STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting – January 25, 2005

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 25, 2005.

The meeting was called to order by Barbara Rubin, Chair of the Board of Directors of the Authority, and upon roll call those present and absent were as follows:

PRESENT:	John Biancamano Patrick A. Colangelo, Vice Chair Catherine S. Boone (Rep. Denise L. Nappier) Barbara Rubin, Chair Laurence R. Smith, Jr. Dori Taylor Sullivan, Ph.D.
ABSENT:	Michael J. Cicchetti (Rep. Robert L. Genuario) William J. Cibes, Jr., Ph.D. Benson R. Cohn
ALSO PRESENT:	Richard D. Gray, Executive Director, Jeffrey A. Asher, Managing Director/CFO, David A. Williams, Managing Director, Kimberley Fontaine, Administrative Assistant, Eileen MacDonald, Manager, Administrative Services, JoAnne Mackewicz, Manager, Client Financial Services, Michael Morris, Manager, New Business, Cynthia Peoples Hobson, Manager Systems and Financial Analysis, Beverly Rivest, Administrative Assistant, and Jennifer P. Smyth, Document Analyst, of the Connecticut Health and Educational Facilities Authority
	John D. Yarbrough, Esq., of Carmody & Torrance LLP
	Namita T. Shah, Esq., of Day, Berry & Howard LLP
	Laurie Hall, Esq., of Hawkins, Delafield & Wood
	Robert Lamb, President, of Lamont Financial Services Corp.

Jeannette Weldon, Vice President, of P.G. Corbin and Company

Stephanie Gibson, Managing Director and Jeremy Bass, Consultant, of Public Financial Management

David M. Panico, Esq., of Robinson & Cole LLP

Coleman H. Casey, Esq., of Shipman & Goodwin LLP

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

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting – January 25, 2005

The Meeting was called to order by Barbara Rubin, Chair, at 2:00 p.m.

MINUTES

Mr. Colangelo moved approval of the Minutes of the Regular Meeting of the Board of Directors of December 7, 2004, which motion was seconded by Mr. Biancamano.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano	None	Catherine S. Boone [1]
Patrick A. Colangelo		
Barbara Rubin		
Laurence R. Smith, Jr.		
Dori Taylor Sullivan, Ph.D.		

CHANGE IN AGENDA ITEM

Ms. Rubin asked why there was a change from the preliminary agenda, due to the removal of the Westminster School Issue, Series D for Board approval. Mr. Morris replied that the School notified Staff that they are not ready to proceed with the financing, and wanted more time to review the bond issue.

CURRENT AND PENDING BOND ISSUES

Mr. Morris reviewed the Financing Forecast, stating that the Backus Hospital Series F issue is progressing slowly, due to unexpected delays. Griffin Hospital's Series B issue will close on February 1, and a sales report will be presented at today's meeting. Masonicare's proposed issue for an addition to its continuing care retirement community is lagging due to problems with presale of the units. Staff expects to receive an application from the Connecticut State University System for a $75 million issue for new construction and renovations, which is expected to be outlined for approval in April. A preliminary memo for Avon Old Farms School issue will be presented at today's meeting. An application has been received from Eagle Hill School for construction of a multi-purpose facility. Ridgefield Academy selected Advest to provide underwriting services for its Series A issue, which Staff expects to present for Board review in March or April. The Greenwich Family YMCA issue for new construction and renovation may be presented in late spring. Choate Rosemary Hall has indicated to Staff that it is considering a new $10–15 million issue. Yale-New Haven Hospital has met with Staff regarding a

[1] Ms. Boone elected to abstain from this vote, as she was not present at the December 7, 2004 meeting.

potential $220–260 million financing. Mr. Gray reported that the proposed Yale-New Haven issue will be very controversial, due to unionization activity.

Ms. Rubin asked what the budget status is of CHEFA transactions for the fiscal year to date. Mr. Morris replied that six issues have closed for a total of $165 million, which is in line with the budget for the number of transactions, but below the dollar amount projected. A transaction for Yale is included in the budget totals for the year, but the University has not yet provided any issue timing.

The reports were accepted as information.

INTEREST RATE REPORT

Mr. Williams reported on interest rates, stating that rates are down, especially long-term rates. The 30-year Treasury rate is at the lowest point of the last six Board Meetings, at 4.64%, which is 40 basis points lower than last month's rate. The Revenue Bond Index at 4.89% is down 26 points from the December rate, and is also the lowest of the last six Board meetings. Short-term rates are moving up, with an increase in BMA from 1.55% to 1.85%, and one-month LIBOR from 2.33% to 2.54%. This is due in part to the Federal Reserve raising short-term interest rates.

SALES REPORTS

Hospital of St. Raphael Issue, Series L and M

Mr. Bass presented the Staff Memo for the Series L and the Series M Issues for the Hospital of St. Raphael. The Series L issue sold on December 15, and bond proceeds will be used to refund the outstanding Hospital's Issues Series D, Series E, Series G and Series I. The $29.525 million issue was structured as a weekly auction variable rate transaction, with fixed payor swap. Series L was support with bond insurance by Ambac. The initial interest rate for the St. Raphael Series L issue was 1.25%, significantly below the BMA index at the time of 1.65%. In response to questions from the Board, Mr. Lamb of Lamont, which had been Swap Advisor to the Hospital, reported that the Series L swap rate was 3.439%.

The Series M Bond issue, also sold on December 15, priced at 1.65%, only two basis points below the BMA. Mr. Bass called Members' attention to the information in the Sales Report which shows transactions for Connecticut issues and other auction rate transactions during the week of the sale for Hospital of St. Raphael which are comparable to the Hospital's issues.

Griffin Hospital Issue, Series B

Ms. Gibson presented the sales report for the Griffin Hospital Issue, Series B, which priced on January 19. The transaction was insured by Radian Asset Assurance, which has not been active insuring fixed rate issues in a while. Wachovia Securities was the underwriter for the issue.

The $24,800,000 fixed-rate bond transaction was issued to refund Griffin's outstanding Series A bonds. Retail orders were received across the maturity range. The first ten years of maturities were serialized, with oversubscription in years 2005, 2009, and 2010, which allowed the underwriter to reprice two to five basis points lower. However, the market was not as strong in the middle maturities. The underwriter agreed to lower the yield by two basis points of the 2010 and 2023 term bonds which attracted both retail and institutional investors, resulting in the term bonds being oversubscribed between four to seven times. The Griffin issue priced 53 to 47 basis points above the prior evening's MMD scale, which was comparable to a New Jersey healthcare financing in December 2004. The spreads to the "AAA" MMD scale set later at the end of the day, December 19th ranged from 37 to 60 basis points.

Mr. Gray stated that Griffin's successful Series B issue took a large unenhanced issue from the Authority's portfolio, and replaced it with an insured transaction. The success of the sale is a testimonial to the Hospital's positive operations. Ms. Rubin asked what was the insurance fee for Radian Asset Assurance. Later in the meeting, Mr. Gray reported that Radian's insurance premium was 200 basis points. Mr. Morris noted that Griffin had achieved a net present value savings of over 6.3% on its refunded bonds.

Trinity College Issue, Series I

Ms. Weldon, presented the Sales Report for the Trinity College, Series I Issue. The $15 million issue was structured as a variable rate auction transaction. Bond proceeds will be used for various repairs, renovations, additions, upgrades, improvements and equipment purchases for the College. Advest, Senior Manager for the Trinity issue, initially proposed a weekly rate of between 1.40% and 1.45%. P.G. Corbin requested Advest to use a recent Fairfield University auction rate issue as the most comparable transaction to establish the benchmark for the Trinity issue, because it was also insured by MBIA and is on the same weekly cycle as the Series I issue. JP Morgan was the underwriter for the Fairfield University issue, and that issue priced 23 basis points through the BMA at 1.30% Advest was not comfortable with an initial proposed rate of 1.30%, due to concerns about their ability to generate retail sales.

Advest acknowledged that Fairfield would be the benchmark going forward, and placed 50% of the bonds with retail investors at 1.40%. Advest agreed to underwrite the remaining bonds at 1.40%, with the commitment to trend towards Fairfield's rate levels. The interest rate reset for Fairfield's issue has since risen to 1.38%. Ms. Weldon reported that Trinity was comfortable with the sales approach utilized by Advest.

Ms. Rubin asked if Trinity was pleased with the results of its issue, to which Mr. Gray replied affirmatively. Mr. Morris reported that the College had achieved a net present value savings of 6.0%.

PRELIMINARY STAFF MEMORANDUM

Avon Old Farms School Issue, Series A

Mr. Morris presented the preliminary staff memo regarding the Avon Old Farms School Issue, Series A. Avon is a first-time borrower to the Authority, and is having some difficulty deciding the size and structure for its issue. The underwriter for the issue, Banc of America Securities, has presented numerous financing scenarios for the School. It appears that Avon desires the flexibility of a floating rate to be positioned to pay off some of the debt with fundraising monies. Avon will decide a final structure in the next week, as site visits with letter of credit banks and insurers are scheduled. Security for the issue has also not yet been finalized, but will most likely include a gross receipts pledge and a negative pledge, and possibly a mortgage.

The proceeds from the Series A bond issue will be used to finance the construction of a new student center, athletic complex and field house. The anticipated cost for these projects is approximately $23,000,000. The School is also considering renovation projects to the current student center and gymnasium.

Demand at Avon is good, with applications for Fall 2004 at an all-time high of 433. Selectivity has improved from 73% four years ago to a current level of 62%. Matriculation for this year is 58%, increased from 50% for the previous two years. Enrollment has been stable in the 379–385 range, except for academic year 2003–04, when there were 369 students. The School has no plans to increase its enrollment. SAT scores are favorable at 1,153, which is in line with CHEFA's other Tier III schools. Minority students comprise nine percent of the student body.

The School's balance sheet has grown over the past five years, with cash and investments growing 20.6%, from $26.5 million to $32 million. Expendable resources to debt is just slightly over 1.0x, which is equivalent to Moody's "Baa" median. Expendable resources to operations measure 2.17x, higher than Moody's "A" median of 2.08x, and higher than other CHEFA Tier schools.

Debt service as a percent of operations will be approximately 7.5% to 8%, compared to 11.6% for a $28 million issue. As part of seeking CHEFA Board approval, Avon is in the process of compiling financial projections to demonstrate its ability to meet the debt service coverage. The pro forma debt service coverage ratio for FY 2004 is 1.9 times, including realized and unrealized gains. The School has received capital gifts recently, which have gone to fund campus improvements, a new day student center and a science and technology center. Parent participation is strong with 78% giving to the School's campaigns.

Staff anticipates bringing this financing for approval at either the February 22, 2005 or March 22 Board meeting. Ms. Rubin asked what are the average SAT scores for public schools. Mr. Morris replied that Staff would report on that measure at the February Board meeting as part of the independent school sector review.

STAFF MEMOS

Medical Malpractice Captive Insurance – Proposed Program

Mr. Gray began the presentation of the Staff Memo on this program, by requesting Members' input into the draft guidelines. A review of the legislative history which resulted in the passage of this grant program to be administered by CHEFA was given. Mr. Gray commented that the legislative initiative was initially intended to be part of a broad bill on Medical Malpractice Reform. However, the legislation did not include any limits on awards for non-economic damages, which is a large driver of medical malpractice liability claims. The original legislative bill for medical malpractice reform was therefore vetoed. The current legislation was then buried in the back of the budget bonding implementation, as a way of getting the matter passed in the last hours of the legislative session.

Within days of passage of the bonding bill including the medical malpractice captive insurance grant program, the Authority received a request for the program funds from Griffin Hospital, and then later also from Danbury Hospital and other hospitals. Mr. Gray stated that at that time, he put everything on hold in order to study the legislation, and in the hopes of expanding the debate on medical malpractice. Mr. Gray has met with consultants, insurance providers, patient rights advocates and members of existing captive insurance programs in order to develop a full understanding of what is needed regarding medical malpractice insurance, and to develop realistic guidelines for the program. From research and these discussions, Mr. Gray developed a list of possible criteria and a process for hospitals that may apply for the grant funds under the medical malpractice captive insurance program. It appears that there may be only a few eligible institutions, as the legislature calls for the development of a new captive insurance program, or the expansion of an existing captive to include physicians.

Mr. Gray commented that he feels the medical malpractice captive insurance grant program assigned to CHEFA will be only a band-aid, and will not solve the medical malpractice problems in Connecticut. The dollar magnitude of the problem is on a far larger scale. Physicians in specialty practices are closing their offices, due to the exorbitant malpractice premiums they are required to pay. Governor Rell may initiate a public hearing on reforms to Connecticut's medical malpractice system. Nevertheless, the program assigned to CHEFA under the legislation must go forward, and Mr. Gray reported that he is being pressured by a few hospitals and legislators to award the grant funds under the program.

Under the proposed program guidelines, funds would be available up to the following limits: 1) Feasibility and implementation costs – $250,000; 2) Costs associated with the establishment of an audit procedure to identify member claims experience and measure cost drivers – $250,000; and 3) Establish and maintain a risk management program that addresses the risks identified in the claims experience and monitoring procedures – $250,000. The purpose in establishing these separate funding areas and limits is to develop a real reporting vehicle for a risk management program, possible including workshops and a format to manage education regarding medical malpractice.

The application process outlined in the proposed guidelines was developed to address the legislative intent, where funds would be available for either new or existing captives that intend to provide or substantially increase the availability of coverage to the private medical staff. Contingent on approval of the proposed program guidelines, Staff will send a letter to all CHEFA hospital clients informing them of the program and the general requirements. Mr. Gray stated that as part of the eligibility requirements, hospitals and doctors should have joint defense agreements, with the exception of any obvious conflicts.

Guidelines for the application and approval process were developed based on A.M. Best's rating criteria for captive insurance plans. Under CHEFA's proposed program, the application would be reviewed for completeness of information and supporting schedules. Additionally, to be considered for approval under the medical malpractice captive insurance program, the applicant cannot be in any material default under any existing bond issue or grant outstanding with the Authority.

Once CHEFA's Internal Credit Committee has approved an application, Staff will prepare a detailed Memo to the Grant Committee. The Grant Committee will then evaluate the application, and if approved, will recommend it to the full Board of Directors of the Authority. Funds will be advanced for an approved application upon execution of a Grant Agreement which sets forth the terms of the funding and ongoing compliance monitoring requirements. Periodically, and not less than annually, Staff will provide a report to the CHEFA Board of Directors and the state legislature on the operations of any captives funded under this grant program.

Mr. Gray commented that he feels any benefit that may come from this medical malpractice captive insurance grant program will be localized, and only provide a temporary benefit to the cost of medical malpractice liability coverage. He also stated that the Authority does not want to see this program used to recruit physicians from one hospital to another, due to the availability of insurance. Staff is requesting Board approval of the program guidelines.

Mr. Colangelo asked Mr. Gray to expand on the issue of drawing physicians away from a hospital. Mr. Gray deferred to Mr. Biancamano to reply. As an example Mr. Biancamano stated that a condition of a physician joining a captive may be that a certain percentage of procedures would be required to be performed at the hospital which sponsors the captive insurance.

Mr. Biancamano then stated that requiring hospitals and physicians to enter into a joint defense agreement may be difficult. He mentioned the situation where the incident occurs in a non-participating hospital. Following a brief discussion it was recommended that joint defense agreements be strongly encouraged, but not specifically a requirement for consideration of an application.

Dr. Sullivan suggested that applicants focus on demonstrating a learning process from the medical malpractice data gathered under a captive financed through this grant program, with a strong evaluation component. Mr. Gray replied that was the intent, and such an evaluation factor would be required in the grant agreement. Part of the intent of the proposed guidelines is to get data to quantify improvements needed in Connecticut's malpractice liability market. Mr. Gray proposed that the Grant Committee may wish to consider funding a long-term study of efficiencies needed in this insurance market as part of its targeted investment program. Issues such as caps on jury awards and limitations on attorney fees in malpractice claims cases could be quantified.

Ms. Rubin asked if there is only one hospital interested in the grant funds, and posed that perhaps twenty to thirty hospitals may be interested. Mr. Williams replied that Staff has heard from about six hospitals regarding the medical malpractice captive insurance grant program. Ms. Rubin then asked if only CHEFA clients would be eligible to apply under the program. Mr. Gray replied that there may be other eligible hospitals, such as New Milford and Milford Hospitals, but that John Dempsey is ineligible, and for-profit hospitals are not eligible. Mr. Gray further reported that Griffin Hospital is trying to associate Milford Hospital under its captive insurance company, starting October 2004.

The Chair then asked how Staff would decide to grant the program funds in the event that a larger number of hospitals were interested, and asked if the total program amount would be divided by the number of qualified applicants. Mr. Gray replied that any decision to award the grant funds would be based on actuarial studies and risk.

Dr. Sullivan proposed that any study on caps for non-economic awards should show concrete results. Mr. Gray concurred, stating that the California model for medical malpractice liability should be considered, as that state's claims are less than the national average. The model uses a periodic payout method, which is only voluntary in Connecticut. Also, a sliding scale for attorneys' contingency fees is utilized.

Mr. Biancamano recommended that any funds given for consultation and start-up expenses under the grant program be made contingent on a matching basis. In addition, he stated that many hospitals have gone through a consultation process as part of a previous effort by the Connecticut Hospital Association, and asserted that no one was willing to put up the initial capital required.

Mr. Gray asked if the funds allocated for the grant program should be realigned. Mr. Biancamano replied that CHEFA's reserves be allocated under the program elements based on input from the Grant Committee. Additionally, Dr. Sullivan stated that the applications should indicate the establishment, enhancement or maintenance of a risk management program. She stated that such programs can be effective if the underlying model is understandable and that provides information. Additional discussion indicated that the legislation limits the program to not greater than $1.5 million, and to not more than two (2) captive entities.

Ms. Boone reported that a concern of Mr. Rifkin is that there may be no real effect from this program, or from CHEFA's commitment of its operating reserves and efforts. Dr. Sullivan asked if there is any action CHEFA could take that would be beneficial to legislators regarding medical malpractice reform. Mr. Gray replied that the best way to provide a benefit to legislators is to have a defensible process on how the grants are considered and ultimately awarded.

Mr. Biancamano asked if the program guidelines were developed in part to try to develop a claims reporting system. Such information would be very helpful for public reporting in the future. Mr. Gray replied that he feels the goal of this grant program is to prevent medical errors, not a real malpractice initiative.

There being no further questions from Members, the Chair summarized Members' recommended modifications to the proposed guidelines as follows: 1) Encourage, not strictly require, joint defense agreements; 2) Feasibility and implementation costs be awarded only if the hospital matches the grant funds on a dollar-for-dollar basis; 3) the audit procedures be expanded to include a real claims reporting system; 4) the $750,000 per captive can be allocated in any manner across the program elements, subject to the Grant Committee's decision; and 5) Attempts to evaluate effectiveness over more than one captive will be strongly encouraged.

Mr. Smith moved approval of the proposed guidelines as modified for the Medical Malpractice Captive Insurance Grant Program, which motion was seconded by Dr. Sullivan.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano	None	Catherine S. Boone [2]
Patrick A. Colangelo		
Barbara Rubin, Chair		
Laurence R. Smith, Jr.		
Dori Taylor Sullivan, Ph.D.		

CHEFA FINANCIAL OPERATIONS

Financial Statements for the Months of November and December 2004

Mr. Asher reported on the financial statements of the Authority for the fiscal year to date November 30, 2004 and December 31, 2004 respectively. Mr. Asher reported on the December Financials that there was a calculation error regarding employee benefits and insurance, resulting in the budget being overstated by $82,317 and will be adjusted in the periods ending January 2005 through June 2005 by $13,720 per month. Revenues are still below budget due to payment of CHEFA fees and the timing of several transactions.

[2] Ms. Boone abstained from the vote on the Medical Malpractice Memo because the Treasurer's Office had concerns for the use of funds in this manner.

Expenses are under budget by $160,000, however, $40,000 of this amount are attributable to a calculation error.

OTHER REPORTS

$100 million Hospital SCRF Pooled Loan Program

Mr. Gray reported that Staff met today with its Financial Advisor, PFM, regarding the hospital equipment program. The next step to proceed with this program is to meet with the State Treasurer's Office and the Office of Policy and Management, then generate a letter to all hospitals on how the pooled loan program will operate, to determine the level of interest and participants for financing transactions.

Mr. Gray then addressed the subject of recent articles published in the Journal Inquirer regarding the incentives being paid to employees of quasi-public agencies, and specifically those paid at the Lottery Commission. A bill is being currently developed to either limit or eliminate such incentive programs for quasi-public agencies. Mr. Gray met with Senators Finch and LeBeau, who are developing the bill, to explain CHEFA's incentive program. Senator LeBeau's concern is that all employees benefit from any incentive program, and Senator Finch is concerned with quasi-state agencies that receive state benefits and do not have an equitable incentive program. Mr. Gray showed both Senators CHEFA's grant efforts, for which the recipients were identified by State House and Senate locations.

Mr. Gray feels that the bill being considered is a knee-jerk reaction to the bad publicity received from those given at the Lottery Commission. He went on to explain that incentives given to CHEFA employees are in fact true incentives. CHEFA employees do not participate in state benefits program, as do other quasi agencies, and the incentive program here is fair to all employees that excel in their respective positions because all employees here are eligible to receive such incentives and those incentives are based on individual job performance. The Governor's office is expected to release a report on quasi-public agencies in the near future to address such concerns.

Ms. Rubin asked several questions regarding early childhood development monies and how they are being spent as well as addressing the issue of incentives for parents to show increased responsibility in their child's development. Mr. Asher responded that they are looking at some types of centers with more parental involvement.

SAT Information for Public Schools

Ms. Rubin reported that Ms. Peoples Hobson had provided the SAT scores for public schools, which the Connecticut average is 1,026. Scores for CHEFA's boarding schools are in the range of 1,200. Dr. Sullivan proposed that it would be interesting to separate the cities from the state average for public schools, to see the average for the remaining areas.

DATE OF NEXT MEETING

The Chair reminded everyone that the next Board Meeting is scheduled for Tuesday, February 22, 2005.

There being no further business, at 3:03 p.m. Dr. Sullivan motioned to adjourn the meeting. Mr. Colangelo seconded the motion.

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

AYES	NAYS	ABSTENTIONS
John Biancamano	None	None
Catherine S. Boone		
Patrick A. Colangelo		
Barbara Rubin		
Laurence R. Smith, Jr.		
Dori Taylor Sullivan, Ph.D.		

Respectfully submitted,

Richard D. Gray
Executive Director