STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting – July 28, 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, July 28, 2009.

The meeting was called to order at 2:00 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. Benson Cohn Patrick Colangelo, Vice Chair* John Mengacci (Rep. Secretary Robert Genuario) Bryan K. Pollard, Esq. Barbara Rubin, Chair Sarah K. Sanders (Rep. Honorable Denise Nappier)
ABSENT:	None
ALSO PRESENT:	Jeffrey A. Asher, Executive Director Kimberley Fontaine, Manager, Grants and Grants Administration Paula L. Herman, General Counsel Tara Keating, Grants Administrative Assistant JoAnne Mackewicz, Controller Michael Morris, Assistant Director Cynthia Peoples, Assistant Director Debra Pinney, Manager, Administrative Services Jennifer Smyth, Manager, Legal Services David Wasch, Manager, Child Care Programs Jeanette Weldon, Managing Director of the Connecticut Health and Educational Facilities Authority

* Mr. Colangelo arrived at 2:10pm

GUESTS:	Julie A. Balerna, Vice President, The Bank of New York Mellon Thomas Benedict, Senior Compliance Specialist, Tighe & Bond Coleman Casey, Esq., Shipman & Goodwin LLP Thomas Coutura, Senior Vice President, Tighe & Bond Scott Gibson, Director, RBC Capital Markets Robert Guadagno, Consultant, The PFM Group Laurie Hall, Esq., Hawkins, Delafield & Wood

Stephen Humes, Esq., McCarter & English
Jason Krechko, Engineer, GZA GeoEnvironmental, Inc.
Edward J. Samorajczyk, Jr., Esq., Robinson & Cole LLC
Namita Shah, Esq., Day Pitney LLP
Nadine Sutton, Vice President, Wells Fargo Bank
Christopher Valentino, Lamont Financial Services Corp.
Noreen White, Acacia Financial Group, Inc.

MINUTES

Ms. Rubin requested a motion for approval of the minutes of the June 23, 2009 Board of Directors meeting. Mr. Colangelo moved for approval of the minutes, which was seconded by Mr. Cohn.

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

AYES	NAYS	ABSTENTIONS
William J. Cibes	None	John Biancamano[1]
Benson Cohn		
John Mengacci		
Bryan K. Pollard		
Barbara Rubin		
Sarah K. Sanders		

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Mr. Morris reported that at this time TJH Senior Living is not moving forward due to the inability to secure financing for the senior debt portion. Mr. Morris stated that the Authority is scheduled to meet with Stamford Hospital in the near future and will discuss the sale of the Edgehill facility with them and what the impact it will have on the Hospital's proposed financing if it does not proceed. Yale University is still on schedule for approval in September. Hopkins School will be presented today for approval and Ethel Walker School, Series B, will be introduced today. Other bond issues that Staff is currently involved with include: 1) The substitution of two confirming letters of credits with Banco Santendar, Sovereign Bank's parent company, for the ECHN and University of Bridgeport issues; and 2) obtaining a Federal Home Loan Bank wrap for two Citizens Bank letters of credit with the Williams School and Hamden Hall. The Federal Home Loan Bank wrap is necessary to enhance the marketability of the bond issues due to the recent downgrade of Citizens Bank. In addition, the Authority staff met with Norwalk Hospital regarding a $85 million project planned for 2010; and will meet with Lawrence and Memorial Hospital for a $30+ million bank qualified debt loan with Peoples United Bank; University of Bridgeport for a $20 million fall financing, and the Hospital of Special Care to possibly refund some of its debt through FHA.

[1] Mr. Biancamano abstained from voting because he was not present at the June 23rd Board Meeting.

Summary of CHEFA Financings

Mr. Morris reported that there have been no closings since the June Board meeting.

Interest Rate Update

Ms. Peoples presented the interest rate market update, noting that the Federal stimulus packages are stimulating the market as a whole, and there is still a strong demand for high credit quality bonds. The 30-year Treasury increased 19 basis points from 4.44% to 4.63% since last reported in June. The Revenue Bond Index decreased approximately 11 basis points from 5.78% to 5.67% since last reported; the one-month LIBOR decreased 3 basis points from 0.32% to 0.29%; and the SIFMA Index increased from 36 to 37 basis points since last reported. As of July 27, 2009, the STIF Fund is down to 0.47% and the Fidelity Fund 57 is down to 0.22%. The 90-day Treasury Bill is at 0.17%. Further discussion ensued regarding current investment options. John Mengacci suggested that CHEFA contact Connecticut Innovations regarding their Cedars Program, an incremental yield program.

PRELIMINARY STAFF MEMO

Ethel Walker School Issue, Series B

Mr. Morris stated that the initial Series A, bond issuance in 2000 secured by a letter of credit with Allied Irish Bank, started encountering problems with failed financial covenants as early as 2003. As a result, Allied Irish placed a mortgage on the facility. Allied Irish continued to have concerns over the credit and recently has been granting six month extensions, continuing to increase the annual LOC fees. The LOC fees increased to 300 basis points for the first half of this year and will increase to 600 basis points in August. The School's Executive Committee has approved moving forward with refunding of the Series A. In addition, the Executive Committee approved the release of the S&P Issuer Credit Rating which was issued in June as "BBB-" with a Stable outlook. Mr. Morris listed what Ethel Walker's rating reflects: the School has good financial resources for operations and debt, strong niche as an all girls school with nationally recognized equestrian program, good demand flexibility and strong student quality, low level of debt with no future debt plans. The offsetting credit factors include significant changes in senior management and governance, weak financial operations with large supplemental draws to fund operations, a small endowment, very small size and high dependence on tuition revenues. The Stable Outlook reflects the expectation that the School will significantly improve its operating performance and balance its budget without supplemental draws, retain and gradually improve its financial resources level, and maintain and stabilize the current enrollment level. The Outlook also reflected the School's three year turnaround plan in 2008 to address operating losses and excess draws which included aggressive revenue goals and budget cuts in FY 2009, 2010, and 2011. The details have not been provided as of yet. The preliminary FY 2009 results indicate a loss of $300,000, down from the original estimate of $500,000 with a surplus in FY 2010.

The School would like to restructure its debt, which includes the extension of final maturity for ten years, but requires bond counsel approval. Ethel Walker School has asked that CHEFA consider the issue as a public offering with $5,000 denominations which would result in a

$26,000 savings a year totaling $777,000 over the life of the issue according to the underwriter. Mr. Morris suggested that CHEFA consider the issue as a limited public offering with $100,000 denominations. Discussion continued regarding private placements and CHEFA's underwriting guidelines. Ms. Rubin asked Mr. Morris to reiterate what the new policy on public offerings was specifically. Mr. Asher stated that any issue with "BBB" rating or better, with two ratings and without negative indications can be issued as a public offering. A "BBB-" rated credit can be done as a limited public offering in $100,000 denominations. Mr. Morris stated that as a limited pubic offering, the School conforms to the Authority's new guidelines given the School's "BBB-" rating with a Stable outlook. Dr. Cibes suggested that CHEFA review the details of the projections, plans and expenses.

The School's applications steadily declined from FY 2005 to FY 2008 by 23%, before increasing 14% in FY 2009; FY 2010 applications dropped to 224 or 9.3%. This is a very small applicant pool compared to the CHEFA boarding school median of 575. The selectivity, despite decreases in applications, improved each year until FY 2009 up to 67%. In FY 2010, the School accepted only 46% of applicants. The matriculation showed steady improvement to FY 2008, before declining to 54% which is still favorable. The FY 2010 matriculation is not available at this time. Enrollment increased 32% over the past five years, mainly due to day students which account for 67% of the student body. Enrollment is at a historic high for the School. The School in FY 2010 will conservatively budget for 260 students but expects between 268 and 283. The geographic distribution includes 17 states and 11 different countries. Approximately 75% of students come from Connecticut. The School has a high tuition discount of 31%. Mr. Morris mentioned that cash and investments increased from $11 million to over $17 million due to the sale of a portion of the campus. However, the School had to write-off $6 million in pledges from two donors. The annual fund increased from FY 2004 to FY 2007, from $1.1 million to $2.5 million before declining to $1.1 million in FY 2008. The School has been planning a Capital Campaign for $50 million to celebrate the School's centennial anniversary in 2011.

Ms. Rubin reiterated Dr. Cibes' comments that Staff should thoroughly assess the transaction prior to submission for final approval.

<u>FINAL STAFF MEMO</u>

Hopkins School Issue, Series C

Mr. Morris presented the Hopkins School Issue. The School would like to refinance their Series A debt. As of last Friday, July 24, 2009, the net present value savings was favorable at $620,000 or 7.9%. The structure of this issue is the same as Series B fixed-rate, stand alone issue with the same security provisions and final maturity of July 1, 2028. The School's S&P rating should remain the same at "AA-". The School's enrollment has increased over the past five years. Applications for FY 2010 are up 12.7% with a strong applicant pool 11% higher than CHEFA's upper school median. Selectivity is favorable, up from last year. Matriculation is very favorable at 74%. The School has a strong draw with students from 43 towns. The attrition rate is very low at 2.5%. Mr. Morris stated that the School's finances are favorable with operating surpluses and an operating margin of 10%. Hopkins has a strong balance sheet despite a decline of over 20% in endowment from June 30, 2008 to March 31, 2009, but should increase as of June 30. Hopkins' expendable resources cover their debt 2.95 times and operations at 2.5 times below Moody's "Aa" medians. Hopkins debt service is manageable. Fundraising for FY 2009 was down 10%

from last year but they did very well on their Capital Campaign which has received $29 million in pledges of the $35 million projected goal. The School still remains in the quiet phase at this time.

Ms. Rubin requested a motion to approve the Hopkins School Issue, Series C transaction. Mr. Mengacci moved to approve the Hopkins School Issue, Series C transaction and Dr. Cibes seconded the motion. All were in favor.

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

AYES	NAYS	ABSTENTIONS
John Biancamano	None	None
William J. Cibes		
Benson Cohn		
Patrick Colangelo		
John Mengacci		
Bryan K. Pollard		
Barbara Rubin		
Sarah K. Sanders		

CHEFA FINANCIAL OPERATIONS

June 2009 Financial Statements

Ms. Mackewicz reported that for the twelve months ending June 30, 2009, revenues over expenses are $3.6 million from operations; $1.8 million after program expenses and a loss of $11 million after the reserve transfer to the State of Connecticut. Revenues are over budget by $27,000 and expenses are under budget by $600,000. The items which were notable this month were the transfer of the remaining $108,000 from the 3030 Park Receivables to the State of Connecticut on June 30, 2009. On June 4, 2009, CHEFA also transferred an additional $900,000 of its reserves to the State as part of the State's Deficit Mitigation Plan. In addition, the 2009 portion of the Connecticut Coalition Against Domestic Violence Grant for $180,000 was paid. CHEFA also recovered the unspent accrual of the Medical Malpractice Grant of $390,000. Ms. Rubin inquired if any funds would be added into reserves. Mr. Asher responded that CHEFA added the recovery grant of $390,000 back into reserves, and also whatever excess the Authority had in operations for the month of June.

APPROVAL OF PROPOSED FY 2010 OPERATING & CAPITAL BUDGET

Ms. Weldon explained the analysis of the compensation budget. Ms. Weldon stated that the CHEFA June 30, 2009 base payroll was annualized and used as a comparison to the proposed FY 2010 base payroll. FY 2009 budgeted employee incentive payments (budgeted at 90% of the maximum allowable) were added to the 2009 base payroll to get an annualized FY 2009 total compensation of $2,102,491. This compares to the $2,112,409 in FY 2010 proposed budgeted total compensation. The change in total compensation from FY 2009 to FY 2010 is essentially flat, with an increase of only 0.47%. Ms. Rubin opened the floor for questions. Ms. Sanders stated that the new revised information was satisfactory.

Ms. Rubin requested a motion to approve the proposed FY 2010 Operating and Capital Budget. Mr. Cohn moved to approve the proposed FY 2010 Operating and Capital Budget and Dr. Cibes seconded his motion; all were in favor.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano	None	None
William J. Cibes		
Benson Cohn		
Patrick Colangelo		
John Mengacci		
Bryan K. Pollard		
Barbara Rubin		
Sarah K. Sanders		

COMMITTEE REPORTS

Human Resource Committee

Dr. Cibes reported that the Human Resource Committee reviewed the Managing Director and the General Counsel's evaluations and the Executive Director's recommendations on the incentive compensation. The Human Resource Committee voted to recommend the approval of the evaluations and the incentive compensation. Mr. Colangelo moved to approve the evaluations and the incentive compensation and his motion was seconded by Mr. Pollard.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano	None	None
William J. Cibes		
Benson Cohn		
Patrick Colangelo		
John Mengacci		
Bryan K. Pollard		
Barbara Rubin		
Sarah K. Sanders		

Dr. Cibes stated that Human Resource Committee along with CHEFA's Executive Director discussed FY 2010 Employee Incentive Plan stretch goals and their alignment with the Strategic Business Plan. The Committee and Mr. Asher agreed that this process will be reviewed and updated on a semi-annual basis. The full board will review stretch goals of CHEFA Officers.

EXECUTIVE DIRECTOR'S REPORT

Mr. Asher stated that the FY 2010-2012 Draft Strategic Business Plan was sent out to Board members requesting any comments or recommendations. The mission statement was revised and modified to reflect statutory requirements. Ms. Rubin's suggestions were incorporated and are currently reflected on page 2 of the memo regarding the Draft Strategic Business Plan. Mr. Pollard suggested the plan include wording pertaining to the re-instatement of the Grant Program upon sufficient reserve funding. Mr. Asher stated that Mr. Pollard's comments will be incorporated. Ms. Sanders submitted a comment surrounding new revenue sources. Mr. Asher added that the SCRF Program may be a potential revenue stream. Dr. Cibes suggested that CHEFA address the units of measure used for the plan. Mr. Asher added that CHEFA will look at

the outputs and solidify the units of measure. Ms. Rubin inquired as to when the final version would be ready. Mr. Asher stated that the existing comments and recommendations will be added and an edited version will be mailed to Board members. Mr. Asher recommended that the Board accept the Draft Strategic Business Plan subject to the modifications that have been identified to date. Mr. Biancamano injected that he would like the mission statement revised. Further discussion ensued regarding the mission statement. Dr. Cibes and Ms. Sanders stated that they were in support of Mr. Biancamano's suggestion to modify the mission statement. Ms. Rubin suggested that the Board submit comments or revisions to the mission statement to Mr. Asher. Any suggestions will be reviewed at a future Board meeting.

GENERAL COUNSEL/COMPLIANCE OFFICER REPORT

Ms. Herman stated that she would like to update the Board on two non-compliant credits; The Greenwich Family YMCA and The Hospital of St. Raphael.

Ms. Herman stated that The Greenwich Family YMCA announced on July 3, 2009 that they were suspending construction temporarily on the project which CHEFA financed. Mr. Asher, Ms. Herman, and Mr. Morris conducted a site visit and meeting with their senior management and a few members of the Board. The general contractor and a consultant have both filed mechanic's liens. The Greenwich Family YMCA approached the letter of credit provider, JP Morgan, with a request for a waiver. The estimate of what they need to complete the project is approximately $6 million. Ms. Herman added that there has been a complete change of senior management at the YMCA. They are hoping to increase donor funding and are seeking various sources of capital.

Ms. Rubin inquired as to who serves in the capacity of construction lender. Ms. Herman stated that CHEFA is the construction lender. Mr. Asher added that The Greenwich Family YMCA has completed the project that CHEFA funded. The YMCA's current issues arose due to issues with the unforeseen delays in the project, and an increased scope of the project. Further discussion continued regarding project management and the project compliance guidelines.

Hospital of St. Raphael has covenant violations due to a $29.6 million operating loss for FY 2008. As a result of their covenant defaults and substantial losses, their auditors included a “going concern” qualification in the audit. The Hospital is in contact with AMBAC, KBC and CHEFA regarding these concerns. The Hospital has brought in a management consultant. There is a difference of opinion between AMBAC and the Hospital on the scope of the consultant’s work. AMBAC asked CHEFA to host a meeting with creditors of the Hospital, senior managers and CHEFA staff to determine the appropriate scope. The Hospital has resisted that suggestion. AMBAC is asking CHEFA to schedule a meeting in September 2009 to review the independent consultant’s findings. CHEFA will follow up and pursue a resolution of this matter.

OTHER BUSINESS

The next Board Meeting will be held on September 8, 2009. Mr. Asher added that the election of the Vice Chair will take place at the September meeting, which will be the Annual Meeting.

There being no further business, Ms. Rubin requested a motion to adjourn the meeting at 3:04 p.m. Mr. Cohn moved to adjourn the meeting and Dr. Cibes seconded his motion; all were in favor.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano	None	None
William J. Cibes		
Benson Cohn		
Patrick Colangelo		
John Mengacci		
Bryan K. Pollard		
Barbara Rubin		
Sarah K. Sanders		

Respectfully submitted,

Jeffrey A. Asher
Executive Director