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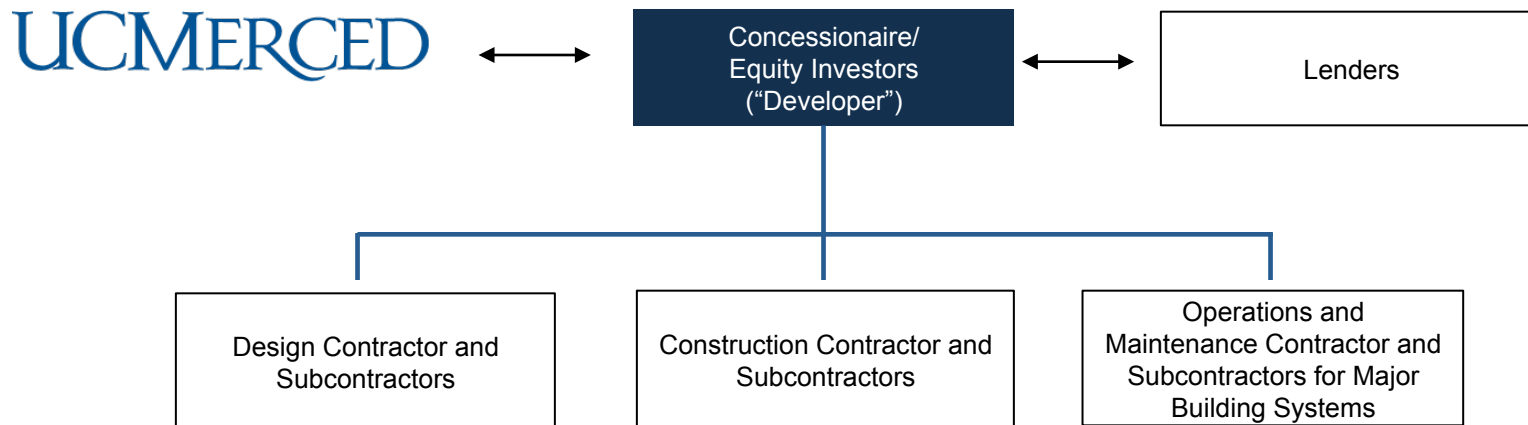
An update on the 2020 Project

University of California Board of Regents Joint Session:
Committees on Grounds and Buildings and Finance

UC Irvine
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The 2020 Project envisions the University entering into a Project Agreement with a “Concessionaire” comprised of the equity members of the team (the “Developer”)



The term of the Project Agreement is 39 years beginning on the date of contract execution with a 4-year construction period and a 35-year operating period

The Project Agreement sets forth the key commercial terms and procedures to mitigate risks

- Developer's obligation to design, build, finance, operate and maintain major building systems
 - Payment schedule: milestone and availability payments
 - Delivery dates for all facilities
 - Detailed campus review of design and construction to ensure compliance with the contract terms
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- Relief events
 - Penalties for performance failure and a "noncompliance" points scheme that leads to progressive remedies up to and including default and termination
 - Dispute resolution provisions
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- Handback conditions and reserves
- Limitations on Developer's ability to assign the Agreement
- Direct agreement with the Lenders setting forth their rights and obligations

Risks related to Merced's core mission are retained by the Campus, while Project risk is allocated between the Campus and Developer

University risk related to core mission

- Enrollment levels
- State appropriation support
- Auxiliary revenue
- Pell Grant support
- Delivery of academic program
- Reputational risk

Retained risk under Project Agreement

- Changes to the contract specifications during design and construction or operation
- Changes in law (for example, code requirements)
- Force majeure events
- Unknown environmental conditions

Developer Risk

- Quality of construction
- Building systems and performance failure
- Long-term maintenance and renewal
- Technological changes
- Known environmental conditions

Basic Risk Events and Apportionment

Construction Delays before Substantial Completion

Developer bears the risk: Campus is under no obligation to pay until construction is complete; early warning measures and penalties help mitigate impact of delay on campus.

Owner changes during design and construction

Campus bears the risk: Extensive program planning and technical specifications intended to limit need for changes; standards relating to floor plan flexibility reduce likelihood of change orders due to program changes; Campus requirement for “single point of approval” at VC level for significant changes limits changes in the field.

Operations and Maintenance failure after delivery

Developer bears the risk: Availability payment reductions and non-compliance points create incentive to meet performance standards; Developer and Lenders have incentive to cure to avoid reduced payments; Campus has “step-in” right.

Revenue shortfall during operations period

Campus bears the risk: Campus is obligated to make payments even if a decline in enrollment or appropriations occurs.

Developer or contractor bankruptcy

Developer bears the risk: Campus (Regents) owns the buildings and land at all times (no lease); Developer and Lenders motivated to replace bankrupt party to protect their investment; Campus step-in rights in the event of default

The financial objective is long term affordability

Milestone and Availability Payments enable the Campus to utilize low-cost financing and enforce Developer performance

Milestone Payments (MP)

Three payments during construction tied to specific construction milestones

- Requires a direct issuance of debt by the Regents
- Takes advantage of the Regents' access to lower cost of capital

Availability Payments (AP)

Paid monthly during occupancy, subject to facilities' availability and subject to good operation and maintenance performance

- Enforces adherence to lifecycle performance standards throughout the term of the Project Agreement
- Entails marginally higher cost of private financing
- AP would pay for 25-50% of capital costs

Annual DBFOM cashflow requirement incorporates milestone and availability payments

Milestone Payments would be made at the end of construction and funded with low-cost financing

Proposed Base Case Scenario

Milestone Payment	Construction Milestone	Financial Instrument
June 2017 \$50 million	Payment tied to a <u>specific technical milestone</u> and conditioned upon a minimum expenditure of \$100 million	Century Bond
June 2018 \$250 million	Payment due upon completion of high-priority <u>First Delivery</u> facilities	General Revenue Bonds and/or Limited Project Revenue Bonds
September 2020 \$300 million	Payment due upon <u>final acceptance</u> of all facilities	General Revenue Bonds and/or Limited Project Revenue Bonds

A hybrid financing approach balances our cost of capital with the goal of sharing performance risk

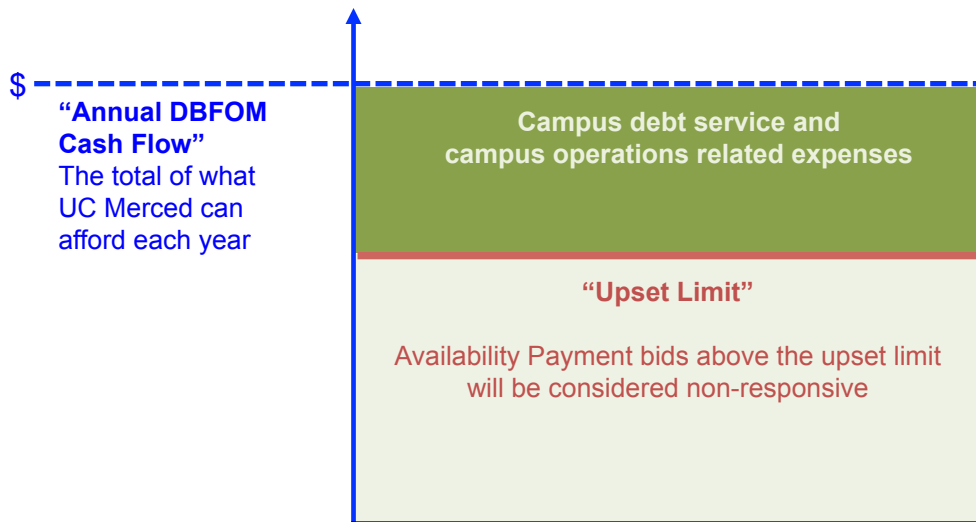
Proposed Base Case Approach scenario is structured to balance the cost of capital with risk transfer

	100% University Financing	Proposed Base Case Approach	100% Private Financing
% University Financing	100%	50% to 75%	0%
% Private Financing	0%	25% to 50%	100%
Weighted Cost of Capital	'X' %	'X' plus 0.75% to 1.25%	'X' plus 1.5% to 2%
	100% University Financing scenario is applicable to a traditional Design-Bid-Build or Design-Build model.	Proposed Base Case hybrid model balances cost of capital with risk. Reduces long-term cost. University Financing in Proposed Base Case Scenario represents 50%-75% of design and construction costs.	Entirely financing project with private funds would be subject to performance risk.

The Upset Limit is the tool that enables UC Merced to capture value through the procurement process

The process is structured to ensure that the cash flow requirement after completion is equal to or less than the threshold cost for the project

Cash Flow and the Upset Limit



How the Upset Limit was developed

- The campus estimated the annual **DBFOM cash flow** that would be required for a design-build project based on a long-range, lifecycle financial model
- Using an **upset limit ensures the delivery approach is both affordable** and economically equivalent or better than the design-build approach.
- Winning bidder's **availability payment will be contractually binding**
- Relying on the upset limit **will ensure the approach is in the best interest** of the University

How will we know that we are capturing value in the bids submitted by the proposers?

Responsive proposals are required to include:

Financial Plan

- Evidence of equity and debt commitments
- Summary Cost Table
- Summary Pro Forma Tables
- Closing Work Plan
- Term Sheets
- Financial Strategy

Financial Model

- Preliminary Financial Model
- Assumptions within the Financial Model
- Preliminary Financial Model Audit
- Sensitivity Analysis

Availability Payment Details

- Firm Maximum Availability Payment bid (at or below the "Upset Limit")

Verification of Team's Financial Health

- Credit Ratings
- Financial Statements
- Financial Capacity
- Off-balance sheet liabilities
- Letters of Support

