STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting

March 16, 2017

The State of Connecticut Health and Educational Facilities Authority met at 1:30 p.m. on Thursday, March 16, 2017.

The meeting was called to order at 1:33 p.m. by Dr. Peter Lisi, Chair of the Board of Directors of the Authority. Those present and absent were as follows:

PRESENT:

Patrick A. Colangelo[1]
Robert S. Dakers (Rep. Honorable Benjamin B. Barnes, OPM Secretary)
Elizabeth C. Hammer
Barbara B. Lindsay, Esq.
Dr. Peter W. Lisi, Chair
Dr. Estela R. Lopez
Barbara Rubin
Sarah K. Sanders (Rep. Honorable Denise L. Nappier, State Treasurer)
Mark Varholak

ABSENT: John M. Biancamano

ALSO PRESENT:

Jeanette W. Weldon, Executive Director
Denise Aguilera, General Counsel
Robert Blake, Network and Data Architect
Robert Jandreau, Sr. Finance Associate
Eileen MacDonald, Sr. Transaction Specialist
JoAnne N. Mackewicz, Controller
Michael F. Morris, Managing Director
Cynthia D. Peoples, Managing Director
Debra M. Pinney, Manager of Administrative Services
Jennifer Smyth, Legal Services Specialist
David Wasch, Legislative Liaison, ECE Program Specialist
of the Connecticut Health and Educational Facilities Authority

[1] Mr. Colangelo participated in the meeting via conference telephone that permitted all parties to hear each other.

GUESTS:

Judith Blank, Esq., Day Pitney LLP
John Brodsky, Managing Director, Fairmount Capital Advisors, Inc.
Meghan Burke, Esq., Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.[2]
Bruce Chudwick, Esq., Shipman & Goodwin LLP
Steve Donovan, Esq., Hawkins, Delafield & Wood LLP
D. Scott Gibson, Executive Director, Oppenheimer & Co., Inc.
Stella Gittens, Senior Director, PFM Financial Advisors LLC[3]
Thomas S. Marrion, Esq., Partner, Hinckley, Allen & Snyder LLP
David Orise, Vice President, Century Bank
David Panico, Esq., Robinson + Cole LLP
Erick Russell, Esq., Pullman & Comley LLC
Tiffany Stevens, Esq., McCarter & English, LLP
Eric Taylor, Esq., Harris Beach PLLC[4]
John Yarborough, Esq., Carmody Torrance Sandak & Hennessy LLP

MINUTES

Dr. Lisi requested a motion for approval of the minutes of the February 15, 2017 meeting of the Board of Directors, which was included in the meeting materials. Ms. Rubin moved for approval of the minutes, which was seconded by Ms. Hammer.

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

AYES	**NAYS**	**ABSTENTIONS**
Patrick Colangelo	None	Sarah Sanders
Robert Dakers		
Elizabeth Hammer		
Barbara Lindsay		
Dr. Peter Lisi		
Dr. Estela Lopez		
Barbara Rubin		
Mark Varholak		

INDEPENDENT SCHOOL SECTOR REPORT

Mr. Morris provided an overview of the independent school sector based on FYE June 30, 2016 results. Overall, the sector remained the same as last year, although some of the financial metrics are not as strong. For debt issuance, refundings account for the majority of issuances, many of which are bank direct purchases and there will be limited new money issuances in the future.

Mr. Morris indicated that the student demand for the boarding schools remains strong and the day schools are less resilient. CHEFA’s portfolio is still considered leveraged when compared

[2] Ms. Burke 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] Mr. Taylor participated in the meeting via conference telephone that permitted all parties to hear each other.

against Moody's. There was a slight improvement for the operating margin for the boarding schools with marginal net tuition revenue growth. Tuition discounting has leveled off with adequate debt service coverage.

Mr. Morris reported that there were 50 bonds issues for 34 schools (19 boarding, 15 day schools).with a total outstanding balance of just under $650 million, representing approximately 7.7% of CHEFA's total portfolio. The majority of bond issues outstanding consist of private placements, with a few Letter of Credit and bond insured issues. Out of the 19 boarding schools, 10 schools have their own rating. There is only one in the "BBB" category, the rest are in the "A" category or higher. Mr. Morris stated that for the day schools, only four schools have their own rating, all with an "A" rating or higher. Over half of the day schools have issued bank direct purchases.

Issuance over the past five years was just over $405 million with the majority being refundings. Approximately 83% of those financed have been direct purchases. There are three issues that are currently in process: Marvelwood School for approximately $11 million, Westover School for approximately $14 million, requesting 50% of new money and Kent School refunding approximately $15 million, with $3 million of new money.

Mr. Morris stated that for the boarding schools, applications appear to have leveled off with a slight decrease from last year, but remain higher than five years ago. Applications for the day schools have had a steady decline over the past five years, which is down 6% overall. Over the past five years, twelve schools who experienced a decline in applications received, had an average decrease of 18%.

Mr. Morris reported that selectivity for the boarding schools increased slightly from the previous year and compares unfavorably to Moody's overall median. There are only four boarding schools that are below Moody's overall median. The day schools median declined slightly, despite the decrease in applications. The median has been at the lowest level in the past five years. None of the schools are below Moody's median. The matriculation rate median for the boarding schools declined from FY 2016 and for the day schools it improved last year, with both the boarding and day schools equaling their average of the past four years.

Enrollment for the boarding schools has remained steady at approximately 7,400 while the day school enrollment declined approximately 3% over the past five years. Tuition discount remained relatively constant for both the boarding and day schools over the past five fiscal years. Mr. Morris noted the major changes in net tuition growth from the previous year. Mr. Morris reviewed the key balance sheet metric medians for both the boarding schools and day schools, highlighting changes over the past five years, noting that they have compared unfavorably to Moody's overall median.

Mr. Morris stated that the operating margin median for boarding schools increased from 2015, while the day school's median declined, primarily due to a decline in net tuition growth. Debt service coverage remains adequate for both boarding and day schools. The boarding and day schools continue to make ongoing investments in their facilities without adding additional debt.

Mr. Morris thanked Ms. Johnson and Ms. MacDonald for assisting in compiling the data contained in the report.

ANNUAL ARBITRAGE STATUS REPORT

Mr. Morris stated that one of the post issuance services that the Authority provides for its clients is arbitrage rebate services. As of December 31, 2016, there were approximately 206 bond issues outstanding and subject to arbitrage rebate regulations. As a conduit issuer, the Authority is responsible to ensure that clients are in compliance with arbitrage rebate regulations. Mr. Morris turned the floor over to Mr. Kurowski.

Mr. Kurowski reported that for the period July 1, 2015 through December 31, 2016, there were a total of 288 calculations performed, which is a 5% increase from the previous reporting period. Last year the staff reported 272 calculations. All of the calculations were completed by the Authority with 60 mandated by the Internal Revenue Service (IRS), (either the fifth year bond year anniversary calculation or the final redemption calculations).

During this period, the Authority did not make any rebate payments or refund requests for any of the outstanding bond issues. There are currently no open examinations and the last examination closed in July, 2015. Mr. Kurowski pointed out that recent initiatives by the IRS are that they are maximizing their resources. Their priorities for examinations are whistleblower cases and areas which have a history of non-compliance. The IRS is starting to use data analytics to identify future areas of non-compliance. For FY 2017, the IRS plans to further streamline the VCAP program for certain arbitrage violations.

Mr. Kurowski stated that for the next 18 months, he anticipates completing approximately 307 calculations with 90 of these being required by the IRS. This number will likely go up with future file redemption calculations. Mr. Kurowski also provides pre-issuance and post-issuance tax services. This involves reviewing the tax and bond related documents and verifying the accuracy and identifying any future areas concerned with the bond issues. He also monitors the use of the bond proceeds and monitors spending exceptions and reserve requirements and verifies that the bond trustees' valuations are accurate, including assisting any borrowers with needed requirements. In addition, he assists borrowers with questions they may have with borrowing and their post-issuance requirements, Schedule K of the Form 990.

Dr. Lisi thanked Mr. Kurowski for his report.

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Ms. MacDonald reported that there will be a $15.5 million refunding for Kent School, in addition to $3 million in new money which will be coming to the Board for approval in April.

Summary of Financings

Ms. MacDonald reported that since the last Board meeting, Western CT Health Network Inc. Issue, Series P closed for just over $40 million to refund the Danbury Hospital Issue, Series H. This was a private placement with a subsidiary of JP Morgan Chase Bank, which was a fixed rate of 2.29% with a ten-year tender and nineteen year amortization with over 27% of net present value savings. On March 8, Hopkins School Issue, Series D closed. They refinanced their Series B for approximately $7.8 million, which was a private placement with TD Bank for 2.59%, with a 15-year term, which resulted in an 11% savings.

Odd Fellows Healthcare, Inc. Issue closed on March 9, 2017. This was a private placement with a subsidiary of M&T Bank, which was approximately for $18.9 million. This was a variable rate, with a 10-year term, 30-year amortization in which they refinanced mortgage debt and reimbursed the borrower for capital expenditures for two-bedroom homes for their CCOC facility.

Interest Rate Update

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

Market Rate Update

Mr. Morris provided an update on recent health and education issues brought to market.

EXECUTIVE DIRECTOR'S REPORT

Ms. Weldon referred to the draft State Audit Report on CHEFA/CHESLA for FY 2014 and FY 2015 and CSLF for the fiscal year ending June 30, 2015, which was included in the Board materials. She reported that there were no findings related to CHESLA or CSLF and she turned the floor over to Ms. Peoples to discuss the auditors' findings and recommendations for CHEFA.

Ms. Peoples indicated that one of the findings pertained to policies and procedures regarding short-term disability and use of unearned vacation time. Management's response indicated that discretion was used to stay within the Authority's policy in allowing an employee to use unearned vacation days over a period of three months while the employee was out on short-term disability, in order to maintain the employee's payroll deductions for medical premiums, 457 loan payments, as well as other mandatory elections in the payroll system. When the employee returned to work, it was communicated to the individual that the unearned time paid would be retracted over the next several months and any other time out of the office would be unpaid.

Ms. Peoples reported that the other finding in the draft audit report was related to the Grant Programs. Final project reports were not obtained from the grantees for five out of 20 grants reviewed. There was no documentation in the grant files to show that the Authority made an effort to obtain these reports which were past due at the time of the audit. Management responded and indicated that due to a recent turnover in the grant position, staff was not easily able to deduce the methodology used by the departing staff person for grant follow up and filing documentation. Currently, reports are being developed to assist with monitoring outstanding items and the overall status of each grant in the BONDS data system. The new grant person will be charged with reviewing the past issued grants and respective files for completeness and following up as needed.

A discussion ensued.

Ms. Weldon reported that last week a Special Board of Directors Meeting was held and a representative from the Harvard Kennedy School Government Performance Lab provided a presentation on their Pay For Success Model. A copy of the presentation was included in the meeting's handouts. Taking the presenter's feedback into consideration, Ms. Weldon indicated that she will be compiling a proposal to be presented to the Board of Directors in the next month or two. Preliminarily, the focus will be to consider bringing the Pay For Success Program Model under the auspices of the CHEFA Targeted Grant Program for next year and also to identify potential projects and project participants using the Pay For Success criteria included in the presentation.

Ms. Weldon stated that the Authority could be involved in a facilitator role. The Authority could decide to conduct a Request for Proposal for an intermediary to assist in the process.

Dr. Lisi added that the presentation on Pay For Success was very interesting and time well spent. He thanked Ms. Weldon for coordinating the presentation held on March 8, 2017.

Ms. Weldon stated that early next month, Mr. Wasch, Mr. Morris and she will be going to Washington, D.C. to attend the NAHEFFA Conference. They will also be meeting with some members of Connecticut's Congressional delegation. They will meet with Senators Blumenthal and Murphy and representatives from Yale New Haven Health on April 4. On April 5, they will be meeting with Congressman Larson and representatives from the University of Saint Joseph with the primary focus on tax reform and the importance of tax-exempt bonds.

Ms. Weldon provided the following updates on CHESLA activities:

- CHESLA is planning a spring bond sale for approximately $38 million; $23 million will be for new money with the remaining in refunding. The plan is to price the transaction around April 27, 2017 and close on or about May 11, 2017.

  Ms. Rubin inquired as to the volume of loans going out relative to projections. Ms. Weldon stated that CHESLA is slightly ahead at this point. They have had good origination of loans and disbursements. The net delinquency rate remains below 3%.

- CHESLA completed four Requests for Proposals for vendor selection and are continuing with their existing vendors for rebate, bond counsel, collections, and originator and servicer.

- CHESLA, CSLF and CHEFA signed a Memorandum of Agreement to memorialize the arrangement for support services provided by CHEFA.

Ms. Weldon recognized and congratulated Mr. John Yarbrough, one of the Authority's special counsel attorneys from Carmody Torrance Sandak & Hennessey LLP, who is retiring on March 31, 2017. Mr. Yarbrough's first bond deal was in November, 1996.

Mr. Yarbrough stated that it has been an honor, privilege and great pleasure to work with the Authority and their outstanding management and staff, as well as working with the other attorneys, financial advisors and underwriters. He thanked everyone for making it a great experience for him. The Board of Directors and meeting participants congratulated Mr. Yarbrough.

FY 2017 Strategic Initiatives Updates

- Ms. Weldon reported that with regard to Superior Client Service as one of CHEFA's strategic initiatives, staff continues to work with NAHEFFA on gathering information and comparing statistics on fees with other authorities.

- Staff is also planning a tax compliance webinar using one of the Authority's bond counsel firms, which will be held in April.

- The new post-closing survey tool is being utilized, with additional surveys coming in from two independent schools.

- Ms. Weldon stated that CHEFA is continuing with the microgrids initiative and plans to host an information session with the Connecticut Green Bank, sometime in the latter part of April, with four or five clients who expressed interest in learning more.

- Ms. Peoples and other staff are continuing in the ongoing effort of updating job descriptions.

- As of April 1st, CHEFA is expecting to implement a new payroll provider, which will allow staff to utilize a time and attendance system. The name of the provider is Checkmate and they are based out of New Hampshire.

- The process is underway for a substitute for the internal audit function, as a follow up from the last Board meeting, where areas of focus were refined.

AUTHORIZING BOND RESOLUTIONS

Trinity College Issue, Series Q

Mr. Jandreau presented the Trinity College Issue, Series Q, for approximately $51.1 million, which will be a direct purchase with Citizens Bank, N.A. Trinity College has seven outstanding bond issues totaling approximately $150 million. Trinity is rated "A1" and "A+" by Moody's and Standard & Poor's, respectively, with Stable Outlooks.

Mr. Jandreau reported that the Series Q proceeds will be used to current refund the College's 2007 Series J bonds currently outstanding in the principal amount of approximately $50 million, callable on July 1, 2017. The Series J bonds are in two parts with maturities in 2031 and 2037 at interest rates of 4.40% and 4.47%, respectively.

Mr. Jandreau explained the financing structure of the transaction and stated that security for the Series Q bonds will consist of a General Obligation Pledge of the College on a parity basis with the bond issues outstanding. A debt service reserve fund will not be required. Mr. Jandreau stated that the Bank is requiring one covenant which consists of minimum expendable resources, which the College meets easily, with more than 3.25 times the number of assets required to pass the test. In the event the College fails to meet its covenant, the interest rate on the bonds will increase to equal the contract rate plus 2.0%. The net present value savings to the institution amounts to more than $11.5 million. Ms. Rubin raised a question about recent enrollment declines.

Dr. Lisi, introduced Resolution #2017-08, Trinity College Issue, Series Q and Dr. Lopez moved for adoption of Resolution #2017-08. Ms. Hammer seconded the motion.

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

AYES	**NAYS**	**ABSTENTIONS**
Patrick Colangelo	None	None
Robert Dakers		
Elizabeth Hammer		
Barbara Lindsay		
Dr. Peter Lisi		
Dr. Estela Lopez		
Barbara Rubin		
Sarah Sanders		
Mark Varholak		

Yale University Issue, Series 2017A

Mr. Morris presented the Yale University Issue, Series 2017A for approval of up to $470.0 million. The bond issue will most likely be issued in a number sub-series in the amount of $450 million. Proceeds will be used to current refund four of the University's bond series outstanding, totaling $450 million. The transaction may be issued similar to their 2016 transaction, where they issued put bonds with staggering maturities. The refunding of Series T-1 bonds may be done on a taxable basis, but that has not been determined as of yet, and will be decided closer to the bond sale.

Mr. Morris reported that applications are at an all-time high, with approximately a 4% increase from last year. The University has a 6.3% acceptance rate with over 70% matriculation. With the completion of two new residential colleges, the University expects to increase their enrollment by 200 students each year through 2021, for a total enrollment increase of 800 students.

Mr. Morris stated that the University's operating margin has improved over the past two fiscal years; however, it falls below its peer's median. Although the University's endowment declined in FY 2016 to $25.4 billion, their investment return was favorable compared to industry benchmarks.

A discussion ensued.

Dr. Lisi introduced Resolution #2017-09, Yale University Issue, Series 2017A authorizing, which resolution was included in the Board mailing. Dr. Lopez moved for adoption of Resolution #2017-09. Ms. Rubin seconded the motion.

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

AYES	NAYS	ABSTENTIONS
Patrick Colangelo Robert Dakers Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Barbara Rubin Sarah Sanders Mark Varholak	None	None

APPROVAL OF SENIOR MANAGER UNDERWRITING FIRM – JEFFERIES GROUP

Mr. Jandreau provided a brief overview of the Jefferies Group, LLC, which firm had been previously listed on the Authority’s approved underwriter list. The Jefferies Group did not receive a copy of the Authority’s Request for Proposal for underwriting firms and the Authority allowed the firm to submit a proposal at this time.

Mr. Jandreau provided background information on the firm. Jefferies is the largest full-service independent investment bank in the U.S. They are a registered broker dealer and investment advisory firm and a member of the New York Stock Exchange. The firm is ranked #1 by number of deals in corporate healthcare M & A transactions, healthcare equity offerings, and healthcare debt offerings from 2010 to the present.

Mr. Jandreau reported that from the period 2014-2016, Jefferies participated as senior underwriter on seven transactions representing over $1 billion in aggregate amount in the healthcare, higher education and independent school sector. They have also co-managed seven transactions in the same period representing over $1.5 billion. Currently, Jefferies has acted as lead manager on the University of Connecticut’s General Obligation bonds, 2016 Series A transaction, and acted as a co-manager on their 2017 Series A transaction.

Mr. Jandreau stated that Jefferies has one of the largest municipal, trading and sales forces on Wall Street and they have a very large capital position totaling $5.5 billion, as well as having $1.4 billion in excess net capital. Mr. Jandreau recommended that Jefferies be added to the Authority’s senior manager underwriter list based on their senior management team and experience in acting as senior manager and co-manager on transactions, along with their strong distribution capability and capital position.

Ms. Rubin moved to add the Jefferies Group LLC to the Authority’s Senior Manager Underwriters list for a period of three years. Mr. Dakers seconded the motion.

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

AYES	NAYS	ABSTENTIONS
Patrick Colangelo	None	None
Robert Dakers		
Elizabeth Hammer		
Barbara Lindsay		
Dr. Peter Lisi		
Dr. Estela Lopez		
Barbara Rubin		
Sarah Sanders		
Mark Varholak		

CHEFA FINANCIAL OPERATIONS

January 2017 Financial Statements

Ms. Mackewicz reported on the financial statements for the seven months ending January 31, 2017. Excess revenues over expenses before program related expenses were approximately $2.6 million and approximately $1.7 million after program related expenses.

Revenues were over budget year-to-date by approximately $163,000 and expenses were under budget year-to-date by approximately $105,000.

Ms. Mackewicz pointed out that she provided a handout on the quarterly consolidation through December 2016 for CHEFA/CHESLA and CSLF.

EXECUTIVE SESSION

Dr. Lopez moved to go into executive session to discuss a personnel matter at 2:42 p.m. Mr. Varholak seconded the motion.

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

AYES	NAYS	ABSTENTIONS
Patrick Colangelo	None	None
Robert Dakers		
Elizabeth Hammer		
Barbara Lindsay		
Dr. Peter Lisi		
Dr. Estela Lopez		
Barbara Rubin		
Sarah Sanders		
Mark Varholak		

Dr. Lopez moved to come out of executive session at 2:59 p.m. Mr. Varholak seconded the motion.

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

AYES	NAYS	ABSTENTIONS
Patrick Colangelo	None	None
Robert Dakers		
Elizabeth Hammer		
Barbara Lindsay		
Dr. Peter Lisi		
Dr. Estela Lopez		
Barbara Rubin		
Sarah Sanders		
Mark Varholak		

The meeting reconvened at 2:59 p.m.

Dr. Lisi requested a motion to approve five additional vacation days or a total of 15 vacation days per calendar year for non-officer employees hired on or after July 1, 2016 with 10 or more years of related experience. Ms. Rubin moved for approval of the five additional vacation days for non-officer employees hired on or after July 1, 2016 and Ms. Lindsay seconded her motion.

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

AYES	NAYS	ABSTENTIONS
Patrick Colangelo	None	Elizabeth Hammer
Robert Dakers		
Barbara Lindsay		
Dr. Peter Lisi		
Dr. Estela Lopez		
Barbara Rubin		
Sarah Sanders		
Mark Varholak		

OTHER BUSINESS

Dr. Lisi reminded the Board of Directors that their Statements of Financial Interests are due to the Office of State Ethics by May 1, 2017.

ADJOURNMENT

There being no further business, at 3:00 p.m., Dr. Lopez moved to adjourn the meeting and Mr. Dakers seconded his motion.

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

AYES	**NAYS**	**ABSTENTIONS**
Patrick Colangelo Robert Dakers Elizabeth Hammer Barbara Lindsay Dr. Peter Lisi Dr. Estela Lopez Barbara Rubin Sarah Sanders Mark Varholak	None	None

Respectfully submitted,

Jeanette W. Weldon
Executive Director