NAHEFFA
National Association of
Health and Educational
Facilities Finance Authorities

July 2019

Supporting ACCESS

Getting Physical: Scenario Analysis for Assessing Climate-Related Risk

by BlackRock Investment Institute and Rhodium Group

Climate-related risks are underappreciated in the U.S. municipal bond market. Hurricanes, floods and other extreme weather pose a host of financial challenges for state and local issuers. A lot is at stake: The market has $3.8 trillion of outstanding debt, according to late-2018 Federal Reserve data. Consider the following:

• The cost of cleanups after extreme weather, funding mitigation projects to forestall future damages, and rising flood insurance premiums can lead to higher debt levels. This has big implications for general obligation (GO) bonds.
• The tax base of a municipality could shrink if largescale natural disasters lead to a population drain (such as that experienced by Puerto Rico in the wake of Hurricane Maria in 2017) and declining property prices.
• Gradual changes to the climate — such as rising temperatures and sea levels — can change patterns of land use, employment and economic activity. Businesses may relocate to other regions, also eroding the local tax base.
• Revenue bonds tied to specific projects — such as those issued by water and sewer utilities — may suffer direct harm from sea level rise, floods or droughts.

Credit rating agencies are paying increased attention to these risks. Moody's in 2017 warned that climate change would have a growing negative impact on the creditworthiness of U.S. state and local issuers — particularly those without sufficient adaptation and mitigation strategies.

How to explain the municipal bond market's apparent complacency around climate-related risks? We offer a handful of possible explanations:
• Lack of attention: Investors have been slow to give serious consideration to climate change, partly due to a lack of granular data for modeling the risks. This mindset is slowly changing.
• Time horizon: The most dire projected impacts will come in future decades, beyond the traditional time horizon of most investors and credit rating agencies.
• Insurance: Bonds in climate-sensitive regions are often insured, thus diminishing investor concerns about storm hits.
• The "FEMA put:" Areas devastated by storms have typically been rebuilt with funding from the Federal Emergency Management Agency (FEMA). Investors assume the bonds are insulated from climate related risks, with FEMA providing something akin to a put option that preserves the bonds' par value.

Our analysis shows climate-related risks are real and growing for the municipal bond market. This suggests long-term climate predictions should be taken into account when assessing an issuer's debt structure. We believe our work connecting climate data and assets forms a starting point for assessing the risks. Bottom line: Climate risk exposure analysis can help assess vulnerabilities of U.S. municipal issuers. We see this as a useful risk-management tool — and a valuable starting point for institutional investors to engage with issuers about their mitigation and adaptation measures.

More on this topic to be discussed at the Fall Conference in Maine!

Future NAHEFFA Conferences

Fall 2019
Portland, ME

Spring 2020
Charleston, SC

In This Issue...

NAHEFFA President's Message

by Harry Huntley, Executive Director

South Carolina Jobs-Economic Development Authority

Harry Huntley

"So how's business?" I get this question all the time, and I suspect you do, too. After a great second half of 2018 (a record for us, actually), things came to a screeching halt in the first quarter of 2019. The same thing happened last year, too, but I could blame that on tax reform and the frenzy it created. Fortunately, new projects started coming in again and closings began picking up. JEDA issues all of the private activity bonds in SC, with the exception of multifamily housing issued by our State Housing Authority. Like many of you, we issue health care (hospital and senior living) as well as educational (private schools, colleges and charter schools). In addition, we issue bonds for small manufacturers and solid waste disposal. These are always interesting projects that also have complex financing models. Because of the federal tax limitations, these are few and far between since the Great Recession. One of the projects was for Muffin Mam, a baker and packager of muffins that started over 25 years ago in Greenville, SC. Thanks to tax-exempt financing, they are expanding and will be adding over 100 new employees. Go to my website at www.scjeda.com and check out this press release as well as many of the others we have published.

The JEDA website and press releases are a constant source of positive comments for us. I hope everyone is on my list for them (if not, I will be glad to add you to it). They have been very beneficial when talking to my legislators locally and in Washington. The next foray will be into social media through LinkedIn. We can do more quick updates as well as links to articles that might be appealing to our followers. I will let you know how that is going when we meet in Maine.

Speaking of Maine, we will be there September 22-24 and am looking forward to a great conference. I went to Maine for a week as a teenager and am excited to go back. The 5,300 mile coastline is remarkably different from ours in SC and we will be arriving at the height of fall colors. Portland is a coastal town filled with history, working fishing wharves and plenty of activities. A quick look at the website www.visitportland.com lists 129 events that will be going on the week that we are there. There should be something for everyone to do. Farther up the coast are some great places to visit: Camden, Boothbay Harbor, Acadia National Park, Bar Harbor and more. And did I mention lobster? I still remember eating fresh steamed lobster on the docks. Start planning now to spend a few extra days or a week that you will not forget.

My youngest son graduated college in May and has moved to Charlotte to begin working. With all four children out of college and employed, Kathy and I are officially empty nesters. I celebrated this milestone by taking my three sons to Ireland to play golf for a week. Expect pictures in Maine!

I hope everyone has a wonderful summer planned and I look forward to seeing you in Portland.

Save the Date

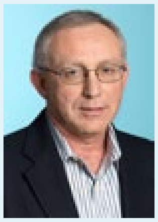
2019 Fall Conference
Portland, ME

Portland Regency Hotel

Welcome reception to be held in the evening of September 22nd
Conference sessions held September 23-24th

WASHINGTON REPORT

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



Chuck Samuels

It will be no surprise to you that Washington at this point is almost totally captivated by the dynamics of Pres. Trump versus Democrats in Congress versus many other adversaries and opponents, domestic and foreign. And, the theater of the Democratic presidential candidate process is sucking up any free mind space that remains after fears about trade wars and real wars.

Nonetheless, the municipal finance community is promoting improvements in the tax law and fending off and warily monitoring new regulatory or de facto regulatory mandates on the securities and disclosure side. We are pleased to announce that a bill to reverse the termination of advance refunding has been introduced, HR 2772. It is cosponsored by Municipal Finance Caucus Co-Chair Ruppersberger of Maryland along with 14 cosponsors, notably four of whom are Republicans. At the same time, as of this writing, we are on the verge of a bank qualified, now known as small borrower exception, bill being introduced in the House which would raise the cap from 10 million to 30 million, apply it at the borrower level, and make it permanent and adjusted for inflation. The Public Finance Network even has new videos on these topics (very clever and simply stated) which we will be forwarding soon.

The question is how can this legislation advance? The answer is that the Senate is extremely problematic but the House, controlled by Democrats, has interest in advancing positive legislation. A most likely candidate is an infrastructure bill, which in some form for Highway Trust reasons (it expires in September 2020) purportedly must be adopted, but like everything else is caught up in politics. The president dramatically walked out of a meeting in the White House with the Congressional Democratic leaders on the subject. But, there is some reason to think that over the course of this year or next comprehensive infrastructure legislation, which includes municipal bond provisions such as the above will be introduced and advance to some extent. Even new forms of private activity bonds and possibly even a new version of direct pay bonds, without the disabilities of the previous version, may be introduced. The latter raises the question of the role of authorities for direct pay bonds and is something that we need to grapple with collectively.

Our Dennis Reilly from Wisconsin graciously agreed on short notice to come to town on July 10 to participate in a Public Finance Network seminar in the Capitol on these muni bond issues. Dennis discussed the small borrower's exception and the need for the return of advance refundings. He was joined by a state treasurer and other state and local officials.

On the securities and disclosure side, the good news is that in part due to input from President Harry Huntley and Advocacy Chair Martin Walke, along with some nonprofit borrowers we selected, a new version of EMMA has rolled out with improved and easier capabilities for borrowers to input information and more useful and flexible output for investors. At the same time, many borrowers are still absorbing the new requirements of the revised 15c2-12 rule and the addition of new material events(Financial obligation incurrence or agreement, if material; Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties).

But, in Washington the finalization of one set of requirements never stops folks from advocating immediately for new requirements. The flavor of the month is an interest in expediting the finalization of issuer/borrower financial reports or publishing them in less than final form. Interestingly, hospitals have been found to be generally more progressive and timely in reporting financials. State and local governments and other borrowers, including education borrowers, have explained the many limitations on their ability to quickly finalize financials, including the lack of available auditing firm resources, the need to roll up numerous entities into financial reports and the requirements to wait for certain information to be made available before it can be published.

Fortunately, unlike on the corporate side, the SEC has no authority to force strict deadlines on issuer/borrower financial reporting but it can promote accelerated reporting through incentives or even shaming. We may see proposals or actions by the MSRB, for example, to make notations on its website with respect to the timeliness of issuer/borrower's financial reporting.

Further, there is a big push on the muni side for the use of the XBRL technology which is used for reporting on the corporate side. XBRL, short for Extensible Business Reporting Language, makes financial documents machine more readable. XBRL proponents are trying to bring the computer language into the muni world. XBRL could benefit investors by making it easier to compare data and making definitions the same across all municipalities. Ten years ago, the Securities and Exchange Commission started requiring private companies to use XBRL with the EDGAR system. On the corporate side, the SEC has the authority to establish a set of standards for issuers, which is not true for the municipal market.

XBRL has received considerable pushback from the issuer community in terms of the cost and disruption of implementing this technology. Query how our borrowers would feel and whether there would be a difference between larger borrowers and smaller? The MSRB is holding a special summer roundtable, in which we will participate as usual, which undoubtedly will discuss some of these disclosure issues. Our goal always is to support improved disclosure by our borrowers but to be extremely sensitive to imposing new regulatory costs which burden small borrowers particularly and incentivize larger borrowers to leave the tax-exempt market.

See you soon in Portland, Maine!

Greetings from the NAHEFFA Sponsorship Committee

Don't miss out - there is still time left to sponsor the NAHEFFA 2019 Fall Conference.

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 and we truly appreciate it.

September 23-24, 2019 *Portland, ME* Portland Regency Hotel

April 28-29, 2020 *Charleston, SC* Francis Marion 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. Sponsor attendance at our events helps to build stronger relationships, reach key decision-makers in the industry and increases your organization's exposure. These conferences also provide an opportunity to increase your awareness of issues and concerns in the industry.

For more information about NAHEFFA sponsorship and for ways to participate, please contact Nichole Doxey at ndoxey@naheffa.com or visit the NAHEFFA website for more conference and sponsorship information.

Best regards,
2019 Sponsorship Committee Members

NAHEFFA Board of Directors

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