

**VII. STANDING COMMITTEES****B. Finance, Audit and Facilities Committee**Seattle Cancer Care Alliance – Capital Plan and RequirementsINTRODUCTION:

The UW Board of Regents took action in May 1998 to approve UW's membership in the Seattle Cancer Care Alliance (SCCA). The Articles of Incorporation of the SCCA provide for capital calls on members UW Medicine, Fred Hutchinson Cancer Research Center, and Children's Hospital and Regional Medical Center.

The five-year (FY 2009-2014) capital plan requires a capital call of \$23,600,000 to ensure that all elements of the plan, including facilities expansion and the proton beam facility, can move forward. The capital call will be shared equally among the three members, with each providing \$7.9 million. The capital will be provided over a six year period beginning in FY 2009. UW Medicine will provide \$3.5 million in the form of support for UW School of Medicine faculty recruitment costs. Thus, the actual capital transferred to the SCCA from UW Medicine will be \$4.4 million over the six year period.

BACKGROUND:

The SCCA's five-year capital plan for FY 2009-2013 projects capital requirements of \$231 million. The plan includes the following elements:

- \$78 million for expansion of outpatient services at the SCCA;
- \$85 million for routine capital replacement and IT systems;
- \$19 million for family housing; and
- \$49 million equity investment in the proton beam facility (inclusive of the proposed capital call).

The SCCA equity will require a capital call on members of \$23,600,000. This capital call is required to meet the comprehensive 5-year capital plan of the SCCA. UW Medicine has a vital interest in ensuring that all aspects of the capital plan are implemented. Oncology is the largest service line at the UW Medical Center, representing 20% of the total revenue and 55% of net income at the Medical Center. As the "front door" for the UW Medicine oncology program, the SCCA is a key factor in the continued success of UW Medicine.

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##### STRUCTURE:

The proton beam facility would be developed and maintained by a subsidiary nonprofit corporation of the SCCA. The SCCA would operate the proton beam facility and the professional services (physicians, physicists, etc.) would be provided by UW School of Medicine faculty. The SCCA would make lease payments to the proton beam subsidiary, and the SCCA and UW Physicians would bill and collect for the professional and facility charges.

The following table summarizes the sources and uses of capital to implement the proton beam facility.

<b>Sources</b>		<b>Uses</b>	
Senior debt	\$155,000,000	Building	\$90,000,000
Subordinate debt	50,000,000	Proton equipment	77,000,000
Working capital loans	5,000,000	Other equipment	12,000,000
SCCA equity	49,000,000	Land	12,000,000
Land	12,000,000	Other/contingency	4,000,000
Federal funding	2,000,000	Financing, working capital, capitalized interest	78,000,000
<b>Total, sources</b>	<b>\$273,000,000</b>	<b>Total, uses</b>	<b>\$273,000,000</b>

The senior debt will be issued through the Washington Health Care Facilities Authority and will be underwritten by Merrill Lynch. The subordinate debt will be purchased by Merrill Lynch and then 50% of the subordinate debt will be purchased or guaranteed by Hitachi, the provider of the proton beam equipment. The senior and subordinate debt will be non-recourse to the SCCA and its members.

The feasibility work on the proton beam program is scheduled to conclude in late 2008 or early 2009, however, the SCCA Board has authorized the SCCA management to move forward with the necessary steps that are prerequisites to implementing the plan. These prerequisites include firming up the commitments to provide the \$23,600,000 equity capital required beyond the \$25,000,000 equity capital currently available from SCCA cash reserves.

##### UW MEDICINE'S CAPITAL SUPPORT:

The three members of the SCCA – UW Medicine, Children's Hospital and Regional Medical Center, and the Fred Hutchinson Cancer Research Center – will

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each provide \$7.9 million to meet the \$23,600,000 requirement. The capital will be provided over a 6 year period according to the following schedule:

FY 2009	\$3,600,000
FY 2010	500,000
FY 2011	1,000,000
FY 2012	3,000,000
FY 2013	10,500,000
FY 2014	5,000,000
<b>Total</b>	<b>\$23,600,000</b>

The capital support is provided with the following understandings:

- \$3.5 million of the UW Medicine capital support will be in the form of faculty recruitment costs;
- Any gifts received by the members for the proton beam program will be applied to the \$23,600,000 requirement on an equal basis; and
- Any cash from operations in excess of budgeted expectations at the SCCA will be used to reduce the capital requirement on members.

These understandings will be documented in agreements between and among the members and the SCCA.

The estimated distributions to the SCCA, SCCA members, and other equity holders will begin in FY 2017. The projected rate of return over the 2009 – 2023 period is 12.9%, assuming a 16% discount factor and no terminal value.