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Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE

DISCUSSION ITEM

For Meeting of March 19, 2025

WORKFORCE HOUSING, SANTA BARBARA CAMPUS: OCEAN ROAD PILOT PROJECT AND USE OF AN ALTERNATE CONTRACTING MODE

EXECUTIVE SUMMARY

UC Santa Barbara and other UC campuses have planned workforce housing projects to be delivered as public-private partnerships to leverage private sector expertise in multifamily housing and to shift operational risk to a third-party owner or operator. These projects have not been realized due to escalating financing and construction costs.

The Santa Barbara campus is planning on restarting its workforce housing initiative using an alternate contracting mode, the "fee development contracting mode," to launch a pilot project. Other campuses have expressed interest in using this potential contracting mode. The Regents will be asked to determine that the fee development contracting mode is in the best interests of the University when approving the preliminary funding for any such projects in future items.

DISCUSSION

Ocean Road Pilot Project

In May 2022, the Regents approved the design of a 540-unit faculty and staff housing project on 16 acres along the west edge of campus where Ocean Road currently divides the campus from Isla Vista. The development plan is shown on Attachment 2. The Regents also approved the business terms for a public-private partnership delivery of the project. However, the campus and selected developer could not overcome several significant hurdles associated with the project, including:

- A key site is occupied by Student Health Services, with no scheduled relocation.
- The large upfront investment in infrastructure to realign Ocean Road to create the development pads.
- Parking requirements of two cars per unit and height limitations prescribed by the Long Range Development Plan (LRDP) and certified by the California Coastal Commission.
- Mix of both for-sale units and apartments (two distinct business models) within the scope of the developer.
- Escalating financing and construction costs.

The campus has devised a new strategy to address these issues and move the project forward. The strategy is twofold. First, it will re-imagine the overall development plan and consider opportunities to 1) add more density within the project; 2) reduce the number of new parking spaces based on current trends and requirements; 3) reduce the scope of infrastructure realignment; and 4) create rental housing versus for-sale housing to serve more employees over time. The campus will accomplish the re-imagining effort through a new master planning exercise.

Second, the campus will lead with a pilot project on the Parking Lot 23 site depicted in Attachment 1. This site is very well situated for employee housing given its location on the campus in proximity to the lagoon, beach, and the Club & Guest House facility. It is also proximate to Parking Structure 22, which could be used for shared parking purposes. Importantly, the boundary for the project site can be set irrespective of the master planning exercise and any roadway realignment, and the project will help inform the master plan. The California Coastal Commission-certified LRDP allows building heights up to 65' in this location, and the large rectangular site supports a good-sized project. The campus and UC Office of the President are proposing an alternate contracting approach that should enhance the financial feasibility of the project to achieve below market rents.

Fee Development Contracting Mode

The Public Contract Code provides for several modes of contracting for construction projects, including lowest responsible bidder, design-and-build, construction manager mode, and others. It also allows the Regents to approve "such other contracting mode as the Regents determine to be in the best interest of the University, provided that such proposals be compared on a uniform basis and that award be made as determined by the published selection standards." The Regents have used their ability to customize the procurement process for delivering Merced 2020 and the UCSF Parnassus hospital campus project.

The proposed fee development contracting mode is an adaptation of the Design Build contracting mode to accommodate project delivery by a fee developer contracting with its design and construction team. With the fee development contracting mode, the University is selecting a fee developer to 1) assume substantial financial risk to develop a project scope that achieves the underwriting criteria set by Regents Policy 5307, University of California Debt Policy, for UC financing based upon below market rent levels established by the campus, and 2) lead the project team from project conceptualization, financial feasibility, and marketing assessment through the execution of the full suite of design and construction services to deliver the project. This mode is also distinguished from other modes in that the selected fee developer will provide initial leasing, marketing, operation, and maintenance services for an identified period of time until the project is transitioned into the campus's housing operations.

The proposed fee development mode entails paying a developer fee (i.e. profit) that is on top of the general contractor's fee and project design costs. Therefore, the only way this mode makes sense is if the fee developer can realize significant cost advantages that more than exceed the developer fee. The cost advantages are expected to arise from:

- Design and budgeting experience from recently completed comparable projects
- Using a team of designers, contractors and subcontractors who have worked together on comparable projects, which should lead to better coordination of scopes and processes
- Drawing the team from the private multifamily housing development sector and expanding on the pool of designers and contracts that typically submit proposals for University work
- Using the fee developer's design and construction management staff to expedite processes and reduce soft costs
- Subcontractor selection and bidding process managed by the fee developer, general contractor, and architect
- Shorter project schedules

A key element of the proposed fee development contracting mode is that the selected fee developer assumes significant risk for being able to both scope and deliver a financially feasible project. The fee developer will not earn the developer fee (profit) unless the project achieves the University's goals as evidenced by the project advancing to the construction phase and will earn additional profit if the project meets predetermined incentive targets.

The fee development contracting mode will follow a traditional RFQ/RFP (Request for Qualifications/Request for Proposal) process in which the prospective development teams are shortlisted based upon demonstrated experience and qualifications to compete in preparing a development, design, construction, management, and operation cost proposal. The process will be streamlined by virtue of the prospective respondent's extensive experience with the product type and by having a well-defined project site and development envelope that respondents can use to evaluate the opportunity. The solicitation will describe the scoring criteria, and the campus will select the development team based upon financial feasibility and other defined objectives and priorities. The respondent's total project budgets submitted in response to the solicitation would form the basis of a cost plus Guaranteed Maximum Price (GMP) contract that includes contingency and cost escalation amounts to be managed by the developer and approved as the design progresses and subsequent phases of the project are authorized. These budgets for the preconstruction phases will provide for reimbursement of the fee developer's direct labor and project costs, which would include various design and consultant fees, but not any component of developer fee.

The Regents will have two opportunities to review projects being developed under the fee development contracting mode: first, when the campus seeks approval for preliminary funding and presents the preferred developer's proposal, and second, when the campus seeks approval for design, budget, and external financing approval and when design development plans and budgets are 100 percent complete. The Regents' approval of the final budget and operating projections will form the basis for calculating incentive payments to the developer if the project is delivered under budget and meets operating targets at stabilization. Again, no developer fee (i.e. profit) will be earned unless and until the project is authorized for construction.

Fee developers have been engaged at various UC student housing public-private partnerships that have used tax-exempt financing ("501(c)(3) Bonds") arranged by the non-profit project owner. While these projects have been successfully delivered, the transaction structures are exceedingly complex, with much higher financing costs. The 501(c)(3) Bonds have higher interest rates compared to University's general revenue bonds, incur origination fees of one to two percent of total amount financed, and require upfront funding of interest during construction. With the fee development contracting mode, the project costs are financed with commercial paper as they are incurred and a UC Central Bank loan as the project closes out. There are very low transaction costs. The University's direct ownership of the project also allows the project to benefit from significant cost savings associated with the University's property self-insurance program during operations. Although there is no reason to believe the proposed project will be subject to litigation, direct University ownership would also better position the campus to carefully manage and potentially mitigate project delays and related impacts in the event of California Environmental Quality Act (CEQA) litigation being filed. CEQA litigation has caused several viable 501(c)(3) Bond projects to be delayed or terminated altogether.

Next Steps

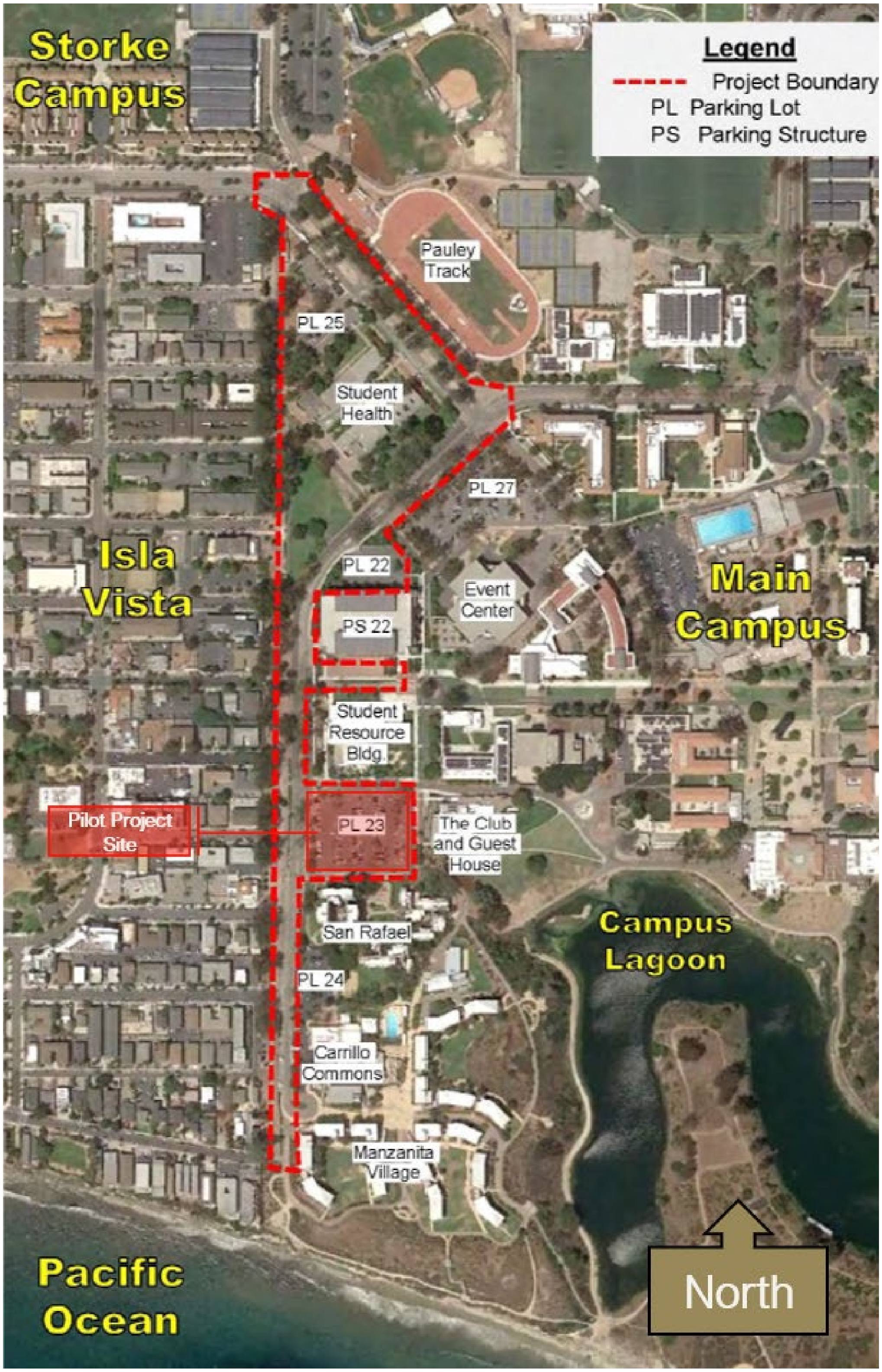
The Santa Barbara campus will proceed with a pilot project on a well-defined workforce housing site on Parking Lot 23 using the fee development contracting mode. Additional due diligence will be completed on the development opportunity and the Office of the President (UCOP) will lead the preparation of transaction documents for the fee development contracting mode. The campus will return to the Regents to request approval of preliminary funding for a potential project if it meets the project goals and is financially feasible. The campus will request that the Regents make a determination that the fee development contracting mode is in the best interest of the University for the proposed project in conjunction with the preliminary funding approval request. Other campuses are interested in using the fee development contracting mode and will be instructed to follow the same process.

ATTACHMENTS

Attachment 1:	Current Ocean Road Project Boundary
Attachment 2:	Ocean Road Development Plan

ATTACHMENT 1

Current Ocean Road Project Boundary



ATTACHMENT 2

Ocean Road Development Plan