

Washington Higher Education Facilities Authority

MINUTES

June 27, 2016

Mr. Tom Johnson, Board Secretary, called the meeting of the Authority to order at 1:02 P.M.

Board member, Mr. Jerome Cohen, was present in the board room, located at 1000 Second Avenue, 28th Floor in Seattle, WA 98104. Board members Mr. Tom Johnson, Dr. Roy Heynderickx and Dr. Gene Sharratt were 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, Manager; and Mr. Cody Field, Program Assistant. Also present were Ms. Faith Pettis of Pacifica Law Group; and Mr. Barry Fick of Springsted Inc. Joining via teleconference was Mr. Allan Belton, Vice President of Finance and Administration for Pacific Lutheran University.

Mr. Johnson announced that Dr. Sharratt will be retiring from the Washington Student Achievement Council at the end of the month. Dr. Sharratt has been the Executive Director of the Student Achievement Council and a representative on the Authority Board since 2013. Mr. Johnson thanked Dr. Sharratt for his service noting that his expertise and

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passion have been a great asset to the Authority and to the students of Washington State.

Mr. Herman noted that a recognition plaque was sent to Dr. Sharratt.

Mr. Johnson stated that effective July 1, 2016, Dr. Rachele Sharpe will become the Interim Executive Director at the Student Achievement Council. Dr. Sharpe has many years of experience in the higher education arena. She has been with the agency for over ten years. She also serves on the Governor's Cabinet.

Mr. Johnson announced that the Governor has reappointed Dr. Heynderickx to the Board for another four-year term. Mr. Johnson congratulated him on his reappointment.

**Approval of the
Minutes**

Mr. Johnson asked for a motion to approve the minutes of the September 1, 2015 Authority Board meeting. Dr. Sharratt made the motion and it was seconded by Mr. Cohen. The motion was approved unanimously.

**Election of
Secretary and
Treasurer**

Mr. Johnson introduced Mr. Herman to present the election of Secretary and Treasurer. Mr. Herman stated that each year the Board elects a Secretary and Treasurer, noting that the past year Mr. Johnson served as Secretary and Ms. Claire Grace served as Treasurer. He thanked them both

for their service and stated that both Mr. Johnson and Ms. Grace have agreed to continue in their respective roles if the Board chooses to nominate and elect them. Mr. Cohen made a motion to elect Mr. Johnson as Secretary and Ms. Grace as Treasurer. The motion was seconded by Dr. Sharratt. The motion was approved unanimously.

**Pacific
Lutheran
University –
Introduction
and Financial
Update**

Mr. Johnson introduced Ms. Johnson to present the 2016 Pacific Lutheran University financing. Ms. Johnson stated that before the Board for consideration is a proposed issuance by the Authority of refunding revenue bonds for Pacific Lutheran University in an amount not to exceed \$51 million. She noted that the transaction is a private placement with Washington Federal. Springsted Inc. will act as the Authority's Financial Advisor. Bond proceeds will be loaned to the University to refund bonds issued by the Authority in 2006, a portion of which refunded bonds issued by the Authority in 1999 and 1996. A public hearing was held on Thursday, June 2nd. The transaction is scheduled to close on August 11, 2016.

Ms. Johnson asked Mr. Fick to provide a financial and application review for the project. Mr. Fick stated that the University will be refinancing outstanding debt. The redemption date will allow the transaction to be undertaken as a current refunding, which is beneficial from the University's perspective. Mr. Fick noted that at this point, based on the

most current information, only \$48.9 million of bonds will need to be issued due to lower interest rates.

Mr. Fick stated that benefits to the University include improved liquidity and financial flexibility. The University will refinance the bonds at lower interest rates by going with a variable rate transaction a portion of which will be converted synthetically to a fixed rate through an interest rate swap. Approximately 80 percent of the new debt will be fixed for 10 years. The final term of the bonds will be extended by a short period of time which further helps reduce the annual debt service payment and gives the University the flexibility to deal with future enrollment changes.

Mr. Fick stated that the University has seen a stable financial performance over a five-year period, purposely driven by University policy. The University has adjusted amounts allocated internally in order to complete ongoing capital improvements. The University is also looking at undertaking a capital campaign in the near future which will give them additional liquidity. Mr. Fick noted that over the past five years, there has been a decline in enrollment of about 250 undergraduate students and a small increase in graduate students. The University has adjusted its enrollment goal to 3,200 students and will be adding some additional graduate programs to increase graduate student enrollment.

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Mr. Fick stated that based on discussions with the bank and the finance team, Springsted is confident that the financing can be successfully completed.

Mr. Cohen asked when the interest rates would be fixed. Mr. Fick stated that the rates will be fixed at pricing. Mr. Cohen asked if interest rates might fluctuate over the next couple of weeks. Mr. Fick stated that based on recent world events, there is not a high probability of rate increases, which are at near record low levels.

Mr. Johnson asked about the shift from temporarily restricted assets to unrestricted assets. Mr. Fick stated that the shift was due to a new building being placed in service. Mr. Johnson asked about the decline in net assets over the last year and what the University plans to do to stop that decline. Mr. Belton stated that the largest impacts on the decline were write offs of two properties that had been donated to the University. Mr. Belton stated that those properties had been overvalued. The remainder was due to endowment performance. The University has restructured the entire endowment portfolio and is starting to see the benefits of that.

Mr. Fick stated that a Phase I Environmental Site Assessment (Phase I) identified some underground storage tanks on the property. Three of the tanks have not been used for quite a while. One of the tanks is in use. The

Phase I did not rule out the possibility of groundwater contamination. A Phase II Environmental Site Assessment (Phase II) is being conducted. The result of the Phase II will not be known for some time. The Washington Federal commitment to purchase the bonds from the Authority on behalf of the University is contingent on the results of the Phase II. There is a small likelihood of contamination being found, for which the University would expect the mitigation cost to be less than \$100 thousand. Mr. Belton noted that the tank in use is used to fuel campus vehicles.

**Action Item:
Approval of
Resolution #16-
01 for Pacific
Lutheran
University**

Mr. Cohen asked for confirmation on the number of decommissioned tanks. Mr. Fick stated that three tanks have been decommissioned and those may be of some concern. The new tank is lined and double walled. Mr. Johnson asked for a motion to approve resolution #16-01 for Pacific Lutheran University. Dr. Sharratt made the motion and it was seconded by Dr. Heynderickx. The resolution was approved unanimously.

Mr. Fick noted that a preliminary estimate shows that the University will realize nearly \$12 million in net cash flow savings with a present value savings of \$8.23 million by using the tax exempt borrowing status of the Authority.

**Action Item:
Approval of the
Annual Budget
for the Period
July 1, 2016 –
June 30, 2017**

Mr. Johnson introduced Mr. Cook to present the annual budget. Mr. Cook stated that staff is projecting four bond issuances for the next fiscal year beginning July 1, 2016 through June 30, 2017 producing about \$271 thousand of revenue. Mr. Cook stated that expenses of about \$480 thousand are projected for the next fiscal year. This is up from the projected actual for 2016, but slightly down from the adopted budget. The total includes increases in employee expenses and savings in office expenses and professional fees due to a delay in implementing a document management system.

For the year, staff estimates expenses exceeding revenues by about \$208 thousand. Mr. Cook noted that total reserves are expected to be \$1.6 million at the end of the year. A few years ago the Authority agreed to draw down the reserves by waving ongoing annual fees on bonds outstanding for the colleges. Staff anticipates continuing the waiver until the reserves are drawn down to about \$1 million.

Mr. Cohen asked if the reserves are reflected in the balance sheet. Mr. Cook affirmed that they were.

Mr. Johnson asked if the state has attempted to extract any funds from the Authority. Mr. Herman stated that there have been no attempts by the state. He noted that the Legislature most likely wants to be very careful

not to put themselves in a position where the state becomes responsible for Authority bonds. Mr. Cook stated that the Authority is showing good faith in benefiting the colleges by letting the reserves be drawn down.

Mr. Johnson asked for a motion to approve the annual budget, acknowledging that in addition to the budget, the Board is approving a waiver of the Authority fees. Mr. Cohen made the motion and it was seconded by Dr. Sharratt. The motion was approved unanimously.

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

Mr. Johnson introduced Mr. Cook to present the financial statement. Mr. Cook stated that the financial statement as of April 30 shows total assets of \$1.8 million with about \$82 thousand of liabilities leaving a position of about \$1.7 million in reserves. It is expected to be down to about \$1.6 million in another couple of months. The Authority has had about \$80 thousand of earnings with about \$278 thousand of expenses, drawing down the reserves by just over \$197 thousand. No significant revenue is expected the rest of the year. Expenses will continue to accrue, adding to the decrease in net position.

Mr. Johnson asked for a motion to accept the financial statement. Mr. Cohen made the motion and it was seconded by Dr. Sharratt. The motion was approved unanimously.

**Invoice for
Services**

Mr. Johnson introduced Mr. Cook to present the invoice for services. Mr. Cook stated that the following invoices: August 1, 2015 through October 31, 2015 totaling \$66,897.40; November 1, 2015 through December 31, 2015 totaling \$36,446.08; and January 1, 2016 through April 30, 2016 totaling \$81,738.23 have been approved by the Board Treasurer.

**Market and
University
Savings Update**

Mr. Johnson introduced Mr. Fick to present the market update. Mr. Fick presented his report noting that interest rates will remain extremely low throughout the balance of 2016 and probably into 2017. Investors are purchasing a significant number of municipal bonds and there is an extreme demand for longer maturity bonds. Pacific Lutheran University's decision to extend their maturity will not hurt them because of this demand. The Fed declined to raise rates in June and it is unlikely they will raise interest rates until at least November/December due to the presidential elections. A continued interest in U.S Treasuries is favorable for issuers of tax exempt debt going forward.

Mr. Fick noted that the final savings analysis for the Seattle University transaction shows a net total cash flow savings of just over \$9,140,000 with a present value savings \$6,805,000.

**Bond Issue
Status Report**

Mr. Johnson introduced Mr. Edwards to present the bond issue status report. Mr. Edwards stated that after the last meeting on September 1, 2015 the Seattle University financing successfully closed on September 11, generating \$6.8 million present value savings mentioned earlier. This financing was 78 percent of the Authority's goal for the current fiscal year. He noted that the Authority did not receive another application for financing for seven months until the Pacific Lutheran University application was submitted on April 16th. With the Board's approval, the PLU transaction will move to closing on August 11, which falls after the current fiscal year end of June 30th. As a result, the Authority will fall short of its \$70 million issuance goal. On the bright side, in addition to the PLU transaction, the report shows potential bond issues from Gonzaga University for \$125 million, Whitman College for \$15 – 20 million, and Pacific Northwest University of Health Sciences for \$20 million. He noted that staff is relatively certain the Gonzaga and Whitman deals will close during the next fiscal year. The Pacific Northwest transaction may not close before June 30, 2017. So, while the Authority was just short of its goal this fiscal year, a robust year of financing is anticipated next year with the objective of completing 4 bond issues totaling \$215 million.

**Executive
Director's
Report**

Mr. Johnson introduced Mr. Herman to present the Executive Director's report. Mr. Herman stated that staff was informed last week that Mr. Fick will be leaving his position at Springsted, Inc. to become the Executive

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Director of the Minnesota Higher Education Facilities Authority. Mr. Fick has been the financial advisor for the Authority for just over 20 years. He will be completing his work on the Pacific Lutheran University financing and will be available to answer questions and assist during the transition. Mr. Fick will continue some of his part time work as a financial advisor while in his new position.

Mr. Herman reminded the Board that Substitute Senate Bill 6342, which decreased the bond cap for student loans from 15% to 5% and increased the bond cap for housing from 32% to 42%, passed late in this last legislative session after the Governor's veto of that bill was overridden. The legislation does not remove the student loan category or any other reference to the potential issuance of student loans in the future. It only lowers the initial allocation to the student loan category.

Mr. Herman stated that after review of Authority policy and staff outreach it was determined that no policy changes were necessary this year.

Mr. Herman stated that Trinity Lutheran College officially closed its doors on May 7. Just a year ago the Board approved the addition of Trinity Lutheran College as a WHEFA member school. Trinity was trying to finance new student housing and refinance existing debt thru the

Authority. Unfortunately their business model was not sustainable with the small number of students that they had.

Mr. Herman provided an update regarding changes in leadership at the Authority's members schools noting the following changes: Dr. Charles "Mac" Powell became president of Bastyr University on July 1, 2015; Glenn Ford became the CFO at Bastyr University, replacing Sheldon Haber who retired; a new CFO, John Vornbrock, replaced Siri Strom at Heritage University in February; Ed Barton just replaced Susan Heltsley as CFO at Saint Martin's University; Dr. Isiaah Crawford, replaces Ron Thomas as President of the University of Puget Sound as of July 1, 2016; and Whitworth University has an interim CFO who replaced Gerry Gemill this past November. They are currently conducting a nationwide search for a permanent replacement.

Mr. Herman provided an update on the activities of Wisconsin Public Finance Authority (PFA). The PFA program was the reason Authority staff developed Washington State legislation limiting financing through out-of-state issuers.

Mr. Herman provided a summary of the articles in the Board meeting packet. He noted that the Fall NAHEFFA conference is in Chicago,

September 28 – 30. Board members interested in travelling to the conference should contact staff to make arrangements.

Mr. Herman stated that the next scheduled Authority meeting is Thursday, August 4, 2016. There may be a financing for Gonzaga University to consider at that time. If there is no business to conduct, the meeting will be cancelled.

Mr. Johnson asked for comments from the public. There were no comments. Mr. Johnson thanked Mr. Fick for his service to the Authority.

Adjournment

Mr. Johnson adjourned the meeting at 2:03 p.m.

Mr. Tom Johnson, Secretary

Date