

NAHEFFA Fall 2016 Conference

**Therese L. Wareham
Managing Director and CEO
Kaufman Hall & Associates, LLC**

**Susan Carlson
Fitch Ratings**

**Omer Sultan
Northwestern Medicine**

**Trends and Challenges Facing Higher
Education and Health Care**

September 30, 2016

Topics

- Context for Higher Education and Health Care
- Access to Capital
- Issues specific to Higher Ed
- Issues specific to Health Care
- Back to the Credit Story
- Q&A

Context: Influencing both Sectors

- Consumer choice in both schools and healthcare: Different than general munis
- Demographics
- Public vs. private vs. for profit
- Competition
- Reductions in state and federal funding levels
- “Mission” activities use resources
- Do more with less
- Is it a right or a privilege?

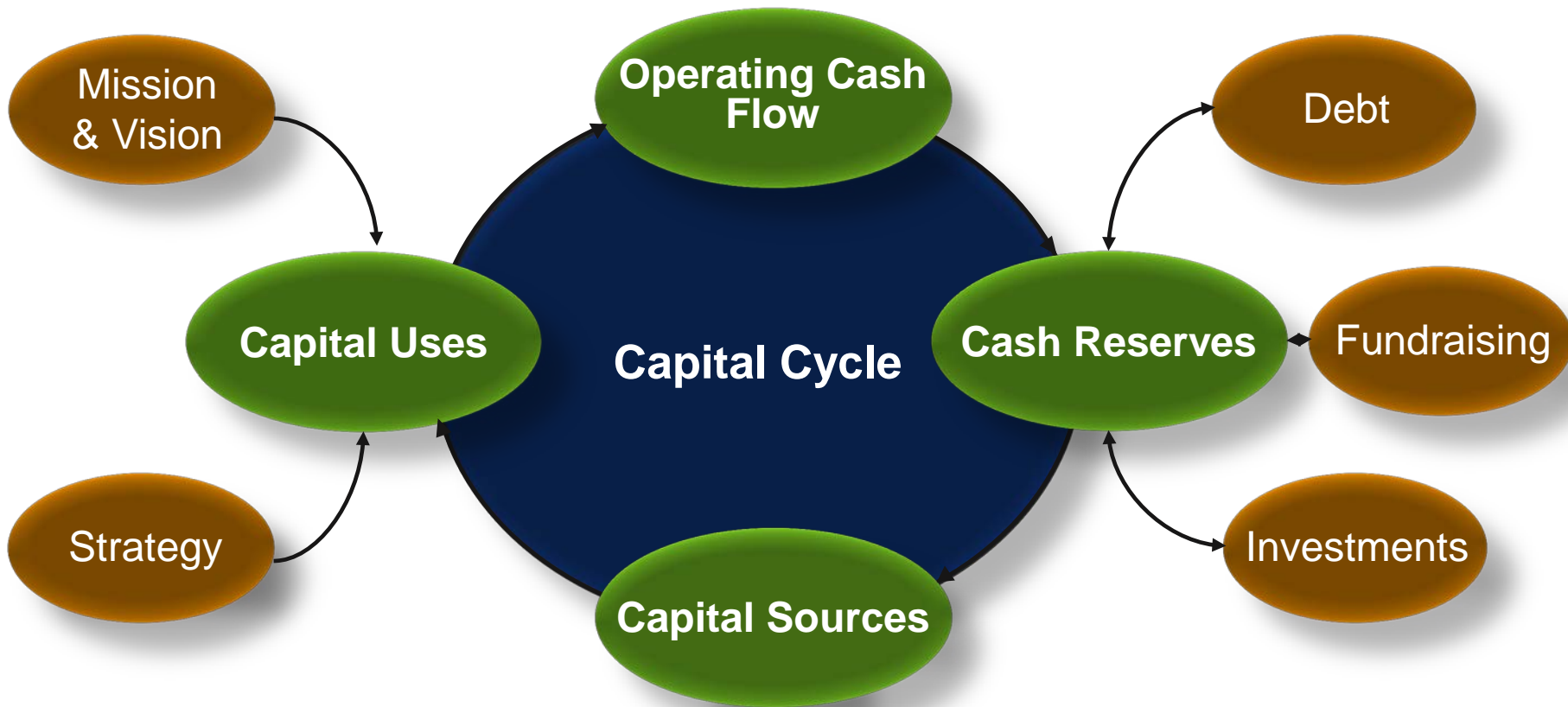
Access to Capital

- As an investor, what do you want to know? How do you measure? What metrics are used?
- What interest rate should you command to reflect the risk of investment?
- These are single purpose facilities, so does a mortgage matter to security?
- Why this investment over something else?
- Will this organization be here at bond maturity to pay me back?

Issues Specific to Higher Education

- Fitch Ratings Higher Education Sector Outlook for 2016 is “Stable”
 - Sector is highly segmented; some segments are stronger than others
- Student Demand Pressures
 - Demographics; competition; state programs (free community college, scholarships, etc.)
- Affordability
 - Tuition increases; state appropriations; federal funding; program changes; loan/debt sensitivity for families and students
- Financial Flexibility
 - Search for revenue diversity: tuition and discount rates, research, gifts, endowment ...
- Debt Trends
 - More private bank loans; more taxable bonds; fewer VRDBs; deferred maintenance an issue throughout the sector

Northwestern Medicine Capital Cycle



Issues Specific to Health Care

- Moody's Not for Profit & Public Healthcare Sector Outlook for 2016 is "Stable"
 - Net patient revenue growth and strong financial margins
- Size and Breadth Matters
 - Consolidation into larger systems, financial and geographic diversity
- Transition from Fee-for-Service to Value-Based Reimbursement
 - Shift in payments based on volume to where quality and outcomes play larger role
- Utilization
 - Growth in "lower margin" observation stays, impacts of Affordable Care Act, non-traditional competition
- Support of Academic Mission
 - NIH budget trends

Back to Credit

- Pretty much all Higher Ed and Health Care credits are “stories”
 - Need to distinguish one credit from another: “why invest here?”
 - Need to outline strengths, weaknesses, mitigating strategies and competitive differences
 - The government (federal and state) influence both sectors, taking large aspects of control out of the hands of management



Q&A

Qualifications, Assumptions and Limiting Conditions (v.12.08.06):

This Report is not intended for general circulation or publication, nor is it to be used, reproduced, quoted or distributed for any purpose other than those that may be set forth herein without the prior written consent of Kaufman, Hall & Associates, LLC. (“Kaufman Hall”).

All information, analysis and conclusions contained in this Report are provided “as-is/where-is” and “with all faults and defects”. Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been verified by Kaufman Hall. No warranty is given as to the accuracy of such information. Public information and industry and statistical data, including without limitation, data are from sources Kaufman Hall deems to be reliable; however, neither Kaufman Hall nor any third party sourced, make any representation or warranty to you, whether express or implied, or arising by trade usage, course of dealing, or otherwise. This disclaimer includes, without limitation, any implied warranties of merchantability or fitness for a particular purpose (whether in respect of the data or the accuracy, timeliness or completeness of any information or conclusions contained in or obtained from, through, or in connection with this report), any warranties of non-infringement or any implied indemnities.

The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. In particular, actual results could be impacted by future events which cannot be predicted or controlled, including, without limitation, changes in business strategies, the development of future products and services, changes in market and industry conditions, the outcome of contingencies, changes in management, changes in law or regulations. Kaufman Hall accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client.

In no event will Kaufman Hall or any third party sourced by Kaufman Hall be liable to you for damages of any type arising out of the delivery or use of this Report or any of the data contained herein, whether known or unknown, foreseeable or unforeseeable.

KaufmanHall

5202 Old Orchard Road, Suite N700, Skokie, Illinois 60077
847.441.8780 phone | 847.965.3511 fax
www.kaufmanhall.com