# STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of Authority Board Meeting – October 26, 2010

The State of Connecticut Health and Educational Facilities Authority met at 1:00 p.m. on Tuesday, October 26, 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 Biancamano
Benson R. Cohn
Patrick Colangelo, Vice Chair
Peter Lisi
Dr. Estela Lopez
John Mengacci, (Rep. Secretary Brenda Sisco)
Paul Mutone
Bryan Pollard, (Via Phone)
Barbara Rubin, Chair
Sarah Sanders, (Rep. Honorable Denise Nappier)

ABSENT: None

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
JoAnne Mackewicz, Controller
Michael Morris, Assistant Director
Cynthia Peoples, Assistant Director
Debra Pinney, Manager, Administrative Services
Kate Thiede, Compliance Analyst
David Wasch, Manager, Governmental Programs
Jeanette Weldon, Managing Director
of the Connecticut Health and Educational Facilities Authority

GUESTS:

Jeremy Bass, Consultant, Public Financial Management
Coleman Casey, Esq., Shipman & Goodwin LLP
Jonathan Curina, Engineer, Fuss & O'Neill
Scott Gibson, Director, RBC Capital Markets

Laurie Hall, Esq., Hawkins, Delafield & Wood LLP
Jason Krechko, Engineer, GZA GeoEnvironmental, Inc.
Dara Melchionni, Assistant Vice President, Acacia Financial Group
Kevin Norton, Managing Director, The Bank of NY Mellon
Marie Phelan, Esq., Pullman & Comley, LLC
Edward J. Samorajczyk, Jr., Esq., Robinson & Cole LLC
Scott Gibson, Vice President, RBC Capital Markets
Tiffany Stevens, Esq., McCarter & English, LLP
Christopher Valentino, Lamont Financial Services Corp.
Richard J. Wasserman, Esq., Day Pitney LLP
John Yarbrough, Esq., Carmody & Torrance LLP

Ms. Rubin introduced Dr. Estela Lopez as a newly appointed Board member. Dr. Lopez is the former vice chancellor of Academic Affairs of the Connecticut State University System; she sits on the board of SustiNet, and is a Connecticut Judiciary Review Committee member. Ms. Rubin indicated that the Authority is thrilled she has joined the Board.

**MINUTES**

Ms. Rubin requested a motion for approval of the minutes of the September 14, 2010 Board of Directors meeting. Mr. Biancamano moved for approval of the minutes, which was seconded by Mr. Colangelo.

Mr. Mutone pointed out that a correction should be made in the September 2010 minutes to reflect his correct title which is: Vice President for Finance & Operations, and Treasurer.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| John Biancamano | None | Dr. Estela Lopez[1] |
| Benson Cohn | | |
| Pat Colangelo | | |
| Peter Lisi | | |
| John Mengacci | | |
| Paul Mutone | | |
| Bryan Pollard | | |
| Barbara Rubin | | |
| Sarah Sanders | | |

[1] Dr. Lopez abstained from voting because she did not attend the September 2010 Board Meeting.

## CURRENT AND PENDING BOND ISSUES

### Financing Forecast

Ms. MacDonald reported that there are four new issues, all which will presented at todays: Yale-New Haven Hospital, Middlesex Hospital, CHF-Trinity LLC, and an EasyLoan for Bridgeport Hospital.

### Summary of Financings

There have been no bond issue closings since the September Board meeting. The Easy-Loan for Hartford Hospital closed on September 17, which was the Authority's first loan over $10 million which financed a helicopter and the following equipment:

- Radio-oncology system
- DaVinci Robot
- DMX computer storage system
- Ultrasound machines
- Hansen Robot
- CSO Denial Management Software
- Lifestar Helicopter (including fitout)
- Miscellaneous equipment (including chillers)

### Interest Rate Update and Market Update

Ms. Peoples reported that the yield curve rates show significant differences today. The October 25th rates show a drop in the rates on the short end, and an increase on the long end of the yield curve as compared to what was presented on September 13th. The market was relativity flat at noon today, after suffering some initial losses based on the first three economic releases this morning relative to property values and home price indices. Once Consumer Confidence numbers were released at 10 a.m., the losses reversed favorably. The CBOE Volatility Index has decreased, which is favorable. The article included in the Interest Rate Update is a press release from Standard & Poors indicating a downgrade of what was the last of the "AAA" rated bond insurers. Assured Guaranty Corp was downgraded to "AA+". The press release was issued on Monday, October 25, 2010.

Ms. Weldon reported that the October 2010 Market Update contains a number of transactions, most in the "A" rated category and higher. Interesting transactions on the health care side were Allegiance Health (MI), and Hackensack University Medical Center (NJ) which both did transactions that were partially insured by Assured Guaranty prior to its downgrade. The contrast is notable in the yields comparing insured and uninsured. On the higher education side, the yields are reflected based on their credit quality.

## PRELIMINARY STAFF MEMOS

### Bridgeport Hospital, EasyLoan

Ms. MacDonald reported that Bridgeport Hospital has filed an application for an EasyLoan totaling $7.0 million. The Hospital is licensed for 425 beds and currently staffs 334 beds. Currently, the Hospital has approximately $50.1 million in CHEFA debt outstanding. Bridgeport previously financed a $5.4 million EasyLease which was paid in 2006.

Proceeds from the loan will be used for energy upgrades and to pay costs of issuance. Specific energy projects include upgrades to lighting, steam boiler replacement and system upgrades, heat recovery systems, water conservation improvements, and building weatherization. The term of the loan is 10 years at a locked in rate of 3.22% with Bank of America as the lender. The Hospital will be the sole obligor on this EasyLoan.

The Board authorized aggregate principal amount of the EasyLoan program is currently $75.0 million, which was increased in July 2008. The total principal amount issued to date is $51.2 million for seven borrowers, with $48.1 million outstanding. The $20 million Hartford Hospital loan which closed in September was issued under a separate authorizing resolution, and does not count against the authorized amount.

The EasyLease program current authorized aggregate principal amount is $125.0 million, which was also increased in July 2008. Although new equipment financings are issued under the EasyLoan program, borrowers with an outstanding lease may issue supplemental transactions under the EasyLease program. The Hospital of Central Connecticut has issued two supplemental leases. There are six leases outstanding totaling $12.4 million.

Mr. Mengacci asked if Bridgeport Hospital worked with their local utility companies to see if there were any incentive funds available. Ms. MacDonald replied that the Bridgeport Hospital loan is privately placed with the lender, Siemens Medical Solutions USA, Inc.; there is a rebate with a guaranty savings. Mr. Mengacci stated that it appears that the financing is structured on a performance contract basis.

Mr. Mengacci asked what the payback to Siemens will be. Ms. MacDonald said that she would provide that information to Mr. Mengacci at the next Board meeting.

### Sacred Heart University Issue, Series G

Mr. Morris reported that Sacred Heart University is looking to issue a $103 million fixed-rate, unenhanced transaction based on the University's credit. In October 2009, Moody's upgraded the University's rating from "Baa3" to "Baa2" with a Stable outlook. Standard & Poor's affirmed the University's "BBB" rating (Stable outlook) in January 2010. It is not known at this time if the ratings will remain at their current levels with the proposed $43.4 million of additional debt to be issued.

The security provisions will remain the same as what currently exists with its outstanding issues which consists of:

- General obligation pledge of the University;
- Pledge of Gross of Receipts;
- Mortgage; and
- Debt Service Reserve Fund.

The Series G bond proceeds will be used to finance the following:
1) $59.5 million – Refund Series C and Series E bond issues;
2) $9.1 million – Refund commercial bank loan;
3) $17.0 million – Construction of a new Student Services Building; and
4) $16.1 million – Other capital projects.

Based on current market conditions, annual savings for the debt to be refunded equals approximately $450,000; the University's minimum threshold is $300,000 annually.

Despite a 3.0% decline from fall 2008 to fall 2009, applications grew by 3.1% from fall 2009 to fall 2010. The University stated that it was very pleased with the growth given the economic climate. Applications increased approximately 22% from five years ago and approximately 70% greater than a decade ago.

The University's acceptance rate has remained relatively consistent over the past five years, at approximately 65%. For fall 2010, selectivity fell slightly below Moody's "Baa" median.

The University's matriculation rate has historically been low at approximately 20%. However, it is consistent with other colleges and universities in CHEFA's portfolio. For fall 2009, CHEFA's matriculation rate median equaled 19.1%. Freshman retention has improved over the past four years.

The University's undergraduate full-time equivalent enrollment has remained steady for the past five years. However, there has been significant growth in graduate FTE's at 34% for the same time period. The growth in graduate students is a result of management's strategic initiatives on graduate program development.

Financial operations at the University have been very favorable over the past three fiscal years (the FY 2010 audit is not available at this time), with double digit operating margins. Typically, tuition dependent schools have higher operating margins. The University is very tuition dependent with charges accounted for approximately 80% of total revenues.

However, in order to meet budgeted enrollments in recent years, the University increased its financial aid offered. The University's sponsored student financial aid increased from over 22% to 27% from FY 2008 to FY 2010 before declining to 26% for this academic year.

With the proposed $34 million of new debt, debt service to operations is high at 8.6%. However, due to favorable cash flow from operations, debt service should be manageable. Pro forma debt service coverage for FY 2009 equaled 2.86 times. The 2010 results should be available for the December 2010 Board of Directors meeting.

The University balance sheet metrics are more in line with Moody's "Baa" medians. Based on unaudited FY 2010 numbers, the University endowment totaled $82 million, of which a favorable 82% was unrestricted. The University has a very conservative draw from its endowment to support operations.

Ms. Rubin stated that the metrics seem favorable relative to the "BBB" ratings. Mr. Morris stated that they have strong operational results but a weak balance sheet, in particular comparing expendable resources to debt.

Mr. Mutone inquired if the Authority is including the refunding of the commercial bank loan in the $43 million. Mr. Morris stated that the new debt does include $9 million refunding of the commercial bank loan. Mr. Mutone inquired if the University's balance sheet liability would increase by $33 million. Mr. Morris confirmed.

Ms. Rubin stated for the Board members who are relatively new, in the past, the Authority required credit enhancement below "AA" rating level, but given the environment and the limited availability of enhancement, the requirements have been lowered to "BBB" with two Stable ratings. Mr. Morris added that if one of the ratings drops to "BBB-", then the Authority requires a limited public offering. Ms. Rubin added that the Authority wants to continue to be able to offer appropriate financing regardless of the market's deterioration.

Ms. Sanders inquired if the University would be able to hold the ratings. Mr. Morris stated that the University is seeking a new project over $16 million; the balance sheet metrics are tight. The University will most likely be meeting with the rating agencies in December.

**CHF-Trinity, LLC Issue, Series 2010A**

Ms. Weldon reported that the Authority received a proposal for preliminary review from Trinity College. The transaction will finance an on-campus privatized student housing project that will construct six buildings housing 305 beds and provide for 150 parking spaces. The dorms will replace existing student housing. The College is using a financing structure that it believes will keep the financing for the project off-balance sheet and "off-credit." To achieve those goals, the College is working with the Collegiate Housing Foundation (CHF), a 501(c)(3) entity formed in 1996 to assist higher education institutions in financing their housing needs. The borrower and owner of the project will be CHF-Trinity LLC (an entity created for purposes of this project), and its sole member will be CHF. The bonds will be secured by project revenues and a leasehold mortgage on the project and there will be no recourse to the College.

CHF's board comprises several former college administrators including Linda Flaherty-Goldsmith, former Vice President and Chief Operating Officer of the University of Connecticut.

In 2002, CHF's tax-exempt status was confirmed by the IRS following a two year audit. According to CHF, the IRS also approved its financing methodology at that time.

The underwriter is expecting an investment grade rating on the bonds. According to Moody's, as of March 2010; they maintained 38 public underlying ratings for 31 privatized student housing transactions based on their own credit, representing $1.57 billion of debt outstanding. The median rating is "Baa3" with more than half of the ratings in the "Baa" category. Moody's states that, "The ratings reflect the typical attributes of these projects: 100% debt financed, single asset collateral, debt service coverage in the 1.20 times range, construction risk at initial issuance, annual lease up risk, targeted tenant base, and affiliation with the university."

Staff expects the issue to comply with CHEFA's Underwriting Guidelines regarding limited public offering vs. public offering, depending on the rating achieved. The School only plans to move forward with the transaction if its accountants consider the debt off-balance sheet and the rating agencies confirm it is off-credit.

Ms. Weldon stated that one piece that lends credit strength is the relationship between the affiliate and the College. Although, in Trinity's case, this could create an argument for the transaction being considered "on-credit." The dorms are critical to the housing needs of the School, they are on-campus, and the School cannot build any additional dormitories unless certain targets are met regarding occupancy and revenue coverage. While these help the stand-alone rating, they could affect the credit because of the School's likelihood to help the project monetarily if necessary. The rating agencies have done a fair number of these transactions, and have produced a rubric which guides them through the decision regarding on or off credit.

The transaction's notable terms include:

- College will provide a 40-year ground lease to CHF-Trinity LLC as the owner of the project and the borrower;
- Fixed-rate tax-exempt bonds with a 2041 final maturity and capitalized interest through the construction period;
- Fully funded Debt Service Reserve Fund at maximum annual debt service;
- Bonds secured by project revenues and a leasehold mortgage on the project;

- Bonds issued with stand-alone rating or possibly with bond insurance
- Operating Reserve Fund in an amount to be determined to be funded from operations after the first year;
- Repair and Replacement Account requirement to be funded in monthly installments; and
- College cannot operate or support any additional on or off campus housing unless the revenue covenant of 1.20 times had been satisfied for two prior fiscal years, project has two years of 90% occupancy, and a market study which indicates no negative impact on ability to maintain revenue covenant.

Mr. Mengacci inquired about the bonds being paid from project cash flows and the associated risks. Ms. Weldon replied that enrollment trends are a risk factor and from a cash flow perspective, this transaction is not different from any other dormitory financing that is secured by enrollment driven revenue streams. The privatized housing transactions end up at the lower end of the investment grade scale with the additional protection of the additional reserve funds, limits on other construction the School can undertake.

## FINAL STAFF MEMOS

**Eastern Connecticut Health Network Issue, Series E**

Mr. Morris reported that the Authority is seeking approval for the ECHN Issue, Series E, which will be used to refund its Series B variable rate issue, which is secured by a Sovereign Bank Letter of Credit and to finance two interest rate swap termination payments; one with Lehman and one with Sovereign, totaling approximately $2.5 million.

Mr. Morris reviewed the financing structure, which consists of a variable rate with a weekly reset. TD Bank has issued a proposal to provide a direct-pay letter of credit for a term of up to four years (maturity will be co-terminus with the optional tender by the Bank under the Series D bonds, which occurs May 14, 2014). The annual fee quoted is favorable at 125 basis points. Security for the issue includes a mortgage on the Manchester Memorial Hospital and Rockville General Hospital campuses and a pledge of gross revenues.

Mr. Morris noted that due to the increased pension plan liability in FY 2010, ECHN will most likely fail its debt to capitalization covenant for FY 2009. ECHN is currently in discussions with Radian and for a waiver and/or the possibility of elimination the covenant. Mr. Morris noted that TD Bank will not require this covenant. Mr. Morris stated the Staff's recommendation for approval is based on resolution with Radian as far as the Debt to Capitalization test.

Mr. Morris reviewed the financial operations of ECHN, noting that Staff's credit review was based on the system as a whole and not just the Obligated Group. The overall financial performance for the system was less favorable than the Obligated Group mainly due to losses from operations from ECHN's physician group entity, which totaled over $16 million from FY 2006 to FY 2009. Debt service coverage has been adequate over the past five years; in addition, ECHN should realize approximately $200,000 in annual letter of credit fee savings.

ECHN's liquidity levels, with exception to short-term liquidity are weak. Days cash on hand and cash to debt are more in line with Moody's "Below Baa" medians. As mentioned previously, ECHN's pension liability has increased, requiring contributions to the plan (increasing from $500,000 to $2.9 million over the past couple of years).

With respect to utilization, inpatient volume at both Manchester and Rockville has remained stable, while both hospitals have experienced increased emergency room visits. ECHN identifies its service area consisting of 19 towns; however, both Hartford Hospital and St. Francis combined have a 50% market share. In order to attract more volume, ECHN has placed a number of physicians and practices in outlying portions of its service area.
Mr. Mengacci indicated that other than the letter of credit, it is a tough sell. Mr. Morris stated that it is borderline "BBB-"; however looking at the Obligated Group themselves, operationally they are doing fine and capable of meeting the debt service. Ms. Rubin inquired what the total cost savings will be. Mr. Morris replied that fixed-rate to a swap going into a variable rate, a cost savings comparison is not possible to calculate. It is an apple to oranges comparison. Further discussion ensued.

There being no further discussion, Ms. Rubin introduced Resolution #2010-17, ECHN Issue, Series E. Authorizing, which resolution was included in the materials distributed to the Board. Mr. Biancamano moved for adoption of Resolution #2010-17, which was seconded by Mr. Cohn.

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

| **AYES** | **NAYS** | **ABSTENTIONS** |
|---|---|---|
| John Biancamano | None | None |
| Benson Cohn | | |
| Pat Colangelo | | |
| Peter Lisi | | |
| John Mengacci | | |
| Dr. Estela Lopez | | |
| Paul Mutone | | |
| Bryan Pollard | | |
| Barbara Rubin | | |
| Sarah Sanders | | |

The Chair then declared Resolution #2010-17 adopted.

**Middlesex Hospital Issue, Series N**

Mr. Morris reported Middlesex Hospital is seeking to refund its Series H & I bond issues, which approximately $41.2 million remains outstanding.

The Obligated Group for the Series N issue will consist of the Hospital and Parent – Middlesex Health System- as well as adding Middlesex Health Services (which operates an assisted living facility). The Hospital was a guarantor of the Middlesex Health Services Series I issue.

In February 2010, Moody's upgraded the Hospital's rating from "A3" to "A2" with a stable outlook.

Mr. Morris noted that operating performance has been very favorable. FY 2010 will mark the 21st consecutive year of positive operating results. The Hospital's operating margin for FY 2010 is estimated at 6.5%, and has averaged 4.0% for the four previous fiscal years. Debt Service Coverage is strong at 7.5 times for FY 2010.

Liquidity is also strong with 181 day cash on hand as of June 30, 2010. For FY 2009, days cash on hand was equivalent to Moody's "A" median. Cash to debt and cushion ratios are also favorable, both exceeding Moody's "Aa" medians.

The Hospital's pension plan was 57% funded as of FY 2009. Pension contributions equaled $7.7 million in FY 2009 and $10.8 million in FY 2010.

With respect to market share and competition, the Hospital has a 58% market share and is the only hospital located in Middlesex County. Nine other hospitals have a portion of the market share in the primary service area, with Hartford Hospital and St. Francis having the largest amount. The Hospital has a relatively healthy payor mix with less than 40% government payors.

Mr. Morris noted that inpatient volume has declined slightly over the past five years; however, ambulatory surgeries have fallen 33% over the past five fiscal years. The Hospital attributes the decline partly to a gastroenterology group opening an endoscopy suite in Middletown. However, the Hospital states that financial performance has not suffered because of the decline. As of June 30, 2010, outpatient surgeries were over 5.0% greater than the previous year.

Ms. Rubin inquired if the outpatient numbers have fallen, why did it not affect financial performance. Mr. Morris replied that they were low acuity procedures which did not affect financial performance, and the Hospital mentioned a new orthopedic center joint venture opening up in Middlesex County may reduce outpatient surgical cases at the Hospital; however, additional inpatient orthopedic cases may offset any decline. Mr. Colangelo added that a joint venture was a smart decision.

There being no further discussion, Ms. Rubin introduced Resolution #2010-18, Middlesex Hospital Issue, Series N. Authorizing, which resolution was included in the materials distributed to the Board. Mr. Biancamano moved for adoption of Resolution #2010-18, which was seconded by Mr. Cohn.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| John Biancamano | None | None |
| Benson Cohn | | |
| Pat Colangelo | | |
| Peter Lisi | | |
| John Mengacci | | |
| Dr. Estela Lopez | | |
| Paul Mutone | | |
| Bryan Pollard | | |
| Barbara Rubin | | |
| Sarah Sanders | | |

The Chair then declared Resolution #2010-18 adopted.

**University of Bridgeport Issue, Series C, Private Placement**

Mr. Morris recommended the approval of an up to $30.0 million private placement for the University of Bridgeport Issue, Series C. The Series C Issue will be sold to Citizens Bank, as a private placement. Consistent with other private placements, Staff did not prepare a credit review for this private placement offering and Citizens has agreed to execute an Investor Letter.

Mr. Morris provided a brief background of the University noting that for the FY 2010-11 academic year, a total of 5,155 students are enrolled. The University has approximately $20 million in CHEFA debt outstanding and a $2.4 million loan with New Alliance Bank. Mr. Morris explained that the relationship with the Professors World Peace Academy (PWPA) is still in effect, which provides the PWPA the right to nominate up to 60% of the members of the Board of Trustees. Ms. Rubin asked how long does the PWPA have the right to nominate. Mr. Morris stated that due to the substantial advances made to the University in the 1990's, he believes that the agreement, which provides the PWPA the right to nominate is perpetual.

Mr. Morris further noted that the loans in the amount of $7.0 million to Pickwick Investments, an affiliate of the PWPA, which remained outstanding at the time the Series B bonds were issued in August 2007, were converted into a contribution in FY 2008.

The proceeds of the Series C issue will be used to refund the University's Series B issue, refinance a commercial bank loan and to fund approximately $7.3 million various capital expenditure projects.

The following describes the financing structure:

- Interest Rate - 68% of one-month LIBOR plus 3.00% may be swapped out for a fixed-rate of no less than five years;
- Thirty-year amortization;
- No prepayment penalty; and
- Mandatory Tender - At the end of the five years, there will be a mandatory tender, following which the bonds may be remarketed either in another mode permissible under the bond indenture or the current Bank Purchase Mode.

Security for the Series C issue will consist of:

- Gross Receipts Pledge; and
- Mortgage.

A debt service reserve fund will not be required by Citizens.

Citizen's has proposed the following financial covenants:

- Debt Service Coverage Ratio of 1.25 times to be tested annually;
- Liquidity Covenant – Total unrestricted cash and investments to be not less than 0.40% of outstanding balance to be tested semi-annually; and
- Maximum Leverage Covenant – Total debt to net assets to be no greater than 1.25 times to be tested semi-annually.

Typically, the Bank charges a default interest rate of 5% for any covenant breach. However, the University states that they are still negotiating the default rate with the Bank.

There being no further discussion, Ms. Rubin introduced Resolution #2010-19, University of Bridgeport Issue, Series C. Authorizing, which resolution was included in the materials distributed to the Board. Ms. Sanders moved for adoption of Resolution #2010-19, which was seconded by Mr. Lisi.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| John Biancamano | None | None |
| Benson Cohn | | |
| Pat Colangelo | | |
| Peter Lisi | | |
| John Mengacci | | |
| Dr. Estela Lopez | | |
| Paul Mutone | | |
| Bryan Pollard | | |
| Barbara Rubin | | |
| Sarah Sanders | | |

The Chair then declared Resolution #2010-19 adopted.

**Yale New Haven Hospital Issue, Series M**

Mr. Morris recommended approval of the Yale-New Haven Hospital Issue, Series M of up to $110.0 million. The Series M bonds will be issued as a 30-year, fixed rate, unenhanced offering based on the Hospital's own credit. In March 2010, Moody's upgraded the Hospital's rating from "A1" to "Aa3"; Standard and Poor's rating is "A+". Both rating agencies have a Stable outlook and the ratings are expected to remain the same for the Series M issue.
Security provisions for the Series M bonds will the same as the Series J, K & L issues, which include:

- Gross Receipts Pledge and
- Negative Pledge on Assets.

The projects to be financed with the Series M proceeds include:

- $50 million for the renovations and expansion of the Adult emergency Department;
- $30 million for the acquisition and installation of various equipment; and
- $22 million for various renovation and capital improvements.

Mr. Morris provided a brief overview of the following credit strengths of the Hospital:

- Strong presence as a nationally recognized academic medical center and its affiliations with Yale University and the Yale School of Medicine.
- Very strong market position with an extensive service area which draws patients from most of Connecticut, and portions of New York and western Rhode Island.
- Strong governance and management
- Positive operating performance with favorable operating margins
- Strong Medical Staff
- Liquidity – favorable in absolute terms, but falls below Moody's "A" medians.

Some of credit challenges Mr. Morris pointed out included:

- Relatively weak cash to pro forma debt ratio with the additional Series M debt to be incurred as well as the capitalized leases entered into in FY 2010.
- Both rating agencies had some concerns about additional capital spending plans.
- Pension plan was funded at 62% (as of FYE 2009) and pension contributions consisting of $15 million for FY 2010 and an expected $16 million contribution in FY 2011.

There being no further discussion, Ms. Rubin introduced Resolution #2010-20, Yale New Haven Hospital, Series M. Authorizing, which resolution was included in the materials distributed to the Board. Mr. Biancamano moved for adoption of Resolution #2010-20, which was seconded by Mr. Cohn.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| John Biancamano | None | None |
| Benson Cohn | | |
| Pat Colangelo | | |
| Peter Lisi | | |
| John Mengacci | | |
| Dr. Estela Lopez | | |
| Paul Mutone | | |
| Bryan Pollard | | |
| Barbara Rubin | | |
| Sarah Sanders | | |

The Chair then declared Resolution #2010-20 adopted.

## SEMI-ANNUAL COMPLIANCE REPORT

Ms. Herman introduced Ms. Thiede, the Authority's Compliance Analyst, and asked her to highlight the major points in the summary of the reporting results.

- As of October 25, 2010, 94.7% of Client Institutions had submitted all reporting items required as of June 30, 2010 and 76% of Client Institutions had submitted all reporting items required as of September 30, 2010. Ten percent of the number of September delinquencies is accounted for by clients who have not submitted a 2011 budget, which is a timing issue determined by lack their boards' formal approval. Of the September number, three were noncompliant in some respect with loan covenant requirements

- Compared to 35 delinquent compliance items at June 30, 2009, there were only 24 delinquent items at June 30, 2010

- As of October 25, 2010, seven noncompliant Client Institutions have pending requests for compliance waivers. Two client institutions have pending request for consents that do not involve non-compliance with the loan agreement

- Four noncompliant Client Institutions (Hall Neighborhood House, The Family Center, Greenwich Family YMCA and Hospital of St. Raphael) are pursuing a process of remediation

- As of October 25, 2010, 83.36% of Client Institutions had submitted Insurance Certificates required as of June 30, 2010, and 73.05% had submitted required Insurance Certificates as of September 30, 2010

Ms. Thiede stated that Insurance Certificate requirement is an area that the Authority is working on to encourage increased compliance and tracking of expirations on certificate submission.

- As of October 25, 2010, two Client Institutions have contacted CHEFA regarding expected future noncompliance

- Status of Client Institutions failing to submit items required as of September 30, 2010, is as follows:
    - 13 clients are missing a 2011 budget
    - 11 clients are missing an insurance report
    - 6 clients are missing a financial statement or statistical report for quarter June 30
    - 3 clients are missing 2 different kinds of compliance items

- Status of Client Institutions that are out of compliance with covenant requirements Client Institutions are considered out of covenant compliance when they fail to meet required ratios or other terms under their Loan Agreement.

    - Cherry Brook Nursing Home - Failed December 31, 2009, March 31, 2010, June 30, 2010 DSCR. The client met with Jeffrey Asher, Paula Herman, and Kate Thiede to discuss remedies

    - Danbury Hospital – A transfer to the parent institution was discovered in financial statements, which may not be permissible under the Loan Agreement. Under review by compliance team

    - Good Shepherd Day Care Center – Was over budget on construction resulting in a mechanics lien, and failed December 31, March 31 and June 30 enrollment. Process for release of lien under way, enrollment waiver to coincide

    - Manchester Early Learning Center – waiver request in process for failed June 30, 2010 DSCR

    - Southfield Children's Center - Fail March 31 and June 30 trades payable, and June 30 DSCR, waiver is in process

- Terryville-Plymouth Daycare - DSCR ratio has failed for multiple quarters until recovery in June 2010. David Wasch, Manager, Government Programs and Kate Thiede, Compliance Analyst, have been working with the institution to correct issues and issue a waiver

- TVCCA -Vernon – Failed last 4 quarters on enrollment covenant due to replacing management at the center, David Wasch is working with them to raise enrollment and facilitate a waiver

- Status of Client Institutions that meet all requirements and are requesting the Authorities consent to certain actions

  - Hospital of Central Connecticut – requesting consent to merger with Hartford Health Care Corp.

  - Johnson Memorial (EasyLoan) – requests consent to amend master financing agreement in connection with reorganization

Ms. Rubin inquired about the outstanding insurance certificates, whether they include liability coverage. Ms. Thiede confirmed that they do include liability coverage, and the Authority follows up immediately. Ms. Rubin inquired if there is a monetary lever or fee for noncompliance. Ms. Herman stated the Authority has no way of making them comply short of declaring a default. The Authority is in the process of setting up a more robust monitoring system for insurance coverage and Ms. Thiede has been conducting more aggressive phone communication with our clients.

Mr. Mengacci inquired about the number of consent requests the Authority is receiving, whether it is an average amount or not. Ms. Herman stated that what we are seeing now has leveled off from the number following the initial impact of the recession.

Ms. Rubin thanked Ms. Herman and Ms. Thiede for their report.

## COMMITTEE REPORTS

### Human Resource Committee

Mr. Biancamano reported that the Human Resource Committee met on October 26, 2010 at noon. All Board members have received full copies of the Strategic Business Plan Review document. The Committee reviewed and approved the Strategic Business Plan Progress Evaluation for FY 2010 and recommends approval by the Board of Directors. The incentive compensation was approved by the Committee at 94.23% of the budgeted total for the 2010 Strategic Goals.

The Authority is seeking approval by the full Board of the payment of 75% of the base, of the 94.23% out of 100% possible, for the Strategic Business Plan accomplishments for 2010.

Ms. Sanders inquired if this will cause an increase in compensation. Mr. Asher replied that it will not increase total compensation.

Ms. Rubin added that there is a tiered incentive compensation component of the total compensation plan, and in recognition of the current issues facing the industry, the State, and CHEFA, the Authority lowered the total dollars available for incentive compensation to 75% of the maximum potential.

Mr. Biancamano made a motion to approve the 94.23% incentive compensation. The motion was seconded by Mr. Cohn, all were in favor.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| John Biancamano | None | None |
| Benson Cohn | | |
| Pat Colangelo | | |
| Peter Lisi | | |
| John Mengacci | | |
| Dr. Estela Lopez | | |
| Paul Mutone | | |
| Bryan Pollard | | |
| Barbara Rubin | | |
| Sarah Sanders | | |

Mr. Biancamano reported that the second item was the review and approval of a Merit Increase for the Managing Director, General Counsel and Executive Director based on the Strategic Business Plan Progress Report. The Committee approved a 3% increase, which is the maximum merit.

Ms. Sanders inquired if this increase would result in an increase in total compensation. Mr. Asher responded that the percentage is the same, but considering the base, it is higher.

Mr. Biancamano moved to approve a 3% merit increase for the Managing Director, General Counsel and Executive Director based on the Strategic Business Plan Progress Report. Mr. Cohn seconded his motion.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| John Biancamano | Sarah Sanders | None |
| Benson Cohn | | |
| Pat Colangelo | | |
| Peter Lisi | | |
| John Mengacci | | |
| Dr. Estela Lopez | | |
| Paul Mutone | | |
| Bryan Pollard | | |
| Barbara Rubin | | |

Mr. Biancamano reported that the Committee developed a three-year Strategic Business plan for years 2010, 2011, and 2012 to study outputs. The group will re-convene to identify goals quantitatively as well as qualitative measures.

**Consultant Committee**

Mr. Colangelo reported that the Consultant Committee met and approved bond counsel and Easy- Loan bond counsel.

The Authority received three responses to the EasyLoan RFP. Staff's recommendation is to appoint Hawkins Delafield & Wood, LLP for the EasyLoan Bond Counsel. They have proposed to do it on a fixed-fee basis.

The Authority received 11 responses to the Bond Counsel RFP. After an extensive review, the recommendation was to appoint five firms as Bond Counsel; the firms are Day Pitney LLP, Hawkins Delafield & Wood LLP Harris Beach PLLC, Pullman & Comley LLC, and Robinson & Cole LLP. McCarter & English LLP and Shipman & Goodman LLP were approved by the Committee as ‘reserve’ Bond Counsel if special circumstances should arise. CHEFA will not restrict the reserve Bond Counsel from representing underwriters on other CHEFA deals unless and until such time as a firm is asked to serve as Bond Counsel on a transaction.

Mr. Colangelo moved to approve the following firms as Bond Counsel: Day Pitney, LLP; Hawkins Delafield & Wood LLP; Harris Beach PLLC, Pullman & Comley LLC; Robinson & Cole LLP and approve McCarter & English LLP and Shipman & Goodman LLP for potential use as Bond Counsel if special circumstances on conflicts should make that desirable. Also, approve Hawkins, Delafield and Wood LLP as Bond Counsel for the EasyLoan Program. Mr. Cohn seconded the motion.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| John Biancamano | None | None |
| Benson Cohn | | |
| Pat Colangelo | | |
| Peter Lisi | | |
| John Mengacci | | |
| Dr. Estela Lopez | | |
| Paul Mutone | | |
| Bryan Pollard | | |
| Barbara Rubin | | |
| Sarah Sanders | | |

**Grant Committee**

Mr. Colangelo reported that the Grant Committee reviewed the Proposal for Funding of the Connecticut Data Quality and Access Partnership and recommends approval. Mr. Asher stated that Board members received materials in the October 18, 2010 mailing detailing the entire proposal. The Partnership requests support from the Connecticut Health and Educational Facilities Authority in the amount of $985,000 over a three-year period to advance this mission as part (19.7%) of an overall investment of $5.0 million to support Partnership activities and closely aligned Partner data efforts.

CHEFA's support will help to create infrastructure for the Data Partnership. The Partnership is actively seeking support for operations beyond the CHEFA grant period. Potential sources include: CT State Legislature, statewide foundations and support from the other members of the partnership.

Ms. Rubin commented that the Authority has funded other applications that came to CHEFA outside the Open and Client process.

Mr. Colangelo stated that previously the Authority facilitated an active and successful grant program but due to the General Assembly reallocating our reserve funds to the State, the program activity ceased. The Grant Committee recommends approval of $985,000 to the Connecticut Data and Quality Access Partnership.

Mr. Asher stated that as a lead-in to part of the Connecticut Data and Quality Access Partnership application, there was a statement made by Barbara Rubin, which was excerpted from the CHEFA Website, and the Authority would like to make it clear that Ms. Rubin is not endorsing, nor was her quote applicable to this request.

Dr. Lopez inquired if annual reports will be required. Mr. Asher stated that the Authority will receive annual reports. Kimberley Fontaine, a CHEFA staff member, is CHEFA's representative to the Partnership.

Mr. Mutone inquired if the Authority is going to continue to fund grants after the $1.5 million currently reserved has been expended. Mr. Asher stated that Authority will not replenish the funds this fiscal year. To the extent that there is a surplus from operations for FY 2011 and it is not re-purposed by the State, additional money will be available if approved by the Board.

In response to a question from Ms. Rubin, Mr. Asher responded that the Partnership is confident that the project will be sustained beyond the three-year grant period through grants and project contracts based on the high level of positive feedback it has received, the number of parties interested in specific projects, and the success to date in aggregating funds from multiple partners. Securing this funding from CHEFA would provide the foundation for the successful culmination of that and other discussions. Other sources being explored include community foundations, United Way, and other statewide funders. In addition, the Partnership will pursue legislative funding for data presentation for RBA purposes.

Ms. Rubin inquired if there are any obligations to the Authority to continue to fund the project. Mr. Asher stated that there is not any obligation. Mr. Mengacci added that there are very strong partners in this project, and if put together properly, the information is very valuable. The question is can income be generated from that information. A year from now there will be much better information regarding the sustainability.

Mr. Colangelo moved to approve the $985,000 three-year grant to the Connecticut Data Quality and Access Partnership. His motion was seconded by Dr. Lopez.

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

| **AYES** | **NAYS** | **ABSTENTIONS** |
|---|---|---|
| Benson Cohn | John Biancamano | None |
| Pat Colangelo | | |
| Peter Lisi | | |
| John Mengacci | | |
| Dr. Estela Lopez | | |
| Paul Mutone | | |
| Bryan Pollard | | |
| Barbara Rubin | | |
| Sarah Sanders | | |

## CHEFA FINANCIAL OPERATIONS

### September 2010 Financial Statements

Ms. Mackewicz reported that for the three months ending September 30, 2010, revenues exceeded expenses by approximately $774,000 before program expenses and $724,000 after program expenses. For the month of September, revenues were over budget by approximately

$25,000 and expenses were under budget by approximately $33,000. There were no notable items in August or September 2010.

Ms. Rubin inquired if this was before the allocation of funds to the Connecticut Data Quality and Access Partnership. Ms. Mackewicz confirmed that this was before, as the item was voted on earlier today.

**EXECUTIVE DIRECTOR'S REPORT**

On behalf of Staff and Officers, Mr. Asher thanked the members of the Human Resource Committee on the challenges they provided regarding the input, process and changes in the Strategic Business Plan. It is a valuable tool to the Authority.

Mr. Asher reported that the 2011 Schedule of Board Meetings and Activities were sent out to Board members and staff. The dates have been realigned to facilitate transactions; this allows closings to occur more smoothly for our clients. The Schedule will be filed with the Secretary of State's Office.

**OTHER BUSINESS**

Mr. Asher stated that the next Board of Directors meeting will be held on Tuesday, December 7, 2010 at 1:00 p.m.

There being no further business, at 2:25 p.m., Ms. Rubin requested a motion to adjourn the meeting. Mr. Biancamano moved to adjourn and Mr. Cohn seconded the motion. All were in favor.

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

| AYES | NAYS | ABSTENTIONS |
|---|---|---|
| John Biancamano | None | None |
| Benson Cohn | | |
| Pat Colangelo | | |
| Peter Lisi | | |
| John Mengacci | | |
| Dr. Estela Lopez | | |
| Paul Mutone | | |
| Bryan Pollard | | |
| Barbara Rubin | | |
| Sarah Sanders | | |

Respectfully submitted,

Jeffrey A. Asher
Executive Director