WISCONSIN HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Proudly Serving All Wisconsin Non-Profit Institutions

# Capital Comments

A QUARTERLY NEWSLETTER | WHEFA.COM | FALL 2017

Dennis Reilly

***Message from the Executive Director***

*Interest rates remain low, demand remains high*

Interest rates continue to stay low, as many non-profit borrowers across the state continue to refinance their outstanding debt for savings and/or lock in low interest rates for new money capital projects. As a result, WHEFA has had a very busy start to its 2018 fiscal year that commenced on July 1, 2017. In only 3 months, WHEFA has already completed 9 financings totaling $537 million. With another 5 deals in process and more on the horizon, fiscal year 2018 is shaping up to be another very active year.

Please see the enclosed 'Financing Spotlight' of a recent financing completed for Grant Regional Health Center. Piper Jaffray served as the Placement Agent and the bonds were successfully placed with Wisconsin Bank & Trust. WHEFA is proud to have been able to assist Grant Regional on this very important financing.

We hope you find this edition of the WHEFA Capital Comments to be informative and helpful. For example, take time to read the important reminder found on page four entitled "The Bond Deal is Over, Now What?" Our intention in this section is to briefly present matters that remain pertinent once the bond deal has closed. Each quarter a different topic will be discussed, some of which will be very brief, but all of them will be extremely important reminders.

In other news, I am very pleased to report that Renee Anderson, President/CEO at Saint John's Communities, Inc. has been appointed by the Governor to serve on the WHEFFA Board. Renee was appointed to succeed Kevin Flaherty. I would like to thank Kevin for his many years of service and leadership and welcome Renee to the WHEFA Board.

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

Have a wonderful fall.

Kindest Regards,

Dennis P. Reilly

Dennis Reilly
Executive Director

***In This Issue...***

## *Financing Spotlight*

**$31,680,000**
**WHEFA Bond Financing Helps Grant Regional Health Center, Inc.**
**Expand and Refinance in Lancaster**
*Bonds Placed with Wisconsin Bank & Trust*

*"As a non-profit hospital, we are very fortunate to utilize tax-exempt financing for our expansion project. It allows us to move forward – to enhance our programs, technology and facilities to assure thriving healthcare services well into the future."*

***– Nicole Clapp, President/CEO,***
***Grant Regional Health Center, Inc.***


**The project will create 9 permanent jobs with an annual payroll of $500,000, as well as 43 construction jobs.**

**Grant Regional Health Center, Inc. employs approximately 176 full-time equivalents in Wisconsin.**

Bond financing facilitated by WHEFA will be used to help Grant Regional Health Center, Inc. ("Grant Regional") finance the construction of 32,000-square feet of new space and renovation of 39,000 square feet of existing space at the critical access hospital in Lancaster, Wisconsin. The new space will include a new medical surgery unit and multispecialty physician clinic with a rooftop heliport, ambulance garage, centralized registration and additional patient parking. The renovated space will encompass a new radiology suite, surgery expansion and certain other capital expenditures related to the existing hospital facilities. Bond proceeds were also used to refinance bonds previously issued by the City of Lancaster in 2007. This federally tax-exempt financing process has enabled Grant Regional to operate more effectively by financing its capital expenses at lower interest rates (initially 3.55% – 3.65%).

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

## *Recently Completed Financings*

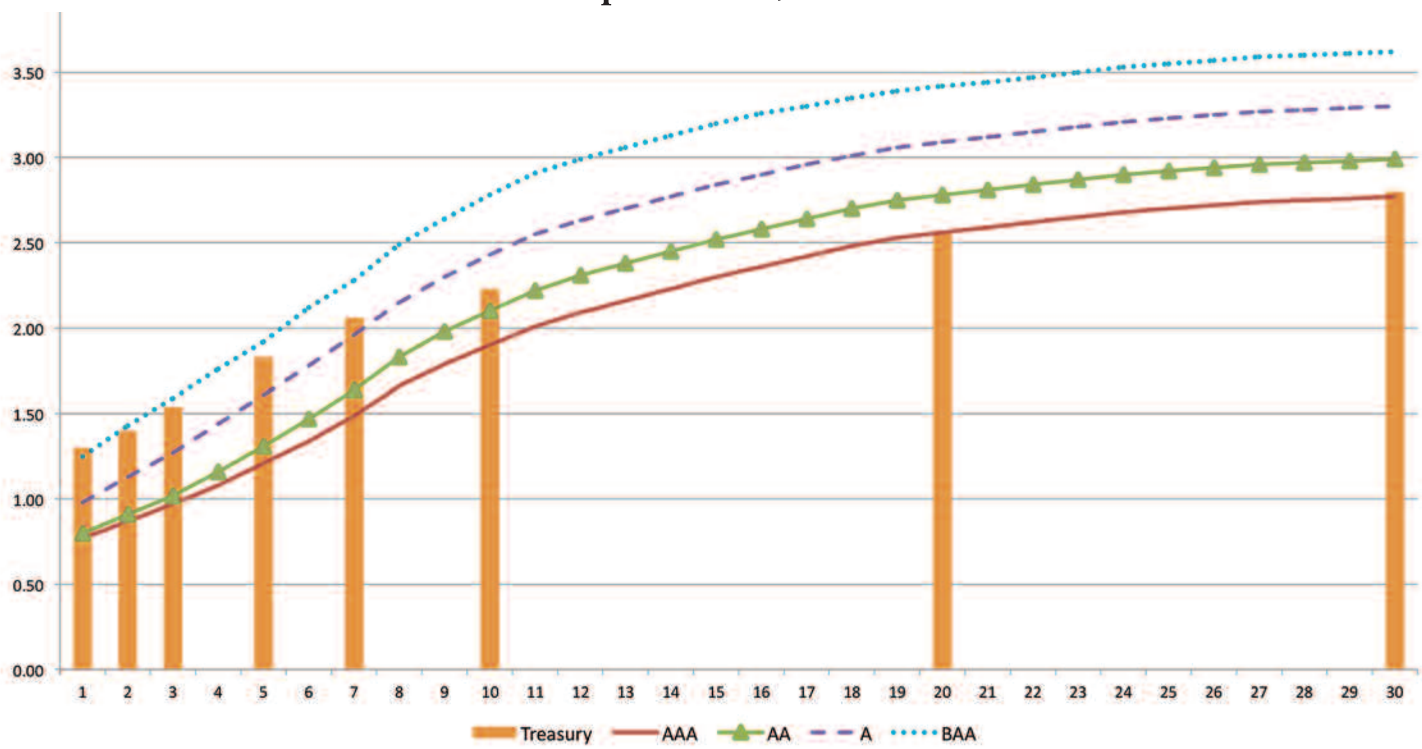
| Date | Borrower | Purpose | Amount | Structure |
|---|---|---|---|---|
| 08/02/17 | Grant Regional Health Center, Inc., Series A&B | Refinancing, New Money | $ 31,680,000 | 10-Year Reset Rate, Unrated, Private Placement |
| 08/04/17 | LindenGrove, Inc., Series B | Refinancing | $ 12,000,000 | 5-Year Reset Rate, Unrated, Private Placement |
| 08/04/17 | LindenGrove, Inc., Series C | Refinancing | $ 3,479,560 | 7-Year Reset Rate, Unrated, Private Placement |
| 08/10/17 | Agnesian Healthcare, Inc. | Refinancing, New Money | $ 57,210,000 | Fixed Rate, Rated, Public Placement |
| 08/11/17 | Franciscan Sisters of Christian Charity, Inc. | Refinancing, New Money | $ 34,425,000 | Fixed Rate, Rated, Public Placement |
| 08/30/17 | St. Joseph Residence, Inc. Project | New Money, Refinancing | $ 8,442,360 | 10-Year Reset Rate, Unrated, Private Placement |
| 09/13/17 | Marshfield Clinic Health, System, Inc., Series B & Series C | Refinancing, New Money | $314,315,000 | Fixed Rate, Rated, Public Placement |
| 09/14/17 | American Baptist Homes of the Midwest Obligated Group | Refinancing | $ 61,785,000 | Fixed Rate, Unrated, Public Placement |

## *Interest Rates (as of September 18, 2017)*

| | Current | Three Months Ago | One Year Ago |
|---|---|---|---|
| SIFMA Muni Swap Index | 0.820% | 0.860% | 0.780% |
| Bank Prime Rate | 4.250% | 4.250% | 3.500% |
| 10-Year Treasury Note | 2.230% | 2.390% | 1.700% |
| Revenue Bond Index (30-Year, Tax-Exempt Rate) | 3.300% | 3.350% | 2.750% |

## *Muni Index Yield Curve by Credit Rating*

**Municipal & Treasury Rates**
**September 18, 2017**




*(Source: Treasury.gov September 18, 2017 Robert W. Baird)*

## The Bond Deal is Over, Now What?
## A Brief Reminder Before You Enter Into a New Contract

Are you planning to either (1) enter into any new contracts pertaining to, or (2) materially modify or extend any existing contract pertaining to, in either case, the use of any of your tax-exempt bond financed property?

If so, do not forget that the IRS has released Revenue Procedure 2017-3 which provides the new rules governing and contains certain provisions that must be included in any new management contract entered into on 08/18/2017 or later, as well as any existing management contract that is materially modified or extended on or after 08/18/2017.

## *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: Chuck Samuels & ML Strategies***
***Dated: September 19, 2017***

### Legislative & Regulatory Update

### Congress, Trump, and Tax Reform

Congress returned from the annual August recess on September 5, with a full agenda of items to tackle in the weeks ahead, including tax reform, Fiscal Year 2018 appropriations and budget, a debt limit increase, the annual defense authorization bill, reauthorization of the Federal Aviation Administration and the National Flood Insurance Program, and numerous measures related to education, health care, and telecommunications.

Most relevant to NAHEFFA, of course, is the debate over reform of the nation's tax code. "Tax reform" is a top priority for President Trump and for GOP leadership on Capitol Hill, particularly as they seek to secure a significant legislative victory before the end of the year. It may be that we will see a tax bill but something much less than tax reform. Before tackling tax, Congress must first approve a Fiscal Year 2018 budget which will include reconciliation instructions for tax reform allowing Republicans to avoid a Democratic filibuster. As of now, it looks like the budget resolution will be done by mid-October.

Further complicating the outlook for tax reform is ongoing disagreement among the so-called "Big Six" of tax reform – Speaker Ryan, Senate Majority Leader McConnell, House Ways and Means Chairman Brady, Senate Finance Chairman Hatch, Treasury Secretary Mnuchin, and National Economic Advisor Cohn – on how to pay for reductions in tax rates for businesses and individuals, among other items such as the state and local tax deduction and full expensing of business capital investments. Shining a light on the gap between negotiators, Senate Finance Committee Chairman Hatch has said that his committee will not simply serve as a "rubber stamp" for whatever is proposed by leadership. The goal of the Big Six is to ensure that the Administration, the House GOP, and Senate Republicans are all more or less on the same page on tax reform in order to avoid repeating the pitfalls of Affordable Care Act repeal.

And then there are the Democrats. Forty five of the 48 Democrats in the Senate set out their principles for tax reform recently, stating that tax reform must not increase the tax burden on the middle class while favoring the wealthy, should go through regular order and not reconciliation, and should not add to the deficit. Of course, if the budget includes reconciliation instructions, the Democrats' principles will be just that – principles – as the GOP would be able to pass tax reform on their own.

So, what's happening now on tax legislation and what can we look for? As the post-recess push toward reform of the tax code gets underway, the Senate Finance Committee held a hearing on September 14 on Individual Tax Reform, and on September 19 a hearing was held on Business Tax Reform. The House Ways and Means Committee has not scheduled any hearings, and senior staff at the committee have told us that Republicans on the panel "are not clamoring" for tax reform hearings this fall.

At the Boise conference, we reported that the Administration had laid out a timeline for passage of tax reform with the tax-writing committees drafting legislation in August, the House and Senate committees marking up legislation in September, the House passing the bill in October and the Senate in November, and then the president signing the bill into law by the end of the year.

This is a <u>very</u> ambitious timeline, but in recent days House Republican leadership has begun to offer up more details on how they intend to meet the timeline. Chairman Brady has said he plans to release the proposed plan toward the end of the week of September 25. We are told that this is likely going to be three to four pages, with the details left for the tax-writing committees to put into legislative text. The Ways and Means Committee will then be looking for reactions from stakeholders to the limited details they've released, giving NAHEFFA and other interested groups the opportunity to further engage with the committee.

## *Washington Advocacy Report (Cont.)*

One new twist to keep an eye on is the impact that federal relief efforts for victims of Hurricanes Harvey and Irma could have on the tax reform debate. As noted above, there is an ongoing debate about whether tax reform can or should add to the deficit, making the billions of dollars that will likely be spent on storm relief problematic for tax reform. Simply put, it will be difficult – fiscally and politically – to reduce revenues while spending billions on storm relief. Also keep an eye on proposals for tax breaks to benefit those recovering from the storms—including possibly liberalization of private activity bond rules. With the House GOP already staking out in their tax reform blueprint that they want to do away with special interest provisions, new storm relief tax breaks could prove troublesome. There also is still interest in infrastructure legislation which is reviving interest in bank qualified liberalization.

Most intriguing about the push toward tax reform are recent overtures to Democrats by President Trump. After siding with Democrats over his own party on increasing the debt limit and a short-term Continuing Resolution to fund the government through December 8, and possibly some agreement on the Deferred Action for Childhood Arrivals (DACA) program for the "Dreamers", the president has gone on to sound out Democrats on how to achieve a bipartisan agreement on tax reform. House Ways and Means Chairman Brady has even said that if Republicans cannot come together on a path forward for tax reform, he believes President Trump will be inclined to work with Democrats to score a success. This is as surprising inside the Beltway as it must be outside, but could portend a much different legislative path forward on tax reform than many had been predicting up until recently.

It is also important to note there is some chance that, should comprehensive tax reform prove elusive, we could see something as simple as a temporary tax cut. Whether such an approach would address both corporate and personal tax is unknown, but to only reduce the business tax could prove to be a politically challenging decision going into mid-term elections in 2018.

We have been meeting in recent weeks with staff at the House Ways and Means Committee and Senate Finance Committee, personal office tax policy staff for committee members, and with Executive Branch officials to advocate for NAHEFFA, and will continue to be a vocal voice for munis on Capitol Hill and with the Administration as the tax debate continues to unfold and develop in urgency.

**Regulatory and Related Legislative Developments**

While the tax legislative pot simmers, the regulatory kettle whistles along (sorry). We received long requested guidance from MSRB on how the municipal advisor rules apply in conduit transactions. It isn't clear the guidance clarifies much and we will need to determine if we should seek guidance for the guidance. An MSRB proposal on when CUSIP numbers are required seems to have been re-proposed more narrowly based on our and other's comments. Pending still is a NAHEFFA-opposed SEC proposal to drastically broaden reporting requirements well beyond the bank loans which are the rationale for the proposal. SEC enforcement actions against issuers/borrowers, bankers and advisors show no sign of abating under new political leadership.

Finally, we continue to support legislation to: (1) temper regulations which dampen mutual fund bond purchases and (2) open up the High Quality Liquid Asset rules to highly rated municipal debt.

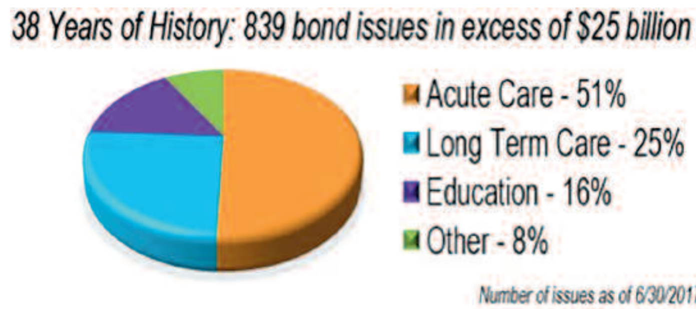
## *WHEFA Board Member News*

Kevin Flaherty, Vice President/Relationship Manager at Associated Bank, NA recently completed nine years of service on the WHEFA Board. WHEFA staff and fellow Board Members thank Kevin for his dedication and commitment over these years.

Renee Anderson, President and Chief Executive Officer at St. John's Communities, Inc. in Milwaukee was recently appointed to a 7-year term on the WHEFA Board. WHEFA staff and Board Members look forward to the ideas and knowledge Renee will bring as a Board Member.

## *About WHEFA*

WHEFA fulfills its mission of assisting all eligible Wisconsin non-profit institutions to obtain and maintain access to tax-exempt financing in order to finance or refinance capital improvement and expansion needs. Since inception, WHEFA has provided 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 – 21st Anniversary***
***Monday, March 19, 2018***

### WHEFA Members

*Chairperson*
James Dietsche

*Vice-Chairperson*
Tim Size

*Members*
Renee Anderson
Paul Mathews
James Oppermann
Pamela Stanick
Robert VanMeeteren

### WHEFA Staff

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Dennis Reilly

*Manager of Operations & Finance*
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