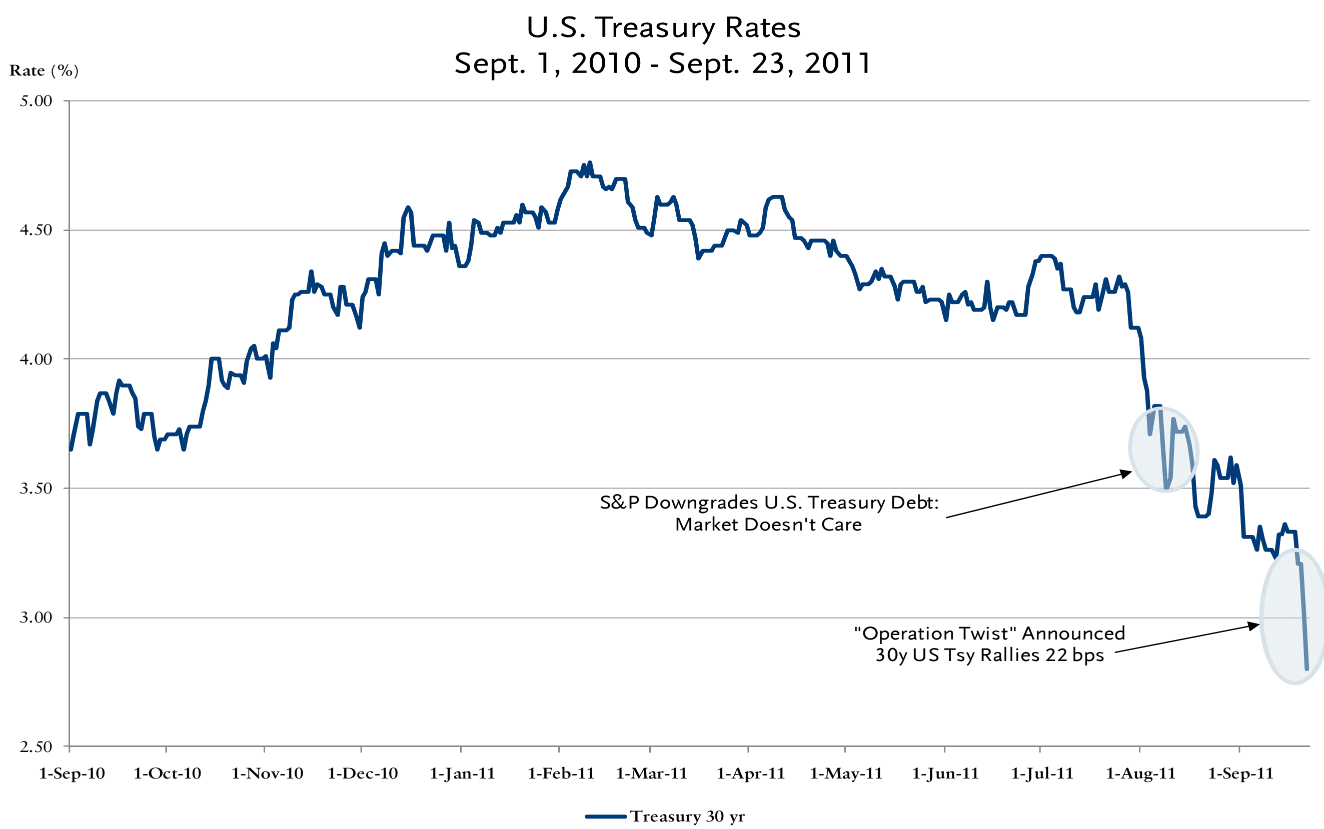


American Jobs Act Overview

- President Obama recently introduced a $447 billion Jobs Bill in an effort to jumpstart employment and boost GDP
- The main elements of the Bill include:
  - Payroll tax cuts – for workers and employers and 100% tax credit for new investments in 2012 ($245 billion)
  - Infrastructure spending and funding for state and local governments to rehire teachers and first responders ($140 billion)
  - Extending unemployment insurance, credits for hiring veterans, etc. ($62 billion)
- $467 billion of cuts and higher revenue proposed to pay for the Bill
  - Biggest revenue generator involved capping certain itemized deductions at 28% ($400 billion)
- The Bill is unlikely to pass in its current form, however certain provisions are likely to be adopted

The Fed's "Operation Twist"

- Last week the Fed cited, "Significant downside risks to the economic outlook," and unveiled Operation Twist
    - The plan involves selling $400 billion of short-term Treasuries and purchasing an equal amount of long-term Treasuries
- Reduced rates, but spooked the stock market – worst weekly loss since October 2008



European Debt Crisis: A Slow Motion Train Wreck

- After 18 months of stop gap solutions, Greece is teetering on the edge of default
  - Greek 2yr yields around 70% – could default as early as next month if action is not taken
  - Bigger than Lehman – $483 billion of debt and unknown billions of derivative exposure
- July 21 Greek bailout plan – yet to be funded or fully voted upon – is not seen as enough
- Greek default has the potential to splinter the 17-nation Eurozone and plunge Europe and the global economy into a recession
  - Could cause violent contagion, spill over to Portugal, Ireland, Italy and Spain
  - Crisis must be contained; not enough money to bail out all of these countries
- Consensus that something needs to be done to stem crisis, but major political dysfunction
  - Difficult to get 17 nations with disparate interests and economic situations to agree on solution
  - Need to get AAA-rated countries on board, Germany in particular is key

Where Does the Economy Go From Here?

- **The economy is facing several headwinds:**
  - **Eurozone concerns just won't go away: PIIGS**
  - **Austerity measures (U.S. and abroad)**
  - **Anemic jobs outlook**
  - **Deficit "Supercommittee" negotiations, political dysfunction heading into election year**
- **Improved consumer confidence, housing market needed to accelerate the recovery**

	Actual			Projected		
	2008	2009	2010	2011	2012	2013
U.S. Real GDP (yoy %)	0.00	-2.60	3.00	1.60	2.20	2.50
CPI (yoy %)	3.85	-0.35	1.63	3.00	2.10	2.20
Unemployment (%)	5.80	9.30	9.60	9.10	8.80	8.40
Budget (% of GDP)	-4.80	-10.30	-8.70	-8.70	-7.00	-5.35

	Current	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Fed Funds Target (%)	0.25	0.25	0.25	0.25	0.25	0.25
3-Month Rate (%)	0.01	0.32	0.32	0.35	0.38	0.48
2-Year Note (%)	0.23	0.20	0.29	0.38	0.51	0.69
10-Year Note (%)	1.90	2.06	2.24	2.45	2.64	2.85

Source: Bloomberg Economic Forecast; as of September 23, 2011.

Well Munis, It's Been a Bumpy Ride (Unofficial Timeline)

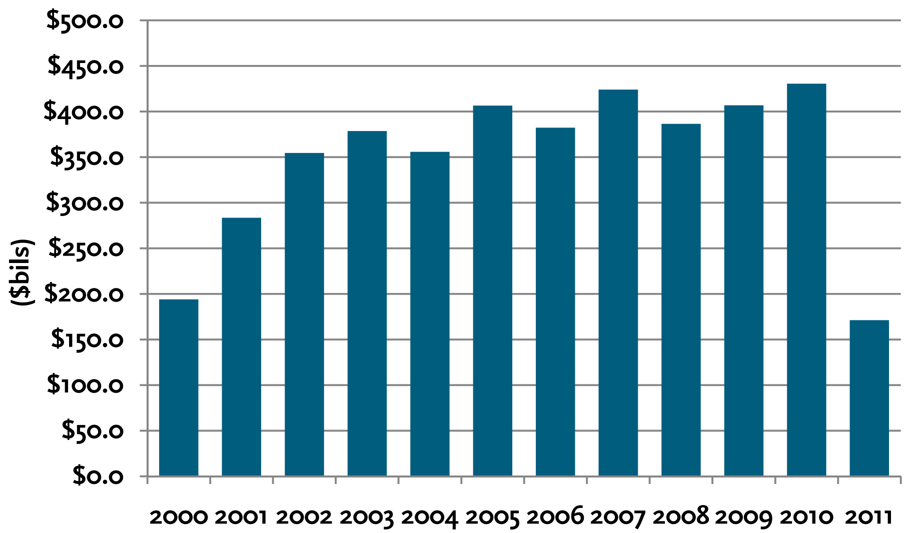
- Over the past year, the municipal market has experienced some of the biggest shocks since the financial crisis of 2008
- Q4 2010 – "What do we do with all of these Bonds!?"
  - Supply/Demand imbalance
  - Interest rate spike
- Q1 2011 – "Should have gone fishing."
  - BAB hangover – no volume
  - Money shifting into stocks
- Q2 2011 – "On the road to recovery."
  - Municipal fund flows turn positive
  - Building volume
- Q3 2011 – "Can rates keep going lower?"
  - Massive interest rate rally
  - Investor "Flight to Yield"

Municipal Market From 30,000ft

- YTD 2011 volume is down nearly 50% after record 2010 issuance
- Yield curve is steep inside 20 years
- General market shift to fixed-rate debt – reducing risk in capital structures
- Defaults are down, despite predictions – Thanks, Meredith!
- Political threats to municipal tax-exemption
- Municipal rates have rallied to historical lows
  - Investors shifting into higher yielding sectors such as healthcare

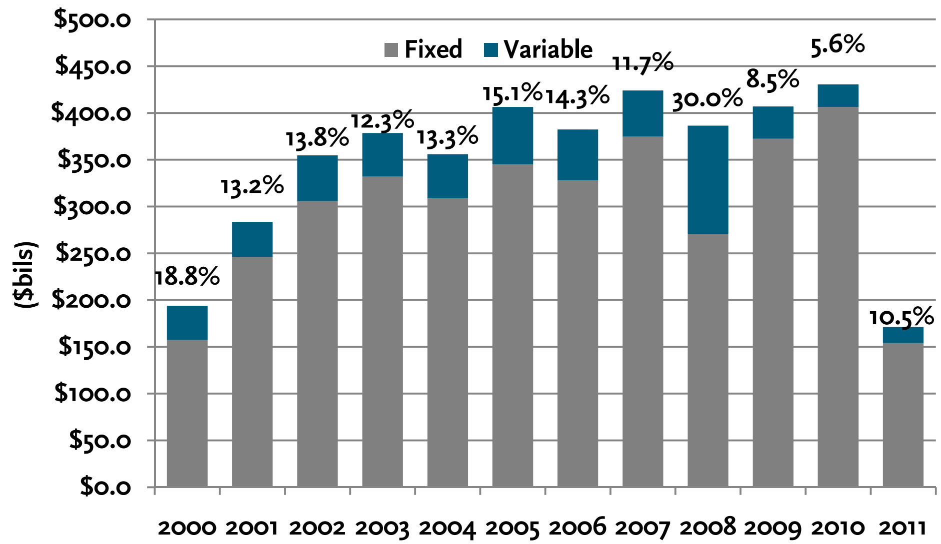
Changing Landscape of the Broader Municipal Bond Industry

Total Municipal issuance volume increased through 2010 with steep declines in 2011



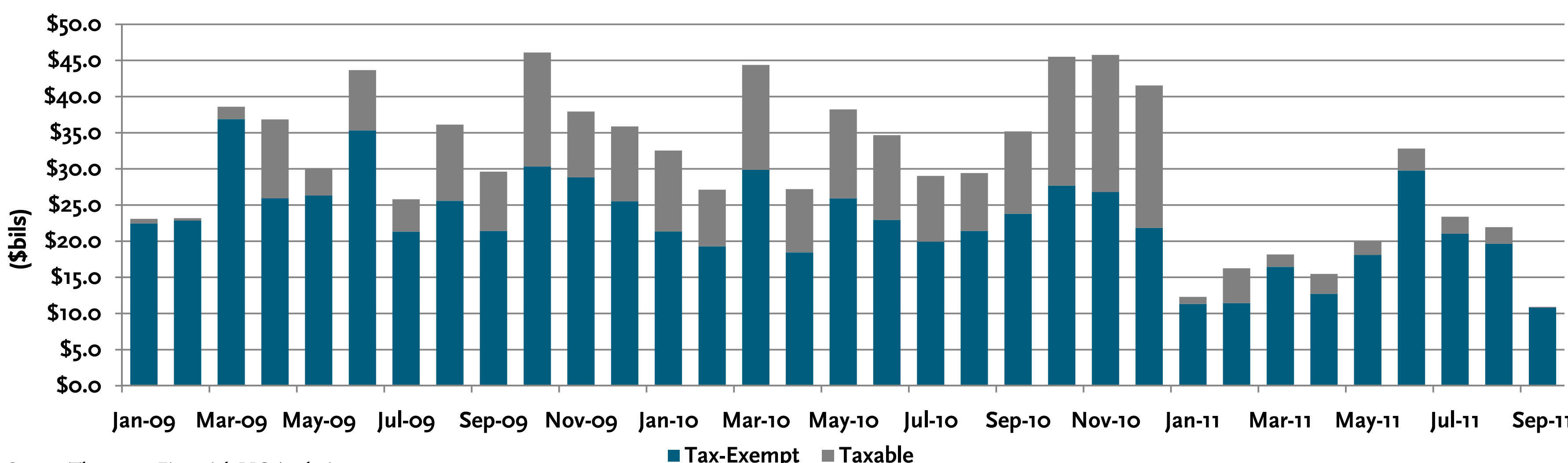
Source: Thompson Financial

Variable Rate issuance has declined with limited acceptable credit enhancement



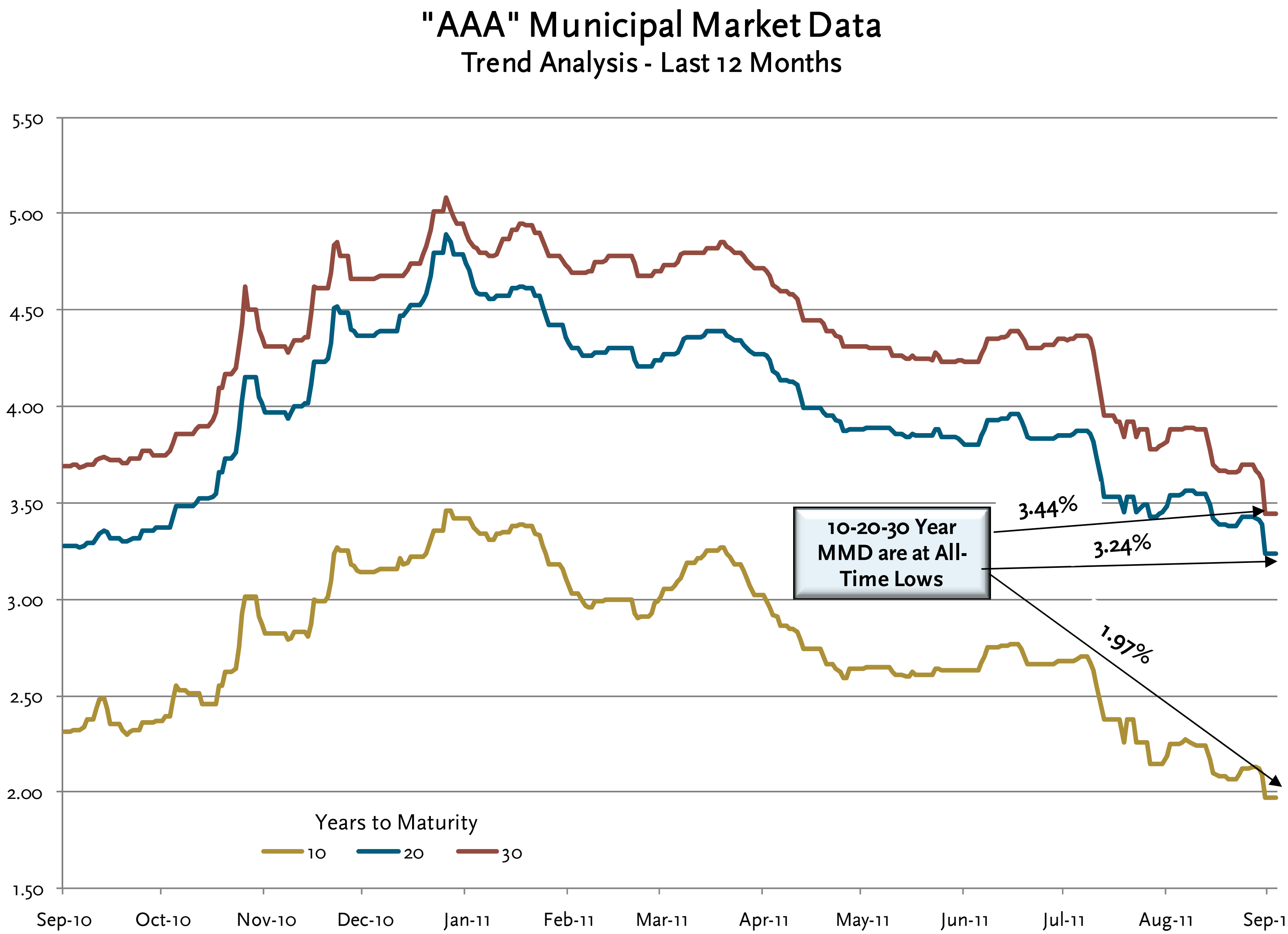
Source: Thompson Financial

Overall Muncipal Issuance By Month - 2009 to present



Source: Thompson Financial, PJC Analysis

The Trend Is Your Friend



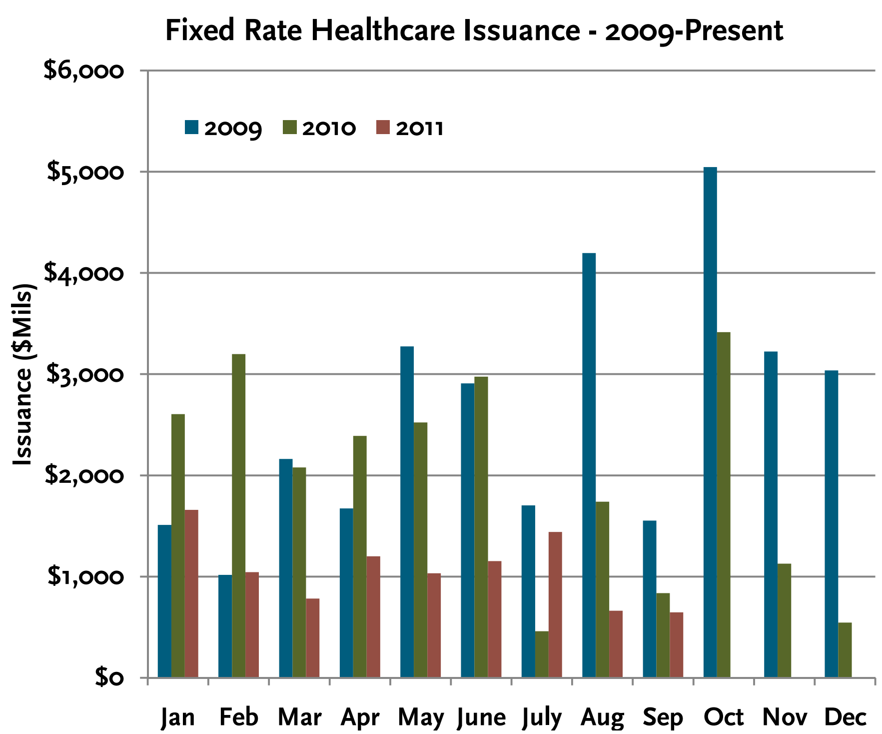
Source: Municipal Market Data, PJC Analysis

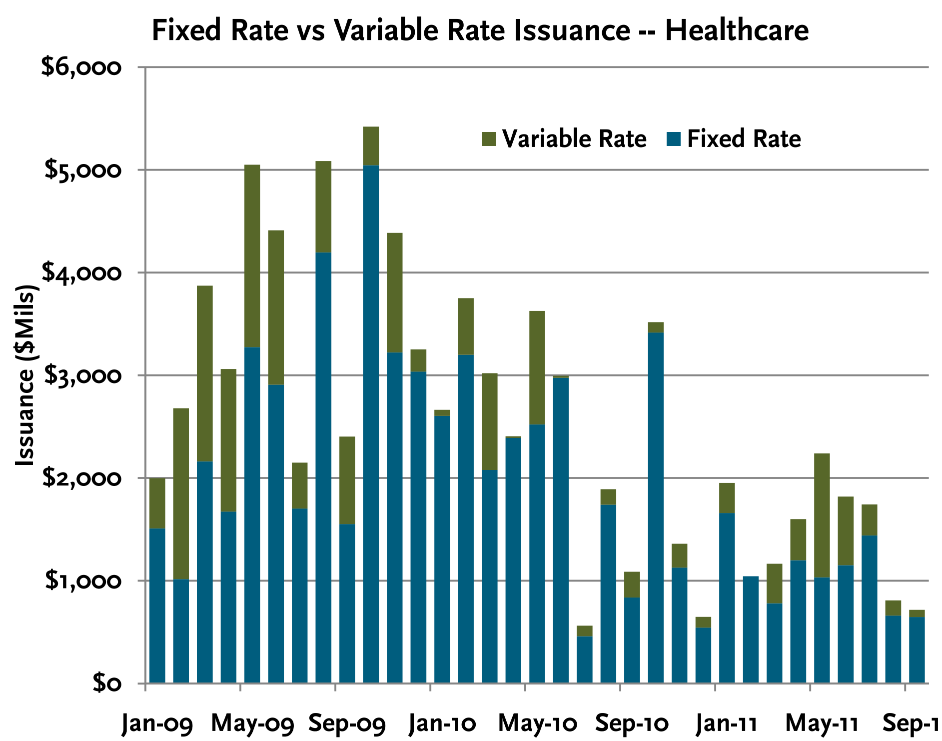
Tax-Exemption Under Fire

- Deficit reduction efforts have placed tax-exemption under fire from both sides of the aisle
  - President Obama's 2010 bipartisan Fiscal Commission and a proposal by Budget Committee Chairman Paul Ryan, sought to end tax-exemption altogether
- There have been several other proposals to limit tax-exemption
  - Proposals range from reducing the tax-benefit to eliminating the exemption for conduit borrowers, healthcare, housing, industrial development bonds, etc.
- This tax break is the 11th biggest for taxpayers
- President Obama's Jobs Bill calls for capping the deduction at 28% for those making over $200,000 per year
  - Made waves in market, uncertain impact on market access and interest rates
- Changes to tax-exemption will continue to be on the table for the Deficit "Supercommittee" and broader tax reform efforts

2011 Healthcare Market

- Through September 2011, healthcare issuance is down 40% to approximately $13 billion vs. 2010
- With the exception of May 2011, variable rate debt has become a much smaller portion of new issuance since the wave of restructurings following market turmoil in 2009
- Lower yields coupled with lower volume has increased investor demand for healthcare bonds

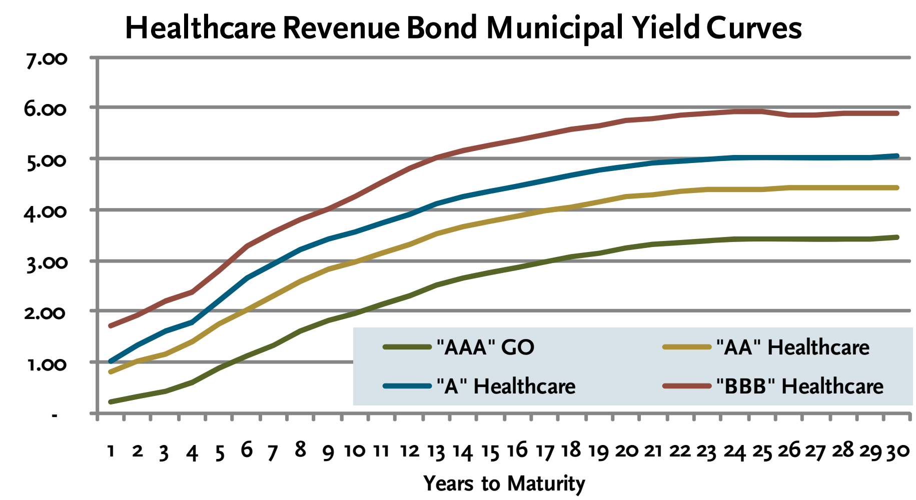


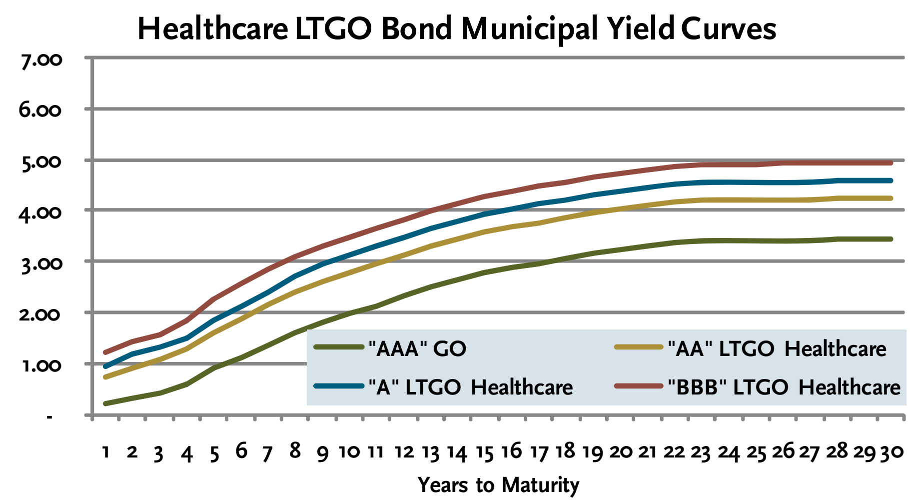


What Impacts Your Cost of Capital?

- Absolute interest rate levels
- Supply/demand dynamics
- Potential changes to tax-exemption
- State specific characteristics
- Credit Quality
    - Outlook on healthcare sector
    - Your specific credit characteristics and profile

How Much Is This Going to Cost Me?





Indicative Rates (%)*

	1	5	10	20	30
"AAA" GO	0.23	0.90	1.97	3.24	3.44
"AA" Healthcare	0.83	1.75	2.97	4.24	4.44
"A" Healthcare	1.03	2.20	3.57	4.84	5.04
"BBB" Healthcare	1.73	2.80	4.27	5.74	5.89

Indicative Rates (%)*

	1	5	10	20	30
"AAA" GO	0.23	0.90	1.97	3.24	3.44
"AA" LTGO	0.73	1.60	2.77	4.04	4.24
"A" LTGO	0.93	1.85	3.12	4.39	4.59
"BBB" LTGO	1.23	2.25	3.47	4.74	4.94

*As of September 23; preliminary and subject to change.

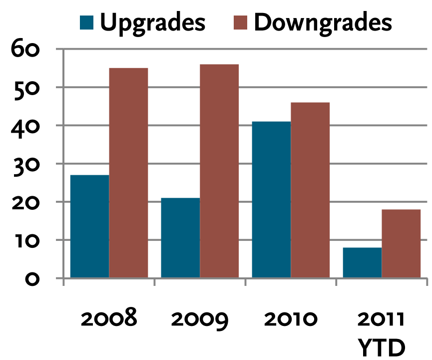
You Are on Your Own Credit

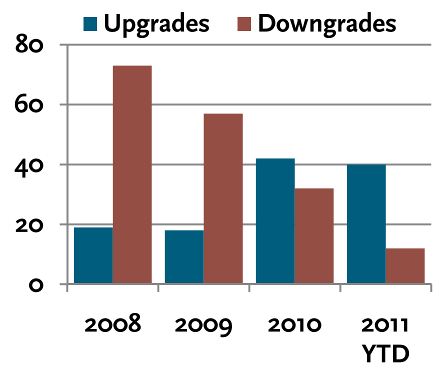
- Overall, there has been a significant decrease in viable credit enhancement options
- One remaining bond insurer in the market, Assured Guaranty, rated Aa3/AA+
  - Only 10% of the municipal market was insured in 2010
  - S&P continues swinging the axe – Assured Guaranty is on warning for possible downgrade
- Fewer Letter of Credit (LOC) providers – many banks have exited the market
- Last week, Moody's downgraded Bank of America, Citigroup and Wells Fargo
  - Downgrades due to decreased probability of government support
- In general, LOC's remain expensive, more difficult to secure and contain more onerous covenants than prior to the financial crisis

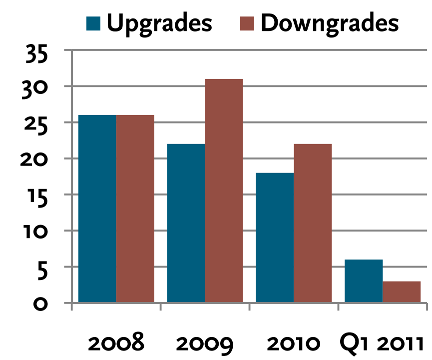
Healthcare Sector Rating Agency Outlook and Activity

	Moody's	Standard & Poor's	Fitch Ratings
2011 Sector Outlook:	Negative	Stable	Stable

Upgrades vs. Downgrades







Frequent Reasons Cited For Upgrades	Frequent Reasons Cited for Downgrades
✓ Effective Management and Governance	✓ Sudden or Prolonged Weakness in Financial Performance
✓ Improved and Sustained Operating Performance	✓ Material Decline in Investments or Lack of Liquidity
✓ Strong and Liquid Investment Portfolios and Management of Debt Structure Risks	✓ Debt Structure Risks
✓ Favorable Market Demographics & Market Share	✓ Sizable Increase in Debt Load
✓ Successful IT Investment and Integration	✓ Significantly Increased Capital Spending
✓ Boosting of Patient Volumes Despite Broader Market Trends	✓ Challenging Economic Conditions
✓ Changes in Organizational or Legal Structure	✓ Material Operating Change or Event Risk

Factors Influencing Longer Term Healthcare Sector Outlook

- First, the good:
  - Strong management teams
  - Continued, improved operating results
  - Stronger balance sheets
- Now, the bad and the ugly:
  - Anemic revenue growth and declining utilization trends
  - All revenue sources under pressure
  - Payor mix shifts, increasing bad debt and charity care
  - Sluggish economic growth
- Healthcare reform uncertainty permeates the industry outlook

Why Many Healthcare Borrowers are Coming to Market Now

- Low interest rates
- Future risks to tax-exemption
- Investors are buying healthcare now, but bias can change
- Concern about market access in future, due to healthcare reform pressures
- Future expenditures may have shorter useful lives – less financeable

Important Considerations and Takeaways

- The economic recovery is expected to continue at a slow pace
- The municipal market has improved considerably after some rough patches
- Your organization's credit rating is key
  - Biggest determinant of cost of capital
  - Less restrictive covenants and improved access to credit enhancement
- Qualitative factors are more critical than ever to an organization's credit profile
  - Management, governance, strategy, market position, IT investment, medical staff, etc.
- Preparation and strategy for healthcare reform will continue to be a big focus
- Despite challenges, healthcare providers have strong capital market access (for now)

Piper Jaffray – A Healthcare Finance Leader

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