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WHEFA

Capital Comments

A QUARTERLY NEWSLETTER | WHEFA.COM | FALL 2016

Message from the Executive Director

Interest rates remain low, demand remains high

Thank you to everyone who responded to our bi-annual satisfaction survey that we sent out in August. We received a number of responses and we will use the information to further improve our operations.

WHEFA has had a very busy start to its 2017 fiscal year that commenced on July 1, 2016. In only 3 months, WHEFA has already completed 6 financings totaling $132.8 million. With another 5 deals in process and more on the horizon, fiscal year 2017 is shaping up to be another very active year.

Without a doubt, bank private placements have been the most utilized structure of WHEFA deals the last 5+ years. Interest rates continue to stay low and banks continue to have a strong appetite to lend. It is hard to ignore the low rates and attractive proposals from banks. Typically, banks are not willing to lock in interest rates for a period longer than 10-years, but we've recently seen that needle get extended. Wonderful news for borrowers seeking longer term commitments from banks.

On the other side of the spectrum some borrowers are still utilizing the 'old fashion' plan of finance – traditional fixed interest rates via the public bond market. Please see the enclosed 'Financing Spotlight' of a recent fixed rate refinancing completed for The Monroe Clinic. Piper Jaffray successfully underwrote the tax-exempt bonds and the Clinic was able to secure 22-year fixed rates with an all-in true interest cost of 3.28%. The net present value savings following the refinancing was a staggering $10.8 million. This financing utilized WHEFA's expanded statutory powers to issue tax-exempt debt on both a federal and state level when such an exemption is already available through another Wisconsin conduit issuer.

In other news, I am very pleased to report that James Oppermann, Senior Vice President for Business and Management at Alverno College in Milwaukee has been appointed by the Governor to serve on the WHEFFA Board for a full 7-year term.

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

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

Have a wonderful fall.

Kindest Regards,

Dennis P. Reilly

Dennis P. Reilly
Executive Director

In This Issue...

Financing Spotlight

$40,895,000
WHEFA Bond Financing Helps The Monroe Clinic, Inc.
Refinance in Monroe
Closed: August 4, 2016

Monroe Clinic

"Working with WHEFA on our 2016 bond issue was a great experience. The savings resulting from the issuance of tax-exempt bonds through WHEFA will allow Monroe Clinic to continue to invest in the health of the communities we serve. The staff at WHEFA makes the process move smoothly."

– Jim Nemeth, CFO
The Monroe Clinic, Inc.

The Monroe Clinic, Inc. employs approximately 1,015 full-time equivalents in Wisconsin.

Bond financing facilitated by WHEFA was used to help The Monroe Clinic, Inc. refinance bonds previously issued by Redevelopment Authority of the City of Monroe in 2009. The net present value savings following the refinancing was approximately $10.8 million. This tax-exempt financing process has enabled The Monroe Clinic, Inc. to operate more effectively by financing its capital expenses at lower interest rates.

WHEFA is proud to have been able to assist The Monroe Clinic, Inc. by reducing their overall debt service and allowing them to grow and compete by providing access to low-cost private capital.

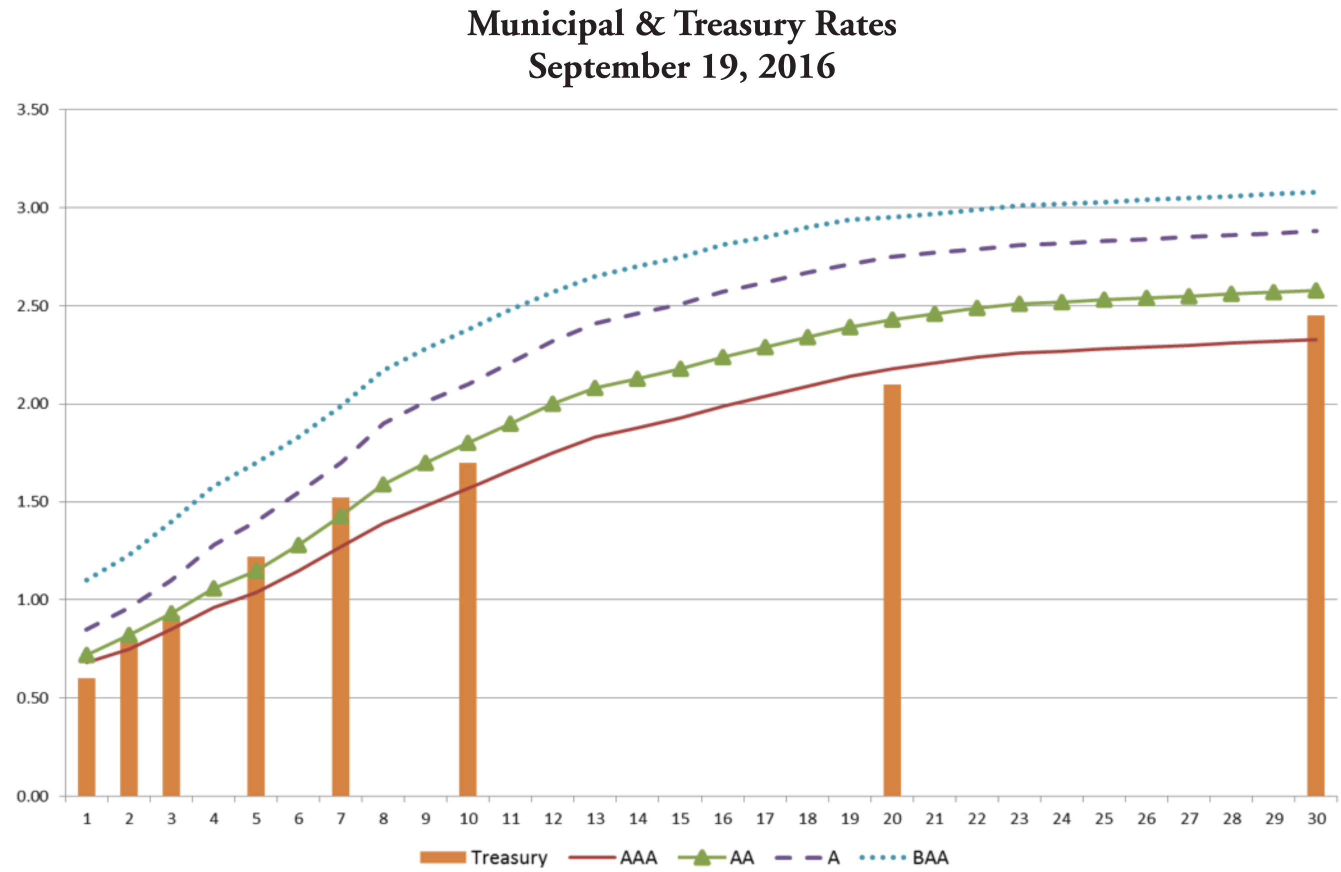
Recently Completed Financings

Date	Borrower	Purpose	Amount	Structure
07/01/16	Divine Savior Healthcare, Inc.	Refinancing	$20,410,773	Fixed Rate, Unrated, Private Placement
07/20/16	Christian Life School	Refinancing	$ 2,286,531	Monthly Variable Rate, Unrated, Private Placement
08/04/16	The Monroe Clinic, Inc.	Refinancing	$40,895,000	Fixed Rate, Rated, Public Placement
08/09/16	St. Camillus Health System, Inc.	New Money	$44,000,000	Monthly Variable Rate, Unrated, Private Placement
08/19/16	Valley Packaging Industries, Inc.	Refinancing, New Money	$ 2,170,000	7-Year Reset Rate, Unrated, Private Placement
09/14/16	Beloit College	Refinancing	$23,080,000	Fixed Rate, Rated, Public Placement

Interest Rates (as of September 19, 2016)

	Current	Three Months Ago	One Year Ago
SIFMA Muni Swap Index	0.700%	0.430%	0.020%
Bank Prime Rate	3.500%	3.500%	3.250%
10-Year Treasury Note	1.700%	1.670%	2.130%
Revenue Bond Index (30-Year, Tax-Exempt Rate)	2.650%	3.380%	4.180%

Muni Index Yield Curve by Credit Rating



(Source: Treasury.gov September 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!

IRS Releases New Safe Harbors For Management Contracts

By: Jennifer V. Powers, Partner; Quarles & Brady LLP

Limitation on Private Business Use. Those of you who have facilities that have been financed with the proceeds of outstanding tax-exempt bonds understand the importance of tracking the private business use of such facilities in order to preserve the tax-exempt status of the bonds. As a reminder, federal law limits the amount of private business use to no more than 5% of the net proceeds of any issue of tax-exempt 501(c)(3) bonds. Private business use that is counted against the 5% limitation includes (1) any bond proceeds used to pay for the costs of issuing the bonds and (2) direct or indirect use of bond financed property by a nongovernmental person (namely use by a person or entity that is not a governmental entity or use by a 501(c)(3) organization using the bond financed property in an unrelated trade or business), which includes use by for profit entities and certain individuals.

Rev. Proc. 97-13 Safe Harbors. The IRS set forth in the original Revenue Procedure 97-13, as amended by Rev. Proc. 2001-39 ("97-13"), certain safe harbors under which a management contract with a nongovernmental entity to provide services involving all, a portion or any function of tax-exempt bond financed property would not result in private business use. In other words, if the terms of a management contract (particularly with respect to compensation and term) fall within one of the safe harbors specified in 97-13, the use of the bond financed property pursuant to the management contract will not result in private business use. By way of example, a contract may have a term of up to 15 years if at least 95% of the compensation consists of a periodic fixed fee or a contract may have a term of two to five years depending upon the amount and type of variable compensation paid.

IRS Notice 2014-67 Amplification of 97-13. In October 2014 the IRS released interim guidance in Notice 2014-67 ("2014-67") which amplifies the safe harbor provisions of 97-13 by allowing a broader range of compensation arrangements for management contracts of up to five years and revising the allowable productivity awards as a component of compensation in a management contract.

IRS Rev. Proc. 2016-44: In August 2016 the IRS released Revenue Procedure 2016-44 ("2016-44") which contains new safe harbors for management contracts and supersedes the provisions of 97-13 (as amplified by 2014-67). 2016-44 provides that if a management contract meets all of the applicable conditions the revenue procedure, then the management contract does not result in private business use. 2016-44 generally requires that (1) the compensation paid to the service provider under a management contract must be "reasonable compensation for services rendered during the term of the contract" with no requirement as to the type of fixed or variable compensation paid so long as no element of the compensation is based on either net profits of the managed property or both the revenues and expenses of the managed property; (2) the service provider must not be required to bear any share of the net losses from the operation of the managed property; (3) the term of the contract, including all renewal options (which are different than those described in 97-13), is not greater than the lesser of 30 years or 80% of the weighted average economic life of the managed property, and the term must be retested as a new contract if the contract is materially modified with respect to any matters relevant to the term; (4) the 501(c)(3) owner/user of the managed property must exercise a "significant degree of control" over the managed property (various examples of "control" are specified in 2016-44); (5) the 501(c)(3) owner/user of the managed property must bear the risk of loss upon damage or destruction of the property; (6) the service provider must agree that "it is not entitled to and will not take any tax position that is inconsistent with being a service provider" with respect to the managed property; and (7) the service provider may not have a relationship with the 501(c)(3) owner/user that would substantially limit the owner/user's ability to exercise its rights under the contract (similar to the requirements of 97-13).

IRS Releases New Safe Harbors For Management Contracts (Cont.)

Effective Date of 2016-44: The provisions of 2016-44 apply to any management contract entered into after August 22, 2016. As originally released 2016-44 allowed for a transition period that permits the application of 97-13 (as amplified by 2014-67) to a management contract entered into before February 18, 2017. That date has subsequently been extended by the IRS to August 18, 2017 in order to allow for a longer transition period.

Rev. Proc. 2016-44 should prove to be beneficial to 501(c)(3) organizations trying to manage and limit the amount of private business use of bond financed facilities with respect to services provided by nongovernmental entities, particularly in longer-term contract arrangements. However, the increased flexibility that it provides has raised some uncertainty as to its interpretation and has increased the facts and circumstances analysis of whether a contract meets the new safe harbors. **Additional information on the details of 2016-44 will be provided at the 20th Annual WHEFA Workshop on March 20, 2017.**

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: September 14, 2016

Most folks think that the biggest threat to our type of financing is going to be tax reform—and it's critical and serious. But I think the greatest potential for change is in securities regulation. My reasoning is that, unlike tax reform, there are significant outside interests ranging from the SEC to the MSRB to municipal analysts to some investment bankers and mutual fund interests who would like to see at least a lot more regulation of our disclosures if not outright registration requirements. Everything from the MCDC so-called voluntary reporting initiative to any default to Puerto Rico will be used as an excuse and rationale for change in the law to allow SEC direct authority over issuers or at least to push the present regulatory authority as far as it could go.

Conduit financings and conduit borrowers are particularly vulnerable because they're not the governmental entities for which the Tower Amendment and other restrictions on the registration and regulation of issuers were put in place by Congress, and there are, in limited circumstances, for-profit businesses which benefit from tax- exempt bonds. As this debate unfolds, it will be important for the nonprofit sector to distinguish itself from the corporate sector so that the parallelism with SEC corporate requirements will not look like they naturally apply across the board to all private activity bonds/conduit financings.

Even if we avoid a radical reshaping of the law, we should expect increasing regulatory pushes on bank loan disclosure and improvements in the timing of the release of financial and other information. The nonprofit sector has a better track record than the governmental sector in this regard but our sector also contains a number, albeit a small number, of defaults.

We continue to work with our allies at the GFOA and in the mutual fund industry to keep markets open and buyers available for our financings. Therefore, we have joined in efforts to pass legislation to reverse the restrictions under the high-quality liquid assets (HQLA) rules which affect the purchases by big banks of tax- exempt bonds as well as the regulation of money market funds which have caused such funds to close or shy away from tax-exempt bonds.

Washington Advocacy Report (Cont.)

We're working with the MSRB through an internal effort of our members and several of our municipal financial advisors to obtain guidance on the application of MSRB MA rules to conduit financings. Our goal is to maintain as much flexibility as possible as to who hires the MA and who the MA may advise.

I didn't mean to imply tax issues are irrelevant. They've always been big for NAHEFFA, and they will continue to be critically important. There is no question that tax reform will get a serious look next Congress no matter what the configuration of the Congress and the presidency and bonds will be on the table. We don't know if that will just mean nibbling around the edges at things like stadium bonds or things closer to home, such as universities with big endowments, or if it will be much bigger proposals to limit or restrict conduit financings or bonds as a whole. Probably, you will see a combination of all these types of proposals.

We are spending this year strengthening our relationships with our congressional delegations, using the pending bank qualified legislation as an excuse to talk up the great value of tax-exempt financing for smaller education and health borrowers and deepening our ties with the private and public sector bond interests in Washington and around the country. But, buckle up your chin straps because there is going to be some hard-hitting next year.

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.

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

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WHEFA

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