STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting – October 23, 2007

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, October 23, 2007.

The meeting was called to order at 2:05 p.m. by Barbara Rubin, Chairman of the Board of Directors of the Authority. Upon roll call those present and absent were as follows:

PRESENT:	John Biancamano Steven Blackburn, Ph.D. John Mengacci (Rep. Honorable Robert Genuario) Bryan Pollard Barbara Rubin, Chairman Sarah Sanders (Rep. Honorable Denise Nappier) Dori Taylor Sullivan, Ph.D.
ABSENT:	William Cibes, Jr., Ph.D. Benson Cohn Patrick Colangelo, Vice Chairman
ALSO PRESENT:	Richard Gray, Executive Director Jeffrey Asher, Managing Director, CFO Michael Morris, Assistant Director Cynthia Peoples, Assistant Director Barbara Cushing, Administrative Assistant Eileen MacDonald, Manager, New Business/EasyLease Program JoAnne Mackewicz, Controller Debra Pinney, Manager, Administrative Services Norberto Ramirez, Compliance/Internal Audit, and Jennifer Smyth, Manager, Legal Services of the Connecticut Health and Educational Facilities Authority Jeremy Bass, Consultant, Public Financial Management Coleman Casey, Esq., Shipman & Goodwin, LLP Laurie Hall, Esq., Hawkins, Delafield & Wood Steven Humes, Esq., McCarter & English Marie Phelan, Esq., Pullman & Comley

Edward Samorajczyk, Jr., Esq., Robinson & Cole, LLP

Edmund See, Esq., Day Pitney LLP

Christopher Valentino, Associate, Lamont Financial Services Corp.

Jeanette Weldon, Senior Managing Director, P.G. Corbin & Company, Inc.

John Yarbrough, Esq., Carmody & Torrance, LLP

GUESTS

Adam Barbash, PE, Fuss & O'Neill

Nedine Peluso Sutton, Vice President, Wells Fargo

The Notice of Regular Meeting was read and ordered spread upon the Minutes of this Meeting and filed for the record.

MINUTES

Ms. Rubin requested a motion for approval of the minutes of the September 11, 2007 Board of Directors meeting. Mr. Biancamano moved for approval of the minutes, which was seconded by Dr. Blackburn.

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

AYES	NAYS	ABSTENTIONS[1]
John Biancamano	None	Bryan Pollard
Steven Blackburn		Sarah Sanders
John Mengacci		
Barbara Rubin		
Dori Taylor Sullivan		

BOND COUNSEL / EASYLOAN COUNSEL REQUESTS FOR PROPOSALS

At 2:07 p.m., Ms. Rubin requested a motion to enter Executive Session in order to review and discuss the results and recommendations of the Authority's recent RFPs for Bond Counsel and EasyLoan Counsel services, as outlined in the memo to the Board from Mr. Gray dated October 12, 2007. Mr. Mengacci made a motion to enter into Executive Session, which was seconded by Mr. Pollard.

[1] Mr. Pollard and Ms. Sanders abstained from voting as they were not present at the September 11 meeting.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano	None	None
Steven Blackburn		
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		
Dori Taylor Sullivan		

At 2:16 p.m., Ms. Rubin requested a motion to conclude the Executive Session. The motion was made by Mr. Mengacci and seconded by Dr. Blackburn, and the Board meeting resumed.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano	None	None
Steven Blackburn		
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		
Dori Taylor Sullivan		

Ms. Rubin confirmed that no votes were taken in Executive Session.

Mr. Gray reported that the Board, acting as a Committee of the Whole for the Consultant Committee, reviewed the RFP process for Bond Counsel and EasyLoan Counsel services. He reported that most of the responses were of a very high quality. After review, evaluation and discussion, the Committee reports that the following firms are recommended for approval as Bond Counsel to the Authority for a three-year period: Day Pitney LLP, Hawkins Delafield & Wood LLP, Lewis & Munday LLP, Pullman & Comley LLC, and Robinson & Cole; and that Finn Dixon Herling LLP and Soeder & Associates are recommended for approval as EasyLoan Counsel services for the same period. The Committee also reports that CHEFA has the authority, on an ad hoc basis, to use the services of the following firms for selected bond issues, based upon the high quality of their responses to the RFP: Edwards Angell Palmer & Dodge LLP, McCarter & English LLP, and Nixon Peabody, LLP.

There being no further discussion, Ms. Rubin requested a motion for approval of the proposed list of approved Bond Counsel and EasyLoan Counsel. Mr. Mengacci moved for approval of the motion, which was seconded by Mr. Biancamano.

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

AYES	NAYS	ABSTENTIONS
John Biancamano	None	None
Steven Blackburn		
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		
Dori Taylor Sullivan		

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Ms. MacDonald reported that the latest Financing Forecast dated October 22, 2007 included no new additions.

Summary of CHEFA Financings

Ms. MacDonald reported that the Yale University Series Z-1, Z-2 and Z-3 issues have closed since the last Board meeting, and the sales report will be presented today. The EasyLoan for the Connecticut Children's Medical Center has also closed since the last Board meeting; the lender was Bank of America and the issue closed at 4.07%. Masonicare, SummerWood, and Suffield Academy are scheduled to close by the end of November.

Mr. Gray reported that, with the closings completed to date, there is approximately $6.25 billion in outstanding Authority issues. Ms. Rubin inquired what was outstanding for Yale; Mr. Morris estimated $1.8 billion.

Interest Rate Update

Ms. Peoples presented the interest rate update, noting that the 30-year Treasury had reached a high of 4.97% since it was last reported at the September Board meeting at 4.655%, and it is at 4.70% today. The Revenue Bond Index is up approximately 4 basis points from 4.69% to 4.73%, after reaching a high of 4.78% on October 11, 2007. The 1-Month Libor has actually dropped the most, almost 100 basis points since reported last in September, and the SIFMA Index has also decreased considerably, by approximately 24 basis points, during that same period.

Oil and gold prices have increased significantly since September. While overall inflation remains a little elevated, it appears stable. Housing is seriously stalling, and the major uncertainties ahead in the economy are holiday spending and whether or not the Fed will cut rates again on October 31. The Treasury curve has had a short-term and intermediate-term drop of approximately 10 basis points, but in the long-term, the yield curve has gained approximately a 5 basis point spread on the long end.

Following some discussion about the likelihood of a Fed rate cut, Ms. Rubin inquired what happens to the Authority's pending issues in this time of economic uncertainly—e.g., Do institutions want to hold back in order to wait and see what will happen, or are deals proceeding as usual? Ms. Peoples responded that many clients are ready to move forward, and (as evidenced by the upcoming Quinnipiac deal) clients are also using more complex structuring strategies such as auction rate securities, etc.

Sales Report: Yale University, Series Z-1, Z-2 & Z-3

Ms. Peoples presented the sales report for the Yale Series Z-1, Z-2 and Z-3 issues.

The Z-1 issue priced on September 13, 2007. It was a $400 million fixed-rate issue with maturity out to 2042. Lehman cited that the market was slightly weakened on that day with the 30-year Treasury at 4.75%, increasing 6.5 basis points, and MMD was up 4 basis points to approximately 4.40% on the 30-year Treasury. Lehman had pre-marketed a 5% coupon at a 4.5% yield to call, with a July 1, 2016 par call. Lehman ran a 20-minute order period, expecting about a 4 basis point maximum, which ultimately ended up at 4.5%. There were $605 million in orders, with 103.573 price to call and 4.788% yield to maturity. The Z-1 issue had approximately a 10 basis point spread to the 30-year MMD. The largest pieces were sold to two hedge funds: Citibank Arbitrage Fund at $125 million and TOB Capital at $200 million.

The Z-2 and Z-3 issues, each at $100 million auction rate securities, priced on October 4, 2007. They went out at 3.50% and 3.60% with BMA (SIFMA) at 3.84% for the prior week. Most orders were at approximately 3.60%.

Lehman cited significant volatility in the market at the time of the pricing, with the "AAA" 7-day rate at 4.0% in August, but there was more cash back in the market in September in both corporate and retail. Lehman ended up selling 80% retail, mostly to Connecticut residents, and 20% institutional, and they are expecting minimal turnover. The initial price was at 3.50%. Most recently, the Z-2 issue came in at 3.29%, and the Z-3 issue came in at approximately 3.2%.

JP Morgan priced the other portion of the Z-2 and Z-3 issues. They had orders in the low 50s and 60s with the bulk of orders at 3.75%. The smallest order was $250,000 and the largest was $5 million.

Mr. Mengacci inquired if it was the Z-2 issue that had 80% retail, and Ms. Peoples clarified that Lehman and JP Morgan placed 50% of each Z-2 and Z-3. Everyone agreed the results were impressive.

PRELIMINARY STAFF MEMOS

No preliminary staff memos were presented.

FINAL STAFF MEMOS

Healthcare Capital Asset Issue, Series B-1, MidState Medical Center & Natchaug Hospital

Mr. Asher presented an Amended Staff Memo for the Healthcare Capital Asset Series B-1 issue. Staff is seeking Board approval to amend this issue, which had been approved at the September 11, 2007 Board meeting in the amount of $30 million for MidState Medical Center. Staff now recommends adding Natchaug Hospital to this issue in the amount of $1.2 million to fund various expansion and renovation projects. Both bonds will be backed by a letter of credit from Bank of America. In addition, the Natchaug Hospital debt will be backed by a guarantee from Hartford Hospital. Bank of America was working on two different pricings; with and without the Hartford Hospital guarantee. With the Hartford Hospital guarantee, the pricing for Natchaug was much better, which will make its debt service more affordable.

This amendment would represent an exception to the Authority's normal approval process of a Preliminary Memo at one Board meeting followed by a Final Memo at a subsequent meeting. However, a precedent exists where the Board had previously granted an exception to the approval process in March 2000 when the Hartford Hospital Pooled Bond Issue, Series B authorization was amended to include a MidState Medical Center project totaling $500,000 which was backed by a Hartford Hospital guarantee.

The Staff Memo dated October 12, 2007 provided Board members with information on Natchaug Hospital, Hartford Hospital, the detailed project list, and the full draft of Appendix A. Staff's recommendation for approval of the $1.2 million issue for Natchaug is based on the relatively small size of the amount being borrowed, the letter of credit commitment from Bank of America, and the Hartford Hospital guarantee (considering the strength of its balance sheet).

Mr. Asher added that one other exception to the normal approval process would be the timing of the TEFRA hearing. In order to meet MidState Medical Center's scheduled closing, the TEFRA hearing for Natchaug would have to occur after, and not before, the deal is presented for approval to the Authority's Board of Directors. Dr. Sullivan noted that Board approval would be contingent upon no material issues from the subsequent TEFRA hearing.

There being no further discussion, Ms. Rubin introduced Resolution 2007-26 (Healthcare Capital Asset Issue, Series B-1, MidState Medical Center and Natchaug Hospital, Authorizing) which resolution was read and considered. Mr. Mengacci moved for adoption of Resolution 2007-26, which was seconded by Dr. Sullivan.

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

AYES	**NAYS**	**ABSTENTIONS**[2]
Steven Blackburn	None	John Biancamano
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		
Dori Taylor Sullivan		

The Chair then declared Resolution 2007-26 adopted.

Quinnipiac University, Series I & J

Mr. Morris presented the Final Staff Memo for the Quinnipiac University Series I & J issues, the Preliminary Memo for which had been presented at the September 11, 2007 Board meeting. He reported there are several updates to the deal since the Preliminary and Final Memos were issued.

The University received MBIA insurance for 55 basis points, which was a very aggressive bid considering the amount to be borrowed. The terms are favorable. There is currently a mortgage on the main campus. MBIA will not require a mortgage on the new York Hill campus, but it will require a negative mortgage pledge on the York Hill and North Haven campuses. A debt service reserve fund will not be required. The rate of 55 basis points is contingent upon the University receiving the same ratings that they currently hold, which are “A2” from Moody’s and “A-” from Standard & Poor’s. The new ratings will be available next week. The underwriter is not expecting any change to the University’s rating from Moody’s; the underwriter has not had a conversation yet with S&P.
The North Haven campus, which the University recently purchased from Anthem/Blue Cross for $40 million, consists of four buildings (600,000 square feet of space) on 104 acres. One building is currently vacant and, after renovations, occupancy is estimated for fall 2009. The remaining three buildings will be renovated and occupied over a ten-year period. The University’s ultimate objective is to move its graduate programs and its law school to the North Haven campus, which will free up other space in order to achieve the University’s plan to increase enrollment from 7,000 to 10,000, and to increase beds on campus from 3,500 to 5,500.

FY 2007 operating results are very favorable, with an operating margin of almost 20%. Endowment is up to $221 million, the majority of which is unrestricted. A question was raised at the September Board meeting about the University’s profitability, and this was addressed on page two of the Final Staff Memo. Quinnipiac’s policy of “no endowment spending” is impressive; in fact, they have negative endowment spending with a commitment to transfer $10 million of the operating surplus to their endowment every year. The goal is to grow endowment to $350 million by 2010 and to $1 billion by 2020.

[2] Mr. Biancamano abstained from voting because he is employed by Hartford Hospital.

The University is seeking $300 million in new money, $135 million of which will be fixed-rate and $165 million of which will be auction rate securities, plus approximately $116.5 million for refunding Series E, F & G issues. The refunding of Series E will have to be a taxable issue until April because it was already advance refunded once, so in April 2008, it would revert to a tax-exempt issue.

Mr. Morris reported that the structure of this transaction has not yet been approved by Bond Counsel. The key issue is the new money portion, as this project will consist of three different phases over a four and a half year period, so the University may run into tax issues in terms of rules for keeping arbitrage earnings on the construction fund. The question exists whether the University should be issuing this total amount now as opposed to breaking it up into two issues. The University is going to have multiple hedges in place with these various pieces, and there are different rules for hedge bonds versus regular bonds. Bond Counsel is in the processing of reviewing this. Staff recommends Board approval of this issue contingent upon Bond Counsel's opinion on the structure.

Ms. Rubin commented that the University's waiting list of over 1,000 seems inconsistent with its 24% matriculation rate. Mr. Morris explained that Quinnipiac doesn't accept more students because of the lack of room on campus, but they will accept more with the addition of new dorms. Quinnipiac has high demand and a low matriculation rate; however, Mr. Morris pointed out that the matriculation rate is not out of line with other universities in Connecticut such as the University of Hartford and Fairfield University with 20% matriculation rates and Sacred Heart University with a 28% matriculation rate.

Ms. Rubin confirmed that Board approval is contingent upon the opinion of Bond Counsel in terms of the issue structure. Mr. Mengacci inquired if approval is also contingent upon a "AAA" bond insurer, and Mr. Morris responded that Quinnipiac has already received a verbal commitment from MBIA. Ms. Rubin added that MBIA's rate is subject to confirmation of Quinnipiac's ratings.

There being no further discussion, Ms. Rubin introduced Resolution 2007-27 (Quinnipiac University Issues, Series I & J, Authorizing). Mr. Pollard moved for adoption of Resolution 2007-27, which was seconded by Ms. Sanders.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano	None	None
Steven Blackburn		
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		
Dori Taylor Sullivan		

The Chair then declared Resolution 2007-27 adopted.

Westminster School, Series E

Mr. Morris presented the Final Staff Memo for the Westminster School, Series E issue for up to $25 million, the Preliminary Memo for which had been presented at the September 11, 2007 Board meeting. Mr. Morris noted that there are no material issues or changes from the Preliminary Memo. The structure will be a simple fixed-rate, and the issue will be insured by XL Capital for a favorable premium of 65 basis points. Bond proceeds will be used to finance approximately $20 million of a total cost of approximately $35 million to build a new 85,000 square foot Academic Center which will replace the original Center built in 1964, when the School's enrollment was roughly half of current enrollment.

The new Academic Center will help the School's recruitment efforts, which have been very favorable based on the number of applications received, and on selectivity, which has improved to 27.5% from 42% five years ago. During that period, Westminster's matriculation rate has increased from 41% to 48% and Westminster management believes the School's visibility and competitive position are improving as well.

Fiscal year 2007 financial statement were issued recently. Cash and investments are up to $94.2 million and the expendable resources to operations ratio is very favorable at 4.58 times. Debt coverage declines to 2.1 times but is still acceptable.

Mr. Morris reported the only financial concern is that the School will have to increase its endowment draw, as they had done in 2003 when endowment draw was 6.8%. It has subsequently come down to 5% this past year. Westminster will likely do the same in the short run, because its annual debt service is 14% of FY 2007 operations. However, as the School's asset base grows, they will likely be able to reduce the endowment draw. The School is currently in the quiet phase of a capital campaign. The goal has not been disclosed yet. So far, Westminster has raised approximately $25 million in pledges from 220 donors and has collected almost $12 million.

Ms. Rubin thanked Mr. Morris for including in the Memo a detailed explanation of the disparities between Moody's ratios for independent schools compared to colleges and universities. Mr. Morris added there are also large disparities in the ratios between small (fewer than 3,000 enrollment) colleges and larger institutions, mainly due to differences in the proportion of the cushion.

There being no further discussion, Ms. Rubin introduced Resolution 2007-28 (Westminster School, Series E, Authorizing) which resolution was read and considered. Dr. Blackburn moved for adoption of Resolution 2007-28, which was seconded by Ms. Sanders.

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

AYES	NAYS	ABSTENTIONS
John Biancamano	None	None
Steven Blackburn		
John Mengacci		
Bryan Pollard		
Barbara Rubin		

AYES	NAYS	ABSTENTIONS
Sarah Sanders		
Dori Taylor Sullivan		

The Chair then declared Resolution 2007-28 adopted.

AUDIT-FINANCE COMMITTEE REPORT

Mr. Biancamano, Acting Chair of the Audit-Finance Committee, reported that the Committee met prior to the Board meeting today. The Committee reviewed and accepted the results of the childcare program audit (with no material issues); reviewed and approved the 2008 performance goals of the Internal Auditor; and received a progress report on the arbitrage audit. The Committee recommends that the Board approve a budget variance up to $31,775 for outside arbitrage services related to the audit. This item was not in the Authority's FY 2008 budget.

Ms. Rubin added that the Committee decided the audit reports will not be posted the website, but will be distributed to all Board members.

There being no further discussion, Ms. Rubin requested a motion for approval of the proposed budget variance for arbitrage services. Mr. Mengacci moved for approval of the motion, which was seconded by Mr. Pollard.

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

AYES	NAYS	ABSTENTIONS
John Biancamano	None	None
Steven Blackburn		
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		
Dori Taylor Sullivan		

CHEFA FINANCIAL OPERATIONS

July, August and September 2007 Financial Statements

Ms. Mackewicz noted that for the three months ending September 30, 2007 (Q1 FY 2008), the Authority had an excess of revenue over expenses, prior to program-related expenses, of $688,032; the excess revenue after program expenses was $626,144. Fiscal 2008 year-to-date revenue is on target at $1.5 million ($249 under budget), and expenses are $33,000 below budget.

In this first quarter of FY 2008, the Authority:

- Paid out $667,000 in open (non-client) grants;
- Paid $120,000 for the targeted nursing initiative grant (to Sacred Heart University);
- Renovated the mailroom, and purchased new furniture and equipment;
- Paid FY 2007 Staff incentive bonuses;
- Expensed $32,500 for FY 2007 audit fees; and
- Paid the recruiting fee for the new Senior Systems & Data Analyst.

OTHER BUSINESS

2008 Board Meeting Schedule

The proposed schedule was reviewed, and Ms. Rubin requested a motion to approve the 2008 Board Meeting Schedule. Dr. Sullivan moved for approval of the schedule, which was seconded by Mr. Mengacci.

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

AYES	NAYS	ABSTENTIONS
John Biancamano	None	None
Steven Blackburn		
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		
Dori Taylor Sullivan		

2008 Holiday Schedule

The Authority's proposed 2008 Holiday Schedule was accepted as information.

Executive Update

Mr. Gray provided the following update:

- The annual holiday reception for the Authority Board of Directors will be on Tuesday, December 4, immediately following the Board meeting.

- The report of the Hospital Systems Strategic Task Force, of which Mr. Gray is a member (as well as a member of its Financial Structure Subcommittee), is due in early December. Task force members include Robert Genuario, Secretary of the Office of Policy and

Management, and Christine Vogel, Commissioner of the Office of Health Care Access. Mr. Gray stated there are several key issues being discussed at a very high level, including staffing, possible regionalization initiatives, etc. Financial issues include $250 million, which is the amount hospitals represent they are underpaid by Medicaid. Also, payout of Medicare dollars to Connecticut hospitals is below the national average. Among other issues, the task force is exploring some basic changes that can be made that may not cost the state anything but may result in additional federal reimbursement.

- The first meeting of the Nursing Center steering committee will be held on November 7, 2007. The purpose of the steering committee is to explore the need and feasibility of starting a Nursing Center in Connecticut. Mr. Gray complimented Dr. Sullivan for her efforts in facilitating contact with the right people for this exploratory group. Dr. Sullivan explained that the goal is to get innovative, creative thinkers from multiple stakeholder groups, and she expressed appreciation to the Authority for its support of this initiative to consider looking at the nursing shortage problem in a different way. So far (in addition to Dr. Sullivan and Mr. Gray), the steering committee members are:

Patrick Charmel	President and CEO, Griffin Hospital, and Current Board Chair, Connecticut Hospital Association;
Sue Fitzsimmons, EdD, RN	Senior Vice President, Patient Services, Yale-New Haven Hospital;
Judith Greiman	President, Connecticut Conference of Independent Colleges;
Margaret Flinter, APRN, PhD(c)	Vice President /Clinical Director, Community Health Center, Inc; and President, Connecticut Nurses Association;
Carol Polifroni, EdD, RN	Interim Dean, University of Connecticut School of Nursing;
Joan Quinn, RN, MSN, FAAN	Executive Director, Evercare / United Healthcare; and
John Rathgeber	President, Connecticut Business and Industry Association.

Mr. Gray stated the group will likely seek representation from the community college arena as well. He added that the Department of Public Health on-line licensing system is expected to be up and running next year.

- Regarding Authority staffing, Mr. Gray reported that Ms. Peoples is transitioning into several key areas of responsibility formerly held by David Williams, and that the Authority has received several strong resumes in its search for General Counsel candidates.

Date of Next Meeting

The next Board meeting is scheduled for Tuesday, December 4, 2007 at 2:00 p.m. There being no further business, at 2:55 p.m., Ms. Rubin asked for a motion to adjourn the meeting. Mr. Pollard made the motion and Mr. Biancamano seconded the motion.

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

AYES	NAYS	ABSTENTIONS
John Biancamano	None	None
Steven Blackburn		
John Mengacci		
Bryan Pollard		
Barbara Rubin		
Sarah Sanders		
Dori Taylor Sullivan		

Respectfully submitted,

Richard D. Gray
Executive Director