DASNY
DORMITORY AUTHORITY STATE OF NEW YORK

Memorandum

TO: Jack D. Homkow, Director, Office of Environmental Affairs

FROM: Matthew A. Stanley, AICP, Senior Environmental Manager

DATE: May 11, 2015

RE: *State Environmental Quality Review (SEQR) Type II Determination* for the Icahn School of Medicine at Mount Sinai *2015 Financing Project*

The Icahn School of Medicine at Mount Sinai ("Mount Sinai") has requested financing from the Dormitory Authority State of New York ("DASNY") pursuant to DASNY's Independent Colleges and Universities Program for its *2015 Financing Project*. Accordingly, the *2015 Financing Project* is subject to environmental review pursuant to the *State Environmental Quality Review Act ("SEQRA")*.

Based on a review of the attached *Single Approval Credit Summary*, dated May 7, 2015, it has been determined that for purposes of *SEQRA*, the Proposed Action would consist of DASNY's authorization of the issuance of an amount not to exceed $580,000,000 in 30-year, fixed-rate tax-exempt and taxable bonds (the "Bonds") on behalf of the Icahn School of Medicine at Mount Sinai.

The proceeds of the tax-exempt bond issuance would be used to finance or refinance the *2015 Financing Project*, which would consist of interior renovations to and/or equipping of approximately 57,200 gross square feet ("gsf") of research laboratories, research support services, infrastructure (including but not limited to generators and transformers), conference rooms and office needs and other capital interior space in the Annenberg Building, located at 1180-88 Fifth Avenue, borough of Manhattan, New York County, New York; and interior renovations to and/or equipping of approximately 8,000 gsf of faculty and staff office space at the Icahn Medical Institute Building at 1425 Madison Avenue, borough of Manhattan, New York County, New York ($50,400,000) (the "Proposed Project").

The proceeds of the Bonds may also be used to finance interior renovations, infrastructure (including but not limited to heating, ventilating, air conditioning, electrical and other building support systems), information technology, and façade renovations at the Annenberg Building and/or the Icahn Medical Institute Building.

In addition, the Proposed Project would also include the advance refunding of all or a portion of DASNY's Mount Sinai School of Medicine of New York University Revenue Bonds Series 2007 and Series 2009 ($485,100,000).

The Institution. Icahn School of Medicine at Mount Sinai ("Mount Sinai School of Medicine" or the "School") was chartered by the New York State Board of Regents in 1968. The School was founded to provide a teaching and research facility to complement the Mount Sinai Hospital (the "Hospital"), a 1,406-bed, tertiary-care teaching hospital. Together, the School and the Hospital compose one of the major primary and tertiary-health-care facilities in New York City. The School conducts research and educates physicians, biomedical scientists and medical students for careers in the practice of medicine, the delivery of health care and the pursuit of medical research. The School grants both M.D. and Ph.D. degrees. While the School is affiliated with New York University ("NYU") for degree granting purposes, it remains financially autonomous from NYU and is self-governing under its own Board of Trustees. Although the School is managed separately and is legally a separate entity from the Hospital, the two institutions are closely affiliated, sharing a four-block campus on the Upper East Side of Manhattan.

SEQR Determination. DASNY completed this environmental review in accordance with the *SEQRA*, codified at Article 8 of the *New York Environmental Conservation Law ("ECL")* and implementing regulations, promulgated at Part 617 of Title 6 of the *New York Codes, Rules and Regulations ("N.Y.C.R.R.")*, which collectively contain the requirements for the *State Environmental Quality Review ("SEQR")* process.

Replacement, rehabilitation or reconstruction of a structure or facility, in kind, on the same site, including upgrading buildings to meet building or fire codes, unless such action meets or exceeds any of the thresholds in Part 617.4 is a Type II action as specifically designated by 6 *N.Y.C.R.R.* § 617.5(c)(2). Routine activities of educational institutions, including expansion of existing facilities by less than 10,000 square feet of gross floor area and school closings, but not changes in use related to such closings, is a Type II action as specifically designated by 6 *N.Y.C.R.R.* § 617.5(c)(8). Refinancing of existing debt is a Type II action as specifically designated by 6 *N.Y.C.R.R.* § 617.5(c)(23).

Type II "actions have been determined not to have significant impact on the environment or are otherwise precluded from environmental review under Environmental Conservation Law, article 8."[1] Therefore, no further *SEQR* determination or procedure is required for any project identified as Type II.

SHPA Determination. The Proposed Project was also reviewed in conformance with the *New York State Historic Preservation Act of 1980 ("SHPA")*, especially the implementing regulations of Section 14.09 of the *Parks, Recreation, and Historic Preservation Law ("PRHPL")*, as well as with the requirements of the Memorandum of Understanding ("MOU"), dated March

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[1] 6 *N.Y.C.R.R.* § 617.5(a).

18, 1998, between DASNY and the New York State Office of Parks, Recreation, and Historic Preservation ("OPRHP"). It is the opinion of DASNY that the Proposed Project would have no impact on historic or cultural resources in or eligible for inclusion in the National and State Registers of Historic Places.

Attachments

cc: Deborah J. Paden, Esq. (via email)
Andrew T. Purcell (via email)
SEQR File

Single Approval Credit Summary

Icahn School of Medicine at Mount Sinai
New York, New York

May 7, 2015

Program: Independent Colleges & Universities

Purpose: Refunding/New Money

New Issue Details

A bond issue of approximately $497,700,000 in 30-year fixed rate tax-exempt and taxable Series 2015 Bonds is to be sold through a negotiated sale. The term of the refunding bonds will not exceed the term of the bonds being refunded.

- Lead Manager – Citigroup
- Bond Counsel – Orrick Herrington & Sutcliffe LLP
- Co-Underwriter's Counsel – Mintz Levin Cohn Ferris Glovsky and Popeo and the Law Offices of Joseph C. Reid

Purpose

- Advance refunding of all or a portion of DASNY's Mount Sinai School of Medicine of New York University Revenue Bonds Series 2007 (the "Series 2007 Bonds") and the Mount Sinai School of Medicine of New York University Revenue Bonds Series 2009 Bonds ($485.1 million).
- Interior renovation of research laboratory, research support services, infrastructure and other capital interior space in the School's portion of the 40 year old Annenberg Building and minor renovations to an adjacent building ($50.4 million).

Security

- General Obligation of the Institution.
- Pledge of fees charged for professional services rendered to patients by members of the Institution's faculty.
- Mortgage on real property acceptable to the Authority.
- Financial covenants.

Expected Ratings: A3/A-/NR (Uninsured)

Overview

Icahn School of Medicine at Mount Sinai ("Mount Sinai School of Medicine" or the "School") was chartered by the New York State Board of Regents in 1968. The School was founded to provide a teaching and research facility to complement the Mount Sinai Hospital (the "Hospital"), a 1,406-bed tertiary-care teaching hospital. Together, the School and the Hospital comprise one of the major primary and tertiary health care facilities in New York City. The School conducts research and educates physicians, biomedical scientists and medical students for careers in the practice of medicine, the delivery of health care and the pursuit of medical research. The School grants both M.D. and Ph.D. degrees. While the School is affiliated with New York University ("NYU") for degree granting purposes, it remains financially autonomous from NYU and is self-governing under its own Board of Trustees. Although the School is managed separately and is legally a separate entity from the Hospital, the two institutions are closely affiliated, sharing a four-block campus on the Upper East Side of Manhattan.

Description of the Series 2015 Bonds

- The Bonds are a special obligation of the Authority.
- The Loan Agreement is a general obligation of the School.
- The Bonds are payable from payments made under the Loan Agreement and all funds and accounts established under the Resolution and the applicable Series Resolution.

Strengths

- Refunding - The advance refunding provides gross savings of approximately $65.56 million and present value savings of approximately $42.0 million. When factoring in the release of the current Debt Service Reserve Funds of approximately $38 million, the net present value savings are reduced to approximately $3.1 million, which is 0.65% of the par being refunded. Eliminating the existing Debt Service Reserve Funds saves the School approximately $1.7 million annually or approximately $26 million on a present value basis.
- Enrollment - The School maintained an average five-year full-time equivalent enrollment of 1,078 students.
- Demand – Fall 2014 applications received totaled 6,165, while the School increased its acceptance rate to 15.4%, resulting in 296 enrolled students, a five year high, and an enrollment increase of 11.7%.
- Revenue Diversification - The School's revenue diversity is similar to that of other private, stand-alone medical schools that rely on sponsored research and the faculty practice to a much greater degree than tuition revenue.
- Hospital Integration - The Hospital and the School are highly integrated with integrated management, substantial board overlap, combined strategic planning, fund raising and investment pooling and intertwined physical facilities that allows the School and the Hospital to operate in a coordinated fashion driving greater efficiencies across the enterprise.

Single Approval Credit Summary

Icahn School of Medicine at Mount Sinai
New York, New York

May 7, 2015

Program: Independent Colleges & Universities

Purpose: Refunding/New Money

Risks

- Liquidity – The School continues to struggle with its liquidity position as indicated by the slight drop in its primary reserve and viability ratio.
- Reimbursement - As part of an integrated Medical Center, and due to its reliance on patient service revenue, the School is exposed to uncertainties in the health care environment and the potential for future reductions in patient service reimbursement.
- Research – Research revenue makes up 18% of the School's total revenue. While the School recently opened the Hess Center for Science and Medicine that will allow the School to compete for more research revenue, future cuts in research grants could have a significant impact on the School's operating results.

Approvals

- SEQR Filing – May 10, 2015*
- PACB Approval – May 20, 2015*
- TEFRA Hearing – May 20, 2015*

*Anticipated date.

Recommendation

This financing is being presented as an exception to the Single Approval financing requirements. Initially the School was proceeding with an advance refunding which qualified for a single approval and then while working on the transaction the School's finance committee requested to add $50 million in new money for interior renovation work. Staff felt that since the new money request was very modest in relation to the overall size of the bond issue and given that the project is limited to interior renovations and SEQR work could be completed before the Board meeting, it seemed impractical to bring this to the Board two times for its approval or make one of our longstanding clients separate the deal into two transactions. Therefore staff is recommending this as an exception to our single approval guidelines. This report recommends that the Board approve and adopt the necessary documents for one or more series of tax-exempt and taxable bonds in an aggregate amount not to exceed $580,000,000 on behalf of the Mount Sinai School of Medicine. The refunding will provide gross savings of approximately $65.56 million and present value savings of approximately $42.0 million. In addition, the Institution has requested the flexibility to issue the bonds with or without a debt service reserve fund due to the negative arbitrage in the current interest rate environment. The underwriter has advised DASNY and the Institution that the bonds can be sold under current market conditions without a debt service reserve fund. When factoring in the release of the current Debt Service Reserve Funds of approximately $38 million, the net present value savings are reduced to approximately $3.1 million, which is 0.65% of the par being refunded. Eliminating the existing Debt Service Reserve Funds saves the School approximately $1.7 million annually or approximately $26 million on a present value basis. The absence of a debt service reserve fund would represent an exception to DASNY's Single Approval Guidelines. The final maturity of the refunding bonds will not exceed the final maturity of the bonds being refunded. Standard and Poor's and Moody's most recently assigned the Institution an underlying rating of A-/A3. Therefore, staff recommends that the Board adopt a Single Approval for a bond issue of an amount not to exceed $580,000,000 on behalf of the Mount Sinai School of Medicine