

UNIVERSITY OF KANSAS CENTRAL DISTRICT DEVELOPMENT PROJECT

Written testimony provided to the House Appropriations Committee
prior to February 9, 2016 hearing

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OVERVIEW

The University of Kansas has several immediate needs related to science facilities, student space, student housing, parking, utilities, and associated infrastructure. To address these needs, we are embarking on a redevelopment of our Central District. The project utilizes a public-private partnership (P3) model that allows us to undertake a large amount of construction at one time in a cost-effective way, and without any additional state funding or tuition increases. Moreover, the funding model insulates the state and taxpayers from any financial obligation.

IMMEDIATE NEEDS

The Central District project will address the following immediate needs at KU:

- Malott and Haworth Halls are obsolete and beyond repair. They cannot house modern science activities. With enrollment increases in our schools of Pharmacy and Engineering, there is increased demand for science classes and class labs. Current facilities cannot meet these needs.
- A planned increase in undergraduate enrollment and strong market demand to house more upperclassmen on campus will result in a student housing shortage starting in fall 2017.
- KU's sole utility plant lacks system-wide redundancy and is unable to meet campus needs.

The Central District project addresses these needs, and does so more cost-effectively than if these individual components were built piecemeal over a decade. A coordinated, multi-facility project addresses the concern that inflation – estimated at \$1 million to \$1.25 million per month for facilities like this – would increase KU's project costs or require us to reduce the project scope to fit a budget. Further, the scale of construction will result in leveraging the purchasing power for common construction materials like casework, structural steel, concrete, sheetrock, electrical wiring and fixtures, plumbing piping and fixtures. This coordinated process will allow the university to take advantage of market forces that benefit large-scale construction projects.

BACKGROUND

In November 2014, KU issued a Request for Qualifications for the project, and in February 2015 issued a Request for Proposals to three selected firms. After an extensive evaluation of responses to the RFP, the university entered into an engagement agreement with Edgemoor Infrastructure & Real Estate LLC. KU and Edgemoor entered into an exclusive negotiation period, during which the parties negotiated documents needed for the development, construction, operations, and maintenance of the Central District property, including a lease and sublease between KU and the KU Campus Development Corporation, a KU-controlled affiliated corporation.¹

KBOR and the Kansas Legislature have been updated on this project numerous times as it has

¹As a controlled affiliated corporation, its records will be subject to the Kansas Open Records Act and will be audited annually by an independent CPA, which will be furnished to the Board and filed with the State. (Board of Regents Policy Manual, Ch. II (D)(11)(iii)).

evolved. KBOR and the Joint Committee on State Building Construction were given briefings beginning in September 2014 and throughout 2015. KBOR's Fiscal Affairs & Audit Committee has been given several presentations as well. KU's budget briefing to the full Board of Regents in July 2015 outlined the need for the science building component of the project.

THE PROJECT

The project includes several components. Individual project component budgets were established using KBOR cost-per-square foot guidelines, consultant studies and/or national estimating guidelines. The components can be broken down as follows:

- **An integrated science building**, which will supplement Malott Hall and Haworth Hall, will contain 280,000 gross square feet of academic and research science space, including laboratories, classrooms, offices and meeting space.
- **A 500-bed residence hall and dining facility** that will house primarily freshman students will be located on a site adjacent to Oliver Hall near the intersection of Naismith Drive and 19th Street.
- **Apartment-style student housing** at the corner of Iowa Street and 19th Street will contain 700 beds and will serve upper-class undergraduate students and graduate students.
- **A new student union facility** will contain 30,000 gross square feet and will support the needs of students, faculty and staff. It will include a conference space to expand KU's capability to host conferences and events on campus, student service offices, and study space.
- **A new parking garage** is needed to support the additional parking demand in the Central District.
- **A new central utility plant** will be required to support these new facilities. This portion of the project also includes repair and renovation of the North District Utility Plant.

Each component above will contribute to site development costs, utility costs, soft costs, and fees.

STRUCTURE

KU entered into a ground lease with KUCDC for the land upon which the facilities will be constructed. This lease provides KUCDC the ability to obtain bonds to finance the project, with the sublease serving as the bond guarantee.²

KUCDC entered into a loan agreement with the Public Finance Authority, which was the issuer of the bonds. KUCDC borrowed from the Public Finance Authority. KUCDC borrowed \$326.9 million from the Public Finance Authority. The effective interest cost (i.e. the TIC) on the bonds is 3.76%. KUCDC will use the bond proceeds of \$326.9 million and the original issue premiums of \$56 million to pay for project development and construction (\$350 million), the cost of interest during construction (\$30.8 million) and costs of issuance (\$2.1 million).

Upon completion of construction, KUCDC will sublease the new facilities back to KU, and KU will pay an annual sublease payment of about \$21.85 million to KUCDC. This annual sublease payment will be wholly funded by non-state funds as described above.³ KUCDC will use the sublease payment to cover the bond principal and interest payments and miscellaneous issuer and trustee fees. Throughout the term of the lease and sublease, ownership of the land and the facilities will remain with the state and KU.

² The general revenue of the university will not be pledged to fund the project. Rather, the annual sublease payment from the university to KUCDC is the sole source of guaranteed funding.

³ Pursuant to K.S.A. 76-7,127, state educational institutions may initiate and complete construction projects on state-owned property of the institution from any non-state moneys granted, given to or otherwise received by the institution. For purposes of this statute, non-state moneys means any funds received by a state educational institution from any source other than the State of Kansas or any agency thereof.

KU Meetings Regarding Central District

May 14, 2014

Topeka (KBOR)

Board of Regents Meeting

Fiscal Affairs and Audit Committee Presentation on Central District

July 24, 2014

Topeka (KBOR)

Board of Regents Budget Workshop

Discussion: Central District was identified as one of the university's priorities.

Sept. 10, 2014

Topeka (Statehouse)

Joint Committee on State Building Construction

Presentation by Jim Modig, University Architect

University's FY2015-FY2020 capital improvement (which includes the Central District) plan was recommended

Nov. 13, 2014

Request for Qualifications was issued

Feb. 20 2015

Request for Proposal was issued

Feb. 24, 2015

Topeka

Joint Committee on State Building Construction

Shirley Morrow, Kansas Legislative Research Department outlined capital improvements budgets for FY 2015, FY 2016 and FY 2017 for the University of Kansas.

May 20, 2015

Topeka (KBOR)

Board of Regents Meeting

Fiscal Affairs and Audit Committee update on Central District

July 23, 2015

Topeka (KBOR)

Board of Regents Budget Workshop

Discussion: Central District was identified as one of the universities priorities.

July 28, 2015

Entered into engagement agreement with Edgemore Infrastructure and Real-estate

Aug. 31, 2015

Burge Union – Lawrence

KU presents Central District overview to Board of Regents staff

Oct. 8, 2015

Informational Conference Call regarding Central District

Participants: Rep. Hutton and Chairman Ryckman, Jr., Matt Casey, KBOR Director of Government Relations, and Jeff Gans, Special Counsel, Kim Grunewald, KU Associate General Counsel, Kelly Reynolds, KU Director of State Relations,

Oct. 14, 2015

Pittsburg State University

Board of Regents Meeting

Fiscal Affairs and Audit Committee Central District Presentation – No Action Taken

Oct. 20, 2015

Topeka (Statehouse)

Joint Committee on State Building Construction

Presentation by Jim Modig, University Architect

University's FY2016-FY2021 capital improvement (which includes the Central District) plan was recommended

Oct. 28, 2015

Kansas City (Edwards Campus)

Informational meeting regarding Central District

Attendees: Speaker Merrick, Chairman Ryckman, Jr. Chancellor, Kelly Reynolds, KU Director of State Relations and Kim Grunewald, KU Associate General Counsel

Nov. 6, 2015

Topeka (Governor's office)

Informational meeting regarding Central District

Attendees: Governor Brownback, Chancellor, Theresa Gordzica, Chief Financial Officer and Kim Grunewald, KU Associate General Counsel

Nov. 9, 2015

Topeka (Statehouse), 1:30 p.m.

Joint Budget Committee

Informational hearing regarding Central District.

Presentation by Theresa Gordzica, University of Kansas' Chief Financial Officer

Nov. 18, 2015

Wichita State University

Board of Regents Meeting

Fiscal Affairs and Audit Committee – Central District recommended to the Full Board

Nov. 18, 2015

Wichita State University

Board of Regents Meeting

Full Board Meeting – Approved contingent on Fiscal Affairs and Audit's review of final negotiated terms

Nov. 19, 2015

University of Kansas

Informational meeting regarding Central District

Attendees: President Wagle, Chancellor and Kelly Reynolds, KU Director of State Relations

Dec. 4, 2015

Topeka (KBOR)

Board of Regents Meeting

Fiscal Affairs and Audit Committee – Agreed that the terms presented to them do conform to what was presented to the Board at the November meeting.