

VII. STANDING COMMITTEES**B. Finance, Audit and Facilities Committee**UW Medical Center Expansion Phase II – Informational UpdateINFORMATION

The material presented here offers background information on the UWMC Montlake Tower Expansion Phase II project that will be presented to the Board of Regents at the October 2012 meeting. The information in this backgrounder is intended to supplement the presentation to the Board.

This item will be brought forward for financing approval at the November Board meeting.

Attachments

1. UWMC Montlake Tower Expansion Phase II Backgrounder
2. Montlake Tower Expansion Phase II Informational Briefing

UWMC Montlake Tower Expansion Phase II

October 2012

Backgrounder

The UWMC Montlake Tower Expansion (MLT) is a two-phase project. The initial \$170 million phase was approved by the Board of Regents in February 2008. To take advantage of a favorable construction cost climate by building out the shelled floors of Phase II and to accommodate the rapid growth of the oncology program, the budget was increased to \$204 million in January 2010 and by an additional \$11 million in June 2010 for a total of \$215 million. Construction was completed on schedule in July 2012 and the facility is scheduled to begin operations in October 2012.

Due to inpatient capacity constraints impacting the execution on the strategic plan, management is requesting an acceleration of the timeframe to build out the shelled areas. The second phase of the MLT project is expected to begin construction in Winter 2013/2014 and be completed by 2017.

Management has completed an update of the UWMC facility plan for the core campus. The plan integrates the MLT capacity and enhances the operational efficiency for the entire campus.

The total project cost for the revised Phase II is \$186 million and, subject to Regental approval, will be funded with \$50 million in equity and \$136 million from an ILP loan.

Before the project can get underway, the Washington State Department of Health must approve a Certificate of Need for the additional bed capacity that Phase II will create. To apply for this CON, the Board must first approve the financing plan for the project.

Over the last three months, UW Medicine leadership has been working with the Treasury Office on the financial feasibility of this project. This working group has reviewed the Medical Center's long range financial plan and ten year proforma, identified and stress tested key risks, and developed mitigation strategies. The results of this due diligence will be presented to the board in conjunction with a financing action item on November 8, 2012.

It is anticipated that UW Capital Projects Office will be issuing a Request for Proposal for selection of a general contractor/construction manager (GC/CM). The award of GC/CM and approval of the project budget will be brought to the Regents for approval at the February 2013 meeting.

ATTACHMENT 1

MONTLAKE TOWER (MLT) EXPANSION PHASE II

BOARD OF REGENTS INFORMATIONAL BRIEFING

OCTOBER 11, 2012

DISCUSSION OVERVIEW

- Project Background and Proposed Recommendations
- Proposed Montlake Tower Facility Configuration and Core Hospital Infrastructure Enhancements
- Project Financial Plan
- Next Steps

BACKGROUND & PROPOSED RECOMMENDATIONS

2005 -2007 The Project. The Expansion project was conceived in FY05 and received Board of Regents (BOR) approval in FY08. The scope of work envisioned an 8-story 226,000 square foot patient care services tower to be built in two phases. The BOR approved funding for Phase I and conceptually agreed to Phase II. **Original project cost - \$310 million**

2010 – Approved Change in Scope to Phase I. In January 2010, the Board of Regents approved a change in scope to Phase I which included construction of three Phase II shelled floors. Build out of a special air-handling-needs 30 bed Oncology unit was added to the Phase I scope in June 2010. Subsequent Phase II planning was anticipated to begin in FY15 with occupancy occurring in FY17. **Revised project cost - \$305 million**

2012 Proposed Accelerated Phase II recommendation. Inpatient capacity has become very constrained and is impacting the ability to execute the strategic plan. Management recommends accelerating the build out of the shelled inpatient floors to increase ICU, Medical/Surgical and Operating Room capacity beginning mid-FY13. **Revised project cost - \$297 million**

2012 Core Hospital Infrastructure recommendation. Management has completed an update of the Medical Center's 10-year facility plan for its core hospital campus. The plan integrates the MLT capacity and enhances operational efficiencies for the entire campus. Enhanced infrastructure cost \$104.5 million. **Total revised/expanded project cost - \$401 million**

Project Financial Plan. The proposed project financial plan includes \$136 million of long term debt and incorporates the \$401 million capital costs. The plan is being reviewed/stress tested by the UW Treasury.

CON Approval. Increasing UWMC licensed beds from 450 to 529 will require Certificate of Need approval.

PROPOSED CORE HOSPITAL INFRASTRUCTURE ENHANCEMENTS

The recently updated ten year facility plan includes substantial remodeling of the core hospital to maximize the MLT expansion, address future strategic growth and position the UWMC facility for the next decade. Projects include:

- Preparation and recovery space for the operating rooms and second floor procedure areas
- 7EE Clinic space (to accommodate displaced clinics)
- 8SS Neuro-diagnostic Center (including EEG and EMG)
- 8SE Infusion, Satellite Pharmacy & Oncology Clinic

These additional projects are estimated to cost \$104.5 million.

Costs associated with significantly updating the medical center front entrance are not included in the above cost estimate but have been included in the long range capital plan. Front entrance costs are estimated to be \$18 million and will be brought forward as an equity financed project for BOR approval in the next three to six months.

PROPOSED SOURCES AND USES

(\$ IN MILLIONS)

Sources of Funds

Equity	\$	105.2	From UWMC reserves
ILP Debt Phase I		160.0	Approved 2008
ILP Debt Phase II		136.1	Regents action in November 2012
Total Sources of Funds	\$	401.3	

Uses of Funds

Phase I	\$	215.0	
Phase II (original scope)		81.8	Includes savings of \$8.2m from original estimate
Additional Projects Phase II		104.5	
Total Uses of Funds	\$	401.3	

NOTE: Total project cost and debt includes 1% cost of issuance on the ILP draws

OVERVIEW OF LONG RANGE PLAN

The UWMC Long Range Financial Plan (LRFP) was last updated as a five year projection in the fall of 2011. The current update reflects a 10 year projection in order to fully incorporate the long term impacts of the Montlake Tower.

1. Significant components of the LRFP have been updated to reflect FY12 experience and updated assumptions:
 - Volume and net revenue assumptions
 - Expense assumptions
 - Capital expenditures
 - Financial indicators

2. Phase II impacts are included:
 - Accelerated timing of the build out
 - Volumes for Phase II additional capacity
 - Cost estimates for infrastructure work to update existing facility in order to support new volumes in addition to original Phase II work planned in Montlake Tower
 - Proposed debt/equity assumption of funding

NEXT STEPS

- Concurrence of UW Treasury on debt capacity analysis and proforma – August through October 2012.

Board of Regents informational briefing at the October 11th Facilities and Finance Committee.

UWMC Committee of the UW Medicine Board – approval at the October 25th meeting.

- UW Medicine Board - approval at the November 5th meeting.

- Board of Regents - approval of financing and authority to use the General Contractor/Construction Manager (GC/CM) contracting method at the November 8th meeting.

- If Regents approval is obtained, the Certificate of Need application will be filed November 9th.

- Board of Regents - approval of GC/CM and project budget at the February 2013 meeting.