

**MINUTES  
UNIVERSITY OF HAWAI'I BOARD OF REGENTS'  
SPECIAL MEETING OF  
March 30, 2005**

**I. CALL TO ORDER**

The meeting was called to order by Regent Alvin A. Tanaka on Wednesday, March 30, 2005 at 2:15 p.m. in Room DA 105, Leeward Community College.

**Attendance**

Present were Regents Andres Albano, Jr., Byron W. Bender, Ramón S. de la Peña, James J. C. Haynes II, John K. Kai, and Trent K. Kakuda; Interim President David McClain; Executive Administrator and Secretary of the Board David Iha; and Executive Assistant Carl H. Makino. Regents Lagareta, Tatibouet and Yamasato were excused. Chairperson Lee recused herself due to a possible conflict of interest.

Also present were Mr. Walter Kirimitsu, University General Counsel; Mr. Sam Callejo, Vice President for Administration; Ms. Jan Yokota, Director, Capital Improvements Office; Dr. Carl-Wilhelm Vogel, Director, Cancer Research Center of Hawai'i; Mr. Sanford Murata, Sanford Murata, Inc.; Ms. Frances M. Choun, Vice President, McCarthy Building Companies; Mr. Jeffrey S. Nakamura, Project Architect, Architects Hawai'i, Ltd.; Mr. Dennis Townsend, Chairman, and Mr. Louis O. Kiang, Vice President, Townsend Capital, LLC; and Mr. Doss Mabe, Design Partner, Zimmer Gunsul Frasca Partnership.

**Selection of a Developer for the Cancer Research Center of Hawai'i**

President McClain recommended the selection of Townsend Capital, LLC as the developer for the real estate development agreement for planning, design, and construction of the Cancer Research Center of Hawai'i project in Kaka'ako. He explained that the recommendation was the result of examining the qualifications of a number of firms who had expressed interest in doing this project for the University.

The timing of this relates to conditions stipulated by the Hawai'i Community Development Authority (HCDA) and the particular parcel of land that relates to this project. HCDA had asked the University to select a developer with whom to enter into negotiations by the 1<sup>st</sup> of April and to that end, the University issued a request for qualifications (RFQ) and followed it up with a request for proposals (RFP) for interested parties. President McClain commented that Townsend Capital, LLC appears to be an experienced firm, particularly in the financing area and had put together a terrific team of architects and contractors.

Director Yokota added that the vision for this project is to build a comprehensive cancer center, one where research and patient treatment can be

done in the same building, so that the latest research findings can be brought to patients who are being treated and, in turn, experiences with patient care can be incorporated into ongoing research. The goal is to bring to this community the best possible care for cancer patients, while enhancing and building upon the high level of cancer research currently being conducted in the State.

This is just the first of a series of steps toward development of the Cancer Research Center project. Upon approval, the University will enter into negotiations with Townsend for a comprehensive real estate development agreement that will include planning, design, financing, construction and management of the project. The University has sixty days to negotiate this agreement, although it can be extended. The agreement will include the following terms:

- The nature of the University's business relationship with Townsend (who will own the project and whether the University will lease all or a portion of the project);
- Alternatives for phasing of the project;
- Time schedule of important activities to accomplish and determine who will be responsible for accomplishing these activities;
- Roles and responsibilities of project participants and of individuals assigned to the project;
- Project management structure;
- Deal structure, including preliminary space lease and financing terms;
- Sources and uses of front end costs;
- Identification of debt and equity financing sources;
- Conceptual design alternatives and their cost implications; and
- Potential obstacles to the project.

At the same time, the University will be working with Townsend to do the following:

- Negotiate ground lease and development agreements with the Hawai'i Community Development Authority (HCDA) by July 31, 2005;
- Prepare a business plan for the clinical portion of the Cancer Research Center, together with the selected consultant; and
- Prepare a strategic action plan for the Cancer Research Center project.

Because of the multiple agreements involved, the timing and sequencing of these activities may be challenging, particularly since the business plan for the clinical portion will not be completed until September 2005.

It may be difficult to complete the real estate development agreement between the University and Townsend without completing the business plan for the clinical part of the project. Therefore, one possibility is that instead of asking the Board of Regents to approve a real estate development agreement between the University and Townsend in the next sixty days, the Board of Regents could be presented with a framework with basic terms for the real estate development agreement. After completion of the business plan for the clinical portion of the project which is to be done in September, the final development agreement which would include several financing and cost alternatives would be brought to the Board for approval.

Negotiation of the ground lease and development agreements with HCDA can and should take place within the time frame established, because this will set the ground lease rents for the project.

All of the legal agreements (such as the real estate development agreement between the University and Townsend, as well as the ground lease and development agreements with HCDA) will come to the Board for review and approval during the next few months. She added that the completed business plan for the clinical portion will come to the Board for approval as well.

In provided some background on the process, Director Yokota explained that the project began in July of 2004, when this public/private partnership concept to build the Cancer Research Center was first conceptually approved by the Board. In October, the Board approved the initiation of a two-step process:

- First, to seek qualified development teams through a Request for Qualifications process where interested firms were asked to submit their financial and development qualifications for the project;
- Second, to cull this list to a short list of the most qualified development teams who would be asked to submit full proposals as to how they would design, build and finance the project.

In December of last year, the University issued the RFQ, held two informational meetings for interested developers and, in early January, fifteen submissions were received from highly qualified development teams from across the country.

In early February of this year, based on an evaluation of the qualifications submitted, a short list of five companies was developed. A Request for Proposals was issued and invitations were extended to these five development teams to respond. Three development teams submitted proposals by the deadline, which was in mid-March.

Both the Statements of Qualifications submitted by the fifteen development teams and the proposals were reviewed and evaluated by an Evaluation Committee. The Committee that reviewed the proposals was composed of the following University officials: Interim President David McClain; Jim Gaines, Interim Vice President for Research of the University of Hawai'i system; Gary Ostrander, Vice Chancellor for Research, University of Hawai'i at Mānoa; Kathy Cutshaw, Acting Vice Chancellor for Administration and Finance, University of Hawai'i at Mānoa; Carl-Wilhelm Vogel, Director, Cancer Research Center of Hawai'i; and Duff Zwald, Director, Office of Procurement and Real Property Management, University of Hawai'i system.

The RFQ/RFP process offered several advantages, including the following:

- To help find, in the most comprehensive and thorough way, the best and most qualified long-term partner for the Cancer Research Center of Hawai'i project.
- To have several well-qualified developers propose to the University, based on their own experiences and assessments of the project, comprehensive development strategy plans that included land feasibility studies, conceptual drawings, financial pro forma,

investment analyses and financial alternatives. This process gave the University three viable, strong, alternative proposals for its review.

The proposals received from the three developers offered several alternative means of financing the project and offered options ranging from the University owning the entire project to the developer owning and managing the project, with the University paying lease rent for only the portions it needed, such as the research space. These options will be analyzed over the next few months with the developer to determine which alternative works best in the short and long term for the University.

Mr. Murata said it was clear that this would be the first private/public partnership initiative in recent times. It is a first life science cluster development for the University in the State. It is one of the first, if not the first, development of a public research and clinical facility for a public university with private funds, potentially to be owned by a private entity. He said that it was the first RFQ/RFP process for a development of a facility that is going to be occupied in or perhaps owned by a university or by someone else. He said that being that this a pioneering effort, there are no templates to follow. This is a very complex project and difficult to lay down a frame. There are public institutions doing it for themselves but not with a developer.

As consultant to the selection process, Mr. Murata said that his objectives were to identify a team that is creative, nimble, and steadfast and has a sound problem-solving process. He also intended to identify the developer and team that could work intuitively and collaboratively with the University and HCDA and other decision-makers and stakeholders. To this end, he found that Townsend, a privately-held real estate investment firm headquartered in Baltimore, Maryland had successfully developed, financed and owned projects of comparable scope, complexity and scale. Townsend's comprehensive development team consists of highly-qualified national and local firms which have extensive experience in the programming, design, development and construction of buildings that support state-of-the-art cancer research and clinical care. The executive leaders of Townsend and its development team, as well as individuals assigned to the project, are highly qualified and experienced and fully committed to the project. Townsend's cogent and detailed description of its development management approach and services indicate that it has the knowledge and capability to develop the project. In addition, Townsend's approach and process indicate an attitude of collaboration and partnership with the University for conceptualizing and implementing the project. Townsend's response to the expected contract provisions expressed in the RFP appears to be reasonable and negotiable. Townsend proposed to complete the project by the University's desired completion date of the end of 2008. Its preliminary time schedule reflects a realistic, practical and flexible phasing approach to the project's development and construction.

Townsend submitted the conceptual design information and drawings and optional scale model requested in the RFP. Its planning and design concept reflects the soundness and depth of experience that its design, technical and planning team, Zimmer Gunsul Frasca Partnership; Architects Hawai'i, Ltd.; and GPR Planners Collaborative, Inc., have with respect to comprehensive cancer centers and about the Kaka'ako site. The design team expressed a complete willingness to engage in a full collaboration with the University to plan and design a facility that satisfies the University's building and economic criteria. He added that

Townsend's general contractor, McCarthy Building Companies, Inc. (McCarthy), was founded in 1864 and is one of America's oldest privately-held construction firms.

Townsend submitted a conceptual financial pro forma which indicates that the proposed project is financially feasible to undertake. Townsend proposes to develop, own and manage the project and presents three alternatives to the University to lease all or the major components of the project. Townsend provided a description of the potential funding and financing arrangements for the project which appear to be realistic and achievable given current and forecasted financing market conditions. In support of its project viability analysis, Townsend described its marketing and leasing plan, which appears to be well-conceived and appropriate.

A succinct and easy to understand basic transaction structure, which addresses the University's objectives and desire to have the project developed according to its specifications and for the Cancer Research Center to occupy the research portion on a long-term lease basis with the option of purchasing part of all of the completed leasehold improvements, was submitted. Townsend's "open book" approach uses a fixed return on investment to determine the value of its interest in the project.

Mr. Murata concluded that Townsend's superior and well-organized submittals offered in response to the RFQ and RFP amply demonstrate the depth of its interest in and commitment to the project, the excellence of its team members, and its willingness to work closely and collaboratively with the University to fulfill the University's requirements and objectives. The due diligence results conducted by the University's consultant confirm the representations made by Townsend and its team members. Representatives of the banks and lenders that have financed some of Townsend's projects confirmed positive relationships with Townsend, including Townsend's ability to arrange financing for its projects and fulfill its financial commitments.

Regent Bender asked if the other two finalists were subjected to similar background checks through the process. Mr. Murata responded that the same process was used but not as in-depth as Townsend. He said that when the Selection Committee selected Townsend, his efforts were even more to concentrate on Townsend. However, he said that generally speaking, the three that were interviewed were all top-notch and good quality. He didn't find anything negative on the other two teams.

Regent Albano inquired about the financing plan for the project. Mr. Townsend said that many factors would come into play in determining the final course of financing. For example, the University's willingness to enter into a long term lease and its ability to come up with some of the financing would serve to formulate a plan a certain way. Mr. Townsend further assured Regent Albano that the entire project could be funded exclusively through private sources. Further, in response to Regent Haynes, Director Yokota informed that the ground lease had not been determined as yet and that would occur when a developer was selected. Negotiations will begin with HCDA. Regent Haynes added that any conflicts of interest must be fully disclosed.

Regent Tanaka asked if the operating costs could be managed by the Cancer Research Center as this project moves forward. Director Vogel said that currently the Cancer Research Center brings in more money to the university than it costs to operate. It also pays for the entire cost of operating the building on Lauhala Street

including pest control, landscaping, electricity, telephone system, and replacing the elevator system. He said there has been a significant growth in cancer research funding here in Hawai'i and across the country. The National Cancer Institute has an annual budget of \$4.7 billion and, of course, there are equally large numbers from the pharmaceutical industry and other non-profit organizations to support that effort. He said that he thought operating costs would not be a problem. However, he said that the Cancer Research Center currently has a ground lease for twenty years and the facility was built predominantly with matching funds from the National Cancer Institute and, therefore, no rent was necessary. Regent Tanaka said the financial plan should address the Board's concern that the financing of the Cancer Center must not take away financial resources from other units throughout the system.

Director Vogel said that the Cancer Research Center already has \$10 million in its budget for the design of the Cancer Research Center building and a commitment from U. S. Senator Dan Inouye and the congressional delegation to continue this funding through the federal budget.

Regent Haynes moved to authorize the University administration to enter into exclusive negotiations for a real estate development agreement with Townsend Capital, LLC to develop the Cancer Research Center of Hawai'i project in Kaka'ako with the understanding that legal agreements negotiated will be submitted to the Board for approval. Regent de la Peña seconded the motion which was unanimously carried.

## **II. ADJOURNMENT**

There being no further business before the Board, the meeting was adjourned at 3:22 p.m.

Respectfully submitted,

David Iha, Executive Administrator  
and Secretary of the Board