STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting

February 20, 2019

The State of Connecticut Health and Educational Facilities Authority met at 1:30 p.m. on Wednesday, February 20, 2019.

The meeting was called to order at 1:34 p.m. by Mr. Peter Lisi, Chairman of the Board of Directors of the Authority. Those present and absent were as follows:

PRESENT:
Peter W. Lisi, Chairman
Michael Angelini
Elizabeth C. Hammer
Barbara B. Lindsay, Esq.
Dr. Estela Lopez
Christopher P. Martin *(Designee for Shawn T. Wooden, State Treasurer)*
Barbara Rubin
Mark Varholak

ABSENT:
Anne Foley *(Designee for Melissa McCaw, 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
Eileen MacDonald, Sr. Transaction Specialist
JoAnne N. Mackewicz, Controller
Michael F. Morris, Managing Director
Cynthia Peoples, Managing Director
Kelli Petrone, Administrative Assistant
Debra M. Pinney, Manager, Administrative Services
Jennifer Smyth, Legal Service Specialist
David Wasch, Government Programs Specialist/Legislative Liaison
Betty Weintraub, Grant Program Manager
of the Connecticut Health and Educational Facilities Authority

GUESTS:	Michael Andreana, Esq., Pullman & Comley LLC[1] Judith Blank, Esq., Day Pitney LLP Bruce Chudwick, Esq., Shipman & Goodwin LLP Kristine Flynn, Esq., Hawkins, Delafield & Wood, LLP[2] Scott Gibson, Executive Director, Oppenheimer & Co., Inc. Stella Gittens, Director, PFM Financial Advisors[3] Thomas Marrion, Partner, Hinckley Allen Shelby Lobitz, Analyst, Acacia Financial Group, Inc.[4] Edward Samorajczyk, Jr., Esq., Robinson + Cole LLP Jane Warren, Esq., McCarter & English, LLP

INTRODUCTORY COMMENTS

Mr. Lisi stated that Ms. Debra Pinney, Manager of Administrative Services, will be leaving the Authority after 12 plus years. He acknowledged her work and contributions over the last 12 plus years and extended his best wishes. Mr. Lisi welcomed Ms. Kelli Petrone, Administrative Assistant, who recently filled the Administrative Assistant position, held by Ms. Kathleen Owens.
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ELECTION OF VICE CHAIR

Mr. Lisi stated with Mr. Biancamano's passing, he requested a motion to elect Mr. Michael Angelini as Vice Chairman of the Board of Directors. Ms. Rubin moved to elect Mr. Michael Angelini as Vice Chairman of the Board of Directors, which was seconded by Dr. Lopez.

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

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

MINUTES

Mr. Lisi requested a motion to approve the amended minutes of the January 16, 2019 meeting of the Board of Directors. Ms. Hammer moved for approval of the amended minutes, which was seconded by Mr. Martin.

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

[1] Mr. Andreana joined the meeting at 1:56 p.m. and participated in the meeting via conference telephone that permitted all parties to hear each other.
[2] Ms. Flynn 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] Ms. Lobitz participated in the meeting via conference telephone that permitted all parties to hear each other.

AYES	NAYS	ABSTENTIONS
Michael Angelini	None	Christopher Martin[5]
Elizabeth Hammer		Mark Varholak[6]
Dr. Estela Lopez		Barbara Rubin[7]
Peter Lisi		
Barbara Lindsay		

EXECUTIVE DIRECTOR'S REPORT

Authority Updates

Ms. Weldon provided the following updates:

- Mr. Morris and Ms. Weldon provided testimony last week to the Higher Education Employment Advancement Committee, the Authority's Committee of Cognizants, in support of raised Bill 816 on cross-border financing. Ms. Weldon provided specifics of the proposed bill. Ms. Weldon indicated that there were no questions from the Committee and she stated she is hopeful that the Authority will achieve the additional authority to proceed with cross-border financing in this legislative session.

- Mr. Morris and Ms. Weldon also testified in support of Bill 815, which authorizes the use of insurance products for the surety bonds required for authority officers and directors.

- Student loans/financial aid are a major item on the agenda for the Higher Education Committee and Senator Will Haskell is in support of putting forth bills that relate to student lending. Senator Haskell is planning to propose a bill that would create a STEM loan program for CHESLA, which authorize the Authority to develop a product where a student could potentially have an interest rate of 0% on his/her student loan. The requirements to obtain this rate would be that the student would need to work within the State of Connecticut in a STEM field after he/she graduates. Staff has had conversations with the co-chairs of the Committee on the development of this product, which would require State approval for funding. Ms. Weldon added that there is potential for a public hearing on this proposed legislation over the next few weeks.

- Invitations were sent for a press event which is taking place at the Legislative Office Building, Rm. 1B at 10:00 a.m. on February 27, 2019 to recognize the Targeted Grant recipients and also recognize five other client grant recipients who received awards related to workforce training. Ms. Weldon encouraged the Board members to attend the press event.

Client Updates

[5] Mr. Martin abstained from voting as he did not attend the January 16, 2019 Board Meeting.
[6] Mr. Varholak abstained from voting as he did not attend the January 16, 2019 Board Meeting.
[7] Ms. Rubin abstained from voting as she only attended a portion of the January 16, 2019 Board Meeting.

Mr. Morris provided the following client updates:

- Two new applications were received: one from Connecticut State University System for approximately $50 million, in which proceeds will be used for various projects throughout the four universities. They may also be partially refunding one of their transactions which are currently callable; the other application was for Bristol Hospital for approximately $50 million to refund their 2002 bond issue, and use some of the proceeds for renovations. The Hospital transaction will be a true private placement transaction, which will go out to a number of investors, with Cain Brothers as the placement agent.

- One of the Authority's clients was audited by the Internal Revenue Service and the result of the audit was determined as 'clean' with no findings.

Market Update

Mr. Jandreau provided an update on the municipal market. Issuance increased 9% from last year and total issuance is under $25 billion, with approximately 73% consisting of new money transactions. Investor demand continues to be stable, driven by strong municipal bond inflows, which totals to approximately $10 billion thus far.

Mr. Jandreau reported that last month Yale University remarketed four outstanding transactions. These deals were met with good demand and they were two to three times oversubscribed.

Financial Report – December 2018

Ms. Mackewicz reported that there were no notable items on the financial statements as of December 31, 2018.

INDEPENDENT SCHOOL SECTOR REPORT

Mr. Morris provided an overview of CHEFA's independent school sector portfolio based on the FYE June 30, 2018 results. Mr. Morris reported that, overall, the sector remains stable, as rated by Moody's. Student demand remains strong and enrollment has had a slight increase and the balance sheets are favorable due to positive investment returns. Operating performance continues to remain stable and the schools are able to service their debt. Bank direct purchases continue to increase for this sector with limited new money issuance over the past five years, which is expected to continue.

Mr. Morris reported total outstanding debt for the sector is approximately $676 million, representing approximately 8% of the total debt. There were 54 bond issues for 34 schools (20 boarding; 14 day). Prior bank purchases account for approximately 63%, which has increased 25% from five years ago. There was a smaller amount of unenhanced debt outstanding from a few institutions, and a few institutions with bond insurer transactions. Approximately $50 million of outstanding debt in the sector is non-callable.

Seven of the 20 schools in the sector have their own rating. Mr. Morris stated Loomis Chafee's rating was upgraded by Moody's from "A2" to" A1" this past year and Moody's cites that strong

donor support and operating performance driven by healthy student demand was the reason for the upgrade. Only four of the day schools have their own rating, which were all rated “A” or higher. Nine out of the 14 day schools had bank direct purchase debt. Greenwich Academy had its outlook raised by Moody’s from stable to positive two weeks ago and they cited that the growth in financial liquid reserves, steady enrollment and robust student demand attributed to the increase in the outlook.
Mr. Morris reported approximately $400 million in bonds was issued for the sector over the past five years, with 26 bond issues for 15 schools. Refundings account for 64% of bonds issued with approximately 88% (in dollar amount and number of issues) were bank direct purchases.

Boarding schools had a slight increase in applications; however, the median decreased approximately 6% from the prior year. Day schools had an increase in applications of over 4.5% but the median increased a few percentage points over the past five years. Overall, the five-year trend for selectivity rates improved approximately 44% for the total schools. Selectivity and matriculation for the schools, in comparison to Moody’s medians from 2017, is unfavorable. Mr. Morris reported boarding school median for matriculation is the lowest level in past five years, which falls below Moody’s medians, which historically lagged. Three of the schools were above Moody’s median. The day school median was at the second highest level in the past five years. Seven of the day schools were above Moody’s median and Brunswick’s yield remains highest in the portfolio, averaging over 92% over the past five years.

Enrollment for the Boarding schools has been steady at approximately 7,600, with a slight increase from the prior year. As of the beginning of this fiscal year, approximately 20% of total enrollment was from international students. The median for the international students at the boarding schools was 70 students. Day school enrollment increased from the prior year after three consecutive years of decline, which was mainly due to one school.

Due to favorable investment returns, total expendable financial resources to debt increased to 10%, which allowed the cushion for debt to increase 30% from the prior year, with Moody’s median lagging behind for this past year. Six schools were below coverage for their debt 1.0 times. Expendable financial resources to debt for the day schools increased over the past three years and declined slightly for FY 2019. There were four schools above Moody’s median and three schools that were below Moody’s median by 1.0 times.

Expendable financial resources to operations for the sector had a steady improvement over the past three years but lower than five years ago. There were five schools greater than Moody’s median and seven schools greater than 2.0 times, with six schools below 1.0 times. There were no schools above the Moody’s median; and there were six schools that have less than one year’s cushion for operations and three institutions that have less than six months’ for operations.

Mr. Morris also reported that there was a slight decline, greater than 5%, in the portfolio for net tuition revenue growth and 6% of the portfolio with greater than 2% of net tuition growth. There were six schools reporting a decline in growth from last year. The median for the boarding schools increased from the prior year and for the day schools, the median expense growth increased slightly. Tuition discounting remained relatively stable for both the boarding and day schools with six schools that lowered their tuition discounting over the past five years. Day schools’ tuition discounting increased slightly over the past year, with four schools that lowered their discount from the prior year.

There as a slight decline in the median for operating cash flow for the day schools but the boarding schools had regular consecutive increases over the past three years. The day schools declined over the past year but mirrored the average for the previous three years at 14%. Mr. Morris noted that the median for annual debt service burden was approximately 5% for the boarding schools and approximately slightly higher than 4% for the day schools. Manageable debt service declined for the boarding schools from the prior year but was at its second highest level over the past five years. Eight schools were above Moody's median, with four institutions experiencing a decline for the prior year. The day schools had improvement over the past three years; overall, exceeding Moody's median. He added there was investment in facilities, despite debt being issued.

CHEFA Community Development Corporation

Ms. Aguilera recapped what was discussed at the January 16, 2019 Board of Directors meeting pertaining to the formation of the CHEFA CDE subsidiary, to be known as the CHEFA Community Development Corporation. Staff, along with special counsel, drafted the necessary documents for the formation of the corporation. In order to complete the incorporation, CHEFA must appoint the directors, and as the incorporator, needs to approve the corporation's organizational documents, in addition to other organizational matters. Ms. Aguilera referenced that the Board materials contained a resolution to appoint the directors and approve the documents of other matters. A revised resolution was included in the meeting handouts.

Ms. Aguilera indicated that the Certificate of Incorporation, which includes the primary mission of the Corporation, will be filed with the Secretary of State's office. Ms. Aguilera reviewed the remaining documents included in the Board materials, including a revised Statement of Incorporator. She indicated that the highlighted section on Page 2 was revised to reference the Secretary of Office of Policy and Management and the State Treasurer as members of the Board of Directors. The language was changed to clarify that the respective State official's designee for the CHEFA Board of Directors is deemed the official's designee for the CHEFA Community Development Corporation's Board of Directors, unless the State official designates another individual in lieu of CHEFA's designation. In the second to last paragraph, the word 'shall' was inserted before the word 'be'. Following this meeting, the Authority's Executive Director, on behalf of the Authority, will sign the Statement of Incorporator, which will serve in lieu of the organizational meeting of the Corporation. Ms. Aguilera reviewed the revised resolution, Items 1 through 5 and pointed out the changes to Item 2, Sections (h) and (i).

Ms. Lindsay inquired if the Conflict of Interest Policy models federal requirements and whether it tracks Connecticut's requirements, in Article 2, Definitions, referencing 'family'. A discussion ensued. The Board agreed to amend the resolution to include a reference to the Connecticut and federal requirements, in the Conflicts of Interest Policy, pertaining to the definition of family.

Mr. Lisi requested a motion to approve the amended Resolution #2019-06, Appointment of CHEFA Community Development Corporation Board of Directors and Approval of Governing Documents of CHEFA Community Development Corporation. Dr. Lopez moved to approve the amended Resolution #2019-06 and Mr. Angelini seconded the motion.

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

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

COMMITTEE REPORT

Audit-Finance Committee Report

Mr. Varholak reported that the Audit-Finance Committee met today and BerryDunn provided an internal audit report consisting of a review of policies and procedures related to bond covenants and internal controls, and a review of ongoing bond covenant requirements which was included in the Board materials. The BerryDunn report had some minor findings, of which some are already in the process of being corrected, and the auditors rated the Authority's internal controls over the tax-exempt equipment loan program as adequate to strong.

Mr. Varholak requested a motion to accept the BerryDunn Internal Audit Report on the Authority's Tax-Exempt Equipment Loan Program. Mr. Lisi moved to accept the BerryDunn internal audit report and Ms. Rubin seconded the motion.

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

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

Mr. Varholak reported that the Committee discussed staff's recommendation for the Authority's Independent Auditor, but at the time the Request for Proposal was issued, it did not include auditing the Community Development Corporation. Staff will obtain the additional fee schedule to audit the CDC from the two finalists before a final decision is made. A special meeting of the Audit-Finance Committee will be held in March to make a decision on the independent auditing service vendor for the next three years.

ADJOURNMENT

There being no further business, at 2:26 p.m., Dr. Lopez moved to adjourn the meeting and Ms. Lindsay seconded the motion.

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

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

Respectfully submitted,

Jeanette W. Weldon
Executive Director