

OHIO HIGHER EDUCATIONAL FACILITY COMMISSION

MINUTES OF THE MEETING OF THE COMMISSION

November 18, 2015

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, November 18, 2015, at 11:00 a.m. in Room B-001 of the Ohio Department of Education Building, 25 S. Front Street, Columbus, Ohio, written notice of which had been given to all members of the Commission.

The following members attended: Thomas Needles, Chair; Jim Bennett, Vice Chair; Kenneth Kutina, Secretary; Wanda Carter; John Maritn; James Shindler; Susan Tate; John Wells; and James Wilson. Also present were representatives of the institution appearing before the Commission; Ben Christensen of the Ohio Department of Higher Education; Michelle Chavanne, General Counsel to the Ohio Department of Higher Education; 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 October 21, 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. Wilson that was seconded by Dr. Kutina, all Commission members present approved the minutes of that meeting.

UNIVERSITY HOSPITALS

The Chair next called on Bradley Bond, Vice President, Treasury, to update the Commission members as to University Hospital's financing request. Mr. Bond thanked the Commission members, noting that the Health System first issued bonds through the Commission in 2007 and that it most recently closed on the issuance of approximately \$100,000,000 of bonds, which included financing associated with the Health System's acquisition of Robinson Memorial Hospital in Ravenna, Ohio. For the most recent period for which information is available, the Health System has provided approximately \$260 million in community benefit. For the first nine months of this year, the Health System has improved operating income, which includes income from Robinson Memorial Hospital. The Health System is approximately \$1.5 million to \$2 million ahead of budget. When taking swaps into account, approximately 85% of the Health System's debt bears interest at fixed rates. A Health System study showed that its cost of debt is lower than that of its peers. Gains reflected in the Health System's financial statements reflect the acquisitions of Parma Community Hospital and Elyria Medical Center. In an effort to reduce costs throughout the Health System, there is an increased emphasis on so-called "high reliability medicine" with the aim of producing more consistent use of devices and treatments and related outcomes. One area that has seen a rise of costs is with respect to pharmaceuticals. This is in some part due to consolidation in that industry. Trends in the health care industry may include alternative forms of Medicare and other payments based on outcomes rather than on the type of service rendered.

With respect to the current proposed financing, the Health System is seeking approval related to its acquisition of St. John Medical Center in Westlake, Ohio. This will include the acquisition of the ownership interest in the hospital from the Sisters of Charity and the refunding of existing debt. That hospital has had different owners over the years. One of the reasons the Sisters of Charity were willing to exit that hospital was due to the possibility of doctors from Elyria Medical Center, recently acquired by the Health System, working out of St. John's Medical Center. Negotiations resulted in an acquisition price of approximately \$45 million, coupled with the restructuring of existing debt. The other component of the proposed financing is in connection with the Health System's acquisition of Samaritan Regional Health System in Ashland, Ohio. Samaritan has had approximately \$90 million of revenue, 102 medical staff and a total of 700 employees. Certain investments of Samaritan will be retained at the local hospital consistent with negotiations between the Health System and Samaritan. This is part of a recent consolidation trend, including the consolidation of hospitals in the Akron market and in northeastern Ohio generally. The proposed bond issue will be privately placed. Mr. Bond further noted that the Health System intends to open a level one trauma center. This would be the second level one trauma center in the Cleveland area and the only one on the city's eastside. Mr. Bond then inquired of the Commission members as to whether they had any questions.

Responding to questions from Dr. Kutina and Mrs. Carter, Mr. Bond noted that the Health System is comfortable with its current level of debt. However, it does keep a close eye on financial ratios, including its capitalization ratios, as well as its cash flow. While the Health System could manage additional debt, it would consider such debt in light of how it would be received by rating agencies. In connection with the Health System's acquisition of Samaritan Regional Health System, Mr. Bond confirmed that the transaction included an agreement that certain of the financial assets of Samaritan would remain under local control for a

period of time. In connection with the Health System's community benefit, the total number includes several components, including charity care, Medicaid shortfall, unfunded research, education and training, and various community programs, such as providing certain types of free medical examinations. Employee community service does not count toward community benefit numbers, which are reported in the Health System's Form 990 filed with IRS. Mr. Bond does believe that increasing pressure, including political pressure, will be placed on pharmaceutical companies to lower costs on basic drugs which have experienced recent price inflation.

Responding to questions from Mr. Needles and Mr. Martin, Mr. Bond noted that the Health System's reaction to Medicare expansion is guided by its mission to "heal, teach and discover." While the financial aspects of the expansion will have assorted financial implications for the Health System, the overall goal of the expansion of bringing more people into the health system on a regular basis is positive. For many, access to healthcare has been limited to periodic emergency room visits. The Health System takes a conservative approach with respect to debt and investments in order to protect its balance sheet. It maintains cash and a line of credit to deal with any contingencies that may arise. Mr. Bond noted that he was not sure if Samaritan Regional Health System had been a county hospital at one time. Samaritan is approximately 20 minutes north of Mansfield, Ohio, where its local hospital was recently acquired by Ohio Health out of Columbus, Ohio.

Responding to questions from Mr. Bennett, Mr. Bond noted that the Health System's annual debt service is approximately \$69 million to \$70 million and that its debt service coverage ratio is at approximately 4.5. Mr. Bond confirmed that expanding the Health System's overall debt would only be done with care and with a view to maintaining current bond ratings. The rating agencies have positively viewed the Health System's track record of hitting budgets and following through on its strategic plans.

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. Wilson seconded the motion that Resolution No. 2015-21 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: Bennett; Carter; Kutina; Martin; Needles; Shindler; Tate; Wells; Wilson

Nay: None

The Chair declared the motion passed and Resolution No. 2015-21 adopted.

Resolution No. 2015-21 is as follows:

OTHER BUSINESS

Mr. Burlingame introduced Michelle Chavanne, General Counsel to the Ohio Department of Higher Education. Mr. Burlingame noted that through the years in-house counsel to the Ohio Department of Higher Education (formerly the Board of Regents) has provided legal support to the Commission regarding various administrative matters. Most recently, the Office of the General Counsel to the Ohio Department of Higher Education has assisted the Commission by preparing a draft of meeting rules, which were distributed to the Commission members prior to the meeting. Ms. Chavanne has suggested that the Commission memorialize its approval of this practice by adopting a resolution. Accordingly, Mr. Wells moved that: the Office of the General Counsel to the Ohio Department of Higher Education be authorized to finalize and submit the Commission's open meeting rules to appropriate State offices, and any changes to the rules currently on file with the Commission may be approved by any of its officers; any officer of the Commission is authorized and directed to sign any letter memorializing this approval and related matters; and each of the office of the General Counsel to the Ohio Department of Higher Education and officers of the Commission are further authorized to take such actions as may be necessary or appropriate to accomplish the foregoing. This motion was seconded by Mrs. Cater.

There being no further discussion the Chair called for the role and, pursuant to the roll call, the following votes were cast to adopt the foregoing resolution.

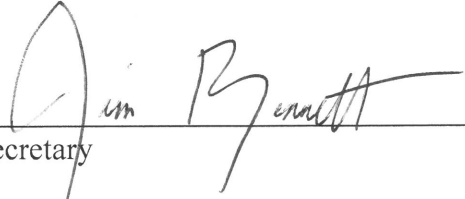
Aye: Bennett; Carter; Kutina; Martin; Needles; Shindler; Tate; Wells; Wilson

Nay: None

The Chair declared that the foregoing resolution passed and that it shall be referred to in the Commission's records as Resolution No. 2015-22.

CALL OF NEXT MEETING AND ADJOURNMENT

It is now expected that the Commission will next meet on December 16, 2015 in Columbus, if necessary, or upon the call of the Chair. On a motion duly made and seconded, the meeting was adjourned.


Secretary