

**Office of the President**

**TO THE MEMBERS OF THE COMMITTEE ON FINANCE:**

**DISCUSSION ITEM**

*For the Meeting of March 18, 2015*

**UPDATE ON THE 2020 PROJECT, MERCED CAMPUS**

**EXECUTIVE SUMMARY**

Twenty years ago, the Regents of the University of California established the tenth campus in Merced, California, with the goal of expanding access to UC-eligible students, and to provide research and economic growth to the historically underserved Central Valley.

The Merced campus currently enrolls 6,268 students. The campus student body is a reflection of California's geographic and ethnic diversity: 97 percent of its undergraduates are from within California, 46 percent are Latino, 25 percent are Asian, and six percent are African-American; 60 percent of its students receive Pell Grants, and 62 percent are first-generation college students. Student demand for UC Merced continues to increase, with a record 20,000 applications for the fall 2015 class.

In order to continue the development of the campus in a manner that is focused on new approaches to multidisciplinary learning and research, UC Merced recently completed a Strategic Academic Focusing Initiative. The campus assessed the opportunities and challenges of advancing and developing the campus toward excellent academic programs that are recognized nationally and internationally.

With the campus' academic themes in mind, the campus has planned the 2020 Project to deliver an adaptable joint-use physical environment that can accommodate the innovative educational themes and interdisciplinary nature of the programs emanating from the campus' strategic academic initiative. Through this process, the campus envisions itself as a different model for a public research university in the United States.

With a strong focus on targeted academic themes, UC Merced offers students an opportunity to study and research in an intimate environment. The 2020 Project seeks to nurture this unique environment, enabling the campus to sustain its focus and respond to emerging areas of research, within the context of a sustainable long-term financial model.

Expanding the campus as planned is critical to UC Merced's success in meeting its academic goals and to the University's ability to continue to provide access to eligible students. However,

the campus is faced with a growing gap between strong student demand and the campus' limited capacity to provide the facilities necessary to support that demand. In addition, this next phase of growth will enable the campus to reach financial sustainability, within a financial plan that considers both capital and operating needs, and that is not predicated upon future capital investment.

In order to provide the critically needed facilities and infrastructure to support the Strategic Academic Focusing Initiative and to meet enrollment targets by the 2020-21 academic year, the campus is proposing a delivery model to address this critical need. The 2020 Project would be delivered as a comprehensive development that includes the design, construction, financing, operation, and maintenance of some or all of its elements, referred to as a design-build-finance-operate-maintain (DBFOM) procurement model. This procurement and project delivery model uses a performance-based payment structure and takes advantage of innovative and cost-effective design and operating solutions in the global market for infrastructure and public buildings.

In scale, scope and intent, the Project is the most significant initiative for the Merced campus since its founding.

## **BACKGROUND**

In May 1995, the Regents selected Merced as the site for the University of California's tenth campus, with the goal of expanding access to UC-eligible students and to provide research and economic growth to the historically underserved Central Valley. The Regents adopted the first Long Range Development Plan (LRDP) for the Merced campus in 2002, and the first campus buildings opened on the new site in 2005.

In March 2009, the Regents approved the 2009 LRDP, which set forth a land use plan and principles to guide growth to 10,000 students by the year 2020 (the 2020 Project or the Project), and for eventual full development of a 25,000-student campus.

In March 2013, the concept of an integrated, master-planned development on reduced footprint was presented to the Committee on Grounds and Buildings. Subsequently, in May 2013, the Regents approved an amendment to the 2009 LRDP, to create a planning framework providing the land use flexibility to design and deliver a master-planned development of academic, research, and auxiliary uses on 219 acres. The amended LRDP provides for the 2020 Project to be developed within the boundaries of that 219-acre site, and provide the new facilities to support an enrollment level of 10,000 students.

## **THE CHALLENGES OF CURRENT AND FUTURE ENROLLMENT**

UC Merced currently enrolls 6,268 students. The campus student body is a reflection of California's geographic, economic, and ethnic diversity: 97 percent of its undergraduates are from within California, 46 percent are Latino, 25 percent are Asian, and six percent are African-American; 60 percent of its students receive Pell Grants and 62 percent are first generation college students. Student demand for UC Merced continues to increase, with approximately

20,000 applications, a record number, for the fall 2015 class, representing a 14 percent increase over 2014 – the largest percentage increase of any campus in the system.

The campus is faced with a growing gap between strong student demand and the campus' limited capacity to provide the facilities necessary to support that demand. To accommodate its current enrollment, the campus has developed approximately 0.9 million assignable square feet of modern facilities, within its initial campus footprint. These buildings have earned widespread recognition for their leadership in design, sustainability, and energy efficiency.

Expanding the campus as planned consistent with the approved LRDP is critical to UC Merced's success in meeting its academic goals and to the University's ability to continue to provide access to eligible students. To emerge as a competitive research university campus, it is imperative for the campus to expand its graduate programs and research capacity, and the campus seeks to grow graduate enrollment from its current level of six percent of the student body, to ten percent. In addition, this next phase of growth will enable the campus to reach financial sustainability, within a financial plan that considers both capital and operating needs, and which is not predicated upon future capital investment.

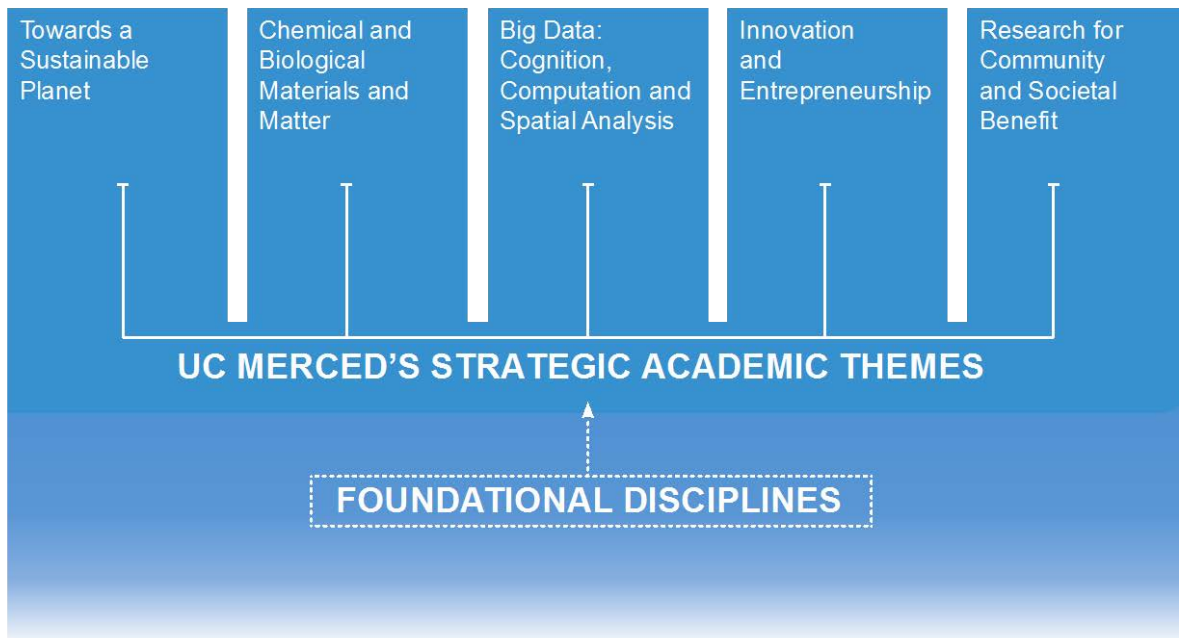
At this time, UC Merced's greatest challenge for enrollment growth is sufficient and timely capital development. Despite its past development success, the campus is experiencing critical space shortages. Currently, the campus' classroom space is at capacity, housing is oversubscribed, and infrastructure systems are operating above designed capacity. In order to prioritize space for students, the campus has moved administrative functions, faculty offices, and research laboratories off campus to three dispersed locations in the greater Merced area. The research activities of a portion of the UC Merced faculty and their graduate students are currently being conducted in the nearby city of Atwater, in the modified facilities of a former Air Force base. These dispersed locations result in ineffective administrative operations, and are not cost-effective long-term solutions.

An important part of campus plans include the campus' proposed development of a Downtown Center to consolidate many administrative functions in a downtown campus. The campus will construct the Downtown Center, an office building that provides an efficient and flexible layout for a 21st-century work environment and will also consolidate the majority of administrative uses into a central facility. The Downtown Center will serve as the primary hub for administrative functions and represents a long-term investment in the future of downtown Merced. The Committee on Grounds and Buildings is scheduled to consider a proposal concerning planning for the Downtown Center at this Regents' meeting.

Specialized classroom and laboratory capacity on campus remains constrained. Campus teaching laboratories and large academic classrooms are over-utilized and lack availability for high-demand and prerequisite courses. This has affected course availability, and consequently some students' ability to schedule curriculum in order to graduate within four years. The Merced campus has begun to develop and deploy hybrid distance learning courses, and will continue to develop strategies appropriate for the campus, but on-campus space remains a critical need.

## PROJECT ALIGNMENT WITH THE STRATEGIC ACADEMIC PLAN

One of the key objectives of the Project is to create a campus that supports new approaches to multidisciplinary learning and research. UC Merced recently completed a Strategic Academic Focusing Initiative in conjunction with the 2020 Project. The campus assessed the opportunities and challenges of advancing and developing the campus towards areas of strategic advantage, where focused investment can result in interdisciplinary research and educational programs of distinction, and where society's most critical problems could serve as a magnet for faculty working towards their solutions. The plan is based around faculty-recommended refinements to the campus' current academic vision, important research problems, resource needs, and their alignment with national programs. This will result in a campus where faculty and students operate across physical and disciplinary boundaries in a smaller, collaborative public research environment. The following diagram illustrates the five primary academic themes identified in the Strategic Academic Focusing Initiative that will inform UC Merced's space needs:



With the campus' academic themes in mind, the Project is poised, at this time, to deliver an adaptable joint-use physical environment that can accommodate the educational themes and interdisciplinary nature of the programs emanating from the campus' strategic academic initiative. The program envisions facilities with significant flexibility given that techniques and tools of education are changing at a rapid rate.

Through this process, the campus envisions itself as a different model for a public research university in the United States. With a strong focus on targeted academic themes, UC Merced offers students an opportunity to study and research in an intimate environment. The 2020 Project seeks to nurture this unique environment, enabling the campus to sustain its focus and respond to emerging areas of research, within the context of a sustainable long-term financial model.

The 2020 Project will incorporate the campus' academic focus into the design of the campus' physical environment. The design objective is to create a space-efficient, mixed-use, living-learning community that will serve multiple needs, encourage interaction among students, faculty and staff, stimulate new approaches to multidisciplinary learning and research, and provide flexibility to adapt to future developments in research and education.

### **MEETING THE CAPITAL DEVELOPMENT CHALLENGE – 2020 PROJECT**

In March 2013 the Regents' Committee on Grounds and Buildings was apprised of an approach to address UC Merced's capital development challenges. UC Merced's proposal is non-traditional, but it is also pragmatic: the campus has concluded that a traditional approach to delivering UC capital projects renders campus growth far slower and more expensive than an alternative approach that would add capacity rapidly in a cost-effective and programmatically effective manner.

In order to provide the critically needed facilities and infrastructure to support a campus enrollment of 10,000 students by the 2020-21 academic year, the 2020 Project would be implemented as a comprehensive, master-planned development, with joint-use facilities flexible in use and adaptable to change. It employs a delivery strategy that combines all elements of capital development into an integrated approach, enabling the University to seek economies of scale, to price the lifecycle cost of the facilities, and transfer risk. In scale, scope, and intent, the Project represents the most significant initiative for the Merced campus since its founding, and an opportunity to demonstrate the functional and financial benefits of an alternative delivery strategy. The Project envisions a mixed-use integrated living-learning environment for students, faculty, and staff, implemented in a dynamic expansion that would:

- Use an aggressive construction schedule that results in substantial completion by 2020 of approximately 1 million assignable square feet of new academic space for teaching and research, housing, dining, student life, athletics, campus operations, and associated infrastructure necessary to accommodate 10,000 students; by requiring delivery of assignable square feet, rather than gross square feet, the campus hopes to further incentivize efficiencies and space economies within the built-program in order to reduce overall cost;
- Provide mixed-use facilities that allow for interdisciplinary scholarly activities and that result in a unique, dynamic and inspiring environment for students, faculty and staff;
- Create built-in flexibility and adaptability to accommodate future needs;
- Implement a project plan that expands space capacity appropriately across all building/facility categories necessary for enrollment growth;
- Result in a cost-effective development that takes advantage of existing investments in campus infrastructure and provides best overall value for the lifecycle of the facilities;
- Support UC Merced's goal of achieving "Triple Net Zero" status (zero net energy, zero landfill waste, and zero net greenhouse gas emissions);
- Incorporate private sector innovation and expertise in design, construction and management, and access to portions of the financing to facilitate the transfer of risk;
- Shift certain risks related to design, construction, operations, and maintenance to a

- private-sector partner; and
- Facilitate greater capacity to focus on core teaching, research and public service missions.

### **PROJECT PROCUREMENT APPROACH**

The Project would consist of a comprehensive development that includes the design, construction, financing, operation, and maintenance of some or all of its elements, referred to as a design-build-finance-operate-maintain (DBFOM) procurement model. The project delivery approach is modeled from other successfully implemented infrastructure and public building projects in the United States and globally. The University would enter into a long-term contract with the private-sector partner (Concessionaire), wherein the Concessionaire would design and construct all infrastructure and facilities, secure a portion of the financing, and perform lifecycle maintenance and management for the facilities. The University would make performance-based payments (“milestone” payments made upon the delivery of the facilities, and “availability” payments during the operational phase).

In delivering the 2020 Project, the campus is seeking a Concessionaire with the expertise and innovation in design, construction, and management, and the ability to provide the facilities in a cost-effective manner, to assist the campus in completing the Project more efficiently than traditional campus delivery of capital projects. The proposed scope and strategy for the Project, its operational and financial considerations, and a proposed delivery timeline have received extensive modeling and evaluation, and the analysis indicates that the proposed DBFOM delivery method could provide:

- An advantage in time to delivery;
- Efficient and cost-effective pricing of lifecycle design, construction, and facilities management;
- Increased budgetary certainty with respect to facilities maintenance and operations; and
- Transfer of significant non-core risks from the campus to the Concessionaire.

The DBFOM approach allows the University to maintain ownership of the land and buildings throughout the project while giving the private developer significant incentive and flexibility to meet or exceed performance requirements and schedules built into the contract. Equally important, it allows the University to focus on its teaching, research and public-service mission while the Concessionaire handles project implementation.

The Office of the General Counsel has undertaken a preliminary evaluation of procurement options available for DBFOM delivery of the Project, and believes the Regents have the ability under Section 10503(e) of the Public Contract Code and under the proper circumstances to use alternative procurement procedures when the Regents deem such alternative procedures to be in the best interests of the University.

#### ***Procurement Strategy and Project Agreement***

The procurement is proceeding in two stages: (1) a Request for Qualifications (RFQ) phase to identify a short list of qualified Respondents to participate in the second phase; and (2) a Request

for Proposals (RFP) phase in which the University will solicit feedback from the shortlisted Respondents prior to issuing a Final RFP, eventually culminating in the selection of the Concessionaire.

The Project Agreement will be attached to the Final RFP and will set forth the rights and obligations of both the Concessionaire and the University throughout the term of the agreement. The Project Agreement will include, among other things, commercial and risk-allocation provisions that reflect:

- Concessionaire's obligation to design, build, finance (obligations other than University milestone payments), operate, and maintain;
- Requirements for the timely completion of certain facilities critical to facilitate campus enrollment growth prior to 2020;
- University's oversight and approval rights, including step-in rights in the event of default;
- Duration and allocation of responsibility for various elements of the Project operations; and
- Repayment provisions and financing structure, including milestone and availability payments.

Under the Project Agreement, the Concessionaire will be responsible for developing the conceptual design included in its bid to completion. This will be in accordance with the design requirements and technical specifications stipulating the performance standards at which facilities will be built, operated, and maintained, as well as the conditions for their return to the University at the end of the agreement. The Concessionaire will be required to provide design submittals for the campus' review and approval during the contract administration phase.

### ***Project Status - Request for Qualifications and Request for Proposals***

The initial RFQ was issued on April 17, 2014. A revised RFQ was issued on September 25, 2014. Six teams, representing 84 firms from around the world, submitted Statements of Qualifications (SOQs) by the October 24, 2014 deadline.

Three separate evaluation teams and expert panels, using both pass-fail and qualitative selection criteria, evaluated all of the SOQs. The Project Selection Committee, whose membership included Chancellor Leland and Executive Vice President Brostrom, selected three multi-faceted development teams for inclusion on the short list, and they will proceed to the RFP phase.

A Draft RFP will be released in spring 2015, and will include instructions to the three Respondents regarding submittal requirements, performance specifications, and prescriptive standards for the construction and operation of the Project, and will include the comprehensive Project Agreement. The campus will solicit feedback from the shortlisted Respondents, and will refine the RFP to reflect the University's needs. The Final RFP will then be issued, and include the comprehensive set of specifications and standards that delineate programmatic, functional, safety, aesthetic, labor, regulatory and legal requirements; key University policies; and environmental and sustainability requirements. In responding to the Final RFP, each respondent

will be required to include conceptual-level schematics in its design proposal, and a phased delivery plan; these will be incorporated in the Project Agreement.

The campus anticipates receiving detailed proposals in response to the Final RFP. These will be scored based on technical and financial factors, and other criteria relevant to value. The teams not selected will receive a stipend in return for the significant up-front technical and financial work required by the Final RFP.

### ***Transaction Structure***

The finance plan for the Project is currently under review by the campus and the Office of the President. To implement the Project, the University will issue financing in the form of milestone payments (University revenue bonds) for a portion of the capital cost and the remainder of the funding will come from financing and equity through the Concessionaire. The campus will pay debt service on the milestone payments. Payments by the campus to the Concessionaire for its capital borrowing and equity in the form of availability payments will provide the Concessionaire with funds needed to fund its facilities management responsibilities under the contract, repay its borrowed financing, and provide equity return.

The campus anticipates financing its payment obligations under the Project Agreement from several different sources, including revenue generated by the Project, other campus revenue and fee sources, and certain State sources available for capital expenditures. Up to \$100 million of the proceeds of the University's General Revenue Bonds 2012 Series AD have already been allocated to the Project, pending approval of the business transaction.

In the proposed transaction structure, there is no lease to the Concessionaire and the Regents will own the underlying land and buildings. Payments under the Project Agreement can be reduced if the Concessionaire fails to perform its obligations under the contract. The transaction structure is designed to include a financial incentive for the Concessionaire to design efficient facilities on the agreed-upon time schedule and properly maintain them. In addition, the transaction is structured with monetary reserves that only become available to the Concessionaire at the end of the agreement. These reserves also provide a financial incentive for the Concessionaire to return the buildings in a state of good repair, as specified in the Project Agreement.

### ***Related Urban Services and Regulatory Activities***

To facilitate development of the Project, concurrent efforts involving local and regulatory authorities are under way. These include urban services, traffic mitigation, and wetland mitigation. Resolution of these efforts is expected by the start of construction.

### **APPROVAL PROCESS**

The campus proposes to seek Regents' approval of the Project Agreement in 2016. It is anticipated this will include budget, external financing, and design approval for the Project. The business terms included in the Project Agreement will provide the basis for the Regents'



approval of the Project and will include the milestone and availability payments structure to be paid at the end of the construction period and over the lifetime of the Project.

**Key to Acronyms**

DBFOM	Design-Build-Finance-Operate-Maintain
RFQ	Request for Qualifications
RFP	Request for Proposals
LRDP	Long Range Development Plan
SOQs	Statements of Qualifications

(Attachment: Land Use: Land Area Summary)