

OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

August 20, 2014

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, August 20, 2014, at 11:00 a.m. on the 19th 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; 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 July 16, 2014, 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 Mr. Wilson, all Commission members present approved the minutes of that meeting.

UNIVERSITY HOSPITALS

The Chair next called upon Bradley Bond, Vice President, Treasury, to speak to the Commission members in respect of University Hospitals Health System's financing request. Mr. Bond thanked the Commission members, noting that his colleague Tricia Bires had spoken to them in respect of the proposed financing at the Commission's June meeting. The purpose of the proposed financing is for the refinance of debt associated with Parma Community Hospital and Elyria Memorial Hospital, both of which were acquired by University Hospitals earlier this year. There will be a smaller component of the bond issue used for the purpose of acquiring and constructing hospital facilities. With the acquisitions, the Health System now provides over \$300 million of community benefit. The plan of finance may include underwritten fixed-rate and variable rate debt, as well as privately placed bonds. There was a strong response from banks in the request for proposals for a bank private placement structure, which included forward-starting features to provide for the refinance of certain 2009 and 2007 bonds issued by the Commission. In the current market, banks are eager to lend to institutions such as the Health System and depending on timing and determination of final plan of finance, fees may be paid to hold a commitment in place.

Overall, the Health System is doing well, which includes the success of its Vision 2010 projects. A new emergency room on the main campus sees a high volume of traffic and the new Ahuja Medical Center is full with all floors now open. The new cancer center also is doing very well. At the moment, patient volumes are down; the Health System has seen a greater shift to outpatient treatments for the first half of the year, although it experienced an approximately \$36 million operating margin. The Health System has worked to control expenses through managing its labor mix and is experiencing the positive effects of Medicare expansion. There are more payments coming in from Medicaid reimbursement, as compared to self-pay patients. Mr. Bond then inquired of the Commission members as to whether there were any questions.

In response to a question from Dr. Kutina, Mr. Bond noted that the Health System has reported gains as a result of the Parma Community Hospital and Elyria Memorial Hospital acquisitions, but as it was an acquisition of nonprofit facilities, there was no cash consideration. Rather, University Hospitals made certain commitments with respect to staffing levels and improvements to the Parma and Elyria facilities. Investment gains and losses and swap values also contribute to the Health System's bottom line. In response to a question from Mr. Wilson, Mr. Bond noted that Catholic Healthcare Partners has made an investment in Summa Health System, whose CEO recently announced his retirement. The Cleveland Clinic has an investment in Akron General Hospital. Other hospitals that have not affiliated with larger health institutions include Lake Hospital System, MetroHealth and Robinson Memorial Hospital. Robinson Memorial is a former county hospital that converted to nonprofit status with a view to potentially being acquired. Responding to a further question from Mr. Needles, Mr. Bond noted that combinations and consolidations in the health care industry continue to be a national trend. With current market trends and structures, including electronic medical record requirements, health systems can gain efficiencies by combining and spreading costs. Also, independent physicians are returning to hospitals in increasing numbers as a result of increased administrative and compliance costs. Mr. Bond mentioned the "two midnights rule" and challenges facing physicians when they determine when a patient should be admitted to the hospital. The Health System payor mix includes commercial insurance carriers, those who pay for services out of

pocket and government reimbursement, which has contributed to the Health System's improved margin. To the extent the Health System's charity care numbers may decrease, there will likely be a corresponding increase in bad debt. With the closure of Huron Hospital in 2012, the Health System has seen an increase in the amount of indigent care. New jobs created include nearly 3,000 jobs at Ahuja Medical Center and Seidman Cancer Center. The Health System uses Silver LEED Standards in construction projects and endeavors to use local labor when it can.

In response to a question from Mrs. Carter, Mr. Bond confirmed that the Cleveland Clinic is the Health System's primary competition in the northeast Ohio market. For example, both institutions provide well regarded, competing cancer facilities. The two medical centers constitute a very large portion of the northeastern Ohio economy. Mr. Bond further noted that as a result of the closure of Huron Hospital, the Health System's emergency room has experienced an increase in traffic.

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. Martin moved and Mr. Wells seconded the motion that Resolution No. 2014-07 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. 2014-07 adopted.

Resolution No. 2014-07 is as follows:

OBERLIN COLLEGE

The Chair next opened the public hearing required by applicable federal tax regulations for the proposed Oberlin College financing. Notice of the hearing was published in *The Columbus Dispatch* and *The Plain Dealer*. The Chair 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 Chair closed the public hearing.

The Chair next called on Ronald Watts to speak to the Commission members regarding Oberlin College's financing request.

Joining Mr. Watts was Michael Frandsen, Vice President for Finance and Administration. Mr. Watts noted that he is retiring after 37 years of service to the College. He is before the Commission today to request approval for the refinance of certain of the College's 2008 and 2009 Bonds issued through the Commission. The College is undertaking the development of a new sustainable hotel intended to replace the old University Inn, which has become somewhat dated. The new facility will include 70 rooms and other College facilities. Part of the proposed transaction includes the refinancing of the College's 2008 variable rate bonds, which have interest rates that reset on a weekly basis and liquidity support provided by U.S. Bank. The College desires to refinance those bonds into a direct placement structure, which may allow the College to still enjoy lower interest rates while at the same time removing risks associated with remarketing of traditional variable rate bonds and the renewal of the bank facility. The plan of finance will also include the refinance of certain of the College's 2009 fixed-rate bonds. That portion of the bond issue will include an initial fixed interest rate for a period of years. The initial series of refunding bonds tied to the 2009 refinance are expected to bear an initial interest rate of approximately 1.63%. Mr. Watts then inquired of the Commission members as to whether they had any questions.

Responding to questions from Dr. Kutina and Mr. Needles, Mr. Frandsen noted that the College expects a net positive position going forward and that while it is dealing with the challenge of declining demographics in the region, the College enjoys a strong national and international draw. The College continues to manage class size and discount rates, with the hope that smaller enrollment will help provide the College with flexibility in how it distributes aid while at the same time having the ability to increase class size if necessary. The College may also be more selective with smaller class sizes. Mr. Watts further noted that there were certain portions of the College community which required a different approach with respect to recruiting and aid. For example, the Conservatory requires a different student mix as compared to other College programs.

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 Mr. Shindler seconded the motion that Resolution No. 2014-08 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. 2014-08 adopted.

Resolution No. 2014-08 is as follows:

CLEVELAND CLINIC FOUNDATION

The Chair next opened the public hearing required by applicable federal tax regulations for the proposed Cleveland Clinic Foundation financing. Notice of the hearing was published in *The Columbus Dispatch* and *The Plain Dealer*. The Chair 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 Chair closed the public hearing.

The Chair next called on Anthony Helton, Administrator – Division of Finance, to speak to the Commission members regarding the Cleveland Clinic's financing request. Mr. Helton thanked the Commission members, noting that he had been at the July meeting in connection with the Clinic's preliminary approval. A portion of the proposed financing may include the issuance of approximately \$100 million of taxable commercial paper, approximately \$40 million of which would be drawn by July 2015. The Clinic is also considering taxable century bonds and is pursuing those on a dual track with traditional finance structures. Barclays is acting as the lead underwriter with the participation of JPMorgan Chase. If the Clinic pursues the century bond option, it would implement appropriate procedures to assure funds are available for the payment of debt service, including the principal amount which would be due at maturity in 100 years. As discussed at the Commission's July meeting, projects include an outpatient cancer building and medical education facilities, as well as expanded and improved facilities at Hillcrest Hospital and Fairview Hospital. Mr. Helton noted that accounting for interest rate swaps, the vast majority of the Clinic's debt bears interest at fixed interest rates. The issuance of commercial paper will help increase the amount of variable rate debt. Mr. Helton then inquired of the Commission members as to whether they had any questions.

In response to a question from Mr. Wilson, Mr. Helton noted that the Clinic will need to implement certain protections and procedures to assure provision for amortization of the century bonds. This plan would likely include the requirement of Board-level approvals for any change in those protections and procedures. In response to questions from Mr. Cannon, Mr. Helton confirmed his belief that the Clinic is the first not-for-profit health care system to pursue a century bond offering. The Clinic believes that it is able to do this as a result of its size and reputation in the marketplace. However, pricing of the century bonds and associated benefits will not be known for sure until they are taken to market, which is why the Cleveland Clinic is pursuing a dual path, also requesting approval for more traditional tax-exempt bonds. The trend toward consolidation in the health care industry is expected to continue with growth achieved through acquisitions and affiliations. In response to further questions from Mr. Needles and Ms. Tate, Mr. Helton noted that one of the benefits of century bonds is that they are taxable and thereby do not have associated tax regulations with respect to use, arbitrage and the useful life of facilities. There is precedent in Ohio for the use of century bonds, with The Ohio State University having issued them in 2011. Purchasers of century bonds typically include insurance companies. Commission members discussed and confirmed with Mr. Helton that century bonds would be issued by the Cleveland Clinic directly and would not include the Commission as an issuer.

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 Mr. Martin seconded the motion that Resolution No. 2014-09 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; Martin; Needles; Shindler; Tate; Wells; Wilson

Nay: None

Abstain: Kutina

The Chair declared the motion passed and Resolution No. 2014-09 adopted.

Resolution No. 2014-09 is as follows:

OTHER BUSINESS

Mr. Christensen distributed to the Commission members copies of the management letter from the Auditor of State for fiscal years ended June 30, 2013 and 2014, noting that the Commission experienced a good review from the Auditor with only one minor notation. Commission members further discussed and confirmed the Commission's policy for requesting information with respect to financings from the Chancellor's office under the Commission's authorizing statutes. The request for information is ongoing and deemed to be given in connection with each higher education financing for which Commission approval is requested. Commission members further discussed the role of bond counsel work performed that is not directly tied to specific financing.

CALL OF NEXT MEETING AND ADJOURNMENT

It is now expected that the Commission will next meet on September 17, 2014 in Columbus, if necessary, or upon the call of the Chair. On a motion duly made and seconded, the meeting was adjourned.


Secretary