

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE

ACTION ITEM – CONSENT

For Meeting of November 13, 2024

LA JOLLA MEDICAL CENTER TOWER 2, SAN DIEGO CAMPUS: PRELIMINARY PLANS FUNDING

EXECUTIVE SUMMARY

UC San Diego proposes the La Jolla Medical Center Tower 2 project to construct a new 250-bed hospital tower on its La Jolla campus. Patient care volumes on the La Jolla campus have increased significantly over the last several years and patient numbers in these facilities are near or in excess of available capacity. The proposed La Jolla Medical Center Tower 2 (Tower 2) project would result in a total inpatient bed capacity at the La Jolla campus of approximately 670 beds. Expanded facilities would allow UC San Diego Health to better serve patients from San Diego County and beyond, grow its destination programs, and position UC San Diego Health to be competitive in the future.

In August 2024, the Regents Health Services Committee endorsed both the Tower 2 project and a new Outpatient Pavilion to increase inpatient and outpatient capacity, respectively. The Regents approved preliminary plans funding for the Outpatient Pavilion in September 2024. Per Health Services Committee guidance, the planning process for Tower 2 will evaluate the potential for a larger scale hospital to maximize site utilization.

The Regents are being asked to approve preliminary plans funding of \$110 million to be funded from external financing for the La Jolla Medical Center Tower 2 project. The campus plans to request approval of budget, external financing, and design following action pursuant to the California Environmental Quality Act in late 2026.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend that:

- A. The 2024-25 Budget for Capital Improvements and the Capital Improvement Program be amended to include:

San Diego: La Jolla Medical Center Tower 2 – preliminary plans – \$110 million, to be

funded from external financing.

- B. The President be authorized to obtain external financing in an amount not to exceed \$110 million plus additional related financing costs to finance the La Jolla Medical Center Tower 2 project and declare that external financing may be used to reimburse prior expenditures. The President shall require that:
- (1) As long as the debt is outstanding, the general revenues of UC San Diego Health shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - (2) The general credit of the Regents shall not be pledged.
 - (3) Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.

BACKGROUND

La Jolla Medical Center is renowned for its specialized tertiary and quaternary care, which attracts patients nationally and internationally and provides 63 percent of the total inpatient services provided by UC San Diego Health. It is at capacity with a combined licensed bed count of 418, and an inpatient census that currently exceeds this figure by six percent. Despite the recent acquisition of the East Campus Medical Center, bed constraints continue to affect operations. Inpatients are being held in non-traditional areas such as the emergency department, and the ability to accept patient transfers from other hospitals remains limited. In Fiscal Year (FY) 2024, over 1,100 transfer requests were denied or unrealized due to lack of capacity.

La Jolla Medical Center's capacity is constrained in other clinical areas as well. Emergency department bays are operating at over 100 percent utilization, which has necessitated the conversion of administrative spaces to overflow units. Imaging services, particularly magnetic resonance imaging (MRI) and computerized tomography (CT), are experiencing lengthy delays and backlogs as inpatient and emergency department volumes grow.

To meet current capacity constraints and expected future demand, UC San Diego Health is proposing a new hospital tower on the La Jolla campus. The growth of programs and services associated with the tower is anticipated to generate incremental margins that will allow UC San Diego Health to meet its long-term financial goals and support key initiatives including the redevelopment efforts on its Hillcrest campus. This will be especially important as true replacement projects, like Hillcrest Hospital, create additional debt service needs that are difficult to meet with the little incremental volume and margin generated by those projects alone. The development plan for Hillcrest Hospital is being synchronized with development plans for the new La Jolla tower and new La Jolla outpatient pavilion (preliminary plans funding approved in September 2024) so that the aggregate financial and operational model is positive and

sustainable for the health system. It is planned to bring the Hillcrest Hospital plan before this Committee and the Regents for preliminary plans funding approval in the first half of 2025.

Project Goals

In 2023, a clinical master planning process was initiated to develop the program and capacity needs for the proposed new tower. As part of the planning process, guiding principles for the clinical program planning were developed:

- Continue to position La Jolla Medical Center as a destination center for high-complexity patients and add capacity to support these patient types.
- Continue to anchor cardiovascular, cancer, transplant, and women and infants' programs at La Jolla Medical Center with targeted growth in these areas.
- Right-size clinical spaces within La Jolla Medical Center where high patient demand causes significant operational constraints.
- Refrain from building capacity within La Jolla Medical Center to accommodate patients who should be cared for in an alternative platform (e.g., outpatient locations).
- In support of the tripartite mission, develop a clinical program and appropriately sized hospital tower that maintains a healthy margin to cover debt service, sustain the health system's financial viability, and enable the expansion of services to serve more patients in San Diego County and beyond.

As part of the preliminary plans phase, additional guiding principles will be developed related to the design and construction of the hospital facility.

PROJECT DESCRIPTION

The proposed La Jolla Medical Center Tower 2 (Tower 2) project would construct a new hospital tower of approximately 480,000 gross square feet and would modify/renovate select areas within the existing hospital. Key elements of the project are described below. These will be refined as clinical program planning continues over the next months.

- Expansion of inpatient platform: 250 licensed beds in the new tower, adding critical care and general acute care beds; would increase proportion of critical care beds on campus from 14 percent of total beds currently to 25 percent of total beds
- Expansion of the emergency department: ten additional emergency department bays and a ten-bay clinical decision unit, proximate to the current emergency department

- Increased number of procedure rooms: four additional cardiac catheterization and electrophysiology suites
- Expansion of perioperative platform: addition of pre-operative and post-anesthesia care units, and post-surgical observation/short-stay spaces
- Radiology: addition of imaging to support incremental inpatient volumes and emergency department patients including general radiology (X-ray), ultrasound, MRI, and CT

Future detailed space programming for the new tower will address needs within pharmacy, clinical laboratory, central sterile processing, dietary, administrative, and other spaces as an integrative plan for the entire La Jolla Medical Campus.

Project Site/Study Area

The project study area would be approximately 6.6 acres comprised of 0.5 acres for the Central Plant expansion immediately adjacent to the existing Central Plant, and approximately 6.1 acres which will be studied for the new hospital tower and associated site improvements, including modifications to vehicle circulation, patient drop-off/pick up, emergency access, service access, surface parking, and pedestrian circulation as well as identifying and preserving a site for future hospital expansion. The proposed Tower 2 would be accessed from Medical Center Drive (see Attachment 2, Project Location Map, and Attachment 3, Project Study Area). Tower 2 would be located just west of the Sulpizio Cardiovascular Center and physically connected to the existing Jacobs Medical Center. The project study area is relatively flat and currently contains a temporary modular trailer complex, the existing emergency department drop-off area, the driveway to the Jacobs Medical Center West Entrance Drop-off/Pick Up area, the driveway to the East Campus Office Building, surface parking, and a small park-like open space.

The proposed Tower 2 will be a ten-minute walk from the UC San Diego Health La Jolla Trolley Station. Parking would be accommodated in the existing or modified surface parking lots and nearby parking structures, including Campus Point Parking Structures and Athena Parking Structure. In addition, the campus is evaluating the need for a new parking structure to address the ongoing displacement of surface parking lots to accommodate projects and to address additional parking demand resulting from the proposed project and planned future health projects in the La Jolla Medical Campus. Specific parking distribution in the area will be evaluated as part of the proposed project.

Funding Plan and Financial Feasibility

Preliminary plans funding would support executive architect fees, scope refinement, preliminary design, site studies, California Environmental Quality Act analysis, and project cost estimating. See also Attachment 1, Preliminary Plans Budget. The Preliminary Plans funding of \$110 million is proposed to be funded from external financing. Please see the Summary of Financial Feasibility (Attachment 4). The total project costs, detailed funding plan, and the complete

financial feasibility for the proposed project will be presented to the Regents at the time of full budget and external financing approval.

As of June 30, 2024, and using the FY 2024 June unaudited financial statements as a basis, UC San Diego Health had a 9.2 percent modified net income margin, 4.7x modified debt service coverage, and 48 days' cash on hand. Modified net income margin and modified debt service coverage include the adjustments allowed under the University's Debt Policy. Over the ten-year projection period, modified net income margin is projected to range from a low of 9.5 percent to a high of 11.3 percent, above the minimum requirement of equal to or greater than zero (0) percent. Modified debt service coverage is projected to range from a low of 4.0x to a high of 7.7x, above the minimum requirement of equal to or greater than 3x. Days' cash on hand are projected to range from a low of 45 days to a high of 60 days, which does not meet the requirements of the University's Debt Policy. The Executive Vice President – Chief Financial Officer has granted UC San Diego Health an exception to the Debt Policy for the days' cash on hand metric. Detailed financial projections for UC San Diego Health System are included in Attachment 5.

Project Delivery Model and Schedule

The campus intends to utilize the Integrated Construction Manager/General Contractor (iCM/GC) delivery method. The iCM/GC delivery model locks teams in early and affords opportunities to heighten interest in the project within the subcontractor community, engage the team early in the process, obtain real-time market pricing through each project phase, and fine-tune subtrade construction costs to fit the overall project construction budget. Onboarding a contractor during the Preliminary Plans phase will provide the necessary expertise to develop a solid management plan that will minimize disruptions and ensure that the Medical Center patients and staff are fully informed and confident in the path forward.

The campus plans to request approval of budget, external financing, and design following action pursuant to the California Environmental Quality Act in late 2026. Anticipated delivery of the project would be in FY 2032.

CONSISTENCY WITH SELECT UC POLICIES AND PRACTICE

The project is consistent with the UC Sustainable Practices Policy, UC's goals for encouraging participation by Small Business Enterprises (SBEs) and Disabled Veteran Business Enterprises (DVBES), and the UC Seismic Safety Policy.

KEY TO ACRONYMS

FY	Fiscal Year
iCM/GC	integrated Construction Manager/General Contractor

ATTACHMENTS

Attachment 1:	Preliminary Plans Budget
Attachment 2:	Project Location Map
Attachment 3:	Project Study Area
Attachment 4:	Summary of Financial Feasibility
Attachment 5:	UC San Diego Health System – Projected Financial Performance

PRELIMINARY PLANS BUDGET

LA JOLLA MEDICAL CENTER TOWER 2

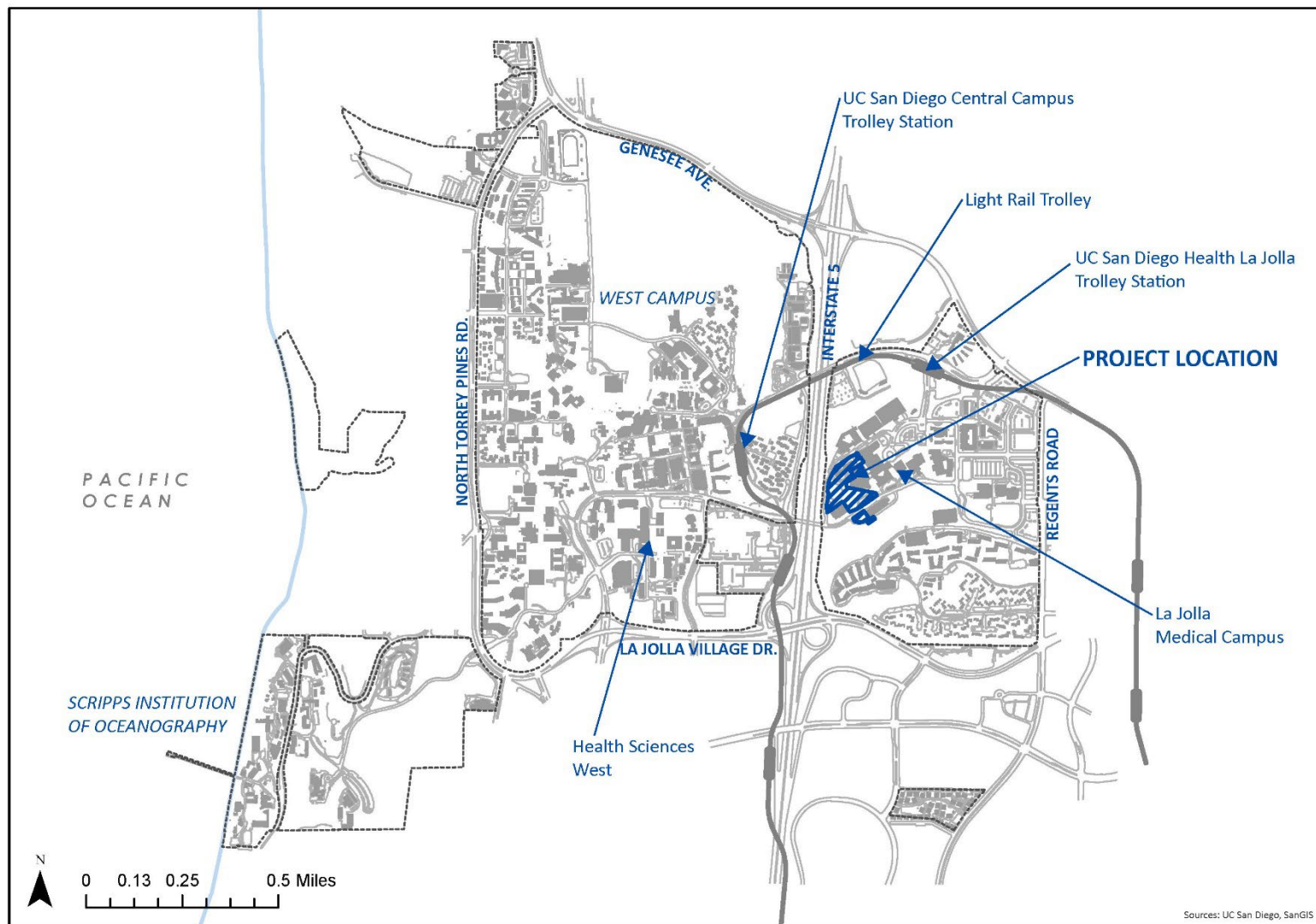
CATEGORY	AMOUNT	PERCENTAGE
Building ¹	\$30,000,000	27.3%
A & E Fees ²	\$61,000,000	55.5%
Campus Administration ³	\$7,000,000	6.4%
Surveys, Tests and Plans ⁴	\$4,000,000	3.6%
Special Items ⁵	\$8,000,000	7.3%
Total Preliminary Plans Budget	\$110,000,000	100%

Notes:

1. Construction team to provide pre-construction services, including estimating, constructability reviews, scheduling, site logistics, and coordination with adjacent major construction efforts by other teams. In addition, the contractor will provide the procurement of design-assist and design build subcontractors to work and collaborate with the architect, engineers, and University throughout the design build process.
2. Includes fees, bonds, and insurance through the design development phase. The architecture and engineering team will provide full scope development for the project, site planning, schematic design, and design development documents.
3. Includes campus project management, campus planning, engineering, design review, code and fire life safety design reviews, contract administration, and general administration of the project.
4. Includes site surveying, geotechnical and soils testing, utility trenching as needed to complete due diligence, and any other necessary design phase testing.
5. Includes external consultants to support programming and early design milestones; as well as technical studies to support the preparation of the environmental document pursuant to the California Environmental Quality Act and peer reviews.

Activities in the preliminary plans phase would include the following:

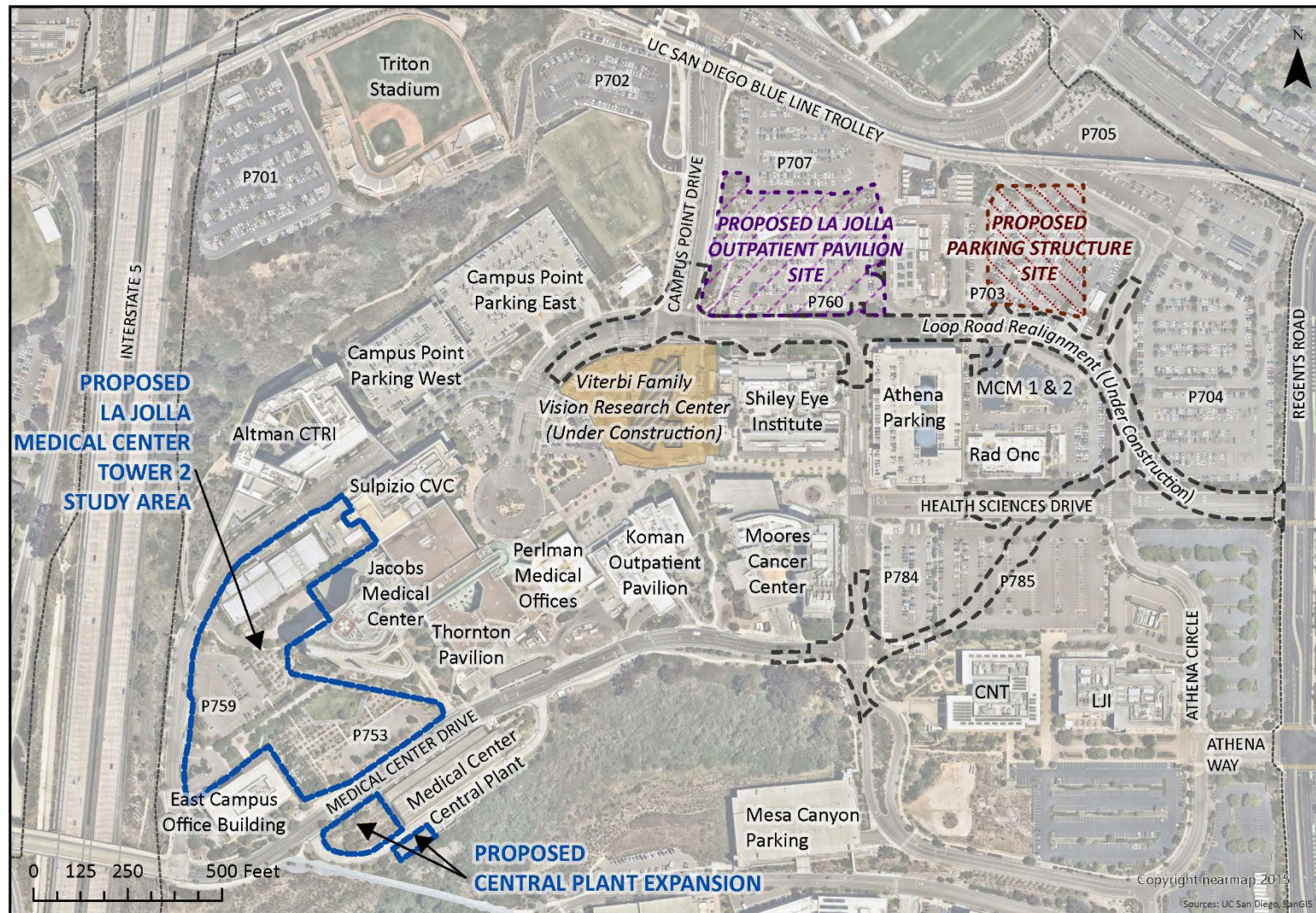
1. Validation of detailed programming, development of design concept, massing and site studies, and schematic design and design development documents.
2. Selecting a general contractor team to provide pre-construction services, including estimating, constructability services, scheduling, and risk analysis. The contractor will also include the procurement of design-assist and design build subcontractors to work and collaborate with the architect and engineers throughout the design phases.
3. Completion of design-phase testing, including site investigation, soils testing for naturally occurring hazardous materials, and site borings for the building. By completing this investigative and testing work during the design phase, potential risks would be identified, and implementation measures would be defined to control costs later in the construction phase.



La Jolla Hospital Expansion and Central Plant Expansion
Project Location

Created 08/05/2024

UC San Diego



La Jolla Medical Center Tower 2 and Central Plant Expansion
Project Study Area

Created 09/25/2024

UC San Diego

SUMMARY OF FINANCIAL FEASIBILITY

SAN DIEGO MEDICAL CENTER	
Project Name	La Jolla Medical Center Tower 2
Project ID	2036127
Preliminary Plans Budget	\$ 110,000,000
Anticipated Interest During Construction (included in total estimated project cost)	N/A – Preliminary Plans Funds Only

PROPOSED SOURCES OF FUNDING	
External Financing	\$ 110,000,000 (Preliminary Plans funds only)

FINANCING ASSUMPTIONS	
External Financing Amount	\$ 110,000,000
Anticipated Repayment Source	Revenues of the UC San Diego Medical Center
Anticipated Fund Source	Medical Center Revenues
Financial Feasibility Rate	4.25%
Estimated Average Annual Debt Service	\$ 4,675,000 *

* \$4,675,000 is the estimated annual average payment on the funds drawn during the preliminary plans phase only. The complete debt schedule, including principal payments, will be provided when the project is presented for full budget approval.

**UC SAN DIEGO HEALTH SYSTEM
PROJECTED FINANCIAL PERFORMANCE
Fiscal Years 2025 to 2035**

- ◆ Projected Financial Performance
- ◆ Key Assumptions
- ◆ Patient Volumes
- ◆ Statement of Revenues and Expenses
- ◆ Statement of Net Assets
- ◆ Statement of Cash Flows
- ◆ Key Financial Ratios

Projected Financial Performance

These projections are based on assumptions from the Office of the President, where available, local assumptions for years beyond 2025, and the debt service to support the requested planning funds for the project. 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) projection including incremental revenue/services, capital improvements, estimated debt service for the project planning; (4) estimates of market dynamics on patient volumes, payer mix and reimbursement; (5) projections of increased patient volume due to the area's population based on data provided by Environmental Systems Research Inc.; (6) forecasted increased demand for inpatient and outpatient services; 7) the acquisition of East Campus in 2024; 8) the opening of McGrath Family Outpatient Pavilion on the Hillcrest Campus in 2026.

Average daily census will increase from 725 in 2024 to 839 in 2035. Ambulatory clinic and emergency room visits are projected to increase from 1,532,865 in 2024 to 2,493,463 by 2035 as a result of population growth, new programs, new off-campus clinic sites, increased utilization of existing ambulatory space, and expanded clinical capacity as a result of the acquisition of East Campus in 2024 and the opening of the McGrath Family Outpatient Pavilion on the Hillcrest campus in 2026.

Total revenue is projected to increase from \$3.72 billion in 2024 to \$7.25 billion in 2035 as a result of projected patient volume growth and increased market share in select service lines, additional patient revenues from the acquisition of East Campus and the opening of the McGrath Family Outpatient Pavilion. Payor mix is projected to remain fairly stable throughout the projection period. The forecasted revenue also includes estimates of future Medi-Cal funds available under the current and subsequent Medicaid waivers or replacement programs, funds expected to be available under the Medi-Cal Hospital Fee Program, and revenues expected under the Medi-Cal managed care Enhanced Payment Program (EPP), Quality Incentive Program (QIP), and GME/IME programs. Medicare revenues are projected based on current IPPS and OPSS rules, anticipated changes to Medicare DSH, annual growth in market basket rates and the most recent rule for the wage index for FY 2025. Revenues include the expected decline and eventual loss of the contract pharmacy revenue, which decreased by 50 percent in 2024, and will be eliminated completely by 2027 due to drug manufacturers' restrictions on the use of 340B pricing.

Projected operating expenses, excluding non-cash UCRP and OPEB, increase from \$3.38 billion in 2024 to \$6.54 billion in 2035 due to increase in patient volumes and the impact of inflation, partially offset by the estimated results of new financial improvement initiatives. Salary expense is projected to increase five percent annually over the projection period. Inflation on medical and other supplies, as well as pharmaceuticals and blood products, is projected to be four percent annually over the projection period.

The preliminary unaudited net income for FY 2024 is \$342.7 million, which is favorable to budget by \$60.2 million or 21.3 percent due to the recognition of prior year unbudgeted revenue, strong volume performance, and disciplined management of labor cost that includes a \$77.1 million year-over-year reduction of contract labor. Financial improvements necessary to meet UCSD Health financial targets in 2025 and beyond include revenue cycle improvements, additional improvement in labor efficiency, continuing to decrease the use and cost of contract labor, reducing variation in the delivery and cost of care, and improving patient flow and capacity in the inpatient units and ambulatory settings. The modified net income is projected to increase from \$342.7 million (9.2 percent margin) in 2024 to \$385.4 million (9.5 percent margin) in 2025 based on the results of anticipated growth and financial improvements that partially offset the one-time startup costs for the opening of McGrath Family Outpatient Pavilion in 2026. Modified net income is then projected to increase to \$717.2 million (9.9 percent margin) by 2035 due primarily to the incremental margin provided by the acquisition of East Campus in 2024, the opening of the McGrath Family Outpatient Pavilion, as well as other services and the ongoing benefit of improvements in patient flow, and financial improvement initiatives.

The financial projection includes the debt service associated with the requested planning funds of \$110 million based on assumptions provided by Office of the President as well as 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 some projects which have not yet been approved, and which would be regularly reevaluated 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 modified margin and modified debt service coverage remain above industry averages. Days' cash on hand declines in 2025 and stays flat in 2026 due to the impact of the one-time costs related to the opening of the McGrath Family Outpatient Pavilion; days' cash will be below the required floor of 80 days required by the University's Debt Policy. After 2026, days' cash increases from 45 days and steadily builds to 57 days by 2035. Please note that the financial projection does not include the financial benefit of La Jolla Outpatient Pavilion, which will generate an increase in days' cash beginning in 2031 and contribute an estimated incremental 14 days' cash by 2035. An exception to the University's debt policy has been requested and approved by the Executive Vice President – Chief Financial Officer.

Key Assumptions for Projections

Fiscal Years 2024 – 2035

◆ Utilization

- Average daily census will increase from 725 in 2024 to 839 in 2035. This census will be driven by demographic changes in San Diego County, industry-wide changes in the delivery of health care, program enhancements, the acquisition of East Campus, growth in outpatient clinic and emergency room visits that drive inpatient care, and a larger referral base for high-complexity cases.
- San Diego County's population is projected to grow 0.7 percent from 2024 to 2035, adding 22,605 new residents, with the age group of 65 and older increasing over the same period from 16 percent to 21 percent of the total population.
- Nearly 1.3 million residents reside within the target market of the project. While a slight increase in total population by 2035 is anticipated in this market, similar to San Diego County overall, the population of this market is aging, suggesting an increased demand for healthcare services. Percent of residents 65 and older will increase from 18 percent of the total population in 2024 to 22 percent in 2035.
- Ambulatory clinic visits, which include visits to non-hospital licensed clinics operated by the faculty practice plan, a key driver of inpatient admissions and outpatient activity, will increase from 1,421,064 in FY 2024 to 2,351,609 by 2035 due to recent investment in outpatient capacity, the acquisition of East Campus in 2024, and the opening of McGrath Family Outpatient Pavilion in 2026.
- Emergency room visits, another driver of inpatient admissions, will increase from 102,801 in 2024 to 141,854 by 2035. UC San Diego Health has opened dedicated Geriatric Emergency Departments with senior emergency care unit rooms on the Hillcrest and La Jolla campuses to serve the unique needs of this growing portion of the population.

◆ Revenue

- Net patient service revenue reflects projected patient volume growth and ongoing strategies to optimize reimbursement through revenue cycle initiatives, strategic pricing, and contracting efforts.
- Includes modest level of Medi-Cal Hospital Fee funding as a result of the approval of Proposition 52 by California voters on November 8, 2016, which permanently extended the program into State law.
- Includes revenues from Medi-Cal Managed Care programs:
 - Medi-Cal Managed Care GME, a graduate medical education program effective January 1, 2017
 - Medi-Cal Managed Care QIP, a quality-based program effective July 1, 2017; the Prime program funds were rolled into QIP at the expiration of Prime on December 31, 2020.
 - Medi-Cal Managed Care EPP, an enhanced payment program utilization-based program effective July 1, 2017.

- Assumes AB915, a Medi-Cal Fee for Service supplemental payment program, continues throughout the projection period.
- Medicare reimbursement includes increases to the Medicare market basket and Value Based Purchasing along with budget sequestration and readmission reduced on the FY 2025 Final Rule.
- Excludes proposed Managed Care Tax for Designated Public Hospitals

◆ Operating Expense

- Labor inflation is projected to average five 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 2024 rate of 14 percent of eligible salary costs to a rate of 18 percent in FY 2032. Pension expense under GASB 68 is based on assumptions provided by Office of the President.
- Medical supply and pharmaceutical inflation of four 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 acquisition of East Campus in 2024, capital investment, and the opening of the McGrath Family Outpatient Pavilion in 2026.

UC SAN DIEGO HEALTH SYSTEM PROJECTED FINANCIAL PERFORMANCE PATIENT VOLUMES

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>Projected FY 2030</u>	<u>FY 2031</u>	<u>FY 2032</u>	<u>FY 2033</u>	<u>FY 2034</u>	<u>FY 2035</u>
Discharges	40,219	43,997	44,505	45,014	46,106	46,035	46,272	46,519	46,882	47,049	47,332	47,332
Average length of stay	6.6	6.6	6.6	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
ADC	725	794	801	807	820	821	824	828	831	835	839	839
Patient payor mix - percent												
Medicare	37.7%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%
Medi-Cal	37.7%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%
Commercial	24.1%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%
Indigent/Uninsured	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Ambulatory visits	1,421,064	1,624,629	1,761,119	1,858,201	1,932,619	2,005,907	2,083,976	2,131,033	2,183,974	2,238,364	2,294,248	2,351,609
Emergency room visits	102,801	123,785	132,450	139,072	141,854	141,854	141,854	141,854	141,854	141,854	141,854	141,854
Total	<u>1,523,865</u>	<u>1,748,414</u>	<u>1,893,569</u>	<u>1,997,274</u>	<u>2,074,473</u>	<u>2,147,761</u>	<u>2,225,830</u>	<u>2,272,887</u>	<u>2,325,828</u>	<u>2,380,218</u>	<u>2,436,101</u>	<u>2,493,463</u>

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

	<u>FY2024</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>Projected FY2030</u>	<u>FY2031</u>	<u>FY2032</u>	<u>FY2033</u>	<u>FY2034</u>	<u>FY2035</u>
Operating revenue												
Net patient revenue	\$3,564,719	\$3,876,868	\$4,205,841	\$4,517,638	\$4,808,755	\$5,082,265	\$5,388,354	\$5,692,742	\$6,024,511	\$6,371,186	\$6,749,285	\$7,095,749
Other operating revenue	159,595	165,830	145,658	108,187	113,436	118,941	124,713	130,766	137,114	143,770	150,750	158,070
Total operating revenue	3,724,314	4,042,698	4,351,499	4,625,825	4,922,191	5,201,206	5,513,068	5,823,508	6,161,625	6,514,956	6,900,035	7,253,819
Operating expenses												
Operating expense	3,252,431	3,515,711	3,734,911	3,964,824	4,208,541	4,462,686	4,740,945	5,050,701	5,361,653	5,690,520	6,043,853	6,414,053
Depreciation and amortization	123,493	123,725	131,431	134,598	137,221	141,560	142,550	128,662	128,817	129,695	125,889	126,071
Total operating expenses	3,375,924	3,639,436	3,866,342	4,099,421	4,345,762	4,604,246	4,883,495	5,179,363	5,490,470	5,820,215	6,169,742	6,540,124
Income/(loss) from operations	348,390	403,262	485,157	526,404	576,429	596,960	629,573	644,145	671,155	694,742	730,294	713,695
Net nonoperating revenues	(5,735)	(17,832)	(25,107)	(26,141)	(20,970)	(16,890)	(12,611)	(8,575)	(5,142)	(1,877)	900	3,464
Modified net income*	\$342,654	\$385,429	\$460,050	\$500,263	\$555,460	\$580,070	\$616,961	\$635,570	\$666,013	\$692,865	\$731,194	\$717,159
Modified Net income margin*	9.2%	9.5%	10.6%	10.8%	11.3%	11.2%	11.2%	10.9%	10.8%	10.6%	10.6%	9.9%

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

	<u>Actual 2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>Projected 2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
Assets												
Cash and cash equivalents	\$428,750	\$428,920	\$455,796	\$501,729	\$580,179	\$660,262	\$750,519	\$817,670	\$875,777	\$928,064	\$965,720	\$994,637
Patient accounts receivable	530,701	532,799	578,102	621,367	659,638	699,177	741,417	783,327	826,746	876,758	928,840	976,484
Other receivables and prepaid assets	107,874	108,094	113,473	116,323	120,433	124,954	129,757	134,774	139,761	145,571	151,618	157,229
Inventory	62,356	65,310	69,549	73,323	77,612	82,725	88,167	93,310	98,633	104,819	111,231	117,997
Total current assets	1,129,680	1,135,123	1,216,921	1,312,742	1,437,861	1,567,117	1,709,860	1,829,081	1,940,917	2,055,211	2,157,410	2,246,347
Capital assets, net	1,904,573	1,910,483	1,900,967	1,865,391	1,827,610	1,784,962	1,732,884	1,694,990	1,657,240	1,618,915	1,587,202	1,555,614
Restricted assets for hospital construction	60,090	22,944	0	0	0	0	0	0	0	0	0	0
Other assets	93,501	94,521	95,541	96,561	97,581	98,601	99,621	100,641	101,661	102,681	103,701	104,721
Total assets	3,187,845	3,163,070	3,213,428	3,274,693	3,363,052	3,450,680	3,542,365	3,624,712	3,699,818	3,776,807	3,848,312	3,906,682
Deferred outflows of resources	549,319	549,319	549,319	549,319	549,319	549,319	549,319	549,319	549,319	549,319	549,319	549,319
Liabilities												
Accounts payable and accrued expenses	458,945	508,755	539,903	572,416	604,157	644,259	681,665	724,735	764,438	816,356	864,002	915,284
Current portion of LT debt	61,687	266,151	118,582	66,580	72,930	72,025	73,602	73,913	75,112	75,682	77,213	78,776
Total current liabilities	520,632	774,906	658,485	638,995	677,086	716,285	755,267	798,647	839,549	892,038	941,215	994,060
Long-term debt and capital leases	1,331,357	1,130,225	1,256,186	1,234,011	1,205,780	1,178,751	1,150,444	1,122,130	1,092,923	1,063,455	1,032,768	1,000,833
Other long-term liabilities	2,859,024	2,974,768	3,238,416	3,336,192	3,428,158	3,524,076	3,624,066	3,728,294	3,836,931	3,950,156	4,068,156	4,191,122
Total liabilities	4,711,014	4,879,899	5,153,088	5,209,198	5,311,025	5,419,112	5,529,778	5,649,071	5,769,403	5,905,649	6,042,139	6,186,014
Deferred inflows of resources	481,148	481,148	481,148	481,148	481,148	481,148	481,148	481,148	481,148	481,148	481,148	481,148
Net Assets												
Invested in capital assets	571,619	537,051	526,198	564,800	548,900	534,186	508,838	498,948	489,206	479,779	477,221	476,005
Restricted												
Unrestricted	(2,026,617)	(2,185,708)	(2,397,687)	(2,431,134)	(2,428,702)	(2,434,446)	(2,428,079)	(2,455,136)	(2,490,619)	(2,540,449)	(2,602,877)	(2,687,167)
Total net assets	(\$1,454,998)	(\$1,648,658)	(\$1,871,489)	(\$1,866,334)	(\$1,879,801)	(\$1,900,260)	(\$1,919,241)	(\$1,956,188)	(\$2,001,413)	(\$2,060,671)	(\$2,125,656)	(\$2,211,161)

**PROJECTED FINANCIAL PERFORMANCE
STATEMENT OF CASH FLOW
(Dollars in thousands)**

	Actual	Projected										
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035
Beginning cash	\$416,246	428,751	428,920	\$455,797	\$501,730	\$580,180	\$660,263	\$750,520	\$817,671	\$875,778	\$928,065	\$965,721
Cash from operations:												
Operating income w/o actuary expense	348,390	403,262	485,157	\$526,404	\$76,429	596,960	629,573	644,145	671,155	694,742	730,294	713,695
Change in operating receivables/payables	(28,998)	44,537	(31,573)	(\$25,776)	(24,129)	(18,871)	(25,566)	(20,220)	(26,032)	(22,935)	(30,641)	(23,446)
Add: depreciation	123,493	123,725	131,431	\$134,598	137,221	141,560	142,550	128,662	128,817	129,695	125,889	126,071
Cash provided from operations	442,884	571,524	585,015	\$635,225	689,521	719,650	746,557	752,587	773,940	801,502	825,542	816,320
Cash flows from non-capital financing activities:												
Health System Support	(329,552)	(438,029)	(397,043)	(434,112)	(443,674)	(470,265)	(500,450)	(531,567)	(564,593)	(599,532)	(637,385)	(637,396)
Government direct grants												
Grants from Hospital Fee Program	14,224	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Transfers to/from University	(22,340)	(25,317)	(14,390)	45,179	(24,087)	(24,545)	(25,017)	(25,503)	(26,003)	(26,519)	(27,050)	(27,596)
Total cash provided/(used) from non-capital financing	(337,668)	(453,346)	(401,432)	(\$378,933)	(457,761)	(484,810)	(515,467)	(547,069)	(580,596)	(616,050)	(654,434)	(654,992)
Cash flows from capital and financing activities:												
Gifts/other capital appropriations												
Debt proceeds	261,173	30,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Purchase of capital assets	(426,264)	(100,809)	(92,801)	(69,617)	(69,742)	(68,916)	(60,176)	(60,170)	(60,163)	(60,156)	(62,649)	(62,642)
Principal payments on debt	(64,798)	(55,494)	(65,721)	(118,582)	(66,580)	(72,930)	(72,025)	(73,602)	(73,913)	(75,112)	(75,682)	(77,213)
Interest paid on debt obligations	(42,306)	(50,118)	(49,026)	(\$52,272)	(49,033)	(47,825)	(46,426)	(45,048)	(43,724)	(42,321)	(41,059)	(39,614)
All Other	1,672	4,913	(87)	(87)	(87)	(87)	(87)	(87)	(87)	(87)	(87)	(87)
Total cash used for capital and financing activities	(270,525)	(171,508)	(192,636)	(\$225,558)	(170,441)	(174,759)	(163,715)	(163,907)	(162,887)	(162,676)	(164,477)	(164,556)
Cash flows from investing activities												
Interest income received	20,676	17,373	14,006	16,218	18,150	21,022	23,902	26,560	28,669	30,531	32,046	33,165
Change in restricted assets	161,158	37,147	22,944	-	-	-	-	-	-	-	-	-
Investment in joint ventures	(4,020)	(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	(1,020)
Total cash used for capital and financing activities	177,813	53,500	35,930	\$15,198	17,130	20,002	22,882	25,540	27,649	29,511	31,026	32,145
Net change in cash	12,505	169	26,877	\$45,933	78,450	80,083	90,257	67,151	58,107	52,287	37,656	28,917
Ending Cash	<u>\$428,751</u>	<u>428,920</u>	<u>455,797</u>	<u>\$501,730</u>	<u>\$580,180</u>	<u>\$660,263</u>	<u>\$750,520</u>	<u>\$817,671</u>	<u>\$875,778</u>	<u>\$928,065</u>	<u>\$965,721</u>	<u>\$994,638</u>
Days cash on hand	48	45	45	46	50	54	58	59	60	60	58	57

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

	Actual	Projected										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Modified Net Income*	\$342,654	\$385,429	\$460,050	\$500,263	\$555,460	\$580,070	\$616,961	\$635,570	\$666,013	\$692,865	\$731,194	\$717,159
Modified Total Margin*	9.2%	9.5%	10.6%	10.8%	11.3%	11.2%	11.2%	10.9%	10.8%	10.6%	10.6%	9.9%
EBIDA (\$000's)	\$508,453	\$559,273	\$640,507	\$687,133	\$741,713	\$769,455	\$805,938	\$809,280	\$838,555	\$864,881	\$898,142	\$882,844
Days Cash on Hand	48	45	45	46	50	54	58	59	60	60	58	57
Modified Debt Service Coverage*	4.7	5.3	5.6	4.0	6.4	6.4	6.8	6.8	7.1	7.4	7.7	7.6

* Excludes non-cash UCRP and OPEB as allowed under UC Debt Policy