

**OHIO HIGHER EDUCATIONAL FACILITY COMMISSION**  
**MINUTES OF THE MEETING OF THE COMMISSION**

**November 19, 2008**

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, November 19, 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: John Wells, Chairman; Richard Petrick, Vice Chairman; Kenneth Kutina, Secretary; Wanda Carter; Ronald E. Cosey; Tom Needles; and Sam Speck. Absent from the meeting were: Lynnda Davis and James Schindler. Also present were: representatives of the institutions appearing before the Commission; James Wendling of PNC Capital Markets; Francis Barry Keefe and Alexander G. 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 September 17, 2008, were sent to each member prior to this meeting; those minutes are included in the meeting books for each member. The Commission members present unanimously approved the minutes of that meeting. There was no October meeting of the Commission.

## KENYON COLLEGE

### Public Hearing

The Chairman opened the public hearing required by applicable federal tax regulations for the proposed Kenyon College financing. Notice of the hearing was published in the *Columbus Dispatch* and the *Mt. Vernon News* on November 5th. The Chairman inquired as to whether there were any comments. No comments having been made and the Commission having received none in the mail or otherwise prior to the hearing, the Chairman closed the public hearing.

### Financing Approval

The next item on the agenda was the final approval of a refinancing bond issue for Kenyon College. The Chairman called on Teri Blanchard, Associate Vice President for Finance, to update the Commission members regarding the College's request. Joining Ms. Blanchard was Shirley O'Brien, College Controller. Ms. Blanchard thanked the Commission members for their past support of the College, noting that the College is now requesting Commission approval for refinancing of bonds issued in 1992, 1998 and 1999. Ms. Blanchard indicated that these bonds are variable rate bonds trading in the "daily" mode based on the College's underlying "A" rating assigned to it by Moody's and Standard and Poor's. The College desires to refinance these bonds so as to provide for a single bond issue secured by direct-pay bank letters of credit. With a letter of credit, the new bonds will have a higher rating and attract increased investor interest. As a result, the College expects to achieve lower interest costs through the new bond issue. The financing structure initially contemplated the provision of letters of credit from Northern Trust and Allied Irish Bank. Due to recent market events, Allied Irish Bank has withdrawn its participation in the transaction. The College is in discussions with other banks that could partner with Northern Trust. Ms. Blanchard then inquired of the Commission members as to whether there were any questions.

In response to a question from Dr. Kutina, Ms. Blanchard advised that by consolidating the three prior bond issues into one new bond issue secured by letters of credit, the College would gain access to a broader pool of investors, including money market funds, that would be attracted to the higher credit rating achieved through the provision of letters of credit.

Mr. Keefe mentioned that he and Mr. Burlingame had recently visited the College campus and found the facilities to be in excellent condition. In particular, the renovation and expansion of Dempsey Hall financed through the Commission is outstanding. Ms. Blanchard invited the Commission members to return to the campus to see the facilities at any time.

Mr. Burlingame commented that the bond documents have been prepared and are presented in substantially final form. The resolution under consideration approves the variable rate refinancing bond issue for the College and the related bond documents.

Mr. Needles moved and Mr. Cosey seconded the motion that Resolution No. 2008-27 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. 2008-27 adopted.

Resolution No. 2008-27 is as follows:

## DENISON UNIVERSITY

The Chairman welcomed Seth Patton, Vice President for Finance and Management, to speak to the Commission members regarding Denison University's request. Mr. Patton thanked the Commission members for giving him the opportunity to appear before it and to request financing for three new projects for the University. The University will only proceed with the financing if it has first secured a minimum of \$15 million in gifts for the projects. The first project is the renovation and expansion of the University's chemistry building. The building was constructed in the 1960's and many of its components are nearing the end of their useful lives. The renovation and expansion will provide new and expanded teaching and research facilities, as well as health and safety improvements to the building. The second project consists of the construction of a new University natatorium. The University enjoys a popular swim program, with over 60 students participating in the men's and women's intercollegiate swim teams. These teams use the University's existing pool for practices, which are sometimes held twice a day. There also is a University diving team. This project will provide for the construction of a new swimming pool and related improvements in order to meet current demand. The third project consists of the construction of a new residential facility to provide apartment style housing for upper classmen. The new residential units will include kitchens and common living spaces for students. Mr. Patton then inquired of the Commission members as to whether they had any questions with respect to the University's request.

In response to a question from Mrs. Carter regarding decreased enrollment for the current year, Mr. Patton indicated that the University was looking at enrollment figures from semester to semester in addition to from year to year. Enrollment at the University has been fairly stable with full time enrollment for Fall 2008 being at 2,055. The University had planned on enrolling 2,080 full time students for this past Fall. If the past is an indicator, the University believes it can achieve its 2,080 target next Fall while at the same time maintaining its academic standards. The University has worked to increase its academic enrollment standards over the last 15 years. Mr. Patton anticipates that in the current environment the University will be able to maintain standards, but not increase them.

In response to a question from Mr. Petrick, Mr. Patton indicated that he was comfortable with past fair market valuations he had received on the University's nontraditional investments; however, the University could see significant decreases in value since the recent market turmoil.

Dr. Kutina commented that the University had received a very good report from Standard & Poor's Rating Service. In response to questions from Dr. Kutina, Mr. Patton indicated that the proposed bond issue may include variable rate bonds that can be paid down as gift receipts are received. Currently, the University has only fixed-rate debt. Even with the new bonds, most debt will remain as fixed-rate. The University enjoys a very stable economic condition, notwithstanding the decrease in enrollment. Long term University planning contemplates total full time enrollment of 2,030 students. Recent enrollment decreases have been offset in the budget by a corresponding decrease in the need for adjunct and part-time faculty and staff. There also have been sufficient contingency funds built into the budget to account for any further decrease in revenues. Should the need arise, the University also has the ability to defer money set aside for capital improvements. For example, the University has a

\$6.5 million budget for equipment and maintenance, the spending from which could be delayed if needed for operating expenses. Mr. Patton referred to the University's application materials in describing the location of the proposed new swimming facility.

In response to questions from Mr. Speck, Mr. Patton advised that the University had a strong record of maintaining purchasing power while at the same time growing endowment over the last 50 years. The University's spending policy with respect to the endowment is capped at 5% of the endowment value based on a rolling 12 quarter average. Currently, the endowment provides over 30% of the University's operating revenue. It is expected that the percentage will drop to approximately 27% over the next five years. The University will also be closely monitoring the size of its applicant pool. Last year there were over 5,000 applications for approximately 600 spots in the freshman class.

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

Mrs. Carter moved and Mr. Speck seconded the motion that Resolution No. 2008-28 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. 2008-28 adopted.

Resolution No. 2008-28 is as follows:

## UNIVERSITY HOSPITALS

The Chairman next called upon Bradley Bond, Vice President-Treasury of University Hospitals Health System, to speak to the Commission members regarding the Health System's request. Mr. Bond thanked the Commission members and opened with a review of the Health System's financial condition. For its last fiscal year, the Health System enjoyed an approximately \$100 million positive operating margin, which, however, included several one time items. Mr. Bond expects that there will be a \$40 to \$60 million operating margin for 2008. As a result of the Health System's various debt financing covenants, including "days cash-on-hand" requirements, only 10% of the Health System's investments are in alternative investments. Patient volume and surgery levels are up, as well as acuity levels. Higher acuity levels mean that the Health System is processing a higher volume of more complex cases, which cases are generally more profitable. While Moody's Investor Services, in recognition of economic trends, recently downgraded the nonprofit health care industry as a whole, the Health System was actually upgraded by the rating agencies and is currently rated A+ by Standard and Poor's and A2 by Moody's.

Mr. Bond continued by noting that in 2007 the Health System provided over \$168 million worth of community benefits, including approximately \$48 million for education, \$36 million for research, \$33 million for charity care, and the remainder in the form of health care services for those without means. There were approximately 600 medical students participating in the Health System's education programs last year. Mr. Bond noted that U.S. Senator Grassley's recent initiatives regarding community benefits call for 5% community benefit levels for nonprofit health care providers. University Hospital's is currently at 9%.

Mr. Bond advised that the Health System is primarily using union labor on the various projects that have been the subject of prior Commission financings and that are the subject of the current financing request. Further, over 25% of the work is being performed by local and minority owned firms. Overall, all projects remain on schedule and on budget. There have been, however, some delays, such as when asbestos removal is required. The expansion and renovation of the Health System's new NICU unit at the main Cleveland campus is scheduled to open in February 2009. The Center for Emergency Medicine Project continues, with some design changes being a possibility. The Ahuja Medical Center in Beachwood, Ohio is progressing well, with steel framing of the facility well underway. That facility currently includes surface parking for its employees and patients, but as the facility is expanded a parking garage may replace the surface lots. Only a portion of the proposed facility in Concord, Ohio may be financed with tax-exempt debt because certain portions of that building may be used for private physician purposes rather than Health System purposes. That facility is expected to be completed next June. Mr. Bond thanked the Commission members for their continued support of the Health System, noting that the Commission's variable rate refunding bonds issued in May of this year are currently bearing interest at a rate below 1%. This is a significant improvement from the approximately 11% interest rate that the former auction rate bonds had been bearing. Mr. Bond then inquired of the Commission members as to whether they had any questions.

In response to a question from Mr. Needles, Mr. Bond advised that it is too soon to tell whether, as a result of the recent economic down-turn, the Health System will see a drop in the number of elective surgeries and whether increased acuity will offset that reduction. The Health System is expanding because, while the local economy is not growing at a strong rate, the population is aging and has increased health care needs. Responding to a number of questions from Mr. Speck, Mr. Bond said that he is confident the Health System can effectively compete without at the same time overbuilding. While the Health System is constructing several new facilities, several local facilities have also closed over the years. St. Luke's Hospital, St. Michael's Hospital, Deaconess Hospital and Mt. Sinai Hospital are examples. Mr. Bond further noted that the increased capacity is further needed to address the requirements of an aging population in Northeastern Ohio. Mr. Bond is not aware of any formal review by the Health System of how health care is provided in other countries. The Health System, however, has reviewed several of the policies proposed by President-Elect Obama, and in the whole he views them as good.

In response to questions from Mr. Petrick, Mr. Bond confirmed that deficits are incurred in connection with the Health System's support of start-up physician practice groups. The Health System provides financial support for new practice groups in their first three years, including providing bonuses to doctors. This is viewed as necessary to attract and maintain physicians that will be needed when new facilities come on line, notably including the Ahuja Medical Center in Beachwood. In reference to the refinancing components of the University's request, Mr. Bond noted that there is a current need to refinance the Health System's Series 1996 Bonds issued through Cuyahoga County, Ohio. Those bonds were issued to finance facilities on the hospital's main Cleveland campus. Mr. Bond further described the distinction between the Health System's corporate entities that comprise its "obligated group" and its other affiliates. In assessing the current strength of the Health System, rating agencies look at the financial strength of the obligated group without taking into account other affiliates,

In response to questions from Dr. Kutina, Mr. Bond discussed the distinctions between facilities that could be financed on a taxable versus a tax-exempt basis. Facilities that would require taxable financing, and that would not be financed through the Commission, include facilities that are owned by private doctor groups. The Health System is focused on its obligations with respect to maintaining the status of tax-exempt bonds issued for its benefit. Its independent accountants, Price Waterhouse Coopers, have prepared a report confirming the Health System's compliance with IRS regulations regarding tax-exempt bonds.

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

Mr. Needles moved and Mr. Petrick seconded the motion that Resolution No. 2008-29 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, Davis, Kutina, Needles, Petrick, Speck, Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2008-29 adopted.

Resolution No. 2008-29 is as follows:



**OTHER BUSINESS**

Mr. Burlingame noted that it did not appear there would be a need for a Commission meeting in December. Mr. Wermuth commented that he would prepare and send all members a proposed schedule for Commission meetings in 2009.

**CALL OF NEXT MEETING AND ADJOURNMENT**

It is now expected that the Commission will next meet on January 21, 2009, or upon the call of the Chairman. On a motion duly made and seconded, the meeting was adjourned.

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Secretary