



Dormitory Authority State of New York

**Commission on Health Care Facilities
in the 21st Century**

**New York State Health Care and Capital
Financing**

March 9, 2006

Commission's Consideration of Capital Debt

Authorizing statute asks Commission to consider:

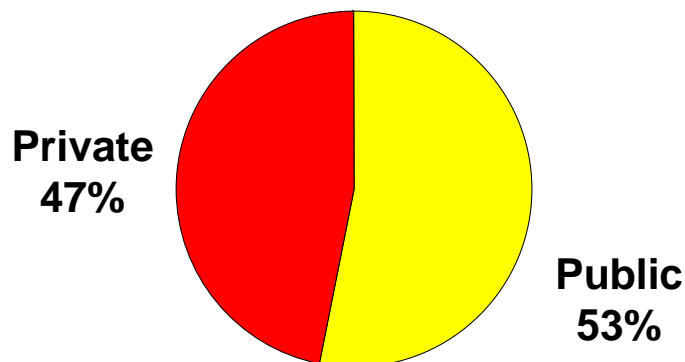
- “the amount of capital debt, being carried by general hospitals and nursing homes, and the nature of the bonding and credit enhancement, if any, supporting such debt and the financial status of general hospitals and nursing homes, including revenues from Medicare, Medicaid, other government funds and private third party payors;
- the availability of alternative sources of funding with regard to the capital debt of affected facilities and a plan for paying or retiring any outstanding bonds in accordance with the contract with bondholders”



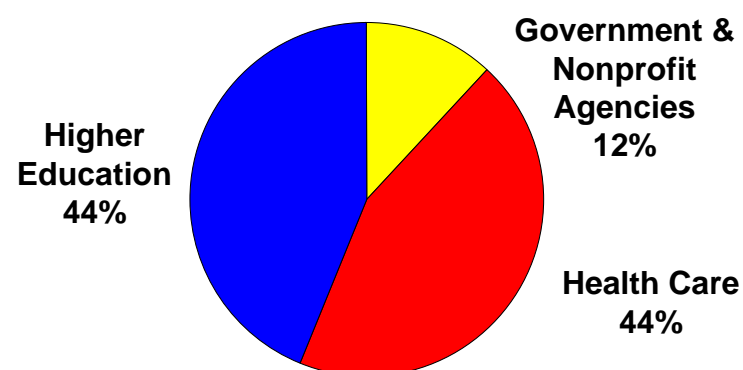
Dormitory Authority State of New York

- **One of the Largest Issuers of Tax-Exempt Capital Debt in Nation for Higher Education and Health Care approximately \$4.0 Billion** (FY 2005-06)
- **Maintains and Monitors Outstanding Capital Infrastructure Bond Portfolio \$32.7 Billion** (as of 12/31/05)

Bond Portfolio By Sector



Bond Portfolio By Type of Client



- **Tax-Exempt Equipment Leasing Program (TELP)**
 - 27 client leases totaling **\$178 million** (FY 2004-05)
- **Public Construction Agency**
 - **\$5.66 billion** Pipeline Construction Projects
 - **\$1 billion** DASNY-managed Construction Expenditures (FY 2004-05)



DASNY Health Care Customers

DASNY is authorized to issue bonds for the following not-for-profit health care entities:

- Hospitals defined in Article 28 of Public Health Law
- Nursing Homes defined in Article 28-A of Public Health Law
- Facilities for the Aged (for persons age 60 or older)
- Health maintenance organizations
- Non-profit housing and health facilities
- Organizations specifically named in the Dormitory Authority Act through state legislation



DASNY's Health Care Bond Portfolio

(Non-public)

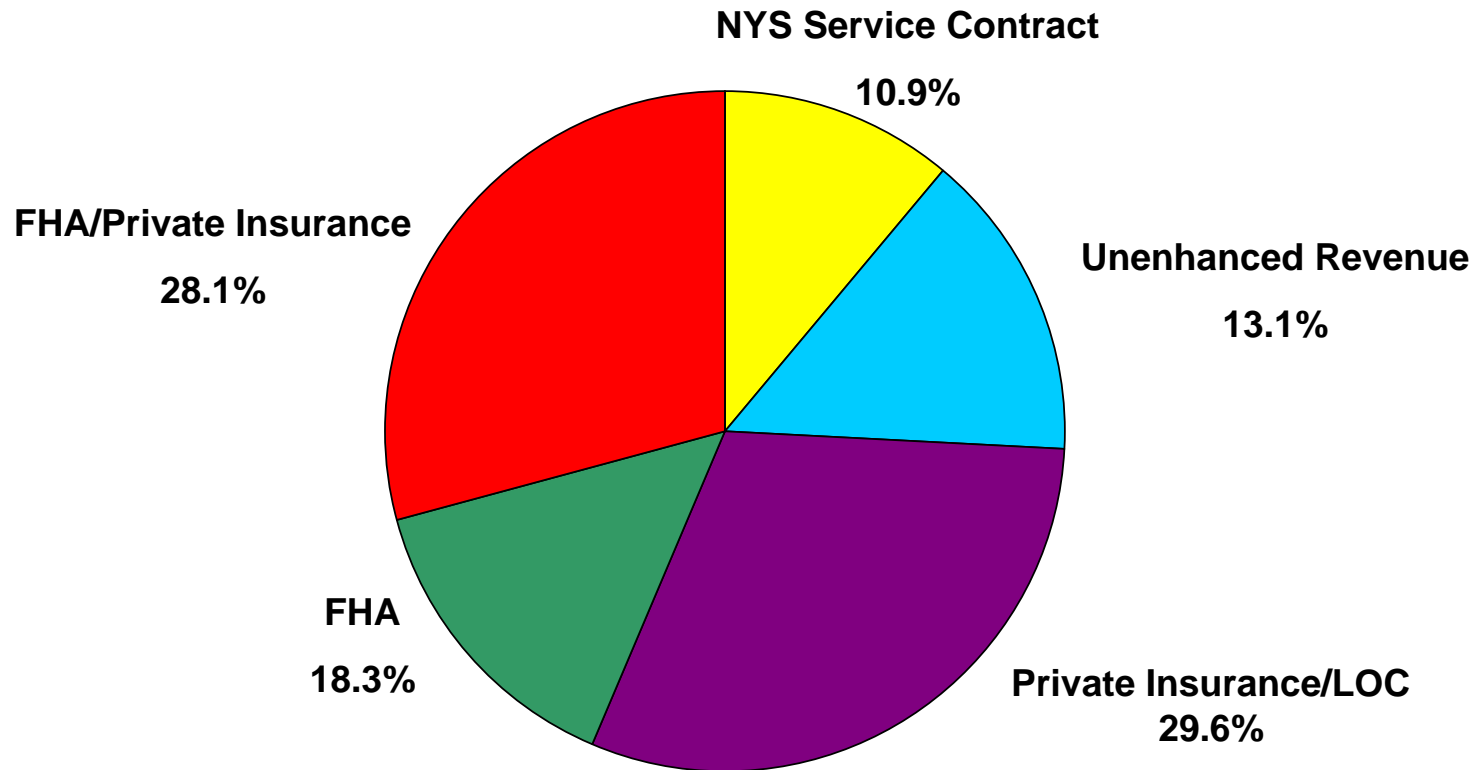
Bonds Outstanding at December 31, 2005

Hospitals	\$ 7.75 billion
Nursing Homes	1.08 billion
Diagnostic & Treatment Centers	.04 billion
Adult Day Care	.03 billion
<hr/>	
Total	\$ 8.90 billion



DASNY's Hospital Bond Portfolio

Bonds Outstanding at December 31, 2005 – By Security



New York State Hospital Medians Compared to Rating Agency Medians

Ratios	NYS Medians 2003 *	S&P Medians All Health Care-2004**				Fitch Nonprofit Hospital and Health Care System Medians –2004***			
		AA+ to AA-	A+ to A-	BBB+ to BBB-	Spec.	AA	A	BBB	Below BBB
Avg. Age of Plant	12.5	8.9	9.1	9.8	12.6	9.4	9.9	9.3	13.1
Days Operating Cash Avail.	30.1	211	159	110	50	232.2	177.2	117.5	49.3
Operating Margin	0.0%	3.1%	3.5%	1.2%	(1.3%)	3.5%	2.5%	1.0%	(1.8%)
Debt to Capitalization	50.9%	32.8%	37.3%	44.3%	65.3%	34.8%	39.0%	47.3%	75.1%

*Source: 2003 audited financial statements received by DASNY

**Standard and Poor's, "U.S. Not-For-Profit Health Care 2004 Median Ratios," June 10, 2004

***FitchRatings Health Care Special Report, "2005 Median Ratios for Nonprofit Hospitals and Health Care Systems," August 9, 2005



New York State Hospitals

Moody's Reasons for Financial Condition

- Challenging demographics, including high Medicaid and indigent, and a large immigrant population
- Payer concentration
- Close physical proximity of competitors and high degree of competition
- High cost of operation
- Merger difficulties
- Large number of high cost academic medical centers
- Legacy of a highly regulated system

Source: "Not-for-Profit Hospitals: 2006 State of the States," Moody's Investor Service Global Credit Research, February 2006



Credit Enhancement for Capital Financing

- New York hospitals and nursing homes purchase and use credit enhancement to access the credit markets and to get lower cost of capital.
- Federal Housing Agency (FHA) hospital and nursing home mortgage insurance most often used in New York
- In 1997, New York State represented 87% of the FHA portfolio. In 2005, it represented 65%.



DASNY's Response to Capital Needs of Health Care Clients

- More flexible financing guidelines:
 - A3/A- no credit enhancement required
 - Will issue unenhanced debt as an exception to our guidelines in certain appropriate circumstances
- Allow for Parity Debt
- Debt Restructuring
 - Extension of Debt
- Subordination and/or release of collateral in certain instances
- DOH/DASNY Health Care Restructuring Pool loans
- Stream-lined process with Department of Health



Industry Response to Environment

- Industry is responding to the changing environment through consolidation, contraction and reconfiguration
- More capital will be needed for the transition
- If response includes a pattern of sustained financial failures -- either bond defaults or claims on insurance or other credit enhancement-- it is likely that future credit enhancement will be unavailable, difficult to procure or costly.

