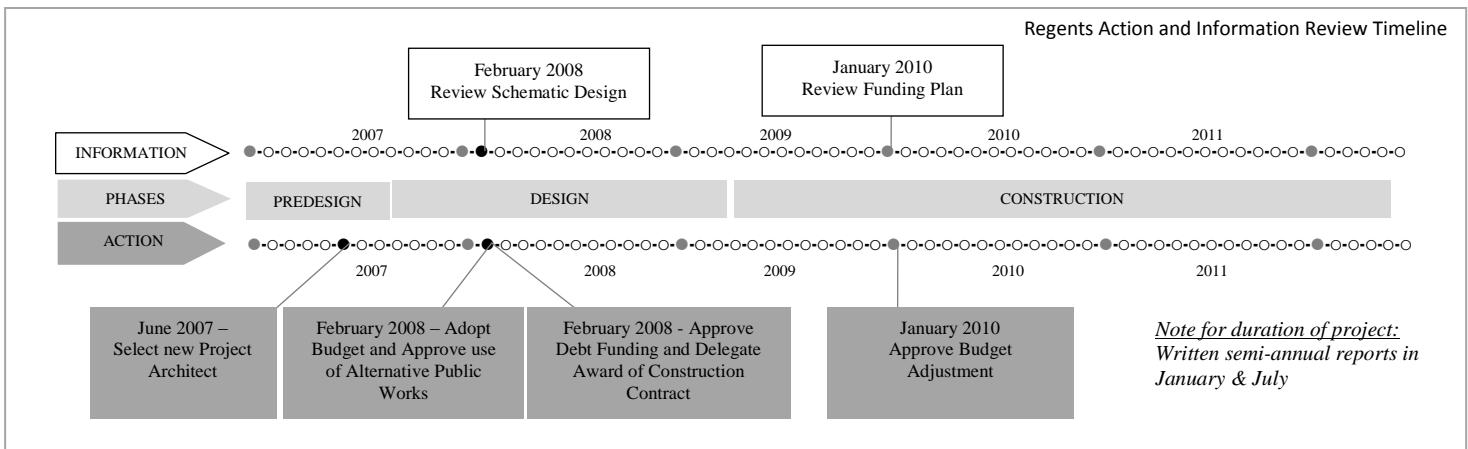


VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

UW Medical Center Expansion Project – Approve Budget Adjustment and Funding PlanRECOMMENDED ACTION:

It is the recommendation of the administration and the Finance, Audit and Facilities Committee that the Board of Regents approve the addition of a vertical shell of three floors to the existing project scope and an increase in the previously approved project budget for the UW Medical Center (UWMC) Expansion Project (Phase 1) from \$170,000,000 to \$204,000,000.

PROJECT DESCRIPTION:

The project is a physical expansion, connected to the south edge of the existing UWMC, which will provide critically needed inpatient units, teaching and resident support space to meet existing and planned patient care, training and medical school admissions requirements.

PREVIOUS ACTIONS:

In May 2006, the Board of Regents delegated authority to the President to award a design contract to Anshen & Allen. Following pre-design, the administration was unable to reach an acceptable design contract with Anshen & Allen. At its June 2007 meeting, the Board of Regents approved the award of the design contract to NBBJ.

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

UW Medical Center Expansion Project – Approve Budget Adjustment and Review Funding Plan (continued p. 2)

In February 2008, the Board of Regents adopted the current project budget, approved the use of alternative public works, approved the financing plan and delegated authority to the President to award the construction contract.

PROJECT SCOPE:

The UWMC Expansion Project will be completed in two phases. Phase 1, which is currently under construction, includes a five-story hospital addition of approximately 163,000 GSF, including a mechanical/electrical mezzanine level and mechanical basement and penthouse spaces configured to accommodate a future vertical expansion, approximately 10,000 GSF of loading dock and interior renovations and connections to the existing hospital towers, and substantial on-site emergency power, chilled water and oxygen system infrastructure. Phase 1 will provide a new Neonatal Intensive Care Unit (high-risk level III NICU), a 32-bed adult surgical oncology unit, diagnostic imaging expansion, shelled space for eight future operating rooms, a reconfigured loading dock, and mechanical and electrical infrastructure for current and future expansion needs.

As initially planned, Phase 2 would be a future vertical expansion of Phase 1, adding the additional floors needed for acute care inpatient nursing units. However, construction of a vertical shell of three additional floors with the Phase 1 project would take advantage of both favorable current construction market conditions and the UW Medical Center's FY 2009 financial performance (that exceeded budget forecasts). The vertical shell would add the structure and exterior enclosure of floors six through eight. It would include minimal lighting and heat, extension of all elevators to floor eight, air handling units to serve some of the program areas that will be built out later, and the mechanical equipment penthouse on the rooftop. Housing for a third emergency generator would also be built.

Construction of the vertical shell as part of Phase 1 would also reduce the operational impacts and disruption of patient care that is expected to occur during construction of Phase 2 – on top of a building that is fully occupied with patients. It would also allow UW Medical Center to plan and eventually construct interior program elements on the top three floors as floor-by-floor tenant improvements that could be added as funding becomes available and as patient care needs increase.

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

UW Medical Center Expansion Project – Approve Budget Adjustment and Review Funding Plan (continued p. 3)

Other benefits:

- Reduces construction inflation risk associated with Phase 2
- Saves approximately \$9 million in overall project costs

PROJECT SCHEDULE:

Construction of Phase 1 is currently scheduled for completion in January 2012, with occupancy by the end of March 2012. Construction of the vertical shell of floors six through eight would extend the construction period by four months (to May 2012).

PROJECT BUDGET:

This action requests a \$34,000,000 increase in the Phase 1 project budget to accommodate the incorporation of the vertical shell of floors six through eight into the Phase 1 project scope.

NEED FOR PHASE TWO:

Phase 2 of the expansion project remains a priority for the future. Based on current inpatient census and occupancy levels across the current health system sites (Harborview and UW Medical Center), UW Medical Center anticipates that the new inpatient unit in Phase 1 will be fully occupied when it opens. The affiliation of Northwest Hospital and Medical Center with UW Medicine in January 2010 will provide an opportunity to better meet the secondary care needs of UW Medicine patients that currently have limited access in our system. It also provides for increased volumes of tertiary and quaternary care for UW Medical Center and Harborview based on future needs from the Northwest Hospital site. UW Medical Center remains the site where UW Medicine provides tertiary and quaternary services in oncology and solid organ transplantation, which require significant capital investments that must be well utilized to be economically viable. The additional inpatient capacity that Phase 2 will provide is necessary to meet the needs of these tertiary and quaternary patient care programs and to assist in eventually replacing the obsolete portions of the original 1959 University Hospital.

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

UW Medical Center Expansion Project – Approve Budget Adjustment and Review Funding Plan (continued p. 4)

SOURCES AND USES OF FUNDS:

Projected costs and sources of funding are estimated in the table below. Debt funding will be repaid from UWMC revenues.

| UWMC Expansion - Jan 2010 (\$000) | | |
|--|------------------|-------------------------------|
| | 2009 Plan | Proposed 2010 Plan |
| Uses of Funds | | |
| Phase 1 | \$ 170,000 | 204,000 |
| Phase 2 | \$ 140,000 | 97,000 |
| Total Uses | \$ 310,000 | 301,000 |
| Sources of Funds | | |
| Phase 1 | | |
| Debt | \$ 160,000 | 160,000 |
| Equity UWMC | \$ 10,000 | 44,000 |
| | \$ 170,000 | 204,000 |
| Phase 2 | | |
| Debt | \$ 110,000 | 71,000 |
| Equity UWMC | \$ 30,000 | 26,000 |
| | \$ 140,000 | 97,000 |
| Total Sources | \$ 310,000 | 301,000 |

The proposed increase in equity and reduction in debt will reduce total project annual debt service by about \$2.9 million.

FINANCIAL ANALYSIS:

The Board of Regents approved Phase 1 of the UWMC expansion plan in 2008, following UW Treasury's update of the 2007 UWMC credit analysis that was submitted earlier to the Board in conjunction with the hospital expansion program. The update examined past and projected UWMC financial performance and identified the potential impact of certain risks facing UWMC.

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

UW Medical Center Expansion Project – Approve Budget Adjustment and Review Funding Plan (continued p. 5)

The primary differences between UWMC's 2010 and the 2009 projections are:

- Continuing positive impact of revenue and expense initiatives achieved in 2009
- Reduced payments from Medicare and Medicaid
- Increased inflation in employee benefits

Other key assumptions (such as patient volume, payor mix, and the effect of ongoing revenue and expense initiatives) are not materially different. Debt service coverage is projected to remain well above the 1.25 coverage minimum specified in the internal loan agreement with UW Treasury.

Compared to the same period last year, results for the first four months of the current fiscal year are favorable (relative to budgeted levels).

- Net patient revenue is up by 9%
- Net operating income is up by 22%
- Operating margin to date in FY2010 has been 5.7% (versus 5.1% during the same period last year)

| UWMC Financial Results (\$ in millions) | | Projected | | | | | | | | | | |
|---|-----------------|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Ratios/Indicators | UWMC Target (1) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Profitability | | | | | | | | | | | | |
| Operating Margin | >2.0% | 3.9% | 3.9% | 2.8% | 2.4% | 2.6% | 2.5% | 2.1% | 1.9% | 1.9% | 2.1% | 1.9% |
| Operating Cash Flow Margin | >9.0% | 9.8% | 9.6% | 9.9% | 9.9% | 10.0% | 9.9% | 9.8% | 9.5% | 9.2% | 9.3% | 8.9% |
| Debt Capacity | | | | | | | | | | | | |
| Debt Service Coverage | >4.0 | 4.8 | 3.5 | 3.4 | 3.4 | 3.6 | 3.0 | 3.1 | 3.2 | 3.3 | 3.5 | 3.5 |
| Debt to Cash Flow | <4.0 | 2.1 | 3.2 | 3.5 | 3.2 | 3.0 | 3.2 | 3.4 | 3.1 | 2.9 | 2.6 | 2.5 |
| Debt to Capitalization | <40.0% | 21.6% | 29.2% | 29.7% | 28.5% | 27.5% | 29.3% | 29.5% | 27.9% | 26.3% | 24.7% | 23.1% |
| Liquidity | | | | | | | | | | | | |
| Days Cash on Hand | >100 | 110.1 | 136.3 | 121.6 | 121.3 | 123.8 | 125.8 | 113.6 | 112.5 | 111.7 | 110.6 | 109.7 |
| Cash to Debt | >100.0% | 154.0% | 124.4% | 111.4% | 119.8% | 129.4% | 121.8% | 110.0% | 119.6% | 131.0% | 142.9% | 157.6% |
| Other | | | | | | | | | | | | |
| Days in A/R (Net) | <50 | 75.3 | 55.0 | 54.0 | 53.0 | 52.0 | 51.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 |

(1) Performance targets are set at figures comparable to Moody's "A" rating category levels.

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

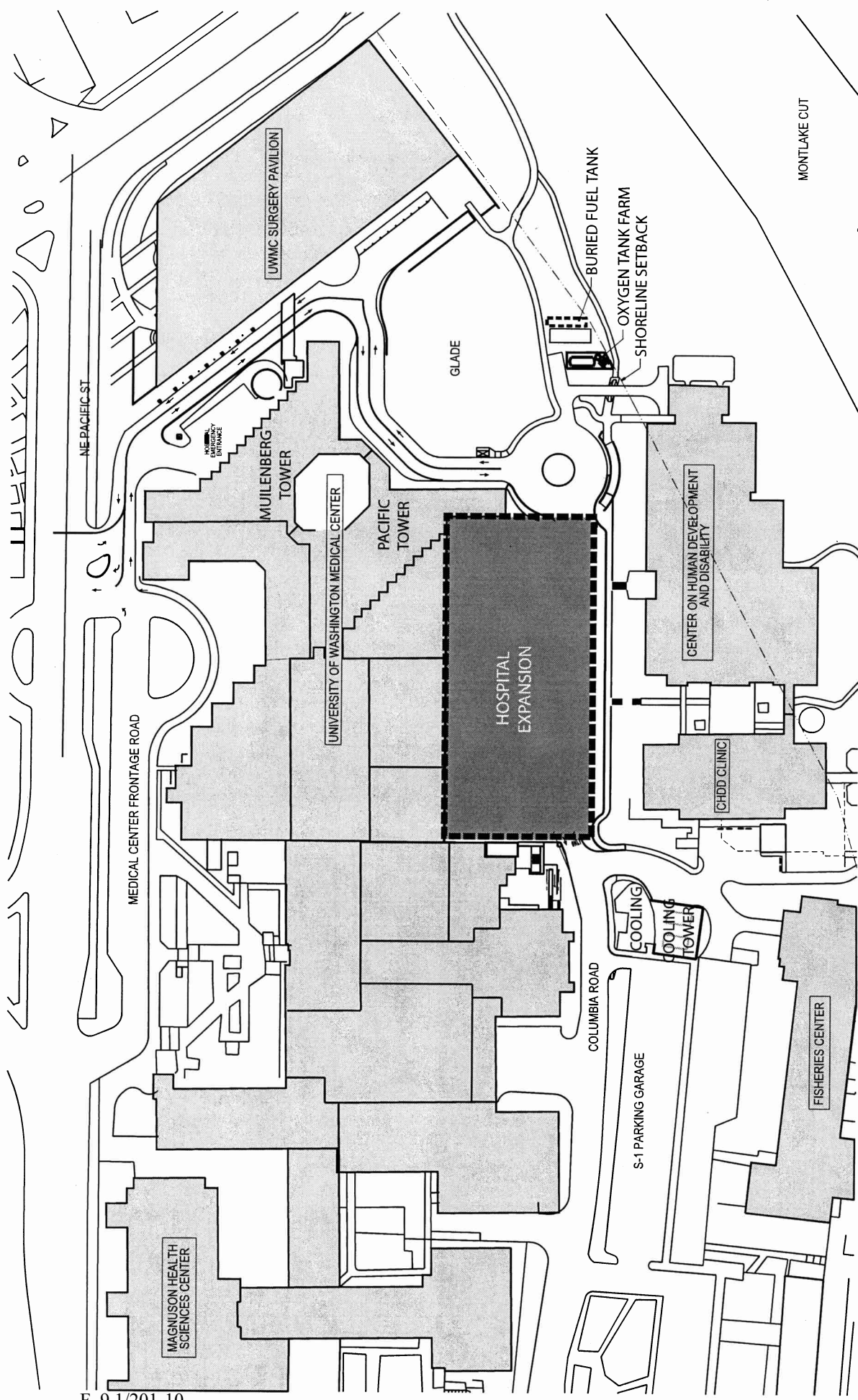
UW Medical Center Expansion Project – Approve Budget Adjustment and Review Funding Plan (continued p. 6)

INTERNAL REVIEW AND APPROVALS:

The proposed increase in the scope of Phase 1 and the associated funding plan has been reviewed and approved by the UW Medicine Board, the Senior Vice President, and the Vice Provost for Planning and Budgeting.

Attachment

UW Medical Center map



Attachment 1

01 COMPOSITE SITE PLAN