

OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

January 19, 2011

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, January 19, 2011, at 11:00 a.m. on the 29th 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: Kenneth Kutina, Secretary; Wanda Carter; David Cummins; Lynnda Davis; Thomas Needles; and Susan Tate. John R. Wells, Chairman, and James Shindler were absent. Also present were representatives of the institutions appearing before the Commission; Michelle Salomon and Jason Borman of Bank of America Merrill Lynch; Garth Griffiths of KeyBanc Capital Markets; Ben Christensen of the Ohio Board of Regents; and Alexander G. Burlingame and Francis Barry Keefe of Squire, Sanders & Dempsey (US) LLP, Bond Counsel to the Commission.

The meeting was called to order by the Secretary. 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 Secretary noted that the minutes of the Commission meeting of December 15, 2010, were sent to each member prior to this meeting; those minutes are also included in the meeting books for each member. Upon a motion by Mr. Needles that was seconded by Mrs. Carter, all Commission members present, with the exception of Mr. Cummins, approved the minutes of that meeting. Mr. Cummins abstained as this was his first meeting as a member of the Commission.

UNIVERSITY OF DAYTON

The Secretary next called on Phil Chick, Assistant Vice President and Treasurer, to update the Commission members regarding the University of Dayton's financing request. The University received Preliminary Approval at the Commission's October meeting. The University expects the final bond issue size to be approximately \$62 million, with \$18.1 million being for the refunding of its 2001 Bonds issued by the Commission. The remaining portion will be used for the capital improvements described at the October meeting, including the new student residence facility. A portion of the bonds will bear interest at variable interest rates tied to a published tax-exempt bond index. The remaining portion will bear interest at fixed interest rates. The variable-rate bonds are expected to mature in the next five to seven years while the fixed-rate bonds will mature over a longer period of time. The average interest rate is expected to be 5.5% to 6%. Mr. Chick then inquired as to whether the Commission members had any questions.

Responding to questions from Dr. Kutina, Mr. Chick noted that there are expected savings from the refinancing of the 2001 Bonds and that maturities would likely be shortened. Principal new projects to be financed with the bonds include the student housing project, central mall improvements, technology infrastructure and improvements to College Park Center and dining facilities at Kettering Residence Hall. Responding to a question from Mr. Needles, Mr. Chick noted that the University has no current plans for large-scale acquisitions of privately owned homes near the campus. The University does acquire homes from time to time though.

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. Davis seconded the motion that Resolution No. 2011-01 be adopted.

There being no further discussion, the Secretary called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Cummins; Davis; Kutina; Needles; Tate

Nay: None

Abstain: Carter

The Secretary declared the motion passed and Resolution No. 2011-01 adopted.

Resolution No. 2011-01 is as follows:

OHIO NORTHERN UNIVERSITY

The Secretary next called on Robert Ruble, Vice President for Financial Affairs, to speak to the Commission members regarding Ohio Northern University's financing request. Dr. Ruble was joined by Michelle Mahoney, Assistant Vice President for Financial Affairs. Dr. Ruble thanked the Commission members. The Commission issued bonds in 2008 to finance a new science center and a Student Inn. These projects have been completed. Founded in 1891, the University maintains colleges for liberal arts, business, engineering, pharmacy and law. Enrollment is approximately 3,500. Most of those are traditional students who came to the University after high school. Students are required to live on campus through their junior year. Graduates rank well in initial salaries after graduation and 90% of 2010 graduates were employed or were enrolled in graduate-level programs within six months of graduation. Endowment values have fluctuated with the economy, achieving a high of approximately \$185 million to a recent low of \$109 million. The endowment has recovered somewhat, with a current value of approximately \$136 million.

Overall enrollment at the University peaked in 2008, and has declined by 150 students since then. Student quality has, however, improved with average ACT scores improving by one full point. In budget planning, Dr. Ruble focuses on contingencies. With the decline of overall enrollment, budget adjustments are being made. These are made by reducing expenses (*e.g.*, insurance costs, staff reductions), as well as identifying ways to increase revenues to the University. Increased emphasis is being placed on recruiting nontraditional students (including community college students) as well as traditional students. Through the proposed refinancing of the 1999 and 2002 Bonds, the University expects to receive an approximately \$600,000 annual benefit to its cash flow over the next several years.

Ms. Mahoney then commented further on the University's financial position. Ms. Mahoney noted that the University has experienced a recent increase of over \$4 million in its level of net assets, which is attributable, in part, to increased contributions. She further noted that the University has maintained a balanced budget for over 50 years and that revenue levels remain flat except with respect to contributions by alumni and friends of the University. As previously noted, investment valuations have increased, and the University has experienced an approximately \$10.7 million unrealized gain in its endowment value. Ninety percent of the University's investments are considered to be "liquid," with remaining investments having longer durations. The most recent audit for the University came with no auditor recommendations for improved procedures. As compared to this time last year, the University is experiencing improved levels of revenues (a 2% increase) and expenses (a 1% decrease). Ms. Mahoney confirmed that the level of interest rate savings on the bonds is uncertain given the evolving interest rate environment; however, as a result of extended amortization, the University will experience significant cash flow savings over the next eight years. Dr. Ruble then inquired of the Commission members as to whether they had any questions.

In response to questions from Dr. Kutina and Mrs. Davis, Ms. Mahoney confirmed the level of the University's net operating income, and Dr. Ruble noted that any staff reductions would not be with respect to full-time faculty. Responding to further questions from Mr. Needles and Dr. Kutina, Dr. Ruble noted that recent enrollment declines are primarily attributable to difficulties in the broader economy and the fact that the University is a higher-cost

institution. Ms. Mahoney confirmed that while the level of net present value savings through the refinancing is uncertain, the University will benefit from a cash flow perspective in the near term. Responding to questions from Mrs. Carter, Dr. Ruble noted that the bonds will be issued as fixed-rate bonds and that the University currently enjoys an A3 rating from Moody's Investors Service. The University will be speaking with Moody's in connection with the proposed bonds. The bonds will be underwritten by Bank of America Merrill Lynch. Responding to a question from Mrs. Carter, applications to the Law School have been steady and even slightly higher this year. The University intentionally, over a number of years, reduced enrollment and increased the quality of students in order to achieve its goal of becoming a more selective institution. Responding to questions from Mrs. Davis, Dr. Ruble confirmed that the University is focused on its international programs and works to recruit students on an international basis. By way of example, the University currently has 30 students from Saudi Arabia enrolled in its prison management program. The University's discount rate is at approximately 48.5%, and the University is working with consultants to determine whether that is an appropriate level for an institution such as Ohio Northern. The bond issue has been the subject of discussion at the executive and finance committee level of the University, and will be presented to the full board at its meeting in early February.

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.

Mrs. Carter moved and Mr. Cummins seconded the motion that Resolution No. 2011-02 be adopted.

There being no further discussion, the Secretary called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Carter; Cummins; Davis; Kutina; Needles; Tate

Nay: None

The Secretary declared the motion passed and Resolution No. 2011-02 adopted.

Resolution No. 2011-02 is as follows:

CEDARVILLE UNIVERSITY

The Secretary next called upon Philip Grafton, Vice President for Finance/CFO, to speak to the Commission members regarding Cedarville University's financing request. Joining Mr. Grafton was Rod Johnson, Vice President of Operations. Mr. Grafton has been with the University for over 16 years, acting as Vice President for Finance for the last one and a half years. Cedarville University is approximately an hour west of Columbus near Springfield, Ohio. Total enrollment is approximately 3,150 students, with growth of 111 students over the last year. As compared to other universities, the University maintains a very low student discount rate (below 20%) and is currently working with consultants to determine whether that is an appropriate level for the University. The University is in the process of implementing a move away from charging students by the credit hour, and as an alternative is offering block pricing. Using a block pricing system simplifies cost analysis for prospective students, making it easier to articulate the overall costs of a university education and the benefits of financial aid that go with it. Student ACT scores and other standardized test scores for incoming students have improved. Those scores, among other factors, are part of a formula the University applies, taking into account both merit- and need-based factors, in order to make individual financial aid judgments. Using a block pricing approach with a formula-based financial aid system also allows the University to be much more accurate in its budgeting process. Its new enrollment models were within two students of actual enrollment this past academic year. The University's recruitment efforts are focused on recruiting higher-quality students; however, areas for recruitment focus will impact the financial aid formula. Overall enrollment is projected to increase by several hundred students over the next several years, and the University's discount rate is expected to increase.

The University's financing request is for the construction of facilities for the University's new pharmacy program. In pursuing accreditation for the program, both the Ohio Board of Regents and the Higher Learning Commission have conducted site visits to the University. The Board of Regents' report will be published and available for review when completed later this year. It is expected that the Higher Learning Commission's report will be available sometime after the Board of Regents' report. Mr. Grafton reported that the initial *pro forma* figures included in the University's application materials projected initial deficits for the first three years of the project. However, Mr. Grafton was pleased to report that starting this year the University will actually experience budget surpluses. This results from both cost savings and meeting initial enrollment targets for the pharmacy program. As compared to this time last year, both the applications and acceptances for the pharmacy program are up by 35%. The project will include a new three-story, approximately 80,000-square-foot building. The building will include spaces for academic instruction, including laboratories and administrative spaces. Additional space will be provided for the University's nursing program. Estimated total project costs are \$24 million, with project bids being distributed this month. Approximately \$14 million of the total project costs will be financed through a capital campaign. Approximately \$8 million has already been pledged, and \$3.5 million of that amount has been received to date. The remaining \$10 million will be financed through an anticipated fixed-rate bond issue. KeyBanc Capital Markets will be the University's underwriter.

The University has a total of approximately \$13.5 million of outstanding debt, including a 2004 bond issue and a lease financing, all with the Commission. This will be the first debt for instructional facilities. The pharmacy project should be self-supporting because of the new students enrolling. The University will use its own credit rating rather than a bank letter of credit. Mr. Grafton invited any questions.

Responding to questions from Dr. Kutina, Mr. Grafton explained that with cash on hand from the campaign, the University could delay the bond issue until summer or even later, thus saving interest costs. He is confident that the \$14 million goal will be achieved. If there is need for cash in the early stages of construction, the University has a \$4 million line of credit with KeyBank that can be called on. Responding to several questions from Mr. Needles, Mr. Grafton noted that other schools with which the University competes for students include Indiana Wesleyan University, Liberty University and Taylor University. The proposed pharmacy program is a seven-year course of studies that leads to a doctor of pharmacy. This is no intermediate degree. The first three years are preprofessional (usual college courses) and then four years of professional studies. Other pharmacy programs in Ohio include University of Findlay, Ohio Northern University and the University of Cincinnati. He is very confident that the accreditation will be achieved. Mr. Cummins noted that the University has preliminary approval from the Board of Regents for its pharmacy program. Mrs. Davis asked if the merit scholarships were based only on the ACT scores. Mr. Grafton stated that ACT scores are used and high school GPAs also are part of the model.

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

Ms. Tate moved and Mr. Needles seconded the motion that Resolution No. 2011-03 be adopted.

There being no further discussion, the Secretary called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Cummins; Davis; Kutina; Needles; Tate

Nay: None

Abstain: Carter

The Secretary declared the motion passed and Resolution No. 2011-03 adopted.

Resolution No. 2011-03 is as follows:

OTHER BUSINESS

Case Western Reserve University

The Secretary next opened the discussion of the proposed resolution for Case Western Reserve University. Mr. Burlingame commented that the University is seeking to replace a letter of credit securing certain of its 2008 Bonds. The resolution under consideration approves the taking of actions and the signing of documents necessary to replace a letter of credit provided by Bank America with one from U.S. Bank.

Mr. Needles moved and Ms. Tate seconded the motion that Resolution No. 2011-04 be adopted.

There being no further discussion, the Secretary called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Carter; Cummins; Davis; Needles; Tate

Nay: None

Abstain: Kutina

The Secretary declared the motion passed and Resolution No. 2011-04 adopted.

Resolution No. 2011-04 is as follows:

OTHER BUSINESS (Continued)

Vice Chairman

The Secretary stated that the Commission is without a Vice Chairman since Richard Petrick retired as Vice Chancellor of the Board of Regents and is no longer a member of the Commission. At the request of the Secretary, Mr. Keefe noted that it has been the tradition of the Commission that the Chancellor of the Board of Regents or his designee, as the ex officio member of the Commission, be chosen to serve as Vice Chairman. There are practical reasons for this choice: the person usually resides in Columbus, so it makes attendance at the meetings easier and increases the availability of an officer to sign bond and other documents.

Mr. Needles moved and Mrs. Carter seconded the motion that David Cummins be appointed and named Vice Chairman of the Commission.

There being no further discussion, the Secretary called for the roll and, pursuant to the roll call, the following votes were cast:

Aye: Carter; Davis; Kutina; Needles; Tate

Nay: None

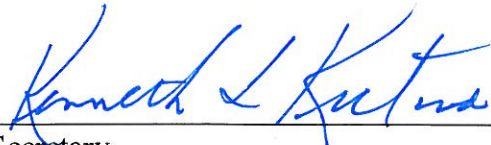
Abstain: Cummins

The Secretary declared the motion passed and David Cummins is thereby, appointed, elected and named Vice Chairman of the Ohio Higher Educational Facility Commission.

Vice Chairman Cummins was congratulated by his fellow Commission members.

CALL OF NEXT MEETING AND ADJOURNMENT

It is now expected that the Commission will next meet on March 16, 2011, if necessary, or upon the call of the Chairman. On a motion duly made and seconded, the meeting was adjourned.


Secretary
5/18/2011