

UWHCA

Rehabilitation Hospital Development and Funding

February 5, 2014

Background:

The UWHCA Board has approved the joint venture with Centerre, a for-profit rehabilitation hospital management company. The intent is to build a 50-bed rehabilitation hospital on a separate parcel of land adjacent to the American Center. Initially our intent was to contract with a developer to build and lease the facility to the joint venture.

Current:

Subsequent to the approval, a question was raised about advantages of UWHC serving as developer, owner and lessor of the facility. The analysis of that issue follows:

<u>UWHC as Developer/Owner/Lessor</u>	<u>Independent Developer/Owner/Lessor</u>
+ Maintain control of property	- Limits on modifications, space use, etc.
+ Lower cost (retain developer profit)	- Higher cost (profit component)
+ Avoid “paying twice” for facility	- Long term rental ≈ “paying twice”
+ We own a valuable asset at end of “term”	- Developer owns property at end of term
+ Avoid rental market anomalies	- Market rent adjustments at renewal
- Uses cash or debt capacity	+ Preserves cash – but likely a capital lease (debt)
<i>“+” signifies an advantage</i>	<i>“-“ signifies a disadvantage</i>

Management believes there are compelling advantages for UWHCA to develop and own the facility and lease it to the joint venture.

Project funding:

The estimated cost of the project is \$20 million. It is managements’ recommendation to fund the construction using cash. This will reduce days cash on hand (DCOH) by 6-7 days. If UWHCA were to borrow funds directly for the project, it is our understanding that this has the adverse tax implications of “debt financed leased property” (all of the rental income paid by the JV to UWHCA becomes taxable).

Management recommendations:

1. UWHCA develop and finance the rehabilitation hospital and serve as lessor.
2. Use operating cash as the source of funds.
3. Formal recommendation for approval:
 - a. Recommendation to approve development by UWHCA of the Rehabilitation Hospital and to finance up to \$20m though the use of operating cash.