OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

February 17, 2010

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, February 17, 2010, 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: Richard Petrick, Vice Chairman; Kenneth Kutina, Secretary; Wanda Carter; Lynnda Davis; Thomas Needles; and Susan Tate. Absent from the meeting were: John R. Wells; James Shindler; and Sam Speck. Also present were: representatives of the institutions appearing before the Commission; William Elliott of PNC Capital Markets; Eric Erikson of Fifth Third Securities; Katie Kleinfelder of RBC 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 20, 2010, were sent to each member prior to this meeting; those minutes are included in the meeting books for each member. Upon the motion of Ms. Tate that was seconded by Dr. Kutina, the Commission members present unanimously approved the minutes of that meeting.

DENISON UNIVERSITY

Public Hearing

The Vice Chairman opened the public hearing required by applicable federal tax regulations for the proposed Denison University financing. Notice of the hearing was published in the *Columbus Dispatch* on February 3, 2010. The Vice 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 Vice Chairman closed the public hearing.

Financing Approval

The Chairman next called upon Seth Patton, Vice President for Finance and Management, and Brett Stertzbach, Manager of Investments, to speak to the Commission members regarding Denison University's financing request. Mr. Patton thanked the Commission members, noting that he was last before them at the November 2008 Commission meeting. At that meeting, the University received preliminary approval for three projects: the construction and expansion of athletic facilities, including a swimming facility; construction and expansion of facilities for chemistry instruction and research; and the renovation of a student residence hall. As a result of the overall decline in the economy, the University delayed its financing plans for these projects; however, they do remain a priority. The athletic and chemistry facilities projects are particularly important as they address safety concerns. Existing University chemistry facilities were constructed in the 1960s and are nearing the end of their useful lives. New facilities are needed to provide and assure modern and safe instruction and research facilities for faculty and students. Existing swimming facilities were also constructed in the 1960s. The swimming program is popular and existing facilities are used to their capacity both for competition and recreation. The new swimming facility is needed to meet demand and assure water and air quality. In respect of the residence hall renovation, Mr. Patton noted that undergraduates are required to live in University housing for all four years. Recognizing that upperclassmen have different housing expectations, the University is seeking to renovate an existing residence hall to provide apartment-style housing for seniors.

The University is now comfortable proceeding with the financing due to several factors. The economy is slowly recovering, enrollment levels are maintaining well, and the University has not seen an enrollment decline from the first to second semester of the current academic year. The endowment has rebounded with a 14.4% increase in value in 2009. Further, the University has received favorable construction bids for the new chemistry facility. It hopes that it will have a similar experience when bids are received for work on the new athletic facilities. The additional operating costs of these new facilities have been factored into future budgets. The University is comfortable with these costs.

Referring to the handouts distributed to Commission members (see Exhibit A hereto), Mr. Patton stated that the University has for planning purposes set a goal for a 6.5% annual rate of return on the endowment, though a return of 8% is expected in the near term. Over the last 55 years, the University has enjoyed an 8.7% average return on endowment investments. The University's program of increasing endowment value has been successful. Presently, tuition and fees provide for a little over 60% of the University's annual budget, with the remainder coming from endowment earnings and gifts. Mr. Patton directed the Commission members to the various depictions in the handout that give further detail as to the location and appearance of the various projects. He then inquired of the Commission members as to whether they had any questions.

Responding to questions from Ms. Tate, Mr. Patton confirmed that the University uses the so-called "Yale model" for determining the spending rate with respect to endowment fund earnings. In contrast to other spending formulas, this model takes both the value of the endowment and inflation rates in determining the level of endowment revenues that will be applied toward the annual budget. The University has an approximately 5% spending rate from the endowment. In respect of the completion timeline for the projects, Mr. Patton stated that it is somewhat dependent on the timing of gift receipts, which also will provide for a portion of the project costs. The University is hoping to raise \$28.5 million in gifts for these projects. Of that total, \$20 million will be for the athletic facilities, \$10 million of which has already been received. If gifts are received as and when expected, all projects should be completed, and all bond proceeds will be spent, within three years. If there are delays in gift receipts, the University will finance several smaller capital projects so as to assure expenditure of bond proceeds within three years at the level required by tax regulations. These smaller projects were identified in the University's letter that was distributed to the Commission members at the December 2009 meeting. Mr. Patton continued by reviewing the endowment growth chart within the handouts. As noted, the endowment has averaged 8.7% annual growth over the last 55 years, though he is not sure what that figure would be if limited to just the previous 25 years. With regard to the \$95 million operating budget, approximately \$7.5 million of that amount is for capital upkeep projects. One recent budget challenge has been the very low return on short-term investments.

Responding to questions from Dr. Kutina and Mrs. Carter, Mr. Patton confirmed that the University's discount rate currently is 52%. That is a little high, and the University would like to see it in the 50% to 51% range. The discount rate needs to be managed. The many factors that are taken into account include both merit and need-based considerations. The discount rate for institutions on the East Coast is typically in the 30% range. The University's discount rate is more typical for Midwestern schools. Use of discount is a way to maintain selectivity and academic quality. Mr. Patton further noted that acceptance rate figures can be misleading in instances where the number of applications received has risen but the number of enrollees has not. The University's active management of enrollment and use of discount has resulted in an overall rise in academic quality of incoming students over the last 15 years.

Responding to a question from Mr. Petrick, Mr. Patton confirmed the University's commitment to proceeding with the projects and the financing. The project needs are current and will not go away. Construction costs are favorable, interest rates are at historic lows and rates of inflation will only increase. The University is rated at the AA level by Moody's and S&P. The financing will be a fixed-rate bond issue and will also provide for a partial refunding of the University's 2001 Bonds.

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 documents.

Mr. Needles moved and Mrs. Carter seconded the motion that Resolution No. 2010-03 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; Tate

Nay: None

The Vice Chairman declared the motion passed and Resolution No. 2010-03 adopted.

Resolution No. 2010-03 is as follows:

THE COLLEGE OF WOOSTER

The Vice Chairman next called upon Laurie Stickelmaier, Vice President for Finance and Business, to speak to the Commission members regarding The College of Wooster's financing request. Joining Ms. Stickelmaier were Jacquiline Middleton, Director of Administration and Auxiliary Services, and Todd Burson, Controller. Ms. Stickelmaier provided an informational booklet describing the proposed projects and other information (see Exhibit B hereto). She noted that the College has a current enrollment of 1,854 students and enjoys an 11:1 student to faculty ratio. The College has a history of maintaining low debt levels. With its current level of tax-exempt debt below $18.5 million, the College enjoys favorable financial ratios. One of the principal components of the College's 2005 Bond issue was its "streetscape" project. The project was a collaborative effort with the City of Wooster. The College's portion is complete and Commission members are invited to come see it. For the fiscal year ended June 30, 2009, endowment value declined 14.2%. This was good, given the dramatic market declines in 2008. Endowment value is $242 million, down $37 million from peak values. Revenue from the endowment represents 17% of the College's annual operating budget.

Ms. Stickelmaier stated that there are three principal projects for which the College is seeking preliminary approval. The first is a new student recreation facility. Existing facilities were built in the late 1960s and need to be replaced. The new facilities will provide approximately 123,000 square feet of space for athletic courts, a walking and running track, locker rooms, batting cages, offices, a fitness center and related facilities. It is designed to be "LEED Silver" certified. Ms. Stickelmaier directed the Commission members to the booklet for depictions of the facility. The total cost of the facility is approximately $30 million. The College expects to finance approximately $5 million of that cost, with gifts and other College funds being used to provide for the difference.

The second project for which the College is seeking approval is with respect to its Performance Contracting Energy Program. An outside consultant has identified $45 million worth of energy savings projects on campus that will result in reduced operating expenses and deferred maintenance costs. The College has determined to proceed with what it views as the best $35 million worth of these projects, including window and roof replacements and HVAC improvements. A relatively small portion of the Performance Contracting Energy Program will be financed through the Commission. The College expects that it will achieve approximately $550,000 of annual savings through this program. Smaller components of the College's request include the acquisition of a house strategically located contiguous to campus and other infrastructure projects. Ms. Stickelmaier then inquired of the Commission members as to whether they had any questions.

Responding to questions from Dr. Kutina, Ms. Stickelmaier noted that the agreements for the implementation of the performance contracting program will provide for guaranteed savings. The College will pay the contractor for the work, and the contractor will guaranty agreed-upon savings levels. Ms. Stickelmaier also confirmed that the College's audited financial statements do show an operating deficit for the last fiscal year. Mr. Burson noted that this was largely attributable to low earnings on short-term investments and reduced gifts. The College does not expect a deficit for the current fiscal year. Ms. Stickelmaier stated that one of the first things she did at the College was to create a five-year expense model so as to provide increased predictability in the budget process. Mr. Burson also explained the portion of the audit that demonstrated where funds are released from their "temporarily restricted" category and moved to the "unrestricted" category. Ms. Stickelmaier noted that, while looking at the audited financial statements, it is helpful to consider the portion of the College budget that comes from the endowment. Ms. Stickelmaier confirmed the College's discount rate of 54%. The College will be working to reduce it. The "public service" portion of the audit relates to the Ohio Light Opera operated by the College. It is run for the benefit of the community, and its operations cost the College $50,000 to $100,000 a year.

Responding to questions from Mrs. Carter regarding the performance contracting program and related energy study, Ms. Stickelmaier stated that the College wanted to better understand how to achieve reduced operating costs and deferred maintenance costs through energy savings and related means. The College also wanted to understand how it compares to its peers with respect to consumption rates. Although the impetus for the project is to achieve expense savings, it will also have environmental benefits. The College expects that its annual coal consumption will be reduced by 36%. A committee of students and faculty has expressed its support for the performance contracting program.

With respect to the deficit discussion, Ms. Tate noted that the College's audit did not take into account funds for the annual budget that come from endowment. Ms. Tate's institution does take those funds into account in its audit, and if the College did so, it would have shown a budget surplus. This highlights the lack of uniformity in audit practices for private institutions of higher education. Responding to a question from Mr. Petrick, Ms. Stickelmaier confirmed that the financing should not exceed $10 million.

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

Dr. Kutina moved and Mr. Needles seconded the motion that Resolution No. 2010-04 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; Tate

Nay: None

The Vice Chairman declared the motion passed and Resolution No. 2010-04 adopted.

Resolution No. 2010-04 is as follows:

OTHER MATTERS

This is Jimmy Wermuth's last meeting with the Commission before leaving the Board of Regents for a new job. The Commission members and Bond Counsel all thanked Jimmy for his service to the Commission over the last several years.

CALL OF NEXT MEETING AND ADJOURNMENT

It is now expected that the Commission will next meet on March 17, 2010, 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