WELLS FARGO SECURITIES

Capital Markets Update

June 21, 2016

COLORADO HFA HEALTH FACILITIES AUTHORITY

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Together we'll go far

Important Disclaimer

Agenda

- Capital Markets Update

- Preparing for Capital Market Access

Capital Markets Update

Healthcare Capital Market Trends

- Continuing move to conventional fixed rate "committed capital"
- Constantly strong inflows to municipal bond funds
- High demand by investors for incremental yield leads to narrowing credit spreads
- Elimination of debt service reserve funds
- Increasing disclosure requirements
- Letters of credit backed variable rate demand bonds being replaced by direct purchase index floating rate bonds, floating rate notes or fixed rate bonds – money market fund reform
- Increase in taxable bond issuance for highly rated institutions
- Flattening yield curve

Market Update: Commentary & Interest Rate Forecast

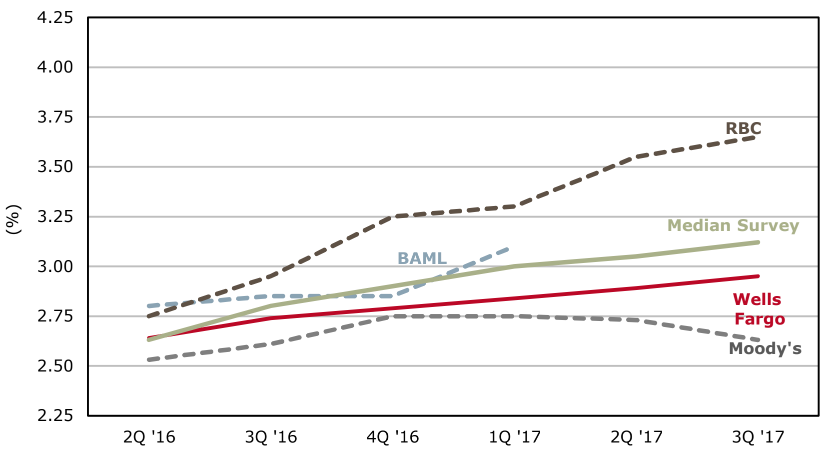
Market Update for the Week Ending June 17, 2016

- Over the course of the week, the 30Y "AAA" MMD yield decreased by 8 bps to 2.14%. The 30Y UST yield decreased by 2 bps from the prior week to 2.43%.
- The 30Y "AAA" MMD stood 170 bps below its 10-year average, while 30Y UST also finished 134 bps below its 10-year average.
- Municipal bond funds reported net investor inflows of approximately $904 million for the five-day reporting period ending June 15th.[2]

Key Interest Rates[1]

	6/17/2016	5/17/2016	6/17/2015	10 Yr Avg.
SIFMA	0.41%	0.39%	0.07%	0.91%
1M LIBOR	0.45%	0.44%	0.19%	1.26%
"AAA" MMD (30Y)	2.14%	2.39%	3.27%	3.84%
"AA" MMD (30Y)	2.33%	2.57%	3.51%	4.04%
"A" MMD (30Y)	2.61%	2.86%	3.87%	4.48%
UST (10Y)	1.62%	1.76%	2.32%	2.97%
UST (30Y)	2.43%	2.59%	3.09%	3.77%
SIFMA Swap Rate (10Y)	1.14%	1.21%	1.81%	2.51%
LIBOR Swap Rate (10Y)	1.49%	1.63%	2.39%	3.19%
SIFMA Swap Rate (30Y)	1.72%	1.84%	2.52%	3.21%
LIBOR Swap Rate (30Y)	1.95%	2.11%	2.83%	3.74%

Economist Outlook on the 30-Year US Treasury Rate[3]



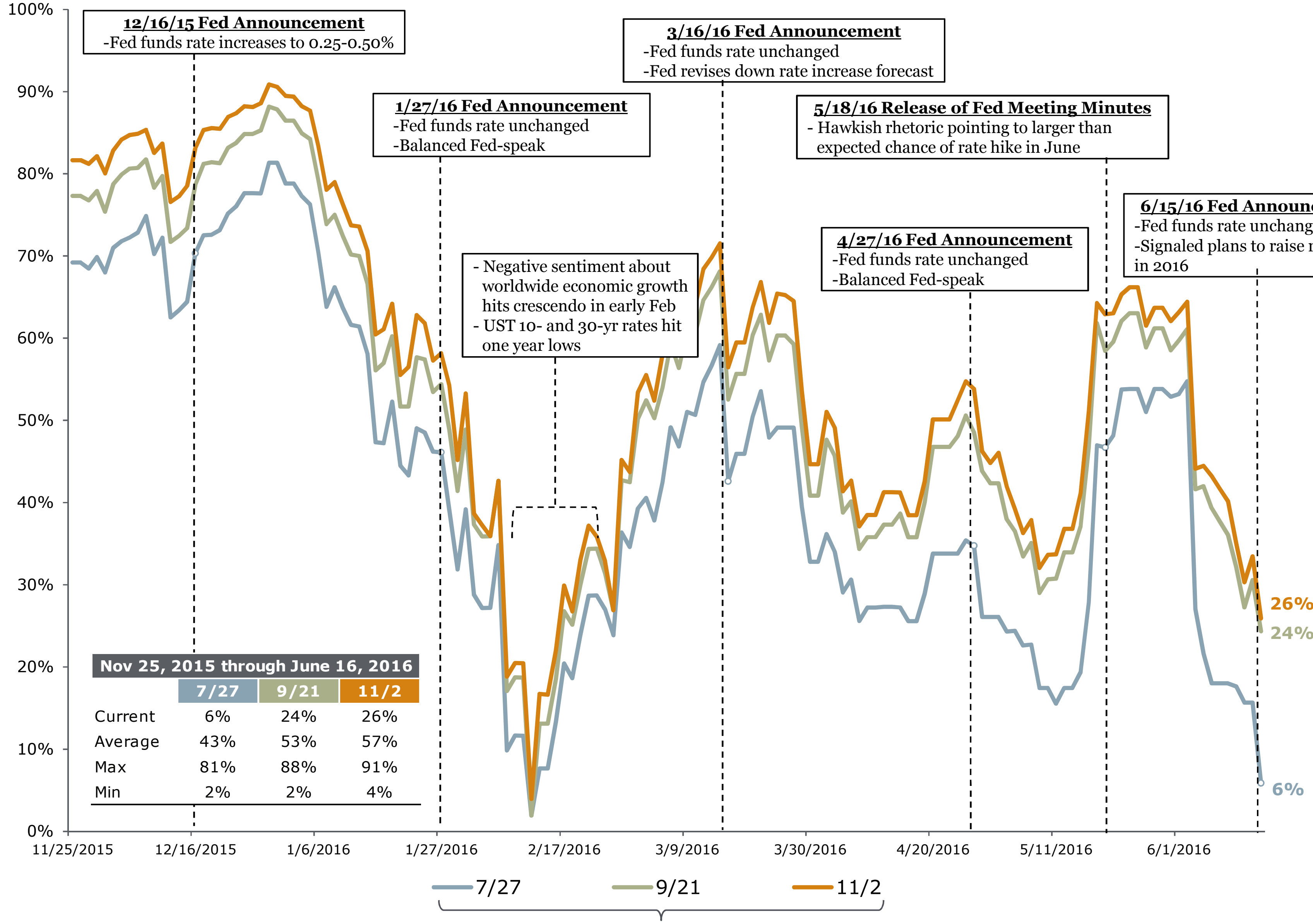
Wells Fargo U.S. Economic Forecast[6]

	Actual					Forecast						
	2015				2016				2017			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Real GDP[4]	0.60	3.90	2.00	1.40	0.80	2.90	2.50	2.40	2.00	1.90	2.00	1.90
Unemployment Rate	5.60	5.40	5.20	5.00	4.90	4.80	4.80	4.70	4.60	4.50	4.40	4.40
Consumer Price Index[5]	(0.10)	0.00	0.10	0.40	1.10	1.10	1.40	1.80	2.40	2.30	2.30	2.30
Fed Funds Target Rate	0.25	0.25	0.25	0.50	0.50	0.50	0.75	1.00	1.00	1.25	1.50	1.75
10-Year Note	1.94	2.35	2.06	2.27	1.78	1.81	1.96	2.03	2.12	2.23	2.39	2.48
30-Year Bond	2.54	3.11	2.87	3.01	2.61	2.64	2.74	2.79	2.84	2.89	2.95	3.00

Forecasts, as of 6/8/2016

[1]LIBOR and SIFMA swap rates are for general information purposes only. Data source: Thomson Reuters Municipal Market Monitor ("TM3") for 'MMD' rates and Bloomberg for all others, as of June 17, 2016. For any discussion regarding such rates, please contact the Derivatives Desk at 704-410-4083. [2]Source: Lipper, A Thomson Reuters Company as of June 15, 2016. [3]Source: Bloomberg, as of June 17, 2016. [4]Compound Annual Growth Rate (QoQ). [5]Percentage Change (YoY). [6]Source: Wells Fargo Securities, LLC Economic Forecast as of June 8, 2016.

Market Expectations of a Federal Reserve Rate Increase



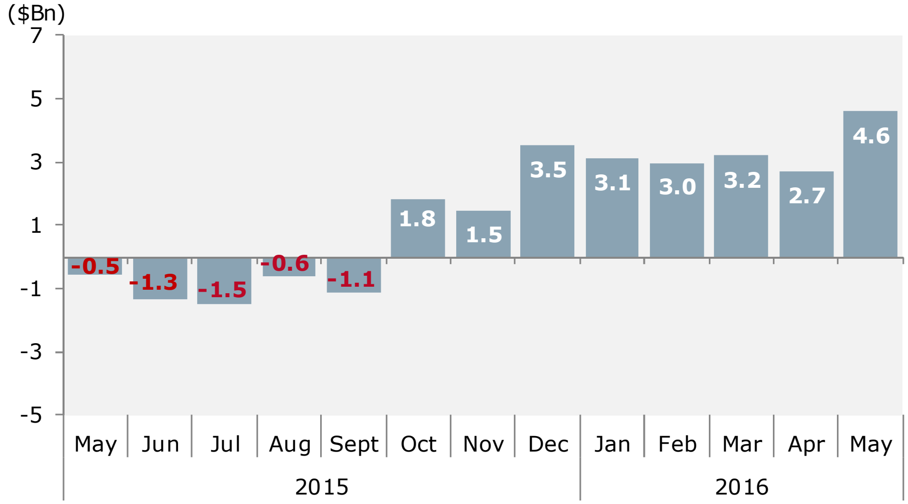
Nov 25, 2015 through June 16, 2016	7/27	9/21	11/2
Current	6%	24%	26%
Average	43%	53%	57%
Max	81%	88%	91%
Min	2%	2%	4%

Source: Federal funds interest rate probability; Bloomberg as of 6/17/2016

Fed Meeting Dates

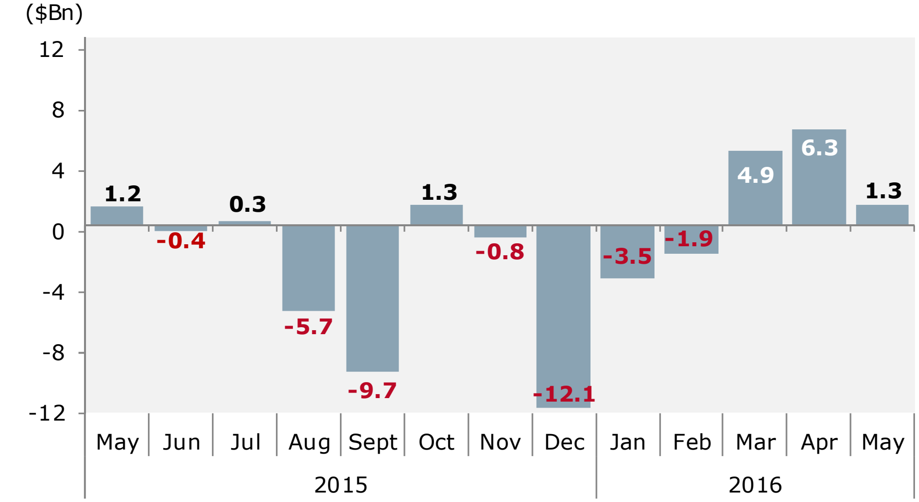
Supply and Demand Dynamics

Municipal Bond Fund Flows



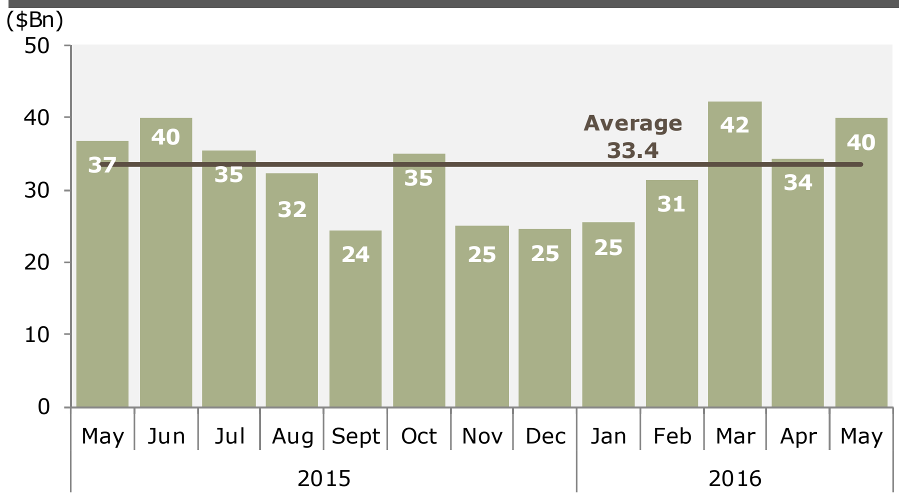
Source: Lipper, A Thomson Reuters Company, as of June 1, 2016.
Represents only funds that report weekly.

High Grade Corporate Fund Flows



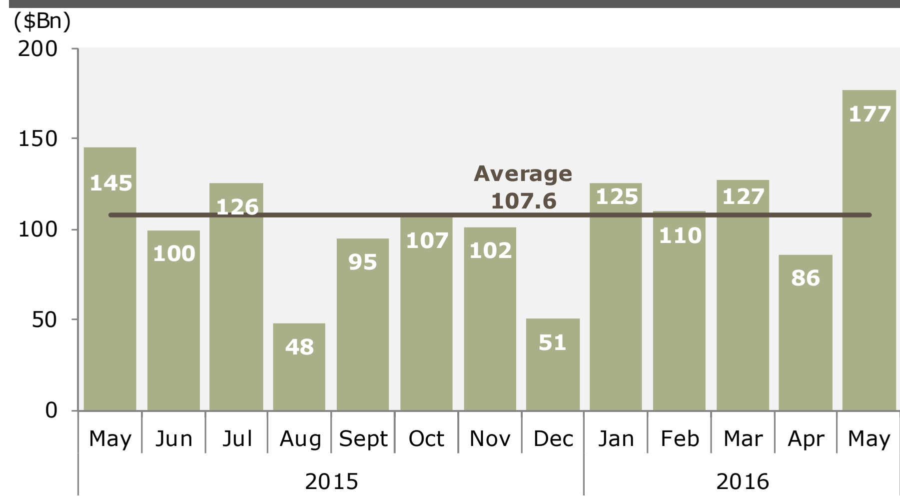
Source: Lipper, A Thomson Reuters Company, as of June 1, 2016.
Represents only funds that report weekly.

Municipal Volume



Source: SIFMA U.S. Bond Market Issuance, as of June 6, 2016.

High Grade Corporate Volume

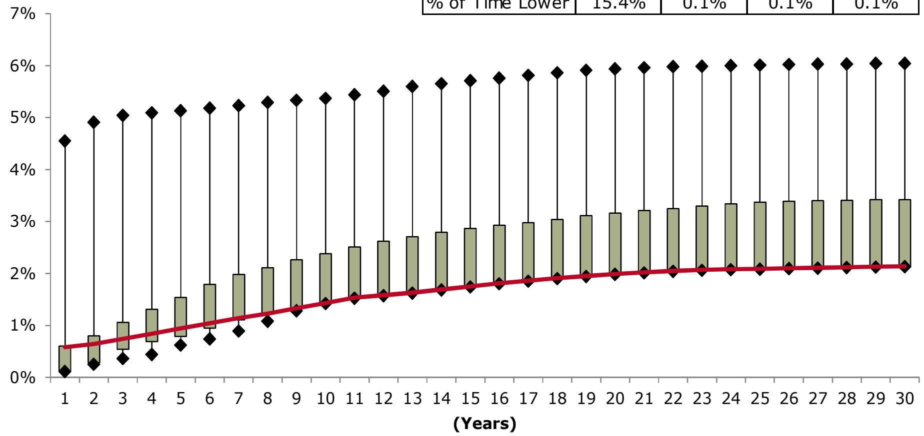


Source: SIFMA U.S. Bond Market Issuance, as of June 6, 2016.

Market Update: Interest Rate Snapshot

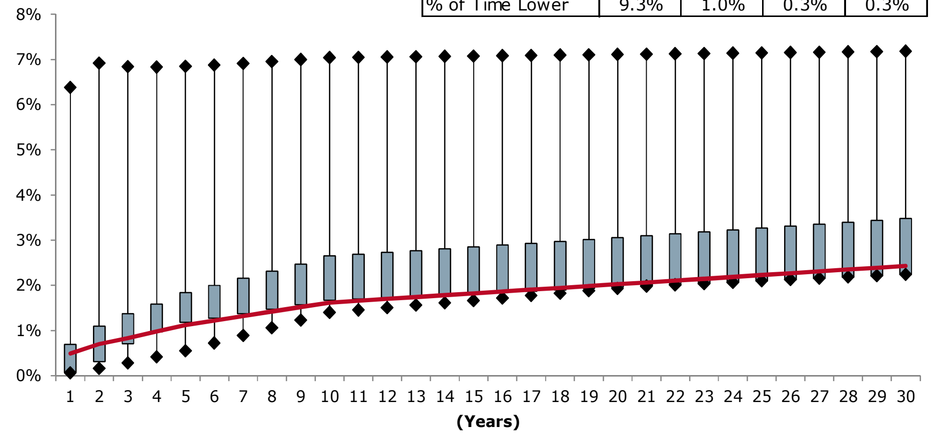
MMD

	5Y	10Y	20Y	30Y
Current	0.94%	1.43%	1.99%	2.14%
2 Years Ago	1.30%	2.34%	3.16%	3.38%
% of Time Lower	15.4%	0.1%	0.1%	0.1%



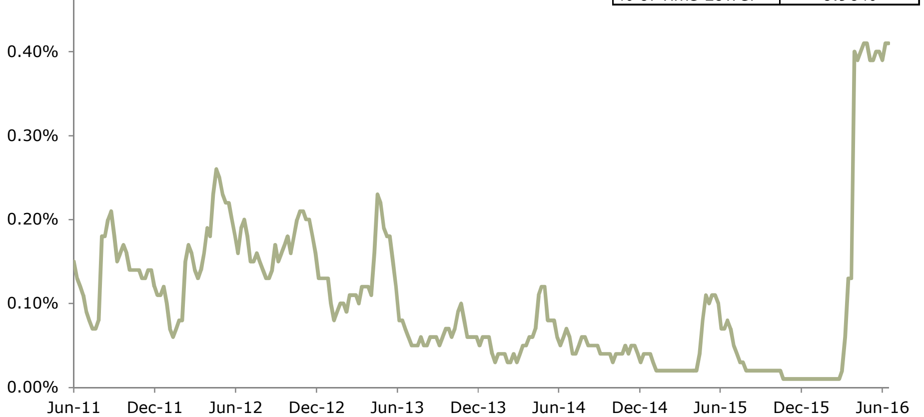
Treasuries

	5Y	10Y	20Y	30Y
Current	1.12%	1.62%	2.03%	2.43%
2 Years Ago	1.75%	2.65%	3.05%	3.44%
% of Time Lower	9.3%	1.0%	0.3%	0.3%



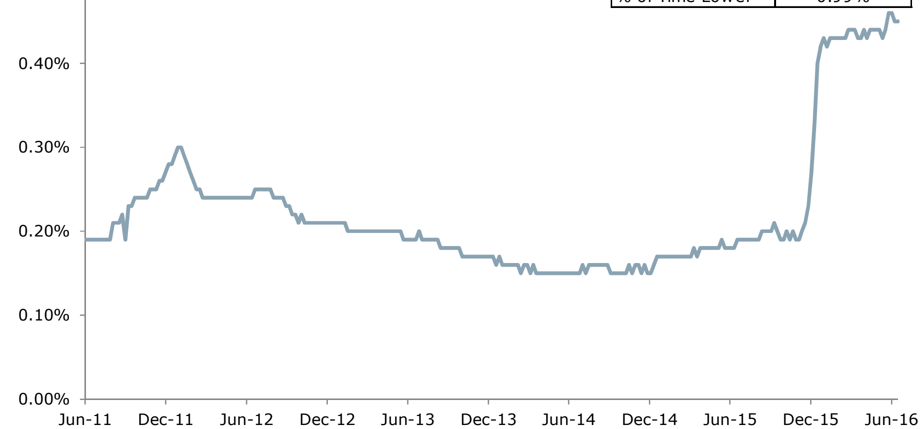
SIFMA

Current	0.41%
2 Years Ago	0.06%
% of Time Lower	0.96%



LIBOR

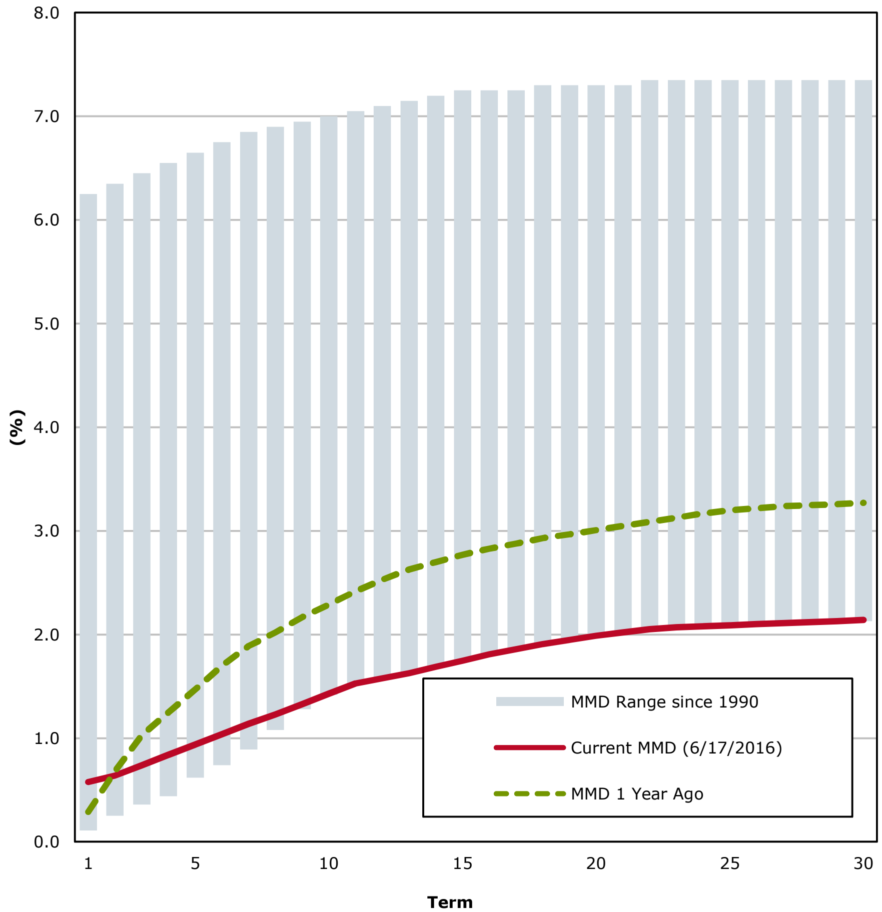
Current	0.45%
2 Years Ago	0.16%
% of Time Lower	0.99%



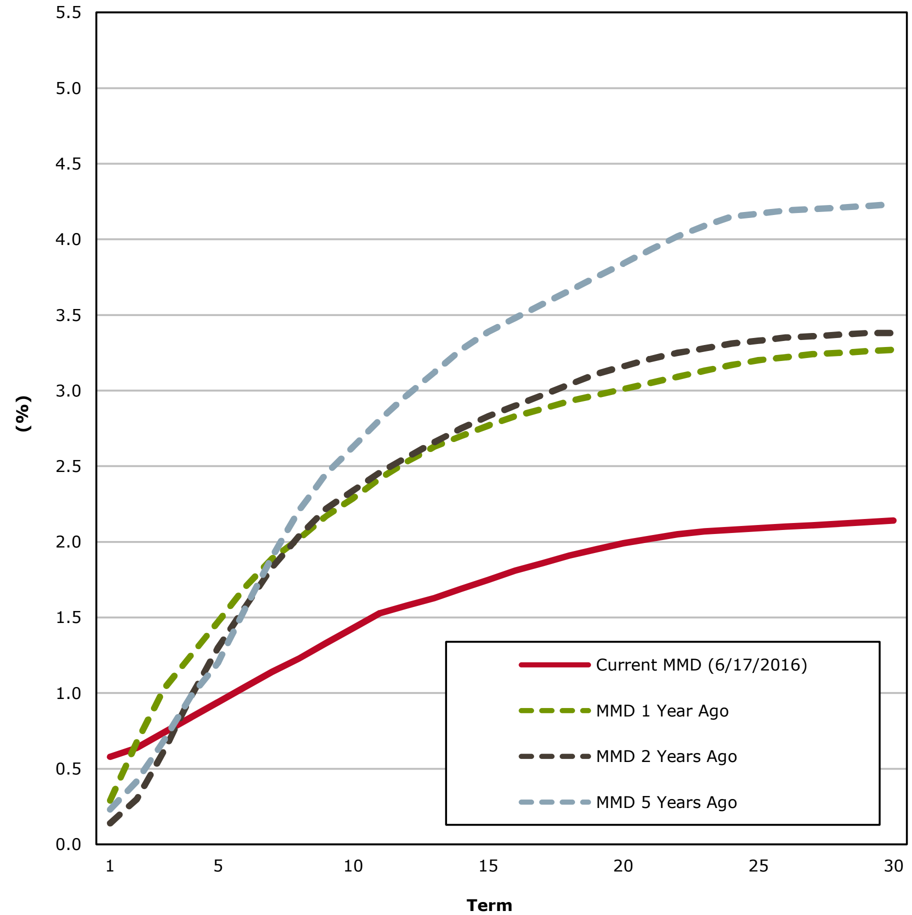
Source: Thomson Reuters TM3, as of 6/20/2016.

Historical Tax-Exempt Rates

Historical "AAA" MMD Ranges vs. Today's "AAA" MMD



Historical "AAA" MMD Yield Curves



Current tax-exempt rates are hovering near their 25-year historical lows

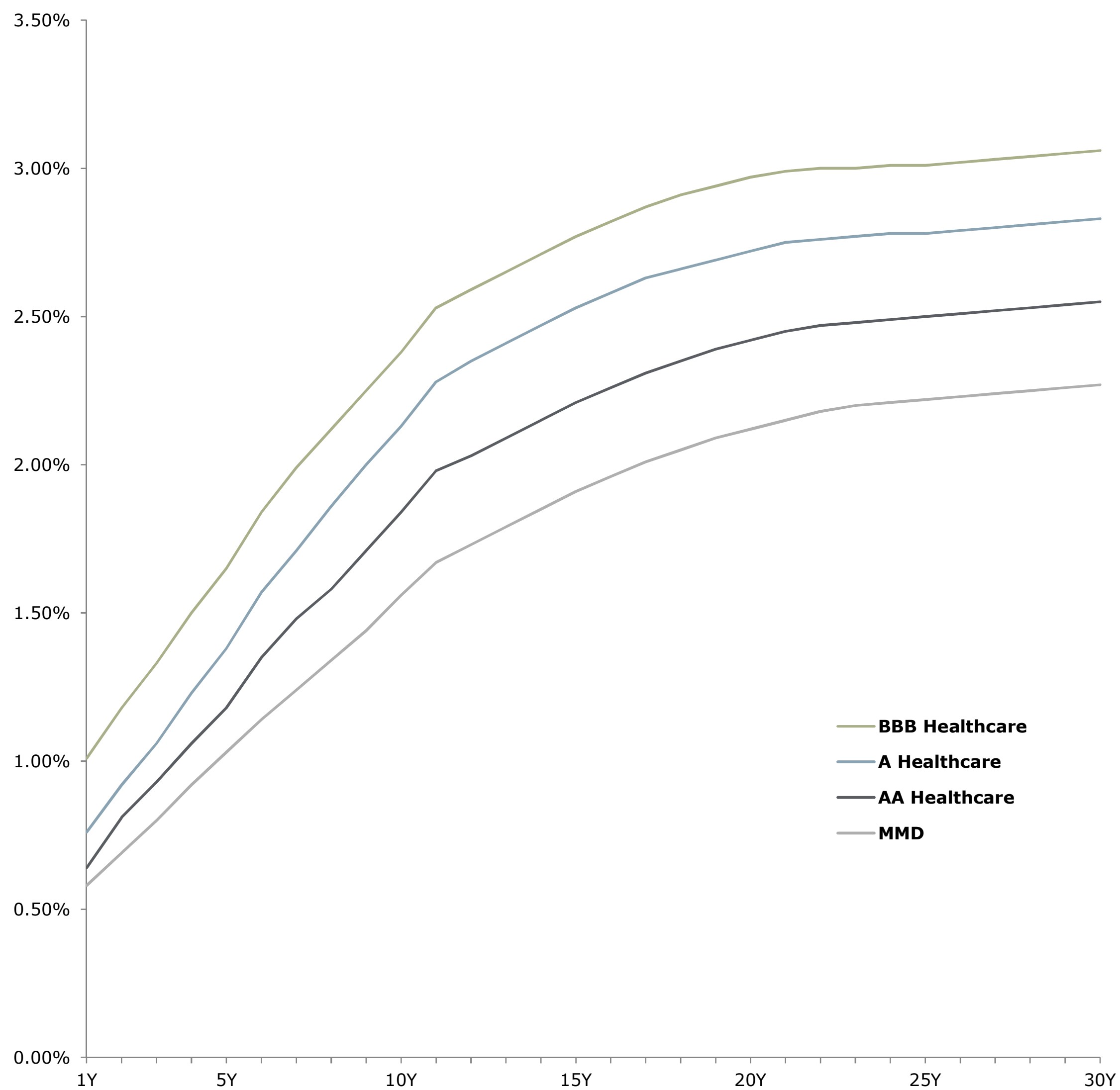
Source: TM3; MMD range from January 1, 1990 through June 17, 2016.

Healthcare Yield Curves by Rating Category

Healthcare Yields

Maturity	MMD	AA Healthcare	A Healthcare	BBB Healthcare
1Y	0.58%	0.64%	0.76%	1.01%
	0.69%	0.81%	0.92%	1.18%
	0.80%	0.93%	1.06%	1.33%
	0.92%	1.06%	1.23%	1.50%
5Y	1.03%	1.18%	1.38%	1.65%
	1.14%	1.35%	1.57%	1.84%
	1.24%	1.48%	1.71%	1.99%
	1.34%	1.58%	1.86%	2.12%
	1.44%	1.71%	2.00%	2.25%
10Y	1.56%	1.84%	2.13%	2.38%
	1.67%	1.98%	2.28%	2.53%
	1.73%	2.03%	2.35%	2.59%
	1.79%	2.09%	2.41%	2.65%
	1.85%	2.15%	2.47%	2.71%
15Y	1.91%	2.21%	2.53%	2.77%
	1.96%	2.26%	2.58%	2.82%
	2.01%	2.31%	2.63%	2.87%
	2.05%	2.35%	2.66%	2.91%
	2.09%	2.39%	2.69%	2.94%
20Y	2.12%	2.42%	2.72%	2.97%
	2.15%	2.45%	2.75%	2.99%
	2.18%	2.47%	2.76%	3.00%
	2.20%	2.48%	2.77%	3.00%
	2.21%	2.49%	2.78%	3.01%
25Y	2.22%	2.50%	2.78%	3.01%
	2.23%	2.51%	2.79%	3.02%
	2.24%	2.52%	2.80%	3.03%
	2.25%	2.53%	2.81%	3.04%
	2.26%	2.54%	2.82%	3.05%
30Y	2.27%	2.55%	2.83%	3.06%

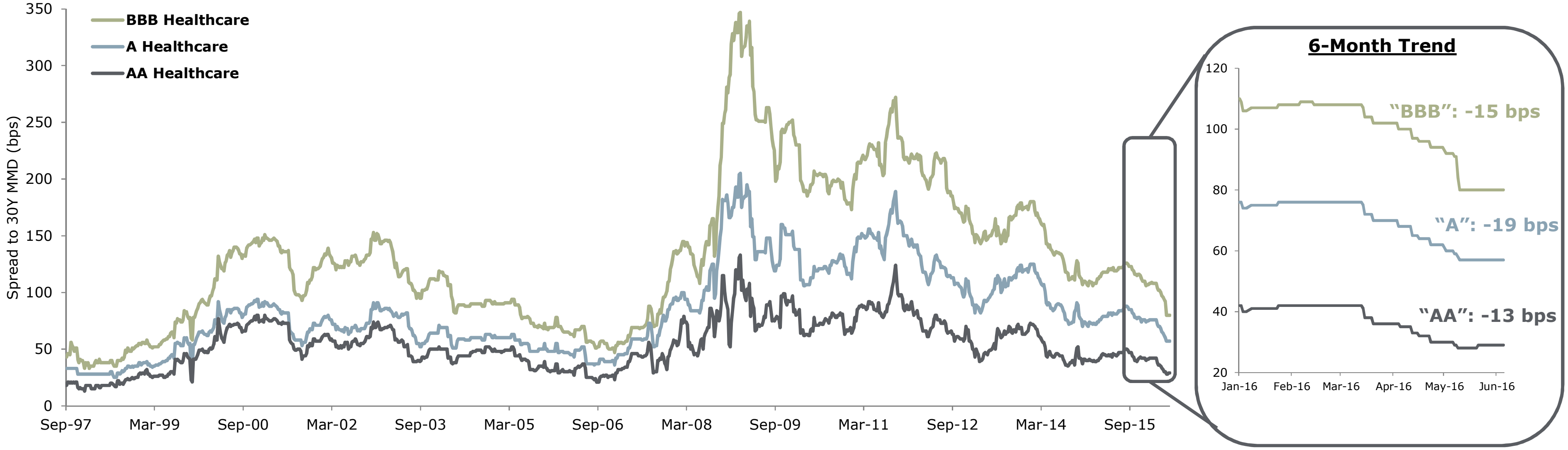
Healthcare Yield Curves



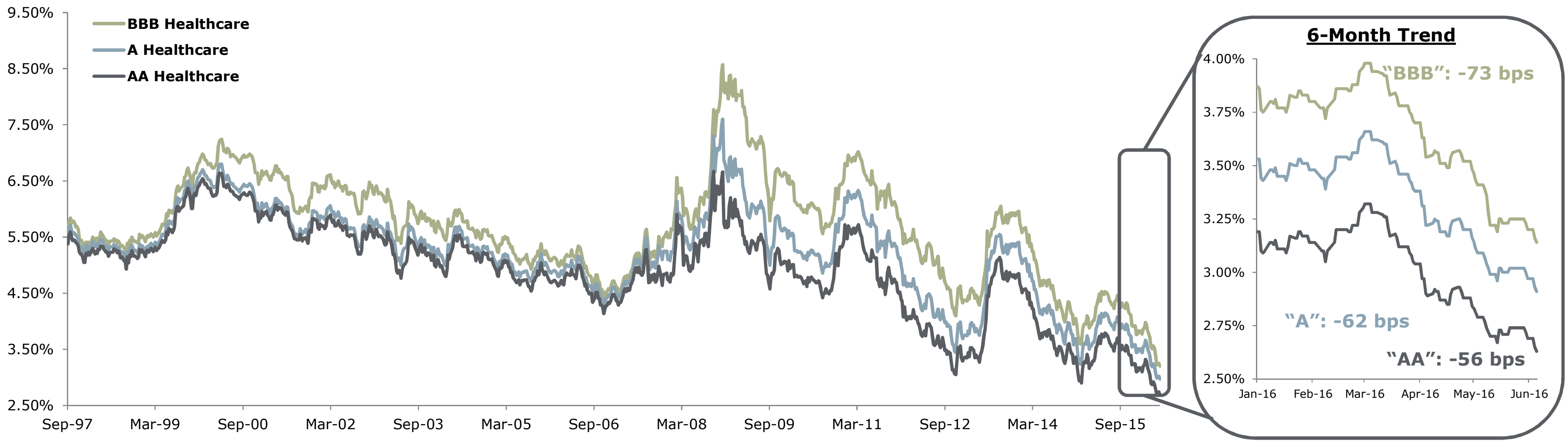
Source: Thomson Reuters; as of 6/20/2016.

Healthcare Credit Spreads and Yield Trends

Historical Healthcare Credit Spreads (30yr)



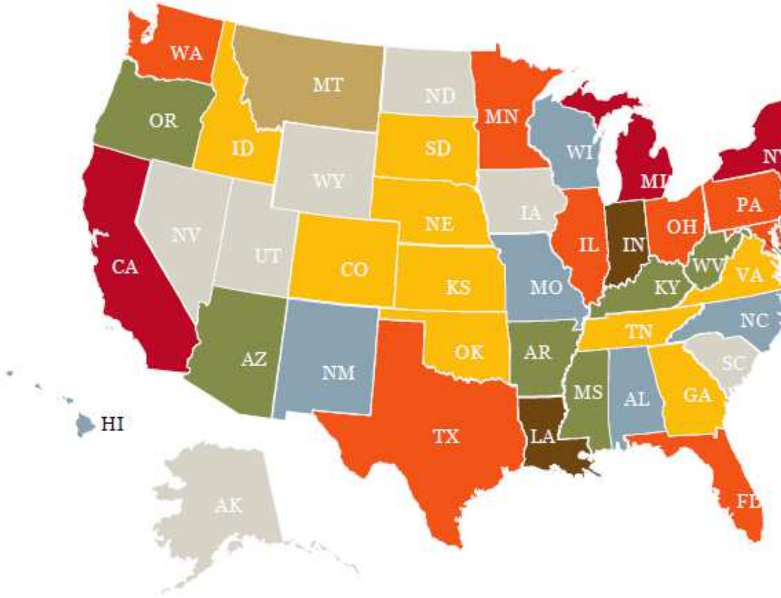
Historical Healthcare Yields (30yr)



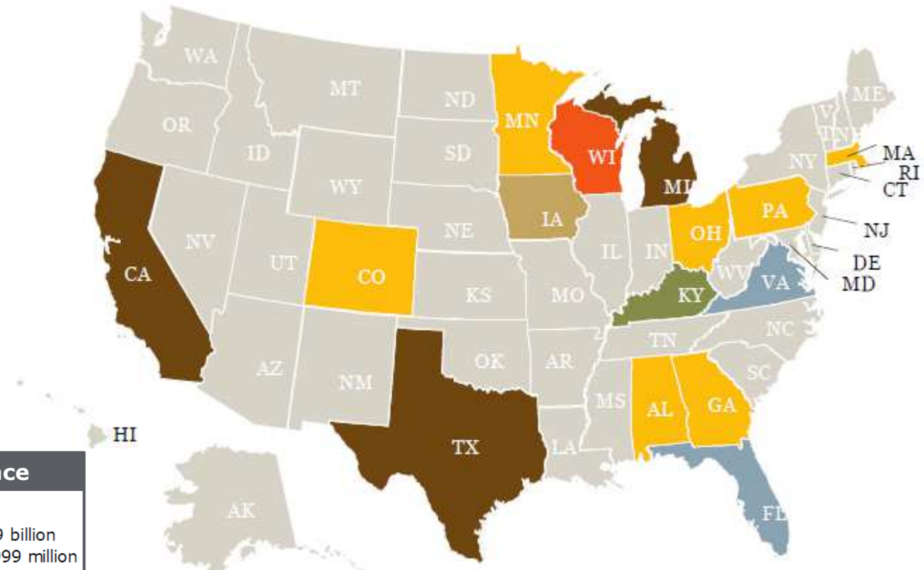
Source: Thomson Reuters; as of 6/20/2016.

Healthcare Issuance Trends

Healthcare New Issue Volume 2015



Healthcare New Issue Volume through April 2016

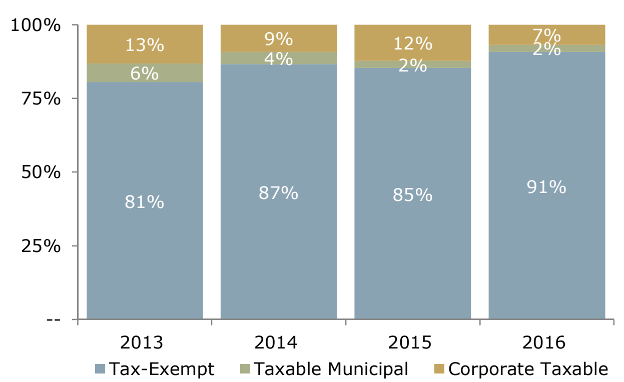


Total Issuance

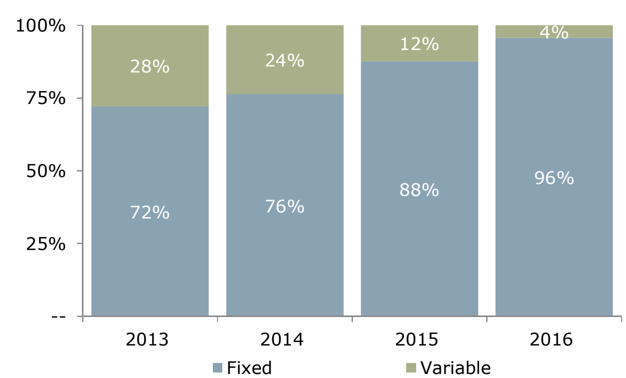
- >$1.5 billion
- $1.0 billion -1.49 billion
- $500 million - $999 million
- $250 million - $499 million
- $100 million - $249 million
- $50 million - $99 million
- <$50 million

Source: Bloomberg as of May 16, 2016

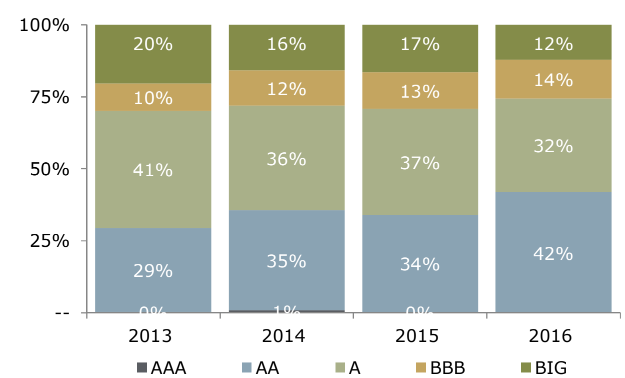
Tax Status



Mode



Ratings



Source: Thomson Reuters TM3 as of 6/17/2016

How Does the Taxable Fixed Rate Market Differ From the Tax-Exempt Market?

	Taxable Fixed Rate Public Market	Tax-Exempt Public Market
Market Depth / Size	▪ $7.6 trillion ▪ Optimal size >$250mm to be index eligible	▪ $3.7 trillion ▪ No size restraints
Eligible Buyers	▪ Broadest institutional distribution	▪ Broad distribution, both institutional and retail
Structure	▪ Typically bullets (although amortizing is possible)	▪ Bullet or amortizing (amortization much more common in T/E market)
Maturities	▪ Up to 30 years	▪ Up to 30 years, longer requires additional premium
Call Flexibility	▪ 10 year Par Call available for a price (25 basis points) ▪ Make-whole call ▪ No ability to refund for savings	▪ 10-year par call (can be shorter but will typically cost slightly more)
Documentation	▪ Prospectus, supplement, underwriting agreement, 10-b5 opinion, agreed upon procedures letter	▪ Official Statement, underwriting agreement, loan agreement with conduit issuer, 10b-5 opinion, agreed upon procedures letter, bond counsel opinion
Use of Proceeds	▪ Unrestricted	▪ Subject to tax qualification
Primary Benefits	▪ Flexible use of proceeds ▪ Reduced legal documentation and associated costs ▪ Quicker to market	▪ Lower cost of financing ▪ Greater flexibility in structuring options ▪ Investor base understands sector and credit
Primary Considerations	▪ Limited structuring options ▪ Investor base developing for NFP healthcare ▪ Harder to pin point credit spread	▪ Tax constraints (i.e. average life, yield restrictions) ▪ Slightly higher costs of issuance (i.e. tax opinion, conduit issuer fees)

Types of Issues: Tax-Exempt vs. Taxable vs. Private Placement Debt

	Tax-Exempt Public Market	Taxable Public Market	Private Placement
Market Depth / Size	▪ No size restraints ▪ Slight "liquidity" premium for smaller issues (<$20M) ▪ $3.7 trillion	▪ Optimal size >$250M to be index eligible ▪ <$250M requires premium ▪ $7.6 trillion	▪ Any size
Eligible Buyers	▪ Broad distribution, both institutional and retail	▪ Broadest institutional distribution	▪ Dominated by life insurance companies
Structure	▪ Bullet or amortizing (amortization much more common in TE market)	▪ Typically bullets (although amortizing is possible but typically at a cost)	▪ Customized
Maturities	▪ Up to 30 years (longer for higher rated credits)	▪ Up to 30 years (longer for higher rated credits)	▪ Stated maturity up to 30 year term
Call Flexibility	▪ 10-year par call (can be shorter but will typically cost more)	▪ Make-whole call ▪ Par call available for a premium	▪ Customizable for flexibility
Covenants	▪ MTI financial covenants	▪ MTI financial covenants	▪ Customized for each instance
Documentation	▪ Official Statement, underwriting agreement, 10b-5 opinion, agreed upon procedures letter, bond counsel opinion	▪ Prospectus, supplement, underwriting agreement, 10-b5 opinion, agreed upon procedures letter	▪ Private placement memorandum, note purchase agreement, roadshow materials
Ratings	▪ Ratings expected	▪ Ratings expected	▪ NAIC rating to sell to certain buyers
Preparation Time	▪ 10-12 weeks	▪ 4-6 weeks	▪ 4-8 weeks
Use of Proceeds	▪ Subject to qualification	▪ Unrestricted	▪ Unrestricted (if taxable) ▪ Subject to qualification (if tax-exempt)

Fixed vs. Variable Rate Bonds

Fixed Rate Bonds

Advantages

- No Interest Rate Risk -Budget Certainty
- No Ongoing Credit Support Needed
- Traditional Investors Include: Bond Funds, Insurance Companies, Arbitrage Accounts, Trust Departments and Retail Investors

Disadvantages

- Higher Initial and Expected Interest Expense
- Less Flexible Call Feature than Floating Rate Bonds
- Potentially Higher Issuance Costs

Fixed rate financings remain the most common approach in the current market

Variable Rate Bonds

Advantages

- Easy to Restructure
- Lower Expected Cost of Capital
- Used to Diversify Debt Portfolio
- Traditional Investors Include: Money Market Funds, Corporations and Retail Investors

Disadvantages

- Interest Rate Risk
- Unpredictable Pricing of Support Costs
- Additional Administrative Involvement

Given the Fed's recent rate increases, variable rates have increased from their historical lows in February, with SIFMA recently resetting at 0.39%. This compares to a 20-year average of 1.79%.

Wide Array of Fixed and Floating, Public and Private, Financing Alternatives

Considerations / Risks	Fixed Rate Bonds				Variable Rate Bonds			
	Direct Purchase	Put Bonds	Synthetic Fixed Rate	Public Market Fixed Rate	Self-Liquidity VRDB	VRDB w/ LOC	Floating Rate Notes ("FRN")	Direct Purchase Index Floater
Bank Downgrade Risk *Risk that spread over SIFMA increases or bond is tendered due to investor discomfort with bank credit*	-	-	-	-	-	✓	-	-
Remarketing Risk *Risk that one remarketing agent may not be as strong as another, and spread can suffer*	-	✓	-	-	✓	✓	-	-
Interest Rate Risk *Risk that interest rates change unfavorably during the life of the bonds*	-	-	-	-	✓	✓	✓	✓
Systemic Put Risk *Risk that the bonds can be "put back" on short notice*	-	-	-	-	✓	✓	-	-
Renewal / Rollover Risk *Risk that pricing is not renewed at the same rate every time during the life of the bond*	✓	✓	-	-	-	✓	✓	✓
Bank Covenants *Subject to bank covenants (generally more strict than public market)*	✓	-	-	-	-	✓	-	✓
Additional Public Disclosure Required *Need for an Official Statement and Appendix A*	-	✓	✓	✓	✓	✓	✓	-
Uses Bank Capacity *Uses up capacity with bank so that borrowing may be more difficult later in periods of less favorable market conditions*	✓	-	-	-	-	✓	-	✓
Requires Derivatives *Structure requires the use of a new derivative product*	-	-	✓	-	-	-	-	-

Preparing for Capital Markets

Preparing for Cost Effective Capital Access

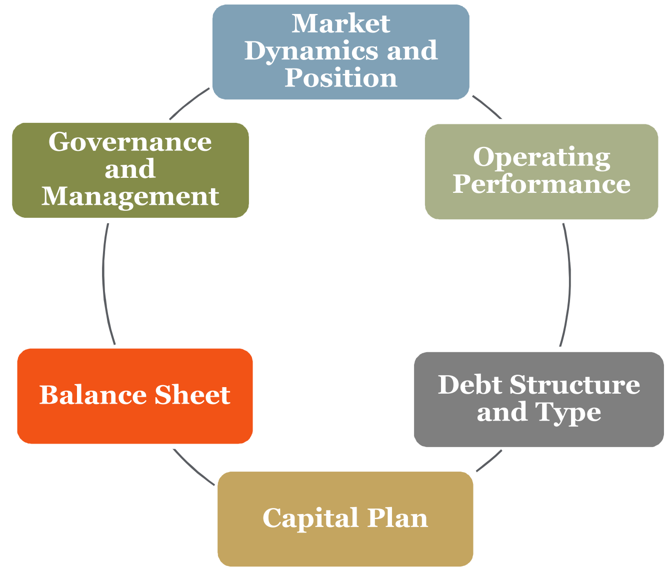
Key Strategies

- Maximize all financial resources
- Grow liquidity – build and guard your days cash on hand
- Manage for alternatives
- Ensure investments are more liquid and conventional
- Focus capital investment on projects with highest potential rates of return
- Review covenants for possible changes
- Carefully and selectively seek collaboration with physicians and other entities to share costs and outcomes
- Develop, maintain, and frequently update your 3 - 5 year strategic and capital plans
- Regularly maintain disclosure elements contained in Appendix A
- Expand quarterly disclosure

Managing Capital Access – Rating Agency and Credit Market Drivers

Capital Access and Availability is an ongoing process

Key Factors in Assessing Credit Quality



Key Factors in Assessing Capital Availability

External

- **Capital Campaign Pledges**
  - Amount and timing may not be reliable
  - Receipts may not be on the same schedule as expenditures
- **New Debt Issuance**
  - Fixed vs variable
  - Term
  - Credit quality
  - Relative market timing
  - Type of assets financed

Internal

- **Unrestricted Funds**
  - Appropriate liquidity for rating level maintenance
  - Return on invested funds vs borrowing cost
- **Operating Cash Flow**
  - Net after debt service and amounts needed to build cash reserves
  - Helps determine debt capacity
  - Risks of sustainability
- **Asset Disposition**
  - Optimum use of invested cash/rate of return
- **Debt Restructure**
  - Savings and improvement in net operating cash flow
  - Increases potential debt capacity

Potential Negative Outcomes of Poor Planning

Capital Plan

Implications of inconsistent plan review and updating:

- Weaker financial position
- Higher cost of capital
- Insufficient capital generation
- Strategic capital improvement deferral

Diminishment of competitive position

Immediate Effects

- Inability to fund technology investments
- Loss of patients to more modern facilities
- Physician retention

Long-Term Effects

- Difficulties with physician recruitment
- Limited ability for service expansion
- Decline in quality of physical plant and equipment
- Inability to address Affordable Care Act change adequately

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