STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting

June 20, 2018

The State of Connecticut Health and Educational Facilities Authority met at 1:30 p.m. on Wednesday, June 20, 2018.

The meeting was called to order at 1:38 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 Chair Elizabeth C. Hammer Barbara B. Lindsay, Esq. Dr. Estela Lopez Christopher P. Martin (Designee for Denise Nappier, Treasurer) Barbara Rubin Mark Varholak
ABSENT:	Robert S. Dakers (Designee for Benjamin B. Barnes, OPM Secretary)
ALSO PRESENT:	Jeanette W. Weldon, Executive Director Denise Aguilera, General Counsel Robert Jandreau, Sr. Finance Associate Krista Johnson, Compliance Specialist Daniel Kurowski, Financial Analyst JoAnne N. Mackewicz, Controller Michael F. Morris, Managing Director Cynthia Peoples, Managing Director Debra M. Pinney, Manager, Administrative Services Jennifer Smyth, Legal Services Specialist David Wasch, Government Programs Specialist/Legislative Liaison Betty S. Weintraub, Grant Manager of the Connecticut Health and Educational Facilities Authority

GUESTS:

Michael Andreana, Esq., Pullman & Comley LLC
Judith Blank, Esq., Day Pitney LLP
Stella Gittens, Senior Director, PFM Financial Advisors LLC[1]
Bruce Chudwick, Esq., Shipman & Goodwin LLP
Laurie Hall, Esq., Hawkins, Delafield & Wood LLP
Shelby Lobitz, Analyst, Acacia Financial Group, Inc.[2]
Antonio D. Martini, Esq., Hinckley, Allen & Snyder LLP
David Panico, Esq., Robinson + Cole LLP
Tiffany Stevens, Esq., McCarter & English, LLP
Eric Taylor, Esq., Harris Beach PLLC
Andrew Zemantic, Intern, Office of State Treasurer
Ann Zucker, Esq., Carmody Torrance Sandak & Hennessey LLP

MINUTES

Dr. Lisi requested a motion to approve the minutes of the May 16, 2018 meeting of the Board of Directors. Dr. Lopez moved for approval of the minutes, which was seconded by Ms. Hammer.

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

AYES	**NAYS**	**ABSTENTIONS**
Michael Angelini	None	Mark Varholak
John Biancamano		
Elizabeth Hammer		
Barbara Lindsay		
Dr. Peter Lisi		
Dr. Estela Lopez		
Christopher Martin		
Barbara Rubin		

[1] Ms. Gittens participated in the meeting via conference telephone that permitted all parties to hear each other.
[2] Ms. Lobitz participated in the meeting via conference telephone that permitted all parties to hear each other.

BOARD SELF-EVALUATION REPORT

Ms. Zucker presented the results of the Board Assessment Survey. Out of ten Board members, nine completed the online survey and six completed the telephone survey. By design, the Executive Director did not participate. The areas of inquiry were: meetings; membership; structure; indemnification; culture and ethics; roles and responsibilities; relationship with Management and corporate governance.

She reported that there was a strong consensus on the following categories: meetings; membership; structure; culture and ethics; roles and responsibilities; relationship with Management; corporate governance. The Board was less certain on key risks; risk assessment system; efforts concerning cybersecurity and whether a succession plan was in place for senior management, in addition to cross-training. Directors are comfortable or non-committal with respect to indemnification available to them. They are comfortable with their performance but some believe that they need more expertise in the technical aspects of the business. All Directors are willing to serve another year.

Ms. Zucker stated there was a strong consensus on developing the strategic plan and the past retreat was successful and could be repeated. A number of the Directors were interested in more Board education, particularly the technical aspects and what is going on in the marketplace and what the Authority's competitors are doing.

Ms. Zucker stated that the Board members identified the following as top priorities: Use strategic plan to guide business; succession planning for senior management; succession planning for Board members; Board education; since public offerings have slowed, avoid mission drift; CHEFA's clients would benefit if the Authority could issue across state lines; initiate relationship with new administration; and not rest on laurels.

One of the questions asked was if there were any concerns about how the Board functions. The response was there is disparity in the level of technical expertise, which may lead to some Directors being reluctant to ask questions. Overall, Directors are pleased with the Board leadership and consider it a pleasure and honor to serve.

Dr. Lisi thanked Ms. Zucker for her presentation and work in surveying the Board.

<u>HOSPITAL SECTOR REPORT</u>

Mr. Morris presented the Hospital Sector Report for the fiscal year ending September 30, 2017. Mr. Morris stated that the sector continues to have its challenges. In Moody's preliminary medians' report recently published cited profitability margins have hit a ten-year low and are expected to continue for this year. Operating margins for hospital and affiliates remain weak. Due to favorable investments returns, absolute cash and investments are up from the prior year and with limited new money debt, the cash to debt median is at a higher level than in the past five years, while days cash on hand has declined. Although the cash flow margin median declined slightly from the prior year, debt service is very manageable with the coverage median at 3.85 times. Volume trends for both inpatient and outpatient continue its downward trend.

Mr. Morris stated that total debt outstanding for the portfolio is over $2.6 billion, which is approximately 30.4% of the total portfolio. There has been an increase in unenhanced transactions and a decrease in insured transactions with only one hospital with bond insurance, which is Bristol Hospital. Over the past five years, the Authority has issued 28 bond series totaling approximately $1.62 billion; 37% were new money issues; almost 35% were private placement offerings; and 52% were unenhanced offerings. The three largest issuers were Yale New Haven Health System with approximately $543 million; Trinity Health with approximately $220 million and Hartford HealthCare with approximately $206 million.

Ms. Morris discussed the hospital landscape and the most recent hospital acquisitions and mergers. He stated that there are nine institutions that have their own rating. Lawrence + Memorial's rating was upgraded by Standard & Poor's from "BBB+" to "A+", due to the affiliation with Yale New Haven Health System. Their Outlook was revised from Negative to Stable. Both Greenwich and Lawrence + Memorial Hospitals are seeking to join the Obligated Group of Yale New Haven Health System. Stamford's rating was downgraded by Fitch to "BBB+" from "A-", with a Stable Outlook..

Mr. Morris reviewed the operating performance both on a system basis as well as on an individual basis, noting that the operating margins for the individual hospitals fared better than those on a system basis. Despite the decline in operating cash flow median, FY 2017 debt service coverage ratio median was at its highest level over the past five years. There were five institutions that were greater than Moody's overall median.

With respect to liquidity metrics, Mr. Morris noted that although the median for days cash on hand declined from the prior year, eight institutions increased their days cash on hand, with one institution exceeding Moody’s overall median.

Mr. Morris stated that discharges decreased slightly from the prior year. The median; however, is at its second highest level in the past five years. Total patient days remained flat from the prior year and approximately 5.3% lower than in FY 2013. The median declined over 8% from five years ago. Total ambulatory surgeries are down approximately 2.4% from FY 2016 and down approximately 4.3% from five years ago. Total emergency room visits declined with 14 hospitals also experiencing a decline.

Mr. Morris reviewed the capital investments of the facilities in the portfolio noting that total capital spending for 13 hospital systems was just under $700 million for FY 2017 with the median at its second lowest level in the past five years and that the average age of plant median increased from prior year.

Mr. Morris concluded stating that the total unfunded pension liability decreased just over 34%, from $1.59 billion to $1.05 billion from the prior year and the percentage of funded status median of 70.6% was up from 62.8% in FY 2016 after a three-year decline. The percentage of funded status ranged from approximately 64% to approximately 96%.

Dr. Lisi inquired about client hospitals’ pension liability and how it would compare against Moody’s median. Mr. Morris indicated he would look into it and get back to the Board.

Dr. Lisi thanks Mr. Morris for his report and Mr. Morris thanked Ms. Johnson for her assistance with the sector report.

CURRENT AND PENDING BOND ISSUES

Financing Forecast and Summary of Financings

Mr. Jandreau reported that there are three new issues on the financing forecast which will be presented next month: Community Health Center Issue, Series A, for approximately $10 million, which is a bank direct placement with Capital One Bank (but that may change). The proceeds will be used to fund the acquisition of property and renovations. The properties are located in Middletown, Norwalk, Bristol and Enfield. Taft School Issue, Series K, will refund their 2000 Series E and 2015 Series J for approximately $23 million. Both of these transactions are a variable rate but the School would like to change the transaction to a fixed rate. Stifel Nicholaus is in the process of bidding this transaction out to four banks. They are also looking at options of doing a public offering. The last transaction is an EasyLoan for the Community Health Center for approximately $10.4 million to purchase equipment and software upgrades.

Ms. Rubin inquired about the University of New Haven, academic building issue. Mr. Morris stated that they just received State approval from the traffic commission. Mr. Biancamano asked about the Cornell Scott-Hill Corporation Issue, Series A. Mr. Morris stated that they awaiting approval for State funding for one of their projects. Mr. Biancamano also inquired about the Mary Wade Home Issue, Series A and Mr. Morris stated that they are reassessing the project right now.

Mr. Jandreau stated that there have been no closings since the last Board meeting.

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.

EXECUTIVE DIRECTOR'S REPORT

Client Updates

Mr. Morris provided the following client updates:

- Southfield Children's Center – The Authority sent a letter to the Southfield Children's Center Board of Directors' Chair on June 6, 2018 stating that since the Southfield failed to hire a consultant as previously required and remains in noncompliance, the Authority may now require the board of Southfield to retain new management of the facility.. The Office of Early Childhood (OEC) also sent a letter to Southfield's Board stating that Southfield is breach of its contract and can now be required to replace management. Mr. Morris stated that Mr. Wasch just informed him that at Southfield's Board meeting last night, the Executive Director tendered his resignation and the Assistant Director will now be the interim director. The Authority will meet with the representative from OEC to discuss next steps.

- Path Academy Charter School – The State Board of Education held a charter revocation hearing wherein the School was cited with a number of issues. The hearing was yesterday and the Board of Education indicated it is willing to work with the School to resolve the issues Dr. Lopez remarked that the School was granted the opportunity to remediate; the Commissioner will review the School's plan within the next few weeks and determine whether the plan is feasible and recommend next steps to the Board. Mr. Morris stated that their outstanding debt is approximately $4.8 million and the Obligor is Our Piece of the Pie.
- Stanwich School notified the Authority that they will fail their debt service coverage ratio and liquidity tests for this and next fiscal years and is working with their bank as the purchaser. The bank is entertaining waiving the two covenants for the two years in exchange for a guarantee of the debt service from the Greenwich Country Day School, which merged with School earlier this year.
- Ms. Weldon and Mr. Morris attended a meeting at Mystic Aquarium yesterday and met with their new Chief Financial Officer and discussed the possibility of a tax-exempt financing.

<u>Other Updates</u>

Ms. Weldon reported that a copy of the final strategic plan for FY 2019-2021 was included in the Board meeting materials.

Mr. Hurlock will provide an update next month on CHESLA.

Next Wednesday, June 27, 2018, CHEFA will be presenting awards to the 19 recipients of the FY 2018 Nonprofit Grant Program. Staff expects some legislative representatives to attend along with the press. Ms. Weldon stated that if the Board of Directors would like to attend, they should let her know.

CHEFA FINANCIAL OPERATIONS

April 2018 Financial Statements

Ms. Peoples reported on the financial statements for the ten months ending April 30, 2018. Total revenues were approximately $241,000 over budget and expenses were approximately $256,000 under budget. There is a miscellaneous recovery item, which is an income recovery from a grant to the University of New Haven. Excess revenues over expenses before program related expenses were approximately $3.96 million and approximately $2.15 million after program related expenses. A discussion ensued on grant funds returned to the Authority and if there was an opportunity to award the funds to another organization in this fiscal year.

Mr. Wasch joined the meeting at this time.

AUTHORIZING BOND RESOLUTION

Brass City Charter School Issue, Series A

Mr. Wasch provided background information on the School. Tuition is set for $11,000 per student in Connecticut. The number of charter school students is set by funding allocated for their tuition. Back in 2013, there were 5,601 students in charter schools and currently there are 9,866.

Mr. Wasch presented the Brass City Charter School Issue, Series A for up to $3.4 million. The Series A bonds will be sold to Webster Public Finance Corporation as a direct purchase. The proceeds will be used to finance a portion of the renovation and expansion of Brass City Charter School and cost of issuance. The project will be funded through two loans which total $6.1 million and equity from the School of $1.5 million. The tax-exempt portion funded by Webster will total $3.4 million, and the subordinate loan with Boston Community Loan Fund (BCLF) will total $2.7 million. There will be a variable rate swap set at LIBOR plus 175 basis points, multiplied by 79%. The loans are interest only for the first 24 months to complete construction supported through a capitalized interest reserve. Once the loans start amortizing, it will have a 30-year amortization with a 10-year mandatory put; at which point, Webster will refinance the balance of the loan. The loan will be secured by a first-position mortgage on the property, first-position lean on assets and gross receipts, construction fund and capitalized interest account. Mr. Wasch added that Brass City Charter School was recently granted a four-year renewal on their charter.

Mr. Wasch reported on some historical facts, logistics, along with enrollment data on the School. He stated that construction on the project is expected to be complete by mid-August. The financial covenants proposed are a minimum days cash on hand of 50 days and minimum debt service coverage ratio of 1.25 times for the Webster loan and 1.15 times for the combined Webster and BCLF loans to be tested semi-annually commencing June 30, 2018.

Dr. Lisi inquired as to what are the in-kind contributed services for approximately $750,000. A discussion ensued.

Dr. Lisi requested a motion to approve Resolution #2018-06, Brass City Charter School Issue, Series A. Dr. Lopez moved to approve Resolution #2018-06 and Ms. Rubin seconded the motion.

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

AYES	**NAYS**	**ABSTENTIONS**
Michael Angelini John Biancamano Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Christopher Martin Barbara Rubin Mark Varholak	None	None

Mr. Wasch left the meeting at 2:42 p.m.

COMMITTEE REPORTS

Audit-Finance Committee

Mr. Varholak reported that the Audit-Finance Committee meeting held on June 8, 2018 was an informational meeting. Three topics were discussed: (1) Scope of work of the State Auditor; (2) Review of scope of services for the Internal Auditor Request for Proposal; and (3) Request for Co-location Network Infrastructure Architecture. The Committee discussed these items to have a better understanding of each and no votes were taken during the meeting.

Grant Committee Report

Dr. Lopez reported that the Grant Committee met to review the potential areas of focus for the FY 2019 Targeted Grant Program. There were two presentations held at the Committee meeting: (1) Workforce Initiatives with Bill Villano of Workforce Alliance and Alex Johnson from the Capital Workforce Partners; (2) Two-Generation Policy with Jim Horan and Liz Fraser from the Connecticut Association for Human Services. The Committee also reviewed grant funding restrictions. Dr. Lopez invited all Board members to attend the Grant Committee meeting on September 18 at 11:30 a.m. to discuss the initiatives presented.

Dr. Lopez reminded the Board that CHEFA will be presenting grant checks to 19 organizations on June 27, 2018 at 8:30 – 10:00 a.m. and she encouraged the other Board members to attend.

Human Resources Committee

Mr. Biancamano reported that the Human Resources Committee met to review Ms. Weldon's performance evaluation. The general consensus is that Ms. Weldon has done an outstanding job. The Committee unanimously voted to approve a 2% merit increase in compensation for Ms. Weldon, the maximum increase available to CHEFA officers pursuant to the FY 2019 budget.

Mr. Biancamano moved to accept the Human Resources Committee's recommendation for the Executive Director's 2% merit increase. Ms. Rubin seconded the motion.

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

AYES	NAYS	ABSTENTIONS
Michael Angelini John Biancamano Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Barbara Rubin Mark Varholak	Christopher Martin	None

ADJOURNMENT

There being no further business, at 2:48 p.m., Ms. Rubin moved to adjourn the meeting and Dr. Lopez seconded the motion.

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

AYES	**NAYS**	**ABSTENTIONS**
Michael Angelini John Biancamano Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Christopher Martin Barbara Rubin Mark Varholak	None	None

Respectfully submitted,

Jeanette W. Weldon
Executive Director