

OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

September 21, 2011

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, September 21, 2011, 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; and Jennifer Carson, as designee of the Chancellor. Susan Tate was absent. Also present were representatives of the institutions appearing before the Commission; Joyce Antoncic of Bank of New York Mellon Trust Company; 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 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 18, 2011, 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. Davis, all Commission members present approved the minutes of that meeting.

SUMMA HEALTH SYSTEM

The Chairman next called upon Jane Penttila, Associate General Counsel, and Susan Savene, Director, Treasury Operations, to speak to the Commission members regarding Summa Health System's request. Ms. Savene thanked the Commission members, noting that the Commission had issued bonds in 2010 to finance various projects for the Health System. The Health System now has come to the Commission to request a modification of the approved uses of bond proceeds. These uses would include making bond proceeds available to finance nursing unit renovations at Summa Akron City and St. Thomas Hospitals, and the construction of emergency department facilities at Summa's Lake Medina campus, Barberton Citizens Hospital and Summa Health Center in the City of Green. Referring to handouts distributed to the Commission members, Ms. Savene noted that for the year ended June 30, 2011, overall Health System admissions had declined by approximately 1%. During that same period, however, overall revenues had increased, notably including a 42% increase in operating income. This increase in income has resulted in improved Health System financial ratios, including an improved liquidity position, as well as debt service coverage ratio. Referring to renderings of the proposed emergency room facilities, Ms. Savene noted that the proposed emergency department at Akron City Hospital is expected to be completed in January 2012, with the expected completion date of the Green emergency department being June 2012. Green is located in southern Summit County. Summa currently maintains an ambulatory care center in Green, but no emergency room. The progression of the proposed Barberton emergency department is proceeding on a slower pace. There is an existing emergency room facility in Barberton and there are transition considerations. The cost of the Lake Medina emergency department facility is expected to be approximately \$4.5 million. Ms. Savene and Ms. Penttila then inquired of the Commission member as to whether there are any questions.

Responding to questions from Dr. Kutina and Mr. Needles, Ms. Penttila and Ms. Savene confirmed that several components of the original and new projects are coming in under budget. Although there are many factors, this is primarily attributable to good project management. Ms. Savene further noted that the Health System uses a strict bidding process for the award of construction contracts. The bidding process and the role of construction manager are managed internally by the Health System. Emergency department facilities are typically constructed as one-story buildings to provide for easier movement of emergency room patients. The Medina emergency department facilities have been designed so that an ambulatory care facility could be constructed above it at a later time. Responding to questions from Mr. Needles, Ms. Savene noted that the Health System itself has no new major projects on the drawing board; however, it does participate in joint ventures that may be developing at facilities in Akron and other Summa locations, including a rehabilitation hospital at the Akron City Campus. Ms. Savene further noted that 60 beds were considered standard for a rehabilitation hospital. The Health System has a total of approximately 20 facilities in or near Summit County, including five hospitals and five ambulatory care centers. Responding to a question from Dr. Kutina, Ms. Penttila and Ms. Savene confirmed that there are no for-profit entities in Summa Health System's Obligated Group.

The resolution under consideration approves document amendments needed to expand the project and authorizes related matters.

Mrs. Carter moved and Dr. Kutina seconded the motion that Resolution No. 2011-08 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: Carter; Davis; Kutina; Needles; Wells

Nay: None

Abstain: Carson

The Chairman declared the motion passed and Resolution No. 2011-08 adopted.

Resolution No. 2011-08 is as follows:

CLEVELAND CLINIC FOUNDATION

The Chairman next called on Anthony Helton, Administrator – Division of Finance, to speak to the Commission members regarding the Cleveland Clinic’s financing request. Joining Mr. Helton was Tim Longville, Senior Director of Financial Reporting. Mr. Helton thanked the Commission, noting that other members of the Cleveland Clinic Finance Team could not be at the meeting today as they were attending rating agency meetings in New York. The Cleveland Clinic Health System has approximately \$2.8 billion of outstanding debt, approximately 65% of which bears interest at fixed interest rates. If Swaps are taken into account, that percentage of fixed-rate debt increases to 92%. Both tax-exempt and taxable interest rates are currently at or near record lows and the Clinic desires to take advantage of those low interest rates by refinancing certain bonds. The proposed refinancing transaction would include a mix of taxable and tax-exempt debt. The Bond issue would include both underwritten bonds and bonds that are placed directly with U.S. Bank. In order for the Clinic to consummate the refinancing transactions, it must meet a minimum 5% savings threshold. The plan of finance includes currently refunding all or a portion of the Clinic’s Series 1999B Bonds and advance refunding the Clinic’s Series 2003A Bonds. Due to tax regulatory limitations, a portion of the bonds refunding the Series 2003A Bonds may be issued as taxable debt. Both the 1999B and 2003A Bonds were originally issued by Cuyahoga County in order to finance and refinance various hospital facilities at the Clinic’s main Cleveland campus and other northeastern Ohio locations.

Mr. Helton then inquired of the Commission members as to whether they had any questions with respect to the plan of finance. In response to a question from Dr. Kutina, Mr. Helton noted that a part of the bond issue will be taxable due to what is commonly referred to as the “one-advance refunding limitation.” Under IRS rules, bonds may only be advance refunded once. As a portion of the 2003 bond issue was itself an advance refunding issue, that portion cannot be advanced refunded now as tax-exempt debt. An advance refunding refers to a bond issue where an escrow is established for a period of more than 90 days in order to defease bonds in a refunding transaction. Responding to a question from Mr. Needles, Mr. Helton confirmed that current rates on the 1999B and 2003A Bonds are at approximately 6% and 5%, respectively. The Clinic’s all-in rate on fixed interest rate debt is just under 5%. It is expected that the direct purchase portion of the bond issue will provide an interest rate at approximately 2-3/4%. Responding to a question from Mrs. Davis, Mr. Helton noted that the Clinic has worked with its outside financial consultants to create the 5% savings threshold for proposed refinancing transactions. If the savings are less, the time and expense of the refinancing transaction may not be justified.

Mr. Helton then proceeded to update the Commission members as to the status of the Clinic’s 2009 financing through the Commission. Approximately half of the proceeds of that bond issue were to finance new Clinic projects at various locations. Facilities that were financed with the 2009 Bonds include the Clinic’s family health centers in Avon and Twinsburg, Ohio, a new data center and new laboratory facilities. The Avon Family Health Center is scheduled to open in 2012, and the Twinsburg Family Health Center opened in July of this year. Both are designed to provide specialty outpatient health care services, and the Avon facility will include an ambulatory center. The family health centers have also been designed to provide for future

expansion should the need arise. The 2009 Bonds also provided for the acquisition of a 7-level, 1,340 parking space facility at the Clinic's main Cleveland Campus and the expansion of facilities at Fairview Hospital to provide 52 additional emergency department beds and more than 24 intensive care unit beds. The new data center will be located in Brecksville, Ohio. The existing data center, located on Euclid Avenue in Cleveland, needs to be replaced as evidenced by recent flooding in its lower levels. Responding to a question from Mr. Needles, Mr. Helton confirmed that the Clinic had not yet determined what it will do with the building that currently houses the data center.

Mr. Helton proceeded to update the Commission members as to the status of the projects financed by the Clinic's 2008 financing with the Commission. Mr. Helton noted that 2008 Bond proceeds were used primarily to refinance existing debt; however, proceeds were also used to renovate approximately 800,000 square feet of space in the Miller Pavilion and Glickman Tower on the Clinic's main campus. The 2008 project also included the expansion of Hillcrest Hospital.

Mr. Longville next provided the Commission members with the financial status update for the Clinic. Consistent with other healthcare providers in the region, the Clinic has experienced an increase in operating revenue over the past three years. However, certain types of revenue (*e.g.*, revenue from gifts and parking) have remained flat. The Clinic is focused on the use of new technology and standardizing services and product offerings in order to better manage costs. Responding to a question from Mr. Needles, Mr. Longville noted that the relatively high number of 2009 earnings is attributable to several factors, including tort reform. The Clinic is also experiencing increased asset levels over the last three years, with assets as of June 30 being just over \$9 billion. Responding to a further question from Mr. Needles, Mr. Longville noted that state franchise fees have had an impact on the Clinic in the millions of dollars. The Clinic is working to offset that expense by working to manage expenses. Mr. Helton also commented on Huron Hospital. Most Huron employees are transitioning to other Clinic facilities, though a small percentage have elected not to stay with the Clinic. Responding to a question from Dr. Kutina, Mr. Helton noted that the Clinic is focused on implementing green technologies in all its projects, which are designed to be LEED certified. The Clinic's master plan includes a plan to acquire properties near the main campus for, among other reasons, the purpose of creating more green space for patients and employees. Responding to questions from Mr. Needles, Mr. Helton noted that family health centers provide primarily outpatient care, in contrast to hospitals that provide in-patient and out-patient care. The Clinic has seen a steady increase in the amount of uncompensated care provided over the last three years. In 2010, it provided approximately \$150 million in charity care. That figure does not include bad debt. The Clinic still maintains facilities in southeast Florida.

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. 2011-09 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; Wells

Nay: None

Abstain: Carson

The Chairman declared the motion passed and Resolution No. 2011-09 adopted.

Resolution No. 2011-09 is as follows:

OTHER BUSINESS

The Chairman next opened the discussion of the proposed resolution for Xavier University. Mr. Burlingame commented that the University is seeking to replace a letter of credit securing certain of its 2000 Bonds. The resolution under consideration approves the taking of actions and the signing of documents necessary to replace a letter of credit provided by U.S. Bank with one from PNC Bank. The resolution also approves a change of remarketing agent.

Mrs. Carter moved and Mr. Needles seconded the motion that Resolution No. 2011-10 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; Wells

Nay: None


Abstain: Carson

The Chairman declared the motion passed and Resolution No. 2011-10 adopted.

Resolution No. 2011-10 is as follows:

CALL OF NEXT MEETING AND ADJOURNMENT

It is now expected that the Commission will next meet on October 19, 2011, if necessary, or upon the call of the Chairman. On a motion duly made and seconded, the meeting was adjourned.


Secretary
10/19/2011