

ROLL CALL

APPROVE ACTIONS FOR THE CONSTRUCTION OF THE UNIVERSITY OF ILLINOIS HOSPITAL AND CLINICS OUTPATIENT SURGERY CENTER AND SPECIALTY CLINICS FACILITY, CHICAGO

Action: Approve Actions for the Construction of the University of Illinois Hospital and Clinics Outpatient Surgery Center and Specialty Clinics Facility

Funding: Institutional Funds Operating Budgets

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 Board delegate to the Comptroller the authority to execute all necessary documents including the ground lease, hospital and clinic space subleases, and any related documents and actions necessary for the development, construction, sublease, and management of a 200,000 square foot Outpatient Surgery Center and Specialty Clinics Facility (the Project), to be constructed and owned by Provident Resources Inc. (Provident), at the University of Illinois at Chicago.

Project Summary and Scope

The 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 bond financing that is sometimes referred to as a Public Private Partnership (the “P3”) model. The P3 model is a relatively new capital delivery approach for the University of Illinois System with the first P3 recently completed at UIC and two others under construction at UIUC. Similar P3 models have previously been utilized at other public universities in Illinois, and at other universities across the nation.

The Project will provide a state-of-the-art facility, located at the corner of Taylor and South Wood Streets on the West side of the UIC campus. The building will be approximately 200,000 square feet and provide necessary facilities to accommodate an approximate five percent annual growth rate in demand for outpatient surgeries. Multi-specialty floors are included to replace aging facilities on campus. The six-story building will be connected to the main inpatient Hospital facility by a multistory bridge. The budget for this facility is \$194.0 million. Construction of the Project is slated to commence in August 2020, with completion scheduled in 2022. Considerable stakeholder input was gathered for the design of the facility consistent with the UIC design approval processes. Site selections and designs are fully in accordance with the UIC Master Plan and design standards.

Project Planning

This facility has been designated as a top priority project of the University of Illinois Hospital and Health Sciences System (the “System”) for a number of years and is included in the System’s capital plan. The facility is key to addressing growing patient procedure demand and replacing certain outdated facilities with a modern patient friendly setting. The project has received a \$10.0 million gift pledge and will utilize \$42.0 million

of University of Illinois Hospital and Health Sciences System reserves to equip the building. The Project is slated for Certificate of Need approval by the Illinois Health Facilities and Services Review Board in April 2020.

Development Process

In support of this planning, the University solicited proposals in March 2019 for the development and construction of the facility. Eleven nationally recognized development teams presented proposals for the Project. As a result of the solicitation process, Ankura Development was chosen as the lead developer (the “Developer”) to implement the development financing, construction, equipping, and operation of the Project. The Architects of Record, Shive Hattery and ZGF, were previously selected by the University. As a part of the team, Provident Resources will serve as the tax-exempt ground lessee and facility owner. Included on the selected team are Pepper Construction and Mesirow Financial Services along with minority investment bank participation from Cabrera Capital Markets LLC. Following the award to the Developer, the Board entered into an interim services agreement with the Developer to conduct pre-development and design activities for the Project.

The entire process that led to the award of this concession was reviewed and approved by the Chief Procurement Officer for Higher Education. Following the award to the Developer, as the structure of the Project evolved, the University provided updated information to the Chief Procurement Officer and has posted supplemental information on the Illinois Procurement Bulletin.

Project Structure and Financing

The total cost of the Project at this time is estimated to be approximately \$194.0 million. The proposed financing structure for the Project will be based on a privatized financing model through which the Board will ground lease the land on which the Project is located to a single member limited liability company (the “Borrower”), the sole member of which is Provident, a non-profit 501(c)(3) tax exempt organization established to assist colleges and universities across the country in providing academic and related facilities for their students and otherwise furthering their educational missions. 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 commissioning 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 those bonds will be lent to the Borrower by the IFA. 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 campus standards. Provisions in the ground lease will also include certain areas of support and cooperation between UIC and the Borrower. 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 the Project (“Sublease”).

Rent payable under the Sublease will be based on the annual debt service costs attributable to the Project. The System will fund the Sublease payments from certain surplus revenues of the System as more fully outlined in the Resolution authorizing the Application of Excess Funds in the Health Services Facilities System Revenue Fund, which supplements the Health Service Facilities System Bond Resolution, accompanying this Project approval. The University of Illinois Hospital and Health Sciences System is also equipping this project at a cost of \$52.0 million including the \$10.0 million gift.

Operations and maintenance of the facility will be performed by the selected vendor, Jones Lang LaSalle, and paid for within the rent structure. The Project will be owned by the Borrower until it reverts back to the Board at the end of the financing term, or upon earlier repayment of the debt issued by the IFA for this Project.

P3 Agreement Package

The Board is required to enter into a series of agreements with the Borrower and Developer 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 principal documents that the Board will execute are as follows:

Ground Lease: The Ground Lease for the Project is between the Board 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 the Project by the Board from the Borrower including base rent (equal to principal and interest on the bonds issues by the IFA) and additional rent for operating costs.

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 Vice President/Chief Financial Officer and Comptroller concurs.

The President of the University recommends approval.