

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:¹

ACTION ITEM

For Meeting of November 18, 2015

AMENDMENT OF THE BUDGET AND APPROVAL OF CHANGE IN REPAYMENT SOURCE FOR A PORTION OF EXTERNAL FINANCING, CHS SOUTH TOWER SEISMIC RENOVATION, LOS ANGELES CAMPUS

EXECUTIVE SUMMARY

The CHS South Tower Seismic Renovation project renovated the CHS South Tower, a 443,387 gross square foot building, for use as a teaching and research facility following the relocation of inpatient hospital functions to the new Ronald Reagan UCLA Medical Center. The scope of the project included renovation of the South Tower of the Center for Health Services (CHS) as follows: (1) interior demolition and hazardous materials abatement, (2) seismic retrofit and building shell upgrades, (3) building infrastructure improvements, and (4) interior improvements. The project is now complete with a Notice of Completion issued in August 2015.

In November 2009, the Regents approved the *2010-11 Budget for State Capital Improvements*, which included this project at a total cost of \$219,902,000, to be funded from State lease revenue bonds (\$128,953,000) and campus funds (\$90,949,000) at a California Construction Cost Index of 5565. In September 2010, the President determined that the project was Categorically Exempt under the California Environmental Quality Act and approved the design.

In May 2011, the Regents approved an Amendment to the Budget for Capital Improvements and the Capital Improvement Program that replaced \$90,949,000 of campus funds with external financing to take advantage of competitive market rates. The total project cost of \$219,902,000 was funded with State lease revenue bonds (\$128,953,000) and external financing (\$90,949,000).

In July 2013, the Regents approved retiring of the existing State Public Works Board debt issued on behalf of the University and restructuring the debt under the University's General Revenue Bond credit. In September 2013, the University restructured its State Public Works Board debt, including debt for the CHS South Tower Seismic Renovation.

This item requests (1) a budget reduction of \$16,612,000, (2) and a change of repayment source for a portion (\$43 million) of the previously approved external financing of \$90,949,000 to the UCLA Medical Center.

¹ Of interest to the Committee on Health Services

RECOMMENDATION

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

1. The 2015-16 Budget for Capital Improvements and Capital Improvement Program be amended as follows:

From: Los Angeles: CHS South Tower Seismic Renovation – preliminary plans, working drawings, construction – \$219,902,000, to be funded from external financing.

To: Los Angeles: CHS South Tower Seismic Renovation – preliminary plans, working drawings, construction – \$203.29 million to be funded from external financing.
2. The President be authorized to utilize external financing in an amount not to exceed \$128,953,000 to finance the CHS South Tower Seismic Renovation project. The President shall require that:
 - A. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
 - B. The primary source of repayment for the external financing of \$128,953,000 shall be from State appropriations. Should State appropriations funds not be available, the President shall have the authority to utilize any legally available funds to make debt service payments.
 - C. The general credit of the Regents shall not be pledged.
3. The President be authorized to utilize external financing in an amount not to exceed \$31,337,000 to finance the CHS South Tower Seismic Renovation project. The President shall require that:
 - A. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
 - B. As long as the debt is outstanding, general revenues of the Los Angeles campus shall be maintained in amounts sufficient to pay the debt service and to 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 utilize external financing in an amount not to exceed \$43 million to finance the CHS South Tower Seismic Renovation project. The President shall require that:
 - A. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
 - B. As long as the debt is outstanding, gross revenues of UCLA Medical Center shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - C. The general credit of the Regents shall not be pledged.
5. The President, in consultation with the General Counsel, be authorized to execute all documents necessary in connection with the above and to make changes in the terms that do not materially increase the cost of the project or the obligations of The Regents.

BACKGROUND

The CHS South Tower Seismic Renovation project renovated the CHS South Tower, a 443,387 gross square foot (gsf) seismically Level V (formerly "Poor") building, for use as a teaching and research facility following the relocation of inpatient hospital functions to the new Ronald Reagan UCLA Medical Center. The project, part of a major reconstruction plan for the Center for the Health Sciences (CHS) complex, included four major scopes of work:

(1) demolition and hazardous materials abatement; (2) seismic retrofit, building shell upgrades, and correction of accessibility code deficiencies; (3) installation of new mechanical, electrical, plumbing, and fire/life safety building systems; and (4) interior improvements. The project upgraded the ten-story structure, originally built in phases from 1951 to 1965, to a seismic performance Level III (formerly "Good").

In November 2007, the Regents approved the *2008-09 Budget for State Capital Improvements*, which included this project at a total cost of \$209,510,000 to be funded from State funds (\$122,335,000) and campus funds (\$87,175,000) at a California Construction Cost Index (CCCI) of 5179.

In November 2008, the Regents approved the *2009-10 Budget for State Capital Improvements*, which included this project at a total cost of \$210,651,000, to be funded from State lease revenue bonds (\$123,276,000) and campus funds (\$87,175,000) at a CCCI of 5320.

In November 2009, the Regents approved the *2010-11 Budget for State Capital Improvements*, which included this project at a total cost of \$219,902,000, to be funded from State lease revenue bonds (\$128,953,000) and campus funds (\$90,949,000) at a CCCI of 5565.

In September 2010, the President determined that the project was Categorically Exempt under the California Environmental Quality Act and approved the design. The State subsequently

approved the project and appropriated funds for working drawings and construction in the State Budget Act of 2010.

In May 2011, the Regents approved an Amendment to the Budget for Capital Improvements that replaced \$90,949,000 of campus funds with external financing to take advantage of competitive market rates. The total project cost of \$219,902,000 was to be funded with State funds (\$128,953,000) and external financing (\$90,949,000) at CCCI 5565.

In July 2013, the Regents approved retiring of the existing State Public Works Board debt issued on behalf of the University and restructuring the debt under the University's General Revenue Bond credit.

The project's design and phasing was based on two areas of the building with distinct construction requirements: (1) basement levels and first floor that are partially occupied and have interior improvements that were largely retained and (2) the interior improvements on floors two through ten that would be completely demolished and receive full, core, shell, and infrastructure upgrades. The campus implemented the project in such a way that localized portions of the structure that were fully renovated and occupied, in order to accelerate the relocation of CHS occupants into seismically safe space.

Since the project was initially programmed, the campus has agreed to have the Medical Center fund portions of and be responsible for any improvements to the A and B basement levels, where the Medical Center provides laboratory functions that support its clinical operations. These clinical services are adjacent to and integrated with UCLA Department of Pathology and Laboratory Medicine's pathology teaching functions. Specifically, the Medical Center occupies a portion of the 122,226 gsf on the two basement floors for blood component processing, toxicology, and other clinical laboratory services. Historically, these clinical laboratory and pathology services have occupied the CHS basement level space for several decades. The Medical Center does not have the option to relocate these laboratory services to the Ronald Reagan UCLA Medical Center, which is already substantially space-constrained.

The rationale to retain the clinical laboratory services on the CHS basement floors include:

- (1) This CHS space is located directly across the street from the Ronald Reagan UCLA Medical Center, since the adjacency of the blood processing center and toxicology laboratory is critical to responsive toxicology testing turnaround time for STAT tests and the lower blood transport costs between the blood collection centers and the processing center.
- (2) Significant tenant improvements have already been made in the space.
- (3) Acquisition of this space will allow the Medical Center to consolidate other laboratory services, many of which are currently decentralized and in off-campus leased properties.

The change in the external financing repayment source reflects the change in occupancy. Furthermore, Medical Center administration conducted an analysis to relocate the CHS basement clinical laboratory services off campus in 2014. It was determined that this approach would not be cost-effective due to lack of adequately sized space proximal to the campus. The only available site, which was limited to 60,000 gsf would require in excess of \$60 million for renovation costs alone, not including property acquisition, laboratory equipment, and soft costs. The Medical Center is currently developing a master plan to centralize other clinical laboratory services not currently located in the CHS space. Future tenant improvements are estimated to cost \$50 million at this time. The analysis of scope and timing for these improvements will be completed by the Medical Center prior to undertaking any capital improvement work.

The project is now complete. The project received a Temporary Certificate of Occupancy for the State-funded floors (two through six) in December 2014. The Certificate of Occupancy for the entire building was received in July 2015. The Notice of Completion was issued August 2015.

BUDGET REDUCTION

With the project's completion, the Los Angeles campus is reporting post-construction results and is requesting a budget reduction of \$16,612,000.

Net Construction Cost Increase (+\$1,092,000)

Construction costs decreased due to low bids received from multiple bid packages (-\$41,426,000), offset by higher-than-budgeted costs to restore finishes and maintain operations in occupied areas of the basement and first floor (+\$12,999,000); change orders related to undocumented utilities, hazardous materials abatement, and field conditions on floors two through ten (+\$27,472,000); and higher-than-budgeted campus construction costs to complete the project (+\$2,047,000).

Net Soft Cost Decrease (-\$17,704,000)

Fees (-\$44,000), surveys/tests (-\$1,871,000), and special items (-\$2,812,000) decreased to reflect actual costs incurred. A portion of contingency was used to support the increased construction costs cited above (-\$1,092,000) and the remainder was unused (-\$11,885,000).

FUNDING PLAN

Financial Feasibility

The total project budget for preliminary plans, working drawings, and construction is to be funded from external financing (\$203.29 million). External financing for the amount of \$128,953,000, supported by State appropriations, was issued in September 2013 as part of the University's restructuring of State Public Works Board bonds under the University's General Revenue Bond credit. External financing for the amount of \$31,337,000, supported by campus funds, will be financed from previously issued Century Bonds (2012 Series AD). While the

Century Bond is structured as interest only for the first 99 years with a bullet maturity in year 100, the campus will amortize the debt internally and repay itself over 30 years, so that the funds can be directed toward other projects in the future. The Summary of Financial Feasibility for the Los Angeles campus is provided in Attachment 2.

External financing for the amount of \$43 million will be supported by the gross revenues of the UCLA Medical Center. Throughout the projection period, the UCLA Medical Center's debt service coverage remain above industry averages, and days cash on hand remains above the recommended floor of 60 days, established by the Office of the President. Actual days cash on hand in fiscal year 2015 was 187.88 days, and is projected to be 160.59 days in fiscal year 2016. Financial Projections for the UCLA Medical Center are provided in Attachment 3.

Key to Acronyms

ADA	Americans with Disabilities Act
ADC	Average Daily Census
CCCI	California Construction Cost Index
CHS	Center for Health Services
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortization
FY	fiscal year
GASB	Governmental Accounting Standards Board
GSF	Gross Square Feet
OPEB	Other Postemployment Benefits
PP&E	Property, Plant, & Equipment

ATTACHMENTS:

[Attachment 1: Project Budget](#)

[Attachment 2: Summary of Financial Feasibility, Los Angeles Campus](#)

[Attachment 3: Summary of Financial Feasibility, UCLA Medical Center](#)