

Washington Higher Education Facilities Authority

MINUTES

June 17, 2019

Mr. Jerome Cohen, Board Secretary, called the special meeting of the Authority to order at 1:00 p.m.

Board members Mr. Cohen and Dr. Gene Sharratt were present in the Board Room, located at 1000 Second Avenue, 28th Floor in Seattle, WA 98104. Board members Mr. Michael Meotti, Dr. Roy Heynderickx and Ms. Claire Grace were all present by telephone.

Authority staff present were: Mr. Kim Herman, Executive Director; Mr. Paul Edwards, Deputy Director; Mr. Bob Cook, Senior Finance Director; Ms. Carol Johnson, Affiliates Manager; Ms. Debra Stephenson, Senior Controller; and Ms. Rona Monillas, Program Assistant.

Also present were: Ms. Faith Pettis of Pacifica Law Group, the Authority's bond counsel; Ms. Elizabeth Bergman of Baker Tilly Municipal Advisors, the Authority's financial advisor; Mr. Joel Bodansky of Hillis Clark Martin & Peterson; and Ms. Debbie Kuykendall and Ms. Christine Ok of U.S. Bank Corporate Trust. Mr. Michael Nelson II, Assistant Attorney General from the

Washington Attorney General's Office was present by phone. Mr. Devon Crouch of Independent Colleges of Washington was also present.

**Approval of the
Minutes**

Mr. Cohen asked for a motion to approve the minutes of the meeting held on July 9, 2018. Dr. Sharratt made the motion, and it was seconded by Mr. Meotti. The minutes were approved unanimously, 5-0.

**Election of
Secretary and
Treasurer**

Mr. Cohen introduced Mr. Herman to present the election of Board Secretary and Treasurer. Mr. Herman stated that each year the Board elects a Secretary and a Treasurer. He noted that the past year, Mr. Cohen served as Secretary and Ms. Grace served as Treasurer.

Both Mr. Cohen and Ms. Grace agreed to continue in their roles as Secretary and Treasurer if the Board chooses to nominate and re-elect them.

Ms. Grace made the motion to re-elect Mr. Cohen as Secretary and Dr. Sharratt seconded the motion. Dr. Sharratt made the motion to re-elect Ms. Grace as Treasurer and Mr. Meotti seconded the motion. The motion to re-elect Mr. Cohen as Secretary and Ms. Grace as Treasurer was approved unanimously, 5-0.

**Approval of Policy
Revision**

Mr. Cohen introduced Ms. Johnson to present the Authority policy revisions. Ms. Johnson stated that the proposed policy changes are intended to

incorporate the new TEFRA regulations and clarify WHEFA's policy around unrated bonds.

Ms. Johnson said that the changes to the TEFRA regulations that were published on December 31, 2018 apply to all projects beginning April 1, 2019. She stated that public hearing notices will more generally identify a project and its location and will clearly state the principal amount of the bonds. The new regulation also shortened the required notice period from fourteen days to seven days and allows issuers to publish the notice on their websites as opposed to in local newspapers. Ms. Johnson added that early in the process, WHEFA published a notice in relevant local newspapers stating that public hearing notices will only be published on the Authority website.

Ms. Johnson clarified that a rating withdrawal by the borrower will not be permitted during the life of the bonds. She added that this was implied in the past but not clearly stated in the Policy Guide. Due to a recent inquiry, staff decided to make it very clear that a rating must remain in place for the life of the bond.

Ms. Johnson stated that the Policy also made clear that the only unrated bonds that the Authority issues are privately placed. She also specified that WHEFA does not have a rating.

Ms. Johnson asked the Board to consider acting on staff recommendations to approve the proposed changes to the Authority Facility Financing Policy Guide, effective July 1, 2019. Mr. Meotti made a motion to accept the proposed changes and Ms. Grace seconded the motion. The motion was approved unanimously, 5-0.

**Action Item:
Approval of
Annual
Budget**

Mr. Cohen introduced Mr. Cook to present the proposed annual budget for the fiscal year beginning July 1, 2019 thru June 30, 2020.

Mr. Cook highlighted that the Authority has waived its ongoing annual fee of 6 basis points on the bonds outstanding to our member schools for the last six years. The waiver represented accrued savings of about \$2.5 million. He said that the Authority will be reinstating this fee for fiscal year 2019-2020 due to reserves declining below \$1 million. Mr. Cook mentioned that this is a major recommendation in the budget that is different than the past six years. He added that the schools were given advance notice.

Mr. Cook stated that staff has budgeted for two financings totaling \$60 million during the year. He added that application and issuance fees related to those financings would total \$75,000.

Mr. Cook presented the budget summary for the fiscal year ending June 30, 2020 and reported that the Authority allocated a budget of 2.49 FTE compared

to last year's 2.69 FTE. He added that at the end of the current year, the Authority is projecting to have allocated about 1.69 FTE.

Mr. Cook stated that the total revenue for the proposed budget will be \$481,000 compared to the projected actual revenue for the year ending June 30, 2019 of about \$27,000. The large increase is due to reinstating the 6 basis point fee. Expenses are budgeted at \$509,000, slightly less than last year's budget. He then referred to detailed revenue and expenses itemized on the last page of the budget.

Dr. Sharratt asked if the reinstating the 6 basis point fee applies only to new bond issues. Mr. Cook said that the fee is calculated based on the outstanding balance of all bonds as of June 30. Mr. Cook added that there are two different ways fees are collected, a one-time fee on new issues at the time of the issuance, and an ongoing fee on the balance outstanding as of the fiscal year end (June 30). The balance outstanding declines over time depending on payments on the principal.

Mr. Cohen asked if the schools have been notified about the recommendation. Mr. Cook said that each year, the Authority reminded the schools to include the fees in their budget. Likely reinstatement of the fee was included in last year's notice to the schools. Mr. Cook said that the schools were informed last month about this recommendation to the board. An official announcement

and final invoice will be sent to the schools after June 30. Ms. Johnson added that the schools responded in a positive manner thanking the Authority for the past waivers and understanding the need to reimpose the fee when they received the initial notice.

Ms. Grace inquired about the difference between the current year's projected actual and the proposed budget in the accounting fees from \$39,500 to \$45,000. Ms. Stephenson reported that the fee climbs a little bit each year, but that the bigger portion is that the Authority anticipates being audited by the state auditors as well as the independent auditors in this fiscal year.

Ms. Grace also asked about the jump in the software maintenance and support budget. Mr. Cook said that this is because the Authority is setting up to use a software called Salesforce. He explained that this is a master database for contact management and record keeping system.

Mr. Cohen asked for a motion to accept the budget for fiscal year 2020. Ms. Grace made the motion and it was seconded by Mr. Meotti. The motion was approved unanimously, 5-0.

**Action Item:
Acceptance of
the Financial
Statement**

Mr. Cohen then introduced Mr. Cook to present the financial statement for consideration.

Mr. Cook stated that the financial statement for the period ending April 30, 2019, shows assets of just over \$1.1 million and approximately \$95,000 of liabilities, leaving just over \$1 million in net asset position. He added that expenses to date are approximately \$311,000 with a reduction in the net assets of about \$289,000 for the year.

Mr. Cohen thanked Mr. Cook for the financial report. After hearing no questions or comments from board members, he asked for a motion to accept the financial statement. Dr. Sharratt made the motion, and it was seconded by Mr. Meotti. The motion was approved unanimously, 5-0.

**Invoice for
Services**

Mr. Cohen then asked Mr. Cook to present the invoice for services.

Mr. Cook stated that the invoices from the Housing Finance Commission for April 1, 2018 through March 31, 2019 have been reviewed and approved for payment by the Treasurer, Ms. Grace.

Market Update

Mr. Herman introduced Ms. Elizabeth Bergman of Baker Tilly Municipal Advisors, formerly Springsted, to present the market update.

Ms. Bergman started her report saying that the economy has remained mixed. She then presented the historical municipal market data and concluded that we are in a very low interest rate environment. She added that current market rates are a good signal about the economy and show a stable position in the municipal bond market.

In response to a question from Mr. Cohen regarding interest rate inversions and recessions, Ms. Bergman said that an inverted yield curve in a short period of time is a red flag but does not always lead to a recession.

Ms. Bergman presented the municipal market demand which showed the overall inflow into municipal funds. Ms. Bergman concluded that supply is less than the demand, which is favorable for municipal issuers.

Ms. Bergman stated that both S&P and Moody's published negative outlooks on the higher education sector. She explained that a negative outlook refers to a negative operating environment that has a slow revenue growth, slow demographic trends, risks in cyber security, and continued expenditure growth. Ms. Bergman pointed out that Washington state has little demographic pressure compared to the Northeast and Midwest.

Ms. Bergman said that there have been very good returns on endowments due to a strong stock market and positive philanthropy over the past years. Both will be credit drivers in the coming years.

Dr. Sharratt asked if these findings in the credit update apply to both public and private colleges and universities. Ms. Bergman confirmed that it is for both public and private colleges and universities.

Dr. Sharratt said that Washington state just passed a very strong financial aid package and asked Ms. Bergman if there is any trend data on financial aid by state. Ms. Bergman said that they don't track this type of trend.

Mr. Meotti stated that even though Washington state is situated better than the Northeast and Midwest, the challenge that the state of Washington has, especially for private schools, is the shift of the distribution of students by income classes. A lot of the enrollment growth is coming from populations who are less likely full payers which will put greater pressure on discounting practices.

**Bond Issue
Status Report**

Mr. Cohen asked Mr. Edwards to present the bond issue status report. Mr. Edwards noted that the Authority has not closed any bond issues this fiscal year, which means that the goal to complete two bond issues totaling approximately \$30 million by June 30, 2019 was not met. He added that this is the first fiscal year that the Authority has not issued at least one bond issue since we started tracking back in 2010. He pointed out some mitigating factors: a limited number of member schools, losing the option for advance refundings this past year, timing, and the fact that some schools have limited borrowing capacity at this time.

Mr. Edwards reported that this fiscal year, the Authority completed 14 school visits. The intention of the visit is relationship building, information gathering, and business development. Staff has already begun scheduling visits to its member schools in eastern Washington in July and in the fall.

Mr. Edwards presented some potential bond issues for the fiscal year 2019-2020 totaling \$125 million.

**Executive
Director's
Report**

Mr. Cohen then asked Mr. Herman to present the Executive Director's report.

Mr. Herman gave an update to Authority board members regarding the search for the new Executive Director for the Washington State Housing Finance

Commission. He thanked everyone for their partnership and support over the last three decades.

Mr. Herman congratulated Ms. Grace on the Senate's confirmation of her second four-year term. He added that the Governor renewed her term in August of 2017.

Mr. Herman stated that Mr. Allan Belton was appointed as the President of Pacific Lutheran University (PLU). He added that Mr. Belton has been the Acting President and Chief Financial Officer of PLU since June 2017. He also reported that Pacific Northwest University of Health Sciences appointed Dr. Michael Lawler as president following an extensive national search.

Mr. Herman gave a quick recap of the NAHEFFA spring conference held in Austin last March. He added that the next NAHEFFA Fall conference will be September 23-24 in Portland, Maine. He asked board members who want to attend to inquire with Ms. Monillas.

Mr. Herman gave a summary of the Engrossed Second Substitute House Bill 2158, The Workforce Education Investment Act, that was signed by the Governor on May 21, 2019.

Mr. Herman gave a summary of relevant articles available in the board meeting packet. He added that the next meeting for 2019 is on November 7. He noted that if there is no business to conduct, the meeting will be cancelled.

Adjournment

Mr. Cohen adjourned the meeting at 2:07 p.m.

Mr. Jerome Cohen, Secretary

Date