The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS
COMMITTEE ON FINANCE
COMMITTEE ON HEALTH SERVICES
November 15, 2000

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

Members present: Committee on Grounds and Buildings: Regents Atkinson, Davies, Fong, Hopkinson, S. Johnson, Khachigian, Kohn, and Kozberg; Advisory members T. Davis, Morrison, and Seymour
Committee on Finance: Regents Atkinson, Davies, Fong, Hopkinson, S. Johnson, Kozberg, Lee, Miura, and Preuss; Advisory member Morrison
Committee on Health Services: Regents Atkinson, Davies, S. Johnson, Khachigian, Kohn, Kozberg, Lee, and Preuss; Advisory member Seymour

In attendance: Regents Leach, and Montoya, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young, Provost King, Senior Vice President Mullinix, Vice Presidents Broome, Drake, Gurtner, Hershman, and Saragoza, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, and Orbach, Executive Vice Chancellor Grey representing Chancellor Vanderhoef, Laboratory Directors Browne, Shank, and Tarter, and Recording Secretary Bryan

The meeting convened at 11:30 a.m. with Committee on Finance Chair Preuss presiding.

1. APPROVAL OF THE MINUTES OF THE MEETING OF SEPTEMBER 13, 2000

   Upon motion duly made and seconded, the minutes of the meeting of September 13, 2000 were approved.

2. APPROVAL OF THE ALLOCATION OF LEASE REVENUE BONDS AND STATE BUDGETED INFRASTRUCTURE FUNDS TO THE UNIVERSITY’S TEACHING HOSPITALS

   The President recommended that:

   A. The Committees recommend the following allocation of $600 million of funds generated from State lease revenue bonds for teaching hospitals at the University of California’s five Medical Centers for compliance with the Hospital Facilities Seismic Safety Act, SB 1953 (Chapter 740):
B. The Committees recommend the following allocation of $50 million in General Funds for capital infrastructure projects for teaching hospitals at the University of California’s five medical centers:

- CDMC: $5,000,000
- UCIMC: $5,000,000
- UCLAMC: $10,000,000
- UCSDMC: $25,000,000
- UCSFMC: $5,000,000

It was recalled that the Alfred E. Alquist Hospital Facilities Seismic Safety Act (SB 1953), as amended in September 1994 following the Northridge earthquake, mandates that the owners of all acute care hospitals in California perform a seismic evaluation of their facilities. This evaluation, to be conducted in accordance with procedures developed by the Office of Statewide Health Planning and Development (OSHPD), is intended to determine the probable performance during a seismic disaster of each hospital building used for inpatient care. Following this evaluation, a Structural Performance Category rating must be assigned to each hospital facility according to the performance criteria established by OSHPD. Any general acute care hospital facility determined to be a potential risk of collapse or to pose significant loss of life, and consequently assigned an SPC1 rating, must be taken out of service by January 1, 2008 or used only for non-acute care hospital purposes.

The costs for compliance have been estimated at $24 billion statewide, of which $10 billion is estimated to be spent by 2008.

Response of the University of California’s Medical Centers to SB 1953

In 1997, the Office of Clinical Services Development and other departments within the Office of the President began working with the leadership of the University’s medical centers to implement a two-fold strategy to ensure that the University’s medical centers pursue a rigorous seismic evaluation and capital planning process to assess the University’s liabilities for both the 2008 and 2030 deadlines well in advance of the 2001 reporting date. A University Systemwide SB 1953 Compliance Committee was convened, co-chaired by the Office of Business and Finance represented by Assistant Vice President–Facilities Administration Bocchicchio and the Office of Clinical Services Development under Vice President Gurtner. There is also ongoing and active University representation through the Office of Clinical Services Development on the
The University SB 1953 Committee pursued a number of strategic initiatives including the following:

- frequent leadership meetings with the medical center’s designee responsible for developing the “SB 1953: 2001 Compliance Plan” in order to provide a forum for the medical centers to clarify, analyze, and evaluate the requirements of SB 1953;

- the development of University policy positions regarding OSHPD regulations and legislation proposed by the CHA SB 1953 Committee that would modify and mitigate the financial and strategic impact of SB 1953 on the state’s hospitals. Specifically, the University supported SB 1801/Chaptered Statute 850 (Speier) which extends the 2008 deadline to 2013 if hospitals meet certain criteria; and

- the analysis of the 2008 and 2030 costs to the University’s academic medical centers for compliance with SB 1953 to provide the University’s Budget Office and State Governmental Relations Office with the data necessary to communicate the impact of SB 1953 on the University and advocate for financial help for the University’s medical centers.

Governor and Legislature Response

*SB 1801/Chaptered Statute 850 (Speier)*

SB 1801 extends the 2008 structural and non-structural deadlines to 2013 for entire hospital campuses if at least one building that would have to be taken out of service in 2008 is rebuilt or services moved to a building that meets 2030 compliance requirements. This extension may prove beneficial to several of the University’s medical centers if they develop a capital plan that recommends the replacement of the hospital by 2013. This would enable those hospitals to comply with both 2008 and 2030 requirements, build a state-of-the-art facility that would enhance access to care, meet mission-based academic and research needs, and achieve a more cost-effective use of State, University, and private dollars.
2000-01 State Budget Trailer Bill: $600 million for 2008 SB 1953 Compliance

A trailer bill to the 2000 State Budget Act authorizes the State Public Works Board (SPWB) to issue up to $600 million in State lease revenue bonds for seismic corrections to meet the 2008 requirements for SB 1953. As in previous SPWB funding for other University projects since the mid-1980s, the SPWB would lease the applicable hospital facility or a substitute facility under asset transfer from The Regents and issue lease revenue bonds to finance all or a portion of the costs associated with seismic upgrading required for compliance with SB 1953. The University would build or renovate the project under an agreement with the SPWB. The SPWB retains ownership of the leased facility through the term of the lease or until full repayment of the SPWB bonds used for the project, after which ownership is returned to the University.

The University would pay rent to the Board for those facilities. This rent would constitute the revenue from which the Board would repay interest and principal on the obligations of the Board issued to refinance the facility. Negotiations between the University and the Department of Finance will determine the repayment arrangements on the debt service. The options for repayment are hospital revenues, depending on the hospitals’ financial situation from year to year; State funds; or some combination of funds.

If the Legislature fails to appropriate sufficient funds to make the rental payments, The Regents is obligated to pay rent from any lawfully available funds. When the obligations are retired, the site and facility leases will terminate, and The Regents will obtain clear title to those facilities.

2000-01 State Budget: $50 million for Capital Infrastructure Projects

The 2000 Budget Act provided $50 million in General Funds for non-seismic capital improvement projects for teaching hospitals at the University’s five medical centers. This funding was appropriated in recognition of the millions of dollars required for improvements, apart from the seismic problems, that the UC medical centers must address to remain competitive in today’s managed care market. These needs include a broad range of high-priority projects such as the upgrade of operating rooms, modernization of patient facilities, correction of deficiencies in clinical laboratories, upgrade of deteriorated utility services, and replacement of aged and inadequate building systems. This allocation is made in parallel to the State lease revenue bonds allocation in consideration that the infrastructure work may be done in conjunction with the seismic work.
University Process for Allocation of State Lease Revenue Bonds and Funding for the University's Medical Centers

In order to establish a rational process for the allocation of the $600 million in State lease revenue bonds and the $50 million for capital infrastructure needs, the Budget Office and the Office of Clinical Services Development requested that each teaching hospital provide an SB 1953 Compliance Plan proposal that would include the following:

- SB 1953 compliance costs for years 2008 and 2030 as required by State law in both current and escalated dollars;
- Infrastructure improvement costs distinct from SB 1953 compliance costs;
- A business plan, including financing, construction, and programmatic factors, necessary to meet current State-mandated deadlines;
- Annual budget for capital costs; and

The Office of Clinical Services Development, in coordination with Facilities Administration, the Budget Office, the Office of Health Affairs, and the Treasurer’s Office, established a series of system- and campus-specific meetings that provided an opportunity for each academic medical center’s executive management team and their respective chancellor’s office to discuss campus-specific problems and compliance plans. Information provided by the medical centers through both the SB 1953 proposal and the campus meetings was the basis for the allocation of the funds.

The allocation of the State funds from the two authorizations to the medical centers was based on reviews of campus compliance plans and proposals for use of the funds and on related discussions with the Department of Finance concerning the categories of functions and costs deemed eligible and appropriate. The allocation of the $600 million of State lease revenue bond financing was limited to those seismic corrections that would qualify under the terms of the State authorization. The allocation of the $50 million appropriation for infrastructure improvements reflected campus proposals for non-seismic work that would be done in conjunction with the seismic corrections projects and reflected priority needs. For example, the proposed allocation of $25 million for infrastructure improvements at the San Diego medical center will support work that must be done at the same time as the seismic corrections to address utility system and other deficiencies seriously affecting operation of the hospital.

Summary: University Medical Centers’ SB 1953 Compliance Plans
UC Davis Medical Center

The UC Davis Medical Center is one of three University medical centers that was originally a county hospital and, since purchased from the county, has required major capital investment to address deficiencies. Both the north/south and east wings of the original hospital building had serious structural seismic deficiencies, and most of the facility was functionally obsolete and in poor physical condition. To date, UCDMC has spent over $300 million on seismic-related projects alone and $325 million on other capital expenditures, largely from hospital cash reserves and long-term financing to be repaid from future hospital funds. The projects include a large new hospital tower building constructed in the 1990s that supported relocation of certain acute care functions from seismically hazardous facilities and addressed other urgent needs. The tower includes a substantial amount of unfinished space that the medical center intends to use for other functions to be relocated from the remaining seismically deficient facilities, dependent upon availability of funding. In addition, UCDMC must address needs that include failing or inadequate infrastructure; outdated nursing units; inadequate capacity to accommodate growing demand for services, particularly ICU and operating rooms; insufficient teaching and research space; the need for new technology and information systems; and expanded outpatient facilities. Changes in health services reimbursement policies have seriously affected the medical center’s financial capability and the feasibility of its capital program, including completion of the measures necessary to meet the requirements of SB 1953.

In developing its SB 1953 Compliance Plan, UCDMC has taken into account the need to develop the shell space provided in the new tower building to accommodate acute care functions relocated from existing seismically deficient facilities that will be demolished, structural and non-structural seismic improvements required for facilities that will be retained, and mandatory code corrections triggered by the improvements. The improvements include an increase in space resulting from current code and licensing requirements, but with no increase in bed capacity. The campus has estimated that the remaining seismic correction measures will cost $153 million, representing approximately 62 percent of total Hospital Master Plan costs. Of this, $120 million qualifies for use of the SB 1953 lease revenue bond financing.
UC San Diego Medical Center

UC San Diego Medical Center operates two sites, Hillcrest and La Jolla, to provide a full spectrum of services required to meet the educational, clinical, and research needs of the School of Medicine, attract a diverse patient mix, and maintain its commitment to provide care to indigent patients. The Hillcrest site, built in the 1960s as a county-operated hospital and purchased by UC in 1981, is a major provider of care to Medi-Cal and uninsured patients. UCDMC provides almost 50 percent of all inpatient care to the uninsured in San Diego County. The Hillcrest site requires the majority of SB 1953 compliance expenditures and, due to the age of the facility, has very serious utility infrastructure needs and significant problems related to inadequate space to accommodate current programs and technology.

The estimate of the cost of seismic corrections required by 2008 is approximately $40 million. The work necessary to address the utility and program obsolescence deficiencies bring the total capital need to approximately $150 million, but the lease revenue bond financing provided by the State for SB 1953 compliance can be used only for applicable seismic corrections.

The most serious SB 1953 compliance costs at Hillcrest are required in the more distant future to meet the 2030 criteria. Ideally, the Hillcrest hospital would be largely replaced in the long term. The problem facing UCSDMC is how to make current seismic and other improvements in a cost-effective manner during the intermediate term until the resources can be mustered to support the ultimate replacement of the hospital. The medical center is investigating facility and funding options and will develop a long-term plan to address these issues.

UCSDMC is allocated $40 million from the State lease revenue bond program, largely to meet nonstructural requirements including the tie down and bracing of critical support systems. An additional $25 million is allocated to assist the campus in upgrading priority infrastructure deficiencies identified by the medical center.

UC Irvine Medical Center

UC Irvine Medical Center, formerly a county hospital, has become a significant public health resource in Orange County. While still maintaining a commitment to serving the uninsured and Medi-Cal populations, UCIMC now provides a substantial portion of the County’s specialized medical care. Inpatient and outpatient surgeries are increasing, exceptional clinical programs are attracting outstanding clinical faculty and, as a result, community physician referrals are growing. As the County’s only Level 1 Trauma Center, UCIMC is vital to the area’s disaster response and must remain fully operational and capable of meeting emergency medical needs in the event of an earthquake.
Planning for SB 1953 compliance was based on several principles: the project must strictly adhere to SB 1953 and code requirements without any programmatic enhancements, the medical center must remain fully operational during construction, and the end result must support the mission. With the assistance of architectural and engineering consultants, the medical center undertook studies comparing the cost and feasibility of retrofitting the existing hospital with the alternative of constructing a new replacement facility. These analyses indicated that a retrofit solution would cost as much as a new facility because of the extensive structural and code upgrades required and the need to construct a separate staging facility to house displaced functions during the renovation. In addition, a retrofit project would require a lengthy and complex implementation schedule that would result in a major disruption to hospital operations, pose significant health risks to patients, and result in an incalculable loss of business income. Even after completion of the retrofit, the hospital would remain technologically outdated and operationally inefficient. As a result, a retrofit would not be a good investment of State, University, and private funds. UCIMC has proposed to replace the main hospital building and is developing a funding plan that would seek to augment State lease revenue bonds with other funding sources, including private fund raising. The allocation of $235 million from the State lease revenue bond authorization is based on eligible costs in replacement of the main hospital building at existing program levels.

UC San Francisco Medical Center

UCSFMC faces serious overall facility problems and is developing a facility master plan that integrates SB 1953 planning. In developing the facility master plan, the campus faces a space crisis that includes a shortage of operating rooms, an inadequate number of pre-op and post-op stations, lack of a functional emergency department, shortage of ICU beds, insufficient ambulatory care space, and other infrastructure problems including a critical shortage of parking; and opportunities for growth and significant pressure to expand as a result of UCSFMC’s highly regarded faculty in the surgical subspecialties, children’s services, women’s health, cancer, and neurosciences.

The facility master plan recognizes that while Moffitt and Long Hospitals can remain operational through 2008 with some retrofitting to meet SB 1953 requirements, the Moffitt Hospital must be entirely replaced before 2030. In addition, the initial planning recognizes that the facilities at Moffitt/Long currently create functional and operational problems for patient care and academic functions. The facility master plan process incorporates the strategic plan, master plan, capital plan, and funding plan, as well as a short- and long-term strategies that take into account full compliance with SB 1953.

The San Francisco campus has estimated that between $20 million and $25 million will be required to meet the 2008 requirements of SB 1953 for Moffitt and Long Hospitals, dependent upon resolution of code interpretation issues for structural requirements in Long Hospital.

UC Los Angeles Medical Center
UCLAMC’s acute care hospitals, Westwood and Santa Monica, experienced significant damage as a result of the January 1994 Northridge earthquake and were in need of immediate repair. Therefore, the implementation of compliance projects are in a different stage of development at UCLAMC than at the other campuses, and construction has started on preliminary components of the hospital facilities’ reconstruction projects. The campus qualified for federal funding to assist in the repair of the hospital facilities under the provisions of the Stafford Disaster Relief and Emergency Assistance Act. Immediately after the earthquake, the Federal Emergency Management Agency provided funding for detailed damage assessment and engineering studies, essentially the same analyses that have been required to comply with the seismic evaluation requirements of SB 1953. Following detailed planning, design, and financial feasibility analysis, design and funding approvals for the Westwood Replacement Hospital were obtained at the November 1998 Regents meeting, and design and funding approvals for the Santa Monica/Orthopaedic Replacement Hospital were obtained at the March 1999 Regents meeting.

The Westwood Replacement Hospital is estimated to cost $672.7 million, of which $120.7 million was to have been provided from hospital reserves directly or through external financing. The Santa Monica/Orthopaedic Replacement Hospital cost is estimated at $230.9 million, with $133.7 million to have been provided from hospital reserves and possible gifts. The decline in federal and State health care reimbursements seriously affected the financial operations of the UCLA hospital system and made it impossible to meet these commitments from hospital reserves. At the September 2000 meeting, The Regents approved use of $180 million from the State lease revenue bond authorization, as well as use of additional gift funds, in lieu of the original hospital reserves funding. In October 2000, the State Public Works Board approved the project scope, thereby allowing reimbursement from the State lease revenue bond authorization of subsequent eligible costs.

**SB 1953 2030 Compliance and Impact on Capital Needs and Planning**

The State has provided critical assistance in the cost of meeting the requirements of SB 1953 at the University’s acute care teaching hospital facilities by authorizing the use of $600 million in lease revenue bonds for this purpose. That amount is based on the current best estimates of strict compliance with the eligible 2008 requirements of SB 1953, but it does not directly address the cost of subsequent seismic corrections necessary to meet the 2030 requirements of SB 1953. Replacement at this time of the deficient hospital facilities at the medical centers of UCI and UCLA will avoid further 2030 costs at those locations, but the UCD, UCSD, and UCSF Medical Centers all will need additional work to meet 2030 requirements.

The medical centers recognize their responsibility in developing facility master plans that will enable the University to maintain its mission of care, teaching, research, and service to vulnerable populations. Three of the medical centers will need to develop, in the very near future, strategic and master plans that address 2030 compliance and
make the most effective use of the current 2008-related investment. In the planning process, the University will continue to monitor State and federal actions, including the implications of SB 1801 (Speier) and the possibility of federal legislation that may provide opportunities for assistance in funding for compliance with the 2030 requirements.

**Future Regental Action**

At future meetings, The Regents will be asked to approve individual projects at the time the campus has completed pre-design studies and is prepared to begin the project. It is anticipated that the total project cost per campus will not vary from the amount estimated above by more than $5 million.

Regent Hopkinson asked when the Regents would be presented with a comprehensive assessment of the overall financial needs of the medical centers for infrastructure. Vice President Gurtner explained that, because of the complex decisions each campus must make to determine their needs, he expected that the information would not be available until the March meeting. He noted that the current fund distribution is somewhat narrow in that it can be spent only against seismic requirements as defined by the State.

Vice President Hershman noted that the allocations could shift slightly among the campuses following further negotiation with the Department of Finance. Eventually, the Regents will be presented with specific proposals to improve infrastructure at each medical center that will go beyond seismic corrections.

Regent Lee was surprised that the allocation to UCSF Medical Center was relatively small despite its location in an active seismic area. Mr. Hershman explained that the campus’ buildings are in better shape than buildings at many of the other medical centers, perhaps because they were constructed to be flexible in an earthquake.
The meeting adjourned at 11:35 a.m.

Attest:

Secretary