VII. STANDING COMMITTEE

C. Capital Assets Committee

In Joint Session with

B. Finance and Audit Committee

UW Medicine Research Facilities: South Lake Union

See Attached Document

UW Medicine Research Facilities: South Lake Union

What is the program opportunity?

- UW Medicine is the number one public school of medicine recipient of federal research funding: $450 million for UW-based research in FY2004
- NIH-funded research for UW Medicine faculty at all locations was $506 million in Federal FY 2004
- 10% annual research growth over the last 12 years
- 46% share of total UW dollars awarded over past several years
- Over 1,000 full-time faculty working on NIH research
- 687 Principal Investigators (PI's) generate on average $735,000/year of grant revenues
- Regional economic development and job growth a direct result of UW Medicine research activities – UW Medicine's economic impact was estimated at $2.7 billion in FY 2002, primarily attributable to federally-funded research
- Vulcan property in South Lake Union selected as the best location able to meet program objectives and provide capacity for future growth

What is the demand for lab space?

NIH sponsored research at UW Medicine has grown at an annual rate of 10% per year over the past twelve years. If we continue this pace of growth for the next ten years, UW-based awards will grow from $450 million (FY 04) to $1.1 billion (FY 14).

We have projected a much more conservative UW Medicine annual growth rate of 3.0% after initial occupancy for our current research activities in our financial modeling for South Lake Union – Phase II.

The modeled economic impact will be:

- Over the ten-year period, the funding for UW Medicine-based research will grow from $450 million to $680 million per year.
- The $230 million of incremental growth will generate another $400 million per year of related regional economic growth for a total impact of $630 million.

The projected employment impact of this growth would be:

- 3,500 new jobs at the University of Washington.
- 8,000 additional jobs in the region.

The following table summarizes the current School of Medicine owned and managed space inventory (laboratory, faculty, administrative space) and the planned additions:

	Gross square feet (GSF)	Assignable square feet (ASF)
Current Inventory	1,900,000	800,000
Foege Bldg	265,000	140,000
South Lake Union	817,000	450,000
Total	**2,982,000**	**1,390,000**

The South Lake Union facilities are projected to account for:

- $180 million (per year) in additional research funding (~$400 per ASF);
- $300 million (per year) of additional economic benefit to the community;
- 2,700 new UW jobs; and
- 6,000 new additional jobs in the community.

Economic & Space Assumptions	Space Assumptions
▪ $1 million of research funding = 15 UW jobs (10 at UW Medicine research and 5 elsewhere in the UW system) ▪ Each UW job produces 2.3 additional jobs ▪ Each $1 million of research funding = $1.7 million of additional economic benefit to the region	▪ Each UW research position requires 185 ASF of space ▪ ASF is 50% to 55% of GSF ▪ UW Medicine currently generates ~ $400 of research/ASF (direct + indirect)

What is the proposal for South Lake Union?

- Build a three-phase research campus to accommodate over 700,000 gross sq ft of laboratory space and 100,000 gross sq ft of administrative space

Phases 1 & 2: Sources & Uses of Funds ($ in millions)

			USES	SOURCES			
Phase/Use	Completion	Area (gross sq ft)	Upfront Project Cost*	Upfront Project Debt	Upfront Project Capital	Operating Capital	Total Funding Sources
1-lab	Dec-04	110,000	$46.9	$41.9	$5.0	$0.0	$46.9
2-office	Aug-07	110,000	$32.4	$29.4	$3.0	$0.0	$32.4
2-lab	Dec-07	197,000	$123.6	$112.0	$11.6	$40.4	$164.0
subtotal		417,000	$202.9	$183.3	$19.6	$40.4	**$243.3**

Phases 1 & 2: Sources of Capital and Debt ($ in millions)

	Identified	To be confirmed	Total
Donor Funds	$8.0	$13.0	$21.0
UW Medicine Funds	$10.0		$10.0
UW undesignated central reserves	$10.0		$10.0
Other support (federal, state, donor)	$0	$19.0	$19.0
subtotal Project and Operating Capital	$28.0	$32.0	$60.0
GRB Lease Revenue Bonds	$183.3	$0.0	$183.3
Total Funding	$211.3	$32.0	**$243.3**

Phases 1 & 2: Average Annual Revenues & Occupancy Costs ($ in thousands)

Phase/Use	FY 2006-2010	FY 2011-15	FY 2016-20	FY 2021-25
Revenues **	$11,346	$22,136	$25,220	$28,800
Occupancy Costs***	$15,438	$25,045	$26,333	$27,679
Annual Facilities Cash Flow	($4,092)	($2,910)	($1,112)	$1,121
Operating Capital ($40M above plus interest)****	$4,092	$2,910	$1,112	$0
Adjusted Cash Flow	$0	$0	$0	$1,121

Phase 3 Prelim. Budget ($ in millions)

			USES	SOURCES			
Phase/Use	Completion	Area (gross sq ft)	Upfront Project Cost*	Upfront Project Debt	Upfront Project Capital	Operating Capital	Total Funding
3-lab	Aug 2010-12	400,000	$250.0	$225.0	$25.0	$80.0	$330.0

* Total project cost includes building and equipment but excludes value of ground lease.

** Revenues include indirect cost, state proteomics support, parking.

*** Costs include debt service, ground rent, operations & maintenance, and reserves.

**** Operating capital reserves will fund annual deficits. Increases in state operating support, philanthropy, and improvements in base financial assumptions will reduce the need for reserves to cover under-funded occupancy costs.

What are the key variables that will determine the occupancy cost?

- Research Growth: annual rate of change in total grant volume
  - Each 1% change in annual growth rate increases/decreases annual cash flow by $850,000 (base case = 3%)

- Indirect Cost Recovery (ICR): facilities and administrative overhead rate applied to direct cost
  - Each 1% change in ICR rate increases/decreases annual cash flow by $440,000 (base case = 61.6%)

- Mitigation of Growth and ICR risks: There are several anticipated approaches to dealing with negative outcomes relative to our expected case. The shortfall, if any, will be address through a combination of:
  - additional one-time investments,
  - limited use of UW Medicine administrative indirect cost recovery funds,
  - consolidation of existing lease space, and
  - sublease of space to third party non-profit organizations.

What are the next steps?

- Feb - Aug 2005: Obtain commitments for balance of initial investment funding necessary for Phase 2
- March 2005: Regent approval to proceed
- April 2005: Exercise Phase 2 option
- March 2007/08/09: Deadlines for the potential exercise of Phase 3 option(s)