

**MINUTES OF THE MAY 15, 2014 MEETING OF THE MEMBERS
OF THE FINANCE AUTHORITY OF MAINE**

Chair Nowak called the May 15, 2014 meeting of the members of the Finance Authority of Maine to order at 9:06 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
Patrick Murphy, Vice Chair
Cheri Walker, Treasurer
Jonathan Block
Neria Douglass (*entered the meeting at 9:09 a.m.*)
Denise Garland for George Gervais
Reis Hagerman
James Howard
Larry Mitchell
Rosaire Pelletier
Christopher Pierce
Susan Snowden
James Violette, Jr.

Those members absent:

Patrick Keliher
Gregory Miller

Staff present:

Bruce Wagner, Chief Executive Officer
Christopher Roney, General Counsel
Charles Emmons, Senior Commercial Loan Officer
Carlos Mello, Director of Finance and Lending
Elizabeth Vanderweide, Director of Business Development and Customer Relations
William Norbert, Governmental Affairs & Communications Manager
Sally Garand, Commercial Loan Officer
Scott Weber, Credit Manager

Shelly Desiderio, Accounting and Finance Manager
Jana McQuilkin, Marketing Communications Officer
Adele Bickford, Executive/Legal Assistant

Guests Present:

John Beaupre, Selectman and Business Owner, Carrabassett Valley
Dave Cota, Town Manager, Carrabassett Valley
Nate Cotnoir, Camden National Bank
Kerry Audet, Valley Bowl, Carrabassett Valley

A2: Approval of April 17, 2014 Board Meeting Minutes

Chair Nowak informed members that a formal recommendation/suggestion for the restructuring of board committees will come to the board in June. Mr. Wagner will contact members prior to that meeting asking members to serve on at least one of the committees.

Chair Nowak amended the minutes to include a change in wording on page 3 to do with committee restructuring. The sentence would now read: A restructure of committees could also provide a means of getting more information to members and could possibly assist the board in its oversight role with respect to these large projects.

A motion was made by Mr. Pelletier and seconded by Mr. Howard to approve the minutes of the April 17, 2014 board meeting as amended. The motion was approved by a vote of 13 in favor, 0 opposed and 0 abstentions.

R-05-15-14-01

B: CHAIR'S REPORT

B1: Report of the Finance and Audit Committee Meeting of April 15, 2014

Treasurer Walker reported that the Finance and Audit Committee Meeting Report of April 15, 2014 was discussed at the April board meeting. The committee recommended Thomas & Thomas as FAME's new independent auditor for NextGen, which was approved by the board at that meeting.

A motion was made by Ms. Snowden and seconded by Vice Chair Murphy to approve the Report of the Finance and Audit Committee meeting of April 15, 2014. The motion was approved by a vote of 13 in favor, 0 opposed and 0 abstentions.

R-05-15-14-02

B2: Report of the Finance and Audit Committee Meeting of April 29, 2014

Treasurer Walker informed members that a representative of FAME's new investment advisor, PFM Asset Management, reviewed the portfolio and made recommendations to the Investment Policy that will be discussed later in the agenda. Two partners from Thomas & Thomas also attended the meeting, providing their approach to the audit, client service and their commitment to our timetable that will bring the statements to the October board meeting. Also discussed were the

changes to the methodology for calculating loan losses that will come to the board later in the agenda.

A motion was made by Treasurer Douglass and seconded by Mr. Pelletier to approve the report of the Finance and Audit Committee meeting of April 29, 2014. The motion was approved by a vote of 13 in favor, 0 opposed and 0 abstentions.

R-05-15-14-03

B3: Board Evaluation Tool

Mr. Wagner informed the board that a copy of the annual board evaluation tool is provided in the board packet, and members are asked for their feedback. Distribution will be done manually and will go to Baker Newman and Noyes for independent tally.

C: CEO's and STAFF REPORT

C1: CEO's Report

As part of Mr. Wagner's safety message, members were directed to the new mugs with lids to transport hot liquids and the new floor outlets in the board room, which eliminate wiring that posed a tripping hazard.

Mr. Wagner updated the board on Major Business Expansion (MBE) bonds expected to come to the board in the next couple of months.

Treasurer Douglass moved to enter into Executive Session to discuss records obtained prior to receipt of a written application. The motion was seconded by Vice Chair Murphy and approved by a vote of 13 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #1 at 9:17 a.m.

Members exited Executive Session #1 at 9:25 a.m.

Mr. Wagner reported that FAME and the Alford Scholarship Foundation (ASF) have reached a Management Agreement. A joint strategic plan with ASF for marketing efforts will have its last meeting shortly, and the joint objectives focusing on the opening of 529 accounts will be published. The Education team has selected a NextGen marketing firm resulting from an RFR, which will be submitted for approval later in the agenda.

The FY 2015 Budget will be formally presented to the board in June.

Mr. Wagner added that FAME is reaching out to state agencies to work collaboratively in the area of economic development. FAME is considering a new program to expand its support to natural resources.

C2: 2014 Strategic Plan Progress Review

Mr. Wagner updated the board on the existing Strategic Plan objectives and metrics, which are charted in the board packet. The current results for objectives, some of which are also Scorecard goals, remain yet to be determined.

In going forward to the next Strategic Planning session, staff is working on Trend Analysis. A Brand Promise Statement is currently in draft form and will come to the board in June. Twelve major categories have been identified in the Trends Analysis process, and staff has considered eight of them to date. After research is completed on all 12 categories, an environmental assessment book will outline the major trends that impact our business. Mr. Wagner indicated that he expects to have a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis to the board in July. After reviewing the environmental assessment and the strengths and weaknesses, staff will ask the board for feedback on the goals. After staff completes its planning based on board feedback, the resulting Strategic Plan will be presented to the board.

C3: Legislative Update

A recap of the Second Regular Session of the 126th Maine Legislature was provided by memo from Mr. Norbert in the board packet. He added that the Legislature adjourned May 2nd after enacting just less than 200 of the 500 bills considered. FAME received a \$1 million cut to its loan insurance reserves but received strong support for its economic development bonding. \$12 million in revenue obligation bonds will go to voters in November. Those affecting FAME are \$8 million for the Regional Economic Development Revolving Loan Program (REDRLP) and \$4 million for Commercial Loan Insurance (CLI). Higher education also received a great deal of attention. Two studies dealing with college affordability and college access will be conducted.

C4: Quarterly Financial Report for March 31, 2014 and Scorecard

Mr. Mello reviewed FAME's financial performance for the third quarter, referring members to the information in their board packets. He pointed out that actual Excess Revenue as of March 31 is \$2.8 million versus a budgeted deficit of \$2.2 million, leaving a \$5 million favorable to budget variance. Mr. Mello highlighted some reasons for the favorable variance: the \$1 million State Transfer was not budgeted, loan losses were much lower due to claim experience, and fees were higher than budgeted resulting from the revenue obligation bond program and MBE bonds for Thermogen and St. Croix Tissue. On the Education side, \$3 million above budget was realized, influenced by the market, higher FFELP revenues resulting from collection activity, and lower NextGen program benefits paid out in Next Step and need-based grants. Mr. Mello indicated that he anticipates remaining at a \$5 million favorable variance at the end of the fiscal year because the \$1 million being returned to the state was accrued and \$1.1 million favorable to budget was realized from the lower pay out of NextGen benefits. Mr. Mello referred members to the Balance Sheet Statistics and Measures and the Scorecard provided in the board materials.

C5: University Credit Union Existing Portfolio Guaranty

Mr. Mello reviewed the purpose of the Maine Private Education Loan Network (MPELN) and FAME's position before discussing the proposed transaction with the University Credit Union (UCU) that would have FAME insure UCU's existing student loan portfolio. \$40 million in student loans is done through the private market, with three-quarters going to out-of-state banks. For

FAME, the goal is to bring student loan lending back to the state, and for lenders it is building a customer base for the future.

Treasurer Walker moved to enter into Executive Session for which confidentiality has been requested to discuss proposed transaction in financial detail. The motion was seconded by Mr. Howard and approved by a vote of 13 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #2 at 10:05 a.m.

Members exited Executive Session #2 at 10:18 a.m.

Discussion continued regarding the benefit to students of insuring an existing portfolio and the risk to FAME, noting that FAME insurance provides liquidity to the lender, and FAME's risk is capped at \$450,000. Chair Nowak added that providing the guaranty for UCU's existing student loan portfolio will come back to the board for approval.

C6: Identity Theft Prevention Program – Annual Report

Federal Trade Commission regulations require that financial institutions report annually patterns, practices or specific activities related to identity theft to their boards. Mr. Roney advised that FAME received one form letter with no further contact.

C7: Monthly Update for Board on Lumber, Wood and Paper Industry

Referring to the memo in the board packet, Mr. Weber informed the board that industry concentration is at 88.9%, an increase from last month, which was at 86.4%. It remains within the policy requirement.

BREAK: 10:36 a.m. – 10:45 a.m.

D: ACTION ITEMS

D1: Approval of Commercial Loan Insurance Request from Camden National Bank for Valley Bowl Corp.

Mr. Pelletier re-entered the meeting at 10:46 a.m.

Mr. Murphy re-entered the meeting at 10:47 a.m.

Treasurer Douglass re-entered the meeting at 10:49 a.m.

Ms. Garand introduced Nate Cotnoir, Camden National Bank, and Kerry Audet, CEO of Valley Bowl Corp. (d/b/a SugarBowl). Camden National Bank is requesting 90% pro-rata insurance for two term loans: \$946,000 for a commercial real estate mortgage for land and existing buildings and to fund construction of the SugarBowl and \$257,000 for the purchase of machinery, equipment, furniture and fixtures for the facility. Staff is recommending approval of both based on management experience, guarantors, and significant equity. Mr. Cotnoir introduced two guests, John Beaupre, business owner/Selectman-Carrabassett Valley, and Dave Cota, Carrabassett Valley

Town Manager, who spoke in support of the project and its impact in making Sugarloaf a four season destination.

Mr. Cotnoir advised members that Camden National Bank is supportive of the project because of their corporate business plan, advisory team and equity. He explained that the request for FAME's loan insurance is based on the inherent risk of a start-up and special purpose, single use nature of the property.

Mr. Audet provided an overview of what has transpired in the four year planning of the SugarBowl. He outlined the key factors for the project's success: the ability to lower costs, offering a wide range of services not offered now in close proximity to Sugarloaf like indoor golf, changing the culture for customer service, a strong relationship with Sugarloaf (who will include the SugarBowl in its social media, website and reference to customers), and a provision for shuttle service from Sugarloaf to the facility by the town. Additionally, the property is zoned for residential and commercial use, which will enable future growth. Lastly, the facility will employ 15 people full time. Discussion ensued related to appraisal value, grant approval and debt service reserves.

Chair Nowak referred to the Special Conditions provided in the handout and the resolutions before members for approval.

A motion was made by Ms. Snowden and seconded by Mr. Howard to approve two resolutions authorizing loan insurance for a \$946,000 term loan and a \$257,100 term loan for Valley Bowl Corporation. The motion was approved by a vote of 13 in favor, 0 opposed and 0 abstentions.

R-05-15-14-04

R-05-15-14-05

D2: Approval of RFR for NextGen Marketing

Mr. Violette exited the meeting at 11:32 a.m.

Mr. Violette re-entered the meeting at 11:35 a.m.

Ms. Vanderweide provided a handout describing the RFR process and selection of a Marketing Services firm for NextGen. In the prior 15 years, marketing was done by Merrill Lynch. Under the newly negotiated contract with Merrill Lynch, FAME will receive \$750,000 in marketing dollars. Through its marketing efforts, FAME is seeking to change the Maine culture into one of a "saver" not "borrower" and to take a more active role by becoming more people focused rather than vendor focused. Ten firms responded to the RFR, and based on the criteria listed in the handout, four firms were invited to present to the review team. The team is recommending the hiring of Ethos for three one-year engagements. Ethos also serves as the marketing firm of the Alford Scholarship Foundation.

Mr. Roney offered the wording for the motion: The members of the Finance Authority of Maine authorize the Chief Executive Officer to enter into a contract with Ethos for marketing services as described in an amount up to \$750,000 a year, up to three years, on such terms and conditions as the Chief Executive Officer deems prudent.

A motion was made by Mr. Pelletier and seconded by Treasurer Douglass to approve the hiring of Ethos as presented. The motion was approved by a vote of 13 in favor, 0 opposed and 0 abstentions.

R-05-15-14-06

D3: Ratification of Investment Purchases

The listing of Purchases and Maturities/Sales/Calls provided in the board packet is brought to the board for ratification by policy. Mr. Mello advised members that the sale of 144A securities was in response to the advice of FAME's Investment Advisor. Those securities must be held by an eligible financial institution, and FAME does not meet that requirement.

A motion was made by Vice Chair Murphy and seconded by Treasurer Walker to ratify the investment purchases of January 1, 2014 through March 31, 2014 as listed. The motion was approved by a vote of 13 in favor, 0 opposed and 0 abstentions.

R-05-15-14-07

D4: Adoption of Proposed Allowance for Insured Commercial Loan Losses Policy

Mr. Mello referred members to the material in their board packets and reminded them that the change for the allowance for loan losses has previously been discussed at both the committee and board levels. There has been a concern that the reserves are conservative and the proposed changes would more closely align the amount of reserves to the overall portfolio. He added that loan officers have the ability to put any loan on Watchdesk. He reviewed the criteria and proposed framework. Chair Nowak commented that the policy should also be reviewed for the Major Business Expansion (MBE) piece and industry listing consistency.

A motion was made by Treasurer Douglass and seconded by Mr. Howard to adopt proposed changes to Business Division Direct Loan and Loan Insurance Credit Policy as presented. The motion was approved by a vote of 13 in favor, 0 opposed and 0 abstentions.

R-05-15-14-08

D5: Approval of Revision to Investment Policy

Members were directed to pages four and five of the Investment Policy in their board packets where the redlined changes to the policy are being made at the suggestion of the Investment Advisor. The maximum limit of securities as a percentage of the total portfolio for Corporate Bonds is increased from 20% to 40% and will provide more flexibility.

A motion was made by Treasurer Douglass and seconded by Mr. Hagerman to approve the revisions to the Investment Policy as presented. The motion was approved by a vote of 13 in favor, 0 opposed and 0 abstentions.

R-05-15-14-09

COMMISSIONERS' & TREASURER'S UPDATES

Treasurer Douglass reported that her office is getting ready to sell the general obligation bonds.

The meeting adjourned at 11:50 a.m.

Respectfully submitted,

Patrick Murphy, Vice Chair