AIAI P3 Higher Education

Developing and Monetizing On and Off Campus Infrastructure Assets

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Agenda

- UCSF Public Private Development Models
- Case Studies:
  - Sandler Neurosciences Center
  - Laurel Heights Monetization of Underutilized Property
  - UCSF Child, Teen, and Family Center and Department of Psychiatry Building
- Discussion: Questions we ask ourselves
University of California Privatized Structures

- Developer Turnkey/Build-to-Suit
- Donor Development
- Ground Lease/Leaseback - Programmatic Use (research/clinics)
- Ground Lease/Lease for Auxiliary Uses (housing)
- Master Lease/Lease w/option to purchase
- Concession Agreements
UCSF Public Private Development Projects

- 3 Case Studies:
  - Sandler Neurosciences Center
  - Laurel Heights Monetization of Underutilized Property
  - UCSF Child, Teen, and Family Center and Department of Psychiatry Building
Case Study #1: Sandler Neurosciences Center

- 237k sq ft
- $173M
- Research Facility
Neurosciences Deal Terms

- Developer scope included design and delivery under a lease disposition and development agreement, and operations and maintenance obligations under the space lease
- Financed through tax Exempt Bonds issued by a non profit entity
- UCSF pays fixed rent to the developer under the 38 year space lease; base rent payments are assigned to repay the bonds
- The developer had cost and schedule risk through a fixed price transaction, and capital maintenance responsibility through the space lease
- Building is owned and operated by the Developer through the end of the space lease, then reverts to University
Case Study #2: Laurel Height Long Term Ground Lease
Laurel Heights Deal Terms

- 99 prepaid ground lease of 10 acre site in San Francisco
- UC lease back of existing 300,000 sq ft building for 10 years with options to terminate early
- Provided 100M of revenue to be applied towards other capital projects and replacement space for building occupants
- Developer assumes all entitlement risk for future site development
- Property reverts to UC in 99 years
- Developer selection through a RFQ/RFP process
- Goal was to develop a P3 partnership resulting in a win for UC, a win for the community, and a win for the City of San Francisco
Case Study #3: Department of Psychiatry Building at 2130 3rd Street San Francisco
2130 3rd Street Deal Terms

- Donor gift of property near the Campus
- Third party delivery of project under negotiation
- Developer selected through a RFQ/RFP process
- UC responsible for CEQA
- Developer responsible for design, build, operate, and maintenance of the project under an LDDA and space lease back to UCSF
- Financing by non profit issuing tax exempt bonds
- Approved by the Regents in May 2017, start construction by January 2018, delivery April 2020
Lessons Learned:

• Benefits of P3 delivery:
  − No predevelopment Campus funds needed
  − Provides financing alternatives with access to alternate funding sources
  − Donors support P3 delivery
  − Can be faster cheaper in some cases
  − Transfer of risk is tied to the agreement terms structure
  − Creates building capital reserve

• Challenges of P3 delivery:
  − Must understand specific project goals and customize approach, complex transactions
  − Must have internal organizational infrastructure to manage transaction and delivery oversight
  − P3 partners must have aligned vision, will, and stamina
  − Need to bring on the right team of advisors
Questions to ask regarding P3 delivery:

- How can we use P3 to deliver on our capital plan with shrinking available funds?
- How do we structure P3 transactions for specific projects?
- How do transfer risk in P3 delivery of large projects while maintaining control over specialized facilities requirements?
- How do we evaluate alternate delivery structures and make decisions on best delivery for projects?
- How do we assemble and select the right partners and advisors for P3 projects?
Questions cont:

- How do we evaluate benefits/savings of developer maintained projects over time?

- How do long occupancy and capital costs compare to University owned and operated building?