

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting –September 9, 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 Wednesday, September 9, 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  
                      Bryan K. Pollard, Esq.  
                      Sarah K. Sanders (Rep. Honorable Denise Nappier)

ABSENT:           Barbara Rubin  
                      John Mengacci

ALSO PRESENT:   Paula L. Herman, General Counsel  
                      Tara Keating, Grants Administrative Assistant  
                      Eileen MacDonald, Manager, New Business/EasyLoan Program  
                      Michael Morris, Assistant Director  
                      Cynthia Peoples, Assistant Director  
                      Debra Pinney, Manager, Administrative Services  
                      Norberto Ramirez, Compliance/Internal Auditor  
                      Jeanette Weldon, Managing Director  
                      of the Connecticut Health and Educational Facilities Authority

GUESTS:           Julie A. Balerna, Vice President, The Bank of New York Mellon  
                      Jeremy Bass, Consultant, Public Financial Management  
                      Coleman Casey, Esq., Shipman & Goodwin LLP  
                      Scott Gibson, Director, RBC Capital Markets  
                      Laurie Hall, Esq., Hawkins, Delafield & Wood  
                      Jason Krechko, Engineer, GZA GeoEnvironmental, Inc.  
                      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.  
                      Jane Warren, Esq., McCarter & English, LLP  
                      Noreen White, Co-President, Acacia Financial Group, Inc.  
                      John Yarbrough, Esq. Carmony & Torrance LLP

**MINUTES**

Mr. Colangelo requested a motion for approval of the minutes of the July 28, 2009 Board of Directors meeting. Mr. Cohn moved for approval of the minutes, which was seconded by Mr. Pollard.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
John Biancamano	None	None
William J. Cibes		
Benson Cohn		
Patrick Colangelo		
Bryan K. Pollard		
Sarah K. Sanders		

**ELECTION OF THE VICE CHAIRMAN**

Dr. Cibes moved to re-elect Mr. Colangelo as Vice Chairman of the Board of Directors and Mr. Cohn seconded his motion.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS<sup>1</sup></u></b>
John Biancamano	None	Patrick Colangelo
William J. Cibes		
Benson Cohn		
Bryan Pollard		
Sarah Sanders		

Mr. Colangelo accepted the appointment as Vice Chairman.

**CURRENT AND PENDING BOND ISSUES**

**Financing Forecast**

Ms. MacDonald reported that Yale University’s proposed issue has been postponed until late winter to prepare the project for financing. Hopkins School is expected to price in October and close later in that month. CSU is working on their next bond issue. The issue is expected to be approximately \$50 million and will include a new parking garage at Southern Connecticut State University for approximately \$28 million. CHEFA has met with Hartford Hospital, Stamford Hospital and the Hospital of Special Care. Mr. Colangelo asked if any of the hospitals mentioned would be applying for financing within the next six months. Ms. MacDonald responded that staff does not expect any applications within the next six months from the hospitals mentioned.

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<sup>1</sup> Mr. Colangelo abstained from voting.

## **Summary of CHEFA Financings**

Ms. MacDonald reported that there have been no closings since the July Board meeting.

### **Market Interest Rate Update**

Ms. Peoples stated that the market data indicated that manufacturing is improving, retail is still struggling, housing is improving, and jobless claims are high at 9.7%. Treasury yields are also lower. At the August FOMC meeting there were no indications of changes in policy, only expectations of improvements in economic activity into 2010. At the end of last week, stocks fell slightly; oil has dropped significantly to below \$68 a barrel. Gold rose sharply to over one thousand dollar an ounce and dipped back down to \$996. Bond prices were up on the long end about 10 basis points at the ten and thirty year. Since last reported to the Board, the STIF Fund is down from 0.47% to 0.43% and the Fidelity Fund 57 is down from 0.22% to 0.17%. The 90-day Treasury Bill is down from 0.17% to 0.14%. The 30-year Treasury decreased approximately 30 basis points from 4.63% to 4.32% since last reported in July. The Revenue Bond Index decreased approximately 25 basis points from 5.67% to 5.43%; the one-month LIBOR decreased 4 basis points from 0.29% to 0.25%, and; the SIFMA Index decreased from 37 to 28 basis points.

## **FINAL STAFF MEMO**

### **Ethel Walker School Issue, Series B**

Mr. Morris stated that CHEFA met with the Ethel Walker School for a Due Diligence meeting on August 26, 2009 to address their turnaround plan and issues which were mentioned at the Board meeting in July. Mr. Morris stated that the School acknowledged that in the past the Board provided poor guidance, lacked the proper structure and they were divided on many key issues. Previous relationships were strained between the previous heads and the board and most importantly the Board had not focused on the financial sustainability which has become the School's current priority. The School has since appointed a new President of the Board. The School reactivated the committee structure and recently updated their strategic plan. In developing the plan, they sought input from various parties including faculty, staff and alums. There has been a change in the School's senior administrative team including a new Head who started in fiscal year 2008, a Director of Admissions, and a Director of Development. In addition, the School has hired an Assistant Head, a newly created position. This position will allow the head to dedicate more time to fundraising. The Head has experience with capital campaigns and she has implemented the Turnaround Plan. Her focus will be the reputation of the school, curriculum, and quality of students admitted. The representatives from the School's Board are pleased with her performance and are considering renewing her contract. The Turnaround Plan implemented in fiscal year 2009 included a change in the spending culture of the School. The School implemented a zero-based budgeting system which saved \$500,000 for fiscal year 2009. For fiscal year 2009 they will have a loss of approximately \$300,000 on a cash flow basis which is a significant improvement from the \$2.1 million cash flow loss in fiscal year 2008. They expect a surplus in 2010. The School budgeted for a conservative 250 students for fiscal year 2010 and they have 267 students enrolled. This will generate revenues of \$6.2 million as compared to the budget of \$5.9 million. The School reduced their FTE's by 22 which include 3.5

for faculty, without cutting any programs. The School is looking to reduce financial aid which is currently around 32%. A major portion of the Plan includes an increase in enrollment up to 325 students by fiscal year 2015. Mr. Morris questioned their aggressive nature of that goal. The School is pursuing an increase in the number of student boarders. Currently the School's capacity for boarding is 100 students. Ethel Walker School wants to increase the capacity to 125 boarders, which would require minor modifications to the campus. They had eleven new boarders in fiscal year 2010. In addition, the School's boarding school applications have increased 150% since 2007 indicating a demand. The School has expanded their recruiting efforts to Europe, Asia, South America and India. Ethel Walker's nationally recognized equestrian program has a new Director and they have renovated facilities, which they believe will continue to attract students. Historically, the majority of the equestrian program students are full pay students. The School's Development Office plan has called for a dedicated Enrollment Counselor to focus on the middle school enrollment. There are currently only five students enrolled for Grade six for this fiscal year. The School draws their day students from over a hundred schools. Concerning the current economic conditions and its effect on enrollment, the School believes they provide a good value by protecting the core curriculum and pricing, which is relatively attractive as it is below their peers. Part of the Turnaround Plan includes additional fundraising to help stabilize its financial base. The School had an additional fundraising goal of \$1.5 million in fiscal year 2009 which fell short with only \$945,000 raised. However, the school received \$650,000 in pledges which will be used against fiscal year 2010's goal of \$1.75 million.

Another key component of their Turnaround Plan is completing a successful Capital Campaign. The School recognizes the need to improve their endowment, especially the non-restricted endowment. They plan on tying the campaign to their Centennial in 2011. The School's Development Director and Head are confident in their donor base. The School had a capacity study done recently that indicated they could raise between \$50 and \$70 million. They recently hired a consultant to assist in determining a more definitive amount and develop a fundraising plan. The School does not want to start the campaign until they have become more stable in their financial operations. The Standard & Poor's rating will become public this week. The rating will likely be "BBB-" as it was in their private rating.

Mr. Morris added that there were 231 applications for 2010, the selectivity has increased to 52.8%; the matriculation is favorable at 52%; the fundraising for fiscal year 2009 Annual Fund raised \$2.1 million which increased from \$1.1 million from last year, but included the \$945,000 mentioned previously.

The transaction will be secured by a mortgage. However, the Town of Simsbury has an option to purchase two parcels totaling 91 acres for approximately \$3.1 million. The Town has that option until 2012 for one parcel, and 2014 for the second parcel. There will be a provision included in the transaction documents to release those parcels from the mortgage should the Town opt to purchase that land. Mr. Morris stated that CHEFA will be proposing a liquidity covenant. Also, Mr. Morris noted that if the School fails the debt service coverage ratio test a consultant will be required. The School's current letter of credit with Allied Irish Bank expires in December. Currently the charge is 600 basis points. Mr. Morris then requested approval for a limited public offering, based on confirmation of the "BBB-" rating which is expected this week. Further discussion ensued.

Mr. Colangelo requested a motion to approve the Ethel Walker School, Series B transaction. Dr. Cibes moved to approve the Ethel Walker School Issue, Series B transaction and Mr. Biancamano seconded the motion. All were in favor.

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

<u><b>AYES</b></u>	<u><b>NAYS</b></u>	<u><b>ABSTENTIONS</b></u>
John Biancamano	None	None
William J. Cibes		
Benson Cohn		
Patrick Colangelo		
Bryan K. Pollard		
Sarah K. Sanders		

## **COMMITTEE MEETING REPORT**

### **Audit-Finance Committee Meeting**

Mr. Cohn reported that the Audit-Finance Committee accepted the Arbitrage Function Audit Report with one modification on the first recommendation pertaining to deadlines. The modification will include language to reflect the implications of not submitting payment within the IRS required timeframe. Mr. Cohn said that the Committee also heard a presentation from Ms. Weldon and from the independent auditors (Whittlesey & Hadley) on CHEFA’s Fiscal Year 2009 Audited Financial Statements. Mr. Cohn stated that Ms. Weldon reported with regard to format of the fiscal year 2009 statements. CHEFA has elected to follow the Government Accounting Standards Board Pronouncements (GASB) for fiscal year 2009 and going forward, as opposed to both the Financial Accounting Standards Board (FASB) and GASB. There were also changes made in line items on the balance sheet to more accurately reflect reserves designated by the Board or restricted by Statutes, and to be more consistent with the format used in the monthly financial report. Whittlesey and Hadley provided an unqualified opinion on the fiscal year 2009 financial statements and had no management issues to report.

Mr. Cohn moved to accept the Fiscal Year 2009 Audited Financial Statements and Dr. Cibes seconded the motion. All were in favor.

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

<u><b>AYES</b></u>	<u><b>NAYS</b></u>	<u><b>ABSTENTIONS</b></u>
John Biancamano	None	None
William J. Cibes		
Benson Cohn		
Patrick Colangelo		
Bryan K. Pollard		
Sarah K. Sanders		

## **CHEFA FINANCIAL OPERATIONS**

### **July 2009 Financial Statements**

Ms. Weldon reported for the one month ending July 31, 2009, the excess of revenues over expenses after unrealized gains (losses) and program related expenses was \$228,677, which was over-budget by approximately \$27,000. The balance sheet items which changed were cash which decreased to reflect CHEFA fees being received and invested in the STIF Fund, and accrued compensation and salary which decreased to reflect payment of employee incentives and related taxes. Investment income budgeted at 1% is tracking behind budget. CHEFA tuition reimbursement expenses were \$4,215 for the month, reflecting the reimbursements to staff consistent and within CHEFA policy guidelines.

### **APPROVAL OF CHEFA WRITTEN PROCEDURES**

Ms. Herman stated that at the June Board meeting modified Written Procedures were approved in draft form. Notice was then published in the Connecticut Law Journal of a thirty day period for comment and a public hearing was held on August 10, 2009. CHEFA received no comments nor any attendees at the public hearing. Ms Herman requested a motion to approve in final form, the CHEFA Written Procedures approved in draft form at the June Board meeting. Mr. Cohn moved to approve the written procedures and Mr. Pollard seconded the motion.

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

#### **AYES**

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

#### **NAYS**

None

#### **ABSTENTIONS**

None

### **DRAFT BOARD MEETING SCHEDULE**

Mr. Colangelo requested a motion to accept the 2010 Draft Meeting Schedule. Dr. Cibes moved to accept the 2010 Draft Board Meeting Schedule and Mr. Biancamano seconded the motion. All were in favor.

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

**AYES**

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

**NAYS**

None

**ABSTENTIONS**

None

**OTHER BUSINESS**

Dr. Cibes inquired about the report from Office of Health Care Access regarding the financial status of Connecticut’s Short Term/Acute Care Hospitals which was included in the Board mailing. He asked what implications are there for Connecticut’s Health Care Industry. Ms. Weldon stated that the Hospital industry continues to be challenged and that is supported by this report as well as the rating agency outlooks and indicators. Ms. Weldon said that “BBB” rated hospitals are having difficulty with ongoing challenges including the economy, healthcare reform and the market. Dr. Cibes suggested that the Board take a position on national healthcare reform. Ms. Herman mentioned that because the meeting was a “special” rather than a regularly scheduled meeting, action could be taken today only with respect to items included on the posted agenda. Mr. Colangelo suggested that Dr. Cibes prepare materials including a position paper. Dr. Cibes agreed to prepare something for an upcoming Board meeting.

There being no further business, Mr. Colangelo requested a motion to adjourn the meeting at 2:30 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**

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

**NAYS**

None

**ABSTENTIONS**

None

Respectfully submitted,

Jeanette Weldon

Managing Director