Alternative Financing Approaches
Old Ideas Whose Time Has Come Again

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vs.

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GE Healthcare Financial Services

Cash is precious…consider financing strategies that preserve/build liquidity

Liquidity Pressures:

- Cash flow squeeze due to:
  - ↓ Reimbursements (or delays)
  - ↑ Bad debt expense
  - ↑ Op expenses (staffing, utilities, etc.)
  - ↑ Interest charges
  - ↓ Investment income
  - ↑ Pension funding requirements
  - ↑ Reserve funding requirements
- Unexpected cash needs due to:
  - purchasing or paying off bonds
  - delays in getting to bond market
  - requirements to post collateral

Potential Responses:

- Private placement tax-exempt financing (vs. paying cash or issuing public bonds)
- Equipment leasing (vs. paying cash)
- Sale-leasebacks on equipment to generate cash
- Revolvers to provide backup or temporary liquidity
- 3rd party real estate development for ambulatory facilities
- Selling non-strategic real estate assets

Private placement tax-exempt financing

Drivers:

- Preserve/build cash
- Get to market quickly
- Small deal – doesn't justify time and expense of public issue
- Interim needs – in between major bond issues
- Story credit – easier to explain to sophisticated investors
- Preserve debt capacity for public deals (in special cases)

Benefits:

- Lower costs of issuance
- Competitive all-in financing cost
- Shorter time to close (60-90 days)
- Saves time – no credit enhancers, ratings, O/S or ongoing disclosure
- More flexible covenants and prepayment terms

Public Bonds vs. Private Placements

Public bonds		Private placements
Pledge of future revenues; Deed of trust (DOT)	Security	Equipment: secured by assets financed Rev Bond: revenue pledge/DOT
Many players	Parties involved	Few players
6-9 months	Timing	60-90 days
Institutional and Retail	Investors	1 to 4 institutional investors
Complex, varies by transaction	Documentation	Equipment: Simple, standardized forms Rev Bond: Supplement to MTI
Often required	Credit enhancement	Not required
Frequent	Covenants	Equipment: not typical Rev Bond: existing covenants
Required by SEC	Public disclosure	Not required
Significant	Transaction costs	Minimal
Start anew with each deal	Renewability	Equipment: Add new schedules to existing agreement

Case Study: Tax-Exempt Private Placement #1

Hawaii Pacific Health

Kapi'olani • Pali Momi • Straub • Wilcox

Hospital Profile

Non-profit healthcare organization formed through the merger of three systems: Wilcox Health, Kapi'olani Health and Straub Clinic & Hospital

Situation/Need

- Need to finance new hospital information system
- Preserve cash

Solution

$28.6 million tax-exempt, 5-year loan

- Financed hardware, software, licensing and implementation fees
- Costs of issuance substantially lower than public revenue bonds

"A comprehensive financing package that not only financed our project over a relatively short timeframe, but improved our cash flow over the next few years"

- David Okabe, Chief Financial Officer

Case Study: Tax-Exempt Private Placement #2

Hospital Profile

Unrated full-service not-for-profit facility in Washington state with 281 beds and 1,600+ employees

Situation/Need

- Refinance outstanding debt
- Fund capital investments including ICU renovation and expansion of operating room

Solution

$84 million tax-exempt private placement revenue bond

- Competitive rates: pricing close to public bond market
- Client not required to secure credit rating or enhancement
- Allowed client to accomplish strategic objectives

"a large and complex private placement proved to be the right choice, as we accomplished great results in a short time frame."

- Robert Steigmeyer, SVP Operations and Finance for Northwest Hospital & Medical Center

Equipment leasing

Drivers:

- Preserve cash balances
- Improve cash flow
- Stay current with technology; minimize technology risk
- Preserve debt capacity
- Minimize net income impact
- Protect financial ratios
- Get quick access to capital
- Save time for hospital finance staff

Benefits:

- Lower monthly payments (vs loan)
- Can be used on existing assets to generate cash through sale-leaseback
- Shifts obsolescence risk to lessor; provides upgrade flexibility
- Operating leases are off balance sheet
- Lower expenses (rental expense vs. depreciation and interest expense)
- Positive impact on cash/debt metrics
- Once master is in place, schedules can be funded within days
- Simple, streamlined process

Case Study: Taxable Operating Leases

OSF HEALTHCARE serving others with the greatest care and love

Hospital Profile

Leading integrated healthcare network operating 6 acute care hospitals, a nursing home, 2 nursing colleges, a health insurance company and a medical group.

Situation/Need

- Preserve capital
- Manage technology portfolio

Solution

$30 million in equipment leases over 5-year agreement

- Financed high technology medical equipment such as MRIs, PET CTs
- Under master lease equipment financing can be arranged within a few days
- Preserved cash for other needs

"Leasing gives us a great deal of flexibility in acquiring high-cost items impacted by technology obsolescence, like nuclear cameras, CTs and angiographic rooms."
- Daniel Baker, Chief Financial Officer

3rd party real estate development/monetization

Drivers:

- Preserve debt capacity for core (strategic) needs
- Improve liquidity and strengthen balance sheet ratios
- Eliminate ongoing investment and maintenance cost burden
- Avoid adversarial landlord-tenant relationships with physicians
- Lack of in-house project & property management capabilities

Benefits:

- Non-recourse to hospital
- Existing assets can be sold to generate cash
- Property management efficiencies achieved by outsourcing
- Accelerate project completion: get to market faster, avoid cost escalations
- Potential for cost savings and design efficiencies
- Can be structured to enable physician investment

Summary

- **Very tough market for raising capital – likely to continue well into 2009**
- **Cash is king – look for creative ways to preserve and build liquidity**
- **Private placement tax-exempt financing – cost effective alternative for smaller, interim needs**
- **Leasing – to improve cash flow, minimize technology risk, stretch debt capacity**
- **3rd party real estate development & monetization – frees up balance sheet for strategic inpatient needs**