Approved by the Board of Trustees

September 22, 2022

**9**

 Board Meeting

 September 22, 2022

ROLL CALL

APPROVE ACTIONS FOR THE DEVELOPMENT, CONSTRUCTION, AND FINANCING OF THE SOUTH CAMPUS CENTER FOR INTERDISCIPLINARY LEARNING AND E15 PARKING FACILITY, URBANA

**Action:** Approve Actions for the Development, Construction, and Financing of the

 South Campus Center for Interdisciplinary Learning and E15 Parking

 Facility

**Funding:** Institutional Funds Operating Budgets

 The Chancellor, University of Illinois Urbana-Champaign, and Vice President, University of Illinois System with the concurrence of appropriate administrative officers, recommends that subject to satisfactory resolution of final contract terms, the Board delegates to the Comptroller the authority to execute all necessary documents including the ground leases, University subleases, and related documents and actions necessary for the development, construction, and financing, of a ­­­100,000 square foot South Campus Center for Interdisciplinary Learning and an ancillary 450-space E15 parking facility, collectively, the two facilities are referred to as the “Project”.

Public Private Partnership Project Summary and Scope

 The Project is structured as a concession arrangement pursuant to Section 53-25 of the Illinois Procurement Code (30 ILCS 500/53-25) with a ground lease for each facility and the issuance of bonds by the Illinois Finance Authority. This Public Private Partnership model (“P3”) is now a widely used capital delivery approach for the University of Illinois System. The University utilizes different capital delivery methods and processes based on the unique needs of each project. When appropriate and feasible to do so, the University uses the P3 model to secure the anticipated advantages of increased speed of delivery, guaranteed maximum price and firm delivery date, and sharing of risk with the private sector.

 In a P3 model, the University ground leases its land to a tax-exempt non-profit entity. It subleases the building from that entity which, in turn, engages the developer and contractors to construct the building. The non-profit entity owns the building until the debt is retired, at which time ownership reverts to the University.

South Campus Center for Interdisciplinary Learning

 The South Campus Center for Interdisciplinary Learning (SCCIL) will provide a state-of-the-art instructional facility directly adjacent to the Gies Business Instructional Facility on the land that currently serves as parking lot E12 with Huff Hall on the west and fronting on Gregory Drive. The building will be approximately 100,000 square feet and provide necessary facilities to accommodate increased enrollment in online and residential programs at the University of Illinois Urbana-Champaign (UIUC) and important programmatic and office space for the Gies College of Business. The budget for this facility is approximately $105.0 million. Construction of the building is slated to commence in spring 2023, with completion scheduled late in 2024. Considerable stakeholder input was gathered for the facility’s design consistent with the UIUC design approval processes. Site selection and designs are in accordance with the University Master Plan and design standards.

E15 Parking Facility

 The ancillary parking facility, known as the E15 parking facility (E15), will be located at the southeast corner of Pennsylvania Avenue and Fourth Street and is required due to the SCCIL building displacing the parking spaces in Lot E12. The Project development team and UIUC campus stakeholders studied various options. They determined that relocating these parking spaces from Lot E12 to a new facility (Lot E15) was the most economical and least disruptive to the parking users. UIUC Auxiliary Parking Services has elected to add parking spaces to this facility beyond the spaces needed to replace those displaced at E12. The total capacity of the new facility will be approximately 450 spaces, which includes approximately 130 new spaces. The budget for this facility is approximately $22.6 million. Construction is slated to be completed by the late summer of 2023 to accommodate fall semester parking needs. This site and the building design are in full accordance with the University Master Plan and design standards.

Project Planning

 These facilities have been designated as top priority projects. Given their similar delivery timeframes, they have been bundled together for a single P3 private debt issuance and development and construction process to lower project delivery costs.

 As “The Next 150” strategic plan outlined, a campus priority is to “expand investments in building and renovating state-of-the-art learning spaces and infrastructure to support the latest modes of instruction and learning for Illinois students both on and off campus.” The SCCIL building is key to achieving these goals. This planning has been guided by a large steering committee of UIUC stakeholders.

 Planning the E15 Parking Structure on a separate site can be delivered substantially in advance of the SCCIL building, thereby reducing parking relocation issues. The E15 Parking Structure is sited in accordance with the 2018 Parking Master Plan. The site allows for future expansion as needed.

Development Process

 In support of this Project planning, the System solicited proposals in October 2021 for the development and construction of the facilities. Six nationally recognized development teams presented proposals for the Project. As a result of the solicitation process, Vermillion Campbell Development was chosen as the lead developer (the “Developer”) to implement the development financing, construction, equipping, and operation of the Project. The architecture team consists of LMN Architects LLP and Booth Hansen LTD. As a part of the team, Provident Resources Group, Inc. (“Provident”) will serve as the tax-exempt ground lessee and owner of the facilities. The selected team includes Turner Construction Company and Clayco, Inc., as general contractors and RBC Capital Markets, LLC, as the underwriter. Following the award to the Developer, the Board entered into a pre-development agreement with the Developer to conduct pre-development and design activities for the Project as a whole and to commence construction of the E15 parking facility in advance of bond issuance and closing, currently targeted for April 2023.

 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 posted supplemental information on the Illinois Procurement Bulletin.

Project Structure and Financing

 The project’s total cost (2 buildings) is estimated to be approximately $127.6 million. The proposed financing structure for the Project will be based on a privatized P3 financing model through which the Board of Trustees will lease the lands through ground lease agreements 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 associated with the Project. The Developer and Borrower will enter into a development agreement pursuant to which the Developer will implement the project's design, construction, and commissioning 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 for each facility will extend for a term in excess of the maturity of the proposed bond financing. It will contain provisions requiring the Project to be constructed and operated in accordance with campus standards. Provisions in the ground leases will also include specific areas of support and cooperation between UIUC and the Borrower. Under the ground leases, the lands will always remain owned by the University, and the Borrower will own the improvements for the term of the financing described below.

 It is anticipated that the System will make an equity contribution of at least $17.0 million to the Project, funded by various University sources. The University will use these funds to support the Project overall or to fund specific components of the project and thus reduce the total debt issuance and resulting carrying costs. Commencing construction of the E15 parking structure in advance of P3 bond issuance and closing will provide significant financial and operational advantages to the University. The Borrower's final terms of the P3 financing will be determined in the first quarter of 2023.

 The Borrower will sublease to the University all buildings within the Project. Rent payable under each sublease will be based on the annual debt service costs attributable to each building in the Project. The System will fund all the Sublease payments with pro-rata charges to the users.

 Operations and maintenance of the facilities will be performed internally by UIUC Facilities and Services. The Borrower will own each building within the Project until it reverts to the Board of Trustees at the end of the financing term or upon earlier repayment of the debt issued by the IFA for this Project. The Development Agreement and construction contracts will require the developer to meet or exceed procurement diversity goals and all labor requirements.

P3 Agreement Package

 The Board of Trustees 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 leases, 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 Leases**: Each ground lease for the Project is between the Board and the Borrower and will be for 40 years, but will terminate upon the retirement of debt based on a 33-year repayment schedule. The ground leases define the University-owned lands that will be leased to the Borrower, obligations of the parties for development, maintenance, insurance, operation, and financing of improvements.

**Subleases**: The subleases provide 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 issued 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 Interim Vice President/Chief Financial Officer and Comptroller concurs.

 The President of the University of Illinois System recommends approval.