

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting – January 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, January 27, 2009.

The meeting was called to order at 2:05 p.m. by Ms. 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.
 John Mengacci (Rep. Secretary Robert Genuario)
 Bryan K. Pollard, Esq.
 Barbara Rubin, Chair
 Sarah K. Sanders (Rep. Honorable Denise Nappier)

ABSENT: Benson Cohn
 Patrick Colangelo

ALSO PRESENT: Jeffrey Asher, Executive Director
 Janet Cyr, Administrative Assistant
 Kimberley Fontaine, Manager, Grants & Grants Administration
 Paula Herman, General Counsel
 Tara Keating, Grants Administrative Assistant
 Michael Morris, Assistant Director, New Business
 JoAnne Mackewicz, Controller
 Cynthia Peoples, Assistant Director, Investments/Information Systems
 Debra Pinney, Manager, Administrative Services
 Norberto Ramirez, Compliance/Internal Auditor
 Jennifer Smyth, Manager, Legal Services
 David Wasch, Manager, Child Care Programs
 of the Connecticut Health and Educational Facilities Authority

Jeremy Bass, Consultant, Public Financial Management
Coleman Casey, Esq., Shipman & Goodwin
Steven Humes, Esq., McCarter & English
Edward Samorajczyk, Jr., Esq., Robinson & Cole
Jonathan Savage, Esq., Lewis & Munday
Namita Shah, Esq., Day Pitney
Christopher Valentino, Associate, Lamont Financial Services
Jeanette Weldon, Sr. Managing Director, P.G. Corbin & Company
John Yarbrough, Esq., Carmody & Torrance

GUESTS

Julie A. Balerna, Vice President, The Bank of New York Mellon
Scott Gibson, Director, RBC Capital Markets
Christopher R. Klemmer, Fuss & O'Neill
Jason A. Krechko, Engineer I, GZA GeoEnvironmental, Inc.

Ms. Rubin formally congratulated Jeffrey Asher on accepting the position of Executive Director for the Connecticut Health and Educational Facilities Authority. Ms. Rubin indicated that the Board members agreed Mr. Asher had a breadth of experience and qualifications unparalleled in the applicant pool, as well as the dedication, background and strategic outlook required to successfully execute the role of Executive Director for the Authority. The Governor's Office also expressed approval when advised of the Board's proposed selection of Mr. Asher for the Executive Director position.

Ms. Rubin also acknowledged Mr. Asher's 20th anniversary with the Authority and noted that a celebration of the two events will be held after today's Board meeting.

Mr. Asher thanked Ms. Rubin for the opportunity to serve the Authority in the capacity of Executive Director and indicated that he looked forward to the challenge of the position and working with the Authority's Staff, consultants, constituents and Board members.

Ms. Rubin thanked Mr. Colangelo, Ms. Sanders, and Ms. Herman for the time and effort in coordinating, reviewing resumes, and conducting interviews regarding the Executive Director search.

In addition, Ms. Rubin acknowledged the invaluable role the Department of Administrative Services performed for the Authority in implementing the Executive Director search. Ms. Rubin added that there were many respondents to the Authority's advertisement for the Executive Director position. With the assistance of the Department of Administrative Services, the Authority narrowed the search and interviewed five candidates with strong experience and qualifications.

MINUTES

Ms. Rubin requested a motion for approval of the minutes of the December 2, 2008 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 Cibes
John Mengacci
Bryan Pollard
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

Ms. Rubin requested a motion for approval of the minutes of the January 8, 2009 Board of Directors meeting. Mr. Biancamano moved for approval of the minutes, which was seconded by Mr. Mengacci.

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

AYES

John Biancamano
William Cibes
John Mengacci
Bryan Pollard
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

Ms. Rubin stated that the January 16, 2009 minutes will be reviewed and voted on at the next Board of Directors meeting on February 24, 2009.

INDEPENDENT SCHOOL SECTOR ANALYSIS REPORT

Mr. Morris provided an overview of the Authority’s Independent School Sector Analysis for FY 2008, the full report on which had been sent to all Board members. In particular, Mr. Morris noted the following:

- Overall, the sector remained healthy for FY 2008 with strong demand and enrollment trends, although many schools experienced decreases in financial resources, but not significant enough currently to warrant concerns.
- The Authority’s portfolio includes 35 schools; 19 boarding and 16 day schools. In 2008, there were approximately 17,800 students that attended these schools with approximately 73% from Connecticut.
- From FY 2004 to FY 2008, the Authority issued approximately \$455 million for 26 issues to 20 schools, with nine first time borrowers. The split between new money and refunds equaled approximately 50%. The 26 bond issues consisted of 14 fixed-rate transactions and 12 variable rate issues. For FY 2009 year-to-date, five issues closed totaling \$79.5 million, including one first time borrower, Hamden Hall for \$18.2 million. New money accounted for 60% of the total \$79.5 million.
- Total debt outstanding in the portfolio is approximately \$694 million, which is an increase of over 33% since FY 2004, and just over 10% of the total. Composition of the credit enhancement provided has undergone major transformation during this period. Most notably, the “AAA” insured issues accounted for 52% of the total in FY 2004

versus 13.2% currently. The “AAA” insurers currently consist of Assured Guaranty and FSA, which provide enhancement for four bond issues. However, both have split ratings and soon are to become one. Other insured issues, including XL Capital (Syncora), AMBAC, MBIA and Radian with ratings ranging from “Caal” to “AA”, account for 36.5% of the total portfolio. Letter of credit issues increased from 21.4% to 34% and unenhanced issues decreased from 18.1% to 16.4% since FY 2004.

- Unenhanced bond issues currently include four schools (Hotchkiss, Taft, Hopkins and Loomis) that have issued based on their own rating and a private placement for the Stanwich School. Loomis Chaffee School issued \$20 million in new debt in FY 2009 and now accounts for 33% of the total. Due to the lack of credit enhancement available, more schools may issue bonds based on their own credit or on a private placement basis.
- Variable rate debt exposure, including non-LOC backed transactions account for over 41% of the portfolio. Six banks currently provide letters of credit to 24 institutions. The variable rate portfolio does not have any insured issues or any auction rate issues.
- Eight schools have letters of credit that are due to expire within the next 1.5 years. Allied Irish, which provides the LOC for Ethel Walker, has indicated that it will not renew the LOC beyond the July 30, 2009 expiration date. Washington Montessori’s LOC will be extended, but its annual LOC fee will most likely more than double. The potential renewal risk for the other six issues is uncertain at this time, but more than likely, many schools may experience increases in their annual fees.
- Overall market demand has improved over the past five years; however, selectivity indicators still fall below Moody’s “A” median, while matriculation at the boarding schools has decreased slightly over the past five years.
- Overall, many schools experienced growth, some rather significantly, in their financial resources from FY 2004 to FY 2007, before declining in FY 2008. Although both boarding and day school’s financial indicators are at respectable levels for FY 2008, they most likely will fall between Moody’s “A” and “Baa” medians (Moody’s independent school medians are not available at this time).

Ms. Rubin inquired if CHEFA had any schools that did not meet their covenant debt service tests.

Mr. Morris responded that Washington Montessori was the only school that did not meet CHEFA’s standard bond document test, but did meet the bank’s test because it was calculated differently than CHEFA’s. Since the School met the letter of credit bank test it was not in default. The impact of not meeting CHEFA’s criteria required a waiver, which was agreed upon by the bank.

Mr. Morris also pointed out that CHEFA recently received inquiries from Greenwich Academy, Gunnery, Chase Collegiate, and Suffield Academy to purchase their debt on the open market, which debt (all insured issues) is now selling at a discount. Mr. Morris stated that CHEFA is waiting on Bond Counsel to see if it is allowable under the documents.

Mr. Morris continued with the presentation reviewing the significant trends affecting the sector. These trends include: fewer schools seeking financing over the next year; letter of credit issues previously discussed; effects the recession may have on student demand and additional financial aid pressures on schools’ budgets; a possible decline in philanthropic support; and further weakening of investment performance, which will result in a further decline in financial resources in FY 2009.

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Mr. Morris reported that with respect to ECHN, the Authority met with the Institution and TD BankNorth to discuss the possibility of the bank providing a letter of credit for the \$15 million Series D issue plus a letter of credit for ECHN's existing \$20 million Series B issue, which is currently backed by Sovereign Bank. The other financing structure discussed was the possibility of issuing the Series D issue on a private placement basis with TD BankNorth. The Authority should know in the next few weeks the direction ECHN wants to take. If it is resolved in the next few weeks, CHEFA will present this issue to the Board on February 24, 2009 for approval. The Authority originally approved ECHN in May 2008 with a Sovereign Bank letter of credit. Yale-New Haven Hospital (YNHH) was issuing on their own credit, when the rates spiked over 7%. Currently, the rates are approximately at the 6.50% level. If the rates remain at this level, the Hospital will move forward to price the issue in February 2009 and close in March 2009.

Mr. Morris added that two issues closed last month: Kent School—refunding of their variable rate debt and Taft School, which was also a variable rate transaction.

MARKET RATE UPDATE

Ms. Peoples presented the interest rate market update noting that 1) the Federal Reserve met in December and lowered the Federal Fund's rate to a range from 0.0% to 0.25%; and 2) the market is bracing itself for a stimulus package, a significant amount of government debt and long-term inflation issues as broad economic deterioration continues. Ms. Peoples stated that since rates were reported at the December 2, 2008 Board meeting, the 30-year Treasury is up from 3.0% to 3.38%, the Revenue Bond Index is down from 6.06% to 5.82%, and the one-month LIBOR is down from 1.90% to 0.41%. Additionally, the SIFMA Index is down from 1.03% to 0.51%. Regarding investments where CHEFA has most of its reserve and clients' funds invested, the STIF is approximately 1.12%, which is down significantly from last year. Currently, the Fidelity Fund 57 is down from 2.20% where it held fast last summer to 0.76% for the current seven-day rate.

With no further questions, Ms. Rubin turned the floor over to Ms. Mackewicz.

CHEFA FINANCIAL OPERATIONS

November and December 2008 Financial Statements

Ms. Mackewicz reported that for the six-month period ending December 31, 2008, the Authority's revenues are in excess of expenses by approximately \$1.8 million before program expenses and \$1.4 million after program expenses. Revenues are over budget by approximately \$35,000 and CHEFA's expenses are under budget by approximately \$247,000. There were no notable items in November or December 2008. The reserves were broken out for the Connecticut Science Center grants and their first installment of \$49,000 was paid.

Ms. Rubin inquired about the status of the reserve for the Guaranteed Student Loan Program.

Ms. Mackewicz stated that the Guaranteed Student Loan Program has not been funded yet. Mr. Asher added that the Guaranteed Student Loan Program is moving forward and the credit unions are making loans. The Authority's money for the loans will be reserved on

the balance sheet, but funds are not paid out until there is a default. Mr. Asher indicated that this fund would be reflected on the Authority's balance sheet for the month of January 2009.

COMMITTEE REPORTS

Audit-Finance Committee Report

- **Approval of Independent Auditors**

Ms. Rubin provided a brief overview of the Audit-Finance Committee meeting which was held at 11:30 a.m. today. She reported that the Committee interviewed five firms regarding the independent auditor position for the Authority and reported that out of the five firms, the Board members concluded that there were two or three strong candidates. No candidate decisions were made during today's meeting. The Audit-Finance Committee will meet next month prior to the Board meeting and make recommendations to the Board.

PRE-EXECUTIVE SESSION

Ms. Rubin requested a motion to move into Executive Session to discuss personnel matters. Mr. Pollard moved to go into Executive Session. Dr. Cibes seconded the motion; all were in favor.

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

AYES

John Biancamano
William Cibes
John Mengacci
Bryan Pollard
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

Executive Session was adjourned at 3:11 p.m. No votes were taken during the Executive Session.

Mr. Biancamano suggested that a Special Board meeting be scheduled to further discuss personnel, organizational, industry and economic issues. Ms. Rubin and the Board members agreed.

Next Meeting

The next Board meeting is scheduled for Tuesday, February 24, 2009 at 2:00 p.m.

There being no further business, at 3:14 p.m., Ms. Rubin requested a motion to adjourn the meeting. Mr. Biancamano moved to adjourn the meeting and Mr. Mengacci seconded his motion. All were in favor.

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

AYES

John Biancamano
William Cibes
John Mengacci
Bryan Pollard
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

Respectfully submitted,

Jeffrey A. Asher
Executive Director