

Washington Higher Education Facilities Authority

MINUTES

December 15, 2017

Mr. Jerome Cohen, Board Secretary, called the meeting of the Authority to order at 9:02 a.m.

Mr. Cohen was present in the Board Room, located at 1000 Second Avenue, 28th Floor in Seattle, WA 98104. Board members Ms. Claire Grace, Mr. Michael Meotti, and Dr. Gene Sharratt were all present by telephone. Authority staff present were: Mr. Kim Herman, Executive Director; Mr. Bob Cook, Senior Finance Director; Ms. Carol Johnson, Manager; and Mr. Mike Gary, Program Assistant.

Also present were: Ms. Deanna Gregory of Pacifica Law Group; Messrs. Rusty Fallis and Michael Nelson from the Washington State Office of the Attorney General; Ms. Amy Sutherland from Moss Adams LLP; Mr. Thomas Toepfer from Public Financial Management; Ms. Connie Kanter from Seattle University; and Mr. John Wendling from Blue Rose Capital Advisors. Ms. Debbie Kuykendall from U.S. Bank was present by telephone.

**Approval of the
Minutes**

Mr. Cohen asked for a motion to approve the minutes of the June 26, 2017 Authority Board Meeting as distributed. Dr. Sharratt made the motion, and it was seconded by Mr. Meotti. The motion was unanimously approved as distributed, 4-0.

**Action Item:
Approval of
Resolution
#17-02
for Seattle
University**

Mr. Cohen introduced Ms. Carol Johnson, the Authority's Manager, to present staff recommendation for approval of Resolution No. 17-02.

Ms. Johnson stated that the board will consider a proposed issuance by the Authority of tax-exempt refunding revenue bonds for Seattle University in an aggregate principal amount not to exceed \$47,500,000. She stated that this transaction is a public sale underwritten by George K. Baum and that Blue Rose Capital Advisors was the University's financial advisor. She stated further that the Authority chose to not utilize a financial advisor for this bond issue.

Ms. Johnson then stated that the bond proceeds were to be used by the University to refund previous bonds issued in 2009 to finance capital improvements to its campus.

A public hearing for the transaction was held on Wednesday, December 13, 2017.

Ms. Johnson then introduced Ms. Kanter from Seattle University, and Mr. John Wendling, Senior Vice President, Blue Rose Capital Advisors, to speak further about the project.

Mr. Wendling referred to his application review of the transaction dated December 4, 2017. This transaction is an advanced refunding of Seattle University's 2009 tax-exempt bond issue, to be completed prior to the end of the year. He added that the University stands to benefit economically from the refunding, with net present value savings of 16-17% of refunded par.

Mr. Wendling then stated that bond pricing would occur sometime next Tuesday, December 19, with the firm of George K. Baum being the sole underwriter for this transaction.

He mentioned that the estimated bond par amount would be \$43.5 to \$44 million, depending on coupon structure. The estimated total amount of bonds to be refunded would be \$41,775,000.

Mr. Wendling then stated the University provided information with regards to its financial status. It is continuing to operate at a surplus, and that even though the University does not budget for depreciation, it does budget for capital reserves. He added that enrollment is stable from an

undergraduate FTE perspective, with recent increases in the number of graduate students. He concluded, that overall the University has a stable financial outlook.

Mr. Wendling then referenced Standard & Poor's (S&P) Ratings Direct Report for the University. He added that it was fortuitous that S&P had scheduled its annual surveillance call in early November and reaffirmed the University's "A" bond rating.

Mr. Wendling then referenced Blue Rose's Preliminary Estimate of Tax-Exempt Benefit (Savings) letter dated December 4, 2017. The present value savings was estimated to be about \$2.3 million and the gross cash flow savings around \$4.3 million.

Ms. Kanter thanked the Authority for its work and support on this bond transaction, which benefits the University's students and allows funding for the University and for its scholarships with the significant net present value savings.

Mr. Cohen asked Mr. Wendling if the 16-17% net present value savings are taken into consideration with the extra cash requested and lower interest rate. Mr. Wendling replied that the 2009 bonds were issued at a higher coupon rate of 5.25%. Replacing that with a 4% coupon rate for the

2017 bond issue allowed the University to issue slightly more debt and still show a net savings.

Mr. Cohen asked for a motion to approve Resolution #17-02 regarding the Seattle University financing. Mr. Meotti made the motion, and it was seconded by Dr. Sharratt. The resolution was approved unanimously, 4-0.

Action Item:
Public Hearing
Policy Changes

Mr. Cohen introduced the Executive Director, Mr. Kim Herman, to present the action item concerning public hearing policy changes.

Mr. Herman stated that the IRS provided guidance and permission for the Authority to no longer be required to publish legal notices in printed newspapers in the location(s) of the colleges and universities. The Authority may now utilize its website for this purpose. He noted that legal advertisements are expensive and can cost on average from \$2,000 to \$3,000 each to publish.

Mr. Herman proposed to the board members that the Authority would publish a one-time only legal notice in each of the areas of the state where the Authority's member colleges and universities are located. The notice will state that effective immediately, legal notices would no longer be published in the newspaper, but would be published/posted in accordance with IRS regulations on the Authority's website (www.whefa.org). The

Authority will continue to mail printed copies to those who are on the Authority's mailing list. He concluded that this would save money in the long run for both the Authority and its clients.

Mr. Cohen asked if any board members had any questions for Mr. Herman. Both Ms. Grace and Dr. Sharratt commented that they were pleased that the IRS has now allowed this. Mr. Cohen also concurred. After hearing no further questions or comments from board members, Mr. Cohen then asked for a motion to approve the public hearing policy changes as proposed.

Ms. Grace made the motion, and it was seconded by Dr. Sharratt. The motion was approved unanimously, 4-0.

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

Mr. Cohen introduced Mr. Bob Cook, the Authority's Senior Director of Finance, to present the final Independent Auditor's Audit report to the board for their consideration. Mr. Cook stated that Moss Adams LLP, the Authority's independent auditor, prepared an unmodified/clean opinion report for the Authority. He stated further that the general operating fund was \$1.7 million of net assets, and was reduced by \$188,000 from the previous year.

Mr. Cook then introduced Ms. Amy Sutherland from Moss Adams, to give their summary of the audit results.

Ms. Sutherland summarized that the audit report was an unmodified/clean opinion. She stated further that the audit was conducted utilizing U.S. GAAP accounting policies and that the planned scope/timing of the audit was communicated to the Authority. It was included in their engagement letter with the field work completed in October, and the report done in November.

She summarized further that Moss Adams believed the Authority's management has selected and applied significant accounting policies/practices appropriately and consistently with those of the prior year. She mentioned that they did not note any significant estimates used in the financial statements and that the disclosures in the financial statements were clear and consistent.

Ms. Sutherland then stated that there were no difficulties encountered during their audit and complimented Authority staff for their help and cooperation. There were no corrected/uncorrected audit adjustments, and no significant risks/exposures/uncertainties were noted in their audit procedures. Also, she mentioned that there were no disagreements with management, and no significant deficiencies or material weaknesses were

noted. Ms. Sutherland added that there were no unusual representations from management. She concluded that they were unaware of any instances of fraud or noncompliance with laws and regulations.

Ms. Grace commended Authority staff for a clean audit.

Mr. Cohen, after hearing no further board member questions or comments, asked for a motion to accept the audit report. Ms. Grace made the motion, and it was seconded by Dr. Sharratt. The motion was approved unanimously, 4-0.

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

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

Mr. Cook stated that the financial statement shows assets of just over \$1.5 million and approximately \$100,000 of liabilities, leaving just over \$1.4 million in net asset position. He noted that revenue to date is approximately \$5,000, with expenses of almost \$108,000; leaving a deficit position of approximately \$102,000. Mr. Cook mentioned that the Authority waived its ongoing annual fee on bond issues and that this deficit was budgeted. He then asked if any board member had any questions or comments.

Mr. Cohen asked if the \$102,000 were taken from reserves. Mr. Cook replied that it was.

Mr. Cohen thanked Mr. Cook for the financial report, and after hearing no further 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, 4-0.

**Invoice for
Services**

Mr. Cohen then asked Mr. Cook to present the invoices for services. Mr. Cook stated that the invoices from the Washington State Housing Finance Commission for April 1 through June 30, 2017, totaling \$62,403.67, and July 1 through September 30 for \$45,353.68 have both been reviewed and approved by the Treasurer.

Market Update

Mr. Cohen introduced Mr. Thomas Toepfer, from Public Financial Management, Inc. to present the market update.

Mr. Toepfer stated that proposed tax reform legislation would be reducing both the individual and corporate tax rates, which would reduce the benefits of tax-exempt bonds versus taxable bonds over time. He stated further that the U.S. House version of the legislation before reconciliation with the U.S. Senate would eliminate issuance of tax-exempt bonds and advanced refundings effective January 1, 2018. As a result, bond issuers

across the country have been issuing a high volume of tax-exempt and advanced refunding bonds in anticipation of the possible sunset date.

Mr. Toepfer then mentioned that in the past month, there has been some volatility, with the 10-year AAA interest rate going up and down. He commented that this was occurring because the Federal Reserve (Fed) increased the Fed Funds rate by .25% and is expecting three separate interest rate hikes in 2018. He concluded that there still was investor demand for long-term bonds.

Despite rate increases, long term tax-exempt rates are still generally low from a historical perspective due to inflation. He added that overall, tax-exempt bond rates have steadily declined over the past twenty years, with tax-exempt rates closely mirroring the trends of taxable bond rates.

Mr. Toepfer then commented that for supply and demand, 2017 municipal bond issuances have not surpassed 2016 issuances, despite proposed tax reform forcing issuers to accelerate transactions and adding significant supply. He concluded that inflows to the municipal market funds have declined in the past three months.

**Bond Issue
Status Report**

Mr. Cohen asked Ms. Johnson to present the bond issue status report. Ms. Johnson stated that the report dated December 8, 2017 shows one bond issue in progress for Seattle University, noting that the board just approved the financing resolution, with the bonds set for closing on December 27.

She stated further that there is a \$46 million combination new money and refunding bond issue for Pacific Northwest University of Health Sciences (PNWU) in Yakima anticipated to close in early 2018. PNWU submitted their application in November but chose to postpone the bond closing until early 2018.

Ms. Johnson mentioned that PNWU anticipates another new money transaction for \$20 million sometime in 2019.

She noted that the 2017-2018 fiscal year goal was to complete \$30 million in tax-exempt bond issuances. With bond issues for Seattle University happening now and PNWU sometime in 2018 the total amount would be about \$93.5 million, a little more than 3 times over goal.

**Executive
Director's
Report**

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

Mr. Herman stated that the U.S. House of Representatives introduced their version of the tax reform act on November 2, 2017, which would eliminate issuers' ability to issue private activity bonds. Activity by issuers of tax-exempt bonds has gotten quite busy since then. He stated that staff from the Authority along with its affiliate agency, the Washington State Housing Finance Commission, have been very busy educating our state's members of Congress, especially the Republican members of Congress, about the positive impacts of tax-exempt bond financing.

Mr. Herman stated that the U.S. Senate's version retains tax-exempt bonds but eliminates advance refundings beginning on January 1, 2018. The final bill will be released out of conference committee shortly. From what he has heard, tax-exempt bonds would be retained in the final reconciled bill, but he is still awaiting the final details of the bill.

Relative to the negative impacts of the proposed tax reform bill, he stated that four letters to the editor, prepared by the Housing Finance Commission, were published in statewide newspapers. In addition, Mr. Tom Johnson, former board member and Secretary, sent a letter sent to Congresswoman Cathy McMorris-Rodgers.

Mr. Herman stated that the Housing Finance Commission is currently preparing to close as many as 15 housing and nonprofit bond issues prior

to January 1. He added that there are still discussions going on regarding private activity bond cap. He added further that the Authority's bonds are nonprofit bonds and are exempt from volume cap.

Mr. Herman then stated that there could potentially be issues with rate changes on existing bonds that could trigger advanced refundings on January 1, 2018, and thereafter. Mr. Herman then asked Ms. Deanna Gregory, the Authority's bond counsel from Pacifica Law Group, to comment on what is being done on these transactions.

Ms. Gregory stated that they are working on amending bond documents for a number of existing bond issues for the Authority and the Housing Finance Commission in order to introduce a future interest rate calculation that would not trigger a reissuance. Mr. Herman added further that he will be signing a total of 26 different amendments to existing bond issues as a result.

Mr. Cohen commended Mr. Herman and his staff for being so thorough through this "opaque" process regarding tax reform, and for being able to convince Republican members of Congress to retain private activity bonds.

Mr. Herman mentioned that the Mr. Edwards and Ms. Johnson visited schools in Eastern Washington in late October. He emphasized that this is a very important part of the Authority's work and also one of staff's favorite things to do.

Mr. Herman announced that the 2017 WHEFA Annual Report was just finished and is now posted on the Authority's website. Links to the report have been e-mailed to all Authority board members. Hard copies will be provided shortly. He commended Ms. Ellen Alley from the Communications team for both the Authority and the Housing Finance Commission for a well-done report.

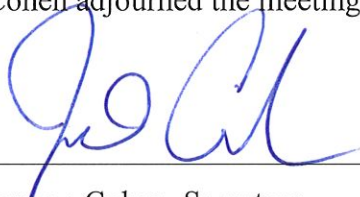
Mr. Herman summarized the articles emailed to the board and provided in the board meeting packet.

Mr. Herman announced the dates for the regularly scheduled quarterly Authority board meetings for 2018: February 1, May 3, August 2, and November 1, 2018.

Mr. Herman mentioned that for the upcoming meeting on February 1, Pacific Northwest University of Health Sciences may have a bond issue to consider. He emphasized that if there was no business to conduct, the scheduled meetings would be cancelled.

Adjournment

Mr. Cohen adjourned the meeting at 10:06 a.m.



Mr. Jerome Cohen, Secretary

2/15/18

Date