STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
UCF Academic Health, Inc., a direct support organization of the University of Central Florida
Public-Private Partnership Hospital Project

Project Description:

University of Central Florida ("UCF" or "University") proposes to lease 25.2 acres to UCF Academic Health, Inc. (UCFAH), a direct support organization of UCF. UCFAH is requesting approval to sublease the land to Central Florida Health Services, LLC, (the "Company"), a joint venture formed by UCFAH and Columbia Park Healthcare System, Inc. (the "Owner" or "HCA Sub"), a subsidiary of Hospital Corporation of America (HCA), and for the approval of a 100-bed hospital and emergency services facility (the "Project") and continued development of a medical complex, the complete scope of which is not completely defined. The proposed lease term is 50 years, with an optional renewal for an additional 49 years.

The hospital is expected to be expanded up to 500 beds during the lease term and other facilities may be added over time. The attached Site Plans shows potential expansion currently under consideration. Such expansions and facilities to be built in the future will require Board approval only if UCF or UCFAH will incur debt or seek to provide funding to subsidize operations.

A preliminary Certificate of Need (CON) was obtained for the Project from the Agency for Healthcare Administration (AHCA) on December 2, 2016. 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.

Project Site Location: The Project will be located in the Lake Nona master planned community on 25.2 acres of land adjacent to UCF's College of Medicine. UCF purchased this land in 2012 for $15 million using non-appropriated and university auxiliary revenues for the express purpose of building an academic hospital.

The current market value of the property is $17.6 million. Also nearby are the VA Medical Center, Nemours Children's Hospital, the Sanford-Burnham-Prebys Research Institute, UF School of Pharmacy, and the Florida Blue Innovation Center.

Projected Start and Completion Dates: Hospital construction is expected to commence within 18 months of issuance of the Final CON (following exhaustion of all judicial review or settlement), with completion expected within 40 months. AHCA's final approval is still pending resolution of the petition, but UCF expects that Board approval will resolve the petition. UCFAH has the right to terminate the lease, with notice and upon payment of the amount expended for the design, development, construction, equipping and start-up of the Project, if hospital operations do not begin with 40 months after the Final CON has been issued. In the event issuance of the Final CON is denied or delayed, UCF will seek separate Board authorization if the Company desires to move forward with construction of other facilities besides the hospital, which do not require CON approval.

Project Cost: The total cost of the Project is estimated at $175 million, which includes start-up costs of up to $25 million and development and construction costs of approximately $150 million. The cost of future facilities has not been determined.

(See Estimated Sources and Uses of Funds)

Ownership and Operation of the Project: UCFAH and HCA Sub executed an Operating Agreement on October 12, 2016, forming the Company to share ownership and governance of the Project and other future medical facilities.

Under the agreement, the HCA Sub owns 80% of the Project and UCFAH owns a 20% interest. UCFAH's 20% contribution to the

Company will be comprised of the value of the prepaid lease of the Project site and the use of the UCF brand. The HCA Sub will contribute the construction cost of the hospital. Under the Operating Agreement, UCFAH's equity position cannot be diluted without its consent. If UCFAH approves an expansion requiring a capital contribution, it plans to use revenues derived from philanthropy, from hospital operations, intangible contributions such as brand name, or a loan from the HCA Sub to the Company to be repaid with earnings of the joint venture to maintain its 20% equity interest. Capital improvements to be funded from legally available philanthropic sources by UCF or other DSOs require Board of Trustees' approval.

Under the Operating Agreement, Owner and UCFAH share governance of the Company, with each appointing four members to the Company's governing board (the "HCA Governors" and the "UCFAH Governors"). The Company's governing board sets the budget, while management of the day-to-day operations of the Company will be delegated to the Owner or an affiliate (the "Manager") pursuant to a management agreement. The Manager will be paid 1% of net revenues and reimbursed direct out-of-pocket expenses. Notwithstanding such delegation, certain defined Major Decisions require a vote of not less than a majority of the HCA Governors and not less than a majority of the UCFAH Governors. These Major Decisions include, among others, the Company's incurring capital expenditures in any one year in excess of 20% of the then fair market value (FMV) of the assets of the Company (as determined by the Manager); the admission of new members or the issuance of additional ownership interests in the Company to any such new member; the incurrence of any debt by the Company which requires UCFAH to provide a guaranty or aggregate debt by the Company in excess of 20% of the then FMV of Company assets (as determined by the Manager), and ratification of the consolidated capital and operating budget. The Operating Agreement has been revised to provide for quarterly distributions of excess cash, and the decision to fund less than the required quarterly distribution of excess cash now constitutes a Major Decision.

Major Decisions are reserved to the governing board, however, the majority approval requirements are not absolute. If the HCA Sub's accounting firm determines that the inclusion of one or more of the Major Decisions prevents HCA from consolidating the Company's assets and results of operations under HCA's consolidated financial statements, then the HCA Sub and UCFAH must amend, modify, or eliminate the Major Decision. In the event the parties cannot reach agreement, then HCA's accounting firm, acting alone, can make the amendment. The Operating Agreement will be amended to provide that only changes to accounting policies in the future will give rise to this situation. In other words, current accounting policies will not give rise to any change in Major Decisions. UCFAH can also lose its protection of a required majority of UCFAH Governors' approval on Major Decisions if its ownership percentage in the Company falls below 15%. In the case of decisions coming before the board which are not Major Decisions, in the event of a tie vote between the UCFAH Governors and the HCA Governors, the HCA Governors have the right to resolve the deadlock.

Through the sublease and management agreement, the HCA Sub will be required to budget $800,000 per year, escalating at 2% a year, to provide for maintenance and capital renewal.

There are a number of situations where UCFAH's relationship in the Company can be terminated by purchase of the HCA Sub's share of the Company. At the end of the lease term, UCFAH has the right to purchase the Project at FMV. The lease term could end in 50 years, and upon receipt of 360 days' notice, UCFAH will have the option to purchase the Project.

In the event of default under the lease by the Owner, UCFAH's only remedy is to buy out the HCA Sub at Fair Market Value or sue for legal or equitable relief. Eviction is not an option under the lease. It is unclear what meaningful equitable relief would be available in the event of a default. If the HCA Sub files bankruptcy or fails to complete the Project on time under the development agreement, or if the HCA Sub materially violates any transfer of its ownership shares to a third party, UCFAH has the right to terminate the Operating Agreement and purchase the HCA Sub's share of the Company at FMV. Even if the transfer of shares is permitted, UCFAH has a right of first refusal to purchase the proposed transfer of shares at FMV.

The P3 Guidelines require a funding plan be described for any purchase option. UCF has stated its plan would be to find another partner to purchase the HCA Sub's share, raise the required funds through philanthropy or finance the purchase. While UCF is not required to provide any financing or funding for the Project, it will be located on UCF's campus and UCFAH's obligation to purchase the Project at FMV under various scenarios may create a situation where

UCF feels compelled to obtain funding for the purchase or to step in with financial assistance if the Project experiences distress.

In certain situations, UCFAH can terminate its ownership interest in the Company by requiring the HCA Sub to purchase its shares. In those cases, it would be paid the FMV of its investment. UCFAH can exercise its "put" options, by which UCFAH can require the HCA Sub to purchase its ownership interest, in the following circumstances: upon the annual release of the Company's financial statements; if the HCA Sub is transferring its interest to a third party; if the management agreement expires and is not renewed; if UCFAH reasonably determines that continuing will be adverse to UCF's reputation; and, at the end of the lease term. Exercising the put option extinguishes UCFAH's ownership interest in the Project, but the lease continues, leaving the HCA Sub as lessee of UCF property with no real oversight by UCFAH.

Benchmarks for Expansion:

As proposed, any future expansion of the hospital or other related facilities would not require Board approval. As shown on the Site Map, those potential projects include vertical expansion of the hospital, construction of an outpatient services and physician practice building, and additional parking. Growth in physical space will be driven by market conditions, with planned increases in inpatient beds being given consideration when they reach a consistent occupancy rate of 80% or more per year, to a maximum of 500 beds. Inpatient beds are planned to increase in blocks of 50. Other factors that will be considered before expansion are: when the emergency department receives 2,000 annual visits per emergency department bed; when an operating room is running 800 cases per year; and when parking capacity is constraining patient volume increases. No information has been provided about when expansion of medical offices would occur or what would drive those expansions.

P3 Justification:

UCFAH proposes to construct, finance, operate and maintain the Project utilizing a public-private partnership ("P3"). UCFAH asserts that a cost-benefit analysis provided by UCF shows a P3 approach generates more free cash flow when compared to UCFAH building the hospital using debt financing, as shown in the table below.

P3 Hospital Projected Net Revenues (In Millions)

Year	1	2	3	4	5	Total
P3 Free Cash Flow	$16.3	$17.2	$18.2	$19.3	$20.4	$91.0
Debt Financed	$11.2	$12.3	$13.4	$14.7	$16.1	$67.7
UCF Share	$3	$3	$3	$3	$4	$18.3
HCA Sub Share	$13	$13.7	$14.5	$15.4	$16.3	$72.9

The P3 model produces additional free cash flow; UCFAH would only receive its 20% share, or $18.3 million over 5 years, compared to the entire cash flow of $67.7 million if conventional financing was used.

UCF medical school personnel have explained that the above analysis with respect to the debt financed option was conservative and was developed to show a P3 approach generates more free cash flow. It was not intended to show which method would generate more cash for the medical school. They indicated the analysis does not take into account the significant risks associated with UCF operating any healthcare facility. UCF would likely face higher costs, less favorable managed care agreements, and lower revenues than those of a typical stand-alone hospital or one operated by HCA, which by virtue of being an industry leader can express a high level of confidence in achieving the pro forma targets. UCF states that a stand-alone hospital would struggle to achieve profitability. Furthermore, to build the hospital on its own, UCF or UCFAH would more than likely have to issue debt to finance construction and UCF has stated it is not willing to do so. Accordingly, UCF believes the P3 model being proposed provides the best opportunity for success of the hospital.

UCF contends that the partnership model will allow the integrated governance necessary for research and development without the need for an unacceptable level of financial investment, debt and risk. Neither UCF nor UCFAH will be required to provide any support for construction. However it is anticipated that UCFAH, as an equity partner, will provide operational support to the Project.

Quantitative Demand For Project and Quantitative Metrics:

A market feasibility study conducted by Sullivan Consulting Group, Inc., and Platt HMC, Inc., concluded that there is sufficient demand for a new 100-bed hospital to serve the rapidly growing area of

Orlando. The University's desire for the Project is its goal of obtaining additional funding for its College of Medicine, as well as support for its aspiration to become a national leader in education, research, and patient care and to advance its academic mission. Information provided shows UCF's College Of Medicine funding at one-tenth of the average of public medical schools or $68 million versus $639 million. Accordingly, UCF has set forth the following goals and metrics to measure the hospital's success:

A. Over a 5 year period, UCFAH is expected to net $18.3 million, and $40.6 million over the first 10-year period. The HCA Sub will net $73.1 million over 5 years and $162 million over 10 years. Based upon the cash outlay of the $15 million paid for the land, the Project generates an internal rate of return of 22% over 50 years (17% over 10 year pro forma period).

B. Faculty Practice. Eleven staff will be added to UCF Health faculty practice to start the hospital. This will grow to 22 in 5 years, and 44 in 10 years.

C. Medical student education. Creation of 146 medical student clerkships in the hospital in the first 10 years, then it will increase with any expansion.

D. Research. Double the medical school's research funding over the next five years from its current funding level of $6 to $9 million to $12 to $18 million within 5 years.

E. Additional Funding. Receive $4.3 million in Community Benefit funds for distribution by the UCFAH joint venture board members during the first ten years.

F. Philanthropy. Raise at least $2.2 million in additional pledges in the first five years of operations. Currently, there are $1 million in pledges.

While not tied directly to the hospital joint venture, UCF and HCA Sub have entered into a separate agreement whereby HCA Sub has committed to grow UCF Graduate Medical Education resident positions from a current 126 to 600 over five years.

Financing Structure: The Project will be funded with cash from the HCA Sub and not with project debt. No debt will be incurred by the University or UCFAH. The University is not obligated to provide any financial or operational support for the Project. UCFAH's contribution is the sublease of the 25.2 acres valued at $25.3 million and the University's brand, which has been valued at $16.2 million (subject to final valuations).

While the financing structure does not involve the use of any debt, the Operating Agreement does permit the use of debt with approval of the Company board. The Company can incur debt, including through loans by HCA Sub at the lesser of the highest rate allowed by law or a FMV (taxable) lending rate established by a qualified lender. UCF contends that because any debt would be that of the Company and not of UCFAH or UCF, no further Board approval is required. The result is that debt can be issued without any oversight by the Board. UCF's expressed concern is that Board oversight will not allow the Company to quickly react to market conditions.

State and local taxes on the property estimated at $900,000 annually will be paid by the Company.

Procurement: UCFAH issued an Invitation to Negotiate (ITN), a public and competitive procurement method, to ensure the selection of a highly qualified vendor. The ITN was publicly posted and staff solicited participation from vendors believed capable of meeting the solicitation criteria. UCFAH received responses from all three major health systems in Central Florida and unanimously selected HCA Sub for its partner, primarily because of the proposed ownership structure.

Security/Lien Structure: The Company will receive a leasehold interest in the site, and the HCA Sub will own 80% of the Project. Upon expiration of the ground sublease, UCFAH has the right to purchase the Project at FMV or to require that the HCA Sub purchase UCFAH's interest at FMV. According to UCF, federal law prohibits the HCA Sub from transferring the facilities to UCFAH free and clear at the term end. UCFAH has also stated that a transfer of the facility without payment is a disincentive to the HCA Sub to make an ongoing investment in the growth and expansion of the hospital.

University Support of Project: UCFAH will contribute a long-term sublease of 25.2 acres and the value of the UCF brand.

Analysis and Conclusion: Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the University in support of its request for Project approval. The Board of Governors has not directly authorized construction of a hospital facility since inception in 2003.

The Project would not impose additional costs on students and will provide opportunities for more research and training. UCF's desire to improve educational and research opportunities provides the demand for the Project, and a market feasibility study supports the community demand.

The Community Benefit payments as well as the 5 year guaranteed increase in residency slots from over 100 to over 600 by HCA Sub are significant positive indicators of HCA Sub's commitment to the partnership with UCFAH.

However, the Project does not meet all the criteria specified in the P3 Guidelines. The following addresses compliance with the P3 Guidelines or matters of concern that should be considered by the Board in rendering a decision:

The Board should consider if it wants to retain the right to approve the issuance of debt by the Company (as opposed to retaining the right to approve debt issued by UCF or UCFAH).

The initial scope of the Project is not completely defined. The P3 guidelines contemplate a defined facility, not the continued development of a project site over the course of 99 years. The initial Project is a 100-bed hospital and emergency room, but the future development and expansions broadly include "facilities and activities that implement or support the education, research or patient care activities of an academic medical center/health complex." These future expansions would be constructed without further Board approval, up to the 500 bed maximum size described, but with no constraints on additional facilities. UCF believes the HCA Sub will not agree to enter into a P3 relationship unless the Board authorizes the future development of the entire 25 acres in advance.

The sublease term with renewal option exceeds the 40 years provided by the P3 Guidelines. UCF's justification for exceeding the lease term is that the HCA Sub is unwilling to make the initial $175 million investment and continue investing in capital improvements in the Project without a "perpetual" agreement.

There are several situations where UCFAH can terminate its relationship with the HCA Sub through purchase of the HCA Sub's

80% position at FMV, such as if the HCA Sub files bankruptcy, at the end of the lease term or the HCA Sub defaults under the lease (eviction is not permitted). The P3 Guidelines address these types of events by requiring any purchase option to have a funding plan. UCFAH's financing plan for the purchase of the Project is to find another partner to purchase the HCA Sub's share, raise the required funds through philanthropy or finance the purchase. Finding another partner may be difficult, depending upon the circumstances, and an outright purchase by UCFAH would, more than likely, be cost prohibitive.

There are also situations where the relationship can be terminated by UCFAH requiring the Owner to purchase its 20% position at FMV. While this is an option, the result is that UCFAH is out of the joint venture but the Owner is still a tenant on university property.

Although the sublease is structured to run for 99 years, UCFAH intends the partnership to be perpetual. In practice, either UCFAH or HCA Sub can exit the joint venture whenever they desire. Under no circumstances will UCF be obligated to buy out HCA Sub, unless it chooses to do so.

While there is purportedly 50-50 governance, Major Decisions in certain cases will revert to the HCA Sub for a decision and deadlock on all minor decisions is broken by the HCA Sub.

UCF has ambitions for the Project to eventually be an academic medical center comparable in scope to those associated with other top national colleges of medicine. There will be a defined teaching component from day one, but achieving the goal of becoming an academic medical center by any measure versus a community hospital will take several years. UCF plans to start with 100 beds and increase its faculty, academic programs and research in proportion to the growth of the facility.

Recommendations: Board of Governor's staff recommends approval, subject to the following conditions:

The initial name of the facility should be specified by the Board in its Resolution, to clearly describe to the public the exact nature of the initial Project, and its capabilities. The UCFAH can return to the Board no sooner than 5 years from the Hospital opening date, if UCFAH desires to modify this designation.

Require an annual report be submitted to the Board regarding operations of the joint venture; including, but not limited to progress on performance metrics described herein.

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 UCF 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.

The Board's resolution contains provisions that using any debt financing or guaranteeing any debt by UCF or any of its direct service organizations is not allowed without prior approval of this Board.

Make the Project subject to Certificate of Need approval and all applicable Certificate of Need requirements as determined by the Agency for Health Care Administration.

Specify a maximum level of development for expansion.