Wisconsin Health and Educational Facilities Authority

Capital Comments

A QUARTERLY NEWSLETTER | WHEFA.COM | SEPTEMBER 2010

Financing Spotlight: Odd Fellow-Rebekah Home Association, Inc.

On August 6, 2010, WHEFA and a select financing team successfully completed a $7,075,000 bond issue for Odd Fellow-Rebekah Home Association, Inc. ("Odd Fellow"). The plan of finance included the issuance of federally tax-exempt, bank qualified, revenue bonds with initial 5 to 10-year interest rates ranging from 3.12% to 4.35%. Odd Fellow has previously financed projects through WHEFA.

Odd Fellow is a not-for-profit 501(c)(3) organization owned and operated by the Odd Fellow and Rebekah fraternal organizations of Wisconsin. They have been providing elderly living and health care services since 1889. They operate Odd Fellow Home, an 82-bed skilled nursing facility in Allouez, Wisconsin, and Rebekah Haven, a 20-bed Residential Care Apartment Complex in Green Bay, Wisconsin.

The Series 2010 Bonds were issued and the proceeds were loaned to Odd Fellow pursuant to a Bond Indenture and Loan Agreement. Wells Fargo Bank (the "Purchaser") agreed to purchase the 2010 Bonds pursuant to the terms set forth in the Bond Indenture and Loan Agreement. The Series 2010 Bonds were issued as a draw-down loan for the future new money projects. The Series 2010 Bonds are secured by a first mortgage on certain property and a general lien on all business assets in favor of the Purchaser.

The proceeds of the Series 2010 Bonds will be used to (i) currently refund bonds previously issued by WHEFA in 1997, (ii) finance costs related to the refinancing of interim taxable debt which Odd Fellow has incurred with respect to the acquisition, construction, renovation, remodeling and equipping of its skilled nursing facilities located in Allouez, (iii) finance costs related to the acquisition, construction and equipping of Friendship Place, a new 36-bed community based residential facility located adjacent to their existing facility, Odd Fellow Home, and (iv) pay for certain costs of issuance.

The Series 2010 Bonds were sold with initial 5 to 10-year interest rates ranging from 3.12% to 4.35% and were unrated, bank qualified, private placement bonds with a 20-year final maturity. Wells Fargo Bank was the initial purchaser of the Series 2010 Bonds and will have an initial option to tender the Series 2010 Bonds after ten years.

Other financing team members included: Quarles & Brady LLP as Bond Counsel; Nelson & Schmeling as Borrower's Counsel; and Liebmann, Conway, Olejniczak & Jerry as Purchaser's Counsel. No Bond Trustee was required under this financing and Odd Fellow will make their debt service payments directly to Wells Fargo.

If you have any questions, or would like additional information on this financing, please feel free to contact WHEFA.

Interest Rates (as of 08/06/10)

	Current	Three Months Ago	One Year Ago
Tax-Exempt Variable Rate (Weekly Reset)	.285%	.308%	.675%
Bank Prime Rate	3.250%	3.250%	3.250%
10 Year Treasury Note	2.820%	3.420%	3.760%
25 Year Revenue Bond (Long-Term, Tax-Exempt Rate)	4.790%	4.890%	5.680%

In This Issue...

Non-Local Board Members Can Boost Board Performance

While it's important for a board to have solid contacts within the community, it doesn't mean every member has to fit that mold. Some organizations fill a spot or two on the board with people who live out of town. Given the difficult decisions many organizations will have to make in an increasingly complex and economically challenging environment, many boards may need to have people who can take the heat for choices that may be politically unpopular with locals.

Another benefit of recruiting board members from outside the community is the ability to find someone with expertise that the board is missing. Increasingly, boards are making lists of the wide range of skill sets they need on the board and recruiting to fill those spots. It may be easy to find someone with banking or finance experience in town, but finding someone with an understanding of safety, health care quality, student education or the environment can be harder to come by. Having a board that raises more challenging issues or

Recently Completed Financings

Date	Borrower	Purpose	Amount	Structure
06/09/10	Mercy Alliance, Series B	Refinancing, Acquisition, Construction, Equipment, Renovation	$48,445,000	Fixed Rate, Rated, Public Placement
06/09/10	Attic Angel Place	Refinancing	$17,300,000	5-Year Reset, Unrated, Bank Qualified, Private Placement
06/14/10	Lakeland College	Refinancing, Construction, Equipment, Renovation	$16,100,000	Variable Rate, Unrated, Bank Qualified, Private Placement
06/17/10	Ministry Health Care, Series B	Acquisition, Construction, Equipment, Renovation	$60,000,000	Fixed Rate, Rated, Public Placement
06/17/10	Ministry Health Care, Series C	Acquisition, Construction, Equipment, Renovation	$20,000,000	Variable Rate, Rated, Public Placement
07/15/10	Southwest Health Center	Refinancing	$ 6,465,000	5-Year Reset, Unrated, Bank Qualified, Private Placement
08/01/10	Viterbo University, Inc.	Acquisition, Construction, Renovation	$10,000,000	Fixed Rate, Unrated, Bank Qualified, Private Placement
08/06/10	Odd Fellow-Rebekah Home Association, Inc.	Acquisition, Construction, Equipment, Renovation, Refinancing	$ 7,075,000	10-Year Reset, Unrated, Bank Qualified, Private Placement

Non-Local Board Members Can Boost Board Performance

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perspectives can raise the play of the entire board.

It's ok to allow for dissent on a board. Strong board cultures will embrace that model and realize it's ok to disagree without it being seen as a challenge. To bring a different point of view or look at things more broadly brings a whole new perspective. It can cause more questions to be asked and press management on being accountable for performance in a more specific way.

Companies need to remember and make sure each board member takes on the same responsibility to educate themselves about all the issues involving the local community as well as the organization they serve. Attendance and participation is a must. By keeping the board of directors more diverse, organizations can see increased performance and a successful future ahead. *(Source: Trustee; June 2010)*

Tax-Exempt Bond Compliance: What Should Be Done

Recent activity by the IRS has had not-for-profits concerned. It is apparent the IRS believes not-for-profit compliance procedures are generally deficient and that it wants organizations to do more. In 2008, the IRS introduced to Form 990, a Schedule K focused on tax-exempt bonds.

In light of this activity by the IRS, borrowers should take a number of steps to protect the tax-exempt status of their bonds, be able to refund existing debt, and minimize potential for an IRS audit. These steps include:

1. Create a bond compliance policy and manual. This should include a statement of the policies that the borrower intends to follow to make sure its bonds continue to qualify for tax-exemption. The policy should include procedures the borrower will follow to ensure the policies are implemented.
2. Establish the position of bond compliance officer. A bond compliance policy and manual should include procedures to track the sale and use of bond-financed assets. Therefore, a bond compliance officer is essential. Their role is to have an understanding of the rules and regulations relating to the bonds, be fully familiar with the assets that are bond financed, and be able to monitor and respond to requests regarding the use of the bond-financed assets.
3. Establish record-keeping procedures. The bond compliance policy should also establish record-keeping requirements and procedures. The IRS has stated that failure to keep proper records allows the IRS to presume private use.
4. Routinely ask bond counsel to review management and research agreements. Another procedure that should be a part of the bond compliance policy is the routine review of management, service, and research contracts by bond counsel. Borrowers that do not do this increase their risk of being subject to an IRS audit.
5. Conduct an internal audit of bond-financed assets. Borrowers should conduct regular internal reviews of their use of bond-financed assets, including a review of where the assets are located, whether they are still in use, whether they have been sold, and all leases and management contracts relating to all bond-financed assets.
6. Establish a deadline reminder system. Borrowers should establish a "tickler" system to remind them of certain deadlines, such as the dates by which they must calculate and file their arbitrage rebate payments.
7. Train staff. Employees throughout an organization make decisions almost daily that could affect the tax-exempt status of bonds. Every sale, lease, or trade-in of a piece of equipment or property could cause the bonds to become taxable. Although a borrower should not expect every employee to know chapter and verse the rules and regulations related to the bonds, every employee should be able to spot issues before they can become a problem.

Precautions taken now can help a not-for-profit organization avoid potentially difficult and expensive problems with its tax-exempt debt in the future. With the IRS's increased focus on the tax-exempt status of bonds, these precautions should prove to be valuable. *(Source: Healthcare Financial Management; July 2010)*

Briefly Noted

Long-Term Care

. . . Concern over the relationship of struggling CCRC's and their residents is prompting federal government review and possible legislation. Currently, Wisconsin is the only state where residents are given a higher standing than other creditors during bankruptcy proceedings. Most states don't study the financial stability of their CCRC's. *(Source: The Wall Street Journal; 07/21/10)*

. . . MIT researchers working with the gene, SIRT1, can reduce the erosion of memory and learning ability in mice. The gene regulates the production of a class of proteins known as sirtuin one. *(Source: The Wall Street Journal; 07/23/10)*

. . . A recently completed "2010 Cost of Care Survey" by Genworth reveals the average annual cost for one year of skilled nursing home care in the U.S. is $75,190; for an assisted living facility care is $38,220; and home care is $43,472. *(Source: Genworth Report; 04/06/10)*

. . . Testing and treatment for Glaucoma is becoming more important as the U.S. population ages, has larger percentages of black and Hispanic persons, and struggles with an obesity epidemic. *(Source: USA Today; 07/20/10)*

. . . A survey of 100 centenarians funded by United Healthcare reveals the following as important to those over 100 years old –

- Value hard work beyond age 65
- Most sleep at least 8 hours every night
- 60% meditate or pray daily
- 75% eat balanced meals and communicate daily with family/friends
- Feel that volunteering is essential

Currently there are 84,000 centenarians in the U.S. and by 2040 the number should reach 600,000. *(Source: 50 Plus; July 2010)*

Education

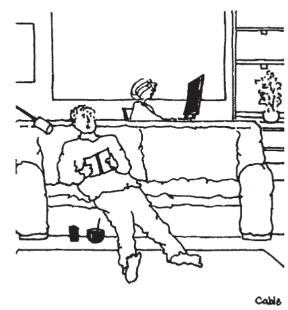
. . . Increased scrutiny by the U.S. Department of Education's inspector general and others appears to be slowing or eliminating a recent and growing practice undertaken by for-profit higher educators. The strategy of acquiring a financially weak not-for-profit college in order to gain access to its accreditation appears to be coming to an end. Accrediting bodies are no longer as willing to leave their approvals in place following such acquisitions. *(Source: Inside Higher Education; 07/01/10)*

. . . An increasing number of colleges and universities are rolling out 3 year undergraduate programs which enable receipt of a degree one year early. Savings of $10,000 are possible under such programs. *(Source: The Wall Street Journal; 06/01/10)*

. . . The United States, who used to rank first in the number of 25-34 year-olds with college degrees, is now ranked 12th among 36 developed nations. What appears to be needed are strategies to bolster college completion rates. Canada leads the world currently with 56% of its young adults earning degrees. Although 70% of U.S. high school graduates enroll in college only 57% of those enrolled graduate in 6 years, and less than 25% of community college students enrolled graduate in three years. *(Source: New York Times; 07/23/10)*

Pepper . . .
And Salt

THE WALL STREET JOURNAL



"I can't wait until we can get back to doing what we do best, eating out."

. . . Mid-level management fraud at colleges is a growing problem. It often involves the athletic department, which historically has not been monitored as closely as other departments. The use of fake outside vendors is a growing issue. Some schools now require background and credit checks on all employees. *(Source: Inside Higher Education; 07/26/10)*

. . . While college enrollment grew from 18.7 million students in 2007 to 19.6 million in 2008, those receiving degrees in 6 years or less remained at the same level. *(Source: The Chronicle of Higher Education; 04/16/10)*

Acute Care

. . . Just as Congress ratchets up its scrutiny of for-profit higher education, the Government Accounting Office

Briefly Noted

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("GAO") is calling for examination of the same issues of value and quality at foreign medical schools where Americans use federal student loans. The largest of such schools are for-profit. The GAO found that while 97 % of U.S. educated medical students passed the first stage of the U.S. Medical Licensing Exam on their first try, only 64% of students at foreign schools passed. Between 1998 and 2008, American students borrowed $1.5 billion in federal loans to attend freestanding foreign medical schools. *(Source: Inside Higher Education; 06/29/10)*

. . . 13% of family doctors don't participate in Medicare, up from 8% in 2008. In 2008, Medicare paid doctors 78% of what private insurers paid. *(Source: USA Today; 06/21/10)*

. . . In February 2010, the Cleveland Clinic and Lowes announced a program to offer heart surgery to Lowe's employees at no charge (out of pocket). This signals a trend of domestic medical travel that could have implications for community hospitals. *(Source: H&HN; June 2010)*

. . . Researchers followed a group of 248 persons who completed rehabilitation after a heart attack, bypass surgery, or angioplasty. After one year, only 37% of the group still exercised 3 or more times per week. *(Source: Case Western Think Research; July 2010)*

. . . Baylor College of Medicine has developed a training program which helps doctors identify old patients, usually with some dementia issues, as being susceptible to fraud. Half of the 67 physicians who have participated to date have found patients who are financially victimized or highly vulnerable to such abuse. *(Source: The Wall Street Journal; 07/10/10)*

. . . A new, free smart phone application (iTriage), developed by a physician, allows users to check their symptoms, research diseases and procedures, and find locations for treatment from a database of 1.2 million hospitals & clinics across the country. Wait times at emergency rooms is updated every 15 minutes. *(Source: www.bizjournal.com; 06/25/10)*

General

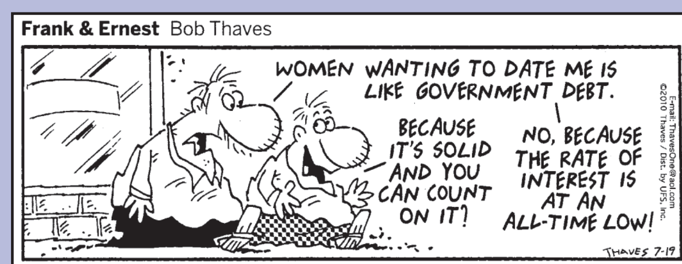
. . . Panera Company has opened its first "pay what you can" restaurant where the customer decides what to pay for meals. About 60-70% pay in full, 15% leave a little more, and 15% pay less or nothing at all. Any profits generated at the store will be used for other local charitable programs. *(Source: Milwaukee Journal Sentinel; 06/28/10)*

. . . Eight states still do not allow non-profit organizations, with some exceptions such as hospitals and colleges, access to tax-exempt financing. *(Source: The Bond Buyer; 04/27/10)*

. . . 4,000 high school football players are believed to sustain a concussion each year. *(Source: Milwaukee Journal Sentinel; 07/15/10)*

. . . Giant Ox, called Aurochs, roamed the European forests until they died out 400 years ago. Now European scientists using DNA sequenced from Auroch teeth are starting a novel breeding program. By identifying living cattle breeds that still carry Auroch genes, a new cross breed will be developed that retain the pertinent DNA and jettison the rest, making animals in about 10 years that look and act like their extinct ancestors. *(Source: National Geographic; June 2010)*

. . . Each year, approximately 1 million barrels of oil seep out of the ground in the Gulf of Mexico. More than 27,000 abandoned oil and gas wells lie beneath the Gulf of Mexico and no one is checking to see if they are leaking. *(Source: The Wall Street Journal; 07/01/10 & The Associated Press; 07/07/10)*



. . . With a fertility rate 50% higher than Russia, Germany, or Japan, the U.S. is becoming an outlier among developed nations, most of whose populations are stagnant and seem destined to eventually decline. *(Source: Newsweek; 06/30/10)*

. . . Fitch & Moody's have completed a recalibration of certain U.S. municipal bond ratings. The upward shifts do not constitute rating upgrades, but rather are the result of using one global rating scale. *(Source: Chapman & Cutler Public Finance Bulletin; 05/13/10)*

. . . Beginning with tax year 2009, over 400,000 small tax-exempt entities (less than $25,000 in annual revenues) are required to file Form 990's with the IRS or face loss of their current tax status. *(Source: The Wall Street Journal; 06/01/10)*

How Skilled Nursing Facilities Can Extend Their Business Lines into Short-Stay Arrangements

Long term care providers have had to adjust their care giving and bottom-line priorities to include short-stay patients as well as traditional nursing residents in response to demographic shifts, new technology, economics, and the preferences of the aging baby boom generation. Skilled nursing facilities (SNFs) are now increasing their rehabilitation, therapy, and temporary housing offerings to tap new revenue streams.

Many SNFs are extending their business lines into short-stay arrangements for residents whose stays are measured in days and weeks as opposed to months and years, or the rest of a lifetime. These new types of residents are often in their 60s or early 70s versus typical nursing facility clients who may be closer to their low to mid 80s. The short-stay patients are not necessarily frail or elderly and may simply require physical, occupational, or speech therapy following time in an acute care hospital before they return to more independent living.

These short-term patients are a positive to SNFs. The situation represents a higher-paying client base than long-term stays. Medicare pays two to three times more for rehabilitative services than Medicaid does for long term care, pushing SNFs in the direction of expanding their rehabilitation units to attract higher reimbursement and stabilize their finances.

The range of ideas for short stays is broad, and the opportunities apparent to most SNFs looking beyond their traditional role. In the end, the nursing facility will always be a mainstay for the old and frail to spend their final years. However, baby boomers having surgery will need recuperation space, and that is an area for vast growth among SNFs eyeing the new market. *(Source: Provider; July 2010)*

The following report was written for the National Association of Health & Educational Facilities Finance Authorities (NAHEFFA) and is being included in this copy of the WHEFA Newsletter.

Washington Advocacy Report By Charles A. Samuels Mintz Levin Dated: August 3, 2010

At this writing, the House is recessed for the summer and the Senate leaves at the end of the week. It is expected that this week will be spent as unproductively as most of the rest of the year in terms of issues of concern to NAHEFFA members. The partisan gridlock has reached all-time proportions. Although major health reform and financial services legislation passed, many medium sized pieces of legislation which typically would be fairly easily adopted are stuck, particularly those involving fiscal/tax issues.

This deadlock means that although the House passed provisions that would extend for one year the Federal Home Loan Bank ("FHLB") letter of credit and bank deductibility provisions, the Senate is unable to pass the "extenders" bill. Objections were raised, and it was opposed by virtually every Senate Republican, on the ground that the overall package was not fully paid for and added to the budget deficit. Our issues became linked to healthcare, unemployment compensation, individual tax cuts and other highly partisan issues. We still retain hope that our provisions, along with other muni provisions such as the extension of Build America Bonds ("BABs"), can be dealt with in an end of the year package.

In order to keep our issues alive before Congress, we are an active partner in a new coalition of muni and related groups, such as the federal home loan banks. We are pursuing the muni bond provisions as infrastructure, stimulus and jobs provisions. We, and a large number of groups in the muni finance field, sent a letter to the Hill about the urgency of extension. House Ways and Means Committee Chairman Levin (D. Mich.) introduced the bond provisions as HR 5893 and attempted to pass it in the House separately before the summer recess. This effort was blocked by parliamentary maneuvers by House Republicans. Interestingly, in the substance of the debate, House Republicans were skeptical that provisions for state and local governments, particularly BABs, have much of a stimulus/jobs effect as compared to tax cuts for the private sector. It is unknown where non-profit economic activity would be considered in this continuum.

Our coalition is developing individualized communications to key Republican Senators who could tip the balance. Those of you in key states will be asked to help us before the Congress comes back in session after the summer. We are particularly interested in the NAHEFFA member states of Massachusetts, Ohio, Idaho, Indiana, and Missouri.

Since our last report, the financial services or "Dodd-Frank" bill became law. There are a number of explicit muni provisions. There undoubtedly are also other provisions, such as new restrictions on assets securitization, which could end up having tax-exempt bond implications and which we will need to follow carefully. (An effort was made, led by Jeff Asher of Connecticut, to clearly exempt munis from new "skin in the game" requirements, but the language is still somewhat muddy. We'll see how the regulations proceed.) A massive rulemaking and implementation job is now underway by the SEC and other agencies.

Washington Advocacy Report

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Among the provisions relevant to tax-exempt bonds which may have some implications in our sector:

- Credit rating agency reform both for conflicts of interest and to focus ratings on probability of repayment (the rating agencies have told us this will have not much effect in our sector).
- Changes in Municipal Securities Rulemaking Board's ("MSRB") regulatory authority and board composition. MSRB will now regulate financial advisors and its board must consist of a majority of independent/public board members. New members should be announced soon.
- New upgraded SEC Office of Municipal Securities reporting directly to the SEC Chairman.
- Regulation of the derivatives' market.
- Municipal securities studies by the Government Accountability Office on transparency of trading and pricing in the muni market and issuer disclosure requirements and the Tower Amendment.

The latter segues into the announcement of SEC intent to hold field hearings around the country on the status of municipal disclosure and whether the SEC should seek improvements to regulation or legislation. It will be critical for us to explain the status of non-profits situated in the spectrum between government and for profit entities which use tax exempt bonds through conduit issuers and why SEC private sector disclosure requirements are inappropriate for non-profit health and education.

Given the unresolved taxes issues, the need for SEC implementation and interpretation and the pending field hearings, we can expect a busy end of the year.

Staff News

Tanya Wilson's title has changed to Manager of Operations & Finance. She had been the Operations & Finance Analyst at WHEFA since 1999 and has been a member of the staff since 1987.

WHEFA

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