STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Florida State University
FSU Health Panama City Beach Hospital; $413.9M Bonds

Project Summary

Project Description:

Florida State University ("FSU" or the "University") is requesting approval from the Board of Governors ("Board") to issue fixed rate, tax-exempt and taxable revenue bonds in an amount not to exceed $413.9M (the "Bonds") through the Division of Bond Finance ("DBF") to finance the construction of a new hospital (the "Project") on donated land in Panama City Beach.

Project planning and design are in progress but not yet completed. The University has estimated the Project cost at $328M, including design, construction and equipment for a five-floor, approximately 340,000 sq. ft., 180-bed (maximum) facility. The Project is "phase one" of a long-term multi-phase plan, initially opening with 80 beds and eventually extending the hospital footprint to 600 beds. Once constructed, the University will enter into a long-term lease and management agreement with Tallahassee Memorial Hospital ("TMH") to manage the day-to-day operations of the hospital under the 'FSU Health' brand. The agreement includes TMH's commitment to support academics and research for FSU Health and make lease payments to FSU in an amount greater than or equal to the annual debt service of the Bonds.

The Project includes specific inpatient nursing units ranging from medical-surgical to critical care and a 20-bed emergency room. The Project will offer specific procedural areas dedicated to Cardiology, Gastroenterology, and Pulmonary Medicine, and will include a comprehensive imaging center to meet both inpatient and outpatient needs for MRI, CT, and Nuclear Medicine. Initially, the Project will have four operating rooms to support Orthopedic Surgery, Otolaryngology, Gynecology, and General Surgery. Notably, the Project will support educational programs for FSU's College of Medicine, College of Nursing, and other FSU healthcare programs.

The Project will be approved by the FSU Board of Trustees on March 25, 2025. Currently, it is not included in FSU's approved Campus Master Plan ("CMP"), as required by section 1010.62(7)(a)2, Florida Statutes, however, the University is committed to amending the CMP once financing approval is received and the land is subsequently donated to the University.

Project Location:

The Project will be located at 1002 N. Arnold Road, Panama City Beach, Florida, at the intersection of Highway 79 and Phillip Griffitts Sr Parkway. The Project will be built on an undeveloped 18-acre parcel adjacent to the newly opened 80,000 sq. ft. *TMH Physician Partners and Urgent Care* facility. Built by TMH, it reflects a collaborative effort between TMH, FSU, and St. Joe Company ("SJC"). The 18-acre location will be donated to the University upon approval of the financing, and it is part of an 87-acre parcel owned by St. Joe Co. and planned for future build-out of a medical campus to include expansion of the proposed hospital (Project) as well as medical office buildings and added parking.

Design and Construction Phase: Project planning and design is underway and is estimated to be finalized, along with the contract/GMP, in the first quarter of 2025. The University worked with TMH to select the architect (Hunton Brady) and the contactor (Robins & Morton), both of whom were previously used by TMH to complete the 'Physician Partners and Urgent Care' facility described above. Construction is expected to commence in the summer of 2025 and be completed by December 2027.

Demand Analysis: To estimate Project demand and feasibility, the University engaged PYA, a top ranked national consulting firm specializing in healthcare management services. PYA's findings are reflected in a report dated November 7, 2024 ("the study"), which projected sufficient demand for the Project. According to the study, the Project's primary service area ("PSA") is forecasted to experience rapid growth through a surge in new development (much of which is driven by SJC). Currently, the operating hospitals (Ascension Sacred Heart Bay and HCA Florida Gulf Coast Hospital) hold 90% of the market share in the Project's PSA, but they are over 20 minutes away from the Project location. Furthermore, PYA estimates demand for the proposed hospital at 56-71 inpatient beds by 2029 (increasing to 67-88 beds by 2033); a need for 17-20 emergency department beds by 2033; and the Project will capture significant market share from Ascension and HCA in the zip codes immediately surrounding the Project's location.

Project Cost & Financing Structure: The Project is expected to cost no more than $328M, with a useful life of at least 30 years. In light of the fact that planning and design are not yet completed, should construction costs exceed the current estimate, the University will cover any cost overages from available accumulated ICR reserves (balance exceeds $200M, as discussed on the next page under '*Pledged Revenues & Debt Service Coverage'*).

The Project will be financed with proceeds from the issuance of fixed rate, tax-exempt and taxable revenue bonds issued through DBF on behalf of the University.

The University anticipates the Bonds will be primarily tax-exempt; however, a portion may be issued as taxable depending on the amount of projected "private use" activity in the Project. DBF will work with the University and tax counsel to maximize the amount of the Bonds issued as tax-exempt in order to achieve a lower cost of financing.

The Bonds will have a final maturity not to exceed 30 years, with level debt service, and a principal amount not to exceed $413.9M. In addition to Project construction, Bond proceeds will fund Capitalized Interest ($54M) and, if necessary, a Debt Service Reserve ($29.7M);

see attached ***Estimated Sources & Uses*** and ***Estimated Debt Service Schedule.***

Security/Lien Structure: Project lease payments received from TMH will not be less than scheduled debt service, but they are not pledged as security or repayment on the Bonds (the University has indicated that they will be available for repayment, if necessary). Instead, the Bonds will be secured by a pledge of the University's gross indirect cost recovery revenues ("ICR Revenues" or "Pledged Revenues"), which provide a source of repayment on the Bonds that is: 1) established and more quantifiable; and 2) unimpacted by the success or failure of the Project (i.e., a de novo hospital). ICR Revenues represent indirect reimbursements received from federal, State, and private research grants to cover facilities and administrative overhead costs associated with FSU's sponsored research activities. FSU's ICR rate is currently 54%.

Pledged Revenues & Debt Service Coverage: Pledged Revenue (as defined above) has consistently grown over the past three years and is projected to exceed $53M in FY25. Awards for research contracts and grants can fluctuate based on the level of funding from federal and state sources, as well as the research capacity of FSU's faculty. Nevertheless, the University has projected consistent growth in ICR of 4% annually. As Pledged Revenue, this results in debt service coverage of at least 2.12x, exceeding the 1.20x minimum required by the SUS Debt Management Guidelines. (see attached ***Historical and Projected Debt Service Coverage, Scenario 1***).

Last month, in connection with recent federal Department of Government Efficiency (DOGE) initiatives, the National Institute of Health (NIH) declared that it would no longer determine indirect cost reimbursements based on the needs of each institution, but rather it would issue a standard indirect cost rate of 15% across all of its grants. FSU estimated the potential impact to Pledged Revenue as a decrease of over $14.5M in FY29; the first year of full debt service. Debt service coverage would decrease to 1.63x, but still exceeds the minimum requirement of 1.20x (see attached ***Historical and Projected Debt Service Coverage, Scenario 2***).

In light of the above situation, Board staff considered a theoretical 'worst case' scenario in which the NIH cap (15%) was eventually applied to all federal grant funding. In such case, Pledged Revenue would likely not be sufficient to pay debt service (see attached ***Historical and Projected Debt Service Coverage, Scenario 3***).

However, as previously stated, FSU may utilize Project lease payments (anticipated to be no less than the amount of debt service on the Bonds) to help pay debt service.

According to FSU, a majority of the Pledged Revenue is used to pay ongoing overhead costs associated with its sponsored research activities. The Bonds will have a gross lien on these Pledged Revenues, thus should they materially decrease, FSU's Sponsored

Research Department (SRD) may utilize its accrued ICR balances to cover overhead costs. To that extent the average accrued ICR balance has consistently exceeded $200M over the past year, providing a financial ‘cushion’ to mitigate such circumstances. Note, the accrued ICR balances may also be used to cover any construction cost overruns, as stated earlier, as well as fund, in part, a $50M dedicated operational reserve, as described below.

As additional support to the Project while the Bonds are outstanding, FSU is restricting $50M of unencumbered assets in its Research Foundation, or, alternately, University funds in an account to be held in escrow by the State Board of Administration of Florida. In the latter case, the $50M will come from a combination of accumulated ICR funds, unused coronavirus stimulus (HEERF), and/or a cash contribution from TMH. The $50 million of restricted funds will not secure or be pledged to the Bonds but will help mitigate any Project operational disruption and ensure financial viability of the enterprise.

Lastly, if necessary to obtain favorable credit rating(s) and/or enhanced marketability, the Bonds will be secured by a guaranty from the assets of the FSU Foundation and/or the FSU Research Foundation.

Assessment of Private Sector Alternatives: The Project provides a unique opportunity for FSU Health to expand its profile and regional footprint through a partnership with the private sector. Through its partnership with TMH, FSU will be able to expand its service, academic, research portfolio and research capabilities, while also serving a region in need of expanded healthcare services.

Return on Investment: The Project is not pursued as a revenue generating asset for the University, thus operational details are limited, and the traditional quantitative return on investment calculation does not lend itself to an assessment of its value. Instead, FSU has offered that the expansion of FSU Health into the Panama City Beach area will provide significant opportunities for research, education, and employment.

The expanded partnership with TMH, made possible through the Project, will include commitments for academic and research support from TMH to FSU. The location of the project in a high demand area; the partnership with an established healthcare provider; and the desire to grow FSU’s research portfolio, are all key factors to consider when contemplating the impact of the Project on FSU and the Panama City Beach region.

Lastly, the same partnerships and infrastructure will benefit recent and future FSU graduates when seeking employment after graduation due to an expanded employer base within the healthcare services field.

Method of Sale: DBF will determine whether the Bonds will be sold through a competitive or a negotiated sale based upon market conditions and financing options available at the time of sale. At present, the Bonds are anticipated to be sold through a competitive sale.

Selection of Professionals: The Bonds will be issued through DBF, which has contracts with multiple outside professionals (including bond counsel, financial advisors, and verification agents) who will be engaged as necessary, all of which were selected through a competitive process.

Recommendation: Staff from the Board of Governors and the Division of Bond Finance have reviewed the resolution and supporting documentation provided by the University.

Based upon this review, the proposed financing appears to be in compliance with the SUS Debt Management Guidelines. The Project is currently not included in FSU's approved CMP, as required by s. 1010.62(7)(a)2, but otherwise appears compliant with Florida Statutes governing the issuance of university debt.

Accordingly, the staff recommends authorization of the proposed Bonds to finance the Project conditioned upon the University committing to amending its CMP pursuant to Florida Statutes prior to closing on the Bond issuance.