

MINUTES
STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
FACILITIES COMMITTEE
FLORIDA AGRICULTURAL & MECHANICAL UNIVERSITY
TALLAHASSEE, FLORIDA
March 29, 2017

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and its Committees are accessible at <http://www.flbog.edu/>.*

Governor Dick Beard, Acting Chair, convened the meeting of the Board of Governors Facilities Committee meeting at 3:51 p.m., March 29, 2017. The following members were present: Sydney Kitson, Alan Levine, Wendy Link, Edward Morton and Gary Tyson. Other members present included Tom Kuntz, Ned Lautenbach, Jacob Hebert and Norman Tripp.

1. Call to Order

Acting Chair Dick Beard called the meeting to order.

2. Minutes of Committee Meetings: Governor Beard

Governor Levine moved that the Committee approve the minutes of the Facilities Committee meeting held January 25, 2017. Governor Tyson seconded the motion and it passed unanimously.

3. 2018-2019 Fixed Capital Outlay Legislative Budget Request Guidelines

Acting Chair Beard called on Mr. Chris Kinsley, Assistant Vice Chancellor for Finance and Facilities, to discuss the 2018-19 Legislative Budget Request for Fixed Capital Outlay Guidelines. Mr. Kinsley noted that the only significant change was in the schedule due to early Legislative session next year. Governor Morton moved to approve, Governor Levine seconded and the motion passed.

4. 2nd Amendment to 2017-2018 SUS Fixed Capital Outlay Legislative Budget Request

Mr. Kinsley explained that this 2nd amendment to the current budget request is to change legislative authorization language regarding the Board of Governors ability to consider projects (bonds or P3). Mr. Kinsley also noted that there are a few projects that were added for review and one from UCF that is no longer coming to the Board for approval. This item was motioned by Governor Morton to approve the amendment, Governor Levine seconded and the motion passed.

5. Overview of Capital Planning Process

Mr. Kinsley explained the importance of the overall capital planning process and how it relates to the three main documents:

- **Master Plan:** a map that provides a scope of what the University goals are and any major changes to or improvements to the University. This plan requires the BOT to update it every five years (pursuant to Board Regulation). The Campus Development Agreement (CDA) is an emanating document that takes into account economic impact (i.e.) road impact, which is reviewed by various State Agencies (i.e.) DOT. Mr. Kinsley also noted that while he is not advocating that the Board of Governors approve the CDAs, he would like to see a bill that requires Universities to submit a copy to the Board Office.
- **Education Plant Survey:** a list of buildings, programs, number of students, faculty, and other resources associated with the University using a common formula to project capital needs. The factors have been adjusted to account for online. As it stands the survey occurs every five years. The new metric is being tested on Florida Polytechnic University, University of West Florida and University of South Florida. The Board should see at least two of these surveys during the next Board Meeting for approval.
- **Capital Improvement Plan:** the University submits a list of PECO and non-PECO projects every year approved by the BOT. This plan is a five year plan, but is submitted annually on August 1st. The review of these plans are reviewed at the PECO Workshop and then the Board adopts a three-year PECO list for legislature review.

These documents work together to promote long range capital planning needs for the SUS. These documents have not changed much over the years.

6. P3 Guidelines Implementation Review

Governor Beard called upon Ms. Karen Armstrong, Director of Shared Initiates, to review the P3 Guidelines since implementation in September 2015. Ms. Armstrong noted the Board Staff took an introspective look of how the process has worked during the past two years, with a goal of determining if the appetite for bonded projects changed and to help steer the Board Office in the future. However, Ms. Armstrong noted that Universities are still utilizing bonds to fund capital projects. Over this period, there were five P3 projects and five bonded projects.

Ms. Armstrong noted that the Board Office was also interested in determine the level of deviation from the P3 Guidelines and all five projects deviated to some degree, mostly exceeding debt term or lease term.

Ms. Armstrong then went on to discuss potential P3 and bonded projects that have or may come to the Board for approval, ranging from housing, conference centers and hotels.

Ms. Armstrong provided an update on the Biscayne Bay Campus Housing Project, which opened fall 2016. The fall occupancy was lower than expected at 86% (lower than projections). As a result, the Moody's downgraded the bonds by one position. However, FIU has turned the project around, increase non-financial support to housing and the spring 2017 occupancy is at 98.78%. The University hopes to improve its rating status during their ratings review later this year.

The Board Office is considering a P3 workshop this summer to discuss any changes needed and would like direction from the Board pertaining to same. Some points that may need to be examine is lease length or exemption to LLCs.

Ms. Armstrong concluded and opened the floor for questions and Governor Beard admonished Mr. Kinsley to move forward with the workshop and appreciated the update. Mr. Kinsley confirmed that the Board Office is actively planning and expect that the workshop is tentatively scheduled for July.

7. 2016 Completed Projects Report

Governor Beard called upon Mr. Kinsley to discuss the annual completed reports and provide an update on previously approved projects. Before providing an update on the completed projects, Mr. Kinsley thanked Ms. Armstrong for her efforts as Director of Shared Initiatives and her work with the P3 projects. He also went on to point out that the FIU is the owner of Biscayne Bay Housing and therefore any profits realized goes to the University.

The number of projects competed favorably rose to 17 from last year's total of 10. The projects ranged from athletics, academics, parking, housing, student life, and office buildings. The named projects included major renovations & infrastructure and new projects (bonded and University-funded).

Governor Kuntz asked, in an instance where a given University uses their own dollars on a project, where do those funds originate. Mr. Kinsley responded by confirming the legal available options the Universities have, which include: state appropriations, carry forward, retained grant revenues and he went to note that there are a variety of legally available resources.

Overall, Mr. Kinsley was pleased with the development of these projects and the added value they bring to the capital inventory across the SUS. Acting Chair Beard acknowledged his appreciation for the updated information.

8. UCF/HCA Joint Venture Hospital Proposal

Acting Chair Beard acknowledged the extensive conversation regarding this proposed P3 during the January Board Meeting. He then went on to ask Mr. Kinsley to provide a brief description of the project, before the Board is required to vote.

Mr. Kinsley began by thanking the Board and the University of Central Florida for their diligence in working on this unique project. He went on to discuss some of the developments or proposed changes from the January meeting:

- **The Name:** UCF Lake Nona Medical Center – this was in response to the confusion around the intent of the hospital. He also noted that the University cannot be recognized as a teaching hospital or academic medical center, if the desire changes, this designation requires BOG approval and is prohibited for five years
- **Scope:** any expansion above the 500 bed capacity will require specific BOG approval
- **Proposed Debt:** if the University proposes to incur any debt for this project, as defined in 1010.62 Florida Statutes, further BOG approval is required
- **Non-Debt Funding:** restricts the University from securing additional project funding, outside of philanthropic and grants funds and in these cases, BOT approval is required
- **Subsidize Funding:** prohibits the University or its DSO (outside of the Academic Health DSO) cannot provide funding to subsidize operations or any operating deficit, of the hospital or the Company; or provide any fixtures, equipment, buildings, space or facilities for the use and benefit of the Hospital or the Company without prior BOG approval, with the exception of funds received for research grants for health and medically related research and philanthropic funds designated for the medical school or for the Hospital
- **Required approvals:** the project must meet all the requisite approvals and certificate of need approval as determined by the Agency for Healthcare Administration

Mr. Kinsley also noted that the University will provide annual reports to the Board and felt that the above mentioned points address the Board concerns and act a safeguard to

protect the University. Mr. Kinsley opened the floor for questions. Governor Levine raised a concern regarding the University receiving subsidized funding. Governor Levine is of the premise that if an exchange occurs, as long as the University received fair market value, these types of transactions should not have to come back to the BOG for approval. Mr. Kinsley and confirmed that this was indeed the case. Governor Levine mentioned that some language should be added to be more explicit to this point.

Governor Morton brought up the issue of language consistency within the Resolution and recommended that the Board Staff along with the related Legal Counsel revisit the items mentioned to ensure accuracy and clarity. Mr. Kinsley confirmed and agreed that those changes will be made.

Chancellor Criser also responded to Governor Levine's earlier comment regarding the issue of subsidizing and noted that there were some amendments made to capture the premise that if there were to be an event of such, it would be provided with some exchange of value and the University will not be subsidizing the operation.

Acting Chair Beard invited Mr. Marcos Marchena, Chair of UCF BOT, to present the University's position on the proposed P3. Mr. Marchena provided a brief overview of the project and noted the following points:

- UCF AH will receive 20% equity partnership
- UCF AH equally shares hospital governance
- HCA plans to invest \$175 million in cash to build and operate the hospital
- UCF AH brings brand recognition and land
- Neither party will incur debt associated with the initial build-out for the project

Mr. Marchena noted that this deal is a better deal today because of the thorough review and due diligence of the Board Staff. He then went on to address every question in great detail that was raised at the January Board Meeting.

Governor Beard asked Governors Levine and Morton if they had any further questions. Governor Morton thanked Mr. Marchena and the UCF staff for their efforts. He went to say that he would like to see a greater availability of residency slots and solicited HCA's commitment to accelerate this throughout their system. Mr. Marchena responded and advised that UCFAH has an agreement to development over 600 residencies in their hospitals.

Governor Levine interjected that HCA has invested substantially in expansion of residences throughout Florida, which currently stands at approximately 100 slots.

Dr. German also noted that in January HCA had 125 slots, which is projected to grow to 250 by July this year. However, she noted that HCA has an initiative to grow residencies nationwide to the tune of approximately 6,000 residency slots, with the majority of them being in Florida. Dr. German also noted that the acceleration is limited by the ACGME accreditation process.

Governor Morton went on to speak about the need for community based and population based medicine and noted that American spent \$3.1 trillion in healthcare, of which 85% was related to chronic disease and most can be controlled by proactive management of the disease. He is of the opinion that the system is suffering from misallocation of resources. Governor Morton then went on to mention some OECD statistics that further substantiates his position. He admonished the University to take advantage of this opportunity to impact change on how healthcare is administered in the state of Florida, as he noted the initiatives at FIU (community-based medicine).

Governor Levine noted that he was pleased with the removal of “academic center” and that HCA is a reputable company; however, he thinks that this is a good investment for the University and this partnership should prove fruitful. He also mentioned that this project does carry some risk that should not be ignored. Governor Levine also noted that he wished that HCA offered a better stake in the market, due to the potential patient referrals that HCA will receive. He is of the belief that the University should capitalize on this. He also admonished the University to pay close attention to fully understand the monthly allocations from corporate. Overall, Governor Levine admitted that this is a great return on investment and hopes to see great things from this partnership.

Governor Kitsen mentioned that he was also pleased that the University made efforts to contact him and ensure that all his concerns were answered. He questioned how fair market value is calculated and the other concern was regarding the 50% of governance and in those instances where there may be a deadlock, due to the fact that they are the majority (80%) owner, they would essentially break the deadlock.

Mr. Marchena acknowledged that the agreements go into far more detailed as to the valuation of fair market value, but assure the BOG that the language is exhaustive and they are comfortable with that. Mr. Marchena also agreed with Governor Kitson’s point to the governance.

Governor Link asked the University if there were some parameters in place in an instance where the University may fall below the 20% governance to protect the University. In response to Governor Link’s question, Mr. Marchena acknowledged that within the agreement the University has the right to buy back the governance to the 20%, and in response to a question raised by Governor Beard he noted that HCA can

lend funds to the joint venture (for joint capital cause) without prior BOG approval, but if there are any liability to the DSO, it is required to come back to the BOG.

Acting Chair Beard thanked Mr. Marchena for his presentation and presented the question to the floor to approve the project, with the inclusion of the new language as discussed during this board meeting. This item was motioned by Governor Morton, seconded by Governor Levine and passed unanimously.

9. Concluding Remarks and Adjournment

Acting Chair Beard acknowledged receipt of the latest S&P Rating Report and mentioned that the System CITF bonds are AA rated with a stable outlook.

There being no further business, Acting Chair Beard adjourned the meeting at 5:30 p.m., March 29, 2016.

Chris Kinsley, Assistant Vice Chancellor
Facilities

Dick Beard, Acting Chair