OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

October 20, 2010

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, October 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: John R. Wells, Chairman; Kenneth Kutina, Secretary; Wanda Carter; Lynnda Davis; Thomas Needles; James Shindler; and Susan Tate. Absent from the meeting was: Richard Petrick, Vice Chairman. Also present were: Bradley Bond, Vice President-Treasury of University Hospitals Health System; Patrick McMahon and Melissa Rogers, Chief Financial Officer and Director of Finance, respectively, of Sisters of Charity Health System; Michael Rieger, Chief Financial Officer of Mercy Medical Center; David Cummins, Vice Chancellor for Finance of the Board of Regents; 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 September 15, 2010, 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 HEALTH SYSTEM

The Chairman next called upon Bradley Bond, Vice President-Treasury, to speak to the Commission members regarding University Hospitals Health System's financing request. Mr. Bond noted that the Health System is seeking approval for the refunding of a portion of Commission bonds that was issued in 2008. The 2008 Bonds were issued as variable rate bonds issued in several series and were secured by multiple letters of credit. One of those letters of credit was provided by Wells Fargo Bank National Association. 2008 was a year of extreme turmoil for bonds that bore interest at so-called "auction rates," and the 2008 Bonds were issued for the primary purpose of refunding bonds that were originally issued by the Commission and the County of Cuyahoga, Ohio as auction rate bonds. The purpose of the proposed refinancing transaction is to minimize risk to the Health System. The new bond issue would provide for the refunding of the portion of the 2008 Bonds that is secured by the Wells Fargo letter of credit. In the new structure, Wells Fargo would purchase all of the new bond issue; it would be the only bondholder. The new bonds will bear interest at a variable rate pursuant to a formula agreed to by the transaction participants. The interest rates, however, will not be tied to Wells Fargo's credit quality. The interest rate formula for the new bonds will remain in place for three years, at which time Wells Fargo and University Hospitals may elect to continue with the then-current structure or execute a restructuring transaction. Earlier this year, the Health System refinanced other Series 2008 Bonds secured by an Allied Irish Bank letter of credit. Allied Irish Bank has been the subject of recent rating downgrades and interest rates on bonds secured by their letters of credit have increased significantly over the last several months. The Health System was able to achieve significant savings by executing that refinancing transaction when it did. The current financing will not result in significant interest savings to the Hospital. It will, however, reduce its exposure to Wells Fargo's financial performance as would be reflected in the credit quality of its letter of credit. The transaction also eliminates the risk of the bonds being accelerated due to a downgrade in the quality of the letter of credit.

With regard to the Health System, Mr. Bond noted that starting at the end of 2009 the Health System experienced a significant drop in patient volumes. This is likely attributable to several factors, including general financial difficulties in northeastern Ohio, regional job losses and reductions in health care benefits such as COBRA. In the third quarter, the Health System developed a strategy and has implemented several programs to address these recent declines. The strategies appear to be working, and the Health System expects to see improved financial and operating statistics for both the 3rd and 4th quarters of this year. The Health System maintains its A-category rating level from the major rating agencies, and Health System management is dedicated to maintaining its strong credit profile.

Mr. Bond updated the Commission members as to the status of Health System projects. The Ahuja Medical Center in Beachwood, Ohio is nearly complete. In fact, some Health System staff are already working in the building. The new parking garage at the main Cleveland campus should be opening any day. The new main campus cancer hospital is proceeding on schedule and on budget, and is scheduled to open in June 2011. The new emergency medicine center on the main campus is nearly halfway complete and also is scheduled to open in the first half of 2011. The center for emergency medicine is one example of the Health System's commitment to the City and providing community benefits. Annually the Health System provides over $200 million worth of community benefits. Mr. Bond thanked the

Commission members again for their support of the Health System and inquired as to whether they had any questions.

In response to questions from Mrs. Carter and Mr. Needles, Mr. Bond noted that the community benefits the Health System provides are in the form of free charity care, unfunded research and education. Charity care includes services provided by the Health System that are not covered by Medicaid or other benefit programs. The Health System includes within charity care, health services provided to patients who are unable to pay. This is in contrast to patients who have the means but are unwilling to pay for health services. Unpaid bills by patients able but unwilling to pay are treated as bad debt and are not included in the Health System's charitable care figures. In respect of the Health System's various projects, Mr. Bond expects that approximately 650 to 900 new jobs will be created. This figure is difficult to determine as the new facilities will be populated in part by persons already employed by the Health System at other hospital facilities. The Health System reports that the Phillips Company has decided to locate its headquarters for imaging development within the Health System's new cancer hospital. With regard to the State's franchise tax on hospitals, it has resulted in an approximately $16 million annual obligation to the Health System. This cost has been mitigated somewhat by reimbursements from the State, but complex regulatory mechanics prevent full recovery. It's hard to determine how the tax will impact the Health System in future years. With regard to health care reforms, Mr. Bond noted that the Health System has a task force dedicated to the issue. As a general proposition, the health care reforms reward quality, which is good for the Health System. The Health System ranks in the top 10% of health care providers in 18 of 22 core quality measures. The health care reforms also reward technological advances. The Health System is well-positioned, as evidenced by its investment in electronic medical recordkeeping facilities.

In response to questions from Mr. Shindler and Dr. Kutina, Mr. Bond confirmed that the question of so-called "bundled payments" is difficult for the Health System. The manner in which readmission rates are evaluated is challenging. An accounting must be made so as to distinguish typical readmissions from ones that could have been prevented. It is estimated that over half of the Health System's charity care patients enter the Health System through the emergency department. Other sources of charity care come from patients who find that, after consultations with Health System doctors, they are unable to pay. This may be at the outset of the relationship or at some time later in their treatment process. The Health System uses financial counselors to work with patients to find payment solutions and schedules. If after that consultation process it is found that they are unable to pay, their treatment is classified as charity care. With regard to the variable rate on the new bonds, it will be tied to a published index of average interest rates on tax-exempt bonds. This reduces risks to the Health System, as the interest rate will not be subject to upward or downward fluctuation based on the credit profile of Wells Fargo. The bonds will provide for a prepayment penalty if the Health System chooses to opt out of the transaction in the first year. The documents will provide for multiple interest rate modes so as to preserve the Health System's ability to restructure the transaction.

Responding to a question from Mrs. Davis, Mr. Bond noted that Wells Fargo has agreed to hold the bonds for an initial commitment period of three years. Responding to a question from Ms. Tate, Mr. Bond noted that, depending on circumstances, financial counselors may work with patients throughout the treatment process. As a rule, the Health System first classifies patients unable to pay as so-called "bad debt." It will only treat them as patients who are receiving charity care after it is confirmed that they have no means to pay for services.

Mr. Burlingame stated that the bond documents have been prepared and are presented in substantially final form. The resolution under consideration approves the bond issue and related bond documents and authorizes the issuance of the bonds.

Mr. Needles moved and Mrs. Carter seconded the motion that Resolution No. 2010-15 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; Davis; Kutina, Needles; Shindler; Tate; Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2010-15 adopted. Resolution No. 2010-15 is as follows:

SISTERS OF CHARITY HEALTH SYSTEM

The Chairman next called upon Patrick McMahon, Chief Financial Officer of Sisters of Charity Health System, to speak to the Commission members regarding the Health System's request. Joining Mr. McMahon were Melissa Rogers, Director of Finance of Sisters of Charity Health System, and Michael Rieger, Chief Financial Officer of Mercy Medical Center in Canton, Ohio. Mr. McMahon thanked the Commission members for taking time to consider the Health System's financing request. Referring to the Health System's organizational chart, Mr. McMahon noted that the Health System operates three full-service hospitals consisting of Providence Hospital in South Carolina, St. Vincent Charity Medical Center in Cleveland, Ohio and Mercy Medical Center in Canton. The Health System also jointly operates St. John Medical Center in Westlake, Ohio with University Hospitals Health System. Mr. McMahon continued by noting in the organizational chart the three affiliated foundations that provide support for Providence Hospital, St. Vincent Charity Medical Center and Mercy Medical Center, respectively. The foundations perform more than just fundraising functions. They also use funds to provide grants for various community purposes. The Health System has approximately \$1 billion in total assets and \$230 million principal amount of outstanding debt. The existing debt includes two issues of bonds from 2001 and 2002 that financed improvements to hospital facilities at the South Carolina hospital. Two other series of bonds were issued in 2000 to finance the acquisition and improvement of hospital facilities in Ohio. Part of the plan of finance includes the refinancing of the 2000 bonds issued to finance improvements at Mercy Medical Center. Those bonds bear interest at an average fixed rate of 7-1/2%, and significant cost savings can be achieved by refinancing them now in the current low interest rate environment. The bond issue may also provide for the refinancing of the variable rate bonds issued in 2000. If those bonds are refinanced it also will be for the primary purpose of locking-in low fixed interest rates. In addition to potential refinancing, the proposed bond issue includes financing of improvements at Mercy Medical Center in Canton. Mr. McMahon noted that Bank of America Merrill Lynch had been selected as the Health System's underwriter for the bond issue.

Michael Rieger next spoke to the Commission members regarding Mercy Medical Center in Canton. Mercy Medical Center is situated next to Interstate 77 in Canton, Ohio. The hospital is a 523-bed facility, with 350 to 400 of those beds currently in use. With the exception of transplant procedures, Mercy Medical Center is a full-service hospital. The Health System's financing request includes approximately \$37 million of bonds for various projects. The largest item is approximately \$25 million for new and expanded emergency department facilities. The new emergency department is still in its planning stages. A major component of the hospital strategy going forward is to provide highly specialized care while applying the best technology. In furtherance of this objective, the hospital recently completed a new approximately \$20 million intensive care unit which was financed with Health System funds. With the intensive care unit having been completed, the Health System's focus has turned to the new emergency department. Referring to architectural renderings distributed to the Commission members, Mr. Rieger described the proposed location of the emergency department. Currently, there are over 60,000 annual visits to Mercy Medical Center's emergency department facilities. Those facilities were designed for a significantly lower level of traffic. It is anticipated that the patient volume in the emergency room department will only increase in the coming years, thus emphasizing the need for new and expanded facilities. Mercy Medical Center has experienced a decline in patient volumes and revenues that started in late 2009. The Health System expects that these figures will improve as the broader economy improves.

Melissa Rogers next spoke to the Commission members regarding the Health System and the proposed financing. Ms. Rogers provided a general description of Health System finances outlined in the handout (attached hereto). The proposed bond issue will be secured by an obligated group structure, in which several Health System affiliates will be participating. The Health System is still working to develop the details of that structure. Mr. McMahon then inquired of the Commission members as to whether they had any questions.

Responding to questions from Dr. Kutina, Mr. McMahon and Ms. Rogers noted that certain negative numbers in the financial statements were the result of unrealized investment losses. If those unrealized losses were removed from the statements, the numbers would reflect a positive financial position. The financial statements also included realized losses. These losses were intentional as a result of investment committee strategies designed to reduce risks in the Health System's investment portfolio. The Providence Hospital in South Carolina is doing very well. It is the biggest heart care hospital in South Carolina and is financially stable. Overall the Health System's balance sheet is strong, reflecting good levels of equity and assets. The Health System believes that it can afford the proposed bonds and that current losses are temporary only. In response to further questions from Mr. Needles in respect of the Health System's dissolution of its joint venture with University Hospitals, Mr. McMahon noted that both joint venture members were very strong. As with any business, however, it can be difficult to move forward when two equal participants disagree on management matters. Sisters of Charity is the sole owner of the Providence Hospital in South Carolina, however, Columbia Health System did participate with the Sisters of Charity in the operation of the hospital. The relationship with Columbia was terminated in 2001.

Responding to a question from Ms. Tate, Ms. Rogers confirmed that there is flexibility in how unrealized gains and losses are presented in financial statements. Investment losses have been a challenge as a result of overall market declines in the last couple of years. Foundation spending rates are determined using historical averages, which means current budgets are being impacted by 2008 investment losses. Responding to questions from Mrs. Davis and Mr. Needles, Mr. McMahon confirmed that the Health System will be working closely with Bank of America Merrill Lynch with regard to the structuring of the proposed transaction and the presentation of its financial information. The Health System enjoys an investment grade rating and is hopeful that the proposed bonds will obtain a rating in the A-category. Responding to a question from Dr. Kutina, Ms. Rogers confirmed that most of the Health System's unrestricted investments lie within the foundations, although approximately 1/3 are held by the Hospitals and their parent entities.

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

Dr. Kutina moved and Mrs. Davis seconded the motion that Resolution No. 2010-16 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; Davis; Kutina, Shindler; Tate; Wells

Nay: None

Abstain: Needles

The Chairman declared the motion passed and Resolution No. 2010-16 adopted. Resolution No. 2010-16 is as follows:

CASE WESTERN RESERVE UNIVERSITY

The Chairman next opened the discussion of the proposed resolution for Case Western Reserve University. Mr. Burlingame commented that the University is experiencing higher interest rates on one of its 2008 variable rate bond issues. This is due to the financial difficulties of Allied Irish Bank, which issued a letter of credit securing the bonds. The resolution under consideration approves the taking of actions and the signing of documents necessary to replace the Allied Irish Bank letter of credit with a PNC Bank letter of credit.

Mr. Wells moved and Ms. Tate seconded the motion that Resolution No. 2010-17 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; Davis; Kutina; Needles; Shindler; Tate; Wells

Nay: None

The Chairman declared the motion passed and Resolution 2010-17 adopted. Resolution No. 2010-17 is as follows:

CALL OF NEXT MEETING AND ADJOURNMENT

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

Kenneth L Kalton 11/17/2010
Secretary