

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Minutes of Authority Board Meeting – December 7, 2010

The State of Connecticut Health and Educational Facilities Authority met at 1:00 p.m. on Tuesday, December 7, 2010.

The meeting was called to order at 1:04 p.m. by Barbara Rubin, Chair of the Board of Directors of the Authority. Upon roll call those present were as follows:

PRESENT: Benson R. Cohn
Patrick Colangelo, Vice Chair
Peter Lisi
Dr. Estela Lopez
John Mengacci, (Rep. Secretary Brenda Sisco)
Paul Mutone
Bryan Pollard, Esq.
Barbara Rubin, Chair
Sarah Sanders (Rep. Honorable Denise Nappier)

ABSENT: John Biancamano

ALSO PRESENT: Jeffrey A. Asher, Executive Director
Paula Herman, General Counsel
Tara Keating, Project Coordinator
Eileen MacDonald, Manager, New Business/EasyLoan Program
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, Governmental Programs
Jeanette Weldon, Managing Director
of the Connecticut Health and Educational Facilities Authority

GUESTS: Coleman Casey, Esq., Shipman & Goodwin LLP
Scott Gibson, Director, RBC Capital Markets
Dara Melchionni, Assistant Vice President, Acacia Financial Group
David Panico, Esq., Robinson & Cole LLC
Namita Shah, Esq., Day Pitney LLP
Tiffany Stevens, Esq., McCarter & English, LLP
Eric Taylor, Esq., Harris Beach PLLC
Christopher Valentino, Lamont Financial Services Corp.
John Yarbrough, Esq., Carmody & Torrance LLP

MINUTES

Ms. Rubin requested a motion for approval of the minutes of the October 26, 2010 Board of Directors meeting. Mr. Pollard moved for approval of the minutes, which was seconded by Mr. Cohn.

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

AYES

Benson Cohn
Pat Colangelo
Peter Lisi
Estela Lopez
John Mengacci
Paul Mutone
Bryan Pollard
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Ms. MacDonald reported that there are three new issues, two which will be presented at today’s meeting, Waterbury Hospital and Seabury Retirement Community. There is a \$2 million EasyLease with the Hospital of Central Connecticut for a Davinci Robot Surgical System.

Summary of Financings

There was a bond issue closing on November 2, 2010 for Mitchell College. This was a Private Placement with TD Bank for \$14.3 million, a variable rate transaction with an initial interest rate set of 3.65%. The Bridgeport Hospital \$6.6 million EasyLoan closed on November 4th, for an energy project program which had a rate of 3.22% with Bank of America. The rebate from Siemens is a guaranteed \$1 million a year. Mr. Mengacci inquired if the million would be paid

out regardless of the savings. Ms. MacDonald confirmed that Siemens would pay the Hospital the difference owed up to \$1 million that is not recouped in energy savings.

The Authority held a meeting in late November 2010 with Hartford Hospital to discuss their capital projects associated with their master financing plan and possible debt restructuring.

Ms. Rubin stated that there were six issues expected to close in December 2010, and inquired what the aggregate approximate dollar amount of the issues will be. Mr. Morris replied that the aggregate amount is approximately \$260 million which brings issuance this fiscal year to approximately \$360 million, with \$200 million of that being new money. Ms. Rubin stated that the Transaction Summary indicates that FY 2008 was the largest year with approximately \$2 billion. Mr. Morris stated that currently there is approximately \$7.3 billion outstanding.

Interest Rate Update and Market Update

Ms. Peoples reported that the increase in the yield curve should be emphasized. Since last reported in October 2010, at five years there is a 34 basis point increase, at seven years an increase of 40 basis points, at fifteen years an increase of 47 basis points, and at thirty years an increase of 33 basis points. The Etcetera section includes a "Summary of Benefits Outlined in a Municipal Group Letter Addressing the Extension of Build America Bonds and Other Municipal Bond-Related Provisions" that essentially highlights the benefits from the \$30 million Bank Qualified Debt Limit, the exemption from Alternative Minimum Tax, and the Federal Home Loan Bank Letter of Credit Program, encouraging the extension of these programs. Unless extended by Congress, these programs will expire December 31, 2010. Also, there is an article included in the handout about U.S. money funds exposure to European Banks.

Ms. Weldon reported that the December 2010 Market Update contains transactions which illustrate the rising yields in the municipal market. The week of October 18, 2010 the King's Daughter's Hospital and Health Services, rated "Baa2," had a 35-year maturity with a yield of 5.75%. The week of November 22, 2010, Health Quest Systems, rated "A3," had a yield of 5.95% for the 2040 maturity. There were three transactions which went beyond a 30-year final maturity and priced reasonably well. There were two insured transactions despite the fact that Assured Guaranty lost its "AAA," and is now "AA3/AA+." There was a split rating (investment grade/below investment grade) for Palomar Pomerado Health bonds marketed in the week of November 8th with the 2041 maturity yielding 6.25%.

FINAL STAFF MEMOS

Seabury Retirement Community Issue, Series A, Private Placement

Mr. Morris reported that the Authority is seeking approval for the Seabury Retirement Community Issue, Series A, Private Placement of up to \$22.0 million with TD Bank. This will be used to refund Seabury's 1998 Connecticut Development Authority (CDA) bond issue which has approximately \$23.4 million outstanding. Seabury will use existing funds from the CDA issue to fund the balance. Similar to other Authority Private Placements, TD Bank will be required to execute an Investor Letter which will stipulate that it is a qualified investor, that all subsequent bond holders will be similarly qualified, and that the responsibility for due diligence and credit review rests not with the Authority, but with TD Bank.

The legal name of the borrower is Church Home of Hartford Incorporated, d/b/a Seabury Retirement Community. Seabury, which opened in 1992 and is located in Bloomfield, Connecticut, consists of 200 independent living units, 27 congregate living units, 22 residential care beds and 60 skilled nursing beds.

The financing structure will be a variable rate with a monthly reset. The interest rate is based on 67% of one-month LIBOR plus 200 basis points. There will be a 10-year swap and a 10-year amortization and maturity. They are reducing the existing maturity by one year. TD Bank has proposed that the issue be non-callable for three years, with a 2% penalty for year four, a 1% penalty in year five, and no penalty after that. The net present value savings were originally estimated at approximately \$1.9 million or 8.1% with a 3% interest rate, currently the rate it is 3.16% with a 5.8% net present value savings. Staff does not believe there is a minimum threshold identified by the borrower. The issue will be secured by a mortgage and a Gross Receipts Pledge. There will be no debt service reserve fund. TD Bank has proposed a Debt Service Coverage Ratio of 1.10 times and a minimum cash to debt test of 0.45 times, to be tested semi-annually. The Bank is allowing additional debt of \$200,000 without consent.

Ms. Rubin inquired why TD Bank is pricing the interest rate based on 67% of one-month LIBOR plus 200 basis points. Mr. Morris stated that the formula reflects adjustment of LIBOR, which is a taxable rate to a tax-exempt equivalent rate.

Mr. Asher added that the deal was originally done with CDA, and the Authority was in contact with them as a courtesy. Ms. Rubin inquired why Seabury did not go to CDA for this transaction since CDA was the initial issuer. Mr. Asher stated that changes in our underwriting criteria to include Private Placements allowed for this transaction, and communication between CDA and the Authority indicated that CDA felt it fit better here.

There being no further discussion, Ms. Rubin introduced Resolution #2010-21, Seabury Retirement Community Issue, Series A Authorizing, which resolution was included in the materials distributed to the Board. Mr. Colangelo moved for adoption of Resolution #2010-21, which was seconded by Mr. Mutone.

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

AYES

Benson Cohn
Pat Colangelo
Peter Lisi
John Mengacci
Dr. Estela Lopez
Paul Mutone
Bryan Pollard
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

The Chair then declared Resolution #2010-21 adopted.

Waterbury Hospital Issue, Series D, Private Placement

Mr. Morris reported on the Waterbury Hospital Issue, Series D. The Hospital is seeking approval for a Private Placement of up to \$26.5 million for the Waterbury Hospital Issue, Series D with Citizens Bank, NA as the purchaser. Proceeds from the Series D bonds will be used to refund the Hospital's 1999 Series C bonds which are insured by Radian, and they also have approximately \$2.0 million from prior Series C debt service reserve funds that will be used to refund the Series C bonds. The Hospital is looking for approximately \$8.0 million of new money for renovations and upgrades, which were outlined in the memo sent to Board members and Staff.

Citizens will be required to execute an Investor Letter which will stipulate that it is a qualified investor, that all subsequent bond holders will be similarly qualified, and that the responsibility for due diligence and credit review rests not with the Authority, but with Citizens. The Bank states that it intends to retain the debt in its portfolio for the term of the issue. Members of the Obligated Group will consist of the Waterbury Hospital and the Greater Waterbury Health Network, Inc., the parent corporation.

Mr. Morris stated that in FY 2008, the Obligated Group failed its debt service coverage ratio and minimum days cash on hand test. In February 2009, the Obligated Group entered into a forbearance agreement with Radian which waived the consequences of the defaults and modified future financial covenants. The Hospital was required to provide a mortgage to Radian and enter into a Deposit Account Control Agreement, whereby all of the Hospital's receipts are placed into a lock box.

The financing structure proposed will include a variable rate with a monthly reset. The interest rate is based on 68% of one-month LIBOR plus 3.00%. There is a 10-year term with a 30-year amortization and a make whole prepayment provision. The security for the Series D issue will consist of a mortgage and a Gross Receipts Pledge. A debt service reserve fund will not be required by the Bank. The proposed financial covenants including a Debt Service Coverage Ratio of 1.25 times, and a Minimum Cash on Hand covenant of 45 days.

Mr. Asher added that it is important for the Hospital to separate from Radian, which has financial challenges. The fact that the Bank is willing to take this on as a Private Placement is positive since the Hospital is also in transition.

Ms. Rubin inquired if Citizens will be holding the bonds. Mr. Asher and Mr. Morris confirmed that Citizens will be holding the bonds. Further discussion ensued.

There being no further discussion, Ms. Rubin introduced Resolution #2010-22, Waterbury Hospital Issue, Series D Authorizing, which resolution was included in the materials distributed to the Board. Dr. Lopez moved for adoption of Resolution #2010-22, which was seconded by Mr. Cohn.

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

AYES

Benson Cohn
Pat Colangelo
Peter Lisi
John Mengacci
Dr. Estela Lopez
Paul Mutone
Bryan Pollard
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

The Chair then declared Resolution #2010-22 adopted.

ANNUAL ETHICS TRAINING

Ms. Herman reminded the Board of Directors that they are considered Public Officials, as defined in the State Statutes, and, as such, are subject to the Code of Ethics for Public Officials and State Employees. Board members are also governed by certain requirements of the CHEFA Ethics Statement and Policies. Each Board member received a copy of these materials. Ms. Herman stressed the importance of the gift policies under the State Code of Ethics. Potential contractors, and entities doing business, or seeking business with the Authority potentially including but not limited to investment bankers, commercial bankers, accounting firms, law firms, hospitals, universities, private schools, not for profits, etc. fall under the gift ban policy. Anyone seeking business with CHEFA is included in the restriction. CHEFA Board members are subject to the restrictions of the gift policy of the State Code of Ethics, but not subject to the restrictions of the gift policy set forth in the CHEFA Ethics Statement (which gift policy applies only to CHEFA employees.) Ms. Herman reminded the Board that the fundamental purpose of the State Code of Ethics is to prevent individuals from using public position or authority for personal financial benefit. Ms. Herman stated that the Board members should review the Code of Ethics definition on Page 5 of the Guide which defines “gift” as well as discusses exceptions to what is deemed to constitute a “gift”, which exceptions are considered safe harbors.

The Board was encouraged to call the Authority’s Ethics Liaison, Paula Herman or Executive Director, Jeffrey Asher, with any questions concerning the gift policy and any other question arising under the State Code of Ethics or CHEFA Ethics Statement. In the case that questions cannot be addressed by Mr. Asher or Ms. Herman, the Authority will contact the Office of State Ethics, or the Board member will be referred to the Office of State Ethics.

Pursuant to the State Code of Ethics, Board members are required to file an annual statement of financial interest, which is due to the Office of State Ethics by May 1st of each year.

Ms. Herman reminded the Board members that they are prohibited by the CHEFA Ethics Statement and Policies from owning any CHEFA bonds directly. Board members and Staff are permitted to invest in a tax-exempt mutual fund that may hold CHEFA bonds, but may not invest directly in CHEFA bonds.

Ms. Herman reported that there are Whistleblower provisions in place that are outlined in the CHEFA Ethics Statement. This process is anonymous and available for use by Board members or Staff or anyone else who believes that a violation has occurred.

Ms. Herman reviewed the provision of the CHEFA Enabling Statute that discusses what constitutes a conflict of interest by a Board member. She reminded Board members that they are obligated to abstain from deliberation, action or vote with respect to any matter involving a CHEFA borrower with which they are associated.

Mr. Lisi inquired if the conflict of interest applies equally to member service as a Board member for another institution. Ms. Herman indicated that, depending on the facts, abstention might not technically be required if the situation involved a volunteer, uncompensated Board member of a not-for-profit. Ms. Herman stated, however, that abstention would always be the prudent course. Mr. Asher stated that erring on the side of conservatism would prevent any ethical questioning.

Ms. Herman added that the State Code of Ethics also applies to a Board member's spouse and dependent children residing in the same home.

CHEFA FINANCIAL OPERATIONS

October 2010 Financial Statements

Ms. Mackewicz reported that for the four months ending October 31, 2010, revenues exceeded expenses by approximately \$1 million before program expenses and \$2,000 after program expenses. For fiscal year-to-date ending October 31st, revenues were over budget by approximately \$38,000 and expenses were under budget by approximately \$40,000. The notable item in October 2010 was the accrual of the \$985,000 grant that was approved for the Connecticut Data Quality and Access Partnership.

Mr. Mengacci inquired about Page 2 of the written board report regarding the increase in 'Client Grant Funds' and whether that title was accurate. Ms. Mackewicz thanked Mr. Mengacci for noting this and stated that it should read 'Client Application Funds.'

EXECUTIVE DIRECTOR'S REPORT

Mr. Asher stated that at the October 2010 Human Resource Committee meeting, Mr. Mengacci mentioned that focusing on the Strategic Business Plan's development of identifying measurable quantitative and qualitative goals and outcomes should be a priority. Mr. Asher stated that he met with the Chair of the Human Resource Committee, Mr. Biancamano, to discuss how the Authority should proceed. One of the meeting outcomes was the possibility of doing a client survey. The survey will allow the Authority to base future programs and development on client

need. A third party company could be used for this purpose. Mr. Asher proposed that the Authority present the Board of Directors with an estimate of the project, the structure of an RFP, recommendation of process, and a template of the survey at the January 2011 meeting for approval for consent to proceed, and a not to exceed dollar amount for the budget modification, as it is an unbudgeted item that will exceed \$5,000.

Ms. Rubin inquired what the size of the survey universe would be. Mr. Asher stated that a targeted and representative sample will be chosen based upon several factors. There is a client base of over 200, and the appropriate number of clients will be chosen based upon advice of an experienced consultant. Mr. Mengacci added that there are State entities which serve in this capacity such as the University of Connecticut Center for Economic Development and CERC. Mr. Lisi inquired if the survey will be offered to potential clients, or institutions that have not utilized CHEFA's services. This may be valuable information. Mr. Asher responded that it would be taken into consideration. Dr. Lopez stated that it may serve the Authority to make the survey a recurring process such as every three years. Further discussion ensued.

Mr. Asher reported on a draft report of the Commission on Enhancing Agency Outcomes, which was created by the legislature. Among the recommendations they are proposing is a focus on modification of process and consolidation of economic development agencies. The Commission's initial reaction was that there should be one entity dealing with economic development in the State which should include the Connecticut Development Authority, the Connecticut Housing Finance Authority, the Department of Economic and Community Development Authority, Connecticut Innovations and the Connecticut Health and Educational Facilities Authority. Estimated savings were presented based on collapsing all the agencies together.

Mr. Asher stated that he had a meeting with Tim Bannon, who will be Governor Elect Malloy's Chief of Staff, and is currently the Executive Director of CHFA. The discussion covered a number of issues and addressed the importance of housing, economic development, and the financing of health and education be maintained separately. Each has a radically different customer base, and each has its own field of expertise. CHEFA is not an 'economic development' agency. Housing is such a critical issue in the State of Connecticut that it needs to be maintained separately. From a public policy prospective, it makes no sense to merge those entities into one. There would be no savings to the State by merging CHEFA, as the Authority is completely self-sustaining and off the State balance sheet. From a public policy perspective it makes sense to consolidate economic development agencies, but to maintain CHEFA and CHFA as independent, specialized authorities.

Ms. Rubin inquired if any Board members had opinions they would like to share. Mr. Mengacci stated that he believes Mr. Asher is right on. He stated that it makes sense to keep CHEFA separate, and consolidation would do a disservice to the respective clientele. Mr. Cohn added that the bond purchasers would be confused. Mr. Mengacci stated that missions would be blurred, and statutorily it would be difficult to bring together. Ms. Sanders stated that there could be some merit to the combination of CDA, CII, and DECD. Further discussion ensued.

OTHER BUSINESS

Ms. Rubin wished all in attendance a happy holiday and stated that much was accomplished in 2010 by the Authority. She thanked the Staff, Board, and all consultants for their hard work and dedication.

Mr. Asher stated that the next Board of Directors meeting will be held on Tuesday, January 25, 2011 at 1:00 p.m.

There being no further business, at 1:54 p.m., Ms. Rubin requested a motion to adjourn the meeting. Dr. Lopez moved to adjourn and Mr. Cohn 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>
Benson Cohn Pat Colangelo Peter Lisi John Mengacci Dr. Estela Lopez Paul Mutone Bryan Pollard Barbara Rubin Sarah Sanders	None	None

Respectfully submitted,

Jeffrey A. Asher
Executive Director