

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:

ACTION ITEM

For Meeting of November 12, 2013

**APPROVAL OF PRELIMINARY PLANS FUNDING AND EXTERNAL FINANCING,
OUTPATIENT PAVILION, SAN DIEGO CAMPUS**

EXECUTIVE SUMMARY

The proposed Outpatient Pavilion (Project) would involve construction of approximately 77,500 assignable square feet (140,000 gross square feet) of new outpatient and clinic space, necessary for patient care within the UC San Diego Health System (licensed as UCSD Medical Center). The proposed facility would allow for growth, centralization, and integration of several outpatient ambulatory surgical services, with diagnostics and physical therapy to support all elements of outpatient care. With the proposed facility, the UCSD Health System intends to improve productivity, promote multidisciplinary collaboration, enhance patient access and experience, grow market share by developing disease-specific centers in a single facility, and further enhance financial performance. Outpatient care has become an increasingly essential component of overall patient care and is also a strong financial contributor to the academic health system. Without the proposed facility, UC San Diego Health System would lack the capacity required to support the growing demand for outpatient services and would be more challenged in achieving inpatient growth targets.

The Regents are being asked to direct the campus to allocate preliminary plans funding not to exceed \$4.78 million (the “P” Allocation) to the UC San Diego Health System from the proceeds of the previously issued 2012 GRB Series AD Century Bonds (Century Bond). The proposed allocation would allow UCSD to engage an executive architect and construction professional to complete detailed programming and pre-design studies, advance the proposed Project through preliminary plans, and verify the project budget.

The total Project budget for preliminary plans, working drawings, construction, and moveable equipment is currently estimated to be approximately \$120 million.

RECOMMENDATION

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

1. The 2013-14 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Diego: Outpatient Pavilion – preliminary plans – \$4.78 million to be allocated to the UC San Diego Health System from the Century Bond proceeds previously allocated to the campus.
2. The President be authorized to direct the campus to allocate to the UC San Diego Health System preliminary plans funding not to exceed \$4.78 million for the Outpatient Pavilion project from the Century Bond proceeds previously allocated to the campus. The President shall require that as long as the allocation is outstanding, the UC San Diego Health System gross revenues be maintained in amounts sufficient to pay the annual principal and interest on the preliminary plans funding allocation.
3. The President be authorized to execute all documents necessary in connection with the above.

BACKGROUND

UC San Diego Health System maintains a two-campus strategy, integrating research, teaching, and clinical care at locations in Hillcrest located 13 miles south of the main campus, and in La Jolla on the eastern portion of the main campus. The hospitals operate under one license with a current combined capacity of 565 licensed beds (392 in Hillcrest and 173 in La Jolla), with an additional 245 inpatient beds to be added to the La Jolla campus with the completion of the Jacobs Medical Center in 2016. Each medical center complex currently supports an acute-care hospital and a broad range of outpatient medical and surgical services. UC San Diego Health System has recently begun developing additional outpatient-only sites at other locations around San Diego County. The Health System is gaining a strong presence in Encinitas in the North County coastal region with the acquisition of the San Diego Cancer Center and the opening of specialty clinics for cardiology, orthopedics, and surgery. Additional locations include Vista in inland North County, Scripps Ranch to the east of La Jolla, a radiation oncology clinic in the South Bay area, and a recently opened concierge practice in downtown San Diego. The concierge practice provides patients with access to medical care in a setting where they can develop more personal relationships with their physicians. Additional outpatient care sites in North County and the greater South Bay area are also being assessed. The map in Attachment 6 shows the geographic locations for each of the Health System's current and planned practice locations.

The long-term vision for UC San Diego Health System is to create a healthier world. This involves adapting care to meet the changing needs of patients and the community, supporting the

education and training of future physicians and other health professionals, and creating synergies that enable advancement of translational research. This strategic vision also supports the financial performance necessary for UC San Diego Health System to sustain its commitment to serve a diverse spectrum of patients and continue to invest in the programs, facilities, and technologies necessary to provide the highest level of care and service.

Key to this transformational vision is the fact that advances in medicine and technologies have fundamentally changed the practice of health care. Government and private payers, as well as patients, are expecting a level of service integration across the continuum that has not typically been a focus of academic health systems. UC San Diego Health System, like many academic health systems, is a referral center for highly specialized services such as burn, high-risk obstetrics, advanced cancer treatment, cardiovascular care, bone marrow and solid organ transplants, advanced surgical services, and other tertiary and quaternary care. Although tertiary and quaternary care are expected to see strong growth over the coming years because of increasingly sophisticated diagnostic and treatment technologies – and an increasingly sophisticated and aging population – that care now needs to be surrounded and supported by robust outpatient and primary care services. By responding to both demographic and policy changes in the external environment, UC San Diego Health System expects to add market share if its facility constraints can be overcome.

In addition – recognizing the importance of education and outreach in reducing risk factors and keeping patients healthy – UC San Diego Health System is committed to continuing its development of population-based initiatives and community partnerships that address major public health concerns such as obesity, smoking, and other significant and preventable contributors to disease and injury.

Planning, therefore, has focused on: improving and expanding UC San Diego Health System's outpatient and emergency care centers, which are the services used by the majority of UC San Diego Health System patients; expanding programs focused on community health and population studies; and creating a modern academic health system that supports the highly specialized programs, multi-disciplinary care, and advanced technologies that are the hallmark of academic medicine.

This project was discussed at the Committee on Grounds and Buildings July 2013 meeting and the Committee on Health Services September 2013 meeting during the campus' presentation of the UC San Diego Health System Strategic Plan.

Project Drivers

UC San Diego Health System continues to look for ways to promote multi-disciplinary collaboration, enhance patient access and experience, improve productivity, and grow market share. New disease-specific centers are an important strategy in this endeavor. Centers focused on treating certain diseases – such as the Moores Cancer Center, the Shiley Eye Center, and the Sulpizio Cardiovascular Center – led by world-class clinical faculty are successful examples of consolidating and growing outpatient, ancillary, professional, and support services. The campus

proposes construction of an Outpatient Pavilion to provide increased space to support new and expanding initiatives in a setting that allows for more efficient patient service and hospital operations.

The proposed Outpatient Pavilion would serve as the platform to improve outpatient care delivery at the Health System by housing the following disease-specific centers aligned with clinical programs targeted for aggressive growth.

- **Musculoskeletal Center** – Provide a single site for the entire spectrum of outpatient care for musculoskeletal conditions, including: orthopedics, sports medicine, spine, and pain treatment. Program elements would include clinic rooms, outpatient surgery, physical and occupational therapy, and imaging.
- **Neurosciences Center** – Create the first Neurosciences Center in San Diego with combined Neurology and Neurosurgery programs; ultimately partnering with inpatient programs in intra-operative surgery and neuro-critical care to create a regional program. Program elements would include clinic rooms, outpatient surgery, imaging, interventional radiology, rehabilitation, and stroke care.
- **Digestive Disease Center** – Combine Minimally Invasive Surgery and Gastrointestinal programs into a single clinic to create a Digestive Disease Center and provide a home to the Bariatric and Metabolic Institute and Colorectal Surgery. Program elements would include clinic rooms, procedure rooms, outpatient surgery, and imaging.
- **Urology Center** – Provide a single home for subspecialty urology practices including oncology, infertility, reconstruction, incontinence, women’s pelvic medicine, and kidney stone programs. Program elements would include clinic rooms, procedure rooms, outpatient surgery, and imaging.
- **Breast Care Center** – Create a center welcoming to women whether they seek screening mammograms, risk counseling, diagnosis and treatment of benign and cancerous tumors, or reconstructive plastic surgery. Program elements would include clinic rooms, imaging, and outpatient surgery areas.

Facility constraints – particularly for outpatient and ambulatory care services – need to be resolved in order for these centers to grow and be successful. In certain areas, such as gastrointestinal disease and minimally invasive surgery, the existing procedure and operating rooms are scheduled the maximum number of hours per week; current staffing and other resources would support more cases that could be scheduled if the facilities were available. Additional space is necessary to increase market share in these growth areas.

Programs proposed for the future Outpatient Pavilion are currently dispersed throughout the county in ten different locations, including spaces in three leased buildings and seven campus-owned buildings in La Jolla and Hillcrest. The existing space in multiple locations is very expensive to operate and is not designed for efficient patient services. Currently, a person having

outpatient surgery could be required to go to several different locations on- and off-campus, such as a specialty clinic at one site, and other locations for pre-operative tests, ambulatory surgery, pharmacy, and rehabilitation.

In addition to being in dispersed locations, the existing space is inadequate in volume not only to meet projected growth, but also to address the current demand. Diagnostics and imaging services are oversubscribed in existing facilities. Even with completion of the Jacobs Medical Center, the combined demand for inpatient and outpatient diagnostics and imaging will far exceed capacity. The UCSD Health System currently does not have a dedicated outpatient imaging center, and imaging services are dispersed throughout the Hillcrest and La Jolla medical campuses. On the La Jolla campus, the primary imaging center is located in Thornton Hospital, an inpatient facility.

The new service centers described previously would benefit from a facility dedicated to outpatient care, with common space requirements providing better efficiencies in operations and use of space. In addition to creating efficiencies, the new service centers would improve the care and overall experience for patients and their families. Without the proposed facility, it would be more costly and less efficient to provide the capacity required to meet the growing demand for outpatient services and would not align with the strategic goals of UC San Diego Health System.

Project Description

The proposed Outpatient Pavilion project would involve construction of an approximately 77,500 assignable square feet (asf) (140,000 gross square feet) outpatient and clinical facility to accommodate hospital-licensed services and programs to support the Jacobs Medical Center and other Health System facilities. This project will be owned by the UC San Diego Health System and will be financed by UC San Diego Health System debt. The building would be designed to meet Office of Statewide Health Planning and Development (OSHDP) Level 3 requirements.

Specific space types and quantity of space among programs will be further refined during the programming phase of the project; however, an overview of the preliminary space program is described below, and an area summary is provided in Table 2.

- *Outpatient Surgery Suites, Procedure Suites, and Patient Care Support* – Approximately six operating rooms for outpatient surgeries, three gastrointestinal procedure rooms, six pain treatment and other procedure rooms, associated preparatory and recovery stations for same-day surgery, and central sterile processing. Patient-care support includes blood draw, laboratory, patient education and multipurpose conference rooms, and break rooms.
- *Specialty Clinics* – Approximately 84 exam rooms for the Musculoskeletal Center, Neurosciences Center, Digestive Disease Center, Urology Center, and women’s Breast Care Center.
- *Outpatient Advanced Imaging Hub* – Outpatient imaging services, including general radiology (X-ray), MRI, CT, PET CT, ultrasound, and mammogram.

- *Infusion* – Approximately 24 infusion chairs for apheresis, chemotherapy treatments, and infusions related to auto-immune and gastrointestinal diseases.
- *Physical Therapy* – Approximately 3,800 asf of space for physical and hand therapy.

Table 2
Outpatient Pavilion
Proposed Area Summary

Proposed Areas	ASF
Outpatient Surgery Suites, Procedure Suites, and Support	24,400
Specialty Clinics	24,500
Outpatient Advanced Imaging	11,000
Infusion	8,400
Physical Therapy	3,800
Lobbies and Building Support	5,400
Total ASF	77,500

The proposed site is located on the East Campus, to the east of the Jacobs Medical Center and just south of the intersection of Campus Point Drive and Medical Center North. (See attachment 5.) Utility services would be provided from existing systems.

Approval Request and Schedule

The requested preliminary plans funding of \$4.78 million would enable the campus to confirm and refine the scope of work and budget through detailed programming, and complete schematic design and design development prior to submitting the Project for full budget and financing approval from the Regents. The funding would support site surveys, specialty consultants, preparation of an Environmental Impact Report (EIR) pursuant to the California Environmental Quality Act, and cost analysis.

The campus intends to submit the Project for full budget and financing approval in spring 2014, with approval of design and certification of the EIR to be sought in early 2015. Following these approvals, it is estimated that construction would commence in mid-2015, with the goal of completion in early 2017.

Funding Plan

The total Project budget for preliminary plans, working drawings, construction, and moveable equipment is currently estimated to be approximately \$120 million. Design and construction will

be funded with the campus' allocation of the proceeds of the Century Bond. Moveable equipment will be funded with hospital reserves and operating leases.

The estimated cost for programming and design through the preliminary plans phase is \$4.78 million. The San Diego campus shall allocate proceeds of the previously issued Century Bond to the UC San Diego Health System to fund the preliminary plans funding in an amount not to exceed \$4.78 million. Under this arrangement, the UC San Diego Health System would make annual debt service payments to the general campus at 6 percent for a term of 30 years, for an estimated annual principal and interest payment of \$347,000. The 6 percent is higher than the interest rate on the Century Bond, which is 4.858 percent. The financial feasibility analysis is provided in Attachment 2. Should the UCSD Health System not be able to cover the annual principal and interest payments, the campus would have the opportunity to reassign the space to other programs.

ATTACHMENTS below:

- Attachment 1: Preliminary Plans Budget
- Attachment 2: Summary Financial Feasibility Analysis
- Attachment 3: Policy Compliance
- Attachment 4: Alternatives Considered and Delivery Model
- Attachment 5: Project Site Map
- Attachment 6: UC San Diego Health System Locations

PRELIMINARY PLANS BUDGET

Cost Category	Amount
A/E Fees ⁽¹⁾	\$2,435,000
Campus Administration ⁽²⁾	395,000
Surveys, Tests, Plans ⁽³⁾	250,000
Special Items ⁽⁴⁾	1,700,000
Total Preliminary Plans Budget	\$4,780,000

Notes

- (1) Executive architect fees for schematic design and design development
- (2) Campus project manager, planning, engineering and design review, and contracts administration
- (3) Includes soil borings, site surveys, and design phase testing
- (4) Special items include Detailed Project Program, estimated interest (\$97,000), environmental documentation, specialty consultants, and agency fees.

ATTACHMENT 2

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

Project Title: **Outpatient Pavilion, San Diego Campus**

Total Estimated Preliminary Plans Cost: \$4,780,000

Proposed Sources of Funding:

External Financing, Campus Century Bond \$4,780,000

Projected Financing Terms:

Interest Rate 6.0%
 Term 30 years
 Average Annual Debt Service \$347,000

Existing Hospital System Long-term Debt June 30, 2012: \$214,371,000

Estimated Total Hospital System Long-term Debt June 30, 2014: \$694,282,000

Estimated Combined Annual Debt Service: (Dollars in Thousands):

	Actual FY 2012	Projected						
		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Income available for debt service:								
Net income	\$96,105	\$137,049	\$83,999	\$92,884	\$94,472	\$42,643	\$62,779	\$88,098
Interest	7,020	8,964	9,107	8,700	8,585	34,004	33,575	33,110
Capitalized interest	3,978	1,962	2,500	2,500	2,500	2,500	2,500	2,500
Depreciation	45,110	52,315	56,130	59,821	61,834	92,700	92,790	90,959
Income available for debt service	152,213	200,290	151,736	163,905	167,391	171,847	191,644	214,667
Debt service:								
Interest	7,020	8,964	9,107	8,700	8,585	34,004	33,575	33,110
Capitalized interest	3,978	1,962	2,500	2,500	2,500	2,500	2,500	2,500
Principal	13,234	15,346	14,612	14,256	16,927	17,208	16,571	17,244
Total debt service	\$24,232	\$26,272	\$26,219	\$25,456	\$28,012	\$53,712	\$52,646	\$52,854
Debt service coverage	6.3	7.6	5.8	6.4	6.0	3.2	3.6	4.1

PROJECTED FINANCIAL PERFORMANCE
KEY FINANCIAL RATIOS
(Dollars in Thousands)

	<u>Actual</u> <u>FY 2012</u>	<u>Projected</u>						
		<u>FY2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Net income	\$96,105	\$137,049	\$83,999	\$92,884	\$94,472	\$42,643	\$62,779	\$88,098
Total Margin	9.2%	12.1%	7.2%	7.6%	7.3%	3.1%	4.2%	5.6%
EBIDA (\$000's)	\$152,213	\$200,290	\$151,736	\$163,905	\$167,391	\$171,847	\$191,644	\$214,667
Days Cash on Hand	49	72	65	77	67	56	65	74
Debt Service Coverage	6.3	7.6	5.8	6.4	6.0	3.2	3.6	4.1
Debt/Capitalization	0.20	0.16	0.49	0.41	0.38	0.38	0.37	0.36
Debt/Equity	0.27	0.21	0.69	0.65	0.64	0.63	0.61	0.58

* Earnings before interest, depreciation, and amortization.

POLICY COMPLIANCE

Capital Financial Plan. The Project is included in the *2013-23 Capital Financial Plan* for the San Diego campus to be presented to the Regents in November 2013.

Environmental Analysis. Pursuant to the California Environmental Quality Act (CEQA) and the University Procedures for implementation of CEQA, appropriate CEQA review will be completed prior to consideration by the Regents or its delegate of authorization to proceed with the Project.

Sustainable Practices. This Project will comply with the *University of California Policy on Sustainable Practices*. As required by this Policy, the project will adopt the principles of energy efficiency and sustainability to the fullest extent possible, consistent with budgetary constraints and regulatory and programmatic requirements, and achieve a minimum USGBC LEED™ Silver – New Construction certified rating. Specific information regarding energy efficiency and sustainability will be provided when the project is presented for design approval.

Seismic Safety Policy. This Project will comply with the *University of California Seismic Safety Policy* and independent seismic peer review.

SUMMARY OF ALTERNATIVES CONSIDERED

The campus considered multiple approaches to provide the UC San Diego Health System with appropriate space to support outpatient clinical services.

A new facility on campus is the preferred approach as it is the only one that satisfies all of the requirements necessary to support a consolidated outpatient clinical enterprise adjacent to inpatient and other healthcare facilities, including quantity of space, OSHPD Level 3 compliance, and optimal strategic positioning on the East Campus near the Jacobs Medical Center. In addition, utilizing the existing infrastructure in this area will result in cost savings.

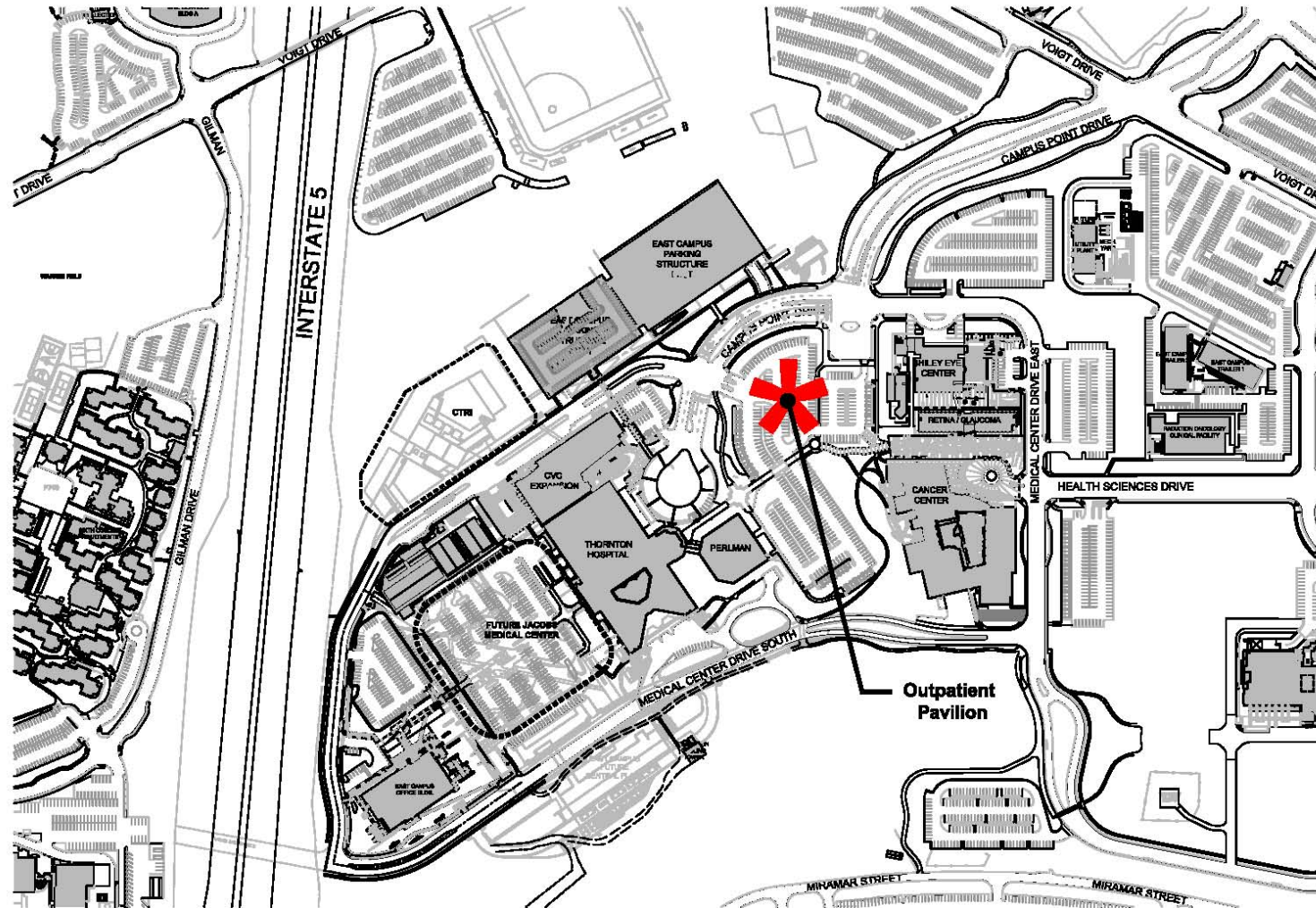
Lease options in the La Jolla community surrounding the campus were considered; however, besides not meeting the preferred requirement of adjacency with the facilities on the East Campus, other factors eliminated these as viable options. Medical office space in the La Jolla market has recently experienced an increase in leasing activity, limiting the availability of existing space of sufficient quantity in a single location. The campus also evaluated several opportunities for purchasing buildings located off campus in the surrounding community; however, insufficient quantity of space, cost of building upgrades to meet University requirements, and uncertainties in federal restrictions and adjacent land uses are some of the factors that eliminated purchase as a viable option.

Deed restrictions on the East Campus parcels preclude a developer-delivered public-private partnership for this project. As mentioned, the services that are to be included in the proposed project are required to support inpatient services on the East Campus, and physical adjacency is a major criteria. Building sites on the East Campus are located among three parcels that have deed restrictions that preclude ownership of buildings by non-University entities. One parcel was deeded to the University by the City of San Diego in 1969, for University Purposes only. A parcel deeded to the University by the federal government in 1966 allows for educational purposes only, as does another parcel deeded by the City of San Diego in 1969. These parcels are subject to use restrictions, the violation of which would result in reversion of land and improvements to either the City of San Diego or the Federal Government for no consideration. While building sites within the Science Research Park do meet the adjacency requirements and are appropriate for third-party development and ownership, the federal deed restrictions for the Research Park allow industrial, scientific, and technological research programs, not clinical enterprises.

DELIVERY MODEL

The campus intends to hire a Construction Manager/General Contractor for the Project during the design phase and is considering methods for managing cost risks, such as integrated project delivery.

PROJECT SITE MAP



physical & community planning office
created on 5/14/13

Outpatient Pavilion

Project Site
FIGURE 1

UC SAN DIEGO HEALTH SYSTEM LOCATIONS

