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Capital Comments

A QUARTERLY NEWSLETTER | WHEFA.COM | SPRING 2016

Message from the Executive Director

Workshop Follow-Up

On behalf of the entire WHEFA Staff, I would like to thank the nearly 165 people that attended our 19th Annual WHEFA Workshop on March 7th. 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 appreciate you making time in your busy schedules to attend.

I offer a special congratulation to James Nelson, Senior Vice President and Chief Financial Officer at Fort HealthCare, for winning the 2016 WHEFA Award of Excellence, our annual award given to someone in the industry that exemplifies excellence in their respective field. We were pleased to present this award to Jim in grateful recognition for his contributions made to Wisconsin's non-profit healthcare industry.

Thank you as well to the speakers that participated this year. Your presentations did an excellent job of educating the attendees and stimulated some great discussions of the issues presented.

2016 Workshop Speakers:
Kathryn Markgraf; Olympian
Barry Fick; Springsted
Thomas Shorter; Godfrey & Kahn
Dan Davis; CG Schmidt
Tom Baade; CG Schmidt
Craig Gilbert; Milwaukee Journal Sentinel
Brian Williamson; Standard & Poor's
Jessica Wood; Standard & Poor's
James LeBuhn; Fitch Ratings
Jennifer Powers; Quarles & Brady

For those who were unable to attend, the Workshop presentations can be found on the WHEFA website (http://whefa.com/). We look forward to seeing you on Monday, March 20, 2017 for our 20th Annual WHEFA Workshop!

In other news, I am very pleased to report that Pamela Stanick, Controller at The Medical College of Wisconsin, has been appointed by the Governor to serve on the WHEFFA Board. Pamela was appointed to succeed Richard Canter. I would like to thank Richard Canter for his many years of service and leadership as our chairperson and welcome Pamela to the WHEFA Board.

I hope you enjoy this edition of the WHEFA Capital Comments. Best wishes for a happy and prosperous Spring.

Kindest Regards,

Dennis P. Reilly
Executive Director

In This Issue...

Financing Spotlight

$4,440,878.98
WHEFA Bond Financing Helps Society of St. Vincent de Paul of Waukesha County, Inc. Secure Long-Term Financing in Waukesha and Oconomowoc
Closed: March 31, 2016

"The ability to use a tax-exempt bond to refinance some existing debt has been extremely cost effective and provides us with a stable form of debt, allowing us to focus on our mission of loving God and helping Others."

– Bill James, Director of Store Development Society of St. Vincent de Paul of Waukesha County, Inc.

Society of St. Vincent de Paul of Waukesha County, Inc. operates two thrift stores and a ministry for attending to the needs of inmates in Waukesha County.

This council employs approximately 47 full-time equivalents in Wisconsin.

Bond financing facilitated by WHEFA was used to help Society of St. Vincent de Paul of Waukesha County, Inc. refinance interim taxable loans, the proceeds of which financed the costs associated with the acquisition of two donated goods collection facilities and resale facilities located in Waukesha and Oconomowoc. This federally tax-exempt financing process has enabled Society of St. Vincent de Paul of Waukesha County, Inc. to operate more effectively by financing its capital expenses at a lower interest rate (initially 3.04%).

WHEFA is proud to have been able to assist Society of St. Vincent de Paul of Waukesha County, Inc. by reducing their overall debt service and allowing them to grow and compete by providing access to low-cost private capital.

Recently Completed Financings

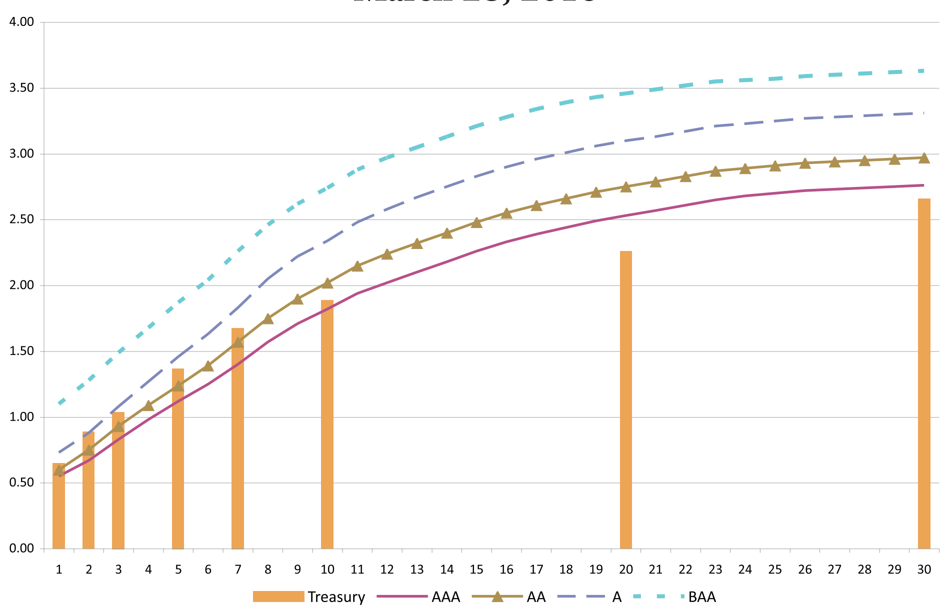
Date	Borrower	Purpose	Amount	Structure
02/12/16	Gundersen Lutheran	Refinancing	$40,000,000	Monthly Variable Rate, Unrated, Private Placement
03/31/16	Society of St. Vincent de Paul of Waukesha County, Inc.	New Money	$4,440,878.98	10-Year Fixed Rate, Unrated, Private Placement

Interest Rates (as of March 28, 2016)

	Current	Three Months Ago	One Year Ago
SIFMA Muni Swap Index	0.290%	0.010%	0.020%
Bank Prime Rate	3.500%	3.500%	3.250%
10-Year Treasury Note	1.880%	2.240%	1.930%
Revenue Bond Index (30-Year, Tax-Exempt Rate)	3.350%	3.400%	3.550%

Muni Index Yield Curve by Credit Rating

Municipal & Treasury Rates
March 28, 2016



(Source: Treasury.gov March 28, 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

Investor/Rating Agency/Bank Relations

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

This is another in a series of articles summarizing items that need ongoing attention by the borrower after the bond issue has closed. The March, 2014 WHEFA Newsletter included a summary of the SEC's Continuing Disclosure requirements related to public bond issues. To update, the SEC continues to focus on compliance with Continuing Disclosure rules. If reports are not timely posted to EMMA or are incomplete, the borrower must make written disclosure of any non-compliance at the time of its next public offering. Borrowers should have procedures in place to (i) ensure ongoing timely delivery of all required information to the dissemination agent or to EMMA and (ii) verify that all disclosure information has been properly and timely posted on the EMMA site.

<u>Investor Relations – Generally</u>

In addition to the baseline financial and reporting covenants and the SEC's continuing disclosure obligations, a borrower may wish to be proactive in communicating with its investors. For example the borrower might provide notice of the following:

- Incurrence of additional debt.
- Changes in the members of the obligated group.
- Changes in key management.
- Change in auditor.
- Update to the Management Discussion and Analysis originally provided in Appendix A to the bond offering document.

These types of disclosures can be made to investors by posting to the EMMA site or communicating directly with a bank or loan officer, if applicable.

<u>Reporting Bank Placements</u>

For 501(c)(3) borrowers, direct placements of tax-exempt bonds with a bank have become a popular alternative to traditional public bond underwriting. In a direct placement, bonds are not offered to the public. Instead, a bank commits to purchase and hold the exempt bonds for a stated term, often 5 to 7 years. Unlike with publicly traded bonds, the covenants, interest rates, the bond holding period and potential events of default in a direct bank placement are not described in a public offering document.

In cases where a borrower has both a direct bank placement and public bonds outstanding, the public bond investors and bond rating agencies are interested in the key terms found in the bank placement documents. Bond rating agencies will request copies of the borrower's key agreements with the bank, to assess the overall capital plan and

The Bond Deal is Over; Now What? (Cont.)

identify any material risks imposed by the direct placement documents. Consistent with the investor relations practices outlined above, it is considered “best practice” to post to EMMA a summary of the key terms or a copy of the bank documents. While such posting is not legally required, the Municipal Securities Rulemaking Board (MSRB) has strongly advocated for such disclosure, in the interest of market transparency. If the full bank agreement is posted, then any sensitive competitive information such as interest rate, yield protection formula and account numbers can be redacted (blacked out). Also, the borrower should secure the consent of the bank to the posting of any redacted bank agreement before posting.

Avoid Selective Disclosure

For purposes of securities laws and maintaining positive investor relations, a borrower should avoid sharing material inside information that a reasonable investor would consider in making an investment decision. That is, it is not appropriate for a current or potential investor to act on major financial information, such as merger or major loss that is not yet public information. The potential for sharing inside information can arise when a particular investor (such as a fund analyst) calls the CFO requesting specific additional information. A proactive continuing disclosure policy (via EMMA) can pre-empt those calls, and reduce the likelihood of divulging inside information.

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: March 15, 2016

By the time you read this, the presidential primaries may have sorted themselves out – or not. In the most bizarre presidential campaign of our lifetimes, trying to find any insights on future behavior relevant to tax-exempt bonds is even more fruitless than usual. On the Democratic side, a President Clinton or Sanders will, like President Obama, talk, on the one hand, about the critical need for infrastructure financing but, on the other hand, undoubtedly promote tax reform legislation that will decrease the benefits directly or indirectly of tax-exempt financing. How that will be sorted out at the end of the day will engage NAHEFFA and all our allies in the public finance community.

On the Republican side, a Cruz presidency probably will emulate the classic Republican interest in lower, flatter, simpler tax rates, ala Paul Ryan, which obviously has threatening implications for bonds. Whether Gov. Kasich recognizes the benefits of bond financings in Ohio is unknown—because, frankly, in this madness, who is paying attention to anyone’s position?

And, the wild card, really the Trump card, is absolutely unpredictable. Discerning in Mr. Trump’s past his use of various economic urban redevelopment incentives probably is meaningless. In his case in particular, given his absence of any governmental experience, it is likely that the real issues of tax reform which will affect tax-exempt financing will be based on which advisors he picks for key White House and Treasury positions, all of which is totally unknown and speculative.

More within any Washington observer’s wheel house and comfort zone are Hill activities. On the one hand, House Speaker Ryan and Ways and Means Chairman Brady released a mission statement on tax reform which includes, among its goals, reducing tax rates, removing special interest carve outs and “limit the… exclusions… that riddle the tax code today”. None of this rhetoric is new from these congressional leaders and we can expect more documents and hearings on tax reform in the spring and summer before the congressional recess.

Washington Advocacy Report (Cont.)

On the other hand, the supporters of tax-exempt bonds have been very active. Our colleagues at the National Association of State Treasurers organized a 50 state petition on bonds with 600 state and local public official signatories, including NAHEFFA and approximately a dozen NAHEFFA authority directors.

Further, key supporting members of Congress, Randy Hultgren of Illinois and Dutch Ruppersberger of Maryland, announced the establishment of a bipartisan House Municipal Finance Caucus. House caucuses provide a useful means for members of Congress to show their interest in a particular area, express their support and work together. Representatives Hultgren and Ruppersberger have in the past organized letters to the House leadership in support of the tax-exemption, particularly opposing the president's proposal to tax the value of the tax-exemption at the 28% bracket. They got 122 other members of Congress to sign on. Now these Congressman have circulated a Dear Colleague letter to the entire House urging their colleagues to join the Caucus. I encourage you to write your congressmen urging them to join the Caucus. It's also a great opportunity to discuss what you're doing and its importance.

On the regulatory front, there is anticipation that there will be announcements from the SEC soon as part of its MCDC so-called voluntary reporting cooperation initiative about settlements with issuers/borrowers. Whether penalties and mandatory compliance programs will be attached are unknown. The initial reports with respect to the underwriters did not seem to involve clearly conduit financing but that cannot really be known until the issuer/borrower settlements are announced.

Meanwhile, the idea that undisclosed or not fully disclosed bank loans are critical to the disclosure regulatory regime has become one of those fixed ideas in Washington that will not be resolved until it culminates in some form of new mandate. There are efforts to develop voluntary practices with respect to private bank loan disclosures, but ultimately I predict it will make its way into mandatory components of continuing disclosure agreements.

Finally, your Association held a very successful February 25 webinar on the important but highly technical topic of the impact of new money market fund rules on public infrastructure investment. A presentation was made on the impact on the cost of financing as tax-exempt money market funds are liquidated or converted leading up to the October 14, 2016 deadline to comply with the SEC's floating net asset value requirements. There also was a report on legislation introduced in Congress (HR 4216/S1802), which seeks to preserve stable value money market funds as a source of liquidity and infrastructure investment. A recording of the webinar as well as the materials presented can be found on NAHEFFA's website.

WHEFA Thanks Outgoing Board Member

The WHEFA Board and staff would like to extend a sincere thank you to Richard Canter, who completed his seven-year term on the WHEFA Board of Directors at the end of June 2015 and continued to serve until February 2016, at which time a replacement was named. Richard served as the Chairperson of the WHEFA Board of Directors and demonstrated great leadership during his tenure.

WHEFA Welcomes Newest Board Member

The WHEFA Board and staff would also like to welcome Pamela Stanick as the newest Member of the Board of Directors. Pamela was appointed in February 2016 to serve a seven-year term to expire at the end of June 2022. Pamela is Controller at The Medical College of Wisconsin.

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

About WHEFA

For 36 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 $22 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.

Proudly Serving All Wisconsin Non-Profit Institutions

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