

UW Medicine at Lake Union Update

**Board of Regents
Finance, Audit & Facilities Committee**

January 19, 2006

Agenda

Purpose: PROGRESS UPDATE

- Background
- SLU Overview
- Financial Plan
- Phase I Update
- Phase II Update
- Summary

Background

- Option to proceed on SLU Phase I approved April 2003
- Approval to execute option on SLU Phase II approved March 2005
- Deadline on first option for SLU Phase III expires March 2007

SLU Overview

		Square Feet (Gross)			Project Costs (MM's)		
	<u>Completion</u>	<u>Lab SF</u>	<u>Office SF</u>	<u>Total SF</u>	<u>Total</u>	<u>Debt</u>	<u>Equity</u>
Phase 1	Dec, 2004	110,000	0	110,000	\$47	\$42	\$5
Phase 2	Jul, 2008	200,000	100,000	300,000	\$172	\$157	\$15
Phase 3	<u>2010-2012</u>	<u>TBD</u>	<u>TBD</u>	<u>400,000</u>	<u>\$250</u>	<u>\$225</u>	<u>\$25</u>
Total				810,000	\$469	\$424	\$45

Financial Plan

- UW Medicine pays lease base rent (facility & ground), maintenance & operations, capital reserve
 - Some up front payments from gift funds (lease prepayments) to reduce size of borrowing and meet private benefit test
- Revenue to meet these costs is generated primarily from indirect cost support from sponsored research

Financial Plan

Impact of New ICR Rates

NEW Rate:	March 2005 assumption	Actual
UW-SLU	35.6%	40.0%
UW-Main Campus	25.6%	29.5%

New ICR rate will initially increase combined Phase I and II revenues by \$2.2 million per year beginning in 2014 when the new rates are fully phased in

Between 2014 and 2024 the new rate will on average add \$2.6 million in revenue per year

The combined benefit of the new rate and lower financing costs on Phase II shortens projected cash flow breakeven to 2014 from 2021

MTDC growth rate unchanged in the model

Administrative ICR remains at the 26% cap

Phase I Update

- Phase I was on-time and on-budget
- Average annual Base Rent: \$3.4 million
- 100% of space assigned
- Occupants include:
 - Center for Vascular Imaging
 - Center for Women's Health
 - Inflammation
 - Lung Biology
 - Center for Cardiovascular Biology & Regenerative Medicine
 - Comparative Medicine: Vivarium

Phase II Update

- UW signed a 35-year lease with two 5-year options in June 2005 with the same structure as Phase I
- Two buildings to be constructed:
 - 188,000 GSF lab building
 - 97,000 GSF office building
- Location: Same block as Phase 1 (815 Mercer)
- First tranche of debt issued (\$100 million, Nov 2005)
- Project in design development phase, GMP expected in June 2006

Phase II Update

Key Variables

- Regents requested a progress report around key variables
 - ICR
 - MTDC growth rate
 - Project costs
 - Financing
 - State funding
 - Occupancy

Phase II Update Project Costs

Phase II	March 2005 estimate	Current estimate
Lab building	\$133 million	\$135 million*
Office building	\$37 million	\$37 million
Total	\$170 million	\$172 million

* Scope Increase: BL3 Laboratory, Animal BL3 Laboratory, Server Farm

Phase II Update

Key Variables: Project costs

- Construction cost escalation built into project budget in addition to contingency
- Regents have authorized additional debt \$7.5 million to cover additional project costs
- Original project assumption on sales tax deferral was conservative

Phase II Update

Key Variables: Financing

Debt (Total)	Mar 2005 Int Rates	Nov 2005 Int Rates
Tranche 1: \$100 mm for 30 yrs	6.0% Est.	4.8% Actual
Tranche 2: \$ 57 mm for 15 yrs	5.5% Est.	5.2% Est.

- Lower rate on Tranche 1 reduced average annual base rent by \$650,000
- Tranche 2 rate is projected for June 2007 at .75% above current rates

Phase II Update

Key Variables: Financing

- Second tranche of short term debt for \$57 million will be issued mid-year 2007
- A 50 basis point increase in short term rate increases annual base rent by \$200,000 (2% of annual base rent)
- Every additional \$1 mm borrowed would increase annual base rent by \$100,000 (1% of annual base rent)

Phase II Update

Key Variables: State Funding

- Governor's budget includes \$2.4 million per year to offset maintenance & operations costs at SLU
- The \$2.4 million is not reflected in current projections

Phase II Update

Key Variables: Examples of Occupants

- Diabetes and Obesity (B. Bremner)
- Molecular Therapy (J. Chamberlain, D. Russell)
- Expansion of Proteomics (B. Waterston)
- Regenerative Science (R. Moon, T. Blau)
- Small molecule screening (B. Catterall)
- Tracers for Biomolecular imaging (N. Beauchamp)
- Lung repair and disease (B. Parks, R. Glenny)
- UW Medicine administrative units (currently in leased space)
- Depending on final Phase II Laboratory occupants, may also have dry laboratories in admin building

Summary

- Project is on schedule
- Status on project variables
 - ICR (rate finalized summer 2006)
 - MTDC Growth Rate (unchanged in model)
 - Financing (1st tranche done 11/2005; 2nd tranche to be completed in 2007)
 - Construction costs (increase of \$2 million)
 - State funding (In Governor's budget)
 - Occupants (Sufficient demand)