



KANSAS BOARD OF REGENTS

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Agenda Call

Fiscal Affairs and Audit Standing Committee
Friday, February 4, 2011 **(RESCHEDULED)**
Noon-1:00pm, Conference Rm B, Teleconference
Dial in number -- (866) 620-7326
Conference Code – 476-523-6449

BOARD AGENDA ITEMS

(Note: Because of the community college luncheon and award ceremony scheduled for Thursday, February 17, the Board's agenda is reversed. The Wednesday board topics will cover state university matters and Thursday topics will relate to the Board's coordinating responsibilities.)

FACILITIES – FEBRUARY 16, 2011 AGENDA – CONSENT (Eric)

1. AUTHORIZE LEASE AGREEMENT BETWEEN THE UNIVERSITY OF KANSAS AND THE KANSAS UNIVERSITY ENDOWMENT ASSOCIATION - KU

The University of Kansas requests authorization to enter into a lease agreement with the Kansas University Endowment Association for 19,777 gross square feet of office space at 4125 Rainbow Boulevard in Kansas City, Kansas. The space will house researchers primarily from the Preventive Medicine Department. The lease has an initial term of 5 years with automatic renewal for one year terms at the same rent and other conditions provided in the lease. The annual lease payment will be \$204,000 and will be funded with unrestricted private funds.

2. AUTHORIZE LEASE AGREEMENT BETWEEN THE UNIVERSITY OF KANSAS AND THE KUMC RESEARCH INSTITUTE - KU

At its meeting on May 20, 2009, the Board of Regents authorized the University of Kansas to proceed with a renovation of Breidenthal Hall on the Medical Center campus. The building was being renovated to make it suitable for a biomedical entrepreneurial research incubator facility. The \$6 million project was funded with a combination of grants from the federal Department of Commerce Economic Development Administration, the Kansas Bioscience Authority, KUMC Research Institute (RI) funds. It also was noted that upon completion of the renovation project the building would be leased to start-up companies through the KUMC RI.

The renovations are now complete and the University wishes to execute a lease agreement with the KUMC RI for the building. The notice of intent to lease the space, as required by state statute has been published. The lease agreement covers 26,394 square feet of office and lab space. The initial term is sixteen months with options to renew each year for up to

fourteen years. This term is consistent with the restrictions imposed by the federal grant that require the building be used as an incubator facility for fifteen years. The annual renewals will provide an opportunity to review the rent, which is established at \$1 per year, and the operating costs. The RI is responsible for the operating costs. The RI will sublease the space to for profit companies and will structure the subleases such that the property will maintain its tax exempt status.

3. AUTHORIZE KANSAS STATE UNIVERSITY TO ENTER INTO GROUND LEASE AND LEASE-PURCHASE AGREEMENTS WITH THE KSU FOUNDATION - KSU

The \$13 million Grain Science Center Feed Mill project is a joint effort of K-State's departments of Grain Science and Industry and the Animal Science and Industry. The project will replace the feed-production capability provided by the feed mill located on the NBAF site at the corner of Denison and Kimball Avenues and significantly enhance the research capacity of both departments. The project was approved by the Board of Regents as a privately funded FY 2012 capital improvement in spring 2010. Because the existing feed-production facility is on the NBAF site, K-State had requested \$5.4 million in NBAF relocation funds to be combined with \$8 million in private funds to complete the project. Recently, it has been made clear that \$5.4 million in NBAF relocation funding will not be made available. Other sources to provide \$5.4 million are being pursued. To date, these efforts have not been successful. This project has been proceeding under K.S.A. 76-757, using entirely private funds acquired through a combination of: (1) private donations; (2) Kansas Bioscience Authority funds; and (3) part of the \$105 million state cost-share offered to the Department of Homeland Security. Consequently, the KSU Foundation has been using a design-build agreement to develop the plans. Because K-State's agreement with DHS requires relocation of the existing facility by September 1, 2013, the university must begin construction this summer.

The relocation deadline; the lack of an identified funding source for the \$5.4 million required to relocate the Animal Science facilities; impact of the relocation deadline on the fund raising timeline associated with the \$8 million in private funds; and investment in a design-build agreement through the KSU Foundation result in the following plan: K-State would lease 1.75 acres in the grain science complex on Kimball Avenue to the KSU Foundation. The Foundation would build a feed mill using private financing. KSU would enter a lease-purchase agreement with the Foundation. Once the principal and interest are retired, the ground lease would terminate and the property would be transferred to KSU.

The KSU Foundation has agreed to finance up to \$8 million in project costs through an agreement with a local lender. The financing terms are not finalized but estimated to be 3.75% interest for the first five years and the five-year treasury rate plus 1.75% for subsequent five year periods. The University and College of Agriculture would reallocate resources to retire the debt over a 15 year period. Funds raised from private sources, provided by the KBA, or made available from the \$105 million state cost-share would be used to retire the obligation early.

K-State requests permission to advertise its intent to enter the ground lease and lease-purchase agreements in the Kansas Register. The University will present the ground lease and lease-purchase agreements in their final form to the Board at the March or April meeting.

4. AUTHORIZE ENERGY CONSERVATION PROJECTS - PSU

Pittsburg State University has engaged Energy Solutions Professionals to conduct an investment grade energy audit of the campus. The audit is now complete and the University is ready to proceed with the performance contract along with the issuance of revenue bonds or other financing as identified by the Kansas Development Finance Authority (K DFA). The bond resolution is addressed separately in this agenda.

The project will include such energy conservation measures as lighting retrofits, steam trap replacements, steam system insulation and controls, boiler replacements at the Kansas Technology Center, installation of geothermal heat pumps at McPherson Hall and Timmons Chapel, occupancy based temperature controls in student housing, and campus behavioral training. The two geothermal projects are being supported by a \$250,000 renewable energy incentives grant from the State Energy Office.

Energy Solutions Professional will guarantee the actual amount of energy savings attributable to the implementation of the agreed to energy conservation measures will provide funding for this project including associated financing costs. The payback on the total project has been determined to be 12.5 years.

<u>Energy Savings Project</u>	<u>Estimated Cost</u>
Lighting Retrofits	\$ 1,184,238
Steam Trap Replacement	282,686
Steam System Improvements	266,054
KTC Boiler Replacement	302,857
Geothermal Heat Pumps	659,560
Energy Management Controls	367,659
Energy Conservation/Behavioral Training	220,962
Asbestos Allowance, Performance Bonds, Contingency	199,700

Engineering, Construction Management, Overhead & Profit	<u>1,251,115</u>
Total	\$ <u><u>4,734,831</u></u>
Projected Utility Savings Year 1	\$ 507,650
Payback Period	12.5 years

LEGAL – FEBRUARY 16, 2011 AGENDA – DISCUSSION (JULENE)

1. ADOPT BOND RESOLUTION – GSP RENOVATION – KU
2. ADOPT BOND RESOLUTION – ENERGY CONSERVATION PROJECTS – PSU

OTHER COMMITTEE BUSINESS

1. Upcoming Committee Meeting – Wednesday, February 16, 11:00am-Noon
 - a. Internal Auditors
 - b. Staff Update: Legislative Post Audit, Accounts Receivable: Reviewing Agencies’ Efforts to Collect Amounts Owed to the State
 - c. Other Committee Business