

Meeting No. 1,164

THE MINUTES OF THE BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Pages 1 - 19

June 28, 2017

Houston, Texas

MEETING NO. 1,164

WEDNESDAY, JUNE 28, 2017.--The members of the Board of Regents of The University of Texas System convened a special called meeting at 10:10 a.m. on Wednesday, June 28, 2017, in the Town Hall Room at the Hilcorp Energy Company Corporate Office, 1111 Travis Street, Houston, Texas, with the following participation:

ATTENDANCE.--

Present

Chairman Foster

Vice Chairman Hicks

Vice Chairman Hildebrand

Regent Aliseda

Regent Beck

Regent Eltife

Regent Longoria (present for Executive Session and Items 3 and 4)

Regent Tucker

Regent Weaver

Regent Castro, Student Regent, nonvoting

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Chairman Foster called the meeting to order in Open Session. He thanked Vice Chairman Hildebrand for hosting the Board at the headquarters of Hilcorp Energy Company and welcomed Student Regent Castro to his first in-person Board meeting. Regent Castro is pursuing a Master's of Business Administration degree with a concentration in real estate finance at The University of Texas at San Antonio.

[Secretary's Note: On April 26, 2017, Governor Greg Abbott appointed Mr. Jaciel Castro, San Antonio, Texas, as Student Regent to the Board of Regents of The University of Texas System to serve for a term from June 1, 2017 to May 31, 2018.]

AGENDA ITEMS

1. U. T. System: Report and discussion of debt programs and debt capacity

This item was considered after Item 2.

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, reported on debt programs and debt capacity for The University of Texas System and answered questions from members of the Board.

2. U. T. Southwestern Medical Center: Discussion and appropriate action regarding a) authorization to enter into and operate a nonprofit corporate entity with Texas Health Resources for the development of a medical office building, hospital, and parking garage on the east side of the Dallas North Tollway north of Eldorado Parkway in Frisco, Collin County, Texas, and for the operation thereof for clinical use; b) allocation and authorization of expenditure of up to \$139.7 million of institutional funds for U. T. Southwestern Medical Center's portion of the total project cost; c) delegation of authority to the President to execute related documents and take other action necessary; d) authorization to purchase approximately 1.2 acres of property improved with an approximately 120,000-square-foot medical office building at the completion of its construction; e) allocation and authorization of expenditure of institutional funds for the purchase of the approximately 1.2 acres of property that will be based on an actual fair market value appraisal expected to be approximately \$1.2 million and of up to \$50 million of Revenue Financing System Bond Proceeds to purchase the medical office building; f) delegation of authority to the Executive Director of Real Estate to execute related documents and take other necessary action; g) resolution regarding parity debt; and finding of public purpose

Item 2 was considered before Item 1.

Executive Vice Chancellor Kelley and President Podolsky answered questions from members of the Board related to funding, financing, and the management structure of and responsibilities for this revenue-generating project at The University of Texas Southwestern Medical Center. While Texas Health Resources (THR) will be directly managing the project, U. T. Southwestern's Project Advocate overseeing the project is Dr. Mack Mitchell. Dr. Podolsky also spoke of the growing Frisco community and new patient base and payor mix, which will provide new educational and research opportunities for students and faculty. He also noted the partnership with THR is expected to optimize U. T. Southwestern's mission and resources by ensuring a pipeline of patients requiring specialty care to the main campus.

The Board

- a. authorized U. T. Southwestern Medical Center to enter into and operate a nonprofit corporate entity with Texas Health Resources, a Texas nonprofit

corporation, and/or its affiliate, for the development of a medical office building, hospital, and parking garage on the east side of the Dallas North Tollway north of Eldorado Parkway in Frisco, Collin County, Texas, and for the operation thereof for clinical use;

- b. authorized allocation and expenditure of up to \$139.7 million from unrestricted institutional funds for U. T. Southwestern Medical Center's portion of the total project cost (hospital, medical office building, garage, and associated land), with the understanding that no state-appropriated funds or tuition revenues will be used;
- c. delegated authority to the President of U. T. Southwestern Medical Center to execute all documents, instruments, and other agreements and to take all further actions deemed necessary to carry out the purpose and intent of the foregoing actions, following review and approval by the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel;
- d. authorized the purchase by the Board on behalf of U. T. Southwestern Medical Center of approximately 1.2 acres of property improved with an approximately 120,000-square-foot medical office building at the completion of its construction, the land at a price not to exceed fair market value as determined by independent appraisal and the building to be at a price based on the costs to develop and build the facility;
- e. authorized allocation and expenditure of unrestricted institutional funds for the purchase of the approximately 1.2 acres of property described above in (d) that will be based on an actual fair market value appraisal expected to be approximately \$1.2 million and of up to \$50 million of Revenue Financing System (RFS) Bond Proceeds to purchase the medical office building, also described above in (d);
- f. delegated authority to the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations; and
- g. resolved in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that parity debt shall be issued to pay the cost to purchase the medical office building, including any costs prior to the issuance of such parity debt; sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System; and U. T. Southwestern Medical Center, which is a "Member" as such term is used in the Master Resolution,

possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of up to \$50 million.

The Board also made a finding that the formation of the nonprofit for the development of a medical office building, hospital, and parking garage supports the public mission of and serves public purposes appropriate to the functions of U. T. Southwestern.

On October 2, 2015, the Board of Regents approved the formation of a health care network with THR, a Texas nonprofit corporation, known as Southwestern Health Resources, to enable U. T. Southwestern Medical Center to enhance its abilities to serve its multiple public purposes and specifically to deliver high quality health care across the entire care continuum. The Board also approved allocation and expenditure of \$63 million of unrestricted institutional funds over three years to support the new clinical health network.

The formation of a new nonprofit for the development of a medical office building, hospital, and parking garage in Frisco, Texas, (the Frisco Transaction) will be an extension of the activities of Southwestern Health Resources. The Frisco Transaction will further support the public mission and serve the public purposes appropriate to the functions of U. T. Southwestern Medical Center by enhancing its ability to a) deliver and manage high quality health care to a larger population across the entire care continuum; b) provide its students, residents, and other trainees with expanded opportunities for exposure to all dimensions of care delivery necessary in the aggregate to care for an entire community; and c) perform patient-oriented clinical research, translational research, and health service research.

THR and U. T. Southwestern Medical Center will form and operate a separate, yet-to-be-named nonprofit corporate entity (the Nonprofit) for the purpose of developing a healthcare campus in Frisco (Frisco Medical Campus). THR's and U. T. Southwestern Medical Center's membership interests in the Nonprofit will be 51% and 49%, respectively. The joint effort will result in the construction of a hospital, medical office building, and parking garage on the Frisco Medical Campus. The Nonprofit will be subject to all proper and necessary safeguards and controls by U. T. Southwestern Medical Center to ensure its public purpose will continue to be met on an ongoing basis.

The Nonprofit will purchase the land currently owned by THR at an arms-length, fair market value for the construction of the hospital, medical office building, and parking garage. The fair market value of the land associated with the medical office building is currently estimated at \$1.2 million. U. T. Southwestern Medical Center finds value and efficiencies in the purchase of this land associated with the medical office building because of its location and the preparatory site development efforts completed by THR.

The total cost of the building improvement and finish-out, equipment, working capital for the 140-bed acute care hospital and parking garage, and associated land is estimated to be \$233.8 million. U. T. Southwestern Medical Center's portion of the total project cost for the hospital and parking garage is estimated at \$114.6 million. U. T. Southwestern Medical Center will maintain a 49% interest in the hospital and parking garage through the Nonprofit.

In addition, the total project cost of the approximately 120,000-square-foot medical office building is estimated at \$50 million for the building improvement and finish-out, plus \$1.2 million for land. The \$51.2 million will initially be funded jointly with THR in the same proportions as the hospital and parking garage. U. T. Southwestern Medical Center's portion of the initial funding of the medical office building and land is estimated to be \$25.1 million. In total, U. T. Southwestern Medical Center will contribute \$139.7 million for its portion of the total project cost to build the hospital, medical office building, and parking garage.

Upon the completion of construction, the Board on behalf of U. T. Southwestern Medical Center will purchase the medical office building from the Nonprofit at the cost of the land, building development and construction, and capitalized interest, which is currently estimated at \$51.2 million. The purchase of the medical office building from the Nonprofit will then trigger a distribution from the Nonprofit to U. T. Southwestern Medical Center in an amount equal to U. T. Southwestern Medical Center's initial funding of the building and land, estimated to be \$25.1 million. Rights to use 343 parking spaces in the adjacent parking garage to serve the medical office building will be secured from the Nonprofit through a separate agreement. Finally, U. T. Southwestern Medical Center will procure \$7.5 million of medical equipment for these clinical service areas following standard procurement requirements and after seeking approval from the Board at a future meeting. In summary, the total purchase price for the medical office building, including the land, is expected to be \$51.2 million, with \$50 million funded by RFS Bond Proceeds and \$1.2 million in institutional funds. The \$50 million in additional RFS debt will be repaid from clinical revenue. Annual debt service on \$50 million RFS debt is expected to be \$2.96 million. The institution's debt service coverage is expected to be at least 2.6 times and average 2.9 times over Fiscal Years 2017-2022.

U. T. Southwestern Medical Center will operate ambulatory clinics within the medical office building, initially using approximately 90,000 square feet of the building to provide clinical service in areas such as gastroenterology, general surgery, otolaryngology, plastic surgery, traumatic brain injury/concussion, spine, and orthopedics/sports medicine. The remaining 30,000 square feet of the building is planned for lease to community physicians, including the Texas Health Physicians Group. The building will follow the current naming convention for U. T. Southwestern Medical Center satellite clinics – the U. T. Southwestern Medical Center at Frisco.

A PowerPoint presentation is set forth on the following pages.

U. T. Southwestern Medical Center Frisco Medical Campus Expansion

Daniel K. Podolsky, M.D., President

U. T. System Board of Regents' Meeting
June 28, 2017



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

WWW.UTSYSTEM.EDU

U. T. Southwestern Medical Center Clinical Strategy

- To meet challenges of the rapidly changing health care environment, this initiative is part of UTSWMC's overarching clinical strategy:
 - Extension of Southwestern Health Resources, UTSWMC's innovative partnership with Texas Health Resources (THR)
 - Increased access to manage large populations of health care consumers
 - Greater ability to provide value in a broader geography and referrals within the system
 - Simultaneously serves core missions through new educational and clinical research opportunities



U. T. Southwestern Medical Center

Public Purpose

- Participation in the formation and operation of the Frisco Medical Campus helps UTSWMC to fulfill public purposes in furtherance of its mission
 - The delivery of UTSWMC health care services to Frisco and the surrounding areas will improve the health of the community by providing expanded access to the highest quality care
 - The expansion in Frisco is conducive to financial sustainability and will allow UTSWMC to continue to focus on investments in its missions that cannot be adequately supported by state funds alone
 - The project will also enhance UTSWMC's ability to conduct outstanding research and provide its students, residents, and other trainees with expanded opportunities for exposure to all dimensions of care delivery



U. T. Southwestern Medical Center Frisco Medical Campus Expansion

- Frisco offers a unique opportunity for UTSWMC to continue the geographic expansion of its clinical enterprise and leverage its partnership with THR
 - In addition to continued population growth in Frisco and neighboring cities, the Dallas North Tollway corridor includes communities with the highest managed care participation rates in North Texas
 - Failure to quickly enter this rapidly expanding market could result in unrecoverable loss of market share



U. T. Southwestern Medical Center Frisco Medical Campus Expansion

- 140-bed acute care hospital jointly owned with THR
 - 74 acute beds operational at opening and 60 shelled
 - 6 bed NICU, 8 operating rooms (4 inpatient and 4 outpatient)
 - 20 bed emergency department
- 120,000 SF Medical Office Building owned and operated by UTSWMC
 - UTSWMC will operate a multi-specialty clinic staffed by 46 specialists in 90,000 square feet
 - Space will also be available for community physicians, including Texas Health Physicians Group



U. T. Southwestern Medical Center Frisco Medical Campus Expansion (cont.)



Minutes - 11

June 28, 2017 Meeting of the U. T. System Board of Regents



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

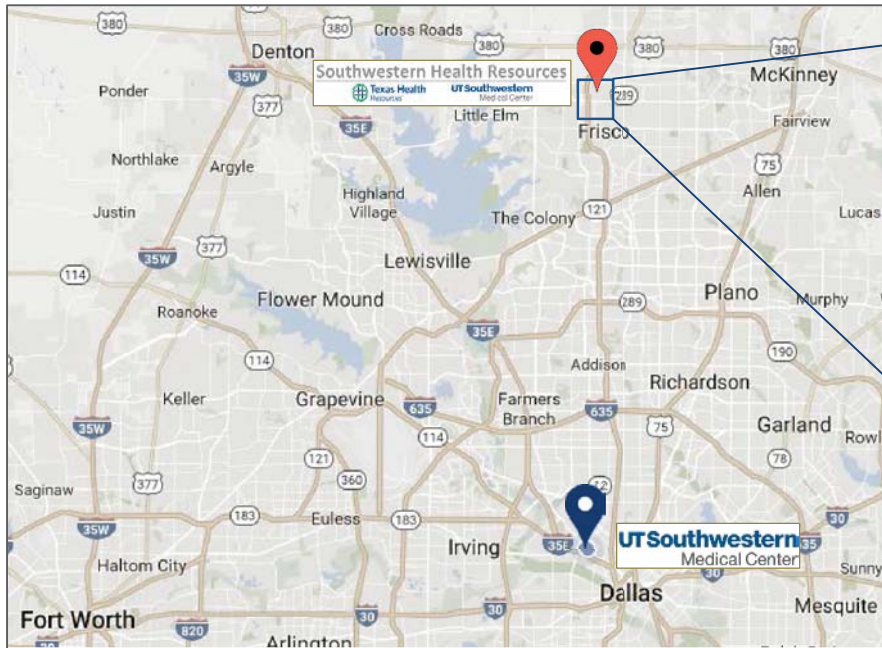
WWW.UTSYSTEM.EDU

U. T. Southwestern Medical Center Frisco Medical Campus Expansion (cont.)



U. T. Southwestern Medical Center Frisco Medical Campus Expansion (cont.)

Minutes - 13



June 28, 2017 Meeting of the U. T. System Board of Regents



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

WWW.UTSYSTEM.EDU

U. T. Southwestern Medical Center Frisco Medical Campus Expansion (cont.)

- \$233,800,000 Total Hospital Project Cost
- \$114,562,000 UTSWMC Cost (49%)
 - \$114,562,000 Institutional Funds

	Cost	GSF	Building Cost/GSF
Building	\$ 137,200,000	325,000	\$422
Parking & Roadways	\$ 11,300,000	N/A	N/A
Land	\$ 10,800,000	N/A	N/A
Equipment & Other	\$ 45,500,000	N/A	N/A
Miscellaneous & Contingency	\$ 11,600,000	N/A	N/A
Working Capital	\$ 17,400,000	N/A	N/A



U. T. Southwestern Medical Center Frisco Medical Campus Expansion (cont.)

- \$58,700,000 Medical Office Building Total Project Cost
 - \$50,000,000 Revenue Financing System Bonds
 - Building improvement and finish out, plus fixed equipment & furniture
 - Initially, the building will be jointly funded with THR in the same proportion as the hospital. Upon completion, the Medical Office Building will be sold to UTSWMC at cost
 - \$7,500,000 Revenue Financing System Commercial Paper
 - Major medical equipment that will be purchased directly by UTSWMC to be used in the Medical Office Building and will remain property of UTSWMC
 - \$1,200,000 Institutional Funds
 - Land for the Medical Office Building that UTSWMC will purchase



U. T. Southwestern Medical Center Frisco Medical Campus Expansion (cont.)

- \$58,700,000 Total Project Cost

	Cost	GSF	Building Cost/GSF
Building	\$ 45,300,000	120,000	\$377
Fixed Equipment & Furniture	\$ 2,200,000	N/A	N/A
Contingency	\$ 1,000,000	N/A	N/A
Capitalized Interest	\$ 1,500,000	N/A	N/A
Major Medical Equipment	\$ 7,500,000	N/A	N/A
Land	\$ 1,200,000	N/A	N/A



RECESS TO EXECUTIVE SESSION.--At 10:54 a.m., the Board recessed to convene in Executive Session, in the Conference Room, Ninth Floor, Hilcorp Energy Company Corporate Office, Bayou Segnette Conference Center, Room 9.2466, pursuant to *Texas Government Code* Sections 551.071, 551.073, and 551.074 to consider the matters listed on the Executive Session agenda.

RECONVENE IN OPEN SESSION.--The Board reconvened in Open Session at 2:24 p.m. in the Town Hall Room. No action was taken on the following items discussed in Executive Session and the Board considered the following Agenda Items.

1. U. T. System: Discussion and appropriate action regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions), U. T. System Administration officers (Deputy Chancellor, Executive Vice Chancellors, and Vice Chancellors), other officers reporting directly to the Board (Chancellor, General Counsel to the Board, and Chief Audit Executive), members of the Board of Regents, and U. T. System and institutional employees

No action was taken on this item.

- 2a. U. T. System Board of Regents: Discussion with Counsel on pending legal issues

No action was taken on this item.

- 2b. U. T. System Board of Regents: Discussion and appropriate action regarding legal issues concerning permissible expenditure of Available University Funds (AUF) and Permanent University Funds (PUF)

No action was taken on this item.

- 3a. U. T. System Academic Institutions: Discussion and appropriate action regarding proposed negotiated gifts with potential naming features

No action was taken on this item.

- 3b. U. T. System Health Institutions: Discussion and appropriate action regarding proposed negotiated gifts with potential naming features

No action was taken on this item.

AGENDA ITEMS (continued)

3. U. T. System: Discussion and possible appropriate action regarding Available University Fund (AUF) expenditures, budget issues, and funding sources (Deferred)

This item was deferred.

4. U. T. System: Discussion and possible appropriate action concerning preparation for the July 2017 Board Retreat on issues related to the U. T. System, U. T. Academic Institutions, U. T. Health Institutions, and U. T. System Administration, including but not limited to roles and missions; past, current, and future budgets; and critical, essential, and enhancing functions of U. T. System Administration

Chairman Foster called for remarks under this item, and Regent Tucker provided the following remarks.

Remarks by Regent Tucker

Thank you, Mr. Chairman. First, let me acknowledge to the Chancellor and to my colleagues, this was one of the most engaging and productive conversations that I think we have had. And I just want to thank everybody for how well prepared you came and the healthiness of the conversation that we had. Mr. Chairman, I think you said it best when you said, “when we were founded, we did not look like we do today.” We are now 14 institutions, and we are a system of 14 institutions, and if we are going to look at our function and if we are going to look at our purpose, it all stems from what we are here to do. And I think it falls on each of us to look at the wonderful work that Dr. Safady did in our book to see what other Systems have done that have the complexity that we do. Look at the rigor that they put into establishing a vision. And then that vision is where we want to be in 30 years. The mission: what we do today to get there. And the values: how we do it. And I would ask my colleagues if between now and our July Board meeting, we could take a look at that, take a look at the historical vision/mission statements that we have had, and come prepared to have a good conversation, because at the end if we are united in what we think our vision for the future is (and) our mission and our values, then I think all of our work will stem from that, and I think we can have a great July meeting.

Chairman Foster echoed Regent Tucker’s remarks that this meeting was productive and informative. He said he is encouraged that the Board will come out of this process following the July 2017 meeting and retreat with a much improved mission such that the System will be better for it for the long term. He thanked Chancellor McRaven for his input.

Chancellor McRaven commented that this was the best Board meeting he had been to in his two and half years as Chancellor. He said he appreciated the insights of members of the Board and said he looks forward to moving forward with direction from the Board. He also stated that he is excited to identify and implement the vision and mission that the Board is looking forward to.

ADJOURNMENT.--At 2:28 p.m., there being no further business, the meeting was adjourned.

Tina E. Montemayor
Assistant Secretary to the Board of Regents

August 4, 2017