

The Regents of the University of California

**COMMITTEE ON GROUNDS AND BUILDINGS  
COMMITTEE ON FINANCE**

March 25, 2010

The Committees on Grounds and Buildings and Finance met jointly on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members Present:     Representing the Committee on Grounds and Buildings: Regents Makarechian, Pattiz, Reiss, Ruiz, and Schilling; Ex officio members Blum, Gould, and Yudof; Advisory members Cheng and Hime  
                              Representing the Committee on Finance: Regents Bernal, Island, Makarechian, Schilling, and Varner; Ex officio members Blum, Gould, and Yudof; Advisory members DeFreece and Simmons; Staff Advisors Abeyta and Martinez

In attendance:         Regents De La Peña, Kieffer, Lansing, Nunn Gorman and Stovitz, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Interim Provost Pitts, Executive Vice Presidents Brostrom, Darling, and Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Beckwith, Duckett, and Lenz, Chancellors Birgeneau, Block, Blumenthal, Desmond-Hellmann, Drake, Fox, Kang, Katehi, White, and Yang, Laboratory Director Alivasatos, and Recording Secretary Harms

The meeting convened at 10:40 a.m. with Committee on Grounds and Buildings Chair Schilling presiding.

**UPDATE ON THE MEDICAL CENTER MISSION BAY CLINICAL FACILITIES, SAN FRANCISCO CAMPUS**

Chancellor Desmond-Hellmann remarked that this presentation marks the tenth time in the past nine years that UCSF has come to the Board regarding its plans for new hospital facilities on the Mission Bay campus. She explained that she was sensitive to the fact that the campus would be embarking on a \$1.5 billion capital project in the worst economic circumstances that the State and the University had ever faced. However, she noted, the economic downturn also makes it a propitious time to undertake a significant project. The University now can build the Medical Center without State support; it will never be less expensive to construct the hospital facilities than it is at this time. Furthermore, San Francisco and California need projects of this magnitude to help drive the economic recovery. The Chancellor observed that she has been made acutely aware of the University’s variable experience in managing projects of this size. Accordingly, she has been impressed by the research and thoroughness of the UC team working on the project.

Chancellor Desmond-Hellmann remarked that the Mission Bay project is the single highest priority for the UCSF Foundation; the donors’ commitment to the new facility is strong.

The Chancellor expressed her belief that the campus will meet its fundraising goal, and is impressed that the project is attracting many new donors into UCSF's community of friends and supporters. She noted that these connections will become increasingly important as the University relies more extensively on private support to fulfill its mission.

UCSF Medical Center CEO Mark Laret explained that he would review the history of progress on the Mission Bay hospital project for the Regents in preparation for the September meeting, at which the campus will ask for final funding plan approval.

Mr. Laret noted that Moffitt Hospital, which is located on the UCSF Parnassus Heights campus, houses all of UCSF's intensive care beds and half its operating rooms. Under current State law, it must be replaced by 2030. The Mount Zion Hospital has more urgent seismic issues; it must be retrofitted by 2015 and taken completely out of service for inpatient use by 2030. Seismic needs drove the initial planning for the Mission Bay hospital; however, severe capacity problems at the current hospitals, which cannot accommodate all of the patients who need important, specialized care, will also be addressed through its construction. The current facilities do not accommodate the changing needs of medical practice. For example, the inpatient facilities were not designed with air conditioning, space for computers, or with rooms for families to stay with patients. Furthermore, the new facility will enable the campus to attract new faculty who can build clinical and academic programs that are essential to the campus' strategic vision and business model.

Mr. Laret observed that UCSF is acknowledged as one of the great sources of medical innovation in the world. This innovation is generated through the interaction of clinicians with scientists at the Parnassus Heights and Mount Zion campuses. He expressed the belief that the full potential of Mission Bay's research site will be realized with the addition of clinical care components. He explained that the final vision for UCSF is to have two major hospital sites integrated with major research facilities at Parnassus Heights and Mission Bay. The Mount Zion site will specialize in outpatient care and research. The plan for the Mission Bay facility includes a children's hospital, a women's hospital, a cancer hospital, a helipad (the only one in San Francisco), a central utility plant, and outpatient care. This new complex will accommodate the children's services currently occupying three floors in the Moffitt and Long Hospitals; that space will be backfilled by adult services and will accommodate the inpatient women's and cancer services currently based in the Mount Zion location.

Mr. Laret reflected that UCSF is the grateful beneficiary of lessons learned from the successes and challenges faced by other UC hospital projects. The overriding focus of the Mission Bay project has been to incorporate every possible precaution to limit the University's risk. The executive director of the project, Cindy Lima, is supported by a technical team led by Stuart Eckblad, one of the authors of the Regents' 2005 study on capital asset utilization and delivery. Mr. Eckblad is an architect who has built seven hospitals for Kaiser Permanente in California. The team also includes a former senior official with the California Office of Statewide Health Planning and Development (OSHPD). The contractors, architects, and subcontractors involved are the region's most experienced in hospital construction. In addition, UCSF contractors and architects are using computer models to virtually construct the site in advance to reduce the risk of costly and time-consuming miscalculations.

Mr. Laret explained that construction documents for the Mission Bay facility are 95 percent complete. Although the furlough program at OSHPD has created some challenges, UCSF remains on schedule with its plans. The clinical teams are testing mock operating rooms, labor and delivery suites, and patient rooms to determine their effectiveness and efficiency. The campus is planning equipment procurement for the hospital, and the last of the older buildings that occupied the site previously have been demolished.

Mr. Laret reminded the Regents that they approved a budget of \$1.686 billion for the project in 2008; the original proposed funding sources included hospital debt, equity, children's hospital bonds, a hoped-for State bond contribution, and philanthropy. In the past 18 months, UCSF has worked to reduce costs and refine the funding sources. He informed the Regents that the campus has already reduced the cost by over \$100 million, and it expects to have a preliminary guaranteed maximum price by July of approximately \$1.486 billion – at least \$200 million below the original budget. This figure represents a nearly 20 percent reduction from the original construction estimate, attributable both to the recession and to the project approach. With regards to funding sources, Mr. Laret explained that if the University goes to market before the end of the current calendar year, it would benefit from the 35 percent interest rate subsidy provided by the federal government under the stimulus package on Build America Bonds. The interest savings is more than \$160 million over the life of the bonds; the campus will ask the Regents for approval for that plan in September.

Mr. Laret informed the Regents that the Medical Center has averaged an operating cash flow of over \$125 million a year for the past five years. In addition to the \$60 million of equity already contributed to this project, the Medical Center can contribute an additional \$50 to \$150 million over the next three to four years as required. Before the project is completed, UCSF will draw down voter-approved children's hospital bond proceeds of \$69 million. Mr. Laret noted that California has contributed to other State seismic retrofit projects, and he expressed his hope that it someday will be able to do so again. However, UCSF is assuming that no additional State funds will be available for the Mission Bay project.

Mr. Laret informed the Regents that the campus received its first major pledge for the project, \$25 million, in 2007. In 2008, UCSF received a matching gift of \$125 million for the hospital project from Atlantic Philanthropies, and its very generous founder, Charles Feeney, who has supported other projects at the Mission Bay campus. As of January, more than 110 donors propelled UCSF over one-third of the way toward its \$600 million goal. Today, said Mr. Laret, he was proud to announce that the campus received an additional \$100 million pledge from an anonymous donor in support of the children's hospital. This new gift brings the project pledge total to approximately \$325 million, more than halfway to its goal. It also completes the Atlantic Philanthropies' challenge and marks the first time in the history of the University that a single capital project has attracted two gifts of \$100 million or more. Mr. Laret observed that naming opportunities still exist for Mission Bay, and that by the time of the September Regents meeting, he hopes to be close to two-thirds of the way toward fulfilling the project's fundraising goal.

Mr. Laret remarked that the campus will continue to move forward on an aggressive timetable. If the Regents approve the final funding plan in September, UCSF will immediately work with the University's Chief Financial Officer to offer the Build America Bonds; Mr. Laret's expectation

is that the campus would be able to start construction by the end of the calendar year. Ultimately, the campus hopes to begin caring for patients in the new facility before the end of 2014. Before the September meeting, said Mr. Laret, UCSF will work to finalize the project cost and develop a backstop plan for philanthropy should the project encounter any unexpected problems. He stated that the campus is optimistic that OSHPD will meet its timelines, but will have a contingency plan in place as a precaution. Finally, the campus will update its cash flow and operating projections for the Medical Center as a whole by September.

Mr. Laret acknowledged that the Mission Bay project is large, but that the campus is approaching it with an appropriate level of caution and care. He said that it is an acutely important project to UCSF, the patients it serves, the economy of the Bay Area, and the University's mission of advancing health worldwide.

Committee on Grounds and Buildings Chair Schilling remarked that the UCSF presentation was very comprehensive.

Regent Blum complimented Mr. Laret and his team, both on this project and on the neuroscience building. He observed that Chancellor Desmond-Hellmann's fundraising talent also played a pivotal role.

Regent De La Peña remarked upon the importance of the gifts to the hospital and stated that the campus has performed admirably in the raising of funds. He also congratulated Chancellor Fox for recently acquiring \$75 million for a hospital at UC San Diego, and Chancellor Drake who recently received a gift of \$50 million for a hospital at UC Irvine.

The meeting adjourned at 10:55 a.m.

Attest:

Secretary and Chief of Staff