

Office of the President

TO MEMBERS OF THE COMMITTEE ON GROUNDS AND BUILDINGS:¹

ACTION ITEM

For Meeting of November 18, 2014

**APPROVAL OF THE BUDGET AND APPROVAL OF EXTERNAL FINANCING,
OUTPATIENT PAVILION, SAN DIEGO CAMPUS**

EXECUTIVE SUMMARY

The proposed Outpatient Pavilion project would provide new construction of approximately 82,400 assignable square feet (154,000 gross square feet) of outpatient and clinic space on UC San Diego's East Campus. This project is necessary to expand and improve patient care within UC San Diego Health System (licensed as UCSD Medical Center) and would house outpatient clinical services to complement the existing Thornton Hospital, Sulpizio Cardiovascular Center, and the new Jacobs Medical Center (opening in 2016). The Outpatient Pavilion would house disease-specific, multi-specialty centers that focus on Orthopedics, Sports Medicine and Spine Care; Comprehensive Breast Care; Pain Management; Urology and Women's Pelvic Health; as well as the new Sanford Stem Cell Clinical Center. Specific comprehensive clinical services would also be available in the Outpatient Pavilion including Ambulatory Surgery, Outpatient Radiology and Advanced Imaging, Rehabilitation, Infusion, and Apheresis.

In November 2013, the Regents approved Preliminary Plans funding of \$4.78 million from external financing. The Regents are being asked to: (1) approve the project budget of \$140 million to be funded from external financing (\$95 million), gifts (\$7.5 million), hospital reserves (\$12.5 million) and operating leases (\$25 million); and (2) approve \$95 million in external financing.

RECOMMENDATION

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

1. The 2014-15 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: San Diego: Outpatient Pavilion – preliminary plans – \$4.78 million to be allocated to the UC San Diego Health System from the proceeds of the Century Bond previously allocated to the campus.

¹ Of interest to the Committee on Health Services.

- To: San Diego: Outpatient Pavilion – preliminary plans, working drawings, construction and equipment – \$140 million comprised of external financing (\$95 million), gift funds (\$7.5 million), hospital reserves (\$12.5 million) and operating leases (\$25 million).
2. UC San Diego Health System be allocated funding in an amount not to exceed \$95 million for the project from the proceeds of the Century Bonds previously allocated to the campus. The President shall require that as long as the allocation is outstanding, UC San Diego Health System's gross revenues shall be maintained in amounts sufficient to pay the annual principal and interest.
 3. The scope of the Outpatient Pavilion project shall consist of constructing approximately 82,400 assignable square feet (154,000 gross square feet) of outpatient and clinic space on UC San Diego's East Campus.
 4. The President, in consultation with the General Counsel, be authorized to execute all documents necessary in connection with the above and to make changes in the terms that do not materially increase the cost of the project or the obligations of the Regents.

BACKGROUND

UC San Diego Health System maintains a two-campus footprint, integrating clinical care, research and teaching 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 563 licensed beds (390 in Hillcrest and 173 in La Jolla), with an additional 245 inpatient beds to be added to the La Jolla Health System campus with the completion of Jacobs Medical Center in the summer of 2016. Each Health System campus currently supports an acute-care hospital and a broad range of outpatient medical and surgical services. UC San Diego Health System is also developing additional outpatient-only sites at other locations around the county. The Health System is gaining a strong presence in Encinitas in the North San Diego 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 San Diego County, Scripps Ranch to the east of La Jolla, a Radiation Oncology clinic in the South Bay area, and a new primary care practice in downtown San Diego. Additional outpatient locations in North County and the greater South Bay area are also being evaluated as well as out-of-county outpatient services in surrounding counties. The map in Attachment 6 shows the geographic locations for each of the Health System's outpatient practice locations.

UC San Diego Health System is a regional referral center serving patients in San Diego, Riverside, and Imperial Counties and beyond, with approximately eight percent of patients residing outside the county. Despite prevailing industry pressures on numbers of discharges, UC San Diego Health System grew by over 2,000 discharges over the last three years. For the last five years, UC San Diego Health System's inpatient market share has gained between 0.2 and 0.5 percentage points every year, and is projected to rise to over ten percent this year. During that

same time period, UC San Diego Health System discharges increased by 17.7 percent, while San Diego County discharges only rose by 2.2 percent. For example, UC San Diego Health System's cancer service line has gained approximately five percentage points of market share since the opening of the highly successful Moores Cancer Center in 2005. This National Cancer Institute-designated comprehensive cancer center was recently elected as a member of the National Comprehensive Cancer Network, an alliance of 23 of the world's leading cancer centers, reinforcing Moores Cancer Center's national reputation. Sulpizio Cardiovascular Center, part of the La Jolla market, has been at capacity since it opened in August 2011.

As a result of this significant growth, planning efforts have 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; supporting 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.

When the Regents approved Preliminary Plans funding in November 2013, the total estimated project cost was \$120 million. The estimated cost is now \$140 million because of the following additions to the project: a Stem Cell program for which \$7.5 million in donor funds is provided; the Apheresis Center; and two additional operating rooms. Also, the moveable equipment budget increased by \$5 million.

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. Disease-focused centers – such as Moores Cancer Center, Shiley Eye Center, and Sulpizio Cardiovascular Center – are led by world-class clinical faculty and are successful examples of consolidating and growing outpatient, ancillary, professional, and support services. The proposed Outpatient Pavilion would provide increased space to support new and expanding initiatives in a setting that allows for more efficient patient service and operations. The facility 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, and spine care supported by outpatient surgery suites, advanced imaging, and rehabilitation.
- ***Urology Center*** – Provide a single home for subspecialty urology practices including oncology, prostate treatment, reconstruction, incontinence, women's pelvic medicine, and kidney stone programs, supported by outpatient surgery and procedure suites, and imaging services.
- ***Comprehensive 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. The Comprehensive Breast Care Center consists of clinic, infusion, pharmacy, and radiology services, and is sensitive to women's needs for privacy and support during breast treatment.

- ***Pain Management Center*** – Provide a comprehensive evaluation and treatment center for acute, chronic, and cancer pain, and offer the most advanced pain treatment options available in a compassionate and supportive environment. The five core specialties of pain are: anesthesiology, physiatry (physical medicine), psychology/psychiatry, neurology, and integrative medicine.
- ***Sanford Stem Cell Clinical Center*** – Provide an outpatient center for clinical care and coordination for patients, their families, and clinical trial participants seeking stem cell-related treatment. At the center, patients would receive education and genetic counseling, consult with stem cell physician researchers, receive appropriate medical care, get guidance about offsite locations for tests if needed, and participate in clinical studies. The Sanford Stem Cell Clinical Center would connect to the stem cell-related basic science, translational research, and inpatient services made possible through the Denny Sanford Stem Cell gift.
- ***Apheresis Center*** – The Apheresis Program² at UC San Diego Health System includes various types of blood transfusion procedures, primarily done on an outpatient basis. The current Apheresis Program exists in three locations – one in La Jolla and two in Hillcrest. The program utilizes up to four stations, including private rooms and treatment bays for immunocompromised Blood and Marrow Transplant (BMT) patients at the Moores Cancer Center Infusion Center. The Hillcrest program has three stations in the basement level and six stations on the ninth floor of the hospital. The Outpatient Pavilion would provide a home on the La Jolla Health System campus for expansion of the Apheresis Program. This would allow the program to offer additional types of apheresis that are currently available only at the Hillcrest Health System campus, and correlates with the expansion of the BMT program in Jacobs Medical Center. Vacating the space occupied by apheresis in Moores Cancer Center would allow the space to be returned to the Infusion Center.

In November 2013 when Preliminary Plans funding was approved, a Neurosciences Center and Digestive Disease Center were being considered as occupants of the Outpatient Pavilion; however, during the early schematic design phase, the plan for occupants was modified to align more closely with the Health System's goals for outpatient services. The Neurosciences and Digestive Disease Centers will be located in the Perlman Ambulatory Care building, adjacent to the Outpatient Pavilion. During the planning process, it was determined that the Outpatient Pavilion could be relocated slightly to the south on the campus footprint and co-located with the Perlman building, connected at the basement level and by a walkway on the first level. In

² Apheresis is a medical procedure in which the blood of a patient is passed through a device that separates out and often exchanges one particular constituent and returns the revitalized blood to the body's circulation.

addition, the two buildings are expected to share a courtyard and function in many ways as one outpatient complex.

Market Projections

The San Diego County population is projected to increase 12 percent from 2012 to 2020, with the 65 and older age group projected to increase 39 percent over the same period of time. North City, the market service area in which the La Jolla Health System campus resides, is expected to have the most significant population growth of residents 65 and older compared with all other areas in the county.

Forecasts for San Diego County suggest significant increases in demand for outpatient services from all North County areas and North City. It is projected that total outpatient volumes at UC San Diego Health System will increase 16.2 percent by 2020. This includes all services that would be provided at the Outpatient Pavilion. The highest growth is forecasted for rehabilitation, chemotherapy, general surgery, and urology. Demand for spine, orthopedics, imaging, and breast services is also forecasted to increase for hospital outpatient and ambulatory surgery center sites. UC San Diego Health System's market share is projected to increase from a 2013 projected market share of ten percent to a 2019 projected market share of 12 percent.

Facility Constraints

The existing space for clinics is inadequate in volume not only to meet projected growth, but also to address the current demand. Facility constraints, particularly for outpatient and ambulatory care services, need to be resolved in order for the disease-specific centers to grow and be successful. The Health System currently performs outpatient surgeries and procedures in Thornton Hospital and leased space offsite in La Jolla and in Hillcrest. In certain areas, the existing procedure and operating rooms are scheduled for the maximum number of hours per week; current staffing and other resources could support more surgeries and procedures if the facilities were available. Additional space is necessary to increase market share in these growth services.

In addition to space constraints, programs proposed for the future Outpatient Pavilion are currently dispersed in several different locations, including spaces in three leased buildings and six campus-owned buildings in La Jolla and Hillcrest. The existing space in multiple locations 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, imaging, ambulatory surgery, pharmacy, and rehabilitation. With market growth opportunities in these areas expected to increase from 20 to 38 percent depending on the specialty, there is no opportunity for expansion in the current locations – requiring yet another location and further dispersion of patient care services.

There is also a critical need for additional infusion space, above the 56 chairs that can be accommodated at Moores Cancer Center. A 27 percent market growth is projected, but cannot be achieved with current facilities.

Synergies between Apheresis Program Expansion and New Sanford Stem Cell Clinical Center

The Apheresis Program at UC San Diego Health System includes various types of procedures, primarily done on an outpatient basis. The future of the program includes cell acquisition and engineering, including the creation of new genes to resist infection and fight cancer, and potentially the use of a patient's own cells to engineer rejection-resistant blood vessels and organs. The Apheresis Program is synergistic with the new stem cell center; therefore, co-locating the two programs in the same building and on the same floor is advantageous. The Sanford Stem Cell Clinical Center will accelerate development of drugs and cell therapies inspired by and derived from human stem cell research; establishing, promoting, and disseminating clinical trials and patient therapies. The Stem Cell Clinical Center currently has two locations: UC San Diego Center for Advanced Laboratory Medicine (leased space) and Sanford Consortium for Regenerative Medicine. The proposed Outpatient Pavilion and Jacobs Medical Center would add two new patient care locations.

Diagnostic and Imaging Services Space Constraints

Diagnostics and imaging services are oversubscribed in existing facilities. With completion of Jacobs Medical Center, the combined demand for inpatient and outpatient diagnostics and imaging will far exceed capacity. The Health System currently does not have a dedicated outpatient imaging center, and imaging services are dispersed throughout the Hillcrest and La Jolla Health System campuses, as well as off-campus leased space. On the La Jolla Health System campus, the primary imaging center is located in Thornton Hospital, an inpatient facility, but is used by both inpatients and outpatients (with inpatients taking priority for scheduling).

The new service centers previously described 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. The proposed facility is the most cost-effective and space-efficient solution to provide the capacity required to meet the growing demand for outpatient services, and aligns with the strategic goals of UC San Diego Health System.

PROJECT DESCRIPTION

The proposed Outpatient Pavilion project would be for construction of an approximately 82,400 assignable square foot (154,000 gross square foot) outpatient and clinical facility to accommodate hospital-licensed services and programs to support Jacobs Medical Center and other UCSD Health System facilities. The building would be designed to meet California Office of Statewide Health Planning and Development (OSHPD) Level 3 requirements.

The space program is described below, and an area summary is provided in Table 1.

- *Outpatient Surgery Suites and Procedure Suites* – Eight operating rooms for outpatient surgeries and three procedure rooms.
- *Prep/Recovery for Outpatient Surgery* – Areas for Pre-Op/Post-Anesthesia Care Unit and Patient Holding to provide patient intake, preparation, recovery, and discharge of ambulatory surgery and outpatient procedure patients requiring conscious sedation, blocks, or anesthesia. The facility would have the capability for patient stays of up to 23 hours, consistent with OSHPD 3 licensing limitations.
- *Central Sterile Processing* – Areas for instrument and scope processing, and sterilization for outpatient surgery and procedure suites.
- *Outpatient Clinics* – A total of 81 exam rooms for the Musculoskeletal Center (Orthopedics, Sports Medicine, and Spine Care), Urology Center, Pain Management Center, Comprehensive Breast Care Center, and Stem Cell Clinical Center.
- *Outpatient Radiology and Diagnostic Imaging* – Areas for outpatient imaging services, including general radiology (X-ray), magnetic resonance imaging (MRI), computerized tomography (CT scan), ultrasound, mammogram, and dual-energy x-ray absorptiometry (DEXA) scan.
- *Apheresis* – A total of 12 treatment stations for apheresis procedures.
- *Infusion* – A total of 12 infusion chairs for chemotherapy treatments, primarily for breast cancer patients.
- *Pharmacy* – Primarily supporting the Infusion Centers, the pharmacy area would include spaces to review orders, prepare chemotherapy, and provide consultation services for oncologic and non-oncologic oral and intravenous medications administered in the infusion center. The pharmacy would also support the medication needs of the Outpatient Pavilion.
- *Physical Therapy/Rehabilitation* – Areas for physical, hand, speech, and occupational therapy and rehabilitation.
- *Patient and Guest Services* – Conference rooms for wellness and education.
- *Café* – Small food service facility for patients, staff, and visitors.
- *Building Support* – Materials management, storage, and receiving area for cleaned and soiled linens, and housekeeping.

Table 1
Outpatient Pavilion
Proposed Area Summary

Proposed Areas	ASF
Outpatient Clinics	26,420
Outpatient Radiology and Diagnostic Imaging (outpatient, orthopedic, and breast)	13,990
Outpatient Surgery Suites and Procedure Suites	12,800
Prep/Recovery for Outpatient Surgery	7,290
Physical Therapy/Rehabilitation	5,930
Apheresis	4,140
Central Sterile Processing	3,140
Infusion	2,840
Building Support (materials management, environmental services)	2,270
Patient Guest Services (lobby, wellness/education)	2,200
Pharmacy (chemotherapy/infusion)	880
Café	500
Total ASF	82,400

Project Location

The project site is on UC San Diego's East Campus, east of Interstate 5 within the City of San Diego. The 3.5 acre site is between the Moores Cancer Center and the Perlman Ambulatory Care building just south of Health Sciences Walk. The site is bounded by Medical Center Drive to the south and parking lot P751 to the north. (See Attachment 5.) The project would displace surface parking currently designated for patients and the general public. Replacement parking would be provided in a new parking structure as a separate project.

All existing utilities in and around the site are underground. Existing utilities are adequate to serve the building.

Financial Feasibility

The total project budget for preliminary plans, working drawings, construction, and moveable equipment is estimated to be \$140 million. Design and construction would be funded with the campus' allocation of the proceeds of the Century Bond (\$95 million), gift funds (\$7.5 million), and hospital reserves (\$7.5 million). Moveable equipment would be funded with operating leases (\$25 million) and hospital reserves (\$5 million).

External Financing

UC San Diego campus shall allocate proceeds of the previously issued Century Bond to UC San Diego Health System to fund the preliminary plans, working drawings, and construction funding in an amount not to exceed \$95 million. Under this arrangement, UC San Diego Health System would make annual debt service payments to the general campus at the current rate of 4.95 percent for a term of 30 years for an estimated annual principal and interest payment of \$6,145,000. The Summary Financial Feasibility Analysis is provided in Attachment 2. Should the 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.

Status of Fundraising

UC San Diego received a gift pledge which will launch its new Sanford Stem Cell Clinical Center. The gift will be for capital and operational requirements associated with the new center to be housed in four locations, including the proposed Outpatient Pavilion project. Of the amount committed to the Outpatient Pavilion (\$7.5 million), it is expected that \$2 million will be in hand by the time of bid award (May 2015). To comply with Regents' policy regarding bid and award, gifts committed but not in hand (\$5.5 million) will be back-stopped by hospital reserves.

Days Cash on Hand

Per the Summary of Financial Feasibility (Attachment 2), UC San Diego Health System projects days cash on hand to remain above the recommended floor of 60 days throughout the projection period. Actual days cash on hand in fiscal year 2013 was 68 days, and the projected days cash on hand for fiscal year 2014 is 85.

Project Schedule

The project is currently in the Preliminary Plans phase. The campus intends to submit the project for approval of design and certification of the Environmental Impact Report in July 2015. It is estimated that construction would commence in July 2015, with completion in May 2017.

Key to Acronyms

BMT	Blood and Marrow Transplant
CMS	Centers for Medicare and Medicaid Services
CT	Computerized Tomography
DEXA	Dual-energy X-ray absorptiometry
DSH	(Medi-Cal) Disproportionate Share Hospital
EPIC	electronic medical record and revenue cycle software
FY	fiscal year
GASB	Government Accounting Standards Board
IGT	Intergovernmental Transfer
MRI	magnetic resonance imaging
OSHPD	(California) Office of Statewide Health Planning and Development
SPD-IGT	Seniors and People with Disabilities-Intergovernmental Transfer
UCRP	UC Retirement Plan

ATTACHMENTS (below):

- Attachment 1: Project Budget
- Attachment 2: Summary Financial Feasibility Analysis
- Attachment 3: Projected Financial Performance
- Attachment 4: Alternatives Considered
- Attachment 5: Project Site Map
- Attachment 6: UC San Diego Health System Locations

**PROJECT BUDGET
OUTPATIENT PAVILION
CCCI 5959**

Cost Category	Proposed Budget	% of PWC
Site Clearance	\$680,000	0.6
Building Construction	77,198,000	70.2
Exterior Utilities	1,200,000	1.1
Site Development	4,340,000	3.9
A/E Fees ⁽¹⁾	7,183,000	6.5
Campus Administration ⁽²⁾	2,470,000	2.3
Surveys, Tests, Plans, Specs	980,000	0.9
Special Items (excl. financing costs) ⁽³⁾	5,392,000	4.9
Financing Costs	4,640,000	4.2
Contingency	5,917,000	5.4
<i>Total P-W-C</i>	\$110,000,000	100%
Groups 2 & 3 Equipment	30,000,000	
Total Project	\$140,000,000	

Notes

- (1) Executive architect fees for schematic design and design development.
(2) Campus project manager, planning, engineering and design review, and contracts administration.
(3) Special items include Detailed Project Program, environmental documentation, specialty consultants, and agency fees.

Project Statistics:

GSF	154,000
ASF	82,400
Efficiency Ratio: ASF/GSF	54%
Building Cost/GSF	\$ 501

Funding Schedule:

Preliminary Plans	\$4,780,000
Working Drawings	\$4,500,000
Construction	\$100,720,000
Equipment	<u>\$30,000,000</u>
Total	\$140,000,000

Comparable Projects at CCCI 5959:

<u>Name</u>	<u>Location</u>	<u>GSF</u>	<u>Building Cost/GSF</u>
Non UC – Specialty Medical Office Building	Panorama City	72,300	\$497
Non UC – Ambulatory Surgery Center	Pasadena	75,000	\$534
Non UC – Outpatient Services/ Medical Office Building	San Diego	175,500	\$524
Non UC – Outpatient Services/ Medical Office Building	San Marcos	72,000	\$478

ATTACHMENT 2

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

Project Title: Outpatient Pavilion, San Diego Campus

Total Estimated Project Cost: \$140,000,000

Proposed Sources of Funding:

External Financing	\$95,000,000
Gift Funds	\$7,500,000
Hospital Reserves	\$12,500,000
Operating Leases	<u>\$25,000,000</u>
Total	\$140,000,000

Projected Financing Terms:

Interest Rate	4.95%	
Term	30 years	
Average Annual Debt Service		\$6,145,000

Existing Hospital System Long-term Debt June 30, 2014: \$692,646,000

Estimated Total Hospital System Long-term Debt July 1, 2018: \$786,644,000

Estimated Combined Annual Debt Service (Dollars in Thousands):

	Actual	Projected					
	<u>FY 2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>
Income available for debt service:							
Net income	\$81,452	\$144,106	\$136,623	\$156,409	\$112,618	\$138,741	\$128,701
Interest	8,964	7,901	7,179	7,759	33,012	38,277	37,748
Capitalized interest	2,379	23,787	27,140	20,531	2,700	2,600	2,500
Depreciation	<u>52,315</u>	<u>56,149</u>	<u>60,147</u>	<u>63,055</u>	<u>95,903</u>	<u>100,743</u>	<u>99,338</u>
Income available for debt service	145,110	231,943	231,089	247,754	244,233	280,361	268,287
Debt service:							
Interest	8,964	7,901	7,179	7,759	33,012	38,277	37,748
Capitalized interest	2,379	23,787	27,140	20,531	2,700	2,600	2,500
Principal	<u>15,346</u>	<u>15,431</u>	<u>15,687</u>	<u>17,727</u>	<u>17,995</u>	<u>18,071</u>	<u>19,566</u>
Total debt service	<u>\$26,689</u>	<u>\$47,119</u>	<u>\$50,006</u>	<u>\$46,017</u>	<u>\$53,707</u>	<u>\$58,948</u>	<u>\$59,814</u>
 Debt service coverage	 5.4	 4.9	 4.6	 5.4	 4.5	 4.8	 4.5

* Financial information incorporates adjustments made for Government Accounting Standards Board (GASB) Statement Nos. 67 and 68. The University implemented GASB 67 and 68 for the fiscal year ending June 30, 2014, and restated the financial statements for the Medical Centers for the fiscal year ending June 30, 2013. Under GASB 68, the Medical Centers began reporting their proportionate share of the UC Retirement Plan (UCRP) obligation.

**UC San Diego Health System
Projected Financial Performance**

The detailed financial projections included in this attachment are based on assumptions from the Office of the President, where available, local assumptions for years beyond 2014, and the opening of the project at the beginning of fiscal year (FY) 2018. The local assumptions are based on a review of: (1) UC San Diego Health System's recent service mix and financial performance; (2) the occupancy and outpatient volume levels experienced in the past few years; (3) projections of continued revenue/program enhancements, including those provided by the project; (4) estimates of the impact of the Affordable Care Act on patient volumes, payor mix, and reimbursement; (5) projections of increased patient volume due to the area's population based on data provided by the San Diego Association of Governments; and (6) forecasted increased demand for outpatient services.

Average inpatient daily census is projected to increase from 427 in 2013 to 556 in 2019 as a result of continued program enhancements including those provided as a result of the opening of the Jacobs Medical Center in 2017 and projected population growth in UC San Diego Health System's service area. Ambulatory clinic and emergency room visits are projected to increase from 662,000 in 2013 to 824,000 by 2019 as a result of population growth, new programs, increased utilization of existing ambulatory space, and expanded clinical capacity as a result of opening of the project.

Total revenue in 2013 was \$1.4 billion and is projected to increase from \$1.29 billion in 2014 to \$1.77 billion in 2019 as a result of an ongoing strategy to optimize reimbursement, projected patient volume growth and increased market share in select service lines, and changes in payor mix resulting from Medi-Cal expansion and introduction of Covered California on January 1, 2014. The forecasted revenue also includes estimates of future Medi-Cal funds available under the current and subsequent Medicaid waivers, funds expected to be available under the Medi-Cal Hospital Fee Program, and estimates of the impact of the Affordable Care Act on Medicare payments and Medi-Cal Disproportionate Share Hospital (DSH).

Projected operating expenses increase from \$1.15 billion in FY 2014 to \$1.61 billion in FY 2019 due to increase in patient volumes, the impact of inflation, and increased depreciation expense. Salary expense is projected to increase 4.5 percent annually over the projection period with pension expense under GASB 68 based on assumptions provided by Office of the President. Inflation on medical and other supplies, as well as pharmaceuticals and blood products, are projected to be 3.5 percent annually over the projection period.

In FY 2013 the organization began an operational improvement initiative that yielded \$72 million of savings in FY 2014 and is expected to generate \$100 million of annual savings by FY 2016. Financial improvements to date were achieved through organizational restructuring that realigned staff to reduce redundancies, process improvements that yielded efficiencies in staffing and improved management of overtime use, and product standardization and contract

renegotiations that resulted in supply cost savings. Additional financial improvements are expected from new initiatives focused on improving patient flow and capacity in the inpatient units as well as perioperative, ambulatory procedure areas, and infusion.

Net income is projected to decrease from \$144.1 million (11.9 percent margin) in 2014 to \$112.6 million (7.4 percent margin) in 2017, the year before the opening of the project, primarily as a result of approximately \$25 million of one-time prior year income adjustments in FY 2014 and additional depreciation expense incurred when the Jacobs Medical Center opens in FY 2017.

Net income is projected to increase to \$138.7 million (8.4 percent margin) in 2018 because of the incremental margin provided by the project in addition to inpatient growth resulting from opening of the Jacobs Medical Center in FY 2017. Net income is projected to decrease to \$128.7 million (7.3 percent margin) in FY 2019 because of assumptions around pension expense provided by the Office of the President.

The financial projection also includes the costs and benefits of future capital projects associated with the Health System's capital plans, including the cost of ongoing facilities improvements, medical equipment, and information technology capital. The plan includes projects which have not yet been approved, and which would be regularly re-evaluated as to need, scope, and cost. Future projects would be deferred or eliminated as appropriate and necessary to ensure UC San Diego Health System's financial viability.

Throughout the projection period, the Health System's margin and debt service coverage remains above industry averages, and days cash on hand remains above the recommended floor of 60 days established by the Office of the President. Days cash on hand increased from 68 days in FY 2013 to 85 days in FY 2014, and is projected to increase to 99 days in FY 2019.

Key Assumptions for Projections

Fiscal Years 2014 - 2019

◆ Utilization

- Average daily census will increase from 427 in 2013 to 556 in 2019. This will be driven by demographic changes in San Diego County, health care reform and associated changes in the delivery of health care, program enhancements, growth in outpatient clinic and emergency room visits that drive inpatient care, and a larger referral base for high-complexity cases.
- The San Diego Association of Governments projects that the County's population will grow 12 percent from 2012 to 2020, with the age group of 65 and older growing 39 percent over the same eight-year time period. Increased age is associated with significantly higher hospitalization rates, particularly in specialties such as Cancer and Orthopedic Surgery.
- The Jacobs Medical Center will bring not only new capabilities but also much-needed bed capacity. The average daily census at Thornton Hospital rose steadily each year, from an 80 percent annual average occupancy rate in FY 2008 to 93 percent in FY 2014.
- The Jacobs Medical Center will also offer a dramatically improved experience for patients. The Women and Infants Hospital is expected to attract more pregnant women compared to the current site, and referring providers will be more likely to send women with difficult pregnancies or transfer infants requiring neonatal care to the Women and Infants Hospital.
- Ambulatory clinic visits, a key driver of inpatient admissions, will increase from 662,000 in FY 2013 to 824,000 by 2019 because of recent investment in outpatient capacity and opening of the project. Recent investments include the purchase of an internal medicine practice in Vista in FY 2013; establishment of two new concierge medicine practices; and expansion of family medicine, dermatology, and endocrinology clinic capacity. Additional growth in outpatient services was driven by expansion of infusion space at the Moore's Cancer Center and relocation of the Fetal Genetics program.
- Opening of the project will provide 83,400 additional assignable square feet of clinical space to provide disease-specific centers aligned with clinical programs targeted for aggressive growth. Services programmed in the project, including outpatient surgeries and procedures, radiology and diagnostic imaging, apheresis, and infusion, drive high margins and will contribute to the financial performance of the Health System.
- Emergency room visits, another driver of inpatient admissions, will increase from 66,000 in 2013 to 77,000 by 2019. The emergency room at the Health System Hillcrest campus recently underwent a remodel and the emergency room at the Thornton Hospital was replaced and significantly expanded as part of the Sulpizio Family Cardiovascular Center/Thornton Expansion project.

◆ Revenue

- Net patient service revenue reflects projected patient volume growth and payor mix changes because of the aging of the population, expanded coverage of the uninsured, and increased market share in select service lines. In addition, it reflects ongoing strategies to optimize reimbursement through strategic pricing and contracting efforts.

- In the second quarter of 2015, UC San Diego Health System will begin a significant revenue cycle redesign and optimization project that is expected to drive reductions in days in accounts receivable and improved yield. The estimated costs and benefit from this initiative are included in the projection.
- Includes management's estimate of Medi-Cal funding through Section 1115 of the current California Medicaid waiver which expires on October 31, 2015 and estimates of funding to be available under a new five year successor waiver effective November 1, 2015.
- Assumes Rate Range Intergovernmental Transfer (IGT) funding levels that allow for optimal Disproportionate Share Hospital (DSH) claiming.
- Assumes that the federally matched (Seniors and People with Disabilities- Intergovernmental Transfer (SPD-IGT) B funding program will be discontinued effective July 1, 2014 however the obligation for non-federally matched SPD-IGT A will continue.
- Projected Medi-Cal DSH reduction under the Centers for Medicare and Medicaid Services (CMS) proposed rule dated May 13, 2013 and subsequently delayed by two years in a CMS noticed dated December 27, 2013 results in a DSH payment reduction of 2.8 percent in FY 2017 increasing to a reduction of 20.3 percent by 2019.
- Assumes increased funding for the Medi-Cal Hospital Fee Program effective July 1, 2015 pursuant to hospital industry agreement negotiated with the State.
- Assumes funding under AB915 continues through the projection period.
- Assumes Health Information Technology funds made available under the American Recovery and Reinvestment Act sunset after FY 2015.
- SB1732 funds of approximately \$1.7 million annually continue throughout the projection period.
- Medicare reimbursement includes Affordable Care Act reductions to Medicare market basket and DSH payments based on FY 2015 final rule; budget sequestration reductions, readmission, and Value Based Purchasing adjustments are based on estimates provided by the California Hospital Association.

◆ **Operating Expense**

- Labor inflation for nursing and other clinical staff is projected to average 4.5 percent annually throughout the projection period.
- Employee health care inflation is projected to mirror the rate of labor inflation.
- Pension contribution increases from the FY 2014 rate of 12.0 percent of eligible salary costs to a rate of 14.0 percent for FY 2015 through FY 2019. Pension expense under GASB 68 is based on assumptions provided by Office of the President.
- Medical supply and pharmaceutical inflation of 3.5 percent annually is projected.
- Utility and all non-medical supply/expense inflation of three percent annually is projected.
- Depreciation expense includes the impact of the opening of the project in 2018.

◆ **Financing**

- Includes annual debt service payments on the project of \$6,145,000 based on long-term debt of \$95 million amortized over 30 years at the rate of 4.95 percent.
- Routine financing of radiology and other major equipment through equipment leases in the amount of \$4 million annually.

◆ **Capital Investments**

- \$30 million of capital equipment for the project to be funded by hospital reserves and operating leases.
- \$4 million of annual investments in information technology to support International Classification of Disease-10 readiness, integrate major clinical systems with EPIC (electronic medical record and revenue cycle software), and enhance business intelligence capabilities.
- Additional \$50 million annually for routine equipment and information technology capital, facilities expenditures, and strategic investments.

**UC SAN DIEGO HEALTH SYSTEM
PROJECTED FINANCIAL PERFORMANCE
PATIENT VOLUMES**

	Actual FY 2013	Projected					
		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Discharges	26,988	27,899	28,714	29,443	31,210	33,082	34,736
Average length of stay	5.8	5.8	5.8	5.8	5.8	5.8	5.8
ADC	427	446	458	471	500	529	556
Patient payor mix - percent							
Medicare	31.4%	31.1%	31.1%	31.5%	31.5%	31.5%	31.5%
Medi-Cal	27.9%	32.7%	38.5%	38.5%	38.5%	38.5%	38.5%
Commercial	27.5%	27.8%	27.5%	27.1%	27.1%	27.1%	27.1%
Indigent/Uninsured	13.2%	8.4%	2.9%	2.9%	2.9%	2.9%	2.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Ambulatory visits	595,179	616,134	607,239	626,168	645,678	701,773	746,899
Emergency room visits	66,365	69,738	71,133	72,555	74,007	75,487	76,996
Total	661,544	685,872	678,372	698,723	719,685	777,260	823,895

UC SAN DIEGO HEALTH SYSTEM
PROJECTED FINANCIAL PERFORMANCE
STATEMENT OF REVENUES AND EXPENSES
(Dollars in Thousands)

	Actual	Projected					
	<u>FY 2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>
Operating revenue							
Net patient revenue	\$1,088,146	\$1,228,648	\$1,308,497	\$1,370,376	\$1,458,107	\$1,576,682	\$1,694,094
Other operating revenue	48,942	64,216	67,011	67,498	69,264	71,082	72,954
Total operating revenue	<u>1,137,088</u>	<u>1,292,864</u>	<u>1,375,508</u>	<u>1,437,874</u>	<u>1,527,371</u>	<u>1,647,764</u>	<u>1,767,048</u>
Operating expenses							
Operating expense	999,955	1,089,799	1,179,868	1,221,892	1,298,057	1,383,214	1,515,257
Depreciation and amortization	52,315	56,149	60,147	63,055	95,903	100,743	99,338
Total operating expenses	<u>1,052,270</u>	<u>1,145,948</u>	<u>1,240,015</u>	<u>1,284,947</u>	<u>1,393,960</u>	<u>1,483,957</u>	<u>1,614,595</u>
Net operating income	84,818	146,916	135,493	152,927	133,411	163,807	152,453
Non-operating income	<u>(3,366)</u>	<u>(2,810)</u>	<u>1,130</u>	<u>3,482</u>	<u>(20,793)</u>	<u>(25,066)</u>	<u>(23,752)</u>
Net income	<u>\$81,452</u>	<u>\$144,106</u>	<u>\$136,623</u>	<u>\$156,409</u>	<u>\$112,618</u>	<u>\$138,741</u>	<u>\$128,701</u>
Total margin	<u>7.2%</u>	<u>11.1%</u>	<u>9.9%</u>	<u>10.9%</u>	<u>7.4%</u>	<u>8.4%</u>	<u>7.3%</u>

UC SAN DIEGO HEALTH SYSTEM
PROJECTED FINANCIAL PERFORMANCE
STATEMENT OF NET ASSETS
(Dollars in Thousands)

	Actual 2013	Projected					2019
		2014	2015	2016	2017	2018	
Assets							
Cash and cash equivalents	\$185,552	\$254,660	\$308,954	\$290,296	\$302,228	\$337,767	\$410,003
Patient accounts receivable	171,750	236,829	223,184	210,736	224,569	243,304	261,864
Other receivables and prepaid assets	96,122	78,002	76,036	70,894	53,703	51,523	55,629
Inventory	18,771	18,856	21,286	22,018	23,535	25,514	27,394
Total current assets	472,195	588,347	629,460	593,944	604,035	658,108	754,890
Capital assets, net	908,868	1,117,283	1,332,948	1,545,689	1,601,071	1,568,466	1,522,732
Restricted assets	120	216,687	110,483	48,543	0	0	0
Other assets	11,403	15,125	15,405	15,681	15,962	16,249	16,542
Total assets	1,392,586	1,937,442	2,088,296	2,203,857	2,221,068	2,242,823	2,294,164
Deferred outflows of resources	189,645	139,639	139,639	139,639	139,639	139,639	139,639
Liabilities							
Accounts payable and accrued expenses	201,494	152,456	158,343	160,614	170,654	181,147	198,473
Current portion of LT debt	14,269	14,941	14,158	17,621	17,697	19,192	19,853
Total current liabilities	215,763	167,397	172,501	178,235	188,351	200,339	218,326
Long-term debt and capital leases	190,352	677,705	765,208	783,018	768,947	753,381	737,154
Other long-term liabilities	485,503	353,201	342,220	329,050	292,774	244,413	236,692
Total liabilities	891,618	1,198,303	1,279,929	1,290,303	1,250,072	1,198,133	1,192,172
Deferred inflows of resources	169,966	262,977	262,977	262,977	262,977	262,977	262,977
Net Assets							
Invested in capital assets	677,957	424,637	553,582	745,050	814,427	795,893	765,725
Restricted	120	216,687	110,483	48,543	0	0	0
Unrestricted	(157,430)	(25,523)	20,964	(3,377)	33,231	125,459	212,929
Total net assets	\$520,647	\$615,801	\$685,029	\$790,216	\$847,658	\$921,352	\$978,654

* Financial information incorporates adjustments made for GASB Statement Nos. 67 and 68. The University implemented GASB 67 and 68 for the fiscal year ending June 30, 2014, and restated the financial statements for the Medical Centers for the fiscal year ending June 30, 2013. Under GASB 68, the Medical Centers began reporting their proportionate share of the UCRP obligation.

**UC SAN DIEGO HEALTH SYSTEM
PROJECTED FINANCIAL PERFORMANCE
STATEMENT OF CASH FLOW
(Dollars in thousands)**

	Actual	Projected					
	<u>FY 2013</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>
Beginning cash	\$120,359	\$185,552	\$254,660	\$308,954	\$290,296	\$302,228	\$337,767
Cash from operations:							
Net income	81,452	144,106	136,623	156,409	112,618	138,741	128,701
Change in operating receivables/payables	124,230	(19,559)	6,350	5,683	(24,676)	(56,689)	(15,234)
Add: depreciation	52,315	56,149	60,147	63,055	95,903	100,743	99,338
Cash provided from operations	257,997	180,696	203,120	225,147	183,845	182,795	212,805
Debt proceeds	0	428,631	103,000	39,000	4,000	4,000	4,000
Cash used for capital/other							
Routine facilities/equipment	(166,689)	(259,901)	(275,668)	(275,796)	(151,285)	(68,138)	(53,604)
Principal payments on debt	(15,346)	(15,431)	(15,687)	(17,727)	(17,995)	(18,071)	(19,566)
Transfers to/from University	(8,355)	(5,014)	(5,446)	(4,846)	(6,947)	(6,568)	(6,399)
Gifts/other capital appropriations	50,296	13,701	17,432	18,624	16,771	6,521	-
Change in restricted assets	14	(216,567)	106,204	61,940	48,543	-	-
Health System Support	(52,724)	(57,007)	(78,661)	(65,000)	(65,000)	(65,000)	(65,000)
Total cash used for capital/other	(192,804)	(540,219)	(251,826)	(282,805)	(175,913)	(151,256)	(144,569)
Net change in cash	65,193	69,108	54,294	(18,658)	11,932	35,539	72,236
Ending Cash	\$185,552	\$254,660	\$308,954	\$290,296	\$302,228	\$337,767	\$410,003
Days cash on hand	68	85	96	87	85	89	99

* Financial information incorporates adjustments made for GASB Statement Nos. 67 and 68. The University implemented GASB 67 and 68 for the fiscal year ending June 30, 2014, and restated the financial statements for the Medical Centers for the fiscal year ending June 30, 2013. Under GASB 68, the Medical Centers began reporting their proportionate share of the UCRP obligation.

**UC SAN DIEGO HEALTH SYSTEM
PROJECTED FINANCIAL PERFORMANCE
KEY FINANCIAL RATIOS
(Dollars in Thousands)**

	Actual FY2013	Projected					
		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Net income	\$81,452	\$144,106	\$136,623	\$156,409	\$112,618	\$138,741	\$128,701
Total Margin	7.2%	11.1%	9.9%	10.9%	7.4%	8.4%	7.3%
EBIDA (\$000's)*	\$142,731	\$208,156	\$203,949	\$227,223	\$241,533	\$277,761	\$265,787
Days Cash on Hand	68	85	96	87	85	89	99
Debt Service Coverage	5.4	4.9	4.6	5.4	4.5	4.8	4.5

* Earnings before interest, depreciation, and amortization.

* Financial information incorporates adjustments made for GASB Statement Nos. 67 and 68. The University implemented GASB 67 and 68 for the fiscal year ending June 30, 2014, and restated the financial statements for the Medical Centers for the fiscal year ending June 30, 2013. Under GASB 68, the Medical Centers began reporting their proportionate share of the UCRP obligation.

SUMMARY OF ALTERNATIVES CONSIDERED

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

A. Build New – University Constructed and Owned

A new facility on campus is the preferred approach as it is the only one that provides all of the space necessary to support a consolidated outpatient clinical enterprise adjacent to in-patient and other health care facilities, including quantity of space, OSHPD Level 3 compliance, and optimal strategic positioning on the La Jolla Health System campus near Jacobs Medical Center. In addition, utilizing the existing infrastructure in this area will result in cost savings.

B. Build New – Public Private Partnership

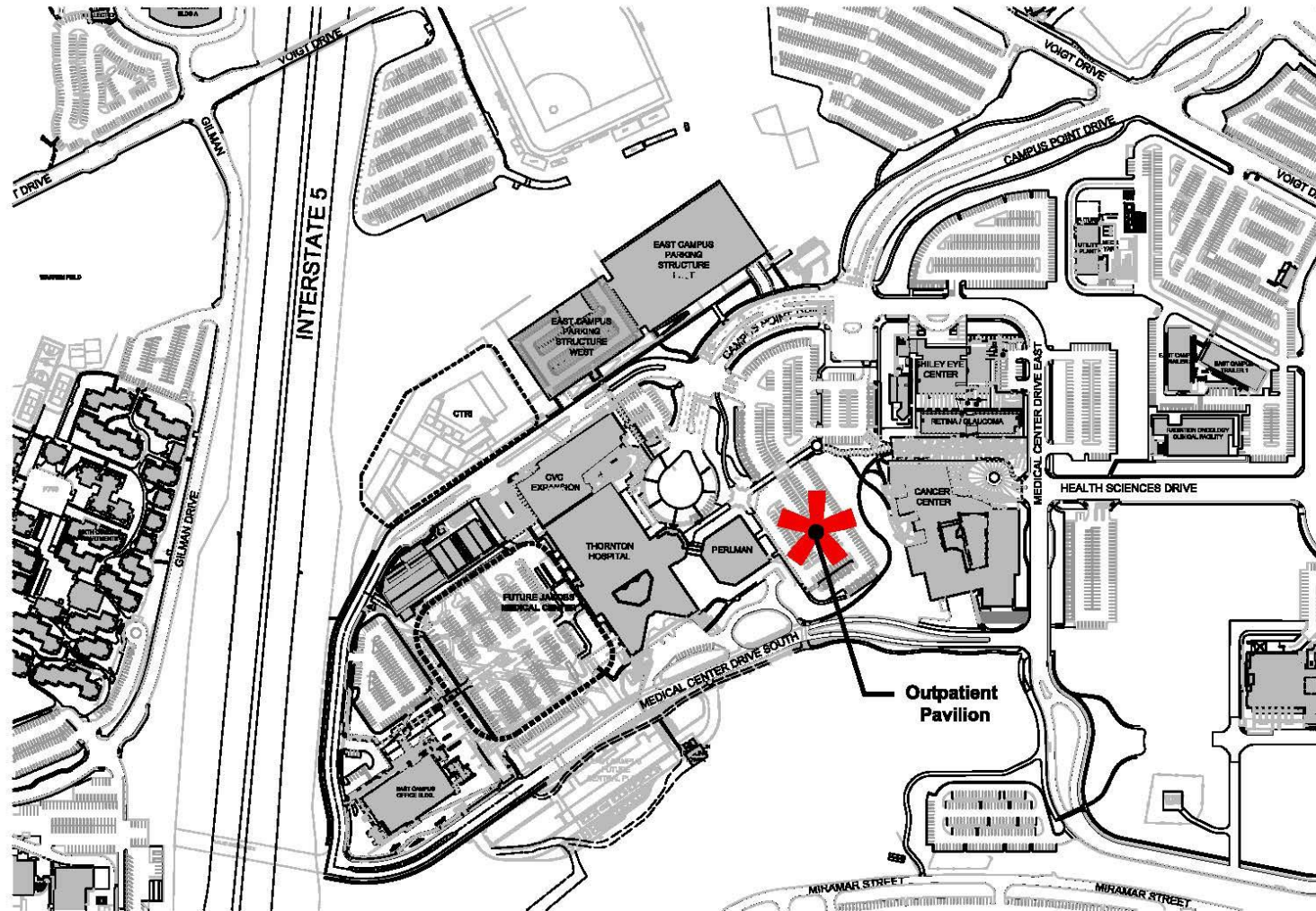
Deed restrictions on the La Jolla Health System campus parcels preclude a developer-delivered Public Private Partnership for this project. As mentioned, the services that are to be included in the proposed project are required to support inpatient services on the La Jolla Health System campus, and physical adjacency is a major criteria. Building sites on the La Jolla Health System 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 for no consideration to either the City of San Diego or the Federal Government. 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.

C. Off-Campus Options (Lease, Purchase)

Lease options in the La Jolla community surrounding the campus were considered; however, aside from not meeting the preferred adjacency requirements with the facilities on the La Jolla Health System 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 and 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.

PROJECT SITE MAP



physical & community planning office
created on 8/20/14

Outpatient Pavilion

Project Site
FIGURE 1

UC SAN DIEGO HEALTH SYSTEM LOCATIONS

