



CITY COUNCIL AGENDA STATEMENT



November 13, 2018

File ID: 18-0510

TITLE

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING AN OPTION TO LEASE AGREEMENT WITH THE UNIVERSITY OF SAINT KATHERINE

RECOMMENDED ACTION

Council adopt the resolution.

SUMMARY

On January 23, 2018, the City Council approved an Exclusive Negotiation Agreement (ENA) with the University of Saint Katherine (USK), which represented the first opportunity to implement the vision of having a non-profit (public or private) education institution establish a presence on the University and Innovation District (UID) property. On August 22, 2018 staff completed its review of USK and recommended proceeding by offering USK an Option to Lease Agreement. The Option to Lease Agreement will allow an appropriate amount of time for USK to perform and conclude a variety of activities (i.e. planning, fundraising, financing) that are necessary for USK to execute a Lease Agreement with the City for ten (10) acres of the UID property.

ENVIRONMENTAL REVIEW

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. In addition, notwithstanding the foregoing, the Director of Development Services has also determined that the "Project" qualifies for an Exemption pursuant to Section 15061(b)(3) of the California Environmental Quality Act State Guidelines. Thus, no environmental review is required

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not applicable

DISCUSSION

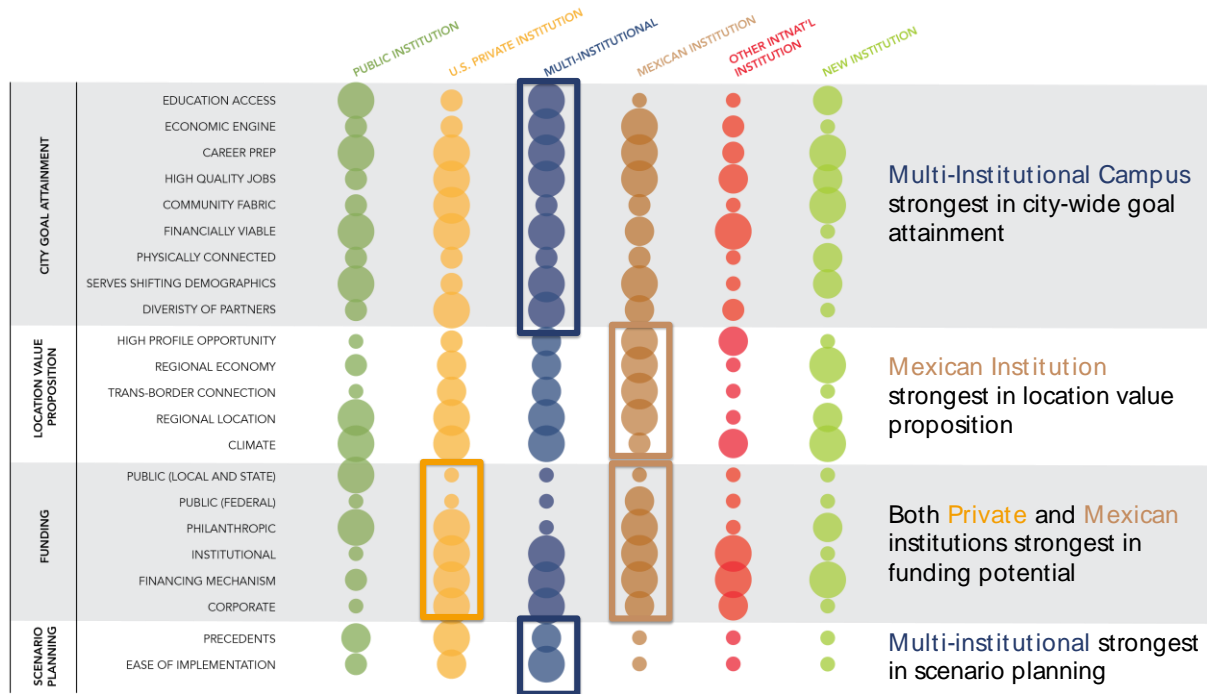
Background:

In 2014, the City of Chula Vista hired U3 Advisors to evaluate a full range of 17 potential institutional users that could build out the UID property with uses that include a public university, a satellite campus for an

established private higher education institution, a multi-institutional campus, and an American campus for an international university. In 2015, U3 Advisors expanded the Chula Vista team by retaining the following four individuals to act in an advisory capacity on the project: 1) Denise Ducheny, retired California State Senator; 2) Clarissa Reyes Falcon of Falcon Consulting, to act as the local representatives for the institutional recruitment process; 3) Eduardo Glandt, a retired University of Pennsylvania Engineering School Dean to act as an academic and institutional sounding board; and, 4) Enrique Norten, a Mexican-American Architect who has close ties to Chula Vista, as well as high-level Mexican governmental and higher education officials.

As part of the evaluation, U3 Advisors and the expanded team explored the vision, opportunities, challenges, funding streams, potential partners, case studies, and potential paths forward for each planning scenario. The research and analyses were compiled into a series of presentations. Each presentation led to additional edits and further refinement of the scenarios until it was clear that there would be no single frontrunner.

After significant research including a scan of universities, growing regional industries, and a full demographic profile of the region, U3 Advisors revisited the original list of 17 institutional users and identified six (6) scenarios for further investigation. These six include: 1) International Campus; 2) New Institution; 3) Public Institution; 4) Private Non-Profit U.S. Institution; 5) Multi-Institutional Campus; and, 6) Mexican Institution. The six scenarios were selected because they ranked highest on the scales of feasibility and City-established goal attainment.



1) International Campus

The International Campus scenario investigated the idea of attracting a university beyond Mexico. To fully understand the International Campus scenario, U3 Advisors conducted research on the existence of

international universities in the U.S., international-domestic educational partnerships, and completed a scan of international higher education institutions. Because of the research, U3 Advisors determined the most viable international partnership, aside from the Mexican Institution scenario, would be a partnership with a Chinese institution.

2) New Institution (21st Century Higher Education Model)

The New Institution scenario establishes a new university that utilizes the blended education model combining traditional education with best practices from current educational trends including online, group, and experiential learning. In the last decade, online institutions have become commonplace, often providing a cheaper and more flexible educational option for traditional and non-traditional students. In addition, many traditional universities are adapting a blended learning model to meet the student's expectation that portions of their coursework will occur either online or in a group/experiential setting.

Additionally, a New Institution model would be able to tailor the educational experience and curriculum in response to current trends in education and the demographics of Southern California. Starting new would also allow founders to incorporate the agility necessary to continuously evolve to educational trends. In essence, the institution would embody the dynamic nature of education and continuously be at the forefront of evolving education.

3) Public Institution

The Public Institution scenario investigated two potential directions:

- 1) Expansion or establishment of a new University of California (UC) or California State University (CSU) campus, and,
- 2) Expansion of an existing Community College to provide a 4-year baccalaureate degree.

On January 19, 2017 the California Legislative Analyst Office (LAO) issued a report, "Assessing UC and CSU Enrollment and Capacity" (Attachment 3) indicating the "system" has adequate capacity to meet the higher education demand.

For the Community College direction, the institution would need to prove that the expansion into a 4-year degree program would not directly compete with an existing program in the UC/CSU system. Furthermore, Southwestern College, a community college located in Chula Vista, is currently offering four 4-year degree programs in partnership with Point Loma Nazarene University.

4) Private Non-Profit U.S. Institution

The Private Non-Profit U.S. Institution scenario would attract an existing private institution to establish a campus in Chula Vista. Private institutions are typically more agile, independent and streamlined than their public counterparts; making them a relatively viable partner for quick implementation and development. There are a wide range of private institutional entities ranging in size, name recognition, financial capacity, and innovative leadership.

There is significant opportunity to attract a private institution to Chula Vista, especially if brand recognition, collaboration with existing institutional partners, and tuition costs are addressed up front and proactively in the planning and recruitment processes

5) Multi-Institutional Campus

The Multi-Institutional Campus scenario explored a partnership between at least two institutions to develop the campus. The educational partnership can be organized around either: 1) a specific industry or issue such as border issues, robotics, U.S./Mexico relations, pharmaceutical manufacturing, etc.; with each institution highly specialized and focused on the focus area; or, 2) the provision of general education with each institution offering complementary coursework for liberal arts degrees.

During U3 Advisor’s preliminary evaluation of the 17 potential institutional users the Multi-Institutional Campus model scored highest on the feasibility and city goal attainment scales. Likewise, the Multi-Institutional Campus also performed well in the scenario planning exercises. The principle advantage of a Multi-Institutional Campus is that it spreads institutional risk, both from a reputational and financial standpoint, among the various institutions. Further, the Multi-Institutional Campus approach adds gravitas to the project because more than one institution is leveraging its brand and confidence behind the project.

The pursuit of an industry- or issue-specific campus would add strength and clarity. Tailoring the ambition of the partnership will help attract institutions, industry partners, and prospective students. Whether industry and/or issue-specific the Multi-Institutional Campus must respond to the existing culture and context of Chula Vista; addressing the bi-cultural, bi-lingual, bi-national essence of a place that serves as a threshold for the region.

The challenge for this scenario lies in assembling the Multi-Institutional Campus partnership. With more than two partners, the coordination efforts needed to build the partnership and framework for collaboration are significantly higher compared to attracting a single institution. Despite the Multi-Institutional Campus scenario requiring significant collective branding and extensive coordination among partners; with strong leadership and vision, the multi-institutional campus is thus far the most viable option.

6) *Mexican Institution*

The Mexican Institution Scenario would establish a satellite campus for an existing Mexican university. As part of the scenario planning effort, significant research was conducted on the state of the Mexican higher education system and any established U.S./Mexican educational partnerships. Below is a recap of the research as well as the resulting scenario planning conclusions.

Over the last 30 years, the Mexican educational landscape has changed dramatically with university enrollment tripling to a total of 3 million students. In response to this increase in demand, many private institutions rapidly opened throughout Mexico. Many of these new private institutions are unaccredited and offer a small range of highly specialized degrees resulting in an over-abundance of graduates in a limited number of fields. In turn, this has led to rising graduate unemployment rates. The attraction of a Mexican Institution needs to address these issues proactively, in order to complement existing education in Mexico and avoid exacerbating the oversaturation in these fields. It would also have to address the cost of

higher education, which is significantly more affordable in Mexico. Successfully pursuing this scenario requires the involvement of an American university for institutional support as a fully established partner.

The conclusion of U3 Advisors' effort was that a hybrid scenario combining the strengths of the top three scenarios emerged as the best and most viable path forward. The top three scenarios include: 4) Private Non-Profit U.S. Institution; 5) Multi-Institutional Campus; and 6) the Mexican Institution scenario. This hybrid scenario pursues a bi-national campus that partners a Mexican institution with an American institution (either private and/or public non-profit), and leverages the site's proximity to the U.S./Mexico border to attract an estimated 20,000 students on approximately 290 acres. In January 2016 the City Council supported the following vision statement and goals:

Vision:

A BI-NATIONAL CAMPUS that leverages the border as a laboratory to attract students from both the U.S. and Mexico, offers degrees and skills training specific for the bi-national region, and serves as a catalyst for growth and economic development.

Goals:

1. Provide education opportunities and accessibility for residents of Chula Vista and the region; and,
2. Serve as an economic engine and contribute to the growth of the city and region; and,
3. Prepare students for post-university careers that allow for lasting personal and professional growth; and,
4. Provide a source of high-quality jobs and contribute to diversifying the city's economy; and,
5. Develop into a financially viable university entity; and,
6. Become an integral part of the fabric of the community providing cultural enrichment for residents of Chula Vista and the region; and,
7. Develop into an institution that is physically well integrated and connected to the surrounding neighborhood and region; and,
8. Serve the shifting demographics of the San Diego region, and the United States in general; and,
9. Attract a wide range of educational and industry partners, regionally, nationally, and internationally.

Discussion

On January 23, 2018, the City Council approved an Exclusive Negotiation Agreement (ENA) with the USK, representing the first opportunity to implement the vision of having a non-profit (public or private) education institution develop a presence on the UID property. Staff completed its review of USK (Attachment 4 and 5) and at its meeting of August 22, 2018, the City Council directed staff to proceed by preparing an Option to Lease Agreement that would allow an appropriate amount of time for the University to perform and conclude a variety of activities (i.e. planning, fundraising, financing) that would allow USK to execute a Lease Agreement with the City for ten (10) acres of the UID property.

University of Saint Katherine

USK was incorporated as a private non-profit public benefit corporation in 2010. It first opened its doors to students in 2011 with 20 students and has grown to over 200 full time students. USK is a university of arts and sciences that focuses its integrated, interdisciplinary teaching in the core areas of Composition, English Language and Literature, American Government and History, Economics, Business, and the Sciences. USK is regionally accredited by the Western Association of Schools and Colleges (WASC) Senior College and University Commission (WSCUC). Students of USK may complete degree programs (BA/BS) in eleven concentrations, pre-professional studies (health sciences and graduate studies), and PK-12 teacher credentialing preparation. USK emphasizes interdisciplinary collaborations, laboratories, field experience, international studies and programs through work that cuts across traditional departmental boundaries. Instruction at USK emphasizes awareness and understanding of cultures worldwide. The stated mission of USK is “to provide a balanced education in the liberal arts and sciences, founded and rooted in the life of the Orthodox Christian Tradition.”

University of Saint Katherine’s Vision:

The initial vision of USK is to develop a campus for undergraduate students on approximately 10 of the 375 acres, representing approximately 3% of the total land held by the City for the UID. The initial 10-acre university campus would provide facilities appropriate for approximately 1,000 full-time students; with student housing for approximately 400 students and uses incidental to the university such as retail services, restaurants, athletic facilities and libraries. Development of USK on the 10 acres will:

- Provide educational opportunities and access to higher education for residents of the City and the region;
- Serve as an economic engine for the Innovation District, the City and the region by helping to create high-quality jobs, economic diversity and growth;
- Consider special relationships with Mexico or other countries, including the concept of a “bi-national” university; and
- Promote and be compatible with the University Sectional Planning Area (SPA) Plan goals and standards, including high-quality physical connections and compatibility with surrounding neighborhoods and land uses.

In addition, USK also desires to become a nationally and internationally recognized institution of approximately 5,000 undergraduate, graduate, postgraduate and professional studies students. It aspires to be a high research activity (R1), doctoral degree-granting institution which will award research doctoral degrees in the humanities, social sciences, and STEM fields, as well as in medicine, dentistry, and pharmacy.

It desires the ability to offer masters and professional practice and other doctoral degrees in other fields. While, this desire is not the subject of the proposed option agreement, it is important to understand the complete vision of USK's President and Founder, Dr. Papatheofanis, as these expansion provisions may be included as opportunities within a future lease agreement.

Option to Lease Agreement (Option):

The proposed Option to Lease Agreement (Option) will provide USK the potential to lease ten (10) acres of land (location yet to be determined), after the satisfaction of a number of conditions, during an initial period of five (5) years with three (3) one-year renewable options to extend for a total potential option period of eight (8) years. The Option provides USK the certainty they need to effectively engage in lease negotiations, campus master planning, as well as initiate a fundraising campaign for the new facility. Within one (1) year of entering into the Option staff intends to present an executable Lease and Development Agreement (Lease) to the City Council for its consideration. The final Lease will, at a minimum, contain the preliminary terms and conditions outlined within the Option as well as other standard terms and conditions necessary for the development of unimproved real property. For USK to enter into a Lease with the City the following conditions must first be satisfied:

- i. City approves, in City's sole discretion, a location for the 10-acre parcel for the Property.
- ii. The parties agree to terms and conditions for the Lease which shall include terms and conditions in substantially the same form to those set forth in Exhibit C to the Option and other commercially reasonable terms for such agreements.
- iii. USK obtains all necessary regulatory approvals and government agency approvals from all applicable agencies to proceed with construction and completion of the Development.
- iv. USK delivers final detailed Development Cost estimates for the Developer's Improvements to City and City approves the same.
- v. USK delivers the final Construction Drawings for the Developer's Improvements to City and City approves the same.
- vi. USK identifies all persons and entities that are members of or participants in the Development and City approves all such persons and entities.
- vii. USK delivers all agreements with all equity investors (if any) evidencing the commitments of such equity investors to make contributions for the Development Costs of the Developer's Improvements to City and City approves the same.
- viii. USK delivers an encumbrance package, including all Loan Documents from any and all lenders for the Development, to City and City approves the same.
- ix. USK delivers written notice to City that USK has completed its Due Diligence Investigations and has accepted the Project Site in its then "as-is" condition and City approves the same.
- x. USK delivers copies of the Required Building Permits and all discretionary permits that are required for the construction of Developer's Improvements to City and City approves the same.
- xi. USK delivers all of Developer's construction contracts with any contractor for Developer's Improvements, including all contracts for all major components of USK's Improvements, to City and City approves the same.
- xii. USK delivers a Completion Guarantee for the Development to City and City approves the same.
- xiii. USK delivers satisfactory evidence to City that the Developer has obtained and is maintaining policies of insurance for each of the policies of insurance as will be required under the Lease and Development Agreement and City approves the same.

xiv. USK delivers satisfactory evidence to City that a Payment Bond and Performance Bond have been issued for the Development and City approves the same.

xv. USK delivers satisfactory evidence that an City approved title company is irrevocably committed to issue to City a title insurance policy insuring the USK's potential leasehold estate interest in the Property, subject only to those Approved Title Exceptions to be agreed to by the City, and such additional title insurance policies or endorsements as may be necessary to support the financing of the Development to City and City approves the same.

If USK is unable to meet any of the aforementioned conditions and does not exercise the Option, the City will have no further obligations to USK and all rights of USK in the Property shall immediately cease. The conditions precedent to exercising the Option and executing the Lease may be updated during the preparation of the lease agreement and would be presented to the City Council for consideration concurrently with the proposed Lease agreement.

Conclusion

Staff recommends that the City Council enter into the Option to Lease Agreement with USK. USK represents a unique opportunity to partner with the founder of a new institutions that has the "agility needed to continuously evolve with educational trends...embody the dynamic nature of education and continue to be at the forefront of the evolution of education." In addition, USK is a private non-profit institution which is, "typically more agile, independent and streamlined than their public counterparts making them a relatively viable partner for quick implementation and development." USK has demonstrated their agility and innovative approach to higher education throughout the ENA period. In addition, USK supports the City's goal of having bi-national campus and recently received a letter (Attachment 6) from Tecnologioco De Monterrey (Monterey Tech) a renowned private Mexican University that is interested in pursuing a partnership with USK. Dr. Papatheofanis has demonstrated leadership and an ability to act independently and quickly in the best interests of the students and institution and by extension, the City.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of each City Councilmember and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100,et seq.).

Staff is not independently aware, and has not been informed by any City Councilmember, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. The Option supports the Economic Vitality goal as it seeks to move forward the University and Innovation District.

CURRENT-YEAR FISCAL IMPACT

There is no current year fiscal impact because of this item.

ONGOING FISCAL IMPACT

There is no on-going fiscal impact because of this item.

ATTACHMENTS

1. Option to Lease Agreement
2. California Legislative Analyst Office Report on UC and CSU Enrollment and Capacity
3. Review of USK – Memo 5/16/18
4. Review of USK – Memo 8/22/18
5. Tec De Monterey Letter

Staff Contact: Eric Crockett, Director of Economic Development