



Board Meeting

Champlain A Rom, Hampton Inn

Colchester, Vermont

June 19, 2015

Meeting Minutes

Board Members: Anita Bourgeois; David Beatty (designee of Justin Johnson) Dawn Bugbee; Ken Gibbons; Ken Linsley; James Potvin; Neal Robinson (at 1:35 pm); Stuart Wepler and Steve Wisloski (designee of Beth Pearce).

Staff: Robert W. Giroux

Consultants: Matt Hughey (Sidley Austin); and June Matte and Robert Guadagno (Public Finance Management).

Guests:

- Brattleboro Retreat – Stephen Monette and Peter Albert
- Porter Medical Center – Steve Ciampa
- DDMH Pool – Dan Askenazi and Paul Giuliani
- Counseling Services of Addison County - Bill Claessens
- Northwestern Counseling & Support Services – Amy Putnam
- Rutland Mental Health Services – Tom Pour & Bob Sahara

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

Brattleboro Retreat (“Retreat”)

Stephen Monette, Brattleboro Retreat’s Chief Financial Officer, described the Retreat’s mission and the services that it provides. As a private, non-profit regional specialty mental health provider, the Retreat offers a broad range of diagnostic, therapeutic and rehabilitation services to adolescents and adults. The Brattleboro Retreat is accredited by numerous state and national organizations and serves as a practicum sight for numerous college and university programs.

Bob Guadagno from Public Financial Management then described the financing request from Brattleboro retreat. The Retreat would like to borrow up to \$14.15M to refund outstanding tax-exempt and taxable debt and to pay for the cost of issuance. The financing will be privately placed with Citizens Bank and the Retreat is not expecting to extend the final maturity of the refunded bonds.

VERMONT EDUCATION AND HEALTH BUILDINGS FINANCING AGENCY

The refunding of Brattleboro Retreat's 2011 Series A bonds will provide the Retreat with a fixed rate 3.0% loan over a 10-year period versus a variable rate over a one or two-year letter of credit term. The refunding will lower the renewal risk from the Retreat's debt portfolio, while still saving Brattleboro Retreat an estimated \$812,000. The term length of the new debt will not exceed the original refunded debt. The tax-exempt loan will be wrapped around the taxable loan in order to achieve approximate level annual debt service.

The loan will be secured by a pledge of gross receipts and a mortgage with a double negative pledge. Mr. Guadagno reported that UVMC has a strong market position, serving all of Vermont and parts of northern New York. The payor mix is also well balanced.

While the Retreat has had positive operating margins in four of the past five years, the annual margin has been trending down over that same time period. The Retreat did experience unanticipated expenses and a drain on reserves when it assumed responsibility for patients that were transferred from the Waterbury State Hospital because of Tropical Storm Irene. The Brattleboro Retreat's operating margins have recently improved and stabilized. The Retreat's balance sheet has had mixed results, with cash and investments increasing slightly, but days cash on hand decreasing. The annual cash-to-debt ratio has been consistently at 0.7X and the debt-to-capitalization ratio has been improving over time.

Based on the long-term commitment provided by Citizens Bank and the resulting increased stability in the Brattleboro Retreat's capital structure, PFM recommends the Agency Board approve the proposed 2015 financing.

Mr. Hughey reviewed the legal highlights of the refunded bonds. The legal documents will be very similar to the other recent VEHBFA medical financings. Since the 2015 bonds will be issued solely for the refunding and the original term will not be extended, there will not be the need for a TEFRA hearing nor the Governor's approval. The 2015 bonds will be principally secured by the debt service payments and additionally secured by an obligation issued under the Retreat's 2007 Master Trust Indenture. Mr. Hughey then reviewed the resolutions the Board will need to consider for this refunding.

Motion: Mr. Weppler moved and Ms. Bugbee seconded the motion to authorize the issuance of up to \$11,300,000 of Agency Bonds with the proceeds to be loaned to Brattleboro Retreat to refund previously issued debt and to pay for the cost of issuance. There being no further discussion, the motion passed.

Because of his late arrival, Mr. Robinson abstained from voting on the Brattleboro Retreat financing.

Porter Medical Center

Representing Porter Medical Center ("Porter") before the Board was Porter's CFO Steve Ciampa. The Medical Center consists of Porter Hospital, a 25 bed accredited critical access facility, and Helen Porter Healthcare and Rehabilitation Center, a 105 bed licensed and certified facility. Porter feels it has turned

VERMONT EDUCATION AND HEALTH BUILDINGS FINANCING AGENCY

the corner with its recent financial success after years of deficits and turnover of senior staff. The new management team is starting to see the positive results of their decisions.

Porter would like to refund its 2000 Nursing Home bonds and its 2005 Porter Hospital Bonds. The 2015 bonds will be privately placed with Peoples United Bank. The loan amount will be a not to exceed amount of \$16.0M. The expected interest rate will be less than 3.0% with a 10-year put versus the current 2.71% variable rate with an 18-month letter of credit put. Porter is expected to save over \$2.0M from this refunding.

The Board's advisors from Public Financial Management then described the Porter refunding and their analysis. The bonds will be a direct purchase by Peoples United Bank and will amortize over a 20-year period. The maturity of the 2015 bonds will match the 2005 bonds but will extend the maturity of the 2000 bonds by five years. The 2015 bonds are callable at any time, but are subject to a "make whole" payment.

While the refunding savings is not guaranteed, the refunded bonds will reduce Porter's renewal risk and variable rate exposure.

According to PFM, Porter's operating margins have been negative in four of the last five years. Porter suffered through significant operational challenges over the last five years which management says it has now overcome. At the same time that it was experiencing challenges, Porter was able to slowly build its Balance Sheet.

Based on the long-term loan commitment provided by Peoples United Bank and the resulting more stable capital structure, Public Financial Management recommends the Agency Board approve the financing.

Sidley Austin then discussed the legal structure and resolutions for this financing. Even though they are one financing, two resolutions have been put before the Board for the 2000 Nursing Home bonds (\$3.225M) and the 2005 Hospital bonds (\$12.775M). Because the refunding will extend the maturity of the 2000 bonds, a TEFRA hearing and the Governor's approval will be required for the Nursing Home bonds. Security for the bonds will be the payments made by Porter under the Loan Agreement and an obligation issued under the 2007 Master Trust Indenture.

As a part of this financing, Porter will merge the Hospital and Nursing Home obligated groups into a single obligated group.

Motion: Mr. Linsley moved to authorize the issuance of up to \$12,775,000 of Agency Bonds with the proceeds to be loaned to Porter Medical Center to refund outstanding 2005 Series A bonds and to pay for the cost of issuance. Ms. Bourgeois seconded the motion and it passed.

Motion: Mr. Lindsey moved and Ms. Bourgeois seconded the motion to authorize the issuance of up to \$3,225,000 of Agency Bonds with the proceeds to be loaned to Porter Medical Center to refund its 2000 Series A Nursing Home bonds and to pay for the cost

VERMONT EDUCATION AND HEALTH BUILDINGS FINANCING AGENCY

of issuance. The Board also certifies to the Governor that a TEFRA hearing will be held in accordance with Section 147(f) of the Internal Revenue Code of 1986, as amended. There being no further discussion, the motion passed.

Because of his late arrival, Mr. Robinson abstained from voting on the Porter financing.

Developmental Disabilities Mental Health Pool

Mr. Giroux reported that three mental health agencies have joined to form a financing pool ("Pool") for economies of scale regarding the cost of issuance.

Tom Pour gave a brief overview of the mental health agencies. Counseling Services of Addison County ("CSAC"), Northwestern Counseling and Support Services ("NCSS") and Rutland Mental Services ("RMHS") are community based mental health, substance abuse and developmental disabilities services providers. The three agencies are Vermont Designated Agencies and receive most of their financial support from contracts with the Agency of Human Services.

Bill Claessens, CSAC's CFO, reviewed CSAC's request for financing. The 2015 bonds will be used to refund the 2008 bonds to generate an estimated \$600,000 in interest savings. CSAC also expects to shorten the term of the original loan by approximately three years.

Amy Putnam, NCSS' CFO, described the plan of finance. NCSS will refund its existing 2008 bonds and issue new money bonds for capital improvements. Depending on market conditions at pricing, NCSS may refinance a privately placed note secured by one of its facilities. Interest savings from the refunding are expected to be in the \$380,000 range. NCSS has received notice from the Agency of Human Services that a Certificate of Approval will not be required for the new money projects.

Tom Pour, RMHS' CFO, indicated that the 2015 bonds will be issued to refund RMHS' 2008 bonds for an estimated savings of \$279,000.

The \$9.68M 2015 Series A bonds will be used to pay for the refundings and a portion of the cost of issuance. Cost of issuance expenses in excess of the 2% allowed amount, will be paid for with a \$205,000 2015 Series B taxable bond.

Mr. Guadagno then reviewed PFM's analysis of the financing. The Pool wishes to borrow up to \$12.0M to refund outstanding 2008 debt and in NCSS case, to refund a private loan and to fund approximately \$700,000 in new infrastructure projects. The 2015-A and 2015-B bonds will be fixed rate, uninsured bonds, with a 10-year call. NCSS' refunding and new money bonds will have a matched maturity with the 2008 bonds. CSAC's and RMHS' bonds will have a shortened maturity by ~5 years. The bonds will be publically placed with Municipal Capital Markets serving as the underwriter and with the bonds being rated by Moody's.

Security for the bonds will be provided by a lien on gross revenues and a debt service reserve fund. Additional security will be in the form of monthly deposits made with the trustee to meet future debt

VERMONT EDUCATION AND HEALTH BUILDINGS FINANCING AGENCY

service payments. The 2015 financing is primarily for refunding for economic savings, which is expected to improve the credit position of the borrowers. NCSS will use refunding savings to partially offset the cost of the new money component of the financing.

Based on its analysis, PFM recommend the Agency Board approve the financing for the CSAC, NCSS and RMHS based on the refunded savings, State support of the agencies and the borrowers' stable financial positions.

Mr. Hughey then described the legal structure of the financing. While the financing is nominally called a pool, the individual borrowers are only responsible for their individual debt and not that of the others. Security is in the form of the payments made by the borrowers under the loan agreement and mortgages on the real property. Because NCSS is requesting new money financing in addition to the refunding, a TEFRA hearing will be required and the Governor's approval obtained.

Motion: Mr. Robinson moved and Gibbons seconded the motion to authorize the issuance of up to \$12,000,000 of Agency Bonds with the proceeds to be loaned as follows: up to \$2,800,000 loaned to CSAC to refund its 2008 bonds and to pay for the cost of issuance; up to \$5,400,000 loaned to NCSS to refund its 2008 bonds and privately placed loan and to finance certain infrastructure improvements and to pay for the cost of issuance; and \$2,800,000 loaned to RMHS to refund its 2008 bonds and to pay for the cost of issuance. The Board also certifies to the Governor that a TEFRA hearing will be held in accordance with Section 147(f) of the Internal Revenue Code of 1986, as amended. There being no further discussion, the motion passed.

Ms. Bugbee abstained from voting because of a conflict of interest.

Administrative Items

Approval of Minutes -

Motion: Mr. Wepler moved to accept the minutes of the May 15, 2015 Board meeting. Mr. Robinson seconded the motion and it passed.

Reports

Borrowers' Conference Report – Mr. Giroux reported that the recently held borrowers' conference was a big success. Of the 49 in attendance, only 10 were actual borrowers and he wished there had been a greater turnout of borrowers. While fully expecting to provide financial support for the conference, the Agency actually made ~\$665. Evaluation forms show that the conference was well received by attendees. Conference materials have been posted to the "Knowledge Center" section of the VEHBFA website.

VERMONT EDUCATION AND HEALTH BUILDINGS FINANCING AGENCY

Advisors Updates –

Public Financial Management – Even with the current volatile market, interest rates still remain near historical lows. It does appear that “mom and pop” retail are returning to the market because of the movement in rates and the increased use of 4% coupons. Outflows in bond funds are an indication that interest rates are expected to rise.

Sidley Austin – SEC has become more aggressive with its oversight of tax-exempt bonds. The focus seems to be on compliance with rule 15(c)2-12. The findings tend not to be aggravated ones but minor “foot faults”.

Other

Tax-Exempt Leasing Program - Bank of America Merrill Lynch has offered to help the Agency set up a tax-exempt equipment leasing program for its borrowers. The attached document is modeled after New Hampshire Health and Education Facilities Authority’s leasing program. For some of our borrowers, this could be an efficient and effective way to finance shorter-term assets. Both Sidley and PFM have experience with tax-exempt leasing programs. We will explore in more detail a tax-exempt leasing program for Vermont and bring it to the Board at a future meeting for further discussion and possible adoption.

Future Financings – Potential financings include Middlebury College, St. Michael’s College, University of Vermont Medical Center, Northwestern Medical Center, Marlboro College, Mt. Ascutney Hospital, Northeastern Vermont Regional Hospital and Springfield Hospital.

There being no further business, the meeting was adjourned.

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