

Supporting ACCESS

What's in Store for 2018?

*by Barry Fick, Executive Director
Minnesota Higher Education Facilities Authority*

As issuers for Health Care and Higher Education borrowers, our Authorities have somewhat limited ability to project activity in any given year. We can't "solicit" borrowers to issue bonds or notes on a scheduled basis and we can't readily expand the number of borrowers who might benefit from our services. At the same time, we all remain vigilant and ready to assist borrowers to accomplish their financings on their schedule and we want to fulfill our individual missions and programs to help our respective states prosper and thrive. So, what is likely to happen to borrowers in 2018?

We have all just experienced two interesting months to conclude 2017. The combination of education efforts with legislators to help preserve financing options for our organizations, along with borrowers accelerating financings into late 2017 to alleviate possible negative legislative changes made for a very busy November and December 2017.

While successfully retaining the tax exemption for Private Activity Bonds, tax-exempt advance refundings were largely eliminated as a re-financing option for HealthCare and Higher Education borrowers. Already there have been options developed that will slightly reduce the loss of tax-exempt advance refundings, but it is clear the overall tax-exempt market for the type of bonds issued by conduit HealthCare and Higher Education Authorities has changed.

For the overall tax-exempt market, including state and local government issuers, various commentators have indicated that the market could be reduced by 24-30% in 2018 and into 2019 as a result of the changes put into place by the 2018 Tax bill. It is possible that other economic and political forces will result in delayed projects and fewer financings in the next few years. To serve the entities who borrow at tax-exempt rates through Authorities, it is important to be aware of the issues that face the Authority community.

For all the concern about the provisions of the Tax bill, there are many other factors that may be equally or more important than tax considerations Authorities need to be aware of in 2018 and future years. The aphorism "May you live in interesting times" comes to mind as the possible issues that HealthCare and Higher Education Authorities must be aware are gathered and examined.

Perhaps the most immediate matter facing borrowers are rising interest rates. Short term interest rates have been rising and are expected to rise further during 2018 and 2019. The Federal Open Market Committee is expected to raise short-term rates 3

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FUTURE NAHEFFA CONFERENCES

May 7-8, 2018

Boston, MA

[Omni Parker Hotel](#)

September 12-14, 2018

Denver, CO

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NAHEFFA President's Message

by Donna Murr, Executive Director
Washington Health Care Facilities Authority



Happy Spring Everyone!

I hope your year is off to a great start and things are somewhat back to normal at work. Although, I'm not sure I know what the new "normal" will be going forward.

Donna Murr

This is my last message as president of NAHEFFA. I wish I had some great words of wisdom to leave you with as I wind down my presidency, but really all I can say is that I am happy we survived last year, am proud of what we have accomplished and am grateful to all of you for your support. It has been a pleasure working with our excellent board, committees and member authorities. I want to recognize Nichole Doxy for her outstanding work as Operations Director and Chuck Samuels for his faithful and unwavering support of our mission. Of course, I must recognize my board and especially my staff, Ashlee Frye, Shannon Govia and Danni Miller, for their support during this time.

We have seen many changes, challenges and victories these past two years – clarification of the new MA Rule; disclosure issues relating to direct bank purchases; a presidential election like none other; the Cubs winning the world series; numerous NAHEFFA membership changes (retirements and promotions); and our decision to hire ML Strategies to supplement Chuck's efforts on Capitol Hill – just to name a few.

As my term comes to an end, I want to remind you that our spring conference is May 6-8 in Boston, hosted by the Massachusetts Development Finance Agency. I hope to see as many of you as possible in Boston where we will vote in new officers and hear what's hot in our industry and what changes our advocacy team sees on the horizon for us.

Finally, I am very confident our next President, Harry Huntley, Executive Director of the South Carolina Jobs-Economic Development Authority, will continue of legacy of strong leadership and wish him all the best and he embarks on new challenges and rewarding victories.

I look forward to seeing you in Boston! ■

2018 SPRING CONFERENCE

Boston, MA
Omni Parker House Hotel

Welcome Reception | Evening of May 6th
Conference Sessions | May 7-8th
(session run from 8 am - 4 pm both days)

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WASHINGTON REPORT

by Charles A. Samuels, Mintz Levin
General Counsel, NAHEFFA



Chuck Samuels

What would seem to be a Washington D.C. no-brainer – spending lots of money on mostly politically popular infrastructure projects (“pork”) – has got side railed and caught up in a combination of the second year of turmoil and chaos and the lack of interest of many conservative Republicans in new spending programs. As a consequence, it seems unlikely that a major infrastructure bill will be enacted this year. A smaller bill or bills could be adopted, however. And, it is possible that some of the infrastructure proposals from this year could be the subject of serious legislation in the next Congress.

Pres. Trump announced in February an infrastructure initiative which contains some new federal spending but which relies heavily on state and local spending as well as private investment. With respect to muni bonds, somewhat ironically, private activity bonds have become the flavor of the year and instead of threatening their existence, the proposal is to create new ones and broaden flexibility and eligibility for existing ones. These proposals do not clearly and directly affect nonprofit financings. Further, we have been assured by Treasury that the proposals are not meant to detract from or limit traditional nonprofit financings although that may not be the view of Ways and Means Chairman Brady, see below.

There would be special benefits/allowance of private use for “public infrastructure projects” which would have specific purported public attributes such as government ownership or private ownership under arrangements in which rates charged for services or use of projects are subject to state or local governmental regulatory or contractual control and which projects are for general public use or provision of services to the general public, such as public roads or water service. Private activity bond eligibility would be broadened in transportation projects to allow for longer-term private leases and concession arrangements and for certain reconstruction projects. There would be new and modified categories for surface transportation, hydroelectric power generation, flood control, storm water facilities, broadband service and environmental remediation.

The alternative minimum tax and volume caps would be eliminated for most or all PAB’s as for us. There would be new rules liberalizing change of use provisions and change of use cures for private leasing of projects to ensure preservation of tax exemption for infrastructure projects.

These proposals as a whole were met with lack of enthusiasm in the Congress. Notably, Chairman Brady stated that any consideration of this liberalization might be paid for by restricting other categories of private activity bonds, particularly housing and nonprofits. So, we need to be aware that if there is any traction to these ideas they may threaten our status. On the plus side, these infrastructure proposals give us an opportunity to advocate for bank qualified permanent liberalization.

Senate Democrats proposed an infrastructure initiative paid for by pairing down the corporate and individual tax cuts so the proposal was received as more of a political document than practical legislation at this point. Without elaboration, the Senate Democrats state that they propose to “ensure that state and local governments have flexibility to fund and finance infrastructure projects as efficiently as possible, by eliminating arbitrary tax barriers for infrastructure projects that benefit the public. In addition, we will create a new direct – pay bond program for qualified infrastructure projects, deepening the lending market and allowing large investors, like pension funds, to more easily invest in building America’s infrastructure.”

I think it is doubtful that before the election that we will see a big infrastructure bill go anywhere. It is possible that there will be interest in that after the mid-term elections. In the meantime, it is possible that there will be small infrastructure-oriented legislation on subjects such as water infrastructure and regulatory reforms and this could be done through FAA or water resources development act reauthorization.

There also are “technical corrections” proposals for the tax bill and House Muni Caucus Hultgren and Ruppertsberger introduced bipartisan legislation to bring back advance refundings which we are supporting.

On the banking/securities legislation front, the bill reversing the overly stringent High Quality Liquid Asset limitations on munis for big banks is close to passage which we have supported. And, on the regulatory front, we filed TEFRA comments with Treasury (grateful they were still relevant) and commented on MSRB guidance procedures which we had already discussed with its leadership.

See you in Boston. ■

or possibly 4 times in 2018. The goal of increasing interest rates is to control inflation. Often, rising interest rates also may moderate economic growth. The most recent jobs statistics, unemployment statistics paint a picture of the United States economy at near full capacity and expanding. Interestingly, inflation reports show continued low (although rising) inflation. With the reduction in corporate tax rates and changes to repatriation of foreign held funds rules put in place by the 2018 Tax bill, economic activity is projected to increase. The hope is that increased economic activity will be sufficient to overcome the challenge of higher interest rates.

One factor that tends to give the market hope that rising rates will not curtail economic growth is that the yield curve, representing the interest rates from 3 months to 30 years, is very low, both in absolute and historic terms. Some market observers feel that this allows for some increase in rates without curtailing economic activity, while also reducing inflation pressure. While the overall level of interest rates has increased in the last few months, the yield curve has seen the largest increases at the shorter end of the curve, which largely reflects past and anticipated future Federal Reserve Open Market (FOMC) rate increases.

Even if the FOMC chooses to not increase interest rates directly, they have embarked on a clearly defined indirect method that tends to increase interest rates. During the recession that began in 2008, the Federal Reserve Bank began an aggressive program to purchase US Government Bonds. This had the effect of increasing demand for the bonds, which in turn helped drive interest rates down and keep them low. At its peak, the Federal Reserve held approximately \$4.5 Trillion of US Government securities. To give you a reference point for how much that is, keep in mind the fact that the entire Municipal Bond market, including bonds issued by States, Counties, Cities, Special Districts, Conduit issuers, and other authorized municipal issuers, was \$3.7 Trillion.

With the economy now in the middle to later stages of recovery, the Federal Reserve Bank has announced that they will shrink their portfolio of US Government securities. They plan to do this by letting some of their holdings mature and by actively selling some of the US Government securities they hold. This reduces demand for US Government securities, which tends to result in increases to interest rates. The plan by the Federal Reserve Bank is to reduce their holdings gradually to not disrupt the market and result in sharp increases in interest rates.

In addition to interest rates, there are political factors that will bear on the ability of borrowers to finance or re-finance projects. Changes to health care mandates and coverage remain in flux. With uncertainty surrounding what coverage mandates are in place and what insurance coverage will be required, all tend to make bondholder nervous and if they are nervous, they will demand higher interest rates or more restrictive financial covenants as a condition of purchasing bonds.

Demand for health care services will continue to rise as the population ages, but the ability to pay for health care may not rise as quickly as costs increase. With additional use of Medicare and Medicaid by an aged population, pressure on net income margins will increase.

Political challenges will influence Higher Education as well. With state support of public education not yet returning to pre-recession levels, the pressure on public higher education remains high. State legislatures dislike tuition increases to make up for declining state support, putting schools in a challenging position.

The moderation of tuition increases by public higher education leads to pressure on private higher education to moderate tuition to remain competitive in pricing.

General economic challenges must be considered as well. With household incomes increasing at low rates and wages largely stagnant, it is difficult to raise prices to compensate for increased costs. Entities who borrow through Authorities are challenged to do more with no funding increases and reduced pricing power, curtailing their ability to increase rates.

One response by borrowers to increasing cost pressure may be to increase investment in labor-saving or efficiency increasing technology. The challenge is how to fund the acquisition of the technology in the face of lower operating margins. A partial solution is to increase gift funding through capital campaigns. This works well but does tend to reduce the demand for financing through conduit issuers.

While the challenges currently facing conduit issuing Authorities are many, they are not materially different than have been faced in the past. With the advantage of understanding and acknowledging the issues, Authorities are well placed to develop plans that will enable HealthCare and Higher Education borrowers to continue to benefit from the efficient services Authorities provide.

GREETINGS FROM THE NAHEFFA SPONSORSHIP COMMITTEE

Don't miss out - there is still time left to sponsor the NAHEFFA 2018 Spring and Fall Conferences.

Thank you to all that have continued to support NAHEFFA by sponsoring the Spring and Fall Conferences. It is truly appreciated and your support helps to further the NAHEFFA mission of supporting access to readily-available, low-cost capital financing options for not-for-profit and governmental health and educational institutions. Let's work together to support this mission!

May 7-8, 2018 *Boston, MA* [Omni Parker Hotel](#)

September 12-14, 2018 *Denver, CO* [Magnolia Hotel](#)

NAHEFFA conferences are attended widely by NAHEFFA Members including authority board members and staff and provide opportunities to build relationships and increase your awareness of issues and concerns in the industry.

For more information about NAHEFFA sponsorship and for ways to participate, please contact Shannon Govia at ShannonG@whcfa.wa.gov or Nichole Doxey at ndoxey@naheffa.com or visit the [NAHEFFA website](#) for more conference and sponsorship information.

Best regards,
2018 Sponsorship Committee Members

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