

## Office of the President

### TO THE MEMBERS OF THE COMMITTEES ON GROUNDS AND BUILDINGS AND FINANCE:

#### DISCUSSION ITEM

*For the Meeting of July 21, 2015*

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

##### EXECUTIVE SUMMARY

This item is an informational update on planning efforts for the 2020 Project (“Project”), which would expand student access to the University of California through the development of new facilities at the Merced campus.

No formal action or decision is being requested from the Regents at this time.

##### BACKGROUND

By design, since it opened in 2005, the Merced campus has achieved its teaching, research, and public service mission in ways that reflect its place as the nation’s first new research university of the 21st century and its location in the rapidly growing San Joaquin Valley. UC Merced was established to expand access and increase college-going rates in the historically under-served region. Since opening, the campus has grown to 6,200 students, with sixty percent from low-income families, and more than half as first-generation students. Based on applications submitted for the fall 2015, Merced will continue to be the most diverse campus in the system.

By circumstance, launched 30 months prior to one of America’s most significant recessions, the young campus has had to seek ways to deliver UC-caliber teaching and research in a climate marked by dramatic reductions in State financial support, a scarcity of philanthropic resources, and in the face of increasing statewide demand for access to higher education from eligible students.

Without the traditional support to enable it to grow as its sibling campuses did in previous centuries, the Merced campus has developed an alternative framework to build, operate, and maintain cost-effectively one million assignable square feet of critically needed facilities to accommodate enrollment growth to 10,000 students by 2020, as called for in the campus’ Long Range Development Plan adopted by the Regents in 2009. Among the Project’s key advantages are the ability to deliver facilities and therefore expand access nearly twice as quickly as one developed with a more traditional delivery method.

The proposed delivery strategy incorporates international best practices that are rapidly being incorporated into procurement processes in the United States. The strategy represents an expansion of the concept of a master-planned development utilized in the delivery of the initial infrastructure and buildings at UC Merced. It combines the proven method of design-build delivery of facilities with long-term operations and maintenance obligations that create the incentive to deliver high-quality facilities designed with operating and maintenance costs in mind. The “Design-Build-Finance-Operate-Maintain” delivery model is noteworthy for its ability to deliver facilities faster, provide budgetary certainty over multiple decades, and minimize the financial burden typically created by deferred maintenance.

The delivery strategy partners the public sector with a private-sector consortium in order to deliver, and, most importantly, operate and maintain infrastructure, for a predetermined price through a long-term agreement. The strategy allows for expansion of enrollment at UC Merced to 10,000 by 2020, aligns with both University of California and State goals to expand California resident enrollment at UC, and delivers the facilities needed to accommodate 10,000 students, within a timeline unprecedented for UC system projects. After a thorough evaluation of a range of possible solutions, including traditional and alternative delivery models for design, construction, and operation, the recommended strategy was chosen because it mitigates risk to the greatest degree and provides the best chance for success, both in terms of accelerated delivery of the needed facilities and long-term performance.

In the proposed delivery framework for the Merced campus, this partnership extends through the operating period, with the consortium responsible for the operations and maintenance of the buildings and infrastructure to meet strict performance and handback specifications. The University remains responsible for key services, including custodial, landscaping, information technology, and security services, to ensure integrated operations across the campus.

As applied at the Merced campus, the proposed Project meets several important needs for the University of California:

- The financial model for the Project is based on the concept that the campus will only build what it can afford to maintain.
- UC Merced’s capital and facilities operating costs will be predictable and sustainable over multiple decades.
- Deferred maintenance will be addressed as part of the overall agreement with UC Merced’s partner, not an issue to be addressed and funded at some unknown future date.
- The Project creates a competitive process for the development of the campus that unlocks private-sector innovation and expertise in areas ranging from design to sustainability.
- The Project transfers to the private-sector partner performance and reliability risks normally absorbed by the University, thereby facilitating greater capacity for UC Merced

to focus on its core teaching, research, and public service missions.

The campus has developed a model that establishes its financial capacity, and it continues to be refined to account for the constantly changing landscape affecting the campus' and University's financial and credit position.

To ensure the University will be delivered what it requires, the Project outlines detailed design, operations, and maintenance expectations that meet campus and regulatory standards. These expectations also result in the facilities needed today, but that are configured with the flexibility required for the long term.

To ensure performance, a dual-track payment structure provides significant financial incentives for the partner's on-time completion and proper maintenance throughout the life of the agreement.

The Project also includes a robust dispute resolution framework and termination regime specifically crafted to ensure the Project meets its goals and protects the University's reputation. The dispute resolution procedures contain features of particular importance to large-scale, complex projects implemented under this delivery model, including: (i) a requirement that the partner continue to work pending resolution of the dispute; (ii) payment of undisputed amounts otherwise owed; and, (iii) provisionally binding fast-track determinations of disputes related to time-sensitive issues.

The Merced campus intends to return to the Regents in the fall of 2015 for further discussion and approval of the Project's business terms. This will be followed in 2016 by a request for approval of the Project.