

# **Washington Higher Education Facilities Authority**

## **MINUTES**

**November 30, 2016**

Mr. Tom Johnson, Board Secretary, called the meeting of the Authority to order at 11:00 A.M.

Board members, Dr. Rachelle Sharpe and Mr. Jerome Cohen, were present in the Rainier room at the offices of Pacifica Law Group, located at 1191 2nd Avenue, Suite 2000, Seattle, WA 98101. Board member Ms. Claire Grace was present by telephone. Authority staff present were: Mr. Paul Edwards, Deputy Director; Mr. Bob Cook, Senior Finance Director; Ms. Carol Johnson, Manager; Ms. Debra Stephenson, Senior Controller and Mr. Cody Field, Program Assistant. Also present were Ms. Faith Pettis of Pacifica Law Group; Mr. Larry Probus, Vice President, Finance and Administration at Whitworth University; Mr. Peter Harvey, Treasurer and Chief Financial Officer at Whitman College; Dr. Sheryl Bailey from Springsted Inc.; and Mr. Thomas Toepfer from Public Financial Management (PFM); Also joining via teleconference was Senator and Lt. Governor-elect, Cyrus Habib.

Mr. Johnson introduced Dr. Rachelle Sharpe and welcomed her to the Board. Dr. Sharpe is the Interim Executive Director at the Washington

Student Achievement Council. She officially became an Authority board member on July 1, 2016. Dr. Sharpe replaced Dr. Gene Sharratt, who retired and had been on the board since 2013. 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 stated that the Lieutenant Governor is an ex officio member of the Authority Board. Lieutenant Governor Brad Owen has been a member since the Authority's inception in 1985. He chose not to run for the position during the last election. Cyrus Habib was elected Lieutenant Governor in November. Mr. Johnson noted that the Authority is very grateful for Lieutenant Governor Owen's years of service and great work on behalf of the entire state. Mr. Habib's term as Lieutenant Governor will begin in early January when the new session starts and he is sworn in. At that point he will officially become a member of the Authority board.

Mr. Johnson noted one correction to the minutes of the June 27, 2016 meeting and asked for a motion to approve the minutes as amended. Mr. Cohen made the motion and it was seconded by Ms. Grace. The motion was approved unanimously.

**Approval of the  
Minutes**

**Whitworth  
University -  
Introduction  
and Financial  
Update**

Mr. Johnson introduced Ms. Johnson to present an introduction to the 2016 Whitworth University transaction. Ms. Johnson stated that the board will consider a proposed issuance by the Authority of tax-exempt revenue and refunding revenue bonds and taxable refunding revenue bonds for Whitworth University in an amount not to exceed \$70 million. This transaction is a public sale. Piper Jaffray is acting as the underwriter. Springsted is acting as the Authority's Financial Advisor. North Slope Capital Advisors is acting as the financial advisor for the University. Proceeds of the bonds will be loaned to the University to finance portions of the Athletic Administration Building and Athletic Field/Stadium improvements, and miscellaneous capital and infrastructure improvements located on the University's campus; to refund bonds issued by the Authority in 2009 which financed, refinanced, and refunded prior obligations for the University facilities; and to finance any other costs, fees, reserves, and associated permitted issuance expenses in the transaction.

A Public hearing for the transaction was held on Friday, November 18, 2016.

Ms. Johnson asked Dr. Bailey to present an application review. Dr. Bailey stated that the proposed financing has two components: a refunding of

2009 bonds and a small new money piece for athletic facilities. The refunding includes a tax-exempt portion and a taxable portion. The taxable portion is there to conform with tax law, which does not permit two advance refundings of tax-exempt debt. The Series 1998 bond proceeds were used to advance refund previous Authority tax-exempt bonds.

The new money will cover a small portion of the athletic facilities development. The University has other financing sources including contributions from fund raising.

The refunding covers a good majority of the University's outstanding debt. The only other outstanding debt is the 2012 bonds totaling just over \$18 million.

Dr. Bailey, the Authority's Financial Advisor on the transaction, stated that there is strong security for the bonds in terms of the additional bonds test and the debt service coverage test. At this time a reserve will not be required to secure the bonds. She noted that Moody's has provided a rating of Baa1 with a stable outlook for the financing and reaffirmed that rating for the outstanding debt.

Dr. Baily stated that the University has seen an overall increase in enrollment over the last five years. She noted that total net assets declined

in fiscal year 2016, but over the past five fiscal years there has been an overall increase in net assets. The University is in a competitive marketplace and the operational results do have their challenges, but the benefit of strong fundraising should offset this.

Dr. Bailey stated that there is value in issuing tax-exempt debt through the Authority despite market conditions and the savings realized by the refunding will offset the new money.

Mr. Johnson asked for a prediction of market conditions. Dr. Bailey stated that historically there is supply buildup in December. The supply and demand dynamic is more favorable in January. At this point there is no clear direction in the market.

Mr. Johnson asked how long the University has to act, assuming the Board approves the transaction. Ms. Pettis stated that the resolution has a provision stating that the bond purchase contract must be executed prior to May 31, 2017.

Mr. Probus thanked the Authority for their assistance with the process noting that the service the Authority provides is valuable.

Ms. Grace asked if the University would change their structure or withdraw entirely if the market doesn't improve. Mr. Probus stated that

the University plans to move forward. As the market stands there is a meaningful benefit to proceed. The discussion is regarding the timing rather than a change to the structure.

**Action Item:  
Approval of  
Resolution #16-03  
for Whitworth  
University**

Mr. Johnson asked for a motion to approve financing resolution #16-03 with regard to the Whitworth University financing. Mr. Cohen made the motion and it was seconded by Dr. Sharpe. The resolution was approved unanimously.

**Whitman  
College -  
Introduction  
and Financial  
Update**

Mr. Johnson asked Ms. Johnson to present the introduction to the Whitman College financing. Ms. Johnson stated that the board will consider a proposed issuance by the Authority of tax-exempt revenue bonds for Whitman College in an amount not to exceed \$20 million. This transaction is a public sale. George K. Baum is acting as the underwriter. PFM is acting as the Authority's Financial Advisor. Springsted is acting as the College's financial advisor.

Bond proceeds will be loaned to the College to build a new 60,000 square foot residence hall. A portion of the proceeds may be used to renovate two existing residence halls. Proceeds may also be used to finance any other costs, fees, reserves, and associated permitted issuance expenses for the transaction.

A public hearing for this transaction was held on Thursday, November 10.

The transaction is scheduled to close on January 5, 2017.

Ms. Johnson asked Mr. Toepfer, the Authority's Financial Advisor for the transaction, to present an application review. Mr. Toepfer stated that in addition to the residence hall, the College will construct a new dining hall and renovate an additional dining hall. The dining facilities will be funded with reserves and gifts available to the College outside of the bond proceeds.

Construction will commence in March and will be completed in August of 2018 just in time for a fall 2018 opening.

The 2017 bonds will be structured as fixed rate bonds with a final maturity of approximately 30 years. The bonds will be general obligations of the College, similar to the College's outstanding 2004 and 2008 bonds. The 2004 and 2008 bonds are variable rate and are currently outstanding in an amount of about \$55 million. With the issuance of the 2017 bonds, the College will have approximately \$75 million of total bonds outstanding.

Mr. Toepfer stated that the College has entered into swap agreements for the variable rate bonds, noting that it is important to know they have

hedged against interest rate exposure and are paying a fixed rate on the bonds.

The College is in a strong financial position. It is benefiting from a sizable endowment of about \$450 million. The unrestricted net asset position of \$235 million exceeds their total debt of \$75 million by more than three times. This ratio shows that there is financial flexibility to pay off the debt if necessary.

The College's operations have been stable. There was a decline of net tuition revenues in 2016, driven by a smaller class of freshman. This fall, enrollment was more in line with expectations. The College is budgeting conservatively and is able to compensate for enrollment changes.

Mr. Toepfer stated that the credit ratios of the College compared to other AA rated institutions compare favorably. It is expected that the College will again be rated Aa3.

Based on the review, PFM believes that it is fiscally feasible to continue with the transaction.

Mr. Toepfer estimated that the College will save approximately \$1.2 million by issuing tax-exempt debt versus issuing taxable bonds. Mr.



Johnson asked if the interest rate swings of the last couple of weeks have affected the savings. Mr. Toepfer stated that those swings have the same effect on taxable and tax-exempt rates.

Mr. Johnson asked Mr. Harvey to comment on the transaction. Mr. Harvey stated that the new residence hall will house about 40 percent of the sophomore class and is targeted specifically toward the sophomore class to focus on retention. The program goal is to build community for sophomores. He noted that while the College is financing approximately \$17.6 million with debt, total project costs for the new projects on campus are about \$46 million.

Mr. Harvey noted the important significance of financing these projects without increasing fees and tuition for the College's students and improving the quality and safety of the facilities in a cost effective manner. He thanked the Authority for supporting private education in the State.

Mr. Cohen asked what percentage of the student population is housed on campus. Mr. Harvey stated that about 70 percent is housed on campus.

Mr. Johnson asked about the growth plans of the College. Mr. Harvey noted that there has been modest growth over the last 5 – 7 years, but that

College facilities are about at capacity. He doesn't believe it is the right time to look at significant growth.

Mr. Johnson asked about general enrollment trends and potential challenges to meet the freshman class enrollment goals. Mr. Harvey stated that it will be a challenge, but the College believes it will meet its goals. He noted that the enrollment challenge last year was a one-off anomaly based on unintended consequences of new strategies.

**Action Item:  
Approval of  
Resolution #16-02  
for Whitman  
College**

Mr. Johnson asked for a motion to approve financing resolution #16-02 for Whitman College. Ms. Grace made the motion and it was seconded by Mr. Cohen. The resolution was approved unanimously.

**Action Item:  
Approval of the  
Audit Report**

Mr. Johnson introduced Mr. Cook to present the auditor's report which was provided in the meeting packet. Mr. Cook stated that the fiscal year audit report is for the year ended June 30, 2016. He noted that the larger of the Authority's two funds, the bond fund, has about \$747 million outstanding which is about 2.5 percent down from the prior year. This is the net result of one bond issuance and payments on other bonds outstanding. He added that the report is an unmodified, or 'clean', opinion. There was \$82 thousand of income into the general operating fund during the year and \$322 thousand of expenses. This is consistent with the recent strategy to waive the ongoing fees on bonds outstanding to spend down

some of the reserves. The Authority ended the year with about \$1.7 million in reserves.

Mr. Cook summarized the auditor's required communications which were distributed to the Authority members, noting that the Authority did not consult with other auditors, there are assumptions and estimates in the financial statements, there were no disagreements with management, and there were no corrections.

Mr. Johnson stated that the auditors reached out to him with questions about the Board's activity.

Ms. Grace congratulated staff on an extraordinarily clean audit.

Mr. Johnson asked for a motion accepting the annual audit report. Ms. Grace made the motion and it was seconded by Dr. Sharpe. The motion was approved unanimously.

Mr. Johnson asked Mr. Cook to present the financial statement. Mr. Cook noted that the financial statement for the period July 1 through the end of October, 2016 shows net assets of \$1.8 million in the operating fund and \$154 thousand of liabilities for a total of approximately \$1.6 million of net

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

assets. The statement of activities shows revenue of \$71 thousand and expenses of \$147 thousand for a net decrease of \$75 thousand.

Mr. Johnson provided a summary of the Authority's decision to waive ongoing fees in order to pay down the reserves. Mr. Johnson asked Mr. Cook his thoughts on the appropriate level of reserves. Mr. Cook stated that approximately \$1 million is the goal, but it is reviewed each year during the budget process.

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

**Invoice for  
Services**

Mr. Johnson asked Mr. Cook to present the invoice for services. Mr. Cook stated that the Housing Finance Commission contracts with the Authority to provide staff and management services. As such, salaries and other allocated expenses are billed back to the Authority. The invoice for the period May through the end of October totaling \$132,464.13, which is within budget, has been reviewed and approved by Authority Treasurer, Ms. Grace.

**Washington  
Student  
Achievement  
Council  
Presentation**

Mr. Johnson introduced Dr. Sharpe to present and overview of the Washington Student Achievement Council. Dr. Sharpe stated that the Council was created in 2012. The Legislature asked the Council to set goals for educational attainment and propose recommendations and strategies to reach the goals. The Council manages the guaranteed education tuition program, all of the state's financial aid programs, and a variety of college access programs.

Dr. Sharpe stated that moving into the 2017 session, the Council's goals, based on workforce need, are that all adults ages 25 to 44 should have a high school diploma or equivalent (right now the state is at 91%) and that 70% will have a post-secondary credential. Three key challenges have been identified: raising the high school graduation rate, increasing post-secondary completion, and approving college affordability. She noted that high school graduation is currently below the national average at 77%. There are over 400,000 former students who have accumulated some credit but never earned any form of credential.

Dr. Sharpe summarized the Council's 2017 action plan, noting some of the main goals including improving college readiness, funding the State Need Grant and College Bound Scholarship, supporting underrepresented students, expanding dual credit and work study programs, and re-engaging adults.

## **Market Update**

Mr. Johnson introduced Mr. Toepfer to present the market update. Mr. Toepfer presented his report noting that the market has shifted dramatically since the presidential election. The stock market has improved and rates in the municipal market have moved upward. Rates have increased by about 60 -70 basis points. Rates are still lower than the 20 year average.

Mr. Toepfer stated that a lot of institutions have entered the market to take advantage of historically low rates, creating a tremendous amount of supply. In November, there was a strong decline in demand for bonds due to the stock market performing well.

Mr. Toepfer noted that The Federal Reserve meeting is on December 13th and 14th and there is a high likelihood that they will raise the federal funds rate. From PFM's perspective, that rate increase is already priced into the market and they do not expect the market to move when the Fed takes action.

## **University Savings Update**

Mr. Johnson introduced Ms. Johnson to present the university savings update. Ms. Johnson stated that the \$48.9 million bond issue for Pacific Lutheran University approved by the Board at the June 27 meeting will generate cash flow savings over the life of the bonds of around \$9.4

million. On a present value basis, this represents savings of nearly \$6.9 million.

**Bond Issue  
Status Report**

Mr. Johnson introduced Mr. Edwards to present the bond issue status report. Mr. Edwards stated that the last report included a \$125 million transaction for Gonzaga University. Due to market conditions, Gonzaga chose to complete that financing on a taxable basis without the Authority. The financing was successfully completed in October.

Mr. Edwards noted that the Pacific Lutheran University Financing closed on August 11<sup>th</sup>. Mr. Edwards stated that after closing the Whitworth University and Whitman College transactions, the Authority will have completed three bond issues totaling approximately \$139 million. This represents 65% of the Authority's goal, with seven months left in the fiscal year.

Mr. Edwards stated that the other potential bond issue on the report is a \$20 million new money transaction for Pacific Northwest University of Health Sciences. The Authority has not received an application.

Mr. Johnson commented on the Gonzaga transaction, noting that his understanding is that the Gonzaga issued taxable bonds to obtain relief from IRS regulation regarding use, documentation and compliance.

**Executive  
Director's  
Report**

Mr. Johnson introduced Mr. Edwards to present the Executive Director's report. Mr. Edwards stated that staff recently attended the Washington Student Achievement Council's Pave the Way conference. Dr. Sharpe and her staff did a beautiful job of putting on the conference and preparing a wide ranging and interesting agenda.

In September, Mr. Edwards, Ms. Johnson and Mr. Field along with Board member Mr. Cohen attended the NAHEFFA conference in Chicago. Mr. Edwards noted that a presentation was given by ML Strategies, who will work on federal legislation on behalf of NAHEFFA and its members to protect the tax-exempt status of Authority bonds. Authority Executive Director, Mr. Kim Herman, will be on the NAHEFFA advocacy committee going forward. Staff anticipates travelling to Washington D.C. in April to meet with legislators and to attend the spring NAHEFFA Conference in Alexandria, VA.

Mr. Cohen stated that the conference in Chicago was very interesting, specifically regarding upcoming advocacy efforts in Washington DC. Mr. Cohen noted that he attended the last NAHEFFA conference in Alexandria and participated in meetings with legislators. He described those meetings as very meaningful and important and Mr. Edwards noted that having a Board member present was very effective.



Mr. Edwards provided a summary of staff activities including recent visits to member colleges and universities.

Dr. Bailey commended the Authority and Staff for their involvement on a national level and reiterated the importance of supporting the tax exemption and education.


**Authority  
Meeting  
Schedule**


Mr. Johnson asked Mr. Edwards to present the Authority meeting schedule. Mr. Edwards stated that the next regularly scheduled meeting will be held on February 2, 2017. He noted that if there is no business to conduct, the meeting will be cancelled.

Mr. Johnson thanked the meeting participants including Authority members, staff and consultants.

**Adjournment**

Mr. Johnson adjourned the meeting at 12:26 p.m.

  
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Mr. Tom Johnson, Secretary

  
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Date