

Capital Comments

A QUARTERLY NEWSLETTER

WHEFA.COM

WINTER 2016

Message from the Executive Director

Planning is well underway for the 20th Annual WHEFA Workshop to be held on Monday, March 20, 2017 at the Country Springs Hotel in Waukesha, Wisconsin. This Workshop, offered at no cost to participants, is an effort by WHEFA to provide our constituents with the latest information on issues affecting access to capital finance and ongoing financial operations. We truly hope you are able to attend as we have a great line-up of speakers and topics. Please look for your invitation in the coming weeks.

WHEFA has had a busy start to its 2017 fiscal year that commenced on July 1, 2016. In just six months, WHEFA has completed 14 financings totaling approximately \$516 million, including a financing for Skaalen Retirement Services in Stoughton, WI. Please see the enclosed 'Financing Spotlight', which highlights the financing of a new residential care apartment complex for Skaalen Retirement Services.

I hope you enjoy this edition of the WHEFA Capital Comments. For the latest news and possible outcomes regarding the future of tax-exempt financing, I invite you to read the enclosed Washington Advocacy Report by Charles A. Samuels from Mintz Levin. It remains critical that we all advocate to our respective representatives in Washington D.C. the importance of tax-exempt financing.

I also encourage you to review the enclosed not-for-profit median ratios for fiscal year 2016 from Moody's Investors Service, Fitch Ratings and Standard & Poor's Ratings Services. Whether your entity already is an investment grade borrower, or is striving to become one, I think you will find the median ratios very helpful as you manage your operations.

Finally, if you haven't done so already, I would urge you to read our 38-year anniversary Annual Report posted to our web site.

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

Best wishes for a happy and prosperous New Year.

Danis P. Rilly

Kindest Regards,

Dennis P. Reilly Executive Director In This Issue...

Financing Spotlight:

Skaalen Retirement Services, Inc.

Page 2

Recently Completed Financings

Page 3

Interest Rates

Page 3

Muni Index Yield Curve

Page 4

WHEFA Announces its 20th

Annual Workshop

Page 4

Medians for Healthcare

Pages 5

Medians for Continuing Care

Retirement Communities

Pages 6

Medians for Private Universities

Pages 7

Washington Advocacy Report

Pages 8-9

About WHEFA

Page 9

Financing Spotlight

\$10,965,000 WHEFA Bond Financing Helps Skaalen Retirement Services, Inc. Expand and Renovate in Stoughton



"The tax-exempt financing savings associated with this financing will help us to achieve our mission now and also give us the flexibility needed to continue the repositioning of our senior care campuses into the future."

 Kristian Krentz, President/Chief Executive Officer Skaalen Retirement Services, Inc.



This project will create 32 permanent jobs with an annual payroll of \$959,000, as well as 150 construction jobs.

Skaalen Retirement Services employs approximately 332 full-time equivalents in Wisconsin.

Bond financing facilitated by WHEFA will be used to help Skaalen Retirement Services finance the construction and equipping of a new 33-unit residential care apartment complex of approximately 41,100 square feet on their existing campus in Stoughton, Wisconsin, renovations to and equipping of the existing skilled nursing facilities and the conversion of a portion thereof into a community based residential facility for memory care, together with other capital expenditures and equipment acquisitions. 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 2.80%).

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

Recently Completed Financings

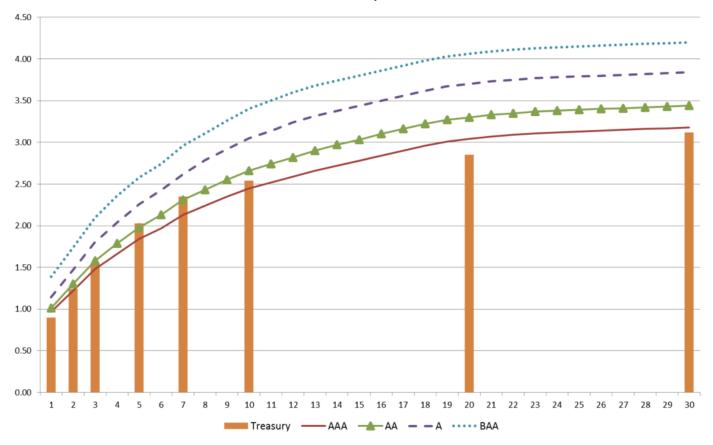
<u>Date</u> 10/05/16	Borrower Marshfield Clinic Health System, Inc., Series A&B	Purpose Refinancing, New Money	<u>Amount</u> \$209,005,000	Structure Fixed Rate, Rated, Public Placement
10/18/16	Marquette University	New Money, Refinancing	\$ 81,875,000	Fixed Rate, Rated, Public Placement
10/19/16	Franciscan Sisters of Christian Charity Sponsored Ministry, Inc.	New Money	\$ 10,000,000	Monthly Variable Rate, Unrated, Private Placement
11/04/16	Oakwood Lutheran Senior Ministries	Refinancing, New Money	\$ 43,515,000	Monthly Variable Rate, Unrated, Private Placement
11/22/16	Skaalen Retirement Services, Inc. Project	New Money	\$ 10,965,000	10-Year Reset Rate, Unrated, Private Placement
12/22/16	Madison Country Day School, Inc., Series A & B	New Money, Refinancing	\$ 7,235,313	5-Year Reset Rates, Unrated, Private Placement
12/23/16	Evergreen Retirement Community, Inc. Project	New Money	\$ 14,150,000	Fixed Rate, Unrated, Private Placement
12/23/16	Shady Lane, Inc.	New Money	\$ 6,000,000	10-Year Reset Rate, Unrated, Private Placement

Interest Rates (as of December 19, 2016)

	Current	Three Months Ago	One Year Ago
SIFMA Muni Swap Index	0.660%	0.700%	0.010%
Bank Prime Rate	3.750%	3.500%	3.500%
10-Year Treasury Note	2.540%	1.700%	2.200%
Revenue Bond Index (30-Year, Tax-Exempt Rate)	4.000%	2.650%	3.970%

Muni Index Yield Curve by Credit Rating

Municipal & Treasury Rates December 19, 2016



(Source: Treasury.gov December 19, 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!

Medians for Healthcare

Standard & Poor's Ratings Services has recently released its not-for-profit health care median ratios for stand-alone hospitals and health care systems.

There were stronger operating margins for stand-alone hospitals in 2015 at each rating category, offset by consistently softer non-operating revenue compared to 2014. Balance sheet metrics were also fairly stable although days' cash on hand declined slightly in all categories except the 'AA' category which saw a slight increase.

Stand-Alone Hospital Median Ratios By Rating Category: Fiscal Year-End 2015

	AA	_A_	BBB	Speculative Grade
Sample Size	33	137	97	27
Maximum Annual Debt Service Coverage (x)*	6.7	4.5	3.3	1.7
Operating Margin (%)*	5.8	3.6	2.4	(0.7)
Days Cash on Hand*	384.2	248.6	158.5	85.9
Long-Term Debt / Capitalization (%)*	21.9	29.1	36.0	48.1

System medians, similar to the stand-alone medians, demonstrated operating margin improvement in 2015, which when combined with softer non-operating income produced modest coverage gains in the higher rating categories, with slight declines in the lower rating categories. Balance sheet metrics remained largely stable.

Not-For-Profit Health Care System Medians Ratios By Rating Category: Fiscal Year-End 2015

	AA	A	BBB	Speculative Grade
Sample Size	58	70	10	4
Maximum Annual Debt Service Coverage (x)*	6.3	4.4	2.4	1.6
Operating Margin (%)*	4.7	3.5	0.7	(1.7)
Days Cash on Hand*	280.7	183.4	115.4	74.2
Long-Term Debt / Capitalization (%)*	27.8	37.6	42.1	75.6

*Definitions:

Maximum Annual Debt Service Coverage (x) – net revenue available for debt service / estimated future peak principal payments and interest expense

Operating Margin (%) - (total operating revenue - total operating expenses) / total operating revenue

<u>Days Cash on Hand</u> – (unrestricted cash and investments x 365) / (total operating expenses – depreciation and amortization expenses)

Long-Term Debt / Capitalization (%) – (long-term debt + short-term debt + short-term debt + short-term debt + unrestricted fund balance)

(Sources: S&P Global Ratings – RatingsDirect: U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios 2015 vs. 2014; September 21, 2016 AND U.S. Not-For-Profit Health Care System Median Financial Ratios 2015 vs. 2014; September 21, 2016)

Medians for Continuing Care Retirement Communities

Fitch Ratings has released data on 2015 investment grade median ratios for continuing care retirement communities (CCRCs). Most indicate sustained core operating performance, despite a generally weaker investment market. operating performance. While Fitch sees continued operating stability throughout the remainder of 2016, the largest driver of negative rating pressure has been, and will continue to be, the impact of additional debt issued to fund campus renovations or expansions. Over the longer term, rating pressure will likely result from operating challenges, including governmental reimbursement stress and labor expense growth.

CCRC Medians by Rating Category: Fiscal Year-End 2015

	Investment Grade	A	BBB	Below Investment Grade
Sample Size	95	29	66	19
Days Cash on Hand*	477.0	671.0	425.0	256.3
Operating Ratio (%)*	96.5	94.9	96.8	97.8
Excess Margin (%)*	3.6	4.7	2.2	(0.8)
MADS Coverage Ratio-Revenue Only (x)	1.1	1.2	1.0	0.7
Adjusted Debt-to-Capitalization (%)*	59.4	47.4	62.4	79.5

CCRC Medians by Contract Type: Fiscal Year-End 2015

	Type A	Type B	Type C	
Sample Size	49	22	39	
Days Cash on Hand*	477.9	392.8	364.2	
Operating Ratio (%)*	98.7	94.9	95.5	
Excess Margin (%)*	2.5	6.2	1.4	
MADS Coverage Ratio-Revenue Only (x)	0.7	1.2	1.3	
Adjusted Debt-to-Capitalization (%)*	65.2	62.2	61.9	

*Definitions:

<u>Days Cash on Hand</u> – (unrestricted cash and investments) / (cash operating expenses / 365)

Operating Ratio (%) – cash operating expenses / cash operating revenues

Excess Margin (%) – (total operating revenue – total operating expenses + non-operating revenue) / (total operating revenue + non-operating revenue)

<u>Adjusted Debt-to-Capitalization (%)</u> – total debt / total debt + deferred revenues from nonrefundable entrance fees + unrestricted net assets (Source: FitchRatings – Public Finance: 2016 Median Ratios for Nonprofit Continuing Care Retirement Communities; October 25, 2016)

Medians for Private Universities

Moody's Investors Service has released data on 2015 non-for-profit private university medians. Large private universities have leveraged their brands and diverse operations to outperform their smaller counterparts and have had materially stronger growth in both size of operations and total wealth. While smaller universities have largely maintained their levels of operating performance, they have begun to pull back on capital investment and debt issuance. As competition continues to grow in the higher education sector, the largest universities with the strongest brands and most diverse operations will continue to outperform.

Small Private College & University Medians by Rating Category: Fiscal Year-End 2015:

(Small private universities have total FTE enrollment of less than 3,000 students with typically less than 15% of operating revenue from patient care revenue and grants and contracts combined.)

	Aaa	Aa	A	<u>Baa</u>
Sample Size	3	23	32	22
Total Debt-to-Total Capitalization (%)*	9.0	12.3	17.0	21.5
Annual Days Cash on Hand*	2,160	657	490	241
Operating Margin (%)*	17.1	4.6	2.2	2.2
MADS Coverage (x)	2.47	1.90	2.05	2.11
Tuition & Auxiliaries (%)*	33.8	57.0	74.7	84.3

Moderate Sized Private College & University Medians by Rating Category: Fiscal Year-End 2015:

(Moderate sized private universities have total FTE enrollment between 3,000 and 10,000 students, with less than 15% of operating revenue from patient care revenue and grants and contracts combined.)

	Aaa	Aa	A	<u>Baa</u>	
Sample Size	0	9	33	28	
Total Debt-to-Total Capitalization (%)*	0	17.2	20.9	31.8	
Annual Days Cash on Hand*	0	663	344	199	
Operating Margin (%)*	0	7.5	5.9	4.7	
MADS Coverage (x)	0	2.57	2.74	2.60	
Tuition & Auxiliaries (%)*	0	66.2	82.0	87.4	

*Definitions:

<u>Total Debt-to-Total Capitalization (%)</u> – debt outstanding / (sum of total net assets + direct debt)

<u>Annual Days Cash on Hand</u> – (annual liquidity x 365) / (total expenses – depreciation – less additional, unusually large non-cash expenses)

Operating Margin (%) – (adjusted total unrestricted revenue – total unrestricted operating expenses) / adjusted total unrestricted revenue

<u>Tuition & Auxiliaries (%)</u> – net tuition and auxiliaries revenue / total operating revenue

(Source: Moody's Investors Service – Sector In-Depth – Higher Education US: Medians – Largest Private Universities Outperform Smaller Counterparts; September 30, 2016)

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: December 20, 2016

It's been a busy year for advocacy but frankly it's just a tune up for what lies ahead. There are great perils but also great opportunities ahead, and we shouldn't let the former totally overshadow the latter. There is a great hunger for enhancing and cleaning up the infrastructure in this country, and there is no good reason why nonprofit sector tax-exempt financing shouldn't be an integral part of it. But, we have to make it happen, and we are being proactive.

We welcomed the nice piece of news when the Conference of Mayors announced after a meeting with the presidentelect that he indicated support for the continuation of the tax exemption for municipal debt. This is excellent work and advocacy by our colleagues, but it is hardly the end of the story, and we must continue to be concerned and vigilant. Comments made at such a high level in the transition process can easily be overlooked, ignored or disavowed once an administration is in place in Treasury, OMB and elsewhere. Nor are Congressional Republicans bound by such indications of support.

Indeed, House Republicans are moving full speed ahead to get their tax reform legislation introduced as soon as possible next year. With my colleagues at ML Strategies now engaged, NAHEFFA President Murr and Advocacy Chair Walke recently had a full schedule of meetings which included the Ways and Means Committee. It appears that a final decision has not been made how muni interest will be treated in the House Bill. We will be particularly in touch with those of you who have Republicans on the Ways and Means committee to see if we can help affect that position for the legislation as introduced.

Regardless, however, we will deal with the House legislation no matter how draconian, work to temper it in the Senate and do what we have to do to ensure that at the end of any House-Senate process, whether it be regular order or through accelerated budget reconciliation, non-profit conduit financing remains viable. A lot of this work will be done in combination with you but we are maintaining and strengthening our alliances with governmental issuers and education and health care institutions and their associations.

Meanwhile, there is a separate but related stream of communications and policymaking about how to kick start infrastructure spending in this country to the tune of \$1 trillion and more. Trump economic advisers have recognized the role of tax-exempt bonds but also believe that substantial investment tax credits will unleash an enormous amount of investment in privatized projects. The trick for us and all bond issuers is to show how in the midst of innovative approaches the basic meat and potatoes of municipal finance is still critical and should not be undermined but in fact could be enhanced by changes such as bank deductibility.

I have reported to you that in some ways I'm more concerned about securities/disclosure regulatory and legislative actions than even restrictions in the tax code. Rep. Gwen Moore of Wisconsin introduced a bill at the end of the Congress which would radically restructure disclosure obligations. HR 6488 would:

"amend the Securities Act of 1933 and the Securities Exchange Act of 1934 to remove the exemption from registration for certain private activity bonds, authorize the Securities and Exchange Commission to require the preparation of periodic reports by issuers of municipal securities, and authorize the Securities and Exchange Commission to establish baseline mandatory disclosure in primary offerings of such securities."

Washington Advocacy Report (Cont.)

There is a technical question to what extent the bill as introduced would affect non-profit financings but the point obviously is a proposal to make issuers, or in our case borrowers, directly responsible as compared to the present continuing disclosure agreement structure. The legislation was introduced as a discussion draft, which it has already produced, and likely it will not get much traction in the antiregulatory 2017 – 2018 Congress. But, it is clearly a shot across the bow by the SEC, investors and other interests who wish to increase and shift regulatory obligations to others. Meanwhile, the SEC may need to be more worried about the significance of likely budget cuts and whether it can continue to sustain its expanding municipal bond enforcement presence. Some of the Dodd –Frank restrictions on bond purchases by banks and mutual funds may be revised by Congress.

More parochially, with the input of our Advocacy Committee and invited friends, we submitted a request for guidance to MSRB on providing greater clarification of the municipal financial advisor responsibilities and limitations in the context of our conduit financings. We want to understand and hopefully get support for the notion that advisors to our authorities can assist borrowers and vice versa and that several scenarios that are used in our marketplace are perfectly lawful and appropriate as long as there is disclosure of where the fiduciary duty lies. We expect that the SEC will need to review this request so we would be surprised if action on our request is imminent.

That's it for now. In the next newsletter report, we will hear directly from the ML Strategies lobbyists who are now advancing our cause.

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 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.

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

WHEFA MEMBERS

Chairperson

James Dietsche

Vice-Chairperson

Tim Size

Members

Kevin Flaherty

Paul Mathews

James Oppermann

Pamela Stanick

Robert VanMeeteren

WHEFA STAFF

Executive Director

Dennis Reilly

Manager of Operations & Finance

Tanya Coppersmith

Manager of Finance

Tatiana Graver

Executive Assistant

Stephanie Schirripa



18000 W. Sarah Lane, Suite 300 Brookfield, WI 53045-5841

P: 262-792-0466 • F: 262-792-0649

info@whefa.com • www.whefa.com