UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Finance and Administration

ITEM: Approval is requested to delegate authority to the Chancellor to negotiate and execute a ground lease between UHS, through its Center for Industrial Partnerships, with a Special Purpose Entity, of approximately 5 acres at UH Sugar Land for technology development and educational programs.

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Approval is requested to delegate authority to the Chancellor to negotiate and execute a Ground Lease between UHS, through its Center for Industrial Partnerships created under Chapter 153 of the Texas Education Code, with a Special Purpose Entity for approximately 5 acres at UH Sugar Land. Term of lease will be 25 years, renewable for 2 five year periods. Rent will be $1 per year. The Ground Lease will be for the SPE to build and manage a 60,000 square foot building at UH Sugar Land to house academic programs (UH, UHV, and Wharton County Junior College) related to digital media, interactive technologies, digital game design/development and/or computer information systems.

SUPPORTING DOCUMENTATION: Term Sheet with the Special Purpose Entity
Letter from WCJC Chairman of Board of Trustees

FISCAL NOTE: $1 per year revenue to UHS over 25 years and any renewal period.

RECOMMENDATION/ ACTION REQUESTED: Administration recommends approval of this item.

COMPONENT: University of Houston

Renu Khator
PRESIDENT Renu Khator **DATE** 7/26/12

EXECUTIVE VICE CHANCELLOR Carl Carlucci **DATE** 8/01/2012

Renu Khator
CHANCELLOR Renu Khator **DATE** 7/26/12

GROUND LEASE AGREEMENT RELATED TO
DIGITAL MEDIA TECHNOLOGY DEVELOPMENT – SUGAR LAND
Summary Term Sheet

Business Terms

Parties:	Special Purpose Entity ("SPE") created by Alan Chaveleh, President of Timegate Studios, Inc. and other unknown investors. University of Houston System ("UHS"), on behalf of its Center for Industrial Partnerships created under Chapter 153 of the Texas Education Code.
Purpose/Objective:	UHS to ground lease approximately 5 acres (the "Leased Premises") at University of Houston-Sugar Land ("UHSL") to SPE for SPE's construction, operation, and management of an approximately 60,000 square foot building to house programs related to digital media, interactive technologies, digital game design/development and/or computer/information systems. Intended Building Tenants: UHS (for UH-Victoria, UH, UHSL)-36,000 square feet Wharton County Jr. College - 10,000 square feet sublet from UHS SPE Affiliate – 13,000 square feet (for its operations)
Lease Term:	25 years with 2 five-year renewal options. Building reverts to UHS at termination of lease term or under other specific conditions.
Permitted Use and Type of Space:	Classroom, labs, and office space related only to higher educational purposes.
Min. Monthly Rent:	$1.00 per year (offset by UH's reduced rental rate as triple net tenant in building constructed by SPE and residual value of building when it reverts to UHS).
Construction:	SPE will construct all improvements at its sole cost and expense, and pay all insurance, repairs, maintenance, and other expenses related to the Leased Premises and the improvements. SPE will operate, maintain, and repair the Leased Premises.

UHS will approve architectural design. SPE will construct the Building in accordance with State and local guidelines and UHS-approved plans and specifications. SPE shall retain third-party construction quality assurance specialist and building envelope specialist. UHS representative shall approve substantial changes to the architectural design and structural integrity of the Building, and as further specified in the Ground Lease. SPE shall build in accordance with 35 year specifications to correlate to lease and renewal terms.

SPE to provide payment and performance bonds.
SPE to provide completion guaranty from investor acceptable to UHS.
SPE to provide financial statements in connection with this transaction for UHS evaluation before the Ground Lease Agreement (the "Agreement") is signed.

Taxes/Assessments:

SPE will pay all taxes and assessments on the Leased Premises and improvements, including its pro rata share of the Levee Improvement Assessment imposed by Fort Bend County Levee Improvement District No. 17.

Termination:

SPE desires to terminate the Agreement within 45-60 days after signing the agreement if the following contingencies not met: (i) ability for SPE to obtain financing; (ii) BOR and THECB approval of the Agreement; or (iii) SPE's satisfactory due diligence of the real property.

UHS termination rights throughout lease term: default; breach of contract; insolvency.

Legal Protections

Capital Maintenance Reserve Fund:

SPE will submit annually a Capital Improvement Plan to be approved by UHS. The Capital Improvement Plan will identify the life expectancy of each of the improvements and provide an anticipated schedule for repair or replacement of those items as well as a funding plan indicating sufficient available funds to meet projected expenditures defined in the Capital Improvement Plan.

Mortgagee Protection Provisions:	The Ground Lease Agreement will contain customary mortgagee protection provisions.
Events of Default:	In addition to the customary events of default, SPE shall be in default if it fails to contribute to the Capital Maintenance Reserve Fund in accordance with the Ground Lease Agreement.
Option to Require Demolition:	None.
UHS's Option to Purchase Leasehold Estate and Right of First Refusal:	UHS shall have the right to purchase SPE's leasehold estate in the Leased Premises under certain circumstances and shall have the right of first refusal to purchase the leasehold estate if SPE receives a written bona fide offer from a third party to buy the leasehold estate.
Assignment:	SPE will have extremely limited rights to assign or transfer its rights in the leasehold estate without UHS' prior written consent.
Lease:	SPE and UHS should agree on term sheet for a separate Lease Agreement for the occupancy and use of the Building and Leased Premises. UHS shall pay at or below Sugar Land fair market rental rates for leasing its proportionate share of the Building. Term sheet for such agreement will ensure deed restrictions will be met and help assess cost-effectiveness of project. WCJC and UHS will enter into a separate contract for WCJC's use of the Building.
Use of Equipment And Lab Space:	All parties should enter into preliminary term sheet on the parties' respective use of digital equipment currently owned by UHV and use of lab space. UHV will continue to own the digital equipment and accessories, throughout the term of the Ground Lease Agreement. [UHV and WCJC may decide to share ownership of the equipment].

Wharton County Junior College
911 Boling Highway • Wharton, Texas 77488 • (979) 532-4560

July 13, 2012

Dr. Renu Khator, Chancellor
University of Houston System
212 E. Cullen Building
Houston, Texas 77204-2018

Re: Letter of Intent and Support for University of Houston's initiative at University of Houston Sugar Land Campus

Dear Chancellor Khator:

Wharton County Junior College (WCJC) is pleased to support and actively participate in University of Houston's new building on the University of Houston Campus Sugar Land. With the anticipated growth in Fort Bend County, there is a need for additional space at the UH Sugar Land Campus to accommodate new programs that will serve the interests and aspirations of the residents of the county, as well as business enterprises in the county.

In support of the University of Houston's plan to expand its Sugar Land facilities, WCJC is committed to lease 10,000 square feet of space in the new building for use as classrooms and office space for a new Associate of Applied Science Degree program in Computer Simulation and Game Development. Beginning in fall 2012, WCJC will offer state-of-the-art career training in computer simulation and gaming that will lead to entry-level employment in positions that are opening in healthcare, law enforcement, military services, and other industries that are developing simulated training environments. The degree is also aligned with the UH System degrees. This new WCJC program is being developed in partnership with the University of Houston Victoria and the University of Houston System and is planned to be located in the new facility on the UH Sugar Land Campus.

To support the new WCJC associate degree program in computer simulation and gaming, WCJC will provide equipment and software costing approximately $300,000. These instructional items include motion capture studio equipment ($125,000), three computer classrooms to support the program ($100,000), and digital media software ($75,000).

We believe the entire community of Fort Bend County will benefit from the University of Houston's initiative to expand its facilities at UH Sugar Land, and WCJC is pleased to be a partner in this effort.

Thank you for your continuing support of our partnership and your commitment to higher education.

Sincerely,

Danny Gertson

P. D. (Danny) Gertson, III
Chairman
Board of Trustees