WISCONSIN HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Proudly Serving All Wisconsin Non-Profit Institutions

Capital Comments

A QUARTERLY NEWSLETTER | WHEFA.COM | SPRING 2017

Message from the Executive Director

Workshop Follow-Up

On behalf of the entire WHEFA Staff, I would like to thank the nearly 175 people that attended our 20th Annual WHEFA Workshop on Monday, March 20th. 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 Karen Myers, Senior Vice President and Chief Financial Officer at Stoughton Hospital for winning the 2017 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 Karen in grateful recognition for her contributions made to Wisconsin's nonprofit healthcare industry.

Dennis Reilly presenting Karen Myers with the WHEFA Award of Excellence

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.

2017 Workshop Speakers:

Ken Kaufman, Chair; Kaufman, Hall & Associates, LLC
Chuck Samuels, Member; Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, P.C.
Megan Hardiman, Partner; Katten Muchin Rosenman LLP
George Cook, Managing Director; Graystone Consulting
Jennifer Brown, Managing Director; Ponder & Co.
Ila Afsharipour, Managing Director; U.S. Bancorp
Ryan Humphrey, Assistant Vice President; Bank of Kansas City
Jennifer Powers, Partner; Quarles & Brady LLP

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 at the 2018 WHEFA Workshop!

I hope you enjoy this edition of the WHEFA Capital Comments. This edition includes a 'Financing Spotlight' on WHEFA's first charter school financing, an article on the importance of a Reimbursement Resolution, and the latest news and possible outcomes regarding the future of tax-exempt financing.

Best wishes for a happy and prosperous spring.

Kindest Regards,

Dennis P. Reilly
Executive Director

In This Issue...

Financing Spotlight

$7,410,000

WHEFA Completes its First Charter School Financing in Milwaukee

Bonds Underwritten by Stifel, Nicolaus and Company, Incorporated

"The tax-exempt financing WHEFA helped us secure means Rocketship Wisconsin can devote more resources to improving student outcomes in a historically disadvantaged community on Milwaukee's South Side."

– Laura Kozel, VP of Treasury & Facilities
Rocketship Education, Inc.

43 total jobs were retained with an annual payroll of $2.4 million.

Rocketship employs approximately 40 full-time equivalents in Wisconsin.

Bond financing facilitated by WHEFA was used by Launchpad Milwaukee to finance the acquisition of Southside Community Prep, an existing K-5 charter school located in Milwaukee, Wisconsin. Following the acquisition, Rocketship Wisconsin will operate the charter school pursuant to a new lease agreement by and between Launchpad Milwaukee and Rocketship Wisconsin. This federally tax-exempt financing process has enabled the borrower to operate more effectively by financing its capital expenses at a lower interest rate (5.25%).

WHEFA is proud to have been able to assist Rocketship by reducing their overall debt service by providing access to low-cost private capital.

Recently Completed Financings

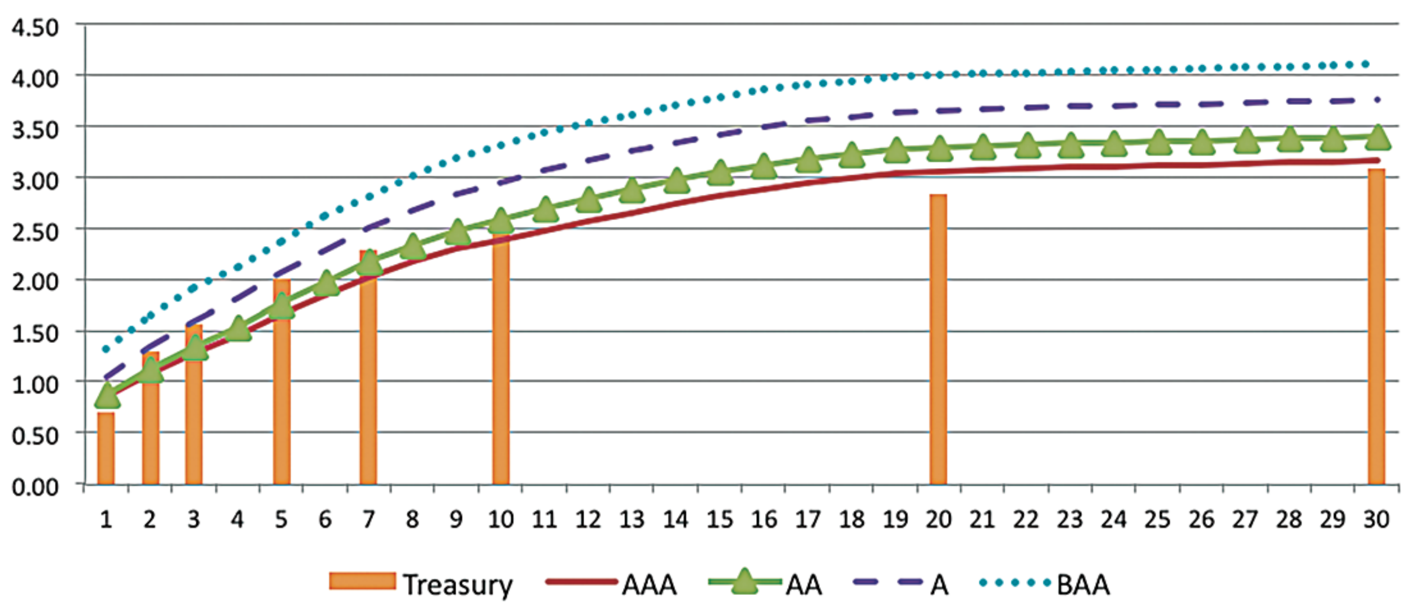
Date	Borrower	Purpose	Amount	Structure
02/03/17	Southwest Health Center, Inc.	New Money, Refinancing	$17,222,000	Fixed Rate, Unrated, Private Placement
02/22/17	Rocketship Education Obligated Group, Series C & Series D (Taxable)	New Money	$ 7,410,000	Fixed Rate, Unrated, Limited Offering

Interest Rates (as of March 20, 2017)

	Current	Three Months Ago	One Year Ago
SIFMA Muni Swap Index	0.710%	0.660%	0.290%
Bank Prime Rate	4.000%	3.750%	3.500%
10-Year Treasury Note	2.470%	2.540%	1.880%
Revenue Bond Index (30-Year, Tax-Exempt Rate)	3.850%	4.000%	3.790%

Muni Index Yield Curve by Credit Rating

Municipal & Treasury Rates
March 20, 2017



(Source: Treasury.gov March 20, 2017 Robert W. Baird)

Importance of a Reimbursement Resolution

Do Not Forget the Importance of a Reimbursement Resolution in Maximizing a 501(c)(3) Borrower's Finance Strategy

By: Jennifer Powers, Partner; Quarles & Brady LLP

Within the past year, WHEFA has encountered several situations in which a borrower that is either refinancing a taxable construction loan or planning to finance its capital project out of the proceeds of tax-exempt bonds has been precluded from financing or refinancing all of the expenditures for which it originally paid out of its own funds and wished to be reimbursed because either a reimbursement resolution was not timely adopted or the resolution was adopted by an entity other than the actual entity that paid for the original expenditures.

If you are a 501(c)(3) organization that is: (1) planning to undertake a capital project (such as the construction and equipping of a new facility or renovations to and equipping of an existing facility), (2) planning to use your own funds to pay for certain of those capital improvements, and (3) contemplating the possibility of reimbursing your organization in the future for some or all of those capital expenditures out of the proceeds of either (a) tax-exempt bonds or (b) a taxable loan that may ultimately be refinanced with tax-exempt bonds, you need to consider the importance of adopting a reimbursement resolution prior to paying for any capital expenditures out of your own funds.

Requirements of Declaration of Official Intent/Reimbursement Resolution: Federal regulations applicable to tax-exempt bonds have several general requirements that must be met in order for a capital expenditure that is paid prior to the issuance of tax-exempt bonds to be eligible for reimbursement out of the proceeds of tax-exempt bonds. One of those requirements is to provide evidence that the organization seeking reimbursement intended to reimburse itself for a capital expenditure at the time that it actually made such expenditure. This is generally referred to as the organization's "declaration of official intent" or "reimbursement resolution." There are four basic requirements of the form of the declaration of official intent:

1. The declaration of official intent may take any reasonable form; however, for a 501(c)(3) organization, the declaration would generally take the form of a resolution adopted by the board of such organization in accordance with its bylaws.
2. The resolution must contain a general functional description of the property or project to which the expenditure relates.
3. The resolution must specify the maximum principal amount of the debt that is expected to ultimately be issued for reimbursement.
4. On the date of the adoption of the resolution, the organization must reasonably expect that it will reimburse itself for all or some of the expenditures described in the resolution out of the proceeds of a borrowing. If an organization adopts reimbursement resolutions as a matter of course or in amounts substantially in excess of amounts reasonably necessary for a project, the "reasonable expectation" requirement is not met. Additionally, if an organization has a pattern of failing to reimburse itself for expenditures covered by reimbursement resolutions, that is considered to be evidence of unreasonableness.

Which Organization Should Adopt the Reimbursement Resolution: The reimbursement resolution must be adopted by the 501(c)(3) organization that will initially pay for the expenditures in order for an expenditure to be eligible for reimbursement out of the proceeds of tax-exempt bonds. The resolution may not be adopted by the parent or member of the organization that wishes to ultimately be reimbursed or by an "obligated group agent" under a master trust indenture on such organization's behalf, unless the parent or member or obligated group agent has been specifically designated the authority to adopt such a resolution on behalf of the 501(c)(3) organization that makes the actual expenditure (such as in the bylaws of the 501(c)(3) organization or by resolution adopted by such organization's board).

Importance of a Reimbursement Resolution (Cont.)

Timing of Adoption of Resolution: The timing of the adoption of a reimbursement resolution is important. The regulations require that the declaration be made or the resolution adopted not later than 60 days after the date of payment of the original capital expenditure. In other words, if an organization spends its own funds on capital expenditures prior to the date of adoption of a reimbursement resolution covering those expenditures, it may only go back and reimburse itself out of bond proceeds for expenditures that were paid within the 60-day period immediately before the adoption of the reimbursement resolution or later. Any expenditure paid prior to 60 days before the adoption of reimbursement resolution may not be reimbursed out of bond proceeds (with certain exceptions described below).

Exceptions to Official Intent Requirement: The requirement that a 501(c)(3) organization adopt a declaration of official intent in order to reimburse itself with tax-exempt bond proceeds does not apply to a limited amount of "preliminary expenditures," which include architectural, engineering, surveying, soil testing and similar costs that are incurred prior to commencement of a project. Additionally, the requirement does not apply to the costs of issuing the bonds or to an amount that does not exceed the least of 5% of the bond proceeds or $100,000.

Conclusion: There are certain other requirements pertaining to whether an expenditure is eligible for reimbursement with the proceeds of tax-exempt bonds; however, unless a 501(c)(3) organization has adopted a timely and sufficient declaration of official intent/reimbursement resolution, it will be precluded from reimbursing itself for most capital expenditures made prior to the issuance of tax-exempt bonds.

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: Alex Hecht, David Leiter & Neal Martin, NAHEFFA Washington Advocates; ML Strategies
Dated: March 14, 2017

ML Strategies is pleased to share this Advocacy Report on developments related to tax reform, and how we are working with NAHEFFA to defend non-profit tax-exempt municipal bonds.

You will recall that you brought us on to extend the association's reach in Washington, deepen our intelligence gathering and add to our advocacy fire power as tax reform is developed and advances. Chuck Samuels, at Mintz Levin, continues to lead our effort and is principal spokesperson on the Hill and in our various alliances. For example, in addition to several of our authorities he has spoken to member meetings of the public power association, NACUBO and the Bond Buyer-BDA. The point is to strengthen our alliances and broaden our advocacy base.

Status of Tax Reform

ML Strategies has been in constant contact with senior staff at the Senate Finance Committee and with staff for committee members in order to obtain intelligence on the outlook for tax reform generally and for tax-exempt bonds in particular. In summary, we reported that the debate over how any effort at comprehensive tax reform will unfold this year appears to hinge on where the President and the Senate come down on the House proposal to create a border adjustment tax (BAT) on imports.

Washington Advocacy Report (Cont.)

Speaker Paul Ryan (R-WI) is seeking to triangulate the tax reform debate between country-specific tariffs (i.e. for Mexico and China) proposed by President Trump vs. the BAT vs. serious opposition to the BAT in the Senate among Republicans and Democrats. The BAT is generally supported among the House GOP caucus, but there is opposition, including with some Republican members of the House Ways & Means Committee. Further muddying the water is that as of this date, the White House has not taken a clear position on the BAT.

In addition to the BAT, other big issues that will play a role in the fate of tax reform include the repeal and replacement of ACA, tax-exempt bonds, tax rates, interest expense deduction, revenue neutrality, like-kind exchanges, and a proposed infrastructure program which could be paid for through tax reform or hopefully supports the continued use of tax-exempt bonds.

The House blueprint for tax reform, released last year, does not specifically call for the elimination of the tax-exempt treatment of municipal bonds, but it does call for eliminating special interest provisions and deductions, and the general view is that this could very likely include tax-exempt municipal bonds.

Senior staff at the House Ways and Means Committee has told ML Strategies that, despite rumors that tax reform may be slipping to late summer or even autumn, they plan to release a bill in the very near future. We may well see it after the House passage of ACA reform which, as of this writing, has passed the key committees and is awaiting Budget Committee and then House floor action. Whether Speaker Ryan can get sufficient Republicans to support that bill may be a key indicator of tax reform success as well as President Trump's clout with Congress.

In the Senate, Finance Committee Chairman Orrin Hatch (R-UT) appears to be laying the groundwork for its own measure that would not include a border tax concept.

Congressional Letter in Support of Tax-Exempt Municipal Bonds

We strongly support the Congressional Municipal Finance Caucus which sent a letter to House Ways & Means Chairman Kevin Brady (R-TX) and Ranking Member Richard Neal (D-MA) on March 8, 2017, urging that any reform of the tax code protect the current treatment of tax-exempt municipal bonds. The letter was signed by 156 members of congress, many of them obtained from our efforts with authorities individually. This bipartisan letter was signed by 95 Democrats and 61 Republicans. The letter notes that:

"Nearly two-thirds of core infrastructure investments in the United States are financed with municipal bonds. In 2015 alone, more than $400 billion in municipal bonds were issued to finance the projects that touch the daily lives of every American citizen and business. They are the roads we drive on, schools for our children, affordable family housing, water systems that supply safe drinking water, courthouses, hospitals and clinics to treat the sick, airports and ports that help move products domestically and overseas, and, in some cases, the utility plants that power our homes, businesses, and factories. These are the pro-growth investments which spur job creation, help our economies grow, and strengthen our communities."

The letter states that any changes to the tax code should recognize the vital role of tax-exempt municipal bonds and that any changes to the tax-exempt status should be provided very careful consideration.

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.

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WHEFA

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