STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida Polytechnic University
2021 Research Facility Project (P3)

Proposal & Project Description:

Florida Polytechnic University (Florida Poly or University) submitted a request for approval of a proposed Public-Private Partnership (P3) to design, construct, privately finance and operate a research facility on its Lakeland campus.

In November 2020, the University published an ITN for a P3 “to construct and operate a research facility on its campus.” One response was received (and subsequently selected by the University) from International Flavors and Fragrances Inc. (IFF) and Ryan Companies USA, Inc. (Ryan or Developer) with the former seeking to pursue a strategic partnership with Florida Poly due to its unique combination of geographical and technical alignment. Ryan is IFF’s development partner.

The proposed research facility will be approximately 33,000 sq ft, comprised primarily of research and research support space, and, to a lesser extent, offices and collaborative areas (the Project). Additionally, the University will grant exclusive right to IFF/tenant to lease 50 existing parking spaces adjacent to the facility at approximately $500/year per space, generating $25,000 in annual parking fee revenue to the university.

In order to establish a research partnership with Florida Poly, IFF partnered with Ryan to develop and manage the proposed on-campus facility. IFF and Ryan have jointly negotiated the terms of the ground lease (lease term not to exceed 40 years), concurrent with Ryan beginning Project design and obtaining financing. Rather than utilizing a bank loan, Ryan has obtained equity financing from Harrison Street Real Estate Capital (Harrison Street). Ryan and Harrison Street will establish an LLC to own the facility, which will enter into the ground lease with the University. Both Ryan and Harrison Street will be owners in the LLC. However, following construction completion, Ryan will transfer its membership interest to Harrison Street. It is anticipated that Harrison Street will retain Ryan to manage, operate and maintain the facility for the duration of the ground lease.

Florida Poly will enter into an affiliation agreement with IFF, as tenant in the research facility, to develop its citrus-related research in collaboration with the University’s students and graduates.

IFF is a 100+-year old, publicly traded, global market-leading company, manufacturing a wide range of flavors, fragrances, and cosmetic products for the Food & Beverage, Home & Personal Care and Health & Wellness markets, with a global presence in 44 different countries. The company is a member of the S&P 500 Index and a Fortune 500 STEM firm.

Ryan is a national developer, builder, designer and property manager of commercial real estate, delivering projects in almost every state, with over $3.2 billion in projects awarded for clients, including Kroger, Amazon, and Charter Schools USA. Ryan will be the University's development partner.

Founded in 2005, Harrison Street is a private equity firm, headquartered in Chicago, with offices in London and Toronto, focusing on the alternative real estate investments, particularly in the education and health care sectors. It has roughly 200 employees, clients in the US, Europe and Asia and approximately $36 billion in assets under management including investments with 184 universities and 30 top healthcare systems.

The Project is included in the University's Campus Master Plan and was approved by its Board of Trustees on May 25, 2021 pursuant to section 1013.171(1), F.S.

Project Site Location: The Project will be located in the western side of Florida Poly's campus, on a 1.15 acre parcel. The building will be approximately 33,000 sq ft, comprised as follows:

Space Type	Square Feet
Welcome & Living Space	1,650
Collaborative Spaces	1,838
Laboratory & Lab Support Spaces	16,533
Office Spaces	3,475
Subtotal SF	**23,496**
Circulation/Utility Space	9,399
Total Gross Square Feet	**32,894**

(Please see attached *Map and Artist Renderings*).

Projected Start and Completion Date: It is anticipated that construction will commence no earlier than Spring 2022 and will be completed by Spring 2023. As evidence of its capacity to complete the Project, Ryan provided evidence of a $700 million surety issued by Travelers Bond & Specialty Insurance Company (rated A++ "Superior" by A.M. Best). Furthermore, a payment & performance bond will be issued specific to the Project.

Project Cost: The total cost of the project is anticipated to be approximately $14.3 million, including a $2.9M tenant allowance to accommodate IFF's unique requirements for the facility, as well as developer and advisory fees (together 10%). This equates to square footage cost of approximately $470/sf, based on Project size of 32,894 sf. The anticipated breakdown of construction cost is as follows:

Building construction	$ 5,594,281
Site work	415,135
Soft Costs (1)	4,586,567
Permitting	28,051
Tenant Allowance (2)	2,900,000
Insurance	230,078
Contingency	531,112
Total Project Cost	**$ 14,285,224**

(1) Includes developer fee of $571,742 (4%) and brokerage fee of $906,907 (6%). According to the University, the latter represent a consulting fee due CBRE Group Inc. as advisor to IFF.

(2) Includes all improvements required by IFF, as tenant (i.e. carpet, paint, interior glazing, interior walls, HVAC system upgrades) as well as associated design fees.

Financing Structure:

As mentioned earlier, Ryan will transfer its membership interest in the LLC in exchange for the equity investment from Harrison Street. More specifically, during construction, Ryan will maintain a 51% controlling interest; however, once construction is completed, Ryan will transfer its ownership to Harrison Street, as equity provider, who will then own 100% of the Project. Harrison Street will retain Ryan to serve as Property Manager to operate and maintain the facility.

As sole, exclusive tenant in the research facility, IFF's sublease is triple net – IFF is responsible for repaying the sublease in addition to all operating expenses, including all maintenance costs. In other words, ongoing repair/maintenance activities are effected by Ryan, as property manager, but will be entirely funded by IFF, as tenant.

The Project is expected to have a 50-year useful life, at a minimum, with 20% of its useful life remaining at the end of the ground lease term. The project will be transferred to the University upon termination of the ground lease at no cost to the University.

No liens will be placed on state lands (the subject parcel) as a result of this proposed P3 transaction. Likewise, there are no financial obligations on the part of the University or any Direct Support Organization in relation to the construction, operations, maintenance or financing of the Project.

Strategic Alignment and Benefit to the University:

The project is a new milestone for the University as it strives to be a premier STEM institution, and entering into the proposed P3 enables it to add a privately funded on-campus research facility to its other two applied research centers, Florida Industrial and Phosphate Research Institute and the Advanced Mobility Institute. According to Florida Poly, in IFF they have found a partner that will further its mission of serving students and industry through excellence in education, discovery, and application of engineering and applied sciences. The intentions and outcomes of this collaborative effort are memorialized and governed by an Affiliation Agreement between the University and IFF that cites, among other things, the following joint aspirations:

a.) Create additional internship and employment opportunities for University students and graduates;
b.) Fill talent pipeline and technical knowledge gaps in the citrus industry;
c.) Engage in collaborative or sponsored research with University faculty and staff;
d.) Enhance IFF's citrus industry innovation and research and development efforts; and,
e.) Enhance the academic programming of the University.

Working relationships will be maintained by IFF and Florida Poly's Human Resources, Career Development Office, Office of Research Services and the Director of Industry Engagement and Capstone Projects, and IFF will facilitate the following:

1) Establish a defined internship program at the Project similar to those it has established through partnerships with other universities for students with interest and ability aligned with IFF initiatives.
2) Communicate relevant employment opportunities (and the University will assist IFF in recruiting for open positions).
3) IFF's recruiting efforts will consider University graduates to be preferred candidates; the objective being to hire graduates that meet the needs of IFF.
4) Identify capstone projects and assign researchers to support student research as appropriate.
5) Consider University proposals for adjunct teaching positions.
6) Consider proposals for sponsored/funded research from University faculty and graduate students and fund Capstone projects in alignment with its budget and research priorities.
7) Consider monetary contributions to scholarships, fellowships, academic programs, or the University endowment in the absence of opportunity to advance the partnership outcomes in a given year.

In March of each year, staff liaisons of Florida Poly and IFF will provide a report to the University Board of Trustees regarding the partnerships overall performance in fulfilling the identified outcomes, at a minimum:

a) Hires from the University for internship and employment opportunities;
b) Sponsored research projects funded;
c) Collaborative research projects;
d) Joint presentations
e) Capstone projects supported
f) Planned activity for the upcoming year

A more detailed overview of the practical applications of the affiliation between Florida Poly and IFF are described in an attachment (see *Questions & Answers, The Benefits of an Affiliation between Florida Poly and International Flavors & Fragrances Inc.*)

Overall, the Project will host citrus-related research by IFF in collaboration with the University, which, pursuant to its Affiliation Agreement, is expected to provide non-monetary benefits to Florida Poly in terms of research, teaching and program development for its data science, computer science and engineering students, as well as career opportunities for its graduates. Hence the reason the ground rent has been set at $1 per year.

P3 Justification: Florida Poly has pursued a P3 structure to transfer the full spectrum of design, construction, finance, operations, and maintenance risk to a private party (Ryan, Harrison Street and IFF).

The strategic drivers for this project are the non-monetary benefits that will arise out of the Affiliation Agreement with IFF, which are not impacted by the financing structure used to deliver the Project. Given the use of the facility by a private party, the non-revenue generating nature of the facility, the absence of financial impact to students, and the University's own capital constraints, a P3 approach was deemed appropriate.

Security/Lien Structure & Return on Investment: The project finances are not intended to produce excess cash flow to the University or IFF. The land is not pledged as collateral nor will it be subordinate to any financing, as no debts will be associated with the project.

After construction, Harrison Street, as equity provider, will assume full ownership of the Project and will be paid via the IFF sublease. Sublease rent payments paid by IFF are currently estimated at approximately $999,950 for the first year and projected to increase 2% yearly throughout the lease agreement period (30 years) in order to achieve the equity provider's targeted return on investment of 7.6%. (See attached *cash flow projections*).

The ground lease has an initial term of 30 years, subject to optional extension 40 years maximum.

Comparatively, the facility lease between the owner LLC and IFF (tenant) has an initial term of 20 years, with two optional 5-year extensions for a total of 30 years. Depending on whether or not IFF extends the lease after Year 20, the University is afforded different options, as outline below:

If IFF terminates at Year 20, Florida Poly can:

a) Rent the Project for 5 years @ $100K/mo* base rent, with 2% annual escalation, plus operating costs (i.e. triple net lease).
b) Terminate the Ground Lease and purchase the Project for $5,000,000.

c) Exercise neither a) or b), which extends the term of the Ground Lease to 40 years, allowing the owner LLC to find another qualified tenant for a 20-yr lease.

If IFF terminates at Year 25, Florida Poly can:

a) Rent the Project for 5 years @ $110K/mo* base rent, with 2% annual escalation, plus operating costs (i.e. triple net lease).
b) Terminate the Ground Lease and purchase the Project for $5,520,404**.
c) Assuming University is already the tenant (see Year 20 option above), renew the lease another 5 years with continued 2% annual escalation, and, at the end of this period the ground lease terminates and the facility is transferred to FPU at no cost.
d) Exercise neither a) or b), which extends the term of the Ground Lease to 40 years, allowing the owner LLC to find another qualified tenant for a 15-yr lease.

*Triple net lease; i.e. base rent plus all operating costs. Base rent is pursuant to predetermined rental rate schedule in the ground lease.

**Higher rents translate to higher value; i.e. higher purchase price

The Ground Lease only extends to 40 years if IFF leaves in year 20 or year 25 and the University does not exercise its purchase or lease options. The provision for extension of the Ground Lease arises out of 1) the University's desire to control the type of sub-tenant that would occupy the research facility (as governed in the ground lease), and 2) Ryan's argument that it would not be able to secure a qualified tenant after IFF's departure with only 5-10 years remaining under the ground lease, thus necessitating the extension.

Risk Assessment

The University engaged Bryant Miller Olive (BMO), as Special Counsel, to review the various agreements tied to the proposed transaction, the salient points of which are provided below:

- The Owner, and IFF as tenant, will bear all risks associated with the development, management and maintenance of the Project. The University is not required to contribute any funds toward the Project.

- In case the developer fails to complete the Project's construction as scheduled, he will be subject to daily liquidated damages of $$1,000 (reduced from $2,127 as originally mentioned on Ground Lease draft) until construction is completed.

- If IFF chooses to terminate their sublease early or fail to renew in the final ten years, the owner LLC is obligated to find, within 12 months, a "qualified" subtenant who is willing to enter into an affiliation agreement with the University. Otherwise, the ground lease steps up from $1 to the market rate rent (estimated at approximately 6-7% of ground value).

(See attached *BMO Memorandum*)

University Financial

Support of Project: The University will not be obligated to provide any construction or operating guarantees, nor will the financing of the Project add legal obligation to Florida Poly or a Direct Support Organization. The University has not pledged its credit towards the Project and is not legally obligated to fund the Project in any way. Furthermore, based on discussions with Florida Poly, it is anticipated that the Project will need to connect to the University's existing chilled water, potable water, and sanitary sewer utilities, which will be fully metered and billed to the tenant based on usage. The Project will connect to the local gas and electric utilities and will contract directly with those providers

The University will not be responsible for maintenance of the facility. As per the ground lease agreement, a maintenance schedule will be developed and implemented consistent with good industry practice in keeping with the useful life of the major systems, fixtures and structural components of the Facility and the expectation of remaining facility value at the end of the lease term. During years 15, 25 and 35 of the lease term, a comprehensive facilities condition assessment report of the facility and improvements will be performed by an independent engineer.

Analysis and Recommendation: Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by Florida Polytechnic University with respect to the request for Board approval of the Project.

If, in the future, the University intends to exercise any optional termination/purchase option for the facilities, the University will notify the Board in advance, and any requisite Board consent/approval will be obtained at that time.

The proposed financing complies with the Florida Statutes governing the ground lease and complies with the Board's Public-Private Partnership Guidelines. Accordingly, Board staff recommends approval of the Project.