NAHEFFA
National Association of
Health and Educational
Facilities Finance Authorities

Supporting ACCESS

Spring 2020

Harry Huntley

NAHEFFA President's Message

by Harry Huntley, Executive Director
South Carolina Jobs-Economic Development Authority

The bombing of Pearl Harbor, the assassination of President Kennedy, the first man walking on the moon and the 9/11 attacks on the World Trade Center towers are all events that everyone can remember the moment it happened. While Covid-19 is not marked by a single moment, it will certainly be remembered as one of the most significant events of our lifetime. Think of every adjective you know, and it does not begin to describe our world at this moment. The losses are huge, and everyone has their own story to share.

The CARES Act passed by Congress recently will, hopefully, go a long way toward leading our economy and country to a speedy recovery. A special thanks to Chuck Samuels and his team at ML Strategies for protecting the bonds that we issue for nonprofits in the legislation that moved with incredible speed. The relationships they have formed on Capitol Hill over the years were once again leveraged to ensure that the market for the bonds issued by our member authorities remained stable. We are lucky to have such an effective advocate in Washington that allows us to fight well above our weight.

It has been an honor and my pleasure to serve as President of NAHEFFA for the past two years. Many thanks go to the board and committees for the hard work they have done. We have been working without an Operations Director for the past six months, which could not have been done without the additional work of committees and a yeoman's effort by Dennis Reilly and his staff. His office took over many duties and is also responsible for streamlining the conference registration and sponsorship process. We should reap dividends from everyone's efforts in the coming years. We have also revived the Strategic Implementation Operations (SIO) Committee with Maribeth Wright as chairperson to begin the search and hiring of a new Operations Director.

There is no doubt that I was the final holdout on cancelling the Spring Conference in Charleston in April, but the decision was inevitable. The conference and sponsorship committees started planning early, great programs were lined up, incredible venues were reserved, and Charleston is perfect this time of year. Many of you had already made plans to visit Folly Beach, Kiawah Island and other beautiful beaches nearby. Please make plans to visit Charleston soon. It deserves all the accolades.

Since we will not be holding the Spring Conference, the next corporation meeting is to be by teleconference on April 29 for committee reports and election of officers. Be on the lookout for more information soon.

The Fall Conference will be in Milwaukee, Wisconsin September 16-18. It will have been a year since we were last together. Way too long. Dennis Reilly is hosting and has been planning for months. I can't wait to see everyone there.

Future NAHEFFA Conferences

September 16-18, 2020
Milwaukee, WI
Journeyman Hotel

April 18-20, 2021
Washington DC
The Mayflower Hotel

In This Issue...

Chuck Samuels

WASHINGTON ADVOCACY REPORT

April 9, 2020

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

Wow. Every time we think that we've hit bottom, we find that there is a new bottom. As with every other sector of the economy and life the pandemic is ravaging nonprofit finance and the institutions we serve.

As a small association with limited resources we need to focus, prioritize, really triage and that is what we have done. We have to keep in mind that our allies in the hospital and education sectors have enormous non-tax-exempt bond agendas which they need to advance and they did to a large extent successfully. But that means they need to rely on us more than ever to work on the tax-exempt bond stuff.

In order to increase our leverage and reach, I asked my ML Strategies colleagues – you remember their critical assistance during Tax Reform to save private activity bonds – to help us on the stimulus issues. Neal Martin in particular has been a godsend and with his deft touch and relationships many congressional staff responded to him off hours and over a weekend during the critical period.

The recently passed stimulus bill contains an important provision for the Federal Reserve to purchase, among other things, muni debt in order to attempt to calm down the secondary market as well as to create an environment which will allow original issuances to go forward. New debt purchases were also authorized—see below. Remarkably, this program was opposed by the White House and was met with much reluctance by many congressional Republicans who did not see the need for direct assistance to state and local governments.

Fortunately, this reluctance was overtaken by events. But, the initial draft of the Senate bill – – where this stimulus bill started – – only mentioned municipalities and states, leaving out an enormous swath of the municipal bond market, notably counties, and also all the political subdivisions and debt of authorities such as our type for the nonprofit sector. You would think that what surely must have just been initial naïve drafting would be quickly fixed, but it was not. It took an enormous effort in partnership with GFOA and the state treasurers in particular to broaden the scope of this critical program. We succeeded ultimately in the final Senate bill, and the House acceded to the Senate.

This effort required outreach and communication by many of you to congressional delegations, even over a weekend. It was much appreciated. Congressional staff needed specific, concrete information which you provided. A number of you also provided information to AHA about the perilous state of your hospitals which was funneled into the effort for overall hospital relief.

We support a secondary market purchase program but there are many unanswered questions about how it will be structured and how Fed buying decisions will be made. I am sure however it originally is stood up will need to be adjusted quickly. At the same time, many of our borrowers in health care and education are looking to the grants and loans programs to be put on line.

But breaking news—what Fed/Treasury actually announced is the Municipal Liquidity Facility. This facility will support lending up to $500 billion in note purchases by a Fed-backed special purpose vehicle (SPV) from U.S. states and the District of Columbia, U.S. cities with a population exceeding one million residents and U.S. counties with a population exceeding two million residents . The SPV will purchase tax anticipation notes, tax and revenue anticipation notes bond anticipation notes and other similar short-term notes maturing no later than 24 months from the date of issuance. Only one issuer in each State, City or County may directly sell its notes to the SPV.

The maximum note purchase is limited to an amount equal to 20% of the State's, City's or County's general revenue and utility revenue for fiscal year 2017, but States may request that the SPV purchase notes in excess of such limit in order to assist political subdivisions and instrumentalities that are not eligible for the liquidity facility.

An issuer may use the note proceeds to help manage the cash flow impact of income tax deferrals resulting from an extension of an income tax filing deadline, potential reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19 pandemic, and debt service payments on its obligations.

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WASHINGTON ADVOCACY REPORT (Continuted...)

Here's the potentially really important part: an issuer may use note proceeds to purchase similar notes issued by, or otherwise to assist, political subdivisions and instrumentalities of the relevant State, City, or County for the above-described purposes. This may cover our issuances for our borrowers.

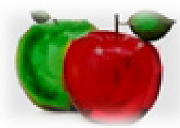
The cost of funds on the notes will be based on the issuer's rating at the time of purchase. An origination fee equal to 10 basis points of the principal amount will be payable by the issuer and may be paid from the proceeds of the issuance.

What's next? The House at least is looking at a further stimulus/infrastructure bill and obviously that brings us to our longtime advocacy for small borrowers and more recently bringing back advance refunding in some form. There also will be promotion of direct pay bonds and other new forms of tax-exempt bonds. We will continue to promote our agenda there. The Speaker has walked back her original proposal for a full -throated infrastructure bill but even a COVID oriented one clearly implicates the need to further enhance governments and the health care sector. The politics change every day. As I write this the Senate failed to replenish the small business fund because of partisan arguments about whether to add money for governments and hospitals.

More mundane but important, we support the effort by the Bond Lawyers to get clarification from IRS/Treasury that TEFRA hearings can be handled virtually. We also have advocated to MSRB that it restrain itself on new regulatory initiatives while we and our borrowers work on the more important, literally existential issues of institutions surviving.

It's unfortunate that we had to cancel the Charleston meeting, but of course we're in the same boat as thousands of other meetings. I hope to see you all soon and continue to stay in touch.

[The following article was written in early March of 2020. Now, in early April, the current world health and financial crisis has rendered much of the content moot for now. I know we will all do our best to help the institutions we serve, and our families and communities, navigate the challenges ahead.]



TAX-EXEMPT vs TAXABLE
By: Scott P. Waller – Gilmore & Bell, P.C.

Taxable issuance in lieu of tax-exempt has become more frequent in recent years with record low yields. A common narrative is the savings spread between tax-exempt and taxable is so compressed that taxable bonds are the best alternative for NAHEFFA borrowers. We see instances, however, in which the comparison isn't always "apples to apples."

We are happy to assist with tax-exempt, taxable and mixed financings, and sometimes one may make more sense than another, yet I am concerned the general narrative about the spread between taxable and tax-exempt isn't always entirely accurate.

Traditional publicly offered tax-exempt bonds with a 30-year maturity normally have 5- 7- or 10- year par call optional redemption provisions. Publicly-offered or institutionally placed taxable bonds with similar maturities frequently provide for optional redemptions with make-whole premiums that require a borrower to pay to the lender assumed future earnings on the bonds on a present value basis. Make-whole premiums may come with opportunity costs, including limiting or eliminating the ability of a borrower to achieve economic savings by refunding in the future. Evaluating the costs of the make-whole premium may be a helpful exercise for borrowers with their NAHEFFA members and advisors. Would comparison of the spreads between taxable bonds and tax-exempt bonds, when both are shown with either a 10-year par call, or alternatively a full-term make-whole premium, show greater spreads than borrowers seeing?

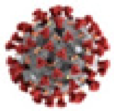
I'm also a bit apprehensive of whether the data behind broad statements about spread compression between tax-exempt bonds and taxable bonds really takes into account apples to apples comparisons of yields. Taxable yields tied to very large "benchmark" borrowers that can achieve $300M+ index eligibility or access foreign investors, may not be representative of yields for medium-sized or smaller borrowers that I expect comprise a majority of the entities served by NAHEFFA members.

Finally, I wonder whether we will see a market pivot to reach more individual investors with higher tax rates (who currently derive more value from tax-exempt obligations), and whether we will see tax law changes to bring back ARRA-like 'bank qualified' status on a per-borrower basis as part of future legislation to help issuers and lenders assist distressed health and educational institutions (as NAHEFFA has suggested for years).
I offer these observations and questions as a bond lawyer who focuses on the legal and documentation side of transactions, not a financial advisor. I would encourage NAHEFFA members and borrowers to consult qualified analysts, bankers and financial advisors, whose daily focus is on the markets and financing numbers, for their expertise and advice on this topic.

For a general overview, a few basic distinctions among common types of bonds and other obligations, including traditional publicly offered tax-exempt, direct purchase tax-exempt and some taxable options, are identified in the tables on slides 23 and 24 of PowerPoint available at the following link: https://www.gilmorebell.com/wp-content/uploads/2020/01/501c3-Presentation-Basics-Gilmore-Bell-P.C..pdf

Some frequently asked questions regarding tax-exempt bonds and related feedback are available at the following link: https://www.gilmorebell.com/frequently-asked-questions-nonprofit-501c3-tax-exempt-bonds/

Scott Waller is a shareholder and director of the law firm Gilmore & Bell, P.C. His practice focuses on tax-exempt financing transactions for health and educational institutions and other nonprofits. https://www.gilmorebell.com/project/scott-p-waller/. The views expressed in this article are views of Mr. Waller and may not be views of Gilmore & Bell, P.C. generally.



COVID-19 – HEALTH AND EDUCATIONAL INSTITUTION FINANCE
By: Scott P. Waller – Gilmore & Bell, P.C.

The following content includes my initial observations, as a bond lawyer, regarding COVID-19, and the early reactions of health and educational institutions as they prepare for economic impacts. My initial views regarding impacts are just based on personal observations and expectations coming from my limited role and may not touch on all relevant factors or concerns. Health and educational institution officers will have the best insight and most accurate observations regarding impact on their businesses. All that noted, my initial observations follow.

- Many health and educational institutions are reacting to significantly diminished investment values impairing unrestricted cash and investments and are focused on revenue and liquidity generally, supply chain finance (health in particular), payroll, and impacts on financial covenants for debt instruments and ratings

- Health institutions, after their first priorities of delivering high quality care and preparedness for emergent community health needs, in addition to some of the general financial focuses above, are focusing on increased short-term operating/working capital needs relating to COVID-19 patients, and assessing extent and impact of other common procedures and patient visits that may be postponed or canceled, thereby changing financial performance expectations and straining some provider compensation models

- Senior living institutions, after their first priorities of protecting their existing residents, patients and personnel from the virus while providing high quality care, in addition to some of the general financial focuses above, are assessing near-term and long-term resident and occupancy impacts

- Educational institutions, after their first priority of making sure their students and personnel are in safe learning environments, in addition to some of the general financial focuses above, are preparing for operational pauses, tuition refunding, immediate pivots to online education with substantial technology costs, current and near-future drops in enrollment, and related impacts on finances, personnel and all operations

- Financial market disruption and significant sell-offs in the municipal market are (at least temporarily until markets stabilize) delaying pricings, making normally routine bond sales difficult to complete, and increasing rates, including producing relatively high rates on outstanding variable rate demand obligations

- Health and educational institution borrower financial officers could be considering:

  Whether to pursue:

◇ Working/operating capital financings
  - tax-exempt revenue anticipation notes through a NAHEFFA member, or
  - bank-direct lines of credit (which if properly documented with bond counsel assistance may preserve future tax-exempt refinancing eligibility for capital expenditures)

◇ Long-term financings of reimbursable or ongoing capital project costs to enhance liquidity/cash
◇ Refinancing, rate conversion, or purchase in lieu of redemption and alternate financing of impacted outstanding debt, including variable rate demand obligations and commercial paper – for fixed rates or other interest rate types and debt structures to suit institution goals and risk assessments
◇ Pairing of debt listed above with other federal, state and local financial programs and funds
◇ Available-accessible sources of funding and lending relationships
◇ When and how to best position the institution to access the market at the right time in the coming months
◇ Planning for debt covenant compliance and best practices for financial impact reporting
◇ Who to contact for planned financings and timelines for completing those financings

I would encourage health and educational institutions to contact NAHEFFA members and other finance professionals (bankers, financial-municipal advisors, bond counsel and borrower's counsel) early to begin discussions of options even if plans are not anticipated to be finalized or executed until after primary responses to the virus and market stabilization.

Scott Waller is a shareholder and director of the law firm Gilmore & Bell, P.C. His practice focuses on tax-exempt financing transactions for health and educational institutions and other nonprofits. https://www.gilmorebell.com/project/scott-p-waller/. The views expressed in this article are views of Mr. Waller and may not be views of Gilmore & Bell, P.C. generally.

https://www.gilmorebell.com/wp-content/uploads/2020/01/Tax-Exempt-Financings-for-501c3-Organizations-Quick-Sheet-3-5-19.pdf
https://www.gilmorebell.com/frequently-asked-questions-nonprofit-501c3-tax-exempt-bonds/
https://www.gilmorebell.com/wp-content/uploads/2020/01/501c3-Presentation-Basics-Gilmore-Bell-P.C..pdf

<u>10 Facts Not About Bonds Or COVID19</u>

From the pages of www.goodnewsnetwork.org

Not fact checked, because sometimes its better to not know for sure.

1. Adrián López Velarde and Marte Cázarez from Zacatecas, Mexico have developed a fabric made from nopal cactus.
2. Continuing the cactus theme: they are pollinated by bats, at night. Thank you, tequila bats!
3. The University of Sydney is using durian and jackfruit pulp to help charge cell phones quickly.
4. Billy Idol is promoting NYC's efforts to get drivers to turn off cars with the slogan "Billy Never Idles."
5. If you search the web through www.ecosia.org, trees are planted. If you search the web through www.ekoru.org, trash is removed from the ocean.
6. A longtime Minnesota bus driver was given the sendoff he always wanted after he was buried in a casket decorated like a yellow school bus. Who among us would like our caskets wrapped in bond purchase agreements?
7. A violinist played her violin while undergoing brain surgery to let surgeons know they were not damaging her ability to play.
8. A married off-duty cop on a dinner date chased down a burglar who robbed the restaurant.
9. A cable company call center employee diagnosed a customer's stroke during the call and directed emergency services to save him.
10. If you leave gifts for crows, they will leave gifts for you.

Conference Call Bingo

Hi, who just joined?	Can you e-mail that to everyone?	X? Are you there?	Uh, X, you're still sharing!	Guys, I have to jump to another call.
(Sound of someone typing... ...possibly with a hammer)	(Loud painful echo)	(Child noises)	Hi, can you hear me?	No, it's still loading.
Next slide please.	Can everyone go on mute, please?	Sorry, I was talking on mute.	Sorry, go ahead...	Sorry, my dog is really excited about this call.
So (fades out) I can (cuts out) by (unintelligible) ok?	Sorry, I am double booked.	X, your screen just greyed out.	Sorry, you cut out there.	Can we take this offline?
I'll have to get back to you on that.	Can everyone see my screen?	Sorry, I was having connection issues.	Sorry, I think there's a lag.	Sorry, the other call ran over.

SAVE THE DATES

Fall Conference
September 16-18, 2020 | *Milwaukee, WI*
Journeyman Hotel
Welcome reception to be held the evening of September 16th

Conference sessions held September 17-18th

Spring Conference
April 18-20, 2021 | *Washington DC*
The Mayflower Hotel
Welcome reception to be held the evening of April 18th

Conference sessions held April 19-20th

For more information on Conference sponsorship and registration, please click here.

NAHEFFA Focus

The Association promotes the common interests of organizations which have the authority to provide capital financing for not-for-profit healthcare and higher education institutions and facilitates national advocacy, support, networking and education on behalf of its members. NAHEFFA focuses its efforts on issues which directly influence the availability of, or access to, tax-exempt financing for healthcare and higher educational institutions.

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