



TABLE OF CONTENTS FOR HEALTH AFFAIRS COMMITTEE

Committee Meeting: 2/9/2012

Robert L. Stillwell, Chairman
James D. Dannenbaum, Vice Chairman
Paul L. Foster
Printice L. Gary
Wallace L. Hall, Jr.

Board Meeting: 2/9/2012
San Antonio, Texas

	Committee Meeting	Board Meeting	Page
Convene	9:30 a.m. Chairman Stillwell		
1. U. T. Health Science Center - San Antonio: Overview of an institution	9:30 a.m. Report/Discussion President Henrich	Not on Agenda	266
2. U. T. Southwestern Medical Center: Authorization to purchase land and improvements located at 1715 Inwood Road, Dallas, Dallas County, Texas, from Cedar Properties, Inc., a Texas corporation, at a price not to exceed fair market value as established by independent appraisals for future programmed development of campus expansion or other purposes related to the institution's mission	9:50 a.m. Action President Podolsky Ms. Mayne	Action	267
3. U. T. M. D. Anderson Cancer Center: Authorization to lease approximately 35,075 square feet of clinic space in an office building located at 15021 Katy Freeway, Houston, Harris County, Texas, from TR Energy Crossing Corp., a Delaware corporation, for the operation of a diagnostic imaging clinic and associated medical administrative offices	9:55 a.m. Action President DePinho Ms. Mayne	Action	270
4. U. T. M. D. Anderson Cancer Center: Discussion featuring research opportunities, accomplishments, and challenges	10:00 a.m. Report/Discussion President DePinho	Not on Agenda	275
5. U. T. System: Quarterly report on health matters of interest to the U. T. System, including the Clinical Safety and Effectiveness Program and the impact of the 1115 Medicaid Waiver	10:25 a.m. Report/Discussion Dr. Shine	Not on Agenda	276
Adjourn	11:00 a.m.		

1. **U. T. Health Science Center - San Antonio: Overview of an institution**

REPORT

Executive Vice Chancellor Shine will introduce President Henrich for an overview of activities at U. T. Health Science Center - San Antonio.

2. **U. T. Southwestern Medical Center: Authorization to purchase land and improvements located at 1715 Inwood Road, Dallas, Dallas County, Texas, from Cedar Properties, Inc., a Texas corporation, at a price not to exceed fair market value as established by independent appraisals for future programmed development of campus expansion or other purposes related to the institution's mission**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Vice Chancellor and General Counsel, and President Podolsky that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Southwestern Medical Center, to:

- a. purchase land and improvements located at 1715 Inwood Road, Dallas, Dallas County, Texas, from Cedar Properties, Inc., a Texas corporation, for a purchase price not to exceed fair market value as determined by independent appraisals, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Director of Real Estate, for future programmed development of campus expansion or other purposes related to the institution's mission; and
- b. authorize the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

U. T. Southwestern Medical Center desires to purchase the subject property located at 1715 Inwood Road, Dallas, Dallas County, Texas. The lot, consisting of 0.8581 of an acre, has a 6,630-square foot, one story brick building used for retail purposes leased to two tenants. The leases expire March 31, 2012 and April 30, 2012, and will not be renewed.

This site lies between U. T. Southwestern's clinical west campus and an electrical substation owned by the institution. Acquisition of the site will permit expansion of the electrical substation, if needed, or an additional access point to the New University Hospital that is currently under construction.

To fund the purchase, U. T. Southwestern Medical Center will use Designated Funds consisting primarily of interest on time deposits. A transaction summary and map showing the location of the subject property follow.

Transaction Summary

Institution: U. T. Southwestern Medical Center

Total Area: Approximately 0.8581 of an acre

Improvements: A one-story brick building consisting of approximately 6,630 square feet

Location: Lot 1, Block 7912, Hudson Addition to the City of Dallas, Dallas County, Texas, located at 1715 Inwood Road; see map on following page

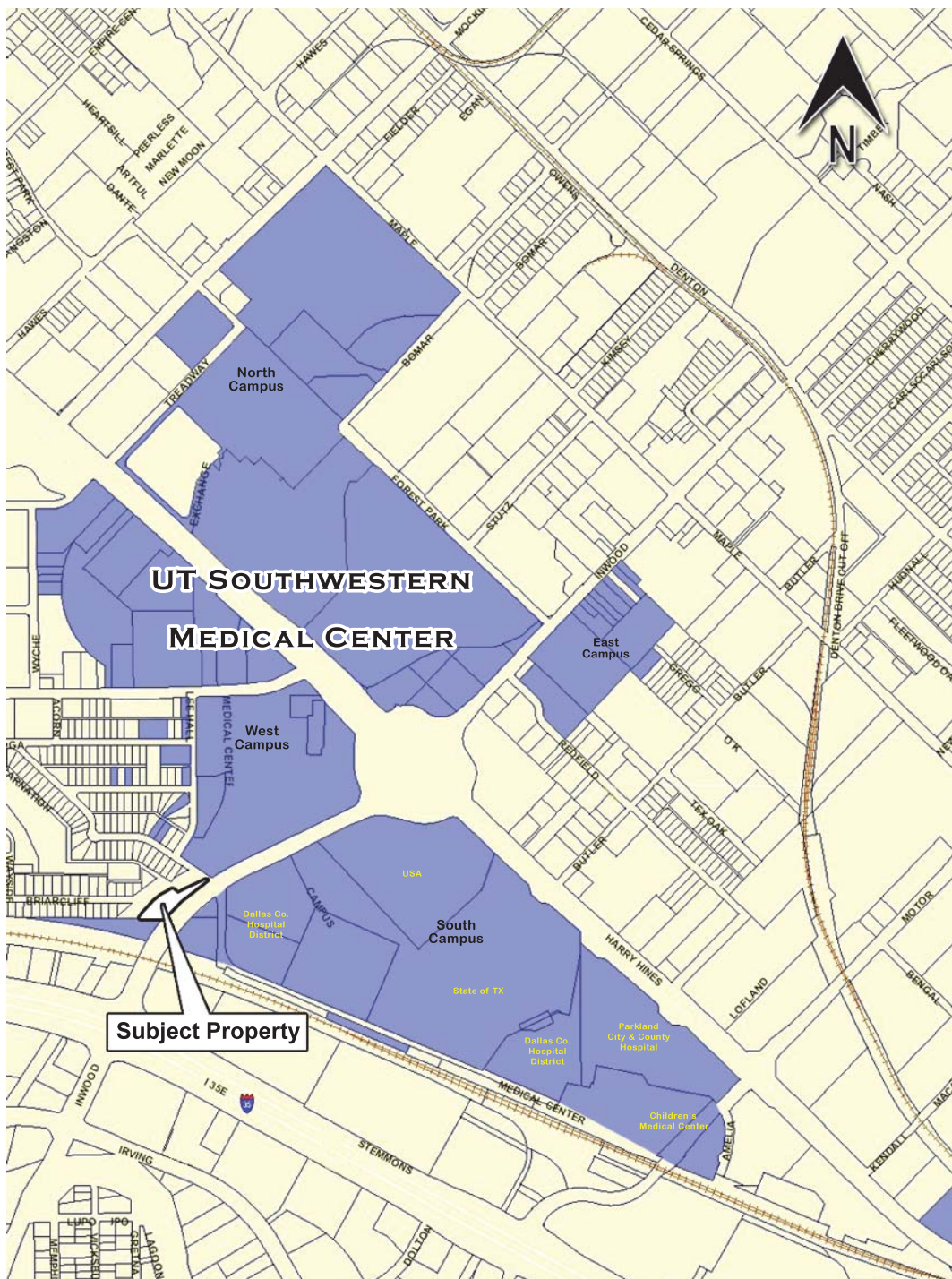
Seller: Cedar Properties, Inc., a Texas corporation

Purchase Price: Not to exceed fair market value as established by independent appraisals

Appraised Value: Confidential pursuant to *Texas Education Code* § 51.951

Source of Funds: Designated Funds consisting primarily of interest on time deposits

Intended Use: Future programmed development of campus expansion or other purposes related to the institution's mission



3. **U. T. M. D. Anderson Cancer Center: Authorization to lease approximately 35,075 square feet of clinic space in an office building located at 15021 Katy Freeway, Houston, Harris County, Texas, from TR Energy Crossing Corp., a Delaware corporation, for the operation of a diagnostic imaging clinic and associated medical administrative offices**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Vice Chancellor and General Counsel, and President DePinho that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. M. D. Anderson Cancer Center, to

- a. lease approximately 35,075 square feet of clinic space in an office building located at 15021 Katy Freeway, Houston, Harris County, Texas, from TR Energy Crossing Corp., a Delaware corporation, for the operation of a diagnostic imaging clinic and associated medical administrative offices; and
- b. authorize the President of U. T. M. D. Anderson Cancer Center to execute the lease and all related documents, instruments, and other agreements on behalf of the institution, subject to approval of all such documents by the Executive Director of Real Estate, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

Over the last several years, M. D. Anderson has engaged in an effort to expand its services offered in the community setting through the Regional Care Center (RCC) program. The core objectives of the RCC program are to offer care close to the patients' homes and to provide services in the fast-growing Houston suburbs. Additionally, two major factors have led to rapid growth of the demand for diagnostic imaging (DI) services: (1) there has been an industry-wide expansion in DI utilization; and (2) oncology care has become increasingly reliant on DI in the diagnosis of cancer. These two factors have contributed to demand for DI services outstripping supply on M. D. Anderson's main campus. M. D. Anderson has expanded operating hours and, at present, the only immediate opportunity for further expansion of outpatient DI services is to finish and equip shell space in the Mays clinic for one MRI. The lack of capacity in DI services has created delays in patients' ability to obtain DI appointments, which can lead to delays in scheduling clinical appointments.

M. D. Anderson has determined that main campus outpatient capacity constraints in DI require a rapid solution and that the most logical solution is to expand main campus services into the community through the development of a freestanding, provider-based imaging center. Providing DI services in the community furthers the strategic growth plans of the institution and offers a solution to the main campus capacity constraints.

As a part of the RCC program, U. T. M. D. Anderson has sought to develop and establish a more strategic and long-term approach to its cancer treatment operations in Katy, Texas. The institution's first step was the opening, in November 2007, of a clinic and linear accelerator facility in leased space at the Christus Medical Specialty Pavilion in Katy, approved by the Board of Regents on February 9, 2006. The uses permitted under the Christus lease are radiation oncology and infusion therapy services and services incidental thereto; the existing lease does not permit M. D. Anderson to provide DI services at that leased facility.

The institution therefore engaged a broker to locate suitable lease sites available for a DI clinic. The subject property was chosen due to its ease of access, location on the I-10 (Katy Freeway) frontage road, and the availability of sufficient space on the ground floor to accommodate the clinic. It is approximately 4.5 miles from the Christus Medical Specialty Pavilion.

The proposed lease is for a term of 10 years anticipated to commence June 1, 2012, plus two five-year renewal options at fair market rental. The area of the leased premises is 35,075 rentable square feet (rsf). The annual base rent for the first year is \$666,425 and increases annually by \$17,537.50 (\$0.50 per rsf). The average annual rent during the 10-year period is \$745,343.76, or \$21.25 per rsf. Rental for office space identified by the broker ranged from \$17.50 to \$24.00 per rsf. The 2011 estimated annual operating expenses payable by the institution under the lease are \$275,689.50, or \$7.86 per rsf. Additionally, M. D. Anderson will submeter and pay for its own electrical service, which will include the operation of supplemental HVAC units dedicated to its imaging equipment.

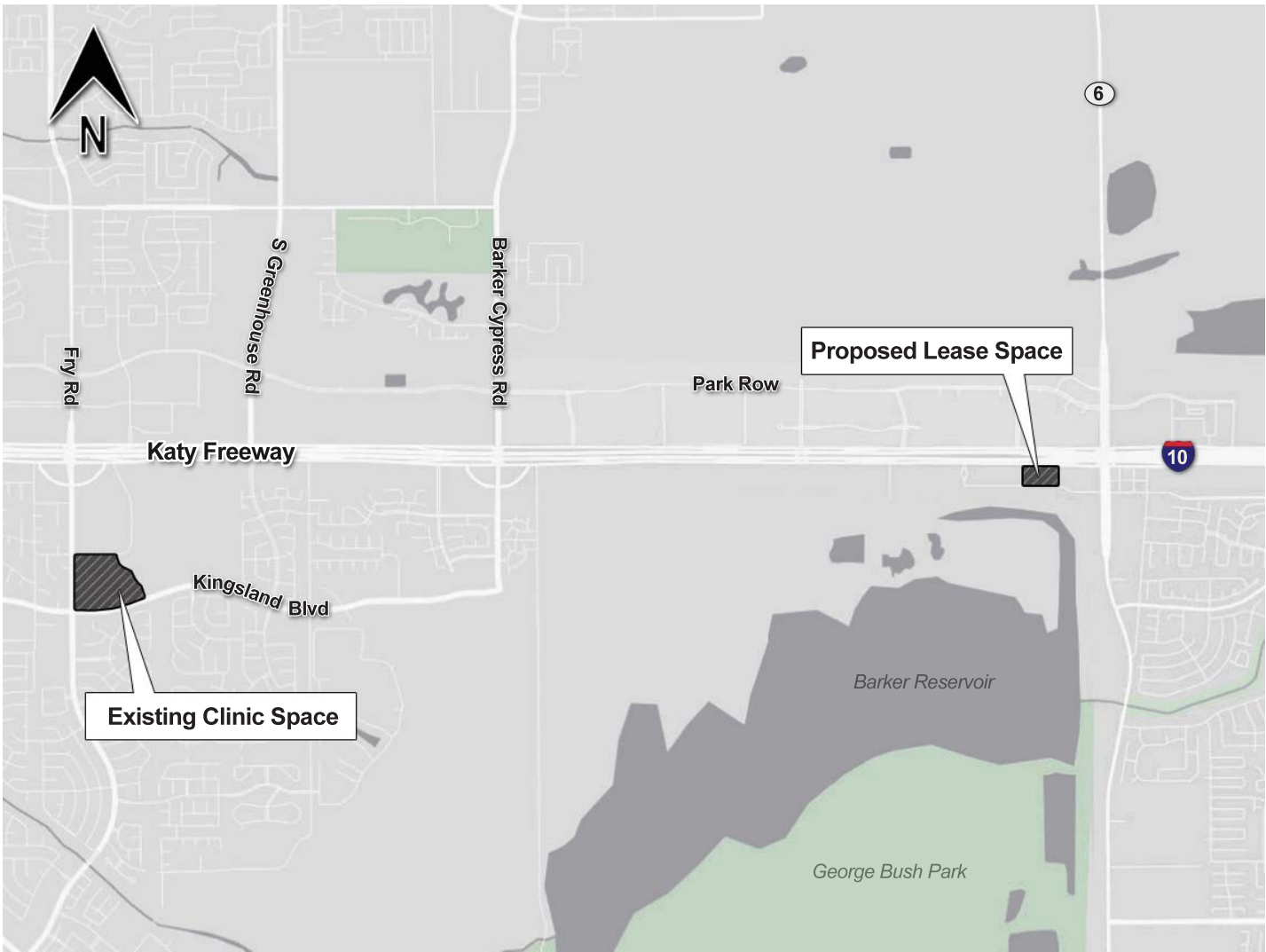
The landlord is contributing \$1,403,000 towards construction of the tenant improvements. U. T. M. D. Anderson Cancer Center is contributing approximately \$12,500,000 towards construction of fixed tenant improvements within the leased premises. All of the tenant improvements will be constructed by the landlord. These improvements are necessary to convert the shell space to clinic space. M. D. Anderson also plans to expend \$15,000,000 for furniture, fixtures and major equipment, the majority of which the institution will be able to remove upon termination of the lease.

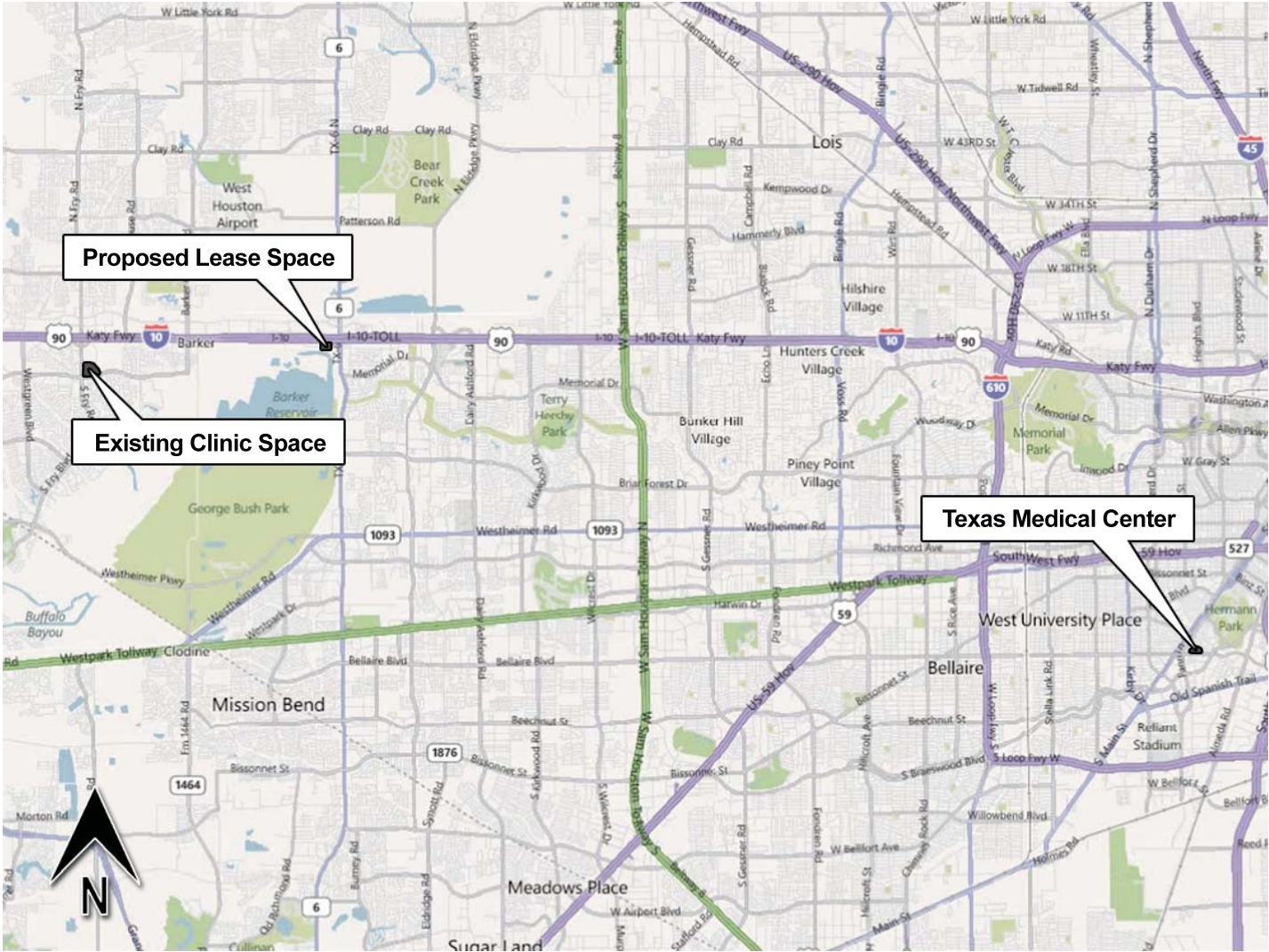
The landlord is offering building signage visible from the freeway, but is stipulating that the word "Cancer" cannot appear in such signage, inasmuch as the building was intended for general office use. The signage is anticipated to read "University of Texas M. D. Anderson Diagnostic Center."

Details of this lease, which will be funded with Designated Funds from revenue from hospital operations, are summarized in the transaction summary that follows.

Transaction Summary

Institution:	U. T. M. D. Anderson
Type of Transaction:	Lease of space in a commercial office building
Lessor:	TR Energy Crossing Corp., a Delaware corporation
Location:	15021 Katy Freeway, Houston, Harris County, Texas; see maps on the pages that follow
Total Rentable Area:	Approximately 35,075 rentable square feet
Commencement Date:	Anticipated to be June 1, 2012
Lease Term:	Ten-year initial term with two five-year options to renew
Annual Rent:	The annual base rent for the first year is \$666,425 and increases annually by \$17,537.50 (\$0.50 per rsf); the average annual rent during the 10-year period is \$745,343.76 or \$21.25 per rsf; rent during either five-year renewal term will be at market rates
Operating Expenses:	\$275,689.50 or \$7.86 per rsf based on 2011 estimates
Tenant Improvements:	The landlord is contributing \$1,403,000 towards construction of the tenant improvements; the institution is contributing approximately \$12,500,000 towards construction of fixed tenant improvements within the leased premises and will spend approximately \$15,000,000 for furniture, fixtures, and equipment
Intended Use:	Operation of a diagnostic imaging clinic and associated medical administrative offices
Source of Funds:	Designated Funds from revenue from hospital operations





4. **U. T. M. D. Anderson Cancer Center: Discussion featuring research opportunities, accomplishments, and challenges**

REPORT

Executive Vice Chancellor Shine will introduce President DePinho for a discussion featuring research opportunities, accomplishments, and challenges at U. T. M. D. Anderson Cancer Center.

5. **U. T. System: Quarterly report on health matters of interest to the U. T. System, including the Clinical Safety and Effectiveness Program and the impact of the 1115 Medicaid Waiver**

Executive Vice Chancellor Shine will report on health matters of interest to the U. T. System, including the Clinical Safety and Effectiveness Program and the impact of the 1115 Medicaid Waiver.