

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting

April 18, 2018

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

The meeting was called to order at 1:35 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<sup>1</sup>  
                      Robert S. Dakers (Designee for Benjamin B. Barnes, OPM Secretary)  
                      Elizabeth C. Hammer  
                      Barbara B. Lindsay, Esq.<sup>2</sup>  
                      Mark Varholak

ABSENT:            Dr. Estela Lopez  
                      Sheree Mailhot (Designee for Denise Nappier, Treasurer)  
                      Barbara Rubin

ALSO PRESENT:   Jeanette W. Weldon, Executive Director  
                      Denise Aguilera, General Counsel  
                      Robert Jandreau, Sr. Finance Associate  
                      Joshua Hurlock, Assistant Director, CHESLA  
                      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

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<sup>1</sup> Mr. Biancamano participated in the meeting via conference telephone that permitted all parties to hear each other.

<sup>2</sup> Ms. Lindsay participated in the meeting via conference telephone that permitted all parties to hear each other.

GUESTS: Stella Gittens, Senior Director, PFM Financial Advisors LLC<sup>3</sup>  
 Laurie Hall, Esq., Hawkins, Delafield & Wood LLP<sup>4</sup>  
 Thomas S. Marrion, Esq., Partner, Hinckley, Allen & Snyder LLP  
 Joshua Nyikita, Managing Director, Acacia Financial Group, Inc.  
 David Orise, Vice President, Century Bank  
 Erik Russell, Esq., Pullman & Comley LLC  
 Edward Samorajczyk, Jr., Esq., Robinson + Cole LLP  
 Namita Shah, Esq., Day Pitney LLP  
 Tiffany Stevens, Esq., McCarter & English, LLP  
 Eric Taylor, Esq., Harris Beach PLLC  
 Ann Zucker, Managing Partner, Carmody Torrance Sandak & Hennessey LLP

**MINUTES**

Dr. Lisi requested a motion to approve the minutes of the February 21, 2018 meeting of the Board of Directors. Ms. Hammer moved for approval of the minutes, which was seconded by Mr. Angelini.

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

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

**HIGHER EDUCATION SECTOR REPORT**

Mr. Morris presented the Higher Education Sector report for the FYE June 30, 2017. The sector had favorable investment returns which provided for stronger cushion for debt and operations. The average rate of return in the portfolio is approximately 13% for FY 2017, which is in line with the national average. Net tuition revenue growth has declined over the past five years; however, the operating margin median is at its highest level in the past five years. Strong cash flow margins have provided adequate debt service coverage. Student demand remains stable but it appears that application volume has leveled off. The median selectivity rate increased, but it is still favorable to Moody’s. Mr. Morris added that matriculation rates improved but they still remain low. Total enrollment remains strong and is at its highest level in the past five years.

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<sup>3</sup> Ms. Gittens participated in the meeting via conference telephone that permitted all parties to hear each other.

<sup>4</sup> Ms. Hall participated in the meeting via conference telephone that permitted all parties to hear each other.

Mr. Morris reviewed the composition of the higher education portfolio noting that unenhanced transactions comprised the majority, at over 80%, and the total of \$4.82 billion accounts for approximately 57% of the entire CHEFA portfolio. Eight of the twelve institutions have their own credit rating, and Sacred Heart University's rating was upgraded from "Baa1" to "A3" from Moody's. The University of New Haven received a "BBB" rating from Moody's last month in connection with their new bond issue. There are four institutions in the portfolio that are not rated.

Since FY 2014, there were 32 bond issues totaling approximately over \$3 billion, with approximately 72% in refundings and bank direct purchases accounted for over 53% of the total bonds issued. Mr. Morris reviewed the student market demand profile noting that the number of total applications appeared to have leveled off with half of the institutions experiencing a decline in applications from the prior year. The selectivity median increased from the prior year, but is in line with the prior four year average with seven institutions that were less selective than the prior year. The matriculation median increased from the prior year; however, it is at its second lowest level over the past five years at just over 19%. Seven out of the twelve institutions reported a higher yield than the prior year.

With respect to balance sheet metrics, Mr. Morris noted that due to favorable investment returns, total spendable cash and investments increased over 9% from the prior year and over 29% from five years ago. However, the cushion for debt lags Moody's median, while cushion for operations slightly exceeds Moody's median but there are five institutions that have less than one year coverage of operations. CHEFA's median for monthly days cash on hand increased to almost 5% from last year and five institutions exceeded Moody's median of 243 days. There are only five institutions that have cash on hand greater than Moody's median.

Mr. Morris noted that the median for net tuition revenue growth declined from over 5% in FY 2013 to .6% in FY 2017 with five institutions experienced a decline in FY 2017 compared to one in FY 2015. However, the operating margin median increased substantially for the sector despite the decrease in net tuition revenue growth. There were eight institutions that experienced an increase from the prior year and three institutions with operating losses for last year compared to only one from the year before. Six institutions improved their debt service coverage ratio from FY 2016, while one institution reported a debt service coverage ratio failure.

Mr. Morris noted that capital investment improved for the sector with eighty-three percent of the institutions spending more than their depreciation expense for FY 2017. However, the average age of plant continues to increase.

Mr. Morris noted that the outlooks from Moody's and Standard & Poor's for the sector are negative and provided a brief synopsis of the challenges facing the sector as outlined in the rating agencies reports. Discussion ensued.

## **CURRENT AND PENDING BOND ISSUES**

### **Financing Forecast and Summary of Financings**

Ms. MacDonald reported that there is a new issue on the financing forecast: Brass City Charter School Issue, Series A & B, a private placement for approximately \$3.4 million for construction and renovation projects with Webster Public Finance Corporation.

There were three closings held since December 2017: (1) Loomis Chaffee School Issue, Series J for \$7.5 million, which was a private placement with Farmington Bank. The School financed a new campus center and dining hall, along with renovations. The transaction closed on March 15, 2018 with a NIC of 3.01%. (2) Fairfield University Issue, Series S, closed on April 4, 2018 for approximately \$66.5 million, with a NIC of 3.08%. (3) On April 4, Gaylord Hospital closed their EasyLoan for \$3.7 million through Bank of America Public Capital, for medical, computer, HVAC and miscellaneous equipment with a NIC rate of 3.445%.

The University of New Haven issue, Series K, will close on May 1, 2018 and the second tranche of this issue, which is for a new academic building, is expected to close in June. There is one new potential issue for Yale University, which is contemplating refunding its 2010 Series A-1 issue for approximately \$79 million, which is callable in July.

### **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 REPORTS**

### **Fairfield University Issue, Series S**

Mr. Joshua Nyikita from Acacia Financial Group presented the sales report for Fairfield University Issue, Series S.

### **University of New Haven Issue, Series K**

Mr. Jandreau presented the sales report for the University of New Haven Issue, Series K.

## **EXECUTIVE DIRECTOR'S REPORT**

### **Client Updates**

Mr. Morris provided the following client updates:

- Western Connecticut Health Network announced that they are merging with New York's Health Quest Systems, which is a four-hospital group which consists of three hospitals in New York and Sharon Hospital in Connecticut.
- Ascension Health is looking to sell St. Vincent's Medical Center to Hartford HealthCare. Both of these transactions will need regulatory approvals.
- Staff met with a number of potential clients over the last few months, as well as a one existing client, including Wheeler Clinic, ACES, Wadsworth Atheneum, Hartford Stage, and Goodwin College. A meeting with the Community Health Center is pending.
- Mr. Morris and Ms. Weldon will be presenting in a few weeks to the University of Saint Joseph's Board of Directors on the Authority's issuance process for tax-exempt financing.
- The Office of Early Childhood (OEC) performed an audit on the Child Day Care Grant Program of one of the Authority's childcare providers, Southfield Children's Center (SCC), which is located in Newington. Based on their audit they learned some of the families that were receiving subsidies were not income eligible. OEC sent out a breach of contract notice to SCC in September and the Authority also issued to a non-compliance notice in November. The Authority and OEC recently met with the SCC's Board of Directors to discuss both OEC's and CHEFA's concerns and non-compliance matters. SCC has obtained a consultant to develop an assessment and the scope of work for the institution. SCC has approximately \$697,000 of debt outstanding.

A discussion ensued.

### **CHESLA Updates**

Mr. Hurlock provided an update on CHESLA's product offerings and activities.

### **Other Updates**

Ms. Weldon reported that there are a number of bills proposed in this legislative session that are of interest to CHESLA and CHEFA:

- Senate Bill 213 – Creating a new quasi-public agency overseeing a work study/apprentice programs. The bill includes a CHESLA representative on the Board of Directors of the new quasi-agency. This is acknowledgement of CHESLA's role in workforce development and furthering training of the workforce of Connecticut.

- House Bill 5133 – Creates tax credit programs for companies that are paying their employees' student loans. This fits in with some of the Authority's refinance product initiatives. There are some bills pertaining to contracting that could apply to CHEFA and CHESLA. One is a review of contracts by the Attorney General's office.
- Senate Bill 503 – Would restrict the use of employee separation and non-disclosure agreements.
- House Bill 5267 – Requires the State to review privatization contracts.

Ms. Weldon stated that Mr. Wasch is monitoring the pending bills and following up.

Ms. Weldon reported on some of the activities which took place over the last few months:

- At the end of February, Mr. Wasch and Ms. Weldon met with Representative Aresimowicz and his policy analyst to provide them with an update on CHEFA and CHESLA activities.
- In mid-March, CHEFA hosted a Pay For Success half-day forum with the Urban Institute. It was a roundtable format and had a number of speakers who engaged meeting participants. Speakers were: Commissioner David Wilkinson, Office of Early Childhood; Urban Institute representatives; and Mark Shaeffer, from the Office of Health Strategy. Some of the attendees included representatives from the community care teams from around the State, Office of Policy and Management, Connecticut Hospital Association, Beacon Health Options, the Connecticut Data Collaborative and also Dr. Peter Lisi. One of the follow-ups from that meeting is that Ms. Weldon has been given a seat on the Population Health Council which works with the Office of Health Strategy.
- On April 2, Mr. Morris, Mr. Wasch, Ms. Weintraub and Ms. Weldon met with senior management of the Hartford Foundation for Public Giving. The purpose of the meeting was to discuss areas of focus and overlap and how the Authority might be able to collaborate with them. It was agreed that the Authority would meet with them periodically to discuss how we can complement each organization's activities.
- Ms. Weldon will be part of a panel at the NAHEFFA conference in Boston, MA next month, representing the New England authorities discussing common issues.
- Anti-sexual harassment training has been completed by managers for CHEFA and CHESLA and training is scheduled to occur for staff next month.

### **FY 2019-2021 STRATEGIC PLAN (FINAL DRAFT)**

Ms. Weldon presented the final draft of the FY 2019-2021 Strategic Plan. She provided an overview of what was discussed at the previous Board meeting. This revision includes the initiatives in priority order along with activities and indicators of success for each initiative. She pointed out that the indicators of success are fairly general, but the plan moving forward is to provide progress reports to the Board every six months and the progress reports would provide detail regarding how much has been completed in terms of meeting the ultimate goals.

After reviewing the priorities/initiatives to be accomplished over the next fiscal year, Ms. Weldon recommended approval of the final draft of the FY 2019-2021 Strategic Plan.

Dr. Lisi requested a motion to approve the FY 2019-2021 Strategic Plan. Mr. Angelini moved to approve the FY 2019-2021 Strategic Plan and Ms. Hammer seconded the motion.

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

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

## **COMMITTEE REPORT**

### **Audit-Finance/Human Resources Committee**

Mr. Varholak reported that the Audit-Finance/Human Resources Committee met to review and discuss the proposed FY 2019 Human Resources budget and a budget modification request, which will be presented to the Board for approval.

Mr. Varholak stated that Ms. Peoples presented the staff compensation, benefits and proposed merit pool. After some discussion, the joint committee reviewed and approved the proposed FY 2019 Human Resources budget. The final budget will be presented at the May Board of Directors meeting.

Mr. Varholak stated that the second item the joint committee approved was a budget modification to the FY 2018 Operating Expense and Capital budget to rebuild some of the information technology infrastructure based on capacity and storage limitations.

Dr. Lisi requested a motion from the full Board to approve the proposed FY 2019 Human Resources budget. Mr. Varholak moved to approve the proposed FY 2019 Human Resources budget and Mr. Angelini seconded his 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  
Mark Varholak

None

None

Dr. Lisi requested a motion from the full Board to approve the FY 2018 budget modification request to the FY 2018 Operating Expense and Capital budget for rebuilding some of the infrastructure technology. Mr. Varholak moved to approve the FY 2018 budget modification request to the FY 2018 Operating Expense and Capital budget and Mr. Angelini seconded his 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  
Mark Varholak

None

None

**CHEFA FINANCIAL OPERATIONS**

**February 2018 Financial Statements**

Ms. Mackewicz reported on the financial statements for the eight months ending February 28, 2018. Excess revenues over expenses before program related expenses were approximately \$3.1 million and approximately \$1.3 million after program related expenses including adjustments to the grant expense for Day Kimball Hospital which had its grant revoked. No bond issues appeared during the months of January and February. Total revenues were approximately \$183,000 over budget and expenses were approximately \$208,000 under budget.



**OTHER BUSINESS**

Dr. Lisi stated that all Board members should have received an electronic message from Attorney Ann Zucker concerning the Board Self-Evaluation Survey. He reminded the Board to respond to Attorney Zucker by Friday, April 20, 2018. Attorney Zucker will be contacting each Board member to schedule a telephone interview.

Dr. Lisi also reminded the Board members to submit their Statements of Financial Interest for 2017.

**ADJOURNMENT**

There being no further business, at 2:48 p.m., Dr. Lisi moved to adjourn the meeting and Mr. Varholak seconded the motion.

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

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

Respectfully submitted,

Jeanette W. Weldon  
Executive Director