

Capital Comments



Wisconsin Health and Educational
Facilities Authority

A Quarterly Newsletter

whefa.com

Summer 2023



Summer!

The smell of freshly mowed lawns and backyard BBQ's. The feel of warm sunny days we feared would never come. A day full of fishing, golfing, biking, hiking. Cool evening bonfires along with the sounds of Brewers baseball and mosquitoes galore ("scratch" that last thought – sorry I couldn't resist the pun). However you choose to spend your time, I hope each of you are finding a way to enjoy the wonderful summer weather.

Let me catch you up on what we've been up to at WHEFA:

- Although the tax-exempt market remains challenged given the current rate environment, WHEFA has remained active closing four projects since our last publication in April 2023. Looking ahead, WHEFA continues to see a fair amount of activity and interest in financings from both existing borrowers as well as new organizations and remains committed to supporting each of you with your financing needs, or answering any questions you may have.
- From an educational perspective, WHEFA hosted a Lunch & Learn with the Wisconsin Council of Religious & Independent Schools (WCRIS) in May, providing information to K-12 schools on how tax-exempt financing works, how it can significantly reduce borrowing costs and what to expect during the process. If you are interested in learning more about this, please don't hesitate to reach out to us.
- From an advocacy perspective, WHEFA regularly meets with and educates legislators regarding how we can best continue to serve the various financing needs of nonprofit organizations throughout Wisconsin.

As always, WHEFA is proud to serve as a valuable resource to all nonprofit organizations throughout Wisconsin looking to obtain and maintain access to low-cost, tax-exempt financing. Please do not hesitate to call me directly at 262.510.9556 or contact any of the WHEFA staff, as we would be honored to be of assistance or simply answer a question.

Best Regards,

A blue ink handwritten signature of Larry D. Wiemer II.

Larry D. Wiemer II | Executive Director



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WHEFA MEMBERS

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Financing Spotlight

ANOTHER SUCCESSFUL PRIVATE ACTIVITY BOND FINANCING

\$8,250,000

WHEFA Bond Financing Helps Madison Development Corporation Construct Workforce Housing in Middleton

Bonds Placed with First Madison Investment Corporation



“As a non-profit, 501c3 workforce housing developer, Madison Development Corporation relies on tax exempt financing to bring quality workforce housing to Wisconsin.”

**- Abbie Wallhaus, VP of Finance / CFO
Madison Development Corporation**

***Madison Development Corporation employs
12 full-time equivalents in Wisconsin.***

9 Construction Jobs Created

12 FTE Employees

Bond financing facilitated by WHEFA will be used to help Madison Development Corporation finance the construction of a new multifamily development to be known as “The Mill Apartments” in Middleton, Wisconsin. The Project will include 52 units of affordable workforce housing in a transit-oriented district. This tax-exempt financing will enable Madison Development Corporation to operate more effectively by financing its capital expenses at a low interest rate.

WHEFA is proud to continue its mission of assisting all eligible Wisconsin nonprofit organizations by providing access to tax-exempt financing to fund their capital improvement and expansion needs.

Recently Completed Financings

Date	Borrower	Purpose	Amount	Structure
04/20/2023	Wellpoint Care Network Project	New Money	\$ 12,500,000	10 Year Reset Rate, Unrated, Private Placement
05/10/2023	Mount Mary University, Inc.	Refinancing	\$ 5,077,000	5-Year Reset Rate, Unrated, Private Placement
06/20/2023	Madison Development Corporation Project	New Money	\$ 8,250,000	10-Year Reset Rate, Unrated, Private Placement
06/22/2023	Milwaukee Science Education Consortium, Inc. Series A & B	Refinancing	\$11,985,000	Fixed Rate, Rated, Public Placement

The Bond Deal is Over—Now What?

-Recordkeeping -

The records pertaining to any series of tax-exempt bonds should be retained for 3 years after the final payment of any such series of bonds; provided, however, in the case of records pertaining to (a) the expenditures of the bond proceeds, (b) the use of the bond financed property, (c) any change in use of the bond financed property and any related remedial action, and (d) the project completion certificate and any other post-issuance tax allocation of the bond proceeds, such records should be retained for 3 years after the final payment of any tax advantaged bonds that directly or indirectly refund the original bonds.

The records pertaining to a series of bonds should include:

- Form 1023, Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code.
- IRS 501(c)(3) determination letter.
- Correspondence with IRS regarding activities and responses to inquiries, audits, etc.
- All filings with IRS, including Form 990 and Schedule K filings.
- The transcript for the series of tax-exempt bonds.
- Requisitions for disbursement of the bond proceeds and other information showing how the proceeds of the bonds were spent, which may include invoices and checks or other verifiable information.
- Records of all investments of the proceeds of the bonds.
- Records establishing the use of all assets financed with the bond proceeds, including management contracts, research agreements, physician contracts, naming rights agreements, leases, and any unrelated trade or business use.
- Records, certifications, and opinions relating to any change of use of any of the bond financed property, including remedial action certificates and opinions.
- Records relating to extensions or replacements of guarantees of the bonds, such as letters of credit, and records showing the dates and amounts of any payments for guarantees.
- Records relating to interest rate swaps or other derivatives relating to the bonds entered into before or after the date of issuance of such bonds, if any, and records showing the dates and amounts of any payments and receipts with respect to each derivative contract.
- Records relating to any modification of the bonds or the bond documents, including amendments to bank documents and interest rate mode conversions.
- The project completion certificate and other post-issuance tax allocations and elections.

[Bank Failures Highlight Importance of Measuring Counterparty Risk | Kaufman Hall:](#)

The recent failures of Silicon Valley Bank and Signature Bank have focused attention on an often-overlooked issue: bank counterparty risk. From a treasurer's perspective, banks are much more than account-holding institutions. They provide an array of critical payment and collection services, and the impact of losing access to these services cannot be overstated. The Federal Reserve's decision to intervene in the recent bank failures to give depositors full access to their funds provides some relief but does not fully address the problem of interruptions in the provision of services. These bank failures serve as a reminder of the importance of properly measuring counterparty risk and ensuring that business continuity plans include scenarios in which a banking partner is no longer able to provide key treasury services. Bank failures are not common events, but when they occur, they provide a reminder of how fragile business continuity plans can be. By monitoring the financial health of banking partners, assembling a strong and diverse banking group, and understanding the counterparty risk facing key treasury service vendors, you can help ensure that any impacts from unanticipated events that could disrupt treasury services are mitigated or avoided. In the process, you also are likely to form a stronger network of banking partners that will serve your organization or institution well throughout the business cycle.

[Lobbyists work the Hill on advance refunding and bank qualified \(BQ\) limit | Bond Buyer:](#)

Broker-dealers remain hopeful for policy issues vital to the municipal bond market including restoring advance refunding and raising the bank-qualified limit following a Bond Dealers of America fly-in event Thursday. Representatives of BDA member firms descended on Congress in a lobbying blitz that included visits with lawmakers on the House Financial Services Committee and the Senate Finance Committee, as well as regulators at the Municipal Securities Rulemaking Board, Financial Industry Regulatory Authority, Securities and Exchange Commission, and the Treasury. A discussion with the House Ways and Means Committee centered on the perennial hot button issues of lifting the cap for bank-qualified bonds and legislation that would restore advance refunding. The Investing in Our Communities Act, which would restore the ability of municipalities to advance refund on a tax-exempt basis, was introduced in March. Advance refunding was eliminated by the Tax Cuts and Jobs Act in 2017, to compensate for the loss of tax revenue caused by rate cuts. Muni market supporters have been trying to claw it back ever since. BDA also pushed lawmakers on changing the regulation of bank-qualified bonds, a touchstone for smaller issuers, regional banks, and broker-dealers. Muni leaders also remain concerned about the possible elimination of tax-exempt munis as the size of the national debt balloons. "The scenario I think most likely is the municipal bond tax exemption, along with most other tax-expenditures, could be eliminated when lawmakers begin to take steps to seriously bring the U.S. debt-to-GDP ratio down," said Tom Kozlik, head of public policy and municipal strategy, Hilltop Securities. "The public finance community needs to focus on educating D.C. lawmakers about the benefits of the municipal bond tax-exemption while raising awareness for new elements."

[Financial Reserves Build Institutional Resilience for Colleges and Universities | Kaufman Hall:](#)

With limited sources of funding, colleges and universities rely on financial reserves to maintain their financial stability and support their growth. Financial reserves ensure that these institutions can continue to serve their various constituents through good times and bad and can continue to invest in the highly skilled professionals, technologies, and programs that define modern higher education. Not-for-profit colleges and universities rely on three interdependent functions to contribute to their financial resilience: namely, the (i) Operating function, (ii) Finance function, and (iii) Investment function. With no immediate end in sight to the operational and financial pressures colleges and universities are facing, organizations will have to rely on their financial reserves to carry them through until conditions improve, or until institutions can adapt to a potential new reality of decreased revenue, increased expenses, and increased competition.

(continued on page 6)

[Senior Living at a Crossroads: Organizations Re-assess Their Role in an Evolving Industry | Kaufman Hall:](#)

As the Baby Boom generation completes its transition into senior status—the entire generation is expected to reach retirement age by 2030—operators of senior living facilities will need to decide how they will accommodate that generation’s lifestyle preferences and healthcare needs. With thin margins and significant competition, senior living is already a challenging market. The need to update facilities to meet new demands will make it even more challenging. One of the key challenges facing senior living facility operators across all categories of care is how to adapt facilities that were built 20 or more years ago and no longer meet the preferences of seniors for amenities such as larger living spaces, private rooms, and cultural and wellness opportunities. Not-for-profit senior living operators still play a significant role in the industry: over two-thirds of all CCRCs are not-for-profit, as are 10% to 15% of all skilled nursing facilities, assisted living facilities, and independent living facilities. But with senior living at a crossroads, and operating challenges intensifying, those operators for whom senior living is not a core business or capability should reassess the viability of their operations over the long term. There is a significant potential growth opportunity in the senior living market. To capture this opportunity, however, organizations may need to commit to significant capital expenditures to update facilities, enhance services, and expand capabilities.

[U.S. Not-For-Profit Health Care Midyear Update 2023: Out Of Intensive Care And On The Path To Recovery Amid Ongoing Operating Challenges | S&P Global Ratings:](#)

S&P Global Ratings believes the rapid deterioration in financial performance that it saw through most of 2022 is likely behind us and representative of a low point. However, challenges remain for the U.S. not-for-profit health care sector. A tail to recovery of a couple more years is expected. Early 2023 financial results indicate mixed performance as revenues and demand are generally healthy but expenses, both labor and non-labor, remain elevated for many health care providers. S&P’s sector view remains negative, and it is expected that rating and outlook actions on balance will be more negative, though the pace of changes could begin to slow in the second half of the calendar year as performance recovery is monitored.

[Health Spending Growth Slowed in 2022. That Trend's Set to Change, Experts Say | Fierce Healthcare | June 2023:](#)

While national health spending growth slowed in 2022, that trend isn't likely to stick around. Experts at the Centers for Medicare & Medicaid Services' Office of the Actuary predict that health spending growth will outstrip growth in the economy over the next decade, according to a study published in Health Affairs. Between 2022 and 2031, the actuaries predict spending will increase by 5.4% on average each year, faster than the estimated annual gross domestic product growth of 4.6%. National health expenditures will hit \$7.17 trillion by 2031, according to the analysis, or about \$1 out of every \$5 spent in the U.S. will be on healthcare. The U.S. spent \$4.4 trillion on healthcare last year, according to CMS actuaries. Recent legislation such as the Inflation Reduction Act and the expiration of the COVID-19 public health emergency will impact trends in the long term, according to the actuaries.

[National Hospital Flash Report: June 2023 | Kaufman Hall:](#)

Hospital finances showed signs of stabilizing in May amid slightly improving operating margins, declining expenses and notable increases in outpatient visits. Four Key Takeaways:

- Hospitals’ operating margins moved back into positive territory in May. However, operating margins continue to stand well below historical norms.
- People are becoming more comfortable with inpatient care. Discharges, emergency department visits and operating room minutes all climbed, although very modestly on a year-to-date basis.
- There is a sizeable and growing gap between primary hospital revenue sources. Revenue from outpatient care is increasing at a much greater rate than revenue from inpatient care.
- Labor expenses are beginning to decline. While labor costs remain significant, expenses in May were well below comparable levels from May 2022.

Fun Facts

- ◇ Lake Michigan is the only Great Lake entirely within the borders of the United States.
- ◇ Wisconsinites enjoy nearly 15 ½ hours of daylight on the summer solstice (first day of summer - June 21).
- ◇ In case you are keeping track, there are no railroads in Door County (yes, the pun was intended).
- ◇ Wisconsin has more than 15,000 freshwater lakes - second only to Alaska with up to 3 million named lakes.
- ◇ A bald Eagle doesn't get its white head until it is 4 or 5 years old.

Words of Wisdom

- ◇ People that do things that count don't stop to count them.
- ◇ When you are dissatisfied and would like to go back to youth, think of Algebra.
- ◇ If you have to borrow money, I'd recommend borrowing from pessimists since they don't expect you to pay them back.
- ◇ There is no pillow as soft as a clear conscience.
- ◇ Good judgement comes from experience, and a lot of that comes from bad judgement.

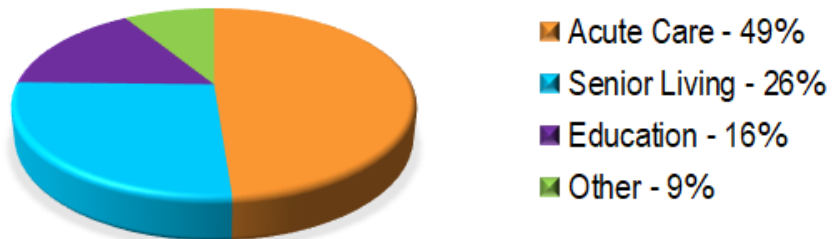
About WHEFA

WHEFA's mission is to assist all eligible Wisconsin nonprofit institutions to obtain and maintain access to tax-exempt financing in order to finance or refinance their qualifying capital improvement and expansion needs.

Since inception, WHEFA has provided several hundred Wisconsin nonprofit 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.

44 Years of History: 967 financings totalling in excess of \$32 billion



As of 06/30/2023

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