

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting

February 21, 2018

The State of Connecticut Health and Educational Facilities Authority met at 1:30 p.m. on Wednesday, February 21, 2018.

The meeting was called to order at 1:31 p.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
 Michael Angelini
 John M. Biancamano, Vice Chair¹
 Robert S. Dakers (Designee for Benjamin B. Barnes, OPM Secretary)
 Elizabeth C. Hammer
 Barbara B. Lindsay, Esq.
 Dr. Estela Lopez
 Barbara Rubin
 Mark Varholak

ABSENT: Sheree Mailhot (Designee for Denise Nappier, Treasurer)

ALSO PRESENT: Jeanette W. Weldon, Executive Director
 Denise Aguilera, General Counsel
 Robert Jandreau, Sr. Finance Associate
 Daniel Kurowski, Financial Analyst
 Eileen MacDonald, Sr. Transaction Specialist
 JoAnne N. Mackewicz, Controller
 Michael F. Morris, Managing Director
 Cynthia D. Peoples, Managing Director
 Debra M. Pinney, Manager, Administrative Services
 Jennifer Smyth, Legal Services Specialist
 David Wasch, Government Programs Specialist/Legislative Liaison
 Betty Weintraub, Grant Manager
 of the Connecticut Health and Educational Facilities Authority

¹ Mr. Biancamano joined the meeting at 1:45 p.m.

GUESTS: Michael Andreanna, Esq., Pullman & Comley LLC
Bruce Chudwick, Esq., Shipman & Goodwin LLP
Scott Gibson, Executive Director, Oppenheimer & Co., Inc.
Stella Gittens, Senior Director, PFM Financial Advisors LLC²
Laurie Hall, Esq., Hawkins, Delafield & Wood LLP³
Susan Henebry, Esq., Carmody Torrance Sandak
& Hennessey LLP⁴
Thomas S. Marrion, Esq., Partner, Hinckley, Allen & Snyder LLP
David Orise, Vice President, Century Bank
Edward Samorajczyk, Jr., Esq., Robinson + Cole LLP
Namita Shah, Esq., Day Pitney LLP
Eric Taylor, Esq., Harris Beach PLLC

MINUTES

Dr. Lisi requested a motion to approve the minutes of the January 17, 2018 meeting of the Board of Directors, which was included in the meeting materials. Mr. Varholak moved for approval of the minutes, which was seconded by Ms. Hammer.

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

| <u>AYES</u> | <u>NAYS</u> | <u>ABSTENTIONS</u> |
|---|--------------------|----------------------------|
| Michael Angelini Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Barbara Rubin Mark Varholak | None | Robert Dakers ⁵ |

² Ms. Gittens participated in the meeting via conference telephone that permitted all parties to hear each other.
³ Ms. Hall participated in the meeting via conference telephone that permitted all parties to hear each other.
⁴ Ms. Henebry participated in the meeting via conference telephone that permitted all parties to hear each other.
⁵ Mr. Dakers abstained from voting as he did not attend the January 17, 2018 Board meeting.

Dr. Lisi requested a motion to approve the minutes of the January 23, 2018 special meeting of the Board of Directors, which was included in the meeting materials. Ms. Rubin moved for approval of the minutes, which was seconded by Mr. Angelini.

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

| <u>AYES</u> | <u>NAYS</u> | <u>ABSTENTIONS</u> |
|--|--------------------|---------------------------|
| Michael Angelini Robert Dakers Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Barbara Rubin Mark Varholak | None | None |

Dr. Lisi requested a motion to approve the minutes of the January 26, 2018 meeting of the Board of Directors, which was included in the meeting materials. Ms. Hammer pointed out that on page 2, last paragraph one word needed to be changed in the last sentence which should read “Ms. Aguilera reviewed CHEFA’s statutory purpose”. Mr. Angelini moved for approval of the minutes, which was seconded by Ms. Rubin.

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

AYES

Michael Angelini
Robert Dakers
Elizabeth Hammer
Barbara Lindsay
Dr. Peter Lisi
Dr. Estela Lopez
Barbara Rubin

NAYS

None

ABSTENTIONS

Mark Varholak⁶

CURRENT AND PENDING BOND ISSUES

Financing Forecast and Summary of Financings

Mr. Morris reported that Fairfield University will be financing to refund their 2008 Series M & N for \$6.5 million. There were no closings last month.

Interest Rate Update

Ms. Peoples reported on recent market activity, money market rates, economic indices and yield curve trends.

Market Rate Update

Mr. Jandreau provided an update on recent health and education issues brought to market.

⁶ Mr. Varholak abstained from voting as he was not present at the January 26, 2018 Board Retreat meeting.

ANNUAL ARBITRAGE STATUS REPORT

Mr. Kurowski provided an overview of the arbitrage rebate calculation services provided to our borrowers/clients. These services include calculations of rebate and yield restriction liabilities and acting as the official point of contact for the IRS. In addition to the calculation services, the Authority provides post-issuance compliance services. These services include annual review of the arbitrage rebate liabilities, monitoring the spending of bond proceeds, verifying reserve requirements and providing assistance with other complicated tax issues. The Authority also educates and assists borrowers with the importance of developing post-issuance compliance procedures and the completion of the Form 990 Schedule K. This past May the Authority offered a webinar on Schedule K, which was well attended by our borrowers.

For the calendar year 2017, a total of 190 calculations have been performed for 114 entities and 213 outstanding bond issues. Forty-eight of the calculations were required by the IRS. The number of calculations is slightly down since 2016, in which the Authority completed 197. There were no arbitrage rebate payments or rebate liability payments made in 2017. For 2018, the Authority anticipates completing 209 calculations with 36 of them being required by the IRS.

Currently, there are no IRS audits opened. The IRS recently identified their initiatives for FY 2018. Their focus is on bonds with GIC's, integrated swap agreements and funds invested beyond the temporary periods. Other focuses include acquisition financing, disposition of bond finance properties and excess private business use. The examinations will be determined by a data-driven approach using the information available to them by using the Schedule K forms, and/or referrals.

EXECUTIVE DIRECTOR'S REPORT

Updates

Ms. Weldon reported that she and Mr. Morris met with some of the direct placement banks that have been handling CHEFA transactions to confirm, after the new tax law, that there is no change in their capacity or interest in CHEFA financings. All of the banks indicated that they expect no change. The interest rates on new loans will be adjusted to offset the impact of lower tax rates. The banks they met with are: TD Bank, People's, United, and Citizens. A conference call was held with Salisbury Bank and Oppenheimer.

Mr. Morris reported that on January 24, 2018, Yale University remarketed its 2003 and 2010 bonds totaling \$250 million, each structured as three-year puts. The supply that week was approximately \$8 billion and the remarketing agent, JP Morgan, initially went out with a rate of 1.85%. There was strong demand for the issue, which was approximately four times oversubscribed. As a result, the University was able to reduce the yield by 5 basis points (1.80%). The University's next remarketing will be for another portion of their 2010 and 2015 issues totaling approximately \$400 million which will occur in late June.

Mr. Morris stated that Stanwich School's affiliation with the Country Day School has now been finalized. The Country Day School, which is not a CHEFA client, will become a sole member of the Stanwich School. The Stanwich School has a private placement with Webster Bank which is outstanding for approximately \$10 million.

Ms. Weldon reported that there are two programs coming up. On March 1, 2018, there is an event being held through the Connecticut Council for Philanthropy to encourage funding of opioid-related grants. This is a program that Ms. Weintraub coordinated. The speakers include the Commissioner of the Department of Mental Health and Addiction Services, the Chair of the Department of Emergency Medicine at Yale University and the CEO of the Foundation for Community Health. This program is open to philanthropic organizations.

Mr. Biancamano joined the meeting at this time.

CHEFA will be co-hosting, with the Urban Institute, a roundtable discussion on March 16, 2018 regarding the Pay For Success project in connection with community care teams and reducing the frequent use of emergency rooms. The Authority anticipates having representatives from the Department of Social Services, Mental Health and Addiction Services, Office of Policy and Management, Beacon Health Options, along with various hospitals. Mr. David Wilkinson, Commissioner of the Office of Early Childhood, will be speaking and the Urban Institute is seeking another speaker from the National Governors Association. Ms. Weldon stated that the event will be held from 8:30 am. to 1:00 p.m. and the CHEFA Board will be invited.

Ms. Weldon stated that the State Auditors will be arriving next week to begin auditing FY 2016/2017 for CHEFA, CHESLA and CSLF.

Ms. Weldon will provide an update on CHESLA at the next Board meeting.

Dr. Lisi indicated that as part of the Strategic Plan, the CHEFA and CHESLA Boards will be completing self-evaluations as part of a good governance best practice. Carmody Torrance Sandak & Hennessey LLP has been retained to help with the evaluation. A presentation will be made on the self-evaluation process at the next Board meeting. There will be a written component with a follow-up telephone conversation with each Board member. The results will be presented to both Boards at their June meetings.

Ms. Rubin inquired if the Authority has reviewed their sexual harassment policy recently. Ms. Weldon stated that the policy is reviewed each year and is included in the Annual Report to the Governor and it is also included in the Authority's Employee Handbook. Mr. Biancamano asked if the Authority holds an annual education session on sexual harassment. Ms. Peoples responded that the Authority has not held a session recently, but can hold a session in the near future.

DAY KIMBALL HOSPITAL CLIENT GRANT AWARD

Ms. Weldon stated that Day Kimball was approved for a client grant award of \$56,125 to fund the purchase of a surgical table. During the time between the approval of the award and the actual disbursement of the award, the Authority received a copy of a forbearance agreement in connection with Day Kimball's covenants on their outstanding debt with CHEFA. There was a violation of their debt service coverage ratio covenant. The client grant application explicitly stated that in order to be eligible for a grant, the organization must be in substantial compliance with its bond documents. Staff believes that the grant award should not be made to the Hospital

due to its failure to meet the debt service coverage ratio required in the hospital's bond documents, which would render them ineligible.

Mr. Morris explained the specific requirements of the covenant. A discussion ensued.

Dr. Lisi mentioned that he had a discussion with Dr. Lopez on the grant award. Dr. Lopez believes the Authority's grant guidelines clearly state that if an organization is not in compliance with their bond covenants, they are ineligible to receive a grant award. Dr. Lisi suggested a compromise in that if the award was accrued and the hospital was able to be compliant by their September 30, 2018 annual test, the Authority could award the hospital the grant funds at that time. Further discussion ensued.

Dr. Lopez moved to rescind the client grant award to Day Kimball Hospital based on their failure to comply with the financial covenant in their bond issue. Mr. Varholak seconded the motion.

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

AYES

Robert Dakers
Elizabeth Hammer
Barbara Lindsay
Dr. Peter Lisi
Dr. Estela Lopez
Barbara Rubin
Mark Varholak

NAYS

John Biancamano

ABSTENTIONS

Michael Angelini

Further discussion ensued.

Dr. Lisi moved to accrue the client grant award for Day Kimball Hospital pending their substantial compliance with the covenants in their bond documents after September 30, 2018.

Mr. Dakers seconded the motion.

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

AYES

None

NAYS

John Biancamano
Robert Dakers
Elizabeth Hammer
Barbara Lindsay
Dr. Peter Lisi
Dr. Estela Lopez
Barbara Rubin
Mark Varholak

ABSTENTIONS

Michael Angelini

REVIEW OF PROPOSED STRATEGIC PLAN FY 2019-2021 (FIRST DRAFT)

Ms. Weldon indicated that she is seeking feedback and comments on the first draft of the strategic plan. She stated that the draft will also be sent to the CHESLA Board of Directors. A second draft will be completed and reviewed at the March Board meeting. She anticipates that the CHEFA Board approval will take place at the April Board meeting and the CHESLA Board approval will take place at the June meeting. The ideas captured at the Board and Staff Retreats have been included in this document. The strategic planning model that Ms. Weldon used was from the University of Virginia. Ms. Weldon took the themes discussed at the retreats and identified them as Pillars in the document. Discussion ensued and feedback was provided.

Ms. Weldon stated that she will share the Board's feedback with the staff, and follow up with the officers, and work to refine the document further. Mr. Biancamano pointed out that it would be helpful to prioritize the initiatives under each pillar. Dr. Lisi asked the Board members to submit their recommendations for priorities to Ms. Weldon by Friday, March 9, 2018.

APPOINTMENT OF CHESLA BOARD MEMBER

Dr. Lisi stated that there is a vacancy on the CHESLA Board and Ms. Weldon identified Mr. Paul Mounds as a potential candidate. Dr. Lisi provided some background information on Mr. Mounds and indicated that he met with Mr. Mounds and he believes that Mr. Mounds would be a good addition to the board. Mr. Mounds indicated that he is interested in serving.

Dr. Lisi requested a motion to approve the appointment of Mr. Paul H. Mounds, Jr. to the CHESLA Board of Directors. Dr. Lopez moved to appoint Mr. Mounds and Ms. Rubin seconded the motion.

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

| <u>AYES</u> | <u>NAYS</u> | <u>ABSTENTIONS</u> |
|---|--------------------|---------------------------|
| Michael Angelini John Biancamano Robert Dakers Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Barbara Rubin Mark Varholak | None | None |

CHEFA FINANCIAL OPERATIONS

Dr. Lisi and all meeting attendees congratulated Ms. Mackewicz on her 25th anniversary with CHEFA as of March 8, 2018.

December 2017 Financial Statements

Ms. Mackewicz reported on the financial statements for the six months ending December 31, 2017. Excess revenues over expenses before program related expenses were approximately \$2.3 million and approximately \$1.5 million after program related expenses. The graph on page 2, depicts the Authority budgeted \$396 million in new money bond issuance and as of December, the Authority was at \$457 million. In December, the Authority was able to catch up with the CHEFA fees that were lagging. Total revenues were approximately \$134,000 over budget and expenses were approximately \$110,000 under budget.

AUTHORIZING BOND RESOLUTIONS

Loomis Chaffee School Issue, Series J

Mr. Jandreau presented the Loomis Chaffee School Issue, Series J, for approximately \$7.5 million, a private placement with Farmington Bank. Proceeds will be used to finance a new campus center project, site work and site improvements, utilities upgrades, develop improvements to the existing dining hall/student center buildings and new HVAC and electrical systems, purchase and install an emergency generator and road repairs and improvements.

Mr. Jandreau stated that open enrollment for the current academic year consists of 689 students (473 boarding and 213 day). This class size represents their largest since FY 2010. Application levels are the highest in 10 plus years, growing more than 60% and over the last five years has grown more than 17%. Loomis has the second largest application pool in the sector, in which they follow right behind Choate. Selectivity remains strong and attrition remains below 3.5%. The School's operating performance remains favorable and they have a DSCR of more than three times. Loomis' operating ratio is the highest over its peers and exceeds Moody's median by almost three times. Expendable resources to operations also exceeds Moody's median. Endowment continues to grow and they were last affirmed by Moody's in 2014.

Mr. Jandreau explained the financing structure and security for the transaction. The Bank has proposed a minimum debt service coverage ratio of 1.25 times to be tested annually, minimum net asset ratio of 1.0 times, certain standard limits on additional indebtedness and other existing financial covenants as applicable. The default rate proposed by the bank is 5% but has not yet been agreed upon.

Based on the School's prestigious reputation, strong student market position, strong operating performance and small borrowing amount relative to the cost of the project, Staff is recommending this issue for approval.

Dr. Lisi requested a motion to approve Resolution #2018-02, Loomis Chaffee School Issue, Series J. Ms. Rubin moved for approval of Resolution #2018-02 and Dr. Lopez seconded the motion.

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

| <u>AYES</u> | <u>NAYS</u> | <u>ABSTENTIONS</u> |
|---|--------------------|---------------------------|
| Michael Angelini John Biancamano Robert Dakers Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Barbara Rubin Mark Varholak | None | None |

University of New Haven Issue, Series K

Mr. Morris presented the University of New Haven Issue, Series K, for approximately \$150 million, which will be used to refund all of the University’s CHEFA debt, as well as for the construction of a new academic building. The Series K bonds will be issued in multiple series (including taxable and tax-exempt) and issued in two tranches. The first tranche will be issued in two series, tax-exempt to refund all their existing debt and a taxable portion that will finance their swap termination payments. The second tranche consisting of new money will occur in June or July after all necessary approvals have been received for the construction of the new academic building.

The University received their “BBB” rating from Standard & Poor’s last week. Mr. Morris reviewed some of the strengths and weaknesses noted in the S&P report, which were very similar to those presented in the Staff memo.

Mr. Morris provided a few updates since Staff's presentation last month noting that the University is in the midst of their first capital campaign with a \$100 million goal and has raised \$80.4 million. They are confident that they will reach or surpass their goal by 2020.

In addition, of the \$25 million of new debt to be financed, the University anticipates paying off \$10 million from their capital campaign proceeds, which they have received pledges for that are booked. Undergraduate enrollment for Fall 2018 is tracking well compared to last year. With respect to the decrease in graduate enrollment, the University has made this a priority in their strategic plan, with a restructuring of their graduate admissions staff adding a number of new hires and unit leader with significant experience in both domestic and international recruitment. As of the 2018 spring semester, both graduate international and domestic enrollment have increased as well as graduate applications from same time last year.

To support Staff's recommendation of issuing the Series K Bonds without a debt service reserve fund, and, in keeping with the Authority policy, which provides for case-by-case assessments that are outside of the general policy parameter of funding DSRF's for credits rated below the "A" category, Mr. Morris noted that there continues to be investor acceptance of purchasing "BBB" credits without a DSRF and that the senior managers, Wells Fargo and Piper Jaffrey, have successfully placed "BBB" credits without a debt service reserve fund since late 2016.. Mr. Morris also noted that a DSRF typically is not factored in the rating agency's assessment of an institution's rating.

Mr. Morris stated that the primary concern for the University is the negative carry of the DSRF which was quantified in the memo.

More importantly Staff's recommendation is predicated on the credit considerations specific to the University' which consist of: (1) approximately 80% of the bond issue will be refunding, which the University has a proven track record of meeting its debt service coverage, (2) the amount of new debt will be reduced to \$15 million, and (3) the University has experienced significant growth under President Kaplan since his arrival in 2004, which includes the growth of undergraduate enrollment from 1,800 to 4,700 students, with Fall of 2017 enrolling the largest freshman class, which they expect to surpass that this year; additional proceeds received from the capital campaign should bolster their financial resources; (4) total net assets have increased from approximately \$22 million to nearly \$200 million; (5) cash and investments increased from over \$7 million to over \$136 million; and (6) net investment in-plant growth from approximately \$35 million to approximately \$107 million. Based on the above, Staff is recommending to market the transaction without a DSRF

A discussion ensued.

Mr. Dakers left the meeting at this time.

Dr. Lisi requested a motion to approve Resolution #2018-03, University of New Haven Issue, Series K. Ms. Rubin moved for approval of Resolution #2018-03 and Mr. Biancamano seconded the motion.

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

AYES

Michael Angelini
John Biancamano
Elizabeth Hammer
Barbara Lindsay
Dr. Peter Lisi
Dr. Estela Lopez
Barbara Rubin
Mark Varholak

NAYS

None

ABSTENTIONS

None

ADJOURNMENT

There being no further business, at 3:14 p.m., Dr. Lopez moved to adjourn the meeting and Ms. Hammer seconded the motion.

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

AYES

Michael Angelini
John Biancamano
Elizabeth Hammer
Barbara Lindsay
Dr. Peter Lisi
Dr. Estela Lopez
Barbara Rubin
Mark Varholak

NAYS

None

ABSTENTIONS

None

Respectfully submitted,

Jeanette W. Weldon
Executive Director