Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

For Meeting of November 16, 2016

AUTHORITY TO ENTER INTO A GROUND LEASE AND LEASE DISPOSITION AND
DEVELOPMENT AGREEMENT FOLLOWING ACTION PURSUANT TO THE
CALIFORNIA ENVIRONMENTAL QUALITY ACT FOR CONSTRUCTION OF A
RESEARCH BUILDING AT THE PRISCILLA CHAN AND MARK ZUCKERBERG
SAN FRANCISCO GENERAL HOSPITAL AND TRAUMA CENTER, SAN
FRANCISCO CAMPUS

EXECUTIVE SUMMARY

The San Francisco campus requests approval of a 75-year ground lease (the Ground Lease) and related Lease Disposition and Development Agreement (the LDDA) as tenant to the City and County of San Francisco (City) for an approximately 51,500-square-foot property (the Site) on the Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center (ZSFG) campus. The Site, known as the B/C lot, currently provides surface parking for about 165 vehicles. UCSF proposes to develop a 175,000-gross-square foot building with wet and dry laboratory and administrative space (the Research Building) on the Site. At a future date, UCSF will request Regents’ approval of budget, external financing, and design for the Research Building. The environmental impacts of the Ground Lease, LDDA, and future construction and operation of the Research Building have been analyzed in 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 (the Final EIR), which UCSF requests the Regents certify as compliant with the California Environmental Quality Act (CEQA) and adopt CEQA findings supporting requested approval of the Ground Lease and LDDA. The Final EIR also analyzes the environmental impacts of displaced parking that will result if the Research Building is constructed.

Since 1873, the University has been affiliated with San Francisco General Hospital, which is a major teaching hospital for UCSF residents and fellows. This nearly 150-year-old partnership between the City and UCSF, memorialized in an affiliation agreement between the University and the City dated August 1, 1994 (the Affiliation Agreement), created and supports cooperation that resulted in an academic medical center known worldwide for its research and creative

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1 Action will be released to the public following approval of the Regents; details of the agreement will be released upon request following execution of the Ground Lease.
In July 2015, the Regents approved an amendment of the 2015-16 Budget for Capital Improvements and the Capital Improvement Program to provide preliminary planning funds in the amount of $10.9 million for the Research Building. 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.

RECOMMENDATION

The President of the University recommends that, upon review and consideration of the environmental consequences of the below proposed actions as evaluated in the Final Environmental Impact Report (EIR) for the Research Building, the Finance and Capital Strategies Committee recommend to the Regents that:

A. The Regents approve and direct the President to execute a Ground Lease and Lease Disposition and Development Agreement (the LDDA) between the Regents on behalf of its San Francisco campus and the City and County of San Francisco (City) as Landlord involving approximately 51,500 square feet of land located on the Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center campus, which shall include the following terms and conditions:

(1) The term of the Ground Lease will be for 75 years, with one 24-year option at the City’s discretion.

(2) The University, under the Ground Lease, will pay ground rent not to exceed the following:

   a. $180,000 per year, increased annually by 1.75 percent.

   b. Base rent will be reset on the 20th, 45th, and 60th anniversaries of the Ground Lease commencement to the then prevailing market rate if greater than the base rent at the time. Rent resets are capped at five percent per year uncompounded.

   c. If, at any time during the term of the Ground Lease, the affiliation agreement between University and the City and County of San Francisco dated August 1, 1994 (Affiliation Agreement) is no longer in place, the
University will pay initial base rent of $945,000 subject to annual increases.

(3) Under the Ground Lease, the University will pay all City costs related to the Ground Lease provided the University has the right to terminate the Ground Lease if the cost of remediation of hazardous material on the Site exceeds $3.6 million.

(4) Under the LDDA and Ground Lease, the University will reimburse the City $10 million for costs associated with parking displaced from the Site.

(5) Under the Ground Lease, the University will operate the Research Building in a manner consistent with the Affiliation Agreement subject to the following provisions:

a. If either party terminates the Affiliation Agreement before the expiration of the Ground Lease, then the City may elect to either (i) keep the Ground Lease in place or (ii) terminate it and acquire the Research Building at the greater of its (x) fair market value, (y) replacement cost, taking into account the length of the remaining term of the Ground Lease, or (z) unamortized balance of the initial debt issued to fund the Research Building.

b. If the City terminates the Affiliation Agreement and Ground Lease, then the University will have up to five years thereafter to relocate staff but will not apply for any new grants for research in the Research Building during this five-year period.

c. If the University terminates the Affiliation Agreement, the City will have the additional option to lease the Research Building under certain conditions which within the first 30 years from the commencement date of the Ground Lease would prevent the use of the Research Building for any purpose that would adversely affect the federal tax-exempt status of the University’s obligations issued to finance the Research Building.

(6) The Research Building will be the property of the University during the term of the Ground Lease, and shall revert to the City without cost upon expiration of the Ground Lease.

(7) Under the Ground Lease, the City would have approval rights prior to any third-party assignment, lease, or occupancy in the Research Building. The University would share any third-party tenant revenues over and above its debt service and costs of subleasing the space with the City equally.

(8) Under the LDDA, the site improvements and the Research Building façade are subject to City approvals including approval by the City’s Art Commission.
Under the LDDA, the University is only obligated to close escrow on the Ground Lease after:

a. All regulatory approvals have been issued without any conditions that are unacceptable to University.

b. All building permits that are required for the commencement of construction have been finally granted, and City shall have executed any such permits that City is required to execute as co-permittee.

c. City’s Board of Supervisors authorizations and approvals have been completed.

d. Regents have granted approval for the budget, external finance, and design of the Research Building.

Under the LDDA, the University will retain CityBuild Academy, a program of the San Francisco Office of Economic and Workforce Development (OEWD), at an annual cost of $200,000, to identify and refer qualified San Francisco resident construction tradespersons for the Project during its construction.

Under the LDDA, the University commits to supporting the training of resident tradespeople through two annual contributions to CityBuild Academy, a contribution of $250,000, to be paid 90 days prior to the Project’s construction start, and a second contribution of $250,000, to be paid 12 months after the first payment is made.

The President, with the concurrence of the General Counsel, be delegated authority to execute the Ground Lease and LDDA under the terms outlined in A above or more favorable terms and any amendments or other documents related to the Ground Lease or LDDA, provided such amendments or other documents do not materially reduce the consideration to or increase the obligations of the Regents.

Prior to the above, the Regents take the following California Environmental Quality Act (CEQA) actions:

1. Certify 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 (State Clearinghouse Number 2015102010).

2. Adopt the Mitigation Monitoring and Reporting Program for the Proposed Action.

3. Adopt the Findings and Statement of Overriding Considerations.
BACKGROUND

Context

ZSFG is owned and operated by the City, which has partnered with UCSF in public health since 1873. This nearly 150-year-old partnership between the City and UCSF created and supports one of the country’s top public hospitals and San Francisco’s only Level 1 trauma center. ZSFG is an academic medical center known worldwide for its research and creative treatments for the most challenging diseases. Under the Affiliation Agreement, the parties agree to provide hospital and patient care services in a teaching setting.

ZSFG is staffed with UCSF clinicians/researchers and San Francisco Department of Public Health employees and serves as a teaching hospital for UCSF’s Schools of Medicine, Dentistry, Nursing, and Pharmacy. The ZSFG campus accommodates over 20 UCSF research centers, affiliated institutes, and major laboratories. About 100 UCSF principal investigators, many also providing patient care, direct significant research programs at ZSFG. These programs generated over $150 million in research revenue during fiscal year 2013-14 accounting for about 17 percent of research revenue at UCSF. Researchers with space at ZSFG generated $182 million in direct contract and grant activity in 2014-15, representing about 19 percent of UCSF research revenue.

UCSF employees use approximately 172,000 assignable square feet (asf) for research laboratories, clinics, and offices in nine City-owned buildings at ZSFG that do not comply with the University’s Seismic Safety Policy. Renovating these buildings would be cost-prohibitive and impractical because: (1) they would need to be vacated during the retrofit, for which no relocation space is available; (2) building systems would require complete overhaul and new interior improvements constructed; and (3) dimensions and configurations are sub-optimal for contemporary research.

The Site

The proposed project Site is located on parking lot B/C, which fronts Vermont and 23rd Streets, in the southeast quadrant of the ZSFG campus. The Site is located just over a mile from UCSF’s Mission Bay campus in the Mission district, a dense, urban area comprised mostly of residential and commercial properties.

UCSF Occupancy in Existing ZSFG Buildings and Proposed New Research Building

The approximately 51,500-square-foot Site is the proposed location for a new 175,000-gross-square-foot (gsf) Research Building. UCSF occupants are proposed to be relocated to the Research Building from seven seismically non-compliant buildings at ZSFG: Buildings 1, 9, 10, 20, 30, 40 and 100. These structures are rated Level V (Poor) or VI (Very Poor), per the University’s Seismic Safety Policy. The City plans to seismically retrofit Building 5 beginning in 2017. Some UCSF employees in Buildings 80/90 (rated Level V) would move to the
upgraded Building 5 and join other UCSF employees there. UCSF plans to maintain its lease of Building 3, which complies with the University’s Seismic Safety Policy.

The opportunity to build an efficient state-of-the-art Research Building to replace seismically deficient space and consolidate locations would result in lower operating costs including a reduction in utility and maintenance expenses. The relocation space would: provide an efficient floor plan that can support contemporary research; allocate space to occupants based on their current needs; and significantly increase the ratio of occupants to floor area using contemporary UCSF space planning standards (as contrasted with the current ZSFG use).

Future, separate Regents item(s) will request budget, external financing, and design approval for the proposed Research Building on the Site. The Research Building will accommodate bench research, desktop research, and administrative functions. Clinical services will continue to be provided in adjacent City-owned buildings on the ZSFG campus.

The total project budget for the Research Building (separate from the Ground Lease) including preliminary plans, working drawings, construction, and moveable equipment is currently estimated to be approximately $187.6 million. The proposed Research Building is included in UCSF’s Capital Financial Plan. The campus is updating the debt model to the 2016 base year at this time. Preliminary results show the campus continuing to pass all three tests, with a modified cash flow margin of 2.5 percent (threshold is >zero percent), debt service to operations of 4.9 percent (threshold is <six percent), and expendable resources to debt of 1.2x (threshold is >1.00x).

Funding sources for the Research Building will be detailed in future Regents items. Currently it is anticipated the Research Building will be funded with campus funds and external financing. Debt service would be funded with campus funds. The Regents’ approval of the Ground Lease creates no obligation to approve the Research Building; the Ground Lease will only be executed after the Research Building is approved by the Regents.

**Funding for the Ground Lease**

The Ground Lease will be funded from campus funds, specifically from a centrally managed pool of unrestricted funds (non-State, non-tuition), including indirect cost recovery on sponsored contracts and grants, and investment earnings.

In order to estimate the value of the Ground Lease over its initial 75-year term, the full $945,000 ground rent (before any adjustment for in-kind value provided by UCSF to ZSFG) would result in a minimum cash flow of $144 million and up to $280 million (including CPI adjustments). The net present value of the ground rent is estimated to be $21 – $27 million\(^2\) or $121 – $155 per

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\(^2\) The NPV analysis utilized a six percent discount rate representing the estimated rate of return for ground leased buildable R&D land located proximate to the Site.
gross square foot of building area. This range of values is below current land value for comparable development properties in San Francisco.

CALIFORNIA ENVIRONMENTAL QUALITY ACT COMPLIANCE

*Environmental Review Process*

Pursuant to State law and University procedures for implementation of the California Environmental Quality Act (CEQA), the environmental impacts of the construction and occupancy and operation of the Research Building proposed to be located on the Ground Lease Site have been analyzed in 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* (Final EIR) (State Clearinghouse Number 2015102010). The approval of the Ground Lease and the LDDA are the first discretionary actions in furtherance of the Research Building project and are therefore subject to CEQA requirements. Future approval requests for budget, external financing, and design in furtherance of the Research Building project will rely on the Final EIR, and may need to be augmented or modified pursuant to CEQA.

The Draft EIR was published on March 23, 2016, commencing a 45-day public review period ending on May 9, 2016. Notices of availability of the document were distributed to the public and advertised in the San Francisco Examiner and two neighborhood newspapers – the Potrero View and El Tecolote. The campus also mailed postcards to nearly 2,800 residences and businesses surrounding the project site, and provided written notification to a comprehensive mailing list that included adjacent property owners, community groups, neighbors, and other individuals. The campus emailed notice to about 115 individuals and organizations on UCSF’s neighborhood listserv. Copies of the Draft EIR were placed at various branches of the San Francisco Public Library (Main Library, Mission branch, Potrero Hill branch, Bernal Heights branch, and Mission Bay branch) and at the UCSF Mission Bay campus library. The document was posted online on the Campus Planning website. The Draft EIR was sent to the State Clearinghouse and to other local and regional agencies.

*Public Comments*

During the public review period, eleven (11) comment letters on the Draft EIR were received, and ten (10) people provided verbal comments at the Draft EIR public hearing. Written responses to the comments were prepared and included in the Final EIR. Among the comment letters received, four (4) were from City departments – the Department of Public Health (DPH), the San Francisco Municipal Transportation Agency (SFMTA), the Planning Department (Planning), and the Historic Preservation Commission (HPC). The DPH letter provided information concerning a “Parking Relief Plan” involving potential temporary off-site parking (on a site(s) not yet identified) during construction activities. The SFMTA and Planning letters provided detailed comments concerning the traffic analysis and Transportation Demand
Management (TDM) measures. The HPC letter expresses concurrence with the findings and analysis with the Cultural and Paleontological Resources section of the Draft EIR.

Comments from the general public, neighbors, or neighborhood groups included (1) opposition to the proposed displacement of parking resulting from the proposed construction of the Research Building; (2) opposition to development on the few “open space” areas remaining on the ZSFG campus; (3) opposition to the proposed expansion of the City-owned parking structure (a separate project to be undertaken by the City), including retail space; (4) desires to see the proposed research building constructed on the UCSF Mission Bay campus site instead of the City’s ZSFG campus; (5) concerns about densification at the site; (6) concerns about construction-period impacts, such as air quality, noise, truck traffic, and glare; (7) concerns about operational impacts such as increased traffic, parking demand, and litter.

One letter from a group of individuals and organizations included the following comments: (1) that UCSF should not be the lead agency because the site is City property and is covered by a San Francisco Conditional Use Permit, Final EIR (for the ZSFG hospital rebuild project) and the ZSFG Institutional Master Plan; (2) that seismic retrofit of the existing historic brick buildings should be included in the EIR as an alternative; (3) that impacts on the historic brick buildings and the historic district should be analyzed; (4) that mitigation measures associated with the City’s proposed garage expansion are not realistic; (5) that the proposed City garage expansion is not consistent with the San Francisco General Plan; (6) that discretionary approvals include the City and UC and all current mitigations associated with the ZSFG hospital rebuild project must be enforced prior to EIR certification and approval of the proposed project; (7) that cumulative impacts need to be considered; and (8) that the traffic and parking analyses are deficient. All comments have been responded to in the Final EIR. None of the issues raised by the commenters alters the Draft EIR analysis in any significant way.

Environmental Impacts

Approval of the Ground Lease and the LDDA will not have any environmental impacts independent of the Research Building project, which the Regents will consider as part of a separate, future action item. The purpose of the Ground Lease and the LDDA is to facilitate development of the Research Building and is therefore a component of the Project analyzed in the EIR. The Draft EIR analyzed the impacts of construction, occupancy, and operation of the Research Building Project on the Ground Lease site and the City’s proposed expansion of its parking structure. The EIR concluded that these activities would have a significant environmental impact on traffic at the intersection of Potrero Avenue and 24th Street. The Draft EIR identified three mitigation measures to address this impact, which would be applicable to the Research Building project, if approved:

- TR-1: Restripe 24th Street at Potrero Avenue to Provide a Westbound Left-Turn Pocket
- TR-2: Open 23rd Street Exit at 23rd Street Garage During the P.M. Peak Period
- TR-3: Implement Additional Transportation Demand Management (TDM) Strategies to Reduce Single Occupancy Vehicle Trips
Mitigation Measure TR-1 would reduce the impact at Potrero Avenue/24th Street to a less than significant level, but the San Francisco Campus and the Department of Public Health (DPH) do not have the authority to implement it without the approval and assistance of the San Francisco Municipal Transportation Agency (SFMTA), which is unknown at this time. The effectiveness of Mitigation Measure TR-2 to reduce the impact at Potrero Avenue/24th Street to a less than significant level is not known given the uncertainty over the volume of vehicles choosing to exit the northern egress, and the San Francisco Campus does not have the authority to implement it without SFMTA’s approval and assistance, which is not known at this time. While Mitigation Measure TR-3 can reduce traffic impacts, the No Garage Expansion Alternative (Variant 4) in the EIR is the only scenario in which full implementation of Mitigation Measure TR-3 with identified feasible elements would reduce the significant impact at this intersection to less than significant. Therefore, the impact would still be considered significant and unavoidable.

To assure that all mitigation measures are implemented in accordance with CEQA, a Mitigation Monitoring and Reporting Program has been prepared and included with the Final EIR. UCSF would be responsible for implementing all mitigation measures within the jurisdiction of the Regents that are necessary to reduce or avoid impacts caused by the construction, occupancy, and operation of the Research Building Project.

Findings

The attached Findings discuss the impacts of the Research Building project on the Ground Lease Site, mitigation measures, and conclusions regarding adoption of the Final EIR in conformance with CEQA.

(Attachments)

Attachment 1: ZSFG Campus Buildings and Seismic Ratings
Attachment 2: Project Site
Attachment 3: Final EIR, Comments on DEIR and Responses in Chap 8 Mitigation Monitoring and Reporting Program in Chap 9
http://campusplanning.ucsf.edu/sites/campusplanning.ucsf.edu/files/reports/UCSF%20ZSFG%20FEIR_102516.pdf
Attachment 4: Findings and Statement of Overriding Considerations
Project Site

Proposed UCSF B/C Lot Building, 175K GSF

Urgent Care

City Garage