

**MINUTES OF THE MARCH 17, 2016 MEETING OF THE MEMBERS
OF THE FINANCE AUTHORITY OF MAINE**

Chair Nowak called the March 17, 2016 meeting of the members of the Finance Authority of Maine to order at 9:08 a.m. at the Finance Authority of Maine, 5 Community Drive, Augusta, Maine.

Chair Nowak noted for the record that the members had received an Agenda and Notice of Meeting (*see Certificate of Mailing attached as Appendix 1*), and that notices of the meeting had been published in certain newspapers throughout the state (*see Affidavits of Publication attached as Appendix 2*).

A. CALL TO ORDER

A1: Ascertainment of Quorum

Chair Nowak called the roll of the members and noted that there were sufficient members present for the purpose of beginning the meeting.

Those members present were as follows:

Raymond Nowak, Chair
James Violette, Jr., Vice Chair
Jonathan Block
George Gervais
Reis Hagerman
Terry Hayes
James Howard
Patrick Keliher
Larry Mitchell
Christopher Pierce
Richard Roderick
Susan Snowden

Those members absent:

Gregory Miller
Rosaire Pelletier
Cheri Walker, Treasurer

Staff present:

Bruce Wagner, Chief Executive Officer
Christopher Roney, General Counsel
Carlos Mello, Chief Risk Officer
Elizabeth Vanderweide, Director of Business Development and Marketing
Martha Johnston, Director of Education
Jonathan Harvell, Chief Information Officer
Katryn Gabrielson, Deputy General Counsel
Charles Emmons, Senior Commercial Loan Officer

Lisa Brown, Human Resource Manager
Scott Weber, Senior Credit Officer
Jennifer Cummings, Senior Workout Officer
William Norbert, Governmental Affairs & Communications Manager
Eva Giles, College Savings Plan Manager
Adele Bickford, Executive/Legal Assistant

Guests Present:

None

A2: Approval of February 18, 2016 Board Meeting Minutes

Mr. Wagner amended the minutes as follows:

Page 8 – strike the second sentence, paragraph two referencing “The Advisory Committee...”.

Executive Session #1 – Strike sentence two of the first paragraph referencing “A second document...”.

Executive Session #1: Add “prior to implementation” at the end of the last sentence of the first paragraph.

Executive Session #1 – Strike the last paragraph in its entirety and replace with “FAME staff is continuing to gear up in case of a premature release of information and is finalizing its plan. Mr. Norbert has been in contact with Dennis Baily of Savvy, Inc., a public relations firm, for some guidance on how best to respond.

A motion was made by Mr. Mitchell and seconded by Commissioner Gervais to approve the minutes of the February 18, 2016 board meeting as amended. The motion was approved by a vote of 12 in favor, 0 opposed and 0 abstentions.

R-03-17-16-01

CHAIR’S REPORT

B1: Acceptance of Report of the Executive Committee Meeting of February 18, 2016

Chair Nowak stated that for consistency sake, the vote to go into Executive Session regarding NextGen should reflect that Chair Nowak did not vote.

A motion was made by Vice Chair Violette and seconded by Ms. Snowden to accept the Report of the February 18, 2016 Executive Committee meeting as amended. The motion was approved by a vote of 12 in favor, 0 opposed and 0 abstentions.

R-03-17-16-02

C: CEO’s and STAFF REPORT

C1: CEO’s Report:

Vice Chair Violette exited the meeting at 9:15 a.m.

Vice Chair Violette re-entered the meeting at 9:25 a.m.

Commissioner Keliher exited the meeting at 9:34 a.m.

Commissioner Keliher re-entered the meeting at 9:39 a.m.

Commissioner Gervais exited the meeting at 9:55 a.m.

Mr. Wagner provided updates to some items in the CEO Report.

Dexter Enterprises/Harold Alfond College Challenge (HACC)

FAME has agreed to administer the Alfond Leaders Program at no cost. The grants will pay off half of the college costs of 150 eligible STEM students. The administration of the program has become increasingly more complex but after a recent meeting with the Harold Alfond Foundation group, a path forward has been worked out and an announcement is expected in 30 to 45 days. A 501(c)(3) is being formed to provide a vehicle for contributions from others to the program, such as employers.

The launch date for FAME's Refinance Student Loan Insurance (RSLI) has been delayed until the end of April as one partner needs more time to approve contracts. It is expected that this program will generate more revenue than the Student Loan Insurance (SLI) program, which involves a smaller market. RSLI is a \$4.4 billion market and has created interest in the local banking community. RSLI will go live with the launch of a new website, Loan for ME, and Ms. Johnston will make an in-depth presentation about these loan products and the website at the April board meeting.

Staff is considering rebranding the Economic Recovery Loan Program (ERLP) loan. The FAME Loan, as it could potentially be called, would be a direct loan that would include other types of loans, i.e., start-ups, rather than only economy recovery loans as the name had implied. Mr. Wagner also advised members that the Partner Lending Guide has been completed and, staff is meeting with its lenders to make them aware of FAME's many programs.

Mr. Mello referred members to the chart in their board packets regarding the potential strategies to be employed by FAME to raise capital that would enable FAME to do larger deals. There are four categories, which are not mutually exclusive: Status Quo, Product Optimization, Partner Co-investment and Third Party Capital from Economic Development, Philanthropic and other Institutional Investors. After ensuing discussion, Mr. Wagner summed up FAME's potential for raising new capital as the means of ensuring the longevity of FAME well into the future by having more capital available to grow and support, emphasizing that market validation is the first step in product development.

Because of legislative responsibilities, Mr. Norbert provided his legislative update before the conclusion of the review of FAME's choices around raising capital.

C3: Legislative Update

Commissioner Gervais re-entered the meeting at 9:57 a.m.

The Legislature has approximately one month left before adjournment: the statutory adjournment date is April 20th. Committee work is mostly done and the action has moved to the floor. FAME's sole bill, the Annual Bond Allocation Cap, has been signed by the Governor. FAME is monitoring and has been involved with the Good Shepard Food Bank Initiative. FAME would administer an RFP to combat food insecurity in the state with funds coming from Tobacco Settlement money. It is in Appropriations. Other bills of interest receiving Legislature and Governor support regarding tax conformity: business expensing deductions have been increased and made permanent; Maine Capital Investment Tax Credits have been extended until 2019; \$15 million additional funds for education have been approved; and a Task Force has been established to examine cost drivers of education in Maine.

The Department of Economic and Community Development (DECD) and their investment consulting associates presented to several committees on the inventory of economic development programs and FAME received recognition for its part. There are three STEM bills: provision for the administration by FAME of the program for students studying and remaining in Maine in a STEM field, issuance of a \$10 million general obligation bond to fund the bill; and Opportunity Maine Tax Credits to encourage employers to pay off student loans.

CEO Report – cont'd:

Ms. Snowden exited the meeting at 10:08 a.m.

Ms. Snowden re-entered the meeting at 10:17 a.m.

Vice Chair Violette exited the meeting at 10:20 a.m.

Mr. Mello continued the review of choices for raising capital, Third Party Capital from Economic Development, Philanthropic and other Institutional Investors. This program is built off of other programs where states provide the seed capital. Consideration must be given to how much control is given to bring the dollars in from third party investors. The approach of some states has been the prioritization of their economic development funds. Chair Nowak suggested that when this comes back to the board that Mr. Mello prepare an example of a transaction for each of the four capital strategies outlined and discussed at this meeting.

C2: Committee Charters

Vice Chair Violette re-entered the meeting at 10:23 a.m.

Mr. Howard exited the meeting at 10:27 a.m.

Mr. Howard re-entered the meeting at 10:29 a.m.

Mr. Block exited the meeting at 10:29 a.m.

Commissioner Gervais exited the meeting at 10:30 a.m.

Mr. Block re-entered the meeting at 10:31 a.m.

Commissioner Gervais re-entered the meeting at 10:32 a.m.

Treasurer Hayes exited the meeting at 10:35 a.m.

Treasurer Hayes re-entered the meeting at 10:38 a.m.

Chair Nowak exited the meeting at 10:40 a.m.

Chair Nowak re-entered the meeting at 10:43 a.m.

Mr. Hagerman exited the meeting at 10:50 a.m.

Commissioner Keliher exited the meeting at 10:51 a.m.

Mr. Hagerman re-entered the meeting at 10:53 a.m.

Commissioner Keliher re-entered the meeting at 10:55 a.m.

C2a: Business Committee

C2b: Education Committee

C2c: Risk Management and Audit Committee

Members were provided drafts of each of the board's committees: Education, Business and Risk Management and Audit. Mr. Wagner stated that the charters were standardized and present common issues, i.e., quorum and telephonic participation. The charters will emphasize accountability over policies. Policies will have an annual review where the protocol will be to bring a policy to committee first and then to the board. A charter for the Advisory Committee on College Savings will also be drafted, which will clarify its role and responsibilities in contrast to those of the Education Committee. Mr. Wagner stated that the focus of the Advisory Committee is on the NextGen Plan, its investment strategies and operational issues to do with the health of the Plan. The Education Committee would deal with broader issues, the output and policies around the \$8 million generated by the Plan. Mr. Mitchell commented that a block chart diagramming the organization's responsibilities and relationships would help to clarify each committee's role.

Treasurer Hayes, who chairs the Advisory Committee, noted that there has never been any public money involved in NextGen and that a statutory change related to the Advisory Committee might bring it in line with FAME's structure and FAME's governance. Discussion ensued regarding the appropriate role of the Advisory Committee. Mr. Wagner suggested that an "as is" chart be developed and consideration be given to a possible merger of the Advisory Committee and the Advisory Council only after that is made available.

C1b: NextGen Update

Mr. Roderick moved to enter into Executive Session to discuss records for which confidentiality has been requested by the owner or the person to whom it pertains, and as to which the Authority determines the information in which gives the owner/user an opportunity

to obtain business or competitive advantage over another person who does not have access to the information other than through the Authority, or that access to the information by others would result in a business or competitive disadvantage, loss of business, or other significant detriment (10 MRSA §975-A(2)(B)). The motion was seconded by Mr. Mitchell and approved by a vote of 10 in favor, 1 opposed (Terry Hayes) and 0 abstentions. Chair Nowak did not vote.

Members entered Executive Session #1 at 10:39 a.m.

Members exited Executive Session #1 at 10:42 a.m.

C4: New Markets Tax Credit Re-allocation Notice

Mr. Roney advised that this item does not require board approval and is in their packets for information only. The tax credit authority previously awarded to a qualified Community Development Entity (CDE) under the Maine New Markets Capital Investment Program has lapsed and the unused tax credit authority will be reallocated to community development entities through an Allocation Application process by FAME. The application deadline is May 2, 2016. Mr. Roney noted that the re-allocated tax credit authority available is much smaller and that the re-allocated tax credits will likewise be smaller.

C5: Quarterly Financial Report/2016 Year End Forecast

The financials as of December 31, 2015 are included in the board packet in the standard format. Mr. Mello advised that they are tracking favorable to budget by \$600,000. Some items effecting the financial statements are: the impact of the market, which decreased NextGen revenue by \$750,000, slower than expected roll out of the Refinance Student Loan Insurance program; FFELP revenues and commercial portfolio performance better than anticipated; and expense savings from loan loss provisions. The result is a \$250,000 expected net deficit for the year.

C6: Scorecard

Mr. Mello reported that FAME is on track for its targeted goals. The results of the Customer Satisfaction Survey will not be available until June.

C7: Commercial Loan Portfolio Review

Mr. Weber referred members to the chart in their packets for insurance portfolio exposure, noting that the smaller growth over the six months ending December 31, 2015 was partially the result of a large payout of greater than \$3 million. The Commercial Loan Insurance portfolio exposure is currently at \$115.5 million.

Ms. Cummings reviewed Insurance Delinquency over 30 days, which shows that delinquency has gone down by almost half over the six month period ending December 31, 2015. She was asked for the delinquency rate of ERLP loans, which she indicated is at 36% over 90 days. The Business Committee was given this information and, Ms. Cummings agreed to include it in the information coming to the board. Also reviewed were the Insurance Portfolio Risk Rating Stratification, Insurance Portfolio Pay-outs, Loan Insurance Exposure by Industry and Commercial Loan Insurance Totals – comparison by dollars and number of loans. Mr. Weber reported that Camden

National Bank continues to be the leading lender dollar-wise. The top two lenders account for 39% of the portfolio; the top five lenders account for 59%, which is an indicator of concentration. Mr. Emmons is working toward engaging more lenders to balance lender concentrations.

C7a: Quarterly WatchDesk

Commissioner Gervais exited the meeting at 11:10 a.m.

Commissioner Gervais re-entered the meeting at 11:14 a.m.

Treasurer Hayes exited the meeting at 11:14 a.m.

Treasurer Hayes re-entered the meeting at 11:16 a.m.

Ms. Cummings advised that the accounts on the WatchDesk Report are deemed at highest risk and are presented by highest risk/highest volume down to those of least exposure. The WatchDesk Report was reviewed at the Business Committee meeting in more detail. She reported that the Commercial Loan Insurance (CLI) portfolio has remained the same dollar-wise and that the ERLP portfolio went down by 6%.

Ms. Snowden exited for a conflict of interest at 11:09 a.m.

Vice Chair Violette exited for a conflict of interest at 11:09 a.m.

Ms. Cumming provided additional information regarding loan reserves, specific to a leveraged insurance loan. FAME reserves the total amount of exposure for leveraged loans unlike pro-rata insurance. FAME has three options when reserving a leveraged loan and chooses to be conservative in their approach.

C7b: Top Ten Relationship

Ms. Snowden re-entered the meeting at 11:10 a.m.

Vice Chair Violette re-entered the meeting at 11:11 a.m.

The Top Ten Relationship report is based on highest dollar exposure. Ms. Cummings asked for specific questions. Mr. Emmons responded to a question regarding St. Croix, advising that the tissue machine is up and running.

Vice Chair Violette revisited the issue of conflict of interest posed at the recent Business Committee meeting, which requires a member to leave a meeting or receive separate board materials. After discussion, Mr. Roney agreed to review and possibly simplify the process.

D: IT PRESENTATION

Mr. Roderick exited the meeting at 11:20 a.m.

Commissioner Gervais exited the meeting at 11:21 a.m.

Mr. Roderick re-entered the meeting at 11:22 a.m.

Mr. Wagner introduced Jonathan Harvell, Chief Information Officer, who provided an IT Security Overview. Mr. Wagner noted that many of the Strategic Plan initiatives require IT support.

Mr. Harvell identified areas of improvement and strengths after conducting a self-assessment. Areas of improvement include: re-vamping of policies, standardization of hardware and software, build in more security language to system acquisitions, and importantly, better monitoring of FAME's internal networks. He has gone out to vendors for a monitoring process, which should be finalized next month. The areas of strengths identified are: external/perimeter vulnerability monitoring, virus, spam and malware protection, application development (testing), and system patching and updates. Mr. Harvell responded to a question regarding FAME's level of security, which he deemed high given that there have been no breaches and the last incident report was four or five years ago. Ms. Snowden suggested that a board candidate with IT technology expertise would be an asset to the board.

Mr. Harvell reviewed Disaster Recovery (DR) and Business Continuity, noting that there is an off-site DR in Brunswick and the FAME facility is secure with generator backup. Staff is in the process of finalizing FAME's operational DR, testing of its internal systems, access to Business and Education, in fail-over to Brunswick and will do a live fail-over encompassing access to external systems as well in the fall.

Going forward, the key enterprise applications are Customer Relation Management (CRM), which provides a functional view of our customers and, Enterprise Content Management (ECM), which gives document management to automate FAME's processes.

Mr. Harvell responded to a question regarding how he is able to keep up with the latest in the IT arena given the speed in which it changes. He stated that some of it through partnerships and also that systems are more automated now, providing continual updates.

E: ACTION ITEMS

E1: Approval of Modification of Investment Policy

Mr. Mello reported that the Investment Policy has remained virtually the same since its last revision in 2015. Appendix A was updated to provide the current titles of persons authorized to conduct investment transactions.

A motion was made by Treasurer Hayes and seconded by Mr. Howard to approve the Modification of the Investment Policy.

Mr. Nowak asked that clarification be provided regarding Delegation of Authority, which is given by the board to the CEO in one section and to the CEO and authorized investment personnel in another. In addition, he noted that the name of the Finance and Audit Committee referred to on page 2 has been changed to the Risk Management and Audit Committee.

The motion was approved by a vote of 11 in favor, 0 opposed and 0 abstentions.

R-03-17-16-03

The motion was approved with changes so noted.

E2: Approval for Rulemaking – Ch. 611, Amendment 15, Maine College Savings Program

Amendment 15 to Rule 611, Maine College Savings Program, conforms the rule to recent federal legislation, the Protecting Americans from Tax Hikes (PATH) Act of 2015 related to 529 plans. The amendment would qualify as higher education expenses computers and related equipment, software and Internet access, as defined in the Internal Revenue Code. Also, timely re-contributions of payments of qualified higher education expenses received as refunds are allowed without tax consequences or other penalty under certain circumstances; and certain account aggregation rules no longer apply. In addition, wording was added to the maximum contribution limit formula to further define the cost of attendance at institutions for higher education upon which the maximum contribution calculation is based. The wording change will simplify the process for determining the limit. That modification is not expected to affect the limit, which has generally been lower than the formula would allow.

Ms. Gabrielson read and distributed a copy of wording that is being added to Section 14, Tax Consequences, which further provides state tax exemption to withdrawals used to pay qualified higher education expenses. Mr. Block suggested a clarification to the wording that was distributed as a handout, which would read: “refunded to the account of the beneficiary”.

A motion was made by Mr. Howard and seconded by Commissioner Keliher to approve Ch. 611, Amendment 15, Maine College Savings Program, for rulemaking as amended. The motion was approved by a vote of 11 in favor, 0 opposed and 0 abstentions.

R-03-17-16-04

E3: Approval to Amend Program Management Agreement, Maine College Savings Program

Ms. Gabrielson referred members to the memo in their board packets outlining the amendments to the NextGen Program Management Agreement (PMA) and the Sub-advisory Agreements. After consulting with Merrill Lynch and Pension Consulting Alliance (PCA), FAME’s independent investment advisor, staff is proposing to assess fund and portfolio performance by its primary prospectus benchmark unless it is not appropriate for a specific fund. After analyzing all funds in the portfolio, it was determined that 60% of them were already using primary prospectus benchmark. It was determined that an alternative benchmark *is* appropriate for four of the funds as listed. Staff is also proposing that underlying funds be weighted by target allocation rather than by dollar weight. PCA advised that all of its other 529 clients use primary prospectus benchmark and target allocation and they and the Advisory Committee on College Savings are recommending the implementation of these changes.

A motion was made by Mr. Howard and seconded by Mr. Mitchell approve the Resolution approving modifications to the Maine College Savings Program and authorizing the Chief Executive Officer to take such actions necessary to implement such modifications. The motion was approved by a vote of 11 in favor, 0 opposed and 0 abstentions.

R-03-17-16-05

E4: Ratification of External Auditors

Mr. Mello reminded members that the firm of Baker, Newman and Noyes was approved as FAME's independent auditor at the last board meeting. That item was not noticed in the newspaper and, it is being brought to the board this month for ratification after being properly noticed in the required newspapers.

A motion was made by Mr. Mitchell and seconded by Mr. Roderick to ratify the selection of Baker, Newman and Noyes as FAME's external auditor for FY 2016. The motion was approved by a vote of 11 in favor, 0 opposed and 0 abstentions.

R-03-17-16-06

COMMISSIONERS' & TREASURER'S UPDATES

Commissioner Keliher reported that according to the landings report in March, Maine's marine resources value in 2015 was greater than \$600 million, with lobster accounting for approximately \$500 million of that. The health of the lobster industry in Maine is good but Commissioner Keliher indicated that it is at the tipping point and is being monitored.

F: BOARD EXECUTIVE SESSION

Chair Nowak called for Executive Session to discuss personnel matters.

Mr. Roney reminded members of the conditions for going into Executive Session for a personnel matter. Members were provided a handout at the February board meeting that details the reasons for which an executive session can be called.

Ms. Snowden moved to enter into Executive Session to discuss a personnel matter (1 MRSA §405(6)(A). The motion was seconded by Mr. Hagerman and approved by a vote of 11 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #1 at 11:51 a.m.

Members exited Executive Session #1 at 12:13 p.m.

The meeting adjourned at 12:13 p.m.

Respectfully submitted,

James Violette, Jr., Vice Chair