

HIGHER EDUCATIONAL FACILITY COMMISSION
MINUTES OF THE MEETING OF THE COMMISSION

February 20, 2008

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, February 20, 2008, at 11:00 a.m. at the offices of the Ohio Board of Regents, 36th Floor, State Office Building, 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, Chairman; Richard Petrick, Vice Chairman; John Wells, Secretary; Kenneth Kutina, Deputy Secretary; Wanda Carter; Ronald E. Cosey; and Sam Speck. Henry Kasson was absent. Also present were: Ronald Watts, Vice President for Finance, and Mark Bates, Assistant Vice President for Finance, for Oberlin College; John Green, Vice President for Financial Affairs, Stacey Neeley, Controller, and Justin Courtney, Director of Residence Life, for Ohio Northern University; Bradley Bond, Vice President-Treasury, for University Hospitals Health System; Robert Brown, Treasurer for Case Western Reserve University; Francis Barry Keefe and Alex Burlingame of Squire, Sanders & Dempsey L.L.P., Bond Counsel to the Commission; and James Wermuth of the Ohio Board of Regents.

The meeting was called to order by the Chairman. Upon call of the roll, Mr. Wells 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 January 16, 2008, were sent to each member prior to this meeting; those minutes are included in the meeting books for each member. Dr. Kutina suggested minor revisions with respect to the draft minutes, which were made. The Commission members present then unanimously approved the minutes of that meeting.

PUBLIC HEARING

At the Chairman's request, Mr. Burlingame explained that the federal income tax regulations require that there be a public hearing for Commission bond issues, including the proposed Oberlin College financing. Notice of the hearing was published in the *Columbus Dispatch* and the *Plain Dealer*. The public hearing relating to the proposed State of Ohio Higher Educational Facility Revenue Bonds (Oberlin College 2008 Project) to be issued by the Commission was opened. There were no comments at the hearing, and no written comments were submitted to the Commission. The hearing was closed.

OBERLIN COLLEGE

The Chairman then called on Ronald Watts, Vice President for Finance of Oberlin College, to update the Commission as to the progress of the College's proposed financing. Mr. Watts thanked the Commission members and commented that the transaction was progressing smoothly, especially working with Bond Counsel on the bond documents. The noted exception is the College's attempts to obtain a standby bond purchase agreement with respect to the proposed bonds. This type of agreement would provide liquidity support for the new variable rate bond issue. The College's difficulty in obtaining this type of agreement is not a result of the credit quality of the College, but rather results from current bond market problems relating to the subprime mortgage crisis. If the College is unable to obtain this liquidity facility on a cost-effective basis, the College's financial strength (and available cash reserves) would allow it to proceed with the transaction without one. In this instance, the College may choose to proceed without the proposed refunding of the 2003 Commission bonds as a part of the transaction. In any event, it is expected that the bond issue will close later in March. Mr. Watts then inquired of the Commission members as to whether they had any questions.

In response to questions from Dr. Kutina, Mr. Watts indicated that at this point issuing fixed rate bonds was not a practical option. Given current market uncertainty, fixed rate bonds are being priced at a premium. Further, the College entered into a swap agreement this past October giving the College a fixed interest rate for the life of the proposed bond issue of 3.55%. Were the College to proceed with fixed rate bonds now, it would have to terminate the swap. With respect to savings achieved by reduced enrollment at the College, Mr. Watts commented that physical plant costs would be reduced. Mr. Watts also commented that a smaller student body provided a more favorable student-teacher ratio, which is critical for a college such as Oberlin, particularly with respect to the music Conservatory. The building was built for 450 students; it now must accommodate 600 conservatory students. Fewer students will relieve some stress on the facilities and on class scheduling and will permit more time for individual attention from faculty.

Mr. Petrick commented that he had recently visited the Conservatory and was impressed with the facilities. He agreed with Mr. Watts' comment that music students in particular require more access to faculty. Responding to a question from Mr. Petrick, Mr. Watts commented that if market conditions further declined before the closing, the College may choose not to pursue the bond issue at this time or just do either the refunding or the new project at this time. The College would prefer not to do that so as to stay on schedule for its proposed construction projects.

Mr. Keefe commented that the bond documents have been prepared and are presented in substantially final form and that March 19 is the anticipated closing date. Mr. Needles expressed his appreciation for the quality of the discussion. The resolution under consideration approves the bond issue for the College and the related bond documents.

Mr. Wells moved and Mr. Petrick seconded the motion that Resolution No. 2008-02 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, Cosey, Kutina, Needles, Petrick, Speck, Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2008-02 adopted.

Resolution No. 2008-02 is as follows:

OHIO NORTHERN UNIVERSITY

The Chairman then called on John Green, Vice President for Financial Affairs of Ohio Northern University, to update the Commission members as to the University's request. Mr. Green noted that since coming to the Commission in September of 2007, the scope of the University's proposed project has changed somewhat. Since submitting its initial application, the University has determined not to include the acquisition and renovation of the Union Square apartment complex in its proposed bond financing. The apartment complex was more run-down than the University had originally thought, and, in order to maximize flexibility in its use, the University has determined not to finance it with tax-exempt bonds. The purchase was accomplished with University funds. Mr. Green further remarked that the University's other housing projects are going very well. Phase 1 of the University's housing plan (previously financed with Commission bonds) has been completed and to date is meeting all revenue projections. Based on the success of the program, the University now desires to expand the scope of the currently proposed project to provide additional funds for Phase 2 of the University's housing program. This includes funds for the Affinity Housing Project, as well as renovations to Founders Hall. These renovations will be updating and renovating but will not be remodeling the rooms to suites. The University now anticipates a proposed bond issue of approximately \$34 million, which includes funds for the Mathile Science Center, the proposed University Inn and revised student housing facilities (approximately \$16.8 million). Mr. Green indicated that the University has carefully studied its student housing needs and expects sufficient demand and revenues for the proposed housing facilities. Mr. Green then inquired of the Commission members whether they had any questions.

In response to a question from Mr. Cosey, the University's Director of Residence Life confirmed that the University requires freshmen, sophomores and juniors to live on campus. Demand for on-campus student housing last year was such that juniors that would typically be required to live on campus were permitted to utilize off-campus facilities. The new and renovated housing facilities will assure adequate space to meet demand. In addition, there will be the opportunity for fraternities and sororities to live in campus housing. In response to a question from Mr. Petrick, Mr. Green confirmed that the University is self-financing costs of the Union Square apartment complex. The University will likely be renovating that facility, but did not want it to be subject to the restrictions associated with tax-exempt debt and a lease with the Commission. In response to a question from Dr. Kutina, Mr. Green stated that a portion of the University Inn would be financed with taxable bonds. At the current time, it is anticipated that 75% of the costs of the University Inn will be financed with taxable debt, however, the University will preserve the flexibility to convert those bonds to tax-exempt bonds at a later time. Mr. Green also described the portion of the project that includes geothermal heating and cooling facilities. The primary focus on this part of the project is sustainability, acknowledging that the upfront costs of installing these facilities is larger, but in the long term should result in savings for the University. The facilities will include underground wells that extract underground water for the purpose of heating and cooling various University buildings. This system would require numerous underground wells for each building that would utilize the system. If there would be a problem with a well it can be sealed and isolated from the system.

In response to a question from Mr. Needles, Mr. Green acknowledged that the initial fundraising goals for the Mathile Science Center may have been over-ambitious. The

University has raised \$13 million of the \$19 million goal. The University is currently developing a much larger capital campaign and the focus of the University Board and its development staff is on other projects right now. Mr. Green also indicated that, in consultation with its financial advisors, the University is considering the refinancing of 1999 bonds issued by the Commission. The Commission members will be updated on the proposed refinancing before the University returns for final approval.

Mr. Keefe stated that the resolution for consideration approves the supplemental preliminary agreement between the Commission and the University.

Mr. Petrick moved and Dr. Kutina seconded the motion that Resolution No. 2008-03 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, Cosey, Kutina, Needles, Petrick, Speck, Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2008-03 adopted.

Resolution No. 2008-03 is as follows:

UNIVERSITY HOSPITALS HEALTH SYSTEM

The Chairman next called on Bradley Bond, Vice President-Treasury of University Hospitals Health System, to speak to the Commission members about the Health System's request. Mr. Bond thanked the Commission members for their support of the Health System in 2007. The Health System had originally intended to return to the Commission for additional financings in 2009, but due to the deterioration to the market for auction rate bonds it is back this year. Mr. Bond distributed a handout to the Commission members and noted that the Commission bonds issued for the Health System in 2007 were issued as both fixed rate bonds and as auction rate bonds, a form of variable rate demand bond. Due to the recent well publicized deterioration of the auction rate bond market, interest rates on the Health System's auction rate bonds that used to be at 3.7% are now bearing interest at 8% to 9%. This is resulting in over \$1 million a month in additional debt service for the Health System. The 2007 bond documents contemplate a possible maximum interest rate of 15% per year on auction rate bonds, so the problem could get worse. The good news for the Health System is that a large portion of its financing in 2007 included fixed rate bonds, bearing interest at rates from 4.5% to 5.25% per year. The Health System's auction rate bonds are insured by Ambac Assurance Corporation, a municipal bond insurance company rated "AAA" by various rating agencies. That rating has been, or is currently under review for, downgrade by the respective rating agencies. The decline in the auction rate bond market is largely due to feared bond insurer exposure to recent problems in the subprime mortgage market.

The Health System is returning to the Commission to request authorization to refinance the auction rate bonds issued by the Commission in 2007 and those issued by Cuyahoga County in 1999. In addition, the Health System is requesting funds to pay additional costs of the projects approved by the Commission in connection with its 2007 financing. As a part of the overall plan of finance, the Health System expects to pay off some bonds out of cash. It may also need to do interim refinancing in order to reduce current interest payments, with the proposed bonds refunding any such temporary loans. Referring to the handout that had been distributed to the Commission members, Mr. Bond outlined the schedule for the proposed financing, noting that the Health System was working with various transaction participants including Bond Counsel to achieve a March closing.

Following up on comments of Dr. Kutina regarding the high quality of Mr. Bond's handout to the Commission members, Mr. Bond confirmed that 2007 was an excellent year for the Health System. It currently has approximately three-quarters of a billion dollars in assets, and in 2007 had net revenues of approximately \$130 million. In 2007, the Health System also renewed its affiliation with Case Western Reserve University. In discussing community benefits provided by the Health System, Mr. Bond noted that in 2006 the Health System provided approximately \$180 million worth of community benefits, including providing funds for unfunded research and education and free health care to patients without means. In this regard the Health System believes it is delivering what the public expects. As a further example of community benefits provided by the Health System, Mr. Bond noted the NICU at Rainbow Babies and Children's Hospital provides the most advanced care with the most current technology to all patients regardless of means. The Health System also is responding to the

Internal Revenue Service mandated needs assessments with regard to community benefits. The Health System, with its consultants, is in the process of preparing the assessments.

Mr. Bond then updated the Commission members on the status of the various projects funded with the 2007 Commission bonds. For the most part, the projects remain on track, though there have been some delays in connection with demolition projects and related asbestos abatement. There has also been some delay resulting from the logistics of relocating offices of the hearing and speech building. Since bonds were issued in 2007, budgeted project costs have gone up approximately \$60 million. Health System projections for total borrowing needs, however, remain on track, as contingency amounts have already been built into budgets. Responding to questions from Dr. Kutina, Mr. Bond confirmed that this “buffer” contingency was 10% and should be sufficient to cover increased project costs. The Health System may still return to the Commission in 2009 or 2010 to further finance portions of its Vision 2010 program.

Mr. Burlingame remarked that the various financing documents have been prepared and are presented to the Commission in substantially final form and confirmed that as a part of the proposed financing, if determined more financially advantageous, certain of the auction rate bonds may be converted to other interest rate modes under the terms of the existing trust indenture rather than refunded by newly issued bonds.

Ms. Carter moved and Mr. Petrick seconded the motion that Resolution No. 2008-04 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, Cosey, Kutina, Needles, Petrick, Speck, Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2008-04 adopted.

Resolution No. 2008-04 is as follows:

CASE WESTERN RESERVE UNIVERSITY

The Chairman then called on Robert Brown, Treasurer of Case Western Reserve University, to discuss the University's request. Mr. Brown thanked the Chairman and the Commission members for their consideration of the University's important request. The University too has experienced problems in connection with the auction rate bond market and intends to refinance all of its approximately \$180 million worth of auction rate bonds. All of the University's auction rate bonds were issued in 2004. The University is not requesting any approvals for new projects. In connection with the proposed refinancing, Mr. Brown noted that the University's auction rate bonds are insured by a bond insurance policy issued by Ambac Assurance Corporation. It paid a large premium for that policy when the bonds were issued 2004, a portion of which will have to be written off by the University. In the last week, there have been two failed auctions of University bonds, with interest rates now exceeding 5%. Mr. Brown mentioned that the Port Authority of New York recently had a failed bond auction with a resulting interest rate of 20%. It is anticipated that the new bonds will be variable rate obligations, and the University is working with banks to obtain letters of credit that will secure those bonds. Many banks are taking advantage of the situation and charging rates higher than they otherwise would. It is hoped that an agreement with a bank or banks will be reached in the next two weeks and that a refinancing can be consummated in the next month or two.

Mr. Brown then asked the Commission members if there were any questions. In response to a question from Mr. Cosey, Mr. Brown confirmed that the causes of the University's (and other borrowers) problems are rooted in the numerous defaults relating to subprime mortgage loans. Mr. Brown noted that there was a time that bond insurers underwrote to a zero percent loss standard, however, over time they increased risk by insuring debt backed by subprime loan obligations. Given this experience, the University in the future will view much more critically any proposed financing package that includes bond insurance.

Mr. Keefe and Mr. Burlingame confirmed that documents for the transaction had been prepared and are presented in substantially final form. The documents contemplate various interest rate modes that the University may utilize in this evolving market. The University may also determine, based on market conditions, to convert interest rate modes of the auction rate bonds pursuant to the terms of the 2004 trust indenture rather than to refinance the auction rate bonds by an issue of new bonds.

Mr. Wells moved and Mr. Petrick seconded the motion that Resolution No. 2008-05 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, Cosey, Needles, Petrick, Speck, Wells

Nay: None

Abstain: Kutina

The Chairman declared the motion passed and Resolution No. 2008-05 adopted.

Resolution No. 2008-05 is as follows:

OTHER BUSINESS

There then ensued discussion regarding the Ethics Plan and that a schedule of Ethics Seminars has been prepared for 2008. By attending a program this year, Commission members will have satisfied the requirement for 2009 as well. Mr. Keefe also noted that the Commission was now a member of the National Association of Health and Educational Facilities Finance Authorities (NAHEFFA). The Commission members also discussed the Meyers University situation, noting that there had been some reports that the University may not be able to operate after this academic year. Updates will be provided when available.

CALL OF NEXT MEETING AND ADJOURNMENT

The Commission will next meet on March 19, 2008, if necessary, or upon the call of the Chairman. On a motion duly made and seconded, the meeting was adjourned.

Secretary