



EXECUTIVE VICE PRESIDENT—
BUSINESS OPERATIONS

OFFICE OF THE PRESIDENT
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200
510/987-9029

April 8, 2009

**ACTION UNDER PRESIDENT'S AUTHORITY – AMENDMENT OF THE BUDGET
FOR CAPITAL IMPROVEMENTS AND THE CAPITAL IMPROVEMENT PROGRAM
AND APPROVAL OF EXTERNAL FINANCING FOR ORTHOPAEDIC INSTITUTE
TENANT IMPROVEMENTS, SAN FRANCISCO CAMPUS**

It is recommended that:

Pursuant to Standing Order 100.4(q)

- (1) The President amend the Budget for Capital Improvements and the Capital Improvement Program to include the following project:

San Francisco: Orthopaedic Institute Tenant Improvements - preliminary plans, working drawings, construction, and equipment - \$10,000,000 to be funded from external financing.

Pursuant to Standing Order 100.4(nn)

- (2) The President approves external financing not to exceed \$10,000,000 to finance the *Orthopaedic Institute Tenant Improvements* project. The President requires that:
 - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
 - b. As long as the debt is outstanding, the UCSF Medical Center net patient revenues shall be maintained in amounts sufficient to pay debt service and to meet related requirements of the authorized financing.
 - c. The general credit of the Regents shall not be pledged.
- (3) The Officers of the Regents be authorized to execute all documents necessary in connection with the above.

Budget for Capital Improvements and
Capital Improvement Program
Scheduled for
Regents' Allocation, Loans, Income Reserves, University Registration Fee Reserves,
Gift Funds and Miscellaneous Funds

Campus and Project Title (<u>Total Cost</u>)		Proposed <u>2008-09</u>	
<u>San Francisco</u>			
Orthopaedic Institute Tenant Improvements	P, W, C, E	\$10,000,000	External Financing

DESCRIPTION

The San Francisco Medical Center is seeking approval of \$10,000,000 funded from external financing for the tenant improvements of the UC San Francisco Orthopaedic Institute at 1500 Owens Street, San Francisco, CA 94158-2332.

Background

Orthopaedic surgery is one of the fastest growing segments of the health care market. With the demographic changes of an aging population, evolving expectations of active senior years, and advances in technology, growth in orthopaedics is inevitable. These market factors, along with UCSF established and successful translational research activities, have positioned UCSF to be the premier center for orthopaedic care in the Northern California market.

UCSF Medical Center currently has no existing space in current facilities that would allow for the growth and consolidation of the Department of Orthopaedics. To accommodate the growing surgical volume of ambulatory orthopaedic surgical cases, UCSF has had to perform some of the surgical procedures at three other UCSF locations and one non-UCSF location: 1) UCSF Moffit/Long Hospital, 2) UCSF Mt. Zion Hospital, 3) UCSF Ambulatory Surgery Center, and 4) St. Mary's Medical Center.

In January 2008, the Regents approved the lease with Alexandria Real Estate Equities-San Francisco No.15, LLC for approximately 50,000 rentable square feet (rsf) of space located at 1500 Owens Street, 1st and 2nd Floor, San Francisco, to be used by the Orthopaedic Institute. The building is newly constructed and ready for build out to tenant specifications. The initial lease will be for twelve years commencing upon substantial completion of the tenant improvements with two ten-year renewal options.

With the development of a dedicated Orthopaedics Institute, UCSF intends to:

- provide a patient-centric venue along the care continuum from diagnosis to rehabilitation;
- provide an outstanding site for the practice of ambulatory orthopaedic medicine;

- generate profit through the state-of-the-art orthopaedic care delivered in the most efficient methods for patients; and
- provide an exceptional venue for carrying out the clinical, research, and teaching missions of UCSF.

Project Description

The Orthopaedic Institute would provide state-of-the-art orthopaedic care to patients and serve as a magnet for faculty recruitment and retention.

The tenant improvements for this project would include the following: an ambulatory surgery center containing four operating rooms and pre-post operating areas; a Diagnostic Imaging Facility including a magnetic resonance imaging (MRI) suite and digital X-Ray facilities; clinical/exam areas containing 33 exam rooms, clinical support, and administrative space; orthotic and prosthetic shop, and academic space.

The new facility will allow for the consolidation of the outpatient surgeries and all subspecialties and allow for growth of Sports Medicine, Hand and Upper Extremity Surgery, Foot and Ankle Surgery, Spinal Pain Management procedures, and Orthotics and Prosthetic services. The Institute will provide space for the development of innovative programs such as a Human Performance Center, a Dance Medicine Center, and a Cartilage Regeneration Center that would not be possible in existing facilities.

Construction will begin in April 2009 with completion by August 1, 2009.

Policy on Sustainable Practices

The 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.

CEQA Classification

The Regents approved the lease for this project in January 2008 and determined it to be Categorically Exempt under class 27 (Leasing New Facilities), as well as Class 1 (Existing Facilities). The 1500 Owens project received specific San Francisco Redevelopment Authority approvals in August 2005 and September 2006.

The facility complies with the UC Seismic Safety Policy for Leased and Purchased Buildings.

Financial Feasibility

The total cost for the Orthopaedic Institute Tenant Improvements project payable by University of California prior to lease commencement would be \$10,000,000, to be funded from external financing.

Repayment of the external debt would be from the San Francisco Medical Center's net patient revenues. The projected annual debt service for the project would be approximately \$1,782,000, calculated at an annual rate of 5.85 percent for seven years. As long as the debt is outstanding, the San Francisco Medical Center's net patient revenues shall be maintained in amounts sufficient to pay debt service and to meet related requirements of the authorized financing.

The external financing would be paid from revenue sources specified in the external financing documents; therefore, the general credit of the Regents would not be pledged.

The original project budget approved by the Regents in January 2008 is \$17,500,000. UCSF Medical Center will pay up to \$10,000,000 of the Tenant Improvements. The balance of \$7,500,000 is Major Moveable Medical Equipment that is being financed under separate agreement. The Landlord is contributing \$80 per rsf up to \$4,000,000 of the Tenant Improvement work that will be done separately. An additional \$50 per rsf for Tenant Improvements by the Landlord was declined in a Lease Amendment dated December 8, 2008.

The Tenant Improvements that will be owned by UCSF Medical Center at the end of the lease are included in this item and are part of the Real Property Waiver that will be executed by the Landlord Alexandria Real Estate Equities, Bank of the West, and UCSF Medical Center.

A summary of the financial feasibility analysis is presented in Attachment 2.

Approved by:



Mark G. Yudof
President of the University

4/9/09

Date

Attachments

**PROJECT STATISTICS
ORTHOPAEDIC INSTITUTE TENANT IMPROVEMENTS
CAPITAL IMPROVEMENT BUDGET
SAN FRANCISCO CAMPUS**

<u>Cost Category</u>	<u>Amount</u>	<u>% of Total</u>
Tenant Improvements		
Design & Construction Per Lease 5/31/08	\$9,459,904	94.60%
Landlord Project Management & Start-Up	125,358	1.25%
	<u>\$9,585,262</u>	<u>95.85%</u>
UCSF Reserve Contingency for Potential Change Orders	414,738	4.15%
Total Project Cost	<u>\$10,000,000</u>	<u>100.00%</u>

The January 2008 Item approved by the Regents approved renting up to 50,000 rsf. The actual rentable square feet for the project have been determined to be 41,321 square feet. The cost equals \$242.01 per RSF which is below the estimate of \$350.00 per RSF approved in the Regents Item.

ATTACHMENT 2

SUMMARY FINANCIAL FEASIBILITY ANALYSIS

Project Title: Orthopaedic Institute Tenant Improvements

Total Estimated Project Cost \$ 10,000,000

Proposed Sources of Funding

External Funding \$ 10,000,000

Proposed Financing Terms

UCSF Medical Center Net Patient Revenues:

Interest Rate: 5.85%

Duration: 7 Years

Cash Flow from UCSF Medical Center Net Patient Revenues (2009-10):

Net Patient Revenues \$1,488,514,308

Other Funding Commitments 1,439,647,375

Net Revenues \$48,866,933

Projected annual debt service (2009-10)
Proposed project \$ 1,782,000

Debt Service Coverage 27.42 X