OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

June 17, 2009

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, June 17, 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: John R. Wells, Chairman; Richard Petrick, Vice Chairman; Kenneth Kutina, Secretary; Lynnda Davis; and Thomas Needles. Absent from the meeting were: Wanda Carter; Sam Speck; James Shindler; and Susan Tate. Also present were: representatives of the institutions appearing before the Commission; Joyce Antoncic of Bank of New York Mellon Trust Company; and Francis Barry Keefe and Alexander G. Burlingame of Squire, Sanders & Dempsey L.L.P., Bond Counsel to the Commission.

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 May 20, 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 HOSPITALS

The Chairman next called upon Bradley Bond, Vice President-Treasury of University Hospitals Health System, to speak to the Commission members as to the Health System's request.

Mr. Bond thanked the Commission members for their continuing support of the Health System, noting that in March, the Commission issued $175 million of bonds to provide additional funds for the Health System's Vision 2010 Projects. Although the interest rate environment at that time was not ideal, the Health System determined to proceed with the issuance due to the volatility in the economic environment and uncertainty as to the ability to secure future borrowings on a cost-effective basis. The bonds issued in March bear interest at rates ranging from 5% to 7%. Had interest rates been lower, an additional $40 million to $50 million in bonds would have been issued. Since March, the interest rate environment has improved, and the Health System now desires to pursue additional financing for its Vision 2010 Projects. It also desires to preserve the ability to refinance several outstanding bond issues if economically advantageous. These include bonds issued in 1996 that are held as part of a tender option bond program with Merrill Lynch. That program expires in July 2011, and the Health System is looking to restructure those bonds before that time.

Mr. Bond reported that the Health System's financial position continues to be good. With improvements in the equity markets, the value of the Health System's investments has increased. The Health System's position with respect to various swap transactions entered into in connection with prior bond issues also has improved. Operationally, the Health System's discharges have increased as compared to this time last year. For the most part, the contingency plans Mr. Bond described at the Commission's February meeting have not been implemented due to the Health System's success in maintaining budget and revenue goals. The Health System is more critically evaluating the need for any new hires. Hiring decisions are made while being mindful of the Health System's continued focus on maintaining the highest quality of patient treatment and services.

With regard to the status of the Vision 2010 Projects, Mr. Bond reported that the new neonatal intensive care unit (NICU) was completed in April and has recently been rated as the second nationally ranked facility of its type in the country by *U.S. News and World Report*. The health care facility in Concord, Ohio will be completed this month, and the new main campus parking garage, with approximately 820 spaces, and the new freestanding cancer hospital are progressing on time and on budget. It is expected that the new cancer hospital will be completed by December of 2010. The only portion of the Vision 2010 Projects that has been delayed somewhat is the new emergency department, which is now scheduled to open in March 2011. The construction schedule was delayed somewhat so as to assure construction safety (namely not having too many construction cranes operating in close proximity). Mr. Bond stated that the projects are implementing state-of-the-art technology. Parents with children in the new NICU can see their children via the Internet, and that the Health System is constructing with germ-resistant surfaces, where possible.

Mr. Bond then inquired of the Commission members as to whether they had any questions. Dr. Kutina complimented Mr. Bond on the quality of his update. In response to questions from Dr. Kutina, Mr. Bond stated that he felt very good about the interest rates at which the March 2009 bonds were issued. That issuance assured that the Vision 2010 Projects will continue to proceed as planned. Further, by directing bond sales to a retail market, the Health System was able to incorporate favorable optional redemption features including a 5-year call option. The Health System is well under way to implementing its electronic health record system, which it expects to roll out in 2010; this is one component of its "green" initiative. This will be good for the Hospital, as this is an area identified as a priority of the Obama administration in its various health care reform proposals. The Health System expects that some component of those proposals will include rewarding hospital systems, such as University Hospitals, that are on the forefront of implementing these types of systems, while punishing those that are not.

With regard to various measures of quality, the Health System continues to perform very well, and is now in the top 90th percentile in 18 out of 22 industry quality standards. There has been some concern expressed with regard to aspects of recent health care reform proposals. They may result in more payments for patient care coming from the government, which payments are typically made at lower rates than if made from other sources. The Health System is still debating as to whether the new electronic health record system will include direct patient access. Among the various factors it is considering are issues related to federal privacy laws. Mr. Bond noted that the Health System has already implemented a system of providing electronic prescriptions.

Responding to questions from Mr. Petrick, Mr. Bond confirmed that with the exception of the noted delay for the emergency medicine center, all other aspects of the Vision 2010 Projects remain on schedule and on budget. Material costs have gone down over time, and a provision of the Health System's construction contracts provides that it shares with the contractors the benefit of those reduced costs. With regard to local labor trends, the Health System has focused on giving assurance to its employees of their value to the Health System, having given raises to many this past year and rewarding those who meet established budget goals. In working to more actively manage the budget in this difficult economic environment, the Health System has placed special emphasis on managing temporary costs, encouraging managers to focus on more efficient ways of working and bringing down expenses such as overtime.

Responding to a further question from Dr. Kutina, Mr. Bond confirmed that the new cancer hospital has approximately 150 beds. Although there will be some transfers from existing facilities, the new cancer hospital will represent a net addition to hospital capacity. This is viewed as a great opportunity for expansion, and was largely created due to current doctor demand. It is being built while using conservative budget assumptions. This will be one of only a handful of freestanding cancer hospitals in the country, with a majority of the rooms consisting of private rooms. Mr. Bond finally noted that cancer is currently the second leading cause of death in the country, with a high acuity rate.

Responding to a question from Ms. Davis, Mr. Bond noted that the Health System performs approximately $220 million of NIH cancer research per year, most of which is done in cooperation with Case Western Reserve University. The Health System is mindful of the tax regulatory implications of performing this type of research funded by federal grants. The Health

System works closely with the Commission's Bond Counsel and other outside advisors to ensure compliance with its tax covenants.

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. 2009-07 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: All

Nay: None

The Chairman declared the motion passed and Resolution No. 2009-07 adopted.

Resolution No. 2009-07 is as follows:

CLEVELAND CLINIC

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. Helton stated that the Clinic is requesting approval for the restructuring of up to $300 million principal amount of Commission bonds that were issued in 2008. The 2008 bonds currently bear interest at variable rates, support for a portion of which is provided by outside banks. The Clinic wants to be in a position to take advantage of the current interest rate environment and to refinance these bonds to provide for fixed interest rates through to their maturity. This will be accomplished through either one or a combination of a new bond issue or a conversion of interest rate modes of the existing bond issue. Financially and operationally, the Clinic continues to perform well. The 2008 projects included the opening of 100 new beds last November, all of which were filled the following week. Contingency plans that call for $100 million in expense reductions are in place, and management is keeping a close eye on health system performance and the broader economy. With regard to the Clinic's balance sheet, so far this year, the Clinic is in line to match performance levels achieved in 2008 and 2007. Mr. Helton and Mr. Harrington then inquired as to whether the Commission members had any questions.

Mr. Petrick offered his congratulations with respect to the Clinic's continued strong financial performance, particularly with respect to its investments, given the challenging economic environment. Responding to a question from Ms. Davis, Mr. Harrington confirmed that there is some seasonality to operational performance. The first part of the year typically is stronger, and numbers frequently do decline during the summer months due to increased managed care and staff expenses, as well as slower patient volumes. In referring to handouts provided to the Commission members and the rendering of the new Miller Pavilion, Mr. Helton confirmed that it includes approximately one million square feet of space and 288 private rooms. It is both on time and on budget.

In response to questions from Mr. Needles, Mr. Helton noted that Sidell and Arnold Miller are from Ohio and that they are the family behind the Matrix hair care line of products. The previously financed parking garage, pictures of which were included in the handouts to the Commission members, contains approximately 4,000 parking spaces. This has been a great benefit to employees, many of whom had to park off-site and take shuttle buses to the main hospital campus. Work is continuing on the tunnel connecting the garage to other buildings on the campus.

Mr. Helton concluded by noting that the Clinic expects to return to the Commission's July meeting to request approval for up to an additional $500 million of financing for projects approved by the Commission in 2008. He then inquired of the Commission members as to whether they had any further questions.

In response to a question from Dr. Kutina, Mr. Harrington noted that approximately $90 million of proceeds of the 2008 issue remained unspent. With regard to the request for additional financing, the Clinic noted that due to the size of its operation, revenues and capital needs, it expected to return to the Commission every two years to meet its financing needs. Given the favorable interest rate environment currently, the Clinic is considering accelerating several projects, which is a large part of the motivation for its return to the July meeting. Mr. Harrington and Mr. Helton further confirmed that the Clinic and its President have a very strong emphasis on green design of its new projects, and providing for LEED-certified buildings wherever possible.

In response to additional questions from Mr. Needles, Mr. Harrington confirmed that the Clinic will likely see some adverse impact from reduced Medicaid payments resulting from the State's budget challenges, but expects, with increased focus on efficiency and other cost-saving measures, that the Clinic will continue to fulfill its mission of providing care for all who come to it irrespective of their ability to pay. With respect to the new parking garage, Mr. Helton believes that at least 5% of the parking spaces are reserved for those with disabilities. Consistent with the Clinic's emphasis on patient care, those spaces closest to the hospital buildings are reserved for patients and visitors. In order to meet City planning and zoning requirements, the portion of the garage facing Euclid Avenue includes office space where many of the Clinic's administrative offices are housed.

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 new bonds and, if necessary, the conversion of interest rate modes for the existing bonds.

Mr. Needles moved and Mr. Petrick seconded the motion that Resolution No. 2009-08 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: All

Nay: None

The Chairman declared the motion passed and Resolution No. 2009-08 adopted.

Resolution No. 2009-08 is as follows:

OTHER BUSINESS

The Commission members discussed availability for the next meeting, scheduled for July 15, 2009. At this time, barring any unforeseen developments, it looks like an August meeting will not be needed.

Mr. Keefe briefly discussed the closing of a college in New Mexico, as an example of how a school can falter particularly in this economy. See Exhibit A hereto.

CALL OF NEXT MEETING AND ADJOURNMENT

As noted, it is now expected that the Commission will next meet on July 15, 2009, or upon the call of the Chairman. On a motion duly made and seconded, the meeting was adjourned.

Secretary