VEHBFA
VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY

Board Meeting

South Burlington, Vermont
April 25, 2016

Meeting Minutes

Board Members: David Beatty; Anita Bourgeois, Fritz Burkhardt; Ken Gibbons; Ken Linsley; Edward Ogorzalek; Jim Potvin; Neal Robinson; Stuart Weppler; Scott Baker (designee of Beth Pearce); and Steve Wisloski.

Staff: Robert Giroux

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

Guests:
Brattleboro Memorial Hospital (Mike Rogers)
North Country Hospital (Andre Bissonette)
Northwestern Medical Center (Jill Bowen, Christopher Hickey & Stephanie Breault)
Middlebury College (Patrick Norton, by telephone)
Echo Financial (Steve Bittel and Kevin Connell)

The meeting was called to order by Mr. Potvin at 12:30 pm and introductions were made.

North Country Hospital

Andre Bissonette, North Country Hospital's ("NHC") Chief Financial Officer, provided an overview of NCH. NCH is a private not-for–profit 25-bed critical access hospital in Vermont's Northeast Kingdom, serving a population base of 27,000.

NCH is refunding its outstanding bonds for economic savings and to reduce its interest rate and renewal risks. NCH plans to reinvest the refunding savings into the physical plant and equipment to help improve its heath care services to the community. NCH would like to issue ~$18.6MM in bonds to do the refunding and cover the cost of issuance.

Mr. Guadagno then addressed the NCH refunding request with the Board. The bond proceeds will be used to refund NCH's 2007A bonds. There is not a new money component to the 2016A bonds. The 2016A bonds will be privately placed with People's United Muni Finance Corporation. The interest rate on the refunding bonds will continue to be variable rate. The bonds will amortize over 18 years, but have a 10-year bank put. The refunding will allow NCH to lock in loan terms for ten years and to reduce its remarketing and bank risk exposure. NCH estimates the refunding will reduce the bond interest rate spread by 21 basis points.

He then reviewed PFM's credit analysis of NCH. NCH has had positive operating margins in two of the last three years, with an average rate of 1.82%. The rest of the balance sheet indicators compare well against Moody's medians. NCH's balance sheet is strong and is improving.

Based on the long-term commitment received from People's United, which allows NCH to lock in business terms and provides it with a more stable debt portfolio, PFM recommends the Agency grant approval for this loan.

Mr. Bauer then presented a legal summary of the NCH financing. The resolution authorizes an amount not to exceed of $20.0MM for this financing. Because the refunding will be shortening the weighted average maturity of the 2016 bond, there will not be a need to hold a TEFRA hearing nor obtain the Governor's approval. Under the loan agreement, the Agency will be assigning its rights to receive loan payments to People's United Muni Finance. Also, the debt will be additionally secured by an obligation issued under the Master Trust Indenture.

> *Motion*: *Mr. Robinson moved to authorize the issuance of up to $20,000,000 of Agency Bonds with the proceeds to be loaned to North Country Hospital to refund its 2007 Series A bonds and pay for the cost of issuance. The motion was seconded by Mr. Weppler and it passed.*

Northwestern Medical Center ("NMC")

Jill Bowen and Christopher Hickey, NMC's CEO and CFO respectively, described NMC and its request for financing. NMC is 70-bed primary care hospital located in St. Albans, VT. Over $180MM of patient care is provided by NMC every year. The Hospital has been providing healthcare services in Franklin County since the late 1800s.

NMC would like to finance the following with Agency bonds:

a) $17.5MM to refund its 2012 Series A bonds; and
b) $16.9MM to fund CON approved capital expenditures: convert semi-private rooms to private rooms; renovation to the registration/reception area; expansion of specialty medical clinic spaces; and construction of a new medical office building.

The financing will help NMC to adequately maintain its physical plant and equipment necessary to provide quality health care to NMC's community. The Green Mountain Care Board has issued Certificates of Need for the capital improvements.

Mr. Guadagno then described NMC's plan of finance. The refunding will not significantly reduce NMC's risk profile for its debt. Currently the credit spread between the 2012A and 2016A bonds is ~43 basis points. NMC plans to wrap the new debt around the old debt to achieve essentially level annual debt service.

Mr. Guadagno reported that NMC's financials are very strong. Operating results have been positive and the Hospital's balance sheet is very well positioned. Even after NMC makes an equity contribution to the financing, it will still have cash on hand of 285 days. With the exception of debt to capitalization, NMC's financial indicators substantially exceed Moody's "A" medians.

On the basis of a very strong credit profile and the long-term commitment by People's United, PFM recommends the Agency Board approve this financing.

Mr. Bauer then described the legal structure of the NMC financing. The Agency is being asked to issue bonds in an amount not to exceed of $35.1MM. Because bond proceeds will be used to finance capital expenditures, a TEFRA hearing will need to be held and the usual certifications provided to the Governor regarding the capital expenditures.

The 2016 Series A bonds will be privately placed with People's United Muni Financial Corporation. The bond will be secured by payments made under the loan agreement and the Agency will assign its right to receive loan payments to People's United.

> *<u>Motion</u>: Mr. Gibbons moved and Mr. Burkhardt seconded the motion to authorize the issuance of up to $35,100,000 of Agency Bonds with the proceeds to be loaned to Northwestern Medical Center to refund previously issued debt, to pay for certain capital improvements; and pay for the cost of issuance. The Board also certifies to the Governor as to the Medical Center's ability to repay the debt and that a TEFRA hearing will be held in accordance with Section 147(f) of the Internal Revenue Code of 1986. There being no further discussion, a vote was taken and the motion passed.*

<u>Brattleboro Memorial Hospital ("BMH")</u>

Mr. Rogers, BMH's VP of Finance, reviewed BMH's request to refund its outstanding debt and to issue $2.0MM in new money bonds to finance various capital projects. Founded in 1904, BMH is a 61-bed not-for-profit community hospital. The Hospital's service area includes 22 towns in Vermont, New Hampshire and Massachusetts, with a total service population of 55,000. BMH intends to use the refunding savings to reinvest into its physical plant and equipment. The new money component of the financing will allow BMH to purchase needed equipment at a very low cost of borrowing. BMH does not believe that a Certificate of Need is required for the new money portion of the financing. The Green Mountain Care Board ("GMCB") has issued a non-jurisdiction letter, but has asked BMH to check in with the GMCB before purchases are made.

Robert Guadagno then reviewed PFM's analysis of the BMH financing. BMH would like to issue up to $10.6MM in 2016A bonds to refund its 2008A bonds, pay swap termination costs, finance certain capital expenses and pay for the cost of issuance. The refunding will allow BMH to lock in historically low interest rates and reduce its renewal, remarketing and bank exposure risk. After paying off the old interest rate swap, BMH intends to enter into a new swap to hedge its entire debt portfolio.

Mr. Guadagno reported that BMH has had positive operating results 4 out the 5 past years, averaging +2.8% over that time period. The balance sheet is strong and improving with indicators close to or exceeding Moody's "A" rated medians.

Based on the long-term financing commitment provided by People's United and the resulting improvement in BMH's credit profile, PFM recommends the Agency Board approve the proposed 2016 financing.

Mr. Bauer then described the legal structure of the refunding. The loan will be privately placed and principally secured by payments made under the loan agreement with the rights to receive loan payments assigned to People's United Muni Finance Corporation. Additional security will be provided by an obligation to be issued under the Mater Trust Indenture. BMH will need to receive final approval from the Green Mountain Care Board before new capital items may be purchased with the new money component of the financing. A TEFRA hearing will need to be held and the Governor's approval received before the financing can close.

> <u>*Motion*</u>*: Mr. Weppler moved and Mr. Robinson seconded the motion to authorize the issuance of up to $10,600,000 of Agency Bonds with the proceeds to be loaned to Brattleboro Memorial Hospital to refund previously issued debt, pay the termination of an interest rate swap, finance up to $2,000,00 in capital improvements; and pay for the cost of issuance. The Board also certifies to the Governor as to the Hospital's ability to repay the debt and that a TEFRA hearing will be held in accordance with Section 147(f) of the Internal Revenue Code of 1986.*
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> *There being no further discussion, a vote was taken and the motion passed.*

Middlebury College ("Middlebury")

Patrick Norton, Middlebury College's Vice President of Finance and Treasurer, provided the Board with a brief overview of the College. Middlebury is a private, non-profit higher education institution offering undergraduate, masters and doctorate degrees. Middlebury College was founded in 1800 and is renowned for its environmental studies, languages and linguistics, international studies and literature programs. Middlebury has a high student selectivity rate. Several years ago Middlebury increased its discount rate to help attract and retain students, however the College is now dropping the rate because of the stress the increase put on the school's operating margins.

Middlebury would like to issue the 2016 Series A bonds to refund its outstanding 2006 Series A bonds for economic savings. The 2006 Series A bonds have interest rates fixed at 5% and in the current interest rate environment, Middlebury expects to realize significant present value savings from the refunding. The 2016A bonds will be publically placed through Goldman Sachs acting as the underwriter.

Public Financial Management then presented its analysis of Middlebury's financing request. The 2016A bonds will be a current refunding of the outstanding 2006A bonds. The structure of the 2016A bonds will be fixed-rate publically placed tax-exempt bonds. The bonds will have a 30-year bullet amortization and a 10-year par call. The refunding is expected to generate $5.6MM in present value savings, or 15.8%.

Middlebury is currently rated Aa2 by Moody's and AA by S&P. The College's performance indicators compare extremely well to the Moody's Aa Private University medians. Operating margins have been trending down because of Middlebury's increase in the student discount rate. Middlebury's balance sheet has increased significantly over the last three fiscal years.

It is PFM's recommendation that the Agency grant approval for the issuance of Middlebury's 2016A refunding bonds.

Before Mr. Bauer provided a legal overview of the Middlebury financing, he announced that Sidley Austin had aa apparent conflict of interest because of its prior legal representation to Goldman Sachs. Sidley has provided legal representation to most, if not all, of the major investment banks. So this is an "industry" conflict. Under the new conflict of interest rules, Sidley will need the Agency to waive the potential conflict.

Motion: Mr. Linsley moved and Mr. Gibbons seconded the motion to waive any potential or actual conflict of interest with respect to Sidley Austin, Goldman Sachs and the Vermont Educational and Health Building's Financing Agency. The motion was approved.

Mr. Bauer then reviewed the legal parameters for Middlebury's financing. The refunding bonds will be issued in an aggregate principal amount not to exceed $38.0MM. The 2016A bonds will be used to current refund Middlebury's 2006A bonds. The bonds will be underwritten by Goldman, Sachs & Co. on a negotiated basis and offered as a public placement. The principal security for the bonds will be payments made by Middlebury under the terms of the loan agreement. The Agency will assign the loan agreement and promissory note to the trustee. To provide Middlebury with the flexibility to increase the maturity of the refunding bonds, the College is considering asking the Agency to hold a TEFRA hearing and seek the Governor's approval.

Motion: Mr. Robinson moved to authorize the issuance of up to $38,000,000 of Agency Bonds with the proceeds to be loaned to Middlebury College to refund its 2006 Series A bonds and pay for the cost of issuance. If required to extend the maturity of the refunding bonds, the Board also certifies to the Governor as to Middlebury College's ability to repay the debt and that a TEFRA hearing will be held in accordance with Section 147(f) of the Internal Revenue Code of 1986. The motion was seconded by Mr. Weppler and it passed.

Rutland Regional Medical Center

Mr. Giroux reported that the Rutland Regional Medical Center ("RRMC") requested a deminimis refunding of its outstanding Agency debt. According to Sidley Austin, RRMC's refunding meets the IRS safe harbor definition for a deminimis refunding. Under the Vermont Educational and Health Buildings Financing Agency's Debt Issuance and Debt Management Policy, the Executive Director may execute an amended bond purchase agreement if it qualifies for the deminimis refunding exception, provided the financing has the advice and consent of the Board Chair. The Chair agreed to the deminimis refunding and Mr. Giroux has executed the amended bond purchase agreement.

Sidley Austin asked the Board to ratify RRMC's deminimis refunding.

Motion: Mr. Gibbons moved and Mr. Wisloski seconded the motion to ratify the Rutland Regional Medical Center's deminimis refunding. The motion passed with Mr. Ogorzalek abstaining from the vote.

Administrative Items

Approval of Minutes –

Motion: Mr. Linsley moved to approve the minutes of the February 22, 2016 Board meeting. Mr. Burkhardt seconded the motion and it passed.

VEHBFA Appointments to the Joint Marketing and Executive Director Succession Committees –

The Chair asked for Board members to volunteer to serve on the Marketing and Executive Director Search Committees. The Committees will be jointly served by members from the Vermont Municipal Bond Bank and the Vermont Educational and Health Buildings Financing Agency Boards. Mr. Giroux will serve as staff to the Committees.

Mr. Potvin and Mr. Wisloski agreed to serve on the marketing committee and Mr. Potvin, Ms. Bourgeois and Mr. Gibbons on the succession committee.

Executive Session –

The Chair asked for a motion for the Board to go into Executive Session to discuss a personnel matter.

At 1:40 pm, Mr. Wisloski made the motion for the Board to go into Executive Session to discuss a personnel matter, with Mr. Foley and Mr. Bauer remaining. Mr. Robinson seconded the motion and it passed.

At 1:45 pm the Board came out of Executive Session.

Motion: Mr. Linsley moved and Mr. Gibbons seconded the motion to increase the Executive Director's 2016 compensation by $6,000, to be taken as salary or benefits, at the Executive Director's discretion. The compensation increase is to be shared with the VMBB based on the2016 budget indirect expense allocation ratio. The motion passed.

Future Financings –

Mr. Giroux reported that UVM-MC expects to receive its CON soon from the GMCB for the single room in-patient project. Once received, UVM-MC would like an Agency Board meeting scheduled to consider the financing.

There being no further business, the meeting was adjourned.

These Minutes were approved by the Board of Directors at a duly warned meeting on

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