

The Minnesota Higher Education Facilities Authority (the “Authority” or “MHEFA”) convened a regular Board Meeting at 2:00 PM CT, Wednesday, October 16, 2019, in the Authority’s Conference Room, 380 Jackson Street, Suite 450, St. Paul, Minnesota. As authorized by Section 13D.015, Minnesota Statutes, a regular meeting was duly called to be conducted by telephone. Monitoring from a call-in number is available to the public upon request. A roll call was taken, and the following board members or designees were present and attending in person except as noted to be attending by phone:

Gary Benson (by phone)  
Michael Ranum  
Bonnie Anderson Rons  
David Rowland (by phone)  
Nancy Sampair  
Ray Vin Zant (by phone)  
Stacey Holland, Minnesota Private College Council, ex officio without vote  
Poawit Yang (by phone)

Absent: Mary Ives  
Mark Misukanis

Also present: Barry W. Fick, Executive Director, MHEFA; Amanda Lee, Operations Manager, Michael Bosl, CPA Bergan KDV

Mike Ranum, Chair, called the meeting to order at 2:00 pm CDT. Executive Director Fick confirmed that a Quorum was present.

### **Agenda Item I – Minutes of the August 14, 2019 Authority Board Meeting**

The first item on the agenda is the review and approval of the minutes of August 14, 2019. Nancy Sampair moved for approval of the August 14, 2019 minutes. The motion for approval was seconded by Ray Vin Zant. Chair Ranum asked if there were any questions, discussion or changes to the minutes of the August 14, 2019 Board meeting.

Executive Director Fick noted that there were some update corrections to the August minutes that needed to be made. Board members observed and noted that in the Augsburg financing discussion section, there was a reference to “bonds” that should be “Note”; a reference to a Trustee that should be removed; a clarification of the private bank as “purchaser”; and a correction to the first name of Bond Counsel. The incorrect references will be corrected and the final version of the August 2019 minutes that will be posted to the Authority web site will incorporate the corrections.

The maker and support of the original motion to approve the August 2019 minutes agreed with the proposed change to the August 2019 minutes and affirmed their making and support of the August 2019 minutes as adjusted.

Chair Ranum called for a voice vote regarding the approval of the Minutes as adjusted. All members voted in favor of the motion to approve the August 14, 2019 minutes as adjusted.

There were no votes against the motion and the August 14, 2019 minutes as adjusted were approved.

## **Agenda Item II – Fiscal Year 2019 Audit Results**

Board Chair Ranum called on Michael Bosl CPA from Bergan KDV to present the Communication Letter and Financial Statements for the Fiscal Year Ended June 30, 2019. Mr. Bosl introduced himself and noted that he has been a member of the Authority audit team for a number of years, beginning as an audit staff member directly examining the Authority records and has advanced to the current Audit manager for the MHEFA engagement.

Mr. Bosl began by walking the Board through the Communications Letter. This letter outlines any matters identified as a result of the Audit of the Financial Statements; discusses and deficiencies; includes a set of AICPA required communications; and concludes with a narrative discussion of Authority operations.

Bergan KDV noted only 1 Significant Deficiency, a lack of segregation of accounting duties. He noted that this is an inherent issue for the Authority since there are only 2 staff members, which precludes full segregation of duties. He noted that the cost of obtaining full segregation of duties exceeds the benefits derived from that segregation. He noted that Authority staff have made adjustments to internal processes and procedures to reduce the negative effect of the small staff. He concluded that Authority staff and Board members should remain aware of this lack of segregation of duties and monitor the accounting [which is done in part by the Board review of the monthly Budget to Actual Report].

Mr. Bosl then discussed the Financial Analysis included in the Communications Letter. He noted that the Authority operating expense decreased primarily due to changes in pension expense. The pension expense is calculated by the State of Minnesota based on actuarial computations related to pension performance assumptions and projected discount rates. The Authority has no control over these assumptions and does not calculate the pension adjustment but receives that figure from the State of Minnesota. It was also noted that because the pension liability adjustments are delayed by one year for creation and analysis of the data by the state actuaries, this is the first fiscal year where prior staff who departed in 2017 are not included in the calculation.

Mr. Bosl noted that for the five years ending with FY 2019, the Authority's net position has increased by 12.0%.

Mr. Bosl next directed the Board's attention to the Financial Statements for the Fiscal Year Ended June 30, 2019. Mr. Bosl noted that the responsibility of Bergan KDV is to express an opinion of audit of the Authority FYE 6/30/2019 Financial Records. He noted that the information provided by the Authority was sufficient for Bergan KDV to form an opinion. He directed the Board's attention to the Opinion paragraph of the Financial Statements and noted that Bergan KDV is providing a clean opinion, with no exceptions or caveats.

This means that in Bergan KDV's opinion, the financial statements of the Authority present fairly, in all material respects, the financial position of the Authority as of June 30, 2019 in accordance with accounting principles generally accepted in the United States.

He reviewed the 3 primary components of the financial statements. He reviewed the Statement of Net Position (Balance Sheet), the Changes in Net Position (Income Statement) and the Statement of Cash Flows.

He noted that total liabilities declined due to a change in the Net Pension Liability, which is independently calculated and does not affect Authority daily operations. He noted that total assets increased slightly compared to the prior year.

He noted that the Authority reported a change in net position of approximately \$173,000 for FY19. This increase is due primarily to nonoperating revenue (42%) and a reduction in payroll and general and administrative expenses, which are due primarily to pension actuarial changes.

Net cash flow from operations for FY19 was \$10K lower than FY18, primarily due to pension liability adjustments. Investments showed a \$30,850 increase, due to market changes. This is a non-cash item, which has no effect on cash flow as the policy of the Authority is to hold investments to maturity and not realize gain or loss on the sale of investment securities.

Mr. Ranum asked if there were questions from the Board for Mr. Bosl. There were a number of clarification questions asked by Board members.

The Board Chair then asked for a motion to receive the Bergan KDV Communications Letter for the Fiscal Year 2019 and to accept and approve the Fiscal Year 2019 Financial Statements of the Minnesota Higher Education Facilities Authority, audited by Bergan KDV. A motion was made by Nancy Sampair and seconded by Gary Benson to receive the Bergan KDV Communications Letter and to accept and approve the Fiscal Year 2019 Financial Statements of the Minnesota Higher Education Facilities Authority as audited by Bergan KDV.

The Chair called for a voice vote on the Resolution. The following members voted in favor of the motion:

Gary Benson  
Michael Ranum  
Bonnie Anderson Rons  
David Rowland  
Nancy Sampair  
Ray Vin Zant  
Poawit Yang

There were no votes against the motion and the Communications Letter was accepted and the Fiscal Year 2019 Financial Statements, audited by Bergan KDV was approved unanimously.

### **Agenda Item III – Old Business**

The Chair asked if there was any old business to come before the Board. Executive Director Fick noted that at the August Board meeting the continuing discussion of options relating to the use of Municipal Advisor to the Authority would be renewed at the October meeting. Mr. Fick noted that a 6-month extension of the MA Engagement has been signed with Baker Tilly Municipal Advisors, LLC, as authorized by the Board in August.

The consensus of the Board is that the Board receives value from using a financial advisor. The financial advisor provides information related to refunding feasibilities, market conditions, new financial options for financing and can assess financing risk for the Board.

Executive Director Fick and Authority staff propose to draft a Request for Proposal for Municipal Advisory services. This draft will be reviewed at a Board meeting in early 2020, and a decision can be made at that time on whether to proceed with distribution of a Request for Proposal and other options related to the use of a Municipal Advisor.

Staff has been reviewing the options available and is strongly considering the establishment of a roster of Municipal Advisors (“MA”) for the Authority to use. The purpose of using a roster is to avoid any possible conflict of interest by the MA and to encourage more MA firms to serve as MA to the Authority. The Draft RFP will reflect this structure.

There was no other Old Business for Board discussion or consider.

#### **Agenda Item IV – New Business**

The Chair asked if there was any new business to come before the Board. Authority staff noted that the transition to using QuickBooks for Authority accounting records is substantially complete. The September 2019 Budget vs. Actual comparison is presented using the QuickBooks reporting format. Operations Manager Amanda Lee noted that the QuickBooks reporting function is straightforward and efficient to use.

After reviewing the Budget vs. Actual report for September 2019, Board members noted that the QuickBooks format is easy to understand and provides more detail than the prior reports. The Board members indicated approval of the new format.

There was no other New Business for Board discussion or consideration.

#### **Agenda Item V – Other Business**

The Board Chair asked Executive Director Fick to present the *Executive Director's Report*. Mr. Fick presented the Executive Director's Report and discussed the following items from the Report.

##### *Past Activity*

- BondLink Conference
- NAHEFFA - National Association of Health & Education Facilities Finance Authorities - fall conference
- Central Association of College and University Business Officers (“CACUBO”) annual conference
- Standard & Poor's Global Ratings – Higher Education Roundtable
- Leading Age MN (Senior Living Industry Association) Conf.
- Capital Commentaries for St. Scholastica and Augsburg financings
- Campus visits completed
  - St. John's
  - Hamline
  - St. Olaf
  - Concordia Moorhead
  - Gustavus

##### *Items of Interest*

- Review by MMB of MnHEFA Self-Assessment on Internal Controls & Fraud
- Web site update – contracts signed for development of front (MnHEFA info.) and back (school info.) of website. Completion by Q1 2020
- Expansion of Issuance Authority planning moving forward – have met with House and Senate legislative staff, Update to Statutory Language prepared for Revisor of Statutes

- Industry changes – Moody’s – Diane Viacava retiring October 15, 2019
- Executive Director Fick appointed to Government Finance Officers Association (“GFOA”) Debt Management Committee – 3-yr term
- MnHEFA Borrower Credit Rating List – attached
- Electronic banking conversion process nearly complete
  - Enhances security, helps improve internal control & audit trail

*Upcoming Activity*

- Annual Report
- MiniMuni – GFOA Conference
- Health Care conference – Industry reps
- Development of Borrower database which will include:
  - CUSIP numbers
  - Call Date
  - Repayment Date
  - Debt Service Schedules
  - Contact Information
  - Credit Rating Information
  - Other, all searchable & report generation compatible
- Rating Agency updates for Hamline, Augsburg, Concordia College
- Rating agency visit/conf call to review MN school credit assignments

*Other*

- Fred Rogers, CFO at Carleton will retire at end of FY 2020
- Cray Plaza is being sold to an LLC that owns and manages a number of residential and commercial buildings in the Twin Cities area, with a focus on Saint Paul. No changes to lease terms are going to occur with the sale.
- FY20 Budget Revenue projection update
  - Expecting a Financing Application for up to \$25 million in November.

The Board packet included a list of the MHEFA borrower schools and their current Credit Rating. Of the 18 schools than have or can borrow through the Authority, 14 of them have a credit rating. A Moody’s credit rating is held by 13 schools and Standard and Poor’s rates 1 school. The four schools that do not have a credit rating have either no debt outstanding or do not have debt that requires maintaining or carrying a credit rating.

The packet included Capital Commentaries for the two most recently completed Authority financings. The Augsburg University financing is included as Vol. 23, No. 1 and The College of St. Scholastica financing is included as Vol. 23, No. 2.

The Authority submitted its annual internal control self-assessment to the Minnesota Management and Budget group in July. The MMB staff have reviewed the Authority’s self-assessment and approved the submitted document. There were no exceptions noted

in the MMB review and the MMB commented that “The agency’s process is consistent with best practices.”

Augsburg University has now completed integrating the Doctorate in Clinical Psychology program into the Augsburg curriculum. This program was previously administered and provided by Argosy University, a for-profit school that discontinued operations early in 2019. Augsburg noted in their presentation to the Board in August that they were hoping to receive approval to transfer the Doctorate in Clinical Psychology program to Augsburg. That has now occurred, providing a pathway to completion of the program for students and providing an additional revenue stream for Augsburg.

A chart was provided to Board members showing the listing of Authorities in other States who are members of the National Association of Health & Education Facilities Financing Authorities (“NAHEFFA”). This list also included the types of conduit financing provided by these other Authorities. There are 36 agencies representing 31 states. Of these, 25 issue debt for private higher education, 25 issue debt for non-for-profit health care and 15 finance both private higher education and not-for-profit health care. This shows that MHEFA is a relative outlier by providing only higher education finance.

There are other financings by Authority borrower schools that are under consideration but are in early stages of preparation. Executive Director Fick will keep the Board updated about any future financings.

The Chair asked if there were any questions from Board members for Executive Director Fick. There were none.

There were no Other Business items to discuss.

The Board Chair asked for a motion to recess the meeting and reconvene at the St. Paul Pool and Yacht Club lower Conference room for the annual Strategic Planning and Education Session. A motion to recess was made by Nancy Sampair and seconded by Bonnie Anderson Rons. The Board voted unanimously by voice vote to adjourn the meeting at 3:35 pm Central Daylight Time.

The Board reconvened at 6:00 pm in the lower level conference room of the St. Paul Pool and Yacht Club for the Strategic Planning and Education Session.

#### **Agenda Item V (continued after recess) Strategic Planning and Education**

The session included a PowerPoint presentation by the Executive Director that was prepared using the updated State of Minnesota color scheme and branding. The appropriate state office approved the Authority’s use of the new branding materials and they will be adopted for use by the Authority by early 2020.

The presentation to the Board reviewed the financing history of the Authority since 2009. It was noted that FY 2016 – FY 2018 were 3 consecutive record years for both the number of financings and the par value of financings for the Authority. FY 2019 showed significantly lower volume both in par value and number of financings. FY 2020 will be lower than FY 2019 for volume and number of financings.

Executive Director Fick noted that discussions with borrower schools indicates a pause in the demand for long-term financing needs. Reasons for this include stable to declining student enrollment for a number of schools, resistance to tuition and fee increases, expected lower investment returns, changing delivery of education models, market demographics, and future reductions in high school graduates.

Regardless of new project financing, the Authority will continue to work with schools to identify refunding opportunities that will provide the borrower with either reduced debt service costs or cash flow mitigation to assist in budget relief.

The presentation included a chart showing the number of US Postsecondary Institutions from 2002-3 through 2018-19. The chart showed that the number of postsecondary institutions peaked in 2012-13 and has by approximately 1,000 institutions the 2018-19 level. It was noted that the majority of the decline in the number of institutions were for-profit institutions and there were very few non-profit colleges that closed.

It is the Authority's view based on observation and review of financial and enrollment records, as well as discussions with school executives, that Minnesota non-profit private colleges and universities are in a good to very strong position from both a financial and enrollment perspective. There is no concern at the Authority about closure or consolidation for Minnesota non-profit private colleges and universities.

A graph showing the range of tax-exempt AAA interest rates from 1993 through October 2019 was presented to the Board. The graph showed the wide range of interest rates by each year of bond maturities (from 1 to 30 years). The graph also showed the average rates for each year and the current rates for each year. The current rates are near the lowest level recorded making this a favorable market for issuers who need financing to obtain it at very favorable rates.

Executive Director Fick noted that the last two Authority financings were both well received by investors, with substantially more demand than there were bonds available in one instance. For both of the most recent Authority issues, rates and financial covenants were very favorable from the borrower's perspective.

The presentation concluded with an outline of 2019 fourth quarter market conditions, all of which indicate that low interest rates are likely to persist for the next few months.



Board members asked clarifying questions during and at the conclusion of the presentation. Board members indicated that they are pleased with the work of the Authority staff and the assistance the Authority provides to borrowers.

The Chair asked if there was any other business to come before the Board. Hearing none, the Chair asked for a motion to adjourn. A motion to adjourn was made by Nancy Sampair. The motion was seconded by Ray VinZant. The motion to adjourn the meeting was approved by voice vote at 6:35 pm CDT.

Respectfully submitted,

  
Assistant Secretary