

Washington Higher Education Facilities Authority

MINUTES

September 17, 2019

Mr. Jerome Cohen, Board Secretary, called the special meeting of the Authority to order at 2:00 p.m.

Board members Mr. Cohen and Ms. Claire Grace were present in the Board Room, located at 1000 Second Avenue, 28th Floor in Seattle, WA 98104.

Board members Lieutenant Governor Cyrus Habib, Mr. Michael Meotti, 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, Affiliates Manager; Ms. Debra Stephenson, Senior Controller; and Mr. Mike Gary, Program Assistant.

Also present were Ms. Faith Pettis and Ms. Deanna Gregory of Pacifica Law Group, Authority bond counsel; Mr. Thomas Toepfer of Public Financial Management; and Ms. Debbie Kuykendall and Ms. Christine Ok of US Bank Corporate Trust. Other meeting participants present were: Dr. Terri Standish-Kuon, President and CEO of the Independent Colleges of Washington, and Messrs. Sachin Karamchandani and Kevin Ye, from Prager & Company.

Other meeting participants joining by phone were Mr. Michael Nelson II, Assistant Attorney General, Washington Attorney General's Office; Ms. Sherry Mondou, Executive Vice President and CFO, University of Puget Sound; Mr. Nick Waugh, George K. Baum & Company; and Mr. Joe Smith, CFO of Gonzaga University and Treasurer of the Corporation of Gonzaga University.

Approval of the Minutes

Mr. Cohen asked for a motion to approve the minutes of the meeting held on June 17, 2019. Ms. Grace made the motion, and it was seconded by Dr. Sharratt.

Lieutenant Governor Habib stated for the record that he would abstain from the vote as he was not present for that meeting.

The minutes were approved unanimously, 5-0, with one abstention.

**Action Item:
Approval of
Resolution
#19-01
for University
of Puget Sound
(UPS)**

Mr. Cohen introduced Ms. Johnson, the Authority's Manager, to present Resolution No. 19-01.

Ms. Johnson stated that this transaction is a proposed issuance by the Authority of tax-exempt refunding revenue bonds for the University of Puget Sound (UPS) in an amount not to exceed \$24,280,000.

Ms. Johnson stated that this transaction is a very simple refinancing with no change in the amount of debt and that the University will achieve an estimated present value savings of over \$1.4 million. She added that WHEFA staff and legal counsel considered all aspects of this transaction carefully decided that it was not necessary for either party to have a financial advisor involved in the transaction. She made mention that WHEFA has often not engaged a financial advisor when the University has had its own, and noted this was the first time that there has been no financial advisor for either party. She added that WHEFA policies do provide for the ability to do this and that, additionally, the Washington State Housing Finance Commission (WSHFC) has been doing this successfully for several years.

Ms. Johnson commented that not requiring UPS to engage a financial advisor will save them around \$20,000. She added that typically, the financial advisor completes the application review/summary. In this case, Authority staff completed the summary and has relied on the bank and the placement agent for underwriting. She concluded that the placement agent prepared the preliminary analysis of estimated interest savings.

Mr. Cohen asked if the revenues are strictly pledged to the Authority or if revenue is pledged to other creditors. Ms. Sherry Mondou, Executive Vice President and CFO at UPS, replied that the only long-term revenue pledges that the University has are to Authority bonds, and for some very

“immaterial” capital leases for underlying equipment.

Ms. Johnson gave a brief summary of the transaction. The proceeds of the Bond will be loaned to the University to refinance the University’s existing Variable Rate Series 2012B Bonds on the upcoming mandatory tender date of October 1, 2019. She stated that the current transaction is a private placement with Banc of America Public Capital Corporation. The bank credit approval was successfully completed on August 7, and the University’s underlying long-term credit rating is “A1” by Moody’s and “A+” by Standard & Poor’s.

She concluded that no public hearing was necessary for this transaction and it is currently scheduled to close on October 1, 2019. She added that the preliminary estimated interest savings have been calculated by George K. Baum to be a little over \$1.4 million on a present value basis.

She then introduced Ms. Mondou from UPS, and Mr. Nick Waugh from George K. Baum & Co., both available by phone, to comment further on this transaction and to answer any questions.

Ms. Mondou mentioned that UPS went through a careful and thorough process to evaluate its options regarding the mandatory tender and engaged a committee of their board in the process. She added that this is a straightforward deal, with no change in the dollar amount, scheduled principal

payments, or maturity date. Ms. Mondou thanked the Authority's board, staff, and bond counsel for their support for the University and for this transaction.

Mr. Cohen asked if there were any further board member questions or comments. Hearing none, he then asked for a motion to approve Resolution No. 19-01.

Ms. Grace moved to approve the resolution, and it was seconded by Mr. Meotti. The resolution was approved unanimously, 6-0.

**Action Item:
Approval of
Resolution
#19-02
for Gonzaga
University**

Mr. Cohen then introduced Ms. Johnson, the Authority's Manager, to present Resolution No. 19-02.

Ms. Johnson stated this is a proposed issuance by the Authority of tax-exempt and taxable refunding revenue bonds for Gonzaga University in a total amount not to exceed \$75 million. She added that the transaction is a negotiated public sale that will be issued in two series: Series A, tax-exempt financing not to exceed \$45 million; and Series B, taxable financing not to exceed \$30 million.

Ms. Johnson then stated that the Series A tax-exempt Revenue Bonds, will finance the construction and equipping of the new Integrated Sciences and Engineering (ISE) facility and the retrofitting of other space and certain

equipment outlays in existing academic buildings near the ISE facility. The improvements will create an approximately 270,490 square-foot combined science and engineering complex. She added that bond proceeds may also be used to finance miscellaneous capital improvements to University facilities; and other costs, fees, reserves, capitalized interest and permitted issuance expenses associated with the transaction.

Ms. Johnson then stated that the taxable Refunding Revenue Bonds, Series B, would refinance taxable bonds issued in private placements to two banks in 2016.

She stated further that a successful public hearing for the Series A tax-exempt bonds was held on Thursday, August 29, 2019 with Mr. Joe Smith, CFO of Gonzaga University and Treasurer of the Corporation of Gonzaga University, and Ms. Dana McCullough, Treasury Manager, Gonzaga University.

Authority board members Mr. Cohen, Mr. Meotti, and Dr. Sharratt were all present by phone. There was no public testimony submitted.

Ms. Johnson stated that both bond series are currently scheduled to close on November 1, 2019. She added that the preliminary estimated interest savings for the tax-exempt bonds (Series A) have been calculated by Prager & Company to be just over \$3.2 million on a present value basis.

Ms. Johnson then introduced Mr. Smith, CFO of Gonzaga University and Treasurer of the Corporation of Gonzaga University, who was available by phone. Ms. Johnson also introduced and invited both Messrs. Sachin Karamchandani and Kevin Ye, of Prager & Company, the University's Financial Advisor, who were present, to participate in the presentation.

Mr. Smith stated that the Series A tax-exempt bonds are to support the new ISE building on Gonzaga's campus. The ISE is the last major physical facility to be completed under the University's current strategic plan and rounds out their STEM (Science, Technology, Engineering, & Mathematics) based facilities for learning, research, and other administrative spaces. Mr. Smith stated further that this is an exciting project for the University and that it was initially anticipated to proceed slowly. Given the current capital markets, it was a good time to accelerate the timeline.

Mr. Smith then stated that the Series B taxable bonds are to refinance and combine their existing 2016 Series B variable-rate bonds that were privately placed. He added that the goal is to take advantage of short to medium-term fixed interest rates currently offered and to terminate two existing variable interest-rate swaps.

He mentioned that without the proposed ISE facility, they are experiencing a bottleneck and space is at a premium. They currently have many students

interested and requiring classes in basic science instruction.

Ms. Grace complimented Mr. Smith and Gonzaga for coming to the Authority. She stated that she is excited that the Authority will be assisting with their public offering.

Mr. Smith thanked the Authority staff and board members on behalf of Gonzaga's President and Board of Trustees for their support of the University, this project, and for future projects.

Mr. Cohen asked if there were any further board member questions or comments. Hearing none, he then asked for a motion to approve Resolution No. 19-02.

Dr. Heynderickx moved to approve the resolution, and it was seconded by Mr. Meotti. The resolution was approved unanimously, 6-0.

**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 July 31, 2019, shows assets of just over \$1.4 million and approximately \$431,000 of liabilities, leaving just around \$934,000 in net asset position. He added that

fee revenue to date is approximately \$40,211, with the accrual of the ongoing annual fees that were reinstated by the Authority board after six years.

Expenses to date are approximately \$28,486, with an increase in the net deficit of about \$11,000.

Ms. Grace asked Mr. Cook why the legal fees prior to year-to-date actual were more than last year, given no bond issuances in the previous fiscal year. Mr. Cook replied that at the time policy changes were being developed for approval by the Authority board.

After hearing no questions or comments from board members, Mr. Cohen asked for a motion to accept the financial statement.

Ms. Grace made the motion, and it was seconded by Dr. Sharratt. The motion was approved unanimously, 6-0.

**Invoice for
Services**

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

Mr. Cook stated that the invoice from the Washington State Housing Finance Commission (WSHFC) for April 1, 2019 through June 30, 2019 has been reviewed and approved for payment by the Treasurer, Ms. Grace.

Market Update

Mr. Herman introduced Mr. Thomas Toepfer of Public Financial Markets (PFM), to present the market update.

Mr. Toepfer started his market report saying that the interest rates are volatile given the current trade war between the United States and China. He added that 2nd quarter 2019 gross domestic product (GDP) grew by 2.1%, which was lower than the previous quarter, at 3.1%. He added further that the Federal Reserve, at their July 2019 meeting cut the overnight Fed funds target rate by 25 basis points to a new range of 2 – 2.25%, which is the first Fed rate cut since December, 2008.

Mr. Toepfer presented slides showing interest rates, in particular long-term rates, at historical lows. Short-term rates are expected to fall in the coming months with three Fed fund rate cuts anticipated. He also mentioned that benchmark tax-exempt rates have flattened significantly, especially for years 1 through 5, and years 20 through 30.

He concluded that SOFR, which was established in April 2018 in order to eventually replace LIBOR, has reset to or below 1-month LIBOR. Also, new bond issuance demand was down 9.4% over last year, and up 1.73% year-to-date through July 2019. He concluded further that strong demand coupled with reduced supply created downward pressure on interest rates.

**Washington
Student
Achievement
Council
(WSAC)
Update**

Mr. Meotti, Authority board member and Executive Director of the Washington Student Achievement Council (WSAC), gave a presentation via phone titled “The Washington College Grant – A New Era in Higher Education Affordability.”

He commended and thanked Authority board member and former WSAC Executive Director, Dr. Sharratt, for his visionary and foundational work regarding the Washington College Grant. Dr. Sharratt reciprocated and commended Mr. Meotti and his staff at WSAC for their great work in implementing this program.

**Bond Issue
Status Report**

Mr. Cohen asked Mr. Edwards to present the bond issue status report. Mr. Edwards noted that, unlike the previous fiscal year when no bond financings closed, the Authority will in fact close this fiscal year with over \$100 million in bond financings, and an additional issue bringing the potential total to \$117 million in the pipeline.

Mr. Edwards reported a few potential bond issues. An application is expected for Whitworth University for up to \$30 million for a new health sciences building to close in late 2019/early 2020. Their board approval is expected

this month with an application submittal soon after. Seattle University is expected to apply for an approximately \$50 million new money issue for their Center for Science & Innovation set for a closing in early 2020. Further in the future we expect to see an application from Heritage University for a \$7 million bond refunding expected to close sometime in late 2019 or early 2020. Lastly, Pacific Northwest University of Health Sciences (PNWU) anticipates a \$20 million new money bond issue for their Regional Center for Inter-professional Education. The transaction is scheduled to close sometime in 2021-2022.

**Executive
Director's
Report**

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

Mr. Herman stated that the NAHEFFA Fall Conference in Portland, Maine is occurring September 23-25. Board member Mr. Cohen, and Authority staff Ms. Johnson and Mr. Edwards will be attending. Mr. Herman added that the next NAHEFFA Spring Conference is April 28-29, 2020 in Charleston, South Carolina. He invited interested board members to attend.

Mr. Herman gave a summary of relevant articles available in the board meeting packet and as handouts. He highlighted a press release from the Washington Association of School Administrators (WASA) announcing that Dr. Sharratt had received their 2019 WASA Golden Gavel Award. He added that Dr. Sharratt was previous Executive Director of the Association for

Educational Service Districts & OSPI Professional Learning Network. In addition, Dr. Sharratt was recognized this past July, with the AESD President's Award, along with a number of awards for his work in education both locally and statewide, and the communities he has served in.

Mr. Herman then referred to the Bond Buyer article regarding Stifel Financial Corporation buying George K. Baum & Company. He added that Ms. Johnson is making sure the Authority's rosters are updated as a result of this transaction.

Mr. Herman then referenced a press release from Walla Walla University announcing that their President, Mr. John McVay, is the new board chair for the Independent Colleges of Washington.

Mr. Herman then referenced a press release from Heritage University announcing their accreditation through 2026 by the Northwest Commission of Colleges & Universities.

Mr. Herman added that the next meeting for 2019 is on November 7, and the first meeting of 2020 is on February 6. He noted that if there is no business to conduct at either or both of these meetings, the meeting(s) would be cancelled.

Mr. Cohen, on behalf of himself and the Authority board members

complimented Mr. Herman and staff for the hard work they do to support the Authority.

Public Comment

Mr. Cohen asked if there was anyone in the audience to give any public comments.

Ms. Johnson made an announcement that Ms. Debbie Kuykendall, in attendance from U.S. Bank Corporate Trust, will be retiring at the end of October, 2019. She added that Ms. Kuykendall has worked with the Authority for a number of years as trustee, and will be greatly missed, with congratulations and best wishes in order for her upcoming retirement.

Dr. Terri Standish-Kuon, President & CEO, Independent Colleges of Washington (ICW) stated that this was her first Authority board meeting. She then made an announcement that Mr. Herman was selected by ICW's Board of Directors to be the recipient of the 2020 Stanley O. McNaughton Leadership Award. She added that their Board of Directors will present this award to Mr. Herman for his lifetime achievement and recognition for what he has done for ICW sometime this Fall. Mr. Herman stated that he will accept this award on behalf of all of those who have worked hard alongside him. He acknowledged that leadership from the Authority board was instrumental in achieving this.

Adjournment

Mr. Cohen, after hearing no other public comments, adjourned the meeting at 3:05 p.m.

Mr. Jerome Cohen, Secretary

Date