

MINUTES

Joint Executive Committee and Business and Finance Committee  
and Campus Planning and Plant Management Committee

Board of Trustees

Temple University - Of The Commonwealth System  
of Higher Education

Tuesday, October 6, 1992

12:15 P.M., Room 200, Sullivan Hall, Park & Berks Malls

Attendance:

Executive Committee Members - Anthony J. Scirica, Chairman;  
Patricia J. Clifford, Louis J. Esposito, Richard J. Fox\*,  
Clifford Scott Green, Irving K. Kessler,  
Peter J. Liacouras\*, R. Anderson Pew, Milton L. Rock,  
Isadore A. Shrager\*,

(\*member of Executive and Campus Planning and  
Plant Management Committees)

being a quorum of the Committee

Business and Finance Committee Members - John J. Contoudis,  
Richard J. Fox\*, Lewis F. Gould, Jr.\*,  
Peter J. Liacouras\*, Joseph W. Marshall, III

(\*member of Business and Finance and Campus  
Planning and Plant Management Committees)

Campus Planning and Plant Management Committee Members -  
Louis J. Esposito, Chairman\*, Nicholas A. Cipriani,  
Lewis F. Gould, Jr., Richard J. Fox\*, Peter J.  
Liacouras\*, Isadore A. Shrager\*

(\*member of Executive and Campus Planning  
and Plant Management Committees)

Administration and Staff - Richard A. Chant, Steven R. Derby,  
James W. England, Richard M. Englert, Jack E. Freeman,  
Thomas R. Freitag, Marvin J. Gerstein, Robert H. Lux,  
Leon S. Malmud, Allen R. Myers, Jesse Milan,  
Arthur C. Papacostas, David V. Randall, A. Kent Rayburn,  
Laurent J. Remillard, William G. Sites, Valaida S.  
Walker, James S. White, Beverly L. Breese

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Executive Committee Non-Voting Advisory Members Attending -  
Mark W. Haller (Faculty), Leonard Mellman (Alumni)

Business and Finance Committee Non-Voting Advisory Members Attending - Frank D. Cox (Alumni), Carson Schneck (Faculty)

Campus Planning and Plant Management Committee Non-Voting Advisory Members Attending - Victor A. Marcus (Alumni)  
David Glasser (Faculty)

University Counsel - George E. Moore, Caroline Werther

General Counsel - Michael L. Lehr

Executive Committee Members Absent - Harry P. Begier, Jr.,  
Paul A. Dandridge, Lacy H. Hunt, Edward H. Rosen

Business and Finance Committee Members Absent - Theodore Z. Davis, Peter D. DePaul, Lacy H. Hunt, D. Donald Jamieson, William W. Rieger, Francis R. Strawbridge, Anthony Hardy Williams, James A. Williams, Clare L. Wofford

Campus Planning and Plant Management Committee Members Absent  
- Harry P. Begier, Jr., Paul A. Dandridge,  
Theodore Z. Davis, Peter D. DePaul, James A. Williams

Executive Committee Non-Voting Advisory Member Absent -  
Fabio Polanco (Student)

Business and Finance Committee Non-Voting Advisory Member Absent - David Smedley (Student)

Campus Planning and Plant Management Committee Non-Voting Advisory Member Absent - Ruth Eichmiller (Student)

Refinancing of the Hospital Series 1986 Capital Bond Issue and Financing of Certain Capital Projects at Temple University Hospital

Mr. Fox noted that the new Temple University Hospital was financed, in 1986, through an FHA insured mortgage which seemed to be the best medium available to us at the time. Because of the drop in interest rates over the last twelve months, we can now consider other options which have less restriction on the operation of the Hospital and on our ability to add improvements to that campus. Today's discussion will focus on a new financing opportunity.

Vice President Remillard gave the presentation of the Temple University Hospital Series 1992 Bond Issue (Issue). It is attached to these Minutes as SUPPLEMENT I. The Issue is without recourse to the University except as to the assets of the Hospital.

The current FHA Bond Issue has several restrictions which hamper the Hospital's ability to do business. It places a mortgage on all of the Hospital's assets. Several years ago, when we requested additional financing, the FHA required recourse to the University. They also required that any major undertaking by the Hospital receive very specific approval by them. Also, the approval process could not begin until a Certificate of Need was in hand. Paying off the FHA Bond Issue would facilitate future affiliations or mergers.

Mr. Remillard explained each page of SUPPLEMENT I to the Board.

He said the Series 1992 Bond Issue would permit the Hospital to obtain low cost, tax exempt debt or bank loans on a timely basis. As the market stands today, we would issue the bonds at a 7.04% interest rate. The debt being proposed is \$144 million and the balance outstanding, after debt service reserve, would be less than \$125 million. Although we intend to incorporate new financing for new projects into the refinancing, we are not, today, asking for approval of the projects.

There are \$67 million of major capital projects, the most significant of which are the Ambulatory Care Building and the Parking Garage. We are proposing that the Issue cover those two projects. We propose to raise \$32 million as part of the bond issue, and \$13.7 million from release of the funded depreciation reserve. The balance of the projects would be funded by using Hospital accumulated cash.

In 1983, the cash outflow of the current issue would be \$14.5 million compared to \$7.7 million under the new Issue. This because the payment being made to the FHA has a principal component to it which would be delayed under the new Issue.

In comparing possible issuers of the bonds, Mr. Remillard noted that the 1986 Tax Reform Act gave Pennsylvania State-related universities authority to be direct issuers of tax exempt bonds. He said that authority removes a \$150 million maximum that other tax exempt issuers must live with. It also eliminates the fees that an authority charges and removes the requirement that the borrowing be for a term comparable to the age and life of the asset being acquired. If the Hospital were a 501C-3, it could not issue direct. Therefore if we separate off the Hospital, the IRS may rule that the Issue is no longer tax exempt; and the Hospital would

have to pay it off and call it in. Ballard Spahr evaluates that risk at 50/50.

The bonds could also be issued through the State authority or the City authority. The State authority usually does not finance hospitals; therefore, we propose that we go directly to the City of Philadelphia. The present value cost of going through the City is \$208,000 at today's rates; however, we will be putting \$2.2 million into the City coffers over the period of the issue.

Standard and Poor's has rated the Issue BBB; it is the lowest investment grade rating. Their major concern is the short history of the turn around at the Hospital. If we wait another year, we might be able to get an A rating; but the risk is that interest rates might change or the State's reimbursement plan might not be as good as it is today.

If we issue the bonds directly, we could price them on October 15th and get the money on November 10th; but we are not proposing that timetable. If we go through the City, the timing changes because you must have public hearings, a resolution from City Council, etc. The earliest we could expect to issue through the City would be December 16th; but December is not a good month for issuing bonds.

In summary, Mr. Remillard said that through 1996 the Hospital's cash position would increase to \$63.9 million. The Fund Balance, the equity account of the Hospital, would go from \$51.2 million to \$79.8 million. Because of new debt, we would end up at \$122.9 million.

The Series 1992 Bonds would be underwritten by J.P. Morgan.

Mr. Pew asked if the refinancing would expose the endowment and physical plant of the University and Mr. Remillard said it would not.

Mr. Fox suggested that the financing of the Ambulatory Care Building and the Parking Garage be removed from consideration at this time. Final approval of those two projects as well as the final amount of the bond issue would be determined at a subsequent meeting of the Board. Before approval is given for the Ambulatory Care Building, we want to understand the income stream it will produce. Mr. Pew asked that the Board also be informed of the effect these two projects will have on the refinancing of the bond issue.

In response to Mr. Pew, Dr. Malmud said that the Parking Garage will not be a net producer of revenue but a drain in terms of adding cost to the Hospital. However, it is necessary for the

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continued growth of the Hospital. The Ambulatory Care Building represents an area in which our Hospital is deficient. It does not have adequate outpatient facilities. When the two projects come before the Board for consideration, Dr. Malmud said he will address them in terms of the totality of the Hospital. They do not pay for themselves; but without them, the Hospital will not be in a competitive position.

Mr. Fox suggested that further discussion on the two projects be held until the next meeting of the Board. He will raise the question of the two projects either at the next meeting of the Executive Committee or when the schedule requires us to meet, if sooner than the next Executive Committee meeting.

On motion duly made and seconded the Campus Planning and Plant Management Committee, the Business and Finance Committee and the Executive Committee voted to recommend that the Board of Trustees, upon advice of University Counsel and the Hospital Board of Governors, authorize the officers to do all acts and sign and deliver all documents required to issue the Temple University Series 1992 Capital Bond Issue (Temple University Hospital), on a non-recourse basis with respect to the University, in an amount sufficient to provide for the refunding of the Series 1986 Capital Bond Issue (Temple University Hospital), the refinancing of three operating leases issued by Bell Atlantic Tricom Leasing, the purchase of equipment in an amount sufficient to offset the transfer from the University as a whole to the Hospital of the unamortized cost of the renovations made to the Parkinson Pavilion, and to provide financing for certain new capital projects, in an aggregate principal amount not to exceed \$150 million, subject to Board of Trustees' review and approval of the new capital projects, and with the proviso that the Executive Committee determine the appropriate time and appropriate vehicle for this transaction.

President Liacouras said this recommendation will go next to the full Board. Once the Board approves, the Executive Committee will receive delegation to determine the time and modality for refinancing. The new projects and any project over \$50,000 requires the approval of the Board of Trustees.

#### ADJOURNMENT

The meeting of the Joint Committee was adjourned at 1:50 P.M.