VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY

Board Meeting

Double Tree Hotel, South Burlington, Vermont
June 13, 2014

Meeting Minutes

Board Members: David Beatty (designee of Jeb Spaulding); Dawn Bugbee (arrived at 1:05 pm); Fritz Burkhardt; Kenneth Gibbons; Cathy Hilgendorf (designee of Rebecca Holcombe) Kenneth Linsley; Edward Ogorzalek; James Potvin; Robert Roberts (designee of Douglas Racine); Neal Robinson; Stuart Weppler; and Steve Wisloski (designee of Beth Pearce).

Staff: Robert W. Giroux

Consultants: Matt Hughey (Sidley Austin); June Matte & Casey Fox (Public Finance Management); James Foley (Deppman & Foley) and Michael McCormick (Raymond James)

Guests: Jon MacClaren (Landmark College); David Provost & Stephanie Dion (Champlain College); and Michael Niemann (Student Intern)

The meeting was called to order by Mr. Potvin, at 12:30 pm.

Landmark College

Mr. MacClaren delivered a presentation to the Board on Landmark College ("Landmark" or "College"). The College provides educational opportunities and programming to students who learn differently because of learning disabilities ("LD"). In addition to having advanced degrees in their respective disciplines, faculty have training and expertise in working with LD students. The College offers a number of Associate Degree programs, seven concentrations and a BA in Liberal Arts. Landmark is developing proposals for Bachelor's degree programs in Studio Arts and Computer Science.

The new money project consists of the construction of the Science, Technology and Innovation Center building, the installation of a new athletic field and the possible construction of a residence for Landmark's President. The College would also like to refund its outstanding fixed-rate debt.

The College will be making a $7.0M equity contribution towards the cost of constructing the new facilities. This will be done through a capital campaign, which has raised $5,55M to date and is slightly ahead of schedule.

Ms. Matte then described PFM's analysis of the College's financing request. Landmark would like to borrow up to $17.225 million, of which $2.13 million will be a short-term financing that will be repaid by the capital campaign and the remaining financing amount will be bond financing. The refunding will take out the outstanding $9.72 million 2004A bonds. The balance of the financing will pay for the capital improvements and pay for cost of issuance.

Landmark's financing will be structured as tax-exempt fixed rate refunding bonds, fixed rate new money bonds and a variable rate loan for the Series B bridge financing. The bond amortization scheduled has been designed so that the savings from the refunding will approximately offset the increase in debt service from the new money portions. The bonds will be privately placed with TD Bank. The fixed-rate loan will have a 27-year amortization with essentially level annual payments. There will be a bank put option in year 10. The College has also renegotiated its TD Bank letter of credit fees downwards by 70 BPs.

Landmark has developed a strong market position and is a nationally recognized leader in serving higher education students with dyslexia and other learning difficulties. The College has a modest balance sheet with limited growth. Operations have been consistently positive, with good cash flows and operating margins. Landmark will have a constant risk profile, but will take on renewal and interest rate risk with the 10-year bank put.

Based on their analysis of Landmark College, PFM recommends that the Agency grant approval for the 2014 Series bond financing.

Mr. Hughey then described the legal structure of the financing. Landmark will be using US Bank as its trustee. The College will have a multi-modal indenture with the opportunity to refund after ten years into a fixed or variable rate mode. The 2014 Series B loan is a cash flow borrowing that is a variable rate with no pre-payment penalty. As a security for the loan, the College will pledge a mortgage on the core campus, a security interest in revenues, and an assignment of certain accounts. A TEFRA hearing was warned and the hearing will be held on June 17, 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. Hughey does not expect any significant changes between now and the closing scheduled for June 26, 2014.

Motion: Mr. Robinson moved and Ms. Bugbee seconded the motion to authorize the issuance of up to $17,225,000 of 2014 Series A and Series B Agency Bonds with the proceeds to be loaned to Landmark College to refund previously issued debt and to construct new campus facilities. The Board also certifies to the Governor as to the need for the new facilities, the School'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.

Champlain College

David Provost presented Champlain College's ("Champlain" or "College") request for financing. He first provided an overview of the College including student information and statistics; national recognition; and campus facilities. Then Mr. Provost reviewed the capital plan and the need for the Centers for Communication and Creative Media and the addition/renovation to the Hauke Center and Alumni Auditorium. TD's commitment for the new money financing expires at the end of July and so the College would like to close by then as well. Otherwise, Champlain will need to ask for an extension or renegotiate terms.

Mr. Provost provided a status report on discussions the College has had with Merchants and Key Banks. Champlain has a verbal agreement with both banks to account for the 2015 bullet payment in the Debt Service Coverage covenant and hopes to have written agreements by the middle of next week.

PFM and Sidley Austin then discussed Champlain's request for financing that was pulled off of the Board Agenda at the last minute. PFM did their usual analysis of the College and their loan request. PFM feels that Champlain's project is an important one to the school and that the College is a very strong credit. However, it is the failure of the College to satisfy the Debt Service Coverage ratio in 2015 that is causing the concern. There is a debt service bullet payment in 2015 that is causing the test to fail. The College has debt outstanding with three banks. TD Bank's loan accounted for the bullet payment in its debt service coverage test, but Merchants and Key Banks have not. PFM did not feel comfortable making its recommendation for financing to the Board until the bullet payment issue is resolved.

Matt Hughey concurred with PFM's assessment. Sidley would also not recommend moving forward with the financing with the covenant default guaranteed to happen. Sidley would like to see the College come to agreement with its lenders first.

Provided the College is able to renegotiate its Debt Service Coverage covenant with Merchants and Key Banks, Mr. Giroux offered to schedule a Board meeting for the week of July 9th.

Because of the Champlain discussion at today's meeting, the July Board meeting would be a good candidate for a telephonic meeting.

Administrative

1. Approval of Minutes -

   Motion: Mr. Linsley moved to accept the minutes of the March 21, 2014 Board meeting. Mr. Ogorzalek seconded the motion and it passed.

2. Dashboard Indicators – The Board reviewed the 5/31/14 Dashboard Indicators. Mr. Giroux indicated that the Indicators are tracking as expected.

3. Policies –

a) Annual Administrative Fee Policy - Mr. Giroux is proposing that the Annual Administrative Fee Policy be amended to change the annual fee rate from 0.01% to 0.0065% of loans outstanding. This change was temporarily approved when the 2014 budget was adopted at the March 21, 2014 meeting. The policy amendment will make the annual fee rate change a permanent one.

   Motion: Ms. Hilgendorf moved to amend the Administrative Fee Policy rate from 0.01% to 0.0065%. Mr. Weppler seconded the motion and it passed.

b) General Reserve Fund Policy – As was requested at the March 21st Board meeting, Mr. Giroux then offered up a new General Reserve Fund Policy for Board consideration. After some discussion, the following motion was made:

   Motion: Mr. Linsley moved to table the discussion of the General Reserve Fund Policy until the next Board meeting. The motion was seconded by Mr. Wisloski and it passed.

Reports

1. Investment Portfolio Update - Michael McCormack of Raymond James provided an investment portfolio review for the period 1/1/14 through 5/31/14. For 2014 to date, the portfolio is earning 2.78%. The returns are slightly under the benchmark. The portfolio's approximate average credit rating is an A with an average maturity of 5.6 years and an average duration of 3.3 years. The portfolio is meeting the allocation guidelines and he has no recommendations to rebalance at this time.

2. Market Update (June Matte, PFM) - Just like last year at this time, bond rates are down but starting to trend higher. 2005 was a large issuing year for the Agency, so she advised the Board to expect to consider numerous refundings next year.

   As of July 1, 2014, the SEC's new Municipal Advisor rules will go into effect. These rules apply to publically offered deals and not private placements. An underwriter will no longer be able to approach a municipal borrower with a proposed financing unless the borrower has engaged the services of a municipal advisor.

3. Legal Update (Matt Hughey, Sidley Austin) – The SEC and MSRB are putting additional focus on continuing disclosures. Both agencies are looking carefully at the many forms of disclosure to insure accuracy and completeness. The SEC is requiring both the issuer and the underwriter to self-report and to also report on the counter-party. He recommended the Agency reach out to its borrowers to inform them of the new municipal advisor and disclosure rules.

<u>Other Business</u>

1. Board Member Resignation – Mr. Giroux reported that Steve Gurin has accepted a banking position out-of-state and has submitted his resignation from the Board. The Governor's Office has been notified of the resignation and a search for his replacement is underway. Mr. Gurin served as the Board's Secretary and a new secretary will need to be appointed.

   <u>Motion</u>: Mr. Wisloski moved to accept Mr. Gurin's resignation from the VEHBFA Board. Mr. Burkhardt seconded the motion and it passed.

   Mr. Potvin asked for nominations for Board Secretary.

   Mr. Linsley nominated Mr. Robinson. There being no further nominations, Mr. Potvin called for the nominations to cease and a vote to occur. All voted in the affirmative and Mr. Robinson was elected Secretary.

2. Mr. Giroux reported that he has been in communication with Gifford Medical Center, Porter Hospital & Nursing Home and Fletcher Allen Health care about potential financings. Gifford and Porter may be requesting financing as soon as this fall.

3. VLS & TD Bank Forbearance Agreement – Mr. Hughey reported on the Agreement entered into by Vermont Law School and TD Bank. Due to its recent downgrade by Moody's, the Law School failed one of its bond covenants with TD. VLS and TD Bank

have agreed on a new range of covenants and reporting, resulting in the Law School and TD entering into the Forbearance Agreement.

There being no further business, the meeting was adjourned.

These Minutes were approved by the Board of Directors at a duly warned meeting on ________________, 2014.