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Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM

For Meeting of July 16, 2013

AMENDMENT OF THE BUDGET AND AMENDMENT OF EXTERNAL FINANCING, UCSD MEDICAL CENTER EAST CAMPUS BED TOWER, SAN DIEGO CAMPUS

EXECUTIVE SUMMARY

This project involves an expansion of hospital facilities at UC San Diego Health System, licensed as UCSD Medical Center, on the Health System La Jolla campus. The East Campus Bed Tower, now called the Jacobs Medical Center (JMC), will be contiguous to Thornton Hospital and will include new inpatient beds for general medical-surgical units, intermediate medical units, intensive care units, and the obstetric and neonatal care units, and new operating rooms. The project also includes partial renovation of Thornton Hospital to expand and integrate ancillary departments, construction of a new central utility plant to exclusively serve the fully developed hospital complex, and construction of a helistop on the roof of the new JMC tower necessary to position the Health System La Jolla campus as a major regional referral center.

This project will help position UC San Diego Health System to meet the challenges of health care reform and market demand. JMC will increase the overall Health System capacity and provide access to the newly insured. This increase in capacity will also allow the Health System to expand partnerships with physician groups, community clinics, employer groups, and California's health insurance exchange, *Covered California*. State-of-the-art facilities, such as JMC, combined with an expanded clinic network throughout the region will position the Health System as an attractive partner.

The complete program for construction of the new facility and renovation of the existing Thornton Hospital was presented to the Regents when budget and financing approval was sought in March 2010. Given budget constraints, however, full build-out of the program was proposed to be completed in phases. The budget originally approved in March 2010 included design of the full program and completion of a majority of the new construction; approximately 60,850 assignable square feet (asf) of space was planned to remain as shell at project completion until a future construction phase could be funded.

In February 2012, the project was augmented administratively to allow for program modifications. Since then, the project has encountered budget challenges associated with State requirement changes for hospital projects and changing construction market conditions.

Although opportunities were sought to complete the approved program within budget, it became evident that additional funding would be required (or more of the program would have to be shelled).

To address the increased costs associated with the originally approved scope of work and to complete most of the total program in a single phase, an additional $141,460,000 is requested. The campus requests approval to increase the amount of external financing by $143.2 million (with a corresponding reduction of $1,740,000 in hospital reserves). With this additional funding, all of the programmed patient services space would be able to be completed at occupancy; the amount of shelled space to be completed in the future would be reduced to approximately 19,200 asf. This un-programmed space would be located on the lower level and first floor of the building and can be built in the future as needs are identified through the strategic planning process.

The Regents are being asked to: (1) approve the project budget of $839,360,000 to be funded from external financing ($500 million), gifts ($131 million), hospital reserves ($104,360,000), Children's Hospital Bonds ($69 million), and capitalized leases ($35 million); (2) approve external financing ($500 million); and (3) approve the build-out of shelled space, including completion of all inpatient beds and operating rooms.

RECOMMENDATION

The President recommends that the Committee on Grounds and Buildings recommend to the Regents that:

1. The 2013-14 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

   From: San Diego: <u>UCSD East Campus Bed Tower</u> – preliminary plans, working drawings, construction and equipment – $697.9 million to be funded from external financing ($356.8 million), gifts ($131 million), hospital reserves ($106.1 million), Children's Hospital Bonds ($69 million), and capitalized leases ($35 million).

   To: San Diego: <u>UCSD East Campus Bed Tower</u> – preliminary plans, working drawings, construction and equipment – $839,360,000 to be funded from external financing ($500 million), gifts ($131 million), hospital reserves ($104,360,000), Children's Hospital Bonds ($69 million), and capitalized leases ($35 million).

2. The project scope of the UCSD Medical Center East Campus Bed Tower will include: new bed tower of approximately 512,500 gross square feet (gsf) with 245 beds and 14 operating rooms, a new stand-alone central plant of approximately 39,300 gsf, and renovation of approximately 65,400 gsf in the existing Thornton Hospital.

3. The President be authorized to obtain external financing not to exceed $500 million to finance the UCSD East Campus Bed Tower project. The President shall require that:

   A. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.

   B. As long as the debt is outstanding, UC San Diego Health System gross revenues shall be maintained in amounts sufficient to pay the debt service and meet the related requirements of the authorized financing.

   C. The general credit of the Regents shall not be pledged.

4. The President be authorized to execute all documents necessary in connection with the above.

5. The President shall require a remediation plan of action by UC San Diego Health System if their quarterly and/or annual financial results show a level below 60 days cash. Should the level of days cash drop below 30 days, the President shall require the San Diego campus to replenish the Health System's reserve to a 30-day minimum cash threshold for that quarter and on a going-forward basis.

BACKGROUND

The East Campus Bed Tower project consists of three separate components: a new bed tower, selective departmental renovation of the existing Thornton Hospital, and a new stand-alone central plant. The full program as originally defined would result in capacity for 245 new patient beds for general medical-surgical units, intermediate medical units, intensive care units, and the obstetric and neonatal care units, and 14 operating rooms (ORs). Additional functions include diagnostic and treatment, support services, and administrative services.

Because of budget constraints at the time of initial planning, completion of the full program needed to be funded in phases. In March 2010, the project was approved with approximately 13 percent of new space (approximately 60,850 asf) in the tower to be completed at a later time, including one 36-bed floor of the new tower, two 12-bed intermediate medical units and seven ORs. The corresponding budget approved in March 2010 totaled $663.8 million.

In February 2012, following further design, the campus sought approval to increase the budget by $34.1 million funded with hospital reserves, to allow for the following program modifications:

- Expand intraoperative suite to serve two ORs,
- Add an autopsy laboratory,
- Expand the amount of space for administrative offices,
- Add a catering kitchen, and

- Expand utilities to serve the new hospital as part of a coordinated utilities improvements project on the Health System La Jolla campus.

The revised project budget was administratively approved at $697.9 million by the Office of the President.

It became evident during further design, agency reviews, and initial bid phases that the approved budget would not be able to cover the costs to construct the approved scope. Either additional space would need to be shelled – further reducing the patient services available at occupancy or more funding would need to be approved for the project.

After careful consideration, the Health System determined that the preferred approach for the Health System's operations would be to complete the program as originally approved and to maximize build-out of the space originally identified as shelled space. This would require an increase in the total project budget of $141,460,000 and would primarily address the costs associated with the following elements:

- An increase in the amount of program completed with this project, reducing the amount of shelled space;
- Changes associated with unanticipated agency mandates (California Department of Public Health [CDPH] and Office of Statewide Health Planning and Development [OSHPD]);
- Market escalation and higher than estimated costs; and
- An increase in construction contingency.

Details of Cost Overage

The summary of the cost increase is as follows:

(1) Increase in amount of built-out space	$53,122,000
(2) Unanticipated agency mandates	$31,778,000
(3) Bid overages and cost overruns due to bidding complexities	$40,950,000
(4) Construction contingency increase	$15,610,000
Total Cost Increase	$141,460,000

(1) To minimize future disruption to hospital operations and patients, UC San Diego Health System proposes to increase the amount of space that would be completed during the initial construction. All planned patient-care space (beds and ORs) would be fully built out at this time. These additional ten ORs, originally planned to be shelled per the February 2012 augmentation, and 60 beds would provide the capacity to generate additional revenues by allowing UC San Diego Health System to fully respond to changing demographics, grow profitable programs and services, and more rapidly increase market share in target programs including cancer, cardiovascular medicine, neurosciences, and surgery. This incremental increase in revenues would also cover the increase in debt service for which approval is being sought. The project would have a

minimal amount of shelled space (19,200 asf) representing five percent of the new space in the tower. All of his remaining space is on non-patient floors, minimizing disruption to patient care when it is completed in the future. The specific programs to occupy the shelled space in the future have not been determined. The increase in budget includes funding for movable equipment that would need to be increased to outfit the increased clinical areas in the proposed build-out.

The following table shows the change in program to be completed and demonstrates that the proposed changes are consistent with the full program originally presented. See Attachment 1 for a comparison of program functions and amount of shelled space overall in the project.

Table 1
Comparison of Inpatient Beds and Operating Rooms to be Completed with Project

	Approved Mar-10	Approved Feb-12	Proposed Jul-13	Change Feb-12 to Jul-13
Number of Inpatient Beds				
Complete	185	185	245	60
Shelled for Future Build-Out	60	60	0	(60)
Total	*245*	*245*	*245*	*0*
Number of Operating Rooms				
Complete	4	4	14	10
Shelled for Future Build-Out	7	10	0	(10)
Total	*11*	*14*	*14*	*0*

(2) Requirements by State agencies involved in the construction and licensing of California hospitals have resulted in higher than projected costs associated with constructing the new hospital. Components specifically impacted are related to food services, path of travel for food, structural steel, foundation design and mechanical/ electrical/plumbing (MEP) systems.

With respect to food service and delivery, unanticipated mandates resulted in higher than projected costs. At the outset of design, a “cook/chill” food service delivery system was intended, which matched the cost-effective food service model already in operation at UC San Diego Medical Center in Hillcrest. Although this system was already operating successfully at the Hillcrest location, new requirements were imposed, including a significant square footage increase for kitchen circulation and service and increased food storage space to allow for an additional seven days of potential “interruption of service.” The increased cost associated with this additional program area was significant enough for the Health System to reconsider the food service approach and, subsequently, to abandon the cook/chill model.

These mandates are not apparent in the existing code; however, the agency has elected to interpret codes differently with no known precedent. This same interpretation has not been applied to any other California inpatient facilities.

After other food service options were evaluated, a traditional hospital food service delivery model was determined to be the best approach for complying with these new program requirements. Although this traditional approach still requires additional space, it also allows more flexibility for food service functions and greater opportunities for future growth. Additional requirements dictated that patient food not be delivered through public or staff corridors, but rather through separate "clean" corridors and dual elevators. These path-of-travel restrictions contributed to the increase in cost.

Because of the size and complexity of the project, the campus benefited from a phased plan review approach. This allowed for a phased bidding approach for establishing costs as working drawings were completed. However, with numerous plan review comments and requirements received after many of the trades were bid, some trades were impacted by subsequent changes. The primary impacts were to the structural steel (for the Central Utility Plant), exterior curtain wall, and building systems (such as humidification and MEP).

The unanticipated mandates resulted in two additional elevators, approximately 1,800 gross square feet (gsf) of additional circulation space to provide a dedicated clean path of travel from the kitchen to the new Tower, additional kitchen equipment and storage capacity for chilled, frozen, and dry goods.

To date, seven of the ten submittal packages have received OSHPD approval, including high risk items such as: underground excavation, foundation, soil, structural steel, curtain wall, and interior tenant improvements. The remaining three packages still under OSHPD review are considered to have low risk for changes that could affect the budget.

(3) The project budget has been impacted by three key factors: (1) limited regional and local interest by subcontractors and vendors, (2) limited capacity by these trades to bid on a project of this complexity, and (3) a complex bidding process.

Concurrent with the bidding of this project, three major hospitals were simultaneously being constructed within San Diego County: Scripps Memorial Hospital, Palomar Pomerado Hospital, and the Camp Pendleton Replacement Hospital. Many of the viable regional and local construction trades were under contract with these projects, which served to reduce their capacity and willingness to bid on the JMC project. With the busy construction market and a risk-averse concern for the large scale and complexity of the JMC, the project experienced poor competitive bidding coverage. Despite several outreach efforts to increase this response, many of the major building systems had a small pool of bidders. This reduced competition resulted in higher quotes for labor, materials, and equipment. As an example, although MEP systems represent 40 percent of the work, only two MEP subcontractors were willing to provide quotes for that work.

In addition to the limited bidder interest and capacity, the bidding process was complex. Under the "fast-track" Phased Plan Review process through OSHPD, more than ten design packages were prepared and submitted consecutively to the agency for approval during the development of design. These in-progress design packages were distributed to the trades for early quotes during plan review and were used to establish cost "allowances" that would be finalized at the completion of formal bidding. These estimated allowances were exceeded once the documents were finalized and the full scope of the work was detailed and specified.

(4) With approximately 20 to 25 percent of work yet to bid, increase in amount of space to be completed, and remaining packages yet to be approved by OSHPD, an increase in construction contingency is proposed to minimize risk to the revised budget that is being sought.

Without additional funding to cover the increased costs associated with unanticipated agency mandates and bid overages, significantly more space would have to be shelled. That option would impact near-term operations of the hospital, entail significant disruption to patients and staff in the future, and increase the cost to fully build-out the space over time (as a result of not only escalation, but also of construction premiums within a fully operational acute care patient environment).

Previous Actions

May 2007:	Preliminary plans funding for $12 million approved by the Committee on Grounds and Buildings
March 2010:	Budget ($663.8 million) and external financing ($356.8 million) approved by the Committee on Grounds and Buildings
July 2010:	Certification of Environmental Impact Report, Adoption of Findings, and Approval of Design by the Committee on Grounds and Buildings
February 2012:	Administrative approval of budget augmentation for a revised total budget of $697.9 million

Project Description

The project as now proposed would include three separate components (described below) to expand hospital facilities on the East Campus in La Jolla: a new bed tower (363,800 asf), selective departmental renovation of the existing Thornton Hospital (65,400 asf), and a new stand-alone Central Plant (15,900 asf).

New Bed Tower Component: As shown in Attachment 1, this project component would build-out 48,900 asf more than the previous approval.

The twelve-level tower would provide 245 inpatient beds for general medical-surgical units, intermediate medical units, intensive care units, and the obstetric and neonatal care units. The obstetric and neonatal care units would be part of a Women and Infant's Center to be partially funded with Children's Hospital bond funds. The bed tower would also provide 14 new ORs. The scope also includes construction of a helistop on the roof of the new tower necessary to position the Health System La Jolla campus as a major referral center. The proposed scope changes would result in the project having 19,200 asf of shelled space.

<u>Renovation Component</u>: As shown in Attachment 1, there would be 3,900 asf less renovated space than in the previous approval.

The entire basement and part of the first, second, and third levels of the existing Thornton Hospital would be renovated for expansion of ancillary departments and improvements to integrate the new tower and the existing hospital into one. Areas to be renovated would include the following departments: Materials Management, Central Sterile, Imaging, Surgery, Acute Dialysis, Patient Intake Center, Gift Shop, and expanded kitchen as required by the State agency.

<u>Central Plant Component</u>: This project component remains unchanged from the previous approval.

The stand-alone central utility plant for steam, emergency power, and chilled water systems would serve the new East Campus Bed Tower, existing Thornton Hospital, and the Sulpizio Cardiovascular Center. The scope will include new boilers/surge tanks, chillers, transformers, switchgear, generators, facilities administration offices, service yard/ parking and loading dock. The existing Central Plant, located in the basement of Thornton Hospital, would be removed, thereby freeing up space in the basement to be renovated for other support spaces serving Thornton Hospital and the new bed tower.

Project Schedule

Construction of the bed tower component began in January 2012 and is approximately 33 percent complete. Notable progress includes completion of concrete foundations, rebar installation, and structural steel (columns and beams) for basement through third floor. With the proposed additional build-out of space, the revised occupancy date for the tower is now July 2016, which is two months later than the originally identified date.

Construction of the Central Utility Plant (CUP) structure also began in January 2012, and is approximately 45 percent complete. Notable progress includes installation of major site utility infrastructure, structural concrete for the cooling tower, and structural concrete for the lower and ground levels of the CUP. The CUP's estimated occupancy date of August 2014 would not be affected by the proposed scope changes.

Renovations to the existing Thornton Hospital are scheduled to be occupied in November 2017, seven months later than the last reported schedule. The added delay is a result of simplifying the bed tower move-in to a single phase as well as a two-month extension of the bed tower schedule to accommodate the proposed scope changes.

Financial Feasibility

The revised total project cost of $839,360,000 would be funded from external financing ($500 million), gift funds ($131 million), hospital reserves ($104,360,000), Children's Hospital Bonds ($69 million), and capitalized leases ($35 million).

Status of fund-raising

As of May 2013, the status of gifts for this project is as follows:

In Hand	$ 33,324,000
Committed	47,413,000
To be Raised	50,263,000
Total	$131,000,000

Gifts committed but not in hand have been back-stopped by hospital reserves ($47,413,000). Remaining gifts to be raised have been back-stopped by hospital reserves ($23,013,000) and campus funds from Short Term Investment Pool (STIP) earnings ($27,250,000).

External Financing

Based on long-term debt of $500 million amortized over 35 years at the planning rate of 6.0 percent with first ten years being interest only, the amortized average annual debt service starting in year 11 is approximately $39 million annually. In addition to the need for budget augmentation and the efficiencies of building out the shelled space today, bond market conditions continue to be favorable from a long-term rate perspective, which will make the additional external financing request more affordable. At the beginning of June, 2013, market conditions estimate a 4.0 percent interest. This would bring the average annual debt service payment down to approximately $32 million, a difference of approximately $7 million in debt service between current market conditions and the planning rate. UC San Diego Health System management will re-evaluate, defer, or eliminate as appropriate, planned capital or operating investments necessary to offset the financial impact of added debt service costs that might be incurred if the actual interest on the bonds varies significantly from the current market rate.

Days Cash

With the exception of UCLA, each of the University's medical centers currently fall below benchmark guidelines for Days Cash. The Days Cash on Hand metric measures the number of days a hospital could continue paying its operating expenses from existing unrestricted investments in the absence of any future cash inflow. For standalone hospitals the general accepted level of days cash is approximately 120 days plus. While the University reserves a working capital line for the respective medical centers, the medical centers are facing a time of uncertainty and it is imperative that that each medical center be able to preserve operational liquidity on a standalone basis to be able to continue to meet its patient care and teaching objectives. This item recommends that the Chief Financial Officer (CFO), through authority delegated to him by the President, request a remediation plan of action developed by the UC San Diego Health System when its quarterly and/or annual financial results show a level below 60 days cash, as is currently the case. Should the level of cash dip below 30 days, the CFO will be allowed to trigger a request to the respective campus to replenish the medical center's reserve to a 30-day minimum cash threshold for that quarter and on a going-forward basis.

The campus has pledged gross revenues of the UC San Diego Health System as the source of repayment. Detailed financial projections for the UC San Diego Health System are included in Attachment 5 (Summary of Financial Feasibility), Attachment 6 (Projected Financial Performance), and Attachment 7 (Summary of Financial Feasibility, Market Interest Rate at the beginning of June 2013).

ATTACHMENTS:

Attachment 1: Comparison of Program by Space Type and Function
Attachment 2: Project Budget
Attachment 3: Funding Plan
Attachment 4: Policy Compliance
Attachment 5: Summary Financial Feasibility Analysis
Attachment 6: Projected Financial Performance
Attachment 7: Summary Financial Feasibility Analysis, Market Interest Rate at Beginning of June 2013

ATTACHMENT 1

UCSD MEDICAL CENTER EAST CAMPUS BED TOWER

COMPARISON OF PROGRAM, BY SPACE TYPE AND FUNCTION (ASF)

(includes space in new Tower and Thornton Renovation)

Space Type	Function (as proposed)	Approved Mar-10	Approved Feb-12	Proposed Jul-13	Change Feb-12 to Jul-13
Inpatient Beds (excluding Women & Infants)	Medical Surgical and Intermediate Medical Unit, 108 beds Intensive Care Unit, 36 beds	125,500	125,500	126,800	1,300
Women & Infants Inpatient Beds	Neonatal Intensive Care Unit, 52 bassinets Labor, Delivery, Recovery, Postpartum, 11 beds Ante-Partum, 6 beds Post-Partum, 32 beds	79,800	79,800	79,800	0
Diagnostic & Treatment [1]	Acute Dialysis, Imaging, Laboratory, Patient Intake Center, Pharmacy, Respiratory Therapy, Surgery Post Anesthesia Care Unit / Invasive Hub	149,300	149,300	119,800	(29,500)
Support Services [2]	Biomedical Engineering, Food Service/Dining, Housekeeping/ Environmental Services, Materials Management, Patient Transportation, Sterile Processing Department/ Central Supply	36,500	36,500	64,100	27,600
Administrative Services [3]	Administration, Care Coordination, Information Technology, Medical Education, On-Call, Security, Spiritual Care	31,500	31,500	31,000	(500)
Lobby	Gift Shop, Lobby	5,400	5,400	7,700	2,300
Total		**428,000**	**428,000**	**429,200**	**1,200**
	New Construction (built out)	303,350	295,700	344,600	48,900
	New Construction (shelled)	60,850	63,000	19,200	(43,800)
	Renovation	63,800	69,300	65,400	(3,900)

[1] Neurology and Rehabilitation - included in Mar-10 and Feb-13 program; not part of Jul-13

[2] Cafe - included in Mar-10 and Feb-13 program; not part of Jul-13

[3] Volunteers - included in Mar-10 and Feb-13 program; not part of Jul-13; On-Call - new for Jul-13

ATTACHMENT 2

PROJECT BUDGET
UCSD MEDICAL CENTER EAST CAMPUS BED TOWER
SAN DIEGO CAMPUS
CCCI 5943

Cost Category	Approved Budget Mar- 2010	Approved Budget Feb-12	Augmentation Request	Proposed Budget Jul-13	% of Total
Site Clearance	$152,000	$152,000	($6,000)	$146,000	0.0%
Building Construction	414,716,000	442,543,000	98,184,000	540,727,000	72.0%
Exterior Utilities	6,311,000	893,000	308,000	1,201,000	0.2%
Site Development	6,704,000	1,189,000	116,000	1,305,000	0.2%
A/E Fees	32,648,000	39,475,000	8,105,000	47,580,000	6.3%
Campus Administration	10,662,000	15,235,000	1,761,000	16,996,000	2.3%
Surveys, Tests, Plans, Specs	4,522,000	8,418,000	3,474,000	11,892,000	1.5%
Special Items (excl. financing)	36,180,000	36,802,000	4,186,000	40,988,000	5.5%
Financing Costs	48,700,000	48,700,000	4,600,000	53,300,000	7.1%
Contingency	45,205,000	21,489,000	15,610,000	37,099,000	4.9%
Total P-W-C	$605,800,000	$614,896,000	$136,338,000	$751,234,000	100.0%
Groups 2 & 3 Equipment	58,000,000	83,004,000	5,122,000	88,126,000	
Total Project	**$663,800,000**	**$697,900,000**	**$141,460,000**	**$839,360,000**	

Project Statistics:

New Construction: Tower and CUP	Approved Mar-10	Approved Feb-12	Proposed Jul-13
GSF	506,219	545,485	551,815
ASF[1]	377,985	372,427	379,746
Efficiency Ratio: ASF/GSF	75%	68%	69%
Building Cost/GSF	$755	$745	$895

[1] *ASF includes the proposed shell space*

Renovation	Approved Mar-10	Approved Feb-12	Proposed Jul-13
GSF	63,815	69,314	65,417
ASF	63,815	69,314	65,417
Efficiency Ratio: ASF/GSF	100%	100%	100%
Building Cost/GSF	$513	$524	$719

Comparable University Projects at CCCI 5943:
(Costs are for new construction only and do not include other project components, such as site work, renovation, or central plant costs.)

Project Name (Location)	**GSF**	**Building Cost /GSF**
UC Davis Critical Care Tower Addition	469,120	$747
UC Irvine Medical Center Replacement Hospital	432,788	$830
UC San Diego Cardiovascular Center	128,000	$1,215
UC San Francisco Medical Center Mission Bay Clinical Facilities	865,000	$937
Confidential Non-UC Facility (Newport Beach)	367,310	$776
Confidential Non-UC Facility (Anaheim)	433,178	$747
East Campus Bed Tower (as proposed for Tower only)	**512,507**	**$838**

ATTACHMENT 3

FUNDING PLAN
UCSD MEDICAL CENTER EAST CAMPUS BED TOWER

	Approved March 2010	Approved February 2012	Proposed May 2013	Change From Last Approved
Funding Sources				
External Financing	$356,800,000	$356,800,000	$500,000,000	$143,200,000
Gift Funds	$131,000,000	$131,000,000	$131,000,000	-
Hospital Reserves	$72,000,000	$106,100,000	$104,360,000	($1,740,000)
Children's Hospital Bonds	$69,000,000	$69,000,000	$69,000,000	-
Capitalized Leases	$35,000,000	$35,000,000	$35,000,000	-
Total	**$663,800,000**	**$697,900,000**	**$839,360,000**	**$141,460,000**
Funding Schedule				
Preliminary Plans	$37,000,000	$37,000,000	$37,000,000	-
Working Drawings	$33,800,000	$40,627,000	$42,927,000	$2,300,000
Construction	$535,000,000	$537,269,000	$671,307,000	$134,038,000
Equipment	$58,000,000	$83,004,000	$88,126,000	$5,122,000
Total	**$663,800,000**	**$697,900,000**	**$839,360,000**	**$141,460,000**

ATTACHMENT 4

POLICY COMPLIANCE

California Environmental Quality Act

The changes previously described are within the area of work included in the Environmental Impact Report certified for the UCSD Medical Center East Campus Bed Tower project in July 2010.

Sustainability

A minimum of USGBC LEED Silver is targeted.

ATTACHMENT 5

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

Project Title: **UCSD Medical Center East Campus Bed Tower, San Diego Campus**

Total Estimated Project Cost:	$839,360,000
Proposed Sources of Funding:	
External Financing	$500,000,000
Gifts	$131,000,000
Hospital Reserves	$104,360,000
Children's Hospital Bonds	$69,000,000
Capitalized Leases	$35,000,000
Total	$839,360,000
Proposed New Long-term Financing:	$500,000,000

Projected Financing Terms:

Interest Rate	6.0%	
Term	35 years, 10 year principal deferral	
Average Annual Debt Service		$39,113,000

Existing Hospital System Long-term Debt June 30, 2012:	$214,371,000
Estimated Total Hospital System Long-term Debt July 1, 2017:	$698,477,000

Estimated Combined Annual Debt Service: (Dollars in Thousands):

Debt Service ($000's):

	Actual				Projected			
	FY 2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Income available for debt service:								
Net income	$96,105	$68,702	$83,867	$85,051	$91,880	$33,953	$54,177	$80,937
Interest	7,020	7,870	8,760	8,353	8,238	38,157	37,728	37,263
Capitalized interest	3,978	3,150	2,500	2,500	2,500	2,500	2,500	2,500
Depreciation	45,110	52,069	56,358	59,821	61,759	92,749	92,711	90,629
Income available for debt service	152,213	131,791	151,485	155,725	164,377	167,359	187,116	211,329
Debt service:								
Interest	7,020	7,870	8,760	8,353	8,238	38,157	37,728	37,263
Capitalized interest	3,978	3,150	2,500	2,500	2,500	2,500	2,500	2,500
Principal	13,234	15,907	15,373	15,035	17,727	18,758	16,681	17,244
Total debt service	$24,232	$26,927	$26,633	$25,888	$28,465	$59,415	$56,909	$57,007
Debt service coverage	6.3	4.9	5.7	6.0	5.8	2.8	3.3	3.7

ATTACHMENT 6

Projected Financial Performance

Detailed financial projections for UC San Diego Health System are included in this attachment. These projections are based on assumptions from the Office of the President, where available, local assumptions for years beyond 2013, and the opening of the project at the beginning of fiscal year (FY) 2017. The local assumptions are based on a review of: (1) UC San Diego Health System's recent service mix and financial performance; (2) the occupancy and outpatient volume levels experienced in the past few years; (3) projections of continued revenue/program enhancements, including those provided by the project; (4) estimates of the effect of the Affordable Care Act on patient volumes, payer mix, and reimbursement; (5) projections of increased patient volume because of the area's population based on data provided by the San Diego Association of Governments; and (6) anticipated market share increases in Cancer, Cardiovascular Services, and Surgery resulting from opening of the project. It is anticipated that UC San Diego Health System will experience an approximate two percent increase in its overall market share within two years of opening of the proposed project.

Average inpatient daily census is projected to increase from 421 in 2012, to 549 in 2019 as a result of continued program enhancements including those provided as a result of the project and projected population growth in UC San Diego Health System's service area. Ambulatory clinic and emergency room visits are projected to increase from 638,000 in 2012, to over 776,000 by 2019 as a result of population growth, new programs, increased utilization of existing ambulatory space, and recent and planned expansion of ambulatory capacity off-campus.

Total revenue is projected to increase from $1.04 billion in 2012 to $1.57 billion in 2019 as a result of ongoing strategy to optimize reimbursement, projected patient volume growth and increased market share in select service lines, and changes in payor mix resulting from Medicaid expansion and introduction of Covered California on January 1, 2014, and the aging of the population. The forecasted revenue also includes estimates of future Medi-Cal funds available under the current and subsequent Medicaid waivers, funds expected to be available under the Medi-Cal Hospital Fee Program, and estimates of the impact of the Affordable Care Act on Medicare payments and Medi-Cal DSH.

Projected operating expenses increase from $949 million in FY 2012, to $1.46 billion in FY 2019 because of an increase in patient volumes, the impact of inflation, increases in pension contributions, and increased depreciation expense. Salary expense is projected to increase 4.0 percent annually over the projection period with contributions to the retirement system increasing from the FY 2012 rate of 7.0 percent of eligible salary costs to a rate of 18.0 percent by FY 2017. Inflation on medical and other supplies, as well as pharmaceuticals and blood products, are projected to be 3.5 percent annually over the projection period.

In FY 2013 the organization began an operational improvement initiative that is expected to generate approximately $65 million of annual improvements by FY 2016. These improvements will be achieved through an organization restructuring that will reduce management layers and realign staff to reduce redundancies, process improvements expected to yield efficiencies in staffing and improve management of overtime use, product standardization to achieve supply cost savings, and improved charge capture and denial management to enhance net revenue.

Projected net income is estimated to decrease from $96.1 million in 2012 (9.2 percent margin) to $91.9 million (7.2 percent margin) in 2016, the year before the opening of the project. Net income is projected to decline to $34 million (2.5 percent margin) in 2017 with the opening of the project when additional depreciation, interest expense, and facilities-related expenses are incurred. Net income is projected to increase to $80.9 million in FY 2019 (5.2 percent margin), three years after completion of the project, as the additional revenues from the projected market share growth are fully realized.

The financial projection also includes the costs and benefits of future capital projects associated with the Health System's capital plans, including the cost of ongoing facilities improvements, medical equipment and information technology capital. The plan includes projects that have not yet been approved, and that would be regularly re-evaluated as to need, scope and cost. Future projects would be deferred or eliminated as appropriate and necessary to ensure UC San Diego Health System's financial viability.

Throughout the projection period, the Health System's margin and debt service coverage remains above industry averages. Days Cash on Hand, however, is projected to decline to 30 days in 2017 as a result of funding the project, but to grow steadily to 47 days by 2019.

Projected Financial Performance
Fiscal Years 2013-2019

- Key Assumptions
- Patient Volumes
- Statement of Revenues and Expenses
- Statement of Net Assets
- Statement of Cash Flows
- Key Financial Ratios

Key Assumptions for Projections
Fiscal Years 2013 – 2019

- **Utilization**
  - Average daily census will increase from 421 in 2012 to 549 in 2019. This will be driven by demographic changes in San Diego County, health care reform and associated changes in the delivery of health care, program enhancements, growth in outpatient clinic and emergency room visits that drive inpatient care, and a larger referral base for high-complexity cases.
  - The San Diego Association of Governments projects that the County's population will grow 12 percent from 2012 to 2020, with the age group of 65 and older growing 39 percent over the same 8-year time period. Increased age is associated with significantly higher hospitalization rates, particularly in specialties such as Cancer and Orthopedic Surgery.
  - The Cancer Hospital and Hospital for Advanced Surgery will bring not only new capabilities but also much needed bed capacity. The average daily census at Thornton Hospital rose steadily each year, from an 80 percent annual average occupancy rate in FY 2008 to 92 percent in FY 2011. With the addition of the Sulpizio Family Cardiovascular Center, the FY 2012 occupancy rate dropped to 84 percent and is rising again.
  - The Jacobs Medical Center will also offer a dramatically improved experience for patients. The Women and Infants Hospital is expected to attract more pregnant women compared to the current site and referring providers will be more likely to send women with difficult pregnancies or transfer infants requiring neonatal care.
  - Ambulatory clinic visits, a key driver of inpatient admissions, will increase from 572,000 in FY 2012 to 702,000 by 2019 due to recent and planned investment in outpatient capacity. Investments in the northern part of San Diego County include the purchase in 2011 of the San Diego Cancer Center, a provider of outpatient Cancer Care in Vista and Encinitas, and the purchase of an internal medicine practice in Vista in FY 2013. In addition, two new concierge medicine practices were established and family medicine, dermatology and endocrinology clinic capacity was expanded. Additional growth in outpatient services will be driven by future expansion of infusion space at the Moore's Cancer Center and relocation of the Fetal Genetics program.
  - Emergency room visits, another driver of inpatient admissions, will increase from 66,000 in 2012 to 75,000 by 2019. The emergency room at the Health System Hillcrest campus recently underwent a remodel and the emergency room at the Thornton Hospital was replaced and significantly expanded as part of the Sulpizio Family Cardiovascular Center/Thornton Expansion project. Emergency room capacity will be augmented by overflow/observation space designed into the new patient intake center within this project.

- **Revenue**
  - Net patient service revenue reflects projected patient volume growth and payor mix changes due to the aging of the population, expanded coverage of the uninsured, and increased market share in select service lines. In addition, it reflects ongoing strategies to optimize reimbursement through strategic pricing and improved revenue capture and contracting efforts.
  - Includes management's estimate of Medi-Cal funding through Section 1115 of the current California Medicaid waiver and estimates of funding to be available under a successor waiver.
  - Projected Medi-Cal DSH reduction under the CMS proposed rule dated May 13, 2013 results in a DSH payment reduction of 2.8 percent in FY 2014 increasing to 31.1 percent by 2019.
  - Assumes funding under SB 335, the Medi-Cal Hospital Fee Program effective for the period of July 1, 2011 through December 31, 2013, will be renewed.
  - Assumes funding under AB915 continues through the projection period

- Receipt of approximately $12.0 million of Health Information Technology funds (“HIT”) made available under the ARRA during the period of fiscal year 2011 to 2014.
- SB1732 funds of approximately $1.7 million annually continues throughout the projection period
- Medicare reimbursement includes Affordable Care Act reductions to Medicare market basket and DSH payments based on FFY 2014 proposed rules; Budget sequestration reductions, readmission and Value Based Purchasing adjustments are based on estimates provided by the California Hospital Association

♦ **Operating Expense**

- Labor inflation for nursing and other clinical staff is projected to average 4.0 percent annually throughout the projection period.
- Employee health care inflation is projected to mirror the rate of labor inflation.
- Pension contribution increases from the FY 2012 rate of 7.0 percent of eligible salary costs to a rate of 18.0 percent by FY 2017
- Medical supply and pharmaceutical inflation of 3.5 percent annually is projected
- Utility inflation of 3 percent annually is projected
- All other non-medical supply/expense inflation of 3.5 percent annually is projected
- Depreciation expense includes the impact of the completion of the project in 2016

♦ **Financing**

- Based on long-term debt of $500,000,000 amortized over 35 years at the planning rate of 6 percent with the first ten years being interest only, the amortized average annual debt service starting in year 11 is approximately $30 million annually. At the beginning of June, 2013 market conditions estimate a 4 percent interest rate. This would bring the average annual debt service payment down to approximately $32 million annually, a difference of approximately $7 million in debt service between current market conditions and the planning rate.
- Financing of radiology and other major equipment through equipment leases in the amount of $4 million annually and an additional $35 million of equipment leases in FY 2016 for clinical equipment for the project

♦ **Capital Investments**

- Implement the emergency department (ASAP) and OR/anesthesia (OpTime) modules of EPIC to augment the totally integrated EMR across the inpatient and outpatient setting
- Automate all aspects of revenue cycle through implementation of the EPIC revenue cycle system across all entities of UC San Diego Health System
- Major renovation of clinical labs at both hospital sites
- Additional equipment and information technology capital of approximately $20 million annually and additional facilities expenditures of approximately $25 million annually

UC SAN DIEGO HEALTH SYSTEM
PROJECTED FINANCIAL PERFORMANCE
PATIENT VOLUMES

	Actual				Projected			
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Discharges	26,719	26,929	27,493	28,461	29,175	31,290	32,853	34,438
Average length of stay	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
ADC	421	428	436	451	464	498	523	549
Patient payor mix - percent								
Medicare	30.0%	31.6%	31.4%	31.3%	31.3%	31.2%	31.2%	31.2%
Medi-Cal	29.0%	27.6%	31.1%	34.3%	34.1%	34.1%	34.0%	34.0%
Commercial	28.7%	27.6%	27.9%	28.3%	28.9%	29.2%	29.5%	29.9%
Indigent/Uninsured	12.3%	13.2%	9.6%	6.1%	5.7%	5.5%	5.3%	4.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Ambulatory visits	572,142	587,165	598,909	617,556	636,775	660,122	680,647	701,803
Emergency room visits	65,526	66,620	67,952	69,311	70,698	72,112	73,554	75,025
Total	637,668	653,785	666,861	686,867	707,473	732,234	754,201	776,828

UC SAN DIEGO HEALTH SYSTEM
PROJECTED FINANCIAL PERFORMANCE
STATEMENT OF REVENUES AND EXPENSES
(Dollars in Thousands)

	Actual				Projected			
	FY 2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Operating revenue								
Net patient revenue	$996,668	$1,026,312	$1,098,610	$1,151,815	$1,223,503	$1,326,682	$1,419,780	$1,520,749
Other operating revenue	48,274	46,344	48,712	45,590	45,436	46,528	47,650	48,802
Total operating revenue	1,044,942	1,072,656	1,147,322	1,197,405	1,268,939	1,373,210	1,467,430	1,569,551
Operating expenses								
Operating expense	903,947	951,860	1,006,448	1,053,255	1,116,314	1,217,013	1,291,519	1,370,169
Depreciation and amortization	45,110	52,069	56,358	59,821	61,759	92,749	92,711	90,629
Total operating expenses	949,057	1,003,929	1,062,806	1,113,076	1,178,073	1,309,762	1,384,230	1,460,798
Net operating income	95,885	68,727	84,516	84,329	90,866	63,448	83,200	108,753
Non-operating income	220	(25)	(649)	722	1,014	(29,495)	(29,023)	(27,816)
Net income	$96,105	$68,702	$83,867	$85,051	$91,880	$33,953	$54,177	$80,937
Total margin	9.2%	6.4%	7.3%	7.1%	7.2%	2.5%	3.7%	5.2%

UC SAN DIEGO HEALTH SYSTEM

PROJECTED FINANCIAL PERFORMANCE

STATEMENT OF NET ASSETS

(Dollars in Thousands)

	Actual	Projected						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Assets								
Cash and cash equivalents	$120,359	$120,319	$111,295	$159,040	$131,174	$103,260	$138,678	$181,604
Patient accounts receivable	183,812	173,175	183,684	188,888	195,805	211,479	225,998	242,011
Other receivables and prepaid assets	84,572	105,000	122,939	95,552	89,621	93,392	70,861	74,813
Inventory	17,602	16,993	17,706	18,188	19,225	20,832	22,194	23,626
Total current assets	406,345	415,487	435,624	461,668	435,825	428,963	457,731	522,054
Capital assets, net	796,358	875,401	1,056,456	1,261,908	1,451,128	1,440,471	1,413,488	1,370,198
Restricted assets	134	0	286,178	86,681	0	0	0	0
Other assets	11,092	13,752	10,813	10,997	11,185	11,376	11,571	11,771
Total assets	1,213,929	1,304,640	1,789,071	1,821,254	1,898,138	1,880,810	1,882,790	1,904,023
Liabilities								
Accounts payable and accrued expenses	124,901	130,508	136,206	141,317	147,897	159,446	168,285	177,863
Current portion of LT debt	15,907	64,415	15,035	14,532	18,758	16,681	17,244	17,808
Total current liabilities	140,808	194,923	151,241	155,849	166,655	176,127	185,529	195,671
Long-term debt and capital leases	214,371	202,997	691,962	681,430	698,477	685,796	672,552	658,744
Total liabilities	355,179	397,920	843,203	837,279	865,132	861,923	858,081	854,415
Net Assets								
Invested in capital assets	566,080	607,989	349,459	565,946	733,893	737,994	723,692	693,646
Restricted	134	0	286,178	86,681	0	0	0	0
Unrestricted	292,536	298,731	310,231	331,348	299,113	280,893	301,017	355,962
Total net assets	$858,750	$906,720	$945,868	$983,975	$1,033,006	$1,018,887	$1,024,709	$1,049,608

UC SAN DIEGO HEALTH SYSTEM

PROJECTED FINANCIAL PERFORMANCE

STATEMENT OF CASH FLOW

(Dollars in thousands)

	Actual	Projected						
	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Beginning cash	$189,906	$120,359	$120,319	$111,295	$159,040	$131,174	$103,260	$138,678
Cash from operations:								
Net income	96,105	68,702	83,867	85,051	91,880	33,953	54,177	80,937
Change in operating receivables/payables	(72,342)	(6,514)	(20,524)	24,689	4,369	(9,714)	15,303	(12,022)
Add: depreciation	45,110	52,069	56,358	59,821	61,759	92,749	92,711	90,629
Cash provided from operations	68,873	114,257	119,701	169,561	158,008	116,988	162,191	159,544
Debt proceeds	18,535	53,042	454,958	4,000	39,000	4,000	4,000	4,000
Cash used for capital/other								
Routine facilities/equipment	(155,509)	(130,975)	(237,413)	(265,273)	(250,979)	(82,092)	(65,728)	(47,339)
Principal payments on debt	(13,234)	(15,907)	(15,373)	(15,035)	(17,727)	(18,758)	(16,681)	(17,244)
Transfers to/from University	(12,738)	(18,497)	(9,519)	(9,805)	(10,099)	(10,402)	(10,714)	(11,035)
Gifts/other capital appropriations	70,762	43,600	9,800	9,800	12,250	7,350	7,350	
Change in restricted assets	476	134	(286,178)	199,497	86,681		-	-
Health System Support	(46,712)	(45,694)	(45,000)	(45,000)	(45,000)	(45,000)	(45,000)	(45,000)
Total cash used for capital/other	(156,955)	(167,339)	(583,683)	(125,816)	(224,874)	(148,902)	(130,773)	(120,618)
Net change in cash	(69,547)	(40)	(9,024)	47,745	(27,866)	(27,914)	35,418	42,926
Ending Cash	$120,359	$120,319	$111,295	$159,040	$131,174	$103,260	$138,678	$181,604
Days cash on hand	48	46	40	55	42	30	38	47

UC SAN DIEGO HEALTH SYSTEM
PROJECTED FINANCIAL PERFORMANCE
KEY FINANCIAL RATIOS
(Dollars in Thousands)

	Actual	Projected						
	FY 2012	FY2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Net income	$96,105	$68,702	$83,867	$85,051	$91,880	$33,953	$54,177	$80,937
Total Margin	9.2%	6.4%	7.3%	7.1%	7.2%	2.5%	3.7%	5.2%
EBIDA ($000's)	$152,213	$131,791	$151,485	$155,725	$164,377	$167,359	$187,116	$211,329
Days Cash on Hand	48	46	40	55	42	30	38	47
Debt Service Coverage	6.3	4.9	5.7	6.0	5.8	2.8	3.3	3.7
Debt/Capitalization	0.20	0.18	0.51	0.43	0.40	0.40	0.40	0.39
Debt/Equity	0.27	0.29	0.75	0.71	0.69	0.69	0.67	0.64

* Earnings before interest, depreciation, and amortization.

ATTACHMENT 7

SUMMARY FINANCIAL FEASIBILITY ANALYSIS
MARKET INTEREST RATE AT BEGINNING OF JUNE, 2013

Project Title: **UCSD Medical Center East Campus Bed Tower, San Diego Campus**

Total Estimated Project Cost:	$839,360,000
Proposed Sources of Funding:	
External Financing	$500,000,000
Gifts	$131,000,000
Hospital Reserves	$104,360,000
Children's Hospital Bonds	$69,000,000
Capitalized Leases	$35,000,000
Total	$839,360,000
Proposed New Long-term Financing:	$500,000,000

Projected Financing Terms:

Interest Rate	4.0%	
Term	35 years, 10 year principal deferral	
Average Annual Debt Service		$32,006,000

Existing Hospital System Long-term Debt June 30, 2012:	$214,371,000
Estimated Total Hospital System Long-term Debt July 1, 2017:	$698,477,000

Estimated Combined Annual Debt Service: (Dollars in Thousands):

	Actual	Projected						
	FY 2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Income available for debt service:								
Net income	$96,105	$68,702	$83,867	$85,051	$91,880	$44,053	$64,479	$91,443
Interest	7,020	7,870	8,760	8,353	8,238	28,157	27,728	27,263
Capitalized interest	3,978	3,150	2,500	2,500	2,500	2,500	2,500	2,500
Depreciation	45,110	52,069	56,358	59,821	61,759	92,749	92,711	90,629
Income available for debt service	152,213	131,791	151,485	155,725	164,377	167,459	187,418	211,835
Debt service:								
Interest	7,020	7,870	8,760	8,353	8,238	28,157	27,728	27,263
Capitalized interest	3,978	3,150	2,500	2,500	2,500	2,500	2,500	2,500
Principal	13,234	15,907	15,373	15,035	17,727	18,758	16,681	17,244
Total debt service	$24,232	$26,927	$26,633	$25,888	$28,465	$49,415	$46,909	$47,007
Debt service coverage	6.3	4.9	5.7	6.0	5.8	3.4	4.0	4.5