

The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS

COMMITTEE ON FINANCE

COMMITTEE ON HEALTH SERVICES

September 13, 2000

The Committees on Grounds and Buildings, Finance, and Health Services met jointly on the above date at UCSF–Laurel Heights, San Francisco.

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

In attendance: Regents Leach and Montoya, Regent-designate Davis, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, Gomes, Gurtner, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 9:50 a.m. with Committee on Finance Chair Preuss presiding.

1. **UPDATE ON THE IMPLEMENTATION OF PHASE 1 OF THE ACADEMIC HEALTH CENTER FACILITIES RECONSTRUCTION PLAN, LOS ANGELES CAMPUS**

It was recalled that at the May 1997 meeting, the Regents had been presented with the planning document entitled “Proposal for the Academic Health Center Facilities Reconstruction Plan for the Los Angeles Campus.” The reconstruction plan was developed by the 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.

The May 1997 document included the description of a series of projects that would be implemented in order to replace or seismically retrofit existing facilities on both the Westwood and Santa Monica Medical Center campuses. The reconstruction plan was anticipated to be implemented in two phases between 1999 and 2010, at an approximate total base project cost of \$1.3 billion. This estimated cost included escalation of

construction cost to the midpoint of construction of each project but excluded capitalized interest costs during project development and construction and medical equipment costs.

Following review and approval of the seismic reconstruction program, The Regents approved an amendment to the Capital Improvement Program to include preliminary plans funding for the Westwood Replacement Hospital and the Santa Monica Replacement Hospital. An update on the scope and funding approach for the entire reconstruction plan was provided in November 1998, concurrent with the request or approval of actions for the Westwood Replacement Hospital, which was the first major project proposed for development. A second update was provided in March 1999, with the request for approval of actions for the Santa Monica/Orthopaedic Hospital, which was the second major project proposed for development.

The funding plan modifications for the two replacement hospital projects are proposed in light of three major factors: (1) the changed financial results at the hospitals related to a decline in federal and managed care reimbursements; (2) the inclusion in a trailer bill to the 2000 Budget Act for the State of California of a State Public Works Board (SPWB) lease revenue bond program in support of seismic reconstruction efforts at UC teaching hospitals; and (3) the success of the fundraising campaign to date. The proposed modifications include the removal of University external financing, a decrease in hospital reserves funding, the allocation of \$180 million in proceeds from State-sponsored lease revenue bonds, and an increase in gift funding. The Capital Improvement Budgets for both hospitals will be amended to include \$100 million in medical equipment previously anticipated to be funded separately from hospital reserves.

Binding pledges of gift funds have been received in amounts sufficient to cover the cost of the three research buildings also proposed for construction during Phase 1. Revisions to the funding plan include standby financing to bridge the gap during the construction period between cash required and cash to be received from the binding pledges. Amendments of the Capital Improvement Budgets will be required to include capitalized interest and financing costs related to the securing of the standby financing.

The nature and scope of the new construction and seismic renovation projects that compose Phase 1 of the reconstruction plan have not changed. It is still anticipated that these projects will be completed at an approximate total base project cost of \$975.3 million.

With regard to Phase 2 of the Center for Health Sciences (CHS) reconstruction plan, detailed programmatic and feasibility studies are progressing to develop further the scope, cost, staging plans, phasing plans, schedules, and funding plans for all components. It is anticipated that these studies will be completed over the next two years.

The reconstruction plan will contribute to fulfilling two major seismic safety objectives of the Los Angeles campus. Construction of the two replacement hospitals is required because the existing inpatient care facilities suffered significant structural damage in the Northridge earthquake and do not meet the current life safety standards mandated by the Office of Statewide Health Planning and Development (OSHPD). The Alfred E. Alquist Hospital Facilities Act (Senate Bill 1953), as amended in September 1994 following the Northridge earthquake, mandates that these damaged inpatient care spaces 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 will complete the seismic safety program for the academic, research, and administrative functions of the health sciences schools located in the Center for Health Sciences.

Reconstruction Plan for the Center for Health Sciences – Westwood Campus

The existing Center for Health Sciences houses the inpatient care, research, and educational activities of the medical center, neuropsychiatric hospital, and health sciences schools. Detailed damage assessment and engineering studies funded by the Federal Emergency Management Agency (FEMA) determined that the CHS building structure has experienced serious and extensive weakening as result of the Northridge earthquake. The seismic reconstruction plan for the CHS consists of a combination of new construction, demolition, and rehabilitation projects. Phase 1 of the CHS reconstruction plan includes the construction of the Westwood Replacement Hospital and of two research buildings. Phase 2 of the CHS reconstruction plan will include the construction of a replacement education building and of phased demolition and seismic renovation projects.

The new hospital will replace the damaged medical center, children's hospital, and neuropsychiatric hospital facilities. The Health Sciences Seismic Replacement Building 1 will allow for the relocation of the neuroscience research program currently located in the Neuropsychiatric Institute, the Brain Research Institute, and the Reed Neurological Research Center. The Health Sciences Seismic Replacement Building 2 will allow for the relocation of immunology and biological chemistry research programs, which are dispersed through the CHS. While not related to the seismic reconstruction program, a third research building, the Luck Center, will be constructed concurrently with Health Sciences Seismic Replacement Building 2 to house research programs in orthopedics and related fields including molecular, cell, and developmental biology. This project results from the June 1998 alliance agreement between the campus and Orthopaedic Hospital.

The current state of development of the Phase 1 projects is further described below:

Westwood Replacement Hospital: Project approvals for the hospital were received from The Regents at the November 1998 meeting. The preparation of construction

documents has progressed since then, and construction has started on the first phase of the project. Completion of the work is anticipated in October 2000. The OSHPD permit for the second phase, including the construction of the foundations and core and shell of the building, was received in May 2000, and bid solicitation is in progress. Construction is anticipated to start in November 2000 and to be completed in the spring of 2003. The construction documents for the third phase (tenant improvement work) have been completed and were submitted for OSHPD review in July 2000, with receipt of the OSHPD permit anticipated in April 2001. Bid solicitation will take place in the spring and summer of 2001. Construction is anticipated to start in the fall of 2001 and to be substantially complete in mid-2004. Licensing and building commissioning is scheduled to be completed by fall 2004, with full occupancy of the building scheduled for the end of that year. The budget for this project remains at \$597.7 million (inclusive of interim financing costs but exclusive of medical equipment costs). The inclusion of the \$75 million of medical equipment brings the total project cost to \$672.7 million.

Health Sciences Seismic Replacement Building 1: Program approval for this wet laboratory research facility was received from The Regents in September 1997. Partial funding was included in the 1998-99 State Capital Budget for the development of preliminary plans and working drawings and in the 1999-2000 State Capital Budget for construction. Design approval for the project was granted at the May 1999 Regents meeting, and construction documents are being finalized for bid solicitation in fall 2000. Construction is anticipated to start in early 2001 and to be substantially completed by the end of 2002, with full occupancy of the building scheduled in the first quarter of 2003. The total base project cost for this project (exclusive of interim financing costs) remains at \$62 million, with \$57.7 million for the building and \$4.3 million for separately approved site relocation projects.

Health Sciences Seismic Replacement Building 2: Program approval for this wet laboratory research facility was received from The Regents in September 1998. Partial funding was included in the 1999-2000 State Capital Budget for the development of preliminary plans and working drawings and in the 2000-01 State Capital Budget for construction. Design approval for the project was obtained at the May 2000 Regents meeting, and construction documents are being prepared for bid solicitation in spring 2001. Construction is anticipated to start in the summer of 2001 and to be substantially completed by mid-2003, with full occupancy of the building scheduled for the summer of 2003. The total base cost for this project (exclusive of interim financing costs) remains at \$63 million, with \$58.7 million for the building and \$4.3 million for separately approved site relocation projects. It is anticipated that at the May 2001 Regents meeting, an item will be presented which will increase the project cost for the building for interest during construction.

Orthopaedic Hospital, J. Vernon Luck, Sr. M.D Center: Program approval for this research facility was received from The Regents in March 2000. Design approval was obtained at the May 2000 meeting, concurrent with the approval of design for the Health Sciences Seismic Replacement Building 2. These two buildings, which are located

immediately adjacent to each other, will share vivarium space and selected building support services to increase overall functional efficiency and will be constructed and occupied concurrently. The total base cost for this project (exclusive of interim financing costs) remains at \$40 million, with \$37.5 million for the building and \$2.5 million for separately approved site relocation projects.

Reconstruction Plan for the Santa Monica Medical Center Campus

The Santa Monica Hospital Medical Center was acquired by the campus in 1995 to support the State-mandated expansion of primary care physician training programs. Existing inpatient facilities at the site include the West Hospital Tower (Tower), constructed in 1967, and the Merle Norman Pavilion (Pavilion), constructed in 1986. The Tower sustained significant structural damage in the Northridge earthquake and must be replaced.

Project approvals for the Santa Monica/Orthopaedic Replacement Hospital were granted at the March 1999 Regents Meeting. The reconstruction project includes the phased construction of replacement facilities (central plant, emergency department and inpatient care facilities), coordinated with the phased demolition of all existing facilities on the site, with the exception of the Pavilion.

The new below-grade central plant must be constructed to clear the site for the new hospital facilities. The new hospital facilities, which will also provide replacement facilities for the Orthopaedic Hospital per the June 1998 alliance agreement, will house 172 beds. In addition, 94 existing beds will be retained in the Pavilion, which will undergo partial renovation. Also included in the project is the construction of a parking structure with 523 marked spaces and 97 valet spaces for patients and visitors on an adjacent campus-owned property.

Construction has started on the first phase of renovations to the Pavilion, the site demolition, and the parking structure. The contract for the new central plant was awarded in July 2000, with construction scheduled for completion in fall 2001. Construction documents for the new hospital facility have been completed and were submitted for OSHPD review in April 2000, with receipt of the permit anticipated in April 2001. Bid solicitation is anticipated to take place in the spring of 2001. Construction is scheduled to start in the summer of 2001 and to be substantially completed by mid-2004. Licensing and building commissioning of the new hospital are anticipated to be completed by the fall 2004, with full occupancy of the building scheduled for the end of that year. Demolition of the vacated West Hospital Tower will follow, along with the construction of the final site improvements.

Previously Approved Overall Funding Plan

The total base cost of Phase 1 of the Academic Health Center (AHC) Facilities Reconstruction Plan (including the Luck Center) was projected in November 1998 at

\$942 million. This projected cost was increased to \$975.3 million in March 1999, due to the finalization of the program and budget for the Santa Monica /Orthopaedic Replacement Hospital. These estimates included escalation of construction cost to the midpoint of construction of each project but excluded medical equipment costs and capitalized interest costs during project development and construction.

The funding plan for this base cost of \$975.3 million relied on a mix of funding sources. They included \$505.1 million in FEMA funds; \$44.1 million in matching State funds for the FEMA grants; \$53.6 million in State Capital Outlay funds; \$14.9 million in insurance proceeds; \$49.5 million in cash reserves of the hospital system; \$132.2 million in gift funds; and \$175.9 million in hospital external financing. The funding plan acknowledged capitalized interest and financing costs of \$20.7 million for the Westwood Replacement Hospital and \$6.6 million for the Santa Monica/Orthopaedic Replacement Hospital. The funding plan also made reference to the intent of the hospital system to fund \$100 million in medical equipment from hospital reserves in the two years prior to the completion of the new hospitals.

Analysis of staging and execution issues relating to Phase 2 is ongoing. The funding plan for Phase 2 presented in March 1999 called for \$282 million in gift funds. However, as described below, as a result of the change in fiscal circumstances relating to hospital operations, \$150 million in gift funds which relate to the naming of the Westwood Hospital are now proposed to be deployed in connection with Phase 1. This event may affect the funding strategy and timing of Phase 2. The campus is committed to developing the revenue sources suggested, or suitable alternatives, in order to be able to implement the projects contemplated in Phase 2 of its plan and is engaged in analyzing options which will evolve over the next several years as preparation for Phase 2 continues. The campus will provide periodic updates to The Regents as these funding options are developed.

Revised Phase 1 Funding Plan Proposal

The total base cost for Phase 1 of the reconstruction plan remains at \$975.3 million, exclusive of capitalized interest costs and medical equipment but inclusive of escalation of construction cost to the midpoint of construction of each project. Revisions to the Phase 1 funding plan are proposed at this time with regard to the two replacement hospital projects, for the reasons stated above.

With regard to the research buildings, binding pledges of gift funds have been received in amounts sufficient to cover the entire cost of the three projects, including the cost of the site acquisition projects. The revisions to the funding plan relate to the need to obtain stand-by financing to bridge the gap between cash required and cash to be received from the binding pledges during the construction period. Amendments of the Capital Improvement Budgets will be required to include capitalized interest and financing costs related to the stand-by financing.

With the implementation of these revisions, the total cost for Phase 1 projects (including the cost of the Westwood Hospital site acquisition projects, medical equipment costs for the two hospitals, and capitalized interest and financing costs for all five buildings) is estimated to be approximately \$1.106 billion.

Removal of University External Financing

The previously approved funding plan for Westwood and Santa Monica Replacement Hospitals included \$192.66 million in external financing, with \$175.9 million to cover project costs and \$16.76 million to cover the cost of interest during construction. It was anticipated that the long-term external financing would be in the form of UCLA Medical Center revenue bonds to be issued in fiscal year 2002, following the award of the last construction contract bids. Repayment of the long-term debt was to be from gross revenues of the medical center. The allocation of the SPWB lease revenue bonds and the increase in gift funds will alleviate the need for University external financing.

Although the external financing has been removed as a fund source and replaced with gift funds, the financing authorizations approved in November 1998 and March 1999 for the Westwood Replacement Hospital and the Santa Monica/Orthopaedic Replacement Hospital and Parking Structure, respectively, remain in place. Interim financing has been provided in the University's commercial paper program, with the following amounts outstanding as of August 31, 2000:

Westwood Replacement Hospital	\$21,713,909
Santa Monica Replacement Hospital	5,485,026
Santa Monica Parking	<u>2,864,339</u>
Total	\$30,063,274

It is anticipated that interim financing will continue to fund construction expenditures for these projects until the SPWB interim financing is available later this year. It is anticipated that the outstanding balances for the University interim financing above will be repaid with gifts.

There is an additional outstanding loan of approximately \$33 million in the University's commercial paper program related to the refinancing of the acquisition of the Santa Monica Medical Center in 1997.

Decrease in Hospital Reserves Funding

The funding plan included a total of \$160 million to be funded by hospital reserves with \$100 million allocated to purchase major medical equipment, \$49.5 million to cover project costs, and \$10.5 million to cover interim financing costs. These financing costs will be incurred if a short-term line of credit has to be obtained for the 10 percent of the FEMA grant fund that may be retained pending the completion of post-construction audits. In the revised plan funding, hospital reserves will be eliminated, with the

exception of the \$22 million spent to date on the site relocation projects for the Westwood Hospital. The other exception will relate to the \$14.9 million in earthquake insurance proceeds received at the time of the purchase for the Santa Monica Medical Center that are currently held in hospital reserves. The reduction in hospital reserves funding is proposed in light of the current financial condition of the hospital system and the success of the fundraising campaign to date.

Allocation of State Public Works Board Lease Revenue Bonds

The 2000 Budget Act for the State of California includes language allowing the SPWB to issue up to \$600 million in lease revenue bonds. These bonds will be issued to assist the University with the construction of the projects required to ensure compliance of its teaching hospital facilities with the seismic reconstruction mandate of Senate Bill 1953. Discussions are under way with the Department of Finance to secure the allocation of \$180 million in SPWB bonding to the Westwood and Santa Monica replacement hospital projects to cover a portion of the construction phase expenditures. It is anticipated that the campus will receive project and funding approval from the SPWB, including specifically the approval of the issuance of the \$180 million in lease revenue bonds, in the near future. It is also anticipated that interim financing will be provided by the SPWB before permanent financing is in place. The \$180 million allocation will include an allowance to cover interest during construction costs.

Increase in Gift Funding

The contribution from gift funds related to the Phase 1 projects will be increased from \$132.2 million to \$286 million. This increase will fund four categories of expenses for the two hospitals: the reimbursement of University interim loans; Group II medical equipment purchases; some anticipated financing costs; and the balance of the project costs not funded with other sources. Finally, the additional gift funds will fund the capitalized interest and financing costs for the three research buildings.

Project-Specific Funding – Hospital Projects

Site Relocation Projects – Westwood Hospital

The site for the replacement hospital was the location of a parking structure and of several smaller facilities housing campus support services. These existing programs needed to be replaced or relocated prior to the start of construction.

The hospital system's contribution to the cost of relocating these programs was estimated at \$25 million. Of this amount, \$22 million has been committed to date from hospital reserves funds for projects already completed or under construction. A balance of \$3 million is required to contribute to the last component of parking replacement. It is now proposed that this amount be funded from gifts.

Westwood Replacement Hospital

The Capital Improvement Budget of \$597.7 million for the Westwood Replacement Hospital project will be amended to include the \$75 million in medical equipment (Group I and Group II equipment) previously anticipated to be procured separately by the hospital system. The revised budget for the project will total \$672.7 million, including \$20.7 million for capitalized interest and financing costs. The proposed sources of funding will consist of \$432.9 million of federal dollars, allocated by the FEMA-sponsored "Seismic Hazard Mitigation Program for Hospitals (SHMPH)"; \$44.1 million in matching funds allocated by the State of California; and \$195.7 million in gift funds and SPWB lease revenue bond funds.

The total project cost of \$672.7 million does not include the total estimated cost of Group II medical equipment, Group III medical equipment, or non-medical fixtures, furnishings, and equipment. Such equipment will continue to be funded separately from hospital reserves in the two years prior to completion of the new hospital as part of the normal process of hospital equipment purchasing. Final plans and costs for these items are still under review but are estimated to be approximately \$25 million.

Santa Monica/Orthopaedic Replacement Hospital

The Capital Improvement Budget of \$205.9 million for the Santa Monica/Orthopaedic Replacement project will be amended to include the \$25 million in medical equipment previously anticipated to be procured separately by the hospital system. The revised budget for the project will total \$230.9 million, including \$6.1 million for capitalized interest and financing costs. The sources of funding will consist of \$72.2 million of federal dollars (combining the \$41.7 million SHMPH grant allocated to the Los Angeles campus with the \$30.5 million SHMPH grant allocated to the Orthopaedic Hospital); \$14.9 million in hospital reserves; and \$143.8 million in gift funds and SPWB lease revenue bonds.

As above, the total project cost of \$230.9 million does not include the total estimated cost of Group II medical equipment, Group III medical equipment, or non-medical fixtures, furnishings, and equipment. Such equipment will continue to be funded separately from hospital reserves in the two years prior to completion of the new hospital as part of the normal ongoing process of hospital equipment purchasing. Final plans and costs for these items are still under review but are estimated to be \$10 million.

Wilshire Properties Purchases

The funding plan included \$9 million in hospital reserves to cover the costs related to the purchase of three commercial properties fronting Wilshire Boulevard to enable construction of the project. It is now proposed that gift funds be allocated to reimburse the hospital system for these acquisition costs.

Proposed Funding – Research Buildings

The gift funds required for the construction of the three research buildings total \$111.4 million exclusive of capitalized interest and financing costs (\$38.2 million for Seismic Replacement 1, \$33.2 million for Seismic Replacement 2, and \$40 million for the Luck Center). Sufficient gift funds have been pledged to date that could be allocated toward this funding requirement, including the \$30 million pledged by the Orthopaedic Hospital and the \$10 million pledged by the College of Letters and Sciences for the Luck Center. Stand-by financing will be required to bridge the gap between cash required and cash-in-hand, as the payment schedule for several of the pledges extends beyond 2004. Relevant quasi-endowment funds of the School of Medicine will be pledged, in addition to the binding pledges, to secure such short-term borrowing.

Health Sciences Seismic Replacement Building 1

The Capital Improvement Budget for the Health Sciences Seismic Replacement Building 1 project is proposed to be amended to include \$1.48 million in estimated capitalized interest and financing costs related to the standby financing for the gift fund raising for the project. The sources of funding for the project consist of State capital outlay funds in the amount of \$23.8 million and \$35.4 million in gift funds. Separate projects approved by the chancellor for a total of \$4.3 million include the cost of site relocation, including the demolition and replacement of two small existing facilities: the CHS Annex and laboratory trailer.

Health Sciences Seismic Replacement Building 2

The Capital Improvement Budget for the Health Sciences Seismic Replacement Building 2 project is proposed to be amended to include \$1.4 million in estimated capitalized interest and financing costs related to standby financing for the gift fund raising for the project. The sources of funding for the project consist of State capital outlay funds in the amount of \$29.8 million and \$30.3 million in gift funds. Separate projects approved by the chancellor total \$4.3 million, which includes the cost of site relocation, including the demolition and replacement of two small existing facilities: the Plant Physiology Building and Plant Greenhouse.

Luck Center

The project cost, including capitalized interest and financing costs, is currently estimated to be \$37.7 million. The sources of funding consist of \$30 million irrevocably pledged by the Orthopaedic Hospital Foundation and \$7.7 million in other funds pledged by the College of Letters and Sciences. Approval for external standby financing of the campus gift fund raising was granted at the March 2000 Regents meeting. An additional \$2.5 million has been pledged by the College of Letters and Sciences toward the cost of construction of a lecture hall, which will be approved separately to replace the teaching facility currently located on the site.

Gift Funds Summary

To date, \$221.2 million of the \$286 million (\$466 million total minus \$180 million of SWPB bonds) fundraising goal for Phase 1 is currently in hand, either in cash or by way of irrevocable pledges.

As previously noted, the \$111 million required to fund the base project costs of three research buildings has been raised. Of the \$171.5 million required to fund the two hospital projects, \$106.6 million has been raised to date, including \$65.4 million raised within the context of the \$150 million campaign recently initiated for the naming of the Westwood Replacement Hospital in honor of former President Ronald Reagan. It is anticipated that the balance in funding required will be raised through the successful completion of that campaign.

The opportunity also remains to raise funds toward the naming of both of the replacement research buildings.

Anticipated Schedule of Regental Approvals

Approval actions to amend the Capital Improvement Budget and funding sources for the two replacement hospital projects and to obtain interim external financing for the Health Sciences Seismic Replacement Building 1 are being requested at this meeting. A recommendation for interim external financing for the Health Sciences Seismic Replacement Building 2 is anticipated to be presented at the May 2001 meeting. Approval for the Phase 2 projects is not anticipated to be requested before 2002, which is the forecast completion time frame for the required detailed programmatic and feasibility studies. Revisions to the implementation schedule and funding plan may be required following the finalization of these studies and the determination of the detailed scope of each Phase 2 project.

Chancellor Carnesale emphasized that there is no change in the nature, scope, time line, or total cost for the academic health center facilities project. The funding plan will be modified only with regard to funding sources. Generally, difficulties in the health care market have affected teaching hospitals. This has required a mechanism that allows isolation of the funding for the new project from the reserves or operating income of the hospital. In the earlier funding plan, \$330 million was to come from a combination of \$138 million in hospital reserves and \$192 million in borrowing against future income. In place of that, it is anticipated that the \$330 million can be covered by lease-revenue bonds of \$180 million and a \$150 million gift for the naming of the UCLA medical center after President Ronald Reagan. The gift is from a group of friends and supporters of the former President. Individuals in the group have already committed half of the money. The pledge is not dependent upon further fund raising by UCLA, although the campus intends to raise funds for expanded ambulatory care and cancer research and treatment facilities.

Mr. Carnesale reported that total bids for the overall project will encompass about \$545 million. Bids have been received for approximately \$90 million of that. Estimates and projections of costs are ahead by \$15 million. Sufficient money has also been raised to cover the cost of research buildings that are part of the first phase.

Committee on Finance Chair Preuss asked to what extent the naming gift relates to the general fundraising goals for the project. Chancellor Carnesale explained that the \$150 million gift is unrestricted for the academic health center. In recognition of that, the hospital will be named the Ronald Reagan UCLA Medical Center. There are no new obligations incurred with the gift. Provost Levey added that the overall campaign has benefitted as a result of the gift.

Regent Hopkinson presumed the lease revenue bonds are at a lower interest rate than the external financing might have been. Vice President Hershman believed the rate would be similar.

Regent Kozberg commented that a number of the gifts were received from people who are not clients of the medical center. She viewed these as gifts to the community. She noted that the financing package looks comprehensive. Vice Chancellor Blackman pointed out that \$100 million of hospital equipment was referred to in the original plan but not included in the capital improvement program. It was going to be bought out of hospital operations. The adjustment is not to increase that figure but to bring it within the technical capital budget.

Regent Khachigian expressed some concern about the fact that out of a total of \$600 million in lease revenue bonds, \$180 million is going to one campus. She noted that all the campuses worked hard to secure the bond funding. She noted also that UCLA needs a lot more money for this project and that it may be coming in in smaller increments in the future. Provost Levey responded that the factors that have changed since the idea for the project was presented are the issue of reimbursement and what the hospital could borrow on its own. He believed these challenges have been met successfully. The fundraising campaign has been successful. The UCLA medical sciences in the first five years of the current campaign have raised \$690 million. The target is now \$800 million. He emphasized that the campus has firm, written pledges that should provide some comfort that the fundraising goal is attainable.

Vice President Hershman reported that the Department of Finance wishes to proceed quickly with projects at all the hospitals. The money may be spent only for seismic improvements. He believed that \$600 million will come close to covering the needs of all the medical centers in terms of what the law allows. Chairman Johnson asked that the Regents be informed as decisions on the nature of those expenditures are made.

Regent Hopkinson noted that the project is ahead of schedule in all respects. She hoped that the University is pursuing capital needs on a broad basis and that the Regents will be provided in the future with a comprehensive picture of what will be required by the medical facilities for improvements.

2. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM, AND APPROVAL OF FINANCING FOR HEALTH SCIENCES SEISMIC REPLACEMENT BUILDING 1, LOS ANGELES CAMPUS**

The President recommended that:

- A. The Committee on Grounds and Buildings and the Committee on Health Services recommend that, subject to the concurrence of the Committee on Finance, the 1999-2000 Budget for Capital Improvements and the 1999-2002 Capital Improvement Program be amended as follows:

From: Los Angeles: Health Sciences Seismic Replacement Building 1 – preliminary plans, working drawings, construction, and

equipment – \$57,697,000 total project cost to be funded from State funds (\$23,768,000) and gift funds (\$33,929,000).

To: Los Angeles: Health Sciences Seismic Replacement Building 1 – preliminary plans, working drawings, construction, and equipment – \$59,177,000 total project cost to be funded from State funds (\$23,768,000) and gift funds (\$35,409,000).

- B. The Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings and the Committee on Health Services to include this project, as described in (1) above.
- C. The Committee on Finance recommend that:
- (1) The Treasurer be authorized to obtain stand-by financing not to exceed \$32,444,000 prior to awarding a construction contract for any gift funds not received by that time and subject to the conditions that:
 - a. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period;
 - b. Repayment of any financing shall be from gift funds and, in the event such gift funds are insufficient, from the School of Medicine quasi-endowments to be identified and confirmed with the President; and
 - c. The general credit of The Regents shall not be pledged.
 - (2) The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.
 - (3) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

It was recalled that in May 1997, the Regents were presented with an overview of the proposed UCLA Academic Health Center Facilities Reconstruction Plan (AHCFRP), which would repair and replace major portions of the Center for Health Sciences (CHS) and Santa Monica-UCLA Medical Center that were damaged by the 1994 Northridge earthquake.

In October 1997, The Regents approved the Health Sciences Seismic Replacement Building 1 for inclusion in the State portion of the 1998-99 Budget for Capital Improvements and the 1998-2003 Capital Improvement Program for a total project cost of \$56,000,000. The current approved budget is \$57,697,000. Funding of \$922,000

for partial funding of preliminary plans and \$1,153,000 for partial funding of working drawings were included in the 1990-99 State Capital Outlay Program, with matching funds of \$1,318,000 and \$1,647,000 provided by the campus for each phase. Funding of \$21,693,000 for partial funding of construction was included in the 1999-2000 State Capital Outlay Program, with matching funds of \$30,514,000 to be provided by the campus for that phase. Donor funds and binding pledges in excess of this amount have been received to date.

In May 1999, The Regents adopted an Addendum to the Academic Health Center Facilities Reconstruction Plan EIR and approved the design for the Health Sciences Seismic Replacement Building 1. The campus committed at that time to return to The Regents prior to the solicitation of construction bids to request approval of interim external financing if required to cover any financing shortfall due to gift funds pledged but not available during the construction period. This action will increase the project cost by \$1,480,000 to cover anticipated interest during construction and other interim financing costs. These costs, if incurred, will be covered by gift funds.

Project Description

The Health Sciences Seismic Replacement Building 1 will provide for the relocation of existing neuroscience research programs of the Los Angeles Campus School of Medicine and Neuropsychiatric Institute (NPI). These research programs are currently located in the Brain Research Institute, NPI, and Reed Neurological Research Center, three of the most seismically vulnerable areas of the Center for Health Sciences. The Brain Research Institute and NPI buildings are rated "very poor," and the Reed Neurological Research Center is rated "poor."

The project will construct 133,180 gross square feet of new space, providing 80,180 assignable square feet for medical research laboratories and support functions, including vivarium space, faculty offices and instructional support, and building support space. Working drawings have been completed, and the current schedule anticipates that construction bids will be solicited in fall 2000. Construction activities will begin in early 2001 and be completed in mid-2003.

Financial Feasibility

As of August 1, 2000, the gift campaign status is as follows:

Cash gifts received:	\$ 2,965,000
Pledges received:	32,444,000
Gifts to be raised:	<u>-0-</u>
Total	\$35,409,000

Approval of stand-by financing of \$32,444,000 is requested to make it possible to borrow funds in the event gift receipts are not sufficient to make progress payments required during the construction period and to meet the Regental requirement to have funds on hand at bid award. To the extent the campus obtains funds prior to the completion of the project, the draw down against the standby loan commitment will be reduced, or outstanding balances will be prepaid.

The campus anticipates that it will be able to collect the pledges received for this project, but in the event the collection is insufficient, the campus has pledged School of Medicine quasi-endowments as a source of repayment. Prior to the award of the construction contract and financing, the campus will identify certain quasi-endowments to be pledged in amounts that would be at least 120 percent of the standby financing commitment. The pledged quasi-endowments will be subject to review and approval by the General Counsel and the Office of the President.

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

3. **AMENDMENT OF THE BUDGET FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM, AND APPROVAL OF CHANGES IN FUNDING SOURCES FOR WESTWOOD REPLACEMENT HOSPITAL AND SANTA MONICA/ORTHOPAEDIC REPLACEMENT HOSPITAL AND PARKING STRUCTURE, LOS ANGELES CAMPUS**

The President recommended that the Committee on Grounds and Buildings and the Committee on Health Services recommend that, subject to the concurrence of the Committee on Finance:

A. The 2000-01 Budget for Capital Improvements and the 2000-03 Capital Improvement Program be amended as follows:

From: Los Angeles: (TBD). Westwood Replacement Hospital – preliminary plans, working drawings, construction, and equipment – \$597.7 million 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).

To: Los Angeles: (TBD). Westwood Replacement Hospital – preliminary plans, working drawings, construction, and equipment – \$672.7 million to be funded from federal funds (\$432.9 million), State matching funds (\$44.1 million), and gift funds and State lease revenue bonds funds (\$195.7 million).

From: Los Angeles: (TBD). Santa Monica/Orthopaedic Replacement Hospital and Parking Structure – preliminary plans, working drawings, construction, and equipment – \$205,861,000 to be funded from federal funds (\$72,200,000), hospital reserves (\$31,901,000), gift funds (\$20,800,000) and external financing (\$80,960,000).

To: Los Angeles: (TBD). Santa Monica /Orthopaedic Replacement Hospital and Parking Structure – preliminary plans, working drawings, construction, and equipment – \$230,861,000 to be funded from federal funds (\$72,200,000), hospital reserves (\$14,900,000), and gift funds and State lease revenue bonds funds (\$143,761,000).

- B. The above action includes \$100 million for medical equipment recognized in previous Regents' items but not approved in the budgets.
- C. The sources will be from the \$159,461,000 gift funds to be approved as a funding source instead of the allocation of hospital revenues, and, as appropriate, from the \$180 million in State lease revenue bonds.
- D. The \$180 million in State lease revenue bond funds be approved as funding sources for the project instead of the issuance of long-term external financing in the form of hospital revenue bonds, which were previously approved by The Regents.

Westwood Replacement Hospital

It was recalled that the new hospital will replace the existing medical center, Mattel Children's Hospital, and neuropsychiatric hospital facilities, which suffered significant structural damage as a result of the 1994 Northridge earthquake and do not meet life safety standards. To comply with California law, the inpatient care located in these existing facilities must be repaired, renovated, or replaced by 2008.

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. A Structural Performance Category (SPC) 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 must be taken out of service by January 1, 2008 or used only for

non-acute care hospital purposes. The acute care hospital facilities located in the Westwood Center for Health Sciences (CHS) have been determined to have a "very poor to poor" seismic rating.

The Westwood Replacement Hospital was the first project proposed for development as part of the multi-phase seismic reconstruction plan presented to the Regents in May 1997. Following review of the proposed seismic reconstruction program, The Regents approved at that time an amendment to the Capital Improvement Program to include preliminary plans funding for the proposed Westwood Replacement Hospital.

The Regents approved in November 1998 an amendment to the Capital Improvement Program to include the Westwood Replacement Hospital at the total project cost of \$597.7 million. It concurrently certified the Final Environmental Impact Report for the project, approved the project design, and approved external financing in the form of hospital revenue bonds to be repaid from operating revenues of the hospital system.

With the inclusion of \$75 million in medical equipment to the Capital Improvement Budget, the cost for the Westwood Replacement Hospital is estimated to total \$672.7 million. This estimated cost includes equipment costs, escalation of construction cost to the midpoint of construction and capitalized interest costs during project development and construction.

Construction of the Westwood Replacement Hospital commenced in fall 1999 with the award of the site demolition and site utilities relocation contract. Bids are being solicited for the core and shell contract for which the construction documents recently received an OSHPD permit. Construction on that contract will start in fall 2000 and be completed in spring 2003. Full occupancy of the building is scheduled for the end of 2004.

Santa Monica/Orthopaedic Replacement Hospital and Parking Structure

The new hospital on the Santa Monica Medical Center campus will replace the existing West Hospital Tower and the Nethercutt Emergency Center facilities. Approximately 83,980 asf will be retained in the Merle Norman Pavilion, which will undergo partial renovation and refurbishment.

The Santa Monica/Orthopaedic Replacement Hospital was the second project proposed for development as part of the multi-phase seismic reconstruction plan previously presented to the Regents in May 1997. Following review of the proposed seismic reconstruction program, The Regents approved at that time an amendment to the Capital Improvement Program to include preliminary plans funding for the proposed Santa Monica Replacement Hospital.

The Regents approved in March 1999 an amendment to the Capital Improvement Program to include the Santa Monica/Orthopaedic Replacement Hospital at the total

project cost of \$205,861,000, including a \$9,352,000 parking structure to be constructed on an adjacent site. It concurrently certified the Final Environmental Impact Report for the project, approved the project design, and approved external financing in the form of hospital revenue bonds to be repaid from operating revenues of the hospital system. Since March 1999, bid results have reduced the project cost for the parking structure from \$9,325,000 to approximately \$6,825,000; however, this reduction is balanced by an equivalent increase to the hospital from \$196,536,000 to approximately \$199,036,000, based on the completion of detailed cost estimates at the completion of working drawings. It is anticipated that gift funds will be used for the parking structure. The Capital Improvement Budget will be amended to include \$25 million in medical equipment for the project.

With the inclusion of the \$25 million in equipment costs, the project cost for the Santa Monica/Orthopaedic Replacement Hospital is estimated to total \$230,861,000. This estimate includes equipment, escalation of construction cost to the midpoint of construction, and capitalized interest during project development and construction. The revised funding plan reduces the use of the cash reserves of the hospital system, except for the \$14,900,000 in earthquake insurance proceeds. It also eliminates proceeds from the long-term external financing, which was to be in the form of hospital revenue bonds. It proposes instead the allocation of gift funds and the allocation of proceeds from lease revenue bonds to be issued by the State Public Works Board.

Construction of the Santa Monica/Orthopaedic Replacement Hospital commenced in fall 1999 with the first phase renovation of the Merle Norman Pavilion. Construction of the parking structure started in March 2000 and is scheduled to be completed in January 2001. Bids have been received for the construction of the replacement central plant. Construction on this contract started in August 2000 and is scheduled to be completed in fall 2001. It is anticipated that a permit will be issued by OSHPD in April 2001. Bid solicitation will take place in spring 2001. Work will start in the summer of 2001 and be substantially complete in mid-2004.

Hospitals Funding – Lease Revenue Bonds

The 2000 State Budget Act includes \$600 million of lease revenue bonds to be issued by The State Public Works Board to provide the medical centers of University of California with funding for the reconstruction projects that will be required to comply with SB1953. It is anticipated that UCLA Medical Center will be allocated \$180 million for the Westwood and Santa Monica Replacement Hospital projects. As in previous SPWB funding for other University projects since the mid-1980s, the SPWB will lease from The Regents the hospital site or other facilities, if the site is encumbered, and issue lease revenue bonds to finance all or a portion of the costs associated with seismic upgrading required for compliance with SB1953. The University will build or renovate the project under an agreement with the SPWB. SPWB will retain ownership of the facilities constructed or renovated through the earlier of the term of the lease or full repayment of the SPWB bonds used for the

project, after which ownership will pass to the University. The University will pay rent to the Board for those facilities. This rent will constitute the revenue from which the Board will 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 as follows: hospital revenues, depending on the hospitals' financial situation from year to year; State funds; or some combination. If the Legislature fails to appropriate sufficient funds to make the rental payments, the University 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.

Financial Feasibility

The exact allocation of the State lease revenue bond funds and gift funds between the two hospital projects is subject to adjustment pending the completion of discussions with the Department of Finance regarding the approval of the \$180 million in funding for the two projects. Although the external financing has been removed as a fund source and replaced with gift funds or State lease revenue bond funds, the financing authorizations approved by the Board in November 1998 and March 1999 for the Westwood Replacement Hospital and the Santa Monica/Orthopaedic Replacement Hospital and Parking Structure, respectively, remain in place. Interim financing has been provided in the University's commercial paper program, with the following amounts outstanding as of August 31, 2000:

Westwood Replacement Hospital	\$21,713,909
Santa Monica Replacement Hospital	5,485,026
Santa Monica Parking	<u>2,864,339</u>
Total	\$30,063,274

It is anticipated that University interim financing will continue to fund construction expenditures for these projects until the SPWB authorizes financing for the balance of the project, which is anticipated to occur this fall. It is also anticipated that the outstanding balances for the University interim financing above will be repaid with gifts.

The campus is in the midst of the gift campaign. As of June 30, 2000, gifts and pledges for the two replacement hospitals totaled \$106.6 million, of which \$52.5 million are gifts received and \$53.5 million are gifts pledged. Should all of the gift funds not be in hand at the time of bid, the campus will provide the funds necessary to comply with Regental policy regarding bid award so that the projects can proceed.

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

GROUNDS AND BUILDINGS/
FINANCE/HEALTH SERVICES

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September 13, 2000

The meeting adjourned at 10:15 a.m.

Attest:

Secretary