NAHEFFA

National Association of Health & Educational Facilities Finance Authorities

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PRESIDENT'S MESSAGE BY BLAINE BANDI

Welcome to the inaugural edition of the NAHEFFA newsletter. NAHEFFA is the newly merged association representing the non-profit health care and education financing sectors. Following a lengthy, detailed and collaborative process, the memberships of NAHEFA and NCHFFA voted in Portsmouth, NH to merge.

The merger provides immediate justification for multi-purpose Authorities. Those Authorities which finance both health and educational facilities no longer have to participate in two associations. They no longer have to staff two sets of similar committees, pay two separate dues and attend two separate meetings.

Less immediate, but potentially far more important benefits are attainable to all of our membership. Our larger and more broadly representative association is better positioned to advocate for the interests of non-profit financing. At our most basic level, each member of NAHEFFA shares the common goal to increase access to essential health and educational services for residents of our states. This common goal and the memberships' sustained involvement will insure this potential is realized. For those of you who are not actively involved, I encourage you to seek out a member and learn how your membership can be enhanced with your increased involvement.

I extend my sincere thanks to the members of the Joint Merger Committee. They graciously invested many hours in the assessment of the rationales for merging as well as the tedium of the "legal mechanics" of merging. Although all are deserving of our thanks, I know the Committee will support me in mentioning both Marianne Remedios and Jim Parks for their exemplary efforts.

The recent discussions around economic stimulus packages provided NAHEFFA the opportunity to join with a coalition supporting community economic stimulus. In January, we joined with 14 other national groups in support of H.R. 2091 and S. 1963. This proposed legislation would allow community banks to partner with their Federal Home Loan Banks in issuing letters of credit to support tax-exempt bonds. Your continued support of this legislation is particularly critical while economic stimulus continues to be a congressional focus.

The NAHEFFA Spring 2008 Conference will be held March 31 – April 2 in Washington DC, at the Washington Court Hotel. The agenda has been designed to provide educational and regulatory updates in the morning sessions. This will allow ample opportunity for Congressional visits and touring in the afternoon. I look forward to seeing you in DC.

Finally please join me in welcoming our newest member, the Ohio Higher Educational Facility Commission. Be sure to introduce yourselves to Barry Keefe, their legal counsel, and provide a personal welcome at a future meeting.

WASHINGTON ADVOCACY REPORT
Prepared: February 8, 2008
By Charles A. Samuels and Patrick D. Mara
Mintz Levin/ML Strategies

Stimulus and FHLB Legislation

As the 2008 session of Congress begins, the hot economic topic which could affect tax-exempt bonds is the emerging recession and interest in a stimulus package. The Administration stimulus proposal allowed qualified mortgage revenue bonds to be used to refinance existing loans for sub-prime borrowers. The private activity bond cap would have been increased by $5 billion a year for three years to accommodate this activity. The final legislation, just adopted by Congress, did not include this measure, however.

NAHEFFA, other bond issuing organizations, state and local governments and the Federal Home Loan Banks (FHLB) around the country organized a major effort to promote our FHLB letter of credit legislation. This bill would allow FHLB member banks to provide letters of credit for a tax-exempt bond issuer without running afoul of "federal guarantee" restrictions. H.R. 2091 and S. 1963 have dozens of sponsors and would not only have a stimulative effect but might help mitigate the effect on bond issuers and conduit borrowers, such as our non-profit institutions, of the bond insurance crisis.

Our provision was not included in the "Stimulus No. 1" bill, but there will be a second, more detailed stimulus package worked on this year and we are pushing very hard to be a part of it. A number of NAHEFFA members have developed specific examples of small health or education institutions that would benefit greatly from FHLB bank members letters of credit and could immediately commence construction or renovation of their facilities.

Bank Deductibility

On the bank deductibility front, the two co-sponsors of H.R. 640, Rep. Jindal (R-LA) and Rep. Baker (R-LA), have left the Congress. Mr. Jindal is now Governor of Louisiana and Mr. Baker is now the head of the Hedge Fund Association. As a consequence, we need new Congressional support for our bank deductibility legislation to allow state authorities to issue bank deductible debt, and NAHEFFA members have been encouraged to contact their Congressional delegations. We are attempting to negotiate a joint position with the Council of Development Finance Agencies which also is promoting bank deductibility liberalization for 501(c)(3)'s.

Form 990

NAHEFFA, along with numerous hospital and higher education groups, urged the IRS to revise its proposed changes to Form 990 to be less onerous for charitable institutions, particularly hospitals, which have been the beneficiaries of tax-exempt bonds. The IRS took into account many of our comments. Much remains to be resolved by the written instructions to the form, which are still being drafted.

The IRS is strongly encouraging conduit borrowers to implement improved record-keeping and post-issuance tax compliance procedures. The "Supplemental Information" sheet published by the IRS for Schedule K states: "The one year delay for most portions of the form will provide organizations an opportunity to put in place the systems needed to compile the information required to complete the schedule." The schedule includes questions as to whether the organization employs outside counsel for advice as to management contracts and sponsored research, asks whether the organization maintains adequate records as to allocation of proceeds, and asks if the organization has implemented procedures to ensure post-issuance compliance. Issuers will have a strong incentive to adopt such practices in order to avoid having to answer "No" when these provisions become effective for returns filed in 2010.

WASHINGTON ADVOCACY REPORT (CONT.)

With respect to several of the items discussed in our comments:

1. We recommended a delay in the effective date until 2010. The IRS has delayed the effective date of the complex sections on use of proceeds, private activity, and arbitrage until the 2010 filing of the form for 2009. Basic information as to issues outstanding is required for the 2008 return to be filed in 2009.
2. We recommended that the schedule not apply to bonds issued prior to promulgation of the form, noting that current bonds could have been outstanding for over 20 years. The IRS has made Schedule K inapplicable to bonds issued prior to 2003.
3. We urged that the section on compensation of third parties is more appropriate for the Form 8038. It has been eliminated from Schedule K.

University Endowments, Tax-Exempt Bonds and Tuition

The continued interest of Senator Grassley of Iowa on the use and expenditure rate of the largest college endowments has resulted in several universities making major commitments to provide expanded financial aid, particularly for students from middle income families. These universities are responding to possible legislative proposals to mandate, as with private foundations, a minimum endowment payout of five-percent. There also is pending legislation to require public reporting of specified higher education tuition increases.

Related to this activity, the Congressional Budget Office (CBO) continues to study the relationship between endowments and tax-exempt bonds. NAHEFFA is undertaking a major effort to provide good quality data to the CBO and to clarify misunderstandings about bond issuances and endowment uses.

The IRS also has announced in its 2008 work plan a major college and university compliance initiative. Approximately 500 institutions are receiving questionnaires.

According to a Government Accounting Office (GAO) report, although tuition increased across the board at all higher educational institutions, two-year public and private universities experienced the lowest growth in rates. Two-year privates increased by the smallest percentage while two-year publics grew by the lowest dollar amount. In addition, between the 2000-2001 to the 2005-2006 academic years, the report found that private institutions spent more on education than did public colleges and universities. The expenses at private universities included administrative needs, instructional support and student services, among others. Tuition increases have been a pet issue of House Education and Labor Committee Chairman George Miller. Miller said of the GAO report, "Students and their families deserve to know whether or not price increases are justified, and whether they are getting the best possible education for their investment." Miller is the author of H.R. 4137, the College Opportunity and Affordability Act. The bill attempts to affect tuition increases by, among other things, providing consumers with more information on university pricing. The legislation was approved by the House and now moves to the Senate.

Proposed Renaissance Bonds can be used for Telemedicine and Distance Learning

The Senate-passed agriculture bill creates a new category of tax credit bonds with a total allocation of $400 million. The bonds can be used for telemedicine, distance learning and rural community facility projects.

Kennedy Wants Action on Patient Safety Bill

Senate Health, Education, Labor and Pensions Committee Chairman Ted Kennedy (D-MA) recently sent a letter to the GAO asking it to investigate why the bipartisan Patient Safety and Quality Improvement Act remains not fully implemented. The measure, enacted almost three years ago, establishes Patient Safety Organizations (PSOs). The

WASHINGTON ADVOCACY REPORT (CONT.)

purpose of the PSOs is to "collect, aggregate, and analyze confidential patient safety data and information reported by health care providers." The letter urged full implementation of the bill. According to Kennedy, "Continued delay is a serious disservice to millions of patients across the United States, and I implore the Administration to take action immediately." The Senator added that his office "had been in constant communication with Secretary Leavitt's office about the progress of the regulations." Kennedy still awaits a response from Secretary of Health and Human Services (HHS) Secretary Leavitt's office. Kennedy asked the GAO to intervene after HHS informed the Senator that they would not be providing him with a timeline and reasons for the delay.

HHS Awards Grants for Private Sector Health Technology Advancement

Department of HHS Secretary Michael Leavitt recently announced an award to establish the successor to the American Health Information Community (AHIC). In a private sector-based public-private partnership, the Brookings Institution and LMI Consulting were awarded a grant to establish the successor to AHIC by December 2008. Leavitt noted, "By securing a successor to the AHIC in the private sector while maintaining broad private-public collaboration, we will help to ensure that the health IT standards process is truly self-sustaining." Brookings, a global leader in policy analysis, is providing its services free of charge. LMI, a not-for-profit consulting firm, will add management and logistical support to the team. Together LMI and Brookings will develop a "two-stage collaborative process" to ensure all stakeholders are represented. More information on the HHS IT initiative is available at: http://www.hhs.gov/healthit.

PROBLEMS IN THE HOUSING MARKET AFFECT HIGHER EDUCATION

The tightening credit markets amid the meltdown in U.S. housing prices are starting to affect higher education. The recent economic turmoil is beginning to make it tougher for some colleges to cover their day to day expenses and for some student-loan companies to stay in business. In addition, families may have a harder time borrowing against their homes to pay for college.

Although colleges may find they will have to pay a bit more when borrowing money on the bond market for new projects, they are faring better than most borrowers because investors consider universities a good credit risk. However, institutions that rely heavily on tuition, particularly in California where the mortgage meltdown is most severe, college leaders are becoming more apprehensive.

In general, most students rely on government-subsidized loans whose rates they pay are set by law. These borrowers should be ok even as the credit crisis continues because the government guarantees the repayment of federally defaulted loans. It's the students relying on private loans, most often graduate students, which cover any gaps between the cost of college and the maximum amount they can borrow under the federally guaranteed program, who may have trouble if the crisis continues.

Concern about the credit crisis hung over conferences held in December 2007 by the Consumer Bankers Association, which represents major lenders, and the Career College Association, which represents for-profit colleges. Student loan companies are also expressing concern that previous investors who have suffered losses will not continue to invest if the problem continues.

In an effort to help the crisis, in September 2007, Congress approved the largest increase in federal student aid since the GI Bill, but lawmakers paid for the nearly $21-billion measure through cuts in the subsidies paid to lenders. There was a 0.55 percentage-point reduction in the subsidy rate paid to for-profit lenders as well as a 0.35 percent cut for nonprofit lenders.

Others see a less dire situation, at least for now. Some smaller lenders could be hurt by the crisis but other lenders may pick up the slack seeing government-guaranteed assets as a desirable investment. Investors who buy

PROBLEMS IN THE HOUSING MARKET AFFECT HIGHER EDUCATION (CONT.)

bonds are becoming more attentive to the underlying creditworthiness of parties that issue them, and colleges may benefit from this because they, as a whole, are considered good risks. *(Source: The Chronicle of Higher Education; 12/21/07)*

CLOSER MONITORING OF CREDIT RATINGS ON SWAP COUNTERPARTIES AND GIC PROVIDERS NEEDED

A side effect the current financial market problems have caused is the impact that downgrades in credit ratings can have on swap transactions and guaranteed investment contracts. Most agreements in both areas have a minimum credit rating requirement which must be maintained by each counterparty. If that rating is breached, then either a posting of collateral or the replacement of the counterparty may be necessary. Borrowers are encouraged to confirm the continuing compliance of such transactions and in the near term to more closely monitor any additional credit rating changes which are sure to come. *(Source: The Bond Buyer; 01/24/08)*

THE CASE FOR OFFERING PALLIATIVE CARE

Hospitals are generally equipped and staffed to provide acute care, but often fall short when it comes to managing chronic illness. As the patient population ages, some hospitals are finding that they are not prepared to handle the social, physical, emotional and quality-of-life issues presented by a growing influx of chronically ill patients with complex diseases.

According to the Center to Advance Palliative Care (CAPC), 70 percent of hospitals in the United States with 250 or more beds have a palliative care program and 55 percent of hospitals with more than 100 beds report having a program as well. The number of existing programs has doubled in the last six years from 632 in 2000 to 1,300 today.

Palliative care involves relieving pain and suffering to ensure the best quality of life possible for patients and families. Although palliative care and hospice overlap in their patient-centered philosophy of care, palliative care is provided at any time during a patient's illness, often from time of diagnosis. Patients are cared for by a team of physicians, nurses and social workers and may even include chaplains, massage therapists, pharmacists, nutritionists and any other appropriate care provider.

When Mount Sinai Medical Center in New York City introduced its palliative care program in 1997, it anticipated receiving about 50 referrals in its first year but was quickly deluged with 250. Now the hospital follows well over 1,000 new patients each year and is in the process of developing a dedicated inpatient palliative care unit.

Palliative care should also be viewed in the context of the spiraling price of care for high-cost, high-technology tests and treatments of little or no benefit, which often cause unnecessary stress and suffering. For example, it is estimated that Froedtert Hospital in Milwaukee, Wisconsin, saves between $200 and $500 per day per patient as a result of avoiding unnecessary tests and procedures. With the help of a palliative care team, patients can better understand their illness and the options available to them which will change the process of care.

According to CAPC, developing a palliative care program requires a relatively low start-up investment and can have an immediate impact on overall resource use and intensive care unit utilization. With a palliative care program, patients will receive appropriate levels of care, which often reduces the length of stay, especially in the ICU. A hospital can maintain or improve its quality of care while increasing bed capacity and reducing costs through shorter lengths of stay and lower ancillary and pharmacy costs. *(Source: Trustee; May 2007)*

BRIEFLY NOTED

. . . France, Japan and Australia rated best, and the United States worst, among 19 leading industrialized nations in rankings focusing on preventable deaths due to treatable conditions. Since the last ranking, the U.S. fell from 15th to 19th place. *(Source: Reuters; 01/08/08)*

. . . Medicare losses at U.S. general acute care hospitals rose 20% to $18.6 billion in 2006, and losses on Medicaid patients climbed 15% to $11.3 billion. Charity care and bad debt climbed 8% to $31.2 billion for the same period. *(Source: Modern Healthcare; 10/29/07)*

. . . Average yearly costs for nursing home stays rose 3% in 2007 to $77,745 (private room). Rates ranged from a high average in Alaska of $186,150 to a low in Louisiana of $44,859. Assisted living costs remained flat at $35,628. Assisted living facilities offering dementia care jumped to 59% from 48% over the last year. *(Source: McKnight's Online; 10/31/07)*

. . . In England, during the late 1800's and early 1900's, only 3% of the population were left handed. Investigators attribute this low number to socio stigmatization (lefties were shunned as marriage partners) and economic factors (the industrial revolution produced machines suited for right handers). Today, about 11% of the world's population is left-handed. *(Source: Scientific American; December 2007)*

. . . The College of Cardinals who will elect the next Pope admitted 23 new members in 2007, raising its ranks to 201 members. Over half (104) are from Europe and only those below the age of 80 can vote (120). *(Source: Philadelphia Inquirer; 12/15/07)*

. . . One year after a law that requires all residents in Massachusetts to obtain health insurance, between 200,000 and 400,000 remain uninsured. Some feel the penalties for noncompliance ($219) has been set too low. *(Source: Boston Globe; 01/11/08)*

. . . Quote from CEO, Raul Yzaguirre of the non-profit, National Council of LaRaza- "One of my most important talents is being creative. I have ten ideas and eight of them are worthless; but the two that are good are what makes the organization. And I surround myself with people who are not shy about telling me which are which." *(Source: "Forces for Good", p. 165)*

. . . The percentage of married couples with two salaries peaked at 53.4% in 1997 and now stands at 51.8%. *(Source: Newsweek; 01/14/08)*

. . . About 33% of all U.S. women ages 25 to 29 had a bachelor's degree or more in 2007, compared with 26% of their male counterparts. *(Source: Milwaukee Journal Sentinel; 01/11/08)*

. . . The Equal Employment Opportunity Commission has ruled that employers can reduce or eliminate health benefits for retirees when they turn 65 and become eligible for Medicare. *(Source: The New York Times; 12/27/07)*

. . . Nearly 85% of colleges undertaking recent building projects said they have incorporated sustainable design and green building principles. 50% said they would pay up to 5% more for green. *(Source: Facilities Manager; November/December 2007)*

. . . 45 million Americans are smokers; 438,000 deaths are caused by smoking annually; 19 million smokers quit at least for one day a year, while only 5% of these remain smoke free for 3 to 12 months. *(Source: National Geographic; December 2007)*

. . . Although one-quarter of the U.S. population lives in rural areas, only one in ten physicians practice there. *(Source: Trustee; January 2008)*

BRIEFLY NOTED (CONT.)

. . . States continue to spend more on healthcare than any other expenditure. In 2007, one-third of state spending was for healthcare needs. *(Source: McKnight's Online; 12/10/07)*

. . . Almost 1/3 of the world's 394 primate species are in danger of extinction on all five continents. *(Source: Associated Press; 10/26/07)*

. . . Through the use of medications, the average cholesterol level for U.S. adults is now in the ideal range of below 200. *(Source: Associated Press; 12/13/07)*

. . . A government report says that 1/3 of Americans born in 1990 will have zero dollars saved in a 401(k) style plan at retirement. This occurs at a time of fewer pensions and Social Security uncertainty. *(Source: Associated Press; 12/12/07)*

. . . People who nap at least three times a week for at least 30 minutes are 37% less likely to die from heart disease. *(Source: TIME; 12/03/07)*

. . . With divorce rates rising worldwide, married households use resources more efficiently than divorced households, thus putting pressure on the environment. *(Source: Associated Press; 12/04/07)*

. . . Each American citizen now owes nearly $30,000 towards our national debt ($9.13 trillion), which is growing $1.4 billion each day. *(Source: Associated Press; 12/04/07)*

. . . Nearly 18% of Medicare patients admitted to a hospital are readmitted within 30 days of discharge, accounting for $15 billion in annual spending. *(Source: The Wall Street Journal; 12/12/07)*

. . . The number of volunteers 65 and older is expected to grow 50% in the next 13 years from 9 million to 13 million. New volunteers will be educated and computer savvy. *(Source: Milwaukee Journal Sentinel; 11/18/07)*

. . . Sampling and testing of sewage/wastewater has become a good predictor of the drug usage patterns in communities over time. *(Source: Scientific American; December 2007)*

. . . The average American is caught on video surveillance tape almost 200 times a day. *(Source: Newsweek; 12/03/07)*

. . . Ships release more sulfur dioxide, a pollutant associated with acid rain, than all the world's cars, trucks, and buses combined. *(Source: The Wall Street Journal; 11/27/07)*

. . . 8.2 million U.S. households own at least one RV and 400,000 people live in one full-time. A luxury RV contains 380 square feet of living space and can cost up to $1 million. *(Source: TIME; 11/19/07)*

. . . A 2007 study indicates that 12% of households, age 60-plus live in housing specifically planned for people 55 years of age. In 1998, the percentage was 7%. *(Source: Provider; November 2007)*

. . . The U.S. Government predicts that at least 36 states will face water shortages within five years because of a combination of rising temperatures, drought, population growth, urban sprawl, waste and excess. *(Source: Associated Press; 12/15/07)*

"My plan was to do something spectacular, burn out, rejuvenate myself, and leave a legacy but I missed that first step."

Source: The Wall Street Journal

BRIEFLY NOTED (CONT.)

. . . A survey by the U.S. Fish and Wildlife Service shows that 12.5 million Americans hunted in 2006, a 4% drop from the previous survey in 2001. *(Source: The Freeman; 11/15/07)*

. . . A recent national survey lists Vermont as the healthiest state in the nation for 2007. Minnesota, Hawaii, New Hampshire and Connecticut rounded out the top five. *(Source: Associated Press; 11/05/07)*

. . . Some drugs approved for use by the Food and Drug Administration may not be safe or effective for seniors because seniors are not always included in clinical trials. *(Source: McKnight's Online; 11/01/07)*

. . . In 2007, the average age for purchasers of long-term care insurance fell below 60 years old. In 1995, the average age was 69. *(Source: McKnight's Online; 11/02/07)*

. . . Net sales of casinos, lotteries and other gambling venues in the U.S. were about $91 billion in 2006. This compares to the amount spent on soft drinks or Egypt's gross domestic product. *(Source: TIME; 11/05/07)*

. . . Research universities have become our nation's drivers of economic development. They help create new industries, transplant industries, diversify an existing industry and upgrade a mature industry. Research university capabilities include education, research and commercialization. Today there are few private research laboratories left in our country. We now rely on the top 100 research universities to create our breakthrough research. A successful strategy used by such universities today is to hire professors in clusters that work together across disciplines. *(Source: University of Wisconsin - Milwaukee; 12/01/07)*

ANATOMY OF A NOT-FOR-PROFIT HOSPITAL BOND DEFAULT

Since 1970, the not-for-profit healthcare industry has had 17 Moody's rated defaults, representing nearly half of the 41 defaults of Moody's rated bonds in the entire tax-exempt municipal market. A review of the sector performance over the last 37 years has indicated six factors of an institution that can serve as early indicators of possible default. The six issues are generally related to governance, management and market problems. Specifically they include:

1. Excessive board/management emphasis on mission over margin, manifested typically in recurring operating losses and high reliance on investment income.

The failure to recognize the long-term damage of ongoing operating losses by organizations, combined with a high reliance on investment income to produce positive cash flow has proven to be a fatal strategy. It is essential for management and the board of each organization to find equilibrium between its charitable mission and producing an operating margin that can provide for plant reinvestment, cash growth and debt service payments.

2. Board failure to check management's unfettered capital spending.

An unabated spending spree with no fiscal parameters or discipline, coupled with no oversight from the hospital's board, was a contributing factor to many of the hospitals defaults. A hospital's board of trustees should provide high-level guidance and detailed questioning of a management team's growth strategies. Management, in addition, should prepare forecasts and analyses regarding the return on investments providing an expectation of the organizations ability to absorb the expansions and high expenditures.

3. Weak market share or failure to establish clear niche in competitive markets.

Several defaulted hospitals suffered from lack of market leverage because of no clinical service niche or consolidation of providers around them. As a result, they had minimal negotiating power with managed care

ANATOMY OF A NOT-FOR-PROFIT HOSPITAL BOND DEFAULT (CONT.)

plans. Some hospitals also compete in highly competitive markets with numerous facilities and as a result, had little leverage with the payers when negotiating rates.

4. Inability to recruit physicians and generate volumes at replacement hospitals or new hospitals.

Providers contemplating replacement hospitals, and who have determined that it is more economical to build at a new site rather than renovating, need to examine their plans thoroughly for strong project oversight, physician buy-in and contingency plans for unexpected delays or obstacles in construction. Also, to help avoid default, it has proven critical to determine realistic projections with reasonable assumptions regarding volume and staffing expectations.

5. Failure to plan for and react to weak local area economic conditions.

An attractive service area typically has steady population growth, a healthy and diverse economy that is not overly dependent on a few companies or industries, and has relatively low levels of poverty and unemployment.

6. Inflexible responses to cuts in Medicare, Medicaid or Disproportionate Share Funds.

All hospitals in the U.S. must contend with and absorb reductions in federal and state funding programs, including Medicare and Medicaid. The hospital industry went through an all-encompassing change in the mid 1980's when Medicare changed from cost-based reimbursement to a prospective payment system. For many hospitals, the change and ultimate reduction in reimbursement was material.

Recognizing the importance of long-range financial planning, monitoring performance and a well-defined, long-term commitment to market strategies can help prevent an organization's default of bond payments. A management team with the right skill set and strong oversight from the board should be able to analyze the riskier strategies without causing a bond default. *(Source: Moody's U.S. Public Finance; December 2007)*

COLLEGES MOVE TO HELP STUDENTS AND CREATE COMMUNITY BENEFIT

Colleges are moving to eliminate, or at least ease, student debt as pressure builds in Washington for them to spend more from their endowments to help families afford the rising cost of school. This month, Williams College announced that it will eliminate loans from all financial-aid packages beginning next school year and replace them with grants. Amherst College recently announced a similar initiative and Davidson College, in Davidson, NC, began in fall of 2007, replacing loans with grants and student employment.

Other schools are also looking for alternative ways to minimize debt. Colby College, a private college in Waterville, ME, announced in November 2007 that it will eliminate loans for Maine residents starting in the fall of 2008. Wesleyan University, in Middletown, CT, will eliminate loans for its neediest undergraduates and reduce debt by an average of 35 percent for all other students on aid. Emory University in Atlanta has developed a program to eliminate loans for undergraduates whose families earn less than $50,000 a year, while capping total loan volume at $15,000 over four years for families with income of up to $100,000.

The move to ease many student debt burdens comes in the wake of big elite schools' programs to make college more affordable for low- and middle-income undergraduate families. Harvard University, in 2006, expanded its low-income program to include families that earn up to $80,000. Colombia University is now replacing loans with grant money for students whose families earn less that $50,000 a year. Stanford University has also recently expanded its low-income program to offer an additional $5 million in funds for families with incomes of about $60,000 to $135,000 in order to reduce parent contribution and what students must borrow.

COLLEGES MOVE TO HELP STUDENTS AND CREATE COMMUNITY BENEFIT (CONT.)

To finance the new aid initiatives, some schools, such as Williams and Stanford, are reaching into their endowments. Schools are hoping not to have to reach too deep but the move comes as members of Congress are prodding schools to spend more of their endowments. Many colleges, such as Washington University, have seen enormous growth (22 percent in 2007) of donated funds to use to support the school's mission. A Senate proposal, which has yet to be introduced as legislation, would require wealthy public universities to spend at least five percent of their endowment, as private foundations are currently required to do. Many of these rich universities currently spend closer to four percent than five. The collective difference of four percent to five would be an additional $1.4-billion to help students and their families afford a higher level education. *(Sources: The Wall Street Journal; 11/29/07 & The Chronicle of Higher Education; 11/02/07)*

TWO NAHEFFA MEMBER FINANCINGS WIN THE BOND BUYER "DEAL OF THE YEAR" AWARDS IN 2007

Two financings completed through the Louisiana Public Facilities Authority (LPFA) and the Massachusetts Health and Educational Facilities Authority (MassHEFA) were Southeast Winner – Small Issue and Northeast Winner – Large Issue in the 2007 Bond Buyer Deal of the Year Awards. Congratulations to these NAHEFFA Members.

Louisiana Public Facilities Authority

Grambling State University was founded in 1901 on a 384-acre campus in the town of Grambling. The university is a member of the University of Louisiana System and is fully accredited by the Southern Association of Colleges and Schools. Its graduation rate places it among the top historically black colleges and universities in the United States.

Grambling State University needed to outsource the development and management of new and replacement on-campus housing - an off-balance sheet approach that colleges typically use to expand housing off campus to meet growth needs. The first phase – building 1,200 replacement beds and buying a 48-unit apartment complex on the edge of campus – was financed with $55.7 million of tax-exempt bonds and $3.6 million of taxable debt sold by the LPFA in October 2006.

Unique about the deal was the fact that Grambling State University was a rural northern Louisiana college over 100 years old where money was not flowing in at a good pace and the campus was reaching a point of inhabitability. They needed to do something drastic to attract students.

CIFG analyzed the creditworthiness of the transaction by looking into the university's historical track record in attracting students and on-campus housing occupancy as well as the ongoing development of its academic offerings, the strength of the management team and the successful track record of the Ambling University Development Group, the housing manager. Underwriting the student housing project posed a number of challenges for CIFG, including the fact that Grambling never issued debt before.

The Series 2006 bonds were sold by RBC Capital Markets and Siebert Brandford Shank & Co. The Series A tax-exempt bonds yielded 3.79% in 2012, 4.17% in 2019, and 4.38% in 2026. By virtue of insurance, the 2006 bonds were rated triple-A by Moody's Investors Service and Standard & Poor's. M.R. Beal & Co. was financial advisor. Foley & Judell LLP and Auzenne & Associates LLC were co-bond counsel. Bryant Miller Oliver PA was underwriter's counsel.

In early 2007, the housing opened and all 1,200 beds were occupied by fall. Enrollment is also up.

TWO NAHEFFA MEMBER FINANCINGS WIN THE BOND BUYER "DEAL OF THE YEAR" AWARDS IN 2007 (CONT.)

Massachusetts Health & Educational Facilities Authority

Boston-based Partners HealthCare System issued $800 million through MassHEFA because of a favorable refunding window allowing it to add on some refunding bonds and taxable debt to acquire property. As the transaction increased in size, officials recognized the need to diversify risk by offering a range of products and thus attract more investors to the deal.

The 2007 Series G bonds priced on June 7 and comprised four $75 million auction-rate tranches, G-1 through G-4, and a $320 million fixed-rate portion, Series G-5, to bring the par amount to $620 million. Partners sold an additional $100 million of taxable bonds for the land acquisition and another $80 million, Series G-6, via private placement, bringing the grand borrowing total to $800,000 million. The deal garnered AA ratings from Fitch Ratings and Standard & Poor's. Moody's Investors Service rated it Aa2.

Bear, Stearns & Co., Morgan Stanley, Goldman, Sachs & Co., and Merrill Lynch & Co. were each lead managers respectively on the four auction-rate bond series. Of the $75 million, total, Series G-1 and G-2 carry 35-year bonds that mature in 2042 and G-3 and G-4 are made up of bonds maturing in 2038. Financial Security Assurance Inc. insures the even-numbered series while Financial Guaranty Insurance Co. insures Series G-1 and G-3. In addition, Partners opted to hedge half of that $300 million of the auction-rate debt into a synthetic fixed-rate swap, with the remaining securities kept as auction-rate bonds.

The fixed-rate portion, Series G-5, consisted of $320 million of debt, including serials with maturities from 2008 through 2029, along with a $60 million term bond and a $31.5 million term bond maturing in 2032 and 2047, respectively. The bonds are not enhanced. JP Morgan priced the bonds with yields ranging from 3.8% with a 4% coupon in 2008 to 4.78% with a 5% coupon in 2047. Among bonds that carry a 5% coupon, those maturing in 2013 were priced to offer yields closest to that day's Municipal Market Data triple-A yield curve, with yields 24 basis points higher. Bonds maturing in 2029 were widest to the spread, with yields 31 basis points higher. The final tax-exempt component was a Series G-6 privately placed, $80 million tax-exempt put bond deal with Citi.

The bond financing will help support the new $352 million Carl J. and Ruth Shapiro Cardiovascular Center at Brigham and Women's Hospital in Boston, set to open in May of 2008. The new structure will be a "green" building and could become the first hospital facility in the New England area to receive Leadership in Energy and Environmental Design, or LEED, certification. Along with the Shapiro Center, bond proceeds will help finance beginning costs on a new $579 million radiation and oncology department at Massachusetts General Hospital in Boston, which will open in 2011. While remaining funds will support various capital projects throughout Partner's health care network, the new centers will help the hospitals better serve people in the Boston area.

If you would like additional information on these two financings, please contact the respective Authorities. *(Source: The Bond Buyer – Deal of the Year Awards, 2007 Supplement)*

NAHEFFA

STATE HAPPENINGS

COLORADO

New Board Member

Colorado Governor Bill Ritter has appointed Skip Gray to a four-year term on the Colorado Health Facilities Authority (COHFA) Board of Directors. Some of you may remember Skip from his prior tenure on the COHFA Board from 1990-2000. Skip is the Assistant City Attorney for the City and County of Denver.

MASSACHUSETTS

New Market Tax Credits

The Massachusetts Health and Educational Facilities Authority (MassHEFA) received a $66 million allocation of New Market Tax Credits—the only Massachusetts allocation. Although selection criteria is not shared with funded applicants, MassHEFA was likely successful due to the innovative program and low-borrower-costs proposed. In its program, MassHEFA will leverage tax credits with tax-exempt bonds—a new and innovative approach—and the Authority will charge minimal fees. The credits will be used for health care facilities in extreme low-income areas throughout the state.

Community Health Center Grant Program

In its second year, MassHEFA's Community Health Center Grant Program provided $481,425 through 23 separate awards. The Program provides grants of up to $25,000 to eligible health centers for infrastructure projects, which include construction, renovation, equipment, furniture, and technology-related projects. The majority of this year's awards funded the expansion or renovation of space to create more patient areas, and electronic medical record-related projects. The program also funded very innovative projects, such as a weight loss, smoking cessation, and diabetic teaching center; and an inventive optical center that will ensure more patients receive eye glasses. A MassHEFA grant will also fund the clean up of an environmental hazard in the play area of an Early Intervention Program, providing children a safe place to have fun.

Staff Changes

MassHEFA is pleased to announce the addition of Mary Ann Wayne to the staff as Senior Financial Analyst. Mary Ann comes to the Authority from Bank of America with more than 10 years experience in banking and four years in tax-exempt finance. She will be supporting MassHEFA's Financing Programs Team with quantitative analysis.