

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting –December 8, 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, December 8, 2009.

The meeting was called to order at 2:00 p.m. by Patrick Colangelo, Vice 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.  
                      Benson Cohn  
                      Patrick Colangelo, Vice Chair  
                      John Mengacci (Rep. Secretary Robert Genuario)  
                      Bryan K. Pollard, Esq.  
                      Barbara Rubin (via Phone)  
                      Sarah K. Sanders (Rep. Honorable Denise Nappier)

ABSENT:           None

ALSO PRESENT:   Jeffrey A. Asher, Executive Director  
                      Kimberley Fontaine, Manager, Marketing and Philanthropy  
                      Paula Herman, General Counsel  
                      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:           Michael Andreana, Esq., Pullman & Comley  
                      Coleman Casey, Esq., Shipman & Goodwin LLP  
                      Scott Gibson, Director, RBC Capital Markets  
                      Laurie Hall, Esq., Hawkins, Delafield & Wood

D. Anwar Al-Ghani, Managing Director, Cilic Urban Consultants, LLC  
Jason Krechko, Engineer, GZA GeoEnvironmental, Inc.  
Edward J. Samorajczyk, Jr., Esq., Robinson & Cole LLC  
Namita Shah, Esq., Day Pitney LLP  
Christopher Valentino, Lamont Financial Services Corp.  
Noreen White, Co-President, Acacia Financial Group, Inc.  
John Yarbrough, Esq. Carmondy & Torrance LLP

## **MINUTES**

Mr. Colangelo requested a motion for approval of the minutes of the October 27, 2009 Board of Directors meeting. Dr. Cibes moved for approval of the minutes, which was seconded by Mr. Biancamano.

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

### **AYES**

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

### **NAYS**

None

### **ABSTENTIONS**

Benson Cohn<sup>1</sup>

## **ETHICS TRAINING**

Mr. Asher 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. 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 1<sup>st</sup> of each year. Mr. Asher reminded the Board members that they are prohibited by the CHEFA Ethics Statement from owning any CHEFA bonds directly. 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 applies to CHEFA employees.) Mr. Asher 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. Mr. Asher urged the Board to call our Ethics Liaison, Paula Herman, with any questions concerning the gift policy and any other question arising under the State Code of Ethics or CHEFA Ethics Statement.

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<sup>1</sup> Mr. Cohn abstained from voting because he did not attend the October 2009 Board of Directors Meeting.

## **CLARIFICATION OF CHEFA GIFT POLICY**

Ms. Herman reiterated that the members of CHEFA Board of Directors are subject to the State of Connecticut gift policy and employees of CHEFA are subject to both the State gift policy and CHEFA's gift policy. CHEFA has adopted a "No Gift" policy which is intended to be stricter than the State's gift policy. Staff has discovered with time that the failure to define the term "gift" in the CHEFA Ethics Statement has resulted in uncertainty and possible inadvertent violations of the gift policy. Ms. Herman indicated that Staff is recommending a modification of the CHEFA gift policy to include a definition of what a "gift" is and an identification of parties from whom CHEFA Staff cannot accept a gift. The proposed revision would adopt the general definition of "gift" from the State Code of Ethics, as well as some (but not all) of the exclusions from the term "gift" set forth in the State Code of Ethics. Mr. Mengacci asked whether there was an error regarding wording uniformity in the second numbered clause of the proposed modified language when speaking of spousal gifts. Ms. Herman confirmed that Mr. Mengacci's observation was correct and that the language should be revised to read: "the" staff member's, instead of "a" staff member's spouse. Mr. Mengacci moved to approve the proposed modification of the gift policy with the corrected language reflected and Mr. Cohn seconded.

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

### **AYES**

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

### **NAYS**

### **ABSTENTIONS**

None

## **CURRENT AND PENDING BOND ISSUES**

### **Financing Forecast**

Ms. MacDonald reported that there is a new issue for Catholic Health East, which is refinancing its 1999 Series with a fixed-rate unenhanced offering. The 1999 issue was insured through MBIA. The 1999 series provided improvements to facilities in West Hartford. Ms. MacDonald added that Yale University has an \$890 million issue which will be fixed-rate and unenhanced. This issue is expected to come for approval in January 2010.

The Summary of Financings report reflects the upcoming closing for Hopkins School, Series C on December 10, 2009, for which there will be a pre-closing at CHEFA tomorrow.

Staff has been working with Fairfield University on a new financing to renovate and expand

dormitories. University management is also looking into the possibility of refinancing the Series H issue. The transaction will be presented for preliminary review in January 2010. CHEFA Staff also has a scheduled call this week with the Hospital for Special Care. The Hospital is looking to refinance its Series D variable rate issue, approximately \$15 million, which is currently insured by Radian.

### **Market Interest Rate Update**

Ms. Peoples stated the short-term rates have dropped significantly since reported in July. However, the short-term rates have continued to decline while the long term rates have started to rise, though only slightly. The 30-year Treasury decreased approximately 22 basis points from 4.63% to 4.41% since July 2009. The Revenue Bond Index decreased 65 basis points from 5.63% to 4.98% since July 2009. The one month LIBOR is down from 0.29% to 0.23% and the SIFMA is down from .37% to .22% since reported in July 2009.

### **Hopkins School Issue, Series C Sales Report**

Mr. Valentino from Lamont Financial Services presented the Hopkins School Issue, Series C sales report. Mr. Valentino stated that the Hopkins School Series C Bonds were issued to refund the School's 1999 Series A Bonds. The fixed-rate transaction was unenhanced and sold on Tuesday, November 24. He added that the bonds are rated 'AA-' by Standard & Poor's based on the School's underlying rating. Stifel Nicolaus served as sole manager on the transaction for a fee of \$7.00 per bond. Mr. Valentino reported that the transaction will close on Thursday, December 10, 2009. The Hopkins School, Series C has final maturity on July 1, 2028. The issue includes serial bonds maturing each July 1 from 2010-2024 and term bonds maturing in 2026 and 2028. Mr. Valentino stated that the refunding achieved total savings of \$1,005,658.44 and net present value savings of \$630,902.37 equaling 8.04% of the refunded par amount. The financing was structured for uniform savings, which averaged approximately \$55,000 per year. The issue sold with an all-in yield of 3.615%. The bonds have seen moderate trading in the secondary market since the initial allocations were settled on November 25. The great majority of the bonds that have been traded in the secondary market were traded at spreads to MMD that were slightly tighter than the spreads received in the primary market on the day of pricing. Mr. Valentino added that this trend shows that demand for the bonds continues to be strong, while it also reflects the movement of the market since the time of pricing.

### **Preliminary Staff Memo, Catholic Health East**

Mr. Morris reported that Catholic Health East is seeking to refund its Series 1999 F issue, which proceeds were used to finance or refinance costs of certain construction, renovation, and equipment acquisition at the facility of its Connecticut affiliates St. Mary Home, The McAuley Center and MercyKnoll, all located in West Hartford. This will probably be part of a composite issue, in which Catholic Health East will be refunding a number of bond issues in other states, between \$100 and \$400 million depending on market conditions. CHEFA's approximate issue size is \$22 million and currently the estimated net present value savings is approximately 4.8%.

Catholic Health East is headquartered in Pennsylvania and it is one of the largest healthcare systems in the US with a presence in eleven states along the Eastern seaboard.

CHE is currently rated by all three rating agencies as follows:

<b>Rating Agency</b>	<b>Rating</b>	<b>Outlook</b>
Fitch	A+	Stable
Moody's	A1	Negative
Standard & Poor's	A	Stable

All three ratings were confirmed earlier this year, but it is unknown at this time if they are expected to remain the same for the 2010 financing. The Moody's rating is most concerning with the negative outlook. In Moody's last report, they noted that Catholic Health East did not meet its fiscal 2009 budget. Mr. Morris reported the transaction's structure is fixed rate, issued in \$5,000 denominations with a final maturity in 2029 (the same as the 1999 issue.) The issue will be secured by a gross revenue pledge and a debt service reserve fund.

The audited financial statements indicate a FY 2008 \$414.9 million loss from operations. Mr. Morris stated that the three rating agencies calculated different operating results for FY 2008. Moody's calculates a \$5.8 million loss from operations, while Fitch and S&P report operating income of \$26.5 million and \$41.2 million. Mr. Morris added that part of the discrepancy lies in the included investment income and net realized and unrealized gains and losses as operating income. Also, Mr. Morris stated that income of its unconsolidated organizations, the largest of which is a joint venture with Baycare (a four hospital group located in Tampa, FL, in which Catholic Health East has a 50.4% ownership), is reported as income under the equity method for accounting purposes, but is noncash revenue. CHEFA will be looking into the rating agency discrepancies. Based on Catholic Health East's nine months of reporting, 2009 operations appear to be more favorable with an \$87.6 million gain from operations as compared to a \$75 million loss for the same period last year.

Mr. Morris reported that liquidity is also difficult to determine exactly. At September 30, 2008, over \$1 billion in unrestricted cash and investments is reported. However, there is a discrepancy among the rating agencies regarding the calculation of days cash on hand for FY 2008, which ranged from 100 days to over 145 days. Catholic Health East has several interest rate swaps associated with its debt financings and has been required to post \$20 million of collateral (down from \$98.4 million as of December 31, 2008) under their swap agreements.

The number of acute care beds in operation increased 6.4% over the past three fiscal years and is currently over 4800. Both discharges and patient days declined slightly, while average length of stay remained stable but high at 5.24 days. For FY 2009 YTD, total discharges are up, while patient days declined reducing the average length of stay to just over 5 days. Mr. Morris added that Catholic Health East's outpatient business has been relatively stable over the past three fiscal years but increased 10% in FY 2009 YTD compared to the previous year. Patient days are up 3.4% over the past three fiscal years, and home health visits are up over 100% over the past three years and 5.3% year-to-date.

Mr. Morris stated that all three rating agencies agree that Catholic Health East has substantial geographic dispersion, but lacks dominance in most of its markets, where it typically operates just one hospital. For FY 2008, two markets which struggled the most were in Atlanta and Miami. However, Mr. Morris added that all three rating agencies state as a credit strength management's ability to quickly implement strategies to improve performance in its more challenging markets through enhanced operations, acquisitions, joint ventures and divestitures.

Mr. Mengacci asked Mr. Morris what is the likelihood of overcoming the rating agency discrepancies. Mr. Morris replied that the equity method used for unconsolidated organizations is most likely the cause and that each rating agency has its own methodology of reviewing credits. Mr. Mengacci then inquired what caused the swing in operations to an \$87.6 million gain compared from the \$75 million loss for the same period last year. Mr. Morris replied that implementation of different initiatives such as cutting expenses and eliminating one facility contributed. Mr. Morris then stated that more detail will be sought. Mr. Asher added that CHEFA will provide a more detailed reconciliation between the three agencies which will make is easier to understand the rating methodology and the results provided. Further discussion ensued.

#### **LEGAL FEE CONTINGENCY RESERVE**

Mr. Asher stated that CHEFA is requesting Board approval to re-establish a legal fee contingency reserve of up to \$1.5 million. Mr. Asher added that CHEFA anticipates the potential need to engage outside legal counsel to provide legal representation to the Authority and monitor proceedings with respect to a number of complex legal matters including potential borrower bankruptcies or restructurings in the near future.

Dr. Cibes moved to approve the proposed resolution providing for re-establishment of a legal fee contingency reserve of up to \$1.5 million, approving engagement of counsel, as needed, from among law firms already approved by the Board, and approving identified budget variances. Mr. Biancamano seconded his motion.

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

#### **AYES**

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

#### **NAYS**

#### **ABSTENTIONS**

None

## **CHEFA FINANCIAL OPERATIONS**

### **October 2009 Financial Statements**

Ms. Mackewicz reported that for the four months ending October 31, 2009, revenues over expenses were approximately \$869,000 before program related expenses and \$777,000 after program related expenses. Revenues were under budget by \$58,000 and expenses were under budget by \$51,000. There were no notable items for October and Sacred Heart University's \$120,000 nursing initiative grant was paid out as of September 30<sup>th</sup> 2009.

### **EXECUTIVE DIRECTOR REPORT**

Mr. Asher stated that he, Mr. Morris, and Ms. Weldon have been working with the Connecticut Hospital Association to attempt to develop a loan program to fund the purchase of electronic health records technology for hospitals in the State. CHEFA made a preliminary presentation to the Deputy Secretary of the Office of Policy and Management, the Deputy State Treasurer, the Assistant State Treasurer for debt management and her staff last Friday, December 4, 2009. Mr. Asher added that CHEFA is proposing to use \$50 million of the previously approved \$100 million of Special Capital Reserve Fund (SCRF) backed debt for hospitals toward the American Recovery and Reinvestment Act (ARRA)/Electronic Health Record Competitive Grant Loan Fund Program. ARRA authorizes a competitive grant program that could make \$5 in federal grant money available for every \$1 in funds that are provided by the State. CHEFA's proposal is to issue \$50 million in SCRF-backed debt that if matched by \$250 million in federal funds, could support a loan fund for acquisition of electronic health record technology. The debt would be amortized over a five-year period. The loan payments made would be significantly more than what would be needed to pay the debt service on the bonds because they would include repayment of the grant funded portion of the loan. The Authority is hoping to offer this program to hospitals at 0% interest. The proposed project would minimize the exposure of the State because CHEFA would be creating two reserve funds. One would be funded from bond proceeds and the second would be funded from the Federal Grant Program. This would provide additional protection before the State would have to replenish a draw on the SCRF. The Authority is hopeful of getting required support from the Office of Policy and Management and the Treasurer's Office before the end of December so that the grant application can be made on a timely basis as soon as the regulations are announced for the federal program.

Dr. Cibes asked Mr. Asher why State hospitals aren't taking advantage of the Veteran's Administrations (VA) Electronic Health Record System which is free. Mr. Asher stated that he has asked that question of the hospitals he has worked with and the response he received indicated that while the VA software is free, utilization would require implementation, programming, and training which are costly. Ms. Weldon added that some hospitals have already invested in equipment and are looking toward an interconnectivity hub where communication can be established using what is already in place. Mr. Asher stressed that the details of the federal program will not be known until regulations are promulgated and that the grant program is competitive and involves a limited amount of available funds. Mr. Asher stated that CHEFA is hopeful that some grant funds may be obtained, and is also looking at alternative plans in the case that this program cannot be implemented successfully.

## **CHIEF CREDIT POLICY OFFICER**

Mr. Asher stated that part of CHEFA's Strategic Business Plan was to establish, within existing staff, the assignment of responsibility for a Chief Credit Policy Officer. Mr. Asher stated that CHEFA is enhancing Ms. Weldon's position to include the responsibility of Chief Credit Policy Officer. Ms. Weldon said that the Chief Credit Policy Officer role is to serve as a resource to the Board in reference to reviewing and recommending underwriting guidelines, providing feedback on industry changes, and sector impacts. The role is also going to include focus on strong disclosure practices with CHEFA borrowers, especially with regard to unenhanced offerings. Ms. Weldon added that robust primary market disclosure and continuing disclosure is critical to investors. Also, Ms. Weldon added that she will have interaction with rating agencies with regard to changes in criteria, trends and medians and will report to the Board on credit matters as needed.

Dr. Cibes asked if the issue of disclosure practices gets into monitoring where borrowers are with respect to meeting covenants. Ms. Weldon responded that monitoring compliance will continue to be a function of the Authority's compliance department, although moving toward quarterly compliance reporting may be new for some clients.

Ms. Herman added that following the restructuring of CHEFA's compliance function earlier in the year, CHEFA has been taking a much more thorough approach to monitoring on-going borrower compliance, including reviewing and checking computations, debt service coverage ratios, etc. Mr. Asher stated that U.S. Bank, as trustee on many CHEFA issues, is taking a very active compliance role. Dr. Cibes indicated that with respect to borrower compliance, an early warning system through monitoring is what is needed.

## **OTHER BUSINESS**

There being no further business, Mr. Colangelo requested a motion to adjourn the meeting at 3:49 p.m. Dr. Cibes moved to adjourn the meeting and Mr. Pollard 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 Pollard  
Barbara Rubin  
Sarah K. Sanders

### **NAYS**

None

### **ABSTENTIONS**

None

Respectfully submitted,

Jeffrey A. Asher  
Executive Director