J. BEN WATKINS III
DIRECTOR

STATE OF FLORIDA
DIVISION OF BOND FINANCE

MEMORANDUM

To: Board of Governors

From: J. Ben Watkins III

Date: March 19, 2025

Re: Florida State University "FSU Health - Panama City Beach" Project

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As required by Section 1010.62, Florida Statutes, the Division of Bond Finance ("DBF") has reviewed and analyzed the information provided to support Florida State University's (the "University") proposal to finance the construction of a hospital (the "Project") on donated land near the University's regional campus in Panama City, Florida. The University expects to enter into a long-term lease and management agreement with Tallahassee Memorial Hospital ("TMH") to lease the Project and manage the day-to-day operations of the hospital under the auspices of the "FSU Health" brand. The agreement is expected to include TMH's commitment to support academics and research for FSU Health, and to make annual lease payments to the University to cover debt service on bonds issued to finance construction of the Project.

DBF has also reviewed the Board of Governors ("BOG") staff analysis of the Project and evaluated the proposed financing for compliance with the BOG Debt Management Guidelines. Based upon DBF's review of the materials provided, it appears that information relevant to the proposed financing has been accurately summarized for the BOG's consideration. However, the proposed financing presents some issues for the BOG's consideration that are outside the scope of DBF's review of the financing but could, nevertheless, have a material financial impact on the University and its finances and should therefore be considered by the BOG.

Uncertainty Regarding Indirect Cost Recovery

The Pledged Revenues for the Bonds are Indirect Cost Recovery ("ICR") revenues, a large portion of which are paid to the University by the federal government in connection with federal grants. The University's current ICR reimbursement rate is 54%. However, in February 2025, the National Institute of Health ("NIH") announced a new ICR reimbursement rate of 15% across all its grants. The exact scope and application of NIH's new policy is unclear at present, and until the policy's effects can be quantified, there is uncertainty regarding the sufficiency of the Pledged Revenues. For that reason, the University has agreed to additionally secure the Bonds with a guaranty from the assets of the FSU Foundation and/or the FSU Research Foundation if necessary to obtain a favorable credit rating or to enhance marketability of the Bonds.

Operating Risk and Reserve

Another significant policy consideration for the BOG is the operating risk being assumed indirectly by the University by virtue of having a partner, TMH, managing and operating the Project. The Project is a de novo hospital extending TMH's operations within its primary service area with two competing hospitals and healthcare providers (HCA and Ascension Sacred Heart). The University has committed its ICR Revenues to pay debt service on the Bonds but expects to use lease payments from TMH to offset the debt service cost of the Project paid by ICR revenues. If for some reason TMH defaults on the lease payments to the University, then University resources would be needed to make debt service payments on the Bonds. Although not legally pledged as security for the Bonds, but recognizing this risk, the University has agreed to set-aside $50 million of existing resources to ameliorate the near-term financial consequences of any failure by TMH to make required lease payments. Specifically, the reserve will be comprised of either $50 million of unencumbered Research Foundation assets held and invested by the Florida State University Foundation, or $50 million of unencumbered University funds deposited by the University in a fund or account to be held by the State Board of Administration of Florida in escrow. The $50 million set-aside to create an operating reserve is sufficient to offset the ICR revenues used to pay debt service for approximately 18-24 months. This would provide time for the University to recruit another healthcare provider to operate and manage the hospital in the event TMH fails to make the required lease payments. This mitigates but does not eliminate the potential negative financial consequences of a default by TMH. The funds or assets in the operating reserve are committed to being available to mitigate any operational disruptions and ensure the long-term financial viability of the enterprise.

cc: Raymond Rodrigues, Chancellor, Board of Governors
Kevin Pichard, Director, Finance and Facilities, Board of Governors
Kyle Clark, Senior Vice President for Finance & Administration, Florida State University
William Reynolds, Director of Debt & Investment Management, Florida State University