D. AUTHORIZATION FOR LEASES AND AGREEMENTS FOR SEISMIC CORRECTIONS AT UC TEACHING HOSPITALS

The President recommends that the Committee on Finance recommend to The Regents that subject to adoption by the State Public Works Board of a resolution authorizing the issuance of State Public Works Board Lease Revenue Bonds, and authorizing interim loans from the State's Pooled Money Investment Account or General Fund for the following projects:

Davis campus:
   ☑ UCDMC, Tower II, Phase 2
   ☑ UCDMC, Tower II, Phase 3

Irvine campus:
   ☑ UCIMC, SB 1953 NPC 2 Anchorage

Los Angeles campus:
   ☑ UCLAMC, Westwood Replacement Hospital
   ☑ UCLAMC, Santa Monica/Orthopaedic Replacement Hospital

San Francisco campus:
   ☑ UCSFMC, SB 1953 Moffitt 2002

The President or the Secretary be authorized to:

(1) Execute an unsubordinated site lease from The Regents to the State Public Works Board (SPWB) for each project named above, said leases to contain provisions substantially as follows:

a. The site shall comprise the approximate size of the footprint for each building named above. Said lease shall also include a license to the SPWB for access from campus roads to the site during the term of the lease;

b. The purpose of the lease shall be to permit construction of the project;

c. The term of the site lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full;

d. The rental shall be $1 per year;
e. The Regents shall have power to terminate the site lease in the event of default by the SPWB, except when such termination would affect or impair any assignment or sublease by the SPWB and such assignee or subtenant is duly performing the terms and conditions of the lease;

f. The Regents shall provide to the SPWB and any assignee or subtenant of the SPWB access to the site and such parking and utility services as are provided for similar facilities on the campus;

g. The Regents shall waive personal or individual liability of any member, officer, agent, or employee of the SPWB;

h. The Regents shall agree to pay assessments or taxes, if any, levied on the site or improvements attributable to periods of occupancy by The Regents; and

i. In the event any part of the site or improvements is taken by eminent domain, The Regents recognize the right of the SPWB to retain condemnation proceeds sufficient to pay any outstanding indebtedness incurred for the construction of the project.

(2) Execute an agreement between the State of California, as represented by the SPWB, and The Regents for each project named above, said agreements to contain the following provisions:

a. The SPWB agrees to finance construction of the project, as authorized by statute; and

b. The Regents agree to provide and perform all activities required to plan and construct said project.

(3) Execute a facility lease from the SPWB to The Regents for each project named above, said leases to contain provisions substantially as follows:

a. The purpose of the building's occupancy shall be to use it as a facility for acute care in-patient service and support-related functions in furtherance of the University's mission related to instruction, research, and public service;

b. The SPWB shall lease the financed facility, including the site, to The Regents pursuant to a facility lease;

c. The terms of the facility lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full;

d. If the SPWB cannot deliver possession to The Regents at the time contemplated in the lease, the lease shall not be void nor shall the SPWB be liable for damages,
but the rental payment shall be abated proportionately to the construction cost of the parts of the facility not yet delivered;

e. In consideration for occupancy during the term of the lease and after the date upon which The Regents take possession of the facility, The Regents shall pay base rent in an annual amount sufficient to pay debt services on the bonds or other obligations of the SPWB issued to finance or refinance the facility and additional rent for payment of all administrative costs of the SPWB;

f. The Regents covenant to take such actions as may be necessary to include in the University's annual budget amounts sufficient to make rental payments and to make the necessary annual allocations;

g. During occupancy, The Regents shall maintain the facility and pay for all utility costs and shall maintain fire and extended coverage insurance at then current replacement cost, and earthquake insurance if available on the open market at a reasonable cost;

h. During occupancy, The Regents shall maintain public liability and property damage insurance, or an equivalent program of self insurance, on the facility and shall maintain rental interruption or use and occupancy insurance, or an equivalent program of self insurance, against perils covered in (3)g. above;

i. In the event of default by The Regents, the SPWB may maintain the lease whether or not The Regents abandon the facility and shall have the right to relet the facility, or the SPWB may terminate the lease and recover any damages available at law;

j. The Regents shall be in default if the lease is assigned, sublet, or transferred without approval of the SPWB, if The Regents file any petition or institute any proceedings for bankruptcy, or if The Regents abandon the facility;

k. The Regents shall cure any mechanics' or materialmen or other liens against the facility and, to the extent permitted by law, shall indemnify the SPWB in that respect;

l. The Regents, to the extent permitted by law, shall indemnify the SPWB from any claims for death, injury, or damage to persons or property in or around the facility; and

m. Upon termination or expiration of the lease, other than for breach or because of eminent domain, title to the facility shall vest in The Regents.

The President be authorized to identify assets to be leased in lieu of facilities constructed pursuant to (1) and (3) above, and to execute documents necessary to lease such assets.
BACKGROUND

The recommended actions would permit the construction or renovation of facilities at four of the five University of California Medical Centers to comply with the Hospital Facilities Seismic Safety Act (SB 1953, Chapter 740, Statutes of 1994). This Act mandates that the owners of all acute care hospitals in California perform a seismic evaluation of their facilities. This evaluation, to be conducted in accordance with procedures developed by the Office of Statewide Health Planning and Development, is intended to determine the probable performance during a seismic disaster of each hospital building used for inpatient care. Following this evaluation, a Structural Performance Category rating must be assigned to each hospital facility according to the performance criteria established by OSHPD. Any general acute care hospital facility determined to be a potential risk of collapse or to pose significant loss of life, and consequently assigned an SPC1 rating must be taken out of service by January 1, 2008 or used only for non-acute care hospital purposes.

Senate Bill 1667 (Chapter 71, Statutes of 2000) authorizes the State Public Works Board to issue up to $600 million in State Lease Revenue Bonds for seismic corrections to assist the University's five Medical Centers meet the 2008 requirements for SB 1953. The five Medical Centers have developed plans to comply with SB 1953, and at the November 2000 Regents meeting, the following allocation of the $600 million in State Lease Revenue Bonds was approved:

- UCDMC: $120,000,000
- UCIMC: $235,000,000
- UCLAMC: $180,000,000
- UCSDMC: $40,000,000
- UCSFMC: $25,000,000

The actions recommended in this item are similar to previous actions approved by The Regents for projects financed in previous years through State Public Works Board Lease Revenue Bonds. These actions are also similar to previous actions approved by The Regents in which an asset other than the project being financed was used to secure financing for different facilities, including the use of an asset from one UC campus to secure financing for facilities on other campuses.

1995 and 1996 Asset Transfer Program. As part of the negotiations for the 1994 and 1995 State Budgets, the state authorized the use of $25 million for each year in debt financing for deferred maintenance, shifting deferred maintenance costs from general funds to long-term financing. Initially, it was anticipated that the appropriations for the deferred maintenance program would be funded through the sale of lease revenue bonds issued by the State Public Works Board, a financing method used for a number of state-funded University capital projects in the past. However, as a result of subsequent discussions with the State Department of Finance, it was agreed that the University would finance the two $25,000,000 deferred maintenance appropriations included in the 1994 and 1995 State Budget Acts, with the state providing funding for the debt service payments.
The University's financing involved a lease/lease-back mechanism that required the pledge of capital assets. Because there were more than 300 individual deferred maintenance projects in the two-year program, the deferred maintenance projects themselves could not be used as the leased property pledged for the security of the financing. Instead, four University buildings at four different campuses were used to secure the financing. The state has supported this specific asset transfer process by annually funding the University's debt service for the deferred maintenance program.

Due to existing FEMA liens on the UCLA Medical Center, both for the Westwood Replacement Hospital and the Santa Monica/Orthopaedic Replacement Hospital, and existing University bonds on the UC Davis Tower II, it is anticipated that the asset transfer mechanism would be used, providing substitute assets with replacement cost approximately equivalent to the SPWB expenditures at those locations. As in 1995 and 1996, unencumbered assets will be identified and the replacement cost updated using an appropriate index (for example, the Engineering News Record). Sufficient substitute assets will be encumbered and facility leases signed for those substitute assets to satisfy the SPWB facility lease requirements.

**Leases and Agreements.** Under each facility lease, The Regents agree to pay rent to the SPWB in an amount necessary to repay principal and interest on the obligations of the SPWB issued to permanently finance the construction of the facility. Negotiations between the University and the Department of Finance will determine the repayment arrangements on the debt service. The options for repayment are (1) state general fund appropriation, (2) hospital revenues, depending on the hospital's financial situation from year to year, or (3) a combination of (1) and (2). While the Legislature and the Governor have indicated their recognition of the need for continuing budgetary support, there can be no absolute assurance of this support through the life of the bonds. In any year in which the state fails to appropriate sufficient funds to make the rental payments, The Regents would be obligated to pay rent from any lawfully available funds. When the obligations are retired, the leases would terminate, and The Regents would obtain clear title to the improvements.

The exact amount of the annual rent would be based on interest rates and the maturity date of the financial instruments as established by the State Treasurer; however, assuming that the total amount to be financed is $200,485,000 and assuming the interest at 6.125%, it is estimated that the annual rent would be $14,760,000 during the period of indebtedness if 30-year bonds are sold, not including the additional rent for related financing costs and SPWB administrative expenses.

The forms for the site and facility leases and the construction agreements will be drafted by the General Counsel of The Regents and coordinated with the SPWB's Counsel.

Attachment 1 includes summaries of the scope of work for the projects. A list of the projects to be partially funded by these Revenue Bonds is included as Attachment 2. The attachment provides information regarding the total funding for each project and the estimated annual debt service on these projects.
Requests authorizing the preparation of leases and agreements for additional seismic corrections projects at the UC Teaching Hospitals will be presented at future Regents’ meetings.

(Attachment 1 is below and Attachment 2)
Summaries of UC Teaching Hospital Projects
Requesting Funding from State Lease Revenue Bonds

Davis Campus

The UC Davis Medical Center has proposed a Hospital Upgrade Master Plan to satisfy the seismic safety requirements for acute care hospital facilities required by SB 1953. The required work is divided into five phases: the completion of four Tower II floors, the Ancillary Addition, renovation of the East Wing of the hospital, infrastructure improvements, and other minor improvements. The two projects described below are components of the Tower II phase. The total program cost for the UC Davis Medical Center Hospital Upgrade Plan is approximately $288,000,000 of which $120,000,000 will be funded from State lease revenue bond funds.

Tower II Phase 2: This project will build out 27,200 asf on two of six shelled floors in the Tower II building at the UC Davis Medical Center in Sacramento. An obstetrical nursing unit and an adult medical-surgical nursing unit will be relocated from the seismically deficient North/South Wing of the hospital to occupy the finished space. The project is funded by State infrastructure funds from the 2000 Budget Act, hospital reserves, and State lease revenue bonds.

Tower II Phase 3: This project will build out 26,124 asf on two of six shelled floors in the Tower II building. The Neonatal Intensive Care Unit and Critical Care Nursery will share a floor with the Blood Gas Laboratory (an acute-care service unit); the other floor will be occupied by the Otolaryngology medical/surgical nursing unit. These units will be relocated from the seismically deficient space in the North/South Wing as part of the Medical Center's SB 1953 compliance plan. The project is funded by hospital reserves and State lease revenue bonds.

Irvine Campus

The UC Irvine Medical Center has proposed a Hospital Upgrade Master Plan to satisfy the seismic safety requirements for acute care hospital facilities required by SB 1953 that includes construction of a new replacement hospital building and a program of upgrades to the central plant facilities and to Building 1A. The total program cost for the UCI Medical Center SB 1953 Upgrades is approximately $286,145,000 of which $235,000,000 will be funded from State lease revenue bonds.

SB 1953 NPC2 Anchorage: This project will provide seismic bracing and anchoring of non-structural life safety equipment in and around Building 1A, Building 31, and Building 32 at the UC Irvine Medical Center. The project addresses the 2002 Non-Structural Performance Criteria (NPC 2) requirements of SB 1953. Elements of the bulk medical gas system, emergency power supply, communication and fire alarm systems, and emergency lighting and exit signs will be braced or anchored to meet the NPC 2 rating.
Los Angeles Campus

The UCLA campus has developed multi-phase seismic reconstruction plan for the Center for Health Sciences (CHS) which was severely damaged in the January 17, 1994 Northridge Earthquake. The reconstruction plan includes construction of two new replacement hospitals and two new research facilities, and selective demolition and selective rehabilitation of retained areas of the CHS. The total project cost for the UCLA replacement hospitals, composed of the Westwood Replacement Hospital project and the Santa Monica/Orthopaedic Replacement Hospital project, is approximately $904 million of which $180 million will be funded from State lease revenue bond.

Westwood Replacement Hospital: This project will construct a 517,000 asf hospital to replace acute care and other inpatient and outpatient facilities to be relocated from the Center for Health Sciences (CHS) which was damaged in the 1994 Northridge earthquake. The Westwood Replacement Hospital will provide 525 inpatient beds, diagnostic and treatment facilities, administrative space, support space including pharmaceutical services, and public areas including reception and cafeteria facilities. The project is funded by a FEMA grant, State matching funds for FEMA, gift funds, and State lease revenue bonds.

Santa Monica/Orthopaedic Replacement Hospital: This project will construct a new 167,500 asf acute care facility on the Santa Monica Medical Center campus to replace existing hospital facilities that were structurally damaged by the 1994 Northridge earthquake and do not comply with the requirements of SB 1953. In addition, 37,500 asf in the existing Merle Norman Pavilion will be renovated, a new central plant and new parking structure will be constructed, and the damaged West Tower will be demolished when the replacement building is occupied. The Santa Monica/Orthopaedic Replacement Hospital will provide 266 inpatient beds, diagnostic and treatment services, outpatient services, administrative space, and support services. The project is funded by a FEMA grant, hospital reserves, gifts, and State lease revenue bonds.

San Francisco Campus

The UCSF review of the acute care areas of the UCSF Medical Center identified both structural and non-structural upgrades needed for compliance with SB 1953. The campus compliance plan includes two projects—one to meet 2002 requirements and one to meet 2008 requirements. The total project cost of the UCSF SB 1953 compliance projects is approximately $28 million of which $25 million will be funded from State lease revenue bonds.

UCSF Medical Center SB 1953 Moffitt 2002: This project will brace non-structural communications and emergency lighting equipment and signs in Moffitt hospital to comply with the NPC 2 requirements of SB 1953. The project will include “triggered” code upgrades, code-required corrections to out-of-compliance retrofit work, associated patching and finish repair, and required relocations of equipment. The project is funded by hospital reserves and State lease revenue bonds.