

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting – March 25, 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, March 25, 2008.

The meeting was called to order at 2:01 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
 John Mengacci (Rep. Secretary Robert Genuario)
 Bryan Pollard
 Howard Rifkin (Rep. Honorable Denise Nappier)
 Barbara Rubin, Chair
 Dori Taylor Sullivan, Ph.D. (via telephone)

ABSENT: None

ALSO PRESENT: Richard Gray, Executive Director
 Jeffrey Asher, Managing Director, CFO
 Paula Lacey Herman, General Counsel
 Michael Morris, Assistant Director
 Cynthia Peoples, Assistant Director
 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
 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 LLP
 Steven Humes, Esq., McCarter & English
 Marie Phelan, Esq., Pullman & Comley
 Edward Samorajczyk, Jr., Esq., Robinson & Cole LLP
 Namita Shah, Esq., Day Pitney LLP
 Christopher Valentino, Associate, Lamont Financial Services Corp.

John Yarbrough, Esq., Carmody & Torrance LLP

GUESTS

Mark Masselli, President and CEO, Community Health Center, Inc.

Diana Kenneally, Vice President, Bank of New York

Andrew Lampert, SwapWatch Valuation Associates LLC

Elizabeth Schramek, Vice President, RBC Dain Rauscher Inc.

Robert Smith, Vice President, JP Morgan Chase

Nedine Sutton, Vice President, Wells Fargo

MINUTES

Ms. Rubin requested a motion for approval of the minutes of the February 26, 2008 Board of Directors meeting. Mr. Mengacci moved for approval of the minutes, which was seconded by Mr. Colangelo.

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

AYES

William Cibes, Jr.
Patrick Colangelo
John Mengacci
Howard Rifkin
Barbara Rubin

NAYS

None

ABSTENTIONS¹

John Biancamano
Steven Blackburn
Benson Cohn
Dori Taylor Sullivan

Ms. Rubin requested a motion for approval of the minutes of the March 10, 2008 Board of Directors special meeting. Mr. Colangelo moved for approval of the minutes, which was seconded by Mr. Rifkin.

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

AYES

John Biancamano
William Cibes, Jr.
John Mengacci
Howard Rifkin
Barbara Rubin
Dori Taylor Sullivan

NAYS

None

ABSTENTIONS²

Steven Blackburn
Benson Cohn
Patrick Colangelo

Mr. Pollard joined the meeting at 2:06 p.m.

¹ These Board members abstained from voting as they were not present at the February 26 meeting.

² These Board members abstained from voting as they were not present at the March 10 meeting.

GUEST SPEAKER

Mr. Mark Masselli, President/CEO of Community Health Center, Inc. gave a presentation entitled *Understanding Federally Qualified Health Centers: A National and Local Perspective*, which is available at www.chefa.com/Calendar/Board Meeting/March 25, 2008.

Mr. Masselli explained that the FQHC designation is assigned to private nonprofit or public health care organizations by the federal Bureau of Primary Health Care which also awards grants under its Section 330 program. FQHCs are local, nonprofit, community-owned health care providers serving predominantly low-income, uninsured and medically underserved populations, and they are required to provide whole life-cycle services (pediatrics to geriatric) to all persons regardless of ability to pay.

Community Health Centers provide a comprehensive range of medical, dental and behavioral health services to approximately 70,000 Connecticut residents. CHC is committed to providing excellence in primary care, improving health outcomes, conducting and leading research, training the next generation of health care professionals, and using leading-edge organizational and technological innovation, all of which supports and drives CHC's overall mission to assure that quality health care services are available to all, and particularly to those who cannot gain access to such services elsewhere.

CHC operates 13 clinics throughout Connecticut, with over 140 total delivery sites, including over 100 schools. CHC's approach is highly collaborative and they partner with the Department of Social Services, Boards of Education, the Health Department, local hospitals and universities, as well as the national Department of Public Health, Bureau of Primary Health Care and National Association of Community Health Centers. CHC also cultivates strong ties with the local private sector and Chambers of Commerce.

Ms. Rubin thanked Mr. Masselli for an excellent presentation and commended CHC on their mission and effectiveness in serving Connecticut residents who otherwise would not have access to health care services, or, as Mr. Gray pointed out, would use hospital emergency rooms for primary (non-emergency) care.

Mr. Masselli left the meeting at this time.

At 2:36 p.m. Ms. Rubin requested a brief recess and the meeting reconvened at 2:44 p.m.

CURRENT AND PENDING BOND ISSUES

Financing Forecast

Ms. MacDonald reported that the Financing Forecast dated March 14, 2008 includes five new applications:

- Greenwich Hospital, Series C - \$55 million;
- Saint Francis Hospital and Medical Center, Series E - \$40 million;
- Hopkins School, Series B - \$15 million;

- Loomis Chaffee School, Series G - \$15 million; and
- The Child Care Facilities Program Issue, Series G - \$19 million.

Ms. MacDonald noted that upcoming closings include Yale University, Series Z-2 and Z-3, Wesleyan University, Series D & E, Choate Rosemary Hall, Series D, and Fairfield University, Series M.

Summary of CHEFA Financings

Ms. MacDonald reported that since the last Board meeting, a \$4 million EasyLoan for Eastern Connecticut Health Network has closed with a five-year term at 3.24%.

Interest Rate Update

Ms. Peoples presented the interest rate market update, noting there is continued turmoil in the market. Consumer spending has slowed; labor markets have softened, gold and oil have hit historic highs. At the March 18, 2008 FOMC meeting, the federal funds rate was reduced 75 basis points to 2.25%; and also on March 17, the discount rate was cut 75 basis points to 2.5%. Since rates were last reported at the February 26, 2008 Board meeting, the 30-year Treasury is down 31 basis points from 4.66% to 4.35%, the Revenue Bond Index is up 23 basis points from 4.94% to 5.17%, 1-Month LIBOR is down 51 basis points from 3.12% to 2.61% and the SIFMA Index is has been relatively flat at 2.33%.

PRELIMINARY STAFF MEMO

Saint Francis Hospital and Medical Center Issue, Series F

Mr. Asher presented the Preliminary Memo for the Saint Francis Hospital Series F issue for approximately \$175 million which will be used to construct a new 318,000 square foot, nine-story inpatient facility. The Series F issue will have a 40-year amortization schedule.

Mr. Asher explained that this issue was originally designated as Series E, but Series E, which is currently in process, will be presented next month as a \$40 million private placement with Bank of America to refund a portion of the Hospital's total return swap on its Series C issue. Therefore, the current issue is now Series F.

Credit enhancement for the Series F issue will be provided by an irrevocable direct pay letter of credit for \$175 million issued by JPMorgan Chase with participation by Bank of America which will provide \$75 million of the letter of credit. The letter of credit fee will be 60 basis points annually and the initial terms are for five years with annual extensions considered at the end of each year at the request of the Hospital. While the Obligated Group will not include the parent company or the Foundation, both LOC banks are requiring an unconditional and irrevocable guarantee provided by Saint Francis Care and by the Foundation, so effectively, the Foundation is obligated on this debt. A debt service reserve fund to be fully funded with Hospital equity will be required, and covenants include a debt service coverage ratio of 1.10 times, a 50-days cash on hand test (which increases to 75 days in year five) and a debt capitalization ratio of 65% for the

first two years and 60% thereafter. Security will include a general obligation pledge, a pledge of gross receipts, and a mortgage on the Hospital's main campus.

The Hospital's primary service area includes the sub-markets of Hartford, Avon, Enfield and Manchester. Saint Francis is one of the largest hospitals in Connecticut and is the largest Catholic hospital in New England.

The Hospital has had positive income from operations for the past six years, with FY 2007 income from operations at \$9.8 million, and an operating margin of 1.7% which is slightly higher than the Moody's "Baa" median of 1.0%. Excess margin for FY 2007 was over \$13.8 million, equivalent to 2.4% which is slightly lower than the Moody's "Baa" median of 2.8%. Historical coverage of future maximum annual debt service (which will increase from approximately \$10 million to \$21 million annually) is estimated at 2.04 times of FY 2007 operations. FY 2007 cash to pro forma debt of 35% is slightly below Moody's 47.3% median for "Below Baa." Debt to capitalization of 33.7% for FY 2007 compares favorably with Moody's "A" median of 36.2%. Unrestricted cash and investments have increased from \$91.4 million in FY 2002 to \$101.5 million in FY 2007. At 1.7 times for FY 2007, the Hospital's cushion ratio falls below the Moody's "Below Baa" median of 3.5 times. The Hospital's FY 2007 24.7 days cash on hand is below the Moody's "Below Baa" ratio of 57.9 days.

Dr. Cibes reported that he will abstain from discussion and voting on this issue as he serves in an advisory capacity to the Saint Francis Board of Directors.

Ms. Rubin inquired if demand and occupancy trends warrant adding new beds and if the Certificate of Need has been approved, and Messrs. Biancamano and Asher explained that the project will convert semi-private rooms to private rooms and therefore will not create any new beds.

Staff expects to present the Final Memo for approval at the April 2008 Board meeting.

FINAL STAFF MEMOS

Healthcare Capital Asset Issue, Series B-1, Amended

Mr. Asher presented the Staff Memo for the Healthcare Capital Asset Issue, Series B-1, in which Staff recommends approval of the amended resolution to extend the expiration date from April 23, 2008 to September 30, 2008 and to remove Natchaug Hospital from this issue.

There were no significant changes from the original Staff Memo approved in October 2007, except for the filing of MidState's FY 2007 financials which included these highlights:

- The FY 2007 gain from operations was \$5.5 million on revenues of \$173.1 million as compared to \$4.1 million for 2006.
- The operating margin of 3.2% for FY 2007 is equal to the Moody's "A" median.

- FY 2007 non-operating gains of \$3.1 million contributed to an excess of revenues over expenses of \$8.6 million as compared to \$4.2 million for FY 2006 (the excess margin was 4.9% for FY 2007 which is below the Moody's "A" median of 5.8% but significantly higher than the Moody's "Baa" median of 2.8%).
- The debt service coverage ratio for FY 2007 was 3.98 times and the historical coverage of future maximum annual debt service (including the new issue) is 2.93 times based on the revenues available for debt service in FY 2007.
- Cash and short-term investments continue to increase, and at \$41.5 million for FY 2007, they are at the highest level since FY 2003.
- Patient days and ER visits continue to climb, with 41,725 patient days FY 2007 at the highest level since FY 2003. ER visits of 69,839 are at the highest level since FY 2003.

There being no further discussion, Ms. Rubin introduced Resolution 2008-06 (Healthcare Capital Asset Issue, Series B-1, Amending) which resolution was read and considered. Mr. Cohn moved for adoption of Resolution 2008-06, which was seconded by Dr. Cibes.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u> ³
Steven Blackburn	None	John Biancamano
William Cibes, Jr.		
Benson Cohn		
Patrick Colangelo		
John Mengacci		
Bryan Pollard		
Howard Rifkin		
Barbara Rubin		
Dori Taylor Sullivan		

The Chair then declared Resolution 2008-06 adopted.

Salisbury School Issue, Series C

Mr. Morris presented the Staff Memo for the Salisbury School Series C issue, the Preliminary Memo for which was presented at the February 2008 Board meeting.

Mr. Morris reported that Salisbury decided to issue on an insured basis, and the commitment from Assured Guaranty at 160 basis points (as originally quoted) was recently received. Security will include a mortgage, a gross receipts pledge and a debt service reserve fund. Other terms and conditions will include a debt service coverage ratio of 1.25 times, an unrestricted net assets to debt ratio of 1.4 times, and Salisbury will not be able to issue any long-term debt without the

³ Mr. Biancamano abstained from voting because he is employed by Hartford Hospital.

consent of the insurer. The School has not agreed to all the terms and covenants outlined in the commitment and will be working with Assured to finalize the terms in the near future.

As requested during the discussion of the Preliminary Memo, calculation of the debt service coverage ratio has been shown with only annual fund donations and not capital campaign proceeds and, as a result, the pro forma debt service coverage ratio changes from 2.24 times to 0.61 times. In response to a related question of how the School will cover debt service without exhausting the endowment, Mr. Morris reported that Salisbury intends to rely on capital campaign gifts to pay a portion of the debt service. The School will capitalize interest for the first two years and delay principal payments until 2013. During a due diligence session, Salisbury management stated they are comfortable with this approach, as they have used it before with the School's Series A issue and from a leverage position, the School is in a very similar financial position (i.e., nearly identical debt ratios) as it was in 1998 at which time they doubled the endowment draw to almost 10% to cover debt service. However, the School is in a much stronger market position now than in 1998, with double the number of applications, lower selectivity and higher matriculation. The new athletic center should further increase competitive position.

There being no further discussion, Ms. Rubin introduced Resolution 2008-07 (Salisbury School, Series C, Authorizing) which resolution was read and considered. Mr. Biancamano moved for adoption of Resolution 2008-07, which was seconded by Mr. Colangelo.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Steven Blackburn		
William Cibes, Jr.		
Benson Cohn		
Patrick Colangelo		
John Mengacci		
Bryan Pollard		
Howard Rifkin		
Barbara Rubin		
Dori Taylor Sullivan		

The Chair then declared Resolution 2008-07 adopted.

Amendment and Restatement of 457 Deferred Compensation Plan

Mr. Asher reported that Staff is seeking approval of an amendment and restatement of the 457 Deferred Compensation Plan in connection with transferring the plan from Fidelity to the Principal Financial Group. Switching the Plan to Principal will allow employees increased access and flexibility to monitor and manage their accounts electronically.

Staff is also seeking to change the approval process for amendments to the Plan so as to allow Officers of the Authority and/or the Executive Director to make amendments to the Plan for any

reason (e.g., to comply with new laws or regulations, etc.) other than a change in the per-employee amount of the Authority's matching contribution or the termination of the Plan. Any amendment to the Plan that would result in termination of the plan or a change in the per-employee amount of the Authority's matching contribution would require Board approval.

Also in connection with transferring the Plan to Principal, Staff is seeking Board ratification and confirmation of the Trust Agreement effective July 15, 1997, and approval or ratification of the following Officers of the Authority as trustees of the Trust: Richard D. Gray, Jeffrey A. Asher, Paula L. Herman, Michael F. Morris and Cynthia D. Peoples H., as well as the delegation of authority to the Executive Director to appoint, remove and accept resignations of trustees of the Trust in the future as necessary to provide that trustees of the Trust shall at all times be the Officers of the Authority.

There being no further discussion, Ms. Rubin introduced Resolution 2008-08 (Connecticut Health and Educational Facilities, Amendment and Restatement of 457 Deferred Compensation Plan) which resolution was read and considered. Mr. Pollard moved for adoption of Resolution 2008-08, which was seconded by Mr. Rifkin.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Steven Blackburn		
William Cibes, Jr.		
Benson Cohn		
Patrick Colangelo		
John Mengacci		
Bryan Pollard		
Howard Rifkin		
Barbara Rubin		
Dori Taylor Sullivan		

The Chair then declared Resolution 2008-08 adopted.

CHEFA FINANCIAL OPERATIONS

February 2008 Financial Statements

Mr. Asher noted that for the eight months ending February 29, 2008, the Authority had an excess of revenue over expenses, prior to program-related expenses, of \$2.3 million; the excess revenue after program expenses was \$2.1 million. Fiscal year-to-date revenue is \$288,000 ahead of budget and expenses are \$136,000 below budget.

Mr. Asher reported that two unused grants, for \$100,000 and \$60,000, have been recovered by the Authority recently. Mr. Gray added that, in the future, grant applications will not be accepted for projects unless the organization has site control, in order to more closely match the timing of funding with projects that have the necessary zoning and other site approvals.

OTHER BUSINESS

Ethics Statement Filing Due May 1, 2008

Ms. Rubin reported that all Board members and Director-level Staff are required to file the 2007 Statement of Financial Interests by May 1, 2008. For information, forms, or to file the form online, go to www.ct.gov/ethics.

Authority Bond Ownership by Board and Staff Prohibition

This topic was referred to the Executive Session.

Underwriting Guidelines

Mr. Asher briefly reviewed the changes to the underwriting guidelines that were discussed at the February Board meeting, at which Staff recommended and the Board provided a general consensus (not a formal vote) of a modification in underwriting requirements that will allow institutions rated at a minimum of “BBB+” or equivalent to finance via a fixed interest rate unenhanced public offering, with the program to be reviewed by the Board every six months.

This financing alternative is subject to the following conditions with financing approval to be made on a case-by-case basis:

- The bond issue will be reviewed by the Board via a two-step process;
- A minimum of a “BBB+” or equivalent rating with a Stable outlook from at least two of the nationally recognized rating agencies;
- A fully funded Debt Service Reserve Fund;
- Establishment of a minimum Cash to Debt Ratio to be determined for each borrower on a case-by-case basis;
- Establishment of a Days Cash on Hand test;
- A mortgage or negative pledge;
- A pledge of Gross Receipts;
- An additional debt test requiring the demonstration of historical coverage of future maximum annual debt service of at least 1.75 times;
- An annual debt service coverage ratio test of at least 1.25 times (depending on the institution’s rating);
- For health care clients, the foundation must be a member of the obligated group;
- Bond denominations of \$5,000;
- Demonstration that bond insurance is not economic or not available with reasonably acceptable terms and conditions; and
- Feasibility studies are no longer required; however, institutions may be required to prepare financial projections as deemed necessary by Staff and the Board.

EXECUTIVE SESSION

Ms. Rubin requested a motion to add an Executive Session to the meeting agenda. The motion was made by Mr. Rifkin and seconded by Mr. Cohn.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Steven Blackburn		
William Cibes, Jr.		
Benson Cohn		
Patrick Colangelo		
John Mengacci		
Bryan Pollard		
Howard Rifkin		
Barbara Rubin		
Dori Taylor Sullivan		

Ms. Rubin requested a motion to enter into Executive Session. The motion was made by Dr. Cibes and seconded by Mr. Pollard.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Steven Blackburn		
William Cibes, Jr.		
Benson Cohn		
Patrick Colangelo		
John Mengacci		
Bryan Pollard		
Howard Rifkin		
Barbara Rubin		
Dori Taylor Sullivan		

At 3:22, the meeting went into Executive Session.

At 3:40, Ms. Rubin requested a motion to conclude the Executive Session. The motion was made by Mr. Rifkin and seconded by Mr. Biancamano, and the meeting resumed.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Steven Blackburn		
William Cibes, Jr.		

Benson Cohn
Patrick Colangelo
John Mengacci
Bryan Pollard
Howard Rifkin
Barbara Rubin
Dori Taylor Sullivan

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

Next Meeting

Ms. Rubin reported that the next Board meeting is scheduled for Tuesday, April 22, 2008 at 2:00 p.m. There being no further business, at 3:42 p.m., Ms. Rubin motioned to adjourn the meeting. Mr. Rifkin seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Steven Blackburn		
William Cibes, Jr.		
Benson Cohn		
Patrick Colangelo		
John Mengacci		
Bryan Pollard		
Howard Rifkin		
Barbara Rubin		
Dori Taylor Sullivan		

Respectfully submitted,

Richard D. Gray
Executive Director