

# ALTERNATIVE PROJECT DELIVERY STRATEGIES FOR CAMPUS EXPANSION AND RENOVATION

UNIVERSITY OF CALIFORNIA  
PUBLIC PRIVATE DEVELOPMENT

---

2015 SCUP Pacific Regional Conference

**ESTHER E. MORALES**

Assistant Vice Chancellor, Real Estate Services

University of California San Francisco

# 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 25,000 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?

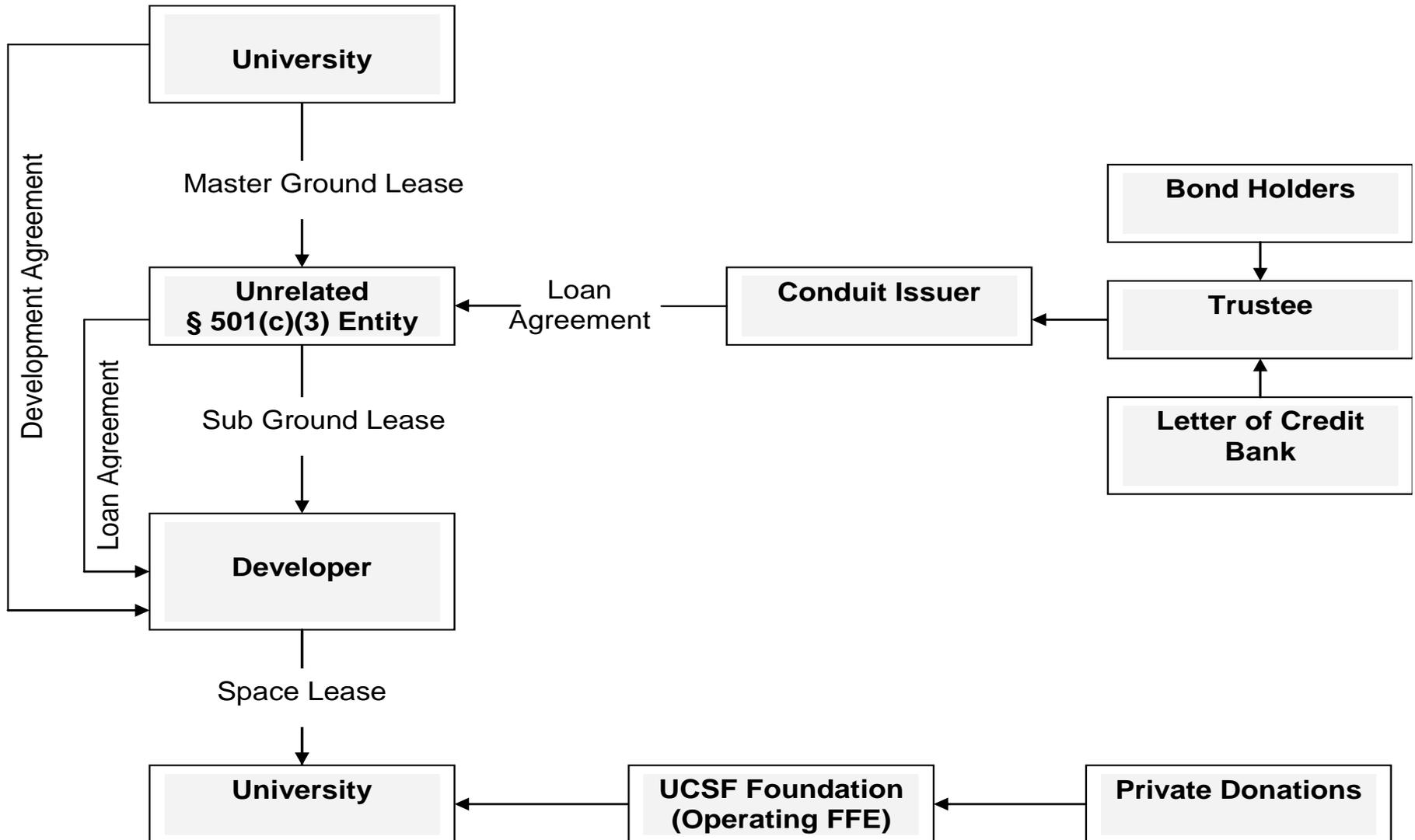
# Neurosciences Pilot

- 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

# 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.
- 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

# Mission Bay Neurosciences Building

**Arthur and Toni Rembe Rock Hall (RH)**  
1550 4th Street

**Byers Hall (BH)**  
1700 4th Street

**Genentech Hall (GH)**  
600 16th Street  
ATM, Genentech Hall Cafe

**Helen Diller Family Cancer Research Building (HD)**  
1450 3rd Street

**J. David Gladstone Institutes (Affiliated)**  
1650 Owens Street

**Mission Bay Housing at UCSF (H)**  
Hearst Tower: 1560 3rd Street  
North: 525 Nelson Rising Lane  
South: 550 Gene Friend Way  
ATM, Caffe Terzetto, Peasant Pies, Publico, Subway  
West: 1505 4th Street

**Parking and Transportation Office (PT)**  
1625 Owens Street

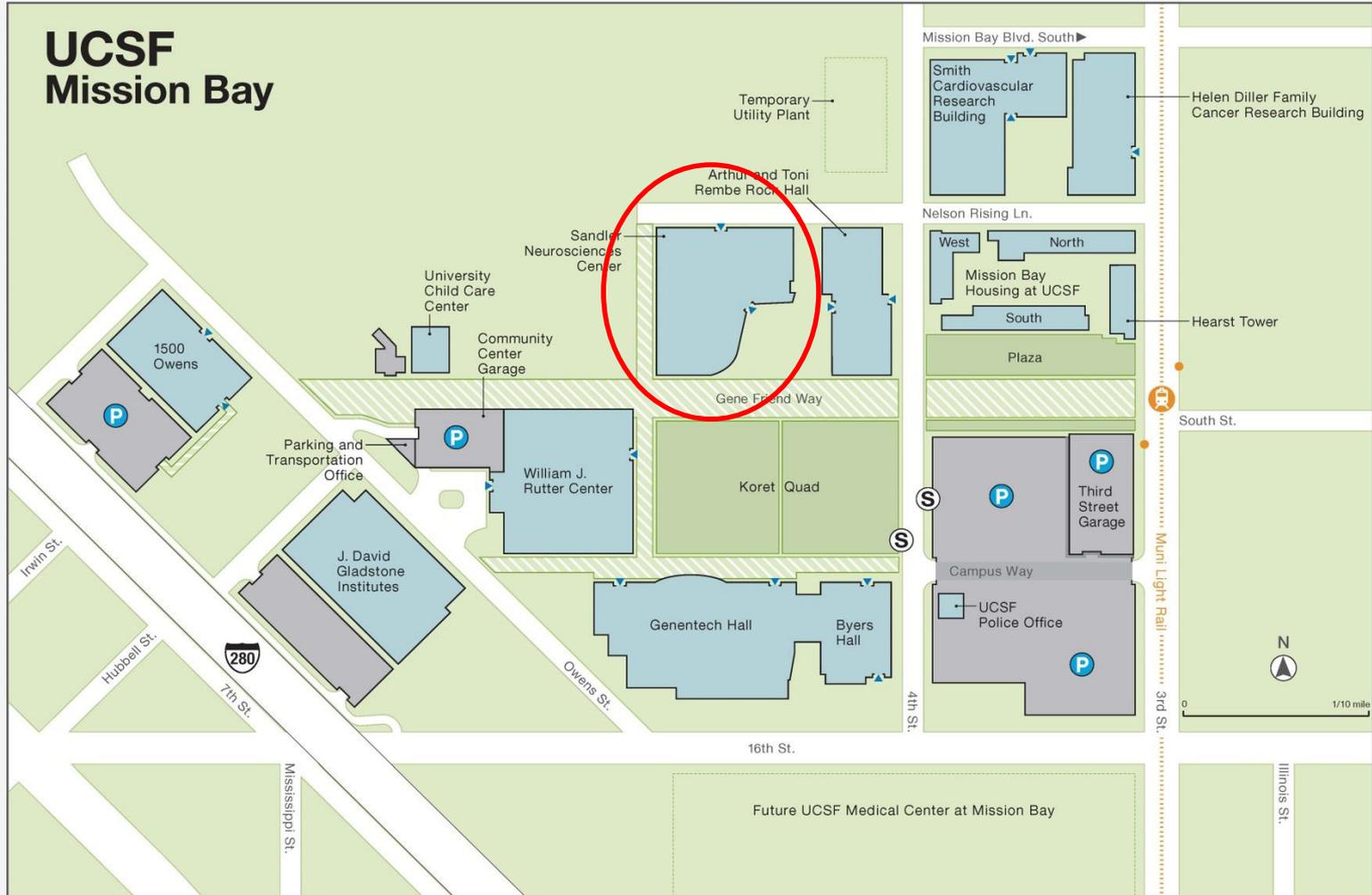
**Sandler Neurosciences Center**  
675 Nelson Rising Lane

**Smith Cardiovascular Research Bldg**  
555 Mission Bay Boulevard South

**Third Street Garage**  
1650 3rd Street

**University Child Care Center**  
1555 6th Street

**William J. Rutter Center (CC)**  
1675 Owens Street  
ATM, Conference Center, The Pub  
Bakar Fitness and Recreation Center



Entrance (Accessible)  

UCSF Shuttle Stop 

Parking 

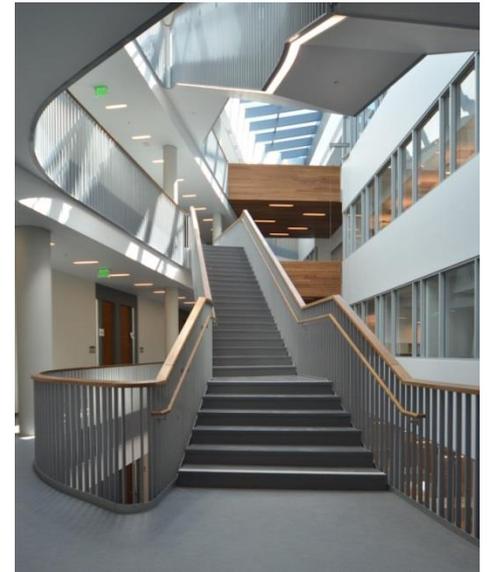
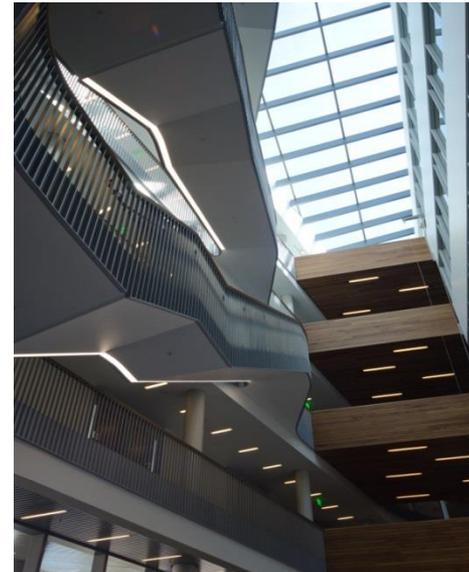
Muni Light Rail 

Muni Bus Stop 

# 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