STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting

January 17, 2018

The State of Connecticut Health and Educational Facilities Authority met at 1:30 p.m. on Wednesday, January 17, 2018.

The meeting was called to order at 1:34 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[1]
Barbara B. Lindsay, Esq.[2]
Dr. Estela Lopez
Sheree Mailhot[3] (Designee for Denise Nappier, Treasurer)
Barbara Rubin
Mark Varholak[4]

ABSENT:
Robert S. Dakers (Designee for Benjamin B. Barnes, OPM Secretary)

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
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] Ms. Hammer participated in the meeting via conference telephone that permitted all parties to hear each other.
[2] Ms. Lindsay participated in the meeting via conference telephone that permitted all parties to hear each other.
[3] Ms. Mailhot participated in the meeting via conference telephone that permitted all parties to hear each other.
[4] Mr. Varholak participated in the meeting via conference telephone that permitted all parties to hear each other.

GUESTS:	Judith A. Blank, Esq., Day Pitney LLP John Brodsky, Managing Director, Fairmount Capital Advisors, Inc.[5] Bruce Chudwick, Esq., Shipman & Goodwin LLP Daniel Connelly, Director, Fairmount Capital Advisory, Inc.[6] Steve Donovan, Esq., Hawkins, Delafield & Wood LLP[7] Scott Gibson, Executive Director, Oppenheimer & Co., Inc. Stella Gittens, Senior Director, PFM Financial Advisors LLC[8] Susan Henebry, Esq., Carmody Torrance Sandak & Hennessey LLP Thomas S. Marrion, Esq., Partner, Hinckley, Allen & Snyder LLP[9] Joshua Nyikita, Managing Director, Acacia Financial Group, Inc.[10] Erik Russell, Esq., Pullman & Comley, LLC[11] Edward Samorajczyk, Jr., Esq., Robinson + Cole LLP[12] Gary Schless, CBRE/New England Eric Taylor, Esq., Harris Beach PLLC[13] Jane Warren, Esq., McCarter & English, LLP[14]

MINUTES

Dr. Lisi requested a motion to approve the minutes of the December 5, 2017 special 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 Mr. Biancamano.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Sheree Mailhot Barbara Rubin Mark Varholak	None	Michael Angelini[15]

[5] Mr. Brodsky participated in the meeting via conference telephone that permitted all parties to hear each other.
[6] Mr. Connelly participated in the meeting via conference telephone that permitted all parties to hear each other.
[7] Mr. Donovan participated in the meeting via conference telephone that permitted all parties to hear each other.
[8] Ms. Gittens participated in the meeting via conference telephone that permitted all parties to hear each other.
[9] Mr. Marrion participated in the meeting via conference telephone that permitted all parties to hear each other.
[10] Mr. Nyikita participated in the meeting via conference telephone that permitted all parties to hear each other.
[11] Mr. Russell participated in the meeting via conference telephone that permitted all parties to hear each other.
[12] Mr. Samorajczyk participated in the meeting via conference telephone that permitted all parties to hear each other.
[13] Mr. Taylor participated in the meeting via conference telephone that permitted all parties to hear each other.
[14] Ms. Warren participated in the meeting via conference telephone that permitted all parties to hear each other.
[15] Mr. Angelini abstained from voting as he did not attend the December 5, 2017 Special Board Meeting.

INDEPENDENT SCHOOL SECTOR REPORT

Mr. Morris provided an overview of CHEFA's independent school sector portfolio based on the FYE June 30, 2017 results. Mr. Morris summarized the highlights of the report, noting that bank direct purchases continue to increase for this sector, with limited new money issuances; student demand remained strong for the boarding schools, while applications and enrollment are at their lowest levels in the past five years for day schools; due to favorable investment returns, expendable financial resources improved, which increased cushion for debt and operations, but overall, the portfolio still is considered leveraged. Operating performance improved from last year for both operating and cash flow margins, providing stronger debt service coverage, while tuition discounting has remained stable. Mr. Morris noted that two schools were acquired over the past six months and questioned whether this might be a future trend for the sector.

Mr. Morris reported that the total debt outstanding as of December 31, 2017 was over $618.7 million consisting of 53 bonds issues for 34 schools (20 boarding, 14 day schools). Private placements represent approximately 60% of the portfolio, up 25% from five years ago and unenhanced transactions are just over 21%. Seven boarding schools have their own rating and approximately 90% of the boarding school portfolio issued bank direct purchases. Four day schools have their own rating, all in the "A" category or higher. Nine out of the 14 day schools issued bank direct purchases. Over the past five years, the portfolio issued approximately $356 million, 28 bond issues for 20 schools. Refundings accounted for the majority with one new issue in FY 2018 and one new issue in process for Loomis Chaffee totaling approximately $7.5 million. Approximately 94% of the issuances were bank direct purchases over the past five years.

Mr. Morris stated that the boarding schools had a slight decrease in total applications of .9% from last year with approximately 6.9% higher than five years ago. The median has increased from 580 to 609. For day schools, applications were unchanged from last year. The median decreased from 323 to 314 over the past five years. Overall for selectivity, the five-year rate trend improved for 56% of the schools. However, the median compares unfavorably to Moody's overall median. The matriculation median for both the boarding and day schools is its lowest level in the past five years. Enrollment for the boarding schools was approximately 7,400, slightly increased from the prior year. For international students, enrollment increased over 10.8% during the past five years. The day school enrollment has experience a steady decline over the past five years.

Mr. Morris reported that the boarding schools' expendable financial resources to debt median was up 11% from the prior year but lags its high from two years ago, while the day schools median was at the highest level over the past five years, up approximately 27%.
While the expendable financial resources to operations median also improved from the prior year for the boarding schools, it is at its second lowest level over the past five years. The day school median also improved, but 50% of the schools have less than one years' cushion and four institutions have less than six-month's cushion for operations.

Over 70% of the portfolio had a net tuition revenue growth greater than 2%, with nine schools reporting a decline in growth from last year. Tuition discounting remained relatively stable for both the boarding and day schools over the past five years with the median tuition increase from the prior year for the boarding schools at 4.1%, while day schools median increased 2.6%

Operating margin medians for both the boarding and day schools improved from the prior year due, in part, to marginal expense growth. The debt service burden for the portfolio remains very manageable with favorable debt service coverage ratios over the past five years.

Mr. Morris noted that it appears that the boarding schools continue to make ongoing investment in their facilities without issuing debt with approximately 47% of the institutions investing more in their plant than depreciation expense with a median capital ratio slightly below 1.0 times. The day schools' median, however, declined 50% over the past five years

CURRENT AND PENDING BOND ISSUES

Financing Forecast and Summary of Financings

Ms. MacDonald reported that there are two new issues on the financing forecast: The Loomis Chaffee School Issue, Series J, for $7.5 million, a private placement with Farmington Bank. Proceeds will be used for a new campus center and dining hall renovations, which will be presented next month. The University of New Haven Issue, Series K, is a $150 million unenhanced public offering, to refinance all their outstanding CHEFA debt, which will be presented on a preliminary basis today.

Another issue not on the report is for Fairfield University for the balance of their Series R issue, which was previously postponed, to current refund their 2008 Series M & N issues. The estimated NPV savings is approximately $10 million, which was approved at the December board meeting.

Last month there were eight closings since the November 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.

SALES REPORT: FAIRFIELD UNIVERSITY ISSUE, SERIES R

Mr. Joshua Nyikita from Acacia Financial Group provided the sales report on the Fairfield University Issue, Series R transaction.

EXECUTIVE SESSION: LEASE, 10 COLUMBUS BOULEVARD

Dr. Lisi requested a motion to go into Executive Session at 2:12 p.m. to discuss the lease at 10 Columbus Boulevard. Dr. Lopez moved to go into Executive Session and Ms. Rubin seconded the motion. All meeting attendees left the meeting with the exception of the board members, Ms. Weldon, Ms. Aguilera, Ms. Peoples, Mr. Morris and Mr. Schless.

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 Sheree Mailhot Barbara Rubin Mark Varholak	None	None

Mr. Schless left the meeting at 2:32 p.m.

The meeting reconvened at 2:33 p.m. No votes were taken during Executive Session.

Dr. Lisi requested a motion to approve Resolution #2018-01, to extend the lease between the Authority and GCCFC, 2007-GG9 Columbus Boulevard, LLC for a period of five years to December 31, 2023 and authorize the Executive Director to execute a lease amendment with GCCFC containing such terms and conditions as the Executive Director deems appropriate and authorize the payment of $15,000.00 to CBRE/New England for broker services. Ms. Rubin moved to approve Resolution #2018-01 and Mr. Angelini 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 Sheree Mailhot Barbara Rubin Mark Varholak	None	None

EXECUTIVE DIRECTOR'S REPORT

Updates

Ms. Weldon discussed the tax cuts and jobs act. The Authority was pleased that the act reserved the Authority's ability to issue private activity bonds. The Authority was very active in all advocacy efforts for both CHEFA and CHESLA. Ms. Weldon reported that advanced refundings were eliminated and the Authority is expecting some market impacts. Ms. Weldon referenced an article in the board meeting handouts. Investment bankers will likely be creating new products to address the elimination of advanced refundings. Lower corporate tax rates could make muni's less attractive and cause yields to go up. There could also be less interest on the part of banks and insurance companies, now that their corporate tax rates are lower. She added that some of the Authority's private placements have provisions for a gross up of the interest rate in the event of tax law changes. Mr. Morris will provide more information on this.

Mr. Morris noted that the two institutions affected by the gross up interest rate provisions included:

- Marvelwood School increased 84 basis points; and
- Ocean Community YMCA increased 40 basis points.

Mr. Morris also noted that Yale University is in the process of remarketing its 2003 and 2010 bond issues totaling $275 million and will price next week and Fairfield University is moving forward with its second tranche to refund its remaining CHEFA debt outstanding.

Mr. Morris provided an overview with regard to bank direct purchases, noting that 94% of the bonds issued over the past five years for independent schools were private placements, and private placements accounted for approximately 65% of total issuances over the past few years. While the staff memo only provides the basic business terms of the transaction, it may give the appearance that these transactions are simply cookie-cutter transactions, but this is in no way indicative of the amount of work and additional time invested in these transactions from the New Business, Arbitrage, Compliance and the Accounting departments. Mr. Morris provided more detail on the additional work required by these business areas.

Ms. Weldon reported that the Authority is moving forward with the Urban Institute and the Pay For Success administrative data analysis. Urban Institute led a series of informational phone calls with various entities and potential partners in the Community Care Team project. Calls took place with the Department of Social Services, Mental Health & Addiction Services, Partnership for Strong Communities, the two hospitals (Middlesex and Yale-New Haven Health), and the Connecticut Hospital Association and Vegan Health. The Urban Institute will be onsite the week of March 12th and a group meeting is planned for March 16th.

Ms. Weldon reported that she and Mr. Wasch met with the Higher Education co-chairs and provided them with an overview of CHEFA and the grant programs. In December, Mr. Wasch and Ms. Weldon met with Representative Matt Ritter and his key aides to discuss CHEFA and its grant programs. Staff is working on setting up meetings with legislative leadership, both Republican and Democrat.

Ms. Weldon indicated that she met with Jay Williams, President, Hartford Foundation for Public Giving, and will be keeping communication open for any collaboration and information sharing. She also added that a press release will be sent out next week on the United Way opioid grant.

Ms. Weldon reported that at the Board of Directors Retreat held this past Fall, a discussion took place on opening a disbursement account for grant purposes to disburse grant dollars through a U.S. Bank account. Setting up the account has been placed on hold at this point due to the high bank fees associated in setting up the account.

Ms. Weldon stated that CHESLA went to the market with a bond transaction in December and issued $11.3 million in bonds. The transaction was successful and closed on December 21, 2017, which supports a student loan rate of 4.95%.

FY 2018 STRATEGIC INITIATIVES UPDATES

Ms. Weldon provided highlights of the FY 2018 strategic initiatives achieved to date as detailed in the Board meeting materials.

Ms. Weldon reminded the Board members that the CHEFA/CHESLA Board of Directors Retreat will take place on Friday, January 26, 2018 at 8:30 a.m. and will be held in the conference space across the hall from the CHEFA office in Capital Room A.

CHEFA FINANCIAL OPERATIONS

October and November 2017 Financial Statements

Ms. Mackewicz reported on the financial statements for the five months ending November 30, 2017 noting that revised charts/graphs were included in their folders. Excess revenues over expenses before program related expenses were approximately $1.9 million and approximately $1 million after program related expenses. Total revenues were approximately $89,000 over budget and expenses were approximately $95,000 under budget.

Ms. Mackewicz stated that there were no notable items in October. In November, the 2017 non client grants were expensed and on the balance sheet, the reserves were allocated establishing Public Act 17-02, requiring a transfer to the State of Connecticut of $900,000, to occur in June of 2018 and June of 2019.

APPROVAL OF RAMIREZ & CO. AS SENIOR MANAGER/CO-MANAGER SERVICES

Mr. Jandreau provided background information on Ramirez & Co.'s staff and senior and co-manager financing experience. Staff's recommendation is to add Ramirez & Co. to CHEFA's senior manager underwriter list based on their seasoned senior management team, experience and strong distribution capabilities, and capitalization level, which provides for sufficient underwriting liability.

Mr. Angelini moved to approve Ramirez & Co. as Senior Manager for a period of three years. 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 Sheree Mailhot Barbara Rubin Mark Varholak	None	None

COMMITTEE REPORT

Grant Committee

Dr. Lopez reported that the Committee met to review staff’s recommendations on the FY 2018 Client Grant Awards. CHEFA awarded $10 million in client grants since 2004. The Internal Review Committee (IRC) reviewed 50 applications and they used a new scoring method this year, which everyone seems to like. The IRC recommended 16 clients to receive awards totaling $1 million. Two clients will not be funded the full amount they requested: One was the Bushnell and the other was Our Piece of the Pie, Inc. Dr. Lopez stated that Dr. Lisi had mentioned that the Women’s League requested $5,500 for two adult defibrillators and one child unit and he recommended they be awarded the funds because the equipment was vitally important. After some discussion, the Committee decided to recommend to the Board that the 16 clients be funded awards totaling $1 million, in addition to $5,500 to the Women’s League.

Dr. Lisi indicated that since all Board members did not receive the FY 2018 Client Grant Booklet, the approval of the awards to be funded will be tabled to a meeting scheduled some time next week. All Committee members concurred.

PRELIMINARY STAFF MEMO – University of New Haven Issue, Series K

Mr. Morris presented the University of New Haven issue, Series K, for up to approximately $140 million. Bond proceeds will be used to refund all of the University’s outstanding CHEFA bond issues, finance the termination payments of all associated interest rate-swap agreements, and finance the construction of a new academic building.

Mr. Morris explained that the University’s financial performance is their key credit strength, noting favorable operating and cash flow margins providing strong debt service coverage. Their liquidity position and metrics, while improved over the past five years, compares unfavorably to Moody's "Baa" median, due in part to having heavily invested in their plant. Mr. Morris provided a brief overview of the growth of the University over the past five years with FTE enrollment growing from 1,800 to just under 5,000, net investment plant increasing from $35 million to $207 million; total square footage increasing from 780,000 to 1.4 million; cash and investments improving from $6.7 million to $131 million and total net assets growing from $22 million to $198 million.

Mr. Morris stated that the University does not currently have a rating, but it appears that a rating in the "BBB" category is achievable. The University would like to issue the bonds with a gross revenue pledge and no debt service reserve fund. The Authority has never issued a "BBB" rated credit without a debt service reserve fund, but there appears to be market acceptance on based on review of a number of transactions over the past few years.

Mr. Morris pointed out that the majority of the bond issue will be refunding existing debt and the University has demonstrated strong debt service and the investor base will be mainly institutional investors. There will be an investor presentation prior to the bond sale for investors to perform additional diligence. Mr. Morris added that the underwriter has their reputational risk, as well as financial exposure, if the offering is deemed to be unsatisfactory by the market when they sell the bonds. However, the most compelling reason of not having a debt service reserve fund is the cost to the institution. Mr. Morris provided details of the assumptions on the yield on the bonds and estimated investment earnings on the reserve fund and the additional annual cost to the institution.

After a brief discussion, Mr. Biancamano recommended a memorandum be drafted providing the rationale for not requiring a debt service reserve fund. The Board and staff concurred.

ADJOURNMENT

There being no further business, at 3:17 p.m., Dr. Lopez moved to adjourn the meeting 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 Sheree Mailhot Barbara Rubin Mark Varholak	None	None

Respectfully submitted,

Jeanette W. Weldon
Executive Director