STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting – January 22, 2008

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 22, 2008.

Due to the timing of the filing of the schedule of Board meetings with the Secretary of State, no votes were taken at this meeting. The meeting was called to order at 2:03 p.m. by Barbara Rubin, Chair 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. William Cibes, Jr., Ph.D. Benson Cohn Patrick Colangelo, Vice Chair Barbara Rubin, Chair Sarah Sanders (Rep. Honorable Denise Nappier)
ABSENT:	John Mengacci (Rep. Secretary Robert Genuario) Bryan Pollard Dori Taylor Sullivan, Ph.D.
ALSO PRESENT:	Richard Gray, Executive Director Jeffrey Asher, Managing Director, CFO Paula Lacey Herman, General Counsel Michael Morris, Assistant Director Cynthia Peoples, Assistant Director Deidre Collins, Accountant Barbara Cushing, Administrative Assistant Eileen MacDonald, Manager, New Business/EasyLoan Program JoAnne Mackewicz, Controller Debra Pinney, Manager, Administrative Services Norberto Ramirez, Compliance/Internal Audit Jennifer Smyth, Manager, Legal Services Kate Thiede, Accountant, and David Wasch, Manager, Childcare Programs of the Connecticut Health and Educational Facilities Authority
	Michael Andreana, Esq., Pullman & Comley Jeremy Bass, Consultant, Public Financial Management Coleman Casey, Esq., Shipman & Goodwin LLP Laurie Hall, Esq., Hawkins Delafield Wood LLP Edward Samorajczyk, Jr., Esq., Robinson & Cole LLP Christopher Valentino, Associate, Lamont Financial Services Corp.

Jane Kimball Warren, Esq., McCarter & English
Richard Wasserman, Esq., Day Pitney LLP
Jeanette Weldon, Senior Managing Director, P.G. Corbin & Company, Inc.

GUESTS

Julie Balerna, Vice President, The Bank of New York
Diana Kenneally, Vice President, The Bank of New York
Andrew Lampert, Principal, SwapWatch Valuation Associates LLC
Peter McAlpine, Debt Management Specialist, Office of the Treasurer
Carolyn Treiss, Chief of Staff, Office of Health Care Access
Cristine Vogel, Commissioner, Office of Health Care Access
Lawrence Wilson, Assistant Treasurer, Office of the Treasurer

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Ms. MacDonald reported that the Financing Forecast dated January 9, 2008 includes one new EasyLoan application in the amount of $6.5 million from Wesleyan University for utilities infrastructure. A memo will be presented to the Board near the time Wesleyan is ready to proceed.

Summary of CHEFA Financings

Ms. MacDonald reported the Quinnipiac Series I, J & K issues have closed since the last Board meeting, and the sales report will be presented today. Pierce Memorial Baptist Series A issue has also closed, with an initial interest rate set at 2.94%.

Interest Rate Update

Ms. Peoples presented the interest rate market update, noting that earlier today the Federal funds rate was reduced by 75 basis points. Since rates were last reported at the December 4, 2007 Board meeting, the 30-year Treasury has decreased 8 basis points to 4.25%, the Revenue Bond Index has decreased 14 basis points to 4.63%, and the SIFMA Index is down 65 basis points to 2.93%. One Month LIBOR has seen the most fluctuation. It was up 50 basis points when reported in December and now is down almost 150 basis points to 3.77%.

Sales Report: Quinnipiac University, Series I, J & K

Mr. Bass reported that all four tranches closed on December 20, 2007. All four issues are insured by MBIA, and Quinnipiac has underlying ratings of “A2” and “A-” from Moody’s and Standard and Poor’s, respectively. Mr. Bass pointed out that these issues priced prior to MBIA being placed on Negative Credit Watch, and Quinnipiac's underlying "A" ratings helped these issues to price 10-15 basis points lower than if Quinnipiac did not have an "A" rating.

The fixed-rate Series I issue of approximately $135 million priced on November 29, 2007 and were well received by the market. The underwriter lowered yields on several maturities, and the final scale averaged 18.7 basis points over the "AAA" MMD scale and 32.1 basis points over the same scale on a yield to maturity basis.

The original finance plan did not include VRDBs for the $165 million Series J issue, but due to rapidly changing market dynamics, Series J was structured as a VRDB with a daily reset, and with the attractiveness of high liquidity at the end of the year, the initial rate for Series J was set at 2.7%, which was 46 basis points below the SIFMA Index.

The K-1 and K-2 issues are seven-day auction rate securities, for approximately $65 million and $52 million, respectively, with the K-2 issue taxable for approximately six months until Quinnipiac's Series E issue can be legally defeased. The initial rates were set at 3.80% for Series K-1 (64 basis points above SIFMA) and 5.15% for Series K-2 (25 basis points above 1-Month LIBOR).

Overall, the University was pleased with the results, and Mr. Bass will continue to work with them on managing any changes to mode or structure based on market dynamics.

CHEFA General Counsel

Mr. Gray introduced Paula Lacey Herman, who was hired as the Authority's General Counsel effective January 2, 2008. He provided a brief overview of her outstanding qualifications and experience, and expressed to the Board how fortunate and pleased the Authority is to have Ms. Herman as its General Counsel. Ms. Herman was welcomed by all present Board members, staff and guests.

PRELIMINARY STAFF MEMO (None)

FINAL STAFF MEMO (None)

GUEST SPEAKERS

Cristine Vogel, *Commissioner, Office of Health Care Access*

Ms. Vogel presented an overview of the financial status of Connecticut hospitals. She explained that the three primary responsibilities within the Office of Health Care Access are: (1) reviewing and evaluating Certificate of Need applications, (2) financial reporting of key statistics for the State's 30 acute care hospitals, and (3) supporting public policy development.

There are currently 9,256 licensed beds within the State's 30 acute care hospitals, 7,231 of which are staffed beds resulting in an average 78% occupancy rate. Statewide, the average inpatient utilization rate is 122 per 1,000 in population, which is down from a high of 125 in FY 2005; however, there is significant variability among the hospitals with some experiencing wide swings in negative and positive utilization rates. Connecticut's emergency department utilization rate is 427 visits per 1,000 of population, which is much higher than the national average of 387, and is a major public policy issue. The issue is compounded by the emergency department utilization rates for the population of approximately 30,000 individuals receiving State Assistance/General Assistance, which is 1,578 visits per 1,000 of population, compared to 250 visits per 1,000 of population for privately insured patients.

Statewide, the average operating margin for Connecticut hospitals' is only 0.6%, and total margin averages 2.5%. The statewide average of payer mix is 40% Medicare, 17% Medicaid, 39% Private and 3% Uninsured. The average charge per discharge has risen from $14,276 in FY 2002 to $21,032 in FY 2006, reflecting higher costs despite a relatively stable average length of stay (of approximately 4.7 - 4.9 days). Statewide, the total payment to cost ratio is 1.00 times; however, this has been achieved by large increases in the cost of commercial coverage and is not sustainable, especially if the current overall economic downturn continues. Statewide, total expenses for hospitals have risen 33% over the past five years, and 11 of the 30 hospitals achieved less than 1% total margin, with five of those hospitals ranging from 0.12% to 0.96% total margin, and six of those hospitals ranging from -2.11% to -7.99% total margin.

Ms. Vogel stated that the Governor's Hospital Task Force report is available on the website of the Office of Health Care Access (http://www.ct.gov/ohca). Ms. Rubin asked about recommendation #7 in that report, and Mr. Gray, who served on the Governor's Hospital Task Force, explained that, with operating margins so thin, hospitals cannot generate internal capital and have little or no access to external capital. The State can choose to provide $250-$300 million in order to close the reimbursement gap, which would provide some relief for the capital crisis, but this is not likely to occur soon, so one of the recommendations of the Task Force is a $650 million revolving capital pool, with a maximum annual debt service of approximately $55 million, which would be paid by the State. The bonds would be issued through CHEFA so that principal and interest would be excluded from the spending cap, and may be excluded from the bond cap as well. Proceeds of bonds may be made available to hospitals and federally qualified health centers in the form of grants, forgivable loans and very low interest rate loans, all of which Mr. Gray will discuss in detail with the CHEFA Board as the proposed recommendations progress.

On behalf of the entire Board, Mr. Rubin thanked Ms. Vogel for a timely and informative presentation. Ms. Vogel and Ms. Triess left the meeting at this time.

Jeremy Bass, *Public Financial Management*

Mr. Bass presented The Subprime Mortgage Crisis and Its Impact on the Tax-Exempt Market, a copy of which is available at www.chefa.com/node/166.

Mr. Bass began with an overview of the housing market and mortgage securitization, some of the effects of which are a dramatic increase in credit spreads between (risk-free) Treasury bills and (risky) LIBOR deposits, as well as declining prices for Treasurys in January 2007, and increasing spreads, for an average A-rated hospital, to the 30-Treasury and to the "AAA" MMD.

FSA and Assured Guaranty are the only bond insurers that have maintained a Stable outlook by the ratings agencies (in addition to CIFG, which does not do business in Connecticut). With a number of other bond insurers currently on Evolving or Negative Watch by at least one rating agency, and most on Negative Outlook or Negative Watch by all three rating agencies, investors are looking past the bond insurance and issues are trading primarily based on the issuer's underlying credit rating. Pricing for bond insurance is expected to increase.

Over the past decade, the variable rate debt market has more than doubled, with most of the growth coming from the auction rate product which was attractive to borrowers because it traded at lower rates than VRDOs and did not require liquidity support. Now, as auction rate securities continue to result in rates with significant spreads to the SIFMA Index, many institutions are considering converting their auction rate bonds to variable rate demand obligations supported with either liquidity or a letter of credit. As a result of the increased demand for letters of credit or liquidity facilities, prices will increase, security covenants will be more stringent, facility term will be shortened and the availability will be limited.

Large Wall Street firms have reported significant losses recently, resulting in downgrades of several swap counterparties. Institutions that maintain contracts with a bank in the form of a swap agreement should be aware of any situations, for example, certain downgrades to a bond insurer or swap provider, that may trigger a collateral event requiring the institution to post collateral to swap counterparties or vice versa. Institutions should pay careful attention to the terms in any credit support agreements in structuring new swaps. Similarly, issuers who have guaranteed investment contracts in place should monitor the credit ratings of their guaranteed investment contract provider to monitor events which may require calling for collateral. For example, typically GIC providers will have to post collateral when their rating falls below the "AA" category.

Financial services issuers such as money market funds and investment pools have been affected by the trend toward Treasurys, the breakdown of asset-backed corporate paper, and any underlying structured investment vehicle exposure they may have. In extreme cases, some state-sponsored funds took large losses. For example, in Florida, a disclosure indicating that their fund held $1.5 billion of downgraded and default debt promoted issuers to withdraw funds, and the State subsequently froze withdrawals on November 29, 2007. As part of due diligence, issuers must be sure to understand the underlying security for money market funds and investment pools when making investment decisions.

At this point, Ms. Sanders introduced Mr. Wilson, Assistant Treasurer, to speak about Connecticut's short-term investment fund. Mr. Wilson reported that Connecticut's short-term investment fund is the primary investment tool for the State's operating cash and is also available to State agencies, authorities and local political subdivisions within the State on a voluntary basis. The fund currently has an asset value of approximately $4.5 billion, and is rated "AAA" by Standard & Poor's, a rating it has maintained for the last 12 years. The S&P rating was affirmed in July 2007 and the fund's portfolio is reviewed weekly by S&P. In the summer of 2007, cautionary measures were instituted for the fund, including reducing exposure to asset-backed commercial paper (now down to approximately 2%), increasing exposure to U.S. Treasury and agency obligations, reducing maturities and also increasing liquidity. Liquidity represents approximately 65% or $2.9 billion of the fund.

Within the portfolio, the fund owns some structured investment vehicle investments, one being Cheyne Finance (later renamed SIV Portfolio), which is currently in receivership. The fund's $50 million reserve for losses should cover any losses that may be incurred, and no impact on overall asset value or any loss of principal is expected. Connecticut's fund has investments with three other SIVs sponsored by Citigroup. Those SIVs were put on Watch or Review last November; but in December, Citigroup took those investments onto their own balance sheet and Citigroup is providing a support facility, all of which makes a substantial improvement in the standings of those investments.

Mr. Wilson concluded that Connecticut's investment fund is in a very different position from Florida's fund, in its longstanding "AAA" rating; its significant liquidity; its strong State participation which gives the fund tremendous stability and protects it from any type of run; and finally, Connecticut's adequate reserve fund which gives added protection.

On behalf of all Board members and attendees, Mr. Gray thanked Mr. Wilson for providing the information about Connecticut's short-term investment fund, as the Authority has significant investments in the fund.

Mr. Bass concluded his presentation by summarizing that overall, CHEFA can expect a decrease in the value of bond insurance except for FSA and Assured Guaranty; an increase in demand, cost, selectivity and security covenants for letters of credit and liquidity facilities; movement toward unenhanced financing alternatives such as private placements, limited public offerings and unenhanced public offerings; and increased review of collateral provisions in existing swap documents.

Ms. Rubin left the meeting at this time, and Mr. Colangelo presided as Chair.

Dr. Cibes recommended that Authority Staff review all existing swap counterparty risks for possible upcoming collateral posting that may be required, and Mr. Gray assured him that Staff is already planning this task and it will be discussed with the Credit Committee tomorrow. Mr. Colangelo inquired if there is a way to assess the potential impact of bond rating changes due to insurer rating changes, and Mr. Gray responded that there would be no change for fixed-rate issues, and Authority Staff is in the process of reviewing and discussing with clients options for converting auction rate securities to VRDOs and other multi-modal changes to reduce risk.

On behalf of the entire Board, Mr. Colangelo expressed appreciation to Mr. Bass for his thorough and enlightening presentation.

CHEFA FINANCIAL OPERATIONS

December 2007 Financial Statements

Ms. Mackewicz noted that for the period ending December 31, 2007, the Authority had an excess of revenue over expenses prior to program-related expenses of $1.6 million; the excess revenue after program expenses was $1.5 million. Fiscal year-to-date revenue is $141,074 ahead of budget and expenses are $63,115 below budget.

Ms. Mackewicz reported that during this period, the Authority received $63,950 in refunded unused grant funds, paid $11,000 to Bond Logistix for arbitrage audit fees, and paid $40,980 for the design and printing of CHEFA's 2007 Annual Report.

Mr. Gray presented the new annual report package, which was distributed to all attendees at this meeting, showing that the 2007 Annual Report is on a small removable diskette, and a capabilities brochure, along with EasyLoan and Grant Programs brochures, are included in the pocket design of the package which is intended for multi-year use.

OTHER BUSINESS

Mr. Colangelo reported that the next Board meeting is scheduled for Tuesday, February 26 at 2:00 p.m.

Respectfully submitted,

Richard D. Gray
Executive Director