National Association of Health and Educational Facilities Finance Authorities

NAHEFFA

Supporting ACCESS

June 2015

A Roller Coaster for Interest Rates in 2015; What's going on here?

by Barry W. Fick, Senior Vice President, Springsted Incorporated

If you are a fan of roller-coaster rides, the behavior of interest rates from early 2015 to today has got to make you very happy. On the other hand, if you are a borrower looking at projecting debt service on a new project to be constructed soon or if you are looking at a possible refunding of outstanding debt, you likely have a different view of the market. While fluctuations in interest rates are not unusual, the variations observed over the past 3 months have puzzled market observers.

Since April, market rates for individual maturities have risen or declined in excess of 10 or even 15 basis points in a single day. The underlying cause of these large fluctuations has been difficult to discern. There are a number of factors that are major factors, but no single factor has consistently been observed to instigate the changes. What is clear is that a common factor since the beginning of 2015 has been uncertainty about economic performance as reported by statistical measures of unemployment, productivity, income levels, inflation and others.

One of the most debilitating things to affect markets is investor uncertainty about markets and their direction. Investors in Bonds are particularly sensitive to uncertainty in interest rate levels. Bond investors focus on achieving steady returns and are searching for stable levels of income. Volatility in market rates disrupts the ability of bond investors to plan for the future and can lead to investors reducing their demand for bonds until the market is more settled. This reduction in demand can perversely have the effect of helping to increase overall rates, as fewer purchasers for a given supply of bonds will lead to higher rates to "clear" the market.

An example of the uncertainty in the current market can be observed in the reporting of new jobs created, as reported by the US Bureau of Labor Statistics.

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Future NAHEFFA Conferences

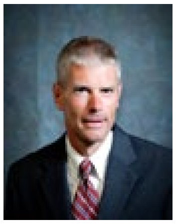
September 16-17, 2015
Seattle, WA
Motif Hotel

April 6-7, 2016
Scottsdale, AZ
Scottsdale Plaza Resort

In This Issue...

NAHEFFA President's Message

by Michael J. Stanard, Executive Director
Missouri Health and Educational Facilities Authority



Mike Stanard

Summer is here, finally. Spring gets longer every year. Whether you still have a student(s) around the house or have long since passed that phase, the start of summer is a milestone. I am recovering from a full month of 8th grade graduation and associated activities. It has been fun and high school is on the horizon!

It has been almost two months since we gathered in Alexandria, Virginia for the NAHEFFA Spring Conference. For those of you able to attend I hope you agree it was another excellent effort by the Conference Committee and Nichole Doxey. If you could not make it to Alexandria I hope you get a chance to review the presentation materials available at www.naheffa.com .

After over a decade as NAHEFFA Advocacy Committee Chair, Bob Donovan of the Rhode Island Health and Educational Building Corporation stepped down in April. NAHEFFA owes a lot to Bob's dedication over the years. His tenure included reaction to some of the biggest challenges our segment of the industry has faced. With the help of the Committee, Chuck Samuels and Bob, NAHEFFA has enjoyed much success with our efforts and input on many of these topics. I also want to thank Martin Walke of the Louisiana Public Facilities Authority for agreeing to take over as Advocacy Chair. Martin will be a great asset to NAHEFFA and our advocacy goals. As always, please see the Washington Report from Chuck Samuels on page 3 in this newsletter.

The Municipal Securities Rulemaking Board hosts an Industry Roundtable twice a year. I attended on behalf of NAHEFFA on June 5 and enjoyed another good discussion including most of the major associations in the public finance community. It is an excellent opportunity for NAHEFFA to have our voice heard as we continue to demonstrate how vital our borrowers are in the communities they serve and how those services would suffer without access to tax-exempt bonds. The topics included the municipal advisor rules, MCDC, the discussion regarding HQLA matters and a three-year look at the 2012 SEC Municipal Market report.

Almost as soon as the Spring Conference adjourns the final planning for the Fall Conference begins. Please make plans to attend in Seattle this fall, September 16-17, 2015 at the Hotel Motif. Don't forget, sponsorship opportunities are available for our friends in the industry.

I hope you enjoy a wonderful summer and have a chance to get away for a little while. I will see you in Seattle.

2015 Fall Conference

September 16-17th

Come join us for informative panel sessions, networking opportunities and peer interaction and collaboration.

Motif Hotel
Seattle, Washington

More Information Coming Soon!

WASHINGTON REPORT

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

Chuck Samuels

The Republican control of the Senate and, therefore, the Congress, has led to a relatively productive session of Congress in a number of areas but not with respect to tax issues. There is a sense that it is unlikely that any major changes on the tax front will be made this year and since next year is an election year it is unlikely there would be tax reform then.

That does not mean, however, that specific tax changes cannot be adopted as revenue raisers or in order for the Republican Congress to show some progress on tax reform. We must recognize that such changes may include tax exempt bonds with a good chance that a focus would be in the private activity bond arena. This might come in the form of doing something about corporate taxes, particularly the problem of corporate inversions and US firms reincorporating abroad, or in order to pay for transportation funding. There is great irony and inconsistency in Congress potentially undermining one area of infrastructure financing and public purpose services while enhancing another.

There will be some additional level of security for tax exempt bonds when in the next Congress Senator Charles Schumer of New York becomes either the Minority or the Majority Leader depending on the election. Until then, the congressional leadership is not known for its support of municipal finance. The most active area is in the Senate Finance Committee where various task forces are supposed to provide policy options for tax reform perhaps in July. We know specifically that restrictions on private activity bonds, including possibly hospital bonds, are under consideration. We are actively working to prevent these measures from getting any legs but it is possible that there will be some type of report or model legislation which includes eliminating or capping our type of financings. We also can expect on the House side that Ways and Means Committee Chairman Paul Ryan will follow his predecessor, Dave Camp, and issue some type of tax reform white paper or draft bill which will contain municipal finance provisions.

NAHEFFA, a number of authorities and our allies at AHA and NACUBO are working on these issues and we continue to liaise with other groups such as BDA, SIFMA and the US Conference of Mayors coalition. Our strongest weapons are grassroots communications from issuers and particularly borrowers with the reasoning that these financings are critical for the delivery of health and educational services, are administratively efficient, allowing thousands of local decisions to be made about financings each year, and provide significant economic support to the economy.

Some sympathizers to the role of public finance and nonprofit financing are still promoting a variety of direct pay and tax credit bonds even though the limitations and inefficiencies of these instruments as total substitutes for municipal bonds have been explained. Interestingly, Sen. Wyden from Oregon has been promoting a new form of private activity bonds that would incentivize private – public partnerships in the transportation sector. It also is worth noting that our coalition with the Bond Dealers of America, the Government Finance Officers Association and the independent community bankers has led to the introduction of HR 2229 the Municipal Bond Support Act of 2015 which liberalizes bank deductibility rules by, among other things, applying the quantitative limits to nonprofit borrowers. It is unlikely this legislation will pass this Congress but it is important to keep this concept alive.

Switching gears, the SEC's continuing disclosure cooperation initiative (MCDC) is likely to result in public announcements of government settlement agreements with underwriters and issuers/borrowers. The SEC undoubtedly will herald this initiative as highly successful and proving that it should be granted

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A Roller Coaster for Interest Rates in 2015; What's going on here?, *continued from page 1*

The early June report, for May jobs, reported a higher than projected 280,000 new jobs added in May. At the same time, unemployment rose by 0.1% to 5.5%. This isn't as inconsistent as it seems, since the data indicate that a larger number of long-term unemployed people are again seeking jobs and until they are employed, they can add to the unemployment rate, as happened in May.

At the same time, most of the jobs that were added continue to be in relatively low wage areas or workers become employed at jobs that pay less than their prior jobs or offer fewer hours of work or less generous benefits. The result is that a number of workers are "underemployed" and even though they have a job, their economic earnings are lower than in their prior job, thus slowing economic recovery.

One major uncertainty factor is what action the Federal Reserve Open Market Committee ("FMOC") will take on interest rates. It has been apparent for some weeks that the FOMC will not raise interest rates at their June meeting, speeches by different FOMC officials doesn't provide a consistent picture of what the overall thinking of the FOMC is. Market sentiment varies between September 2015 and January 2016, with virtually daily changes to the expected time of a rate increase.

Outside experts and government agencies are beginning to become more vocal in their "advice" to the FOMC on when to raise interest rates. In an unusually blunt statement, the International Monetary Fund suggested that the FOMC not change interest rates until "early 2016" in order to avoid precipitating a worldwide economic slowdown and having to reverse course to help improve economic performance in 2016. This highlights the differences between the United States and Europe economic performance in particular.

It also highlights the inter-relationship between the United States economy and other countries. Examples of other countries whose economic performance has recently had a measurable effect on US interest rates includes concerns about economic growth in China, recession in Europe and in particular, the effect that Greece's economic problems may cause for Europe.

> *"...rates are not likely to rise significantly and are unlikely to rise quickly."*

Greece's outsize influence on interest rates is puzzling since as a percentage of total worldwide economic activity, Greece plays a very small role. Yet, the issues raised by Greece in terms of failing to repay debt owed to other nations and banks echo well beyond the Country's borders. The concern is of course that if Greece can repudiate debts, what's to dissuade another, larger economy from following the same or a similar path?

While it may appear that interest rates lack direction at the present time, taking a longer perspective can be helpful to separate short term volatility from longer term trends. The longer term view is that it is likely that rates will increase somewhat as the FOMC relaxes its clamp on short term rates. Indeed, a reasonable argument can be made that the recent increase in rates is effectively the market building in a FOMC rate increase and not worrying about when the FOMC actually decides to raise rates.

The longer term perspective also brings some comfort that rates are not likely to rise significantly and are unlikely to rise quickly. There are many long-term factors that will keep interest rates constrained in the mid-term future, including demographics, increasing levels of consumer debt (both consumer credit and student loan debt), slowing labor productivity and limited policy coordination on developing and implementing appropriate solutions to economic issues.

Uncertainty about the direction of interest rates has always been an issue for both fixed income investors and debt issuers. This is not going to change in the future and the best way to understand the market is to take a longer term view and "not let the interest rate tail wag the necessary capital project dog."

NAHEFFA Welcomes Kansas Independent College Finance Authority

The Kansas Independent College Finance Authority (KICFA) was formed in 2000 as an entity which could issue bonds or revenue anticipation notes without having to request the assistance of the city, county, or state to issue on behalf of the Kansas Independent College Association (KICA). KICA was founded in 1970 and currently has 18 member independent, nonprofit, regionally accredited, degree-granting colleges and universities. KICFA was created through an inter-local cooperation agreement, allowed by Kansas Constitutional "home rule" authority, by 14 member cities where KICA schools are located. Over the last 10 years, KICFA has issued over $140,000,000 in bonds or notes and 15 of 18 KICA schools have participated in KICFA financings. ■

Greetings from the NAHEFFA Sponsorship Committee

The NAHEFFA Spring Conference in Alexandria, VA was held in April and was a great success. We would like to thank our 2015 Conference Sponsors for your continued support and want to remind you of our upcoming Fall Conference in Seattle, WA.

- 2015 Fall Conference, September 16-17th at the Motif Hotel in Seattle, WA

NAHEFFA encourages our sponsors to attend and participate in these conferences. Sponsor attendance at our events helps to build stronger relationships, reach key decision-makers in the industry and increases your organization's exposure. NAHEFFA conferences are attended widely by NAHEFFA Members including authority board members and staff. These conferences also provide an opportunity to increase your awareness of issues and concerns in the industry.

The Fall Conference in Seattle, WA will be both educational and entertaining and the views from this coastal seaport city will prove to be amazing.

For more information about the 2015 Fall Conference and for ways to participate, please contact Donna Murr at donnam@whcfa.wa.gov or Nichole Doxey at ndoxey@naheffa.com.

Best regards,
2015 Sponsorship Committee Members
Donna A. Murr | Washington Health Care Facilities Authority | NAHEFFA Sponsorship Committee Chair
Julie Arvo Mackenzie | Arizona Health Facilities Authority
Nichole Doxey | Operations Director, NAHEFFA
Paul Edwards | Washington Higher Education Facilities Authority
Shannon Govia | Washington Health Care Facilities Authority
Harry Huntley | South Carolina Jobs-Economic Development Authority
Carol Johnson | Washington Higher Education Facilities Authority
Pam Lenane | Illinois Finance Authority

Washington Update, *continued from page 3*

extended authority in our sector over issuers and borrowers. In fact, an enormous amount of time and money is spent dealing with issues where it is unclear what net public benefit is achieved. Watch closely the announcements you'll see in the weeks ahead and ask yourself the question who was harmed by the alleged failures to comply with continuing disclosure agreements? It is laudable to promote strict compliance with these agreements but guidance on what is material nondisclosure would be a lot more helpful than the embarrassment and waste of attorney's fees on cherry picking a few firms and issuers.

NAHEFFA continues to follow closely developments relating to the SEC and MSRB's municipal financial advisor rule. The rules probably will soon be finalized but it undoubtedly will take years to understand exactly how they apply, particularly in the conduit financing structure. Finally, the association continues to work with the GFOA and others in attempting to liberalize the bank regulators' rules on how to treat tax exempt bonds in bank portfolios, the so-called high-quality liquidity assets rules. We're hoping that at least some of our highly rated borrowers' financing might qualify in this category but indications are that only some general obligation bonds will.

Hope everybody is lining up for the Seattle conference which undoubtedly will be fantastic. The Washington Authorities have assured me of perfect weather. See you soon.

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