Alternative Project Delivery Strategies for Expansion and Renovation

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
PUBLIC PRIVATE DEVELOPMENT

2015 Urban Land Institute: Private Public Product Council

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Discussion

- UCSF Public Private Development Models
- Case Study: UCSF Neurosciences Center 2 years later
- Summary
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 25,000 employees
- UCSF’s annual budget is over $5B
- Consistently ranked #1 in NIH grants
- 9M square feet at multiple sites, portfolio valued at $7.3 Billion
Osher Center for Integrative Medicine

- 48K GSF
- $38M
- Ground lease with purchase option
Mt. Zion Garage

- 89k sq ft
- $16M
- Facility lease with purchase option
Sandler Neurosciences Center

- 237k sq ft
- $173M
- Research Facility
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
- Faced an outcry from Board of Regents, Chancellor, donors, faculty
- What could UCSF do to mitigate the risk of large project delivery?
Neurosciences Pilot P3 Delivery

- 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 in the center of the Mission Bay Campus
- Occupants are Neurology Programs, wet labs, research, support, and clinical research
- 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
Developer Selection Process

- 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)

- University
  - Master Ground Lease
    - Unrelated § 501(c)(3) Entity
      - Sub Ground Lease
        - Developer
          - Loan Agreement
          - Space Lease
          - University
            - Loan Agreement
  - Development Agreement
  - University

- Conduit Issuer
  - Bond Holders
    - Trustee
      - Letter of Credit Bank
  - Private Donations
  - UCSF Foundation (Operating FFE)
## Operating Cost Comparison ($/RSF)

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Sandler Neurosciences Building</th>
<th>Other UCSF Buildings</th>
<th>Difference</th>
<th>Percent</th>
<th>Comments</th>
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</thead>
<tbody>
<tr>
<td>Repairs and Maintenance</td>
<td>$2.37</td>
<td>$3.36</td>
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<td>Janitorial and Grounds</td>
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<tr>
<td>Maintenance</td>
<td></td>
<td></td>
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<td>Security coverage varies</td>
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<tr>
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</tbody>
</table>

**Notes:**
- Blended rates were used for UCSF Building based on comparable mix of uses
- Janitorial and Grounds Maintenance provided by UCSF in all Campus buildings
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
Statutory & Risk Issues

- 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
- The project is only partially owned by the University and is thereby exempt from competitive bidding requirements
- 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
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.
UCSF Sandler Neurosciences Center

- 237k sq ft
- $173M
- Research Facility
Conceptual Design – Floor Plan Diagram

- Open Wet Lab Zone
- Lab Support Zone
- Flex Zone
- Collaboration Zone
- Office Zone
Lessons – 2 years later

- How do occupancy costs compare to University owned and operated building?
  - When service levels are equalized, third party achieves 20% reduction
  - Building maintains higher standards for ongoing maintenance than typical institutional building

- 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

- Ongoing alterations:
  - Two options; via University process or via Landlord
  - All have been through the Landlord due to expedited process, lower costs, and responsiveness of team
Opportunities
- P3 should always be viewed as an alternative
- Another tool in the tool kit

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