

Washington Higher Education Facilities Authority

MINUTES

June 26, 2017

Mr. Tom Johnson, Board Secretary, called the meeting of the Authority to order at 1:05 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, Ms. Claire Grace, Mr. Michael Meotti, Mr. David Schumacher and Lt. Governor Cyrus Habib 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 Dr. Sheryl Bailey of Springsted Inc.

Mr. Johnson welcomed Mr. Meotti, the Executive Director of the Washington Student Achievement Council, to his first Authority meeting. Mr. Meotti noted that he participated in Capital Hill legislative visits with staff of the Authority.

**Approval of the
Minutes**

Mr. Johnson asked for a motion to approve the minutes of the November 30, 2016 Authority Board meeting. Mr. Cohen made the motion and it was seconded by Ms. Grace. The motion was approved 6 – 0 with one abstention.

Mr. Herman stated that this meeting will likely be Mr. Johnson's last meeting. His second term officially ended in March, but he agreed to serve until the Governor appoints someone to fill his position. He noted that an appointment decision from the Governor's Office is anticipated soon. Mr. Herman thanked Mr. Johnson for continuing to participate. He noted that Mr. Johnson has been on the board for over 8 years. He has been the Secretary and Chair for just over 3 years and was Board Treasurer for a year prior to that.

Mr. Herman read the following statement which was emailed to the Board in March by Ms. Johnson: Tom has been a good friend of ours and of higher education during the years he has served on the board. He has brought us great leadership, a passion for education, and a wealth of experience and knowledge. As Secretary/Chair of the board, he has been a resourceful and creative leader and guide. We are extremely grateful for the excellent work he has done with us and for the students of Washington State. Tom has been a pleasure to work with and a great asset to WHEFA.

We will miss you very much, Tom. We wish you the best in all of your future endeavors.

Mr. Johnson stated that it has been a great privilege and honor to serve on the board.

**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 both a Secretary and a Treasurer. This past year Mr. Johnson served as Secretary and Ms. Grace served as Treasurer. He noted that if the Governor does not attend a meeting, the Secretary becomes the acting chair.

Mr. Herman stated that Ms. Grace has graciously agreed to continue in her role as Treasurer if the board nominates and elects her. Mr. Cohen has agreed to serve as Secretary if so nominated and elected.

Mr. Johnson asked if there were any other nominations. There were none.

Mr. Johnson asked for a motion to nominate and elect Mr. Cohen as Secretary for a one year term and Ms. Grace as Treasurer for a one year term. Mr. Meotti made the motion and it was seconded by Dr.

Heynderickx. The motion was approved with Ms. Grace abstaining from the vote on her own nomination and Mr. Cohen abstaining from the vote on his own election.

**Action Item:
Procedural
changes related
to the use of a
financial
advisor**

Mr. Johnson introduced Ms. Johnson to present the action item concerning the use of a financial advisor. Ms. Johnson stated that staff and legal counsel have been exploring procedural changes that would allow more flexibility and lower cost related to the use of a financial advisor on transactions. She noted that four or five years ago, Authority member schools began hiring their own advisors to assist them with bond issues. Prior to that they relied solely on the Authority's advisor. Member schools that have hired their own advisor have reported that having two financial advisors can be confusing and costly.

Ms. Johnson stated that the Authority currently uses an established and approved roster of financial advisors. This was a change in procedure that the board reviewed and approved on June 8, 2015. She noted that current policies do not need to be changed to accommodate the current proposal. Authority policies specifically say, "the Authority also reserves the right not to have a financial advisor serve for a particular transaction or for special programs."

Authority staff is making the following recommendations: If a school has engaged its own advisor, the Authority will not engage an advisor on transactions that are deemed uncomplicated. The Authority shall engage an advisor on more complicated transactions. In the event that the Authority does not use its own advisor, the school's advisor shall complete

the application review and presentation to the Board, and the preliminary and final letters reporting estimated interest savings over the life of the bonds as a result of using tax-exempt bond financing. Application reviews shall be consistent with current Authority policies and established procedures.

Ms. Johnson stated that based on an inquiry from Dr. Heynderickx, staff created a list of internal guidance for what would constitute a complicated transaction. She noted that the Authority will hire its own advisor for: use of a bond structure that the Authority has not seen before; all publicly sold unrated transactions; bond issues that utilize payment agreements such as derivatives, interest rate swaps, or similar instruments; when questions arise related to the bond market, financial feasibility, interest rates or other similar financial issues; and when the Authority and college/university interests are not aligned. She noted that this is not an exhaustive list and it could evolve over time.

Ms. Johnson called attention to the application review outline and the application review presentation outline which are part of the recommendation. These would serve as guidance for an advisor that has never worked with the Authority.

Ms. Johnson stated that staff solicited feedback from member schools and received six responses, all of which were supportive of the changes. There were no objections. Mr. Herman noted that the Authority's affiliate agency, the Washington State Housing Finance Commission, uses a similar approach. He stated that between bond counsel and staff expertise, a financial advisor was not always necessary. He noted that the staff recommendation would bring the Authority more in line with the Commission's procedures and reiterated that the Commission does reserve the right to hire an advisor.

Lt. Governor Habib asked about the financial benefit of the proposed changes. He also asked if the Board has a fiduciary duty to rely on a financial advisor or if the advisor is purely discretionary and what burden there is on the state.

Ms. Johnson addressed the first question and explained that the school is charged a financial advisor fee as part of the transaction. She noted that when there are two financial advisors, the school is paying the Authority's advisor fee, and its own. Mr. Herman noted that by eliminating the Authority's financial advisor, the school would only pay one advisor.

Lt. Governor Habib asked if the savings comes at the expense of added exposure to the state. Mr. Herman stated that the Authority is a conduit

bond issuer and that risk is taken on very carefully. As a conduit issuer, the Authority is acting on behalf of its clients. To have a problem, a board member would have to be acting with malfeasance. Mr. Herman stated that staff of the Authority would bring on an advisor for any deal they do not understand or have never seen before. The advisor would educate and answer questions about that structure for staff and board members. Staff would also rely on advice from counsel on how to proceed. He noted that there is no requirement to hire an advisor.

Ms. Pettis stated that all documents entered into in a bond issue contain an indemnification provision that requires the borrowing entity to indemnify the Authority should anything go wrong in a bond transaction. The only out for that would be if the Authority has behaved in a way that is grossly negligent or there is willful misconduct. Otherwise, the board is protected for all actions related to a bond issue. This is carefully added to each bond issue because of the Authority's role as a conduit bond issuer. The Authority adds nothing other than its name and the tax exemption for the transaction. Ms. Pettis added that there is no requirement under federal securities law, federal tax law, or state law to use a financial advisor on a transaction.

Lt. Governor Habib asked if it would be best practice, considering the Authority has always had a financial advisor in the past and if there are

concerns regarding how the market might perceive the State of Washington. He also inquired why the Authority would have an advisor on any deal if it is a redundancy.

Mr. Herman stated that in Washington State, the colleges and universities have historically operated with the advice of investment bankers and their CFOs. In the past, the universities did not hire their own financial advisor. Within the last four or five years, colleges and universities have started engaging their own advisors. As a result, when they were billed for both the Authority's advisor and their own, they felt that they were being charged for the same service from two different places. Mr. Herman noted that most structures brought to the Authority by investment bankers are generally repetitive and staff, bond counsel and the Assistant Attorney General are already very familiar with them. Authority staff does not feel there is a reason to have a financial advisor and charge that to the schools. These standard and repetitive deals wouldn't put the Authority at any greater risk if they decide to not use a financial advisor. He stated that staff is happy to respond as the board wishes.

Mr. Cohen asked for an example of an unrated transaction. Ms. Johnson stated that an unrated transaction has not been rated by a rating agency such as Moody's or S&P. Mr. Cohen asked if that is something the Authority would do. Ms. Johnson affirmed that the Authority would issue

an unrated bond. Mr. Herman stated that rating agencies have very clear guidelines about their requirements. He noted that unrated public sales place a higher risk to the Authority. He noted that the Authority does not see many unrated public sales. The Authority issues unrated privately placed bonds which are sold directly to a bank or institution.

Ms. Grace asked for an example of when the Authority and the college or university's interest would not align. Ms. Pettis provided an example of the Authority's policy that publicly sold bonds be A rated. Some of the stronger colleges requested that the Authority permit publicly sold investment grade bonds, which would be below an A rating. The Authority used a financial advisor to evaluate the change and additional risk.

Mr. Johnson stated that based on his experience working in the finance office of a private university in Washington, there are other states that have had a more user friendly and less conservative approach to bond financings. Historically, the Authority has taken a more conservative approach.

Mr. Johnson asked for a motion to approve the procedural change recommended by staff. Ms. Grace made the motion and it was seconded

by Mr. Cohen. The motion was approved with 6 votes in support and 1 opposed.

Mr. Meotti left the meeting at 1:35 p.m.

Ms. Grace stated that in her experience, including her term with the Authority and two terms on the Housing Finance Commission, staff has consistently been very conservative and very aware of their responsibilities to the state and to the board members, and that they have a very experienced and highly educated group of people on staff. She noted that she is very comfortable that the Authority's staff will be more conservative than issuers around the country.

**Action Item:
Approval of the
annual budget**

Mr. Johnson introduced Mr. Cook to present the annual budget for the period of July 1, 2017 through June 30, 2018. Mr. Cook reminded the board that the Authority contracts with the staff of the Washington State Housing Finance Commission to provide management and services. A significant amount of the Authority's expenses are paid to the Commission. Mr. Cook stated that a slight decrease to the number of FTEs is budgeted, noting that the exact staff time spent on Authority activities will be charged. Staff time is budgeted to account for some amount of any unforeseen activities.

Mr. Cook stated that for the next fiscal year only two financings totaling \$30 million are projected. This is a small budget year and most of the universities' funding needs have been taken care of over the last several years.

Mr. Cook stated that the business objectives for the year are standard. The only major change is the number of projected financings. The summary budget shows a proposed 2.46 FTE time for the 2018 budget. This is down about .13 from what was budgeted in 2017. The actual FTE time for 2017 is projected to be 2.18.

Mr. Cook stated that fee income for next year is budgeted at approximately \$40 thousand, which is \$280 thousand less than last year's budget. The current year fee income is about \$120 thousand less than the amount budgeted. Expenses are budgeted at \$464 thousand, down about \$17 thousand from last year. The current year actual expenses are approximately \$100 thousand less than the budget for next year. Mr. Cook noted that the projected deficit for next year is \$420 thousand. The Authority will end the current fiscal year with \$1.48 million in reserves. He stated that the Authority's goal is to pay down the reserves to \$1 million, and it agreed to waive ongoing fees on bonds outstanding in order to put the Authority in a deficit position. Each year, the colleges are notified about the waiver and reminded of the fee they would have paid.

The notification also indicates that the board may decide to reinstate the fee. Based on the budget, the fee may be reinstated next year.

Mr. Johnson reminded board members of the Authority's plan to establish a student loan fund. The reserves were built up over time to back a possible loan fund for this program. After analysis, it was determined that the program was not feasible. This left a sizable reserve fund balance, and over the last several years, the Authority has tried to get those funds back to the schools through the fee reductions.

Mr. Cohen asked about the substantial difference between the budgeted fee income for this year and next year and how it translates to the expenses the Authority is incurring. Mr. Cook stated that a significant part of the expenses are fixed. He noted that there is time budgeted for transactions, however if less time is spent on a transaction, less FTE time will be billed.

Mr. Johnson asked for a motion to approve the annual budget. Dr. Heynderickx made the motion and it was seconded by Ms. Grace. 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 assets of just over \$1.6 million and approximately \$90 thousand of liabilities, leaving just over \$1.5 million in reserves. He noted that revenue to date is approximately \$159 thousand, with expenses of almost \$306 thousand leaving a deficit position of approximately \$147 thousand. Last year's deficit was around \$197 thousand.

Mr. Johnson asked for a motion to accept the financial statement. Ms. Grace made the motion and it was seconded by Lt. Governor Habib. The motion was approved unanimously.

**Invoice for
Services**

Mr. Johnson introduced Mr. Cook to present the invoice for services. Mr. Cook stated that the invoice from the Washington State Housing Finance Commission for January 1 through March 31, 2017 totaling \$65,511.76 has been approved by the Treasurer. He noted that the invoice from November and December of 2016 in the amount of \$42,993.01 has also been approved by the Treasurer.

Market Update

Mr. Johnson introduced Dr. Bailey to present a market update. Dr. Bailey presented her report noting some modest growth in productivity since the

first quarter of 2017 as well as an increase in overall employment and a steady decline in overall unemployment.

Dr. Bailey stated that this recovery is different than prior recoveries, noting that productivity in this business cycle is lower than almost all other business cycles. Current output growth of 1.1 percent is well below the post-war average. There is some bumpiness in the economy but it is trending upward. She noted that the Fed has increased rates three times since December of 2016.

Dr. Bailey stated that the stock market has seen a long-term bull market trend and has been bumpy in the short term. Treasury yield has had a long term downward trend. The muni market volatility tracks with term yields and is rewarding higher credit ratings with higher yields. The tax-exempt market has an almost 100 basis point difference from the taxable curve and is saving real money for public projects.

**University
Savings Update**

Mr. Johnson introduced Ms. Johnson to present the university savings update. Ms. Johnson stated that the Whitworth transaction that closed in December of 2016, saved the university \$4,980,000 on a present value basis and \$8,829,000 over the life of the bonds. Whitman College closed a transaction in January of 2017 resulting in present value cash flow savings

of \$1,266,000 and \$2,233,000 over the life of the bonds. These savings are the result of using tax-exempt financing.

**Bond Issue
Status Report**

Mr. Johnson introduced Mr. Edwards to present the bond issue status report. Mr. Edwards stated that the report dated June 9, 2017 shows one potential bond issue with Pacific Northwest University of Health Sciences in Yakima. The Authority has not received an application and a closing isn't anticipated until 2018. He noted that in the current fiscal year, three bond issues were closed totaling \$127,173,000 resulting in \$13,123,000 present value total savings for the three schools. The fiscal year goal was four bond issues, totaling \$215 million. The Authority only reached 59 percent of its goal for the year. Due to the small universe of schools and cyclicity of financings, the Authority surpasses its goals in some years and falls short in others.

**Executive
Director's
Report**

Mr. Johnson introduced Mr. Herman to present the Executive Director's report. Mr. Herman discussed the significant leadership changes at Authority member schools noting that at Cornish College of the Arts Chris Kevoorkian replaced Dr. Nancy Uscher as Interim President under an 18-month contract. Cornish is currently conducting a nationwide search for a new president. In addition, this past year a new CFO, Diane Hager, replaced Jeff Ridell, who retired. At Heritage University, Dr. Andrew Sund will replace Dr. John Bassett as the University's 3rd President on

July 1. Dr. Bassett has served as President since 2010. Dr. Sund is currently the President of St. Augustine College in Chicago. Vicky Swank replaced John Vornbrock as CFO this past January. Mr. Vornbrock was with Heritage for about a year. Finally, at Pacific Lutheran University Allan Belton, the CFO, was appointed Acting President effective this month. Dr. Thomas Krise retired in May, but will stay on as a professor in the English Dept. Mr. Belton will be both Acting President and CFO until a nationwide search has been concluded.

Mr. Herman stated that ML Strategies, a subsidiary of Mintz Levin, is working on behalf of NAHEFFA and its members on the federal legislative level. Their top priority is protecting tax-exempt bond financing. Mr. Herman noted that he, Mr. Edwards and Ms. Johnson are on the NAHEFFA advocacy committee.

Mr. Herman described the activities of the Wisconsin Public Finance Authority (PFA), an out of state issuer. The Authority was very involved in establishing legislation in the State of Washington to limit access by out-of-state issuers. The PFA recently issued \$1.09 billion in bonds on behalf of the New Jersey Sports & Exposition Authority.

Mr. Herman discussed some recent free tuition programs that have popped up nationally. He noted that year-round Pell Grants will become available

on July 1. Income Share Agreements (ISAs), which are viewed as an alternative for some students, are getting more attention. In April, Purdue University acquired Kaplan University, a for-profit college. This was considered a tectonic shift in American higher education, revealing both the changing roles of public universities and the dwindling fortunes of for-profit colleges.

Mr. Herman announced that the Fall NAHEFFA conference is being held in Boise, ID September 6 – 8. Board members are invited to attend. The Authority, along with several other agencies, are official endorsers of the Council for Development Finance Agencies (CDFA) Washington Financing Roundtable. The Washington Roundtable is a one-day conference that will be hosted by Foster Pepper in Seattle on October 10.

Mr. Herman summarized the articles available in the board meeting packet.

The next Authority meetings are scheduled for August 3 and November 2. Mr. Herman noted that if there is no business to conduct the meetings will be cancelled.

Adjournment

Mr. Johnson adjourned the meeting at 2:27 p.m.

Mr. Jerome Cohen, Secretary

Date