



Enclosure 3a
June 12, 2014

June 6, 2014

EVA-MARIE MANCUSO, ESQ.
CHAIR

TO: The Members of the Board of Education

PATRICK GUIDA, ESQ.
VICE-CHAIR

FROM: Clark Greene, Authorized Agent 

COLLEEN A. CALLAHAN, ED.D.
SECRETARY

SUBJECT: Request for approval of a lease agreement between the Board of Education and Commonwealth Ventures South Street Landing Master Tenant, LLC in support of the development and lease of space for a shared Nursing Education Center for the University College of Nursing and the Rhode Island College School of Nursing in the former South Street Power Station in Providence, RI

ANTONIO BARAJAS, M.D.

MICHAEL BERNSTEIN

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LAWRENCE PURTILL

MATHIES SANTOS, LT. COL. (RET.)

At its meeting of May 12, 2014, the Board authorized the resolution related to the proposal of legislation regarding the lease terms for the Nursing Education Center. The terms to be included had been discussed during the Executive Session immediately prior. Since that meeting, this legislation has been proposed and authorized by the House Finance Committee in its Article 4 of the Fiscal 2015 budget released on June 5, 2014.

Also discussed at this Board meeting was the potential for the presentation of a lease agreement in its substantially final format at an upcoming meeting of the Board. The key financial terms associated with the Lease were considered and approved by the Board and the process has continued.

At this time, the University and the College are ready to seek the Board's approval of these final terms as significant related parties are working on their own reviews of these lease terms.

The attached is a joint letter issued by Presidents David Dooley and Nancy Carriuolo informing you of the commitment parameters that will be contained within the final draft of the Lease Agreement. It provides information related to the parties, the properties involved, the lease term, the delivery of the project and space as well as the particulars related to the financing terms to be contained in the final draft of this lease.

Presidents Carriuolo and Dooley are now requesting the Board's authorization of this final draft pending the review and approval of legal counsel representing both the Board's and the State's interests as well as the State Properties Committee and State Purchasing officials.

Therefore, I recommend:

THAT the Board of Education approves the terms to be included in the final Lease Agreement as outlined in the attached letter, pending the successful completion of review processes related to the State Properties Committee, the State Legislature, and State Purchasing.

THE
UNIVERSITY
OF RHODE ISLAND

OFFICE OF THE
PRESIDENT

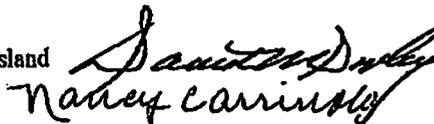
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THINK BIG  WE DO

TO: Clark Greene, Authorized Agent Office of Higher Education

DATE: June 6, 2014

FROM: David M. Dooley, President University of Rhode Island
Nancy Carriuolo, President Rhode Island College



SUBJECT: REQUEST FOR APPROVAL OF A LEASE AGREEMENT BETWEEN THE BOARD OF EDUCATION AND COMMONWEALTH VENTURES SOUTH STREET LANDING MASTER TENANT, LLC IN SUPPORT OF THE DEVELOPMENT AND LEASE OF SPACE FOR A SHARED NURSING EDUCATION CENTER FOR THE UNIVERSITY COLLEGE OF NURSING AND THE RHODE ISLAND COLLEGE SCHOOL OF NURSING IN THE FORMER SOUTH STREET POWER STATION IN PROVIDENCE, RHODE ISLAND

The University of Rhode Island and Rhode Island College are pleased to be able to present to the Board of Education for consideration a Lease Agreement, which has reached final draft form, providing the terms and conditions associated with the development and long term lease of space for a Nursing Education Center. This Center will be developed and shared by the students, faculty and staff engaged in nursing education and research at both the University of Rhode Island and Rhode Island College subject to the approval by the Board of Education, the State Properties Committee, and the General Assembly, in accordance with Section 37-6-2 (d) of the Rhode Island General Law pertaining to major lease commitments.

Last month the Board of Education considered and approved the structure of the key financial terms associated with the Lease that is before them at this time. Legislation encompassing those financial parameters is being evaluated and considered before the House and Senate presently. Coincident with the Board of Education's review of this Lease Agreement in final draft form, the State's Chief Purchasing Officer, business officials representing the University and the College, and legal counsel engaged to represent the State and Board's interests are negotiating select details of the Agreement with the Developer and his representatives. The State Properties Committee's representative on the State Properties Committee from the Attorney General's Office will also commence his review of the final draft Agreement in preparation for that body's review and action on the final draft lease document.

In the interest of informing the Board of the commitment parameters within the final draft Lease Agreement, the following elements have been captured in this transmittal memorandum.

Project in General:

- The project involves the redevelopment of the South Street Power Station property, providing among other features, simulation facilities and teaching laboratories,

classrooms, lecture halls, study spaces, and office spaces for the University of Rhode Island and Rhode Island College Nursing programs on the first, second, and a portion of the third floor of the building and offices and facilities associated with or supporting Brown's educational and research programs on the third, fourth, and smaller fifth and sixth floors of the planned building.

- This project is part of a larger comprehensive project by the Developer that encompasses the construction of an adjacent apartment housing building, intended for use in part by Brown medical students, a planned parking garage that will serve the South Street property tenants as well as the housing residents and the tenants in the adjacent Davol Square building, owned by the Developer.

Location:

- The South Street Power Station property is located at 350 Eddy Street in Providence, Rhode Island.

Developer:

- CV (Commonwealth Ventures) Properties, LLC

Master Lease Structure:

- The Project is to be financed, in part through Federal and State historic preservation tax credits and, possibly, new market tax credits, requiring a Master Lease structure, with the Developer as the Master Landlord a Master Tenant entity comprised of the Developer and the tax credit investors for a maximum term of 19 years.
- The State Lease will be a sublease under the Master Lease

Landlord:

- The Master Tenant (the Developer) under the Master Lease is the Landlord for this Lease Agreement

Tenant:

- The Rhode Island Board of Education is the Tenant under this Lease Agreement

Premises:

- The Premises is approximately 132,449 rentable square feet on the first, second, and part of the third floors comprising just short of half of the rentable square feet in the building.

Use:

- The use is limited to classroom, meeting, clinical, research, office, administrative and other uses associated with a State, degree granting institution of higher education.

Term and Optional Extension:

- The initial term will be 15 years, with an option to extend for a period up to two years less than the then remaining term of Master Lease, subject to conditions of the tax credit financing obtained for the building project.

Landlord's Work:

- The Developer will build the Tenant's space in accordance with agreed upon design and performance specifications for the base building as well as the Tenant Improvements,

which will be further described in a "Landlord Work Letter" and/or "to-be-completed" design plans and specifications approved by the Tenant.

- The Base Building Improvements and the Tenant Improvements constitute "Landlord's Work" and will be procured by the Developer using a cost-plus-fixed fee with a construction manager at risk with a "Guaranteed Maximum Price."
- Any costs required to complete the Tenant Improvements in excess of the Guaranteed Maximum Price (except costs incurred as a result of additions to the scope of the Tenant Improvements authorized by the Tenant in writing) shall be borne by the Developer.

Delivery of the Project and Space:

- The availability of the space for occupancy and the associated commencement of lease payments are planned for July 1, 2016, but will move back to November 15, 2016, with provisions for liquidated damages for later delivery of the space unless the reasons for delay are beyond reasonable control of the Developer.
- If not delivered by July 1, 2017, the tenant has the option of continuing to receive liquidated damages, or provide a notice of termination exercisable in 30 days, unless delivered on or before that date.

Warranties:

- Landlord's Work will carry contractor's and/or manufacturer's warranties of no less than two years or longer as the Tenant may require for specialized facilities or fixtures.

Rent:

- The Rent has several components.
- Base Rent encompasses the Developer's costs associated with developer fees, the acquisition, design, and construction work on the site and the building exterior and core facilities for access and systems and commences at \$14.00 per square foot, increasing by 8.0 % in years 6 and 11, and by 5% for the duration of the optional extension.
- Base Rent is capped at the \$14.00 per square foot, plus scheduled increases, and is the product of a detailed financial proforma that is approved by the Tenant at the commencement of construction and is reflective of the net cash value of applicable State and Federal historic and new market tax credits.
- In the event that the Developer is able through favorable pricing and efficiencies to complete the Base work for less than the amount set and agreed upon, the Developer and the two Tenants collectively (Board of Education and Brown) will share in the value of the savings 50/50%.
- Tenant Improvement Rent reflects the Developer's actual incurred costs for the design and construction for the agreed upon Tenant Improvements prior to the execution of the lease less the applicable net cash value of the Federal tax credits received by the Developer attributable to such Tenant Improvement costs, amortized at an agreed upon rate of interest over the 15 year initial Term of the Lease.
- The parties have agreed that the maximum Tenant Improvement costs net of applicable Federal tax credit value shall not exceed \$25,000,000.
- Additional Rent includes the Tenant's proportional share of building operating and maintenance costs, including metered utilities and use of centrally generated sources for heating and cooling in the Tenant's space determined at the end of each year, with verification, as the actual operating expenditures.

- Operating and Maintenance Rent is projected to be \$12.75 per rentable square foot in the first year of occupancy.
- Additional Rent will also include costs for the use of the Parking Garage by the Tenant. Within the 650 space Garage planned the Tenant will have not less than 200 parking spaces provided for employees, students, and guests. The applicable market rate for the parking spaces is an item in negotiation at this time and the terms associated with Parking will be further spelled out in a Parking Lease to be approved and executed prior to the possession of the Tenant's Leased space.

Payment in Lieu of Taxes (PILOT):

- The Landlord will obtain a "Tax Stabilization Agreement" (TSA) with the City of Providence under which the real estate taxes payable with respect to the South Street building through the 2022 calendar year \$1.50 per rentable square foot, increasing to \$1.62 per square foot in calendar year 2023, and increasing to \$1.75 per square foot for calendar years 2028 and 2029 in accordance with a proposed agreement currently under review by the City of Providence. The TSA payments terminate if the tenant acquires the tenant's space.
- Such PILOT payments will be reflected in the Tenant's Additional Rent for building operating expenses.

Options to Purchase:

- Subject to the terms and conditions associated with any of the tax credits secured and applied to the South Street Building project, the Tenant will have two opportunities to exercise an option to purchase the space that it occupies, in the 6th year and at the end of the 12th Lease year.
- The determination of the purchase price for the Tenant unit is also subject to terms and conditions of applicable tax credit requirements and is to be arrived at through appraisals to determine an acceptable fair market value price.
- If the Developer elects to sell the South Street building during permitted periods within the term of the Lease, a "right of first offer" will be extended to each of the Tenants to purchase their space with set time-tables to respond to such an offer.
- The exercise of the option to purchase is conditional upon the approval of the Board, the State Properties Committee, the Executive Branch and the General Assembly as it relates to both the acquisition and financing of such a purchase.
- Similar provisions are anticipated for Brown University to be able to purchase its Tenant unit and if either party elects not to purchase its Tenant unit either Tenant will have the right, but not the obligation to acquire that Tenant's space.
- If either or both parties properly exercise their rights to purchase or right of first offer under their respective Lease Agreements, the provisions are made for a condominium regime to be established in accordance with applicable State law to preserve and record the rights and protections for both parties.

Tenant Improvement Financing Option:

- The Lease makes provisions for the State and the Board to consider an option that could reduce the Tenant Improvement portion of the Rent by providing financing to the Developer directly for the cost of the Tenant Improvements with interest only payments and a balloon payment upon exercise of the Purchase Option.

- Such financing could be structured differently than that reflected in the Developer Tenant Improvement Rent, and could benefit from the State and the Board's ratings, but may need to be secured as taxable financing in accordance with tax credit regulations as is the case for the Developer's project financing.

The preceding description of the highlighted Lease Agreement terms is reflective of both the complex nature of this transaction and the attention to detail that has gone into the financial and legal considerations that underpin this significant request for capital investment by the State and operating cost investments by the University and the College. It does not, however, capture the real potential that lies behind the language and structure of this particular Lease Agreement and the work that will be launched and the workforce that will be engaged if approved.

As we look to the possible future, we can envision the realization of a shared Nursing Education Center equipped with state of the art simulation and practice laboratories and instructional facilities for use by the University and the College. The new Center will occupy a unique and attractive setting on the lower floors of the historic South Street Power Station, overlooking the Providence River in the heart of the "Jewelry District" in downtown Providence, an area that holds great promise and expectation for economic revitalization for the City and the State of Rhode Island. With Brown University advancing the lease of the upper floors of the building through their approval process, the potential for a unique collaboration between the three higher education institutions and the State of Rhode Island is tangible.

While our public higher education undergraduate and graduate nursing students as well as working nurses returning for continuing education or advanced certification and degrees will be mainstream users of the Center, opportunities exist for joint experiential learning opportunities for students in other medical and related disciplines from our institutions and other higher education institutions in the State and the Region. The facilities can also provide opportunities for our hospitals and medical institutions to use the facilities outside of active periods for our academic programs for training and testing of new approaches in patient care. Other members of the teams that respond to emergencies requiring medical stabilization and transport of patients such as police, fire, and ambulance first responders are possible beneficiaries of the advanced training facilities and equipment envisioned for the Center.

We want to thank all of the individuals who have worked to bring this important and unique project to its current level of readiness and look forward to the opportunity to present this Lease Agreement for review and consideration hopefully leading to final authorization to proceed.

cc: Richard Licht
Donald DeHayes
Christina Valentino
William Gearhart
Kerrie Bennett
Susan LaPanne
Louis Saccoccio
J. Vernon Wyman
Ronald Pitt
Mary Sullivan
Jane Williams