

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Special Board Meeting – January 26, 2010

The State of Connecticut Health and Educational Facilities Authority met at 2:00 p.m. on Tuesday, January 26, 2010.

The meeting was called to order at 2:01 p.m. by Barbara Rubin, Chair of the Board of Directors of the Authority. Upon roll call those present were as follows:

PRESENT: John Biancamano
 William Cibes, Jr., Ph.D.
 Benson R. Cohn
 John Mengacci (Rep. Secretary Robert Genuario)
 Barbara Rubin, Chair
 Sarah Sanders, (Rep. Honorable Denise Nappier)

ABSENT: Bryan Pollard
 Patrick Colangelo, Vice Chair

ALSO PRESENT: Jeffrey A. Asher, Executive Director
 Kimberley Fontaine, Marketing & Philanthropy Manager
 Paula Herman, General Counsel
 Tara Keating, Grants Administrative Assistant
 Joanne Mackewicz, Controller
 Michael Morris, Assistant Director
 Cynthia Peoples, Assistant Director
 Debra Pinney, Manager, Administrative Services
 Norberto Ramirez, Compliance/Internal Auditor
 Jennifer Smyth, Manager, Legal Services
 David Wasch, Manager, Child Care Programs
 Jeanette Weldon, Managing Director
 of the Connecticut Health and Educational Facilities Authority

GUESTS: Michael Andreana, Esq., Pullman & Comley
 Andress Appolon, Senior Associate, Siebert Brandford & Shank LLC
 Julie Balerna, Vice President, The Bank of New York Mellon
 Jeremy Bass, Consultant, Public Financial Managment
 Coleman Casey, Esq., Shipman & Goodwin LLP
 Estelle Dick, Assistant Vice President, Chase Commercial Banking
 Laurie Hall, Esq., Hawkins, Delafield & Wood

Jonathan Kirn, Managing Director, Siebert Brandford & Shank LLC
Jason Krechko, Engineer, GZA GeoEnvironmental, Inc.
Karen Mercer, Vice President, JP Morgan Chase Banking, N.A.
Edward J. Samorajczyk, Jr., Esq., Robinson & Cole LLC
Elizabeth Schramek, Senior Banker, RBC Capital Markets
Namita Shah, Esq., Day Pitney LLP
Tiffany Stevens, Esq., McCarter & English LLC
Christopher Valentino, Lamont Financial Services Corp.
Noreen White, Co-President, Acacia Financial Group, Inc.
John Yarbrough, Esq. Carmondy & Torrance LLP

MINUTES

Ms. Rubin requested a motion for approval of the minutes of the December 8, 2009 Board of Directors meeting. Mr. Biancamano moved for approval of the minutes, which was seconded by Dr. Cibes.

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

AYES

John Biancamano
William J. Cibes
Benson Cohn
John Mengacci
Barbara Rubin
Sarah K. Sanders

NAYS

None

ABSTENTIONS

None

Ms. Rubin requested a motion for approval of the minutes of the January 14, 2010 Special Board of Directors meeting. Mr. Biancamano moved for approval of the minutes, which was seconded by Mr. Cohn.

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

AYES

John Biancamano
William J. Cibes
Benson Cohn
John Mengacci
Sarah K. Sanders

NAYS

None

ABSTENTIONS

Barbara Rubin¹

PRELIMINARY STAFF MEMO

Ascension Health Issue, Series 2010

Mr. Morris reported that Ascension Health is seeking final approval in February 2010 for a new issue. Typically, “AA” credits do not require two meetings for approval, but given the size of the transaction and the unenhanced structure, Staff wanted to provide the Board with a preliminary review. It is a \$150 million issue for St. Vincent’s Medical Center, which is an Ascension affiliate. The issue is part of \$1.4 billion offering with bond issuers in five states. The financing structure has not been finalized but it will be a combination of a fixed-rate and variable rate. Mr. Morris noted that Ascension is the largest nonprofit healthcare system in the U.S. and operates in 20 states and the District of Columbia. It has a total of 18,000 available beds (12,000 acute care).

Ascension is rated “Aa1” by Moody’s and “AA” by S&P. The rating should remain the same for the new issue. Security will be a general obligation pledge as well as a gross revenue pledge. The bond proceeds will be used to reimburse St. Vincent’s for a project that is substantially complete and consists of a four story, 125,000 square foot building, which will relocate and expand the ER department, new outpatient cancer center and parking garage. Ascension’s financial operations have been stable with consistent operating margins, although in FY 2009, its operating margin declined to 2.60%. The excess margin was negative 5.68%, reflecting a \$1.0 billion investment

¹ Ms. Rubin stated that she will abstain due to her absence at the January 14, 2010 meeting.

loss for FY 2009. Mr. Morris stated that Ascension has strong debt service coverage on \$4.3 billion of debt outstanding. As of September 30, 2009, the hospital had \$6.3 billion in unrestricted cash and investments which equaled 175 days cash on hand, up from 158 days as of FYE June 30, 2009. They need to provide liquidity for their puts and tender bonds which totaled approximately \$1.9 billion. Mr. Morris stated that Ascension's total daily and weekly liquidity is \$5.4 billion, which includes a line of credit and undrawn proceeds of a commercial paper program. Mr. Morris said that regarding utilization, discharges are up from FY 2008 to FY 2009 as well as the three months ending September 30, 2009. Average length of stay was at 4.41 days as of September 30, 2009, down from 4.58 days at June 30, 2009. Ascension's emergency room visits were up 4.4% as of September 30, 2009 as compared to 2008, and surgical visits rose slightly at 1% for the three months ending September 30, 2009.

Ms. Rubin inquired if Ascension is expected to maintain its rating with the full issuance of the additional debt, and asked how St. Vincent's has funded construction to date. Mr. Morris stated that he believes that Ascension's rating should stay the same and financing for the project was provided with internal funds. Mr. Asher added that Ascension typically does their deals by issuing their debt nationally and a lot of their investments are co-mingled. Ms. Sanders asked what caused the large loss in investment return. Mr. Morris stated that approximately \$1 billion in investment losses were unrealized losses. Dr. Cibes inquired if there was a problem within the State of Connecticut if this was a public institution using bond funds to reimburse for investments that had already been made. Mr. Asher stated tax exempt bond proceeds can be used as long as the intent to reimburse internal funds is documented properly. Mr. Biancamano mentioned that the resolution has to come before the spending. Mr. Asher added that it is Staff's assumption that they will have the appropriate documentation to evidence that. Mr. Morris stated that Hawkins, Delafield &

Wood are the bond counsel on this issue. Dr. Cibes asked if the obligation will go to the full Ascension obligated group. Mr. Morris affirmed that the bonds will be an obligation of the Ascension obligated group.

Fairfield University Issue, Series O

Mr. Morris reported that Fairfield University is seeking approval of a new bond issue to finance student housing projects and refund its Series H issue. Fairfield University would like to issue unenhanced fixed-rate bonds based on their own credit. The ratings are currently “A3” from Moody’s and “A-” from S&P. Neither rating has been confirmed. The security is the same as in the previous Series N issued in 2008, with no mortgage or gross receipts pledge. In addition, the underwriter and institution are requesting no debt service reserve fund, stating that the additional layer of security is not needed for an “A” rated credit. Mr. Morris listed other examples of colleges with “A-” ratings that had no debt service reserve. The examples were: Alma College in Michigan; Pitzer College in California; Georgetown and DePaul. Mr. Morris added that CHEFA is not ready to make a recommendation at this time.

Ms. Rubin asked for an estimate of what the additional cost of the debt service reserve fund would be for the institution. Mr. Morris replied that a debt service reserve would be funded at \$5.5 million dollars. The bond yield would be roughly 5% compared to earnings on the fund which would be below .5%. Dr. Cibes requested Mr. Morris to obtain additional examples of other “A-” rated entities which have no debt service reserve fund. Mr. Cohn added that he would like to see examples from entities in Connecticut. Mr. Morris agreed he would obtain additional examples.

Mr. Morris added that the project is consistent with Fairfield's strategic plan and will address student housing needs on campus through construction of a new residence hall, an apartment style building, purchase of residential facilities, and upgrade and conversion of a former Jesuit living facility to student housing. The goals of the plan are to eliminate tripling of freshmen, overcrowding in the townhouses and limiting the number undergraduates living off-campus. The college anticipated an increase in number of beds by 272 by the year 2012. Applications for fall 2009 were down 5% from the previous fall (record year); although applications are up over 20% from fall of 2005. The acceptance rate has increased to 65% which is the second highest in the past five years. The college's matriculation historically has been low, and decreased to just below 16% for FY 2010. Mr. Morris stated that Fairfield has strong retention from freshmen to sophomore year and the freshmen to graduation retention statistics are also strong. The college's enrollment is steady. Operationally the college has strong operating results. The operating margin is favorable at 3% for FY 2009, down from a high of 11% in FY 2006. Part of the decline is due to an increase in University sponsored financial aid. The endowment as of October 31, 2009 was \$217 million down from \$271 million at fiscal year end 2007, of which approximately 50% is unrestricted. The expendable resources to debt are at 0.4 times; this low number is probably more in line with a "Baa" median. Mr. Morris stated that the expendable resources to operations are slightly better at 0.58 times. Fairfield's annual debt service burden is high at 9.0%; however, on a pro forma basis, they were able to cover that debt service coverage ratio of 1.70 times. Fairfield will be meeting with the rating agencies and seek CHEFA's approval in February.

Ms. Sanders inquired would going without a reserve fund be a modification or a waiver of the Authority's existing underwriting guidelines. Mr. Morris responded no; CHEFA did not adopt any formal requirements regarding security provisions and that each issue is evaluated on a case-by-

case basis. Ms. Rubin questioned if we have done this before for an “A” or “A-” rated college and if so, who were the underwriters. Mr. Morris stated that this would be the first “A-” credit issued without a debt service reserve fund and JP Morgan was the underwriter. Ms. Rubin asked if JP Morgan was endorsing this. Mr. Morris stated that JP Morgan had proposed the structure and indicated that if it were a “BBB+” rating, the market would require a debt service reserve. Ms. Sanders raised the issue of setting a precedent for other transactions if CHEFA were to approve a structure without a debt service reserve fund.

FINAL STAFF MEMO

Catholic Health East Issue, Series 2010

The major issue for Catholic Health East during the preliminary review in December 2009 was the discrepancies among rating agencies. Mr. Morris stated that CHEFA did follow-up with the rating agencies as well as the institution. Each rating agency has its own methodology. There were adjustments made to financial statement line items based on confidential information provided to each agency by Catholic Health East. Mr. Morris said that the information given varied for each rating agency. Consequently, it was difficult to reconcile. The rating agencies indicated adjustments were made in the following categories: unconsolidated organizations, restructuring and impairment losses, and investment income (losses). Mr. Morris stated that the bottom line is that Catholic Health East had \$1 billion decrease in unrestricted net assets in FY 2008 and a \$427 million increase in FY 2009. Ultimately, Staff’s recommendation is based on the rating.

Mr. Morris said that all three rating agencies agree that Catholic Health East has strengths in substantial geographic dispersion. They have a highly centralized multi-state system, a capable

management team, manageable debt service burden, conservative investment allocations, and a \$150 million line of credit with seven banks which provides another source of liquidity. The challenges are the FY 2008 operating results, a decline in absolute liquidity, collateral swap postings, and weak performance in two key markets- Atlanta and Miami. Mr. Morris added that Catholic Health East's collateral swap posting was reduced to zero as of January 2010.

Mr. Morris stated that the underwriter proposes to initially market this issue without a debt service reserve fund. None of the other issuers are requiring the reserve fund because the bonds of those issues are so short (maximum maturity of 8 years). However, CHEFA's portion matures in 2029. Mr. Morris added that Moody's research states that a debt service reserve fund is more important for institutions with limited recourse financings where adverse developments cannot be shared over a broader system or for institutions rated "Baa1" or below. Catholic Health East does not fall into that category. As of September 30, 2009 the institution reports that it had \$1.45 billion in unrestricted cash and investments, which equals 126.4 days cash on hand. They had \$1.8 billion in long-term debt outstanding. This is a large refunding issue for the system, between \$250 million and \$350 million, depending on market conditions. Mr. Morris said that the net present value savings for the Connecticut issue is roughly 5%.

Mr. Asher inquired if the whole system is obligated on the debt. Mr. Morris confirmed that the whole system is obligated on the debt. Mr. Morris stated that you could have one issuer with a debt service reserve fund, but it would make it harder to market the other pieces. Ms. Sanders asked if we had debt service reserve funds that were transferred over from the other prior bonds. Mr. Morris indicated that the bonds from 1999 did not have a debt service reserve fund; it was

insured by MBIA. Mr. Mengacci asked who the underwriter was. Mr. Morris replied that Bank of America Merrill Lynch and Goldman Sachs are the underwriters. Ms. Rubin questioned if the gross revenue pledge provides additional security. Mr. Morris stated that if the loan defaults, revenues are deposited into a lock box. Ms. Rubin indicated that there are two major issues, the precedent issue and the credit issue. Ms. Rubin inquired as to what Staff recommended. Mr. Morris requested approval without a debt service reserve fund. Ms. Sanders questioned if this was the first time we went without a debt service reserve fund. Mr. Morris responded that it would be the first hospital. Ms. Weldon stated that the underwriting guidelines were written without specific security covenants to allow for adjustment to market changes. Dr. Cibes requested that Staff provide specific criteria to use as a basis for recommendation of not having a debt service reserve fund. Ms. Rubin stated that CHEFA has not conformed to what the market would bear because, while we do not have legal responsibility to protect the ultimate buyers, we have a moral obligation to make sure the structure is reasonable. Ms. Rubin asked what CHEFA's evaluation criteria should be when considering the absence of a debt service reserve fund. Ms. Weldon stated that a key criterion is the rating, and that the agencies will be assigning a rating to the issue without a reserve. If the rating agencies come back confirming the rating knowing there is no reserve, they would be recognizing other credit characteristics that offer strength. Mr. Asher added that when CHEFA developed the underwriting criteria, minimum rating thresholds for offerings were set. CHEFA allows flexibility on a deal-by-deal basis to accommodate market changes. Ms. Rubin stated that in order to facilitate staff recommendations, criteria must be established.

Mr. Mengacci moved to approve the Catholic Health East Series 2010 issue without a debt service reserve fund provided that at the time of issuance the ratings are "A" rating or better. Dr. Cibes seconded his motion.

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

AYES

John Biancamano
William J. Cibes
Benson Cohn
John Mengacci
Barbara Rubin
Sarah K. Sanders

NAYS

None

ABSTENTIONS

None

Yale University Issue, Series 2010A

Ms. Peoples stated that Yale University Issue, Series 2010A, will most likely be structured into four parts. The issue includes \$450 million in new money structured in three parts; \$150 million with a bullet maturity in the 40-45 year range, \$150 million with a bullet maturity in the 30-35 year range, and \$150 million with a bullet maturity of 5 years. The fourth part of the bond issue is the refinancing of the 2002 Series W, for \$89.5 million. Ms. Peoples reported that, currently, the University has outstanding CHEFA bond issues totaling \$2.2 billion and the addition of Series 2010 will bring the total outstanding CHEFA debt to approximately \$2.6 billion. The structure is fixed-rate and unenhanced based on the University’s own ratings. The University is rated “Aaa/AAA” with a Stable outlook by both S&P and Moody’s reaffirmed in October of 2009. The rating agency's primary concerns were liquidity risks. The projects include numerous construction, capital improvement and renovation projects throughout the campus. The University has slowed its capital growth program as funding sources have decreased. They are currently focusing on projects already in progress as of December 2008, and the University is postponing other major projects until more funding resources become available.

The demand continues to be very strong for Yale University with applications for fall 2009 increasing 13.9% to 26,003 over the fall 2008, total of 22,817. The selectivity at 7.5% for fall

2009 decreased over 2% over the last five years from 9.7%. Matriculation has decreased over the same five years, although it is still very favorable at 67.7% from 71.3%. The retention rate for freshman to sophomore is 99%, and from freshmen to graduation retention is at 95%. The enrollment has increased by almost 300 students to 11,523 from 11,252 over the last five years. The student quality still remains high with 1490 SAT scores, with a score of 750 of 800 on the writing portion, ACT scores of 35 out of 36, and 95% of the students represent the top 10% of their graduating class.

Ms. Peoples reported that Yale University continues to experience strong fundraising. The ‘Yale Tomorrow’ campaign has a \$3.5 billion goal and was launched in 2006. The campaign is scheduled to end in June 2011 with approximately \$700 million to go. By September 30, 2009 the University raised \$2.8 billion. The endowment is still high, as of June 30, 2009 although it was down 39% from \$23.6 billion on June 30, 2008 to \$16.3 billion resulting in negative returns for the year of 24.6%. Less than 50% of the endowment continues to be unrestricted. Ms. Peoples said that the University has a diversified revenue base with less than 9% coming from net student income, but a strong reliance on their endowment draw which accounted for 45% of total revenues in FY 2009 of \$1.16 billion. The University has expendable resources of \$13.8 billion at FY 2009 down from \$20.9 billion in FY 2008 resulting in coverage for debt of 4.1 times and operations of 5.5 times which are both decreases from 6.8 times and 9 times over FY 2008. While the University’s balance sheet remains strong – though still affected by the current market conditions - they experienced a significant decrease in net assets for the FY 2009.

Mr. Asher stated that he and Ms. Peoples had a meeting with Yale University to propose structure modifications. Mr. Asher suggested Yale University consider appointing a number of retail based

co-managers and conduct a retail order period. The University concurred. The senior managers on the transaction are Barclays and JP Morgan. The five co-managers would be Morgan Stanley, RBC Dain Rauscher, Siebert Brandford Shank, Piper Jaffrey, and Bank of America Merrill Lynch. Mr. Asher said that the timing will be difficult but the firms will be contacted so they can be aware of the transaction that is coming into the market late next week or the following week. Mr. Asher stated the POS will be made available as soon as possible, and that CHEFA believes there will be many interested retail investors.

Mr. Cohn inquired as to what the content is of the “Total of Other Liabilities” line on the balance sheet. Ms. Peoples indicated that she would provide Mr. Cohn with the content of that figure.

Ms. Rubin requested a motion for approval of the Yale University Issue, Series 2010A. Mr. Biancamano moved for approval, which was seconded by Dr. Cibes.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
William J. Cibes		
Benson Cohn		
John Mengacci		
Barbara Rubin		
Sarah K. Sanders		

COMMITTEE REPORTS

Audit-Finance Committee

Mr. Cohn reported that the Audit-Finance Committee accepted the draft audit report from the Compliance Internal Auditor on the Strategic Business Plan and on the Easy Lease Easy

Loan Program. Both audits were clean without recommendation and the Audit-Finance Committee congratulated Staff. Mr. Cohn stated that the Audit-Finance Committee also made a change in the compensation structure for the Compliance Internal Auditor. The change will delete any eligibility for a bonus and build a portion of what the bonus might have been into his base salary.

Ms. Rubin requested a motion to approve the draft audit report from the Compliance Internal Auditor. Mr. Cohn moved to approve the report and Mr. Mengacci seconded his motion. All were in favor.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
William J. Cibes		
Benson Cohn		
John Mengacci		
Barbara Rubin		
Sarah K. Sanders		

Consultant Committee

Ms. Rubin reported that the Consultant Committee approved 31 firms as potential Senior Managing Underwriters and approved three additional firms as potential Co-Managing Underwriters.

Mr. Cohn moved to approve the Consultant Committee’s recommendations for underwriting firms and Dr. Cibes seconded his motion.

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

AYES

John Biancamano
William J. Cibes
Benson Cohn
John Mengacci
Barbara Rubin
Sarah K. Sanders

NAYS

None

ABSTENTIONS

None

CREDIT UNION LEAGUE OF CONNECTICUT STUDEN LOAN PROGRAM

Mr. Asher stated that the Credit Union League of Connecticut Student Loan Program was enacted by the Legislature, and CHEFA’s agreement with the State was that the program would end on December 31, 2009 unless extended. The Authority was in the process of drafting information for the Board to extend the program. However, Staff has been informed by the Governor’s Office, as well as the Credit Union League of Connecticut, that a decision was made not to extend the program beyond December 31, 2009. Mr. Asher added that CHEFA is currently waiting for information from the Credit Union League on what loans are currently outstanding. The Authority has a financial commitment on those loans which have been made, and the balance of the funds will not be committed to the Credit Union. Dr. Cibes inquired if there were not as many takers as we expected. Mr. Asher replied that he did not know, and that he was only informed that the program is not continuing. The Authority expects to have to set aside approximately \$600,000 to cover the maximum exposure.

Dr. Cibes recommended that CHEFA identify any other programs that require reserves.

INDEPENDENT SCHOOL SECTOR ANALYSIS REPORT

Mr. Morris provided an overview of the Authority's Independent School Sector Analysis for FY 2009. The full report was sent to all Board members. As expected, the most notable result for FY 2009 was a decline in financial resources for almost all the schools, in particular the boarding schools. While many most likely have benefited from a partial recovery in equity markets for this year, they are still far below FY 2007 levels. Mr. Morris reported that from FY 2005 to FY 2009 CHEFA issued approximately \$490 million for 29 issues for 21 schools. Since FY 2008, 70% of issues were fixed-rate transactions. The total debt outstanding in the portfolio is approximately \$672 million, an increase of over 27% since FY 2005. Composition of the credit enhancement provided has undergone major transformation, most notably, unenhanced issues increasing from 12% to 19%. Mr. Morris reviewed variable rate transactions, whose letter of credits are set to expire over the next six months. Although both Rectory School and Washington Montessori's letters of credits were renewed recently, their fees increased significantly. In addition, the Rectory School was required to grant Allied Irish a mortgage on the facility. Staff divides the schools into tiers because in the past many schools outside Tier I did not have underlying ratings. Currently, 11 out of 19 boarding schools have underlying ratings while three of the 16 day schools have ratings.

Mr. Morris reviewed the applications received since FY 2007, noting that the boarding schools demand remained relatively strong despite the decline in the economy. However, applications received for the upper day schools declined 1.5% during this period, while the lower day schools declined over 14%. Enrollment trends since FY 2007 were similar to the applications received, with a small growth for the boarding schools, while both the upper day and lower day schools experienced declines. Mr. Morris stated that CHEFA's selectivity median declined from 52% to 46% since FY 2007. Boarding schools have become more selective from 47% to 43% but remain

between Moody's "A" and "Baa" ratings. The lower-day schools still have the highest selectivity. Overall, only six schools had have selectivity rates below the Moody's "Aa" rating of 28%. Despite the high selectivity rates for the lower-day schools, the matriculation continues to be favorable. Mr. Morris stated that upper day schools are equal to Moody's "Baa" rating and CHEFA's median and boarding is well below Moody's "Baa" median which historically lagged with a decline from a high of 53%. The decline is not a major concern as Moody's rating reports will look upon a matriculation rate around 50% as favorable. Mr. Morris reviewed the impact of the decline in expendable resources since FY 2007 as it compares to the median ratios for debt and operations. After favorable increases in the medians from FY 2005 to FY 2007, over the past two fiscal years, there were significant declines for both the boarding and day schools. The CHEFA median for debt coverage declined approximately 30%, while the cushion for operations CHEFA median declined over 43%. While these declines are significant, it is difficult to compare against other schools in which Moody's rates because those medians will not be available until the fall. Mr. Morris reviewed the overall medians for annual debt service burden stating that they compared favorably to Moody's medians even tough Moody's medians were for FY 2008, but should not vary significantly in FY 2009.

Mr. Morris concluded the presentation with a review of significant trends affecting the independent school sector, including future debt issuance and the likelihood of more unenhanced and private placement transactions; future letter of credit renewal risk; impact of the economy with student demand and additional financial aid requests; and schools that had financial covenant defaults in FY 2009.

Ms. Rubin thanked Mr. Morris for the report.

ANNUAL STATUS REPORT- ARBITRAGE REBATE

Ms. Peoples reported on the status of the arbitrage rebate function. CHEFA is currently adding a few more layers of checks and balances to the process of performing calculations such as, creating a TRA summary and a checklist of numerous items for review that affect the structuring of rebate calculations. The data systems are still in the update process. The system retains all of the key calculation information. CHEFA's calculation volume is still high as it continues to outsource to three different rebate shops. Page three of report shows a decrease in Construction Funds, but a slight increase over the same two years in bond issues. Arbitrage for all bond issues has to be maintained until each issue is fully redeemed.

Ms. Peoples stated that the cost over the last 18 months has resulted in approximately \$210,000 worth of outsourcing, so over the next 18 months, CHEFA will concentrate on bringing the calculations in-house to return the cost back to the use of internal staff. Ms. Peoples added that once the new processes are solidified and data systems are in place over the next six to 12 months, the number of calculations outsourced will decrease. The focus with outsourcing has been to bring the calculations to ground zero. If a fifteen year calculation was due, the five-year and the ten-year were also performed. As a result, some adjustments have been made as necessary. When the framework is in place, it is expected to bring calculations back in-house as the flow and volume will be more manageable.

Mr. Asher added that the volume of transactions is important. There were a total of 131 calculations and 46 of them were done in-house over the last 18-months. It is anticipated another

109 calculations will be performed over the next 18-months. Ms. Rubin inquired if there was a breach, would the borrowing institution have a tax liability. Ms. Peoples replied that if they have not met their required exceptions, they will have to pay above the bond yield which they have earned to the IRS. Ms. Rubin asked what the biggest exposure was. Ms. Peoples explained that one of the highest paid was Backus Hospital at \$308,500 over the last 18-months. Dr. Cibes asked was this considered a penalty or is it a matter of calculation liability. Ms. Peoples stated that it is just a liability. Dr. Cibes inquired if there were any egregious errors found in the review. Ms. Peoples replied that CHEFA did find calculation errors through former calculation modifications and those changes were adjusted and fully addressed with the IRS.

Dr. Cibes suggested that Staff contact all clients regarding miscalculations and errors. Ms. Peoples indicated that CHEFA is trying to add additional client communication layers. The clients have been very responsive resulting in meeting more spend down exceptions in some cases. Dr. Cibes asked if CHEFA is required to offer this service or is it just another benefit of borrowing through CHEFA. Ms. Peoples responded that it is in conjunction with providing the compliance services, trust statement services, managing the construction fund and others adding another layer for our clients. Arbitrage directly affects the tax-exempt status of the bonds and it is something the Authority would have to monitor anyway. Mr. Asher added that CHEFA's clients would have to hire consultants for that service if left in their hands, and that the Authority does it as a benefit to clients. Ms. Peoples pointed out that the Authority provided its clients with a webinar in November 2009 which provided information and a platform for questions on the IRS Revised Form 990 Schedule K which was well attended.

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Mr. Morris reported that the Hospital for Special Care's mandatory tender took place on January 19, 2010, and Webster Bank purchased the bonds. The Hospital was very appreciative of the Special Meeting of the Board of Directors on January 14, 2010 to effect the purchase. The Hospital intends to seek final approval at the February 23, 2010 meeting to refinance its Series D bonds and incur additional debt for a neurobehavioral building.

The Summary of Financings report reflects the closing for Hopkins School, Series C.

Mr. Morris also mentioned that Staff has a call into Stamford Hospital to find out about their financing plans and timetable.

Market Interest Rate Update

Ms. Peoples stated the Federal Open Market Committee was currently holding the first of a 2-day meeting. There are speculations that the interest rates will remain on hold, and there may be an emphasis on winding down some federal programs. Regarding the report the Board of Directors received on interest rates, Ms. Peoples stated it contains averages that have changed since the last market update since we are now in 2010 the averages are now since 1990 rather than 1989. The one month LIBOR has a new low from November 26, 2009; it changed in the thousandths, although it may look the same, for a new low on January 19, 2010. The SIFMA index had its previous low on December 2, 2009 of .22%, which is now down to .15% as of January 6, 2010.

CHEFA FINANCIAL OPERATIONS

November 2009 and December 2009 Financial Statements

Ms. Mackewicz reported that for the six months ending December 31, 2009, revenues over expenses were approximately \$1.3 million before program related expenses and \$1.4 million after program related expenses. This increase is due to the remaining ECE Cabinet income that CHEFA recognized per the MOU. Revenues were under budget by \$124,000 and expenses were under budget by \$74,000. The notable items were the ECE Cabinet income and the reclassification of reserves from contingency to legal fee reserves of \$1.5 million.

EXECUTIVE DIRECTORS REPORT

Mr. Asher indicated that an article came to his attention concerning a discussion of financial disclosure documents of state lawmakers, employees and agency heads. The Office of State Ethics may be encouraged to make information available to the interested public on-line. Currently, the public can access the information at the Office of State Ethics itself which offers some level of protection from potential misuse. This is a matter of key importance and Ms. Rubin recommended that CHEFA stay on top of this. Mr. Asher added that he believes that activity may take place in the legislature, and that being aware of the bill tracking and hearing dates are important.

OTHER BUSINESS

The next Board of Directors meeting will be held on February 23, 2010 at 2:00 pm.

Dr. Cibes requested time to make an editorial comment. Dr. Cibes stated that it seems to him that relying on the market can often lead the country on a primrose path. Dr. Cibes recommended that the Authority needs to think about the difference between what the market will accept and what we will accept. Ms. Weldon reiterated that it has to be the market, the rating and key credit factors. Ms. Rubin added that it really gets back to the struggle we have with covenants. The Authority is obligated to watch out for those who do not have the sophistication, or the wherewithal to sustain losses or risks that they do not appreciate or understand.

There being no further business, at 3:24 p.m., Ms. Rubin requested a motion to adjourn the meeting. Mr. Mengacci moved for approval and Mr. Cohn seconded the motion. All were in favor.

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

AYES

John Biancamano
William J. Cibes
Benson Cohn
John Mengacci
Barbara Rubin
Sarah K. Sanders

NAYS

None

ABSTENTIONS

None

Respectfully submitted,

Jeffrey A. Asher
Executive Director

