VEHBFA
VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY

Board Meeting

Holiday Inn, South Burlington, Vermont
November 18, 2014

Meeting Minutes

Board Members: David Beatty (designee of Jeb Spaulding-participated by telephone and left the meeting at 12:45 PM); Dawn Bugbee; Kenneth Gibbons; Kenneth Linsley; Edward Ogorzalek (arrived at 12:43 PM); James Potvin (participated by telephone and left the meeting at 12:45 PM); Neal Robinson; Stuart Weppler; and Steve Wisloski (designee of Beth Pearce).

Staff: Robert W. Giroux

Consultants: Larry Bauer (Sidley Austin); Bob Guadagno (Public Finance Management); and James Foley (Deppman & Foley)

Guests: Gifford Medical Center – Jeff Hebert & Joseph Woodin
University of Vermont Medical Center – Marc Stanislas & Doug Viau

The meeting was called to order by Ms. Bugbee, at 12:30 pm.

Fletcher Allen Healthcare, et al. v. Department of Healthcare Access

Mr. Foley briefed the Board on the status of the aforementioned lawsuit. Current board members are either an appellant to the law suit or represent various branches of state government. Unless board members felt that they had something to disclose that would prevent them from exercising their duties as a VEHBFA board member, Mr. Foley did not believe that the law suit would require board members to recuse themselves from voting on a healthcare project.

Mr. Foley will be drafting a conflict of interest policy for the Board to consider at its 2015 annual meeting. He asked Board members to send him comments and suggestions of conflict situations that he can then consider while developing the draft policy.

Gifford Medical Center

Mr. Woodin delivered a presentation to the Board on Gifford Medical Center ("Gifford" or "Medical Center"). Gifford is a Federally Qualified Health Center offering a full range of healthcare in central Vermont. Services are provided at the hospital as well as a network of community health centers. Gifford is the only hospital in the State to meet or exceed budget expectations in each of the last 15 fiscal years.

The Medical Center wants to issue ~$21.0 M in bonds to refund outstanding debt and to fund a new money project. The refunding of the 2010 Series A bonds will be done for economic reasons.

The new money project consists of the conversion of the current nursing home space to private inpatient rooms. Gifford also wants to relocate the surgery suite and birthing center closer to the inpatient wing to create improved efficiencies. The cost of this conversion project is estimated to be $3.25 M, with $2.0 M coming from bond financing and the balance through an equity contribution. Construction is expected to start the spring/summer of 2015 and be completed within 6 months. Gifford has received a Certificate of Need from the Green Mountain Care Board for this project.

Mr. Guadagno then reviewed PFM's analysis of Gifford's financing request. By refunding the 2010-A variable rate bonds, Gifford will be able to reduce its credit spread by ~74 basis points. The 2014-A bonds will have a mortgage-style amortization and by extending the maturity of the refunding bonds, Gifford will be able to eliminate a bullet payment that is due in the original 2010 bonds. The savings generated from the refunding will almost offset the new bond's debt service.

The Medical Center's financing will be structured as a tax-exempt variable rate loan and be privately placed with TD Bank. The 2014-A bonds will have a bank put in year 7 (4 years longer than the 2010-A bonds), and so there will be a minor reduction in the Medical Center's risk profile. To protect itself against future interest rate increases, Gifford will continue its interest rate swap. The 2014-A bond covenants will be identical to the 2010-A bonds.

Gifford has developed a strong market position in its service area and has a healthy/diverse payor mix. Utilization has remained relatively constant over the last 5 years. Gifford has demonstrated consistent positive operating results with adequate debt service coverage. The Balance sheet has been expanding over the last 5 years. Gifford has also been able to decrease its debt-to-capitalization ratio over the same time period.

Based on their analysis of Gifford Medical Center, PFM recommends that the Agency grant approval for the 2014 Series A bond financing.
Mr. Bauer then described the legal structure of the proposed financing. Medical Center revenues will be pledged as the principal security for the loan. Additional security will be provided by an obligation to be issued under a new master trust indenture. Most of the Financial Agency's rights under the Loan Agreement will be assigned to TD Bank under the Bond Purchase Agreement. A TEFRA hearing was warned and the hearing will be held on November 25, 2014. Since there is a new money component and increase in amortization, there will be a need to obtain the Governor's approval for the financing.

The legal documents are in very good shape and Mr. Bauer does not expect any significant changes between now and the closing scheduled for December 5, 2014.

> *Motion: Mr. Robinson moved and Mr. Linsley seconded the motion to authorize the issuance of up to $21,050,000 of 2014 Series A Bonds, with TD Bank as the lender, and with the proceeds to be loaned to Gifford Medical Center to refund previously issued debt, to construct new inpatient facilities, and to pay for the cost of issuance. The Board also certifies to the Governor as to the need for the new facilities, Gifford Medical Center's ability to repay the debt and that a TEFRA hearing was warned and will be held in accordance with Section 147(f) of the Internal Revenue Code of 1986. There being no further discussion, the motion passed.*

University of Vermont Medical Center

Marc Stanislas presented University of Vermont Medical Center's ("UVMC") request for financing. Mr. Stanislas advised the Board that UVMC had recently changed its name from Fletcher Allen Healthcare in a rebranding effort. UVMC would like to refund its 2004 Series A bonds to achieve interest cost savings, estimated to be over $4.0 M over the term of the refunding bonds.

UVMC is a regional Level I Trauma Center with partners in Vermont (Central Vermont Medical Center in Berlin) and New York (Champlain Valley Physicians Hospital in Plattsburgh, and Elizabethtown Community Hospital in Elizabethtown). UVMC is also home to the Vermont Children's Hospital.

In its original application, UVMC included a new money financing to purchase an out-patient campus in South Burlington. Due to delays in receiving a Certificate of Need from the Green Mountain Care Board; UVMC has decided to delay the new money request until next year.

Mr. Guadagno then delivered PFM's analysis of this financing. UVMC would like to issue ~$25.0 M in refunding bonds to defease its 2004-A bonds and to pay for the cost of issuance. Using estimated interest rates, the refunding will generate $1.03 M in annual savings, which equates to $3.9 M in present value savings. PFM did a pro-forma calculation with estimated interest rates increased by 100 BPs and the refunding still had an estimated $2.9 M present value savings. The refunding will not increase the maturity of the 2004-A bonds.

The 2014-A bonds will be a tax-exempt, fixed rate direct placement with Key Government Finance. The new bonds will be a joint obligation of the Obligated Group and secured by a pledge of gross receipts and a mortgage on the main campus.

Based on their analysis of UVMC's refunding and the resulting positive cash flows, Public Financial Management recommends that the Agency grant approval for the 2014 Series A refunding bonds.

Mr. Bauer described the bond structure and resolutions that are before the Board. This will be a straight forward refunding. The refunding bonds will be secured by obligations delivered to the Agency under the master trust indenture. The Agency will in turn assign its rights under the master trust indenture to Key Government Finance. Because this is a refunding, a TEFRA hearing will not need to be held nor will the Governor's approval be required.

> *Motion: Mr. Weppler moved and Mr. Linsley seconded the motion to authorize the issuance of up to $25,000,000 of 2014 Series A Bonds with the proceeds to be loaned to University of Vermont Medical Center to refund its outstanding 2004 Series A bonds and to pay for the cost of issuance. There being no further discussion, the motion passed.*

Mr. Stanislas then briefed the Board on UVMC's proposed new money projects to construct a new in-patient room wing to the main Hospital campus and the purchase, construction and outfitting of a new out-patient campus in South Burlington. The out-patient campus purchase will replace current building leases and will result in UVMC saving over $4.0 M during the first 15 years of the loan and over $50.0 M over the life of the properties. Both projects are waiting for Certificate of Need approval from the Green Mountain Care Board. UVMC anticipates making a formal request to the Agency for financing both projects in 2015.

Administrative

1. Approval of Minutes –

   Motion: Mr. Linsley moved to accept the minutes of the June 13, 2014, July 8, 2014 and October 27, 2014 Board meetings. Mr. Weppler seconded the motion and it passed.

2. Agency Policies –

   a) Debt Issuance and Debt Management Policy - Mr. Giroux proposed that the Debt Policy be amended to allow the Executive Director and Chair to execute documents related to a deminimis refunding.

      Motion: Mr. Gibbons moved to amend the Debt Issuance and Debt Management Policy to allow the Executive Director and Chair to execute documents related to a deminimis refunding. Mr. Robinson seconded the motion and it passed.

   b) General Reserve Fund Policy – A discussion of this proposed was tabled at the June 13, 2014 Board meeting. Mr. Giroux reviewed the tables that showed the history of the general operating reserves, VEHBFA loan origination fee and the borrower's annual fee. It was generally agreed that the framework of the draft policy is the correct one and it is the policy's compliance test that needs further work and discussion. Both suggest that the draft Policy be submitted to the Agency's Finance Committee for their review and recommendation.

      Motion: Mr. Weppler moved to send the draft General Reserve Fund Policy to the Agency's Finance Committee for their review and recommendation back to the full Board. The motion was seconded by Mr. Gibbons and it passed.

Reports

1. Market Update (Bob Guadagno, PFM) – The yield curve continues to confound the experts. The curve was expected to rise this year and instead the long end is down 100 BPs. Most of this is attributable to the lack of supply of new bonds and Federal Open Market Committee actions. New banking regulations from Basel III will force banks to change their approach to capitalization and pricing of LOCs and LCs.

2. Legal Update (Larry Bauer, Sidley Austin) –
   a. Burlington College: The College is attempting to sell bond financed property in order to reduce their debt and annual debt load. The College is holding simultaneous negotiations with the property purchaser and the holder of the bonds.

b. Brattleboro Retreat – A recent CMS audit has triggered a concern by the LOC provider, TD Bank. TD and the Retreat are negotiating how to handle the CMS audits so that adverse findings do not necessarily trigger an event of default.

c. Vermont Law School – Like many law schools around the country, VLS has an enrollment problem. The drop in enrollment was partially responsible for the recent VLS ratings downgrade by Moody's. While the downgrade trigged a bond covenant default, the Law School and its lender, TD Bank, entered into a forbearance agreement to waive the default. TD is in a monitoring mode as the Law School attempts to solve its enrollment issues.

Other Business

1. Upcoming Financings – Mr. Giroux reported that he has had discussions with several potential borrowers regarding upcoming financing. He expects to see applications from UVMC and Northwestern Medical Center in 2015. Although less sure, Porter and Mt. Ascutney Hospitals and Marlboro College may also be submitting applications.

There being no further business, the meeting was adjourned.

These Minutes were approved by the Board of Directors at a duly warned meeting on May 15, 2015.