

Board Meeting
November 16, 2017

ROLL CALL

APPROVE GROUND LEASE, MARKETING, LICENSING AGREEMENT, AND ASSOCIATED DOCUMENTS AND ACTIONS APPROVING THE CONCESSION ARRANGEMENT FOR THE CONSTRUCTION OF DORMITORY AND ACADEMIC SPACE, CHICAGO

Action: Approve Ground Lease, Marketing, Licensing Agreement, and Associated Documents and Actions Approving the Concession Arrangement for the Construction of Dormitory and Academic Space

Funding: Institutional Funds Operating Budget and Academic Facilities Maintenance Fund Assessment Funds

The Chancellor, University of Illinois at Chicago and Vice President, University of Illinois with the concurrence of appropriate administrative officers recommends approval, subject to the satisfactory resolution of final contract terms, that the Comptroller be authorized to execute all necessary documents including the Ground Lease, Academic Space Sub-Lease, Marketing, and License Agreement, and any related documents for the development, construction, sub-lease, and management of a 550-bed dormitory, and an integrated academic facility, to be constructed by the Collegiate Housing Foundation (“CHF”) at the University of Illinois at Chicago (the “Project”). The Board of Trustees of the University of Illinois (the “Board”) has, in the past, delegated

authority to the Comptroller to enter into agreements related to real estate leasing and financing transactions. However, the reaffirmation of such delegated authority by the Board is requested for the purposes of transparency and comprehensiveness in the approval of this unique project.

Project Summary and Scope

This project is being structured as a concession arrangement pursuant to Section 53-25 of the Illinois Procurement Code (30 ILCS 500/53-25) with a ground lease and tax-exempt financing that is sometimes referred to as a Public Private Partnership (“P3”) model. The P3 model is a new capital delivery approach for the University of Illinois System. Similar P3 models have previously been utilized at three other public universities in Illinois, and at other universities across the nation.

The Project will provide a true living-learning community, located at the corner of Harrison and Morgan Streets on the east campus of the University of Illinois at Chicago (“UIC”). The residential component of the Project will be within a 10-story tower comprising approximately 83,000 square feet, providing approximately 550 beds of housing in a mix of traditional residence hall style units and semi-suite style units, along with study lounges, social lounges, residence life offices, a fitness center, and laundry facilities. The traditional residence hall style units will share a modern, community bathroom while the semi-suites will provide in-unit bathrooms. A mix of single and double occupancy bedroom alternatives will be provided in the fully furnished units. The integrated 53,000 square foot facility will be contained within a two-story wing of the

building and will provide three large lecture halls, four classrooms, several small group study rooms, a tutoring center, computer stations, and other soft seating areas for social and study purposes. The Project will also include approximately 1,700 square feet of retail space, which is anticipated to be used as a café. Construction of the Project is slated to commence in January 2018, with completion scheduled in August 2019. Considerable stakeholder input was gathered for the final site selection that is in a location fully in accordance with the UIC Master Plan.

Project Planning

In 2014 UIC engaged Brailsford and Dunlavey to perform a Campus Housing Facility Assessment of the current housing stock and to develop a housing master plan. Major conclusions of the study were that UIC's primary housing offerings were not meeting student expectations in terms of modern amenities, layout, and physical condition. The resulting Master Plan calls for new construction of housing and the decommissioning of housing in a multi-year phased approach. A market study recently completed by Alvarez & Marsal verifies the market acceptability and student desire for the proposed Living and Learning approach for this facility. The academic facility is an integral part of the Project, and is a result of many years of budget planning and design work at UIC for such a facility. The building designs proposed were thoroughly vetted by the UIC design team internally as well as external stakeholders.

In support of its master planning, UIC solicited proposals in fall 2016 for the development and construction of a new, mixed-use student housing and academic

facility to be located on its campus. Nine nationally recognized development teams presented proposals for the Project. As a result of the solicitation process, UIC chose veteran student housing developer American Campus Communities (“ACC” or the “Developer”) to implement the design, development, financing, construction, equipping, and operation of the Project, and CHF was selected to be the ground lessee and owner. Following the award to ACC, the University entered into an interim services agreement with ACC to conduct pre-development activities for the Project. ACC and CHF are part of the same core team that has previously developed P3 housing projects at three other public universities in Illinois.

The entire process that led to the award of this concession, including the University’s upfront capital contribution discussed below, was reviewed and approved by the Chief Procurement Officer for Higher Education. Following the award to ACC, as the structure of the Project evolved, the University provided updated information to the Chief Procurement Officer and will post supplemental information on the Procurement Bulletin. Additionally, as required by statute, the University sought and obtained approval for the Project in September 2017 from the Illinois Board of Higher Education.

Project Structure and Financing

The total cost of the project at this time is estimated to be \$100.0 million. The proposed financing structure for the Project will be based on a privatized financing model through which the Board will lease the land on which the Project is located (the “Ground Lease”) to a single member limited liability company (the “Borrower”), the sole

member of which is CHF, a 501(c)(3) tax-exempt organization established to assist colleges and universities across the country in providing housing for their students and otherwise furthering their education missions. The University will become a member of CHF in furtherance of the Project. The Borrower will be organized exclusively for carrying out the Project, and is not expected to have any assets other than those that are associated with the Project. The Developer and Borrower will enter into a Development Agreement pursuant to which the Developer will implement the design, construction, and equipping of the Project in accordance with plans approved by the University.

Consistent with the provisions in the concessions article of the Procurement Code, the Project will be financed through bonds issued by the Illinois Finance Authority (“IFA”), and the proceeds of the bonds will be lent to the Borrower by the IFA. All net available cash flow of the Project will be paid to the University as rent under the Ground Lease. The Ground Lease will extend for a term in excess of the maturity of the proposed bond financing and will contain provisions requiring the Project to be constructed and operated in accordance with UIC-established standards. Provisions in the Ground Lease will also include certain areas of support and cooperation among UIC and the Borrower, including, without limitation, treating the Project as part of UIC’s housing stock, causing the Project to generate a sufficient amount of revenue from summer activity to help meet the debt service ratio for the Project, and taking the Project into consideration in the planning of any future housing projects. Under the Ground Lease, the ground will, at all

times, remain owned by the University, and the Borrower will own the improvements for the term of the financing, described below.

The Borrower will sublease to the University that portion of the Project comprising the academic facilities and retail space (the “Sublease”). Rent payable under the Sublease will be based on the annual debt service costs attributable to the academic and retail facilities. The University will fund the Sublease payments from mandatory student fees assessed to all UIC students, a portion of which are deposited into the Academic Facilities Maintenance Fund Assessment Funds (“AFMFA”). The University is also making an upfront contribution to the Project of up to \$8.6 million from UIC’s available AFMFA funds to reduce the financing costs for the academic/retail portion of the facilities.

The University will pay operations and maintenance on the academic portion of the building and ACC will operate and provide maintenance on the residential portion pursuant to a Management Agreement to be entered into between ACC and the Borrower. Under the Marketing and Licensing Agreement to be entered into between ACC and the University, UIC will perform certain management functions for the Project, including among other things, providing all student life programs and housing administration services and activities. The building will be owned by the Borrower until it reverts back to the University at the end of the 30-year financing term, or upon earlier repayment of the debt issued under the IFA bonds.

P3 Agreement Package

The University is required to enter a series of agreements with the Borrower and ACC to authorize and complete the Project, and to give such approvals and take such other actions, consistent with the Ground Lease, as the parties consider necessary and appropriate in connection with the development, construction, financing, and operation of the Project as described above. The principle documents that the University will execute are as follows:

Ground Lease: The Ground Lease for the Project is between the University and the Borrower and will be for a term of 40 years, but will terminate upon the retirement of debt based on a 30-year repayment schedule. The Ground Lease defines obligations of the parties for development, maintenance, insurance, operation, and financing of improvements.

Sublease: The Sublease provides the terms and conditions for the lease of academic and retail space by the University from the Borrower including base rent (equal to principal and interest attributable to the academic and retail space) and additional rent for operating costs.

Marketing and Licensing Agreement: This agreement between ACC and the University provides for certain student life programs and services to be delivered by UIC consistent with its overall housing program.

The Board action recommended in this item complies in all material respects with applicable state and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The Interim Vice President/Chief Financial Officer and Comptroller concurs.

The President of the University recommends approval.