

Washington Higher Education Facilities Authority

MINUTES

November 12, 2019

Mr. Jerome Cohen, Board Secretary, called the special meeting of the Authority to order at 1:03 p.m.

Board Secretary, Mr. Cohen, was present in the Board Room, located at 1000 Second Avenue, 28th Floor in Seattle, WA 98104. Board members Mr. Michael Meotti, Ms. Claire Grace, Dr. Roy Heynderickx, and Dr. Gene Sharratt were all 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, the Authority's bond counsel, and Ms. Christine Ok of US Bank Corporate Trust.

Other meeting participants present were Messrs. Thomas Toepfer and Steven Amano of Public Financial Management (PFM); Ms. Amy Sutherland and

Ms. Kellie McKenna, of Moss Adams, and Mr. Dan Gottlieb, of Hillis Clark Martin & Peterson, the Authority's backup bond counsel. Other meeting participants participating by phone were Ms. Mary Chikwinya, Director of Higher Education, Office of the Lieutenant Governor; Ms. Luz Merkel, Associate Vice President of Finance and Administration, Whitworth University; Mr. Michael Nelson II, Assistant Attorney General, Washington Attorney General's Office; and Ms. Elizabeth Bergman, Director, Baker Tilly Municipal Advisors.

Approval of the Minutes

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

The minutes were approved unanimously, 5-0.

**Action Item:
Approval of
Resolution
#19-03
for Whitworth
University**

Mr. Cohen introduced Ms. Johnson, the Authority's Manager, to present staff recommendations for approval of Resolution No. 19-03.

Ms. Johnson stated that the transaction before the board for consideration is a proposed issuance by the Authority of tax-exempt revenue bonds for Whitworth University in an amount not to exceed \$22,000,000.

Ms. Johnson gave a brief summary of the transaction, referring to Tab 2. She stated that the transaction will finance the design, construction, installation and furnishing of a new Health Science Building on the University's campus that will house new graduate programs for Occupational Therapy and Physical Therapy. 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 stated that a successful public hearing for this transaction was held on November 1, 2019. Mr. Larry Probus, Vice President, Finance and Administration and Ms. Luz Merkel, Associate Vice President, Finance and Administration from Whitworth; along with Authority board member Dr. Sharratt participated by phone. Attending the public hearing in-person was Mr. Devon Crouch, Assistant Director of Government Relations and Communications, from Independent Colleges of Washington (ICW). Ms. Johnson stated that no written testimony was received.

Ms. Johnson stated that the bonds are scheduled to close on December 20, 2019 and are rated "Baa1" with a stable outlook by Moody's. The net present value savings was calculated by PFM to be around \$1,043,406. She then invited Ms. Merkel from Whitworth University and Mr. Toepfer from PFM to comment on the transaction and to answer any questions.

Ms. Merkel commented that Whitworth University has just over 3,000 students and that the new Health Science Building, with the two new programs in Occupational and Physical Therapy will be a perfect addition to their campus and to the medical community in Spokane and Eastern Washington. She thanked the Authority on behalf of Whitworth University for their consideration and support of the University's application for financing.

Mr. Toepfer, the University's financial advisor, commented further that the bonds will be 30-year bonds with 20 of those years being-interest only. Principal and interest will be amortized for the remaining 10 years with the first six months utilizing capitalized interest. He added that the security structure would be similar to their previous bond issuances and that the bonds would be investment grade based on the University's sound operating performance and solid financial reserves, along with continued good enrollment.

Mr. Cohen asked Mr. Toepfer what the interest rate(s) would be for this transaction, and if that is determined at the time of bond closing or sooner.

Mr. Toepfer replied that bonds will be priced in the next week and the interest rates would be known at that time. The tax-exempt, fixed rate range is

expected to be around 3.8 to 4.0%. Ms. Johnson added that at the time of bond closing the financial advisor would issue a final cost savings letter.

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. 19-03.

Dr. Heynderickx moved to approve the resolution, and it was seconded by Ms. Grace. The resolution was approved unanimously, 5-0.

Action Item:
Acceptance of Final
Audit Report

Mr. Cohen then introduced Mr. Cook, the Authority's Senior Finance Director, to review and consider acceptance of the Final Audit Report. Mr. Cook then introduced Ms. Amy Sutherland and Ms. Kellie McKenna from the accounting firm of Moss Adams LLP to present a summary of the Audit Report to the Authority board.

Ms. Sutherland thanked the Authority on behalf of Moss Adams LLP for their continued engagement for their audit services. She then highlighted the steps of the audit process and required communications from entrance to exit, and that the financial statements would be presented fairly, responsibly, and in accordance with U.S. GAAP.

Ms. McKenna then stated the planned scope and timing of the audit was provided to the Authority's board of directors at the audit entrance meeting and was included in the engagement letter for year ending June 30, 2019. She added that the Authority's management has had no significant changes to accounting policies for the past accounting year and has applied policies that were consistent and appropriate from the previous year. She mentioned further that the Authority did adopt updated disclosure requirements regarding GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

Ms. McKenna noted that the Authority did not have any significant estimates in the financial statements that were material to financial statement users and that the disclosures were clear and consistent. She noted further that there were no corrected or uncorrected audit adjustments, no significant difficulties in conducting the audit, nor any fraud or noncompliance that they discovered. She further stated that no disagreements with management were encountered during the audit. She noted that there were no unusual representations from management and that there were no significant accounting or auditing matters for which management consulted with other accountants or accounting firms. She concluded that the Authority is subject to potential legal proceedings and claims that arise in the ordinary course of business as disclosed under Note 8 in the audit report.

Ms. Sutherland then drew attention to a new GASB Statement – GASB Statement No. 91 - *Conduit Debt Obligations*. She summarized that it updates the existing definition of a conduit debt obligation and provides a single method of reporting conduit debt obligations in that: 1) Conduit debt obligations should not be recorded as a liability by the issuer; 2) Issuers should recognize liability associated with a voluntary commitment to support debt service, if applicable; and 3) Issuers should disclose general information about their conduit debt obligations such as type or outstanding principal amount. She concluded that the effective date is for fiscal years starting after December 15, 2020, but Authority management will implement this early for the fiscal year ending June 30, 2020.

Mr. Cook then commended Ms. Stephenson for the entire audit process going smoothly and with no issues. Mr. Cohen then asked if there were any further board member questions or comments. Hearing none, he then asked for a motion to accept the Final Audit Report.

Dr. Sharratt made the motion, and it was seconded by Ms. Grace. The motion was approved unanimously, 5-0.

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

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

Mr. Cook stated that the unaudited financial statements for the period ending September 30, 2019, show assets of just over \$1.36 million, approximately \$375 thousand of liabilities, leaving just around \$1 million in net assets. He noted that fee revenue over the first three months of the fiscal year was approximately \$113,000, primarily from collection of the reinstated, ongoing annual fee on bonds outstanding. These fees had been waived the prior six years. Expenses for the 3 months to date are approximately \$105,000, with an increase in the net position of about \$8,000, leaving total assets at around \$990,000.

Ms. Grace asked if the significant increase in the budget for staff salaries and benefits for the quarter were down due to reduced staff allotment. Mr. Cook replied that was correct.

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

Ms. Grace made the motion, and it was seconded by Dr. Heynderickx. The motion was approved unanimously, 5-0.

**Invoice for
Services**

Mr. Cohen then asked Mr. Cook to present the invoice for services. Mr. Cook stated that under Tab 6 in the board packet, the invoice of \$73,277.28 from the Washington State Housing Finance Commission (WSHFC) for July 1, 2019 through September 30, 2019 has been reviewed and approved for payment by the Treasurer, Ms. Grace.

Market Update

Mr. Herman introduced Ms. Bergman of Baker Tilly to present the market update.

Ms. Bergman referred to the two slides provided in the board packet under Tab 7. She started her market report illustrating municipal market conditions. She commented that overall the market has been favorable for issuers. She especially noted the increase of issuers of bonds for private colleges have now been utilizing “century bonds,” or bonds that mature up to 100 years from original issuance to take advantage of historical low interest rates.

Ms. Bergman then commented further about the 2019 Key Economic Indicators, especially for the period from October 28 to November 15, 2019.

Mr. Cohen thanked Ms. Bergman for her report.

**Bond Issue
Status Report**

Mr. Cohen asked Mr. Edwards to present the bond issue status report. Mr. Edwards noted that the bond issuance for Whitworth is expected to close around December 20, 2019 . He added that a new application for financing is expected in the coming days from Seattle Pacific University for a total of \$92,000,000 maximum - \$20-30 million in new money for land and miscellaneous projects, and \$62,000,000 to refund their existing private placement debt.

Mr. Cohen asked Mr. Edwards if new refundings are allowable under the current tax regulations. Mr. Edwards replied that only advanced refundings were prohibited by the new tax regulations.

Mr. Edwards then stated that current potential bond transactions in the pipeline with applications to be received are as follows: Seattle University for \$50,000,000 in new money for their Center for Science Innovation to close sometime in Summer, 2020; Walla Walla University for \$31,000,000 in new money for new men's and women's residence halls to close sometime in Summer, 2020; Heritage University for a \$7,000,000 bond refunding to close sometime in 2020; and Pacific Northwest University of Health Sciences (PNWU) for \$20,000,000 in new money for their 80,000 square foot Regional Center for Interprofessional Education to close sometime in 2021 or 2022. He concluded that there would be potentially up to \$180 million in issuances this

fiscal year 2019-2020, and \$20 million potentially issued in fiscal year 2021-2022.

Mr. Edwards noted that both the University of Puget Sound and Gonzaga University bond issuances that were approved at the previous Authority board meeting on September 17, 2019 have closed successfully, on October 1 and November 1, respectively. He concluded that bond issuances issued for this fiscal year total around \$99,000,000, which is more than three times the fiscal year budget goal. He also mentioned that the UPS present value savings was calculated to be around \$1,300,000, and the Gonzaga preliminary present value savings was calculated to be around \$3,250,000, totaling nearly \$4,500,000 in present value savings.

Mr. Cohen thanked Mr. Edwards for the bond status report.

**Executive
Director's
Report**

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

Mr. Herman stated that an announcement could occur as soon as November 20, 2019 regarding the name of his successor, the next Executive Director of the Authority (along with the Washington State Housing Finance Commission and the Tobacco Settlement Authority). He added that he will be retiring as Executive Director sometime in mid to late December.

Mr. Herman then stated that he was the recent recipient of the 2020 Independent Colleges of Washington's (ICW) Stanley O. McNaughton Leadership Award, named after the founding director of ICW. He stated further that he attended a breakfast in Walla Walla to accept the award on October 29, 2019. He also mentioned that the Authority has done a total of \$2.3 billion in bond issuances (of which \$2.0 billion in issuances has occurred since the Housing Finance Commission took on the administration of the Authority in 1994) to date for the ten ICW-affiliated colleges and universities: Gonzaga University, Heritage University, Pacific Lutheran University, Saint Martin's University, Seattle Pacific University, Seattle University, University of Puget Sound, Walla Walla University, Whitman College, and Whitworth University. He mentioned further that the Authority has saved member colleges and universities a total of \$24,000,000 in interest within this timeframe, which does not include six years' worth of Authority fee waivers for member colleges and universities.

Mr. Herman stated that the NAHEFFA Fall Conference was held in Portland, Maine in late September. Board member and Chair, Mr. Cohen, and Authority staff Ms. Johnson and Mr. Edwards attended. He added that participants commented that it was one of the best meetings held to date. Mr. Cohen concurred, stating that he especially liked networking with the other agencies' board members and staff from across the country.

Mr. Herman added that the next NAHEFFA Spring Conference is April 28-29, 2020 in Charleston, South Carolina, and if any board members are interested in attending, to inquire with Ms. Johnson.

Mr. Herman stated that Mr. Edwards and Ms. Johnson both attended a Washington Health Care Facilities Authority Borrower's Education Forum in Seattle the previous week. He added that Ms. Donna Murr, the Health Care Facilities Authority's Executive Director and her staff, had put on a great and well attended day-long conference.

Mr. Herman gave a summary of relevant articles available in the board meeting packet and as handouts.

First, Mr. Herman first summarized a letter from George K. Baum that showed the final present value savings from the University of Puget Sound bond transaction that closed on October 1, 2019 was around \$1.3 million.

Mr. Herman then referred to the Education Dive article shared by Dr. Sharratt regarding colleges issuing 100-year debt ("century bonds"), as was mentioned in the market report by Ms. Bergman earlier in the meeting.

Mr. Herman referenced a Route Fifty article titled "The States Where Public

University Tuition Rates Rose the Most after Big Budget Cuts.” He added that Washington was not at the top of the list.

Mr. Herman then mentioned that PFM Advisors, the Authority’s financial advisor, was rated the top financial advisor in the country, as mentioned in The Bond Buyer article dated October 7, 2019.

Mr. Herman then referenced a press release dated September 27, 2019 from Gonzaga University announcing the groundbreaking for their new Integrated Sciences and Engineering (ISE) Facility. Bonds to finance this project were approved at the September 2019 Authority board meeting. As mentioned previously, the bonds closed on November 1, 2019.

Mr. Herman also mentioned miscellaneous articles: Bond Buyer articles “Why the Explosive Growth of Taxable Muni Could Be Sustainable” and “How Impeachment Proceedings May Affect the Muni Market;” a Bloomberg article on “Muni Bonds Contain Fine Print: Beware of Climate Change;” and The Chronicle of Higher Education article “The Enrollment Crash Goes Deeper Than Demographics.”

Mr. Herman added that the next meetings are scheduled for February 6 and May 7, 2020. However, given the news that Seattle Pacific University will be

coming in with a bond application for financing, the next Authority board meeting will be more than likely in December or January.

Mr. Cohen, on behalf of himself and the Authority board members complimented Mr. Herman and the entire WHEFA staff for the work they do to support the Authority.

Public Comment

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

Mr. Cook mentioned that the staff of the Washington State Housing Finance Commission and its affiliates are sponsoring a fundraiser to establish a \$20,000 legacy scholarship in Kim Herman’s name for student recipients at any of the ICW affiliate schools. He added that anyone can donate funds at the web site at www.icwashington.org. He directed interested parties to click on the “Donate” page. He also noted that ICW is a 501 (c)(3) nonprofit organization.

Adjournment

Mr. Cohen, after hearing no other public comments, adjourned the meeting at 1:53 p.m.

Mr. Jerome Cohen, Secretary

Date