

MINUTES

BOARD OF REGENTS COMMITTEE ON PLANNING AND FACILITIES MEETING

MARCH 5, 2020

I. CALL TO ORDER

Chair Moore called the meeting to order at 10:52 a.m. on Thursday, March 5, 2020, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai'i 96822.

Committee members in attendance: Chair Randy Moore; Vice-Chair Alapaki Nahale-a; Regent Eugene Bal; Regent Wayne Higaki; and Regent Jan Sullivan.

Others in attendance: Board Chair Ben Kudo; Regent Simeon Acoba; Regent Kelli Acopan; Regent Michelle Tagorda; Regent Robert Westerman; Regent Ernest Wilson Jr. (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; VP for Community Colleges Erika Lacro; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Academic Planning and Policy Donald Straney; VP for Research and Innovation Vassilis Syrmos; VP for Information Technology/Chief Information Officer Garret Yoshimi; VP for Budget and Finance/Chief Financial Officer Kalbert Young; UH Mānoa (UHM) Provost Michael Bruno; UH Hilo (UHH) Chancellor Bonnie Irwin; UH West O'ahu (UHWO) Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES OF THE DECEMBER 5, 2019 MEETING

Regent Higaki moved to approve the minutes of the December 5, 2019, meeting, seconded by Regent Bal, and noting the excused absence of Regent Sullivan, the motion carried, with all members present voting in the affirmative.

Regent Sullivan arrived at 10:53 a.m.

III. PUBLIC COMMENT PERIOD

Board Secretary Oishi announced that the Board Office did not receive any written testimony, and no individuals signed up to provide oral testimony.

IV. AGENDA ITEMS

A. Fiscal Year (FY) 2019-2020 Second Quarter Capital Improvement Project (CIP) Status Report as of December 31, 2019

VP Gouveia provided a brief report on the status of CIPs through the second quarter of FY 2019-2020 stating that the report encompasses construction projects with budgets in excess of \$5 million and design projects in excess of \$1 million. She stated there are 15 active construction projects noted in the report, four of which have been completed

pending finalization and four projects that are at least 90% complete. The report also contains seven design projects with construction contracts slated to be awarded by June 30, 2020, for four of the projects. At present all projects are moving forward as planned with no significant issues being experienced. However, two shortcomings have been discovered with respect to two design-build projects contained in the report – the Bachman Hall renovation project and the Culinary Institute of the Pacific Project. VP Gouveia noted that the shortcomings were mainly related to the way information in the report was presented. In both projects, the design-build method being employed involves the retaining of a request for proposal (RFP) criteria consultant that assists the administration in formulating the criteria packet used to issue the design-build contract. However, the work conducted by the RFP criteria consultant is a bridge process that is technically not considered part of the design process or part of the construction process. As such, in the case of the Bachman Hall project, the \$400,000 criteria consultant fee was not included in the report.

Similarly, the criteria consultant fee of approximately \$2 million for the Culinary Institute of the Pacific project was not included in the second quarter CIP report. However, VP Gouveia remarked that this project was slightly unusual in that it also involved a phasing process. She explained that the original design for the project was very elaborate and included a host of amenities that increased expenses beyond the amount budgeted for the project. The project had to be redesigned and resized, facilities had to be relocated, and changes had to be made to the site plans. As a result, additional and more extensive RFP criteria consultant work became necessary causing an increase in consultant fees. VP Gouveia noted that this was an unusual situation and that consultant fees were not typically this high. She also stated that the funds for this project were only released by the Governor in December of 2019 and the administration is working expeditiously to award a construction contract for this project prior to June 30, 2020, when the appropriated funds are scheduled to lapse.

VP Gouveia remarked that the administration was not certain if RFP criteria consultant fees should be included in the quarterly CIP reports but that it was her belief that they should. Chair Moore opined that if these fees are part of the overall project budgets then they should be included in the report. VP Gouveia agreed and stated that the next CIP quarterly report will contain these figures.

Regent Wilson asked whether the report could include timeframes for the completion of each phase of a CIP project and their associated costs. VP Gouveia replied that it is possible but a little difficult when the design-build methodology is used as there is a certain amount of timeline uncertainty in this process. Once a construction contract is issued however, reporting of more certain timeframes becomes more feasible. She noted that the administration would do its best to include associated costs for the different phases of a project in the report.

Regent Higaki questioned what the RFP criteria consultant fee was for the Bachman renovation project and whether the fee was based on industry standards. VP Gouveia responded that the fee for the RFP criteria consultant on the Bachman renovation project was \$400,000 and that it was based on standard fees used by the industry.

Chair Kudo requested the total cost for the Culinary Institute of the Pacific project. VP Gouveia replied that the total cost for the project was \$30 million. Chair Kudo questioned why the funds for this project were only released by the Governor in December. VP Gouveia replied that a number of conditions were placed on the funding for this project. President Lassner added that the release of state funding for this project was conditioned upon the university raising \$10 million in matching funds, which caused delays. Chair Kudo requested clarification on whether the \$30 million for the project needed to be under contract prior to June 30, 2020. VP Gouveia replied in the affirmative.

B. Annual Report on Real Property Actions Delegated by the Board of Regents

VP Gouveia presented the annual report on real property actions delegated to the administration by regent policy explaining that all transactions involving real property, such as rental of state facilities for commencement ceremonies and rent paid for use of athletic venues, that are greater than five years in duration require board approval. As such, the report contained a list of all transactions involving real property that were less than five years in duration. A total of 65 transactions were included in the report, with 58 of those transactions having a duration of less than a year; one transaction having a duration of two years; and six transactions having a duration between two and five years. The total dollar value of all the transactions was just over \$800,000.

Chair Moore expressed his opinion, and committee members concurred, that regent policy might need to be amended to change the parameters for the projects that need to be reported so that minor transactions do not need to be included.

C. University Land-Related Strategic Initiatives and Partnerships Program FY 2019-2020 Second Quarter Update

VP Young presented updates on the UHWO University District, Atherton, NOAA Graduate Housing, and Kaimuki/Leahi Hospital Parcel P3 projects. He noted the following:

- UHWO - University District Project: This project, which is a project that seeks to develop a university village on lands adjacent to the UHWO campus, is currently in limbo. An exclusive negotiations agreement that was signed with Hunt Development Group and Stanford Carr Development expired on August 15, 2019, with negotiations reaching an impasse over terms of a master development agreement. The administration is reevaluating this project and determining how to proceed on a restart of the project. VP Young stated that the trajectory of this project may also change if a bill that provides \$200 million for infrastructure development in the area currently before the State Legislature is approved. He also noted that this project differed from potential development projects on adjoining property related to rail or the State film studio.
- Atherton Project: This project, which focuses on innovation space and student housing and is being undertaken under a partnership with the UH Foundation (UHF), is currently in the value-engineering design phase which will scale the

project to a budget plan and is moving forward as projected. UHF is currently working on refinancing the mortgage on the property and is also negotiating with the administration on converting the existing lease to an equity-share arrangement. Preconstruction site work was started in November of 2019 and Hunt Development Group is expected to submit a draft environmental assessment to the City and County of Honolulu Department of Planning and Permitting (DPP) this month. The Hunt Development Group has begun the entitlement process and is continuing community outreach efforts. The administration is anticipating completion of bond financing transactions once the entitlement process is complete.

- NOAA Graduate Student Housing Project (NOAA Project): This project, which is a housing project located near the East-West Center, is just beginning. The administration is awaiting board approval for the ability to negotiate a pre-construction agreement (PCA) with Greystar Development Services, LLC (Greystar) under which the university would agree to reimburse Greystar for pre-construction costs it incurred for architectural, engineering, and other services for the project, if the project failed to proceed.
- Kaimuki/Leahi Hospital Parcel Project – This project is currently evaluating the possible disposition of three parcels of university-owned land (6.56 acres) in the Kaimuki area adjacent to Leahi Hospital. Disposition may take the form of a fee-simple sale or long-term ground lease with a developer. The administration has contracted CBRE, Inc. to prepare real property appraisals of the fair market value of the fee-simple interests in the parcels and may award a contract to a contractor to conduct an environmental site assessment and hazardous materials survey that includes estimated costs for structure demolition and abatement work.

Board Chair Kudo expressed his sentiments that the Kaimuki/Leahi parcels not be sold noting his belief that they are very suitable for redevelopment.

Regent Acoba asked VP Young to briefly explain the equity share arrangement between UHM and UHF for the Atherton Project in more detail. VP Young responded that under the current lease agreement with UHF which has been in place since 2016, UHM is responsible for paying all of the carrying costs for the property, e.g. property tax, mortgage costs, debt service, and insurance. In the equity share arrangement that is presently being negotiated, the funds contributed by each of the public partners for the Atherton Project will be recognized as their share of equity in the project. As the project moves forward and begins to generate revenues, the equity share arrangement will allow for net revenues to be divided between UHF and UHM based upon their equity in the project.

Regent Acoba inquired as to what DPP considered to be a major modification to the UHM Long-Range Development Plan (LRDP) for the Atherton Project. VP Young explained that “major modification” is a term DPP uses for amendments to the LRDP. The city-approved LRDP for UHM is somewhat dated and the university is in the process of updating it to include the Atherton property, which it currently does not

include. DPP considers this addition to be a major modification of the UHM LRDP that would require approval from the Honolulu City Council. Obtaining this approval involves an extensive and lengthy process (six months to a year to complete) which the university has already initiated.

D. NOAA Redevelopment Project Contract

VP Young stated that the administration was requesting the committee to recommend board approval for the administration to enter into a PCA of up to \$2,407,199 with Greystar, UHM's development partner for the NOAA Project, which will allow Greystar to begin engaging in pre-construction work to provide architectural, engineering, and other services for the project, including entitlement work and a market demand study, through the end of this calendar year. The administration will seek board approval for the disposition of any additional funds that extend beyond the end of the calendar year. VP Young explicitly noted that the PCA funds were being advanced by Greystar and that any pre-construction costs it incurred for architectural, engineering, and other services for the project would be reimbursed by the university if the project failed to proceed. The NOAA Project currently remains on schedule with completion and occupancy anticipated in August 2023.

Regent Sullivan asked why the advances contained in the PCA are subject to a minimum payment of 6% interest when interest rates are currently decreasing. VP Young explained that the terms of the PCA were negotiated toward the end of 2019 and that current interest rates were not anticipated. He further noted that the interest rate used is consistent with similar projects at other universities and that the risk exposure for the university is only if the NOAA Project does not proceed beyond close.

Regent Acoba requested clarification on the cost of the NOAA Project, how it would be funded, and whether the university would be liable for project costs. VP Young explained that the forecasted cost of the NOAA Project was \$130 million, would be funded using project revenue bonds issued by a national housing developer with proceeds from the sale of the bonds being used to reimburse the developer, and that the university would not be liable for the payment of debt service on the bonds since it was not issuing the bonds. Regent Acoba inquired as to what the ramifications for the project would be if the board authorized approval of only a portion of the funds presently being requested for the PCA. VP Young replied that it would only affect the timing of when the administration would need to return to the board to seek additional approval which may result in additional time for the project to reach completion.

Stating his concerns regarding the need for the NOAA Project, Regent Acoba asked whether any evidence exists proving that graduate student housing is needed at UHM. VP Young stated that the university is currently proceeding with this project based upon anecdotal evidence which is why conducting the market demand study contained within the PCA was critical. Regent Acoba queried if the market demand study could be completed if the board decided to reduce the amount of funds the administration is currently requesting for the PCA by half. VP Young responded that he believed it would. He noted, however, that Greystar will need to conduct a number of studies for the NOAA project, such as site studies, in addition to a market demand study and so the

university would have to prioritize what studies it wanted completed if the board reduced funding for the PCA from what was currently being requested.

Regent Acoba posed additional inquiries regarding financial issues for the NOAA project including whether the development fee begins to accrue as soon as the administration signs the PCA, if the university would be liable for the development fee if the NOAA project was terminated, and what the sources of funds would be to make these payments. VP Young replied that the development fee will start to accrue as soon as an agreement is signed, that the university will be liable for development fees if the project is terminated, and that the administration would have to identify a source of funding within UH to make these payments.

Regent Higaki asked whether the bonds anticipated to be issued for this project were special purpose revenue bonds (SPRBs) and whether the developer is required to obtain financial backing for the SPRBs. VP Young responded that the NOAA Project is one-hundred percent project financed, with a housing type of revenue bond issued by a national housing non-profit bond issuer and Greystar securing repayments to the bond purchasers.

Stating that the current terms of the PCA restricts use of the housing portion of the NOAA Project to UH-affiliated individuals, Board Chair Kudo suggested that the administration consider building flexibility in the PCA that would possibly allow for the units to be rented to persons not affiliated with UH at market value and that perhaps the market demand study can look at that as an option. He expressed his belief that this flexibility would provide the university with tenant options should there not be sufficient numbers of UH-affiliated individuals to occupy all of the units. VP Young responded that the university would prefer that only UH-affiliated persons have tenancy in the facility, although the private developer would probably prefer tenancy to be open to anyone. The market demand study will show if demand for this project is sufficient and if it is not, the possibility exists for cascading levels of tenancy, with some amount of non-UH affiliated fair market rental units to be negotiated as the project evolves.

Regent Moore asked whether UH-affiliated individuals included students from the community colleges. VP Young responded in the affirmative.

Regent Sullivan moved to recommend board approval for the administration to enter into a PCA of up to \$2,407,199 with Greystar, seconded by Regent Higaki, and the motion carried with all members present voting in the affirmative.

E. Future Status of the Planning and Facilities Committee

Chair Moore expressed his belief that, rather than each committee determining the status of its own future, the most impartial method of addressing this issue would be to charge the Committee on Personnel Affairs and Board Governance with reviewing and making recommendations on the future status of all of the various committees of the board. Board Chair Kudo and all committee members concurred.

V. ADJOURNMENT

There being no further business, Regent Higaki moved to adjourn, seconded by Regent Sullivan, and with all members present voting in the affirmative, the meeting was adjourned at 11:46 a.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents