HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

May 21, 2008

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, May 21, 2008, at 11:00 a.m. at the offices of the Ohio Board of Regents, 36th Floor, State Office Building, 30 East Broad Street, Columbus, Ohio, written notice of which had been given to all members of the Commission.

The following members attended: Thomas Needles, Chairman; Richard Petrick, Vice Chairman; John Wells, Secretary; Kenneth Kutina, Deputy Secretary; Wanda Carter; Ronald E. Cosey; and Sam Speck. Also present were: representatives of the institutions appearing before the Commission; Francis Barry Keefe of Squire, Sanders & Dempsey L.L.P., Bond Counsel to the Commission; and James Wermuth of the Ohio Board of Regents.

The meeting was called to order by the Chairman. Upon call of the roll, Mr. Wells declared that a quorum was present. He also stated that the notice of this meeting had been given to all media, organizations or other persons who requested that information in accordance, and in full compliance, with Section 121.22 of the Revised Code.

The Chairman noted that the minutes of the Commission meeting of April 16, 2008, were sent to each member prior to this meeting; those minutes are included in the meeting books for each member. The Commission members present unanimously approved the minutes of that meeting.

MARIETTA COLLEGE

The Chairman reminded the members that Dan Bryant, Vice President for Administration and Finance at Marietta College, met with the Commission at the April meeting. The College was requesting preliminary approval for financing of a new 335-bed student residence facility. Because there were not sufficient members present to consider the request, the resolution approving the Preliminary Agreement with the College was tabled.

Mr. Keefe noted that the resolution was included in the member notebooks. It approves the Preliminary Agreement, which is in its usual form.

Mr. Wells moved and Dr. Kutina seconded the motion that Resolution No. 2008-11 be adopted.

There being no further discussion, the Chairman called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Cosey, Kutina, Needles, Petrick, Speck, Wells

Nay: None

Abstain: Carter

The Chairman declared the motion passed and Resolution No. 2008-11 adopted.

Resolution No. 2008-11 is as follows:

DEFIANCE COLLEGE

The Chairman called on Lois McCullough, Vice President for Finance and Management, to discuss the College's request. Ms. McCullough explained that the College was asking the Commission to approve a financing of approximately $4.3 million for three projects. The first is a complete renovation of Whitney Hall, a student residence facility. The building will be completely gutted and renovated with a new roof, electrical system, new windows, flooring and other improvements. Dana Hall, an academic building, will also be renovated with a new HVAC system, lighting, windows and other improvements. Energy savings from these changes are estimated to be approximately $20,000 per year. The third project is the refinancing of all or a portion of an outstanding bank loan that was used to renovate Tenzer Hall.

Dr. Kutina asked Ms. McCullough to discuss the College's goal of increasing enrollment in the face of a projected decrease in the number of high school graduates in the near future. Ms. McCullough stated that students are the basic source of revenue for the College. Their enrollment, therefore, is of critical concern to the College. The College has started a new campaign to increase enrollment. A new Enrollment Manager was retained in 2006. Already the inquiry pool of students has increased by 25%. The acceptance yield has also increased. There were 295 first year students this fall. In addition, the academic profile was improving. The College has struggled with retention of students after their first year. The retention rate has varied from 55% to 75% with an average around 63% in the recent past. This rate is expected to improve because of the new and improved student housing facilities. The College also has a new financial aid strategy to better fit the needs of its students. The College has added new programs, for example, the BS in nursing. This is a completion program in cooperation with Northwest Community College. Dr. Speck noted that there was a decline in enrollment three years ago. Ms. McCullough stated that there was not a clear-cut explanation for the dip in enrollment for that class, which is graduating this year. There were changes in enrollment management in the years just prior to that year, which might account for some of the decrease. In response to another question from Dr. Speck, Ms. McCullough stated that the rate of draw down from endowment has been 7% to 8%. This is still below the rate of return on investment so it is not reducing the principal. The College has been, and will continue, holding the draw-down amount to $800,000 each year. This amount then becomes a smaller percentage of the total endowment. It is now 6.2% with a goal to get it to 5.0% to 5.5%.

Responding to several questions from Mr. Cosey, Ms. McCullough stated that most students come from six counties in Northwest Ohio. The College is attempting to broaden its student base to include a larger draw from suburbs in those counties. The reasons for the lower than average retention rate is difficult to identify. Many of the students that leave are the ones that apply and are accepted late. Some are students who come to the College to participate in athletics. If they do not get enough playing time, they leave the school. In response to a question from Dr. Kutina, Ms. McCullough stated that the male to female student ratio at enrollment is 60/40%, but by graduation it is 50/50%.

At the request of the Chairman, Mr. Keefe noted that the resolution before the Commission approves a Preliminary Agreement with the College for the proposed financing.

Dr. Kutina moved and Mr. Cosey seconded the motion that Resolution No. 2008-12 be adopted.

There being no further discussion, the Chairman called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Cosey, Kutina, Needles, Petrick, Speck, Wells

Nay: None

Abstain: Carter

The Chairman declared the motion passed and Resolution No. 2008-12 adopted.

Resolution No. 2008-12 is as follows:

OTTERBEIN COLLEGE

The Chairman noted that the College appeared before the Commission at its March meeting. Because there were not enough members to vote on the resolution authorizing the Preliminary Agreement, it was tabled. The Chairman asked David Mead, Vice President for Business Affairs, to update the Commission on the College's request. Mr. Mead first introduced David Fumi of Huntington Capital Markets, the underwriter for the College's bond issue. Mr. Mead stated that the College is seeking to finance approximately $12 million for a new Science Building and $5 million for its new Equine Center. In addition, the College's portion ($2.7 million) of the Commission 2000 Pooled Bond issue would be refunded with the current bond issue. The bonds would be issued in two series: $7.7 million of variable rate bonds and approximately $13.5 of fixed rate bonds (including a debt service reserve fund and capitalized interest). Both projects remain the same as discussed with the Commission in March. Fundraising for the projects is ongoing. The College has raised cash and pledges of approximately $4.2 million of a $12 million goal for the Science Building and $1.7 million of a $5 million goal for the Equine Center.

Responding to a question from Mr. Petrick, Mr. Mead stated that the bond issue would be approximately $22 million. Mr. Keefe explained that the resolution approved up to $23 million but that the bonds actual issue size would be only what was required to fund the projects and refund the outstanding bonds.

In response to questions from Dr. Kutina, Mr. Mead stated that the expected interest rates for the bond issues are 3.9% for the variable rate bonds (including costs of the letter of credit) and 4.9% for the fixed rate bonds. The Colleges fund raising goals are $12 million of the $18.4 million cost of the Science Building and $5 million of the $5.2 million cost of the Equine Center.

Mr. Keefe noted that there are two resolutions before the Commission. The first approves the Preliminary Agreement in its usual form. As noted, this resolution was tabled from the March meeting.

Mr. Petrick moved and Dr. Kutina seconded the motion that Resolution No. 2008-13 be adopted.

There being no further discussion, the Chairman called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Cosey, Kutina, Needles, Petrick, Speck, Wells

Nay: None

Abstain: Carter

The Chairman declared the motion passed and Resolution No. 2008-13 adopted.

Resolution No. 2008-13 is as follows:

Mr. Keefe stated that the bond documents for both series of bonds for these projects have been prepared and are presented in substantially final form. The second resolution under consideration authorizes the bond issue for the College and approves the related bond documents.

Mr. Wells and Dr. Kutina seconded the motion that Resolution No. 2008-14 be adopted.

There being no further discussion, the Chairman called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Cosey, Kutina, Needles, Petrick, Speck, Wells

Nay: None

Abstain: Carter

The Chairman declared the motion passed and Resolution No. 2008-14 adopted.

Resolution No. 2008-14 is as follows:

CLEVELAND CLINIC

Appearing on behalf of the Cleveland Clinic were Michael Harrington, Chief Accounting Officer and Controller, and Anthony Helton, Administrator - Division of Finance. The Clinic is requesting the Commission's assistance in financing and refinancing multiple hospital facilities at a cost of approximately $1.02 billion. The members were provided with a booklet of information to accompany the Clinic's presentation. It is attached hereto as Exhibit A for reference.

Mr. Helton reviewed background information on the Clinic beginning with its founding in Cleveland in 1921. Today, it has 11 hospitals and 18 Family Health & Surgery Centers in Northeast Ohio. There are over 37,000 employees: 16,000 (including 4,000 physicians) at its main campus in Cleveland. The Clinic is the largest employer in Northeast Ohio and the second largest employer in the State. Patients come from all 50 states and 80 countries with Ohio (83%) and the six surrounding states (10%) making up the largest users. There are approximately 164,000 admissions per year. The Clinic has bond ratings of AA3 from Moody's and AA- from Standard & Poor's. *U.S. News and Word Report* for 2007 ranked 16 specialties as No. 1 in Ohio. Its heart program has been ranked No. 1 in the country for 13 years.

Mr. Harrington stated that the Clinic's financial performance has been very good as shown in pages 11 to 13 of the booklet. Operating income and margin have increased substantially since 2001. Its long term debt is stable, so with increased operating income, the total assets have increased. Responding to a question from Dr. Kutina, Mr. Harrington explained that of its "endowment" 80% is totally unrestricted and 20% represents donor gifts that may have restrictions. Approximately $400 to $500 million would be "endowment" similar to a university's endowment. The earnings are classified as non-operating income.

Mr. Helton discussed the recent and proposed developments at the main campus (see pages 15 to 20 of the booklet). The Miller Pavilion is replacing an existing parking garage. It is being constructed with patients in mind. There will be single rooms with large screen TVs for all patients. Visiting hours will be 24-hours per day with accommodations in many rooms for these visitors. The new 89th Street Garage will provide much needed parking spaces for employees who now must use a municipal lot that is a 20-minute bus ride from the main campus. This facility will also include a Service Center for the whole campus. The Clinic has also purchased five connected buildings in Beachwood, Ohio to serve as its Administrative Center, thus freeing up space at its main campus.

Mr. Harrington then discussed the financing plan. Approximately $620 million of the total bond issue will be used to refund outstanding bonds issued for hospital facilities. These bonds are in the auction rate mode. When the auction-rate bond crisis hit the market, some of the bonds did go to a maximum rate of 15%, but most others were restricted by the bond documents to a lower rate, usually 6% to 8%. The Clinic was able to purchase some of those bonds and hold them as investments until they can be refunded.

New projects will be funded with $400 to $500 million of the proposed bond issue. These include improvements to Hillcrest Hospital including expansion and renovation of the emergency department and a new medical tower with 82 beds, expansion of the surgical procedure rooms and the family maternity services at an estimated cost of almost $110 million, $78 million of which is to be funded through the bond issue. The bond issue will also fund the construction of two new Family Health Centers in the cities of Avon and Twinsburg. These will provide primary and specialty outpatient services to those communities. The bonds will fund approximately $120 million of the cost of those hospital facilities. The 89th Street Garage and Service Center will also be funded from the bond issue ($40 million). The Garage will have 4,000 parking spaces. The Service Center will provide materials management, linen, food preparation, environmental and central sterile service to the whole campus. Underground service tunnels will connect the Center to the other facilities on the main campus.

Other projects to be funded include consolidation of MR services in the New Glickman Urological Institute, renovation and expansion of the Marymount Sports Health Clinic, constructing the Brunswick Family Health Center and various other projects that have been recently completed or are ongoing for which the Clinic will seek reimbursement from the bond issue. Mr. Harrington will provide a full list of those projects prior to the next Commission meeting.

In response to questions from Mr. Speck concerning the number of facilities, the demographics of Northeast Ohio and other hospital institutions, Mr. Helton stated that its studies have shown a need for these facilities to serve the population and that there is enough business for it and the competition. The Clinic's customers have asked for these facilities to serve a growing population in the service areas. As more patients are served in the local or regional facilities, more of the space at the main campus will be available to serve the increasing number of national and international patients. In response to a question from Dr. Kutina, Mr. Harrington stated that the Clinic continues its affiliation with Case Western Reserve University Medical School but that relationship is somewhat strained. The Clinic is also looking at an option for an affiliation with Columbia University. The Clinic's Lerner College of Medicine at Case has introduced free tuition for its 32 students. This eliminates the need for extensive loans for medical students. The hope is that more new doctors will pursue careers in medical research and academics if they do not have to enter private practice (which pays more) to pay off those loans. Dr. Kutina asked the representatives to urge the Clinic to track the success of this project, to keep the data for this project and to make it available to other institutions. Responding to several other questions from Dr. Kutina, Mr. Harrington said he would send copies of the Board of Trustee approvals for the financing plan to Mr. Keefe for distribution to the members. Debt service on the bonds will be made from operating revenues. All of the projects to be financed will be completed within three years. All will be well within any limits on so-called "private activity" imposed under federal tax rules. The Clinic officers and underwriters will work with Mr. Keefe and his partners as bond counsel to assure compliance.

In response to questions from Mr. Petrick, Mr. Harrington reported that gross revenues from patients is divided between Medicare (44%), Medicaid (10%), managed care providers (39%) and self-pay (5%). The revenues from research grants are approximately $250 million per year. About $100 million of that comes from NIH with the remaining coming from the state, and private and corporate sources. Mr. Harrington also explained how this related to net revenues. Responding to a question from Mrs. Carter concerning Medicaid, Mr. Harrington noted that the federal spotlight was focused on this program. Although, Medicaid produces only

10% of the patient gross revenues, it represents the largest activity (patient volume) at the Clinic. The Clinic's charity policy is to provide care no matter if the patient can pay or not.

At the request of the Chairman, Mr. Keefe stated that the resolution under consideration approved the Preliminary Agreement between the Commission and the Clinic relating to the financing of the various hospital facilities.

Dr. Kutina moved and Mr. Wells seconded the motion that Resolution No. 2008-15 be adopted.

There being no further discussion, the Chairman called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Carter, Cosey, Kutina, Needles, Petrick, Speck, Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2008-15 adopted.

Resolution No. 2008-15 is as follows:

OTHER BUSINESS

Capital University

Mr. Keefe explained that Capital University has asked to approve changing the Remarketing Agent for its most recent issue of bonds. William Elliot from PNC Capital Markets is the underwriter working with the University and can discuss this matter. At the request of the Chairman, Mr. Elliot stated that the University's outstanding variable rate bond issue is supported by a letter of credit from National City Bank. The current remarketing agent is RBC Capital Markets Corporation. The University believes it will achieve better interest rates if the remarketing agent is replaced with NatCity Investments Inc., an affiliate of National City Bank.

Mr. Keefe noted that the resolution appoints NatCity Investment, Inc. as the new Remarketing Agent, as requested by the University and in accordance with the Trust Agreement securing these bonds.

There were no questions from the members.

Mr. Petrick moved and Dr. Kutina seconded the motion that Resolution No. 2008-16 be adopted.

There being no further discussion, the Chairman called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Cosey, Kutina, Needles, Petrick, Speck, Wells

Nay: None

Abstain: Carter

The Chairman declared the motion passed and Resolution No. 2008-16 adopted.

Resolution No. 2008-16 is as follows:

CALL OF NEXT MEETING AND ADJOURNMENT

The Commission will next meet on June 18, 2008 or upon the call of the Chairman. On a motion duly made and seconded, the meeting was adjourned.

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Secretary

ADDENDUM

Immediately subsequent to the meeting it was determined that at least three members could not attend the June 18th meeting. Therefore, the Chairman determined that the next meeting would be June 25, 2008 and that all members would be promptly notified.

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Secretary