# STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting
March 11, 2020

The State of Connecticut Health and Educational Facilities Authority met at 1:57 p.m. on Wednesday, March 11, 2020.

The meeting was called to order at 1:57 p.m. by Peter W. Lisi, Chairman of the Board of Directors of the Authority. Those present and absent were as follows:

PRESENT:
Peter W. Lisi, Chairman
Michael Angelini, Vice Chair
Lawrence Davis
Anne Foley (*Designee for Melissa McCaw, OPM Secretary*)
Barbara B. Lindsay, Esq. [1]
Sheree Mailhot (*Designee for CT State Treasurer Shawn T. Wooden)* [2]
Susan Martin

ABSENT:
Dr. Estela R. Lopez
Barbara Rubin
Mark Varholak

ALSO, PRESENT:
Jeanette W. Weldon, Executive Director
Denise Aguilera, General Counsel
Daniel Giungi, Communications and Government Affairs Specialist
Josh Hurlock, Assistant Director, CHESLA
Robert Jandreau, Sr. Finance Associate
Krista Johnson, Compliance Specialist
Daniel Kurowski, CHEFA CDC Program Manager
Eileen MacDonald, Sr. Transaction Specialist
JoAnne N. Mackewicz, Controller
Michael F. Morris, Managing Director
Cynthia D. Peoples-H., Managing Director
Kara Stuart, Administrative Services Assistant
Betty Sugerman Weintraub, Grant Program Manager
of the Connecticut Health and Educational Facilities Authority

GUESTS:
Rick Branson, Executive Director, Connecticut Association of Independent Schools
Bruce Chudwick, Esq., Shipman & Goodwin LLP
Paula DePinto, Director of Finance, Hartford HealthCare
Laurie Hall, Esq., Hawkins, Delafield & Wood LLP [3]
Shelby Lobitz, Analyst, Acacia Financial Group, Inc. [4]
Thomas Marrion, Esq., Partner, Hinckley Allen
Will Menoche, Executive Director of Arbor Rose, Jerome Home

[1] Ms. Lindsay participated in the meeting via conference telephone that permitted all parties to hear each other.
[2] Ms. Mailhot participated in the meeting via conference telephone that permitted all parties to hear each other.
[3] Ms. Hall participated in the meeting via conference telephone that permitted all parties to hear each other.
[4] Ms. Lobitz participated in the meeting via conference telephone that permitted all parties to hear each other.

Kevin G. Palumberi, Associate, Carmody Torrance Sandak & Hennessey LLP [5]
David Panico, Esq., Robinson + Cole LLP
Keith Robertson, Managing Director, Ziegler Capital Markets
Erick Russell, Esq., Pullman & Comley LLC
Namita Shah, Esq., Day Pitney LLP
Tiffany Stevens, Esq., McCarter & English, LLP [6]
Eric Taylor, Esq., Harris Beach PLLC
Lori Toombs, Executive Director, Jerome Home

**APPROVAL OF MINUTES**

Mr. Lisi requested a motion to approve the minutes of the February 19, 2020 meeting of the Board of Directors. Mr. Angelini moved for approval of the minutes, which was seconded by Ms. Mailhot.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| Peter W. Lisi | None | None |
| Michael Angelini | | |
| Lawrence Davis | | |
| Anne Foley | | |
| Barbara B. Lindsay, Esq. | | |
| Sheree Mailhot | | |
| Susan Martin | | |

**Rick Branson, Executive Director, Connecticut Association of Independent Schools**

Mr. Morris introduced Mr. Branson, Executive Director, Connecticut Association of Independent Schools. Mr. Branson reported on the challenges Independent Schools will face in the upcoming months. The floor was open to questions and a discussion ensued.

**Independent School Sector Report – FY Ending June 30, 2019**

Mr. Morris provided a review of CHEFA’s independent school portfolio, which included the following items:

- Overview of Significant Trends from the prior fiscal year
- Review of the independent schools that make up the portfolio, which includes 19 boarding schools and 13 day schools
- A review of bonds issued for the sector from FY 2016- YTD FY 2020
- Student demand trends from the prior fiscal year as well as over the past five years for applications received, selectivity and matriculation rates and enrollment
- Review of financial operating metrics including net tuition revenue growth, operating cash flow margins and the effect on debt service coverage ratios.
- Review of balance sheet and liquidity ratios to include spendable cash & investments to debt and spendable cash and investments to operations
- A review on how schools are investing in the facilities as measured by the capital spending ratio

[5] Mr. Palumberi participated in the meeting via conference telephone that permitted all parties to hear each other.
[6] Ms. Stevens participated in the meeting via conference telephone that permitted all parties to hear each other.

Following the presentation, a brief discussion ensued.

With guests from Jerome Home and an unforeseen time constraint, the order of the agenda was altered.

Guests from Jerome Home entered the meeting at 2:27 p.m.

**FINAL STAFF MEMO AND AUTHORIZING BOND RESOLUTION**
**Jerome Home Issue, Series E**
Mr. Morris introduced the Jerome Home Guests:
- Lori Toombs, Executive Director, Jerome Home
- Will Menoche, Executive Director of Arbor Rose, Jerome Home
- Paula DePinto, Director of Finance, Hartford HealthCare
- Keith Robertson, Managing Director, Ziegler Capital Markets

Mr. Morris recommended approval of up to $20 million for the Jerome Home Issue, Series E. Jerome Home began operations in 1932 after being established by the Will of August S. Jerome in 1905, directing that a home be established for aged men and women in the New Britain area with financial support from his Will. Jerome Home currently offers 26 residential living units, 62 assisted-living units and 94 skilled nursing beds. It has been managed by Hartford HealthCare's Senior Services since 1997. Fitch views this relationship as a credit positive which provides Jerome Home with access to a large healthcare system and a strong referral source.

Mr. Morris reported the following about the Jerome Home transaction:
- The bond proceeds will be used to refund their outstanding 2007 bond issue and construct a 20-unit expansion costing approximately $10.0 million. Jerome Home will contribute $1.0 million equity.
- Jerome Home has received a BBB rating from Fitch.
- The security requirements for the series 2020 bonds will consist of pledge of gross revenues, mortgage, and debt service reserve fund.
- The financing structure will be fixed rate, unenhanced, $5,000 denominations with final maturity July 1, 2050.

Mr. Morris reported Jerome Home's operating profile is favorable evidenced by strong census levels across all service lines due to long operating history, reputation and relationship with Hartford HealthCare's Senior Health Services. Fitch noted Jerome Home's high exposure to government payors leaves it susceptible to government payors or programmatic changes which was a credit negative.

Financial results are very favorable due to strong census resulting in operating ratios, net operating margins and excess margin well above Fitch's BBB medians.

Mr. Morris stated for liquidity, they experienced steady growth in unrestricted cash and investments increased over the past five fiscal years resulting in strong days cash on hand, cash to pro forma debt and pro forma cushion ratio, all comparing very favorably to the Fitch "BBB" median.

Mr. Morris reported on the capital structure, stating that refunding of the Series D variable rate debt will help with eliminating renewal risk. It will be lightly leveraged with a debt-to-capitalization ratio in line with Fitch's "A" median. Annual debt service will be manageable with pro forma debt service coverage.

The floor was open to questions for the Jerome Home guests and a discussion ensued.

Mr. Lisi requested a motion to approve staff's recommendation of up to $20 million for Jerome Home Issue, Series E. Mr. Angelini moved to approve the resolution and Ms. Foley seconded the motion.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| Peter W. Lisi | None | None |
| Michael Angelini | | |
| Lawrence Davis | | |
| Anne Foley | | |
| Barbara B. Lindsay, Esq. | | |
| Sheree Mailhot | | |
| Susan Martin | | |

Guests from Jerome Home left the meeting at 2:36 p.m.

**FINAL STAFF MEMO AND AUTHORIZING BOND RESOLUTION**

**Fairfield University Issue, Series T**

Mr. Jandreau stated as presented in last month's credit analysis to the Board, Fairfield University is seeking to secure tax-exempt financing in order to refund approximately $7.7 million of outstanding debt, finance the construction of a 75-bed residence hall, and fund the cost of renovations and construction of existing townhouses and dormitories on its campus. Staff believes the University's strengths include strong demand and enrollment trends, favorable financial performance, strong liquidity and adequate debt service coverage. Staff believes the challenges the University faces include increased leverage and a highly competitive market for students given weak demographic trends.

Mr. Jandreau said that with the Board's approval, the University will benefit from the proposed refinancing of Series P bonds in July, which will generate net present value savings of approximately 14% or roughly $1.1 million. Additionally, the new money proceeds will allow the University to achieve new growth as part of their strategic plan, as well as fulfill part of its Campus Master Plan of revitalizing the campus with the construction of new living spaces in addition to the renovation of its current townhouses and residences.

Mr. Jandreau stated staff would ask the Board to approve the Fairfield University Issue, Series T up to $35 million, based on its credit analysis and recommendation and subject to the University's Board approval on March 26, 2020.

Mr. Lisi requested a motion to approve staff's recommendation of up to $35 million for Fairfield University Issue, Series T. Ms. Foley moved to approve the resolution and Mr. Davis seconded the motion.

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

| **AYES** | **NAYS** | **ABSTENTIONS** |
|---|---|---|
| Peter W. Lisi | None | None |
| Michael Angelini | | |
| Lawrence Davis | | |
| Anne Foley | | |
| Barbara B. Lindsay, Esq. | | |
| Sheree Mailhot | | |
| Susan Martin | | |

**FINAL STAFF MEMO AND AUTHORIZING BOND RESOLUTION**
**Trinity College, Series R**
Mr. Jandreau stated Trinity College is seeking to refund four series of bonds totaling approximately $108.1 million, and finance swap termination costs of $1.9 million with the issuance of both tax-exempt and taxable debt. Barclays will be acting as the senior underwriter. Mr. Jandreau referred to the financing structure as well as the sources and uses of the bond proceeds. The R-1 tax-exempt bond proceeds will be used to defease series M bonds, refund series O and P bonds, and refund a portion of the series Q bonds which could be refunded with tax exempt proceeds. Series R-2 taxable bond proceeds will be used to refund the remaining portion of the series Q bonds, which are ineligible for refunding on a tax- exempt basis, as well as to finance swap termination cost of the series Q bonds.

Mr. Jandreau referred to the following exhibits and information included in the staff memo's:
Exhibit I:
- FTE headcount has been relatively stable.
- Acceptance rate has been relatively constant.
- Matriculation has seen some improvement over the past five years.
- While endowment growth is good, it has only a very small portion which is unrestricted.

Exhibit II:
- Cash levels have been steady.
- Investments have grown from about $570 million to $627 million or 10%, which is slightly below the rate of its peers.

Exhibit III:
- Net revenue growth has not shown much change and is a result of a highly competitive market that is faced with declining demographics.
- FY 2016 resulted in a slight loss from operations and looks to be the result of increases in wages.

Exhibit IV:
- Capital ratios are mostly favorable and compare favorably to the Moody's A rated medians.
- Balance sheet ratios, except for monthly days cash on hand, also compare favorably to the medians.
- The College's operating ratios struggle to compare with even the Moody's BBB rated medians. The College is aware it needs to improve its operating performance and is in the process of creating new sources of revenue. One such avenue is in the formation of corporate sponsorships. Recently, the college created a sponsorship with Infosys, an $11 billion-dollar information technology company.

Mr. Jandreau, highlighted the expected benefits the college will gain as a result of the proposed financing:

- The terming out of approximately $72 million of debt coming due in 2025 and 2026, which will free up capital for the college to use for other purposes.
- The termination of interest rate swaps the college currently has in place from $85 million in notional value down to $13.5 million.
- The reduction of bank related debt, dropping from $130.6 million to $21.6 million.
- Overall, the proposed financing will not result in the generation of net present value savings, but it will allow the College to lock in low fixed-rate financing through maturity of the debt in addition to the benefits above.

Mr. Jandreau stated staff would like to ask for the board's approval of up to $110 million for Trinity College Issue, Series R.

Mr. Lisi asked about the sponsorship Trinity College has with Infosys and what that entails. A brief discussion ensued.

Mr. Davis asked if the College is working with the rating agencies to address the inconsistency of their performance relative to their rating medians. Mr. Jandreau stated the college is meeting with the rating agencies at the end of the month. In the past, the rating agencies have given their assessment of the College's operations, giving them a baseline, and included a write-up of what the College needs to focus on in order to keep their rating as is or increase it. A discussion ensued.

Mr. Lisi requested a motion to approve staff's recommendation of up to $110 million for Trinity College Issue, Series R. Mr. Angelini moved to approve the resolution and Ms. Foley seconded the motion.

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

| **AYES** | **NAYS** | **ABSTENTIONS** |
|---|---|---|
| Peter W. Lisi | None | None |
| Michael Angelini | | |
| Lawrence Davis | | |
| Anne Foley | | |
| Barbara B. Lindsay, Esq. | | |
| Sheree Mailhot | | |
| Susan Martin | | |

Ms. Foley left the meeting at 2:54 p.m.

**PRELIMINARY STAFF MEMO**

**Kent School, Series I**

Mr. Morris reported the following on the Kent School, Series I transaction:

- It will be a relatively small offering of approximately $5.5 million and will be issued as either a bank direct purchase or public offering.
- The plan is to seek final approval at the April 15, 2020 meeting.
- Kent School has about 588 students (89% boarding and 11% day) with two bond issues outstanding totaling approximately $24.1 million.

- The proceeds will be used for expansion and renovation of the Admissions building, expansion of the maintenance shop, and construction of two faculty homes.
- S&P affirmed the Schools "A" rating in June 2019 with a stable outlook, and it is expected the rating will be maintained for the Series I issue.
- There is general obligation pledge of the school, and gross receipts pledge, as well as no mortgage or debt service reserve fund.
- If issued as a public offering, it will consist of a fixed-rate with $5,000 denominations with final maturity July 1, 2040.

Mr. Morris provided a brief credit overview, stating that student demand metrics remain strong despite a decline in application volume. with selectivity remaining relatively consistent, and matriculation is at its second highest level over the past five years.

Mr. Morris stated the operating performance has been favorable for the three most recent audited years with strong operating and operating cash flow margins, comparing favorably to Moody's overall medians. Kent School's spendable cash and investments has increased 53.5% over the past five years, providing for a strengthened cushion for operations and debt, but still lags Moody's' medians.

Mr. Morris reported on the endowment of Kent School, noting a 47.7% increase over the past five years. However, unrestricted endowment accounts for only 16.2% of the total endowment as of June 30, 2019. The School's annual debt service burden has historically been high but manageable with adequate debt service coverage

**PRELIMINARY STAFF MEMO**

**Loomis Chaffee School Issue, Series K**

Mr. Jandreau reported Loomis Chaffe is currently determining its final financing structure. It is uncertain whether this transaction will be a bank direct placement or publicly offered. Should the determination be to offer bonds publicly, the school has requested the proposed financing be presented today on a preliminary basis and approved at the April 15, 2020 Board meeting. Loomis Chaffee is looking to secure approximately $7 million to finance a portion of its $19 million project currently underway, renovating five dormitories. Of the approximate $12 million balance, the school intends to fund it with their school surplus.

Mr. Jandreau referred to the following exhibits and information in the staff memo:
Enrollment:

- Enrollment has grown steadily from 686 to 732 students, or 6.7% to its highest level.
- The growth was derived from an increase in students outside the school's primary market and come as a result of management's decision to increase the percentage of boarding students to a 70% mix.
- Applications appear to have fallen 15.3% in the past three years, but the school adopted a new, more conservative, methodology about how they accounted for applications. In the past, incomplete applications such as ones missing a teacher recommendation were counted. Now, they are not reported as applications until complete. In the current fiscal year, the school had to stop taking applications in April of 2019, 4 months earlier than normal due to more students accepting admission offers than anticipated, overfilling the school by approximately 40 students. For Fall 2020, applications through March 5th are already 2,017 using the old methodology style or 1,844 using the new.

- Endowment growth in the past 5 years is 25.5% or approximately 8.2%/year and annual giving is stable.
- The $21.3 million of capital fund shown in FY 2017 was used to fund a majority of the $29.9 million Campus Center project. The balance of the project cost was funded by the 2017 fixed-rate Series J bank direct placement with Farmington Bank.

Investments:

- The $16 million in cash from FY 2015 is something to be noted. At the end of the fiscal year, the School made several liquidations and had plans to reinvest those proceeds.
- Investments have grown approximately 24.5% in the past five years.

Financial Performance:

- Net tuition revenue growth is a very healthy 23.8% for the past five years and has averaged 5.7% per year.
- There is $3.6 million of negative investment returns due to investment managers underperforming in the market.
- Debt service to operations remains elevated at 10.5% compared to the median of 4.7%. However, this is largely offset by strong debt service coverage.
- Monthly liquidity of $93 million provides 847 days of monthly days cash on hand.
- Operating margin at 19.4% and cash flow margin at 32.7% are both very strong.

Mr. Lisi asked if boarding schools consisting of 18% international students is average. Mr. Morris stated that yes, it is about average.

## EXECUTIVE DIRECTOR'S REPORT

### Authority Updates

Ms. Weldon gave a legislative update. She and Mr. Giungi continue to have meetings to further the legislative agenda.

Last week Ms. Weldon testified on S.B. No. 305, the bill containing all CHEFA and CHESLA initiatives, except for the CHESLA Student Loan Subsidy Program proposal (which is separately Raised Bill No. 18). Regarding Bill 305, it included reference originally to CHEFA's cross-border financing proposal and CHEFA's proposal to expand the ability to make loans or transfers to its subsidiaries whether created by CHEFA or deemed to be subsidiaries of CHEFA. Bill 305 also included various proposals regarding CHESLA. Hartford HealthCare submitted written testimony in support of the cross-border financing capability. Unfortunately, when S.B. 305 was brought to the Higher Education and Employment Advancement Committee for a vote, the CHEFA cross-border proposal and a CHESLA proposal to broaden the definition for "education assistance" were removed from Bill 305 and a substitute bill was voted on. What remained in S.B. 305 was voted to the next step in the process, along with Raised Bill 18.

Ms. Weldon and Mr. Giungi hope to bring attention to these initiatives via an amendment process but it is uncertain if that will be able to be achieved.

Ms. Weldon stated there is a pending staff meeting and one agenda topic will be Coronavirus preparation.

### Client Updates

Mr. Morris noted there are three new financings on the calendar; the two independent schools that were presented earlier, Kent School and Loomis Chaffee School, and McLean Associates, a CCRC located in Simsbury, which will be a combination of a bank direct purchase and a public offering. Staff anticipates presenting the McLean Associates bond issue next month on a preliminary basis. In addition, the Connecticut State University System is exploring refunding options for certain bond issues, which may be issued on both a tax-exempt and taxable basis. Choate Rosemary Hall Issue, Series F closed last week.

Mr. Morris noted that the Capital Planning workshop that the Authority and the Hartford Foundation for Public Giving were hosting for next week has been postponed. A new date has not been planned yet.

**Financial Report – January 2020**

Ms. Mackewicz reported on the January 2020 Financials. The change in net position after program related expenses is $584,000 and $64,000 over budget.

**Market Updates**

Ms. Peoples noted “The Fed’s Market Emollients” article of the Market Update handout.

Mr. Jandreau stated that given the material change in interest rates over the last three months, primarily the last month, in which the 10-year treasury dips below 1%, it is predicted that most institutions will consider refinancing existing debt or look to lock-in funding for other purposes, whether on a tax-exempt or taxable basis.

**CHESLA Update**

Mr. Hurlock reported on the loan volume for the In-School Loan Program and the Refi CT Loan Program. Mr. Hurlock then reported on the following scholarships:
Scholarships for students pursuing an undergraduate degree:

- $450,000 available.
- Application opened on March 2nd, application deadline is May 1st.
- 384 pending applications in the pipeline thus far: 8 completed, 15 submitted and waiting for letter of recommendation.
- Awards will be $3,000 for a full-time student and $1,500 for a half-time student.

Scholarships for students pursuing a healthcare or manufacturing certificate program:

- $50,000 available.
- Application will open July 1st.
- Open application process on a first come, first serve basis.
- Any applicant that meets the criteria will receive a certificate program scholarship.
- Awards will be $1,250 per student.

Mr. Hurlock reported on CHESLA’s Outreach Program. CHESLA created a Financial Aid Basics presentation to present to high school juniors and seniors, highlighting information about the FAFSA, Financial Aid Award Letter, comparing colleges financially, understanding how interest works, and more. The CHESLA outreach program officially launched in February 2020 at Litchfield High School and has upcoming presentations at six high schools across the state. CHESLA has contacted every high school in the state and is working with the Commissioner of Education to reach more schools. Mr. Hurlock gave kudos to Natalia Rozio and Shannon Reynolds for leading this effort.

Mr. Hurlock reported on the upcoming bond deal, which will include $25 million in tax-exempt funding for the In-School Loan Program, and $5 million in a taxable financing for the Refi CT Loan Program. CHESLA will be seeking CHESLA Board Approval on March 24, 2020 with pricing expected to be the week of April 6, 2020 and closing the week of April 20, 2020.

**COMMITTEE REPORT**

Mr. Angelini reported on the Human Resources Committee meeting. The meeting went over the Human Resources Compensation Study Outcomes performed by The Human Resource Consortium LLC. The study included a comprehensive review of job descriptions, employment history, compensation, benefits, the performance evaluation process, and a staff satisfaction survey covering a range of topics including Authority values, resources, communications and total rewards. The results of the study and survey were positive and favorable overall.

**ADJOURNMENT**

There being no further business, at 3:23 p.m., Mr. Angelini moved to adjourn the meeting and Ms. Mailhot seconded the motion.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| Peter W. Lisi | None | None |
| Michael Angelini | | |
| Lawrence Davis | | |
| Anne Foley | | |
| Barbara B. Lindsay, Esq. | | |
| Sheree Mailhot | | |
| Susan Martin | | |

Respectfully submitted,

Jeanette W. Weldon

Jeanette W. Weldon
Executive Director