

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Minutes of Authority Board Meeting – February 23, 2010

The State of Connecticut Health and Educational Facilities Authority met at 2:00 p.m. on Tuesday, February 23, 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 (via Phone)
 William Cibes, Jr., Ph.D.
 Patrick Colangelo, Vice Chair
 John Mengacci (Rep. Secretary Robert Genuario)
 Bryan Pollard, Esq. (via Phone)
 Barbara Rubin, Chair
 Sarah Sanders, (Rep. Honorable Denise Nappier)

ABSENT: Benson R. Cohn

ALSO PRESENT: Jeffrey A. Asher, Executive Director
 Tara Keating, Grants Administrative Assistant
 Eileen MacDonald, Manager, New Business/EasyLoan Program
 Joanne Mackewicz, Contoller
 Michael Morris, Assistant Director
 Cynthia Peoples, Assistant Director
 Norberto Ramirez, Compliance/Internal Auditor
 Jennifer Smyth, Manager, Legal Services
 David Wasch, Manager, Government Programs
 Jeanette Weldon, Managing Director
 of the Connecticut Health and Educational Facilities Authority

GUESTS: Michael Andreana, Esq., Pullman & Comley
 Jeremy Bass, Consultant, Public Financial Management
 Scott Gibson, Director, RBC Capital Markets
 Lisa Gladke, Esq., Shipman and Goodwin LLP
 Laurie Hall, Esq., Hawkins, Delafield & Wood (via Phone)
 Ruth Kennedy, Engineer, GZA GeoEnvironmental, Inc.
 Jonathan Savage, Esq., Lewis & Munday (via Phone)
 Joshua Nyikita, Managing Director, Acacia Financial Group, Inc. (via
 Phone)
 Edward J. Samorajczyk, Jr., Esq., Robinson & Cole LLC
 Namita Shah, Esq., Day Pitney LLP
 Christopher Valentino, Lamont Financial Services Corp. (via Phone)

Noreen White, Co-President, Acacia Financial Group, Inc. (via Phone)
John Yarbrough, Esq. Carmondy & Torrance LLP (via Phone)

MINUTES

Ms. Rubin requested a motion for approval of the minutes of the January 26, 2010 Board of Directors meeting. Dr. Cibes moved for approval of the minutes, which was seconded by Mr. Mengacci.

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

AYES

John Biancamano
William Cibes
John Mengacci
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

Patrick Colangelo¹
Bryan Pollard²

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Ms. MacDonald reported that there are two new issues. Stamford Hospital will refund its 2007 MBIA insured issue for approximately \$100 million. This transaction will be presented for preliminary review in March 2010. Westminster School will refinance their 1999 Series B issue for \$7 million, also MBIA insured, which will be presented today for approval.

There are two new EasyLoans, one for Connecticut Children’s Medical Center for approximately \$6 million to cover various projects such as a CT scanner and build-out, facilities improvements, IT upgrades and equipment. Ms. MacDonald reported that Bristol Hospital has submitted information for an approximately \$7 million transaction to replace a clinical information system and to purchase an MRI system. CHEFA will be conducting an RFP for lenders for the Bristol issue.

Ms. MacDonald stated that the Summary of Financings report reflects that there were no closings since last month but Yale University is expected to close on February 24, 2010 and PFM will have a sales report on that transaction today. The Hospital of Central Connecticut EasyLoan closed on February 10, 2010 with a locked in rate of 3.84% for five years.

¹ Mr. Colangelo abstained from voting because he did not attend the January 26, 2010 Board of Directors Meeting.

² Mr. Pollard abstained from voting because he did not attend the January 26, 2010 Board of Directors Meeting.

Interest Rate Update and Market Update

Ms. Peoples stated that although the rates have fluctuated slightly, they have remained somewhat stable. The Revenue Bond Index was reported at 4.98% in December 2009, 4.91% in January 2010, and is currently 4.97%. The 30-Year Treasury indicates the largest increase with 4.41% in December 2009, 4.55% in January 2010, and 4.73% as of today.

Ms. Weldon announced that going forward CHEFA staff will provide a market update to augment the interest rate update. A summary of recent transactions which have occurred this month in the health and education market were given to those attending the Board Meeting. Ms. Weldon stated that there were a fairly large number of healthcare transactions that occurred in the first two weeks of February 2010 and also a few higher education deals, mainly State universities. Ms. Weldon highlighted the fact that on the healthcare side there were two deals completed with Assured Guaranty bond insurance. By comparing the insured and uninsured transaction yields, one can get an indication of the value of bond insurance in the current market.

Ms. Weldon added that on the higher education side, one of the schools issued a small Build America Bonds (BABs) portion. BABs are currently available to public universities, although there is discussion in Washington of extending them to 501(c)(3)'s.

Ms. Rubin thanked Ms. Weldon for the information.

SALES REPORT: Yale University Issue, Series 2010A

Mr. Jeremy Bass from Public Financial Management, Inc. presented a sales report on Yale University Bond Issue, Series 2010A-1, A-2, A-3 and A-4.

Mr. Bass reported that Yale University sold \$529.9 million in four different series of bonds. The bonds were structured with two maturities as put bonds. These were 3 to 5 year put bonds which had a stated 40-year maturity; however, subject to a mandatory tender in three and five years respectively, giving Yale the benefit of essentially being able to sell bonds at the short end of the yield curve.

Mr. Bass provided an overview of the University's transaction.

Mr. Bass added that there was a lot of discussion regarding the put bond structure. The University wanted to do the bond transaction in order to protect themselves from adverse changes in tax law which could potentially jeopardize the future tax exemption of the bonds. Mr. Asher explained that the University is concerned about a lot of discussion in Washington, D.C. about tax-exempt debt, and possibly limiting the amount of tax-exempt debt that any one entity could issue. Ms. Rubin stated that the put would allow for resale of the bonds after the tender. Mr. Bass explained that the put bonds have a slightly different marketing strategy and a slightly different retail buyer. The bonds were rated "AAA" by both S&P and Moody's and sold on a negotiated basis. The Senior Underwriters were Barclays Capital and J.P. Morgan. Selling group

members were added in order to get as much retail participation as possible. The selling group members were Bank of America Merrill Lynch, Citi, Piper Jaffray & Co., RBC Capital Markets, Siebert Brandford Shank & Co., and Wachovia Bank, National Association.

Mr. Bass discussed the University's financing statistics as detailed in his sales report.

Mr. Bass stated that interest rates have been relatively steady in the tax-exempt and taxable markets recently. The pricing strategy was that the two put bonds were sold with a retail order period. The pricing of the Yale transaction reflected current market conditions, which Yale benefited from.

HIGHER EDUCATION CREDIT POLICY

Debt Service Reserve Funds

Ms. Weldon presented the proposed credit policy for debt service reserve funds in regard to higher education transactions. CHEFA is planning to address healthcare transactions for non-national system healthcare next month in the context of the Stamford Hospital deal, but this policy is based on higher education in the context of the Fairfield University deal.

Her report included: rating agency commentary, state authority feedback, market considerations, credit considerations, and credit policy recommendation. The report describes the rating agency's view of debt service reserves funded by surety bonds from below investment grade bond insurers, and it provides insight into the Moody's view on the value of debt service reserve funds in general. Moody's indicated that a debt service reserve fund can have an impact on credit quality in the 'Baa' rating range. Fitch analysts stated that they rarely see higher education transactions with debt service reserve funds on deals rated 'A' or higher and only occasionally see debt service reserve funds on deals rated 'A-'. Below 'A-' debt service reserve funds become less unusual. Standard and Poor's published criteria for higher education institutions states that reserve funds are not always necessary.

Ms. Weldon spoke about the comments she received from other state Authority's with most indicating that they are comfortable issuing debt in the 'A' category without a reserve.

Informal investor feedback also indicated that there was investor acceptance of 'A' category higher education credits without debt service reserve funds. CHEFA also sought feedback on the use of reserve funds from the financial advisor assigned to the Fairfield University transaction, Lamont Financial.

As a result of the above referenced discussions and research, CHEFA Staff made the following recommendation:

Private colleges and universities may issue general obligation debt without a debt service reserve fund if the offering is rated 'A2/A' or higher with no negative outlooks³ by two nationally recognized rating agencies. Institutions rated 'A3/A-' with no negative outlooks by either or both of two nationally recognized rating agencies (with two ratings being required and only applying to split ratings if the rating that is other than 'A3/A-' is higher), may issue general obligation debt with a debt service reserve fund representing 6 months of maximum annual debt service and with principal and interest payable monthly to the trustee. Institutions rated below 'A3/A-' by either or both of two nationally recognized rating agencies (with two ratings required) or rated 'A3/A-' with a negative outlook are required to have a debt service reserve fund funded at the maximum amount permitted by law.

The above represents the threshold levels for consideration of a less than fully funded reserve. CHEFA Staff will also consider an institution's liquidity, unrestricted financial resources, and financial results and will make approval recommendations to the board on a transaction - by - transaction basis. Staff will also require clear disclosure to investors of the reserve funding level.

Ms. Weldon stated that CHEFA believes that this approach will recognize institutions with strong financial resources and performance, while providing investor protections for those institutions with less of a cushion. By downsizing the reserve for 'A3/A-' credits, the burden of carrying costs will be lessened, while the monthly deposits of debt service to the trustee will facilitate budgeting and will also serve as an early warning mechanism in the event that intervention is required. Staff believes that this recommendation is consistent with CHEFA's mission and meets the needs of both borrowers and investors.

Ms. Rubin asked if this recommendation pertained only to higher education. Ms. Weldon confirmed that this recommendation was for higher education only.

Ms. Rubin requested a motion for approval of the Higher Education Credit Policy. Mr. Colangelo moved for approval of the credit policy, which was seconded by Dr. Cibes.

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

AYES

John Biancamano
William Cibes
Patrick Colangelo
John Mengacci
Bryan Pollard
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

³ If a transaction rated 'A2/A' or higher carries a negative outlook from either or both rating agencies, it may be considered under this guideline as falling into the next lower rating category.

FINAL STAFF MEMOS

Fairfield University Issue, Series O and Series P

Mr. Morris reported that Moody's confirmed the rating as 'A3' with a negative outlook; the underwriter suggested that the Authority include a debt service reserve fund. S&P has not yet confirmed their 'A-' rating. The size of the issue will increase to \$85 million, with the addition of capitalized interest and the debt service reserve fund. Moody's Report noted that there will be declining resources, with a leveraged balance sheet, a continued challenging student market position, a highly competitive market, declining operating margins, but cash flow margins provide good debt service coverage, and net revenues from the new beds could help offset any weaker operating performance.

The issue will be a two part series, Series O for the new money and Series P for the refunding. The refunding portions net present value savings is 2.5%. Mr. Morris stated that based on a recent due diligence call, applications for fall 2010 are up 1% over last year, and the University is pleased with results of its strategic initiative of diversifying the student body. Applications have been received from 40 states, and the students of color applications are up 20% from approximately 6% or 7%. The current student body contains 20% students of color. The University acknowledges the low matriculation rate, but maintains high quality of students. The University projects its 39th consecutive year of a balanced budget as of FY 2010. The operating margin will remain at the same level as last year at approximately 3%. The endowment as of December 31, 2009 is at \$226 million, up 11% over FYE 2009. Mr. Morris stated that there is a swap in place from one of the Auction Rate Securities issues that was never terminated. The market value at the end of January 2010 was negative \$668,000. Mr. Morris stated that there are no further changes in this issue.

Mr. Colangelo asked what the actual size of the bond issue was. Mr. Morris stated that it is \$84.4 million which includes the debt service plus the capitalized interest.

Ms. Rubin requested a motion for approval of the Fairfield University Issue. Dr. Cibes moved for approval of the motion, which was seconded by Mr. Colangelo.

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

AYES

John Biancamano
William Cibes
Patrick Colangelo
John Mengacci
Bryan Pollard
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

Ascension Health Senior Credit Group Issue, Series 2010

Mr. Morris reported that the Ascension Health Senior Credit Group Issue, Series 2010 will total approximately \$100 million, down from \$150 million due to the equity contribution to be made by Ascension. The financing structure has not been finalized yet. Ascension is still considering fixed-rate and variable rate (self-liquidity). The ratings have not been issued yet, but should be available in early March 2010. Ascension Health is currently rated 'Aa1' by Moody's, 'AA' by Standard & Poors, and 'AA+' from Fitch. The rating should remain same for the new issue, including the new money to be issued. Mr. Morris stated that the preliminary memo listed the final maturity as 30 years, but Ascension would like the flexibility to go out as long as 50 years for final maturity. Ms. Rubin asked if there was a market for 50-year bonds. Mr. Morris stated that it is unusual. Mr. Asher added that 50-year bonds are the longest the Authority is able to issue. Mr. Morris stated that the structure is still not finalized and that Ascension is just looking at flexibility now.

Mr. Morris stated that the Authority did receive the appropriate reimbursement resolutions as requested at last month's meeting in addition to six months in operating results as of December 31, 2009. There was a \$258.6 million gain, or 3.6% operating margin which was the same as last year. The excess margin of 12.6% compared to a negative excess margin last year. Ascension currently has 177 days cash on hand which is a two day increase from September 30, 2009.

Ms. Rubin requested a motion for approval of the Ascension Health Senior Credit Group Issue, Series 2010. Mr. Mengacci moved for approval of the motion, which was seconded by Dr. Cibes.

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

AYES

John Biancamano
William Cibes
Patrick Colangelo
John Mengacci
Bryan Pollard
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

Hospital for Special Care Issue, Series E

Mr. Morris reported on the Hospital for Special Care Issue, Series E. The Hospital is looking to refund its Series D bond issue of which Webster Bank is the sole bond holder. The proposed new issue includes the Series D refunding plus \$6 million of new money. The Hospital is funding the construction of a new 15 bed neurobehavioral building. This issue is structured as a variable rate issue, secured by a letter of credit from Webster Bank. The proposed letter of credit has a favorable annual fee, at 150 basis points. The Hospital will have a Federal Home Loan Bank of Boston wrap. The obligated group's rating of 'BBB-' was affirmed and the obligated group includes the Foundation and the Hospital for Special Care Community Services, which operates

the long-term care facility Brittany Farms. The Hospital for Special Care is licensed for 200 beds at its New Britain facility, and licensed for 28 beds at its satellite facility at St. Francis Hospital.

The Hospital's operating margins are favorable over the past five years, averaging 5.5%. Total discharges have gradually declined by approximately 12% over the past five years which is a result of an increase in the average length of stay (from 125.1 days to 146.4 days) due to higher acuity levels of patients. Management is making a strategic shift to increase outpatient services, with a 33% increase over past five years. The Hospital's improved occupancy is at approximately 92% of staffed beds as of December 31, 2009.

Mr. Morris added that the Hospital for Special Care has a high Medicaid census. The Hospital serves a wide geographic area which consists of the State of Connecticut and Western Massachusetts. They provided inpatient services to patients from 107 Connecticut communities in FY 2009. There is a strong referral base coming from acute care hospitals.

Brittany Farms is licensed for 282 beds. Occupancy averaged approximately 97% for the past five years, with a slight decline in FY 2009. There were losses from operations in three of the past five years.

The Obligated Group's liquidity position has improved dramatically. The Hospital's days cash on hand improved from 82.2 days to 131.2 days as of December 31, 2009. The cash-to-debt ratio is adequate at 63.7%, and the pro forma debt service is manageable with coverage at 2.65 times.

Ms. Rubin requested a motion for approval of the Hospital for Special Care Issue, Series E. Dr. Cibes moved for approval of the motion, which was seconded by Mr. Colangelo.

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 Cibes		
Patrick Colangelo		
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		

Westminster School Issue, Series F

Mr. Morris reported on the Westminster School Issue, Series F. The \$6.5 million issue is to refund the School's Series B issue. The net present value savings is \$342,000 or 5.44%. The School's total debt outstanding is currently \$41.3 million. The current underlying rating with S&P is 'A', with a Stable outlook affirmed in December 2009. The Authority's underlying

guidelines require two ratings; however, the Authority is requesting an exception due to the size of the issue, the fact that it is a refunding, and the cost of obtaining a second rating. According to the underwriter a second rating would do little to improve the marketing of the bonds. The School's initial rating was received in 2003.

Ms. Rubin requested a motion for approval of the Westminster School Issue, Series F. Mr. Colangelo moved for approval, which was seconded by Mr. Mengacci.

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 Cibes		
Patrick Colangelo		
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		

CHEFA FINANCIAL OPERATIONS

January 2010 Financial Statements

Ms. Mackewicz reported that for the seven months ending January 31, 2010, revenues over expenses were approximately \$1.6 million before and after program related expenses. Revenues were under budget by \$164,000 and expenses were under budget by \$75,000. There were no notable items reported.

Ms. Rubin asked about allocated funds and what would be terminated under the student loan program. Mr. Asher explained that \$3.5 million in funds were set aside for the student loan program and the Authority also has a contingency reserve as of January 31, 2010 of \$368,000 which includes the excess year-to-date. Mr. Asher stated that each month the excess of revenues over expenses adjusts the contingency reserve.

HUMAN RESOURCE COMMITTEE REPORT

Dr. Cibes reported that the Human Resource Committee met today at 1:00 pm to consider revising the Employee Incentive Program. The Committee agreed that staff recommendations were reasonable and the Committee asked Staff to return with a structure for varying grades based on the individual's performance, identification of Strategic Business Plan goals and a suggested weighting factor. These recommendations will be presented at the March 2010 Board of Directors meeting.

EXECUTIVE DIRECTORS REPORT

Mr. Asher reported that Ms. Weldon will join him next month in Washington, D.C. to attend a meeting of the National Association of Health and Educational Facilities Financing Authorities. While in Washington D.C., Mr. Asher and Ms. Weldon will visit with members of the Connecticut Congressional Delegation. Mr. Asher stated that there are four topics they plan to discuss with the delegation: Electronic Health Records, Build America Bonds, Federal Home Loan Bank Program and Bank Qualified Debt. The Authority would like to speak about the electronic health records grant program in order to ultimately loan money to hospitals to purchase electronic health records. The Build America Bonds are currently not available to nonprofits, and the Authority is hoping for that program to be expanded to our clients. Mr. Asher stated that speaking about the renewal of the approval for the Federal Home Loan Bank Program is also planned. The Bank Qualified Debt is expiring on December 31, 2010 and the Authority has an outstanding issue as well as a new potential placement. Bank Qualified debt is essentially a bank loan on a tax-exempt basis.

OTHER BUSINESS

The next Board of Directors meeting will be held on March 30, 2010 at 2:00 pm.

There being no further business, at 2:51 p.m., Ms. Rubin requested a motion to adjourn the meeting. Dr. Cibes moved for approval and Mr. Mengacci seconded the 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 Cibes		
Patrick Colangelo		
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		

Respectfully submitted,

Jeffrey A. Asher
Executive Director