NAHEFFA
National Association of
Health and Educational
Facilities Finance Authorities

NAHEFFA 2018 Spring Conference

Current State of the Healthcare Market

May 7, 2018

Presenters

Moderator

- Stephanie H. Massey, Partner, Locke Lord LLP

Panelists

- Christie Lombard Martin, Member, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
- Christopher J. McCann, CFA, Executive Director, J.P. Morgan Securities LLC
- Debra Sloan, CFA, Vice President, Treasury, Partners HealthCare

Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018 (aka 2017 Tax Cuts and Jobs Act)

The Internal Revenue Code is absurdly complex or, as we lawyers say, a goldmine.

Timeline

- November 16, 2017 House bill

- December 2, 2017 Senate bill

- December 16, 2017 final bill enacted and signed by President on December 22, 2017

Elimination of Advance Refunding

- Why?
- Advance refunding alternatives
- New issue structuring considerations

Advance Refunding Alternatives

- Tax-exempt current refunding
  - Forward delivery bonds
  - Forward swap
  - Tender offer to current bondholders
- “Cinderella” bonds
- Advance refund with taxable debt
- Cash defeasance and new money financing
- Other?

New Issue Structuring Considerations

- Earlier call dates
- Make-whole call provisions
- Purchase in lieu of redemption
- Variable rate bonds
- Private placements
- Taxable debt

Reduction in Corporate Tax Rates

- Reduced from 35% to 21%
- Impact on bank placed bonds
  - Interest rate increases
  - Tax reissuance considerations

Other

- Elimination of new tax credit bonds
- Corporate AMT eliminated for tax years beginning after December 31, 2017
- 501(c)(3) UBI and excise taxes

Public Approval

- Proposed regulations published September 28, 2017
- Permitted application
- Expand public notice options
- Information required
- Supplemental public approval

Remedial Action

- Revenue Procedure 2018-26
  - “alternative use of disposition proceeds” for eligible leases
  - Direct pay bonds
  - Tax credit bonds

Case Study
Partners HealthCare System

- December 2017 public offering
  - $948.1 million Massachusetts Development Finance Agency Revenue Bonds
  - $99.6 million New Hampshire Health and Education Facilities Authority Revenue Bonds
  - $303.6 million taxable bonds
- $5.1 billion total debt
  - $1.4 billion (24%) variable rate, of which $235M was placed privately
  - $1.7 billion (34%) taxable, of which $775M was placed privately

Partners accelerated its $1.35 billion public bond offering ahead of uncertainty surrounding tax reform

Transaction Summary

- In December 2017 Partners publicly offered $1.351 billion of bonds, the proceeds of which were used to:
  - Refinance existing Partners debt
  - Refinance debt of acquired Wentworth-Douglass Hospital
  - Finance various capital projects
- Tax Reform and Timing Considerations
  - Schedule prior to tax reform anticipated mid-January 2018 bond sale
  - Upon announcement of potential elimination of tax-exempt advance refundings and tax-exempt financing for 501(c)3 entities, Partners accelerated its financing timeline
- Through the financing, Partners was able to achieve:
  - Meaningful debt service savings from refinancings
  - Low cost of capital for new money projects
  - Consolidation of Wentworth-Douglass bonds

Total Par	$1,351,314,000
Ratings	Aa3 (Stable) / AA- (Stable) / NR
Pricing Date	December 14, 2017
States	Massachusetts and New Hampshire
Call Features	Tax-Exempt Fixed: 1/1/2028 @ 100 Taxable: make-whole (UST + 20 bps) FRNs: 6-months prior to tender date

Product Breakdown

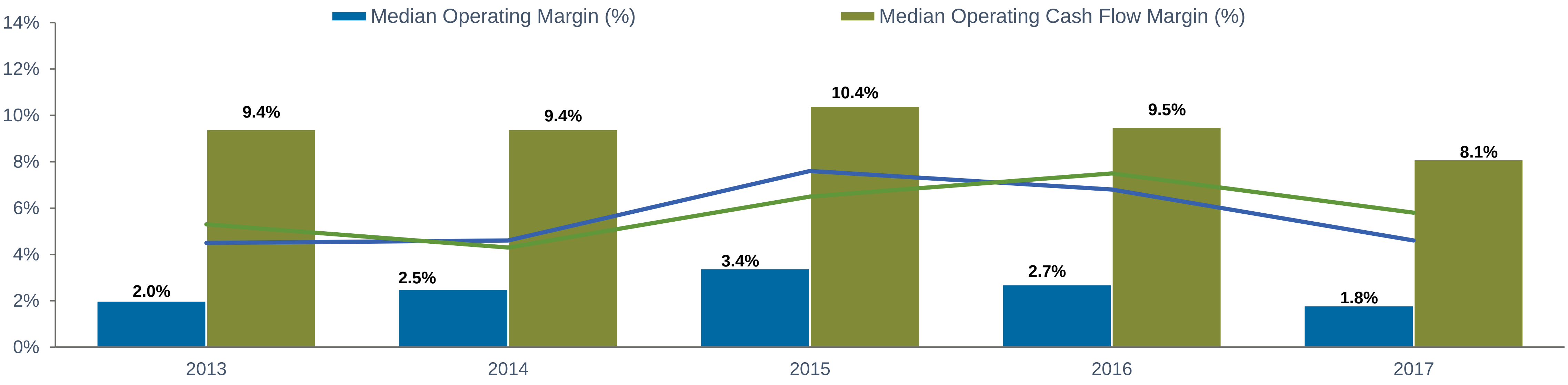
Series	Par	Mode
S-1	696,820,000	Tax-Exempt Fixed
S-2	61,935,000	Put Bond (7-year)
S-3	69,870,000	FRN (SIFMA) (5-year)
S-4	69,250,000	Put Bond (6-year)
S-5	50,230,000	FRN (SIFMA) (4-year)
2017 (NH)	99,565,000	Tax-Exempt Fixed
2017	303,644,000	Taxable Fixed
Total	$1,351,314,000	

Preliminary Moody's FY 2017 medians underscore negative outlook for Not-for-Profit Healthcare

Observations of trends affecting the not-for-profit healthcare sector

- Annual operating expense growth outpaced revenue growth, resulting in a second consecutive year of declining margins
- Slower revenue growth driven by weakening payor mix, low volume growth, and continued shift to outpatient
- Median operating cash flow margin fell to 8.1%, the lowest level seen since before the 2008-09 recession
- Most leverage metrics weakened as operating challenges overrode reduced median debt levels

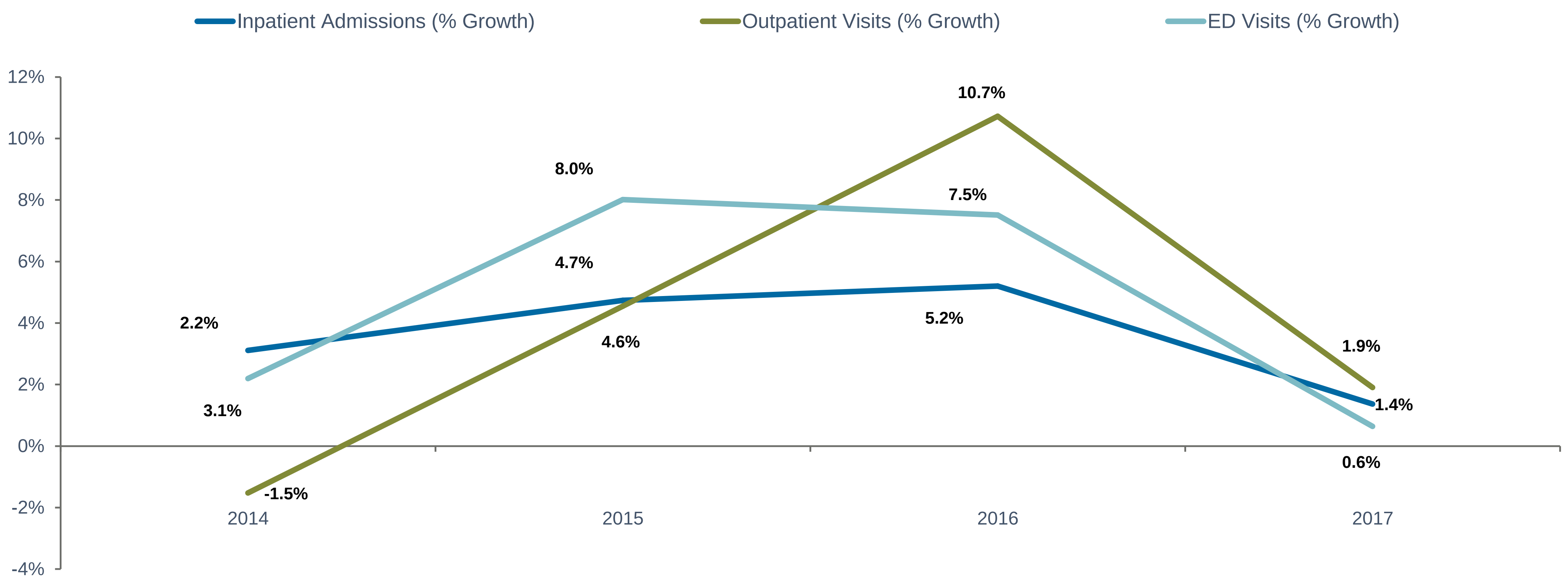
Median Operating and Operating Cash Flow Margin (%) and Operating Revenue and Expense Annual Growth Rate (%)



Source: Moody's, "Not-for-profit and Public Healthcare – Preliminary Medians Underscore Negative Sector Outlook" April 2018.

In 2017, overall volume growth declined

Inpatient, Outpatient and Emergency Department Activity Annual Growth (2013-2017)



Source: Moody's, "Not-for-profit and Public Healthcare – Preliminary Medians Underscore Negative Sector Outlook" April 2018.

IRS Enforcement

- Audits
  - Based on IRS Forms 8038, 990 and 8703
  - 2018 Audit priorities
- Voluntary Closing Agreement Program

Choice of Issuer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