

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting

March 27, 2019

The State of Connecticut Health and Educational Facilities Authority met at 1:30 p.m. on Wednesday, March 27, 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, Vice Chairman
Anne Foley (*Designee for Melissa McCaw, OPM Secretary*)
Elizabeth C. Hammer
Barbara B. Lindsay, Esq.
Dr. Estela Lopez
Barbara Rubin
Linda Savitsky (*Designee for Shawn T. Wooden, State Treasurer*)

ABSENT: Mark Varholak

ALSO PRESENT: Jeanette W. Weldon, Executive Director
Denise Aguilera, General Counsel
Kevin Barry, Accountant
Robert Blake, IT Specialist
Josh Hurlock, Assistant Director, CHESLA
Daniel Kurowski, Financial Analyst
Eileen MacDonald, Sr. Transaction Specialist
Michael F. Morris, Managing Director
Cynthia Peoples, Managing Director
Kelli Petrone, Administrative Assistant
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: Bruce Chudwick, Esq., Shipman & Goodwin LLP
Scott Gibson, Executive Director, Oppenheimer & Co., Inc.
Stella Gittens, Director, PFM Financial Advisors¹

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

Laurie Hall, Esq., Hawkins, Delafield & Wood, LLP²
Thomas Marrion, Esq., Hinckley Allen
Joshua Nyikita, Managing Director, Acacia Financial Group, Inc.
Edward Samorajczyk, Jr., Esq., Robinson & Cole, LLP
Namita Shah, Esq., Day Pitney LLP
Eric Taylor, Esq., Harris Beach PLLC
Jane Warren, Esq., McCarter & English, LLP
Ann Zucker, Esq., Carmody Torrance Sandak & Hennessey, LLP

UPDATE

Mr. Lisi welcomed Linda Savitsky, Deputy Treasurer, to the meeting as a representative from the Treasurer's office.

Mr. Lisi informed the Board that CHEFA made a donation to the First Tee of Connecticut in memory of John Biancamano and that John's family had responded with a letter of appreciation. Mr. Lisi thanked the Board for their support.

MINUTES

Mr. Lisi requested a motion to approve the minutes of the February 20, 2019 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:

AYES

Michael Angelini
Elizabeth Hammer
Barbara Lindsay
Peter Lisi
Estela Lopez
Barbara Rubin

NAYS

None

ABSTENTIONS

Anne Foley³
Linda Savitsky⁴

HIGHER EDUCATION SECTOR ANALYSIS REPORT

Mr. Morris presented the Higher Education Sector report for the FYE June 30, 2018. He reported that the sector had lower investment returns than FY 2017 but still in line with the national average. The cushion for debt and operations remains strong. The average rate of return in the portfolio is approximately 8% for FY 2018, which is in line with the national average which is 8.2%. Net tuition revenue growth has declined mainly because of tuition discounting. Student applications have increased. The median selectivity rate stayed the same as last year.

² Ms. Hall participated in the meeting via conference telephone that permitted all parties to hear each other.

³ Ms. Foley abstained from voting because they did not attend the February 20, 2019 Board meeting.

⁴ Ms. Savitsky abstained from voting because they did not attend the February 20, 2019 Board meeting.

Mr. Morris added that matriculation rates improved but they still remain low compared to Moody's. Total enrollment remains strong and is at its highest level in the past five years.

Mr. Morris reviewed the composition of the higher education portfolio noting that unenhanced transactions comprised the majority, at over 80%, and the total of \$4.80 billion accounts for approximately 63% of the entire CHEFA portfolio. Eight of the twelve institutions have their own credit rating. The University of New Haven received a rating from Moody's last year in connection with their bond issue. Trinity's outlook from Moody's declined from Stable to Negative citing continued net tuition revenue declines in weak growth. Quinnipiac's outlook from Moody's was revised from Stable to Positive citing strong cash flow margins and investment returns.

Since FY 2015, there were 32 bond issues totaling approximately over \$3.2 billion, with Yale accounting for 56% at total issued and 75% bond issues were refunding, with 10 of the 12 of those having new issues. Mr. Morris reviewed the student market demand profile noting that the number of applications increased 4.5% from FY 2018 and 12% from five years ago citing that all but two institutions experienced an increase from the previous year. Wesleyan University and Fairfield University reported an increase in each of the past 5 years with St. Joseph doubling after making the decision to operate as a co-educational institution.

Mr. Morris reported that although total applications increased 4.5% over the previous year, the selectivity median remains unchanged. However, nine out of the twelve institutions were more selective in FY 2019 than in FY 2018. The matriculation median decreased from prior year and lags from a high of 24.5% from five years ago while eight of the twelve institutions reported a lower yield than prior year and only half are above Moody's FY 2018 Median.

Mr. Morris noted that due to favorable investment returns, total spendable cash and investments for the portfolio increased over 12% from the prior year and over 26% from five years ago. Mr. Morris noted that Yale and Wesleyan account for approximately 94% of total spendable cash and investments. Mr. Morris noted that the portfolio's spendable cash and investment to debt ratio median was less favorable than Moody's median while the median cushion for operations was slightly more favorable. Mr. Morris reviewed the portfolio's liquidity position, noting a wide range of monthly days cash on hand in the portfolio and that the median significantly lags Moody's median.

Mr. Morris noted that although enrollment is strong, tuition discounting has steadily increased, with the median increasing from 34 to 39 % over the past five years and as a result the net tuition revenue growth greater than 5% declined significantly over the past five years. Mr. Morris noted that the annual operating margin median declined slightly from the previous year with four institutions experiencing operating losses and eight institutions had lower operating margins than the previous year. The operating cash flow margin median increased slightly over the prior year.

Mr. Morris reported that the overall debt service is manageable with the debt service to operations median at its lowest level over the past five years. However, the debt service coverage ratio median declined from the prior year and is 15.2% lower than five years ago.

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. A discussion ensued.

EXECUTIVE DIRECTOR'S REPORT

Authority Updates

Ms. Weldon provided the following updates:

- Ms. Weldon reported that CHEFA hosted a program at the legislative office building to acknowledge CHEFA grant recipients providing services in workforce development. Ms. Weldon stated that targeted grant recipients were the Workforce Development Boards and the Connecticut Center for Advanced Technology. Client grant recipients acknowledged for workforce development initiatives were University of Saint Joseph's, Central Connecticut State University, Sacred Heart University, Capital Community College, and Naugatuck Valley Community College. The program was attended by State Treasurer Shawn Wooden and Senator Will Haskell who is Co-Chair of the Higher Education Committee. The event was reported in the *Hartford Business Journal*.

Ms. Weintraub reported how the grants would be used and spoke about one speaker at the event, who was a beneficiary of a Workforce Development grant and how that recipient was able to achieve her education goals and provide a better life for her family.

Client Updates

Mr. Morris reported on the following client updates:

- Mary Wade is back on track after being on hold for two years and the project is ready to proceed. He stated that the project should be coming to Board on a preliminary basis in April and final in May.
- Yale New Haven Hospital is remarketing their variable rate debt with self-liquidity. He expects this to happen within the next few months.

Mr. Morris turned the floor over to Mr. Wasch for the following additional update:

- Mr. Wasch stated that CHEFA met with the Community Renewal Team (CRT), members of the Hartford Mayor's office, the Superintendent of Hartford Schools, and the Commissioner of Early Childhood Education, to discuss CRT's subsidized slots. Mr. Wasch reported that there are over 270 slots that CRT has that are currently underutilized and could be forfeited to the state if not transferred to other area organizations.

Legislative Updates

Mr. Wasch reported on the following legislative updates:

- Senate Bill 815 – This bill allows CHEFA to obtain an insurance policy in lieu of a surety bond to ensure the faithful performance of the duties of authorized officers or employees of the authority. This bill is currently in the senate for a vote.
- Senate Bill 816 – This bill allows CHEFA to engage in extra territorial lending so that bonds can be issued on behalf of organizations headquartered in Connecticut but with out-of-state projects. This bill was passed by the Higher Education Committee and should be heading for the Senate.
- Senate Bill 865 – This bill is to establish a STEM Loan Subsidy Program to provide persons employed in science, technology, engineering or math fields with no or low interest student loans. This bill is currently with the Joint Finance, Revenue and Bonding Committee. CHEFA management is working with the Co-chairs of this committee to see if the Authority can help facilitate the passing of this bill.
- Senate Bill 879 – The quasi-public agency transparency bill that would impose additional reporting requirements. CHEFA staff met with Chris Soto to discuss substitute language that would make it more manageable for the Authority and other quasi-public agencies.
- Senate Bill 917 – This bill is intended to redefine privatization contracts and impose additional requirements for approvals on contracts with vendors. It has made it out of committee and is potentially going to a senate for a vote. An addendum was added to show the high cost of the bill.

CHESLA updates

Mr. Hurlock provided an update on CHESLA's newly selected providers for Loan Origination and Servicing. He also provided an update on marketing outreach and other CHESLA activities.

Interest Rate Update

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

Financial Report – December 2018

Ms. Peoples reported on the financial statements for the six months ending December 31, 2018.

SALES REPORTS

Westminster School Issue, Series K

Mr. Joshua Nyikita from Acacia Financial Group presented the sales report for Westminster School Issue, Series K.

PRELIMINARY STAFF MEMO

Connecticut State University System Issue, Series Q

Mr. Morris presented the Preliminary Staff Memo for the CSU System Series Q Issue, noting that the offering of approximately \$95 million will be used to refund approximately \$21.3 million

of the System's Series I bonds and to finance approximately \$77.0 million for the construction and renovation of a number of projects at the four state universities.

Mr. Morris provided details on the financing structure of the competitive sale issue, including the proposed ratings and security provisions.

Mr. Morris reviewed the student demand trends of the System, including applications received, selectivity rates and matriculation and enrollment over the past five years.

Mr. Morris provided an overview of the Special Capital Reserve Fund guarantee by the State and the requirements needed for the Treasurer and the Office of Policy and Management to approve the transaction. Mr. Morris explained the System's methodology for repayment of debt service for the proposed transaction as well as previously incurred debt.

Mr. Morris reviewed the cash flow projections provided by the System, which included projected enrollment and fee assumptions demonstrating debt service repayment. Mr. Morris noted that the System was in the process of preparing alternative scenarios as requested by the Treasurer's Office and OPM to test debt service capacity in the event of enrollment declines. These scenarios will be presented at next month's Board meeting when Staff will seek final approval.

A discussion ensued.

AUDIT-FINANCE COMMITTEE REPORT

Mr. Lisi provided the report from the Audit-Finance Committee. He stated that in the prior week the Audit-Finance Committee had a special telephonic meeting to continue discussions on choosing CHEFA's independent auditor. He reported that at the CHEFA Board meeting in February, Management provided an overview of the RFP process and proposed that the Board accept the Committee's recommendation of maintaining CohnReznick for a period of three years. The Board requested that management solicit an addendum to the RFP addressing fees for the audit of the CHEFA Community Development Corporation (CHEFA CDC). The two finalist firms provided fees in response of the request and after a discussion; the Audit-Finance Committee approved a motion to recommend renewal of CohnReznick as the independent Auditor.

Mr. Lisi requested a motion to approve the recommendation of the Audit-Finance Committee. Ms. Rubin moved for approval of the recommendation, Ms. Lopez seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Michael Angelini Anne Foley Elizabeth Hammer Barbara Lindsay Peter Lisi	None	None

Estela Lopez
Barbara Rubin
Linda Savitsky

CHEFA COMMUNITY DEVELOPMENT CORP RESOLUTIONS

Assignment and Assumption of Affirmative Investments, Inc. Consultant Agreement

Ms. Aguilera reported that In October of last year, CHEFA contracted with Affirmative Investments, Inc. for consulting services in connection with the development of a New Markets Tax Credit program, with the intention of assigning the contract once a subsidiary was created to carry out the program. The contract contains two phases: the first phase was the provision of an education and a training session for the Board members and this has been completed. The second phase includes completion and submission of a CDE certification application, assisting in the preparation of the application for a New Markets Tax Credit allocation and other services in connection with carrying out the program. Currently, the consultant is working on preparing the CDE certification application for the CHEFA Community Development Corporation. The contract includes a provision permitting an assignment of the contract to a CHEFA subsidiary. Ms. Aguilera stated that the subsidiary has been formed, the consultant is providing services to the subsidiary, and staff recommends assigning the consultant agreement to the CHEFA CDC.

Mr. Lisi requested a motion to approve Resolution #2019-07, Assignment and Assumption of Affirmative Investments, Inc. Consultant Agreement. Ms. Rubin moved to approve the motion, which was seconded by Ms. Savitsky.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Michael Angelini Anne Foley Elizabeth Hammer Barbara Lindsay Peter Lisi Estela Lopez Barbara Rubin Linda Savitsky	None	None

Memorandum of Agreement with CHEFA Community Development Corp.

Ms. Aguilera stated that the next resolution proposed a memorandum of agreement between CHEFA and the CHEFA CDC to memorialize the understanding of the two entities regarding the provision of support services and financial assistance by CHEFA. The Board previously authorized up to \$213,000 for the formation and operation of the New Market Tax Credit program with the intention that such funds would be reimbursed by CHEFA CDC. Currently, over \$34,000 has been expended. The memorandum of agreement provides that

reimbursement to CHEFA for expended funds will be made by CHEFA CDC when it has available unrestricted cash. It also provides a process for CHEFA to request payment for services provided on a going forward basis..

Mr. Lisi requested a motion to approve Resolution #2019-08, Memorandum of Agreement with CHEFA Community Development Corporation. Ms. Rubin moved to approve of the motion, Mr. Angelini seconded.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Michael Angelini Anne Foley Elizabeth Hammer Barbara Lindsay Peter Lisi Estela Lopez Barbara Rubin Linda Savitsky	None	None

ADJOURNMENT

There being no further business, at 2:43 pm., Mr. Lisi moved to adjourn the meeting and Ms. Foley seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Michael Angelini Anne Foley Elizabeth Hammer Barbara Lindsay Peter Lisi Estela Lopez Barbara Rubin Linda Savitsky	None	None

Respectfully submitted,

Jeanette W. Weldon
Executive Director