

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Minutes of Authority Board Meeting – July 27, 2010

The State of Connecticut Health and Educational Facilities Authority met at 1:00 p.m. on Tuesday, July 27, 2010.

The meeting was called to order at 1:02 p.m. by Barbara Rubin, Chair of the Board of Directors of the Authority. Upon roll call those present were as follows:

PRESENT:

John Biancamano¹
Benson R. Cohn
Patrick Colangelo, Vice Chair
Peter Lisi
John Mengacci (Rep. Secretary Brenda Sisco)
Barbara Rubin, Chair
Sarah Sanders, (Rep. Honorable Denise Nappier)

ABSENT:

Paul Mutone
Bryan Pollard, Esq.

ALSO PRESENT:

Jeffrey A. Asher, Executive Director
Kimberley Fontaine, Manager, Marketing and Philanthropy
Paula Herman, General Counsel
Tara Keating, Project Coordinator
Eileen MacDonald, Manager, New Business/EasyLoan Program
Michael Morris, Assistant Director
Cynthia Peoples, Assistant Director
Debra Pinney, Manager, Administrative Services
Jennifer Smyth, Manager, Legal Services
David Wasch, Manager, Government Programs
Jeanette Weldon, Managing Director
of the Connecticut Health and Educational Facilities Authority

GUESTS:

Michael Andreana, Esq., Pullman & Comley, LLC
Julie Balerna, Vice President, Bank of NY Mellon
Coleman Casey, Esq., Shipman & Goodwin LLP
Jason Krechko, Engineer, GZA GeoEnvironmental, Inc.

Kevin Norton, Managing Director, The Bank of NY Mellon
Edward J. Samorajczyk, Jr., Esq., Robinson & Cole LLC

¹ Mr. Biancamano entered the meeting at 1:07 p.m..

Elizabeth Shramek, Vice President, RBC Capital Markets
Nedine Peluso Sutton, Vice President, Wells Fargo
Christopher Valentino, Lamont Financial Services Corp.
Jane Warren, Esq., McCarter & English, LLP
Namita Shah, Esq., Day Pitney, LLP
Noreen White, President, Acacia Financial Group
John Yarbrough, Esq., Carmody & Torrance LLP

MINUTES

Ms. Rubin requested a motion for approval of the minutes of the June 29, 2010 Board of Directors meeting. Mr. Colangelo moved for approval of the minutes, which was seconded by Mr. Mengacci.

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

AYES

John Biancamano
Benson Cohn
Patrick Colangelo
John Mengacci
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

Peter Lisi²

Ms. Herman clarified a question which arose at the June 2010 Board of Director’s meeting regarding voting. Board members who vote ‘Aye’ or ‘Nay’ may not be required to provide a reason for their vote, but if a Board member abstains from voting a reason for the abstention is required by the Authority’s By-Laws.

HOSPITAL SECTOR ANALYSIS REPORT

Mr. Morris provided an overview of the Authority’s Hospital Sector Analysis for FY 2009. The full report was sent to all Board members.

The key highlights of the analysis include the following:

- Hospital Portfolio and Bond Activity Trends – The portfolio currently consists mainly of insured and letter of credit backed bond issues. Staff is projecting an increased number of unenhanced bond offerings over the next 12 to 18 months with relatively large bond issues as institutions look to finance major capital facilities projects.
- Operating Performance – FY 2009 operating results were favorable, with a median operating margin of 3.02%, approximately 75% greater than in FY 2007. FY 2010 year-

² Mr. Lisi was not present at the June 29, 2010 Board of Directors meeting.
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to-date results are less favorable with the median down over 31% from the prior year. Excess margins improved significantly over FY 2008, but remain below FY 2007 levels. Negative investment returns for many hospitals contributed to an excess margin median lower than the operating median in FY 2009.

Ms. Rubin requested that Mr. Morris define “excess margin.” Mr. Morris stated that an excess margin is including non-operating income, such as investment earnings or losses.

- Balance Sheet – Days cash on hand median for FY 2009 declined over 21% since FY 2007 and is equivalent to Moody’s “Baa” median. For the six months ending March 31, 2010, days cash on hand median declined by 3% to 97.5 days. Cash to debt ratio median is more favorable for FY 2009 and falls between Moody’s “A” and “Baa” medians. FY 2010 YTD median improved further to the highest level in the past five years.
- Utilization Trends – Admissions remained relatively flat from FY 2007 to FY 2009 with an average median of approximately 12,800. For FY 2010 YTD, admissions remain consistent with the prior year. Average length of stay also remained stable during this same period at approximately 4.6 days. Total ambulatory visits declined by 1.3% from FY 2007 to FY 2009, while emergency room visits continued to increase over the past three years, as well as for the first six months of FY 2010.
- Pension Liability – Due to accounting changes and weak investment performance, the pension funding levels declined significantly from FY 2008 to FY 2009. Total changes in pension liability for the past two fiscal years increased by approximately \$1.25 billion, with a total unfunded liability of approximately \$1.37 billion. As a result, over the next few years, all hospitals will face rising pension expense and cash contributions straining income statements and balance sheets.
- Moody’s Outlook and Healthcare Reform – Moody’s maintains its Negative outlook on the healthcare industry, stating that the lingering effects of the weakened economy remain, and recovery of not-for-profit hospitals will likely be delayed until well after the broad economy heals. The passage of healthcare reform will bring large scale changes in operating and capital strategies for healthcare delivery. Those hospitals that can effectively change their business models and position their organization for payment reform will be best able to adapt. Key strategies hospitals will likely pursue in the era of reform include: growth strategies, physician alignment, investment in information technology, and effective management and governance.

Mr. Colangelo inquired on the pension liability and the funding levels and how it will effect hospital accounting and notification practices. Mr. Morris stated that he was not aware of any changes in notification practices at this time. Mr. Mengacci inquired if the increase in unfunded liability was primarily a result of the investment losses and discount rate. Mr. Morris confirmed that lowering the discount rates increases the liability. Ms. Rubin raised the question of it relating to accounting requirements. Current requirements require reflecting the pension status on the balance sheet rather than solely in the notes to the financial statements.

Ms. Rubin thanked Mr. Morris for the report.

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CURRENT AND PENDING BOND ISSUES

Financing Forecast

Ms. MacDonald reported that there is one new issue for Saint Francis Hospital to refund their Series C issue which will be presented today. The King Low Heywood Thomas School direct purchase, private placement will also be presented today for the School's outstanding Series A bond issue. The Eastern Connecticut Health Network will refinance their Series B issue for approximately \$20 million which will be a variable rate issue with a letter of credit from TD Bank. Norwalk Hospital has approximately \$45 million of new money which is expected to be a private placement. The University of Bridgeport will refinance approximately \$30 million which is expected to be a private placement. The Authority expects the Eastern Connecticut Health Network, Norwalk Hospital and the University of Bridgeport issues to be presented at the September 2010 Board of Director's meeting.

Summary of Financing

The Hospital for Special Care Series E variable rate issue with a letter of credit from Webster Bank and a wrap from the Federal Home Loan Bank closed on July 15, 2010. The initial interest rate of 0.23% was three basis points lower than the SIFMA Index at that time. On August 11, 2010, there is a closing scheduled for the University of New Haven. Mr. Asher has met with Sacred Heart University which expects to finance a \$30 million issue by the end of 2010 which may refinance of their Series C bonds and \$4.0 million in new projects. Mr. Asher also met with Griffin Hospital which is currently looking to refinance all of its outstanding debt with FHA which could take up to a year of planning.

Interest Rate Update and Market Update

Ms. Peoples reported that the Interest Rate Update now includes the NASDAQ Composite Index, Chicago Board Options Exchange Volatility Index, and last month's reported yield curve rates. Activity in the market this morning was negative based on consumer confidence numbers released despite some of the recent positive earnings reports recently released. The 30-Year Treasury has increased slightly widening the spread between the 30-Year Treasury and the Revenue Bond Index over the past few months. The money market rates show a slight upward tick in some of the money market yields by approximately 2 to 5 basis points. There was a spike in the PFM Fund Prime Series because of a holding swapped for a much higher yielding security. Of note on the economic calendar, the CaseShiller Home Price Index came in higher than anticipated; consumer confidence came in at a five month low since February 2010. The Etcetera section of the Interest Rate Update includes an article regarding the Dodd-Frank Financial Reform Act and its impact on the municipal securities market.

Ms. Rubin requested clarification on the bottom line regarding the reform act mentioned. Ms. Peoples stated that additional changes will take effect in October 2010 and could be made in conjunction with this act followed by SEC changes. Mr. Mengacci stated that there is currently confusion with the rating agencies. Ms. Peoples agreed and stated that liability issues with the financial advisors are also a concern. Ms. Sanders interjected stating that the Treasurer's Office is currently reviewing the impact on financial advisors and what ramifications it may have on their contracts with them and suggested that the Authority also consider these impacts. Ms.

Herman stated that, because of the many rulemakings required by the Act, until regulations are promulgated it will be hard to analyze what the impact of the statute will be.

Ms. Weldon reported that the July 2010 Market Update contains six hospital transactions. In the past few weeks there were three “AA” rated hospitals which came to market and priced with the long maturity within the 5.10% to 5.17% range. There are two transactions rated “BBB+” by S&P; the Gerald Champion Regional Medical Center which had a 235 basis point MMD spread and the Hawaii Pacific Health transaction which had a 191 basis point MMD spread. The significant difference in the transaction spreads may be due in part to the fact that Gerald Champion only carried an S&P rating while the Hawaii hospital had ratings from all three major rating agencies. The traditional municipal market continues to be strong. Overall, the market is very favorable from an issuer’s perspective.

FINAL STAFF MEMOS

King Low Heywood Thomas School, Series A

Mr. Morris reported that the King Low Heywood Thomas School direct purchase private placement with Wells Fargo Bank, National Association for the School’s outstanding Series A bond issue is in the amount of \$9,895,000. The School’s Series A variable rate bond issue is currently backed by an Allied Irish letter of credit. However, all of the bonds have been tendered, and as a result the School has a term loan with Allied Irish (LIBOR plus 3% due August 27, 2011).

The School has elected to pursue the direct purchase private placement in lieu of finding an alternative letter of credit facility or converting to a fixed rate. Since the original Series A bond issuance authorization was based on an Allied Irish letter of credit, Staff and Bond Counsel believe that Board approval is necessary to effect a private placement purchase for the Series A bond issue.

Wells Fargo has agreed to execute an Investor Letter which will stipulate that they are a qualified investor, that all subsequent investors will be similarly qualified, and that the responsibility for due diligence and credit review rests not with the Authority, but with the investor. Wells Fargo has indicated that it does not plan to sell this private placement to any other investor.

Since it is the responsibility of Wells Fargo to conduct all necessary due diligence for this direct purchase and the Authority is strictly acting as a conduit issuer, Staff has not prepared a credit review and analysis of the School for this approval. All covenants and security provisions will remain the same.

Proceeds from the 2003 Series A issue were used to finance the construction of a new middle school, a new science lab, miscellaneous campus renovations and improvements, and refinance existing bank debt.

The Series A bonds will remain in place, but will no longer be secured by a letter of credit. In order to effect the private placement purchase, the Series A bonds will be converted from a weekly variable rate to a monthly LIBOR based variable rate (calculated at 66% of one-month LIBOR plus 1.60%) and will be purchased by Wells Fargo. The initial term of the new LIBOR Rate Period will be for five years. The Series A bond issue does not have an interest rate swap.

At the end of the five-year period, there will be a mandatory tender, at which time the School will be obligated to either (1) purchase the bonds, (2) extend the LIBOR Rate Period with Wells Fargo, (3) find a replacement letter of credit bank and convert back to a weekly variable rate, (4) find a new purchaser, or (5) convert the bonds to fixed rate (assuming the School meets the Authority's Underwriting Guidelines). In the event that the School is unable to satisfy any of the above conditions, the interest rate on each series of bonds will equal the Bank's prime rate plus 3.0%.

There will be no changes in the security provisions, which consist of:

- Gross Receipts Pledge; and
- Negative Pledge.

A debt service reserve fund will not be required by the Purchaser.

In addition to the financial covenants in the School's existing Series A loan agreement, the School will be subject to the following covenants:

- Debt Service Coverage Ratio of 1.20 times, tested semi-annually on a trailing twelve month basis;
- Minimum Unrestricted Financial Resources to Total Debt of not less than 50%, tested semi-annually; and
- Minimum Expendable Resources to Operations of not less than 50%, tested semi-annually.

In the event that the School fails any of its covenants, the interest rate on the Series A bonds will equal to the Bank's prime rate plus 3.0%.

Ms. Rubin inquired if the unsecured financing was approximately 1.75% floating and asked about the pay down structure. Mr. Morris stated that there is a sinking fund. Ms. Rubin questioned if the Bank was restricted from selling this in smaller denominations. Mr. Morris said that their intent is to hold onto the issue, and an investor letter will be signed by the purchaser, and all subsequent purchasers will get a copy of the letter.

There being no further discussion, Ms. Rubin introduced Resolution #2010-14 King Low Heywood Thomas School, Series A, Direct Purchase Authorizing, which resolution was included in the materials distributed to the Board. Mr. Mengacci moved for adoption of Resolution # 2010-14, which was seconded by Mr. Biancamano.

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

AYES

John Biancamano
Benson Cohn
Patrick Colangelo
Peter Lisi
John Mengacci
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

The Chair then declared Resolution #2010-14 adopted.

Saint Francis Hospital and Medical Center, Series G

Mr. Morris reported that in November 1993, Saint Francis Hospital and Medical Center issued its Series C bonds in the amount of \$110,505,000. In November 2003, the Hospital purchased its then outstanding bonds in the amount of \$93,435,000 and entered into two total return swaps, pursuant to which half the bonds were sold to Merrill Lynch and half to Morgan Stanley. The purpose of entering into the synthetic refinancing was to convert its previous fixed-rate debt to a lower fixed-rate debt. However, in March 2008, the Merrill Lynch total return swap terminated, and as a result, the Hospital was required to purchase the bonds in the amount of \$38,870,000. The Hospital financed the purchase of the bonds with a bridge loan from Bank of America, and subsequently paid off the bridge loan with the Series E private placement with Bank of America.

In November 2008, the total return swap with Morgan Stanley was terminated and the Hospital used its own equity to finance the remaining \$38,870,000. Approximately \$8.2 million was subsequently sold to Merrill Lynch and the Hospital currently owns approximately \$30 million, which it would like to refinance with this Series G private placement.

Ms. Rubin inquired what triggered termination. Mr. Morris stated that the termination was due to the change in the value of the swap.

The Series G private placement is for \$30,000,000. RBS Citizens, NA will be the purchaser and will be required to execute an Investor Letter which will stipulate that they are a qualified investor, that all subsequent investors are required to be similarly qualified, and that the responsibility for due diligence and credit review rests not with the Authority, but with the investor. Citizen’s has indicated that it does not plan to sell this private placement to any other investor.

Since it is the responsibility of Citizens to conduct all necessary due diligence for this direct purchase and the Authority is strictly acting as a conduit issuer, Staff has not prepared a credit review and analysis of the Hospital for this approval.

Although this financing is being structured as a private placement, the bonds will be registered with DTC and underwritten by Cain Brothers & Company, LLC and sold to Citizens. The Series G bonds will be issued under a multi-modal indenture (providing for variable rate and fixed-rate modes, in addition to the bank mode that will be initially utilized) to provide the Hospital the flexibility to change modes in the future without incurring the expense of issuing a new bond offering. These bonds are being issued through DTC, which typically is not the case for a private placement transaction. Consequently, the Hospital will be required to obtain CHEFA Board approval prior to any change in mode, since a change in mode could result in a wider distribution of the bonds.

In addition, although Citizens states that it currently does not intend to sell the bonds, CHEFA will require Citizens to provide prior notice to the Authority and the trustee bank of any intent to sell the Series G Bonds prior to the end of the initial mode. Mr. Asher stated that Authority was concerned with the DTC registration and sought this provision as well as the provision requiring CHEFA Board approval of a mode change. The term sheet is attached to the resolution as a reference.

There being no further discussion, Ms. Rubin introduced Resolution #2010-15, Saint Francis Hospital and Medical Center Issue, Series G. Authorizing, which resolution was included in the materials distributed to the Board. Mr. Biancamano moved for adoption of Resolution #2010-15, which was seconded by Mr. Mengacci.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano	None	None
Benson Cohn		
Patrick Colangelo		
Peter Lisi		
John Mengacci		
Barbara Rubin		
Sarah Sanders		

The Chair then declared Resolution #2010-15 adopted.

CHEFA FINANCIAL OPERATIONS

June 2010 Financial Statements

Ms. Mackewicz reported that for the twelve months ending June 30, 2010, revenues exceeded expenses by approximately \$2.7 million before program expenses and \$2.6 million after program expenses. For the month of June, revenues were under budget by approximately \$134,000 and expenses were under budget by approximately \$117,000. A transfer of \$1.5 million was made from the Board designated Investment Fund to the Focused Investment Fund for grants which was determined at the May 2010 Board of Directors meeting. This is reflected on the balance sheet. The Connecticut Credit Union Student Loan Program Reserve Fund was reduced by \$2.2 million, with the balance representing the 20% guarantee for current loans outstanding. The \$2.2 million will be moved into a fund established to accommodate the Loan Forgiveness Reserve Program Fund which needs to be in place by January 2012.

Ms. Rubin inquired about the program related expenses. Ms. Mackewicz stated that there are allocated/reserved grant funds. Mr. Asher noted that Staff is working on potential grant projects to be presented at a future Board meeting.

EXECUTIVE DIRECTOR'S REPORT

Mr. Asher reported that the Authority received a copy of the of the 2008 Draft Audit for the Auditors of Public Accounts for FY 2008 which was completed last summer. The audit was relatively clean. The audit is indicating that the Authority should complete a RFP process for the banks participating in the Early Childhood Education Program. The Authority has explained that only seven banks stepped up that were willing to participate, and only one lender agreed to be the loan servicer and originator. Peoples' Bank will remain loan servicer and originator until the outstanding loans are paid off. The Small Direct Loan Fund Program has a similar issue. The Authority pays the originator, The Connecticut Community and Investment Corporation, earnings on the Small Direct Loan Protection Account which will also show up on the audit. Mr. Cohn suggested that the Authority informally test the market and document there were no other entities interested in these roles. Ms. Rubin inquired if the Authority is performing audit controls on the current loan servicer and originators. Mr. Asher confirmed that the Authority does perform audit controls.

Mr. Asher stated that the auditors are currently at the Authority conducting the FY 2009 audit, which will take approximately three months to complete.

Mr. Asher stated that he and Mr. Wasch remain active with the Health Care Reform Cabinet which was created by Executive Order of the Governor. Recently, a change has been made which formed three sub-groups associated with the cabinet. One of the groups is the Health Insurance Exchange will be an organization that will be charged in the State of Connecticut for creating a public portal for small business and individuals to purchase health insurance. Mr. Asher will be serving on that Committee. Mr. Wasch is serving on a communications work group doing

outreach, and Mr. Asher is also serving as Co-Chair of the Funding Opportunity sub-group centralizing the State's efforts for federal government funding opportunities and grants.

The Authority had announced that the Governor appointed Dr. Pamela Trotman-Reid to replace Dr. Cibes effective July 1, 2010. During a recent new board member orientation session, Dr. Pamela Trotman-Reid raised some concerns about the potential incompatibility of the application of certain Office of State Ethics statutory restrictions on public officials and her duties as President of St. Joseph College. Based on the Authority's internal legal review of the ethics statutes and a review of Office of State Ethics Advisory Opinions, Dr. Reid has decided not to accept the appointment to the CHEFA Board.

Mr. Asher respectfully requested that the Governor appoint Dr. Estela R. Lopez, the former Vice Chancellor for Academic Affairs for the Connecticut State University System, for appointment to the CHEFA Board for a term ending February 10, 2013 as a replacement for Dr. Pamela Trotman-Reid. The Authority received notice from the Governor on July 26, 2010 that Dr. Lopez was appointed.

Dr. Lopez's academic credentials, diverse experience in higher education, and her commitment to public service will enhance the Authority's efforts to diversify Board membership and strengthen its commitment to its education clients. Dr. Lopez currently serves as a member of the Judicial Review Council for the State of Connecticut, a member of the Board of Directors of Sustinet and is the former Director of the Latino Policy Institute of the Hispanic Health Council. Board members received a copy of her curriculum vitae for consideration with meeting handouts.

Mr. Asher stated that the Authority will conduct a tax-exempt financing orientation session in September 2010, and any Board members who would like to attend are welcome.

OTHER BUSINESS

Mr. Asher stated that the next Board of Directors meeting will be held on Tuesday, September 14, 2010 at 1:00 p.m., noting that there will not be a Board meeting held in August.

There will be an Audit-Finance Committee meeting on September 14, 2010 to conduct an audit review with the auditors. The audited financial statements will be presented at that meeting.

The election of the Vice-Chair will also take place at the September 2010 meeting.

The Strategic Business Plan accomplishments for 2010 will be reviewed at the October 2010 Human Resources Committee meeting.

Ms. Rubin inquired on the status of the disclosure requirements regarding the Statement of Financial Interest legislation for the year end. Mr. Asher stated that the Statement of Financial Interest legislation regarding posting information on the Internet was not passed during the last session and the existing process will remain the same at this time.

There being no further business, at 1:50 p.m., Ms. Rubin requested a motion to adjourn the meeting. Mr. Cohn moved to adjourn and Mr. Mengacci seconded the motion. All were in favor.

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

AYES

John Biancamano
Benson Cohn
Patrick Colangelo
Peter Lisi
John Mengacci
Barbara Rubin
Sarah Sanders

NAYS

None

ABSTENTIONS

None

Respectfully submitted,

Jeffrey A. Asher
Executive Director