

Board Meeting
September 8, 2005

LEASE OF LAND FOR PROPOSED PHYSICIANS OFFICE BUILDING, COLLEGE
OF MEDICINE-PEORIA

Action: Approve Land Lease Terms for Physicians Office Building, College of
Medicine-Peoria

Funding: Not Applicable

In November 2004, the board discussed, and in January 2005, approved in concept a lease of University land at the College of Medicine-Peoria to a not-for-profit group (“NFP”) of specialty physicians, which would construct an office building of approximately 100,000 gross square feet.

Future medical education at UICOM-P will recognize changes in the practice of medicine such as the increasing focus on ambulatory medicine. Such training requires access to outpatient treatment settings. Most medical schools have found the need to build their own ambulatory care buildings near both the medical school and affiliated hospitals. This ground lease will fulfill UICOM-P’s need for access to outpatient treatment settings, without further investment by the University paying for the construction of the building. Additional benefits resulting from this ground lease to NFP include:

- Faculty physician financed \$15.0-\$20.0 million project, the first major new project in the 35 years of existence of the medical school in Peoria.

- Advancing the mission of the University of Illinois College of Medicine in areas of research, teaching, and community health in downstate Illinois.
- Providing an anchor project for a future biotechnology district that incorporates medical school, private enterprise, and the City of Peoria business.
- Promotion of growth and economic development in the downtown Peoria area in general, and enhancement of the medical school and University property in particular.
- Strengthening of the teaching hospital affiliations well into the future.
- Facilitation of an environment where private, civic, and state investment can be melded to create an auditorium, research facility, and library for the campus.

Discussions with the NFP have reached a point at which the parties are ready to enter into a formal lease agreement. Therefore, the Chancellor at Chicago, with the concurrence of appropriate administrative officers, recommends authorization for the execution of a lease of land to the NFP for construction of a physicians office building which shall include, and not materially deviate from, the following terms:

Amount of Land: 6 acres, to accommodate a building and a parking garage

Value of Land: Approximately \$3.0 million in current dollars

Length of Lease: 50 year initial term; two 25-year options to renew

Lease Valuation Approach: Years 1-50: \$1.00/year (one dollar per year)

Two options to renew

1st Option, Years 51-75: Rent to be based upon the then current appraised land value, capitalized at a commercial acceptable rate to be agreed upon at that time. Years 51-55, gradually increase to 60 percent of full market rate via a mutually agreed progression, e.g. 20 percent, 30 percent, 40 percent, 50 percent, and 60 percent, thereafter through year 75 at 60 percent.

2nd Option, Years 76-100: Rent to be based upon the then current appraised land value, capitalized at a commercial acceptable rate to be agreed upon at that time. Years 76-80, gradually increase to 60 percent of full market rate via a mutually agreed progression, e.g. 20 percent, 30 percent, 40 percent, 50 percent, and 60 percent, thereafter through year 100 at 60 percent.

- Uses: Education, health care, and the practice of medicine (excluding a pharmacy), subject to all applicable laws and regulations, including Certificate of Need (CON) requirements. Should a CON be required, the University will remain neutral to the application. Any other use of the facility, such as commercial usage, including a pharmacy, will be subject to the approval of the College of Medicine.
- Faculty Membership Requirement: At least 60 percent of all physicians practicing in the building must be members of the UICOM-P faculty. There will be a one year cure provision if a deficiency arises due to change in group membership.
- Design of Facility: Board of Trustees will have design approval for the facility.
- Site for Facility: Proposed site is adjacent to existing UICOM-P building. Project will be designed so that it can be incorporated as an addition to the existing facility if and when future funding is available. Board of Trustees will have site approval for both office building and garage.
- Parking: Building project contingent upon lease with the City of Peoria for a 400-space parking garage. City has committed \$4.0 million for garage construction and infrastructure needs. NFP rent will include value of land for garage.
- Annual Operations: Operating cost for the office building is responsibility of the NFP including maintenance as “first class” office facility. Operating costs for garage negotiated based upon usage by NFP and University. UICOM-P will invoice NFP for common expenses, which will be defined in advance.

Default and**Reversion Provisions:**

Office building and garage revert to the University at the conclusion of the lease, including lease extensions, or if NFP fails to abide by other provisions outlined in lease (e.g., financial default, conduct of unapproved uses, etc.).

Throughout this lease and its extensions the University will be considered to be at a second position to NFP's lending institution and reversion to the University due to any default shall not occur without NFP having an opportunity to cure said default.

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 President of the University concurs.