



REVISED
5/7/04

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HEALTH AFFAIRS COMMITTEE

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Judith L. Craven, M.D.
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1. **U. T. M. D. Anderson Cancer Center: Brain Suite - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project; appropriation of funds and authorization of expenditure; and authorization of institutional management**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor for Business Affairs, and President Mendelsohn that the U. T. Board of Regents approve the recommendations for the Brain Suite project at U. T. M. D. Anderson Cancer Center as follows:

Architecturally or Historically Significant:

Yes No

Project Delivery Method:

Competitive Sealed Proposals

Substantial Completion Date:

December 2004

Total Project Cost:

<u>Source</u>	<u>Current</u>	<u>Proposed</u>
Hospital Revenues	-	\$2,800,000

Recommendations:

- a. amend the FY 2004-2009 CIP and the FY 2004-2005 Capital Budget to include the Brain Suite at a preliminary project cost of \$2,800,000 with funding from Hospital Revenues;
- b. appropriate funds and authorize expenditure of \$2,800,000 from Hospital Revenues; and
- c. authorize U. T. M. D. Anderson Cancer Center to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts.

Project Description:

U. T. M. D. Anderson Cancer Center has identified an opportunity to import a new technology to improve the treatment of brain tumors. Brain Suite is a neurosurgical operating room that provides and fully integrates all relevant surgical and diagnostic tools, including Magnetic Resonance Imaging (MRI), to treat complicated neurosurgical cases. Brain Suite provides benefits for tumor resection and intra operative diagnostic imaging, and also opens up new avenues of scientific research for the Neurosurgical Department. Through the integration of a high-field magnetic resonant scanner into the operating room, new paradigms, protocols, and surgical procedures can be examined.

This project would best be managed by the U. T. M. D. Anderson Cancer Center Facilities Management personnel who have the experience and capability to manage all aspects of the work.

This off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the CIP.

2. **U. T. Health Science Center - Houston: Authorization to acquire real property located at 6410 and 6414 Fannin Street, Houston, Harris County, Texas and parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor for Business Affairs, and President Willerson that authorization be granted by the U. T. Board of Regents, on behalf of U. T. Health Science Center - Houston, to

- a. purchase the real property improvements located at 6410 and 6414 Fannin Street, Houston, Harris County, Texas, at a price of \$31 million;
- b. appropriate funds and authorize the expenditure of \$19.55 million from Tuition Revenue Bond Proceeds and \$11.45 million from Revenue Financing System Bond Proceeds;
- c. lease on a long-term basis, the 3.0195-acre site on which the improvements are located;
- d. authorize the Executive Director of Real Estate (subject to approval by the Office of General Counsel) to complete ground lease negotiations; to execute all documents, instruments and agreements; and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations; and
- e. submit the proposed transactions to the Texas Higher Education Coordinating Board for approval, if necessary.

The Chancellor also concurs in the recommendation of the Interim Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative, the U. T. Board resolve that

- a. parity debt shall be issued to pay the acquisition cost, including any costs prior to the issuance of such parity debt;
- b. sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and

- c. U. T. Health Science Center - Houston, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of parity debt in the aggregate amount of \$31 million.

BACKGROUND INFORMATION

Section 55.1732 (a)(11) of the Texas Education Code authorizes the Board of Regents to issue \$19.55 million of Tuition Revenue Bonds on behalf of U. T. Health Science Center - Houston "to construct or purchase a classroom building that includes facilities for clinical teaching and clinical research."

To accomplish this purpose, U .T. Health Science Center - Houston wishes to purchase the Hermann Professional Building and Parking Garage, which is located at 6410 and 6414 Fannin Street in Houston, Texas, from its current owner, the Memorial Hermann Healthcare System (MHHS). The subject property consists of a 14-story medical office tower containing 308,155 gross square feet (293,481 net rentable square feet) and an attached 1,416-space parking garage containing 463,303 gross square feet, plus an additional 26,697 net rentable square feet of office space on the first floor. The site contains approximately 3.02 acres. The property lies within the boundaries of the Texas Medical Center directly across the street from the U. T. Health Science Center - Houston Medical School Building and Memorial Hermann Hospital (the institution's primary teaching hospital).

Together with its not-for-profit healthcare corporation, University of Texas Physicians, U. T. Health Science Center - Houston currently occupies approximately 51% of the Hermann Professional Building on a lease basis. Combined with space currently utilized by MHHS clinics and private physicians who also participate in the teaching of medical residents, a substantial portion of the property is already being used for U. T. Health Science Center - Houston mission-related clinical teaching and clinical research purposes. Acquisition of the property will allow the institution to maintain its long-term clinical teaching and research relationship with MHHS while reducing expenses through the elimination of current lease obligations. While the U. T. Health Science Center - Houston intends to fully utilize the facility for its own use, it expects that portions of the building and garage will continue being leased to MHHS, private physicians, and a limited number of non-medical tenants until such spaces are needed by the institution.

The \$31 million purchase price for the medical office tower and parking garage is supported by independent MAI appraisals. The sources of acquisition funding are \$19.55 million of Tuition Revenue Bond Proceeds and \$11.45 million of Revenue Financing System Bond Proceeds. Debt service on the \$11.45 million of Revenue

Financing System debt will be repaid by net revenues from the project and by practice plan income derived from ambulatory clinics. Annual debt service on the \$11.45 million in Revenue Financing System Bond Proceeds is projected to be \$922,714. The debt service coverage for the project is expected to be at least 2.9 times.

Because MHHS will not agree to sell land in close proximity to its main hospital site, the land will be leased, rather than sold, to the U. T. Board of Regents for the benefit of U. T. Health Science Center - Houston. The primary term of the lease will be 50 years. The Board of Regents will have options to extend the lease for a second term of 50 years and a third term of 25 years.

The terms and conditions of the purchase and proposed ground lease are as reflected in the transaction summary below:

Transaction Summary

Component:	U. T. Health Science Center - Houston
Property Name:	Hermann Professional Building & Garage
Property Address:	6410 & 6414 Fannin Street, Houston, Texas
Type of Transaction:	Office building and parking garage improvements purchase and ground lease of real property
Seller/Ground Landlord:	Memorial Hermann Healthcare System (“MHHS”)
Buyer/Ground Tenant:	U. T. System Board of Regents (“UT”)
Purchase Price:	\$31 million for the office building and garage
Ground Rent:	\$590,000 per year (beginning in second year)
Lease Term:	50 years
Extension Options:	1st extension: 50 years 2nd extension: 25 years
Rent Escalation:	5% every 5 years during the primary term of the ground lease 4% every 5 years during the extension terms
Ownership of Improvements:	U. T. will own the improvements during the term of the lease and any extensions. Improvements will revert to MHHS at the expiration or termination of the ground lease.

Ownership of Land: MHHS

Current Use: 14-story medical office building

Improvements: Building: 308,155 gross square feet (293,481 net rentable square feet)
 Parking Garage: 1,416 spaces (463,303 gross square feet) plus 26,697 net rentable square feet of office space

Year Constructed: 1948 (office building substantially renovated in 2000-2004)

Remaining Economic Life of Improvements: 50 years (per appraisal)

3. U. T. Health Center - Tyler: Health Clinic on U. T. Tyler campus - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor for Business Affairs, and President Calhoun that the U. T. Board of Regents amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to include the Health Clinic project at U. T. Health Center – Tyler as follows:

Architecturally or Historically Significant: (Note: Project is before the Board; see Item 1 on Page 67.)

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: July 2006

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	-	\$3,500,000

Project Description: The Health Clinic will be located on the U. T. Tyler campus. This project proposes to construct a 10,000 gross square foot, one-story facility incorporating outpatient clinic facilities for the general public, faculty, staff, and students of U. T. Tyler. The facility will include examination rooms, nurse and clerical work areas, medical records storage, teaching and testing areas, waiting rooms, and staff offices. An additional parking area will also be constructed adjacent to the facility.

U. T. Health Center – Tyler currently operates and leases two facilities in south Tyler and has been exploring different options for consolidating operations into one facility. This possibility, combined with the need to provide student, faculty, and staff health care on the U. T. Tyler campus, provides justification for a more permanent investment. In addition to being able to serve a greater patient population in the new facility, U. T. Health Center – Tyler also expects overhead costs to be decreased as a result of the combined operation with the debt for financing repaid from patient care income. Furthermore, operations at this facility will provide an on-campus teaching forum for education and clinical research for students.

This off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the CIP.

4. **U. T. M. D. Anderson Cancer Center: Determination of necessity and authorization to acquire three parcels of real property, through purchase or condemnation, in the expansion zone known as the Mid-campus Area, specifically 1303 Eaton Street, 7123 Selma Street, and 7213 Cecil Street, Houston, Harris County, Texas**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Interim Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Mendelsohn that authorization be granted to:

- a. acquire the property located at 1303 Eaton Street, 7123 Selma Street, and 7213 Cecil Street, Houston, Harris County, Texas, through purchase or condemnation proceedings, if necessary, at prices not exceeding fair market values as determined by independent appraisals or by determinations of the courts; and
- b. authorize the Executive Director of Real Estate to execute all documents, instruments and other agreements, and subject to consent by the Executive Vice Chancellor for Health Affairs, to initiate condemnation actions of the subject properties, if necessary, through the U. T. System Office of General Counsel and the Office of the Attorney General of the State of Texas, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

By House Bill 1840 passed by the 76th Texas Legislature in 1999, a geographical expansion area was created for U. T. M. D. Anderson Cancer Center, referred to as the Mid-campus Area. The Cancer Center has immediate needs to use the Mid-campus Area for a building site and the creation of a public roadway connection between the main hospital complex and the U. T. Research Park.

Historically, much of the Mid-campus Area was divided into relatively small parcels with numerous owners. U. T. M. D. Anderson Cancer Center has for many years been systematically assembling larger tracts of land through negotiated purchases within the area. There now remain specific parcels that the institution must acquire in order to provide a building site for administrative operations critical to support its research, patient care, and education missions. Further, a relocated roadway connection between the main campus and the U. T. Research Park is needed in order to enable the Cancer Center to continue with its master planned campus development.

The critical parcels that U. T. M. D. Anderson Cancer Center seeks to acquire at this time are generally described as follows:

Location	Land Size	Current Use
Parcel 1 1303 Eaton, Lots 8-12, Block 17, Institute Addition	18,500 sq. ft. .425 acres	24 Unit Apartment Complex
Parcel 2 7123 Selma, Lots 8 and 9, Block 20, Institute Addition	15,500 sq. ft. .355 acres	Two Lots with House
Parcel 3 7213 Cecil, Lot 8, Block 21, Institute Addition	5,000 sq. ft. .115 acres	One Lot with House

In the event U. T. M. D. Anderson Cancer Center is unsuccessful in acquiring the remaining properties through good faith negotiations, in accordance with the Resolution adopted by the Board of Regents on March 11, 2004, the institution is requesting authority to condemn the properties at fair market values as determined by the courts, subject to first obtaining the consent of the Executive Vice Chancellor for Health Affairs prior to initiating such condemnation actions.

5. **U. T. Health Center - Tyler: Appointment of Ronald F. Garvey, M.D., as President Emeritus**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and President Calhoun that authorization be granted to appoint Ronald F. Garvey, M.D., President Emeritus at The University of Texas Health Center at Tyler. Approval of this recommendation is being requested in accordance with the Regents' Rules and Regulations, Part One, Chapter II, Section 21, relating to honorary titles. It is recommended this appointment take place retroactively starting February 1, 2003.

BACKGROUND INFORMATION

Ronald Francis Garvey was born May 4, 1928, in Olean, New York, the son of a physician and nurse. He received his undergraduate degree from Harvard College and a Doctor of Medicine from the University of Buffalo School of Medicine. His postgraduate clinical training included an internship and residency at Parkland Memorial Hospital in Dallas in 1960.

Dr. Garvey served in the United States Air Force as a flight surgeon, achieving the rank of Captain. His distinguished career includes positions of Professor of Surgery at U. T. Southwestern Medical Center - Dallas. He was team physician for the Dallas Cowboys professional football team from 1963-1972. Before his recruitment to U. T. Health Center - Tyler, he was president and CEO of Zale Lipshy University Hospital in Dallas.

He was a member of the Board of Regents of Texas Women's University and has served on a number of other organizations' board of directors. Dr. Garvey earned a Master's in Business Administration from the University of Dallas in 1986 and was named a university Distinguished Alumnus in 1998. He has many distinguished publications and awards.

As Acting Director of U. T. Health Center - Tyler from 1997-1998, Dr. Garvey became the first President of the institution in 1998. During his tenure at the Health Center, he focused on the financial performance of the institution, dramatically improved its financial picture, and successfully led the initiative to obtain funding for a \$12 million expansion of the Center for Biomedical Research. Dr. Garvey retired as president in October 2002, after five years of exemplary service to the people of East Texas.

6. **U. T. System: Issues in Graduate Medical Education**

REPORT

Dr. Kenneth Shine, Executive Vice Chancellor for Health Affairs, will report on issues in Graduate Medical Education using the PowerPoint presentation attached on Pages 66.1 – 66.21.



Presentation to the Board of Regents Health Affairs Committee

by Kenneth Shine, M.D.

May 12, 2004



Acknowledgements

- Texas Medical Association
- Coordinating Board
- Roland Goertz
- Mary Ellen Weber (UT Southwestern)
- James Guckian (UT System)

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ADDITIONAL AGENDA ITEM
HEALTH AFFAIRS COMMITTEE

MAY 12, 2004

7. **U. T. Southwestern Medical Center - Dallas: Briefing on the rationale for possible acquisition of St. Paul and Zale Lipshy University Hospitals**

REPORT

President Wildenthal will brief the Board regarding the need for U. T. Southwestern Medical Center - Dallas to purchase the St. Paul and Zale Lipshy University Hospitals following the PowerPoint presentation attached on Pages 66a.1 – 66a.8.