

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Annual Board Meeting

September 18, 2018

The State of Connecticut Health and Educational Facilities Authority met at 1:30 p.m. on Tuesday, September 18, 2018.

The meeting was called to order at 1:41 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
 Robert S. Dakers (Designee for Benjamin B. Barnes, OPM Secretary)
 Elizabeth C. Hammer
 Barbara B. Lindsay, Esq.
 Dr. Estela Lopez
 Christopher P. Martin (Designee for Denise Nappier, Treasurer)
 Barbara Rubin
 Mark Varholak

ALSO PRESENT: Jeanette W. Weldon, Executive Director
 Denise Aguilera, General Counsel
 Robert Blake, Network and Data Architect
 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 Andreanna, Esq., Pullman & Comley LLC
Bruce Chudwick, Esq., Shipman & Goodwin LLP
David Ennis, President, Affirmative Investments
Steve Donovan, Esq., Hawkins, Delafield & Wood LLP¹
Anne Foley, Undersecretary, Office of Policy and Management
Thomas Marrion, Partner, Hinckley Allen
Edward Samorajczyk, Jr., Esq., Robinson + Cole LLP
David Scheltz, Sr. Project Manager, Affirmative Investments
Namita Shah, Esq., Day Pitney LLP
Tiffany Stevens, Esq., McCarter & English LLP
Eric Taylor, Esq., Harris Beach PLLC
Noreen White, Co-President, Acacia Financial Group, Inc.
Ann Zucker, Esq., Carmody Torrance Sandak & Hennessey LLP²

MINUTES

Dr. Lisi requested a motion to approve the minutes of the July 18, 2018 meeting of the Board of Directors. Dr. Lopez 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 John Biancamano Robert Dakers Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Christopher Martin Barbara Rubin Mark Varholak	None	None

¹ Mr. Donovan participated in the meeting via conference telephone that permitted all parties to hear each other.
² Ms. Zucker participated in the meeting via conference telephone that permitted all parties to hear each other.

OVERVIEW OF NEW MARKETS TAX CREDITS

Ms. Weldon pointed out that the Board materials contain a memo regarding New Markets Tax Credits, a federal program that could benefit nonprofits in Connecticut which warrants further research. It is a potential financing vehicle which is consistent with CHEFA's strategic plan and such financing could potentially assist an underserved segment of CHEFA's client base, including those that are at the lower end of the credit spectrum. Ms. Weldon stated that the Board would hear a presentation that will be followed up with a dedicated Board education session on the morning of November 9, 2018.

Ms. Weldon introduced Mr. David Scheltz, Senior Project Manager and Mr. David Ennis, President, from Affirmative Investments. She provided some background information on their firm.

Mr. Scheltz discussed the history and purpose of the New Markets Tax Credit Program and the concepts underlying the program. He also discussed a sample \$10 million New Market Tax Credit transaction and Mr. Ennis discussed CDE eligibility requirements, governance and responsibilities. There was a brief question and answer period after his presentation.

Dr. Lisi thanked the presenters. Mr. Scheltz and Mr. Ennis left the meeting after their presentations.

Ms. Weldon reiterated that a Board education session will be held on November 9, 2018 to discuss this topic further. She added that a request for proposals will be issued for a consultant to facilitate the Board education session.

ELECTION OF VICE CHAIR

Dr. Lisi requested a motion to re-elect Mr. John Biancamano as Vice Chair of the Board of Directors. Ms. Rubin moved to re-elect Mr. Biancamano as Vice Chair and her motion was seconded by Dr. Lisi.

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

AYES

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

NAYS

None

ABSTENTIONS

None

REAPPOINTMENT OF JULIE SAVINO TO CHESLA BOARD

Dr. Lisi requested a motion to reappoint Ms. Julie Savino to the CHESLA Board of Directors.

Ms. Rubin moved to reappoint Ms. Savino and the motion was seconded by Ms. Hammer.

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

AYES

NAYS

ABSTENTIONS

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

None

None

EXECUTIVE DIRECTOR’S REPORT

Authority Updates

Ms. Weldon stated that CHEFA is planning to revisit the issue of cross-border financing. CHEFA would like to seek legislative changes to allow for financing of any projects with a Connecticut nexus. A meeting has been scheduled with Anne Foley and Bob Dakers of OPM to start the process.

Dr. Lisi interjected and stated that Mr. Robert Dakers will be retiring from his position at OPM on October 1, 2018 and Ms. Anne Foley will serve on the CHEFA Board of Directors as the new OPM designee. The Board wished Mr. Dakers the best in his retirement and thanked him for his service to the CHEFA Board of Directors. Mr. Dakers stated that it has been a pleasure to work with the CHEFA Board over the past years.

Ms. Weldon stated that CHEFA is in the midst of an RFP process for a communications consultant and expects to make a selection by October 1, 2018.

Ms. Weldon provided a brief update on the Pay for Success initiative. The data analysis by the Urban Institute is ongoing and they are scheduled to complete it by December 31, 2018. They are in the process of determining whether they can prove the benefit of a selected intervention to a potential investor and determining whether the quality of the data is sufficient to support a feasibility study.

Ms. Weldon reported that CHESLA closed a \$10 million transaction for the 2018 Series A bonds on September 17, 2018 and maintained a student loan rate of 4.95%. This is the third consecutive year for this loan rate and this rate is below the federal Stafford loan rates. The TIC of the bonds was 3.95% and it was a very successful transaction.

Ms. Weldon stated that Mr. Samuel E. Rush, who served as CHESLA's Deputy Director, retired from CHESLA effective August 21, 2018. Mr. Rush had a 22 year tenure with CHESLA. His position will remain vacant and CHESLA is in the process of hiring a portfolio assistant. Mr. Rush will be in attendance at the CHESLA Board meeting on September 20, 2018.

Client Updates

Mr. Morris reported that the Community Renewal Team (CRT) relinquished their Head Start contract with the Federal Department of Health and Human Services. CRT is one of the borrowers in the 2011 child care pool. He noted that the CRT bonds will be paid off on July 1, 2019. CRT operates facilities located in three sites in Hartford. The termination resulted from a Head Start report noting deficiencies at some of the CRT's' facilities. There will be a national interim operator, CDI (Community Development Institute), which will take over the Head Start program in the interim and there should be no disruption to the services provided to the parents. The Office of Early Childhood is working with CRT to determine whether there are any additional actions to be taken.

Mr. Morris stated that there are two new applicants, Greenwich Country Day School and the University of Saint Joseph, both of which will most likely be direct bank purchases and will be seeking approval in the October/November timeframe:

Interest Rate Update

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

Market Update

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

Financial Report – July 2018

Dr. Lisi pointed out that a copy of the new dashboard report and the financial report, as of July 31, 2018, were included as handouts for this meeting.

Sales Report – Taft School Issue, Series K

Ms. White from Acacia Financial provided the sales report for the Taft School Issue, Series K.

PRELIMINARY STAFF MEMO

Covenant Retirement Communities Issue, Series B

Mr. Morris presented the Covenant Retirement Communities, Inc. Issue, Series 2018A and 2018B. The 2018A offering, originally estimated at approximately \$44 million, may increase by an additional \$10 to \$15 million. This will be a multi-state issuance with projects to be financed in California, Colorado and Illinois issued through the Colorado Health Facilities Authority. The Series 2018B bonds, for approximately \$48 million, will be issued through CHEFA for Covenant's Connecticut affiliate, Covenant Village of Cromwell. Proceeds will be used to finance the construction of 54 Independent Living Units, a Town Center consisting of three

dining venues, an art studio, a wellness center and other common spaces. Covenant last issued in 1999 and that series was paid off in 2012.

Mr. Morris provided background information on the Covenant Retirement Communities organization and its affiliates.

In January 2018, Fitch affirmed Covenant's "BBB+" rating on approximately \$189 million of bonds outstanding and the Outlook is Positive. However, it is unknown at this time if the additional debt to be incurred for the proposed expansion plans will have any effect on the rating or outlook. The final rating for the proposed issue is expected prior to the October Board meeting.

Mr. Morris explained the financing structure and security requirements for the transaction.

Mr. Morris reviewed the financial operating performance noting that Fitch report stated that Covenant has a relatively low operating risk profile due to its large scale and geographic dispersion of communities with no one community accounting for more than 11% of the total Obligated Group revenues. Mr. Morris reviewed Covenant's three key operating performance metrics (operating ratio, net operating margin and net operating margin adjusted).

Mr. Morris provided an overview of Covenant's liquidity position, noting the significant growth in unrestricted cash and investments over the past five years due to rising occupancy levels resulting in a more favorable days cash on hand position. Covenant's cash to pro forma debt

ratio will decline as a result of the proposed debt to be financed, while their pro forma cushion ratio will remain acceptable.

Pro forma maximum annual debt service is slightly high relative to FY 2018 operating revenues, but will be manageable as demonstrated by a favorable pro forma debt service coverage ratio, which includes net entrance fee cash flow.

Mr. Morris reported that occupancy levels have been favorable over the past five years, which Fitch views as its credit strength. Assisted living occupancy has fluctuated over the past five years, ranging from 84% to 90% and skilled nursing has steadily declined from 89% to 86% for this time period.

Mr. Morris indicated that this is a highly competitive market and management believes that it is well positioned in each of its market areas to respond to current and future competition. Their competitive advantage is the draw of residents affiliated with the Church which extends beyond a 25 mile radius of the campus, typically described as the service area for the industry.

For the Cromwell campus, its major competitors consist of five facilities of which three have recently financed projects through CHEFA

The project achieved 75% pre-sales with 10% deposits in the first 10 weeks. Management believes the Village's positive community reputation and variety of affordable residential living options position the campus well. A discussion ensued.

COMMITTEE REPORTS

Grant Committee

Dr. Lopez reported that the Committee met and recommended grant program allocations for this fiscal year to be \$1.109 million for the Client Grant Program and the same for the Nonprofit Grant Program, with \$750,000 allocated for the Targeted Grant Program. The Committee also reviewed the additional workforce options for the Targeted Grant program and approved the following organizations to submit applications for the FY 2019 Targeted Grant program:

Workforce Investment Boards

Connecticut Center for Advanced Technology

Mr. Angelini moved to accept the Committee's recommendations for fiscal year 2019 and Mr. Dakers seconded the motion.

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

AYES

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

NAYS

None

ABSTENTIONS

None

Audit-Finance Committee

Mr. Varholak reported that there were two action items discussed at the Audit-Finance Committee meeting: (1) Proposals to provide Internal Auditing Services, and (2) FY 2018 Draft Audited Financial Report from CohnReznick. With regard to item 1, two firms were invited to interview, BerryDunn and PFK O'Connor Davies LLP. The Committee approved the hiring of BerryDunn for internal auditing services for a period not to exceed three years.

Mr. Angelini moved to approve the Committee's recommendation of hiring BerryDunn for Internal Auditing Services for a period not to exceed three years and Ms. Rubin seconded the motion.

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

AYES

NAYS

ABSTENTIONS

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

None

None

Mr. Varholak thanked the staff for their hard work on the audit and reported that the Committee accepted the FY 2018 Draft Audited Financial Report. He pointed out that the Committee met with Ms. Brown from CohnReznick in Executive Session and by all accounts, it was a great year for the Authority. Staff received great accolades from the auditors on a job well done. He noted that the monthly financial statements are now formatted to correspond to the annual financial statements.

Mr. Biancamano moved for the full Board to accept the FY 2018 Draft Audited Financial Report from CohnReznick and Ms. Rubin seconded the motion.

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

AYES

NAYS

ABSTENTIONS

Michael Angelini
John Biancamano
Robert Dakers
Elizabeth Hammer
Barbara Lindsay
Dr. Peter Lisi
Dr. Estela Lopez
Christopher Martin

None

None

Barbara Rubin
Mark Varholak

Dr. Lopez announced that the Grant Committee Meeting scheduled for October 10, 2018 has been cancelled.

ADJOURNMENT

There being no further business, at 2:53 p.m., Dr. Lisi moved to adjourn the meeting and Ms. Rubin seconded the motion.

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

AYES

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

NAYS

None

ABSTENTIONS

None

Respectfully submitted,

Jeanette W. Weldon
Executive Director