

**Office of the President**

**TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:**

**ACTION ITEM**

*For Meeting of September 13, 2017*

**APPROVAL OF BUDGET AMENDMENT AND EXTERNAL FINANCING,  
PRECISION CANCER MEDICINE BUILDING AT MISSION BAY, SAN FRANCISCO  
CAMPUS**

**EXECUTIVE SUMMARY**

The Precision Cancer Medicine Building project at the San Francisco campus will construct an approximately 139,600-assignable-square-foot (asf) outpatient cancer facility at the northern edge of the Mission Bay South Campus. The building will house facilities associated with cancer outpatient care, including cancer specialty clinics, an infusion center, radiology, and radiation oncology therapy.

In their March 2017 action, *Approval of Budget and Design following Action Pursuant to the California Environmental Quality Act, Precision Cancer Medicine Building at Mission Bay, San Francisco Campus*, the Regents approved the project budget of \$275 million to be funded from campus funds (\$175 million) and gifts (\$100 million). At this time, the campus is requesting taxable external financing in place of campus funds. This will help the campus maintain liquidity and conserve equity in light of changing dynamics in federal funding. The external financing would include \$125 million in future taxable external financing and \$50 million of previously issued 2012 Century Bonds. The campus is also requesting a budget amendment to include \$10 million of estimated capitalized interest to be incurred during construction. The project remains consistent with the scope, California Environmental Quality Act (CEQA) findings, and design that was presented and approved at the March meeting.<sup>1</sup>

In this action, the Regents are being asked to: (1) approve the revised project budget of \$285 million to be funded from external financing (\$175 million), gifts (\$100 million), and campus equity (\$10 million); (2) approve external financing not to exceed \$125 million; and (3) approve the use of Century Bond proceeds in an amount not to exceed \$50 million.

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<sup>1</sup> The Regents also approved the project scope, found the project to be in conformance with the California Environmental Quality Act (CEQA) as indicated in Addendum #3 to the UC San Francisco 2014 Long Range Development Plan (LRDP) Final Environmental Impact Report (FEIR); and approved the design at the March 2017 meeting.

**RECOMMENDATION**

- A. The President of the University recommends that the Finance and Capital Strategies Committee recommend to the Regents that:
- (1) The 2017-2018 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:
    - From: San Francisco: Precision Cancer Medicine Building at Mission Bay – preliminary plans, working drawings, construction, and equipment – \$275 million to be funded from campus funds (\$175 million) and gifts (\$100 million).
    - To: San Francisco: Precision Cancer Medicine Building at Mission Bay – preliminary plans, working drawings, construction, and equipment – \$285 million to be funded from external financing (\$175 million), gifts (\$100 million), and campus equity (\$10 million).
  - (2) The President be authorized to obtain external financing not to exceed \$125 million plus additional related financing costs. 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 from the San Francisco 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.
  - (3) The President be authorized to utilize existing Century Bond proceeds in an amount not to exceed \$50 million.
- B. The President recommends that, in consultation with the General Counsel, she be authorized to execute all documents necessary or appropriate in connection with the above.

**BACKGROUND**

The development of Mission Bay has been critical to the success of UCSF's academic and clinical programs. The campus has identified key strategies for projects at Mission Bay, and the Precision Cancer Medicine Building at Mission Bay (PCMB) project, along with several other projects planned for the near term, will be essential components to advancing UCSF's:

- Clinical strategy to grow outpatient clinical and research programs in cancer, psychiatry, ophthalmology, primary/secondary care, and neurosciences.
- Research strategy to leverage opportunities to advance discoveries with private sector partners.
- Space planning strategy to vacate buildings planned for renovation, disposition, or demolition. Specifically, implementation of the Parnassus Heights seismic program that relocates services and programs out of buildings slated for seismic renovation or demolition to enable compliance with the University's Seismic Safety Policy and State seismic regulations for acute care facilities.

The PCMB project will support the increasing demand for cancer outpatient services at Mission Bay and allow outpatient facilities to be located immediately adjacent to inpatient services. The project also will advance UCSF's regional and national position in cancer care, providing the opportunity for more tightly integrated clinical and research teams to leverage discoveries, collaborate across tumor-based programs, and accelerate innovation in cancer patient care.

The project scope that was approved at the March meeting includes construction of an approximately 179,650-gross-square-foot (gsf) (139,600-assignable-square-foot (asf)) building on the UCSF Mission Bay South Campus, as well as site improvements, including infrastructure and landscaping. The PCMB will include clinical exam (63,600 asf), infusion (18,600 asf), radiation oncology (21,200 asf), imaging (23,400 asf), and other clinical (12,800 asf) spaces. The project will also renovate approximately 6,000 asf on the first floor of the neighboring Gateway Medical Building to convert existing space into a shared lobby, provide an area for patient amenities, and create a connection between the buildings.

The project is in construction and will be completed by spring 2019.

### **FINANCIAL FEASIBILITY**

The total project cost of \$285 million, including \$10 million of capitalized interest incurred during construction, would be funded with \$175 million of external financing, including \$50 million of previously issued Century Bonds; \$100 million of gift funds; and \$10 million of campus equity. The Summary of Financial Feasibility is provided in Attachment 2.

In March 2017 the project was approved to be funded from \$175 million of campus funds and \$100 million of gift funds. The campus now requests taxable external financing in place of the campus funds as a stronger approach to managing its financial portfolio. The external financing includes \$50 million of previously issued 2012 Century Bond proceeds. The change in fund source will allow the campus to maintain liquidity and conserve equity in light of changing dynamics in federal funding.

The anticipated term for the \$125 million external financing is 20 years interest only, followed by ten years of amortization. At the 7.25 percent taxable external financing planning rate, the

estimated debt service is approximately \$9.1 million interest only in the first 20 years and \$18 million principal and interest in the last ten years. While actual rates will depend on the capital markets at the time of financing, current market rates for a taxable financing are approximately four percent to 4.5 percent. At 4.5 percent, the estimated debt service is approximately \$5.6 million interest only in the first 20 years and \$15.8 million principal and interest in the last ten years. The anticipated term for the \$50 million Century Bonds is 29 years interest only, with a bullet maturity in year 30. The estimated debt service for the Century Bonds is approximately \$2.4 million interest only in the first 29 years and \$52.4 million principal and interest in year 30.

***Status of Fundraising***

UCSF has signed pledges for gifts totaling \$52,627,463 of which \$1,302,007 are in hand. The remainder will be received over time. This reflects an increase of \$1,125,386 of signed pledges received since this project was approved at the March 2017 Regents meeting. The campus will advance funds to the project until such time as gifts are received and will not require standby financing.

As of May 2017, the status of gifts for this project is as follows:

In Hand	\$ 1,302,007
Pledged (committed)	\$ 51,325,456
To be Raised	\$ 47,372,537 <sup>2</sup>
Total	<u>\$100,000,000</u>

**CALIFORNIA ENVIRONMENTAL QUALITY ACT COMPLIANCE**

Pursuant to the California Environmental Quality Act (CEQA), the Regents adopted Addendum #3 to the UCSF 2014 LRDP EIR (SCH #2013092047) and findings in connection with design approval for the project at the March 2017 Regents meeting. As discussed above, changes to the project are limited to the source of financing, and would not result in any changes to the project or its impacts as previously analyzed. The University has determined that no changes to the previously adopted CEQA documentation are required to support the proposed action and that none of the conditions or circumstances above would require preparation of a supplemental or subsequent document pursuant to CEQA Guidelines section 15162.

**Key to Acronyms**

ASF	Assignable Square Feet
CEQA	California Environmental Quality Act

<sup>2</sup> Remaining gifts to be raised (\$47,372,537) have been back-stopped by a pledge of campus funds from a centrally managed pool of unrestricted funds (non-State, non-tuition), including indirect cost recovery on sponsored contracts and grants and investment earnings.

GSF	Gross Square Feet
LRDP	Long Range Development Plan
PCMB	Precision Cancer Medicine Building at Mission Bay

**ATTACHMENTS:**

Attachment 1: Project Sources and Uses

Attachment 2: Summary of Financial Feasibility

**ATTACHMENT 1**

**PROJECT SOURCES AND USES  
PRECISION CANCER MEDICINE BUILDING AT MISSION BAY  
CCCI 6883**

**PROJECT SOURCES**

<b>Source</b>	<b>Approved Mar-17</b>	<b>Proposed Sep-17</b>	<b>Change</b>	<b>% of Total</b>
Campus Funds	\$175,000,000	\$10,000,000	(\$165,000,000)	3.5
External Financing <sup>1</sup>	0	\$175,000,000	\$175,000,000	61.4
Gifts	\$100,000,000	\$100,000,000	\$0	35.1
<b>Total Sources</b>	<b>\$275,000,000</b>	<b>\$285,000,000</b>	<b>\$10,000,000</b>	<b>100.0</b>

**PROJECT USES**

<b>Category</b>	<b>PCMB Building</b>	<b>Gateway Building Renovation</b>	<b>Total</b>	<b>% of Total</b>
Site Clearance	\$1,520,000		\$1,520,000	0.7
Building	\$150,439,000	\$2,200,000	\$152,639,000	72.7
Exterior Utilities	\$0		\$0	-
Site Development	\$460,000		\$460,000	0.2
A/E Fees <sup>2</sup>	\$14,460,000		\$14,460,000	6.9
Campus Administration <sup>3</sup>	\$7,800,000		\$7,800,000	3.7
Surveys, Tests, Plans	\$1,817,000		\$1,817,000	0.9
Special Items <sup>4</sup>	\$10,929,000		\$10,929,000	5.2
Capitalized Interest	\$10,000,000		\$10,000,000	4.8
Contingency	\$10,300,000		\$10,300,000	4.9
<b>Total</b>	<b>\$207,725,000</b>	<b>\$2,200,000</b>	<b>\$209,925,000</b>	<b>100.0</b>
Group 2&3 Equipment <sup>5</sup>	\$75,075,000		\$75,075,000	
<b>Total Uses</b>	<b>\$282,800,000</b>	<b>\$2,200,000</b>	<b>\$285,000,000</b>	

<sup>1</sup> Includes \$50 million in previously issued Century Bonds

<sup>2</sup> A/E fees include the executive architect/engineer's basic services contract fee.

<sup>3</sup> Campus Administration includes project management and inspection.

<sup>4</sup> Special items include Detailed Project Program and other pre-design study consultants, EIR services consultants, plan check fees, major local jurisdiction fees, special design consultants, independent structural /seismic and MEP review, hazardous materials abatement/remediation design services, art work, commissioning agent, and legal fees.

<sup>5</sup> In addition to standard Groups 2&3 equipment for a diagnostic and clinical outpatient facility, special items include two LINAC, 19 major modalities, and Real Time Location System tracking for patients and staff.

<b>Project Statistics<sup>6</sup></b>	<b>Total</b>
Gross Square Feet (GSF)	179,650
Assignable Square Feet (ASF)	139,600
Efficiency Ratio ASF/GSF	0.78
Building Cost/GSF	\$837
Project Cost / GSF <sup>7</sup>	\$1,156

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<sup>6</sup> Project statistics do not include the Gateway Medical Building lobby renovation.

<sup>7</sup> Excludes Group 2 & 3 Equipment.

## SUMMARY OF FINANCIAL FEASIBILITY

SAN FRANCISCO CAMPUS	
Project Name	<b>Precision Cancer Medicine Building</b>
Project ID	<b>12560009</b>
Total Estimated Project Costs	\$285,000,000
Anticipated Interest During Construction (included in Total Estimated Project Costs) <sup>1</sup>	\$10,000,000

PROPOSED SOURCES OF FUNDING	
Campus Equity	\$10,000,000
External Financing <sup>2</sup>	\$175,000,000
Gifts	\$100,000,000
<b>Total</b>	<b>\$285,000,000</b>

**Externally Financed Projects (if applicable)**

Long-term external financing assumptions are listed below.

FINANCING ASSUMPTIONS	
Anticipated Repayment Source	General Revenues of the San Francisco Campus
Anticipated Fund Source	Campus Funds (specifically from a centrally managed pool of unrestricted funds (non-State, non-tuition), including indirect cost recovery on sponsored contracts and grants and investment earnings)
Financial Feasibility Rate	\$125,000,000 7.25% taxable – 20 years interest only, 10 years amortization \$50,000,000 4.86% taxable Century Bond – 29 years interest only, 1 year amortization
First Year of Principal	2040
Final Maturity (e.g. 20XX)	2049
Term (e.g. 30 years)	30 years
Estimated Average Annual Debt Service	\$11,492,000 Interest 2020-2039 \$20,432,000 P&I 2040-2048 \$70,432,000 P&I 2049

<sup>1</sup> Interest During Construction will be funded from campus funds.

<sup>2</sup> Fund sources for external financing shall adhere to University policy on repayment for capital projects.



Below are results of the financial feasibility analysis for the proposed project using the campus' Debt Affordability Model. The model includes projections of the campus' operations and planned financings.

<b>Measure</b>	<b>10 Year Projections</b>	<b>Approval Threshold</b>	<b>Requirement</b>
Modified Cash Flow Margin <sup>3</sup>	2.5%, FY 2022	$\geq 0.0\%$	Must Meet
Debt Service to Operations <sup>3</sup>	4.9%, FY 2022	$\leq 6.0\%$	Must Meet 1 of 2
Expendable Resources to Debt <sup>3,4</sup>	1.41x, FY 2016	$\geq 1.00x$	

<sup>3</sup> *Modified Cash Flow Margin, Debt Service to Operations, and Expendable Resources to Debt are campus metrics.*

<sup>4</sup> *Expendable Resources to Debt are not projected. The ratio provided here is a snapshot as of the most recent fiscal year-end available.*