

OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

January 20, 2010

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, January 20, 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; Lynnda Davis; Thomas Needles; Sam Speck; and Susan Tate. Absent were: John R. Wells; Wanda Carter; and James Shindler. Also present were: representatives of the institutions appearing before the Commission; Jacque Hoyt of Cavanagh Hoyt and Associates; 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 December 16, 2009, were sent to each member prior to this meeting; those minutes are included in the meeting books for each member. Upon the motion of Mr. Needles that was seconded by Mr. Speck, the Commission members present unanimously approved the minutes of that meeting.

SUMMA HEALTH SYSTEM

The Vice Chairman next called upon Thomas P. O'Neill, Chief Financial Officer of Summa Health System Hospitals, to speak to the Commission members regarding Summa Health System's financing request. Joining Mr. O'Neill was Jacque Hoyt of Cavanagh Hoyt and Associates, the Health System's financial advisor. Mr. O'Neill thanked the Commission members, noting that Summa Health System is a nonprofit integrated health care delivery system that operates six hospitals situated throughout Portage, Medina and Summit Counties. The Health System also operates a physician hospital organization (a PHO) and a managed care company. Its mission is to provide the highest quality of compassionate care to its patients and to contribute to a healthier community. The Health System is four years into a strategic plan that places an emphasis on the expansion of its geographic footprint. Recent examples of this include the Health System's acquisition of, or affiliation with, hospitals such as Robinson Memorial Hospital in Portage County, Summa Barberton Hospital in Summit County and Summa Wadsworth-Rittman Hospital in Medina County. Referring to the maps within the handouts distributed to Commission members, Mr. O'Neill pointed to the location of facilities as compared to those that existed in 2006. The maps also illustrated the locations of facilities operated by the three other primary health care providers in northeastern Ohio. Mr. O'Neill continued by discussing the discharge and market share data of the Health System illustrated in the handouts. The Health System is one of the top three health care providers in northeastern Ohio in terms of both admissions and discharges. Mr. O'Neill described Summa Physicians Inc., which employs approximately 225 doctors and generates approximately \$78,000,000 in patient revenues. Mr. O'Neill further described Summa Health Network, which provides for the continued implementation of electronic medical records systems and a physician referral call center. The Health System is seeking to provide more efficient and cost-effective health care, while at the same time providing high-quality patient care. Through use of the referral call center, the Health System is seeking to increase the number of transfers within Health System facilities and the efficiency of those transfers.

Mr. O'Neill continued by describing the projects for which the Health System is requesting preliminary financing approval. A portion of the financing will provide for the construction of a new approximately \$50,000,000 emergency department that will provide for approximately 58,000 square feet of increased emergency department space with 75 beds. Currently, Summa's emergency services in the Akron area are provided out of the St. Thomas and Akron City hospitals. This project will consolidate those services into a single facility. Construction of the new emergency department is estimated to be completed over a two-year period, during which time there will be no interruption of patient services. Other key project components include the refinancing of the Health System's acquisition of Summa Barberton Hospital and the financing of improvements to Summa Wadsworth-Rittman Hospital, including patient tower renovation and expansion of surgical services and emergency department spaces. Financing proceeds will also be used to finance various other capital needs of the Health System described in the Health System's application to the Commission. Although the bond issue could be in a principal amount in excess of \$200,000,000, the final bond sizing will likely be substantially less and will depend on various factors, including whether there will be further refunding components to the bond issue. On January 4th, the Health System's Board approved the retention of JPMorgan as the lead underwriter for the proposed financing.

Mr. O'Neill concluded by reviewing the anticipated impact the financing will have on the Health System's debt service obligations and the proposed timetable for the financing. He then inquired of the Commission members as to whether they had any questions. Mr. Petrick complimented Mr. O'Neill on the quality of the materials the Health System provided to the Commission members.

Responding to questions from Dr. Kutina, Mr. O'Neill provided further explanation with regard to aspects of the commentary provided by the rating agencies to the Health System. The Health System is rated Baa-1 by Moody's and A- by Fitch. The Health System endeavors to be as transparent as possible with the rating agencies. In prior meetings with the rating agencies, the Health System discussed in detail its plans with regard to its Summa Western Reserve and Chrystal Clinic joint venture projects. At that time, it was proposed that those joint ventures would be issuing their own debt for various projects. While that debt would not have been included on the financial statements of the Health System, the rating agencies expressed concern as they were so closely tied to the organization and its operations. Plans for the joint ventures have been modified since those prior rating agency discussions and there are no longer plans for either of them to issue debt. This fact is being communicated to the rating agencies, and Mr. O'Neill is cautiously optimistic that they will remove their "negative outlook" with respect to the Health System. Updates on future rating agency actions in connection with the bond issue will be provided to the Commission. Mr. O'Neill confirmed that the Health System began to implement electronic medical record keeping systems at St. Thomas and Akron City hospitals approximately three years ago, but they have not been implemented at most other locations. The process of implementing electronic medical record systems is just getting started at Robinson Memorial Hospital. Mr. O'Neill was complimented for the quality of the Health System's Nine for '09 publication.

Responding to a question from Mr. Needles, Mr. O'Neill stated that hospitals within the Health System were established as far back as 118 years ago. What is known as "Summa Health System," however, was not created until 1992. In response to questions from Dr. Speck in respect of SummaCare (the Health System's insurance program), Mr. O'Neill stated it is an important part of the Health System's long-term success. Although SummaCare lost money in 2008, it had made a profit in the preceding nine years. 2008 was a challenging year in that the flu season was worse that year as compared to prior years and there were a small number of cases that resulted in very high expenses for the health insurance organization. SummaCare had a better year in 2009, although it still showed a loss. Reasons for the 2009 loss were similar to 2008, and included such factors as the H1N1 virus. SummaCare should break even or make a profit in 2010. The Health System is closely monitoring the status of current health care reform efforts at the national level. As it is expected that certain payments from the government may decrease, it will be increasingly important to decrease utilization of services where not needed, and become even more efficient, while at the same time not reducing the high-quality care that the Health System provides to patients.

In response to a question from Mrs. Davis, Ms. Hoyt noted that the Health System distributed 17 requests for proposals to various underwriting firms and received 14 responses. The number of prospective underwriters was reduced to six, and the Summa Health System Board ultimately chose JPMorgan to act as lead underwriter, with the participation of PNC Capital Markets.

Responding to questions from Ms. Tate, Mr. O'Neill stated that most health systems do not have insurance entities like SummaCare. SummaCare, however, is highly valued by the Health System and is considered an important part of its long-term strategic plan. The bonds are to be issued at fixed rates with an expected "all in" interest rate in the six to seven percent range. The Health System wants to secure long-term fixed rates while they are at historic lows.

Responding to further questions from Dr. Kutina and Mrs. Davis, Mr. O'Neill confirmed that he will forward to the Commission the next Health System Board Resolution with respect to the bond issue when adopted. With regard to the 2007 line of credit that will be refinanced, there is no sense of urgency. It was initially for a term of two years and it has been extended to facilitate this financing. Responding to a question from Mr. Petrick, Mr. O'Neill confirmed that the Health System experienced an approximately \$33,000,000 decline in investment values last year. Those losses were unrealized for accounting purposes and the Health System's investment committee has determined not to make drastic changes in its investment policy, which provides for a 40% to 60% mix of equity versus fixed income investments, respectively. As the market has improved, some of that loss has been reversed.

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

Mr. Needles moved and Mr. Speck seconded the motion that Resolution No. 2010-01 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; Speck; Tate

Nay: None

The Chairman declared the motion passed and Resolution No. 2010-01 adopted.

Resolution No. 2010-01 is as follows:

UNIVERSITY HOSPITALS

The Vice Chairman next called upon Bradley Bond, Vice President – Treasury, to speak to the Commission members regarding University Hospitals' supplemental request. In October of 2009, University Hospitals received financing approval for various projects and refinancing transactions. It is now requesting supplemental approval to provide for the refunding of certain bonds issued by Cuyahoga County in 1985. Those 1985 bonds are variable rate bonds secured by a direct pay letter of credit. Similar to its 2008 bonds, portions of which it also plans to refund, University Hospitals is seeking to pay off the 1985 bonds so as to reduce the level of bank risk and lock-in low fixed interest rates. The bond issue will provide for the refunding of bonds maturing in the relative near term, and it is not anticipated that it will result in extended amortization. Moody's Ratings Service has recently confirmed University Hospitals' A2 rating with a stable outlook. The rating agencies are generally supportive of this transaction, by which the level of variable rate debt will be reduced. For 2009, University Hospitals' number of discharges and surgeries and of acuity levels were all up. Indeed, most operating targets for the entire calendar year were achieved by the end of the third quarter. Mr. Bond then inquired of the Commission members as to whether they had any questions.

Responding to a question from Dr. Kutina, Mr. Bond confirmed that he expected the size of the bond issue to be approximately \$100,000,000, with the key purpose of reducing bank risk with respect to letters of credit. This will also free up additional credit capacity with the banks in the future should they need it. The supplemental resolution contained in the meeting books approves the refunding of the 1985 bonds.

Dr. Kutina moved and Mrs. Davis seconded the motion that Resolution No. 2010-02 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; Speck; Tate

Nay: None

The Chairman declared the motion passed and Resolution No. 2010-02 adopted.

Resolution No. 2010-02 is as follows:

CALL OF NEXT MEETING AND ADJOURNMENT

It is now expected that the Commission will next meet on February 17, 2010 at the State Office Tower location, if necessary, or upon the call of the Chairman. On a motion duly made and seconded, the meeting was adjourned.

Secretary