

Economic Development Committee Memorandum
Board of Regents, State of Iowa

Subject: University of Iowa Proposal for Funding GIVF-Approved Projects

Prepared by: Tony Girardi

Date Submitted: May 26, 2004

Recommended Action:

Consider the University of Iowa's proposal for funding Grow Iowa Values Fund (GIVF)-approved projects based on currently available state funds and agree to recommend approval of the proposal to the Board of Regents, State of Iowa.

Executive Summary:

The University of Iowa seeks approval to enter a management agreement with the University of Iowa Facilities Corporation whereby the Facilities Corporation will own and manage the improvements and building to be constructed under the terms of the October 23, 2003 GIVF award to SUI.

The purpose of the financing proposal is to allow for expedited implementation of GIVF-approved projects before full GIVF funding has been received and to achieve administrative efficiencies and financial management opportunities.

Background:

With the passage of House File 683 in spring 2003, the Iowa legislature provided the funding package for the economic development Grow Iowa Values Fund. The bill earmarked \$25 million of the GIVF appropriation for the three Regent universities.

In June 2003, the Board formed the Priority Issue Study Group on Economic Development. This study group brought together several Board members, Board Office staff, and representatives of the Regent universities to coordinate planning for implementation of the portion of the Grow Iowa Values Fund legislation that specifically pertains to the Regent institutions.

In September 2003, the Board received an update on the Regent universities' development of Grow Iowa Values Fund proposals and expressed support for the submission of a coordinated set of applications from the three Regent universities to the Grow Iowa Values Board.

The University of Iowa's proposal consisted of the following two projects:

- 1) upgrade the Center for Biocatalysis and Bioprocessing to certified Good Manufacturing Practices (cGMP) standards (cGMP project);
- 2) create incubator laboratory space affiliated with the SUI Technology Innovation Center (BioTIC).

In October 2003, the GIVF approved an award of \$10 million to SUI for these two projects. The GIVF has established a schedule for the disbursement of the first \$4 million of the approved \$10 million award. The balance is pledged at an unspecified future date and subject to the availability of funds.

The University of Iowa proposes to fully fund the top priority project, the cGMP project, with available state funds and to finance the balance of the approved award in order to immediately initiate the creation of incubator laboratory space affiliated with the BioTIC. The university plans to undertake the project to create incubator laboratory space in two phases in order to minimize risk. The university may be called upon for periodic reports on this project to the Economic Development Committee.

Additional updated background information received from the University of Iowa on May 25 is attached.

**SUMMARY INFORMATION RECEIVED FROM THE UNIVERSITY OF IOWA
ON MAY 25, 2004**

In October 2003, the Grow Iowa Values Fund (GIVF) Board approved an award of \$10,000,000 to SUI based upon an institutional proposal to:

- (a) upgrade the current Center for Biocatalysis and Bioprocessing to cGMP* standards (cGMP Project), and
- (b) to create incubator laboratory space affiliated with the UI Technology Innovation Center (BioTIC).

These proposals have been reviewed by the Board. They are designed to enhance SUI's ability to participate in the growth of the biotechnology industry in Iowa. Both projects will be located on the UI Oakdale Research Park.

The proposed budget for the cGMP Project is \$3 million and the proposed budget for BioTIC is \$7 million. The GIVF has established a schedule for the disbursement of the first \$4 million of the approved \$10 million award. The balance is pledged at an unspecified future date, and is subject to availability of funds.

SUI has developed a plan that will allow these projects to move forward before full funding from the Grow Iowa Values Fund has been received – and to do so in an expedited manner, consistent with the wishes of the State's executive branch. SUI proposes to enter an agreement with the UI Facilities Corporation to develop and own the two capital projects supported by an underlying lease agreement with SUI. This will allow SUI to avail itself of administrative efficiencies and financial management opportunities the UI Facilities Corporation has provided previously. This approach is substantively similar to that employed by Iowa State University using the ISU Research Park Corporation.

Over the years SUI has used the Facilities Corporation as a mechanism for the efficient development and management of certain capital facilities. For example, the Facilities Corporation owns the Multi-tenant Facility (MTF) on the UI Oakdale Research Park. In turn, SUI leases the MTF from the Facilities Corporation for use by selected research groups. Because the Center for Biocatalysis and Bioprocessing is located in the MTF, the cGMP Project will logically be an extension of the University's existing relationship with the UI Facilities Corporation. Under terms of the proposed agreement, UI will disburse the first \$3 million received from GIVF to enable timely completion of the cGMP Project. Design and construction of the project will be monitored and managed by UI facilities staff on behalf of the Facilities Corporation. SUI will make periodic progress reports on the capital projects to the Economic Development Committee of the Board.

* Note: Good Manufacturing Practices (GMPs) are regulations that describe the methods, equipment, facilities, and controls required for producing: human pharmaceutical products and veterinary products, biologically derived products, medical devices or processed foods. The U.S. pharmaceutical product regulations are called "current" Good Manufacturing regulations or "cGMPs", to emphasize that the expectations are dynamic.

In order to design and begin construction of the BioTIC project as quickly as possible—and prior to receipt of the full \$7 million allocated to the project—SUI will ask the Facilities Corporation to borrow capital funds to finance a portion of the project. The Facilities Corporation will seek the most favorable opportunity to borrow funds for approximately five years under conditions that will require interest payments only for the initial term and full payment or refinancing at the end of the term. SUI anticipates receipt of the full sum allocated by the GIVF during this five-year period. \$1 million of the \$4 million disbursement approved to date by the Grow Iowa Values Fund will be applied to BioTIC architectural planning as well as to the payment of interest on the debt incurred by the Facilities Corporation during the initial period of the loan.

Given funding concerns, some phasing of the project originally proposed will be done to meet immediate needs while mitigating the financial risk of not having an enforceable contractual commitment to receive the balance of the GIVF funding (\$6 million). In order to limit financial risk, SUI will design BioTIC so that it can be constructed and/or out-fitted in two phases. It is anticipated that the initial phase would build a structure of approximately 10,000 square feet designed to house flexible laboratory modules. A second phase would likely contain a similar, but somewhat lesser square footage.

As will be the case with the cGMP Project, SUI facilities staff will manage and monitor design and construction of the BioTIC project, and will provide periodic reports to the Regents Economic Development Committee as requested. BioTIC will be located on the Oakdale Research Park on land leased by the Facilities Corporation from the UI Research Park Corporation. In the unlikely event that GIVF monies are not available as promised and SUI could not in a timely way retire the Facilities Corporation debt on BioTIC, SUI would either (a) direct the Facilities Corporation to sell the building or (b) lease the building from the Facilities Corporation for academic or other commercial purposes not contemplated in the proposal to GIVF. The UI Facilities Corporation will not assume the ultimate financial liability.