

The Regents of the University of California

**COMMITTEE ON HEALTH SERVICES
COMMITTEE ON GROUNDS AND BUILDINGS
COMMITTEE ON FINANCE**

March 17, 1999

The Committees on Health Services, Grounds and Buildings, and Finance met on the above date at UCSF - Laurel Heights, San Francisco.

Members present: Representing the Committee on Health Services: Regents Atkinson, Davies, Khachigian, Leach, and Preuss; Advisory member Vining
Representing the Committee on Grounds and Buildings: Regents Atkinson, Davies, Espinoza, Johnson, Khachigian, Lee, and Montoya
Representing the Committee on Finance: Regents Atkinson, Davies, Johnson, Khachigian, Leach, Lee, and Miura; Advisory member Taylor

In attendance: Regents Hopkinson and Moores, Regent-designate Pannor, Faculty Representatives Coleman and Dorr, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gurtner, and Hopper, Chancellors Bishop, Carnesale, Cicerone, and Dynes, and Recording Secretary Bryan

The meeting convened at 3:25 p.m. with Committee on Health Services Chair Khachigian presiding.

Discussion of the following items appears at the end of item 3.

1. AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM, SANTA MONICA/ORTHOPAEDIC REPLACEMENT HOSPITAL AND PARKING STRUCTURE, LOS ANGELES CAMPUS

The President recommended that the Committee on Grounds and Buildings and the Committee on Finance recommend that the appropriate Budgets for Capital Improvements and the Capital Improvement Programs be amended as follows:

From: Los Angeles: K. Santa Monica Replacement Hospital and Related Projects -- preliminary plans -- \$6 million to be funded from federal funds (\$4 million), and hospital reserves (\$2 million).

To: Los Angeles: F. Santa Monica/Orthopaedic Replacement Hospital and Parking Structure -- preliminary plans, working

drawings, and construction -- \$205,861,000 total project cost to be funded from federal funds (\$72,200,000), gift funds (\$20,800,000), hospital reserves (\$31,901,000), and external financing (\$80,960,000).

The Committee was informed that the Los Angeles campus proposes to construct a new facility on the Santa Monica Medical Center campus that will provide space for patient care and support functions, as well as future expansion space for the orthopaedics program. In addition, the Merle Norman Pavilion (Pavilion) will be renovated and refurbished. The construction of a new central plant and of a parking structure will also be included in the project scope, as well as the phased demolition of all existing structures on the site except for the Pavilion.

The new hospital facilities will replace the existing West Hospital Tower and Nethercutt Emergency Center of the Santa Monica Medical Center (the demolition and related cost are included in this project) and the inpatient care facilities of Orthopaedic Hospital, which are currently located in downtown Los Angeles. These facilities suffered significant structural damage as a result of the January 1994 Northridge earthquake and do not meet State life-safety standards. To comply with California law and current Office of Statewide Health Planning and Development (OSHPD) life-safety requirements, the inpatient care space located in these existing facilities must be repaired, renovated, or replaced no later than 2008.

The Santa Monica/Orthopaedic Replacement Hospital is the second project proposed for development as part of the multi-phase seismic reconstruction plan for the Academic Health Center Facilities first presented to the Regents in May 1997. The document presented at that meeting described a series of projects that will be implemented in order to replace or seismically retrofit existing facilities on both the Westwood and Santa Monica campuses. An update on the scope and funding approach for the entire reconstruction plan was provided in November 1998, concurrent with the request of approval actions for the Westwood Replacement Hospital, which was the first major project proposed for development.

Following review of the proposed seismic reconstruction program, in May 1997 The Regents approved an amendment to the Capital Improvement Program to include preliminary plans funding for the Santa Monica Replacement Hospital. The campus committed to return to The Regents, at a time no later than design approval, to request the amendment of the Budget for Capital Improvements and the Capital Improvement Program for the total project cost, as well as to request the approval of external financing, if required.

Project Justification

It was recalled that the campus had acquired the Santa Monica Hospital Medical Center in 1995 to secure its positioning in the Westside healthcare marketplace. Prior to the acquisition, significant structural damage caused by the Northridge earthquake forced the temporary closure for nine months of the West Hospital Tower, which was originally constructed in 1967. Although it was allowed by OSHPD to reopen in 1995 following substantial interim structural repair, it must be upgraded further to current seismic code or replaced to satisfy the requirements of Senate Bill 1953. The reopening was conditioned by OSHPD on the requirement that this upgrade or replacement be completed in 2003, instead of by the general SB 1953 deadline of 2008. Discussions are under way with OSHPD to obtain a time extension through the project completion currently scheduled for March 2004.

As described in the May 1997 document, the facilities reconstruction plan for the Santa Monica campus proposed the phased construction of replacement hospital facilities and the demolition of the West Tower. This scenario will allow for the one-time relocation of most patient care and support functions and was therefore determined to minimize operational disruption and reduce overall project cost. While preliminary plans for the replacement hospital were under development, the UCLA Medical Center and School of Medicine reached an agreement with Orthopaedic Hospital to form a comprehensive orthopedics program which will combine inpatient and outpatient activities of both institutions at the Santa Monica campus site. The scope of the proposed reconstruction plan was modified to provide the additional patient care, administrative, and support facilities needed for the expanded program and the additional parking facilities needed to accommodate the increased patient care activities. Consequently, as described in the November 1998 facilities reconstruction plan update, the project included these four revised major components: (1) construction of new replacement acute care facilities of approximately 255,000 gsf, including the emergency department, in a "U" shape around the existing West Tower; (2) renovations to the Pavilion limited to points of contact with the new facilities; (3) construction of a below-grade replacement central plant; and (4) construction of an off-site parking structure for 523 spaces on adjacent campus-owned property. The licensed bed capacity was proposed to total 214 beds with no skilled nursing beds.

Since November 1998, the planning process has been completed and several modifications to the project scope have been identified. These scope modifications include: (1) the addition of two floors to the hospital structure to provide for a total capacity of 266 beds; (2) the addition of capacity to the replacement central plant to serve the additional beds and provide temporary utility connections to the West Tower throughout the construction phase; (3) the addition of 6,000 gsf of shell space for projected future growth in the orthopedics program; (4) the reassessment of the construction phasing plan; (5) the redesign of the off-site parking structure to implement required environmental impact mitigation measures; and (6) the inclusion of the renovations, Americans With Disabilities Act, life safety code upgrades, and minor refurbishment in the Pavilion required to complete the overall reconstruction plan.

Most of these renovations and upgrades were originally scheduled for completion as part of annual capital budgets over several years. The revised plan is to incorporate them into the replacement hospital project in order to achieve greater cost economies and more efficient project management.

Hospital Facilities

The reconstructed hospital will continue to serve as a full service, community-based medical center providing a broad range of inpatient and outpatient services to the residents of Santa Monica and surrounding Westside communities. The Medical Center takes particular pride in its established Centers of Excellence in Obstetrics, Pediatrics, and Family Medicine. Other services include internal medicine, emergency, and surgical services, as well as specialty care. In addition, as a result of the June 1998 Orthopaedic Alliance, the Medical Center will house a world-class program in orthopedics medicine and surgery.

The licensed and available bed capacity of the reconstructed Santa Monica/Orthopaedic Hospital of 266 beds with no skilled nursing beds contrasts with the current 363 licensed and 229 available beds, including 46 skilled nursing beds. In addition, 7 non-licensed Labor and Delivery Room beds and 29 observation beds will be provided. It is anticipated that all patient rooms except for the existing rooms in the Pavilion will be designed as universal, single-bed rooms to maximize flexibility of utilization and occupancy.

In addition to the patient rooms, patient care and support functions will include inpatient and outpatient diagnostic and treatment services, inpatient and outpatient operating room suites, an emergency department, administrative departments for hospital functions and for the orthopedics program, faculty offices, and the latest information and technology systems required for clinical care and clinical research.

Central Plant

The primary utilities required for the operation of the hospital – steam, chilled water, and electrical power – will originate in the reconstructed central plant located below grade at the corner of 15th Street and Arizona Avenue. The new central plant would house steam boilers, electric and gas-fired chillers, pumping systems, emergency generators, cooling towers, main electrical service, and the utility company transformer station. The project scope includes the necessary temporary utility connections to West Hospital Tower while it remains in operation throughout the construction of the new hospital facility.

Parking Structure

The parking requirements for the proposed project were reevaluated as a result of the Orthopaedic Hospital Alliance Agreement and refinement to patient volume projections. The detailed parking analysis conducted as part of the Environmental Impact Report for the Facilities Reconstruction Plan considered parking code requirements as well as demand analysis. The demand analysis considered the modified operating conditions for the project, including the increased outpatient activity, which will result from the move of the orthopedics programs of Orthopaedic Hospital and of the Westwood Medical Center to the Santa Monica campus. The results of the parking demand analysis indicated the need for approximately 1,055 spaces to accommodate fully the parking requirements for the project.

It is currently proposed that the 1,055 spaces be provided through a combination of 282 spaces leased on a long-term basis, 74 spaces on surface parking lots owned by the hospital, 20 spaces dedicated to emergency room parking, 60 spaces retained under the new northwest wing of the replacement hospital, and 523 striped and 97 stack spaces for valet parking in the new parking structure.

Schedule

The current schedule anticipates that construction activities will take place in calendar years 1999 through 2004, with occupancy of the new hospital facilities projected for March 2004. Demolition of the West Tower and final site development work will follow immediately thereafter.

Funding Plan

The total project cost is estimated to be \$205,861,000 (\$199,305,000 in base project cost with an additional \$6,556,000 in capitalized interest cost incurred during construction). This project cost does not include \$25 million in medical equipment that will be funded separately from hospital reserves in the two years prior to completion of the new hospital. This project cost also does not include the cost of purchasing three commercial properties fronting Wilshire Boulevard, which will be acquired to enable construction of the project.

The approximately \$199.3 million in base project costs reflects an increase of approximately \$33.8 million over the estimated cost of the project in November 1998. The additional project costs will be funded from additional gift funds from Orthopaedic Hospital (\$1.8 million) and additional external financing (\$30.5 million). Orthopaedic Hospital will pay for the cost of building out the shell space at a future date.

The total project cost is to be funded from a combination of federal dollars allocated by the Federal Emergency Management Agency (\$72,200,000) combining the Santa Monica Medical Center Grant of \$41,700,000 and the Orthopaedic Hospital Grant of \$30,500,000, hospital reserves (\$31,901,000) including earthquake insurance proceeds

of \$14,900,000), gift funds (\$20,800,000 including \$6,800,000 from Orthopaedic Hospital), and external financing to be repaid from hospital system revenues (\$71,635,000 for the hospital facilities and \$9,325,000 for the parking structure).

Environmental Review

The environmental effects of the Santa Monica/Orthopaedic Replacement Hospital and Parking Structure project have been analyzed in the Santa Monica-UCLA Medical Center Facilities Reconstruction Plan EIR, in accordance with the California Environmental Quality Act and the University's procedures for implementation of CEQA.

Upon motion duly made and seconded, the Committee on Grounds and Buildings and the Committee on Finance approved the President's recommendation and voted to present it to the Board.

2. **CERTIFICATION OF ENVIRONMENTAL IMPACT REPORT AND APPROVAL OF DESIGN, SANTA MONICA/ORTHOPAEDIC REPLACEMENT HOSPITAL AND PARKING STRUCTURE, LOS ANGELES CAMPUS**

The President recommended that, upon review and consideration of the environmental consequences of the proposed project as evaluated in the Final Environmental Impact Report for the Santa Monica-UCLA Medical Center Reconstruction Plan, the Committee on Grounds and Buildings:

- A. Certify the Final Environmental Impact Report.
- B. Adopt the Mitigation Monitoring Program and Findings.
- C. Approve the design of the Santa Monica/Orthopaedic Replacement Hospital and Parking Structure, Los Angeles campus.

It was recalled that in May 1997 the Regents were presented with an overview of the proposed UCLA Academic Health Center Facilities Reconstruction Plan, which will repair and replace major portions of the Center for Health Sciences and Santa Monica-UCLA Medical Center that were damaged by the 1994 Northridge earthquake. An update on the scope and funding approach for the entire reconstruction plan was provided in November 1998, concurrent with the request for approval actions for the Westwood Replacement Hospital.

In May 1997, The Regents also approved the inclusion of funding for preparation of preliminary plans for the Santa Monica Replacement Hospital in the 1996-97 Budget for Capital Improvements and the 1996-99 Capital Improvement Program. The project

is to be funded from a combination of federal dollars allocated by the Federal Emergency Management Agency, hospital reserves, gift funds, and external financing to be repaid from hospital revenues. The project cost does not include medical equipment to be funded separately from hospital reserves during the two years prior to completion of the new hospital nor the purchase of three commercial properties fronting Wilshire Boulevard, which will be acquired to enable construction of the project.

In March 1999, the appointment of Anshen + Allen, Los Angeles, as Executive Architect for this project was administratively approved within the Office of the President, with Robert A. M. Stern Architects, New York, serving as design sub-consultant.

In addition to the background provided in the previous item, the following information was presented to the Committee.

Replacement Hospital Project Site

The proposed project site for replacement hospital facilities is located on the existing campus of the Santa Monica-UCLA Medical Center in the City of Santa Monica approximately one mile east of the Pacific Ocean. The project site is bounded by Wilshire Boulevard to the north, Arizona Avenue to the south, 16th Street to the east, and 15th Street to the west. Existing facilities on the site include West Hospital Tower, the central plant, the Nethercutt Emergency Center, the Les Kelley Family Health Center, and the Merle Norman Pavilion. Two ancillary buildings are also located within the project site: the MRI building located adjacent to the Les Kelley Center, and a storage building on the northeast corner of the site facing Wilshire Boulevard. The site also includes three commercial properties fronting Wilshire Boulevard, which will be acquired to enable construction of the project.

With the exception of the Merle Norman Pavilion, the project proposes phased demolition of all existing structures including the acquired properties, except for approximately 60 of the subterranean parking spaces under the medical office building. The project will also include significant site improvements, including plazas, courtyards, and landscaping.

Parking Structure Site

The proposed project site for the parking structure includes seven University-owned lots located on the corner of Arizona Avenue and 16th Street, one block southeast from the Santa Monica Medical Center hospital facilities. The site is bordered on the east by the 16th Court, across which are located a 27-unit condominium complex and a convalescent hospital. It currently contains surface parking lots with 186 spaces used for employee and outpatient valet parking, and two buildings containing four residential

units, which would be demolished. Prior to start of construction, the campus will provide relocation assistance to tenants of these four residential units.

Project Design

The project includes the construction of 296,000 gross square feet of new space, providing approximately 164,000 assignable square feet for patient care and support functions, including 6,000 gsf of unfinished shell space for future expansion of the orthopedics program. In addition, approximately 37,000 asf of the Merle Norman Pavilion will be renovated, including code required ADA and life safety upgrades, while another 50,000 gsf will undergo minor refurbishment.

The new hospital facilities will include 172 licensed patient beds, both high acuity and intensive care, operating rooms, diagnostic and treatment services, an emergency department, essential administrative services, faculty offices and conferencing spaces and information, technology, and security systems required for clinical care and clinical research. Existing licensed beds (94) will be retained in the Merle Norman Pavilion, for a total number of 266 licensed beds at the Santa Monica-UCLA Medical Center. The project scope will also include construction of a new central plant.

The new hospital structure will consist of several wings, varying in height from three to six stories, arranged around a courtyard facing 15th Street. The Northwest Wing will accommodate the combined orthopedics programs of Orthopaedic Hospital and UCLA and will provide primarily outpatient orthopedics services. The North Wing will accommodate primarily inpatient beds. The Central Wing will accommodate inpatient beds and inpatient diagnostic and treatment services. The Southwest wing will accommodate the emergency department, labor and delivery services, and inpatient beds. The Merle Norman Pavilion will be connected to both the Southwest and Central wings and will continue to house primarily administrative and support functions, the outpatient surgery suite, and inpatient beds. The main entrance to the hospital will be located on 16th Street, with a separate entrance for the Orthopaedic Hospital provided on 15th Street. The emergency department will have a separate entrance for ambulances as well as a walk-in entrance off 16th Street. Access to the loading dock/service area will be provided off Arizona Avenue.

Primary utilities required for operation of the hospital, steam, chilled water, and electrical power would originate in the reconstructed central plant located below grade at the corner of 15th Street and Arizona Avenue.

The hospital will be built by combining cast-in-place concrete shear walls with an eccentrically braced frame. The exterior walls will be clad with stucco, brick, and pre-cast stone, with fixed aluminum windows glazed with clear, high-performance glass. Operable window panels will be provided at each patient room. The project will also include significant site improvements, including plazas, courtyards, and landscaping.

The above-grade, four-level parking structure will include 523 marked parking spaces with up to 97 additional valet parking spaces. The structure will be completely enclosed on the east side and rooftop parking will include a parapet wall to minimize noise, light, and aesthetic impacts to adjacent residential and convalescent hospital uses. Construction of a solid wall on the East Side will require that the entire structure be mechanically ventilated. The parking structure will be built of fire resistive construction with cast-in-place concrete structure. Building elevations will be clad in plaster and provided with detailing compatible with design of the replacement hospital.

In accordance with University policy, the entire project has been reviewed by an independent cost estimator. Independent structural review for seismic resistance will be conducted at each stage of the project development.

The project will be managed by senior project management staff from Capital Programs, with oversight by the Assistant Vice Chancellor for Health Sciences Capital Projects. Construction management will be provided by an outside construction management firm experienced in the management of comparable acute care hospital projects.

Environmental Impact Summary

For purposes of the EIR project description, the Santa Monica-UCLA Medical Center Facilities Reconstruction Plan project includes the phased demolition of all existing structures (with the exception of the Merle Norman Pavilion) on the site between 15th and 16th Streets bounded by Wilshire Boulevard and Arizona Avenue, as well as the demolition of existing residential rental units and other surface parking lot improvement on the site comprised of seven continuous lots between 16th Street and 16th Court south of Arizona Avenue. New construction will consist of an approximately 320,000 gsf replacement hospital facility adjoining the existing Merle Norman Pavilion and a three-level rooftop parking facility. A vacant lot owned by the Medical Center, located at 1344 16th Street, will be improved to provide approximately 25 surface parking spaces. Approximately 27 percent of the total site area will be developed as open landscaped areas for hospital and public use. The replacement medical facility (combined with the existing Merle Norman Pavilion) can accommodate up to a maximum of 280 inpatient acute care beds (although only 266 are currently proposed for development) and provide facilities to accommodate portions of the combined orthopedics program of the UCLA Medical Center and the Los Angeles Orthopaedic Hospital. The project construction will occur over a five-to-six-year period commencing in 1999.

As analyzed in the EIR, in order to accommodate the project, certain other activities will occur, including acquisition of properties at 1502-1524 Wilshire Boulevard adjoining the hospital site and relocation of the commercial tenants occupying those

properties; relocation of tenants of residential rental units located at 1311 16th Street; and leasing of off-site space to accommodate the Les Kelley Family Health Center.

The State Legislature has created a number of statutory exemptions from the California Environmental Quality Act. Pursuant to Public Resources Code Section 21080(b)(3), projects are statutorily exempt from the requirements of CEQA provided they are projects undertaken, carried out, or approved by a public agency to maintain, repair, restore, demolish, or replace property or facilities damaged or destroyed as a result of a disaster in a disaster-stricken area in which a state of emergency has been proclaimed by the Governor pursuant to Chapter 7 (commencing with Section 8550) of Division 1 of Title 2 of the Government Code. In addition, the CEQA Guidelines contain a variety of categorical exemptions for classes of projects which have been determined not to have a significant effect on the environment. CEQA Guidelines Section 15302(a) identifies the Class 2 categorical exemption, consisting of the replacement or reconstruction of existing structures and facilities where the new structure will be located on the same site as the structure replaced and will have substantially the same purpose and capacity as the structure replaced. The Class 2 exemption specifically addresses actions of the same character as the proposed project, providing a CEQA exemption for the replacement or reconstruction of existing schools and hospitals to provide earthquake resistant structures which do not increase capacity more than 50 percent.

The Medical Center is located within an area that was disaster-stricken and for which the Governor of the State of California declared a state of emergency. Although the proposed project contemplates a number of activities that extend beyond the existing hospital site, the overarching objective of the project is to demolish existing damaged facilities and to construct a code-compliant replacement hospital and related facilities at the location of the existing hospital in a logical sequence to minimize effects on ongoing patient care. The project will not result in a net expansion of the existing hospital in terms of floor areas. For these reasons, it is statutorily exempt from CEQA pursuant to Public Resources Code Section 21080(b)(3) and categorically exempt from CEQA pursuant to CEQA Guidelines Sections 15269 and 15302.

While an EIR is not legally required for statutorily exempt and categorically exempt projects, the campus determined that the EIR format and EIR process will provide information to individuals and public agencies about the entire reconstruction plan and provide the public with opportunity to comment on the project. Accordingly, without waiving the Section 15302 categorical exemption or the Section 21080(b)(3) statutory exemption, the campus prepared an environmental report that follows the EIR content requirements and distributed that report following the same CEQA procedures used for the preparation and distribution of an EIR and consistent with University procedures for implementation of the California Environmental Quality Act.

On November 4, 1998, a Draft EIR was released. A public hearing was held on December 7, 1998, during which comments on the Draft EIR were received. Written comments from interested public agencies and individuals were received throughout the public review period. In total, eight government agencies and four individuals provided comments on the Draft EIR. The majority of the comments addressed project impacts on Transportation/Circulation, Air Quality, Land Use, Visual Quality, Noise, and Neighborhood Effects. The campus evaluated the oral testimony received at the public hearing as well as the written comments received during the noticed comment period and prepared written responses. Responses to all concerns expressed on the Draft EIR are contained in the Final EIR.

The Final EIR evaluates the potential effects of the project in fifteen environmental issue areas: Earth, Air Quality, Hydrology, Noise, Visual Quality, Hazardous Materials, Land Use, Transportation/Circulation, Utilities, Socioeconomics, Public Services, Neighborhood Effects, Historic Resources, Population/Employment & Housing, and Biological Resources. The Final EIR also includes analysis of two minor revisions to the project that occurred following close of the public review period: (1) minor modifications to the design of the proposed parking structure that reduced the footprint and mass and increased the open areas on the north and the south sides of the facility; and (2) an alternative off-site location (approximately seven blocks southeast of the Santa Monica-UCLA Medical Center) for the Les Kelley Family Health Center, more distant from the replacement project than assumed in the Draft EIR. The alternative location at 1920 Colorado Avenue is proposed because leased space is currently unavailable in other off-site buildings in close proximity to the medical center to accommodate the entire Les Kelley Family Health Center.

The Final EIR indicates that the project will result in significant impacts, prior to mitigation, in the following areas: Traffic; Biological Resources; Visual Quality; Air Quality; Noise; Neighborhood Effects, and Hazardous Materials. With implementation of the proposed mitigation measures, construction impacts related to traffic, air quality, and noise will remain significant and unavoidable. With implementation of the recommended mitigation measures, the project will result in an unavoidable significant, long-term visual quality impact.

Eight alternatives to the project were analyzed in the EIR: (1) No Project; (2) General Plan Buildout; (3) Repair of Existing Buildings; (4) Replacement of Existing Uses; (5) No Property Acquisition; (6) Reduced Project; (7) Proposed Project with Underground Parking; and (8) Alternate Site.

A Mitigation Monitoring Program to ensure implementation of project-specific mitigation measures to reduce significant impacts is included as an Appendix in the Final EIR. Monitoring of the implementation of mitigation measures will be conducted on an annual basis.

Relationship to the Campus Long Range Development Plan

The 1990 Long Range Development Plan did not contemplate the purchase of the Santa Monica Medical Center, which was acquired by The Regents in 1995. Because the 1990 LRDP specifically excludes facilities located outside the boundaries of the Westwood campus, no LRDP amendments will be required with regard to the Santa Monica-UCLA Medical Center Reconstruction Plan.

Findings

The Findings discuss the project's impacts, mitigation measures for the project, project alternatives, and reasons for rejecting the alternatives. The Findings also set forth Overriding Considerations for approval of the project in view of its unavoidable significant environmental effects for short-term construction-related traffic, noise, and criteria air pollutant emissions, and its long-term visual quality (shadow and aesthetic) impact.

Upon motion duly made and seconded, the Committee on Grounds and Buildings approved the President's recommendation.

[The Final Environmental Impact Report, Mitigation Monitoring Program, and Findings were mailed to all Regents in advance of the meeting, and copies are on file in the Office of the Secretary.]

3. **EXTERNAL FINANCING FOR SANTA MONICA/ORTHOPAEDIC REPLACEMENT HOSPITAL AND PARKING STRUCTURE, LOS ANGELES CAMPUS**

The President recommended that the Committee on Finance recommend, subject to the amendment of the Budget for Capital Improvements and the Capital Improvement Program to include the total project cost of the Santa Monica/Orthopaedic Replacement Hospital and Parking Structure, that:

A. Funding for the Santa Monica/Orthopaedic Replacement Hospital and Parking Structure be approved as follows:

<u>Replacement Hospital</u>	
Federal Funds	\$ 72,200,000
Gift Funds	20,800,000
Hospital Reserves	31,901,000
External Financing	<u>71,635,000</u>

Total \$196,536,000

Parking Structure

External Financing \$9,325,000

Grand Total \$205,861,000

- B. Subject to approval of the President in consultation with the Chairman of the Board, the Chairman of the Committee on Finance, and the Chairman of the Committee on Health Services, the Treasurer be authorized to obtain external financing not to exceed \$80,960,000, consisting of \$71,635,000 to finance construction of the Santa Monica/Orthopaedic Replacement Hospital and \$9,325,000 to finance construction of the Parking Structure, subject to the following conditions:
- (1) Interest only shall be paid during the construction period.
 - (2) Repayment of the principal plus interest shall be from gross revenues of the UCLA Hospital System.
 - (3) The general credit of The Regents shall not be pledged.
- C. The Treasurer be authorized to obtain external financing not to exceed \$7,220,000 to finance on an interim basis, if necessary, potential cash flow needs in connection with the Federal Emergency Management Agency (FEMA) reimbursement program for seismic correction costs related to damage caused to the Santa Monica/UCLA Medical Center and Orthopaedic Hospital by the January 17, 1994 Northridge earthquake, subject to the following conditions:
- (1) Interest only shall be paid on any advances.
 - (2) Repayment of the principal plus interest shall be from gross revenues of the UCLA Hospital System.
 - (3) Should significant disallowance of expenses occur in the post-audit reviews of the seismic and staging costs related to the reconstruction of the Santa Monica/Orthopaedic Replacement Hospital, the campus would, if necessary, return to The Regents to seek the approval for long-term external financing for some or all of those disallowed costs.
- D. The Officers of The Regents be authorized to provide a certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.

- E. The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

Project Summary

The Santa Monica/Orthopaedic Replacement Hospital will continue to serve as a full service, community-based medical center providing a broad range of inpatient and outpatient services to the residents of Santa Monica and surrounding communities. In addition, as a result of the June 1998 Orthopaedic Hospital Alliance, the Santa Monica campus will house a world-class program in orthopedic medicine and surgery. The proposed bed capacity of 266 was derived from the conservative baseline scenario developed as part of the capacity planning model included in the 1997 UCLA Medical Enterprise Master Plan. It assumes modest growth of UCLA's West Side primary care physician network, with all other variables remaining constant.

Throughout the planning process there were concerns that the assumptions were overly conservative, and a series of recent events led to the re-examination of the bed capacity assumptions. These events include a January 1999 study of intervening procedures room use for the Westwood Medical Center and continuing growth in average daily census levels for the Hospital System. The interventional procedures study was conducted by an outside consultant to determine how many operating rooms, catheterization laboratories, and interventional radiology suites will be needed at the Westwood replacement hospital and whether the number of beds at the Westwood replacement hospital will limit the number of interventional procedures that can be performed. Interventional procedures are generally defined as those which require some sort of sedation or anesthesia and patient recovery. They include all surgical procedures and many cardiac and radiological procedures for both pediatric and adult patients. For the past three years, interventional procedures have generated 60 percent of patient days (exclusive of Neuropsychiatric Hospital patient days) at the Westwood Medical Center.

The study developed a low, medium, and high growth scenario to estimate interventional patient day volume in 2007 (three years after the full start of operations in the Westwood replacement hospital), and considered factors such as population growth, demographic changes in the hospital's seven-county service area, use rate of services, continued advances in technology, and referral rates from the primary care network. The average daily census projected to be generated by interventional procedures under the low, medium, and high growth scenarios were 280, 357, and 492 respectively. Under the most conservative growth estimate, the projected daily census will create a total demand of 507 beds at the Westwood Hospital, when non-interventional admissions (estimated at 172) and Neuropsychiatric admissions (estimated at 55) are added to the interventional admissions (280). This projected demand will exceed by 57 beds the projected 450-bed operating capacity for the new 525-bed hospital at 85 percent occupancy. Such occupancy of 85 percent

approximates the maximum functional capacity of acute care medical facilities industry-wide.

Adding bed capacity to the Westwood hospital is not a viable option due to limitations regarding the size and height of the structure as outlined in the Certified Environmental Impact Report for the Westwood Replacement Hospital project and the 1990 Long Range Development Plan. However, it would be physically feasible to provide the additional bed capacity at Santa Monica/Orthopaedic Replacement Hospital under the development envelope analyzed in the Santa Monica Medical Center Facilities Reconstruction Plan Environmental Impact Report. As a result, it is proposed that the number of beds in Santa Monica be increased and that patients with lower levels of acuity be directed there for hospitalization.

The number of total beds required in Santa Monica to accommodate the projected average daily census of 200 is a function of the assumed occupancy rate. At an occupancy rate of 85 percent, there will be a need for 235 total beds, while at 75 percent occupancy, the requirement will be for 266 beds. At these projected bed requirements, the preliminary plan for 214 beds at Santa Monica will result in a bed shortage ranging from 21 beds at 85 percent occupancy to 52 beds at 75 percent occupancy. With a proposed hospital design that accommodates acute care nursing units of 26 beds on each patient floor, this will require the addition of either one or two floors (26 or 52 beds) to the previously planned replacement hospital structure. While constructing only one additional floor would satisfy the bed requirements at 85 percent occupancy, no further growth in average daily census could be absorbed within the Hospital System, with both hospitals at 85 percent occupancy within three years of their completion. In order to provide appropriate long-term operational flexibility, particularly in light of the increasing census levels for the Westwood Medical Center described below, the proposed expansion consists of two additional floors, for a total of 791 beds for the Hospital System.

Santa Monica/Orthopaedic Replacement Hospital Cost

The total project cost is estimated to be \$205,861,000, not including medical equipment and the purchase of three commercial properties fronting Wilshire Boulevard. The approximately \$199.3 million in base project costs reflects an increase of approximately \$32.3 million over the estimated cost of the project in November 1998. Based on a debt of \$80,960,000 amortized over 27 years at 6.5 percent interest, average annual debt service is estimated at \$6,438,172. Repayment of the debt will be from gross revenues of the UCLA Hospital System. Interim financing may be provided, which will be repaid from the long-term financing proceeds.

Interim financing approval of \$7,220,000 is also requested to meet the short-term cash flow shortfalls related to FEMA reimbursements. It is not anticipated at this time that any long-term financing for cash flow needs related to the FEMA reimbursement

program will be required. Any interest expense for the FEMA line will be paid from hospital reserves. It is estimated at \$1.5 million and included in the project costs; any principal borrowing under the line is anticipated to be repaid by FEMA reimbursement. Should FEMA disallow significant claims for reimbursement during the post-audit review, the Medical Center would return to The Regents at a future meeting to seek approval for long-term financing of some or all of those disallowed costs.

Current UCLA Hospital System debt totals \$156.4 million. The outstanding debt will amortize, and the Santa Monica acquisition financing will be refinanced as part of the long-term bonds, which are anticipated to be issued in FY 2002 for the Westwood Replacement Hospital and the Santa Monica Replacement Hospital.

Debt for the UCLA Hospital System after bond issuance is expected to total \$333.8 million, the combined annual debt service on which is estimated at \$28.3 million and will be repaid from UCLA Hospital System revenues. In FY 2005, the year following anticipated completion of construction for the replacement hospitals, cash available for debt service is anticipated to total \$134.9 million, for a debt coverage ratio of 4.77 times.

In summary, the financial projections include conservative growth assumptions. The projected average daily census for all three hospital facilities (Westwood Medical Center, Neuropsychiatric Hospital and Santa Monica Medical Center) is 622 (including 37 skilled nursing beds) in FY 1999, with admissions of 38,231 and an average length of stay of 5.9 days. The average daily census is expected to increase to 650 in FY 2006. These projections are based on serving all acute patients, as the skilled nursing beds will be eliminated when the new hospital facilities open in FY 2005. Admissions in those years are expected to be 43,990 and 44,001 respectively, and average length of stay will drop to 5.4 days. The hospital-wide case mix index is assumed to be constant throughout the years. The 650 average daily census in fiscal years 2005 and 2006 represents an 82.1 percent occupancy rate.

Net patient revenue grows from \$678 million in FY 1999 to \$791 million in FY 2006. This is a result of projected rate increases in various payor categories, the integration of the Orthopaedic Hospital Alliance in FY 2005, and the replacement of skilled nursing patients with acute care patients at the Santa Monica/Orthopaedic Replacement Hospital.

The cost per adjusted patient day is projected to stay relatively flat over the period, growing from \$2,346 in FY 1999 to \$2,371 in FY 2006. This will be affected by changes in staffing mix, a decrease in the patient volume, and efficiencies in the new hospitals. FTEs per adjusted occupied bed are projected to decrease from 7.6 in FY 1999 to 6.1 in FY 2006. The projected salaries and benefits include a 3.5 percent annual inflation for FY 1999, 3 percent in FY 2000 and a 2 percent annual inflation factor from FY 2001 through FY 2006. In the model, supplies and other expenses are

adjusted for volume and also include inflationary increases of 1 percent annually for the projected years. Professional fees and purchased service expenses are adjusted for volume only and assume that inflation is absorbed. Depreciation and interest expenses incorporate the proposed financing and building costs for the replacement facilities.

The net income in FY 1999 is projected at \$50,642,000, for a net margin of 7 percent. In the first full year of operations in the new hospitals, FY 2005, net income is expected to decline to \$44,154,000 with a net margin of 5.4 percent. The decrease is largely attributable to the onset of additional debt service for the new facilities. The net income in FY 2006 is projected to be \$44,009,000, for a net margin of 5.3 percent.

In all of the financial projections, the costs and benefits of future capital projects included in the hospital system's current long-term capital plan, including the cost of medical equipment for the two replacement hospitals, are factored into the calculations. The plan includes projects which have not yet been approved and which will be regularly re-evaluated as to need, scope and cost. Future projects will be deferred or eliminated as appropriate and as necessary to ensure the hospital's financial viability.

Because the long-term financing will not be obtained until FY 2002, it is recommended that the financing proceed only with the future approval of the President in consultation with the Chairs of the Board, the Committee on Finance, and the Committee on Health Services. This approval will be based, in large part, on updated financial projections prepared in FY 2001 prior to the bid process for tenant improvement construction. These projections will also be shared with The Regents for their information.

Provost Levey, Director Karpf, and Vice Chancellor Jensen presented slides to illustrate the major factors of the proposal.

Regent Preuss recalled that in November 1998 the Regents were informed that the total UCLA hospital replacement and upgrade project was expected to cost \$1.2 billion, and Provost Levey gave his assurances that the project would be finished on time and within its budget. Regent Preuss was concerned that an increase in the budget described in item 1 is being requested already, and he wondered whether further increases will be necessary. Dr. Levey acknowledged that he had said in November that the project would come in on time and on budget. He explained that there are two components to the increase, the major one of which is an increase in the number of beds. Regent Preuss agreed that it was necessary to increase the number of beds, but he noted that the \$1.2 billion total had seemed reasonable only because of the assurance that the amount would not escalate. Chancellor Carnesale pointed out that it was the previously approved Westwood Hospital segment of the project that was expected to come in on time and on budget. Parts of the second phase of the project, however – the demolition of the existing Center for Health Sciences and some restoration of other parts – have not been described by hard figures. He believed it was important to assure the Regents that the campus would not return to ask the Regents for more State

money, because the second phase was flexible enough to be extended. If it should turn out that these projects cost more than expected, other parts of the project would be scaled down. The Westwood project approved in November was a firm, fixed figure. The current recommendation for the Santa Monica Hospital is now a firm figure. Regent Preuss had understood that the original \$1.2 billion was an umbrella figure for the project. He reiterated that he would not be pleased if the project proves to cost much more than that. He noted that this is the largest project ever approved by The Regents. Dr. Levey explained that each part of the project will have a fixed budget when it is brought forward for approval. If at any time funds are not available to continue the work, the project will be halted. Chancellor Carnesale believed that there had been a slight miscommunication in the sense that in the later phases there are not hard numbers on the costs, but he had thought that it was important initially to provide an umbrella figure. He assured the Board that the projects that could be supported with hard numbers were brought forward first. There is now only one-third of the project to go, but the numbers for that one-third are softer. He emphasized that no more State resources would be requested. In fact, he hoped that sufficient private funds will be raised to make the two seismic corrections better equipped.

Regent Leach asked why the assignable square footage for the Santa Monica/Orthopaedic Replacement Hospital is only 56.5 percent of the gross square footage. He asked if that were typical for a medical building. Ms. Jensen explained that it is high. She reported that a typical hospital will be about 50 percent. This hospital has been designed with great attention to budget and compares favorably with other new hospital construction. The parking structure also compares favorably to typical construction costs.

Noting that the increase in the budget for construction is predicated on estimates of increased patients, Regent Miura asked for assurances that the demand for hospital beds in the future will support the increased number planned for the replacement hospital. Dr. Karpf reported that during the past three years, patient growth rates have continued to increase.

Regent Davies believed that Dr. Levey's guarantee was clearer today than it was in November. He advocated certifying the EIR. In response to a question from Regent Montoya, Ms. Jensen assured the Board that the University will strive to be a good neighbor to the City of Santa Monica during and after the construction of the project.

Upon motion duly made and seconded, the Committee on Finance approved the President's recommendation and voted to present it to the Board.

The Committees went into Closed Session at 4:35 p.m.

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**HEALTH SERVICES/GROUNDS
AND BUILDINGS/FINANCE**

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March 17, 1999

The meeting adjourned at 4:40 p.m.

Attest:

Secretary