

# **OHIO HIGHER EDUCATIONAL FACILITY COMMISSION**

## **MINUTES OF THE MEETING OF THE COMMISSION**

**September 16, 2009**

The Ohio Higher Educational Facility Commission (the "Commission") met on Wednesday, September 16, 2009, at 11:00 a.m. on the 36<sup>th</sup> Floor of the Rhodes State Office Tower, 30 East Broad Street, Columbus, Ohio, written notice of which had been given to all members of the Commission.

The following members attended: John R. Wells, Chairman; Richard Petrick, Vice Chairman; Kenneth Kutina, Secretary; Wanda Carter; James Shindler; Sam Speck; and Susan Tate. Absent from the meeting were: Lynnda Davis and Thomas Needles. Also present were: representatives of the institutions appearing before the Commission; Joyce Antoncic of Bank of New York Mellon Trust Company; William Elliott 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, 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 Chairman noted that the minutes of the Commission meeting of July 15, 2009, 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.

## WALSH UNIVERSITY

### Public Hearing

The Chairman opened the public hearing required by applicable federal tax regulations for the proposed Walsh University financing. Notice of the hearing was published in the *Columbus Dispatch* and *Canton Repository* on September 2, 2009. 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 Chairman next called upon Phillip Daniels, Vice President for Finance and Business Affairs, to speak to the Commission members regarding Walsh University's request. Mr. Daniels noted that the University had participated in the Commission's pooled financing program in all but one year from 1999 through 2007. The University is now requesting approval for a refunding bond issue in the approximate principal amount of \$30,000,000 for the purpose of refunding all of the University's bonds issued through the pooled financing program. The University has been considering this refinancing transaction for some time; however, recent market turmoil has sped up that process. Other refinancing options were considered, but the University ultimately chose to pursue a private placement transaction with The Huntington National Bank. In entering into this transaction, the University will be taking advantage of the federal stimulus legislation that makes direct purchases of bonds by banks a more attractive lending option. The University anticipates that it will also enter into an interest rate swap transaction with the bank in connection with the bond issue. Mr. Daniels then inquired of the Commission members as to whether they had any questions.

Responding to a question from Dr. Kutina, Mr. Daniels confirmed that the University will be applying some of its own funds toward the refinancing of all of its outstanding bonds. The previously mentioned stimulus legislation only provides for the issuance of bonds in the maximum amount of \$30,000,000 in a calendar year and nearly \$31,000,000 will be required for the financing. Mr. Keefe noted that this component of the stimulus legislation has been the subject of previous Commission discussion; it provides for an increase of the limit on the issuance of so-called "bank qualified" bonds in any year from \$10,000,000 to \$30,000,000. The legislation also shifted the application of that limit from a bond issuer, such as the Commission, to a conduit borrower, such as the University. Currently, this portion of the stimulus legislation is scheduled to expire at the end of 2010; however, groups such as NAHEFFA are working to make it permanent. Responding to further questions from Mrs. Tate and Mr. Petrick, Mr. Daniels confirmed that the bonds would bear interest at a variable rate pursuant to a formula tied to The Huntington National Bank's prime rate. He further expects that the University will realize significant annual savings in interest expense, primarily as a result of reduced administrative costs and letter of credit fees.

Mr. Burlingame commented that the bond documents have been prepared and are presented in substantially final form. The resolution under consideration approves the bond issue and the related bond documents and authorizes the issuance of the bonds.

Mrs. Carter moved and Mr. Petrick seconded the motion that Resolution No. 2009-12 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; Kutina; Petrick; Shindler; Speck; Tate; Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2009-12 adopted.

Resolution No. 2009-12 is as follows:

## OBERLIN COLLEGE

The Chairman next called upon Ronald R. Watts, Vice President for Finance, to speak to the Commission members regarding Oberlin College's request. Mr. Watts thanked the Commission members stating that the College is seeking to refund variable rate bonds issued in 2005 and 2006 and certain fixed rate bonds issued in 1999. Part of the motivation for the refinancing transaction is to address certain tax matters relating to the Series 2005 Bonds. The 2005 Bonds were issued to refund bonds issued in the 90's, and that refunding was accomplished through the establishment of a defeasance escrow fund. The difference between the yield on the escrow fund and the actual interest rate on the 2005 Bonds has created the tax issue. Upon the retirement of the Series 2005 Bonds, the College expects that it will be required to make a payment to the IRS to account for unanticipated arbitrage earnings. The refinancing of the variable rate bonds has been something that the College has been considering for some time. Over the last year, the College has seen a 100% increase in the level of fees it is required to pay to the bank that provides liquidity support for those bonds. In addition, there has been a significant increase in the amount of administrative time spent responding to various bank-related matters, and the banks are requiring the College to use additional services of those banks. For those reasons and for the purpose of reducing College risk associated with variable rate debt, the executive committee approved the proposed refinancing transaction earlier this month. Mr. Watts noted that the College has interest rate swaps in place with respect to the Series 2005 and Series 2006 Bonds. The College continues to assess the economic impact of terminating those swaps or leaving those in place. In consultation with its investment committee, the College will make determinations as to its swap strategy at a later date.

Mr. Watts noted that the College, like its peer institutions, has been adversely affected by the recent economic downturn. Over its last fiscal year, investment returns were down approximately 25%. At its low point, the College's endowment was at a value slightly below \$550 million. Although it is now valued at approximately \$560 million, it has a way to go to a return to its former valuation at approximately \$750 million. The reduction in endowment value has created a budget challenge, and payments from the endowment to College operations will have to be reduced over the next two to three years. As a result, the College will be continuing to look for ways to reduce expenses. The spending rate off of the endowment has been reduced from levels approaching 5.4% to 4.6%. This reduction is consistent with the College's strategic plan. The College is looking at all areas of its operations in order to achieve budget savings, which will include some reductions in staff costs. Mr. Watts then inquired of the Commission members as to whether they had any questions.

Responding to a question from Mr. Petrick, Mr. Watts noted that cost savings will be difficult to determine for certain. However, the refunding bonds will not require a bank liquidity facility or letter of credit. When the bonds to be refunded were first issued, the bank facility was issued at a cost of 17 basis points (.17%) a year with a four-year commitment. That price has increased to approximately 100 basis points (1.00%) a year for a one-year commitment. In response to a question from Mrs. Carter regarding endowment pressures over the coming years, Mr. Watts noted that for planning purposes the College is lowering its tuition expectations and assuming there will be some increase in discount rates, as well as a reduction in gifts from College alumni and friends. With this and the overall decrease in endowment value, the College is looking to renegotiate various contracts relating to its operations, including those that relate to

the provision of food service and the College bookstore. This will result in savings of several hundred thousand dollars per year. The College has also internalized most legal work, having hired a new general counsel in the last year. The College expects that it will not be increasing staff size over the coming years, but it does not expect to cut staff either. In looking to reduce expenses, the College is mindful of its need to preserve its reputation as a high-quality, high-service institution. With the College's liberal tradition, it desires to maintain the high quality of wages and benefits provided to its staff, while at the same time being mindful of the need to manage that significant expense.

In responding to questions from Mr. Shindler and Dr. Kutina, Mr. Watts noted that the increase of students this year is primarily the result of improved student retention. One reason for this is that more students are staying on campus rather than enrolling in overseas programs. The percentage of prospective students that receive acceptances from the College that enroll also has improved. The College's long-term goal is to have undergraduate enrollment of approximately 2,800 students. The College can achieve better revenue with the smaller student body, if it is able to successfully manage the discount rate with respect to the students that do enroll. In an environment with increased competition with other colleges and universities, colleges are often forced to offer increased financial incentives to achieve a certain class size.

Mr. Burlingame stated that the bond documents have been prepared and are in substantially final form. The resolution under consideration approves the bond issue and the related bond documents and authorizes the issuance of the refunding bonds.

Dr. Kutina moved and Mr. Shindler seconded the motion that Resolution No. 2009-13 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; Kutina; Petrick; Shindler; Speck; Tate; Wells

Nay: None

The Chairman declared the motion passed and Resolution No. 2009-13 adopted.

Resolution No. 2009-13 is as follows:

## **OHIO WESLEYAN UNIVERSITY**

The Chairman next called on Eric Algoe, Vice President for Finance and Administration, to speak to the Commission regarding Ohio Wesleyan University's request. Joining Mr. Algoe was the University's Director of Physical Plant, Christopher J. Setzer. Mr. Algoe thanked the Commission members for their time and consideration of the University's preliminary request. Mr. Algoe noted that there are two parts to the University's request. The first is to provide for the refinancing of the University's bonds issued through the Commission's pooled financing program. The University has experienced many of the same challenges over the last several months as Walsh University, and Mr. Daniels and Mr. Algoe have spoken about their shared difficulties over that time. Like Walsh University, Ohio Wesleyan University also is pursuing a private placement transaction that takes advantage of the stimulus legislation that provides expanded opportunities for the issuance of so-called "bank-qualified" bonds. The University is also seeking approval for the issuance of approximately \$4 million in bonds to provide for the improvement of student residence facilities. This money will provide for the upgrade and renovation of University-owned houses, including former fraternity houses. Mr. Algoe remarked that there has been little opposition to the conversion of the former fraternity houses, noting that other fraternity houses on campus are only realizing 65% occupancy rates. Renovations to the three former fraternity houses will provide for modern bathroom facilities and larger common areas. When completed, these buildings will have the look and feel of new residence halls. These conversions are in furtherance of the University's strategic plan, which is to move all undergraduate students back on campus. Last year, approximately 300 undergraduate students lived off campus. That number has been reduced to 225 for the current academic year.

Improvements to other University-owned houses are being made with a view to creating additional "small living units" that will result in 10 new beds per house. Small living units are contained in University-owned houses where students with similar academic interests may live together. The additional housing capacity resulting from the renovation of the former fraternity houses and the improvement and expansion of the small living unit program will quickly result in a positive cash flow for the University. As noted, the financing of the residence facility improvements is being combined with the refinancing of bonds issued through the Commission's pooled financing program. The refinancing is being pursued not only to provide more predictability in the University's debt structure, but also to reduce bank and remarketing fees that have increased dramatically over recent months. Mr. Algoe then inquired of the Commission members as to whether they had any questions.

Responding to questions from Mrs. Carter and Dr. Kutina, Mr. Algoe confirmed that the bonds would be issued as so-called "bank-qualified bonds" pursuant to a direct placement transaction with PNC Bank. Mr. Algoe expects a \$30,000-per-bed cost in connection with the remodeling program. The buildings being refurbished are structurally sound and improvements in most cases will be of a more cosmetic nature. The cost estimate is based on construction bids provided to the University for the work. Responding to a question from Mr. Petrick, Mr. Algoe confirmed that the need for the expanded residence hall space is current and that the additional housing capacity will be filled even if enrollment remains flat.

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

Mr. Petrick moved and Dr. Speck seconded the motion that Resolution No. 2009-14 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: Kutina; Petrick; Shindler; Speck; Tate; Wells

Nay: None

Abstain: Carter

The Chairman declared the motion passed and Resolution No. 2009-14 adopted.

Resolution No. 2009-14 is as follows:

## **OTHER BUSINESS**

The Commission members discussed availability for the next meeting, scheduled for October 21, 2009. Mr. Keefe noted that both he and Mr. Burlingame would be attending the National Association of Health and Education Facilities Financing Authorities (NAHEFFA) conference in Chicago and will report back at the Commission's October meeting.

Mr. Wermuth stated that he has requested a check from the State for the payment of the Commission's NAHEFFA dues.

**CALL OF NEXT MEETING AND ADJOURNMENT**

As noted, it is now expected that the Commission will next meet on October 21, 2009, if necessary, or upon the call of the Chairman. On a motion duly made and seconded, the meeting was adjourned.

---

Secretary