PRIVATE PUBLIC PARTNERSHIPS AT THE UNIVERSITY OF CALIFORNIA

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INTRODUCTION

The University of California has successfully employed or is the process of planning 81 Public Private Partnerships (PPP) ranging from medical office buildings and research facilities to student apartments and hotels. The UCSF Neurosciences project completed in 2012 on the Mission Bay campus has provided valuable lessons on utilizing a PPP approach to deliver facilities for programmatic (i.e., mission-serving) use. The West Village project at UC Davis is a large-scale application of a PPP to deliver a new residential community for auxiliary (i.e., revenue-generating) uses. Another application of PPP is the implementation of energy projects in support of UC's sustainability goals.

For institutions and governmental entities a primary motivation for utilizing PPPs is access to capital. UC, however, has robust financing capability. Thus the University's focus, when considering PPPs, is on other beneficial aspects, including risk allocation and the management efficiencies intrinsic to experienced private development teams, particularly those that specialize in a particular building type. Even for capital projects on campus, PPPs are now considered as one method for delivering UC capital solutions.

CRITICAL FACTORS

For UC, the use of a PPP is most effective for projects that:

- Are situated off-campus on land not owned by UC; and/or
- Generate stable income; and/or
- Represent a building type commonly developed privately, such as rental and for-sale housing, commercial and medical office buildings, hotels, and generic laboratory facilities.

Programmatic projects located on-campus or on UC-owned land off-campus, as well as highly complex projects, may also benefit from the use of a PPP, but the advantages are more limited for the following reasons:

- Many projects on UC-owned land must comply with requirements of the Public Contract Code, which constrain contracting options available to private sector developers.
- Projects that are highly complex require substantial technical input from user groups and more proscriptive specifications. The resulting UC oversight limits opportunities to achieve PPP efficiencies in managing schedule and cost.

To succeed, projects delivered under a PPP, especially programmatic projects, require a well-thought through "Basis of Design" document (BOD) that delineates design specifications and operating parameters. Also critical is a thoroughly vetted set of transaction documents that effectively represent both parties' interests.

MECHANISMS FOR IMPLEMENTATION

PPPs at UC have been structured in a variety of transaction forms:

- Ground Lease (auxiliary use, third party users).
- Ground Lease-Leasebacks (programmatic use, UC is the user).
- Developer Build-to-Suit for purchase by UC on completion (also known as Turnkey projects).
- Variants on Ground Lease-Leasebacks and Developer Build-to-Suit projects unique to UC (Space for Lease and Donor Development transactions respectively).
- Master Lease or Lease with Option to Purchase.

Of these mechanisms, developer build-to-suit on private land, ground-lease housing transactions on UC land, and donor developments have proven to be the most effective. A recently-developed form of ground lease-leaseback with tax exempt financing appears promising as an alternative delivery method for programmatic projects on campus.

KEY DECISION POINTS

Key issues to be considered in the evaluation of a PPP are listed below.

General Issues Applicable to All Project Types:

- Is this a use or project type with which the private sector has significant development and operating expertise?
- If on UC land, is the University willing to make a long-term commitment of that land to a private developer?
- Utilizing a PPP, can UC reasonably expect to manage and meet its goals for this project i.e. maintain sufficient control of the desired outcome?
- Are UC's design and functionality requirements thoroughly vetted and sufficiently detailed to make commitments to a PPP delivery team?
- Is transferring the risk, inherent in construction and/or facility operations to another party, necessary or desired?
- Does the preferred PPP delivery approach afford sufficient long-term savings to offset the UC financing advantage and PPP profit requirements?

Issues Applicable to "Programmatic Use" Projects:

- If developed on UC land, what difficulties will be encountered in creating a legal transaction structure, while still achieving the potential benefits afforded by PPP delivery?
- Does the project include third-party users and/or donor-driven concerns that favor PPP delivery?

Issues Applicable to "Auxiliary Use" Projects:

- Is there sufficient project demand and potential net income for a financially feasible project?
- Does UC have a need to isolate the financial operations of the new project from existing operations (e.g., existing UC rental housing or parking); can UC accept that a PPP product my charge different rates than competing campus product?

- Does UC seek to have the project off of its balance sheet, and can that goal be achieved with PPP delivery while meeting other project goals?
- Can UC structure a PPP transaction in such a manner as to preserve UC's project entitlement advantages and property tax exemption?

The success of a PPP is dependent on utilizing an organized dedicated team of experienced personnel, a detailed business plan, a bankable revenue/funding source, and stakeholder and senior campus leadership support for the PPP drivers and principles.

EVALUATION OF A PPP IN THE BUSINESS CASE ANALYSIS

Consideration of PPPs can occur at two levels. First, as part of the Business Case Analysis (BCA), Master Leases, Lease Options and Developer Build-to-Suits off campus may be considered along with purchases of existing buildings as alternatives to developing a capital project on campus. If the result of the BCA is to develop an on-campus solution, then a PPP transaction structure based on a Ground Lease (Auxiliary) or Ground Lease-Leaseback (Programmatic) should be considered as one capital project delivery alternative alongside design-bid-build; CM at risk, design build, and best value.

CASE STUDIES

Three case studies have been provided to illustrate the use of PPPs at UC:

- a student rental housing project utilizing a ground lease;
- a research laboratory building utilizing a ground lease-leaseback with tax exempt financing ; and
- a medical office building utilizing a build-to-suit mechanism.

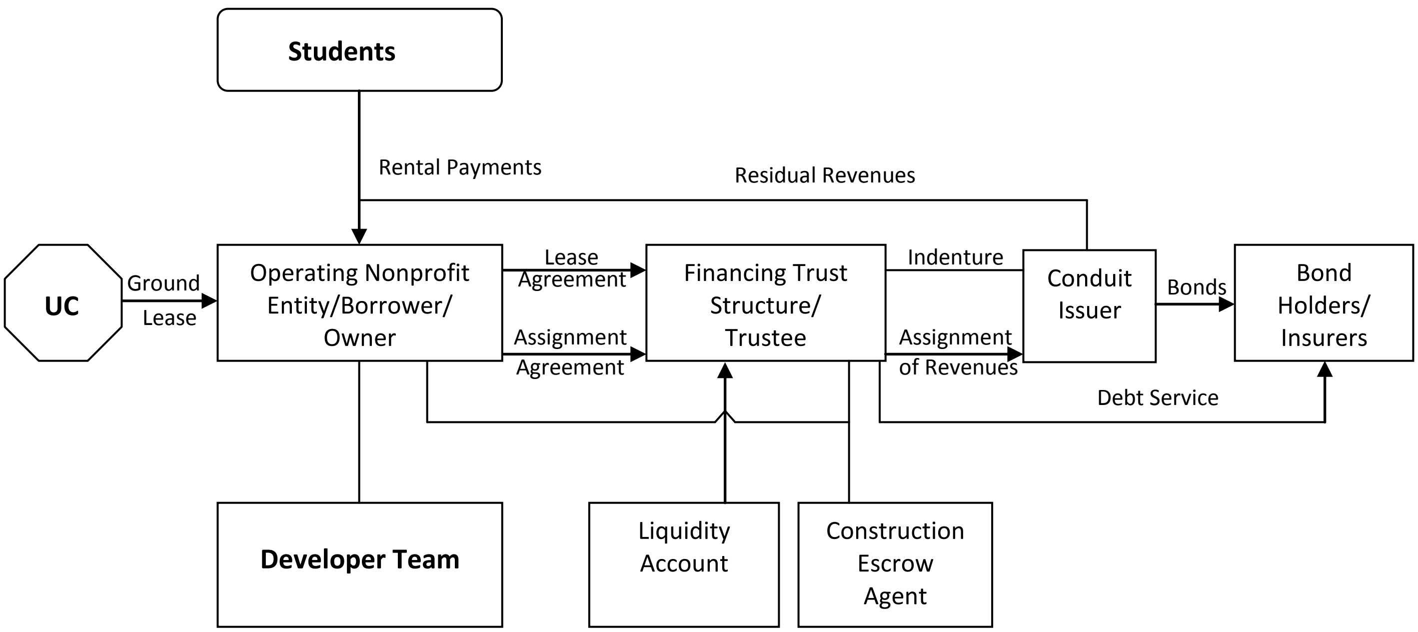
As can be seen, the use of PPPs in the delivery of generic projects for auxiliary use, such as student housing and medical office buildings, has proven effective and beneficial to the University. The programmatic use research laboratory project has been less successful in schedule and cost savings primarily because as the first project of its kind, new contractual and legal documents had to be developed. This experience and documentation could expedite schedules of future projects using this approach.

EXHIBITS

Exhibit 1A: Ground Lease Transaction Structure & Case Study—UCI East Campus II Student Housing
Exhibit 1B: Ground Lease-Leaseback Transaction Structure & Case Study—UCSF Neurosciences Building
Exhibit 1C: Developer Build-to-Suit Structure & Case Study—UCSF Medical Office Building
Exhibit 2: Listing of UC PPP Projects Completed or in Development

EXHIBIT 1A: GROUND LEASE TRANSACTION STRUCTURE

- Private Party designed, "financed", constructed, owned and operated
- May be taxable or tax exempt
- Taxable with private equity at risk may be off balance sheet
- Tax exempt may revert to UC when debt is repaid typically at the end of a 30-year period vs. 55-65 years if developed for profit
- Financing Trust Structure (FTS)[1] financing available for tax exempt transactions.



[1] FTS is not a University financing but a pooled project concept available system-wide to lower reserve requirements and enhance the credit of PPP housing projects financed in this manner without significant University guarantees.

CASE STUDY 1: GROUND LEASE: EAST CAMPUS II STUDENT HOUSING, VISTA DEL NORTE, UC IRVINE

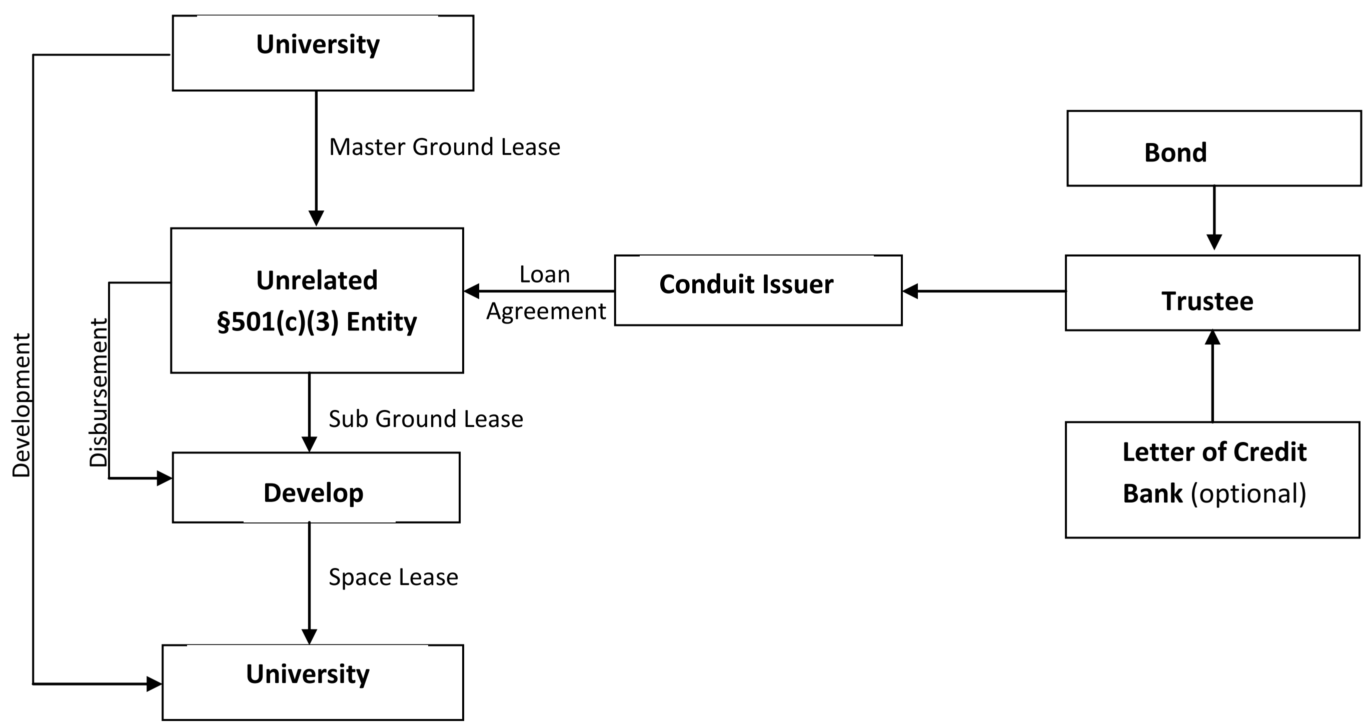
Project Type: Student Rental Housing
Project Goal: To deliver a large number of beds at a competitive rate without any effect on rates for existing UCI housing or significant impact on debt capacity.
Land Area: 24 acres.
Unit Mix: 545 units, 1,564 beds. The 404 unit undergraduate community comprises a mix of three-bedroom and one-bedroom units. The 141 unit graduate community comprises a mix of two-bedroom and one-bedroom units.
Target Market: Single sophomore, upper-division and graduate students.
Student & Ground Rents: In 2008/09 these units were priced at over 20% in excess of comparable campus-owned bed rates for shared and single units averaging $522/bed/month for multiple bed units and $916/bed/month for single bed units. The Project pays ground rent ($1.0 million in 2008/09) and potentially accelerated debt reduction as the project matures.
Lease Term: 40 years, subject to earlier or later termination upon payoff of bonds (amortized over 30 years following completion).
Commencement: December 1, 2004. In service in 2006.
Tenant: Collegiate Housing Foundation, Irvine, L.L.C., (CHF), a non-profit owner of student rental housing.
Financing: Tax-Exempt Bonds issued on behalf of an unrelated non-profit buyer through a conduit issuer.
Comparator: Total project cost (excluding underwriting and reserves) of $91,016,466 or $58,195/bed. This is significantly less than the cost of a comparable University-developed project in the same period.

Analysis:
The project was developed by ACC SC Development (UCI II) LLC, under contract with CHF. American Campus Management, California, LLC, under contract with CHF, currently manages the project. The Project was financed with a 30-year tax exempt bond issue, uninsured, rated “Baa3” (Moody’s) and was placed in the University’s Financing Trust Structure (FTS). The only University commitment was a three-year occupancy guarantee. Under the specific circumstances of this project, prevailing wages were not required to be paid.

Student bed rents were required to be maintained at no less than 100% of rents for comparable on-campus (UC) housing, and no more than 90% of rents for comparable off-campus (private) housing. Ground rent is initially $1,000,000/year, subject to CPI and periodic reappraisal adjustments (appraisal reflects rent restrictions). Payment of ground rent is subject to Project maintaining certain financial covenants. The Project’s excess cash flow is distributed to campus. UC was contingently obligated to lease sufficient beds to bring Project to break-even occupancy, for first three operating years, if student demand was is insufficient. The units were fully leased at opening.

EXHIBIT 1B: GROUND LEASE-LEASEBACK WITH TAX EXEMPT FINANCING

- Most applicable to "Commercial" Projects
- UC may have first rights of offer/refusal & possibly options but developer must bear risk in transaction
- Set price/rent early based on Performance Specifications --or-- Compete fees, UC at risk for pricing & rent resulting from subcontractor bids.
- Potentially costly carrying cost for developer financing and equity until option exercised unless tax exempt financing employed.



CASE STUDY 2: NEUROSCIENCES BUILDING, MISSION BAY CAMPUS, UC SAN FRANCISCO

Project Type: A major research building with laboratories, vivarium, and clinical spaces.
Project Goals: A ground lease leaseback approach was chosen in order to reduce delivery and operating cost. This is the first such development on UC land for UC's exclusive use.

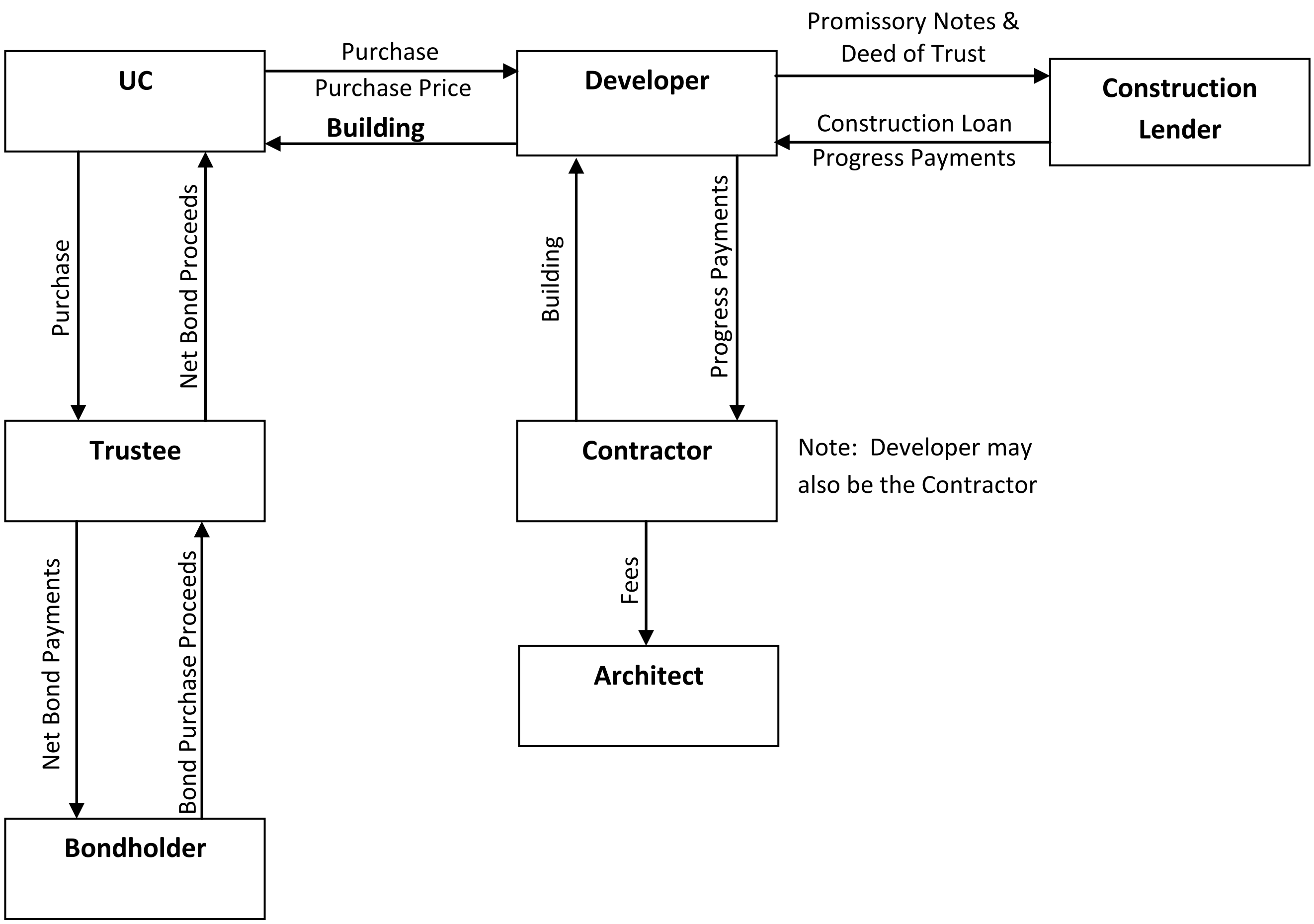
Land Area: The building footprint comprises approximately 35,000 SF on Block 19A.
Configuration & Use: The project consists of a six story research building including a full build out of user-specified tenant improvements. The campus is responsible for developing on-site utilities and the landscaping and related features on the grounds outside the building envelope. The campus will also equip and furnish the property consistent with its research requirements.
Completion Date: Projected for Spring 2012
Financing: A hybrid tax exempt finance model made available through a nonprofit and a conduit issuer based on the University's use and eventual ownership. The financing was accomplished as a condition to the start of construction. The campus was at risk for cumulative design costs in the event final Regental approval was not obtained or the financing could not be consummated.
Comparator: The essential trade off for this project was giving up control in order to reduce risk and manage user expectations through the design process. Despite the tax exempt financing facility, the front end capitalized interest was substantially higher than in UC's conventional approach and the long term interest rate diluted the University's underlying credit on the order of 30 basis points.

Analysis:
This project did not achieve expected time savings because it was the first of its kind and legal opinions confirming the viability of the approach and documents confirming the parties' rights and responsibilities were developed as the project was negotiated. These documents will expedite schedules of future projects using this approach. Also, changes to the senior leadership of the campus during this process necessitated additional review and consideration. The project required a substantial subsidy from School of Medicine and is further reliant on a gift program to be raised on the order of $100MM.

Another major concern for the University was that the developer be provided with the freedom to produce a cost effective project that would comply with the campus' Basis of Design (BOD) documents. The final design met with unanimous approval from the campus and user groups in areas such as urban design and context, aesthetics, material and building system choices and spatial configuration. The project is under construction. A post occupancy evaluation will provide additional data as to the success of the PPP for this type of project.

EXHIBIT 1C: DEVELOPER BUILD-TO-SUIT

- Most applicable to “Commercial” Projects.
- Analogous to Design-Build Delivery.
- Good technique for PPP Development on Private Land.
- Possible on UC land but challenging solicitation process/requirements in public contract code.



CASE STUDY 3: MT. ZION MEDICAL OFFICE BUILDING , UC SAN FRANCISCO

Project Type: A medical office building on private land proximate to UCSF's Mt. Zion Hospital.
Project Goals: A developer turnkey for conventional delivery at competitive rate on private land. Developer was responsible for securing and entitling the site, as well as for the design, financing and construction of the facility for a fixed price. The Developer also bore the construction and construction financing risk.
Land Area: 13,750 GSF at the NW Corner of Divisadero and Sutter Streets, San Francisco.
Configuration: The project consists of a medical office building of approximately 49,000 rentable square feet over a multilevel 150 space subterranean garage.
Use: Clinical space and physicians offices.
Completion Date: circa 1995.
Lender(s): Taxable construction debt obtained by developer; UC GRB ultimately financed the purchase.

Analysis:
Because this project was always envisioned as an off campus turnkey , no development cost for UC were prepared to allow for cost comparisons. Project costs were evaluated by an independent cost estimator and were determined to be in line with private delivery of similar buildings. The price included entitled land for the development. Savings in the overall cost were achieved by allowing the developer to use commercial specifications with broad UC parameters. Accordingly, the building systems are not as robust as those typically found in a comparable UC-developed facility.

This project on Divisadero, and a second one on Post Street on ground leased land, were solicited from an open competition to provide needed medical office space and parking proximate to the Mt. Zion Hospital. The campus did not have land on which to develop these facilities and thus it was beneficial to the campus to employ a PPP-style approach to achieve a timely delivery of needed space with reduced risk and an expedited time schedule.

EXHIBIT 2: UC PPP PROJECTS COMPLETED OR IN DEVELOPMENT

PROJECT	TRANSACTION TYPE	PROJECT COST/YEAR IN SERVICE
STUDENT RENTAL HOUSING		
La Rue Apartments (UCD)	Ground lease	NA/1986
Russell Park Apartments (UCD)	Ground lease	NA/1986
Primero Grove (UCD)	Ground lease	NA/1998
Colleges at La Rue (UCD)	Ground lease	NA/2000
Stonehaven (UCR)	Ground lease	~$8.5MM/2000
International Village UCR (UCR)	Ground lease	~$11MM/2002
Holiday Inn Dormitory (UCSC)	Master lease	$16.2MM (10 Yr. Rent PV)/2001
Vista Del Campo I (UCI)	Ground lease	$76.7MM/2004
Vista Del Campo II (UCI)	Ground lease	$91.0MM/2006
East Campus III (UCI)	Ground lease	$172.5MM/2010
West Village Student Housing (UCD)	Ground lease	$112.7MM/2011 (1st phases)
Castilian Apartments (UCD)	Ground lease	$24mm/2014
Orchard Park Apartments (UCD)	Ground lease	TBD
Bowles Hall (UCB)	Ground lease	$32MM/TBD
MultiPhase Apartments (UCM)	Ground lease	TBD
FACULTY FOR SALE HOUSING		
Irvine Campus Housing Authority (UCI)	Ground lease	Multiple phases of single family homes, town homes & apartments/1985
Levering Condominiums (UCLA)	Build-to-suit	$9.5MM/1992
Aggie Village (UCD)	Ground lease	$6.9MM/1997
Ranch View Terrace (UCSC)	Ground lease	$30.0MM/2008
West Village Faculty Homes (UCD)	Ground lease	Est. $112MM/TBD
North Campus Homes (UCSB)	Ground lease	Ph 1 $9.5MM/2011 (Subsequent phases $60.0MM/TBD)
HOTELS		
Camellia Inn and Suites (UCDMC)	Ground lease	~$20MM/2001
Estancia La Jolla Hotel & Spa (UCSD)	Ground lease	~$60MM/2004
Ronald McDonald House (UCDMC)	Ground lease	NA/~1999
Family House (UCDMC)	Ground lease/ Build-to-suit	$3.3MM/2006
Davis Campus Hotel (UCD)	Ground lease	$11.1MM/2010
Davis Hotel Phase 2 (UCD)	Ground lease	TBD/2014
KITP Guest House (UCSB)	Donor development	$12MM/TBD
OFFICEBUILDINGS/INSTRUCTIONAL SPACE		
Hollister Research Center (UCSB)	Build-to-suit/Leaseback	$6.3MM/1987
Berkeley Way (UCI)	Ground lease/ Build-to-suit/Leaseback	~$18MM/1988
Institute for Americas Phases I-III (UCSD)	Donor development	NA/1983 & 2001
UCOPHQ (UCOP)	Build-to-suit	$37MM/1998
Heckman Center (UCR)	Donor development	$6.5MM/2003

PROJECT	TRANSACTION TYPE	PROJECT COST/YEAR IN SERVICE
University Town Center (UCR)	Master lease	$1.0MM(Prepaid Master Lease)/~1998
Tipton Center @ Sedgwick Reserve (UCSB/NRS)	Donor development	$2.5MM/2009
Gateway Office Building (UCB)	Ground lease/Leaseback	Est. $65MM/TBD
Haas Renovation and Addition(UCB)	Donor development	$60MM/TBD
Blum Center Renovation and Addition (UCB)	Donor development	TBD/2011
Mission Bay Office Building (UCSF)	Build-to-suit	TBD
DANR Davis HQ (UCD)	Build-to-suit	$8.3MM/2013
2020 Office/Research Buildings (UCM)	Ground lease/Leaseback	TBD
MEDICAL OFFICE & CLINICAL RESEARCH		
100 UCLA Medical Plaza (UCLA)	Ground lease/Air lot	~28MM/1989
Mann Center (UCLA)(note 2)	Donor development	NA
Venice Dental Clinic (UCLA)(note2)	Donor development	$340K/1997
4156 Front Street (UCSD)	Build-to-suit	$9.3MM/1989
2330 Post Street (UCSF)	Build-to-suit	$10.8MM/1995
1701 Divisadero (UCSF)	Build-to-suit	$147MM/1996
Osher Center for Integrative Medicine (UCSF)	Build-to-suit (on campus)	~$34MM/2010
Stewart House (UCLA)	Donor development	Est. $10MM/TBD
1223 16th Street OSC (UCLA)	Master Lease	$65MM/2012
Palm Desert MOB – Surgery Center (UCR)	Ground Lease	TBD
RESEARCH BUILDINGS		
Nelson Research (UCI)	Ground lease/ Build-to-suit	NA/1983
Super Computer Center (UCSD)	Ground lease/ Space-for-lease	~14MM/1987
Plum Wood House (UCI)	Ground lease/ Space-for-lease	$25+MM/1989
Dorris Stein Eye Institute (UCLA)	Donor development	Ph. 3 $60MM/2012
Oiled Wildlife Recovery Center (UCSC)	Ground lease/ Space-for-lease	~$6MM/1996
Tahoe Environmental Science Center (UCD)	Build-to-suit/Space-for-lease/Lease with purchase option	$21.4MM/2006
Sanford Consortium for Regenerative Medicine (UCSD)	Ground Lease/Leaseback	$111.8MM/2011
University Research Park (UCI)	Ground lease	NA (The Irvine Company built out 85 acres)/1999+
EPA Building – Richmond Field Station (UCB)	Ground lease	$11.0MM/1994
Brain Mapping Suites I-III (UCLA)(note 2)	Donor development	3 Phases $370-$500K/2003-2008
Neurosciences Building (UCSF)	Ground lease/Leaseback	~$198MM/2012

PROJECT	TRANSACTION TYPE	PROJECT COST/YEAR IN SERVICE
Community Health Campus Phase 1 (UCB)	Ground lease/Leaseback	Est. $75MM/TBD
Center for Novel Therapeutics (UCSD)	Ground lease/leaseback	TBD
Packard Humanities Inst. Off. & Research	Donor development	TBD/2014
CHILD CARE CENTER / K-12 School		
Montessori (UCI)	Ground lease	$1.7MM/1987
Russell Childcare Center (UCD)	Ground lease	NA
Special Needs School (UCI)	Donor development	$350K/2013
THEATRES/RETAIL		
La Jolla Playhouse (UCSD)	Ground lease/ Space-for- lease	~$20MM/2005
Irvine City Theatre (UCI)	Ground lease/ Space-for- lease	$8MM/1991
Geffen Playhouse (UCLA)(note 2)	Master lease/ Donor development (UC as lessor)	NA
West Village Retail (UCD)	Ground lease	$11.8MM/2011
Sprouts Market Shopping Center (UCB)	Ground lease	TBD
PARKING		
Mt. Zion Parking Lot (UCSF)	Build-to-suit	$16.1MM/2012
Maxwell Field Garage (UCB)	Ground lease	TBD
OTHER		
Cal Crew Facility (UCB)	Donor development	$5MM/2004
Cogeneration Facility (UCLA)	Ground lease	$188MM/1993
Packard Humanities Institute Film Archives (UCLA)	Donor development (off campus)	$39MM/2008
Albany Senior Housing Project (UCB)	Ground Lease	TBD
Berkeley Aquatic Center (UCB)	Donor development	$15MM/2014
C-Center Multi-Purpose Events Venue (UCR)	Space for Lease	TBD

NOTES:

(1) Public Private Partnership (PPP) development as used here refers to projects where the University has contracted either to lease its land to another party to develop a project which has programmatic benefits or serves auxiliary needs (Ground Lease) or contracts to purchase a build-to-suit facility in the community or on campus (Build-to-Suit) on a turnkey basis. Other variants include Donor Development where a donor develops a facility on UC land for donation to UC upon completion (Donor Development); Space for Lease deals where in exchange for providing an entitled on campus site, the University receives a significant dedication of space in the building in lieu of ground rent (Space-for-Lease); Master Lease Arrangements (Master Lease); and transactions where the University leases (Lease with Purchase Option)

a facility with an option to purchase (or leases back the facility in the case of a project on Regents land—Ground Lease-Leaseback).

(2) Unless otherwise indicated, the Project Cost amount represents the estimated total project cost at the time of development. As the University does not always have access to the developer's costs some amounts listed are estimates (~). Projects planned as PPP deliveries but for which the schedule for construction is not yet known are listed as TBD—to be determined. The Year in Service is the completion date or projected completion date.