

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting – January 18, 2012

The State of Connecticut Health and Educational Facilities Authority met at 1:00 p.m. on Tuesday, January 18, 2012.

The meeting was called to order at 1:01 p.m. by Barbara Rubin, Chair of the Board of Directors of the Authority. Those present were as follows:

PRESENT: John Biancamano
 Benson Cohn
 Patrick Colangelo, Vice Chair
 Robert Dakers (Rep. Ben Barnes)
 Peter Lisi
 Paul Mutone
 Barbara Rubin, Chair
 Sarah Sanders (Rep. Honorable Denise Nappier)

ABSENT: Dr. Estela Lopez
 Bryan Pollard, Esq.

ALSO PRESENT: Jeffrey A. Asher, Executive Director
 Paula Herman, General Counsel
 Tara Keating, Project Coordinator
 Dan Kurowski, Financial Analyst Arbitrage
 Eileen MacDonald, Senior Transaction Specialist
 JoAnne Mackewicz, Controller
 Michael Morris, Assistant Director
 Cynthia Peoples, Assistant Director
 Debra Pinney, Manager of Administrative Services
 Norberto Ramirez, Compliance/Internal Auditor
 Jennifer Smyth, Legal Services Specialist
 Jeanette Weldon, Managing Director
 of the Connecticut Health and Educational Facilities Authority

GUESTS: Michael Andreana, Esq., Pullman & Comley, LLC
 Jeremy Bass, Consultant, Public Financial Management
 Coleman Casey, Esq., Shipman & Goodwin, LLP
 Scott Gibson, Director, RBC Capital Markets
 Laurie Hall, Counsel, Hawkins, Delafield & Wood LLP
 Richard Lopatin, Vice President, Acacia Financial Group
 Edward Samorajczyk, Esq., Robinson & Cole, LLP
 Namita Shah, Esq., Day Pitney, LLP

Robert Smith, Vice President, JP Morgan Chase Bank
 Tiffany Stevens, Esq., McCarter & English, LLP
 Eric Taylor, Esq., Harris Beach PLLC
 Christopher Valentino, VP, Lamont Financial Services Corp. (via phone)
 John Yarbrough, Esq., Carmody & Torrance, LLP

MINUTES

Ms. Rubin requested a motion for approval of the draft minutes of the November 15, 2011 Board of Directors meeting. Mr. Cohn moved for approval of the minutes, which was seconded by Mr. Mutone.

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

AYES

John Biancamano
 Benson Cohn
 Pat Colangelo
 Robert Dakers
 Peter Lisi
 Paul Mutone
 Barbara Rubin

NAYS

None

ABSTENTIONS

Sarah Sanders¹

2012 ANNUAL STATUS REPORT- ARBITRAGE REBATE

The number of bond issues monitored remains flat for the end of December 2011 due to the number of refundings, although there is still an increase over the last couple of years. The refundings still require final redemption calculations. The monitoring process CHEFA created over the last couple of years is still in place and continuing to be developed. CHEFA has increased the percent of calculations performed in-house from 40% to 60%. There were a total of 123 calculations performed over the last 18 months. During FY 2011, there were a total of 80 calculations done, with 43 completed since the start of FY 2012. Over half the calculations are of

¹ Ms. Sanders was not present at the November 15, 2011 Board meeting.

first and second anniversary type as most of the bond issues are often refinanced by the ten-year call. There was one payment made not previously reported for an Eastern Connecticut Health Network (ECHN) loan. ECHN did not meet the spending requirements, making the proceeds subject to rebate. CHEFA expects to perform approximately 139 calculations during the next eighteen months. Again, about 50% of those are of first and second anniversary type. The goal to increase in-house calculations by 20% set last year was achieved.

Ms. Peoples stated that the IRS is stressing a strong desire for borrowers and issuers to have post-issuance tax compliance policies in place. A Client notice was sent recently regarding the Authority's pending adoption of a policy requiring action on the part of clients to develop procedures of their own. CHEFA successfully held a post-issuance tax compliance seminar in September 2011 for clients, and recently announced to clients the scheduling of a second post-issuance tax compliance seminar to be held in March 2012. There has been good response from clients wanting to attend.

No new IRS exams were initiated since last reported. However, the Trinity College exam closed with a No Change Determination. The Westminster examination was closed without penalty or determination of willful neglect.

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Ms. MacDonald reported that there are three new issues. Connecticut State University System will be refinancing its Series E Issue with an approximate net present value savings of over 8%, which will be presented in February 2012. The Horace Bushnell Memorial Hall will be refinancing its Series A Issue, which will be presented today. The Greater Hartford YMCA will

be refinancing its Series B, with a private placement with Union Bank to be presented in February 2012. The Pomfret School will be refunding its Series A and issuing \$8.6 million of new money for energy projects, which will be presented in February 2012. Hopkins School has been on hold since last year but will be presented in February 2012. Connecticut College will be refunding its Series B, which is currently insured by MBIA, to be presented in February 2012. The University of Hartford will be refunding its Series E, currently insured by Radian, a through a private placement. There is no approval date yet.

Summary of Financings

WCHN Issue, Series N closed in November 2011, and the Rectory School Issue, Series B closed in January 2012. The estimated all-in cost for the Rectory Issue was 3.69%.

Interest Rate and Market Update

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

Municipal Market Activity

Ms. Weldon presented the report on municipal market activity.

PRELIMINARY STAFF MEMOS

None

FINAL STAFF MEMOS

The Horace Bushnell Memorial Hall Issue, Series B

Mr. Morris reported on The Horace Bushnell Memorial Hall Issue, Series B. Staff seeks approval of \$12.8 million to refund The Bushnell's Series A Issue, which was issued in 1999 and insured

by MBIA. The funds were used to fund a portion of the construction of the Belding Theater. The issue will be a direct placement with Citizens Bank with a reset on a monthly basis. There will likely be a ten-year term with an interest rate of 68% of one month Libor plus a spread of 2.35% and a 10-year put. The Bushnell will enter into an interest rate swap for 10 years. The savings on the refunding is just under \$400,000 annually.

In addition to a Gross Receipts Pledge, Citizen’s Bank is requiring a Debt Service Reserve Fund. There will be a mortgage limited to the portion of property which was financed by the Series A financing (the Belding Theater), and a negative pledge which includes the remaining real estate.

Further discussion ensued.

Ms. Rubin introduced Resolution #2012-01 The Horace Bushnell Memorial Hall Issue, Series B Authorizing, which resolution was included in the materials distributed to the Board. Mr. Biancamano moved for adoption of Resolution #2012-01, which was seconded by Mr. Cohn.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Benson Cohn		
Pat Colangelo		
Robert Dakers		
Peter Lisi		
Paul Mutone		
Barbara Rubin		
Sarah Sanders		

Sacred Heart University Issue, Series H

Mr. Morris recommended approval for Sacred Heart University Issue, Series H of up to \$60 million for the Sacred Heart University Issue, Series H. This bond issue was originally approved in June 2011, but the Board's Authorization Resolution expired in December 2011.

The Series H issue will now be insured by Assured Guaranty and they are not requiring a debt service reserve fund, which produces improved and more favorable savings of approximately \$800,000 a year. Assured Guaranty's rating was downgraded by S&P in November 2011 from "AA+" to "AA-" (Stable), and Moody's had previously downgraded them to "Aa3" (Negative). As long as Assured maintains a rating in the "AA" category, it still adds value. Underlying Ratings for Sacred Heart University were confirmed as "Baa2" (Positive) by Moody's and "BBB" (Revised outlook from Stable to Positive) by Standard & Poor's.

This issue will have the same security provisions (with the exception of a debt service reserve fund) as Sacred Heart's outstanding issues. There will also be a springing debt service reserve fund that will be implemented if the school falls under a certain level of expendable resources to debt. The student demand indicators have been strong with a 10% increase in applications from fiscal year 2011 to 2012. Selectivity is at an all-time low at 53.7%. The University's matriculation rate for Fall 2011 at 22.1% was at its highest level in the past five years, but remains below Moody's median. However, the University's matriculation rate is more in line with other colleges and universities in CHEFA's portfolio. There has been significant growth in graduate enrollment.

The University has strong operating results with double digit operating margins for the past five years. The liquidity position remains favorable with expendable resources to debt falling between Moody's "A" and "Baa" medians while expendable resources to operations exceeds Moody's "A" median. Their annual debt service is high due to an increase of \$40 million of debt with their Series G issue. However, debt service coverage is very manageable.

The University has future plans for an academic building to house the colleges of business and education, to be located on land adjacent to the main campus.

Further discussion ensued.

Ms. Rubin introduced Resolution #2012-02, Sacred Heart University Issue, Series H Authorizing, which resolution was included in the materials distributed to the Board. Mr. Mutone moved for adoption of Resolution #2012-02, which was seconded by Mr. Cohn.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Benson Cohn		
Pat Colangelo		
Robert Dakers		
Peter Lisi		
Paul Mutone		
Barbara Rubin		
Sarah Sanders		

2012 POST-ISSUANCE TAX COMPLIANCE POLICY

Ms. Peoples reported on the proposed 2012 Post-Issuance Tax Compliance Policy recommended for approval. The Internal Revenue Service (IRS) has expressed the need for Issuers and

Borrowers to adopt post issuance compliance policies. These policies are put in place to assist both parties with the long-term monitoring requirements of tax-exempt bonds in the areas of facilities use, the use of bond proceeds, arbitrage, record retention and other tax related concerns. The IRS has created and continues to modify certain forms like the Form 8038 which is signed by the Authority, and acts as the 'initial filing' statement for a new tax-exempt bond issuance and the Form 990 Schedule K filed annually by borrowers which include checkboxes regarding the existence and compliance with written and IRS Code procedures.

The Authority has procedures in place to do the required monitoring; however, Staff is now requesting adoption of a formal policy. The policy will require the borrower, as well as the Authority, to maintain records for the life of issuance plus six years. This includes transcripts, expenditure related documents, contracts and rebate-related documents. The borrower will be required to maintain a record of final allocation of proceeds, monitoring of private use and contracts. The Authority will encourage the use of Bond Counsel and notification to CHEFA regarding any changes in relation to the bonds. New to the borrower is the Authority's request for a copy of the Form 990 Schedule K and certification to the existence of compliance procedures on an annual basis. The Authority will continue assisting maintenance of tax-exempt status, acting as arbitrage rebate service provider, monitoring investments and bond proceeds spending, maintaining record of integrated swap and investment contracts, and monitoring safe harbor bidding for GICs.

The Authority recently sent a client notice regarding the internal policy being adopted and announced to clients the scheduling of a second post-issuance tax compliance seminar which will be held in March 2012. There has been good response to clients wanting to attend.

Further discussion ensued.

Mr. Cohn moved for adoption of the 2012 Post-Issuance Tax Compliance Policy, which was seconded by Mr. Mutone.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Benson Cohn		
Pat Colangelo		
Robert Dakers		
Peter Lisi		
Paul Mutone		
Barbara Rubin		
Sarah Sanders		

CHEFA FINANCIAL OPERATIONS

November 2011 Financial Statements

Ms. Mackewicz reported that for the five months ending November 30, 2011 revenues exceeded expenses by approximately \$1.4 million before and \$1.3 million after program related expenses. Revenues were over budget by approximately \$2,500 and expenses were under budget by approximately \$47,000. There were no notable items for November 2011.

COMMITTEE REPORT

Audit-Finance Committee Report

Mr. Cohn reported that the Audit-Finance Committee met prior to the Board meeting. The committee discussed the findings of the Internal Auditor’s Report of the Credit Union Student Loan Program and the Internal Auditor’s Report of the Accounting Internal Control System. The

Committee also reviewed the status of the outstanding audit recommendations and adopted the Internal Auditor Performance Criteria. The Committee discussed the upcoming selection process for the outside independent Auditor RFP. Nine responses were received and the Committee agreed that CHEFA staff would recommend two firms to be interviewed prior to the February meeting. The Audit-Finance Committee will meet before the February 15, 2012 meeting and make a recommendation to the full board.

EXECUTIVE DIRECTOR'S REPORT

Mr. Asher discussed current threats to tax-exempt financing, and stated that the Authority will keep track of the issue, and urge clients to speak to their representatives in Washington D.C. Representatives of the Authority will be going to Washington D.C. in March 2012 for a meeting of the National Association of Health and Educational Facilities Finance Authorities and will use the opportunity to speak with members of Congress to remind them of the importance to tax-exempt financing.

For the Fiscal Year 2012 Nonprofit Grant Program, 70 organizations were invited to submit full applications out of approximately 200 letters of interest received in November 2011. Sixty-five (65) full applications were received by the January 13, 2012 deadline, with close to \$4.0 million in requests. Recommendations will be made by Staff to the Grant Committee on February 15, 2012.

Mr. Asher reported that Senior staff at CHEFA was approached by and met with members of the Connecticut Higher Education Supplemental Loan Authority (CHESLA) Board's Management Planning Committee to discuss various options for the future management of CHESLA.

CHESLA is currently managed, and has been since its creation, by the Connecticut Conference of Independent Colleges (CCIC) via a management contract.

Members of the Governor’s administration have expressed an interest in having CHEFA consider managing CHESLA and one of the options being considered is making CHESLA a separate and distinct subsidiary of CHEFA. The CHESLA board has passed a resolution that requests CHEFA to commence a review/due diligence process to determine whether this is something that makes sense for CHEFA.

The Authority asked Board members for their consent to begin conducting the due diligence process. Mr. Asher noted that Dr. Estela Lopez and Bryan Pollard, who could not attend today’s meeting, have both expressed support for the commencement of this due diligence process.

Further discussion ensued.

Mr. Lisi moved that the Authority should pursue and proceed with a review/due diligence process and, if appropriate, commence the regulatory work needed for CHESLA to become a subsidiary of CHEFA. The motion was seconded by Mr. Cohn.

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

AYES

John Biancamano
Benson Cohn
Pat Colangelo
Robert Dakers
Peter Lisi
Paul Mutone
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

Mr. Asher discussed the current lease and issues at the 10 Columbus Blvd, Hartford, CT location of the Authority offices.

Mr. Asher reminded the Board that the Statements of Financial Interest (SFI) must be filed with the Office of State Ethics by no later than May 1, 2012. The filing can be done electronically and CHEFA will forward a link to the Board members of the electronic form once it becomes available.

OTHER BUSINESS

There being no further business, at 1:53 p.m., Mr. Biancamano moved to adjourn and Mr. Mutone seconded his motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Benson Cohn		
Pat Colangelo		
Robert Dakers		
Peter Lisi		
Paul Mutone		
Barbara Rubin		
Sarah Sanders		

Respectfully submitted,

Jeffrey A. Asher
Executive Director