OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

July 15, 2009

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, July 15, 2009, at 11:00 a.m. on the 36th Floor of the Rhodes State Office Tower, 30 East Broad Street, Columbus, Ohio, written notice of which had been given to all members of the Commission.

The following members attended: John R. Wells, Chairman; Richard Petrick, Vice Chairman; Kenneth Kutina, Secretary; Wanda Carter; Thomas Needles; Sam Speck; and Susan Tate. Absent from the meeting were: Lynnda Davis and James Shindler. Also present were: representatives of the institutions appearing before the Commission; Joyce Antoncic of Bank of New York Mellon Trust Company; William Elliott of PNC Capital Markets; 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 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 Chairman noted that the minutes of the Commission meeting of June 17, 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.

UNIVERSITY OF DAYTON

The Chairman next called upon Thomas Burkhardt, Vice President for Finance, to speak to Commission members regarding the University of Dayton's request. Joining Mr. Burkhardt was University Assistant Vice President, Philip Chick.

Mr. Burkhardt thanked the Commission members and noted that he did not expect to be returning to the Commission so soon after the University's March 2009 bond issuance. A portion of the March 2009 bonds was issued to finance various improvements of the University. These included renovations to the approximately 600-bed Stuart Residence Hall, which had not been renovated since the 1960s. Referring to handouts distributed to the Commission members, Mr. Burkhardt noted that improvements to Stuart Hall include new windows, air-conditioning improvements and updated and additional bathroom facilities. The work on Stuart Hall started this past May and is expected to be completed before classes start this fall. Bond proceeds from the March bond issue also provided for improvements to Kettering Residence Hall, which include suite-style living spaces with shared bath and living room facilities, as well as for the demolition of the mechanical engineering building and the relocation of various programs that had been housed within it. The mechanical engineering building had been constructed shortly after World War II and had outlived its usefulness in several regards. The former building site will be used as green space within a larger campus mall. Some of the programs in the demolished building will be moved to the College Park Center, which is a former NCR Corporation building. The space within that building will provide for laboratory and mechanical engineering facilities that should be completed before the start of the school year. The March 2009 Bonds were issued in the principal amount of just under $75 million and "all-in" interest cost to the University was approximately 5.5%. The University is currently rated "A2" and "A" by Moody's and Standard & Poor's, respectively. In addition to providing for various improvements, the March 2009 bonds provided for the refinancing of former auction-rate bonds, as well as bonds issued in 1997 and 1998.

In updating the Commission members as to the status of the University generally, Mr. Burkhardt noted that he expected fall enrollment to be down from prior years. The University had been experiencing record enrollment levels in recent years. Full-time undergraduate enrollment goals for the University are set at the 6,500 to 6,700 level. In tracking the source of declines, deposits from applicants within Ohio, as well as from Michigan and Pennsylvania, are down. The University, however, is experiencing an upward trend in applications and deposits from prospective students in states such as New York, Maryland and Virginia. The University will be focusing additional admissions resources toward students from those states. Students from Ohio currently represent over 50% of the University's student body. Average SAT and ACT scores of prospective students have increased, and the University's acceptance rate is in the 74% to 79% range. The University's finances look very strong from an operational perspective for the coming year, with the University having experienced a $20 million operational surplus for the fiscal year ended June 30, 2009. This is offset somewhat by losses in the University's endowment value due to market declines. The University does expect to meet fundraising goals for the coming fiscal year.

Mr. Burkhardt stated that the University is seeking approval for the refinancing of bonds issued in 2006 that bear interest at variable rates based on the Consumer Price Index.

Although the bonds are not callable for optional redemption, the bondholder has approached the University, through its financial advisors, with a refinancing proposal. The University expects to achieve approximately $1 million of present value savings. Although $55 million of refinancing bonds are requested, the University expects the actual issuance to be in the $47 million to $48 million range. The benefit of this refunding transaction will include not only lower interest costs, but also the elimination of an interest rate swap, which will simplify the University's financial statements. The University's executive committee has approved the proposed transaction. The University is working with the bond underwriters in developing the final cash flow analysis. Mr. Burkhardt then inquired of the Commission members whether they had any questions.

Responding to questions from Dr. Kutina, Mr. Burkhardt noted that interest rates on the bonds proposed for refunding range from 4.99% to 5.30%. The existing owners are willing to give up the bonds due to their decreased appetite for tax-exempt securities with interest rates tied to the Consumer Price Index. With regard to the University's budget surplus, that surplus is with respect to University operations only. It does not take into account endowment losses. Commenting on the loss of the mechanical engineering building, Mr. Burkhardt noted that the University intends to provide better, more modern space for mechanical engineering programs, including newly renovated space within the former NCR building. In response to a question from Ms. Tate, Mr. Burkhardt noted that there is a cost associated with terminating the swap transaction related to the refunded bonds, but that cost is outweighed by the benefits of the interest savings achieved by the refunding and the simplification of the University's financial statements.

Mr. Burlingame 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 and authorizes the issuance of the bonds.

Mr. Petrick moved and Mr. Needles seconded the motion that Resolution No. 2009-09 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: Kutina; Needles; Petrick; Speck; Tate; Wells

Nay: None

Abstain: Carter

The Chairman declared the motion passed and Resolution No. 2009-09 adopted.

Resolution No. 2009-09 is as follows:

XAVIER UNIVERSITY

The Chairman next called upon Maribeth Amyot, Vice President for Financial Administration to speak to the Commissioners regarding Xavier University's request. Ms. Amyot thanked the Commission for its past support of the University, noting that the University's current request is for financing of a new residence hall, a new dining hall, a new scoreboard in the Cintas Center and various deferred maintenance projects. Whether financing for the scoreboard and the deferred maintenance will ultimately be included in the final bond issue is yet to be determined. Currently, the University anticipates a closing of the bond issue in late 2009 or early 2010. Ms. Amyot expects that the bonds will bear interest at fixed rates and will not be secured by bond insurance or any other form of credit enhancement. Ms. Amyot further expects that these bonds will be self-funded through student charges related to the new dining and residence facilities. Barclays Capital will be lead underwriter for the transaction, for which the University's Board of Trustees has given its initial approval.

Ms. Amyot noted that the University is performing well, though it has experienced endowment losses of approximately 22% as a result of the recent economic downturn. She added, however, that only $5 million of the University's annual operating budget comes from the endowment revenues. The University makes sure that all departments are involved in the budget process, so as to assure that targets are met for the coming fiscal year. The University remains well-regarded and has recently been ranked Number 1 in freshman retention. Its academic programs enjoy an excellent reputation, with the University's graduate business school and health care management programs being particularly well-regarded. The University is doing a better job of "telling its story." Although enrollment targets for the last academic year were missed, enrollment targets for the academic year starting this fall are expected to be exceeded. This is a result of increased University focus on the admissions and recruiting process, having devoted increased resources to financial aid and recruiting staff. Ms. Amyot further noted that there is current demand for the proposed new residence hall.

Referring to handouts distributed to the Commission members, Ms. Amyot described the status of the Hoff Academic Quad Project, which has been the subject of prior Commission financing. The three primary components of the project, consisting of the learning commons, a building for the Williams College of Business and a new central utility plant, are all proceeding well. Due to budget management and management of project scope, the University has been able to achieve approximately $18 million in savings from initial project cost estimates. Accordingly, the University does not seek additional financing for the Hoff Academic Quad Project. Commission members may recall that the remodeling of the Alter Hall Classroom Building had been contemplated. Due to increased building code requirements and cost projections, the University has now determined to demolish that building, thereby creating increased green space within the campus center consistent with its long-term planning objectives. The University's other academic buildings have sufficient capacity to house the programs now housed in Alter Hall. In noting the locations of the primary components of the Hoff Academic Quad Project, Ms. Amyot also noted the location of the proposed new residence hall. The central utility plant is expected to be open in February 2010 and will support the utility needs of the entire campus.

With regard to the proposed new residence hall, Ms. Amyot stated that it is needed for the purpose of meeting the University's policy that all freshmen and sophomores live in campus housing. The new residence hall will be built in the campus core and house approximately 500 beds within a suite-style design. It is hoped that the facility will be completed in 2011. In considering the need for the new residence hall, the University also assessed it current food service facilities. They are viewed as not meeting current student demand. With the addition of the new residence hall, the University concluded that additional dining facilities will be required. It is estimated that the current University dining facilities provide for one seat for every three members of the University community. The University wants to improve that ratio to 2.5 to 1. With regard to the proposed financing for a new scoreboard at the Cintas Center and various deferred maintenance projects, final determinations by the University have to be made. One of the considerations will be with respect to tax law limitations on scoreboard financing. Ms. Amyot then inquired of the Commission members as to whether they had any questions.

In response to questions from Mr. Needles, Ms. Amyot noted that the University's financial statements reflect proceeds from the sale of the University's radio station, which netted approximated $10 million. With regard to the size of the proposed new residence hall, the University could fill a 500-bed new residence hall now. With future enrollment goals of the University, it believes there may be a need for a second additional residence hall in the years immediately succeeding the completion of the new residence hall. Additional parking facilities will be provided at a former strip shopping center adjacent to the campus. With regard to the University's requirement to live in campus housing, Ms. Amyot noted that while all freshmen and sophomores are required to live on campus, many sophomores who request a waiver will receive one. Among people who receive waivers from the on-campus living requirement are veterans of the U.S. Armed Forces and students whose families live close to the University. The portion of the financing for the scoreboard at the Cintas Center remains speculative. A part of the University's contract for the scoreboard and its improvement includes money related to advertising. Tax laws and other financial considerations may make the inclusion of these improvements in the financing impractical. In response to questions from Dr. Kutina, Ms. Amyot confirmed the location of the Cintas Center on the campus map. She also noted that the school of business is one of the University's flagship programs. The graduate school of business is consistently highly ranked, with one of its strengths being its mentoring program. Each student in the graduate business school has a mentor in the business community that he or she meets with at least once a quarter. The school of business enjoys an approximately 88% placement rate for its graduates. Another strength of the University is its premedical and predental programs, as well as its healthcare administration program. Approximately 82% of its premed students continue on to their first choice institution at the graduate level. Ms. Amyot confirmed that the school of healthcare management is part of its school of social sciences, health and education.

In response to a question from Dr. Speck regarding the estimated $80,000 per-bed cost in the residence hall, Ms. Amyot noted that it would result in an approximately $3,000 per-bed cost to students. That estimate includes all soft costs. Ms. Amyot further noted that, as the chief financial officer, she prefers to start with a high estimate that she can work down from. With regard to the scope of the Hoff Academic Quad Project, significant savings are being achieved through the changing scope of the library rehabilitation project. Most of the current changes to the library are primarily superficial, with the more expensive improvements to be made at a later date. In response to questions from Ms. Carter, Ms. Amyot noted that last year's enrollment decline was an aberration. Enrollment for last fall missed the University's target by 45 students and was attributable largely to turnover in the University's admissions and enrollment departments. The University is again looking at record-level classes for enrollment this fall, and is in the process of considering an upward adjustment of overall University enrollment goals from 3,500 to 5,000 students. Part of this year's success in recruiting for the fall 2009 entering class is due to a concerted effort to include all University departments in the admissions and recruiting process, as well as improving coordination with the University's marketing department. The University has implemented a highly ranked web enrollment management program and has added three new recruiting officers situated in the northeast, southeast and in Denver. Additional money has been set aside for financial aid. Recent athletic successes have boosted recruiting efforts, and the University faculty has been asked to reach out directly to admittees who have expressed interest in specific University departments but have yet to submit a deposit. The University had previously implemented a freeze on faculty hiring. That freeze has been removed to accommodate increased class sizes.

Mr. Burlingame stated that the resolution approves the Preliminary Agreement with the University. That agreement and related resolution are in their usual form.

Mr. Needles moved and Mr. Petrick seconded the motion that Resolution No. 2009-10 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; Kutina; Needles; Petrick; Speck; Tate; Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2009-10 adopted.

Resolution No. 2009-10 is as follows:

CLEVELAND CLINIC

Public Hearing

The Chairman opened the public hearing required by applicable federal tax regulations for the proposed Cleveland Clinic financing. Notice of the hearing was published in the *Columbus Dispatch* and *Plain Dealer* on July 1, 2009. The Chairman inquired as to whether there were any comments. No comments having been made and the Commission having received none in the mail or otherwise prior to the hearing, the Chairman closed the public hearing.

Financing Approval

The Chairman next called upon Michael Harrington, Chief Accounting Officer and Controller, and Anthony Helton, Administrator - Division of Finance, to speak to the Commission members regarding the Cleveland Clinic's financing request.

Mr. Harrington noted that the Clinic was returning to the Commission for approval sooner than they had planned, as favorable market conditions have caused the Clinic to move-up its financing schedule. Referring to materials handed out to the Commission members, Mr. Harrington noted that the Clinic's performance remains strong. The economic environment has improved and occupancy rates are stable. From 2007 to 2008, the Clinic experienced a decrease in "its days cash on hand" from 200 to approximately 180. That number is back up to 190. Mr. Helton then discussed various components of the Clinic's ongoing and proposed projects, noting that the Commission at its June meeting had approved various refinancing transactions. The Clinic is now requesting up to $500 million of project financing, which includes $60 million for reimbursement of previously incurred capital expenditures. Project highlights include main campus renovation and an expansion of approximately 80,000 square feet of space, including facilities for hematology and bone marrow research, extraction and treatment, as well as developing family health centers in Avon and Twinsburg, Ohio and a Data Center in Brecksville, Ohio. At the Fairview campus, there is requested financing for laboratory facilities, as well as facilities for pathology and expanded clinical space. Other components include ambulatory centers in Euclid and Chagrin Falls, Ohio. New inpatient bed facilities are designed to meet current patient demands. Design elements include special attention to the needs of visiting family members who often spend the night in hospital rooms with related patients. Mr. Helton noted now that approximately 90% of all inpatient rooms include family members spending significant amounts of time with patients. Project components also include new and expanded parking and ambulatory care facilities. Mr. Helton concluded by noting his appreciation that certain components of the Clinic's request have not been the subject of prior preliminary approval by the Commission or had not been the subject of prior consideration by the Commission. He requested on behalf of the Clinic that the Commission waive its two-meeting policy with respect to those components. Mr. Helton then inquired of the Commission members as to whether there were any questions.

In response to questions from Mr. Needles, Mr. Harrington noted that the new laboratory facilities will increase capacity and efficiency by consolidating many laboratory facilities in one location, thereby avoiding the need for multiple sets of the same equipment.

Currently, laboratory facilities are situated at several Clinic locations. With regard to the Twinsburg facility, much of the staffing will be by persons transferred from other Clinic facilities, although some new jobs will be created. With regard to the inpatient bed tower, it is expected to be a total size of approximately 600,000 square feet with 300 to 400 new beds. The Clinic's affiliation with Fairview Hospital started in the late 1990s. Fairview is well-known for its emergency department facilities. Responding to questions from Dr. Kutina, Mr. Helton confirmed the locations of the new inpatient bed tower and hematology facilities on the main campus. In response to a question from Ms. Carter, Mr. Harrington and Mr. Helton confirmed that while the increase in accounts receivable remains a concern, increased volume helps offset this number. Payment delays come from charity care and Medicaid payments and are often associated with the State's ability to timely process Medicaid claims.

Responding to questions from Mr. Petrick regarding future demand, Mr. Helton and Mr. Harrington confirmed that there are many factors that go into this analysis. It includes analysis of current patient demand as compared to the number of Clinic physicians, as well as an analysis of transfers among Clinic facilities. Determining future demand is somewhat of an art. Demand projections are continually adjusted to reflect updated patient and financial statistics. Responding to questions from Ms. Tate, Mr. Harrington noted that as a nonprofit institution, the Clinic would do whatever it could to support the community and treat patients in the event of an outbreak of a pandemic such as the Swine Flu. With regard to demand for healthcare services and competition in Northeast Ohio, Dr. Speck inquired as to the relation of the level of competition to pricing of patient services. Mr. Helton and Mr. Harrington remarked that in the future it may be or will be increasingly difficult for stand-alone hospitals to remain competitive. Large health systems such as the Clinic are able to achieve efficiencies of scale, which smaller hospitals may not be able to take advantage of. An example of this is the Clinic's ability to implement electronic billing systems. They agreed that too much capacity in one geographic area is not good.

At the request of Mr. Wells, Mr. Burlingame confirmed that the proposed resolution provides approval of some projects that have not been the subject of prior (preliminary) Commission consideration. By approving the form of resolution distributed to Commission members, they will in effect be waiving the Commission's policy of requiring two meetings for approval for these particular projects in this situation. The two-meeting requirement is a matter of long-standing Commission policy.

Mr. Burlingame 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 and authorizes the issuance of the bonds.

Mr. Needles moved and Mr. Petrick seconded the motion that Resolution No. 2009-11 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: Carter; Kutina; Needles; Petrick; Speck; Tate; Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2009-11 adopted.

Resolution No. 2009-11 is as follows:

OTHER BUSINESS

The Commission members discussed availability for the next meeting, scheduled for August 19, 2009. At this time, it remains unclear as to whether an August meeting will be necessary.

There also was a brief discussion of the State's budget process, which is expected to be concluded shortly.

CALL OF NEXT MEETING AND ADJOURNMENT

As noted, it is now expected that the Commission will next meet on August 19, 2009, if necessary, or upon the call of the Chairman. On a motion duly made and seconded, the meeting was adjourned.

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Secretary