

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM – CONSENT

For Meeting of November 14, 2018

AMENDMENT OF PRELIMINARY PLANS FUNDING, UCSF RESEARCH BUILDING AT ZUCKERBERG SAN FRANCISCO GENERAL HOSPITAL, SAN FRANCISCO CAMPUS

EXECUTIVE SUMMARY

The San Francisco campus plans to construct a new, approximately 175,000-gross-square-foot research building comprised of wet and dry laboratory and administrative desktop space at the Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center (ZSFG) campus. The building would be constructed on land that is ground-leased from the City and County of San Francisco (City) and would accommodate UCSF researchers who are currently located in seismically compromised buildings at ZSFG. The business case supporting the proposed project concluded there were no existing buildings or other development sites in the area that were suitable, and that the University's development of the research building on the site would be the most viable method to sustain and further strengthen the 145-year affiliation between UCSF and the City's General Hospital. The proposed building would provide modern research facilities that would allow UCSF's programs at ZSFG to continue to grow and develop, while satisfying UC's Seismic Safety Policy. Clinical services would continue to be provided in adjacent City-owned buildings on the ZSFG campus that have been built or will be upgraded to meet UC seismic requirements. A separate action item regarding roadway and site improvements that are related to this project is being proposed at this Regents meeting.

In July 2015, the Regents approved preliminary plans funding for this project of \$10.9 million funded with campus funds.¹ The proposed project included construction of a new roadway and associated site improvements that, at the time, were envisioned to be located on land leased from the City. The preliminary plans funding was intended to enable UCSF to complete programming, schematic design, and design development prior to submitting the project for full budget and financing approval, including site surveys, specialty consultants, preparation of the Environmental Impact Report, and cost analysis.

In November 2016, the Regents took actions related to the California Environmental Quality Act, approved the ground lease terms, and authorized the President of the University to execute

¹ At the time of the July 2015 approval this project was referred to as San Francisco General Hospital Research Building.

on behalf of UCSF a ground lease and Lease Disposition and Development Agreement (LDDA) between the Regents and the City. The executed LDDA was received by the campus in January 2018. The ground lease will be executed prior to the start of construction, following completion of design and permitting for both the research building and the roadway projects and after approval by the San Francisco Board of Supervisors. Per the LDDA, construction cannot commence until the ground lease has been executed.

Several planning assumptions that were used to establish the preliminary plans funding in 2015 have changed. These changes include extension of time to complete negotiations with the City on the ground lease terms and execution of the LDDA, additional City requirements and their associated costs identified in the terms of the LDDA, and changes in relocation options available to UCSF departments at ZSFG. These unavoidable and unforeseen changes have affected the schedule and cost of the research building and the roadway. The campus is requesting an increase in preliminary plans funding for the research building project of \$8.98 million to cover additional costs associated with pre-design and design efforts, resulting from changes to the space program and higher upfront costs.

In a separate action at this meeting, the campus also is seeking approval of preliminary plans funding and working drawings funding for the design of roadway and site improvements at the ZSFG campus. The requirement to provide the roadway and site improvements is included in the approved LDDA. That agreement established that the research building would be constructed on land ground leased to the University, while the roadway and related site improvements would be City property on City-owned land. It was previously assumed that both projects would be built on land ground leased to the University.² Due to the separation between the ground-leased land for the research building and the City-owned land for the roadway, and the resulting separate permitting processes, the campus proposes that the research building and the roadway be treated as separate projects. It is expected that both projects would still be implemented by the campus with the same design-build team.

In this action, the Regents are being asked to approve an \$8.98 million augmentation for total preliminary plans funding of \$19.88 million for the research building, to be funded with campus funds. The campus funds would come specifically from a centrally managed pool of unrestricted (non-State, non-tuition) funds, including indirect cost recovery on sponsored contracts and grants and investment earnings. The requested preliminary plans funding would allow the campus to engage the design-build team and implement design through preliminary plans and project estimating for the research building. Approval of budget, external financing, and design following a determination of California Environmental Quality Act compliance, will be requested at a future meeting. In compliance with the LDDA, such approvals are required prior to execution of the ground lease.

² Approximately \$300,000 of the original \$10.9 million in preliminary plans funding was used for pre-design studies associated with the roadway project.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend to the Regents that the 2018-19 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Francisco: UCSF San Francisco General Hospital Research Building – preliminary plans – \$10.9 million to be funded from campus funds.

To: San Francisco: UCSF Research Building at Zuckerberg San Francisco General Hospital – preliminary plans – \$19.88 million to be funded from campus funds.

BACKGROUND

The Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center (ZSFG) is owned and operated by the City and County of San Francisco (City), which has partnered with UCSF in public health since 1873. This 145-year-old partnership between the City and UCSF created and now supports one of the country's top public hospitals, the City's only Level 1 trauma center. ZSFG is an academic medical center known worldwide for its research and creative treatment for the most challenging diseases.

Under an affiliation agreement, ZSFG is staffed by UCSF clinicians/researchers, as well as San Francisco Department of Public Health employees, and functions as a teaching hospital for UCSF's Schools of Medicine, Dentistry, Nursing, and Pharmacy. It is critical to UCSF's mission that faculty from all four of its professional schools continue to work at ZSFG providing patient care, research, and teaching. The ZSFG campus is home to more than 20 UCSF research centers, affiliated institutes, and major laboratories. About 140 UCSF principal investigators, many of whom provide patient care, direct significant research programs at ZSFG. These programs generated almost \$245 million in research revenue during fiscal year 2016-17, accounting for about 18.5 percent of research revenue for UCSF. Additionally, the maintenance of the Level 1 trauma center status requires that certain types of research be conducted on-site.

UCSF employees occupy research laboratories, clinics, and offices in ten City-owned buildings at ZSFG (Attachment 3 – ZSFG Campus Map), which have Seismic Performance Ratings of V and VI. UC's Seismic Safety Policy requires that all UC-occupied structures with a rating of V or VI be upgraded to a rating of IV or better, or that staff and faculty be relocated to compliant structures. The option to upgrade and renovate all buildings occupied by UCSF employees would be cost-prohibitive and impractical because: (1) the buildings would need to be vacated during the retrofit and no relocation space is available; (2) building systems would require complete overhaul and new interior improvements; (3) dimensions and configurations are suboptimal for contemporary research; and (4) these buildings are not controlled by UCSF – they are all owned by the City and occupied by City of San Francisco personnel as well as UCSF employees.

The business case supporting the Regents' July 2015 approval concluded there were no other suitable existing buildings or development sites in the area and that the University's development of the research building on the site would be the most viable method to sustain and further strengthen the affiliation between UCSF and ZSFG. Developing an efficient, state-of-the-art research building to replace seismically deficient space and consolidate locations also would result in lower operating costs, including a reduction in utility and maintenance expenses.

The new relocation space would use contemporary UCSF space planning standards and provide a significantly more efficient floor plan than the current space. UCSF currently occupies approximately 212,000 assignable square feet in the ten City-owned buildings. Most of the users would be relocated to the new facility, some would be housed in the existing Building 5 (following seismic upgrades performed by the City), and a small number would be moved to other UCSF locations.

PROJECT DESCRIPTION

Since the Regents approved preliminary plans funding in July 2015, several of the planning parameters for the proposed research building have changed. These changes have affected the space program, schedule, and budget for the research building.

Program Adjustments

In 2015, UCSF planned to:

- Relocate employees from seven buildings (Buildings 1, 9, 10, 20, 30, 40, and 100) to the new research building;
- Relocate employees located in Building 80/90 to Building 5 to join other UCSF employees there; and
- Maintain its lease of Building 3, which at the time was understood to comply with the UC Seismic Safety Policy.

UCSF employees would still be relocated to the proposed research building from the seven existing ZSFG buildings. However, the plans involving Buildings 3 and 5 have changed, resulting in approximately 140 additional staff requiring relocation, many of whom require relocation at ZSFG. The increased need is a result of:

- Further study indicating that long-term occupancy of space in Building 3 would require extensive seismic, accessibility, and fire and life safety improvements; upgrades to building systems and infrastructure; and modernization of laboratory and vivarium spaces. UCSF determined that pursuing a new lease of the building at market rates and undertaking the required improvements to the space, which UCSF would not own, is not a preferred option.

- The City determining that it will renovate Building 5 for clinical uses only, meaning that the building will only accommodate UCSF clinical employees. The UCSF employees conducting research in Building 80/90 will not be accommodated for relocation to Building 5 as originally planned.

To maximize the number of UCSF employees who can be accommodated in the new research building – within a budget that the campus can financially support and within the maximum building size of approximately 175,000 gross square feet¹ – the space program was adjusted to change the distribution of wet and dry research and administrative space to 20 percent wet and 80 percent dry (versus the 42 percent and 58 percent respectively proposed in July 2015).

The refinement of the space mix better conforms to the programmatic need, particularly when taking into account employees who would no longer occupy Building 3 and researchers who cannot be accommodated in Building 5. The proposed building is planned with an open-plan research and administrative environment that is more efficient than the currently occupied ZSFG buildings, and would allow more employees to be supported in the new building.

The refined space program still prioritizes occupancy for: (1) required research at the ZSFG campus to maintain the current Level 1 Trauma Center status; (2) researchers on campus who rely on ready access to ZSFG patients; and (3) researchers who have leadership responsibilities at the ZSFG campus.

Delays to Project Schedule

At the time that the campus sought approval of preliminary plans in July 2015, the approval of the ground lease and execution of the Lease Disposition and Development Agreement (LDDA) were expected to occur within a year (by mid-2016). Protracted negotiations with the City resulted in Regents' approval of the ground lease terms, and actions related to the California Environmental Quality Act (CEQA),² not occurring until November 2016, with the San Francisco Board of Supervisor's approval occurring in January 2017. It then took another year from when the Regents approved the ground lease terms to complete negotiations with the City before the LDDA was executed in October 2017, further delaying the project. UCSF did not receive the signed and executed LDDA until January 2018. Pursuant to the July 2015 Regents' approval of preliminary plans funding, detailed space programming and pre-design work could not begin in earnest until the LDDA was fully executed.

City requirements defined in the LDDA are also affecting the project schedule. For example,

¹ The building size of 175,000 gross square feet was fixed as a maximum building size in the Lease Disposition and Development Agreement between the Regents and the City of San Francisco.

² In November 2016, the Regents certified the *Final Environmental Impact Report for the proposed UCSF Research Building and City Parking Garage Expansion at the Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center*, adopted the Mitigation Monitoring and Reporting Program, and adopted CEQA Findings and Statement of Overriding Considerations. These actions were required for approval of the Ground Lease terms.

execution of the final ground lease, which is an attachment to the LDDA, will not occur until all permitting is complete for the new research building project and the separate roadway and site improvements project. This requirement affects close of escrow and start of construction. Instead of beginning construction in spring 2017 with completion in summer 2019, the current schedule estimates a start of construction in early 2020 and completion in summer 2022 – a delay of approximately three years from original projections.

Increases in Estimated Project Costs

The extended project schedule described above has added significant escalation costs to the project budget, both in terms of a two-year delay in beginning construction and an additional year of construction related to conditions discovered during site testing and the concurrent construction of an adjacent City project. The rate of escalation also is higher than what was originally projected. Further, the San Francisco bidding market is affected by the tremendous amount of construction work being done in the city and the high demand for both skilled and unskilled labor as well as materials.

Cost drivers increasing the preliminary plans budget include:

- Higher costs for completing the environmental studies and Environmental Impact Report (EIR);³
- Expanded detailed programming required to account for no longer having access to research and administrative space in Buildings 3 and 5;
- Review of the exterior design by three city agencies: Historic Preservation Committee, Arts Commission Civic Design Review, and Department of Public Health, which requires reconciliation and coordination of comments from different agencies;
- Additional processes with the City in order to clear title of the land, execute the ground lease, and close escrow (all prior to the start of construction);
- Higher legal fees for negotiation of the ground lease and LDDA; and
- Additional time associated with the above activities.

The campus revisited its business case for the project and concluded that, even with the higher costs resulting from the delay in the project and additional City requirements, building the new research building at ZSFG is the appropriate and most cost-beneficial approach to providing appropriate space to its employees and maintaining the strong partnership with ZSFG.

³ The EIR process has been funded and completed; however, costs are higher than what was initially estimated due to additional City-required analyses of the impacts and mitigation measures of a parking garage expansion that was under consideration by the City at the time of the study. The City's parking garage expansion has since been deferred.

Project Site

The proposed project site is located on a surface parking lot, which fronts Vermont and 23rd Streets, in the southeast quadrant of the ZSFG campus. The site is located in the Mission District, a dense urban area comprised mostly of residential and commercial properties, and just over one mile from UCSF's Mission Bay campus.

Given the proposed building's location on a surface parking lot adjacent to a major ZSFG building that houses urgent care and clinics, as shown in Attachment 3 – ZSFG Campus Map, a new required roadway would be located between the research building and Building 5 to enable access for patients and medical personnel. The area of work for the roadway and site improvements is on City-owned land and outside the boundaries of the ground lease with the City.

UCSF would construct the roadway and site improvements once the City has approved and permitted the construction. This requires additional and separate reviews by the City which would not otherwise apply to the new research building. Due to the separation between the City-owned land for the roadway and the ground leased land for the research building, and the separate permitting processes, the campus is proposing that the research building and the roadway be treated as separate projects, even though both projects would be implemented with the same design-build team.

Project Status and Schedule

UCSF employees currently occupy leased space at the ZSFG campus with Seismic Performance Ratings of V and VI. UC's Seismic Safety Policy requires that all UC-occupied structures with a rating of V or VI be upgraded, or that staff and faculty be relocated to compliant structures no later than December 2030. UCSF's plan to address this requirement through the development of a new research facility ensures that employees will vacate seismically deficient space prior to the deadline.

The University and the City have entered into an LDDA that sets forth the terms and conditions upon which the City would ground lease a site upon which UCSF would construct and occupy a research facility. The base term of the lease would be for 75 years with an option for an additional 24 years. Under the LDDA, the Regents are required to approve the budget and design of the research facility prior to the execution of the ground lease. The campus expects to seek approval of full budget, external financing, and design following a determination of CEQA compliance from the Regents in mid-2019.

Following approval of the proposed increase in preliminary plans funding, the campus would proceed with design. Start of construction for the research building is contingent upon execution of the ground lease and is planned to begin in early 2020, with completion in summer 2022.

Funding Plan

The proposed \$8.98 million increase in preliminary plans funding will be funded with campus funds, for a revised preliminary plans budget for the research building of \$19.88 million. The campus funds will come specifically from a centrally managed pool of unrestricted (non-State, non-tuition) funds, including indirect cost recovery on sponsored contracts and grants and investment earnings. Additional information on the cost increases may be found in Attachment 1. Total project costs are expected to be funded with external financing, gifts, and campus funds. When the campus requests full budget and external financing approval, the action may also request reimbursement of some of the campus funds used for preliminary plans with external financing.

KEY TO ACRONYMS

CEQA	California Environmental Quality Act
City	City and County of San Francisco
EIR	Environmental Impact Report
LDDA	Lease Disposition and Development Agreement
ZSFG	Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center

ATTACHMENTS:

- Attachment 1: Preliminary Plans Sources and Uses
- Attachment 2: Location Map
- Attachment 3: ZSFG Campus Map and Project Site

PRELIMINARY PLANS SOURCES AND USES

UCSF RESEARCH BUILDING
AT ZUCKERBERG SAN FRANCISCO GENERAL

PROJECT SOURCES

Sources	Preliminary Plans		
	Approved “P” Budget (July 2015)	Proposed Change	Proposed “P” Budget (November 2018)
Campus Funds	\$10,900,000	\$8,980,000	\$19,880,000
Total Sources	\$10,900,000	\$8,980,000	\$19,880,000

PROJECT USES

Category	Preliminary Plans		
	Approved “P” Budget (July 2015)	Proposed Change	Proposed “P” Budget (November 2018)
A/E Fees ¹	\$2,850,000	\$6,090,000	\$8,940,000
Campus Administration ²	\$3,300,000	\$1,030,000	\$4,330,000
Surveys, Tests, Plans ³	\$350,000	\$80,000	\$430,000
Special Items ⁴	\$4,400,000	\$1,780,000	\$6,180,000
Total Uses	\$10,900,000	\$8,980,000	\$19,880,000

Cost Increase Drivers:

- The increases in A/E Fees and Campus Administration are the result of additional complexity in the implementation of the project, changes to the space program, and an extended project schedule. The time needed to negotiate the LDDA with the City resulted in a delay to the start of design, and the approved LDDA includes requirements that increase costs budgeted for this preliminary planning phase. These requirements include mandated logistics coordination with the City’s Department of Public Health and the review of exterior design by that department and two other City agencies.
- Factors driving the higher Special Items costs include: higher costs for completing the environmental studies and Environmental Impact Report; expanded detailed programming required to account for no longer having access to research and administrative space in Buildings 3 and 5; additional payments to the City and costs of meeting City requirements in the LDDA; higher legal fees for negotiation of the ground lease and LDDA; and additional processes with the City in order to clear title of land, execute the ground lease, and close escrow (all prior to start of construction).

¹ A/E Fees include the architect and technical team basic services contract fee, design-build management and trade partners for design, plan review, and team mobilization.

² Campus Administration includes: campus project management and contract administration.

³ Surveys, Tests, Plans include: hazardous materials survey and testing.

⁴ Special Items include: legal fees, environmental consultants, CEQA analysis and documentation, and community presentations.

LOCATION MAP



ZSFG CAMPUS MAP AND PROJECT SITE

