

**STATE UNIVERSITY SYSTEM OF FLORIDA  
BOARD OF GOVERNORS  
Facilities Committee  
March 29, 2017**

**SUBJECT:** A Resolution of the Board of Governors Approving the UCF Academic Health, Inc., a Direct Support Organization of the University of the Central Florida, to enter into a ground sublease and operating agreement with a vendor for the construction, financing, operation and maintenance of a hospital and associated facilities adjacent to the College of Medicine at Lake Nona.

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**PROPOSED COMMITTEE ACTION**

Adoption of a resolution approving the UCF Academic Health, Inc. (UCFAH), a Direct Support Organization of the University of Central Florida (“UCF” or “University”) entering into a ground sublease of 25.2 acres for the construction, financing, operation and maintenance of a medical complex with Columbia Park Healthcare System, Inc., (HCA Sub), a subsidiary of Hospital Corporation of America HCA. The sublease will be with Central Florida Health Services, LLC (the “Company”) which has been formed as a joint venture between UCFAH and the HCA Sub. If approved, UCFAH will enter into a 50-year ground sublease with the Company that the Company has the option to extend for an additional 49 years.

Staff of the Board of Governors, State University System of Florida, and the Division of Bond Finance, State Board of Administration of Florida, have reviewed this resolution and all supporting documentation for compliance with Florida law and the Board of Governors Public Private Partnership Guidelines (P3 Guidelines). The proposal appears to be in compliance with applicable Florida law but does not comply with the P3 Guidelines in all respects.

**AUTHORITY FOR BOARD OF GOVERNORS ACTION**

Article IX, Section 7, Florida Constitution; Section 1013.171, Florida Statutes.

**BACKGROUND INFORMATION**

UCFAH will enter into a ground sublease with UCF for the purpose of sub-leasing the property to the Company for 50 years (with Company’s option for a 49 year extension) for the construction and operation of a medical center which will initially include a 100-bed hospital and emergency facilities (the “Project”). Future expansion may include increasing inpatient beds up to 500, outpatient care, physician practice buildings and

additional parking utilizing a public-private partnership arrangement. As proposed, any future expansion will not require Board approval unless debt financing will be used. The land is deed restricted and may only be used for UCF College of Medicine facilities.

A preliminary Certificate of Need (CON) was issued by the Agency for Health Care Administration (AHCA) for the Project. Florida Hospital filed a petition requesting AHCA to condition issuance of the Final CON on the hospital being operated as a joint venture between UCFAH and HCA Sub and ultimately becoming an academic teaching hospital; and to require UCFAH to have a meaningful role in the governance and operation of the hospital. Alternatively, Florida Hospital is requesting AHCA to deny the CON for failure of the proposed hospital to meet the criteria for issuance of a CON. The hearing on the petition is scheduled for October 23 through November 21, 2017, before the Division of Administrative Hearings.

The P3 Guidelines contemplate approving a lease for a defined facility and not for a continued development of a site over 99 years. This is inconsistent with the 40-year term limit specified in the P3 Guidelines.

Under the joint venture, HCA Sub will own 80% of the Company while UCFAH will own 20% and receive 20% of the net revenues from the hospital. HCA Sub will fund its 80% ownership interest by paying cash for the construction estimated at \$150 million and contributing up to \$25 million for start-up capital. UCFAH's contribution for its 20% ownership interest will come from the value of the land sublease and the UCF brand. There are several situations where UCFAH may terminate its relationship with HCA Sub by purchasing at fair market value HCA Sub's 80% ownership interest or by requiring HCA Sub to purchase UCFAH's 20% share. Operation and governance will be controlled by the Company board consisting of four UCFAH members and four HCA Sub members.

UCF seeks to develop the medical complex to advance its academic mission and to raise additional funding and has set forth certain metrics to measure its success including profits from operation of the hospital, increases to fund raising and research money, increasing faculty and creating additional medical student rotations.

UCF contends that it would be very difficult for the project to be profitable if it tried to develop it on its own. Accordingly, UCF maintains the P3 structure is the viable way to proceed.

Neither UCF nor UCFAH are legally obligated to provide any financial support for the operation or expansion of the medical complex. This does not, however, preclude the University or UCFAH from doing so in the future. The Board's resolution does contain

certain provisions designed to limit the type of financial support UCF and UCFAH may provide to the Project:

- UCFAH may provide non-debt funding for capital improvements related to the Project; however, capital improvements to be funded from legally available philanthropic sources by UFC or other DSOs require Board of Trustees' approval.
- UCF and its DSOs, other than UCFAH, will not provide funding to subsidize operations or any operating deficit of the hospital or the Company or provide any equipment, fixtures, buildings, space or facilities for the use or benefit of the hospital or the Company without prior Board of Governors' approval. Funds received as research grants for health or medically related research and philanthropic funds designated for the medical school or for the hospital may be used for UCF's benefit at the hospital without prior Board of Governors' approval.
- Board of Governors' approval is required if the University or any University entity proposes to incur debt or otherwise pledge or guaranty the repayment of any debt associated with the Project.

Further, the Resolution specifies that the Hospital is subject to Certificate of Need approval and must meet all applicable Certificate of Need requirements as determined by the Agency for Health Care Administration.

There was originally a question as to whether the initial 100-bed hospital is truly an academic hospital. UCF has proposed the name as the "UCF Lake Nona Medical Center" to describe the hospital and the Resolution contains a provision that restricts the use of the terms "Teaching Hospital", "Academic Medical Center" or similar phrases in describing the Project. UCFAH may request a name change, or removal of this naming restriction, from the Board no sooner than five years from the hospital opening date, or at any point thereafter.

Taken as a whole, approval of the Project is recommended by Board staff.

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**Supporting Documentation Included:**

1. Requesting Resolution
2. Project Summary
3. Sources and Uses
4. Site Plans
5. Financial Projections

**Facilitators/Presenters:** Mr. Chris Kinsley