

**NON-BINDING TERM SHEET
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA AND
CITY AND COUNTY OF SAN FRANCISCO
FOR GROUND LEASE OF B/C LOT AT THE PRISCILLA AND MARK ZUCKERBERG
SAN FRANCISCO GENERAL HOSPITAL AND TRAUMA CENTER CAMPUS**

The Regents of the University of California, on behalf of its San Francisco campus ("UCSF") has been affiliated with the Priscilla and Mark Zuckerberg San Francisco General Hospital and Trauma Center ("SFGH") since 1873. Today, faculties from all four UCSF professional schools work at SFGH, where they provide patient care, conduct research and teach. All physicians at SFGH hold UCSF faculty appointments, and SFGH serves as a major teaching hospital for UCSF residents and fellows.

This Term Sheet is a general statement of certain basic economic parameters and other fundamental terms that will serve as the basis for negotiating a ground lease between the City and County of San Francisco ("City") and The Regents of the University of California ("the Regents") of a portion of SFGH campus known as the B/C Lot for the development, ownership and operation of a research facility by the Regents (the "Research Facility"). The SFGH campus is under the jurisdiction of City's Department of Public Health ("DPH").

The Parties understand that the proposed Research Facility and related ground lease (collectively, the "Project") will continue to evolve throughout the public review process. All Project approvals by the City and the Regents, including approvals for the Research Facility and the ground lease, are subject to completion of environmental review, including identification of a full range of appropriate alternatives and mitigation measures under the California Environmental Quality Act ("CEQA"). In order to comply with CEQA and give the public the opportunity to be aware of the environmental consequences of any contemplated actions with respect to the Project and to fully participate in the CEQA process, the City and the Regents retain the absolute and sole discretion to (i) modify the transaction, create and enter into transactional documents, and modify the Project as may, in their sole discretion, be necessary to comply with CEQA, (ii) consider and select other feasible alternatives to avoid any significant environmental impacts as may be required by CEQA, (iii) balance the benefits of the Project against any significant environmental impacts before final approval by the Regents and the City if such significant impacts cannot otherwise be avoided, and/or (iv) determine not to proceed with any contemplated actions with respect to the Project. No legal obligation will exist unless and until the Parties have negotiated, executed and delivered mutually acceptable agreements based upon information produced from the CEQA environmental review process and other public review and hearing processes, subject to all applicable governmental approvals. In addition, under the San Francisco Charter, no officer or employee of the City, including the Department of Public Health and the Public Health Commission, has authority to commit the City to the approval of the Project until after completion of CEQA review and the San Francisco Board of Supervisors has approved the ground lease.

Subject to the foregoing paragraph, staff from the City and the Regents shall negotiate in good faith with a goal of completing negotiations on the lease ("Ground Lease") and related agreements by June 30, 2016, consistent with the following guidelines:

1. **Parties:** The Regents, as Ground Lessee, on behalf of its San Francisco Campus, and the City and County of San Francisco, municipal corporation, as Ground Lessor, on behalf of the San Francisco Department of Public Health (collectively the "Parties")
2. **Property:** The B/C Lot at the SFGH campus. The land area of the B/C Lot covered under the Ground Lease consists of about 51,475 square feet, more particularly shown

in Attachment 1 ("Premises")

3. **Research Facility:**

The Regents proposes to construct a research facility comprised of approximately 175,000 Gross Square Feet of space consisting of approximately sixty percent (60%) dry laboratory space and approximately forty percent (40%) wet laboratory space ("Research Facility"), together with certain required offsite improvements for the benefit of the SFGH campus and non-exclusive use by UCSF, which will be identified and agreed to by the Parties as the design for the Research Facility is finalized, which improvements may include items such as the creation of a campus street on the north side of the proposed research building, with circulation space, landscaping, a one-way eastbound driveway, and surface parking spaces that may be incorporated into the hospital's parking program, as well as relocation of a historic fountain from the site.

4. **Ground Lease Term:**

75 years, 24-year option to extend; option to be exercised during Ground Lease Years 65-69.

The Ground Lease will describe the commencement date, any pre-term obligations, and conditions to Ground Lessee's right to exercise the extension option.

5. **Rent:**

(Includes rent credit for Exchange Space described in item 6 below)

Base Rent:

\$180,000 per *annum*

Rent Escalation:

- Annual increase of 1.75%
- Years 21, 46, 61 reset to fair market rent pursuant to appraisals and baseball arbitration if required, with continuation of rent credit for Exchange Space
- Cap on resets: 5% per year, non-cumulative. Example: the reset at year 21 cannot increase more than 100% over the initial rent. (Reset after 20 years capped as 5% per year = 20 x 5% = 100%). Basis for the following resets of the rent cap will be premised on the intervening time frame since the prior cap adjustment (*i.e.*, Years 22-45 sets cap at Year 46, Years 47-60 sets cap at Year 61).

Extension Term:

Reset to fair market rent pursuant to appraisals and, if required, baseball arbitration. No credits for the Exchange Space or other offsets unless the credit or offset is approved by City's Board of Supervisors.

6. **Exchange Space Credit:**

City and the Regents are parties to Affiliation Agreement, dated August 1, 1994, describing certain of the responsibilities of the Parties at the SFGH campus. As contemplated by the Affiliation Agreement, to offset certain administrative costs incurred by the Regents at SFGH, UCSF occupies approximately 85,000 square feet of space on the SFGH campus for faculty research purposes, for which City charges no rent (the "Exchange Space"). Upon completion of the Research Facility, all of the Exchange Space provided on the SFGH campus will be moved from existing buildings into the Research Facility not later than a date to be specified in the Ground Lease, and the Base Rent set forth above takes into consideration a credit equal to the fair rental value of such Exchange Space.

7. **Parking Impact:**
Parking Contribution:

Development of the B/C Lot will result in loss of parking at the SFGH campus. The parking that would be displaced by the Research Facility is primarily patient parking. DPH believes that the San Francisco Municipal Transportation Authority ("SFMTA") may consider expanding the San Francisco General Hospital Parking Garage at 24th and Utah streets to provide replacement parking

for the B/C Lot (the "Garage Addition") if funds for such Garage Addition become available, and subject to environmental review under CEQA and other public review and hearing processes, and subject to all applicable governmental approvals. The Regents shall include the possibility of a Garage Addition in its CEQA review described in item 14 below.

The Regents will make a contribution to City, or as directed by City, in an amount mutually agreed to between the Parties that is equivalent to the cost of replacing the parking spaces lost by development of the B/C Lot. The timing for the Regents' contribution toward the lost parking will be established by the Parties in consultation with the party financing the development of the replacement parking, if applicable.

8. **Use of Lot; Use of Research Building:**

The Premises shall be used for the construction and management of the Research Facility, which will be used for teaching, research and public service, consistent with the Regents' constitutionally mandated mission, and in support of SFGH's mission to provide exceptional healthcare and trauma care with compassion and respect. The continuing priority of the Research Facility will be the recruitment and retention of SFGH clinicians. The types of research would include, *inter alia*, wet laboratories, clinical studies, and desktop activities such as public health research, epidemiology, population science, and disease prevention.

9. **Condition of Premises:**

Subject to the Regents' right to terminate the Ground Lease if remediation of hazardous materials or hazardous wastes of the site arising from the initial condition of the Premises at the Closing Date through completion of construction of the Research Facility exceeds Three Million Six Hundred Thousand dollars (\$3,600,000.00), "As-Is" in its present condition and subject to all existing conditions of title and applicable governmental regulations, without representation or warranty of any kind as to the suitability of the site for construction or subsequent use by the Regents, and subject to all applicable laws governing the use, occupancy, management, operation and possession thereof. The City shall have no responsibility for any condition of the site, including without limitation, the presence of any hazardous materials or hazardous wastes arising from the initial condition of the Premises as of the Closing Date.

10. **Assignment and Subletting (Space Leases):**

The Ground Lease will contain certain restrictions on assignment, space leases, or other transfers of the Regents' interest in the Research Facility or Ground Lease, and will strike a balance between UCSF's desire for flexibility to meet the needs of its operations and to effectively manage the Research Facility over the term of the Ground Lease and DPH's interest in having the building on the SFGH campus used in a manner that provides integral support to SFGH's mission. Among other matters, such restrictions on space leases may include some or all of the following:

- Prohibitions on space leases unless there is surplus space after meeting a primary use goal to be defined in the Ground Lease;
- A right of first refusal for City to lease surplus space;
- A limit on the length of the term of any space leases, and
- A right of the Director of Health to disapprove a proposed space lease according to a standard to be agreed upon by the Parties as described in the Ground Lease.

The Ground Lease will describe the circumstances under which the rent credit for the Exchange Space will be eliminated or reduced in connection with a space lease, describe a process for determining whether a space lease results in "excess

rent” and provide a formula for sharing the excess rent between the Regents and City. The Ground Lease will also describe the limited circumstances in which an assignment of the Regents’ interest in the Ground Lease will be permitted.

- 11. Fees:** The Regents agrees to pay all customary and reasonable fees and costs associated with the construction and management of the site and Research Facility, including but not limited to the Regents’ design review and approval costs, and costs associated with obtaining the services of the State Fire Marshal and the State Architect, when such costs are related specifically to the Research Facility.
- 12. Outreach:** SFGH and UCSF will work jointly on communication and outreach activities with hospital staff, and patients, and SFGH shall reasonably cooperate with UCSF’s communication and outreach activities with the neighborhood.
- 13. Entitlement:** Under the Ground Lease, the Regents would entitle the site pursuant to its exemption from local land use control and as the building official for plan check and inspection, and in general conformity with the proposed height, bulk, massing and setbacks illustrated in the diagram attached as Attachment 2. The proposed dimensions would respect the height and setback requirements in the zoning, but deviate from the bulk limits. DPH, in its capacity as owner and operator of the SFGH campus, would participate in the design review and selection processes for the Research Facility. If the Regents utilizes an integrated delivery method for selection of a CM/GC, then DPH would participate in the selection process. The exterior design parameters for the Research Facility would be subject to DPH approval, and may, at DPH’s option, include review by City’s Arts Commission Civic Design Review Committee. The proposed building design will also require the Regents’ approval.
- 14. CEQA Review:** The entire Project and a range of reasonable alternatives and feasible mitigation measures must be analyzed under CEQA prior to Project approval. The Regents will develop a coordinated plan and schedule to complete environmental review of the Project under CEQA and complete compliance with any other applicable environmental laws and regulations. The Regents will be the lead agency for CEQA compliance. The City, under the direction of the San Francisco Planning Department, will be the Responsible Agency for CEQA purposes.
- 15. Minimizing Construction Impacts:** In addition to compliance with any CEQA requirements related to mitigation, if the Project is approved, the Regents agrees to comply with applicable substantive standards in City ordinances and regulations designed to control impacts from noise, traffic and parking during construction of the Research Facility and applicable ordinances concerning removal and replacement of street trees to the extent applicable to the Research Facility component of the Project.
- 16. Impact of Termination of Affiliation Agreement:** The Ground Lease shall describe the impact of a termination of the Affiliation Agreement, including: elimination of credit for the Exchange Space, circumstances under which the Regents will have the right to continue the Ground Lease, circumstances under which City will have the right to acquire the Research Facility and terms and conditions applicable thereto, circumstances under which the City will have the right to lease the Research Facility from the Regents and terms and conditions applicable thereto, and certain other changes in the terms and conditions of the Ground Lease that may be applicable following the termination of the Affiliation Agreement.
- 17. Reimbursement of** UCSF and the San Francisco Director of Health have entered into a

City's Transaction Costs:

Memorandum of Understanding - Fee Payment Agreement - Proposed UCSF Research Building, dated October 23, 2013 (the "Fee Sharing and Reimbursement Agreement") and UCSF and the Director of the San Francisco Planning Department have entered into a Memorandum of Understanding – Proposed UCSF Research Building and City Parking Structure Expansion EIR, dated as of September 23, 2013 (the "Planning MOU"), that describes the manner in which the Regents and the San Francisco Planning Department will cooperate to perform the environmental review for the proposed project. Other than as set forth herein, there are no other obligations relating to reimbursements or fees except as outlined in the Fee Sharing and Reimbursement Agreement and the Planning MOU. Without limiting the foregoing, UCSF acknowledges that if the reimbursement cap is reached the City has the right to suspend additional work on all tasks under the Fee Sharing and Reimbursement Agreement and the Planning MOU until an agreement is reached for payment of additional City Agencies' Negotiation Costs and Environmental Review Costs (as defined in the Fee Sharing and Reimbursement Agreement).

18. Retained Discretion:

The Regents and City acknowledge and agree that under this Term Sheet, neither the Regents nor the City is committing itself or agreeing to approve any land use entitlements or undertake any other acts or activities relating to the subsequent independent exercise of discretion by the City or the Regents, and that the Ground Lease documents and approvals are subject to the prior approval of the Regents and all applicable City agencies, each in its sole and absolute discretion. Notwithstanding anything to the contrary herein, the City shall exercise its sole discretion over all matters relating to Project over which it has jurisdiction consistent with legal requirements, customary practices, and public health, safety, convenience and welfare, and shall retain, at all times, its authority to take any action under its jurisdiction consistent with the foregoing.

19. Other Terms:

While this Term Sheet summarizes certain essential terms of the proposed Ground Lease, it does not set forth all of the material terms and conditions of the Ground Lease.

Nothing in this Term Sheet commits, or shall be deemed to commit, the Regents or the City to approve or implement any project, and neither the Regents nor the City will do so until environmental review of the project as required under CEQA has been completed. Accordingly, all references to the "Ground Lease" or "Research Facility" or "Garage Addition" in this agreement shall mean the proposed Project subject to future environmental review and consideration by the Regents or the City, as the case may be.

Specifically, the Regents, the City, and any other public agency with jurisdiction over any part of the project will not take any discretionary actions committing them to implement the proposed Project, and the provisions of this term sheet are not intended to and will not become contractually binding on the Regents or the City unless and until (1) the Regents, acting as the lead agency under CEQA, has determined that the environmental documentation it has prepared for the Project complies with CEQA; and the Regents has reviewed and considered the environmental documentation and adopted appropriate CEQA findings in compliance with CEQA; (2) the Health Commission, acting as a responsible agency under CEQA, has reviewed and considered the environmental documentation prepared by the Regents in compliance with CEQA and adopted appropriate CEQA findings in compliance with CEQA and has approved the terms of the final transaction documents for the Ground Lease; and (3) the Board of Supervisors, acting as a responsible agency under CEQA, has reviewed and considered the

environmental documentation prepared by the Regents in compliance with CEQA and adopted appropriate CEQA findings in compliance with CEQA and approved the terms of the Ground Lease and other transaction documents.

The Parties agree that either party shall have the right to terminate the negotiation of leasing arrangements in accordance with this letter at any time for any reason or for no reason. Neither Party owes the other Party any duty to negotiate a formal lease agreement.

This Term Sheet does not constitute a formal and binding offer and it does not create any legal rights between the Parties. Only a fully executed lease with authorizing legislation approved by the Board of Supervisors and the Mayor, on behalf of the City, and the Regents of the University of California shall bind the Parties. Notwithstanding anything to the contrary herein, the Regents acknowledges and agrees that no officer or employee of the City is authorized to obligate the City to any conditions herein, unless and until a Resolution of the Board of Supervisors has been duly enacted and approved by the Mayor, authorizing consummation of the transactions contemplated hereby, and the City acknowledges and agrees that no officer or employee of the Regents or UCSF is authorized to obligate the Regents to any conditions herein, unless and until the full Board of Regents of the University of California approves the Ground Lease.

This Term Sheet is contingent upon both Parties obtaining all necessary approvals, including the Parties' respective boards and counsel if required.

Agreed to by:

City and County of San Francisco

The Regents of the University of California

Name

Name

Shana Brown

Title

Title

Leasing Coordinator

Date

Date

April 10, 2015

Recommended By:

APPROVED AS TO FORM

[Signature]

Janet C. Norris
JANET C. NORRIS
UNIVERSITY COUNCIL OF THE REGENTS

April 6, 2015

Attachment 2



