

# OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

## MINUTES OF THE MEETING OF THE COMMISSION

**May 20, 2015**

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, May 20, 2015, at 11:00 a.m. on the 19<sup>th</sup> Floor, Room 1932, of the Riffe Center, 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; John Martin; James Shindler; Susan Tate; John Wells; and James Wilson. Also present were representatives of the institutions appearing before the Commission; Ben Christensen of the Ohio Board of Regents; Michael Burns of Robert W. Baird Incorporated; William Elliott of Blue Rose Capital Advisors; and Alexander G. Burlingame of Squire Patton Boggs (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 April 15, 2015 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. Wells that was seconded by Dr. Kutina, all Commission members present approved the minutes of that meeting.

## CAPITAL UNIVERSITY

The Chair next called on Michael Horan, Vice President for Finance, to update the Commission members as to Capital University's financing request. Joining Dr. Horan was Mary Ellen Borchers, Director of Business Services. Dr. Horan confirmed that the University's plan of finance and proposed project remain unchanged from the University's presentations at the February and April Commission meetings.

The University will be replacing its letter of credit through this private placement transaction and financing a new \$16 million convergent media center, \$6 million of which will be bond financed. The University is entering into a swap in connection with the transaction and the bonds will be paid off by 2031. The project will commence with the demolition of Loy Hall in June, with construction to follow soon after. Dr. Horan then inquired of the Commission members as to whether they had any questions.

In response to questions from Dr. Kutina, Dr. Horan and Ms. Borchers noted that the new facility would house programs for studio arts, digital media and music technology, as well as new programs that are in development. This will be the first new academic building on campus in approximately 50 years, with a higher square foot cost for this building due to the specialized nature of the programs to be housed within it. The cost per square foot is somewhat higher to meet the specialized acoustic needs. Responding to questions from Mr. Needles, Dr. Horan noted that the new facility is expected to be open in fall of 2017 and the demolition cost for Loy Hall will be approximately \$80,000.

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

Mr. Wilson moved and Mr. Martin seconded the motion that Resolution No. 2015-10 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; Kutina; Martin; Needles; Shindler; Wells; Wilson

Abstain: Carter; Tate

Nay: None

The Chair declared the motion passed and Resolution No. 2015-10 adopted.

Resolution No. 2015-10 is as follows:

## DENISON UNIVERSITY

The Chair next called upon Seth Patton, Vice President for Finance and Management, to speak to the Commission members regarding Denison University's financing request. Joining Mr. Patton was Cathy Untied, University Controller. Mr. Patton thanked the Commission members, commenting on how important the Commission has been to private institutions of higher education in the State. This is Mr. Patton's eighth bond issue in his tenure as Vice President for Finance and Management at the University. The University is seeking approval for a combination of new projects, which include various physical plant projects, library and dining hall improvements, and funds for a performing arts center. This is part of the University's three-year cycle of financing various capital projects on campus. Bonds will also be issued to refund prior Commission Bonds. Responding to a question from Dr. Kutina, Mr. Patton noted that the University enjoys ratings of "AA3" from Moody's and "AA" from S&P. The University intends to price the bonds as early as the first week of June. In response to a question from Mr. Wilson, Mr. Patton noted that the University desires to raise \$20 million in gifts against the total \$30 million cost of the performing arts center. Responding to further questions from Mr. Needles and Dr. Kutina, Mr. Patton noted that the University enjoys a very active alumni base and that it expects interest rates as low as under 4% for this fixed-rate bond issue, which will amortize over 25 years.

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

Mr. Wells moved and Ms. Tate seconded the motion that Resolution No. 2015-11 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; Martin; Needles; Shindler; Tate; Wells; Wilson

Nay: None

The Chair declared the motion passed and Resolution No. 2015-11 adopted.

Resolution No. 2015-11 is as follows:

## HIRAM COLLEGE

The Chair next called upon Stephen Jones, Chief Financial Officer, to speak to the Commission members regarding Hiram College's financing request. Mr. Jones was joined by Michael Burns of Robert W. Baird & Co., Incorporated. Mr. Jones thanked the Commission members, noting that the College was seeking final approval to refinance its 2010 Bonds issued through the Commission, as well as other debt. The bonds will be issued as part of a fixed-rate issue, utilizing a combination of serial and term bonds. The College's President, Lori Varlotta, became President on July 1<sup>st</sup> of last year, succeeding Tom Chema in that position. She came to the College from California, and has an emphasis on both enrollment and expense reduction. The College has a new vice president of enrollment that started this past November. One of the College's noteworthy programs is its "Hiram Complete" program in which the College partners with community colleges to offer college courses and credit on other area campuses, including Cuyahoga Community College and Lorain County Community College. The program allows the College the opportunity to build revenue, while at the same time working to improve its traditional enrollment levels. Mr. Jones then inquired as to whether the Commission members had any questions.

Responding to a question from Dr. Kutina, Mr. Jones confirmed that some College faculty go to the community colleges to teach courses and in other instances the College has hired adjunct professors for the express purpose of teaching in this program. Courses in the Hiram Complete program are not charged at full traditional rates. The College offers courses through its traditional programs, the Hiram Complete program and its Weekend College. Responding to a question from Mr. Cannon, Mr. Jones confirmed that part of the motivation for the bond issue was to achieve short-term cash flow savings for the College. Mr. Burns noted that the College also is seeking to take advantage of attractive long-term interest rates. Responding to a question from Mrs. Carter, Mr. Jones confirmed that the 2015 enrollment forecast for the College was 980. Traditional enrollment remains a key component of the College's budget issues and the College has placed increased emphasis on its high school recruiting methods. One of the programs instituted by the new vice president of enrollment is to assign each member of the College's enrollment team a specific list of prospective students for which they are responsible for maintaining contact. Demographic issues are part of the College's enrollment challenges. The Hiram Complete program is a helpful revenue source for the College as it works on traditional recruitment. Full traditional student capacity for the College is approximately 1,200 students. Responding to questions from Mr. Wilson, Dr. Kutina and Mr. Needles, Mr. Jones noted that the College's endowment is valued at approximately \$60 million and that its draw rate is currently at 5%, down from 5-1/2%. Most Hiram Complete students participate through classes offered at area community colleges and for the most part do not come on campus. Mr. Jones noted that most of the Hiram Complete program students are in their 20s, while Weekend College students are in their 30s. The College does maintain a revenue sharing agreement with the various community colleges that participate in the Hiram Complete program.

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

Mr. Wells moved and Dr. Kutina seconded the motion that Resolution No. 2015-12 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; Martin; Needles; Shindler; Tate; Wells; Wilson

Nay: None

The Chair declared the motion passed and Resolution No. 2015-12 adopted.

Resolution No. 2015-12 is as follows:

## UNIVERSITY HOSPITALS

The Chair next called upon Bradley Bond, Vice President, Treasury, to speak to the Commission members regarding University Hospitals Health System's financing request. Mr. Bond thanked the Commission members and noted that the Parma and Elyria hospitals acquired by the Health System last year are both doing very well. The Health System will be closing on its acquisition of Robinson Memorial Hospital in Ravenna, Ohio, soon. Mr. Bond noted that most of the proposed financing will be for refinance purposes, including the restructuring of debt associated with Robinson Memorial Hospital. That hospital has been losing money in recent years and part of the terms of University Hospital's acquisition of Robinson Memorial was to obtain more favorable terms for the payoff of Robinson Memorial's existing bonds. Operating margins and quality of care are improving at the Parma and Elyria hospitals, with many cases being kept within the larger Health System that otherwise would have gone elsewhere. The Health System is considering the acquisition of a small hospital in Ashland, Ohio. Mr. Bond commented that the Health System enjoys excellent relations with various banks and that he has seen better credit terms in the current environment than he ever has before. Part of the proposed transaction will include the refunding of the Health System's first bonds issued through the Commission in 2007, achieving significant savings. The Health System is in the process of refunding certain 2009 bonds issued through the Commission in a direct placement transaction with JPMorgan and also may be refunding certain bonds issued in 2010 that are currently held by Wells Fargo. The proposed bonds will include funds for projects at its various facilities, including at Robinson Memorial.

The Health System is performing well, with discharge volume and surgery levels having gone up. Emergency department volume also is up and the Health System has enjoyed operating income of over \$90 million. 2014 net income figures are higher as a result of the acquisition of Parma Community Hospital and Elyria Memorial Hospital. The Health System is working to manage its pension liabilities, especially with increased expected life spans. The Health System has recently enjoyed a 4.7 coverage ratio as it relates to its maximum manual debt service and although 2014 numbers are not available yet, the Health System accounted for approximately \$240 million of community benefit in 2013. Recent medical reforms have caused an increased level of patients that otherwise may not have sought treatment before. They have been encouraged to enroll in programs such as Medicaid, resulting in some increased revenue to the Health System. However, this also comes at a time when patients are increasingly responsible for directly paying for health care costs. Those patients, especially those in high deductible plans, can be harder to collect payment from. Mr. Bond further highlighted the Health System's new relationship with the Cleveland Browns and that physician recruitment is going well. Generally, the Cleveland health care market is good. Patient volumes are favorable to the Health System's budget, and the new Ahuja hospital is performing especially well. Just over 50% of the Health System's debt will bear interest at fixed rates. Mr. Bond then inquired of the Commission members as to whether they had any questions.

Responding to a question from Mrs. Carter, Mr. Bond noted that tertiary cases generally relate to the level of complexity. Prior to acquisition by University Hospitals, more complex cases in Parma and Elyria often were sent to other health systems. Responding to a question from Ms. Tate regarding the Health System's pension plan, Mr. Bond noted that it is in the process of implementing changes that may lower the benefit provided but give a greater level of predictability to the Health System. The Health System expects to save as much as \$100 million over the next five years as a result of these changes. Responding to questions from Dr.

Kutina and Mr. Needles, Mr. Bond noted that the performance of the Parma and Elyria hospitals dipped notably in the year before their acquisition by the Health System, with at least some of that decline being attributable to the knowledge that those hospitals would, in fact, be acquired. Local reaction to the acquisitions in Parma and Elyria has generally been positive. Mr. Bond further noted that emergency department volumes have continued to increase and that the Health System is working to dedicate the emergency department to patients genuinely in need of emergency care. The Health System has established a clinic at the main campus for walk-in patients that need medical treatment not of an emergency nature. The Health System also is developing a Level 1 trauma center, which will be the second center of that level in the Cleveland area. Mr. Bond confirmed that the clinic was very close to the emergency department. The health clinic is not open 24 hours; however, it is open weekends and evenings, the times when people are most likely to visit. In response to a question from Mr. Needles regarding the Health System's growth strategy and recent acquisitions, Mr. Bond noted that the Health System's business plan is to keep 95% of patient care within the local communities. More complex cases would come to the main campus for treatment. The Health System has also explored the acquisition of a hospital in Ashland, Ohio. The Health System does experience some competition from for-profit providers; however, they may not be as well equipped to handle cases with higher levels of complexity in the same fashion the Health System can. Mr. Bond confirmed that the Health System needs to continually tell its story regarding the quality of its facilities and health care providers in relation to those with whom it competes.

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

Mr. Wells moved and Mr. Martin seconded the motion that Resolution No. 2015-13 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; Martin; Needles; Shindler; Tate; Wells; Wilson

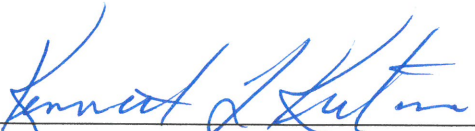
Nay: None

The Chair declared the motion passed and Resolution No. 2015-13 adopted.

Resolution No. 2015-13 is as follows:

**CALL OF NEXT MEETING AND ADJOURNMENT**

It is now expected that the Commission will next meet on June 17, 2015 in Columbus, if necessary, or upon the call of the Chair. On a motion duly made and seconded, the meeting was adjourned.

  
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Secretary