STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting

May 17, 2017

The State of Connecticut Health and Educational Facilities Authority met at 1:30 p.m. on Wednesday, May 17, 2017.

The meeting was called to order at 1:30 p.m. by Dr. Peter Lisi, Chair of the Board of Directors of the Authority. Those present and absent were as follows:

PRESENT:	John M. Biancamano, Vice Chair Robert S. Dakers (Rep. Honorable Benjamin B. Barnes, OPM Secretary) Elizabeth C. Hammer Dr. Peter W. Lisi, Chair Dr. Estela R. Lopez Barbara Rubin Sarah K. Sanders[1] (Rep. Honorable Denise L. Nappier, State Treasurer) Mark Varholak
ABSENT:	Patrick A. Colangelo Barbara B. Lindsay, Esq
ALSO PRESENT:	Jeanette W. Weldon, Executive Director Denise Aguilera, General Counsel Krista Johnson, Junior Accountant/Analyst Daniel Kurowski, Financial Analyst, Arbitrage Andrew Kwashnak, Systems and Data Analyst Eileen MacDonald, Sr. Transaction Specialist JoAnne N. Mackewicz, Controller Michael F. Morris, Managing Director Cynthia D. Peoples, Managing Director Debra M. Pinney, Manager of Administrative Services Jennifer Smyth, Legal Services Specialist Betty S. Weintraub, Grant Program Manager of the Connecticut Health and Educational Facilities Authority

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

GUESTS:	Michael Andreana, Esq., Pullman & Comley, LLC Judith Blank, Esq., Day Pitney LLP John Brodsky, Managing Director, Fairmount Capital Advisors, Inc. Steve Donovan, Esq., Hawkins, Delafield & Wood LLP[2] Stella Gittens, Senior Director, PFM Financial Advisors LLC[3] Thomas S. Marrion, Esq., Partner, Hinckley, Allen & Snyder LLP Joshua Nyikita, Managing Director, Acacia Financial Group, Inc.[4] David Orise, Vice President, Century Bank David Panico, Esq., Robinson + Cole LLP Sapna Raghavan, McCarter & English, LLP Elizabeth Schramek, Director, Oppenheimer & Co. Inc. Eric Taylor, Esq., Harris Beach PLLC Jane Warren, Esq., McCarter & English, LLP Ann H. Zucker, Managing Partner, Carmody Torrance Sandak & Hennessey LLP

MINUTES

Dr. Lisi requested a motion to approve the minutes of the April 19, 2017 meeting of the Board of Directors, which was included in the meeting materials. 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
John Biancamano	None	Barbara Rubin
Robert Dakers		Sarah Sanders
Elizabeth Hammer		
Barbara Lindsay		
Dr. Peter Lisi		
Dr. Estela Lopez		
Mark Varholak		

[2] Mr. Donovan participated in the meeting via conference telephone that permitted all parties to hear each other.
[3] Ms. Gittens participated in the meeting via conference telephone that permitted all parties to hear each other.
[4] Mr. Nyikita participated in the meeting via conference telephone that permitted all parties to hear each other.

Dr. Lisi requested a motion to approve the minutes of the Consultant Committee meeting dated October 19, 2016, which was included in the meeting materials. Ms. Hammer moved for approval of the minutes, which was seconded by Dr. Lopez.

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

AYES	**NAYS**	**ABSTENTIONS**
Elizabeth Hammer Dr. Peter Lisi Sarah Sanders	None	None

CURRENT AND PENDING BOND ISSUES

Financing Forecast and Summary of Financings

Ms. MacDonald reported there is one new issue which is a private placement with TD Bank for approximately $14.5 million for Hoffman SummerWood Community, Series C. They will be refinancing their Series B issue and the issue will be presented for approval in July.

The Trinity College Issue, Series Q, closed on April 26, 2017. Trinity refunded their 2007 Series J issue, which was a $51.1 million private placement with Citizens Bank, N.A. that had a nine-year put at 2.57%. Kent School Issue, Series H closed on May 16, 2017 for approximately $18.5 million. The School refunded their 2013 issue which also included construction of a squash court. This was a private placement with Peoples United Muni Finance Corp which had a 15-year put at 2.9%.

Interest Rate Update

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

Market Rate Update

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

HIGHER EDUCATION ANNUAL SECTOR REVIEW

Mr. Morris provided an overview of the sector noting that the sector had a decline in financial resources, but still have adequate cushion for debt and operations. Operating performance still remains a challenge for many, with continued increased pressure on net tuition revenue growth, with a decline in operating margins. Overall, there has been manageable debt service with adequate debt service coverage. Applications continue to increase and the median selectivity rate was at its lowest level in the past five years. The matriculation rate median remains low, although enrollment continues to increase.

Mr. Morris reported that the portfolio had 62 bond issues totaling approximately $4.6 billion, which included 12 private institutions and the Connecticut State Colleges and Universities. The total amount represents over 55% of CHEFA's total portfolio. Over 80% of the portfolio is unenhanced, which mainly consist of Yale University; Private Placements consists of 8.2%, followed by the CSU SCRF insured debt, and only a few bond insured and letter of credit back issues remain outstanding.

Mr. Morris stated that seven of the twelve institutions have their own rating. Sacred Heart's rating from Standard and Poor's was upgraded a few years ago to an "A" category and their Outlook from Moody's was upgraded from Stable to Positive. The University of Hartford had their ratings withdrawn when they refunded all their public debt by bank direct purchases. All the non-rated schools in the portfolio have bank direct purchases public debt outstanding.

Since 2013, there were 30 bond issues financed, totaling $2.0 billion. Approximately 70% of bonds issued were refundings. Private placement bank direct purchases accounted for approximately 47% of the number of bonds issued, or 11% for the total dollar amount. There has been a decline in new money over the past three years. Yale University will issue approximately $250 million next year. The Authority does not anticipate any other new money issues next year. Yale University will refund approximately $400 million next week, which will put CHEFA over $20 billion in bonds issued.

Mr. Morris reported that applications continue to increase with a 3.7% increase over 2016 and almost 13% since 2013. Due the increase in applications, the selectivity median decreased from over 60.4% to 59.7%. There were seven institutions that were more selective this past year over last year. The median for matriculation declined for the second straight year to 17.4%.

Mr. Morris stated that total spendable cash and investments for the portfolio declined slightly from prior year but were over 26% higher than five years ago. The cushion for operations are on par with Moody's, while cushion for debt is slightly below. Five institutions exceeded Moody's median of 245 monthly days cash on hand. CHEFA's median declined 8.6% from prior year but still remains 15% higher than it was five years ago.

Mr. Morris reviewed the trend in net tuition revenue increases for the portfolio, noting that four institutions experienced a decline in net tuition revenue in FY 2016, which contributed to the decline in the annual operating margin median from over 4% to approximately 3% from FY 2015 to FY 2016. Debt service is manageable for the sector with adequate operating cash flow margins; however, only four institutions improved their debt service coverage ratio from prior year. Mr. Morris noted that the capital spending ratio median has declined over the past five years with only half of the institutions having capital expenditures in excess of their annual depreciation expense.

Mr. Morris added that total FTE enrollment median has increased approximately 14% over the past five years. Mr. Morris mentioned that Sacred Heart University has entered into a management agreement with Saint Vincent's College.

EXECUTIVE DIRECTOR'S REPORT

Ms. Weldon asked Mr. Morris to provide a client update:

- Hartford Healthcare is releasing their debt service reserve fund and will replace it with a Letter of Credit with TD Bank and use $20 million for additional projects throughout the system.
- Day Kimball Hospital is in the process of selling two buildings, one of which was financed with bond proceeds totaling approximately $5 million, which must be used to for capital projects or to redeem bonds. The Hospital has identified approximately $1.5 million of capital projects, while the remaining balance will be

used to redeem bonds. How the remaining bonds will be redeemed has not been determined yet and staff is continuing to work with the Hospital on this transaction.

- The Hospital For Special Care private placement issue with Webster Bank consisted of two tranches, the first tranche was issued in October 2016 and the second tranche will be drawn upon at the end of June to pay off the Hospital's remaining 2007 bonds that are callable on July 1st.

Ms. Weldon provided an update on management's research on the Pay for Success Program proposal. The two areas of focus that have been researched are the achievement gap and the excessive use of the emergency department.

Ms. Weldon reported that with regard to the achievement gap, one of the areas of focus is the Hartford Partnership for Student Success. This is a group that supports community schools in Hartford. Each community school has a not-for-profit 501(c)(3) service provider to provide a defined suite of services that covers potentially the entire family. Two of those service providers are CHEFA clients: Village for Family and Children Services and Catholic Charities. In the course of this research, staff met with both clients to find out the nature of their programs and how they are structured. Staff also met with representatives from the Hartford Partnership for Student Success, along with representatives from Hartford Public Schools, the United Way of Central and Northeastern Connecticut and the Hartford Foundation for Public Giving. Ms. Weldon stated that there appears to be interest in continuing the conversation on whether a Pay For Success Program could provide funding to broaden the use of community schools in Hartford.

Ms. Weldon stated that with regard to the excessive use of the emergency department, CHEFA provided a grant to Middlesex Hospital in 2012 to establish two health promotion advocate positions. Out of that funding, and these positions, evolved a Community Care Team which was developed over the course of several years in response to the use of emergency department by high risk, high-need behavioral health patients. Ms. Weldon referenced a recent article which reported that expanding care teams across the State could result in significant Medicaid savings. Ms. Weldon stated she plans to have a discussion with a Boston-based consulting firm that is very active in developing Pay For Success Programs. She plans to discuss whether there is an opportunity for CHEFA to host a meeting in which the firm could provide more specific information on how the programs work.

Mr. Biancamano inquired whether a representative from the State would be invited to attend the information session, given the opportunity for Medicaid savings for one of the potential projects. Ms. Weldon stated she will invite a representative from the State to attend the meeting.

Ms. Weldon provided an update on news from the National Association of Health and Education Finance Facilities Authority (NAHEFFA). There are some tax reform proposals being discussed including one to limit access to tax-exempt financing for large endowment universities. Ms. Weldon mentioned that a federal hearing will be held on how tax reform will grow the economy and create jobs. NAHEFFA is actively participating at the federal level in providing feedback to lawmakers on both these initiatives and are they working with ML Strategies in this regard.

<u>FY 2017 Strategic Initiatives Status Report</u>

Ms. Weldon reported that CHEFA will be hosting, through the efforts of Mr. Morris and Mr. Kurowski, a tax compliance webinar. The tax expert leading the webinar is Marybeth Frantz from Harris Beach PLLC. The webinar will be available on CHEFA's website for replay.

Ms. Weldon added that CHEFA is expecting the internal audit will be getting underway and completed by June 30.

CHESLA Update

CHESLA successfully closed on a $37 million bond transaction. Approximately $10 million was refunding and the rest was new money. In the two days prior to the closing, the State experienced two rating downgrades, one by Fitch and one by Moody's. The rating of CHESLA bonds is tied directly to the State's rating. The underwriter (RBC) had to reconfirm all orders with investors and CHESLA was able to successfully close on schedule with no pricing modifications. and CHESLA was able to maintain a student loan rate of 4.95%.

COMMITTEE REPORTS

Grant Committee

Dr. Lopez reported that the Committee met and had a robust discussion about next steps for the Grant Programs due to the State sweeping the Authority's funding for the FY 2017 Nonprofit Grant awards. The Committee decided to meet in the Fall to discuss next steps.

Dr. Lopez thanked all staff who worked on the FY 2017 Nonprofit Grant Program.

<u>Audit-Finance Committee</u>

Mr. Biancamano reported that Ms. Peoples reviewed the detailed expense and revenue budget for FY 2018. In order to provide more time to consider the impact of the suspension of the FY 2017 non-profit grant awards, the Committee decided to only approve the expense portion of the proposed FY 2018 operating budget. The Committee will wait until September to consider the revenue and program portions of the budget. The Committee approved the expense budget of $3.662 million.

Ms. Rubin moved to approve the expense portion of the proposed FY 2018 operating budget. Dr. Lopez seconded the motion.

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

AYES	NAYS	ABSTENTIONS
John Biancamano Robert Dakers Elizabeth Hammer Dr. Peter Lisi Dr. Estela Lopez Barbara Rubin Sarah Sanders Mark Varholak	None	None

Mr. Biancamano requested a motion to approve the proposed FY 2018 capital budget for approximately $71,000 for hardware and software. Ms. Rubin moved to approve the capital budget and Dr. Lopez seconded the motion.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano Robert Dakers Elizabeth Hammer Dr. Peter Lisi Dr. Estela Lopez Barbara Rubin Sarah Sanders Mark Varholak	None	None

CHEFA FINANCIAL OPERATIONS

March 2017 Financial Statements

Ms. Mackewicz reported on the financial statements for the nine months ending March 31, 2017. Excess revenues over expenses before program related expenses were approximately $3.3 million and approximately $2.4 million after program related expenses.

The year-to-date revenues exceeded budget by approximately $198,000 and expenses are under budget by approximately $155,000.

EXECUTIVE SESSION

The Board of Directors did not to hold an Executive Session.

ADJOURNMENT

There being no further business, at 2:14 p.m., Ms. Rubin moved to adjourn the meeting and Ms. Hammer seconded his motion.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano Robert Dakers Elizabeth Hammer Dr. Peter Lisi Dr. Estela Lopez Barbara Rubin Sarah Sanders Mark Varholak	None	None

Respectfully submitted,

Jeanette W. Weldon
Executive Director