

Approved by the Board of Trustees
November 15, 2018

Board Meeting
November 15, 2018

ROLL CALL

APPROVE ACTIONS FOR THE CONSTRUCTION OF THE ENGINEERING INSTRUCTIONAL FACILITY AND THE FEED TECHNOLOGY CENTER, URBANA

Action: Approve Actions for the Construction of the College of Engineering Instructional Facility and the Feed Technology Center

Funding: Institutional Funds Operating Budgets

The Chancellor, University of Illinois at Urbana-Champaign, and Vice President, University of Illinois with the concurrence of the 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 leases, academic space subleases, and any related documents and actions necessary for the development, construction, sublease, and management of a 120,000 square feet Engineering Instructional Facility and 10-acre Feed Technology Center, (the “Project”) to be constructed and owned by the Provident Foundation Inc. (“Provident”), at the University of Illinois at Urbana-Champaign.

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 two ground

leases and tax-exempt 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 under construction at UIC. 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 engineering instructional facility, located at the corner of Wright Street and Springfield Avenue on the Engineering complex of the University of Illinois at Urbana-Champaign (the “UIUC”). The building will be approximately 120,000 square feet and provide 27 classrooms and lecture halls necessary to permit engineering enrollment growth. The budget for this facility is \$75.0 million. The smaller Feed Technology Center will be located on South Race Street in Urbana next to the Poultry research facility. The budget for this facility is just under \$20.0 million. It will replace the feed mill at the corner of St Mary’s Road adjacent to the State Farm Center. Construction of the Project is slated to commence in 2019, with completion scheduled in spring 2020 for the Feed Technology Center and early spring 2021 for the Engineering Instructional Facility. Considerable stakeholder input was gathered for the design of both facilities consistent with the UIUC design approval processes. Site selections and designs are fully in accordance with the UIUC Master Plan and design standards.

Project Planning

Both of these facilities have been designated as top priority projects in the long-term capital plan. Given their similar delivery timeframes, these projects have been bundled together for a single private debt issuance and developer design build process, so as to lower costs of project delivery.

The Engineering Instructional Facility is key to achieving UIUC's plan of expanding Engineering enrollment by 10 to 15 percent over ten years. The 2017 UIUC Master Plan designated the lot adjacent to the Grainger Engineering Library for this facility. The project received \$7.5 million seed money from the UIUC Provost Office as a part of its Investment for Growth Initiative.

The Feed Technology Center will replace the feed mill, adjacent to the State Farm Center, which was constructed in 1927. The new facility will provide modern feed processing and support facilities to sustain nutrition research for Animal Sciences. It will be located in accordance with the 2017 Master Plan.

Development Process

In support of this planning, the University solicited proposals in February 2018 for the development and construction of both facilities. Seven nationally recognized development teams presented proposals for the Project. As a result of the solicitation process, Vermillion/Campbell Coyle was chosen as the lead developer (the "Developer") to implement the design, development, financing, construction, equipping, and operation of the Project. As a part of the team, Provident will serve as the tax-

exempt ground lessee and owner. Included on the selected team is the architectural firm of Skidmore, Owings and Merrill and RBC Financial Services. 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, including UIUC's up front capital contribution discussed below, 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 will post supplemental information on the Procurement Bulletin.

Project Structure and Financing

The total cost of the Project at this time is estimated to be approximately \$95.0 million for both facilities. 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 education 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 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 (the “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 UIUC-established standards. Provisions in the Ground Lease will also include certain areas of support and cooperation among UIUC 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 that portion of the Project comprising the academic facilities and Feed Technology Center (the “Sublease”). Rent payable under the Sublease will be based on the annual debt service costs attributable to the facilities. UIUC will fund the Sublease payments from operating budgets. UIUC is also making an upfront equity contribution to the Project of approximately \$9.0 million from UIUC’s available funds to reduce the financing costs for the facility.

UIUC will pay for operations and maintenance of the facilities. The building will be owned by the Borrower until it reverts back to the Board 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 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 University 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 Engineering Instructional Facility and the Feed Technology Center by the Board from the Borrower including base rent (equal to principal and interest attributable to the academic and retail space) 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.