

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY and
STATE OF CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Minutes of Authority Board Retreat Meeting

January 26, 2018

The State of Connecticut Health and Educational Facilities Authority and the State of Connecticut Higher Education Supplemental Loan Authority met at 8:30 a.m. on Friday, January 26, 2018.

The meeting was called to order at 8:50 a.m. by Dr. Peter Lisi, Chairman of the Board of Directors of the Authority. Those present and absent were as follows:

PRESENT: Dr. Peter W. Lisi, Chairman, CHEFA and CHESLA Board
 Michael Angelini, CHEFA Board
 John M. Biancamano, Vice Chair, CHEFA Board
 Martin L. Budd, CHESLA Board¹
 Robert S. Dakers (Designee for Benjamin B. Barnes, OPM Secretary),
 CHEFA Board
 Elizabeth C. Hammer, CHEFA Board
 Barbara B. Lindsay, Esq., CHEFA Board
 Dr. Estela Lopez, CHEFA Board
 Sheree Mailhot (Designee for Denise Nappier, Treasurer), CHEFA and
 CHESLA Board
 Barbara Rubin, CHEFA Board
 Julie B. Savino, Vice Chair, CHESLA Board²

ABSENT: Steven Kitowicz, CHESLA Board
 Mark Varholak, CHEFA Board

¹ Mr. Budd participated in the meeting via conference telephone that permitted all parties to hear each other.

² Ms. Savino joined the meeting at 9:00 a.m.

ALSO PRESENT: Jeanette W. Weldon, Executive Director
Denise Aguilera, General Counsel
Michael F. Morris, Managing Director
Cynthia D. Peoples, Managing Director
Debra M. Pinney, Manager, Administrative Services
of the Connecticut Health and Educational Facilities Authority

GUEST: Debra Chromy, President, Education Finance Council

Dr. Lisi thanked the Board members for attending the meeting and indicated that there are a lot of opportunities for discussion today.

Ms. Weldon also thanked the Board of Directors for attending and explained that she hoped that the two Boards could develop some synergy and do some brainstorming in creating the FY 2019-2021 strategic plan. She mentioned that staff participated in a brainstorming session to discuss the strategic plan in early January.

Ms. Weldon began with an overview of CHEFA/CHESLA. The CHEFA and CHESLA vision and mission statements and CHEFA/CHESLA's basic core values were reviewed. She also reviewed the functional organization of CHEFA and its subsidiaries.

Ms. Savino joined the meeting at this time.

Ms. Aguilera reviewed CHEFA's statutory purchase, which is to assist institutions for higher education, health care institutions, nursing homes, child care or child care development facilities and qualified nonprofit organizations in the construction, financing and refinancing of projects or in any other manner set forth in the enabling legislation. CHEFA is also authorized to make

grants and provide other forms of financial assistance to these entities for such purposes and subject to such eligibility and other requirements as are adopted by the Board of Directors. Mr. Budd asked what defines qualified nonprofit organizations and Ms. Aguilera responded that qualified nonprofit organizations are 501(c) (3) organizations.

Ms. Aguilera also reviewed CHESLA's statutory purpose which to assist individuals who attend a Connecticut institution for higher education or residents of Connecticut, and any parent, legal guardian or sponsor of such individuals, and Connecticut institutions for higher education, in the financing and refinancing of the costs of higher education.

Ms. Peoples reported on CHEFA FY 2017 revenues and FY 2018 projected revenues and displayed a chart and graph detailing the bond issuance for each year for the same timeframe, along with the percentages by sector of the par outstanding. Ms. Peoples stated that revenues are expected to continue to trend flat.

Ms. Peoples also reviewed the CHEFA bond issuance for new money, refundings, private placements and advance refundings transactions for FY 2011 through FY 2017. Thirty-eight percent of the transactions are new money and 62% are refundings. Of the refundings, 24% were advance refundings. Mr. Biancamano indicated that he would like to see a chart detailing the different types of transactions for the current par outstanding by client. Ms. Peoples indicated that she will put that information together and share it with the Board.

Ms. Weldon provided an overview of CHESLA's products: RefiCT, CHESLA Scholarship Program, CT Dollars & Sense and MyCHESLA Student Loan for in-school loans. CHESLA is a

student loan entity that issues state-backed bonds to fund student loans. Mr. Budd inquired if CHESLA can do private placements. Ms. Weldon stated that CHESLA's ratings are based on the State's ratings and the Authority has always done public offerings, although private placements could also be done if cost effective.

Ms. Weldon gave an overview of CHESLA's FY 2017 finances. Mr. Biancamano inquired about creating an endowment for CHESLA scholarships. A discussion ensued.

Mr. Morris reviewed the industry trends in public finance and indicated that there remains uncertainty as a result of tax reform and the major change affecting tax-exempt issuance was the elimination of advance refundings. Based on recent articles, there is an expectation that taxable issuance should double this year and that there will be more volatility in the market with institutional investors remaining as the primary investor base. There has been an increased use of private placements, but it is uncertain if banks will still find direct placements attractive with the reduction in the corporate tax rate. In addition, there will be limited use of debt service reserve funds, due to the costs associated with funding.

Mr. Morris discussed industry trends for the healthcare sector, noting that Moody's recently changed the sector's outlook from stable to negative. Moody's expects a decrease in operating cash flow and an increase in expense growth. The factors affecting the bottom line for health care trends are modest utilization growth, rising expenses, pharmaceutical costs and high deductibles and rising copays will contribute to increased bad debt. Moody's expects more consolidations and mergers in the future as we have experienced in the State. Mr. Morris stated

that an option for the Authority would be to get legislative authorization for cross-border financing. A discussion ensued.

Mr. Morris discussed industry trends for the education sector, noting that Moody's also downgraded its outlook for the sector from stable to negative, as net tuition revenue growth continues to be a challenge with potential changes in federal student aid. There has been increased competition due to changes in demographics, particularly in the Northeast, and with online educators. Weaker credits will struggle to adequately invest in facilities. The investment earnings to support operations and philanthropy are dependent upon the stock market. On a positive note, due to favorable investment gains this past fiscal year, financial resources have increased; however, Moody's anticipates weaker returns over the next couple of years.

Ms. Weldon stated that there are legislative challenges at the federal, state and local level that can affect CHEFA and its clients.

Ms. Weldon introduced Ms. Debra Chromy, President of the Education Finance Council (EFC) and provided some background information on Ms. Chromy. Ms. Chromy presented an overview of the student loan industry and recent and future EFC activities.

Ms. Chromy provided an overview of the Education Finance Council, which consists of 26 voting members, all of which are nonprofit organizations and one mid-western university. They have 33 affiliates and their mission enables students and families to plan and save for college.

The Higher Education Act is on the horizon with a major effort to move forward in 2018. EFC has been trying to create language to exclude non-profit and state-based lenders from the Preferred Lender List requirements, so that financial aid officers can speak with students and families about state-based lender options.

Ms. Chromy reported that the House's Higher Education Reauthorization Bill is pending and she provided highlights of the House and Senate positions.

Lastly, Ms. Chromy stated that EFC is trying to build a non-for-profit student lending portal.

The Board members took a brief 10-minute break and the meeting reconvened at 10:22 a.m. At this time, the Board members broke into two groups for a brainstorming session. Each group was given two topics and questions to report back to the entire Board and meeting attendees. The following individuals left the meeting room: Ms. Jeanette Weldon, Mr. Michael Morris, Ms. Cynthia Peoples, Ms. Denise Aguilera and Ms. Debra Pinney.

The CHEFA staff returned to the meeting at 11:25 a.m. Each group reported on their topics/questions. Ms. Weldon scribed the responses on an easel pad.

Ms. Weldon discussed next steps. She stated that all ideas discussed at the meeting will be compiled and will be brought to the CHEFA Board of Directors for discussion at the February 21st meeting and brought to the CHESLA Board of Directors at their March 1st meeting. Ideas developed by staff at the staff retreat will also be presented. The plan is to finalize the strategic plan sometime in April.

ADJOURNMENT

There being no further business, at 12:17 p.m., Dr. Lopez moved to adjourn the meeting and Mr. Biancamano seconded the motion.

Upon roll call, the “Ayes,” “Nays” and “Abstentions” were as follows:

AYES

Michael Angelini
John Biancamano
Martin Budd
Elizabeth Hammer
Barbara Lindsay
Dr. Peter Lisi
Dr. Estela Lopez
Sheree Mailhot
Barbara Rubin
Julie Savino

NAYS

None

ABSTENTIONS

None

Respectfully submitted,

Jeanette W. Weldon
Executive Director