VEHBFA 2014 Annual Report

Gifford Medical Center 2014 Series A Bonds

Stratton Mountain School 2014 Series A Bonds

Vermont Educational and Health Buildings Financing Agency

Since its creation in 1968, VEHBFA has issued 178 "new money" bonds totaling more than $2.66 billion to meet the capital needs of qualified Vermont healthcare and educational borrowers.

February 19, 2015

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 46 years, the Vermont Educational and Health Buildings Financing Agency ("VEHBFA") once again partnered in 2014 with Vermont's non-profit healthcare and educational institutions to provide them access to 501(c)(3) 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 2014 Annual Report.

Through the combined efforts of the Board, staff and advisors, 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

20 Winooski Falls Way, Suite 305 Winooski, VT 05404
Telephone: 802-654-7377 ♦ Fax: 802-654-7379 ♦ Email: Finance_Agency@vtbondagency.org

VEHBFA

Annual Report — Table of Contents

VEHBFA 2014
Board of Directors, Staff and Advisors

Board of Directors:

James Potvin, Chair

Dawn Bugbee, Vice Chair

Edward Ogorzalek, Treasurer

Neal Robinson, Secretary

Frederick Burkhardt, Director

Kenneth Gibbons, Director

Kennet Linsley, Director

Stuart Weppler, Director

Harry Chen, Secreatary of AHS, Ex-Officio

Rebecca Holcomb, Secretary of Education, Ex-Officio

Jeb Spaulding, Secretary of Administration, Ex-Officio

Beth Pearce, State Treasurer, Ex-Officio

Staff:

Robert Giroux, Executive Director

Advisors:

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

Since its creation in 1968 as the Vermont Eductional and Health Buildings Financing Agency, the Agency has continued to expand its role as a source of financial assistance.

VEHBFA has ensured its clients' ability to provide and maintain quality healthcare and educational serives for all Vermonters.

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 $2.66 billion in bonds with $999.3 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 Green Mountain Care Board *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 advise on 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 whether (rated or unrated and whether enhanced or 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.

The Year in Review

Stratton Mountain School

Bond Series: 2014 Series

Bond Size: $7,000,000

Closed: March 31, 2014

Credit Rating: Not Rated

Credit Enhancement: None

Purchaser: Berkshire Bank

Interest Rate: Tax-exempt variable rate converted to a synthetic fixed rate through an interest rate swap with the purchaser

Final Maturity: 2044

Yield: 3.79%

Purpose: The bonds were be used to fund: i) the construction of the Patti Kaltsas Memorial Student Center; ii) construction of the Air Awareness Training Center; iii) other routine capital expenditures; iv) refund the outstanding 2004 bonds; and v) pay for issuance costs related to the financing.

Project Benefit: The new Student Center will provide students with a new academic facility that will benefit the School's fine arts curriculum and facilitate collaboration and community within the SMS campus. The Air Awareness training facility will provide a safe and effective learning environment for students enrolled in the snowboard and freestyle programs.

Economic Benefits: The construction projects created approximately 40 jobs in the community during construction and the creation of 3 permanent jobs upon completion.

Landmark College

Bond Series: 2014 Series A and Series B

Bond Size: 2014 Series A - $15,095,000
2014 Series B - $ 2,130,000

Closed: June 26, 2014

Credit Rating: Not Rated

Credit Enhancement: None

Purchaser: TD Bank, N.A.

Interest Rate: 2014 Series A – Fixed rate
2014 Series B – Variable Rate

Yield: 2014 Series A – 2.78%
2014 Series B – Set annually at 69.5% of one month LIBOR plus 122 basis points

Final Maturity: 2040

Purpose: The bonds will be used to: i) fund the construction of the Science, Technology & Innovation Center; ii) install a new athletic field; iii) fund the construction of an on-campus residence for the College President; iv) refund the College's 2004 Series A bonds; and v) pay for issuance costs related to the financing.

Project Benefit: The construction of the new Center will help Landmark to advance its science, technology, engineering and mathematics curriculum. By refunding its 2004 Series A bonds, the College will be able to use the refunding savings to cover the annual debt service payments for the new borrowing.

Champlain College

Bond Series: 2014 Series A and Series B Bonds

Bond Size: 2014 Series A - $6,250,000
2014 Series B - $6,250,000

Closed: July 30, 2014

Credit Rating: Not Rated

Credit Enhancement: None

Purchaser: TD Bank, N.A.

Interest Rate: 2014 Series A – Fixed rate
2014 Series B – Variable Rate

Yield: 2014 Series A – 2.66%
2014 Series B – Set monthly at 69.5% of one month LIBOR plus 140 basis points

Final Maturity: 2014 Series A – 2024
2014 Series B - 2024

Purpose: The bonds were used to: i) construct The Centers for Communications and Creative Media; ii) make alterations to the existing Hauke Center and Alumni Auditorium; iii) fund certain other campus improvements; and iv) pay for issuance costs related to the financing.

Project Benefit: The building constructed is the new academic home to the CCM Academic Division of Champlain College. The other funded improvements will allow Champlain to meet several strategic initiatives that will benefit the campus at large. In addition to providing additional educational programming opportunities, the College feels that the project will help with student enrollment and retention.

Economic Benefits: The majority of subcontractors and suppliers were Vermont businesses. Over 80% of the overall project costs were processed through Vermont based businesses. The College had 25 subcontractors involved with the project with anywhere from 1-2 employees to 15-20. The local based architectural/engineering team and their consultants had been involved in this project over 4 years.

Gifford Medical Center

Bond Series: 2014 Series A

Bond Size: $20,840,000

Closed: December 17, 2014

Credit Rating: Not Rated

Credit Enhancement: None

Purchaser: TD Bank, N.A.

Interest Rate: Tax-exempt variable rate, 70% of LIBOR + 123 Basis Points

Final Maturity: 2036

Yield: N/A

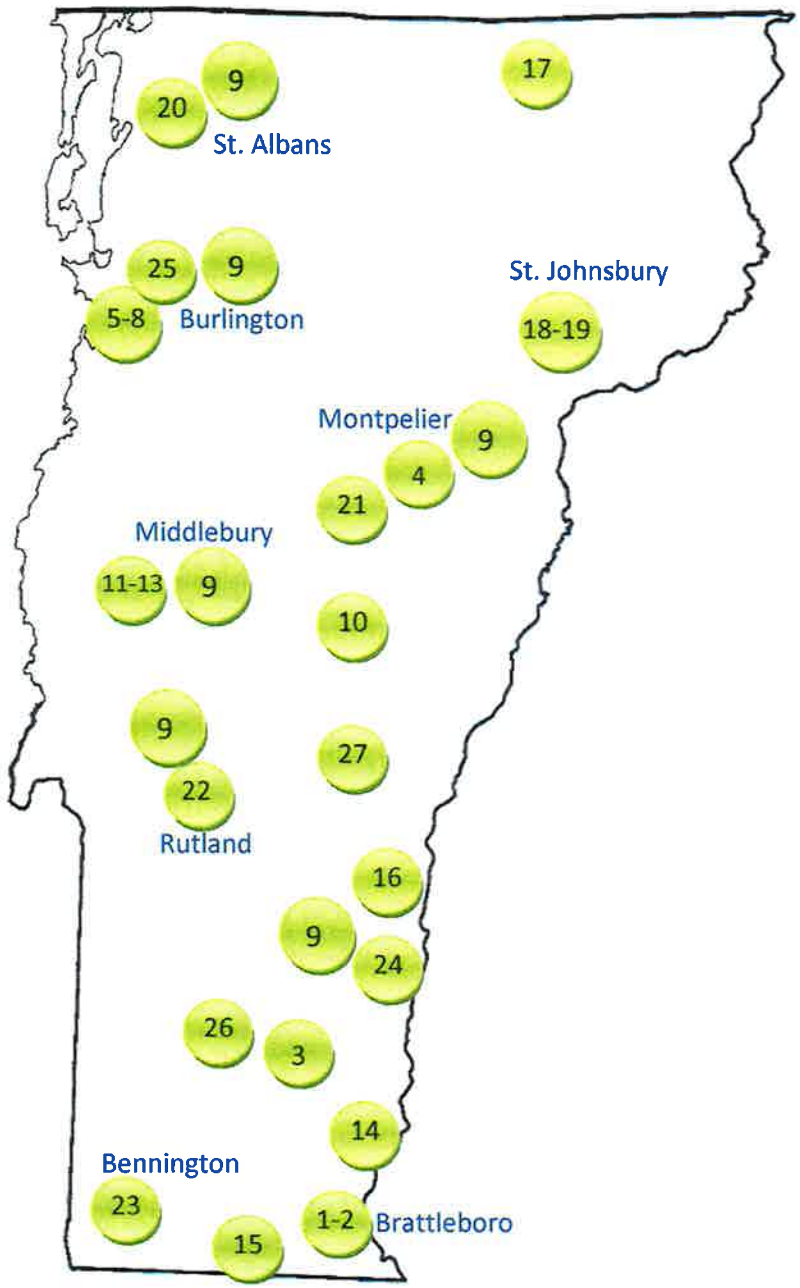
Purpose: The bonds will be used to fund: i) the renovation of Gifford Medical Center space into 25 single-occupancy rooms, a birthing center, an inpatient physical therapy gym and a common nurse's station; ii) refund its 2010 Series A bonds; and iii) pay for issuance costs related to the financing.

Project Benefit: The project enables Gifford to maintain access to needed skilled nursing facility beds as well as inpatient acute care beds. Gifford intends to maintain current services and programs. Single occupancy rooms are now considered best practice, and their use is expected to result in improved quality of care and increased patient satisfaction.

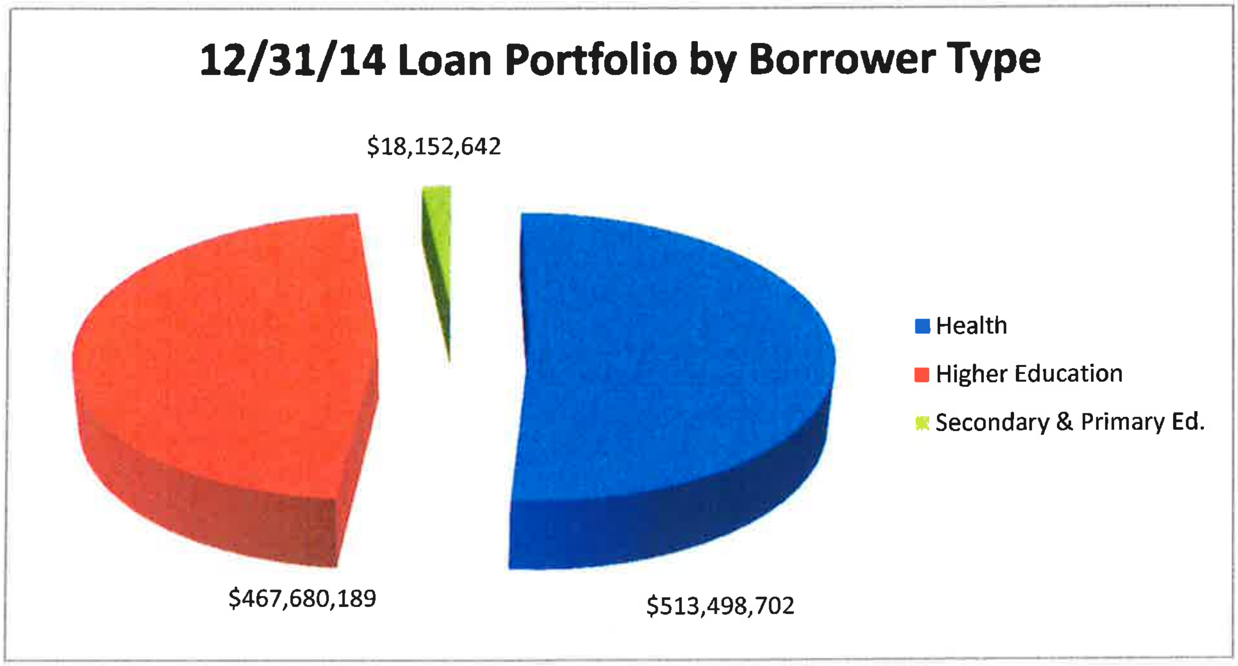
Economic Benefits: The savings from the refunding of the 2010 Series A bonds will pay for the debt service for the new money component of the financing.

Summary of Outstanding Loans as of December 31, 2014

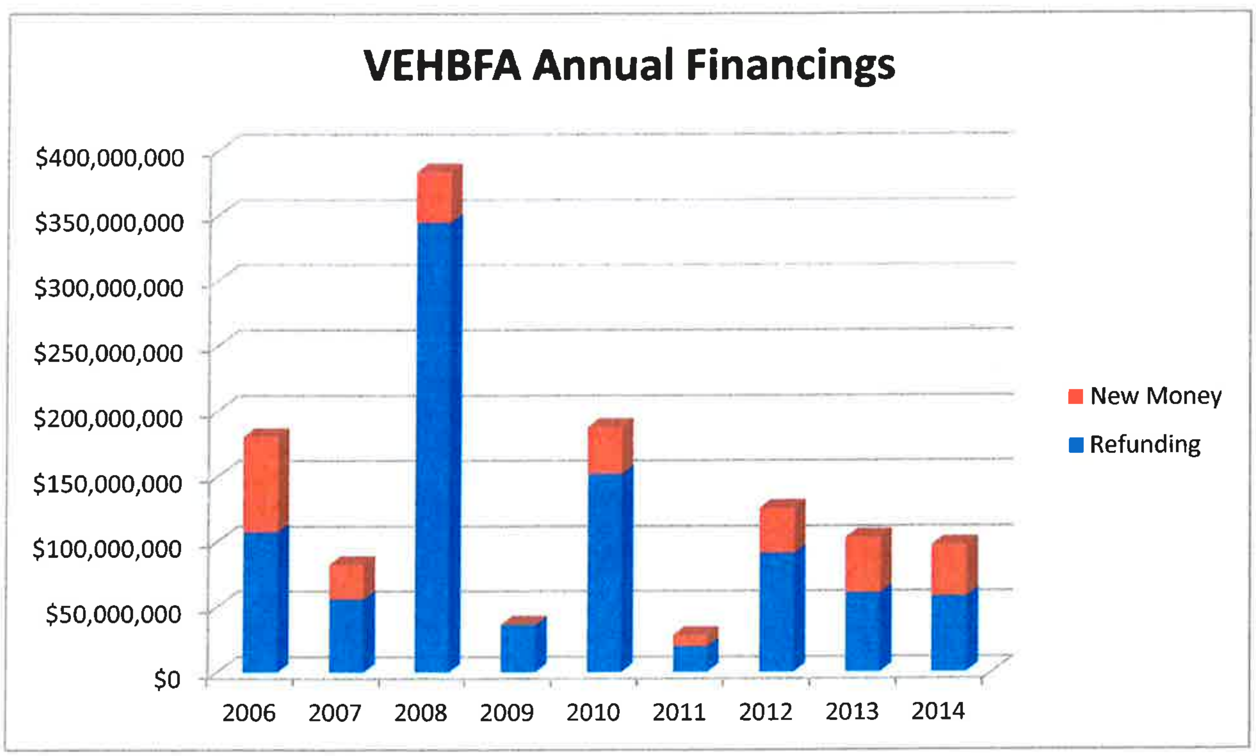
12/31/14 VEHBFA Borrowers



1. Brattleboro Memorial Hospital
2. Brattleboro Retreat
3. Carlos G. Otis Health Care
4. Central Vermont Medical Center
5. Burlington College
6. Champlain College
7. Lake Champlain Waldorf School
8. Fletcher Allen Health Care
9. Developmental & Mental Health Acquisition Pool
10. Gifford Medical Center
11. Helen Porter Nursing Home
12. Middlebury College
13. Porter Medical Center
14. Landmark College
15. Marlboro College
16. Mt. Ascutney Hospital
17. North Country Hospital
18. Northeastern Vermont Regional Hospital
19. St. Johnsbury Academy
20. Northwestern Medical Center
21. Norwich University
22. Rutland Regional Medical Center
23. Southwestern Vermont Medical Center
24. Springfield Hospital
25. St. Michael's College
26. Stratton Mountain School
27. Vermont Law School



12/31/14 Loan Portfolio by Borrower Type
$18,152,642
$467,680,189
$513,498,702
Health
Higher Education
Secondary & Primary Ed.



VEHBFA Annual Financings
$400,000,000
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
2006
2007
2008
2009
2010
2011
2012
2013
2014
New Money
Refunding

Vermont Educational and Health Buildings Financing Agency
December 31,2014 Loans Outstanding

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
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
University of Vermont Medical Center	$313,790,000
Vermont Law School	$10,345,000
Grand Total	$999,331,533