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

<table>
<thead>
<tr>
<th>Phase</th>
<th>Completion Date</th>
<th>Lab SF</th>
<th>Office SF</th>
<th>Total SF</th>
<th>Total Costs (MM’s)</th>
<th>Debt</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1</td>
<td>Dec, 2004</td>
<td>110,000</td>
<td>0</td>
<td>110,000</td>
<td>$47</td>
<td>$42</td>
<td>$5</td>
</tr>
<tr>
<td>Phase 2</td>
<td>Jul, 2008</td>
<td>200,000</td>
<td>100,000</td>
<td>300,000</td>
<td>$172</td>
<td>$157</td>
<td>$15</td>
</tr>
<tr>
<td>Phase 3</td>
<td>2010-2012</td>
<td>TBD</td>
<td>TBD</td>
<td>400,000</td>
<td>$250</td>
<td>$225</td>
<td>$25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td>810,000</td>
<td><strong>$469</strong></td>
<td><strong>$424</strong></td>
<td><strong>$45</strong></td>
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</tbody>
</table>
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

<table>
<thead>
<tr>
<th>NEW Rate:</th>
<th>March 2005 assumption</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>UW-SLU</td>
<td>35.6%</td>
<td>40.0%</td>
</tr>
<tr>
<td>UW-Main Campus</td>
<td>25.6%</td>
<td>29.5%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Phase II</th>
<th>March 2005 estimate</th>
<th>Current estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lab building</td>
<td>$133 million</td>
<td>$135 million*</td>
</tr>
<tr>
<td>Office building</td>
<td>$37 million</td>
<td>$37 million</td>
</tr>
<tr>
<td>Total</td>
<td>$170 million</td>
<td>$172 million</td>
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</tbody>
</table>

*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**

<table>
<thead>
<tr>
<th>Debt (Total)</th>
<th>Mar 2005 Int Rates</th>
<th>Nov 2005 Int Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tranche 1: $100 mm for 30 yrs</td>
<td>6.0% Est.</td>
<td>4.8% Actual</td>
</tr>
<tr>
<td>Tranche 2: $57 mm for 15 yrs</td>
<td>5.5% Est.</td>
<td>5.2% Est.</td>
</tr>
</tbody>
</table>

- 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 (1\textsuperscript{st} tranche done 11/2005; 2\textsuperscript{nd} tranche to be completed in 2007)
  ▪ Construction costs (increase of $2 million)
  ▪ State funding (In Governor’s budget)
  ▪ Occupants (Sufficient demand)