The Regents of the University of California

COMMITTEE ON HEALTH SERVICES
COMMITTEE ON GROUNDS AND BUILDINGS
COMMITTEE ON FINANCE
November 18, 1998

The Committees on Health Services, Grounds and Buildings, and Finance met jointly on the above date at Covel Commons, Los Angeles campus.

Members present: Representing the Committee on Health Services: Regents Atkinson, Clark, Davies, Khachigian, Leach, Preuss, and Sayles; Advisory member Vining
Representing the Committee on Grounds and Buildings: Regents Atkinson, Davies, Espinoza, Johnson, Khachigian, Kozberg, Lee, Montoya, and Nakashima
Representing the Committee on Finance: Regents Atkinson, Davies, Gould, Johnson, Khachigian, Leach, Lee, Miura, and Parsky; Advisory member Taylor

In attendance: Regents Chandler, Hotchkis, and Ochoa, Faculty Representative Dorr, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young representing Treasurer Small, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gurtner, Hershman, and Hopper, Chancellors Carnesale, Cicerone, Orbach, and Vanderhoef, and Recording Secretary Bryan

The meeting convened at 1:50 p.m. with Committee on Health Services Chair Khachigian presiding.

1. **REPORT OF COMMUNICATIONS RECEIVED**

Secretary Trivette presented summaries of communications received pertaining to the *Academic Health Center Facilities Reconstruction Plan, Los Angeles Campus*. Included were UCLA's responses to these communications.

2. **UPDATE ON THE IMPLEMENTATION OF THE ACADEMIC HEALTH CENTER FACILITIES RECONSTRUCTION PLAN, LOS ANGELES CAMPUS**

Chancellor Carnesale, Provost Levey, Medical Center Director Karpf, and Assistant Vice Chancellor Jensen presented an update on matters related to the proposed academic health center expansion at the Los Angeles campus. Dr. Levey summarized its various aspects, noting that there is an urgent need to proceed with the Westwood Replacement Hospital project. He emphasized his willingness to take personal responsibility for the on-schedule, on-budget delivery of the hospital. He was convinced that this objective could be achieved

with the proper implementation of a design and construction strategy that will focus on total cost management and the elimination of user change orders. In addition, he emphasized his confidence in the ability of the project management team to deliver the project and in the hospital system to assume the additional debt involved while maintaining debt coverage levels which exceed required minimums. The administration's strategic plan has charted the course for the School of Medicine and the Medical Center. He mentioned that, although no gift funds will be required for the Westwood Replacement Hospital, it is projected that approximately $419 million in gifts will be needed to complete the entire facilities reconstruction plan. Of this total, over $120 million has already been raised, including a gift of $25 million from the Mattel Corporation to name the UCLA children's hospital, representing one of the largest philanthropic gifts ever made by a corporate entity.

It was recalled that the Academic Health Center (AHC) Facilities Reconstruction Plan was first presented to the Regents at the May 1997 meeting. The reconstruction plan was developed by the Los Angeles campus in response to the need to replace or seismically renovate facilities that suffered significant structural damage as a result of the 1994 Northridge earthquake. It is estimated that the series of phased and interrelated seismic renovation projects that compose the reconstruction plan would be implemented in two phases over the next 12 years at an approximate total cost of $1.271 billion, escalated but exclusive of capitalized interest costs.

RECONSTRUCTION PLAN SUMMARY

Project Justification

The proposed reconstruction plan would fulfill two major seismic safety objectives of the Los Angeles campus. Construction of the two replacement hospitals is required because these facilities suffered significant structural damage as a result of the January 1994 Northridge earthquake and do not meet State life safety standards. To comply with California law (SB-1953, enacted after the Northridge earthquake) and current Office of Statewide Health Planning and Development (OSHPD) life safety requirements, the inpatient care space located in these existing facilities must be repaired, renovated, or replaced by 2008. Construction of the non-hospital projects is required in order to satisfy the mandate of the University of California Seismic Policy to achieve building seismic ratings of Good or Very Good for campus facilities. These projects would complete the seismic safety program for the academic, research, and administrative functions of the health sciences schools located in the Center for Health Sciences on the Westwood campus.

Reconstruction Plan for the Center for Health Sciences – Westwood Campus

The existing Center for Health Sciences (CHS), which was constructed in the 1950s to house the inpatient care, research, and educational activities of the Medical Center,

Neuropsychiatric Hospital, and health sciences schools, experienced significant ground motion during the 1994 Northridge earthquake. Detailed damage assessment and engineering studies funded by the Federal Emergency Management Agency (FEMA) determined that the CHS building structure had experienced serious and extensive weakening. It determined that without significant structural repair, the Medical Center, Children's Hospital, and Neuropsychiatric Hospital would not be operational following another moderate to major seismic event.

Three major objectives were established to guide the development of reconstruction alternatives for the CHS: (1) to provide life safety for all its occupants in the quickest and most cost-effective manner possible; (2) to minimize construction impacts and maintain existing patient care, research, and teaching operation without interruption; and (3) to separate inpatient care space from research and education space. In the current configuration of the CHS, most of the wings contain hospital functions, which has allowed OSHPD to assert jurisdiction over the entire complex and impose compliance with hospital construction standards on non-hospital occupancies. Removing inpatient care functions from the CHS complex would remove research and education space from OSHPD's purview and reduce the overall seismic reconstruction cost.

It was determined that the three objectives listed above could best be achieved through a combination of new construction, demolition, and rehabilitation. The proposed new construction would allow for the one-time relocation of most patient care, teaching, and research functions, and therefore minimize operational disruption and reduce overall project costs. It is anticipated that the CHS facilities reconstruction plan would be implemented in two major phases between 1999 (site demolition for the new Westwood hospital) and 2010 (final demolition of vacated facilities in the Center for Health Sciences).

Phase 1 of the CHS reconstruction plan would be completed between 1999 and 2004 and would consist of the construction of the Westwood Replacement Hospital, the two seismic replacement research buildings, and the Luck Research Center. Phase 2 of the CHS reconstruction plan would be completed between 2005 and 2010. It would include the construction of the replacement education building, phased demolition and seismic renovation projects, and the construction of the Plaza facility linking the replacement education building and the Westwood Replacement Hospital.

These phases are further described below:

Phase 1

- Construction of a new hospital to replace the damaged Medical Center, Children's Hospital, and Neuropsychiatric Hospital facilities. The new hospital would include a below-grade parking component for approximately 333 cars for patients and visitors, with an additional 170 parking spaces to be constructed at a location to be determined.

- Construction of two seismic replacement research buildings, the first to relocate wet laboratory neuroscience research programs currently located in the Neuropsychiatric Institute, the Brain Research Institute, and Reed Neurological Research Center, and the second to relocate immunology research programs which are dispersed throughout the CHS.

- Construction of the Luck Research Center for orthopaedics and related fields.

Phase 2

- Construction of a seismic replacement education building to house state-of-the-art educational facilities for the health sciences schools, including new classrooms and a new biomedical library.

- Seismic retrofit of portions of the CHS for education, research, and academic administration functions. Once removed from the purview of OSHPD with the relocation of all inpatient care activities to the new hospital, these areas could cost-effectively undergo seismic, life safety, and building systems upgrades, and other needed programmatic renovation.

- Demolition of the most damaged portions of the CHS (Neuropsychiatric Institute and Hospital, Brain Research Institute, Reed Neurological Research Center, Medical Center wings, School of Public Health, and Vivarium).

- Construction of a below-grade facility at Westwood Plaza to provide a programmatic link between the replacement hospital and the education replacement building.

As described and analyzed in the Environmental Impact Report for the AHC Facilities Reconstruction Plan, the reconstruction plan for the Center for Health Sciences would result in no increase in gross square footage. The total area of the replacement hospital and of the three seismic replacement buildings would be approximately 1,660,000 gross square feet.

An equivalent amount of structurally damaged existing space in the CHS would be demolished. The CHS reconstruction plan also includes seismic retrofitting of approximately 668,000 gsf of existing space for education and research functions. At the completion of the CHS reconstruction plan, approximately 2,300,000 GSF of the existing 3,000,000 gsf in the CHS would have been replaced or seismically renovated.

Although the Luck Research Center is proposed to be constructed in Phase 1 concurrently with the second replacement research building, it is not considered a component of the CHS seismic reconstruction plan. This new research facility, which was part of the recent alliance agreement with Orthopaedic Hospital approved by The Regents in July 1998, would be subject to separate environmental impact review and project approval. It would create an increase in space of 95,000 gsf.

It should be noted that the planning analysis completed to date for the proposed Phase 2 projects is preliminary in nature. Detailed programmatic and feasibility studies must be completed in order to develop further the scope, cost, staging plans, phasing plans, schedules, and funding plans for all components of this work. It should also be noted that the reconstruction plan addresses only the replacement or repair of damaged CHS facilities in order to maintain current patient care, education, and research programs. It does not address facilities needs related to future programmatic initiatives of the Medical Center and Health Sciences Schools. Such new programmatic initiatives, if proposed for consideration during the CHS reconstruction plan implementation time frame, would be subject to separate financial feasibility and environmental analysis.

Reconstruction Plan for the Santa Monica Medical Center Campus

The campus acquired the Santa Monica Hospital Medical Center in 1995. Prior to the acquisition, significant structural damage caused by the Northridge earthquake forced the temporary closure of the West Hospital Tower, originally constructed in 1967. Although the West Hospital Tower was allowed by OSHPD to reopen in 1995 following substantial interim structural repair, it must be further upgraded to current seismic codes or replaced to satisfy the mandate of Senate Bill 1953. Early feasibility studies determined that construction of a replacement hospital facility would be the only alternative allowing for the maintenance of existing patient care operations without interruption.

While preliminary plans for the Santa Monica Replacement Hospital were under development, the Medical Center and School of Medicine reached an agreement with Orthopaedic Hospital to form a comprehensive orthopaedic program which would combine inpatient and outpatient activities of both institutions at the Santa Monica campus site.

Four major objectives were established to guide the development of reconstruction alternatives on the Santa Monica Medical Center campus for the combined

UCLA/Orthopaedic Hospital program: (1) to develop a construction phasing plan that minimizes construction impacts, maintains existing patient care, and sustains operations without interruption; (2) to provide adequate space for the inpatient, outpatient, and administrative services required to support the combined program; (3) to provide additional parking for patients and visitors; and (4) to create a landscaped campus environment.

The proposed reconstruction plan for the Santa Monica Medical Center campus would include the demolition of all existing facilities on the site with the exception of the Merle Norman Pavilion, constructed in 1984. The plan would result in a net reduction of approximately 35,000 gsf. All components of the Santa Monica Medical Center reconstruction plan would be completed between 1999 and 2004 concurrently with the construction of Phase 1 of the CHS reconstruction plan on the Westwood campus. These components would include:

- Construction of a new below-grade central plant to provide utilities services for the entire complex.

- Construction of an off-site parking structure for 523 spaces on an adjacent campus-owned property.

- Construction of a new "U"-shaped replacement facility which would house the relocated emergency department (Southwest wing), the combined orthopaedics program (Northwest wing), new inpatient care bed units (North wing), and outpatient diagnostic and treatment services facilities (Central wing). The South and Central wings would connect to the Merle Norman Pavilion, which would undergo limited reconfiguration at the points of connection.

- Demolition of the damaged West Hospital Tower, following the relocation of its patient care functions to the replacement facility and creation of landscaped areas.

PROJECT COST AND PRELIMINARY FUNDING PLAN

CHS Reconstruction Plan Cost and Overall Funding Plan

The total base project cost of the AHC Facilities Reconstruction Plan, including the Luck Research Center, is projected at approximately $1.271 billion ($942 million for Phase 1 projects and $329 million for Phase 2). This estimate includes escalation of construction cost at 5 percent per year to the midpoint of construction of each project, compounded, but excludes capitalized interest costs during project development and construction.

The funding proposal for the base project cost of the reconstruction plan includes $707.6 million in funds currently in place (FEMA grants, State matching funds for the FEMA

grants, State Capital Outlay funds, insurance proceeds, and cash reserves of the Hospital System); $419 million in donor funds (of which $120.5 million have been pledged to date); and $144.4 million in Hospital external financing.

Project Specific Funding – Hospital Projects

Site Relocation Projects – Westwood Hospital

The proposed site for the Westwood Replacement Hospital is currently the location of a parking structure and of several smaller facilities housing campus support services. The Hospital System's contribution to the cost of relocating these programs is currently estimated at $25 million. This funding has been secured from hospital reserves.

Westwood Replacement Hospital

The Westwood Replacement Hospital base project cost, exclusive of capitalized interest, is currently estimated to be $577 million. The proposed sources of funding for the base project cost would consist of $432.9 million of federal dollars, allocated by FEMA from its "Seismic Hazard Mitigation Program for Hospitals (SHMPH)"; $44.1 million in matching funds allocated by the State of California; and $100 million in long-term external financing to be repaid from Medical Center revenues.

Capitalized interest and financing costs are estimated to total $20.7 million, raising the total project cost to $597.7 million. The capitalized interest and financing costs have two components. The first $11.7 million is related to the above-mentioned $100 million in long-term external financing and would be funded by increasing the amount to be externally financed from $100 million to $111.7 million. The balance of $9 million is related to a short-term line of credit anticipated to be required to cover the mandated 10 percent retention on FEMA funds until post-construction federal and State audits are completed and would be funded from hospital reserves. The total project cost of $597.7 million (inclusive of capitalized interest and financing costs) does not include $75 million in medical equipment that would be funded separately from hospital reserves in the two years prior to completion of the new hospital.

Santa Monica Replacement Hospital

The Santa Monica Replacement Hospital base project cost, exclusive of capitalized interest, is currently estimated to be $175 million. The proposed sources of funding for the base project cost would consist of $72.2 million of federal dollars, which is the combined $41.7 million SHMPH grant allocated to the Los Angeles campus and the $30.5 million SHMPH grant allocated to Orthopaedic Hospital; $14.9 million in earthquake insurance proceeds received as part of the Santa Monica Medical Center purchase agreement; $25 million in gift funds ($20 million of which are currently in hand); $18.5 million in hospital reserves; and $44.4 million in external financing. Capitalized interest and financing costs are estimated to total $5.1 million, raising the total project cost to $180.1 million. This capitalized interest cost has two components. The first $3.6 million is related to the above-mentioned $44.4 million in external financing and would be funded by increasing the amount to be externally financed from $44.4 to $48 million. The balance of $1.5 million is related to a short-term line of credit anticipated to be required to cover the mandated 10 percent retention on FEMA funds until post-construction federal and State audits are completed and would be funded from hospital reserves. This project cost of $180.1 million, inclusive of capitalized interest and financing costs, does not include $25 million in medical equipment that would be funded separately from hospital reserves in the two years prior to completion of the new hospital.

External Financing – Hospital Projects

It is currently assumed that interim financing for the two hospital projects would be obtained, with long-term financing being acquired in fiscal year 2002. As described above, the new long-term Medical Center debt for these two projects is assumed to total $159.7 million ($111.7 million for Westwood and $48 million for Santa Monica). This new debt would be in addition to the current Medical Center long-term debt, which totals $156.4 million as follows:

Debt outstanding as of December 1998 (millions)

UCLA Medical Center Revenue Bonds	$122.4
Financing to acquire Santa Monica Medical Center	34.0 (Approved July 1995)
Total	$156.4

The outstanding debt above will amortize, and the Santa Monica acquisition financing will be refinanced with long term bonds together with bonds which are anticipated to be issued in FY 2002 for the Westwood Replacement Hospital and the Santa Monica Replacement Hospital. Debt for the Hospital System after bond issuance in FY 2002 is expected to total as follows:

Estimated debt outstanding June 30, 2002 (millions)

UCLA Medical Center Revenue Bonds	$108.7
Bonds to refinance SMMC acquisition	32.5
Westwood Replacement Hospital Bonds	111.7
Santa Monica Replacement Hospital Bonds	48.0
Total	$300.9

The combined annual debt service on $300.9 million is estimated at approximately $26 million and would be repaid from available Medical Center revenues. In FY 2005, the year following anticipated completion of construction of both replacement hospitals, cash available for debt service is anticipated to total $117.8 million for a debt coverage ratio of 4.6 times.

Proposed Funding – Research Buildings

Health Sciences Seismic Replacement Building #1

The Health Sciences Seismic Replacement Building #1 would allow for the relocation of wet laboratory neuroscience research programs currently located in the Neuropsychiatric Institute, the Brain Research Institute, and Reed Neurological Research Center. It is proposed to be located to the west of the existing Life Sciences Building on a site that would require the demolition and replacement of two small existing facilities, the CHS annex and a laboratory trailer. The base project cost, exclusive of capitalized interest, is currently estimated to be $62 million ($57.67 million for the replacement building and $4.33 million for the relocation projects required for acquiring the site). The proposed sources of funding for the base project cost would consist of $23.77 million of State dollars as part of the University of California Capital Outlay Budget, submitted for State approval in Fiscal Year 1999, and $38.23 million in gift funds.

Health Sciences Seismic Replacement Building #2

The Health Sciences Seismic Replacement Building #2 would allow for the relocation of immunology research programs which are dispersed through the CHS. It is proposed to be located to the east of the existing Life Sciences Building on a site that would require the demolition and replacement of two small existing facilities, the Plant Physiology Building and the Plant Greenhouse. The base project cost, exclusive of capitalized interest, is currently estimated to be $63 million ($57.87 million for the replacement building and $5.13 million for additional escalation for fiscal year 2001 and for the relocation projects required for acquiring the site). The proposed sources of funding for the base project would consist of $30.23 million of State dollars as part of the University of California Capital Outlay Budget, submitted for State approval in fiscal year 2000, and $32.77 million in gift funds.

Luck Research Center

The Luck Research Center would house research activities in orthopaedics and related fields, such as molecular cell and developmental biology and biological chemistry. It would be located immediately adjacent to Seismic Replacement Building #2. The base project cost, exclusive of capitalized interest, is currently estimated to be $40 million. The proposed sources of funding for the base project cost would consist of $30 million pledged by the Orthopaedic Hospital Foundation and $10 million in other gift funds.

External Financing – Research Buildings

The gift funds required for the construction of the three research buildings total $111 million ($38.23 million for Seismic Replacement #1, $32.77 million for Seismic Replacement #2, and $40 million for the Luck Research Center). A total of $100.5 million in gift funds has been pledged that could be allocated toward the $111 million requirement, including the $30 million that Orthopaedic Hospital has pledged for the Luck Research Center. This leaves only an additional $10.5 million to be pledged by 2004 to complete these three buildings.

Stand-by financing will be used to bridge the gap between cash required and cash-in-hand because the payment schedule for several of the pledges extends beyond 2004. It is anticipated, however, that the fundraising campaign will generate additional pledges and yield sufficient additional cash proceeds between 1998 and 2004, so that no significant long-term borrowing will be required to complete these three research buildings. Should a limited amount of long-term borrowing be required, the School of Medicine would pledge quasi-endowment resources as the source of repayment.

Proposed Funding – CHS Reconstruction Plan (Phase 2)

The implementation of Phase 2 of the CHS reconstruction plan is required to complete the seismic safety program for the academic, research, and administrative functions of the health sciences schools located in the Center for Health Sciences. It should be noted that planning for this later phase of work is preliminary in nature and that detailed programmatic and feasibility studies must be completed to develop further its scope, cost, implementation schedule, and funding plan. It is anticipated that these studies would be completed in 2002 and that formal consideration of the proposed scope of work and funding plan would be requested from The Regents at that time.

Phase 2 of the CHS reconstruction plan would include the new construction of the third seismic replacement building for educational functions, with state-of-the-art classrooms and a new biomedical library, and the phased renovation or demolition of large areas of the existing CHS facility. The areas of the CHS that would be retained and seismically renovated would include the areas currently known as School of Medicine West, School of Medicine East, and CHS Corridor 2. Phased demolition activities would remove the areas currently housing the Neuropsychiatric Institute and Hospital, Reed Neurological Research

Center, Brain Research Institute, Medical Center, School of Public Health, Vivarium, and Biomedical Library. The base project cost (exclusive of capitalized interest) for Phase 2 of the CHS reconstruction plan is currently estimated to be $329 million, and construction is anticipated to be completed between 2005 and 2010. The currently proposed sources of funding for the base project cost of $329 million would consist of $46 million of State dollars as part of the overall University of California Capital Outlay Budget through Fiscal Year 2006-07 and $283 million in gift funds. The $283 million in gift funds required to fund the Phase 2 projects is anticipated to be raised through additional pledges obtained as part of the capital campaign goal for the medical sciences included in the $1.1 billion "Campaign UCLA" begun in July 1995 and scheduled to be completed in June 2002. Based on the fundraising results to date, it is anticipated that sufficient additional cash proceeds will be generated so that all Phase 2 projects could be completed in the 2005-2010 time period without incurring significant long-term borrowing. Should the cash proceeds generated be lower than anticipated, however, it may become necessary to extend the implementation schedule beyond 2010, since the amount of long-term debt that could be obtained to funds these projects would be limited by the pledge capacity of the School of Medicine. Any such schedule extension would require supplemental environmental analysis because the environmental impact report prepared for the CHS reconstruction plan assumes that the implementation time frame ends in 2010.

Gift Funds Summary

As previously noted, $120.5 million of the $419 million fundraising goal for both phases of the reconstruction plan is currently in hand either in cash or by way of irrevocable pledges. The $120.5 million in existing pledges is allocated to the construction of the Phase 1 projects. Only $15.5 million must be raised by 2004 to complete this phase ($5 million for the Santa Monica Replacement Hospital, $0.5 million for Seismic Replacement Building #2, and $10 million for the Luck Research Center). The $283 million in gift funds required to fund the Phase 2 projects will be needed in several installments between 2005 and 2010, based on the anticipated construction start date for each project. It is currently anticipated that formal consideration of the first CHS renovation project will be requested in 2002. At that time The Regents would be presented with an update of the entire implementation schedule for Phase 2. As indicated above, this proposed implementation schedule may be extended if the fund raising campaign does not meet its stated objectives by 2002.

ANTICIPATED SCHEDULE OF REGENTS' APPROVALS

The first approval actions relate to the Westwood Replacement Hospital, which is the first project proposed for development. Approvals for capital budget amendment, design, and certification of the Environmental Impact Report, LRDP amendment, and external financing are being requested at this meeting. It is anticipated that the same approvals will be requested in March 1999 for the Santa Monica Replacement Hospital, which is the second

project proposed for development. The capital budget amendments for Seismic Replacement Buildings #1 and #2 were approved in The Regents' budgets in fall 1998 and fall 1999, respectively. Approvals for design and external financing, if required, are anticipated to be requested in May 1999 for Seismic Replacement Building #1 and March 2000 for Seismic Replacement Building #2. The capital budget amendment for the Luck Research Center is anticipated to be requested in March 1999, whereas design approval would be requested in March 2000 concurrently with the design approval for Seismic Replacement Building #2. Approval actions for projects relating to Phase 2 of the CHS reconstruction plan are not anticipated to be requested before 2002, which is the currently anticipated completion time frame for the required detailed programmatic and feasibility studies.

President Atkinson commented that the team that Provost Levey has assembled to handle the reconstruction has put together excellent physical and financial plans for the project and is committed to bringing the project in on time and on budget.

Chairman Davies asked for a response to the speaker's comments about the possibility of initiating a transit system that would alleviate parking problems associated with the project and about using an alternate site for the hospital. Assistant Vice Chancellor Jensen pointed out that the proximity of patient care with research, teaching, and outpatient facilities is a top priority for the campus. It will lessen the academic credentials of the hospital to separate those. With respect to a transit program and the idea that a determination on the Phase 2 parking plan should be postponed, she noted that only the Westwood Replacement Hospital is recommended currently. Parking options will be determined at a later date.

Regent Lee asked what the land is being used for at the most popular alternate site, Lot 32, which is at Wilshire Boulevard and Veteran Avenue. Ms. Jensen responded that currently it is a parking lot but that it is planned in the LRDP for conversion to a site for research buildings and housing. It is on one of the busiest intersections in the city. Dr. Levey added that using Lot 32 for the project would have separated the hospital complex and medical school from the ambulatory care facility, which is a pivotal part of the plan. The ambulatory care project has been one of the mainstays of the salvation of UCLA Medical Center. Most patients begin their relationship with the medical center at that facility. From a patient's perspective, it defines the continuum of care. It was pointed out that, because activities related to routine care and to orthopedic care will be moved to the Santa Monica facility, the replacement hospital in Westwood will be smaller than the present hospital. Traffic congestion should be lessened as a result.

Regent Lee then suggested that rather than bringing the project in on schedule and on budget, all attempts should be made to bring it in under budget. He asked what would become of any surplus in the budget. Dr. Levey responded that the money could be used for equipment. Chancellor Carnesale noted that the reason the first phase of the project

may be isolated from the second phase is that the financing for the first phase is already in place. Any money that would be saved would be allocated to other parts of the first and second phases. Regent Lee was hopeful that a few cents per dollar could be saved on the project.

Regent Montoya asked for more information about a suggested pilot program for transit passes to alleviate automobile traffic in the campus area. Chancellor Carnesale explained that a program is under consideration by the Office of the Vice Chancellor for Administration. The faculty supports the development of a campus program of this type. Regent Montoya then noted that the medical center project entails cutting down eucalyptus trees that currently line the main street. Dr. Levey responded that there will be emphasis on foliage around the hospital. Ms. Jensen underscored that this project will transform the south campus from an urban setting to one with landscaping and open spaces. While it is true that eight eucalyptus trees may be threatened by the program, as many as possible will be spared. The project's landscape plan includes adding mature, flowering trees to the area. The landscaping will be evident at ground level as well as on the roofs of the new construction.

Regent-designate Taylor shared Regent Lee's concerns about cost savings. He was pleased that the administration has committed itself to total cost management and that no change orders will be allowed. He acknowledged the importance, however, of considering aesthetics in the midst of cost constraints and of constructing a site that will complement the campus.

Regent Sayles noted that the current facilities are not adequate to accommodate advances in medical technology. He asked to what extent the new design will be able to keep pace with changing technologies. Dr. Levey responded that the new building will be extremely flexible in its design. The potential will exist to convert whole areas to new uses, if necessary. Chancellor Carnesale believed that the new hospital will be beautiful and functional. He observed that the costs per square foot and per bed compare favorably to similar construction projects.

Regent Johnson complimented the administrative team on its thorough design process and its deep commitment to the project. Dr. Levey stated that visits to other academic medical centers where new hospitals were built provided the team with a wealth of useful planning information.

Regent Chandler commended the planning team for its attention to children and their special needs. She noted that State matching funds are available for the new Westwood hospital but not for the Santa Monica Hospital. Ms. Jensen explained that State matching funds are available specifically for teaching purposes. At the time of the earthquake, no teaching was going on at Santa Monica Hospital.

Regent Preuss wholeheartedly supported the project. He was refreshed to hear the administration's pledge to bring the project in on time and on budget.

Regent Clark believed there was ample attention being paid to the cost of the new facility. He noted also that the intersection of Veteran and Wilshire has been identified as the fourth busiest in the country and would not be a practical site for a hospital. He commended Dr. Levey for his vision, the manner in which he articulates it, and the manner in which he intends to implement it.

Regent Kozberg commended the administration for making the community feel part of the planning process and for considering the views of patients and their families. She asked what process will be used to eliminate excess costs once Regental approval has been received. Assistant Vice Chancellor Jensen responded that there will be the same constant discipline in total cost management that has characterized the planning process.

Chancellor Carnesale believed that the new facility is crucial not just for the academic health center but for the entire UCLA campus. He acknowledged the importance to the campus of preventing the project from exceeding its budget.

[For speakers' comments, refer to the minutes of the November 18 meeting of the Committee of the Whole.]

3. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM, WESTWOOD REPLACEMENT HOSPITAL, LOS ANGELES CAMPUS**

The President recommended that the Committee on Grounds and Buildings recommend to The Regents, subject to the concurrence of the Committee on Finance, that the appropriate Budgets for Capital Improvements and the Capital Improvement Programs be amended as follows:

From: Los Angeles: J. Westwood Replacement Hospital -- preliminary plans -- $22 million to be funded from federal funds ($18 million), State matching funds ($2 million), and hospital reserves ($2 million).

To: Los Angeles: C. Westwood Replacement Hospital -- preliminary plans, working drawings, construction, and equipment -- $597.7 million total project cost to be funded from federal funds ($432.9 million), State matching funds ($44.1 million), hospital reserves ($9 million), and external financing ($111.7 million).

As noted in Item 2, the Westwood Replacement Hospital is the first project proposed for development as part of the multi-phase seismic reconstruction plan previously presented to The Regents in May 1997.

The proposed new Westwood hospital would continue to focus on highly complex medical care, such as emergency medicine including Level 1 trauma response, advanced cancer treatment, and organ transplantation services. Configured to be operationally efficient and flexible enough to respond quickly and cost-effectively to the rapidly changing health care market environment, the new facility would include approximately 517,000 assignable square feet for patient care and support functions. The new hospital would replace the existing Medical Center (including the Children's Hospital) and the Neuropsychiatric Hospital facilities. These two hospitals currently have 668 and 188 licensed beds, respectively, for a total of 856 licensed beds (761 currently available), and a combined average daily patient census of 463 for fiscal year 1996-97, 481 for fiscal year 1997-98, and 495 year-to-date. The patient census varies based on a number of factors including season, year, and availability of other hospital facilities. In keeping with continuing trends toward increased outpatient medical care, the new hospital would have a reduced total capacity of 525 licensed beds. This represents a 25-bed increase from the 500 beds proposed in May 1997; this was deemed necessary as a result of the patient volume analysis completed as part of the detailed programming efforts. In addition, 63 non-licensed observation beds would be provided for short-term (under 24-hour) hospitalization. In addition to the patient rooms, patient care and support functions would include diagnostics and treatment services, operating rooms, an emergency department/Level 1 trauma center, administrative departments, faculty offices, and the latest information and technology systems required for clinical care and clinical research. Inpatient Services (approximately 246,010 asf) would include all the licensed bed units. All rooms would be designed as universal single-bed rooms to maximize flexibility of utilization and occupancy. Each inpatient service unit would include support services such as nursing stations, medication rooms, nourishment centers, clean linen rooms, clean supply rooms, soiled utility rooms, staff lounges, care team workrooms, conference rooms, crucial staff offices, and hotel offices. In addition, each patient floor will include shared services areas such as family waiting areas, consultation rooms, satellite pharmacies, staff lockers and shower facilities, and storage areas.

Diagnostics and Treatment Services (approximately 135,908 asf) would include the following functions and treatment spaces: Emergency Medicine Center including 39 treatment stations; Non-Invasive Diagnostics Imaging and Procedures; Clinical Laboratory and Anatomical Pathology; Interventional Imaging and Procedures; Perioperative Services including a surgery suite with 22 operating rooms; Medical Procedures Unit, Respiratory Therapy Services, Dialysis Services, and Clinical Neurophysiology Unit; and three short-term Observation Units. Administrative Support Services (approximately 49,480 asf) would include Administrative Areas, Faculty Offices and Information, Admission, and Registration Services. General Support Services (approximately 85,602 asf) would include

Pharmaceutical Services; Nutrition Services and Catering; Public Dining and Boardroom; Clinical Engineering; Hospital Support Services; Materiels Management; and Public Lobbies/waiting areas. In addition, the project scope includes a below-grade parking component for 333 cars under the new hospital and an allowance for construction of another 170 parking spaces in a future location to be determined, significant site improvements including parking access ramps, plazas, courtyards, and landscaping. Overall development of the site would integrate pedestrian and vehicular linkages to enhance public and service access, circulation, and security.

Construction of the hospital would start in mid-2000 and be completed in mid-2004, with licensing and occupancy scheduled for July 2004.

Upon motion duly made and seconded, the Committee on Grounds and Buildings approved the President's recommendation and voted to present it to the Board.

4. **CERTIFICATION OF ENVIRONMENTAL IMPACT REPORT, AMENDMENT OF LONG RANGE DEVELOPMENT PLAN, AND APPROVAL OF DESIGN, WESTWOOD REPLACEMENT HOSPITAL, LOS ANGELES CAMPUS**

The President recommended that, upon review and consideration of the environmental consequences of the proposed project as evaluated in the Final Environmental Impact Report for the Academic Health Center Facilities Reconstruction Plan, the Committee on Grounds and Buildings recommend that The Regents:

(1) Certify the Final Environmental Impact Report.

(2) Adopt the Mitigation Monitoring Program and Findings including Statement of Overriding Considerations.

(3) Amend the campus' Long Range Development Plan to accommodate the Westwood Replacement Hospital and related components of the UCLA Academic Health Center Facilities Reconstruction Plan.

(4) Approve the design of the Westwood Replacement Hospital, Los Angeles campus.

[The Final Environmental Impact Report, Mitigation Monitoring Program, and Findings were mailed to all Regents in advance of the meeting, and copies are on file in the Office of the President.]

It was recalled that in May 1997, the Regents were presented with an overview of the UCLA Academic Health Center Facilities Reconstruction Plan (AHCFRP), which will repair and replace major portions of the Center for the Health Sciences (CHS) and Santa Monica

UCLA Medical Center that were damaged by the 1994 Northridge earthquake. In May 1997, The Regents also approved the inclusion of funding for preparation of preliminary plans for the Westwood Replacement Hospital in the 1996-97 Budget for Capital Improvements and the 1996-99 Capital Improvement Program.

In November 1998, the appointment of Perkins & Will of Los Angeles and Chicago as Executive Architect for this project was administratively approved within the Office of the President, with the Pei Partnership Architects and I. M. Pei, FAIA, of New York City serving as design sub-consultants. Perkins & Will, established in 1935 in Chicago, has recent expertise in the design of Office of Statewide Health Planning and Development (OSHPD) approved acute care hospital facilities in California, as well as extensive experience with the design of academic medical center facilities nationwide.

The Westwood Replacement Hospital would continue to focus on highly complex medical care, including Level 1 trauma response, advanced cancer treatment, and organ transplantation services. The new hospital would replace the existing Medical Center, Children's Hospital, and Neuropsychiatric Hospital facilities, which suffered significant structural damage as a result of the January 1994 Northridge earthquake and do not meet State life safety standards.

Replacement Hospital Site

Eleven campus site alternatives were initially explored for the replacement hospital. The site located in the southwest area of the main campus, bounded by Gayley Avenue, Charles E. Young Drive (formerly Circle Drive), South and Westwood Plaza, and immediately north of the existing outpatient Medical Plaza, has been identified as the preferred site for the replacement hospital. Site selection criteria included the requirement to minimize construction impacts on existing operations and the opportunity to improve long-term operational efficiencies. The preferred site is sufficiently remote from the existing hospital facilities to enable construction to proceed without impacting day-to-day operations. In addition, the close proximity of the proposed new hospital to the Medical Plaza would provide the opportunity to offer a continuum of care in one convenient location, share services between inpatient and outpatient functions, and maximize staff and faculty efficiencies.

The proposed site is currently the location of Parking Structure 14 and of several smaller facilities housing campus support services, which would be replaced or relocated in order to acquire the site for the new hospital. These relocation or replacement projects have been, or will be, presented separately for approval to The Regents.

Project Design

The proposed project would construct approximately 1,045,000 gross square feet, which would provide approximately 517,000 assignable square feet for patient care and support functions. It would include 525 licensed patient beds, both high acuity and intensive care, 63 observation beds for hospitalization under 24 hours, operating rooms, diagnostic and treatment services, an emergency department/Level I trauma center, essential administrative service, and the faculty offices and conferencing spaces required to support the medical education function of the hospital. The latest information, technology, and security systems required for clinical care and clinical research would be provided. A 333-car parking facility for patients and visitors would be located under the hospital, with an additional 170 parking spaces to be constructed at a location to be determined.

The overall design approach would be patient-centered. The majority of the replacement hospital structure would be eight stories above grade with two below-grade levels. All beds would be provided in "acuity adaptable" single-bed rooms to maximize flexibility of use and occupancy. Medical/surgical bed units would be developed in modules of 26 beds, while intensive care units would be developed in modules of 12 beds. The program for each floor would be as follows:

Second Basement (B2):	Parking, including patient discharge, and mechanical spaces.
First Basement (B1):	Hospital support, loading, shipping and receiving, materials management, clinical laboratory, pharmacy, sterile processing, and food service.
Ground Floor:	Public lobbies, emergency department, non-invasive imaging, patient support services, and administration.
Second Floor:	Invasive medical procedures, surgery, interventional imaging, and observation beds.
Third Floor:	Neuro-rehabilitation unit, interventional support, and major building mechanical spaces.
Fourth Floor:	Psychiatric care units and outpatient hospital and medical/surgical intensive care unit.
Fifth Floor:	Children's Hospital including pediatric acute and intensive care units and neonatal intensive care unit, as well as obstetrics.

Sixth Floor: Medical/surgical acute and intensive care units, neuro-diagnostics, and clinical research support.

Seventh Floor: Acute cardiology units, critical care unit, intensive care unit, and cardio-diagnostics.

Eight Floor: Medical/surgical acute and intensive care units and dialysis unit.

Roof/Penthouses: Mechanical spaces and heliports.

The main entrance to the hospital would be located on Westwood Plaza on the east, with a separate entrance for the Children's Hospital provided from Charles E. Young Drive South. Both entrances would have drop-off zones for visitors and patients and access ramps to the below-grade parking. A third public entrance would be located on the south to provide a link with the existing Medical Plaza. The emergency department would have a separate entrance for ambulances on Charles E. Young Drive South and a walk-in entrance off Charles E. Young Drive South.

At all levels, the building would be organized around a core area which would house the vertical transportation systems for the entire building. Each side of the central core would be served by two separate banks of elevators, one for public use, and one for patient transportation and service functions. In addition, dedicated trauma elevators would be used to transport patients directly between the rooftop heliport, the emergency department, the interventional floor, and the intensive care units. The lobbies located at each entrance would be interconnected by a wide corridor concourse that would facilitate movement from one end of the building to the other, as well as connect the east and west public elevator lobbies with the main lobbies. A central information desk, as well as security stations, would be located along the concourse.

The primary utilities required for the operation of the hospital would originate in the existing Central Chiller/Co-generation Plant located north of Charles E. Young Drive South, and the project scope includes the necessary connections to that central facility.

The project will be built of Type I construction, with a structural system combining cast-in-place concrete foundations and a steel moment frame. The exterior walls would be constructed using panels in a seismic-resistant frame with a combination of aluminum and stone cladding, and operable windows glazed with clear, high-performance glass would be provided at each patient room. Sprinklers will be installed throughout the building.

In accordance with University policy, the project has been reviewed by an independent cost estimator. Independent structural review for seismic resistance would be conducted at each stage of the project development.

The project is being managed by senior project management staff from Capital Programs with extensive experience in hospital project management, with oversight by the Assistant Vice Chancellor for Health Sciences Capital Projects. Construction management would be provided by an outside construction management firm also experienced in the management of comparable acute care hospital projects.

Environmental Impact Summary

As indicated above, in May 1997 the Regents were presented with an overview of the AHCFRP to repair, replace, and seismically retrofit existing facilities at the CHS on the Westwood campus, as well as the existing hospital at the Santa Monica UCLA Medical Center. In the EIR currently under consideration, "AHCFRP" refers to the replacement and retrofit of the Medical Center and related facilities on the Westwood campus. In light of the distance between the Westwood and Santa Monica projects, differences in the environmental issues presented, and minimal potential for overlapping public concerns, a separate EIR is being prepared for the Santa Monica project. For purposes of this recommendation and the EIR project description, the AHCFRP project includes construction of a replacement hospital, construction of three health sciences replacement buildings, construction of replacement parking, demolition of major portions of the existing CHS complex, the seismic upgrading and retrofitting or repair of remaining portions of the existing CHS complex, and development of new landscaped plazas. In order to accommodate the project, certain other activities would occur, including the relocation of the Plant Physiology Department greenhouse. In addition, to be conservative, the analysis in the Final EIR examines two other actions that are expected to occur in the project site and in the same time frame as the project but that would be proposed even in the absence of the project: upgrades to, and the relocation of, the existing Waste Handling Yard operations to a new Environmental Services Facility; and modifications to the emissions control equipment at the Energy Systems Facility. The AHCFRP project would occur over an approximately 12-year period. The Westwood Replacement Hospital and the Environmental Services Facility are the first components of the AHCFRP. Subsequent approvals would be required for other components of the plan, including the three health sciences buildings being replaced for seismic safety reasons.

The State Legislature has created a number of statutory exemptions from the California Environmental Quality Act. Pursuant to Public Resources Code Section 21080(b)(3), projects are statutorily exempt from the requirements of CEQA provided they are "Projects undertaken, carried out, or approved by a public agency to maintain, repair, restore, demolish, or replace property or facilities damaged or destroyed as a result of a disaster in

a disaster-stricken area in which a state of emergency has been proclaimed by the Governor pursuant to Chapter 7 (commencing with §8550) of Division 1 of Title 2 of the Government Code." As the AHCFRP would repair, demolish, and replace on a one-to-one basis those facilities damaged by the 1994 Northridge earthquake, and as on January 17, 1994, the Governor declared a state of emergency for Los Angeles County, the AHCFRP project, including the Westwood Replacement Hospital, is statutorily exempt from CEQA.

In addition, the CEQA Guidelines contain a variety of "categorical exemptions" for classes of projects which have been determined not to have a significant effect on the environment. CEQA Guidelines §15302(a) provides that replacement or reconstruction of existing schools and hospitals to provide earthquake-resistant structures which do not increase capacity more than 50 percent are categorically exempt from the requirements under CEQA regarding the preparation of environmental documents. Because the AHCFRP is designed to repair and replace existing facilities within the project site on the UCLA campus, would have substantially the same purpose and capacity as the structures replaced, and would provide earthquake-resistant structures which would not increase capacity more than 50 percent, the project is categorically exempt from the requirements of CEQA.

While an EIR is not legally required for statutorily exempt and categorically exempt projects, the campus determined that the EIR format and EIR process would provide information to individuals and public agencies about the entire reconstruction plan and provide the public with opportunities to comment on the project. Accordingly, without waiving the Section 15302 CEQA Guidelines exemption or the Section 21080(b)(3) statutory exemption, the campus prepared an environmental report that follows the EIR content requirements and distributed that report following the same CEQA procedures used for the preparation and distribution of an EIR, and consistent with University procedures for implementation of the California Environmental Quality Act.

On July 29, 1998, the campus filed a Notice of Completion of the Draft EIR and released the document for public review, establishing a 45-day public review period. Public notice of the availability of the Draft EIR was provided with advertisements in the *Los Angeles Times* and the *UCLA Daily Bruin*, and notices were posted on site and on campus on official University bulletin boards. Copies of the Draft EIR were made available at five on-campus and three community libraries and were distributed to interested agencies, groups, and individuals. A public information meeting was held on August 13, 1998 to provide the public with an overview of the project and to answer questions. A public hearing was held on September 9, 1998, during which comments on the Draft EIR were received. In response to public requests, the campus extended the public comment period for an additional ten days, providing a total of 55 days for public review and comment. Written comments from interested public agencies and individuals were received throughout the public review period. The campus evaluated the oral testimony received at the public hearing as well as the written comments received during the noticed comment period and

prepared written responses. The responses are contained in the Final EIR. The Final EIR examines issues discussed in the Draft EIR and incorporates additional mitigation measures into the project, as discussed in the Final EIR.

The Final EIR evaluates the potential effects of the project in sixteen environmental issue areas: land use; population, employment and housing; traffic and transportation; biological resources; archeological and historical resources; visual quality; geology, soils, and seismicity; hydrology and water quality; air quality; noise and vibration; utilities; energy; hazardous materials; public services; growth-inducing impacts; and cumulative impacts.

The Final EIR indicates that the project would result in significant impacts, prior to mitigation, in the following areas: traffic and transportation; biological resources; visual quality; geology, soils and seismicity; air quality; noise and vibration; and hazardous materials. With implementation of the proposed mitigation measures, short-term construction impacts related to traffic, air quality, and noise would remain significant and unavoidable; however, all long-term impacts would be mitigated below a level of significance.

Nine alternatives to the project were analyzed in the EIR: (1) No Project Alternative; (2) Seismic Repair and Remodel of the CHS for Non-Hospital Uses; (3) Seismic Repair of the CHS for Hospital Uses; (4) Reduced-Size Alternative; (5) Increased-Size Alternative; (6) Tiverton-Le Conte Alternative Site; (7) Southwest Campus (Parking Lot 32) Alternative Site; (8) Veterans Affairs Property/Off-Campus Alternative Site; and (9) No Replacement Parking Alternative.

A Mitigation Monitoring Program to ensure implementation of project-specific mitigation measures to reduce significant impacts is included as an Appendix in the Final EIR. Monitoring of the implementation of mitigation measures would be conducted on an annual basis in conjunction with the annual status report for the 1990 LRDP Mitigation Monitoring Program.

Amendments to the Campus Long Range Development Plan

The 1990 LRDP divided the campus into eight land use zones based upon functional uses and campus topography. Space entitlements were proposed for each of the campus zones to serve as "capacity envelopes," sufficiently sized to encompass the assessment of program needs projected to arise during the 15-year period addressed by the LRDP. The use of these capacity envelopes was intended to provide future flexibility, to accommodate changes in program space requirements, and to respond to needs not anticipated when the LRDP was adopted in 1990, such as the substantive changes in health care delivery and the consequences of the 1994 Northridge earthquake.

Although no specific projects were proposed in the LRDP, it included a narrative description of program requirements. In particular, the LRDP recognized the fact of an aging, inefficient physical plant at the present CHS, and anticipated expansion, modifications, reorganization, and/or replacement of Health Sciences facilities, including the need to replace the existing hospital with new facilities for 650 beds for inpatient care. At the time the LRDP was written, it was assumed that this new inpatient care space could be accommodated within the Health Sciences zone (approximately 40.5 acres), located on the southern edge of the main campus. However, the LRDP did not anticipate the need for a massive seismic rehabilitation of the research, academic, and inpatient care components of the CHS. In order to minimize the impact of reconstruction efforts on patient care activities in the existing CHS, the planning process identified a preferred site for the new hospital on a site adjacent to the Health Sciences zone currently occupied by a parking structure and ancillary facilities.

Three amendments to the 1990 LRDP would be required to implement the AHCFRP:

A. Modify the boundary of the Health Sciences zone from the northern edge of the Medical Plaza to Charles E. Young Drive South to permit the construction of the replacement hospital on the Parking Structure 14 site, which is adjacent to but not currently within the zone.

B. Transfer 207,000 gsf from the Health Sciences zone to the Core Campus zone to preserve capacity for general campus uses, while at the same time allowing for the construction of Health Sciences Seismic Replacement Buildings 1 and 2 within the Core Campus Zone.

C. Transfer 6,700 gsf from the Health Sciences zone to the Botanical Gardens zone to allow for construction and operation of a small replacement greenhouse structure near the northern edge of the Botanical Gardens zone.

None of these amendments would change the total amount of development proposed in the 1990 LRDP. These amendments are fully analyzed in the Final EIR prepared for the AHCFRP.

Findings

The Findings discuss the project's impacts, mitigation measures for the project, project alternatives, and reasons for rejecting the alternatives. The Findings also set forth Overriding Considerations for approval of the project in view of its unavoidable significant environmental effects.

Upon motion duly made and seconded, the Committee on Grounds and Buildings approved the President's recommendation and voted to present it to the board.

5. **EXTERNAL FINANCING FOR WESTWOOD REPLACEMENT HOSPITAL, LOS ANGELES CAMPUS**

The President recommended that the Committee on Finance recommend, subject to the amendment of the Budget for Capital Improvements and the Capital Improvement Program to include the total project cost of the Westwood Replacement Hospital project, that:

A. Funding for the Westwood Hospital Replacement project be approved as follows:

Federal Funds	$432,900,000
State Matching Funds	44,100,000
Hospital Reserves	9,000,000
External Financing	111,700,000
Total	$597,700,000

B. Subject to approval by the President in consultation with the Chairman of the Board, the Chairman of the Committee on Finance, and the Chairman of the Committee on Health Services, the Treasurer be authorized to obtain external financing not to exceed $111,700,000 to finance construction of the Westwood Replacement Hospital, subject to the following conditions:

(1) Interest only shall be paid during the construction period;

(2) Repayment of the principal plus interest shall be from gross revenues of the Medical Center; and

(3) The general credit of The Regents shall not be pledged.

C. The Treasurer be authorized to obtain external financing not to exceed $43,290,000 to finance on an interim basis, if necessary, potential cash flow needs in connection with the Federal Emergency Management Agency (FEMA) reimbursement program for seismic correction costs related to damage caused to the Center for Health Sciences by the January 17, 1994 Northridge earthquake, subject to the following conditions:

(1) Interest only shall be paid on any advances;

(2) Repayment of the principal plus interest shall be from gross revenues of the Medical Center; and

(3) Should significant disallowance of expenses occur in the post-audit reviews of the seismic and staging costs related to the reconstruction of the Westwood Replacement Hospital, the campus would, if necessary, return to The Regents to seek the approval for long-term external financing of some or all of those disallowed costs.

D. The Officers of The Regents be authorized to provide a certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.

E. Officers of The Regents be authorized to execute all documents necessary in connection with the above.

For general background concerning this item, refer to Item 2.

External financing for the Westwood Replacement Hospital will provide $111.7 million of the total project cost of $597.7 million. The balance of $477 million is provided from federal dollars allocated by the Federal Emergency Management Agency-sponsored "Seismic Hazard Mitigation Program for Hospitals" ($432.9 million), matching funds allocated by the State of California ($44.1 million), and hospital reserves ($9 million). Based on a debt of $111.7 million, amortized over 27 years at 6.5 percent interest, the average annual debt service is estimated at $8.9 million. Repayment of the debt would be from gross revenues of the Medical Center. Interim financing may be used until long-term financing is provided.

The project cost does not include $75 million in medical equipment that would be funded separately from hospital reserves in the two years prior to completion of the new hospital. The current schedule anticipates that the project would be bid in three major contracts between early 1999 and early 2001. The financial feasibility analysis assumes that the federal and State funds will be expended first to fund the building's design and engineering costs, as well as to fund the construction of the building's shell and core. Commercial paper is assumed to be used to fund required financing until long-term bonds are issued at the time of award of the contract for tenant improvement in mid-2001.

The estimated total costs for the Santa Monica Replacement Hospital are $180.1 million, of which $48 million is expected to be financed. Interim financing approval is sought to meet the short-term cash flow shortfalls related to FEMA reimbursements. Any interest expense for the FEMA line will be paid from hospital reserves and is estimated at $9 million in the project costs; any principal borrowing under the line is anticipated to be repaid by FEMA reimbursement. Should FEMA disallow significant claims for reimbursement during the post-audit review, the Medical Center would return to The Regents at a future meeting to seek approval for long-term financing of some or all of those disallowed costs.

Financial projections cited in Item 2 are based on assumptions from the Office of the President, where available, and local assumptions for years beyond 2000. The local assumptions are based on the review of (1) UCLA's recent service and financial performance; (2) the occupancy and outpatient volume levels experienced in the past five years; (3) incorporation of the Orthopaedic Hospital Alliance at the Santa Monica – UCLA Medical Center; and (4) the further development of the Primary Care Network.

The projected average daily census for all three hospital facilities is 625 (40 are skilled nursing) in FY 1999, with admissions of 38,073 and an average length of stay of 6 days. The projected average daily census increases to 635 in FY 2000 with admissions of 39,224 and an average length of stay of 5.9 days. This anticipated increased census is based on a continuous development of the Primary Care Network and its referrals to the UCLA Hospital System. From the model, in FY 2001 through FY 2004 the census grows modestly. In FY 2004 the average daily census is 642 with admissions of 40,205 and average length of stay decreasing to 5.8 days. In FY 2005, the new hospitals open and the Orthopaedic Alliance is fully integrated. The projected average daily census in FY 2005 and FY 2006 is 620 with no skilled nursing patients. Admissions in those years are 40,966, and average length of stay drops to 5.5 days. The hospital-wide Case Mix index is assumed to be constant at 1.9 throughout the years. The 620 average daily census in fiscal years 2005 and 2006 represents an 84 percent occupancy rate.

Net patient revenue is projected to grow from $660 million in FY 1999 to $723 million in FY 2006. This is a result of anticipated rate increases in various payor categories, the integration of the Orthopaedic Alliance in FY 2005, and the replacement of skilled nursing patients with acute care patients at the Santa Monica – UCLA Medical Center.

The projected cost per adjusted patient day in FY 1999 is $2,341 and increases to $2,401 in FY 2006. FTEs per adjusted occupied bed are projected to decrease from 7.5 in FY 1998 to 6.2 in FY 2006. This will be effected through changes in staffing mix and efficiencies in the new hospitals. The projected salaries and benefits include a 3.5 percent annual inflation for FY 1999 and FY 2000 and a 2 percent annual inflation factor from FY 2001 through FY 2006. Supplies and Other Expenses are adjusted for volume and also include inflationary increases of 1 percent annually for the projected years. Professional Fees and Purchased Service expenses are adjusted for volume only and assume that inflation is absorbed. Depreciation and Interest expenses incorporate the proposed financing and building costs for the replacement facilities.

The net income in FY 1999 is projected at $39,814,000 for a net margin of 5.7 percent. In the first full year of operations in the new hospitals, FY 2005, net income declines to $32,781,000 with a net margin of 4.3 percent. The decrease is largely attributable to the additional debt service associated with the new facilities. The net income in FY 2006 is $31,410,000 for a net margin of 4.1 percent.

Sensitivity analyses were performed to evaluate the impact on net gain of selected changes on base assumptions. In all of the financial projections, the costs and benefits of future capital projects included in the Hospital System's current long-term capital plan, including the cost of medical equipment for the two replacement hospitals, are factored into the calculations. The plan includes projects which have not yet been approved and which will be regularly re-evaluated as to need, scope and cost. Future projects will be deferred or eliminated as appropriate and as necessary to ensure the hospital's financial viability.

Because the long-term financing is not anticipated until FY 2002, it is recommended that the financing proceed only with the future approval of the President in consultation with the Chairs of the Board, the Committee on Finance, and the Committee on Health Services. This approval would be based, in large part, on updated financial projections prepared in FY 2001 prior to the bid process for tenant improvement construction. These projections would also be shared with the Regents for their information.

Upon motion duly made and seconded, the Committee on Finance approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 3:30 p.m.

Attest:

Secretary