

3-15-2019

Board of Directors Special Meeting - Packet 03/ 15/2019

UC Hastings Board of Directors

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HASTINGS
COLLEGE
OF THE LAW

**Special Meeting
Board of Directors
Open**

March 15, 2019



NOTICE OF SPECIAL MEETING

The Board of Directors of the University of California Hastings College of the Law will hold a Special Meeting on Friday, March 15, 2019.

EVENT: Special Meeting of the University of California
UC Hastings Board of Directors

DATE: Friday, March 15, 2019

PLACE: UC Hastings College of the Law
A. Frank Bray Board Room
198 McAllister, 1-Mezzanine
San Francisco, CA 94102

STARTING TIME: 2:00 p.m.

AGENDA: See Attached

This notice is available at the following University of California, Hastings College of the Law website address: <http://www.uchastings.edu/board>

For further information please contact Leo Martinez, Secretary of the Board of Directors, 198 McAllister Street, San Francisco, CA 94102, (415) 565-4787. You are encouraged to inform Mr. Martinez of your intent to speak during the public comment period 72 hours in advance of the meeting.

The University of California, Hastings College of the Law subscribes to the Americans with Disabilities Act. Please contact the Secretary's Office by 10 a.m. on Wednesday March 13, 2019, for accommodations.



**UNIVERSITY OF CALIFORNIA
HASTINGS COLLEGE OF THE LAW**

**SPECIAL MEETING - BOARD OF DIRECTORS
OPEN SESSION AGENDA**

Friday, March 15, 2019 – 2:00 p.m.

UC Hastings College of the Law
A. Frank Bray Board Room
198 McAllister Street, 1-Mezzanine
San Francisco, CA 94102

1. ROLL CALL

Tina Combs, Chair
Chip Robertson, Vice Chair
Director Simona Agnolucci
Director Don Bradley
Director Tom Gede
Director Adrienne Go
Director Claes Lewenhaupt
Director Christian Osmeña
Director Mary Noel Pepys
Director Courtney Power

2. PUBLIC COMMENT PERIOD (Oral)

3. Report of the Chief Financial Officer

- *3.1 Nonstate Contracts in Excess of \$50,000 – Long Range Campus Plan (Written)
 - *3.1.1 Project Finance Underwriting – Raymond James (Written)
 - *3.1.2 Bond Counsel – Orrick (Written)
- *3.2 Predevelopment Budget - Long Range Campus Plan – Nonstate Budget Change (Written)

*3.3 Other Contracts in Excess of \$50,000

*3.3.1 Security Services – UCSF Police Department (Written)

*3.3.2 McAllister Tower – Furniture Rental – Cort Business Svcs. (Written)

4. Report of the Chancellor and Dean (Oral)

***5. Adjournment (Oral)**

OPEN SPECIAL MEETING - BOARD OF DIRECTORS

ROLL CALL

Friday, March 15, 2018

Meeting Start Time: ____:____

Present	Call-In	Absent	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Chair Tina Combs
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Vice Chair Chip Robertson
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Director Simona Agnolucci
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Director Donald Bradley
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Director Adrienne Go
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Director Thomas Gede
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Director Claes Lewenhaupt
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Director Christian Osmeña
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Director Mary Noel Pepys
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Director Courtney Power

Public Comment Period

This item is reserved for members of the public to comment on non-agenda and agenda items.

ACTION ITEM

- 1. REPORT BY:** Chief Financial Officer David Seward
- 2. SUBJECT:** Non-state Contracts in
Excess of \$50,000 – Long Range Campus Plan
- 3. RECOMMENDATIONS:**

That the Board of Directors authorize award of the 2018-19 contracts in excess of \$50,000 as described in this report.

Item: *3.1.1

Title: Project Finance Underwriting

Vendor Name: Raymond James

Cost: Total Underwriting Fees of \$3.30/\$1,000 issued
(Not to exceed)

Term of Contract: One-time agreement

Description:

Authority is requested to enter into an agreement with Raymond James to provide underwriting services in support of the Long Range Campus Plan (LRCP). In November 2018, a Request for Qualifications was issued seeking proposals from investment banking and bond underwriting firms to serve as underwriter in connection with the issuance of bonds related to the development of new and renovated mixed-use housing, academic, and commercial facilities on campus in furtherance of the LRCP (the “Project”).

Ten firms responded:

1. Barclays
2. Bank of America Merrill Lynch
3. Citi
4. Goldman Sachs
5. JP Morgan
6. Morgan Stanley
7. RBC (Royal Bank of Canada)
8. Raymond James
9. Seifel
10. Wells Fargo

Attached is a display summarizing the key metrics of each proposal. Raymond James was selected as the Underwriter and will provide all services required to complete a successful financing, including but not limited to:

1. Coordinate with the College and all members of its financing team.
2. Review and assist in preparation of documents and presentations to respective stakeholders, including investors and any rating agencies.
3. Analyze and assist in making recommendations relating to various financing options so as to best meet the goals of the College; enhance the marketability of the Bonds; achieve the widest competition for bond purchases to include retail, institutional, and other investor classes; and achieve optimal leverage of the College's resources, while maintaining a prudent level of risk, through debt obligations. Identify the advantages and disadvantages of any recommendations.
4. Provide advice concerning structuring and sizing of the transaction.
5. Provide continuing updates and advice on the impact of current or proposed state or federal legislation and market conditions that could affect the financial plans of the College.
6. Commit to underwrite the bonds.
7. Make available real time access to, and report on, bond orders.
8. Achieve the lowest possible cost of borrowing.

Raymond James proposed Total Underwriting Fees of \$3.30/\$1,000 issued. While this figure will be negotiated downward; authority is being sought to engage the underwriter on a "not to exceed basis." Raymond James fees (together with expenses) are contingent and payable upon the issuance of the bonds. This expense would be factored into the cost of issuance and paid to Raymond James at financial close.

Item: *3.1.2
Title: Legal Services – Bond Counsel
Vendor Name: Orrick, Herrington & Sutcliffe LLP
Cost: Not to exceed \$400,000
Term of Contract: One-time agreement

Description:

Authority is requested to enter an agreement with Orrick, Herrington & Sutcliffe LLP to serve as bond counsel in connection with the proposed issuance of approximately \$299 million in bonds to finance the development, acquisition, and financing of a potential mixed-use residential student and faculty housing and retail project at 198 McAllister and its 50 Hyde Street annex.

Bond counsel's scope of services would include the following tasks:

1. Analysis of the eligibility of the financing under State law and Federal Tax laws;
2. Formation of an eligible corporation as borrower or governmental issuer, as applicable and if required, for purposes of the financing
3. Consultation with the College and its financial adviser and underwriter to develop the financing structure and time schedule;
4. Preparation of the Indenture and/or the Loan Agreement;
5. Preparation of all resolutions and proceedings by the College and assistance in overseeing all governmental procedures for the issuance of the bonds;
6. Supervision of the closing of the bond issue and preparation of necessary closing certificates and opinions;
7. Delivery of our normal legal opinion at the closing concerning the validity and tax-exemption of the bonds; and
8. Delivery of our normal legal opinion at the closing concerning the validity and tax-exemption of the bonds, and delivery of our normal supplemental opinion relating to, among other matters, the accuracy of summaries of legal documents in the Limited Offering Memorandum.

Orrick's fees are inclusive of customary expenses provided any filing, printing or publication costs shall be paid by the Issuer directly. In addition, Orrick's fees (together with expenses) are contingent and payable upon the issuance of the bonds. This expense would be factored into the cost of issuance and paid to Orrick at financial close.

4. PROPOSED RESOLUTION:

That the Board of Directors authorize the 2018-19 contracts in excess of \$50,000 listed below:

*3.1.1 Project Finance Underwriting – Raymond James	\$3.30/\$1,000 issued (Not to exceed)
*3.1.2 Bond Counsel – Orrick, Herrington & Sutcliffe LLP	\$400,000 (Not to exceed)

Attachment:

- UC Hastings – Underwriter Response Summary



UC HASTINGS - UNDERWRITER RESPONSE SUMMARY

	Barclays	Bank of America Merrill Lynch	Citi	Goldman Sachs	JPMorgan	Morgan Stanley	RBC	Raymond James	Stifel	Wells Fargo	
I. QUALIFICATIONS	Lead Bankers	•Christoph Muelbert - general banking •John Augustine - higher education	•Chris Cowen - higher education	•Chris Mukai - general banking	•John Stevenson - general banking •Rita Kalra - higher education •Ian Parker - general banking	•Jim Costello - higher education •Grant Kawaguchi - higher education •Lorenzo Mendez - higher education	•Oliver Zlomislac - higher education •Esther Berg - general banking; local	•Michael Baird - higher education •Greg Dawley - CA banking •Sara Russell - student housing	•Rob Larkins - general banking •Chad Myers - student housing	•Jim Swan - student housing •Eileen Gallagher - general banking; local •Cody Wilson - student housing	•Pat Russel - higher education
	Higher Education Financings Since 2014	Not specified, but was first ranked in 2017	195 transactions for \$13.2 billion	Does not distinguish between higher education and student housing	113 transactions for \$37.1 billion	120+ transactions for \$26+ billion	221 transactions for \$29.0 billion	Not specified	Not specified	81 transactions for \$3.5 billion	Not specified since 2014; 41 transactions for \$4.2 billion in 2017 (2nd highest)
	Student Housing Financings Since 2014	34 transactions for \$7.3 billion	9 transactions for \$458.6 million	94 transactions for \$12.4 billion	2 transactions for \$692 million	2 transactions for \$445 million	27 transactions for \$2.9 billion	33 transactions for \$2.2 billion	68 transactions for \$2.3 billion	9 transactions for \$588 million	64 transactions for \$8.1 billion
II. TRANSACTION STRUCTURE	Legal Structure	•Gross revenue pledge recommended if doing project revenue approach •Lease revenue approach easily workable •Could consider Financing Trust Structure in which Phases I and II cross subsidize each other under a project revenue approach •Suggests carving out UCSF component, but little detail offered	•Recommends project revenue approach with gross pledge of revenues •Consideration of additional coverage reserve sized at 5.0% of MADS and debt service payment agreement by the College •CAPI until six months after completion •Possibility of short call feature	•Recommends project revenue structure with net pledge of revenues after operations (unique compared to other proposals) •Recommends Financing Trust Agreement in which both phases can pool certain sub-accounts •Could consider occupancy guarantee and/or additional coverage reserve •Could consider funding non-housing components of project with lease revenue bonds	•Recommends project revenue structure with gross pledge of revenues •Could consider some kind of support agreement from the College to enhance the credit •Recommends attempting to not have ABT test that requires maintenance of ratings (common in student housing) due to second phase •Suggests carving out UCSF portion and issuing lease revenue bonds against that portion	•Project revenue or lease revenue approach is workable •Recommends considering Financing Trust Structure (see Barclays) •CAPI through six months after completion •Possible inclusion of coverage reserve fund •Possible shorter call features	•Views project revenue credit as more common for this type of project, but lease revenue is an option •Lease revenue viewed more strongly by investors and enhanced by UCSF involvement and is recommended due to lower cost	•Contemplates three structures: 1) Master lease 2) Contingent master lease 3) Privatized project financing •Able to facilitate any of the three structures	•Lease revenue bond structure will carry highest rating •Project financing structure may be more attractive due to being off balance sheet	•Views lease revenue structure as well-understood and workable •Recommends consideration of a conduit issuer and potential other College support from other dormitory revenues	•Views project finance structure with limited direct commitment from the College as ideal for College's goals •Notes that stress in the student housing market has increased investor scrutiny •May need additional security such as gross pledge rather than net pledge and/or occupancy guarantee
	Credit Considerations and Approach	•Estimates Baa3/BBB- for project revenue structure •A-category rating possible under lease revenue structure •No discussion of one versus two ratings	•Recommends seeking two ratings •Will emphasize high demand for housing in College's market and qualifications of developer	•Approach Moody's first for private rating to ensure investment grade is possible •Expects Baa3 rating for project revenue bonds •Could impact College's existing rating •Suggests leveraging UCSF credit if possible	•Recommends initiating discussions with both agencies but only getting one rating; include a private rating in the process •Feels S&P is more favorable to student housing •Expects Baa/BBB category rating for project revenue bonds; suggests Aa/AA for lease	•Expects Baa3/BBB- rating •Feels S&P criteria are more flexible; does not address whether two ratings are necessary •Will emphasize importance of the financing approach to the College's Long Range Campus Plan	•Investment grade rating expected, likely at BBB-/Baa2 •Project revenue credit would be stronger than average due to housing need in San Francisco •Recommends pursuing single rating from Moody's but could switch to S&P if private indicative rating is not favorable	•Believes ratings would be A3/Baa1/Baa3, respectively, with financing structures described above •Emphasizes UCSF involvement as a credit positive •Recommends seeking feedback from Moody's and S&P and getting a Moody's rating at	•Rating estimated at Baa2/BBB for lease revenue bonds and Baa3/BBB- at best for project financing bonds with more likely rating of Baa1/BB+ due to negative view of graduate student housing •Rating downgrade of existing bonds likely •Recommending Moody's rating	•Recommending two ratings from Moody's and S&P •Goal to secure Baa/BBB category	•Expects Baa3 rating for project finance structure; A3 rating possible under lease revenue structure •Could put some pressure on the College's rating depending on the legal structure
	Bond Insurance	•Believes bond insurance is economical for project revenue approach but that additional required covenants could be onerous	•Could offer some pricing benefit, but would likely reduce flexibility through insurer required covenants	•Not likely economical but will reconsider closer to pricing	•Could be economical but additional required covenants may be onerous	•Does not believe bond insurance is necessary with an investment grade rating	•Does not expect pricing to be competitive	•Only thought to be beneficial under master lease scenario	•Will examine but not currently economically beneficial	•Will examine but believes it is likely to be too expensive relative to the benefit •Sought indicative quote that was 80bps	•Not compelling for lease revenue structure •Appears to provide benefit for Baa3-rated project finance structure •Important to consider more restrictive covenants insurer may require
	Debt Service Reserve Fund	•Only required for project revenue approach, sized to MADS •May be reduced if UCSF component is backed by non-cancelable lease	•Fully funded DSRF at MADS •Surety likely difficult to obtain and expensive	•Not necessary for lease revenue bonds but required for project revenue bonds with preference for cash funding	•Fully funded at MADS	•Recommended at MADS, but may be able to fund only 75% at closing and fund remainder with excess cash flow	•Fully funded, but will explore possibility of less than full funding with bond proceeds	•Does not believe DSRF needed under master lease scenario •Needed under other scenarios	•Fully funded at MADS •At least 75% funded from proceeds with ability to use a surety	•Fully funded at MADS	•Required •Surety could replace a portion of a DSRF, but likely cost prohibitive at this time
	Other Considerations	•Willing to provide construction period financing, but no terms suggested	•Willing to offer a bank loan as interim or long-term financing if desired, but no details •Suggests alternative "proprietary" P3 approach; will provide details if College is interested	•Offers possibility of construction financing combined with forward issuance of long-term bonds; no discussion of pricing premium for forward issuance	•Likely to be one of the larger student housing transactions in 2019 or 2020		•Believes it is possible to demonstrate financing is off credit, but will be challenging	•Utilize CAPI for 4-6 months after completion		•Utilize CAPI for at least six months after completion •Explore shorter than 10-year call features	•Highlights two recent CA student housing transactions it managed where ratings were maintained despite large debt increases
III. Cost	Average Takedown	\$3.00	\$4.50	\$6.25	\$3.58	\$3.75	\$4.50	\$2.75	\$2.97	\$8.75	\$5.50
	Management Fee	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00	\$0.00	\$0.23	\$0.00
	Expenses	\$0.78	\$0.25	\$0.38	\$0.57	\$0.36	\$0.42	\$0.26	\$0.33	\$0.38	\$0.10
	Total Underwriting Fee	\$3.78	\$4.75	\$6.63	\$4.15	\$4.11	\$5.92	\$3.01	\$3.30	\$9.35	\$5.60
IV. Other	Underwriter Counsel	Not specified	Not specified	Not specified	Not specified	Not specified	Stradling Yocca Carlson & Rauth	Not specified	Not specified	Not specified	Not specified
	Underwriter Counsel Cost	\$175,000	\$30,000	\$75,000	\$100,000	\$65,000	\$75,000	\$30,000	\$50,000	\$75,000	\$100,000
	Unique Marketing Features	•Recommends separate retail period with some limits placed in order to preserve institutional interest •Will target Separately Managed Accounts (SMAs)	•Prioritize retail during general order period, but likely do not have a separate retail order period	•Emphasize differences between the College and high profile troubled student housing projects that are negatively impacting student housing deals •Evaluate appropriateness of retail order period close to pricing	•Has in-house Private Wealth Management Group that would help market bonds •Evaluate separate retail order period closer to pricing	•Live investor meetings in New York and Boston and possibly Chicago, Philadelphia, and/or San Francisco •Evaluate separate retail order period closer to pricing	•Recommends retail order period	•Will evaluate retail order period based on market conditions and rating	•Target investors whose UC student housing holdings appear light compared to their total student housing holdings •Launch education campaign to bring California Separately Managed Accounts and life insurance companies into the student housing space	•Focus on institutional investors •Will evaluate retail order period based on market conditions and rating	•Does not feel separate retail order period would be warranted •Large retail distribution network: 14,988 advisors in 3,638 offices nationwide; 1,942 advisors in 615 offices in CA
Other Considerations			•May be willing to make early anchor investment in the bonds •Management fee requested if financing takes longer than expected •Fees lower under lease revenue structure	•Fees are estimated based on aggregate fees and cash flows provided; takedowns range from \$2.00 to \$3.75 depending on the maturity	•Fee assumes JPMorgan is senior manager and gets 70% of economics	•Underwriter's counsel could complete disclosure documents for additional \$50,000	•Expects credit impact for UCSF; need to confirm exact involvement of UCSF	•Experience with EdR/Greystar •Pricing assumes minimum ratings of Baa3/BBB- and 70% of economics to Raymond James	•Underwriter's counsel could complete disclosure documents for additional \$50,000	•Expenses do not include underwriter counsel •Takedown reflects Baa3 rating; would be \$4.50 at Baa1 or \$3.50 at A3	

ACTION ITEM

- 1. REPORT BY:** Chief Financial Officer David Seward
- 2. SUBJECT:** Predevelopment Budget - Long Range Campus Plan
Nonstate Budget Change

3. RECOMMENDATION

That the Board of Directors approves the attached 2018-19 nonstate budget change for the Long Range Campus Plan.

4. BACKGROUND:

Requested is a mid-year budget augmentation of \$410,000 of non-state funds allocated from the Hastings-Digardi-Hall account in furtherance of the Long Range Campus Plan. The primary reason for the change from the beginning budget is due to the adoption of a tax exempt financing model for the campus housing projects at 198 McAllister/50 Hyde Street Annex and 100 McAllister. Under the initial planning assumptions, certain UC Hastings predevelopment costs (e.g., legal, real estate advisory services, etc.) would have been borne by the developer. Under the tax exempt model, these costs are initially borne by UC Hastings and then reimbursed at financial close from bond proceeds.

Assuming approval of this allocation, the cash balance of the Hastings-Digardi-Hall account is projected to close the year with an ending balance of \$915,583 (based on market values as of 06/30/18; excluding \$1,357,844 balance of advance to be repaid from Building UC Hastings donations).

5. PROPOSED RESOLUTION:

That the Board of Directors approves the attached 2018-19 mid-year nonstate budget change of \$410,000 for the Long Range Campus Plan from the Hastings-Digardi-Hall account.

Attachment:

- UC Hastings – Budget Summary Mid-Year 2018-19

NONSTATE: Hastings Digardi Hall

Long Range Campus Plan

Account: 09-35150

	<u>Initial Budget</u>	<u>Mid-Year Revised</u>	<u>Change</u>	<u>Vendor</u>	<u>Notes</u>
Investment Income	(25,000)	(25,000)	-		
Fund Payout	(137,197)	(137,197)	-		
Other Revenue	(250,000)	(250,000)	-	Greystar	Deposit to offset pre-development costs.
Total Revenue	\$ (412,197)	\$ (412,197)	-		
Consulting Services					
- Financial Advisor	10,000	50,000	40,000	Public Financial Management	Reimbursable from bond proceeds.
- Visual Identity Development	44,000	44,000	-	SOM	C&D and External Affairs contract split
- Seismic Review	25,000	55,000	30,000	Telesis	Reimbursable from bond proceeds.
- Real Estate Consulting	187,248	165,000	(22,248)	Economic Planning System:	Reimbursable from bond proceeds.
			-		
CEQA Environmental Monitoring - 333 GG	-	70,000	70,000	TRC Environmental	
			-		
Legal Services					
- Land Use & Entitlements	30,000	20,000	(10,000)	Reuben & Junius	Eastblock - Local 2
	-	20,000	20,000	Reuben & Junius	Reimbursable from bond proceeds.
- Pre-Development Agreement	150,000	400,000	250,000	Gibson Dunn	Reimbursable from bond proceeds.
	-	25,000	25,000	Gibson Dunn	YMCA. Reimbursable from bond proceeds.
Printing & Reprographics	5,000	1,107	(3,893)	Business Center	
Events	5,000	5,000	-		RFP events and other presentations
Project Stipend	7,500	7,500	-		Payroll costs - stipend (50%)
Endowment Fee	11,039	11,039	-		
Transfer to Kane Hall Project	1,581,709	1,592,409	10,700		Technical adjustment.
Total Expenses	\$ 2,056,496	\$ 2,466,055	409,559		
Net Change to Fund Balance	\$ (1,644,299)	\$ (2,053,858)	(409,559)		

ACTION ITEM

- 1. REPORT BY:** Chief Financial Officer David Seward
- 2. SUBJECT:** Other Contracts in Excess of \$50,000
- 3. RECOMMENDATIONS:**

That the Board of Directors authorize award of the 2018-19 contracts in excess of \$50,000 as described in this report.

Item: *3.3.1
Title: Security Services
Vendor Name: UCSF Police Department
Cost: \$117,033.00
Term of Contract: One-time agreement

Description:

Authority is requested to amend the contract with the UCSF Police Department to cover costs associated with supplemental services, specifically, foot patrols of the campus perimeter by a dedicated security guard for two shifts, one early morning and the other in the evening hours.

Item: *3.3.2
Title: McAllister Tower – Furniture Rental
Vendor Name: Cort Business Services
Cost: \$70,500
Term of Contract: One-time agreement

Description:

Authority is requested to enter an agreement with Cort to rent apartment furniture to support the rental of excess units in June 2019 to dance students attending a summer program sponsored by Alonzo King's Lines Dance Studio. The cost is fully recovered in room rental revenues.

4. PROPOSED RESOLUTION:

That the Board of Directors authorize the 2018-19 contracts in excess of \$50,000 listed below:

*3.3.1 Security Services - UCSF Police Department	\$117,033.00
*3.3.2 McAllister Tower – Furniture Rental – Cort Business Service	\$70,500.00

REPORT ITEM

1. **REPORT BY:** Chancellor and Dean David Faigman
2. **SUBJECT:**
3. **REPORT:** (Oral)

SPECIAL MEETING - BOARD OF DIRECTORS

ACTION ITEM:

***5. ADJOURNMENT**

The meeting was adjourned at ____:_____