

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting –October 27, 2009

The State of Connecticut Health and Educational Facilities Authority met in session at the Authority's office at 10 Columbus Boulevard, Hartford, Connecticut at 2:00 p.m. on Tuesday, October 27, 2009.

The meeting was called to order at 2:10 p.m. by Barbara Rubin, Chair of the Board of Directors of the Authority. Upon roll call those present and absent were as follows:

PRESENT: John Biancamano
 William J. Cibes, Jr., Ph.D. (via Phone)
 Patrick Colangelo, Vice Chair
 John Mengacci (Rep. Secretary Robert Genuario)
 Barbara Rubin
 Sarah K. Sanders (Rep. Honorable Denise Nappier) (via Phone)

ABSENT: Benson Cohn
 Bryan K. Pollard, Esq.

ALSO PRESENT: Jeffrey A. Asher, Executive Director
 Tara Keating, Grants Administrative Assistant
 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 Audit
 Jennifer Smyth, Manager, Legal Services
 David Wasch, Manager, Child Care Programs
 Jeanette Weldon, Managing Director
 of the Connecticut Health and Educational Facilities Authority

GUESTS: Jeremy Bass, Consultant, Public Financial Management
 Coleman Casey, Esq., Shipman & Goodwin LLP
 Estelle Dick, Asst. Vice President, JP Morgan Chase Bank
 Scott Gibson, Director, RBC Capital Markets

Stephen Humes, Esq., McCarter & English, LLP
Jason Krechko, Engineer, GZA GeoEnvironmental, Inc.
Marie Phelan, Esq., Robinson & Cole, LLP
Edward J. Samorajczyk, Jr., Esq., Robinson & Cole LLC
Namita Shah, Esq., Day Pitney LLP
Robert Smith, Vice President, JP Morgan Chase Bank
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 September 9, 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
Patrick Colangelo
Sarah K. Sanders

NAYS

None

ABSTENTIONS¹

John Mengacci
Barbara Rubin

MARKET OVERVIEW/PANEL DISCUSSION

Ms. Weldon announced that staff was presenting a panel discussion to provide the Board with a market overview today with sector transaction details relevant to CHEFA. Ms. Weldon introduced the panel members: Noreen White from Acacia Financial Group, Chris Valentino from Lamont Financial Services, and Jeremy Bass from Public Financial Management.

Ms. White presented on the Ethel Walker School transaction. Referring to the detailed pricing report prepared by Acacia, Ms. White noted that the school was able to get a “BBB-” rating on its bonds from S&P, which facilitated their fixed rate refinancing. The transaction illustrated the difficulty not only with smaller size transactions (\$8 million), but with lower-rated transactions and their ability to attract investors in order to get the deal done at attractive levels. The underwriter (Stifel Nicolaus), who had been working with the School for some time believed initially that they could successfully market a serial structure, which would have been advantageous in terms of lowering the overall cost. The underwriter reluctantly accepted the CHEFA requirement for \$100,000 denominations, given the “BBB-” rating. When they did their initial marketing, they found that there was a lot of resistance from the institutional investors.

The areas of investor resistance were: the serial structure, the credit rating and the denomination. The denomination and serial structure were both of concern because most institutional investors do not buy and hold until final maturity. In a smaller sized transaction, institutional investors are

¹ Ms. Rubin and Mr. Mengacci did not attend the September 9, 2009 meeting; therefore, they abstained from voting.

looking for as much liquidity in the secondary market as possible, which is achieved by having term structures with more par amount in those terms as opposed to serial maturities. Ms. White stated that the underwriter changed to a term bond structure to get more interest. With respect to the \$100,000 denominations, Acacia surveyed not only some institutional investors, but other underwriters as well. The results indicated that there is approximately a 25 – 30 basis point penalty on the \$100,000 denomination structure. That was the increased yield that investors were looking for because they would have less liquidity in the secondary market. After Stifel's restructuring and continued marketing, they were able to get the bonds placed with a term structure using four terms with an all-in TIC of 6.35%, a successful result for the school.

Mr. Mengacci asked what the Authority should take away from this experience. Ms. White stated that when pricing lower-rated transactions where CHEFA is requiring \$100,000 denominations, there is likely to be a yield penalty which will vary depending on market conditions.

Mr. Asher stated that the Treasurer of Ethel Walker had expressed his support for the use of \$100,000 denominations as a way to keep bonds of lower credit quality out of the hands of small retail investors. Ms. White added that retail brokers have a fiduciary responsibility to look at suitability of an investment for a retail purchaser. Ms. White added that the environment is dynamic and each case should be looked at individually. She also noted that given the debt's 30-year maturity, it is possible that the school could be upgraded, but their debt trading in the secondary market would remain constrained by \$100,000 denominations.

Mr. Valentino presented the Whitworth University, Series 2009 Bonds which priced on Thursday, October 22, 2009. The bonds were issued through the Washington Higher Educational Facilities Authority. The issue was new money and a refunding issue. The bonds were sold as fixed rate debt and they were rated "Baa1" by Moody's. Mr. Valentino added that this transaction was unique because it was the first deal that Washington Higher Educational Facilities Authority issued that was unenhanced with a rating below the "A" category. It was an exception to their policy. The University had previously received informal feedback from Fitch Ratings that an "A-" rating might be achievable. When it came time to rate the bonds, Fitch indicated that they would be in the "BBB" category. The University, the underwriters and the financial advisors all wrote letters to the Board asking for a one time waiver of the University's rating policy, which required a minimum of an "A" rating.

The Authority decided to allow the transaction. However, "Blue Sky" laws in Washington prohibit marketing bonds rated less than "A" to retail investors. The bonds were structured for institutional investors with serial bonds through 2019, which yielded approximately 200 basis points over MMD and term bonds maturing in 2024, 2029, 2034 and 2040, which were approximately a 160 to 175 spread to MMD. Mr. Mengacci asked what the total size of the deal was. Mr. Valentino stated that it was \$63.7 million, with \$52 million coming in the term bond portion. \$22 million was in the long bond (due in 2040) which had a 5.625% coupon with a 5.72% yield which equaled 160 over MMD. The University achieved an all-in TIC of 5.19%. Piper Jaffray, the underwriter, reported that the exclusion of retail did not have a significant impact on pricing. Ms. Rubin asked if the exclusion was only on the initial sale. Mr. Valentino stated that he believes that this "Blue Sky" exclusion was only on the initial sale. Mr. Mengacci inquired if the deal was oversubscribed. Mr. Valentino stated that he did not think it was oversubscribed. Ms. Weldon pointed out that it is a significant sign of improvement in the

CHEFA sectors that the 30-year maturity for a less than “A” rated transaction is coming in at below 6%.

Mr. Bass presented the Southcoast Health System issue which is an “A” rated hospital located in southern Massachusetts. The Hospital has a strong balance sheet with about 200 days cash on hand. In addition, it has a dominant market share, although a heavy concentration of Medicare/Medicaid payers. Ms. Rubin inquired about the number of beds in the hospital. Mr. Bass stated that the Hospital has 748 beds. Mr. Bass pointed out that the Hospital strategically positioned itself to compete with Boston hospitals. The transaction was \$56 million of fixed rate debt. With their “A2” rating, the Hospital wanted to sell uninsured bonds without a debt service reserve fund. The security for the issue is a revenue pledge as well as mortgages on two out of three of their campuses. Based upon the mortgages and the Hospital’s balance sheet, both PFM and the underwriters believed they could sell the bonds without the debt service reserve fund. Without a mortgage, the market would have asked for a reserve fund. The bonds were sold under favorable market conditions. Mr. Bass added that the Build America Bond program’s effect on the tax-exempt market supply has driven down yields and driven up prices. The supply and demand dynamic has favored 501(c)(3)s indirectly. With an “A2” rating, retail was a significant part of the marketing strategy. The underwriter was trying to sell a good portion of the \$56 million deal to retail in order to set a tone for institutional pricing. On September 23, 2009, the retail order period day, the firm offered the ten years of serial bonds and an intermediate 15-year term bond as well as a 20-year term bond to retail and sold approximately \$9 million. This set a favorable tone for the institutional order period. There was an investor call leading up to the institutional order period (unenhanced transactions are currently seeing more of this). Eleven institutional investors showed interest in the transaction, speaking to the lack of supply in the market at the time.

Mr. Mengacci asked how many of the investors were not from Massachusetts. Mr. Bass replied that they were about half in-state and half national. With the absence of a reserve fund, there were some concerns voiced by some investors, which ultimately did not affect the investor participation. Mr. Bass reported that it was a very successful deal for Southcoast. The long bond was oversubscribed five times, resulting in a 5 basis points decrease in yield. The other bonds were undersubscribed because the investors were going into the last maturity to get yield, so the underwriter purchased the bonds that were undersubscribed. The yield on the 30-year bond was 5.08%, which spread to the MMD index at 100 basis points. The blended yield on the whole transaction was less than 5% at 4.97%. Since then rates have increased. Current rates are approximately 40 basis points higher and credit spreads are a bit wider. Ms. Rubin asked where the hospitals were located. Mr. Bass replied New Bedford, Fall River and Charlton. Ms. Rubin inquired about the letter of credit associated with the Hospital’s existing variable rate debt. Mr. Bass stated they have \$45 million of variable rate debt. The Bank of America letter of credit was a 5-year letter of credit at 45 basis points, which is below market. They had their operating relationship with Bank of America and when asked for additional debt to be issued, Bank of America said that they would reduce the tenor from 5 years to 3 years, increase the fee, but improve some of the covenants. The Hospital did not like these terms so they engaged in negotiations with other banks and were ultimately able to reach acceptable terms with Bank of America.

Ms. Weldon asked the panel to consider the three transactions and whether they believed the general tone of the market is improving, and borrowers should feel now is a good time to issue

debt. Mr. Bass stated that relative to last year's market, it is a good time. He continued to say that there are good days and bad days in the market. Ms. White added that "BBB" ratings will still be a challenge, but as time goes on they will access the market more easily. Mr. Valentino added that as LIBOR and BMA continue to go up, it will be cheaper for institutions to get out of their existing swaps and into fixed-rate debt.

Ms. Weldon asked if investors are generally more accepting of a market without bond insurance. Ms. White replied that the market is growing accustomed to it. Mr. Bass pointed out that it was usually the retail buyers who found insurance attractive. Mr. Asher inquired about Ms. White's comment on the impact of \$100,000 denominations on secondary market trades even if Ethel Walker's rating were increased in the future to be above "BBB-." He asked if a deal could be structured so that in that event, denominations could convert to \$5,000. Ms. White stated that she was not aware of such a structure, but it was an interesting concept that was worth exploring. Ms. White added that she wanted to stress that looking at retail investors; they are really looking for "AA" or "AAA" paper. The universe in which retail normally looks to buy is in those higher-rated categories. Ms. Rubin inquired as to the spread differential between "AA" and "AAA." Mr. Bass stated that difference is approximately 60 to 70 basis points for Hospitals and tighter for a college.

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Ms. MacDonald reported that there were no new issues on the Financing Forecast Report. The estimated closing for Hopkins has been pushed out to December 2009, with pricing in late November 2009.

The Summary of Financings report reflects the closing for Ethel Walker on October 5, 2009, which sales report was presented earlier by Ms. White as part of the Financial Advisors' presentation.

Staff has been busy working on a number of potential transactions. Day Kimball expects to come forward with a \$20 million issue in the next six to eight months. Norwalk Hospital is seeking its Board approval on a \$90 million financing this week, and CHEFA hopes to go forward with the transaction after that approval. Stamford Hospital is working on the selection of an underwriter for a \$100 million issue. Danbury Hospital is in the process of submitting their application for a Certificate of Need for a \$100+ million financing. The Connecticut Friends School has inquired about a potential \$8 million private placement offering. The Hospital of Special Care is looking to refinance its Series D variable rate issue, which is currently insured by Radian, for approximately \$15 million. Washington Montessori is looking to replace Wachovia Bank, their current letter of credit provider. The letter of credit expires in November 2010, and Wachovia Bank has indicated that they will not renew for the School. The Bushnell Memorial Hall is considering refunding their Series A; they have received an internal credit rating which is not published. The underwriter they are working with is trying to determine if there is adequate savings for that refunding.

CHEFA has had some renewed interest from banks in the Equipment Loan Program, meeting recently with National City Capital Bank and TD Bank. Ms. MacDonald stated that CHEFA has

a request for an application from the Hospital of Central Connecticut for \$1.4 million for equipment. There was an inquiry from Bank of America for a hospital for \$40 million in equipment financing. There is also an inquiry from a hospital for a \$4 million equipment transaction.

Market Interest Rate Update

Ms. Peoples stated that gold is currently over \$1,000 an ounce, and oil is up \$10 to \$78 a barrel from \$68 last month. The 30-year Treasury increased approximately 5 basis points from 4.32% to 4.37% since last reported. The STIF Fund is down from 0.43% to 0.40% and the Fidelity Fund 57 is down from 0.17% to 0.07%. CHEFA is looking into opportunities for yield where it is appropriate for the reinvested funds.

HEALTH CARE RESOLUTION

Mr. Asher stated that at the September 2009 Board Meeting, Dr. Cibes had promised to circulate information regarding a proposed resolution which CHEFA Board might support for national health care reform. Information was circulated to the Board including a proposed resolution. Ms. Rubin opened up the floor for comments. Dr. Cibes stated that this is one of the most important issues that the nation, as well as the state faces. He added that it is an all party responsibility that health care facilities adequately serve the people. He believes that the Authority can move forward and aid in the debate by adopting a resolution which urges the passage of national health care reform.

Ms. Rubin asked why President Obama said we were closer to getting passage of the bill than ever before, when it seems as though we are moving in the opposite direction. Dr. Cibes responded that in terms of actually moving through the legislative process, we have been trying for at least 60 years. President Roosevelt, back in 1944, strongly urged the adoption of a plan to provide health care to people so they could escape the economic fear of sickness. Dr. Cibes added that unfortunately, President Truman and his successors never brought a bill this close to the floor ready for a vote, although that is not a guarantee of success.

Ms. Rubin asked what CHEFA would do with the resolution, if it were passed. Mr. Asher stated that an approved resolution could be forwarded to members of Connecticut's congressional delegation to inform them that CHEFA is in support of health care reform, prior to their voting. Dr. Cibes added that this resolution states that CHEFA urges Congress to pass the bill, to support comprehensive health care legislation. Mr. Asher stated he was disappointed with two things currently under consideration by Congress: one was that each state may have the choice to opt out, and second there would be no coverage for illegal immigrants. Dr. Cibes stated it is quite likely that public pressure may be brought to ensure that those states opt in to the public option. Dr. Cibes added that in regard to illegal immigrants, it would be important to provide health care; although the political climate shows it may be impossible, and charitable care may be relied upon to continue to serve those illegal immigrants.

Ms. Rubin thanked Dr. Cibes for taking the lead in drafting this resolution. Mr. Biancamano interjected and stated that the resolution mentioned limiting how much an insured can be charged for out of pocket expenses. He added that many people look for a high deductible plan and asked Dr. Cibes if that was a limit on how much can be charged by the hospital or the insurer. Dr. Cibes stated it is a limitation on the insurance companies. Ms. Rubin pointed out that there is an interim

provision that protects people from financial ruin due to medical bills. Mr. Biancamano added that the pricing of any product should not be specified, that premium cost building will be complex. Dr. Cibes stated that the final piece of legislation will probably set sensible limits with respect to both issues. Ms. Rubin agreed that the language in the resolution is important and suggested that Dr. Cibes take out the provision and language “with no extra charge” in regard to routine checkups and preventative care, as well as the previous provision regarding out of pocket expenses. Dr. Cibes added that if there were language in debate, perhaps they would move to amend the resolution. Ms. Rubin indicated she would endorse it, but is open to amendments. Mr. Colangelo stated it is important at this time that we have a public statement. Mr. Biancamano pointed out that the creation of a lifetime clinical record is important to how we pay for some of this, and even though it is in the stimulus package, recommended we add it. Dr. Cibes agreed and said that we should add the language “...provide for the development of electronic health records for all insured.”

Mr. Biancamano requested a motion to approve the resolution to include the language “...for development of an electronic health record for all insured” and subject to taking out the language “...at no extra charge.” Dr. Cibes seconded the motion. Mr. Mengacci abstained from voting.

Ms. Rubin asked Mr. Mengacci if he would like to comment on his abstention. Mr. Mengacci stated that he believes it is a divisive issue, which CHEFA should not weigh into since it is so unresolved. He added that he did not believe it was a wise thing to pass a resolution. Ms. Rubin expressed her respect for his opinion.

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

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

COMMITTEE MEETING REPORT

Audit-Finance Committee Meeting

Dr. Cibes reported that the Audit-Finance Committee considered and voted on performance compensation awards for CHEFA’s Internal Auditor and for the Executive Director.

Dr. Cibes moved for the acceptance of the Audit-Finance Committee’s performance compensation recommendations and Mr. Biancamano seconded. All were in favor.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
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John Biancamano
William J. Cibes
Patrick Colangelo
John Mengacci
Bryan K. Pollard
Barbara Rubin
Sarah K. Sanders

None

None

Dr. Cibes stated that the Audit-Finance Committee wants to meet soon to discuss the method of compensation for both the Executive Director and the Internal Auditor going forward, addressing all issues surrounding methodology, factor weights, and stretch goal awards.

Ms. Rubin congratulated and thanked Mr. Asher for accepting the position of Executive Director and doing a fabulous job in his first year of work with CHEFA in that capacity.

REVISED DRAFT STRATEGIC BUSINESS PLAN

Mr. Asher stated that subsequent to the July 2009 Board meeting, language was added to CHEFA's Mission Statement which mentioned we are providing access to tax-exempt financing and other financial assistance. In addition, Mr. Pollard's comments were added under Board Development. Mr. Asher also pointed out that specific measures were added to the outputs in addition to adding individual responsibilities which were assigned to specific goals. This business plan will be used for the next three years with updates taking place on a yearly basis.

Ms. Rubin requested a motion to approve the Strategic Business plan. Mr. Colangelo moved to approve the plan and Mr. Biancamano seconded his motion. All were in favor.

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

AYES

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

NAYS

None

ABSTENTIONS

None

CHEFA FINANCIAL OPERATIONS

September 2009 Financial Statements

Ms. Mackewicz reported that for the three months ending September 30, 2009, revenues over expenses are approximately \$642,000 before program related expenses and \$567,000 after program related expenses. Revenues are under budget by \$27,000 and expenses are under budget by \$36,000. The items which were notable for September were the contingent grants for the Office of the Child Advocate for \$20,000 and Sacred Heart University's \$120,000 which were paid as of September 30th. The ECE Cabinet Funds were returned to the State of Connecticut over the amount of the MOU; CHEFA retained \$200,000 and returned \$53,000 to the State. CHEFA also received \$19,000 in returned funds from prior year grant awards. Ms. Rubin asked why the CHEFA fees were under budget. Ms. Mackewicz stated that the fees are under budget because CHEFA anticipated Yale's closing in August or September and that has not occurred yet.

Mr. Asher stated that CHEFA is now required by State statute to submit quarterly financial statements to the Office of Fiscal Analysis.

EXECUTIVE DIRECTOR REPORT

Mr. Asher stated that there are issues concerning negotiations with respect to pending claims that need to be discussed and will require an Executive Session at a later point in the meeting.

Mr. Asher stated that CHEFA was approached by eHealthCT, a nonprofit 501(c)(3) organization created to provide technical assistance, and manage the technical assistance process of assisting physician practices and physician groups in computerizing and developing electronic health records. They will be applying for federal stimulus money under the American Recovery and Reinvestment Act. They also asked CHEFA for a \$1 million revolving line of credit. That revolving line of credit would have to be outstanding for two to three years based on the way the money is being returned by the federal government. Mr. Asher stated that he supported the development of electronic health records in physician practices, which will benefit the health care clients of Connecticut. However, his recommendation is that the Authority deny the request. Mr. Asher added that his recommendation to deny is not based on disagreement with the program, but because CHEFA simply does not have enough money to support the request. Mr. Biancamano asked if the request supported hospitals in addition to physician groups. Mr. Asher stated that the money allocated from the federal government to eHealthCT would strictly support physician offices and groups at this time.

Mr. Asher announced that he has asked to be appointed to one of the subcommittees on Sustinet's Board of Directors. Sustinet is Connecticut's attempt to develop health care reform. The committee Mr. Asher will participate in is the IT Committee. The specific charge of that committee is to work on the development of electronic health records.

Mr. Asher stated that Michael Morris, Jeannette Weldon and he were invited, in addition to two bankers from Morgan Stanley, to do a presentation at a joint retreat sponsored by L&M Hospital for hospital board members and medical staff. The presentation will be on capital access and the rating process.

Mr. Asher stated that there is potentially more good news on the bond issue side. There may be the opportunity for a child care issue. CHEFA will be meeting with the Department of Social Services and the Office of Policy and Management to discuss the debt service appropriation and process. There are seven providers totaling \$30+ million in the potential child care issue.

OTHER BUSINESS

Ms. Rubin stated that the 2010 Schedule of Board Activity was sent out to Board members and staff. CHEFA has not scheduled a Board Retreat in 2010 at this time.

Mr. Asher mentioned that the Holiday Luncheon for CHEFA Staff and Board members will take place at 1:00 pm prior to the December 2009 Board meeting. Invitations will be mailed.

EXECUTIVE SESSION

Ms. Rubin requested a motion to go into Executive Session. Dr. Cibes moved to go into Executive Session to discuss issues concerning negotiations with respect to pending claims and his motion was seconded by Mr. Biancamano.

The meeting reconvened at 3:29 pm, no voting took place during Executive Session.

There being no further business, Ms. Rubin requested a motion to adjourn the meeting at 3:30 p.m. Mr. Colangelo moved to adjourn the meeting and Mr. Biancamano seconded his motion; all were in favor.

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

AYES

John Biancamano
William J. Cibes
Patrick Colangelo
John Mengacci
Barbara Rubin
Sarah K. Sanders

NAYS

None

ABSTENTIONS

Respectfully submitted,

Jeffrey A. Asher

Executive Director