

**MINUTES OF THE FEBRUARY 20, 2014 MEETING OF THE MEMBERS
OF THE FINANCE AUTHORITY OF MAINE**

Vice Chair Murphy called the February 20, 2014 meeting of the members of the Finance Authority of Maine to order at 9:10 a.m. at the Finance Authority of Maine, 5 Community Drive, Augusta, Maine.

Vice Chair Murphy 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

Vice Chair Murphy 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:

Patrick Murphy, Vice Chair
Cheri Walker, Treasurer
Anthony Armstrong
Neria Douglass (*entered the meeting at 9:45 a.m.*)
Reis Hagerman
Glenn Lamarr
Larry Mitchell
Rosaire Pelletier (*entered the meeting at 11:20 a.m.*)
Christopher Pierce

Those members absent:

George Gervais
Patrick Keliher
Michael Mahoney
Raymond Nowak, Chair
Evelyn Silver
Susan Snowden

Staff present:

Elizabeth Bordowitz, Chief Executive Officer
Christopher Roney, General Counsel
Katryn Gabrielson, Deputy General Counsel
William Norbert, Governmental Affairs & Communications Manager
Charles Emmons, Senior Commercial Loan Officer
Elizabeth Vanderweide, Director of Business Development & Customer Relations

Carlos Mello, Director of Finance and Lending
Angela Dostie, Education Finance Programs & Policy Manager
Sally Garand, Commercial Loan Officer
Scott Weber, Credit Manager
Scott Bursey, Commercial Loan Officer
Jennifer Cummings, Senior Workout Officer
Shelly Desiderio, Accounting and Finance Manager
Claude Roy, Education Services Officer
Jana McQuilkin, Marketing Communications Officer
Adele Bickford, Executive/Legal Assistant

Guests Present:

Lance Tapley
Bruce Wagner

A2: Approval of January 16, 2014 Board Meeting Minutes

A motion was made by Mr. Mitchell and seconded by Mr. Hagerman to approve the minutes of the January 16, 2014 board meeting. The motion was approved by a vote of 7 in favor, 0 opposed and 0 abstentions.

R-02-20-14-01

C1: CEO's Report

Ms. Bordowitz introduced Bruce Wagner. He has successfully been confirmed and will be sworn in as Chief Executive Office at FAME in the next couple of days. The four new board members are: Greg Miller who will replace Evelyn Silver; Jonathan Block who will take the place of Michael Mahoney; and James Howard and James Violette who will fill the two at-large positions held by Tony Armstrong and Glenn Lamarr, respectively.

FAME received its 3 year cohort default rate for the federal guaranty student loan program (FFELP), which is for borrowers that went into repayment in 2011. FAME's current rate of 7.2% is an improvement over the 2010 rate of 8%. Of the 4078 students in repayment, 295 are in default.

The Maine Economic Development Survey report, which is a study of the benefits of Maine's economic development programs, has been completed. FAME's core programs, Economic Recovery Loan Program (ERLP) and Commercial Loan Insurance Program (CLI), scored well. Hearings will be held next week, and Mr. Norbert will make the full report available.

C2: St. Croix Tissue

Mr. Lamarr exited the meeting for Conflict of Interest at 9:17 a.m.

Ms. Bordowitz referred members to an article published yesterday that is before them as a handout.

Ms. Garand provided an overview of the St. Croix project, which was previously presented to the board by Chris Howard of Pierce Atwood and executives of Woodland Pulp in December. Staff is

currently reviewing the full application for a \$7.5 million Major Business Expansion Bond that is part of the \$120 million project to fund two tissue machines to be located at the Woodland Pulp mill. St. Croix will lease the building from Woodland Pulp. Staff had intended to bring a completed package to this board meeting, but St. Croix has not selected a bank or fully negotiated the terms under which a bank would be selected and asked that it not come to the board in February. Once the term sheet is received, staff will continue their underwriting of the application and come to the board in March with an update.

C3: Thermogen Update

Mr. Lamarr re-entered the meeting at 9:20 a.m.

Mr. Emmons referred members to the memo in their packets that outlines the changes to the Thermogen project for which the board approved a \$25 million Major Business Expansion Bond in September. Staff met with Cate Street on February 4 to discuss proposed changes to the scope of the project, which has delayed the anticipated February closing. The original footprint, technology and cost of the project have changed significantly as contrasted in the memo. The \$25 million bond, with Farm Credit as purchaser, remains the same. Because a new technology is being proposed for the manufacture of black pellets, Mr. Emmons advised that FAME has reached out to Stantec, Hilco and Dr. Rice who provided the previous engineering, appraisal and reporting for the Thermogen project. Mr. Emmons also pointed to the public benefit of the project, which will provide 220 direct and indirect jobs to the Millinocket area.

Mr. Roney indicated that the Thermogen project will come back to the board, at a minimum, as an amendment once staff reviews the changes in detail. Also, Mr. Roney added, in response to member questions, that conditions for board approval in September provided that FAME's piece of the project funding would be the last to go in and that all back taxes must be paid.

C4: Strategic Planning Update

Ms. Bordowitz stated that FAME is halfway through its current Strategic Plan and the results are appropriate for the timeframe. She reviewed each Objective and its current standing, which is outlined in the board packet. She reported on the Student Loan Insurance product as it relates to the objective for increasing financial literacy. A financial literacy module is being developed for repeat borrowers and will be available next year. Four lenders have signed up for the program, and Mr. Mello continues to call on lenders to add to that number. 67 unique students have been approved.

C5: Omnibus Poll Results

Mr. Norbert advised that the results are available from the annual poll, which is an Objective in the Strategic Plan, and is conducted to measure the public's familiarity with and opinion of FAME. Although the results were not as high as FAME would like, it is the first year that FAME's education and business customer base only was polled, and it will provide a baseline going forward. 27% of those polled had a favorable opinion of FAME and 47% indicated awareness of FAME.

Vice Chair Murphy pointed out when the results for relevant customers (those having children for education and bankers for business), the strategic targets are closer. What was of concern to him was the neutral category (62%) relating to a positive opinion of FAME. He indicated that there is

room for improvement to convert that neutralism. There is also room for improvement for awareness of services.

C6: Quarterly Financial Report and Scorecard

Mr. Mello referred members to Statement of Revenues and Expenses in their packets. Ms. Dostie will outline the reasons for the \$1.9 million reduction anticipated in forecasted Next Step and Need Based Grant benefits during the request for the authorization of funding for State of Maine Grants. Turning to the Balance Sheet, Mr. Mello highlighted the dramatic growth in NextGen investments, noting that FAME's advisor-sold NextGen program is the third largest in the country now and hopefully, will be number two by the end of 2014. He also pointed to Reserves for Loan Losses, the level of which has been discussed in the Commercial Loan Committee and Finance Audit Committee meetings and may come back to the board for consideration. FAME has met all of its minimum requirements.

Mr. Mello reviewed the Scorecard in the board packet. He added that it appears that all targets will be met and it has been a solid first six months of the fiscal year.

C7: NextGen Audit Update

Ms. Bordowitz provided the monthly update regarding the FY13 audit. FAME staff continues to work with Merrill Lynch to address the issue noted. Merrill Lynch plans to continue its sampling and will send a letter to participants of the Select Series with the exception of those already contacted. The Direct Series is not affected. FAME has decided to issue a Request for Response (RFR) for an auditor beginning with FY14. A discussion ensued regarding possible responses to the RFR.

C8: Monthly update for Board on Lumber, Wood and Paper Industry

Treasurer Walker exited the meeting at 10:25 a.m.

Mr. Weber advised the board that there was no material change from January to February. The percentage last month was 87.8% and this month is 88.25%. Staff will continue to monitor and update the board monthly. A listing of the companies composing the category was included in the board packet.

BREAK: 10:26 a.m.-10:40 a.m.

Treasurer Walker re-entered the meeting at 10:40 a.m.

D1: NextGen® - Confirming Resolution on Authority to Extend and Amend the Program Management Agreement

Ms. Gabrielson advised that FAME and Merrill Lynch are expected to sign the Program Management Agreement (PMA) this afternoon and also are preparing a Supplement to the Program Description describing changes to the Program. In order to discuss the detail of the changes, Ms. Gabrielson asked the board to go into Executive Session.

Treasurer Walker moved to enter into Executive Session for which confidentiality has been requested to discuss matters with counsel as to which premature general public knowledge would place the Authority at a substantial disadvantage. The motion was seconded by Mr. Hagerman and approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #1 at 10:41 a.m.

Members exited Executive Session #1 at 10:47 a.m.

The new contract will be for seven years, with an automatic two year renewal possible. The previous agreement was for 15 years. The new PMA will allow Merrill Lynch certain expanded opportunities to market to NextGen customers and loosens certain restrictions against selling other 529 plans to their customers if it is in the best interest of the customer. FAME will receive substantial new revenues to be used at FAME's discretion for NextGen purposes and financial education and outreach. Under the new agreement, FAME's marketing funds are also increased. Merrill Lynch will take on some services previously provided by FAME, make new technology commitments, and enhance customer servicing and statements/reporting.

A motion was made by Mr. Lamarr and seconded by Mr. Mitchell to 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 8 in favor, 0 opposed and 0 abstentions.

R-02-20-14-02

Ms. Bordowitz added that under the old agreement, under most termination scenarios Merrill Lynch would keep the advisor accounts and FAME was only able to keep its Maine accounts. Under the new agreement, the accounts are divided between Advisor and Direct, which will put FAME in a better position when it is time to go out to RFR again in seven or nine years.

D2: Authorization of Funding for Academic Year 2014-2015 State of Maine Grants

Ms. Dostie reported that each February FAME determines an amount to fund the Maine State Grant Program as colleges and universities begin the process of awarding financial aid to students that will be enrolled in the fall. This year FAME is asking that \$5.5 million be set aside from NextGen revenues and added to the \$9.7 million appropriated by the State. In total, the \$15.2 million will allow over 18,000 Maine residents to receive Grant funding. Ms. Dostie offered an explanation to Mr. Mello's previous report regarding the \$2 million variance to budget experienced in FY 2014. She advised members that the take-rates for the Matching Grants were lower than estimated.

Treasurer Douglass moved to enter into Executive Session for which confidentiality has been requested to discuss matters with counsel as to which premature general public knowledge would place the Authority at a substantial disadvantage. The motion was seconded by Treasurer Walker and approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #2 at 11:05 a.m.

Members exited Executive Session #2 at 11:28 a.m.

Treasurer Douglass exited the meeting at 11:31 a.m.

A motion was made by Mr. Hagerman and seconded by Mr. Mitchell to authorization of funding for Academic Year 2014-2015 State of Maine Grants. The motion was approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

R-02-20-14-03

D3: NextGen® - Approval of Application of Settlement Funds re: Oppenheimer Champion Income Fund

Ms. Gabrielson referred members to the memo in the board packet that outlines the funds received by FAME resulting from a Champion Income Fund class action suit. Ms. Gabrielson is asking the board to approve the distribution of \$459,491 received, with a \$10 threshold. The data regarding the number of affected open and closed accounts has not yet been received, but should the data reveal circumstances which would not warrant a distribution, or require a different threshold, staff would revisit with the board.

A motion was made by Mr. Mitchell and seconded by Mr. Pelletier to approve the Application of Settlement funds re: Oppenheimer Champion Income Fund as presented. The motion was approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

R-02-20-14-04

D4: NextGen® - Approval of Reorganization of the Franklin Limited Maturity U.S. Government Securities Fund

Pending shareholder approval, the Franklin Limited Maturity U.S. Government Securities Fund, an existing underlying fund in NextGen, will be reorganized into the Franklin Adjustable U.S. Government Securities Fund, not currently an underlying fund (the “new fund”), as outlined in the memo to the board. Because the new fund did not meet the performance standards required of a new underlying fund in the Program, the new fund would be added to the Program’s “red flag” (watchdesk) report. The NextGen investment advisor approved the new fund. The Advisory Committee recommended that Franklin Templeton confirm approval of the new fund in its NextGen Portfolios. Ms. Gabrielson assured members that staff would come back to the board if any new issues arose. Ms. Gabrielson is seeking approval today in order to meet a disclosure deadline.

A motion was made by Mr. Mitchell and seconded by Treasurer Walker to accept the Franklin Adjustable U.S. Government Securities Fund into the Program. The motion was approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

R-02-20-14-05

D5: Draft Approval for Rulemaking – Rule Ch. 325, Amendment 3, Maine New Markets Capital Investment Program

Treasurer Douglass re-entered the meeting at 11:43 a.m.

Mr. Roney advised that the rule is being amended to provide a deadline for the re-allocation of funds that were awarded to Community Development Entities (CDE) and unused before the two year period set by the rule.

Mr. Mitchell questioned the one day loan utilized under this program, which he considers an abuse of the taxpayer and asked if the rule could be changed. Mr. Roney suggested that the more logical approach would be to introduce legislation to affect the change. He reminded the board that a previous attempt was made to preclude such an instance through rule-making, and the board took the position that the state program should mirror the federal program, which allows one day loans.

Mr. Roney indicated that any reference to March 3 in the rule should be changed to May 1.

A motion was made by Treasurer Walker and seconded by Mr. Pelletier to approve Rule Ch. 325, Amendment 3, Maine New Markets Capital Investment Program, for Rulemaking. The motion was approved by a vote of 8 in favor, 1 opposed (Larry Mitchell) and 0 abstentions.

R-02-20-14-06

D6: Draft for Approval for Rulemaking – Rule Ch. 307, Amendment 8, Maine Seed Capital Tax Credit Program

Mr. Pelletier exited the meeting at 11:56 a.m.

FAME received additional, annual tax credit authority under the Maine Seed Capital Tax Credit Program that will become effective mid-year 2014. The program has not been funded for over a year. The rule outlines the changes resulting from the new legislation and staff is recommending approval. The rule will be before the board for approval after the comment period ends.

A motion was made by Mr. Lamarr and seconded by Mr. Armstrong to approve Rule Ch. 307, Amendment 8, Maine Seed Capital Tax Credit Program, for Rulemaking. The motion was approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

R-02-20-14-07

D7: Ratification of Investment Purchases

Treasurer Walker exited the meeting at 11:59 a.m.

Treasurer Walker re-entered the meeting 12:00 p.m.

Mr. Mello reported that there were no purchases during the period October 1 through December 31, 2013 and two securities matured during that same timeframe as referenced in the board packet.

A motion was made by Mr. Lamarr and seconded by Mr. Armstrong to ratify the investment purchases, October 1, 2013 – December 31, 2013. The motion was approved by a vote of 7 in favor, 0 opposed and 0 abstentions.

R-02-20-14-08

COMMISSIONERS' & TREASURER'S UPDATES:

None.

A motion was made by Treasurer Douglass and seconded by Mr. Armstrong to adjourn the meeting. The motion was approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

R-02-20-14-09

The meeting adjourned at 12:02 p.m.

Respectfully submitted,

Patrick Murphy, Vice Chair