OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

March 20, 2013

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, March 20, 2013, at 11:00 a.m. on the 18th 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: Thomas Needles, Chair; David Cannon, Vice Chair; Kenneth Kutina, Secretary; Wanda Carter; Susan Tate; and James Wilson. James Shindler and John Wells were absent. Also present were representatives of the institution appearing before the Commission; Ben Christensen of the Ohio Board of Regents; and Alexander G. Burlingame of Squire Sanders (US) LLP, Bond Counsel to the Commission.

The meeting was called to order by the Chair. 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 Chair noted that the minutes of the Commission meeting of February 20, 2013, 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 Mrs. Tate that was seconded by Mr. Wilson, all Commission members present approved the minutes of that meeting.

CAPITAL UNIVERSITY

The Chair next called upon Lori McKirnan, Associate Vice President, Business & Finance, to speak to the Commission members regarding Capital University's financing request. Ms. McKirnan was joined by Toni Streit, University Controller and Richard Ashbrook, Provost. Ms. McKirnan thanked the Commission members noting that the University was last before the Commission for its 2006 bond issue. The University was founded in 1830 and resides on a 49-acre campus in Bexley, Ohio. The University also maintains a law school located in downtown Columbus. Overall, enrollment remains strong, with the University experiencing record levels of applications and admissions; however, there has been some recent decline in law school enrollment. University tuition is at a rate of just over $31,000 and is competitive with peer institutions. The University continues to experience operating surpluses in the budget. It has just over $31 million of debt, with just under $4 million of that debt being represented by a student housing bank loan that is the subject of the current financing.

In respect of the proposed financing, the University is seeking to refinance a 2008 loan with U.S. Bank incurred for the purpose of acquiring and renovating student housing facilities known as Capital University Apartments. The facilities include two-bedroom units and are reserved for the University's juniors and seniors. In order to be eligible to live in the facility, students must maintain a grade point average of 2.5 or higher and have no record of disciplinary problems. The University is seeking to close on the financing by May 1, which is when the U.S. Bank loan becomes due. The proposed financing would be structured as a direct-purchase transaction facilitated by PNC Bank National Association and will be in an amount not to exceed $4 million. Ms. McKirnan then inquired of the Commission members as to whether they had any questions.

In response to questions from Mr. Cannon, Ms. McKirnan discussed the interest rates on the existing and new proposed debt, stating that while the new bonds will amortize over a period of approximately 23 years, the initial interest rate will be fixed only for the first ten years. In response to questions from Dr. Kutina, Mr. Ashbrook described the University's mix of traditional and nontraditional students noting that occupancy rates are in respect of traditional students. Declines in operating surplus would likely result in an event of enrollment decline. As part of the University strategic plan, the University has increased emphasis on its investment in programs and faculty while implementing its affordability initiative. Responding further to questions from Dr. Kutina, Mr. Ashbrook noted that the investment in programming is progressing, with the University in the implementation process of graduate-level programs in education, educational leadership and school counseling. Recent law school enrollment decline is in some part due to demographics and the broader national economy, with law schools experiencing enrollment pressure on a national basis. In response to questions from Mr. Wilson, Ms. McKirnan noted that the school has a 20% annual savings rate intended to be saved for future capital needs of the University. This will help avoid future borrowing by the University and will be applied to such future capital needs as new classroom space, a conservatory, radio and communication facilities and laboratory facilities. The University utilizes a 5% draw rate off of its endowment. In response to questions from Mr. Needles, Mr. Ashbrook noted that it would be hard to determine the impact of recent enrollment decline on admission standards at the law school. There may be a waterfall effect from other law schools that also are experiencing enrollment declines and that are admitting students that otherwise may have attended the

University's law school. The University is working within its budget to identify additional student aid for the purpose of supporting law school enrollment. Most law school students participate in the traditional daytime program, with a smaller portion participating in the part-time/night program. This at some level is the result of employers being less willing to subsidize a law school education and employees placing greater emphasis on their current jobs. The law school is evaluating traditional delivery models, including a possibility of weekend programs. In response to a further question from Mr. Needles, Ms. McKirnan noted that the University has no formal program for acquiring homes near the University campus, but evaluates each opportunity on a case-by-case basis.

There being no further questions, the Chair noted that the motion for consideration of the preliminary approval for Capital University would be deferred until the next meeting of the Commission.

CLEVELAND CLINIC FOUNDATION

The Chair next invited Anthony Helton, Director of Finance, to speak to the Commission members regarding the Cleveland Clinic's financing request. Joining Mr. Helton was Timothy Longville, Assistant Controller. Mr. Helton noted that he has been with the Clinic for approximately nine years, while Mr. Longville has been with the institution for approximately 21 years. Mr. Longville noted that the Clinic's audited financial statements were recently completed and for the third year in a row, there were no management letters. The Clinic chooses to follow Sarbanes-Oxley standards with respect to its audit though it is not obligated to do so. In 2008, the Clinic signed the United Nations Global Compact, Global Reporting Initiative. The Clinic is among the early healthcare institutions to be part of the program. The Clinic was recently ranked as the fourth best in the United States by *U.S. News*, its 22nd year in the top five. It maintains the #1 ranked heart program, and is ranked in the top ten in 11 other specialties. The Clinic recently entered an affiliation with Community Health Systems, a for-profit health system, for the purpose of sharing protocols and improving patient care. Mr. Helton noted that the proposed financing includes the refunding of 2003 bonds issued to finance improvements at Hillcrest Hospital. The proposed refunding is expected to achieve net present value savings of approximately $13 million. The plan of finance further includes the refunding of certain 2004 bonds, which financed, among other things, the Clinic's heart center and an entry for the main campus. This would result in the refunding of the last outstanding issue of bonds by Cuyahoga County for the Clinic. The Clinic also is evaluating the possible refinance of bonds issued for the Walker Center, which could result in savings of approximately $2.3 million. The proposed plan of finance further includes funds for various projects described in the application materials. Depending on market conditions and other factors, the Clinic may be seeking a bond issue for additional new projects sometime next year. Mr. Longville next commented on Clinic finances generally. Net assets have been increasing and EBIDA improvement is expected. Mr. Helton then inquired of the Commission members as to whether they had any questions.

In response to questions from Mr. Wilson and Dr. Kutina, Mr. Longville noted that the health system is reserving more for insurance co-pays, self-paid patients and bad debt, all of which have an impact on accounts receivable. Mr. Helton noted that *U.S. News* evaluated the entire health system and not just inpatient services or activities at the main Cleveland campus. The Clinic is comfortable with the amount of its long-term debt, which is consistent with rating agency criteria, as evidenced by its level of "days cash on hand" and ratings issued by Moody's and S&P. Days cash on hand would be significantly reduced if the Clinic were to pay for various projects out of cash. The health system has been rated "AA2" by Moody's and "AA-" by S&P. The Clinic is proceeding at this time to take advantage of historically low interest rates. The use of funds received through fundraising efforts depends on the donor's intentions and the extent to which any restrictions have been placed on the use of funds. The Clinic recently closed a fundraising campaign for the heart center. The Clinic finances new projects from three sources: cash, gifts and debt. As a general practice, it will not finance a project solely out of one of those sources. In response to a question from Mr. Cannon in respect of the impact of expected levels of federal payments going forward, Mr. Helton noted that the Clinic is enjoying one of its best balance sheets ever, yet must continue to focus on ways to save money and operate more efficiently in order to offset any decline in revenues.

Mr. Burlingame stated that the resolution approves the Preliminary Agreement with the Clinic. That agreement and related resolution preliminarily approve the financing transaction and are in their usual form.

Mr. Wilson moved and Mrs. Carter seconded the motion that Resolution No. 2013-06 be adopted.

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

Aye: Cannon; Carter; Kutina; Needles; Tate; Wilson

Nay: None

The Chair declared the motion passed and Resolution No. 2013-06 adopted.

Resolution No. 2013-06 is as follows:

OTHER BUSINESS

The Commission members discussed the State budget process, including expenses and the hearing process. Ms. Tate next initiated a discussion regarding correspondence from the Ohio Ethics Commission and the extent to which everyday relationships with certain financial institutions may constitute a conflict of interest for Commission members. Mr. Christensen indicated that he would follow-up with the Ethics Commission on the matter and report back to the Commission members, it being expected that there would be further discussion on the subject.

CALL OF NEXT MEETING AND ADJOURNMENT

It is now expected that the Commission will next meet on April 17, 2013, if necessary, or upon the call of the Chair. On a motion duly made and seconded, the meeting was adjourned.

Kenneth L Kutina

Secretary