2013

VEHBFA

Annual Report



Vermont Educational &
Health Buildings Financing Agency

February 21, 2014

Honorable Peter Shumlin and
Members of the General Assembly
State House
Montpelier, Vermont 05633

Dear Governor Shumlin and Members of the General Assembly:

As it has for over 45 years, the Vermont Educational and Health Buildings Financing Agency (“VEHBFA”) once again partnered in 2013 with Vermont non-profit healthcare and educational institutions by providing them access to tax-exempt bond financing for critically needed capital projects and for refunding opportunities.

Pursuant to 16 V.S.A. §3862, it is our privilege to provide you with the Vermont Educational and Health Buildings Financing Agency‘s 2013 Annual Report.

Through the combined efforts of the Board, staff and consultants, the Vermont Educational and Health Buildings Financing Agency has and will continue to provide low cost financings in an efficient and economical manner.

We hope you find this report useful and we welcome any questions or requests for additional information you may have.

Thank you for giving us the opportunity to serve Vermont’s non-profit healthcare and educational institutions, and ultimately the people of the State of Vermont.

Respectfully submitted,

James E. Potvin
Chairman

Robert W. Giroux
Executive Director

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Burlington College

Since its creation in 1968, VEHBFA has issued **174 bonds** totaling more than **$2.64 billion** to meet the capital needs of qualified Vermont healthcare and educational borrowers.

VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY

2013

Board of Directors

Chair:	James Potvin
Vice-Chair:	Dawn Bugbee
Treasurer:	Edward Ogorzalek
Secretary:	Stephen Gurin
Director	Frederick Burkhardt
Director:	Kenneth Gibbons
Director:	Kenneth Linsley
Director:	Neil Robinson
Director:	Stuart Weppler
Ex-Officio:	Douglas Racine, Secretary Agency of Human Services
Ex-Officio:	Jeb Spaulding, Secretary of Administration
Ex-Officio:	Elizabeth Pearce, State Treasurer
Ex-Officio:	Armando Vilaseca, Secretary of Education

Staff

Executive Director	Robert Giroux
Administrative Assistant	Deborah Fillioe
Assistant	Robert Fillioe

Consultants

General Counsel:	Deppman & Foley, P.C.
Bond Counsel:	Sidley Austin, LLP
Financial Advisor:	Public Financial Management, Inc.
Financial Auditor:	Mudgett, Jennet & Krogh-Wisner, P.C.

1. What is the Vermont Educational & Health Buildings Financing Agency?

VEHBFA is an instrumentality of the State of Vermont established in 1966 to be the statewide conduit issuer of tax-exempt municipal bonds for non-profit educational and healthcare institutions. The board is made up of 7 members appointed by the Governor, 2 members appointed by the governor appointed members and 4 ex-officio members: the Secretary of Human Services, the Secretary of Administration, the Secretary of Education and the State Treasurer. Since 1969, the Agency has issued $2.64 billion in bonds with $999.2 million in loans outstanding.

2. What is the Agency's role in a financing?

Current federal tax laws allow the Agency, on behalf of eligible Vermont institutions, to issue bonds or notes on a tax-exempt basis. The bonds or notes are sold to qualified investors and then the proceeds are loaned to the borrowing institution. The Agency provides access to the capital markets, but does not directly loan funds of its own and does not enhance the credit quality nor stand behind the bonds. The bonds are repaid solely from funds generated by the borrowing institution. In addition, the State of Vermont does not provide any pledge or support to the payment of any of the Agency's bonds or notes.

3. Who is eligible to borrow through the Agency?

Eligible institutions include any nonprofit library that serves the public; any private or independent nonprofit university, college, primary or secondary school in the state; the University of Vermont; the Vermont State Colleges; or any nonprofit hospital as defined in section 1902 of Title 18; any nonprofit institution whose purpose is devoted primarily to the operation of diagnostic and therapeutic facilities for medical, surgical or psychiatric care of ambulatory patients; any nonprofit licensed nursing home; any nonprofit assisted living facility, nonprofit continuing care retirement facility, nonprofit residential care facility or similar nonprofit facility for the continuing care of the elderly or infirm, provided that such facility is owned or under common ownership with an otherwise eligible institution, In the case of healthcare financings, the Department of Banking, Securities, Insurance and Health Care Administration's Certificate of Need approval may be required.

4. How does an eligible borrower finance a project through the Agency?

In the development stages, the first step is to contact the Agency with a description of the project and an approximate amount the borrower would like to finance. The Agency will then provide contact information of possible underwriters or placement agents. These firms will review the project, the credit quality of the borrower and suggest possible financing alternatives. Currently there are two principal financing alternatives:

a. Public Sale

Within this category there are generally two possibilities:

(i) Stand alone sale with only one borrower. This may require an investment grade credit rating and/or credit enhancement from a bank letter of credit or bond insurance company and can be either a fixed rate or variable rate borrowing.

(ii) Pool financing with other borrowers. These usually require a bank letter of credit and can be either fixed or variable rate.

b. Private Placement

Within this category there are three possibilities:

(i) Direct sale to an institutional investor, usually a mutual fund.

(ii) Direct sale to a qualified bank.

(iii) Direct sale to one or more private investors who satisfy the sophisticated investor rules established by the Securities and Exchange Commission.

The Agency is also able to offer lease financing for equipment and related construction expenses, typically for short to medium-term projects. Lease financings use standardized documents and can be negotiated or competitively bid with investors.

5. Which financing alternative is best?

A number of factors contribute to the determination of which financing alternative is most appropriate, including the credit quality of the borrower, the expected size of the bond transaction, and the financing objectives of the borrower. Borrowers that are investment grade (BBB rated or higher) or borrowers that can obtain credit enhancement would be eligible to participate in a public sale. Smaller loans may be more appropriate for a private placement. With a fixed rate transaction, the terms and loan amortization are fixed for the life of the loan, at least to the call protection date, which is usually ten years. With a variable rate transaction, the bonds may generally be repaid on an interest payment date, creating more flexibility for the borrower. One of the roles of the Agency is to help a borrower determine which financing alternative is more appropriate given the individual circumstances of the borrower.

6. What determines the interest rates?

The interest rates are determined by negotiation with the underwriter or investor(s) and are based on the credit quality of the transaction (rated/unrated or enhanced /unenhanced), the length of the loan and whether it is fixed or variable rate.

7. What are the issuance costs involved in a transaction?

The costs to finance a transaction depend on the type of transaction and its complexity. The Agency charges a minimal fee for its involvement in each financing, but there are fees for the participants including, but not limited to, underwriter or placement agent, borrower's counsel, bond counsel, financial advisor, rating agencies, if necessary, and sources of credit enhancement, if necessary. Up to 2% of the bond can be used to finance the costs of issuance on a tax-exempt basis.

Summary of 2013 Healthcare & Educational Financings

Fletcher Allen Health Care – 2013 Series A

Bond Size: $29,500,000

Closed: March 5, 2013

Credit Rating: Not Rated

Credit Enhancement: None

Purchaser: TD Bank, N.A.

Interest Rate: Fixed, Tax-Exempt

Final Maturity: 2026

Yield: 2.637%

Purpose: i) Refund FAHC's 2000 Series A bonds; and ii) pay for issuance costs related to the financing.

Project Benefit: The refunding is expected to save FAHC an estimated average cash flow savings of $930,000 over the first nine years. The estimated present value savings from the funding is almost $12 million.

Economic Benefits: N/A

Champlain College – 2013 Series A

Bond Size: $18,000,000

Closed: May 29, 2013

Credit Rating: Not Rated

Credit Enhancement: None

Purchaser: Merchants Bank

Interest Rate: Variable Rate, Tax-Exempt

Final Maturity: 2028

Yield: Swapped to a synthetic fixed-rate with an effective loan rate of 2.48%

Purpose: Construct and fit-up a new student dormitory; and ii) Pay certain costs associated with issuing the bonds.

Project Benefit: This project will help the College to achieve its goal of housing all of its undergraduate students on campus, which it feels will help with student recruitment and retention.

Champlain College expects the project to have a positive impact on both the school's cash flow and income statement starting in year one and thereafter.

Economic Benefits: The project will bring over $17M into the local economy in construction costs alone. 60% of the dollar value of the construction will go to Vermont based sub-contractors, with 160 to 200 people employed.

Rutland Regional Medical Center - 2013 Series A Bonds

Bond Size: $31,350,000

Closed: September 3, 2013

Credit Rating: Not Rated

Credit Enhancement: None

Purchaser: TD Bank, N.A.

Interest Rate: Variable Rate, Tax-Exempt

Final Maturity: 2033

Yield: Variable Rate

Purpose: i) Refund portions of the Medical Center's outstanding 2009 Series A and 2010 Series A bonds; and ii) Pay for issuance costs related to the financing.

Project Benefit: With the refunding, RRMC will be able to extend the bank put date and the final maturity of the bonds by three years and reduce its interest costs due to the lower credit spread.

RRMC expects a savings of over $540,000 in year one and median savings of $400,000 over the life of the bonds.

Economic Benefits: N/A

<u>Norwich University - 2013 Series A Bonds</u>

Bond Size: $24,515,000

Closed: December 23, 2013

1819
NORWICH
UNIVERSITY™
Expect Challenge. Achieve Distinction.

Credit Rating: Not Rated

Credit Enhancement: None

Purchaser: Tawani Enterprises, Inc.

Interest Rate: Fixed Rate, Tax-Exempt

Final Maturity: 2043

Yield: 3.0%

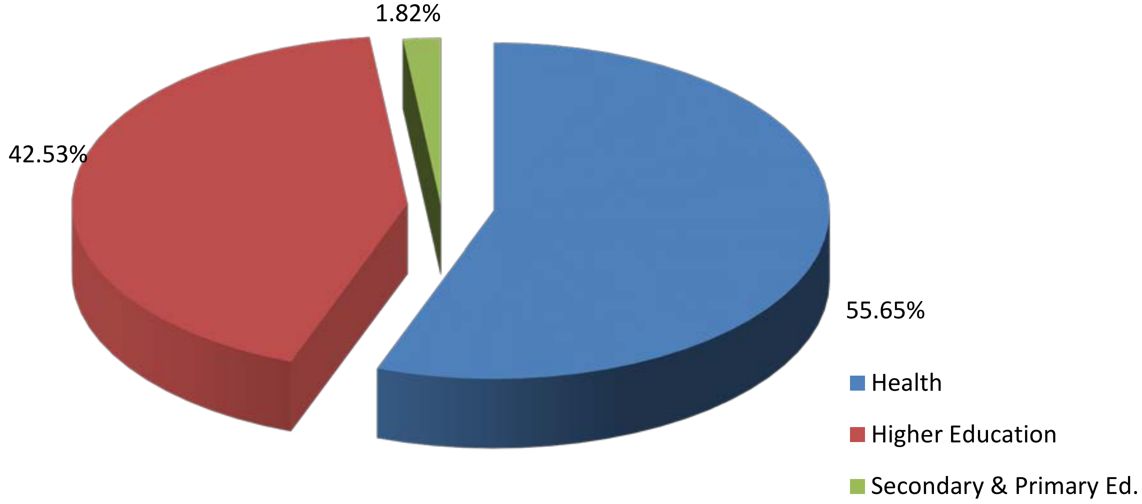
Purpose: i) The bonds will be used to fund construction of a new “civilian” student dormitory of approximately 280 beds and 84,000 feet. and ii) Pay for issuance costs related to the financing.

Project Benefit: The dormitory is being built to reduce overcrowding in existing dorms and to address the growing student body. In addition, it is integral to the strategic plan of the University which seeks to grow the civilian population to 750 residential students by its bicentennial celebration year of 2019. The dormitory is the second of three new dormitories needed to accomplish this objective.

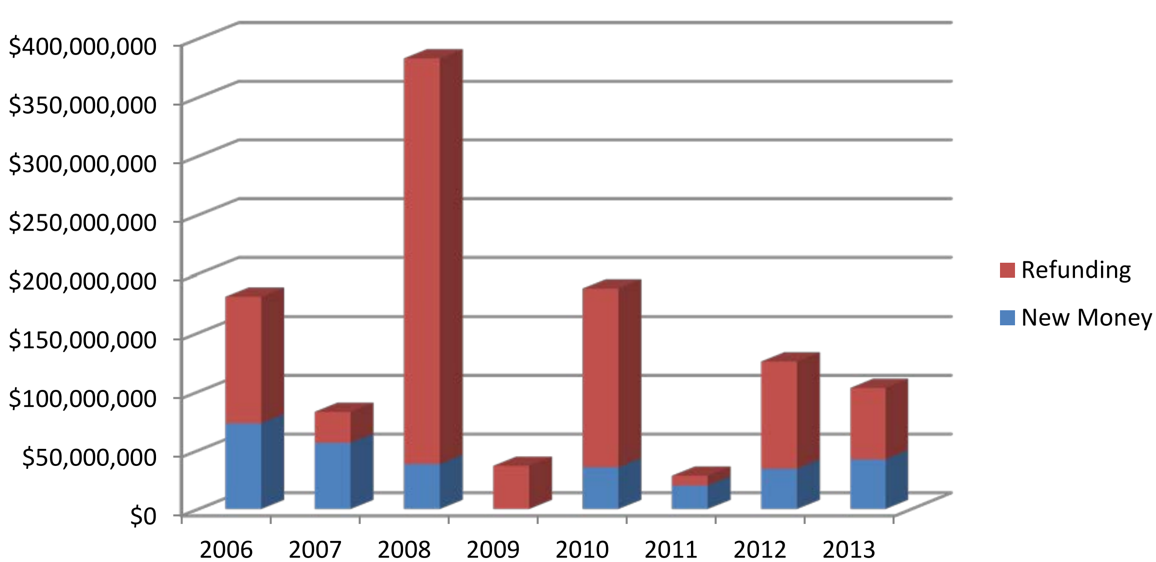
Economic Benefits: During the 16 month construction period it is estimated that 40 full-time equivalent jobs will be created. Once the dorm is operational, 4 permanent staff positions and many additional adjunct faculty jobs will be created.

Summary of Outstanding Loans as of December 31, 2013

VEHBFA 12/31/13 Loans by Borrower Type



VEHBFA Annual Financings



Borrower	Loans Outstanding
Brattleboro Memorial Hospital	$8,990,000
Brattleboro Retreat	$11,210,000
Burlington College	$6,460,358
Carlos G. Otis Health Care	$1,250,000
Central Vermont Medical Center	$12,087,780
Champlain College	$43,944,831
Development & Mental Health Acquisition Pool	$22,660,000
Fletcher Allen Health Care	$313,790,000
Gifford Medical Center	$19,094,512
Helen Porter Nursing Home	$3,355,000
Lake Champlain Waldorf School	$2,323,506
Landmark College	$19,260,000
Marlboro College	$2,100,000
Middlebury College	$247,940,000
Mt. Ascutney Hospital	$8,477,443
North Country Hospital	$20,370,000
Northeastern Vermont Regional Hospital	$13,500,000
Northwestern Medical Center	$19,138,967
Norwich University	$93,715,000
Porter Medical Center	$13,170,000
Rutland Regional Medical Center	$31,350,000
Southwestern Vermont Medical Center	$8,135,000
Springfield Hospital	$6,920,000
St. Johnsbury Academy	$9,974,136
St. Michael's College	$43,915,000
Stratton Mountain School	$5,855,000
Vermont Law School	$10,345,000
Grand Total	$999,331,533