

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

EXECUTIVE COMMITTEE

**MAY 9, 2013
2:00 P.M.**

**FREDERICK P. WHIDDON ADMINISTRATION BUILDING
AD 130, BOARD ROOM**

AGENDA

Approve: Public Request for Proposals for the Sale of Knollwood Hospital, Professional Office Buildings and Land.

RESOLUTION

**PUBLIC ANNOUNCEMENT FOR REQUESTS FOR PROPOSALS
FOR THE SALE OF USA KNOLLWOOD HOSPITALS,
MEDICAL OFFICE BUILDINGS ONE, TWO, THREE, AND FOUR,
WITH FURNISHINGS AND EQUIPMENT AND ADJACENT ACREAGE**

WHEREAS, the University of South Alabama (USA) owns two hospital buildings, previously known as USA Knollwood Hospitals, as well as interest in four professional office buildings on the Knollwood campus known as Medical Office Buildings One, Two, Three, and Four, and certain attendant furnishings and equipment, (Knollwood Campus) and approximately seventeen acres adjacent to the Hospitals (collectively, the Parcel), all of which have been utilized by USA, either directly or through lease, to provide not only health care services and related resources to the people of Mobile and surrounding communities but, also, a site for education and research activities of USA's Colleges of Medicine, Nursing, and Allied Health Professions; and

WHEREAS, in 2005 the University of South Alabama determined that leasing its assets on Knollwood Campus as described above, with the exception of the additional acreage, was in the best interest of the University in that it would allow USA to continue to enhance its valued missions of health care education, research, and service on the Knollwood Campus; and

WHEREAS, effective December 16, 2005, and commencing April 1, 2006, Infirmiry Health Hospitals, Inc. (IHH) leased all of the above-described Knollwood Campus assets owned by USA, renaming it Infirmiry West, for a period of 50 years, with the option to renew for another term of 49 years, during which time it would work to enhance the clinical services currently offered and increase the number of community based primary care physicians and medical specialists on the medical staff to serve the community need; and

WHEREAS, because USA could adequately continue its mission without owning the above-described property, it has considered the sale of its interest in same; and

WHEREAS, IHH, while continuing to lease the property from USA, totally ceased the hospital operations of Infirmiry West in October 2012, indicating that the Affordable Care Act was a significant contributing factor; and

WHEREAS, due to the unique nature of the property as described in the Declaration of Best Interest attached hereto, including the cessation of hospital operations, the uncertainty of continuation of the lease by IHH, the costly nature of the property whether operating as a hospital or not, and the distance of this property from the current center of operation of the USA Health System and Colleges of Medicine, Nursing, and Allied Health Professions, USA believes it to be in the best interest of the university and the State of Alabama to proceed with negotiations after publicly announcing requests for proposals for the sale of USA's interests in the Parcel;

BE IT THEREFORE RESOLVED, that the University of South Alabama Board of Trustees, having considered the above and determined that the sale of USA's interest in the USA Knollwood Hospitals (Infirmiry West), Medical Office Buildings One, Two, Three, and Four, as well as equipment and furniture located in the hospital buildings, and the adjacent approximately seventeen acres through negotiation after publicly announcing requests for proposals for the sale is in the best interest of the University of South Alabama and the State of Alabama, hereby ratifies the attached Declaration and authorizes the President of the University to proceed with negotiations after publicly announcing requests for proposals and present the results of same to the Board of Trustees at its next meeting on June 7, 2013.



MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

DECLARATION OF BEST INTEREST

May 9, 2013

TO: USA Board of Trustees
FROM: John W. Smith, ^{JK} Acting President
RE: Sale of Knollwood Hospitals and Property

On December 16, 2005, the University of South Alabama (USA) leased the former USA Knollwood Hospitals, including all hospital buildings, professional office buildings, improvements and certain equipment, fixtures, furnishings and other personal property (the Hospitals) to Infirmity Health Hospitals, Inc. (IHH), who then renamed the campus "Infirmity West." That lease, which commenced on April 1, 2006, was for an initial lease term of 50 years with an automatic renewal for an additional 49 years. At the inception of the lease, USA received a payment of \$7,800,000. The lease called for lease payments ranging from \$1,000,000 annually to \$1,500,000 annually through lease year 30. Through March 31, 2013, USA has received total payments (upon execution of the lease and monthly thereafter) of \$12,800,000 from IHH. Additionally, over the 5-6 years immediately prior to the inception of this lease, USA experienced significant losses with respect to the operation of the Hospitals.

Because USA could adequately continue its mission without owning the Hospitals or the approximately 17 acres of adjoining land which USA originally designated as the site for the USA Mitchell Cancer Institute, USA's administration has considered the potential sale of USA's interest in the Hospitals and property (collectively, the Parcel).

In outlining the steps USA must take with respect to the sale of real property, Article 3, section 9-15-82(a) of the Code of Alabama states that while USA may sell property by bid or auction ,

...in those cases in which it can be economically justified and it is deemed to be in the best interest of the institution...and the State of Alabama to offer an interest in real property for sale or lease through...negotiation after publicly announced requests for proposals to sell...the property are made, the institution ...may do so, provided that a written declaration setting forth the specific reasons why it is deemed to be in the best interest of the institution...and the State of Alabama to make specific sale...in question....

The factors considered by the administration with respect to whether and how to sell the Parcel were as follows: While the lease provides for a rental stream currently, it is subject to termination by IHH in certain circumstances, including changes in any law which may negatively impact the operation of the Hospitals (when IHH announced the closing of the Infirmary West in October 2012, officials indicated that the Affordable Care Act was a significant contributing factor in their decision); the two hospital buildings (except for one USA physician clinic) are currently closed; the hospital operations of the two hospital buildings have ceased; the cost of operating the Hospitals, or even maintaining the closed facilities should they revert to USA would be cost prohibitive in the current climate; the hospital buildings and the physician office buildings, which are currently being leased back by IHH to the USA Health Services Foundation, are now remote to the bulk of the operations of the University of South Alabama Health System and the Colleges of Medicine, Nursing, and Allied Health Professions; and major plant deficiencies in the Hospitals (including HVAC systems, elevators, roofs, walls, telephone and others) could require a multimillion dollar investment. Therefore, after much consideration of the unique nature of the Parcel and the unique set of circumstances set forth above, as the agent of USA as designated by the Board of Trustees, and consistent with USA's land sale/lease policies and procedures and the above-cited statute, I hereby declare that it is in the best interest of the University of South Alabama and the State of Alabama to proceed with negotiation after publicly announcing requests for proposals for the sale of USA's ownership interest in the Hospitals and approximately 17 acres of adjoining land.

**Public Announcement
Request for Proposals**

Pursuant to Section 9-15-82 of the Code of Alabama and the University of South Alabama's land sale policy and procedures, the University of South Alabama is hereby requesting proposals for the sale of its ownership interests in USA Knollwood Hospitals, adjacent property, and nearby physician office buildings located at or about 5600 Girby Road consisting of 6 buildings totaling approximately 307,000 gross square feet and approximately 43 acres.

The sale is subject to all current leases at their current terms, including cancellation rights. This sale shall be for the land and improvements in "as-is" "where-is" condition.

All proposals should be received by John Toomey by 5:00pm May 20, 2013.

Please contact John Toomey with John Toomey & Company, Inc. for more information.
251-342-7229