WISCONSIN HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Proudly Serving All Wisconsin Non-Profit Institutions

Capital Comments

A Quarterly Newsletter | whefa.com | Summer 2016

Message from the Executive Director

2016 Fiscal Year in Review

Three years have passed since the legislature expanded WHEFA's statutory powers to allow us to serve ALL Wisconsin 501(c)(3) non-profit organizations. The WHEFA acronym stands for "Wisconsin Health and Educational Facilities Authority", which could lead some to believe that we serve only health and educational institutions. Therefore, in the last year, we added the tag line *"Proudly Serving All Wisconsin Non-Profit Institutions"* above our logo to better capture the fact that WHEFA may now work with all 501(c)(3) organizations in Wisconsin.

WHEFA is busy finishing up its 2016 fiscal year, and June 30, 2016 will mark the end of another successful year in WHEFA's 37-year history. The ability to issue bonds for a broader and more diverse group of borrowers has never been more apparent than in this fiscal year during which WHEFA completed financings for seven acute care organizations, four long-term care facilities, three private colleges, one private K-12 school, and three new non-profit organizations.

The three first-time non-profit borrowers were not eligible for WHEFA financing prior to the expansion of WHEFA's powers and included a $4.4 million financing for St. Vincent de Paul of Waukesha County; a $25.7 million financing for REF Bridgeway Commons, LLC, a public private partnership with UW Platteville; and a $226.4 million financing for Milwaukee Regional Medical Center Thermal Service, Inc.

In total, WHEFA completed 23 financings totaling over $1.9 billion in fiscal year 2016. A detailed "Fiscal Year in Review" will be published soon on our web site. Below are just a few of the highlights for this fiscal year:

- 23 financings completed totaling $1,908,534,802.
- $1,116,293,611 (58%) for refinancing.
- $792,241,191 (42%) for new capital expenditures.
- 10 financings for new capital expenditures only.
- 9 financings for refinancing only.
- 4 financings for both refinancing and new capital expenditures.
- 19 private placements totaling $689,319,802.
- 4 public placements totaling $1,219,215,000.
- Institutions at approximately 40 different Wisconsin locations benefited from bonds issued by WHEFA.

The WHEFA staff takes great pride in the wide diversity of borrowers (both in size and type) that we serve each year. It is a pleasure working with so many institutions on a daily basis, from community providers to cultural facilities, long-term care and senior living organizations, educational institutions, rural and urban health care providers and large health care systems. WHEFA is proud to assist so many non-profit institutions throughout Wisconsin and our new tag line could not be more true than in this fiscal year:

"Proudly Serving All Wisconsin Non-Profit Institutions"

We hope you find this edition of the WHEFA Capital Comments to be informative and helpful.

As always, please do not hesitate to call if we can be of assistance, or simply answer a question

Have a wonderful summer.

Kindest Regards,

Dennis P. Reilly

Dennis P. Reilly
Executive Director

In This Issue...

Financing Spotlight

$226,400,000
WHEFA Bond Financing Helps Milwaukee Regional Medical Center Thermal Service, Inc.
Begin Operations in Wauwatosa
Closed: April 21, 2016

"Access to lower cost tax-exempt financing through WHEFA allowed Thermal to acquire the Milwaukee County Power Plant and will allow Thermal to make improvements to the facilities, equipment and distribution system. These improvements will modernize the 60 year old plant, reduce emissions, improve reliability and create capacity for future growth while minimizing utility cost increases to the healthcare facilities served by it."

– Robert W. Mlynarek,
Vice President of Finance
Milwaukee Regional Medical Center

This project will create 23 permanent jobs.
EverGreen Energy will manage the plant.

Bond financing facilitated by WHEFA will be used to help Milwaukee Regional Medical Center Thermal Service, Inc. ("Thermal") finance the acquisition of an existing steam and chilled water facility and distribution system that provides heating and cooling services to the Milwaukee Regional Medical Center campus. The project also includes the replacement of coal fired boilers with gas fired boilers which will improve the environmental impact of the power plant by dramatically reducing noxious emissions. Improvements to the power plant and distribution system will also be made resulting in increased efficiency, lower operating costs and greater reliability of these utility services to the critical health care facilities it serves. This federally tax-exempt financing process has enabled the borrower to operate more effectively by financing its capital expenses at a lower interest rate (initially 1.26%).

Thermal, created in 2013, is operated, supervised, and controlled by the Milwaukee Regional Medical Center, Inc. with the purpose of providing steam and chilled water to a consortium of six health care institutions located on a 248-acre campus in Wauwatosa, Wisconsin.

WHEFA is proud to have been able to assist Thermal by reducing their overall debt service and allowing them to grow by providing access to low cost private capital.

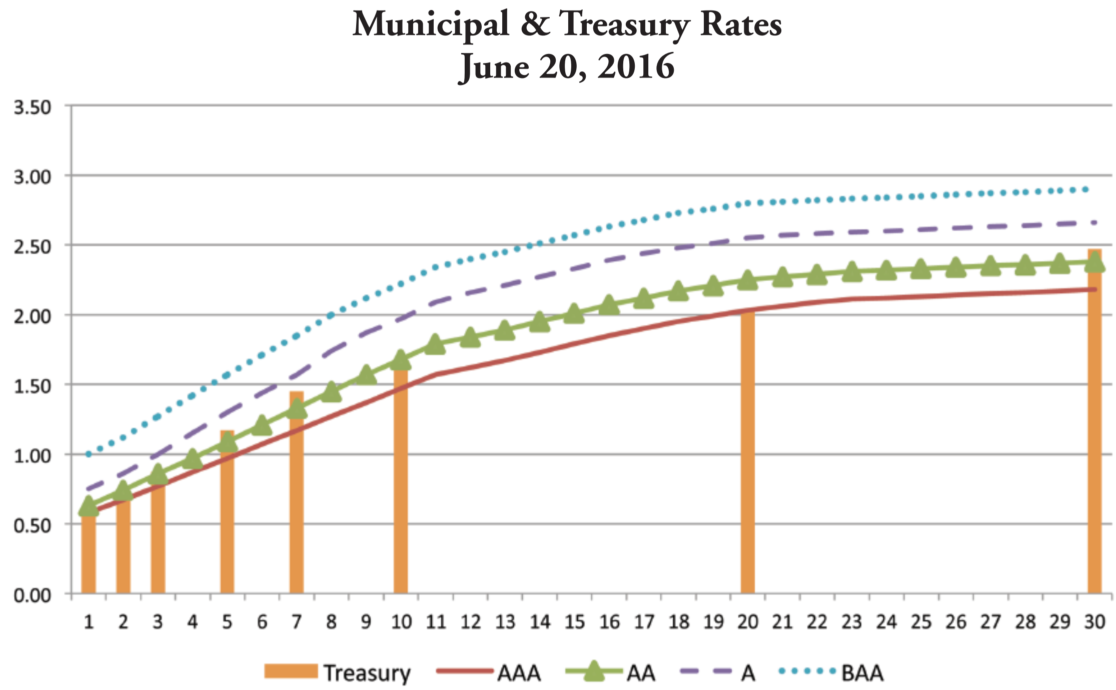
Recently Completed Financings

Date	Borrower	Purpose	Amount	Structure
04/21/16	Milwaukee Regional Medical Center Thermal Service, Inc.	New Money	$226,400,000	Monthly Variable Rate, Unrated, Private Placement
04/27/16	New Glarus Home, Inc. Project	New Money	$12,840,000	5-Year Reset Rate, Unrated, Private Placement
05/11/16	Ascension Senior Credit Group	Refinancing, New Money	$1,019,750,000	Fixed Rate, Rated, Public Placement
05/11/16	The Medical College of Wisconsin, Inc.	New Money, Refinancing	$ 157,805,000	Fixed Rate, Rated, Public Placement
05/25/16	Beloit Health System, Inc.	New Money	$16,465,000	Fixed Rate, Rated, Public Placement
06/08/16	Unity Point Health, Series F & G	Refinancing	$85,000,000	Monthly Variable Rate, Unrated, Private Placement
06/09/16	St. Norbert College, Inc.	New Money	$24,000,000	Monthly Variable Rate, Unrated, Private Placement

Interest Rates (as of June 22, 2016)

	Current	Three Months Ago	One Year Ago
SIFMA Muni Swap Index	0.430%	0.290%	0.700%
Bank Prime Rate	3.500%	3.500%	3.250%
10-Year Treasury Note	1.690%	1.880%	2.370%
Revenue Bond Index (30-Year, Tax-Exempt Rate)	3.380%	3.350%	4.100%

Muni Index Yield Curve by Credit Rating



(Source: Treasury.gov June 20, 2016 Robert W. Baird)

WHEFA Announces its 20th Annual Workshop

"Insights Into Capital Finance", a one day Workshop hosted by WHEFA, will be held on Monday, March 20, 2017 at the Country Springs Hotel in Waukesha, Wisconsin. This Workshop is designed for financial executives of all Wisconsin non-profit institutions, as well as other financial professionals who assist in the financing process.

This will be a free Workshop presented in the hopes of improving statewide knowledge about the capital financing process. Invitations will go out early next year. We hope you can join us for our 20th Workshop!

The Bond Deal is Over; Now What?

POST-CLOSING REQUIREMENTS OF A BOND ISSUE

This is another in a series of articles summarizing items that need ongoing attention by the borrower after the bond issue has closed. Annual attention must be given to Internal Revenue Service Form 990. This "Return of Organization Exempt From Income Tax" form provides an overview of the organization's activities, governance and detailed financial information. In addition to Form 990, tax-exempt organizations are also subject to a variety of disclosure and compliance requirements through various schedules which are attached to Form 990. Filing of schedules by organizations supplements, enhances, and further clarifies disclosures and compliance reporting made in Form 990. One such schedule required is Schedule K, which requests certain information on outstanding liabilities associated with tax-exempt bond issues. The points below highlight some items for consideration when completing Schedule K of Form 990.

By: Pat Walsh, Attorney; Hall, Render, Killian, Heath & Lyman, P.C.

IRS Form 990 Annual Reporting

<u>Schedule K – Generally.</u> Schedule K to IRS Form 990 requires the following general types of information.

(a) identification of outstanding bond issues, including the names of the Issuer (such as WHEFA), date of issue and use of proceeds;
(b) the application of expenditure of bond proceeds, including costs of issuance, working capital expenditures, and capital expenditures;
(c) arbitrage and rebate;
(d) the existence of investment agreements, such as hedges, swaps and investment contracts.

<u>Schedule K – Private Use (Part III).</u>

Requires an issue-by-issue (post- 12/31/2002 new money issues only) response, identifying the following with respect to bond-financed property:

(a) private (non-501(c)(3)) ownership;
(b) leases resulting in private use;
(c) service contracts and research agreements;
(d) percentage of financed property used for private business use;
(e) percentage of financed property resulting in unrelated business income.

<u>Annual Diligence for Part III.</u>

Completion of Schedule K, Part III will require an ongoing review of leases, service agreements, research agreement, and asset sales. This review will be comparable to the tax diligence typically complete in connection with a new bond issue. Note, however, the specific time periods and issue-by-issue allocations that are required under Schedule K may differ from recent bond diligence.

<u>Compliance Program.</u>

Schedule K, Parts III, IV and V ask if the organization has adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities.

Form 990 and its associated Schedule K can be complex to navigate during completion. Always remember that borrower counsel and bond counsel from the bond transaction are there to assist with these tax forms.

Washington Advocacy Report

The following report was written for the National Association of Health & Educational Facilities Finance Authorities (NAHEFFA) and is being included in this copy of the WHEFA Newsletter.

By Charles A. Samuels, NAHEFFA General Counsel & Washington Advocate; Mintz Levin
Dated: June 12, 2016

Traditionally, the opening of my report at this time of the year in a presidential election should focus on the presidential candidates' tax reform proposals and their impact on tax-exempt bonds. But, the reality is that no one really knows what Donald Trump thinks about tax reform and whether there is any relationship between his tax reform proposal — to radically cut taxes and increase the deficit — and what in fact he might support if in office. This is a subset of the larger proposition that anyone who tells you that they know how a Trump administration would operate should be dismissed immediately. Having said that, I note that Mr. Trump has experience in urban renewal/economic development projects that may give him a perspective professional politicians don't have.

On the other hand, the Clinton tax reform proposal is clear, understandable and pretty much what you'd expect from a moderately liberal Democratic candidate. It is not too different from Obama proposals to significantly reduce exemptions and deductions and inevitably, if indirectly, tax municipal bond interest through some type of surcharge or minimum tax. We should understand, however, that even a fairly comprehensive, well-thought-out tax reform proposal in a campaign undoubtedly will be overhauled before it is proposed to Congress. But, we can understand that directionally a Clinton tax policy will be very supportive of enhanced infrastructure financing but probably not equally be supportive of tax-exempt bonds. You combine this with increased criticisms of private college tuition increases, use of endowments and hospital practices, pricing and reserves (and even private museums!) and you don't have to be particularly prescient to recognize that we are seriously vulnerable in any presidential scenario.

Meanwhile, in this Congress, the threat level is pretty low although we will see tax proposals and there have been several Ways and Means hearings about tax reform. One activity which is attracting concern is that the resolution of the Puerto Rican debt crisis not end up being a bill which, particularly in the Senate, attracts other provisions. There is some thought, for example, that the SEC and others are lobbying for authority over issuers and that something like that might be snuck into this legislation. So, the public finance community is carefully monitoring this issue.

Meanwhile, on the regulatory front, the MCDC so-called voluntary reporting initiative still has not culminated in all the issuer/borrower settlements although they apparently are imminent as of this writing and will include borrowers in our nonprofit sector. It's been a massive enforcement program, has cost dealers and issuers millions of dollars in legal fees and other expenses and relates to disclosure, reporting or timeliness omissions which thus far have not been demonstrated to relate to any harm to any investor or anyone else.

Like many others, NAHEFFA has been engaged in dealing with proposals on bank loans, including the rather ill-considered concept proposal by the MSRB that municipal financial advisors somehow be responsible for making disclosures. The almost overwhelmingly negative response, including by your Association, to this proposal probably has killed it but there is a suspicion that it is simply a precursor for other regulatory moves at the SEC and the MSRB.

NAHEFFA has reiterated to MSRB its interest in conduit financing-specific guidance on the application of the municipal finance or advisor rules. After three years of pending requests, the MSRB has responded affirmatively to engage with us, and we will be submitting substantive questions and hypothetical scenarios for MSRB guidance.

So, there's plenty going on and those authorities who are shoring up their Capitol Hill relationships during this hiatus are much appreciated. I am looking forward to updating you on all these issues when we get together in Chicago in the fall.

WHEFA Chairperson Appointed

James Dietsche has been appointed Chairperson of the WHEFA Board of Directors. Jim is the Chief Financial Officer of Bellin Health in Green Bay, Wisconsin and has been a Board Member since 2012. The WHEFA Board and staff look forward to continuing the mission of WHEFA under Jim's leadership.

Save the Date!
WHEFA WORKSHOP – 20th Anniversary
Monday, March 20, 2017

About WHEFA

For 37 years, WHEFA has been quietly fulfilling its mission of assisting Wisconsin's non-profit institutions to obtain access to low-cost capital in order to finance their building and equipment improvement and expansion needs. During this time, WHEFA has issued over $24.1 billion of federally tax-exempt bonds to provide several hundred Wisconsin non-profit corporations access to private and public capital markets at lower costs than are available to them in the conventional marketplace.

Pursuant to Section 231.10 of the Wisconsin Statutes, bonds issued by WHEFA are not considered indebtedness of the State of Wisconsin, and the State has no obligation to repay any bonds issued by WHEFA under any circumstances. Additionally, WHEFA does not utilize any State moneys to fund its operations.

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WHEFA

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