

The Regents of the University of California

**COMMITTEE ON GROUNDS AND BUILDINGS
COMMITTEE ON FINANCE**

November 19, 2015

The Committees on Grounds and Buildings and Finance met on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members Present: Representing the Committee on Grounds and Buildings: Regents Davis, Elliott, Makarechian, Oved, Pérez, Ruiz, Sherman, and Zettel; Ex officio members Lozano and Napolitano; Advisory members Hare and Schroeder; Staff Advisors Acker and Richmond

Representing the Committee on Finance: Regents Davis, Island, Kieffer, Makarechian, Newsom, Ortiz Oakley, Reiss, and Ruiz; Ex officio members Lozano and Napolitano; Advisory members Hare and Ramirez; Staff Advisors Acker and Richmond

In attendance: Regents Blum, De La Peña, Gorman, Lansing, Pattiz, and Torlakson, Regent-designate Brody, Faculty Representative Chalfant, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Senior Vice Presidents Henderson and Peacock, Vice Presidents Brown, Budil, Duckett, Humiston, and Sakaki, Chancellors Block, Blumenthal, Dirks, Gillman, Hawgood, Katehi, Khosla, Leland, Wilcox, and Yang, and Recording Secretary McCarthy

The meeting convened at 10:45 a.m. with Committee on Grounds and Buildings Chair Makarechian presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of September 16, 2015 were approved.

2. APPROVAL OF BUDGET AND COMMERCIAL TERMS OF THE 2020 PROJECT AGREEMENT AND RELATED ACTIONS, MERCED CAMPUS

The President of the University recommended that:

- A. The 2015-16 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Merced: Merced 2020 Project (2020 Project) – \$1,142,850,000 to be funded from external financing (\$600 million), Developer funding (\$385.76 million), and campus funds (\$157.09 million)

- B. The minimum scope of the 2020 Project shall include the construction of approximately 918,900 assignable square feet of academic, administrative, research, recreational, student residence, and student services buildings, as well as infrastructure, outdoor recreation facilities and open space, landscaping, roadways, and parking.
- C. The commercial terms of the 2020 Project Agreement be approved, contingent on minimum programmatic scope and a maximum annual payment not to exceed \$51 million in the first full year of operations, and escalated over the remaining term of the Project Agreement by provisions contained therein.
- D. The President, in consultation with the General Counsel, be authorized to approve and execute the Project Agreement materially consistent with the commercial terms approved by the Regents, and execute all documents necessary to implement the Project Agreement and the 2020 Project.
- E. The proposed procurement method be determined to be in the best interest of the University pursuant to Section 10503(e) of the California Public Contract Code.
- F. The 2020 Project Request for Proposals be released to the three teams that have been qualified for inclusion on the short list.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee on Grounds and Buildings Chair Makarechian introduced this item that had been discussed at several prior meetings, particularly since it would be developed under a design-build-finance-operate-maintain (DBFOM) delivery method never before used by the University. He thanked Chancellor Leland for her work on the 2020 Project, which would increase the capacity of the Merced campus to 10,000 students by 2020. The delivery method had been reviewed by the Committees in an effort to mitigate risks. Potential benefits of using the DBFOM delivery method include the potential for timely completion of the project, the ability to contract with a single developer, and increasing the University’s purchasing power. On the other hand, if a default were to occur, it would involve the entire project. The project’s financial model had been changed to ensure that the developer had at least \$100 million of equity investment and a 100-percent payment and performance bond.

Chancellor Leland commented that the project had been improved as a result of Regents’ input. She displayed a slide of a student-organized vigil held recently at UC Merced in response to a recent incident of violence on the campus.

Chancellor Leland reviewed the rationale behind the Merced 2020 Project. The original reason to develop the Merced campus was to increase access to the UC system, to increase college attendance rates in the San Joaquin Valley, one of the fastest growing and most impoverished areas of California, and to stimulate the area's economic growth. After ten years, UC Merced is clearly meeting those objectives, with 99 percent of its undergraduates coming from California and more than 30 percent from the San Joaquin Valley. Of UC Merced's students, 62 percent are first-generation college students; 60 percent are from low-income families; and 55 percent are majoring in fields related to science, technology, engineering, and mathematics. Currently, the demand for access to UC Merced is increasing dramatically. In 2015, more than 19,000 students applied directly to UC Merced. In the ten years since UC Merced opened, college applications from San Joaquin Valley high school students have doubled. The campus is already responsible for more than \$1.27 billion in economic impact to the San Joaquin Valley. Completion of the 2020 Project would allow the campus to continue to offer students a welcoming, intimate, and diverse academic environment, and to continue to be a significant economic engine in the San Joaquin Valley. The campus has narrowed its areas of academic focus to six multidisciplinary research themes. The 2020 Project responds to existing serious space deficits and would enable the campus to increase its enrollment to 10,000 students over the upcoming decade.

The 2020 Project would be situated on a compact 219-acre site, adjacent to the existing Merced campus, on a much smaller footprint than originally planned, saving significant infrastructure costs. All new facilities would be mixed-use, flexible space. New teaching and research space would be 43 percent of the campus' total program space. UC Merced currently does not have enough housing for even its freshmen and the 2020 Project would add 1,700 new beds for students.

Chancellor Leland explained that the DBFOM delivery model was chosen because it would accelerate time to delivery, transfer significant risk to a private partner, reduce the interface risk of dealing with multiple contractors, and enable development of facilities the campus could afford to maintain over the facilities' lifecycles. The prior fall, the campus sought responses from the market to gauge receptivity to the 2020 Project. Six internationally recognized development teams responded and three were chosen to participate in the proposal stage. Each team includes experts in planning, architecture, construction, finance, and facilities maintenance, and have members with a history of working on UC campuses. With the Board's approval, in the next step each team would develop a proposal, based on financial cost and detailed performance criteria. The teams' proposals must include delivery of the first buildings by 2018 and completion of all facilities by 2020. Each financial proposal must not exceed a predetermined maximum amount, and would include detailed assumptions regarding design, construction, finance, operations, and maintenance costs.

Executive Vice President and Chief Financial Officer Brostrom added that the Request for Proposal (RFP) process creates a competitive framework for the University to select the winning developer. The DBFOM method adds a long-term, preventative capital maintenance and renewal program to the procurement, reducing costs over the lifecycle

of the contract. In addition, the developer would share the risk, by retaining liability for the buildings it has constructed, enabling the University to hold the developer accountable for the buildings' performance over the term of the contract. The Project Agreement is an integral part of the proposals and includes the commercial terms, technical specifications, and performance standards for the design and construction, and the operating portion of the contract. The Agreement is based on an established form of contract that has proven successful in similar projects, and has been tailored to incorporate UC Merced's needs and UC's previous contractual experience. All day-to-day operations would be performed by University employees. The campus spent six months in an industry review process to elicit comments from the three prospective bidders.

The process provides the Regents with two important financial controls for the competitive procurement: first, an overall design and construction budget of \$1.14 billion, with \$400 million of the amount funded by the developer; second, an upset limit of \$51 million, the maximum allowable payment by the University during the first full year of operations.

Mr. Brostrom highlighted two ways in which the input of Regents with expertise in this area had been instrumental in improving the Project's structure. First, the amount of payment and performance bonds was increased to a level commensurate with the total amount of University financing, being the amount the University would make in milestone and availability payments, projected to be about \$600 million. In 2020, the completed facilities would have a value of \$1 billion. The University would have financed \$600 million of that amount, with the final payment made upon delivery of the final facilities. The developer would finance the other \$400 million over the term of the availability payments, giving the University \$400 million of equity, providing protection in case of post-construction defects or other performance issues. Second, the amount of equity the developer would be required to invest was increased to ten percent of the total project cost, or at least \$100 million.

Mr. Brostrom highlighted the next steps in the 2020 Project. With the Board's approval, the RFP would be released to the three teams around the beginning of 2016; in the spring, each team would respond with a preliminary design, proposed costs, and a financing model. A rigorous evaluation process would ensue through which the University would identify the preferred bidder. A selection committee supported by dozens of stakeholders and subject matter experts, including senior faculty and administrative leaders, would assess each proposal based on technical factors including design elements and finances. Mr. Brostrom said that he and Chancellor Leland, as the Project's executive sponsors, would make the final recommendation, with regular updates to the Regents throughout the process.

Regent Kieffer complimented Chancellor Leland for her effort on this project.

Chairman Lozano recognized the work of the Committee on Grounds and Buildings, and particularly thanked Committee Chair Makarechian for his input, which has resulted in a stronger proposal.

Regent Island expressed support for moving forward to address the need of the UC Merced campus. He asked Mr. Brostrom for his evaluation of the anticipated marketplace reaction to the equity requirement and the structure of the Project Agreement. Mr. Brostrom responded that all three developer groups said they could accommodate the required increase in equity and payment and performance bonds. While the required payment and performance bonds are larger than typically required for this kind of project, they do correspond to the amount of the University's financing and would provide a safeguard.

Committee on Finance Chair Ruiz expressed strong support for the Project, which would make a significant difference for Central California and its children.

Regent Sherman voiced appreciation for the improvements to the Project Agreement. He asked when the University would seek external financing for the project, given that interest rates are currently low, and are projected to rise. Mr. Brostrom responded that the University may choose to issue the debt in advance, while meeting tax requirements. A detailed financing proposal would be presented, including ways to guard against interest rate risk, when approval is sought for the Project's external financing.

Regent Ortiz Oakley asked how the Regents could support the campus' plans to expand its faculty and staff to support the increased student enrollment. Chancellor Leland said the campus has a five-year hiring plan for faculty, and is focusing on existing areas of strength that would help garner external research funding.

Regent Blum commented on UC Merced's unique role in providing a way for children of low-income families to improve their economic circumstances. He advocated seeking external financing as soon as possible since interest rates are expected to rise. Committee Chair Makarechian responded that external financing could be sought as soon as the developer has been chosen and the design was known, within the next three to four months.

Staff Advisor Acker commented that the success of the diverse student body at UC Merced is a good model for other UC campuses.

Committee Chair Makarechian cautioned that the oversight during execution of the Project would be crucial to the Project's success.

Upon motion duly made and seconded, the Committees approved the President's recommendation and voted to present it to the Board.

3. **APPROVAL OF UNIVERSITY OF CALIFORNIA 2016-17 BUDGET FOR STATE CAPITAL IMPROVEMENTS, MERCED CAMPUS**

The President of the University recommended that the *2016-17 Budget for State Capital Improvements*, as shown in Attachment 1, be approved.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Executive Vice President and Chief Financial Officer Brostrom explained that the 2016-17 Budget for State Capital Improvements consists of only one project, the State-funded portion of the Merced 2020 Project. That portion is estimated to be 40 percent of the total Project, space devoted to research and academic support. The passage of AB 94 in 2013 enabled the University to finance a portion of its capital projects from State appropriations, which to date was about \$15 million per year in debt service.

Upon motion duly made and seconded, the Committees approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 11:40 a.m.

Attest:

Secretary and Chief of Staff

2016-17 BUDGET FOR STATE CAPITAL IMPROVEMENTS

MERCED 2020 PROJECT BUDGET

US\$ in millions	State Eligible									Non State-Eligible							Total Project										
	ASF	GSF	Site Prep	Site Development	Infrastructure	Construction	FF&E	Soft Costs	Total State Eligible	ASF	GSF	Site Prep	Site Development	Infrastructure	Construction	FF&E	Soft Costs	Total Non State Eligible	Total ASF	Total GSF	Site Prep	Site Development	Infrastructure	Construction	FF&E	Soft Costs	Total Project Cost
Academic Space																											
Research Laboratory	181,660	301,700	0.75	8.64	25.01	191.47	19.04	33.14	278.04	-	-	-	-	-	-	-	-	-	181,660	301,700	0.75	8.64	25.01	191.47	19.04	33.14	278.04
Academic Office	112,790	172,400	0.24	2.78	8.05	61.61	6.12	10.66	89.46	-	-	-	-	-	-	-	-	-	112,790	172,400	0.24	2.78	8.05	61.61	6.12	10.66	89.46
Classrooms	33,360	38,900	0.10	1.10	3.20	24.46	2.43	4.23	35.52	-	-	-	-	-	-	-	-	-	33,360	38,900	0.10	1.10	3.20	24.46	2.43	4.23	35.52
Classroom Laboratory	26,445	60,700	0.09	1.04	3.01	23.03	2.29	3.99	33.44	-	-	-	-	-	-	-	-	-	26,445	60,700	0.09	1.04	3.01	23.03	2.29	3.99	33.44
Chancellor Suite	9,769	15,000	0.02	0.19	0.54	4.13	0.41	0.72	6.00	-	-	-	-	-	-	-	-	-	9,769	15,000	0.02	0.19	0.54	4.13	0.41	0.72	6.00
Colloquy Space	10,000	16,700	0.03	0.33	0.96	7.33	0.73	1.27	10.65	-	-	-	-	-	-	-	-	-	10,000	16,700	0.03	0.33	0.96	7.33	0.73	1.27	10.65
Enrollment Center	22,785	35,100	0.05	0.52	1.51	11.57	1.15	2.00	16.80	-	-	-	-	-	-	-	-	-	22,785	35,100	0.05	0.52	1.51	11.57	1.15	2.00	16.80
Campus Operations	19,020	27,200	0.05	0.59	1.70	13.02	1.29	2.25	18.91	-	-	-	-	-	-	-	-	-	19,020	27,200	0.05	0.59	1.70	13.02	1.29	2.25	18.91
Student Housing	-	-	-	-	-	-	-	-	-	380,453	505,900	1.19	9.80	21.35	163.45	14.72	28.26	238.76	380,453	505,900	1.19	9.80	21.35	163.45	14.72	28.26	238.76
Student Activity	-	-	-	-	-	-	-	-	-	122,630	193,000	0.75	6.18	13.47	103.17	9.29	17.76	150.62	122,630	193,000	0.75	6.18	13.47	103.17	9.29	17.76	150.62
Parking	-	-	-	-	-	-	-	-	-	-	-	2.13	18.44	-	-	0.08	3.50	24.16	-	-	2.13	18.44	-	-	0.08	3.50	24.16
Owner Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	88.34	88.34	-	-	-	-	-	-	-	88.34	88.34
Contingency	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	68.75	68.75	-	-	-	-	-	-	-	68.75	68.75
Total (\$2014)	415,829	667,700	1.31	15.18	43.97	336.62	33.47	58.27	488.82	503,083	698,900	4.07	34.42	34.82	266.62	24.09	206.61	570.63	918,912	1,366,600	5.38	49.61	78.79	603.24	57.56	264.88	1,059.45
Total (YOE)	415,829	667,700	1.42	16.38	47.43	363.12	36.10	62.86	527.30	503,083	698,900	4.39	37.13	37.56	287.61	25.99	222.87	615.55	918,912	1,366,600	5.81	53.51	84.99	650.73	62.09	285.73	1,142.85

Inflation Factor 1.08

Key

- This Action: Approval of University of California 2016-2017 Budget for State Capital Improvements
- Separate Action: Approval of Budget and Commercial terms of the 2020 Project Agreement and Related Actions