

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting – May 26, 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, May 26, 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 R. Cohn
 Patrick A. Colangelo, Vice Chair
 Barbara Rubin, Chair (via Phone)

ABSENT: John Mengacci (Rep. Secretary Robert Genuario)
 Bryan Pollard, Esq.
 Sarah Sanders (Rep. Honorable Denise Nappier)

ALSO PRESENT: Jeffrey A. Asher, Executive Director
 Kimberley Fontaine, Manager, Grants and Grants Administration
 Paula L. 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 Auditor
 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 Andreanna, Esq., Pullman & Comley
Julie A. Balerna, Vice President, The Bank of New York Mellon
Jeremy Bass, Sr. Managing Consultant, Public Financial Management
Coleman Casey, Esq., Shipman & Goodwin LLP
Scott Gibson, Director, RBC Capital Markets
Jason Krechko, Engineer, GZA GeoEnvironmental, Inc.
David Panico, Esq., Robinson & Cole LLP
Namita Shah, Esq., Day Pitney LLP
Christopher Valentino, Lamont Financial Services Corp.
John Yarbrough, Esq., Carmody & Torrance LLP

MINUTES

Mr. Colangelo requested a motion for approval of the minutes of the April 28, 2009 Board of Directors meeting. Mr. Cohn 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, Jr.
Benson R. Cohn
Patrick A. Colangelo
Barbara Rubin

NAYS

None

ABSTENTIONS

None

COMMITTEE MEETING REPORTS

Consultant Committee Meeting

Mr. Colangelo reported that last month the Consultant Committee approved the reappointment of three firms for the Special Counsel and this month it will be approving Financial Advisors. There are presently three incumbent advisors: Lamont Financial Services, Public Financial Management, Inc. and P.G. Corbin & Company, Incorporated. After extensive discussion the Committee reached a consensus to recommend approval to the Board of Lamont Financial Services, Public Financial Management, Inc., P.G. Corbin & Company, Inc., and Acacia Financial Group, Inc., all for terms not to exceed three years.

Mr. Colangelo requested a motion to approve the recommended Financial Advisors for a period not to exceed three years. Mr. Cohn moved to approve the recommendation and Dr. Cibes seconded his motion.

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

AYES

John Biancamano
William J. Cibes, Jr.
Benson R. Cohn
Patrick A. Colangelo
Barbara Rubin

NAYS

None

ABSTENTIONS

None

HR/Audit-Finance Committees Meeting

Mr. Cohn reported that the Committee reviewed and recommended approval of the proposed FY 2010 Operating and Capital Budget which will be presented to the full Board at the June 23, 2009 Board Meeting. The Committee approved a technical revision made to the Internal Audit Compliance Unit Charter. The Committee has approved the proposed FY 2010 and FY 2011 Risk Assessment and Audit Plan and accepted the Audit Report for the Personnel and Payroll functions.

REVIEW DRAFT CHEFA PROCEDURES

The Board recommended that the Draft CHEFA Procedures be addressed at the June 23rd meeting.

At 2:05 p.m., Ms. Rubin left the meeting.

CHILD CARE FACILITIES SECTOR ANALYSIS REPORT

Mr. Wasch conducted a sector analysis presentation for the three specialized child care facility financing programs (as provided for in Public Act 97-259) offered by the Authority.

Tax-Exempt Financing Program

This past October the Series G Issue closed. There were six projects funded for construction or renovation of 958 spaces (including 234 new). The Series G Issue was a \$16.8 million pooled issue.

CHEFA currently has nine pending applications for Series H and I, which will total approximately \$42 million in loans.

Guaranteed Loan Program

CHEFA currently has a maximum of \$21 million to lend through seven banks in the consortium, each of which contributes \$3 million. There is \$6.6 million currently outstanding. There is \$5 million in pending disbursements. The Authority is not currently accepting applications due to pending disbursements which will utilize the balance of the Protection Account.

Small Direct Loan Program

CHEFA has closed 54 projects with 1,463 childcare spaces. There are currently eight additional applicants for a total of \$200,000 in loans.

Special Situations

Family Center of Bristol is looking to transfer management and has initiated that process. The Authority is working with the Department of Social Services on effecting the transfer.

Hall Neighborhood House has ongoing financial issues and they are currently liquidating a number of assets. They are making headway on property sales.

The Clubhouse of the Connecticut River Valley defaulted in December 2007. They are still seeking a buyer for the property. If sold, The Clubhouse of the Connecticut River Valley should fully restore the \$175,000 that was drawn from the Guaranteed Loan Program.

There are three borrowers in the Small Direct Revolving Loan Program that are currently in default. They are all startups.

Early Childhood Facility Plan

The Authority worked with the State Department of Education to develop a statewide plan, including a community outreach component, which analyzed the facility needs of four pilot communities (Hartford, West Hartford, New Haven and Hamden). The plan also created a list of policy recommendations.

There were 3,000 spaces that were discovered as ‘needed’ to meet demand for early education. In addition, 9% of providers were found to need significant renovations. There is a great deal of interest in a turn-key program or centrally owned and managed programs.

Early Education

The Early Childhood Cabinet was largely defunded from \$3.5 million to \$0.2 million in FY 2010. The Research and Policy Council was eliminated under Executive Order 24. Mr. Wasch added that School Readiness and the Department of Social Services Contract subsidies have remained stable.

Mr. Asher commended Mr. Wasch on his persistence and productivity.

Dr. Cibes praised the staff and leadership of The Authority on their contribution to early childhood education within Connecticut and asked that they continue this role.

HIGHER EDUCATION SECTOR ANALYSIS REPORT

Mr. Morris presented the Higher Education Sector Analysis report for FY 2008.

Bonds Issued

During FY 2008, the Authority had ten issues totaling approximately \$1.1 billion to five institutions with just under \$0.5 billion dollars in auction rate conversions.

From FY 2004 through FY 2008, the Authority issued 36 bond issues totaling \$2.27 billion. Approximately 73% of these bond issues were new money projects. During this period, forty percent of CHEFA's total issues were for Yale University, and 22% for Quinnipiac University.

For FY 2009, there will only be three bond issues that will close totaling \$170 million. Of the three bond issues, \$46 million was new money for the University of New Haven.

Higher Education represents 56% of the Authority's total portfolio. Yale University accounts for 57% of the Higher Education portfolio and it will most likely increase to over 60% with their new bond issue. Yale University and possibly the University of Bridgeport are expected to have bond issues in 2010.

Credit Enhancement

Over 86% of the Higher Education portfolio is enhanced, this excludes Yale University. Unenhanced issues include Wesleyan, Fairfield and Sacred Heart Universities. Credit enhancement is spread among five bond insurers and four letter of credit banks. MBIA has the largest exposure (includes Connecticut College, Fairfield University and Trinity College), followed by FSA.

Demand

As far as demand is concerned, the number of admission applications has increased over the past three years by 10.3%. The three largest increases are: University of Bridgeport, St. Joseph's College, and Sacred Heart University. However, both University of Bridgeport and St. Joseph's have small applicant pools compared to the CHEFA median. Connecticut State University System applications increased 16.7% from FY 2006 to FY 2008. The application median equaled 5,005 ranging from 3,740 to 6,157.

Selectivity for CHEFA's private institutions improved over the past three years and compares favorably to Moody's "A" median. Connecticut State University's selectivity also improved during the past three years, from 60% to 58%.

The matriculation median for the private institutions declined for the fifth consecutive year and falls below Moody's "A" median. Connecticut State University's matriculation median for FY 2008 was favorable at 40%.

Expendable Resources to Debt

CHEFA's private institution median declined from FY 2007 to FY 2008 from 1.14 times to 0.67 times, which falls below Moody's "Baa" median. Without Yale University, the median declines to 0.51 times. The reason for the decline in the median is the reduction in expendable resources and additional debt incurred in 2008.

Expendable Resources to Operations

Expendable resources to operations median for the private institutions declined from 1.25 times to 1.07 times from FY 2007 to FY 2008 and falls between the "A" and "Baa" median. Excluding Yale University, the ratio declines to 0.87 times.

Four institutions maintain less than two months of reserves for operations.

Actual Debt Service to Operations

CHEFA's median has increased slightly over the past couple of years to 5.4%, but is in line with Moody's medians. It is anticipated that dramatic increases will occur over the next couple of years due to the amount of debt issued, especially for the University of New Haven and Quinnipiac University.

Operating Margin

Operations remain favorable in FY 2008, in particular, the tuition dependent institutions. Quinnipiac University had another impressive year. Three institutions had negative operating margins (St. Joseph College, Connecticut College and Trinity College) compared to one institution in FY 2007.

Moody's Outlook

In January, Moody's released its negative outlook for the sector. This is the first time in decades that the sector has had a negative outlook. Some of the reasons for the outlook cited by Moody's included: increased pressure on tuition rate increases as well as financial aid awards; impact on investment losses and philanthropic support; illiquidity of balance sheets will be determined. Moody's is developing new liquidity ratios. Moody's also recently released its Rating Road Map, which will focus on six critical factors to assist in evaluating its ratings during this credit crisis.

Moody's also cited that it believes that there should not be dramatic enrollment declines, although families may choose lower cost alternatives. In addition, many universities, which experienced significant growth in financial resources over the past decade are well positioned to withstand moderate declines.

Mr. Colangelo inquired about letter of credit issuance and how accessible renewal was for Higher Education facilities as compared to the Healthcare Sector. Mr. Morris replied that the

Authority had only a few institutions with letters of credit and does not anticipate any issues with renewals.

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Ms. MacDonald reported there is one new application from Yale University for approximately \$539.5 million, including \$450 million of new money. Yale University expects to refinance their Series W, which was a variable rate issue. The Authority has had several inquiries for Easy Loans in the last year, including Backus Hospital, Bridgeport Hospital, the Hospital for Special Care, Middlesex Hospital, and Norwalk Hospital. However, there is a lack of lenders and none of these have formally applied for financing. Danbury Hospital is currently preparing an application for an approximate \$17 million energy project to be presented to the CHEFA Board in June. This is the largest transaction under the EasyLease/Loan program in quite a while.

Summary of CHEFA Financings

Ms. MacDonald reported that there are no new closings scheduled at this time. The ECHN Series D closed on May 14, 2009 for \$15.2 million. The transaction financed renovations to the ICU at Manchester Memorial Hospital and the addition of 30 beds at Woodlake at Tolland, ECHN's nursing home facility. The Issue was a private placement with TD Banknorth as the sole purchaser for five years at a swap rate of 3.89%.

Interest Rate Update

Ms. Peoples presented the interest rate market update, noting that the 30-year Treasury increased 58 basis points from 3.81% to 4.39% since last reported in April. The Revenue Bond Index decreased approximately 7 basis points from 5.49% to 5.42% since last reported; the one-month LIBOR decreased approximately 12 basis points from 0.43% to 0.31%; and the SIFMA Index has declined from 57 to 42 basis points since last reported. The STIF Fund as of 5/25 is at 0.67% and the Fidelity Fund 57 is down to 0.34%. Within the next six months we will look into alternatives with more yield.

CHEFA FINANCIAL OPERATIONS

April 2009 Financial Statements

Ms. Mackewicz reported that for the ten months ending April 30, 2009, revenues over expenses are \$2.9 million from operations; \$1.2 million after traditional program expenses and a loss of \$11 million after the reserve transfer to the State of Connecticut. Revenues are under budget by \$205,000 and expenses are under budget by \$394,000. The items which were notable this month were the \$12.250 million transferred to the State of Connecticut on April 8,

2009 and accrual of all contingent pending grants equaling \$935,600. In addition, the Authority recovered \$23,000 from a 2007 grantee.

OTHER BUSINESS

Mr. Asher spoke about a presentation that was given to hospital CFO's, hosted by the Connecticut Hospital Association, on CHEFA's underwriting guidelines, financing options, and federal programs as well as the rating process. It was a successful meeting with good feedback. Mr. Asher also noted that Mr. Morris and Ms. Weldon will join him in presenting to the Connecticut Association of Independent Colleges on Friday, May 29, 2009 where approximately ten schools will be represented.

The Authority has been asked by Congressman Himes' office to comment regarding the changes to the HUD/FHA 242 Program. The proposed changes could expedite the process and create the ability for institutions to refinance existing debt. This program could be modified to benefit the short-term needs of CHEFA's clients by giving them access to capital. The Bank-Qualified Debt Program and the Federal Home Loan Program need to be considered when communicating with banks and/or considering alternate avenues of financing for the Authority's clients.

EXECUTIVE SESSION

At this time, Mr. Colangelo requested a motion for the Board to go into Executive Session. Ms. Herman reminded the Board that the purpose of the executive session must be identified. Mr. Colangelo then requested an Executive Session for the purpose of discussing strategy with respect to a pending claim. The motion was made by Mr. Cohn and seconded by Mr. Cibes.

Mr. Colangelo requested that Mr. Asher and Ms. Herman remain during the executive session.

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

AYES

John Biancamano
William J. Cibes, Jr.
Benson R. Cohn
Patrick A. Colangelo

NAYS

None

ABSTENTIONS

None

The Board meeting reconvened at 3:00pm. There were no votes taken during the Executive Session.

There being no further business, Mr. Colangelo requested a motion to adjourn the meeting at 3:02 pm. Mr. Cohn moved to adjourn the meeting and Dr. Cibes seconded his motion.

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

AYES

John Biancamano
William Cibes, Jr.
Benson Cohen
Patrick Colangelo

NAYS

None

ABSTENTIONS

None

Respectfully submitted,

Jeffrey A. Asher

Executive Director