



BOARD OF DIRECTORS

Special Meeting December 30, 2002 Minutes

Special Meeting on the Medical Arts and Research Building of Farmington

Ms. Leonardi called the meeting to order at 9:04 am.

- I. Public Comment – none
- II. Medical Arts and Research Building of Farmington (MARB)

The ad hoc Committee met on December 17, 2002 to discuss three models for financing the MARB. That committee recommended a proposal to have the Health Center lease land to the UCHC Finance Corporation (UCHCFC), for the UCHCFC to borrow 100% of the building cost, for UCHC to enter into a long-term master lease with the UCHCFC for the whole building and for UCHC to sublet space to the Farmington Surgery Center and other tenants (health care providers) as it is deemed appropriate by the Executive Vice President for Health Affairs, UCHC.

This was viewed as the best option given the historically low loan rates currently available. It also gives UCHC control of the building and tenants. After the mortgage is retired, UCHCFC will own the building. A resolution and supporting documents were distributed.

A general discussion then took place with the following issues raised:

- Clarification of why the UCHC land asset was represented as monetary equity in the joint venture model but not in the master lease model.
- Clarification that the financing would come in the form of a loan and not via the issuance of bonds.
- Discussion of the current costs of such loans. Initial inquiries by Shaddock suggest a current rate of approximately 6% is reasonable for a 20-year term and approximately 6.9% for a thirty-year term.
- Tax-exempt options – Due to IRS rules, CHEFA requires a non-profit, non-public instrumentality to be eligible. This could take some length of time to develop and even then, current rates in the private markets provide a better all in cost for UCHCFC. Other options might be developed such as

implementing legislative changes to make the UCHCFC an eligible entity. In addition, options will need to be researched and developed to determine if such tax exempt financing could be applied to the portions of the building occupied by private entities (the Surgery Center and private practitioners.) Given the limited timeframe (to become operational and to satisfy the CON deadline as well as to take advantage of the current low interest rate environment), we should obtain a non tax-exempt loan as soon as possible and, if appropriate, refinance with a tax-exempt vehicle later. When securing a loan, no or low prepayment penalties would be desirable.

- Pro-forma sensitivity to changes in market interest rate was presented – A 50 basis point increase in the interest rate would result in a \$1/sq.ft. higher lease cost.
- Facilities and administrative (F & A - indirect research grant) costs – The pro-forma showed the increase in F & A that is expected from new research activity which is a result of development of the building's planned new research space. The increase is a portion of the increased cash flow to the UCHC that is expected which will be used to offset debt service costs.
- Increases in clinical volume – The pro-forma calls for increases in clinical volume, especially in the areas of radiology and rehabilitation. These projections are based on our current trends of significantly expanded volume and projections of increased population growth in the Farmington River Valley. The physical design of the new space will increase patient accessibility to the building as well as enhance patient flow. These will make the site more attractive to patients while also increasing our capability to handle larger patient volumes.
- Role of the Board of Trustees (BoT) – The MARB was originally on the agenda of the BoT before the UCHC Board of Directors became operational. The financing model has changed since the initial BoT presentation. Therefore, although the BoD has full jurisdiction over this matter, the BoT will also be asked to approve the resolution.
- Non-UCHC physician tenants – UCHC will be in position to determine the type and number of providers and provider groups to whom it will sublet. Full occupancy with the correct mix of specialists will be critical to the success of this project.

On a motion made by Mr. Marks and seconded by Dr. Lawrence, the following resolution was approved by a vote of 10 Yes, 0 No and 1 Abstention (Mr. Samuels):

That the Board of Directors authorizes the University of Connecticut Health Center (UCHC) and the University of Connecticut Health Center Finance Corporation (UCHCFC) on behalf of UConn Medical Group, to proceed with a transaction for the creation of the Medical Arts and Research Building of Farmington (MARB), a building to be located on the campus of UCHC, and

That the Board of Directors authorizes UCHC and UCHCFC to execute and deliver such documents and to take or cause to be taken such actions as are necessary or advisable to create the MARB, including, entering into (i) a long-term ground lease and/or lease of development rights from UCHC to UCHCFC with respect to the property, valued at \$2.5 million, on which the building is to be constructed, (ii) a

long term master lease from UCHCFC to UHC for all the building, with portions of the space to be sublet to the Farmington Surgery Center and private third parties, (iii) a mortgage loan to UCHCFC to finance the full cost of construction of the building and related expenses, and (iv) such related agreements as may be necessary or advisable to implement planning and construction of the building.

The BoD advised management to update the Office of Health Care Access on our new plans for financing the MARB since they are different from those described in the approved Certificate of Need regarding the Farmington Surgicenter.

There being no further business, the meeting was adjourned at 9:52 am

Respectfully submitted,

Peter J. Deckers, M.D.

Attendees

J. Abromaitis-by phone, L. Aronson, R. Berlin, PJ Camp-by phone, B. Carlson, B. Chudwick, J. Comerford, A. Cooper-by phone, P. Deckers, T. Devers-by phone, J. Goldberg, M. Hammond-by phone, M. Kamens, W. Kleinman, G. Lawrence, C. Leonardi-by phone, D. Marks-by phone, P. McManus, M. Meacham-by phone, J. Rabkin-by phone, J. Rowe-by phone, R. Samuels-by phone, P. Struzzi-by phone, D. Upton-by phone, S. Wetstone