

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Minutes of Authority Special Board Meeting

April 7, 2017

The State of Connecticut Higher Education Supplemental Loan Authority met at 10:00 a.m. on Friday, April 7, 2017.

The meeting was called to order at 10:05 a.m. by Dr. Peter Lisi, Chair of the CHESLA Board of Directors. Those present and absent were as follows:

Present: Dr. Peter W. Lisi*, Chair
Martin L. Budd*
Steven Kitowicz* (*Rep for Honorable Benjamin Barnes*)
Sarah K. Sanders* (*Rep. for Honorable Denise L. Nappier*)
Julie B. Savino*, Vice-Chair¹
Jeanette Weldon

Absent: Erika Steiner (*Rep. of President, Board of Regents for Higher Education*)

Also Present: Denise Aguilera, General Counsel, CHEFA
Carlee Levin, Sr. Accountant, CHEFA/CHESLA
Cynthia Peoples, Managing Director, CHEFA
Debra M. Pinney, Manager of Administrative Services, CHEFA
Samuel E. Rush*, Deputy Director, CHESLA

Guests: Judith Blank*, Esq., Day Pitney LLP
Joseph Santoro*, Director, Merrill Lynch, Pierce, Fenner & Smith Inc.,
Bank of America, N.A.
Jeffrey Wagner*, Managing Director, RBC Capital Markets
Gary Wolf*, RBC Capital Markets
Tim Webb*, Vice President, Hilltop Securities

*Participated in the meeting via conference telephone that permitted all parties to hear each other.

¹ Ms. Savino joined the meeting at 10:16 a.m.

Authorizing 2017 Series A and B Bond Transactions

Ms. Weldon stated that the main purpose of the meeting was to discuss and have the Board of Directors vote on authorizing the 2017 Series A and B bond transaction. Staff proposes to issue approximately \$27.5 million in bonds for Series A and approximately \$10.7 million in Series B. There is a refunding component to Series A (to refund the 2006 Series A bonds), which is approximately \$5 million. The 2017 Series B bonds are 100% refunding, which is to refund CHESLA's 2007 Series A bonds. Ms. Weldon stated that with the refundings, the 2003 Trust will terminate and any remaining equity will be released from that Trust and be available for transfer into the 1990 Trust, with a portion released to the Authority's operating account, at the Board's discretion.

The Board will have to consider augmenting the authorizing resolution to specify any transfer to the Authority's operating account, and to specify a not-to-exceed loan rate for loans made from the 2017 bond proceeds. The cash flows assume \$1 million to be released to the Authority's operating account. A discussion ensued on the issuance amount of not to exceed \$50 million on the authorizing resolution. The Board of Directors agreed to change the amount of issuance on the authorizing resolution to *'not to exceed \$43 million'*.

Mr. Webb pointed out that with this issuance there will be a forward delivery with regard to the refunding of the 2007 Series A bonds, which will be refunded with the 2017 Series B bonds. As private activity bonds, the 2007 Series A bonds cannot be advanced refunded. The call date on the 2007 Series A bonds is November 15, 2017; therefore, the first date the Authority could currently refund those bonds per tax rules, is August 17, 2017. Although the 2017 Series B bonds will not close until August, they will sell at the same time as the 2017 Series A bonds. Mr. Webb added that there will be a cost for the forward delivery, which is projected at approximately 8 to 24 basis points in additional yield. Mr. Webb stated that he has worked with the Authority and the underwriter to generate the cash flows. Mr. Webb turned the floor over to Mr. Wagner of RBC.

Mr. Wagner provided an update on recent student loan transactions which were priced in the market, and the preliminary scale as shown in the cash flows for the Authority's bonds. A discussion ensued concerning other student loan transactions coming to market.

Mr. Wagner explained the outcome of utilizing coupon bonds in the market.

Mr. Budd inquired as to the actual rate the Authority is paying on the 2017 Series B bonds and if it is less or more than the bonds that the Authority is redeeming. Mr. Wolf of RBC indicated that the amount of debt service on the new bonds is less than the debt service of the old bonds. Further discussion ensued.

Ms. Sanders reported on the results of the State of Connecticut's most recent bond sale. The transaction had very strong retail demand, however, the transaction overall had a wider spread to MMD than previously experienced, due to credit concerns. This needs to be taken into account when estimating the cost of the Authority's sale, depending upon the ratings. Further discussion ensued. Mr. Wagner stated that at this time, he believes the Authority's bond sale outlook is good going into the market.

Mr. Wolf discussed in detail the assumptions and sources and uses of funds, as shown in the cash flows. He also highlighted the key results of the sensitivity analysis, with regard to loan rate, cash distribution, and default assumption. Further discussion ensued.

Ms. Weldon stated that the rationale for releasing \$1 million into the operating account was to provide the Authority with flexibility for new programs or to establish a new trust. The 1990 Trust does not allow CHESLA to issue bonds to fund the Refi CT program. Last year, Ms. Blank drafted a resolution for a new trust which would include the ability to issue bonds to fund refinance loans which reflected current industry standard provisions.

Mr. Budd expressed concern that releasing \$1 million to the operating account would limit the Authority's ability to keep the loan rate at its 4.95% level at most and might negatively affect future loan rates. He stated that the Authority's main goal should be achieving a low loan rate.

A discussion ensued.

Mr. Wolf pointed out that there is no provision to allow an extraction to the 1990 Resolution, so any money that is put in the Trust is trapped until the last bond is paid off. Whereas, if the Authority set up a new indenture, it could be set up with some relief provisions that would be subject to rating confirmation and cash flows, but at least the Authority would have an option to extract from it as it built up over time. A discussion ensued.

Mr. Webb pointed out that a new trust would be needed in order to issue bonds to fund refinance loans. Mr. Wolf reviewed the results of the sensitivity analysis, showing the impact of a \$1 million release and a 4.95% loan rate. Both would be achieved, although with a reduction in the residual on a present value basis. Mr. Wolf also pointed out that any equity that is deposited into the 1990 Trust cannot be released at a later date, effectively trapping it until the last bond is paid off.

A discussion ensued.

Ms. Savino inquired if the Authority is able to offer the 4.95% student loan rate and put aside the \$1 million. She believes the Authority might want to have a new indenture to give the Authority more flexibility in the future and she asked if there is opportunity for a new indenture and if it would be feasible for CSLF to give the Authority a contribution in order to increase the equity in that indenture. Mr. Webb pointed out that there are ultimately limits to the available dollars as CSLF has outstanding bonds that must be paid. Mr. Webb added that based on the numbers that the Authority has now, the Authority can utilize the 4.95% student loan rate but he cautioned that based on the analysis, the 4.95% rate has a negative impact on the Trust's long term equity position on a present value basis. Mr. Webb stated that the Trust could handle it at this point. Further discussion ensued.

Ms. Weldon asked about the ability to maintain the 4.95% loan rate if bond yields increased from the levels shown in the cash flows. Mr. Webb stated that rates would have to move at a very severe amount for the Authority's cash flows not to function. Mr. Webb added that if interest rates move up and the Authority kept the 4.95% rate, the present value of the external distribution at the termination of the Trust would be further reduced. Ms. Weldon mentioned that the higher not-to-exceed rate would give flexibility to address market moves at the time of bond pricing. A discussion ensued.

Mr. Budd moved to release \$1 million upon closing of the 2017 Series B bonds and deposit it into the Authority's operating account, as Board restricted funds, to be used as equity for a potential new trust and to authorize management to set a loan rate that does not exceed 5.15% for loans made from proceeds of the 2017 Series A bonds. Ms. Sanders added that if the Authority does not need the \$1 million in the new trust the Board could decide at a later date to use it as an equity contribution to the 1990 Trust. Ms. Sanders seconded the motion.

Upon roll call, the “Ayes,” “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Martin Budd Steven Kitowicz Dr. Peter Lisi Sarah Sanders Julie Savino Jeanette Weldon	None	None

Ms. Sanders and Mr. Wolf left the meeting at 11:32 a.m.

Dr. Lisi introduced Resolution #2017-06, authorizing approval of the 2017 Series A and B bond transactions. Mr. Budd moved to approve the 2017 Series A and B bond transaction and amend the amount of issuance on the authorizing resolution to *‘not to exceed \$43 million’*. Dr. Lisi seconded the motion.

Upon roll call, the “Ayes,” “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Martin Budd Steven Kitowicz Dr. Peter Lisi Julie Savino Jeanette Weldon	None	None

EXECUTIVE DIRECTOR UPDATES

Ms. Weldon reported that the Board previously approved some start-up dollars for CT Refi program and she is planning to use some of the additional funds for advertising that will cost approximately \$16,500.

Ms. Weldon stated that the Board previously approved \$25,000 for the web portal and there is \$8,300 remaining. She is planning to use \$6,000 for Google Analytics and for additional marketing of the financial literacy portal.

ADJOURNMENT

There being no further business, at 11:34 a.m., Mr. Kitowicz moved to adjourn the meeting and Mr. Budd seconded his motion.

Upon roll call, the “Ayes,” “Nays” and “Abstentions” were as follows:

AYES

Martin Budd
Steven Kitowicz
Dr. Peter Lisi
Julie Savino
Jeanette Weldon

NAYS

None

ABSTENTIONS

None

Respectfully submitted,

Jeanette W. Weldon
Executive Director