

HIGHER EDUCATIONAL FACILITY COMMISSION
MINUTES OF THE MEETING OF THE COMMISSION

September 20, 2006

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, September 20, 2006, 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 and Tahlman Krumm. Ronald E. Cosey and Henry Kasson were absent. Also present were representatives of the educational institutions making presentations to the Commission, Francis Barry Keefe and Alex Burlingame of Squire, Sanders & Dempsey L.L.P., Bond Counsel to the Commission, and Katie Hensel 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 June 21, 2006, were sent to each member prior to this meeting; those minutes are included in the meeting books for each member. Upon review, the Commission members present unanimously approved the minutes of that meeting as submitted.

CAPITAL UNIVERSITY

The Chairman called on Susan Tate, Interim Chief Financial Officer and Treasurer of the University, to discuss the University's request for financing. Ms. Tate introduced Denvy Bowman, Interim President of the University, and Roger Davis, Chairman of the Board of Trustees. President Bowman thanked the Commission for its past assistance in financing projects on the campus. This service is critically important not only to the University but to all the independent colleges and universities in Ohio. President Bowman indicated that Capital University is facing some significant challenges and is experiencing a current operating deficit and will do so for at least one more year. President Bowman assured the Commission that the leadership of the University, both in the administrative and the Board of Trustees, has a strong focus on the primary mission of the University and the needs of its students. A plan is being implemented based on the vision of the University and the collaborative effort of all its components.

Mr. Davis stated that during this difficult period the alumni of the University have been very supportive. The University has had a long history of balanced budgets. The current problems are an aberration. The University remains on strong financial footing. Mr. Davis noted that he is an alumnus of the University. He has served on the 28-member Board of Trustees for 12 years, the last two of which as Chairman. The Board is committed to the University. Its focus is on oversight and support. When the financial problems came to light, he spent weeks at the University working with the Board, the administration and the faculty. The Board welcomed the retirement of the former president and the resignation of the former CFO. It appointed Dr. Bowman as Interim President. Dr. Bowman has served as the Dean of Arts and Sciences and Provost of the University. He has been given full authority to act as President. Susan Tate was originally hired by the University to serve in the number two financial position. Her background and experience is excellent. Shortly after joining the University, Ms. Tate brought to the Board's attention the financial status of the University.

The job now is to get the University's financial house in order without threatening its educational mission. The operating results that produced the past difficulties will continue for next year but the following year should show a small positive balance. On the other hand, the non-operating results (primarily contributions) have been doing well. Taken together, the overall results have been positive for the University. The Board is active in the Master Plan both in approving it and supporting it. The Board will undertake a \$65 million capital campaign, which is currently in the silent phase, to raise money for the Plan.

Dr. Bowman commented that the state of the University is sound. Last year, its entering class was the largest ever. For the current year, there will be another record number of entering students of over 700. Fundraising remains vigorous. The goal for the silent portion of the campaign is to raise \$28 million of the \$65 million. As part of the financial restructuring, the University is phasing out its satellite campuses in Cleveland and Dayton, and the campus in the Arena District will be eliminated. There will also be changes in the administration to streamline that component.

Susan Tate described the various portions of the project to be financed. The proposed bond issue will refund the Commission's bonds issued for the University in 1996 (purchase of law school) and 2001 (Capital Center and Conservatory of Music improvements). It will also refinance a loan from The Huntington National Bank that financed residence hall improvements, relocation of the safety building, constructing a turning lane and the Broad Street pedestrian mall, planning and engineering for the new science building, and other campus improvements as described in the University's application letter. In addition, the University has another outstanding loan for approximately \$700,000 at 9% interest rate. The University would add this to the proposed financing if that loan can be prepaid.

The University plans to use variable rate debt backed by a letter of credit from National City Bank. It expects to save money on debt service and letter of credit fees and to replace existing loan covenants that will permit it to improve its financial status.

The University expects to report a \$7 million deficit for fiscal year 2005-6, and projects an estimated \$2.95 million deficit for fiscal year 2006-07. By fiscal year 2007-08, the University should be back to operating without a deficit. The financial report for fiscal year 2005-06 should be available shortly and prior to the next Commission meeting.

In response to a number of questions from Dr. Kutina, Ms. Tate noted that the \$700,000 loan (if refinanced) would be added to the total as set forth in the application letter. The \$3.8 million "new money" portion of the project represents the ongoing projects that have been initially financed with the Huntington loan. With regard to the University's satellite centers, there has been declining enrollment over the last few years. These are adult students who are seeking their college degree. The centers will be phased out over several years so that all students with a "junior" status will be able to complete their degree requirements. As cost centers, they are losing money. In addition, it is academically difficult to provide service to such small numbers (*e.g.*, 38 FTE in the Cleveland center).

In discussing the optimum enrollment as referred to in the application letter, Ms. Tate noted that the tuition discount rate (financial aid) went from approximately 40% to almost 50% over the past few years, contributing significantly to the financial problems. The University has retained an enrollment consultant to help the University set goals and programs. The model used by the consultant, Maguire Associates, is based on individual students rather than on classifications.

Dr. Krumm commented that the Maguire consultants would assist the University in determining its goals, whether it wants better yield, more students or better students. In response to questions from Dr. Krumm, Dr. Bowman and Ms. Tate stated that the University was comfortable with the current size of the entering class. It has capacity to continue to have 700 new entering students each year. The turning lane project has a cost of approximately \$328,000. Responding to a question from Mr. Wells, the University officials stated that the proposed financing includes approximately \$100,000 for planning and some engineering for the new science building. Once costs of the building can be determined, the University will determine how to pay for it.

Responding to questions by Mr. Petrick, Ms. Tate stated that an estimate of the net savings from the refinancing would be available for the next Commission meeting. Several reports of the University discussing the financial turn-around would also be provided to the Commission. The faculty has a prioritization committee in place, and it is reviewing all programs.

Responding to questions from Mr. Needles, Dr. Bowman noted that the University's law school is the largest in Ohio. But there is concern about the quality so the University has determined to raise entrance standards and to decrease the size of the classes. In spite of that decrease, the economics of that school remain very good.

With regard to the restructuring, Mr. Davis stated that no faculty positions have been eliminated, but some staff positions are likely to be reduced. The interim leaders are performing very well. At its meeting in October, the Board will start talking about filling those positions on a permanent basis, but interim period will probably last for two more years.

Dr. Kutina complimented the Board for stepping up in a responsible way to work towards a future resolution of a difficult situation. This should serve as an example to others in similar situations. Mr. Needles and others seconded this comment.

Mr. Keefe noted that the resolution for consideration approves the preliminary agreement, which is in its usual form.

Mr. Wells moved and Dr. Krumm seconded the motion that Resolution No. 2006-21 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: Krumm, Kutina, Needles, Petrick, Wells

Nay: None

Abstain: Carter

The Chairman declared the motion passed and Resolution No. 2006-21 adopted.

Resolution No. 2006-21 is as follows:

WALSH UNIVERSITY

Mr. Needles called on John Wray to discuss the University's request. Mr. Wray stated that he had resigned his position with the University and was here as a consultant to help with this process. He introduced Carrie Bast, the Director of Finance of the University. Mr. Wray stated that this financing is essentially a continuation of the University's most recent financing of a new student residence facility. First, the costs of constructing that facility have increased beyond the original estimates by about \$1 million. In addition, the original plan provided for constructing a four-story building but not completing the build-out of the fourth floor. The University is continuing to experience increasing enrollment. The entering class was supposed to be capped at 450 students but ended at 475 students. To accommodate the current new students, the University will now need to proceed with finishing the fourth floor. Finally, as part of this project, the University relocated a campus roadway and utilities for a cost of approximately \$500,000.

Dr. Kutina commented that the University made a wise decision to stay with the more experienced engineering firm for this post-tension building even though at a slightly higher cost.

Revenues from the residence hall will contribute to (if not cover completely) the expected debt service.

In response to questions from Ms. Carter, Mr. Wray noted that total revenues from the graduate program had grown. There have been some changes to the MBA program and the counseling program.

Mr. Keefe noted that the financing is expected to be part of the next pooled bond issue sometime in the first part of next year. Mr. Keefe also noted that the resolution in the notebook approves the preliminary agreement, which is in its usual form.

Mr. Petrick moved and Mr. Wells seconded the motion that Resolution No. 2006-22 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, Krumm, Kutina, Needles, Petrick, Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2006-22 adopted.

Resolution No. 2006-22 is as follows:

CALL OF NEXT MEETING AND ADJOURNMENT

The Commission will next meet on October 18, 2006, if necessary, or upon the call of the Chairman. On motion duly made and seconded, the meeting was adjourned.

Secretary