ALTERNATIVE PROJECT DELIVERY STRATEGIES FOR CAMPUS EXPANSION AND RENOVATION

UNIVERSITY OF CALIFORNIA
PUBLIC PRIVATE DEVELOPMENT

2015 SCUP Pacific Regional Conference

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Questions

• How do Universities mitigate the risk of large project delivery?

• How do public campuses balance campus growth and major renovations to infrastructure and buildings with ever-tightening budgets?

• How is the University of California San Francisco using public-private partnerships (P3) to deliver critical campus infrastructure?
Discussion

- P3 at the University of California and at UCSF
- UCSF Campus Public Private Development Models
- Case Study: UCSF Neurosciences Center 2 years later
- UCSF Capital Plans and Shrinking Budgets
- Summary Learning Objectives
University of California System-Privatized Structures at UC

- Developer Turnkey/Build-to-Suit
- Donor Development
- Ground Lease/Leaseback - Programmatic Use - P3
- Ground Lease - Auxiliary Use
- Master Lease/Lease w/option to purchase
- Concession Agreement
P3 Product Type at UC Systemwide

- Student/Faculty Rental Housing
- Faculty For Sale Housing
- Hotels/Patient Family Housing
- Child Care Center/K-12 School
- Theatres/Retail
- Parking
- Ambulatory Care/Surgery Center/MOB
- Research Buildings
- Office Buildings/Instructional Space
University of California San Francisco

- UCSF is UC’s only graduate level campus dedicated to medical education
- UCSF is the second largest employer in San Francisco with 25,0000 employees
- UCSF’s annual budget is over $3B
- Consistently ranked #1 in NIH grants
- 7M square feet at multiple sites
UCSF Public Private Development Projects

- The UCSF Campus has a long experience with public private development
  - Two Medical Office Buildings by developer delivery in the 80s
  - 200 space garage near the Mt Zion Hospital on private land
  - 50,000 square foot medical office building on donated land
  - The Sandler Neurosciences Center at Mission Bay Campus
  - Solar panels, rooftop wireless services, utilities projects
Case Study: UCSF Neurosciences Center P3

- UCSF failed to deliver several projects using traditional capital project delivery models
- Faced cost overruns when bids came in over budgets in UCSF’s capital program
- At risk of losing donated land for an MOB
- At risk of losing major gift for Neurosciences programs
- Outcry from Board of Regents, Chancellor, donors, faculty
- What could UCSF do to mitigate the risk of large project delivery?
Neurosciences Pilot

- Pilot project identified for developer delivery was the Sandler Neurosciences Center
- 237,000 square foot research building dedicated to University programs on a strategic site on the Mission Bay Campus
- Occupants are Neurology Programs
- Consolidated programs from 19 scattered locations, resulting in lease costs savings of $2M per year
- Construction, fit out, and occupancy in 24 months
- Critical for UC to fix price early to mitigate the University’s risk of cost overruns. UCSF pays rent for 38 years, at a fixed market rate, and will own the building at the end of the lease term
Neurosciences Developer Selection

• We fixed project costs in the selection process which remained fixed through design, construction and building occupancy phases

• Married private-sector efficiencies and fixed-cost concepts with UC access to tax exempt bond financing

• A competitive selection process which evaluated responses through RFQ/RFP phases and detailed negotiations for the final agreement

• Responses to the RFQ/RFP included qualifications, team members, conceptual designs, and economic terms for a long term space lease

• During negotiations we reduced hard construction costs by 7% and added $5 million of scope at no additional cost
Schematic Overview of UC Ground Lease-Leaseback Transaction (with Tax Exempt Bond Financing)
Neurosciences Deal Terms

- UCSF pays fixed rent to the developer under a 38 year space lease
- Scope included design, construction, operations maintenance
- Developer delivered shell and core and all tenant improvements
- $730 per square foot total project cost
- Utilized University’s permitting and inspection authority
- Financing a combination of federally subsidized Build America Bonds and low interest Tax Exempt Bonds
- No upfront University funds needed
The project was built and is owned by a third party.

Project not bound by the strict competitive bidding process required under California Public Contract Code.

Developer has significant ownership rights and risks of ownership, including all the risks for construction cost, schedule and certain operations.

Developer retains significant capital improvement and operational obligations throughout the term of the lease.

The project is only partially owned by the University and is thereby exempt from competitive bidding requirements.

The University’s selection process met competitive bidding requirements, even though not required.
Compliance Issues

• The University required the Developer to comply with University policies:
  – The University provided a Basis of Design with its program and building performance criteria for building infrastructure systems, laboratory spaces, State fire life safety, campus design guidelines, IT standards, etc
  – The agreement with the Developer, passed on to General Contractor and subcontractors required payment of prevailing wages
SANDLER NEUROSCIENCES CENTER
UCSF MISSION BAY
675 Nelson Rising Lane, San Francisco CA
First Floor
Second Floor
Third Floor
Fourth Floor
Fifth Floor
UCSF 19A Neurosciences Building - Floor Plans
Lessons – 2 years later

• How do occupancy costs compare to University owned and operated building?
  − When service levels are equalized there is no material difference in operating costs

• When P3 Landlord provides on site building management staff:
  − Greater transparency to operating and management costs
  − Participation in selection of vendor services and scope of services
  − Service requests submitted are attended to and completed on time
  − Emergencies averted or attended to by on site management staff

• The Lease specifies operating and maintenance requirements including minimum service levels:
  − Daily inspections of equipment by on site engineer
  − Equipment Maintenance Schedule is tracked and maintained

• How are ongoing alterations managed?
  − Two options; via University process or via Landlord
  − All have been through the Landlord due to expedited process and responsiveness of team
UCSF’s Capital Plans

- 2015 Long Range Development Plan calls for investment in aging infrastructure and facilities
- Initiatives include unmet housing needs and clinical space demands
- Our 10 year capital plan projection is near $2B
- At the same time, State budget allocations have been reduced over 25%, so…
How does UCSF balance campus growth and major renovations to infrastructure and buildings with ever-tightening budgets?

• Strategies:
  - Reduce our long term occupancy costs
  - Consolidate and collocate
  - Generate revenue from remote sites
  - Consider alternative delivery models incorporating LEAN, best value selection, and third party delivery
  - Continue to explore public private partnership opportunities
How is UCSF using public-private partnerships (P3) to delivery critical campus infrastructure?

• UCSF considers P3 delivery in our Standard Business Case Analyses for all projects
• What’s important varies by project so the best delivery model and structure is determined on a case by case basis
• Critical success factor is to select the right partner for each P3 project
• New models for partnerships are not just with developers but with third party occupants and other joint ventures and affiliations for health care services, research, and collaboration
Learning Outcomes Summary:

- **Opportunities**
  - P3 should always be viewed as an alternative
  - Another tool in the tool kit (pros/cons)
- **Benefits (pros):**
  - No up front capital needed
  - Provides financing alternatives, may be on or off balance sheet
  - Taxable or tax exempt
  - Donors support P3
  - Faster cheaper in some cases
  - Variable risk transfer
- **Challenges (cons):**
  - Must understand project goals and customize your approach
  - Must have organizational infrastructure to manage
  - Both partners must have vision, will, and stamina
THANK YOU