OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

February 18, 2009

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, February 18, 2009, at 11:00 a.m. on the 31st Floor of the Vern Riffe Center for the Government & Arts, 77 South High Street, Columbus, Ohio, written notice of which had been given to all members of the Commission.

The following members attended: Richard Petrick, Vice Chairman; Kenneth Kutina, Secretary; Wanda Carter; Lynnda Davis; Tom Needles; Sam Speck; James Shindler and Susan Tate. Absent from the meeting was: John Wells, Chairman. Also present were: representatives of the institutions appearing before the Commission; William Elliott of PNC Capital Markets; Francis Barry Keefe and Alexander G. Burlingame 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 Vice Chairman. Upon call of the roll, the Secretary 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 Vice Chairman noted that the minutes of the Commission meeting of January 21, 2009, 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. The Vice Chairman recognized and welcomed Susan Tate who was recently appointed to the Commission by the Governor.

UNIVERSITY OF DAYTON

The Vice Chairman called on Thomas Burkhardt, Vice President for Finance and Administrative Services, to update the Commission members as to the University of Dayton's financing request. Mr. Burkhardt was joined by Philip Chick, a consultant working with the University's finance office. Mr. Burkhardt thanked the Commission members for meeting again to consider the University's requested financing. He also confirmed that they each had received a copy of the University's Economic Impact Study that was the subject of discussion at the January Commission meeting. Mr. Burkhardt noted that the study was based on 2005 financial data and that he would be happy to entertain any questions concerning the study.

In respect of the refinancing component of the University's proposed bond issue, the University expects to achieve savings of approximately $1.5 million by refunding its 1997 and 1998 bonds. The new bonds will be issued as fixed rate bonds, with an anticipated average maturity of 15 to 17 years. The University anticipates a 5% to 6% blended interest rate on the bonds, which has been approved by the University's Executive Committee. Spring enrollment at the University appears strong. Given the recent economic turmoil, however, the University remains cautious of future enrollment trends. The percentage of returning students for the second semester was better this year than last year.

Mr. Burkhardt then inquired of the Commission members as to whether they had any questions. In response to a question from Dr. Kutina, Mr. Burkhardt confirmed that the University does hold investments outside of its endowment fund. Much of these investments represent budget surpluses that have been set aside to pay debt, medical related expenses and other University costs.

Mr. Keefe noted that the bond documents have been prepared and are presented in substantially final form. The resolution under consideration approves the fixed rate bond issue for the University and the related bond documents.

Mr. Needles moved and Mr. Speck seconded the motion that Resolution No. 2009-02 be adopted.

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

Aye: Davis, Kutina, Needles, Petrick, Shindler, Speck, Tate

Nay: None

Abstain: Carter

The Vice Chairman declared the motion passed and Resolution No. 2009-02 adopted.

Resolution No. 2009-02 is as follows:

UNIVERSITY HOSPITALS

The Vice Chairman next called upon Bradley Bond, Vice President-Treasury of University Hospitals Health System, to update the Commission members as to the Health System's request. The Health System received preliminary approval for its financing at the Commission's November 2008 meeting. Mr. Bond noted that the Health System's request includes additional financing for its Vision 2010 Projects, which includes financing for a new and updated emergency department, a freestanding cancer center and a new and expanded neonatal intensive care unit, all at the Health System's main Cleveland campus, as well as the Ahuja Medical Center in Beachwood, Ohio. The Health System also is requesting approval for potential refinancing of various outstanding bonds. It is currently anticipated that approximately $220 million of bonds will be issued, with approximately $20 million of bond proceeds set aside for a debt service reserve fund. Operationally, the Health System is doing well. Although patient volume has leveled, acuity levels have increased. Higher acuity levels are good for the Health System, as they reflect a more complex level of care provided. The Health System's acuity level increased from 1.45 to 1.55 in the published indices that track health care acuity levels. The Health System's affiliation with Case Western Reserve University and its 800 academic physicians contribute significantly to higher acuity levels, in part because of the increase in surgical cases. Although the Health System achieved a $60 million operating margin for 2008, it remains cautious. It has a contingency in place in which it could implement a 5% reduction of operating costs should economic circumstances warrant.

Mr. Bond stated that the Health System provided over $160 million in community benefits in the last year that were primarily related to its work in research, education and charitable care. The Health System also has made improvements with respect to patient safety. It is in the top 90th percentile in 18 out of 22 patient safety categories, having recently received the Leap Frog Award for patient safety. The Health System also has recently performed the first stem cell heart procedure in Ohio and has developed a six-bed epilepsy treatment unit. With regard to the impact of current economic developments on investments, the Health System has moved many of its investments away from equities to cash or cash equivalents. This was done to avoid further market losses, as well as to assure compliance with financial covenants and maintaining its "A" category ratings from both Standard & Poor's and Moody's Investors Service. With respect to the status of the Vision 2010 Projects, Mr. Bond noted that with the exception of the new emergency center, all projects remain on schedule. The new emergency center has been delayed somewhat to assure project safety. The number of construction cranes for this project has been limited as the construction site is in close proximity to where helicopters take-off and land. Mr. Bond then inquired of the Commission members as to whether they had any questions.

In response to questions from Dr. Kutina, Mr. Bond advised that the Health System's electronic records project is 40% complete and will be phased in over the next two years to be fully operational in 2011. All planning and installation components of the project are complete, with the remaining tasks being to coordinate the system among the Health System's various departments and facilities and to train its physicians, nurses and staff in the use of the system. This is an effort the Health System is undertaking irrespective of the recent federal stimulus legislation. Mr. Bond provided additional detail with regard to the distinction between academic and other physicians described in the portion of the bond offering document that describes the Health System and that was distributed to the Commission members in advance of the meeting. The bonds will be issued as a combination of traditional long-term fixed rate debt and bonds that will bear interest at fixed rates for a period of five to ten years, at which point the interest rate will be reset. The Health System has requested approval for the refinancing of its 2008 variable rate bonds because of the risk associated with the banks that provide letters of credit securing those bonds. Although interest rates on the 2008 bonds have been very low, the Health System desires to be in a position to refinance quickly should economic difficulties result in further bank distress. Responding to further comments from Dr. Kutina, Mr. Bond advised that the Health System is very proud of its recent stem cell work. It recently received a $22 million gift to pursue research in cardiovascular care, which will complement the work done in this area by other local health systems. In response to a question from Ms. Tate, Mr. Bond confirmed that the Health System is using guaranteed maximum price contracts for the various components of the Vision 2010 Projects, using local and union labor. Responding to questions from Ms. Davis, Mr. Bond provided further explanation with respect to the discussion of the Health System's operating income. The materials distributed to the Commission members reflect data that applies not only to University Hospitals Medical Center of Cleveland, but also to its community hospital affiliates in Chardon and Bedford, Ohio and its parent holding company. The lower operating results are most directly attributable to the significant loss of investment value. The loss shown also reflects the decreased value of interest rate swap agreements that the Health System has entered into. Mr. Bond expects that the $75 million figure shown will decline to $30 million in 2009.

Mr. Needles thanked Mr. Bond for his thorough presentation. Responding to questions from Mr. Needles, Mr. Bond advised that acuity is measured on a monthly basis. Health System coding procedures for Medicare purposes are also used to track acuity. Acuity levels are very important to the rating agencies. Even if a health system's patient volumes are flat or declining, increased acuity levels can result in higher revenues. With a view to increasing acuity levels, the Health System has focused on cancer treatment, digestive disorders, cardiovascular care and neurology. With the continued decline in the economy, the Health System expects to see a reduction in cases with lower acuity levels. Examples of these include treatment of minor sports-related injuries. Responding to further questions from Mr. Needles, Mr. Bond advised that the great majority of the University's academic, University-related physicians are situated at its main campus in Cleveland, Ohio; however, there are some housed at other Health System facilities, such as its Twinsburg Ambulatory Center. With regard to the development of satellite facilities, the Health System policy is that it will proceed only if there is a demonstrated need in a given area. In response to a question from Mr. Shindler, Mr. Bond stated that acuity levels are in a range from zero to two, although he has never seen a hospital achieve a two rating. University Hospitals typically achieves acuity levels in the 1.33 to 1.45 range. A typical community hospital may have an acuity level of 1.10, whereas top national health systems such as the Mayo Clinic may achieve an acuity level as high as 1.8.

Mr. Keefe commented that the bond documents have been prepared and are presented in substantially final form. The resolution under consideration approves the bond issue and the related bond documents.

Mr. Needles moved and Ms. Carter seconded the motion that Resolution No. 2009-03 be adopted.

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

Aye: Carter, Davis, Kutina, Needles, Petrick, Shindler, Speck, Tate

Nay: None

The Vice Chairman declared the motion passed and Resolution No. 2009-03 adopted.

Resolution No. 2009-03 is as follows:

OTHER BUSINESS

The Vice Chairman updated the Commission members as to the status of the Commission's outstanding budget request, noting that the increase of requested amount was to make allowance for NAHEFFA membership dues, possible travel to NAHEFFA meetings and reimbursement costs. He also discussed the Commission's Audit report, which noted the need for more timely deposit of receipts. Mr. Petrick explained that this was the Board's responsibility and that he has had discussions with the appropriate personnel to improve this situation. In response to a question from Ms. Davis, Mr. Keefe described the Commission's fee charges to colleges and health systems (application fee and bond issuance fee). Mr. Keefe also stated that it is still unknown whether there will be a need for a March meeting of the Commission. The Commissions members may recall that preliminary approvals had been given in 2008 for financings or projects for Marietta College, Denison University and Ashland University. Given the current status of the financial markets, each of those financings are currently on hold. Kenyon College also is considering restructuring one of its outstanding bond issues and may well seek to attend a meeting in March.

CALL OF NEXT MEETING AND ADJOURNMENT

It is now expected that the Commission will next meet on March 18, 2009, or upon the call of the Chairman. On a motion duly made and seconded, the meeting was adjourned.

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Secretary