

COMMISSION FOR HIGHER EDUCATION

Friday, September 14, 2012

DECISION ITEM C-2: Lease of Space for Indiana University School of Medicine – IU Health Inc. Neurosciences Clinical Office Building

Staff Recommendation

That the Commission for Higher Education recommend approval to the State Budget Agency and the State Budget Committee the following project: *Lease of Space for IU School of Medicine – IU Health Inc. Neurosciences Clinical Office Building - Indiana University*. Staff recommendations are noted in the staff analysis.

Background

By statute, the Commission for Higher Education must review all projects to construct buildings or facilities costing more than \$500,000, regardless of the source of funding. Each repair and rehabilitation project must be reviewed by the Commission for Higher Education and approved by the Governor, on recommendation of the Budget Agency, if the cost of the project exceeds seven hundred fifty thousand dollars (\$750,000) and if any part of the cost of the project is paid by state appropriated funds or by mandatory student fees assessed all students. Such review is required if no part of the project is paid by state appropriated funds or by mandatory student fees and the project cost exceeds one million five hundred thousand dollars (\$1,500,000). A project that has been approved or authorized by the General Assembly is subject to review by the Commission for Higher Education. The Commission for Higher Education shall review a project approved or authorized by the General Assembly for which a state appropriation will be used. All other non-state funded projects must be reviewed within ninety (90) days after the project is submitted to the Commission.

The Trustees of Indiana University are seeking approval for a 12 year lease for the IU School of Medicine in the IU Health Neurosciences Clinical Office Building. The lease will house various IU School of Medicine staff and students focusing on neurosciences. The leased space shall not exceed 70,000 rentable square feet. The total lease cost, including operating costs, is approximately \$27,900,000 and would be funded through IU School of Medicine operating revenues.

Supporting Document

Lease of Space for IU School of Medicine – IU Health Inc. Neurosciences Clinical Office Building - Indiana University, September 14, 2012.

**LEASE OF SPACE FOR IU SCHOOL OF MEDICINE – IU HEALTH INC.
NEUROSCIENCES CLINICAL OFFICE BUILDING
INDIANA UNIVERSITY**

Project Description

DESCRIPTION OF THE PROJECT

The proposed lease is located at the IU Health Neurosciences Clinical Office Building located downtown across from Methodist Hospital. The facility is an IU Health facility which will house various departments of the IU School of Medicine (IUSOM) associated with neurosciences. Other space will be utilized by IU Health for other neuroscience purposes. The lease will be for a period of 12 years and will include up to 70,000 rentable square feet (RSF). The lease cost over the 12 year period is estimated at \$21.2 million (assumes growth in RSF rate) and operational costs are estimated at \$6.7 million (not adjusted for inflationary increases), for a total estimated cost of \$27.9 million. The cost per RSF for the lease cost will range from \$25.00 in 2012 up to \$31.08 by 2023.

RELATIONSHIP TO MISSION OF CAMPUS

The relationship of the project to the mission of the campus is to support collaborations with our partner IU Health to create the best patient care experience for the Indiana patient population as well as provide our medical students the highest educational experiences developing them into future leaders of the health care industry. This comprehensive neurological care facility brings all the neuroscience specialties and sub-specialties together under one roof. The proximity of the ambulatory care and imaging in the building provide neurological patient's well-coordinated care, as well as faster access to specialist, diagnostic testing and the latest clinical research breakthroughs.

NEED AND EXPECTED CONTRIBUTION TO EDUCATIONAL SERVICES

The project will provide a quality facility for residents to train through clinical service rotations learning from expert clinicians and researchers of different specialties in the neuroscience field while providing patients advanced treatment and patient care. This new facility will provide our training programs with a vast array of experiences, inpatient and outpatient, with outstanding opportunities in research as well.

ALTERNATIVE CONSIDERATIONS

No alternative facilities were considered as current IU Health facilities were not equipped, large enough or in close proximity to each other to provide the necessary design to obtain the level of patient care desired.

RELATIONSHIP TO OTHER CAPITAL PROJECTS

As a part of the Indiana University Health Neuroscience Center Complex, Indiana University will construct an approximately 85,000 ASF, \$45 million laboratory research building adjacent to the Neuroscience Clinical Building to house new scientists and expansion for existing neuroscience related research. The Center will provide a comprehensive model for collaborative trans-disciplinary patient care, research and education in the neurological sciences. The building will have direct access to the IU Health people mover connecting the medical campus and hospitals to the building.

The property has been built-out to occupant specifications. The occupancy of this space does not require any remodel and does not involve any cost to do so. As part of the Neuroscience complex, a 960-stall parking garage has been constructed adjacent to the clinical building to accommodate patient, physician, staff and visitor parking. The garage will be managed by IU Health and their contractor Denison Parking.

A collaborative education area is available to building occupants. The space includes multiple conference rooms, a library with a rare books section, and large 2,984 sq. ft. auditorium. Also approximately 2,000 sq. ft. of building space is available for food service business development.

LONG-TERM PLANNING

The building has been developed by Landmark Healthcare facilities. IU Health is planning on utilizing a lease-to-own agreement option.

STAFF ANALYSIS AND RECOMMENDATION

Currently, the IUSOM utilizes various leases throughout downtown Indianapolis for doctors associated with Department of Psychiatry, the Department of Neurology and the Department of Radiology, all associated with the neurosciences field. A majority of the leased space is located within the Wishard Complex or University Hospital.

This new lease will combine current leases into one location for the doctors associated with the various IUSOM departments mentioned above. The new space will compliment research conducted in the soon to be built IUSOM Neurosciences research facility (located next to the IU Health Neurosciences Clinical Office Building). Graduate and post-doctoral students conducting research in the future IUSOM Neurosciences research facility will be able to utilize the leased space in the IU Health facility in order to interact with doctors and patients as part of their research. The new lease space will serve as doctor's offices to allow the IUSOM doctor's to see patients, provide medical services, set up office locations and allow IUSOM students to participate in research. Overall, the proposed lease moves current leases spread throughout downtown into one central location adjacent to the future IUSOM Neurosciences research facility to be completed by beginning of 2014.

The lease will be for a period of 12 years and will include up to 70,000 rentable square feet (RSF). The lease cost over the 12 year period is estimated at \$21.2 million (assumes growth in RSF rate) and operational costs are estimated at \$6.7 million (not adjusted for inflationary increases), for a total estimated cost of \$27.9 million. The cost per RSF for the lease cost will range from \$25.00 in 2012 up to \$31.08 by 2023. If operational costs are included in the RSF rate, the rates will be \$37.00 in 2012 and up to \$39.08 by 2023.

Lease payments will be covered through IUSOM operating funds, which include revenues generated by IUSOM doctors. IUSOM doctors use leased space to see patients, provide medical services, provide for office space, and conduct research on behalf of the IUSOM (in conjunction with IUSOM students). In turn, doctors provide revenue to the IUSOM to cover a portion of the lease payments. The remainder of the lease payments will be covered through operational revenues for the IUSOM.

IUSOM envisions leasing this space in the short-term from IU Health, in the anticipation of expanding the future IUSOM Neurosciences research facility and add a second phase, thus creating space for the IUSOM departments and doctors to move permanently and eliminate the lease space at the IU Health facility. The lease provides a short-term solution to space needs while thinking long-term regarding location and association with the IUSOM Neurosciences research facility.

Finally, for comparative purposes, listed below are other leases reviewed and approved by the Commission:

- **Wang Hall Lease for School of Electrical and Computer Engineering:** 40 year lease at a total lease cost of \$18M for 41,047 RSF, roughly **\$11 per RSF**. Staff would note that if PUWL were to lease the facility on a yearly basis and the space was already built out, the cost per RSF would be roughly **\$25.00 per RSF** and have an annual cost of \$1.1 million per year on average (over 12 years). Leased space included research room, labs and office space for research faculty. Approved in August 2012
- **IUPUI Lease for School of Rehabilitation Sciences:** 5 year lease at a total lease cost of \$817K (includes onetime construction of \$245K) for 8,810 RSF, roughly **\$18.56 per RSF**. Leased space included offices, exam rooms and classroom space. Approved in October 2010
- **IUPUI Lease for General Operations:** 5 year lease at a lease cost of \$7.2M for 68,000 RSF, roughly **\$23.00 per RSF** by the end of the lease. Lease is to provide for temporary space regarding IUPUI operations while the Wishard Hospital project is being constructed. Approved in December 2010.

Staff recommends the Commission provide a favorable review of this proposed project.

Project Summary

LEASE ACQUISITION REQUEST

INSTITUTION: Indiana University
PROJECT TITLE: Lease: School of Medicine
IU Health, Inc. Neuroscience Clinical Office Bldg
20128232

CAMPUS: Indiana University Purdue University
Indianapolis
BUDGET AGENCY NO.: A-2-12-5-17
INSTITUTION PRIORITY:

BUILDING NAME: Indiana University Health, Inc. Neuroscience Clinical Office Building

BUILDING LOCATION: West 16th Street, Indianapolis, IN

TERM OF LEASE: Describe proposed period of lease including any extension options and special terms.

Initial Term: Twelve (12) years

Renewal Option:

PROPOSED DATE OF: ACQUISITION July 15, 2012 OCCUPANCY: July 15, 2012

PRESENT OWNERSHIP OF THE PROPOSED ACQUISITION:

BUILDING SPACE: GSF OF BUILDING: 270,716
 RENTABLE SF OF BUILDING: 215,745
 RENTABLE SF OF LEASE: 63,159

PROJECT NEED:

- Renew existing lease
- Replacement of existing space
- Expansion of space to meet enrollment growth or changes in program
- Special purpose use (explain):

PROJECT COSTS:

Purchase Price if lease/purchase: \$

Lease Payment: Original term \$ 25.00 Per RSF

Options (specify):

Lease payments to be terminated with this project: \$ N/A

Net new funds for lease: 1st year \$ N/A 2nd year \$

Project Summary

LEASE ACQUISITION REQUEST

(continued)

A-2-12-5-17

20128232

Annual operating costs: Total \$ 8.00 per RSF

Detail: Utilities \$ _____ Personnel \$ _____ S & E

Annual operating costs for space to be terminated with the project: \$ None

Net new operating funds \$ None

Remodeling needed to make building functional: \$ N/A

PROJECT FINANCING:

Lease payment to be financed by:

- Existing operating funds
- Legislative budget request
- Other funds (specify): Indiana University School of Medicine

Net operating costs to be financed by:

- Existing operating funds
- Legislative budget request
- Other funds (specify): Indiana University School of Medicine

Remodeling costs to be financed by:

- Existing operating funds
- Legislative budget request
- Other funds (specify): N/A