NAHEFFA
National Association of
Health and Educational
Facilities Finance Authorities

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Supporting ACCESS

Current Economic / Investment Thoughts

by Graystone Consulting, A business of Morgan Stanley

The Republican Party gained the presidency and held onto power in both legislative houses in the November elections. This led to a swift and positive move for US equities which appear to be anticipating significant economic progress under a Trump Administration. Even prior to the election results there were signs of growing economic strength as the Commerce Department reported that housing starts (driven by robust single family construction) jumped 25% in October, the Labor Department reported that jobless claims had retreated to levels not seen since 1973 (when the labor market was much smaller), and the Census Bureau reported continued strong consumer spending trends. In addition, the Atlanta Federal Reserve's GDPNOW tracker is currently predicting a robust 3.9% rate of growth for the US economy in 4Q 2016 and its wage tracker service is flashing comparable job earnings gains of 3.9% on a year-over-year basis. Combining good news on the economy with expectations for "positive political change" and one has the making of a stock market rally. Add some "juice" to the equation - the Investment Company Institute (ICI) has been reporting sizable fund flows out of bonds and into stocks and the recent market advance is easier to understand. This somewhat helps explain why an otherwise expensive looking US stock market (i.e., S&P 500 Index currently trades at 17x 2017 expected future earnings) can rise quickly.

The question investors need to ask is how sustainable is the advance? On that front much uncertainty remains. We need to remind ourselves that major policy changes won't happen for a while and many will require the new president to work with Congress (not a simple task) to tackle. Even more imposing are the counter balances that exist in the economy today. Don't forget that more rapid economic growth in the US could lead to quicker and more significant interest rate hikes on the part of the Federal Reserve (especially if inflation begins to percolate). The strength of the US dollar is also a double edged sword. Currency rate movements are known for rebalancing global growth – away from stronger growth economies and towards those experiencing slower rates of growth. Higher US interest rates and a strong US dollar could also create earnings translation headwinds for multi-national companies and could result in capital raising problems for a number of our

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Future NAHEFFA Conferences

April 3-5, 2017
Alexandria, VA
Hotel Monaco

September 6-8, 2017
Boise, ID
The Grove Hotel

In This Issue...

NAHEFFA President's Message

by Donna Murr, Executive Director
Washington Health Care Facilities Authority

Donna Murr

As another year comes to an end, I hope you enjoyed a successful and productive 2016, both professionally and personally. And what a year it has been! The Cubs finally won a World Series and ended the Billy Goat curse; the Seattle Sounders won their first ever MLS Cup; and a presidential election unlike no other we have experienced in our lifetime.

NAHEFFA wrapped up another successful conference in Chicago and I want to thank our host, the Illinois Finance Authority and especially Pam Lenane, who once again did a terrific job with the conference. I also want to thank the NAHEFFA Conference Committee, chaired by Corinne Johnson (Colorado Health) and the NAHEFFA Sponsorship Committee, chaired by Shannon Govia (Washington Health) for all their efforts. Last but not least, I am grateful for Nichole Doxey's excellent conference oversight and to her very able helper, my executive assistant Danni Miller.

Please mark your calendars for our upcoming spring conference at the Hotel Monaco in Alexandria, VA on April 3 -5, 2017. More information about the conference will be forthcoming.

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.

NAHEFFA has had some membership changes over the last few months and I would like to acknowledge some of these changes.

- Minnesota Higher Education Facilities Authority: I reported earlier that Elaine Yungerberg retired on June 30th, however I am happy to report that she has agreed to stay on as Assistant Executive Director.
- Montana Facility Finance Authority: As you know Michelle Barstad is retiring on December 31st and I just got word that Adam Gill has been selected to replace her. Congratulations Adam!
- New Jersey Educational Facilities Authority: I would like to thank Katherine Newell for all of her wonderful contributions to NAHEFFA over the years and congratulate her on her year-end retirement.
- North Carolina Medical Care Commission: Chris Taylor is also retiring at the end of the year and I too want to thank him for his contributions to NAHEFFA and congratulate him on his retirement and welcome Alice Creech.

Finally, I want to commend the membership for engaging ML Strategies (MLS) to assist NAHEFFA with its strategic initiatives to protect tax exemption for our health care and higher education borrowers. On December 15th, Martin Walke, NAHEFFA's Advocacy Chair and I spent the day with Chuck Samuels and Alex Hecht and Neal Martin from MLS discussing our strategic plan and meeting with several key members of congress. A report of these initial meetings will be circulated to the membership shortly along with the strategic plan MLS has designed specifically for us. We will be reaching out to all of you soon for assistance with the plan.

Happy Holidays to all and may 2017 bring good health, happiness, prosperity and the preservation of tax exempt bonds!

WASHINGTON REPORT

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

Chuck Samuels

It's been a busy year for advocacy but frankly it's just a tune up for what lies ahead. There are great perils but also great opportunities ahead, and we shouldn't let the former totally overshadow the latter. There is a great hunger for enhancing and cleaning up the infrastructure in this country, and there is no good reason why nonprofit sector tax exempt financing shouldn't be an integral part of it. But, we have to make it happen, and we are being proactive.

We welcomed the nice piece of news when the Conference of Mayors announced after a meeting with the president-elect that he indicated support for the continuation of the tax exemption for municipal debt. This is excellent work and advocacy by our colleagues, but it is hardly the end of the story, and we must continue to be concerned and vigilant. Comments made at such a high level in the transition process can easily be overlooked, ignored or disavowed once an administration is in place in Treasury, OMB and elsewhere. Nor are Congressional Republicans bound by such indications of support.

Indeed, House Republicans are moving full speed ahead to get their tax reform legislation introduced as soon as possible next year. With my colleagues at ML Strategies now engaged (thanks authorities for your vote of confidence and support) President Murr and Advocacy Chair Walke recently had a full schedule of meetings which included the Ways and Means Committee. It appears that a final decision has not been made how muni interest will be treated in the House Bill. We will be particularly in touch with those of you who have Republicans on the Ways and Means committee to see if we can help affect that position for the legislation as introduced.

Regardless, however, we will deal with the House legislation no matter how draconian, worked to temper it in the Senate and do what we have to do to ensure that at the end of any House-Senate process, whether it be regular order or through accelerated budget reconciliation, nonprofit conduit financing remains viable. A lot of this work will be done in combination with you but we are maintaining and strengthening our alliances with governmental issuers and education and health care institutions and their associations.

Meanwhile, there is a separate but related stream of communications and policymaking about how to kick start infrastructure spending in this country to the tune of $1 trillion and more. Trump economic advisers have recognized the role of tax exempt bonds but also believe that substantial investment tax credits will unleash an enormous amount of investment in privatized projects. The trick for us and all bond issuers is to show how in the midst of innovative approaches the basic meat and potatoes of municipal finance is still critical and should not be undermined but in fact could be enhanced by changes such as bank deductibility.

I have reported to you that in some ways I'm more concerned about securities/disclosure regulatory and legislative actions than even restrictions in the tax code. Rep. Gwen Moore of Wisconsin introduced a bill at the end of the Congress which would radically restructure disclosure obligations. HR 6488 would:

"amend the Securities Act of 1933 and the Securities Exchange Act of 1934 to remove the exemption from registration for certain private activity bonds, authorize the Securities and Exchange Commission to require the preparation of periodic reports by issuers of municipal securities, and authorize the Securities and Exchange Commission to establish baseline mandatory disclosure in primary offerings of such securities."

There is a technical question to what extent the bill as introduced would affect nonprofit financings but the point obviously is a proposal to make issuers or in our case borrowers directly responsible as compared to the present continuing disclosure agreement structure. The legislation was introduced as a discussion draft, which it has already produced, and likely it will not get much traction in the anti-regulatory 2017 – 2018 Congress. But, it is clearly a shot across the bow by the SEC, investors and other interests who wish to increase and shift regulatory obligations to

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Executive Director of the Montana Authority Retiring at the end of the Month

Michelle Barstad of the Montana Authority is set to retire at the end of the year. Michelle has served as executive director of the Authority for 15 years and has provided endless support to NAHEFFA. NAHEFFA truly appreciates her support and wishes her the best for the future! Congratulations on your retirement, Michelle.

NAHEFFA would also like to welcome Adam Gill who is coming in as Executive Director of the Montana Facility Finance Authority. Welcome and we look forward to working more closely with you.

NAHEFFA Says Goodbye to Katherine Newell, New Jersey Educational Facilities Authority

The New Jersey Educational Facilities Finance Authority is saying goodbye to Kathy Newell at the end of the year. Kathie has been at the Authority for over 10 years serving as the Director of Compliance Management. Kathie has been a member of the NAHEFFA Advocacy Committee and has spoken at NAHEFFA conferences and many other industry related organizations. She has a way of presenting difficult information in an easy to understand way. NAHEFFA thanks you for your time and support over the years and wishes you the best for the future.

North Carolina Medical Care Commission to Say Goodbye to Christopher Taylor

Chris Taylor, Assistant Secretary of the North Carolina Medical Care Commission is set retire at the end of the year. Chris's extensive knowledge of tax-exempt bonds over his 30 year career at the Commission has been beneficial to NAHEFFA. NAHEFFA thanks you for your time and support over the years and wishes you the best in all of your future endeavors.

NAHEFFA looks forward to working with Alice Creech at the Commission.

Greetings from the NAHEFFA Sponsorship Committee

As 2016 comes to a close, the Sponsorship Committee, on behalf of the member authorities of NAHEFFA, wish to express our gratitude and thank our sponsors for their continued support of our organization.

Planning for the 2017 NAHEFFA Conferences has begun. 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 will soon be inviting conference sponsorship support from associates in the municipal finance industry for our 2017 Conferences. 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.

Happy Holidays!

Best regards,
2016 Sponsorship Committee Members

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emerging market trading partners. Yes, a growing list of new issues to weigh and worry about.

So, what do we think of all of these new developments. As you might suspect we are cautious near term but slightly more positive on a longer term basis. Our sense is that the markets – especially the US equity market (but also the US $) – have likely moved too quickly and too far. These types of changes are never just in one direction. Near term we would not be surprised to see the US markets take a pause and the recent strength in the US Dollar wane a little bit. Frankly, this type of "pause" would be healthy and allow some time to pass to see if the near term euphoria can translate into sustainable action and economic progress. However, the prospect of lower taxes (and hopefully simpler tax structure), less regulation, some pro-growth investment spending, and a gradual increase / normalization of interest rates does leave us with a more positive outlook for 2017 and beyond.

A Quick Thought on China & Trade: With Donald Trump taking over trade policy it is worth a quick update on China and the impacts his anti-trade rhetoric could have on that country and others in the region (especially emerging Asia which is directly impacted by Chinese growth). To begin with, much of Trump's anti-trade rhetoric has been critical of historical "free trade" deals and concerns about jobs and investment moving off-shore. Policies, regulation, and tax changes here in the US can likely go far in making the environment in the US more attractive from a business investment stand point which should help alleviate some of the benefits of moving operations overseas. The concern that China uses its currency as a weapon – that China is a "bad actor" – is likely less of an issue today than it was ten years ago. Technically, to be labeled a currency manipulator under current U.S. Treasury regulations a country must: (a) run a significant trade surplus with the US, (b) have a material current account surplus, and (c) engage in currency intervention intended to weaken its currency against the US dollar. The reality is that China does continue to run a large trade surplus with the US but its current account surplus with the US has been shrinking (i.e., according to the U.S. Census Bureau it was 10% of GDP in 2007 and is just 2.5% today) and its currency intervention has been to strengthen its currency against the dollar (not weaken it). We suspect the rhetoric will continue with little direct action taken with policy changes to improve the environment here at home paying greater dividends.

The many uncertainties we face heading into the holiday season and year-end are likely to produce continued bouts of heightened volatility. The good news is that returns from financial assets have so far been close to expectations we set at the beginning of the year. We certainly wish everyone a safe and joyful holiday season and look forward to the new challenges that emerge in what we hope will be a successful 2017.

Named to BARRON'S Top 30 Institutional Consultants Ranking in 2016

Barrington, Illinois
George Cook, CIMA®, AIF®, Institutional Consulting Director, george.t.cook@msgraystone.com / (847)382-6608
Carl Viard, CIMA®, AIF®, Senior Institutional Consultant, carl.h.viard@msgraystone.com / (847) 382-3762
Abigail Gage, Institutional Consultant, abigail.j.gage@msgraystone.com / (847) 382-6609
Mary Tomanek, CIMA®, CFP®, Institutional Consultant, mary.l.tomanek@msgraystone.com / (847) 480-3605

Oak Brook, Illinois
Robert Dow, CIMA®, Institutional Consulting Director, robert.dow@msgraystone.com / (630) 573-9697
James Leckinger, CIMA® CFA®, Institutional Consultant, james.leckinger@msgraystone.com / (630) 573-9685
Brett Herbison, Institutional Consultant, brett.herbison@msgraystone.com / (630) 573-9731

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others. Meanwhile, the SEC may need to be more worried about the significance of likely budget cuts and whether it can continue to sustain its expanding municipal bond enforcement presence. Some of the Dodd–Frank restrictions on bond purchases by banks and mutual funds may be revised by Congress.

More parochially, with the input of our Advocacy Committee and invited friends, we submitted a request for guidance to MSRB on providing greater clarification of the municipal financial advisor responsibilities and limitations in the context of our conduit financings. We want to understand and hopefully get support for the notion that advisors to our authorities can assist borrowers and vice versa and that several scenarios that are used in our marketplace are perfectly lawful and appropriate as long as there is disclosure of where the fiduciary duty lies. We expect that the SEC will need to review this request so we would be surprised if action on our request is imminent.

That's it for now. In the next newsletter report, we will hear directly from the ML Strategies lobbyists who are now advancing our cause.

NAHEFFA Board of Directors

NAHEFFA Contacts

Nichole Doxey
Operations Director, NAHEFFA
P.O. Box 906
Oakhurst, NJ 07755
(888) 414-5713 p&f
ndoxey@naheffa.com

Charles Samuels
Member, Mintz Levin
701 Pennsylvania Ave NW, #900
Washington, DC 20004
(202) 434-7311 p | (202) 434-7400 f
CASamuels@mintz.com