

Supporting ACCESS

Will 2017 be the Year of Change?

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

The United States has maintained a policy of low interest rates for around 8 years. Interest rates in general have been declining since the early 1980's, when the Federal Reserve raised short-term interest rates to 17% or more in a bid to fight inflation. Aside from some short-duration rate increases in times of economic or political crisis, many people in the finance industry have experienced nothing in their career but overall declines in interest rates. With economic conditions improving at a faster pace during the past few months, the Federal Reserve is widely anticipated to begin a series of rate hikes that could extend for two years or longer. Part of the challenge to the finance industry will be the way traders react to a sustained period of rising rates.

One possibility is that the market “overreacts” to a series of rate increases like what happened during the “taper tantrum” a few years ago, when the Federal Reserve simply suggested that they might reduce their bond purchases. It is also possible that the market will absorb the rate increases with little trouble, in view of the multiple other risks that have developed since November 2016. With macro issues, such as Affordable Care Act reform, tax reform, funding infrastructure projects and others vying for attention, small rate increases by the Federal Reserve may be accepted with little disruption to the overall interest rate market.

People have also realized that the Federal Reserve can use their \$4.5 trillion holdings of securities to significantly influence interest rates even if they do not directly increase the target levels of interest rates. Simply by not repurchasing new US Treasury securities as those in the portfolio mature will result in lower demand and could put upward pressure on interest rates. An even greater effect to put upward pressure on interest rates could be realized if the Fed chose to actively sell some of the securities they hold.

With increased activity by both the Administration and Congress on the “repeal and replace” of the Affordable Care Act reform through the introduction of legislation proposing an alternative and the likelihood of Tax reform

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FUTURE NAHEFFA CONFERENCES

April 3-5, 2017
Alexandria, VA
[Hotel Monaco](#)

September 6-8, 2017
Boise, ID
[The Grove Hotel](#)

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NAHEFFA President's Message

by Donna Murr, Executive Director

Washington Health Care Facilities Authority



Donna Murr

I was saddened to hear of the recent passing of Edward Bambach, the first and longest-standing executive director of the New Jersey Educational Facilities Authority. Ed was instrumental in the formation of the National Association of Higher Educational Facilities Authorities, which later merged with the National Council of Health Facilities Finance Authorities to form NAHEFFA.

I don't know about you – but for me, moving to daylight savings time always takes longer to adjust to than anticipated and I, for one, would be more than happy to do away with it. One concession is that “Spring Training” is underway and it marks the start of “March Madness”. These “activities” can provide some distraction from the political climate continuing to affect our nation, especially the uncertainty of the Affordable Care Act's survival, rising interest rates as well as the threat of tax reform hampering our ability to provide tax exempt financing for our colleges and universities and our health care providers. However – we cannot ignore some of these issues for long, which is why you should attend our upcoming spring conference in Alexandria, VA to witness first-hand what Con-

gress is up to and to spend time with your congressional delegation discussing the benefits of tax-exempt bonds for the communities you serve.

I want to thank Martin Walke and the Advocacy Committee as well as the folks from ML Strategies – especially Neal Martin and Alex Hecht – for the work they are doing on the Hill on our behalf and for keeping us informed about efforts to preserve tax exemption. Neal and Alex can assist you with scheduling meetings and/or reviewing materials to present to your congressional delegation while you are in town for the conference or any other time that is convenient for you. They can also accompany you to meetings and are more than happy to discuss the merits of tax exemption on your behalf. As I look back over the first year of my presidency, I am proud of our continued relationships and enhanced collaboration with other organizations such as AHA, NACUBO, MSRB, GFOA, NABL, and ML Strategies to strengthen our voice in our efforts to preserve tax-exempt bonds for the entities we represent. I know you have heard this theme repeatedly and I believe it should continue to be our focus over the next several months – with that – I look forward to seeing all of you in Alexandria, VA (April 4 & 5) as we elect some new officers and meet with regulatory agencies and Congress.

Finally – a favorite quote of mine (edited slightly) from the late, great Dr. Seuss:

Oh, the Places You'll Go!
You have brains in your head.
You have feet in your shoes.
You can steer yourself any direction you choose.
You're on your own.
And you know what you know.
And **YOU** are the guy (or girl) who'll decide where to go. ■

2017 SPRING CONFERENCE

Alexandria, VA

The Alexandrian Hotel (formerly Hotel Monaco)

Welcome Reception | Evening of April 3rd
Conference Sessions | April 4-5th

Hill visits can begin to be scheduled Wednesday afternoon. If you are interested in participating in Hill visits, please contact Nichole Doxey, ndoxey@naheffa.com.

ML Strategies Advocacy Report

by Alex Hecht, David Leiter & Neal Martin, ML Strategies



Alex Hecht

ML Strategies is pleased to share this Advocacy Report on developments related to tax reform, and how we are working with NAHEFFA (in coordination with Chuck Samuels) 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 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.

As MLS, we have brought to bear our broad network, experience on major legislation and good old fashioned shoe leather lobbying on Capitol Hill. We stay close to your Advocacy Chair, Martin Walke, and NAHEFFA Chair Donna Murr. Your Advocacy Committee is the first line of our communications and input.

Status of Tax Reform

ML Strategies shared with NAHEFFA members an [Outlook for Tax Reform](#) on February 24, 2017. David Leiter 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 adjust-

ment tax (BAT) on imports.

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.

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Edward J. Bambach, NJEFA's founding Executive Director, Has Passed

Appointed in 1967, Ed Bambach served as Executive Director of the New Jersey Educational Facilities Authority (NJEFA) for 25 years. Under his leadership, NJEFA closed more than 200 transactions for over 100 new campus facilities of every educational type.

For those that may not know, Ed was not only the founding executive director of NJEFA, he also was a founding member of the National Association of Higher Educational Facilities Authorities (NAHEFA) and served as the first President. Ed's recognition of the advocacy efforts needed for the issuers of tax-exempt debt for higher education while working closely with other member authorities, helped NAHEFFA become what it is today.

Ed made an impact on higher education in New Jersey and nationally. He will be missed.

GREETINGS FROM THE NAHEFFA SPONSORSHIP COMMITTEE

Don't miss out - there is still time left to sponsor the NAHEFFA 2017 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!

The Spring Conference will be held in Alexandria, VA which allows for attendees to hear some perspective from the DC area folks. Please come and support NAHEFFA as we continue to have our voices heard in support of our Members. The Fall Conference will be held in Boise, ID, where we will embrace culture and festivals.

2017 Spring - April 3-5 in Alexandria, VA | 2017 Fall - September 6-8 in Boise, ID

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.

Happy Holidays!

Best regards,
2017 Sponsorship Committee Members

Shannon Govia | Washington Health Care Facilities Authority | Sponsorship Committee Chair

Nichole Doxey } NAHEFFA

Adam Gill | Montana Facilities Authority

Harry Huntley | South Carolina Jobs-Economic Development Authority

Pam Lenane | Illinois Finance Authority

Frank Troy | New Jersey Health Care Facilities Financing Authority

Secretary of the Treasury

Since our last NAHEFFA advocacy report, Steven Mnuchin has been confirmed as Secretary of the Treasury. He was sworn in by Vice President Pence on February 13, 2017.

Update on Recent MLS Activities

We have been spending our time on the Hill and with our allies gathering intelligence and meeting with staff and members. It's particularly effective when this is done in conjunction with your own visits or communications to your delegations.

In addition:

1. ML Strategies is working with NAHEFFA member authorities to schedule member- and staff-level meetings on Capitol Hill during the upcoming Spring Conference. We have scheduled nearly a dozen meetings with Members of Congress and/or their staff, and are working to schedule more for several NAHEFFA member authorities.
2. Alex Hecht represented NAHEFFA at a meeting of the "Don't Mess With Our Bonds Coalition" hosted by the U.S. Conference of Mayors on February 23, 2017.
3. Neal Martin represented NAHEFFA at a meeting of the Public Finance Network and hosted by the Government Finance Officers Association on February 23, 2017.
4. Neal Martin represented NAHEFFA at an event hosted by the National Council of State Housing Agencies on March 8, 2017 where Rep. Randy Hultgren (R-IL) delivered remarks primarily focused on tax-exempt municipal bonds.
5. As noted, ML Strategies continues to work with various NAHEFFA member authorities on outreach to members of the House Ways & Means Committee and the Senate Finance Committee urging their support for preservation of the tax-exempt status of nonprofit municipal bonds in the tax code.

Next Steps

- 1) ML Strategies will continue to engage our contacts on Capitol Hill to ensure they are briefed on the importance of preserving tax-exempt municipal bonds. This will include, but not be limited to, our strongest likely champions in Democratic leadership Rep. Neal (D-MA), Sen. Schumer (D-NY), Sen. Murray (D-WA), and Sen. Cantwell (D-WA).
- 2) NAHEFFA member organizations have continued to reach out to members of the House Ways & Means Committee and the Senate Finance Committee urging their support for preservation of TEBs in comprehensive tax reform.
 - ML Strategies asks that you alert Neal Martin when contacts are made and share any feedback received.
- 3) NAHEFFA's Spring Conference to be held April 3-5 in Alexandria, VA.
 - ML Strategies will be assisting NAHEFFA members to coordinate Capitol Hill visits during the Spring Conference in April by providing assistance in scheduling meetings and preparing leave behind material. **If you plan to attend the Spring Conference and would like the assistance of ML Strategies in securing meetings, please reach out to Neal Martin as soon as possible via email at RNealMartin@mlstrategies.com or by phone at (202)271-7040.**
 - Chuck Samuels will speak at the Spring Conference as part of the Washington Update on April 4, 2017.
 - Alex Hecht will also speak to the Spring Conference on the topic of "New Congress, New President: What Does It Mean for Tax Exempt Bonds" on April 4, 2017.
- 4) NAHEFFA member authorities active on Twitter are encouraged to use the hashtag #BuiltByBonds when tweeting about projects built by bonds.
- 5) ML Strategies and Mintz Levin will continue to represent NAHEFFA at meetings of the Public Finance Network, the "Don't Mess with Our Bonds Coalition", the Municipal Bonds for America (MBFA) coalition, and other stakeholder groups.

Please don't hesitate to contact us regarding this critical effort. ■

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being considered later in 2017, investors are not focusing as much on interest rates, in part because the effect of rate increases can't be measured without knowing what tax law will be in the future.

If these factors aren't enough to confuse the analysis, demographics will exert an increasing influence on interest rates for years to come. The oldest baby boomers turned 70 in 2016 and in many states, the population of 65+ aged people will exceed 20% within 5 years. The aging population puts greater pressure on health care to contain costs.

As the population ages, the demand for fixed-income investments, including tax exempt bonds and US Treasury securities will continue to increase, regardless of tax policy. As baby boomers age, their risk allocation shifts from predominately equity driven investments to more fixed-income investments. This steady or increasing demand will tend to keep interest rates low, especially at the medium to long end of the yield curve.

If you doubt the ability of baby boomers to influence markets, simply by their sheer number, look at the example of the paper industry. Bloomberg recently reported that after years of decline for paper resulting from electronic communication and digital storage of documents, the paper products market is expanding from an unexpected source. The market for adult incontinence products, which use a lot of paper, is growing rapidly primarily from demand by baby boomers. Bloomberg reports that retail sales of adult incontinence products were nearly \$2 billion in 2016 and is projected to rise 9% in 2017 and another 8% in 2018. ■

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