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 lease between UHS Center for Industrial Partnerships and Special Purpose Entity for Center to lease approximately 47,000 square feet of 60,000 square foot building to be constructed for technology development and educational programs.

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Approval is requested to delegate authority to the Chancellor to negotiate and execute a lease between UHS Center for Industrial Partnerships and Special Purpose Entity for Center to lease approximately 47,000 square feet of an approximately 60,000 square foot building to be used for technology development and educational programs. Term of lease will be 25 years, coterminous with financing. Base rent for triple net lease will be $775,500 per year, with costs for management and operation not to exceed FMV for location. UHS will sublease to WCJC approximately 10,000 square feet for higher education use. Remaining 13,000 square feet of building will be utilized for the operations of an affiliate of the Special Purpose Entity that is also involved in providing educational-related services and technology development at the building.

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

FISCAL NOTE: Annual base rental expenses not to exceed $775,500 per year over 25 years.

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

COMPONENT: University of Houston System

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

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

BUILDING 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 lease approximately 47,000 square feet of 60,000 square foot building from SPE for use by UHS and educational partners (UH, UHV, and Wharton County Junior College) for technology development and educational programs related to digital media, interactive technologies, digital game design/development and/or computer/information systems. Remaining 13,000 square feet of building will be utilized for the operations of an unrelated and separate "affiliate" of the SPE, Timegate Studios ("Affiliate"), which is also involved in providing educational-related services and technology development at the building.
Lease Term:	25 years, renewable for 2 five year periods after which building reverts to UHS.
Permitted Use and Type of Space:	Classroom, labs, and office space related only to higher educational purpose.
Deliverable Condition of Premises:	SPE shall build out premises prior to UHS occupancy in accordance with UHS requirements with approximately $35 per square foot improvement allowance provided by SPE for build out to be consistent with University standards.
Rent:	Triple net lease, with base rent not to exceed $16.50 per square foot, *i.e.* $64,583/month or $775,000 annually, of which UHV and Wharton County Junior College ("WCJC") will pay their respective pro rata shares.

	Costs for Maintenance and Operations not to exceed fair market value. Total UHS obligation not to exceed fair market rate for Sugar Land/northern Fort Bend County for triple net leases.
UHS Obligations:	UHS's rent and additional costs to SPE include payments for taxes, insurance, costs to operate and maintain the space UHS and its educational partners occupy in the Building and for their proportionate share of the common areas. UHS will sublease space to WCJC.
SPE and Affiliate Obligations:	SPE and Affiliate shall be responsible for operation and maintenance of the Building and all costs, expenses, damages and liability caused by their own negligence, wrongful intent, or breach of Ground Lease and/or this Lease. Affiliate shall be responsible for all furnishings, fixtures, improvements for its own occupied space. Affiliate shall be responsible for taxes, mechanics liens, and other costs, expenses, liability incurred in connection with its occupancy and use of the Building. Affiliate shall utilize building in accordance with educational purposes and deed restrictions, consistent with Chapter 153 of the Texas Educational Code.

Legal Protections

Structure with Technology Center:	Structuring deal under Chapter 153 of the Texas Education Code helps assure compliance with deed restrictions.
Casualty/Condemnation Awards:	UHS to receive its share of proceeds related to pro rata use of space.

Insurance:	SPE/Affiliate insurance to contribute to claims involving interior use of space. UHS/WCJC to be named as additional insureds with waiver of subrogation provisions.
Use of Equipment:	Parties need to agree upon initial terms for use of Viacom 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

CONSENT DOCKET-F&A–L57.1

08/15/12

PRO FORMA FOR Interactive Media Programs AT UH SUGAR LAND

v.9a - June 2012

				FY 2014	FY 2015	FY2016	FY 2017	FY 2018			
Enrollments				Fall 2013	Fall 2014	Fall 2015	Fall 2016	Fall 2017	Five year totals		
	Cohort 1			235	210	191				BS, Digital Media to move from UH to UH Sugar Land	
	Cohort 2				110	100	90				
	Cohort 3					120	108	98			
	Cohort 4						130	117		Includes enrollment from UHV's BAAS, Digital Gaming	
	Cohort 5							140			
	Cohort 6										
	Total			235	320	411	328	355			
Expenses											
Faculty (9 month)		Salary	% effort	FY 2014	FY 2015	FY2016	FY 2017	FY 2018			
	Position 1	115,489	100%	115,489	115,489	115,489	115,489	115,489			
	Position 2	63,804	100%	63,804	63,804	63,804	63,804	63,804			
	Position 3	63,000	100%	63,000	63,000	63,000	63,000	63,000			
	Position 4	65,000	100%	65,000	65,000	65,000	65,000	65,000			
	Position 5	62,500	100%	62,500	62,500	62,500	62,500	62,500			
	Position 6	67,000	100%	67,000	67,000	67,000	67,000	67,000			
	Position 7	65,000	100%	65,000	65,000	65,000	65,000	65,000			
	Adjuncts			51,000	51,000	51,000	51,000	51,000			
	Subtotal	501,793		552,793	552,793	552,793	552,793	552,793	2,763,965		
Staff (12 month)											
	Position 1	46,860	100%	46,860	46,860	46,860	46,860	46,860			
	Position 2	43,153	100%	43,153	43,153	43,153	43,153	43,153			
	Position 3	39,000	100%	39,000	39,000	39,000	39,000	39,000			
	Subtotal	129,013		129,013	129,013	129,013	129,013	129,013	645,065		
	Graduate Students				-	-	-	-			
	Subtotal	-	-	-	-	-	-	-	-		
	Total Salaries			681,806	681,806	681,806	681,806	681,806			
	Benefits @ 30%			204,542	204,542	204,542	204,542	204,542	1,022,709		
	Total Personnel			886,348	886,348	886,348	886,348	886,348	4,431,739		
Non-Personnel				-	-	-	-	-			
	Marketing/Recruiting			12,500	12,500	12,500	12,500	12,500			
	Scholarships & Tuition Assistantships			42,500	42,500	42,500	42,500	42,500			
	Facility Operations			423,000	423,000	423,000	423,000	423,000			
	Library and Information Technology			30,000	30,000	30,000	30,000	30,000		WCJC investing $300k in shared IT assets	
	Accreditation			-	-	-	-	-			
	Base Rent (47k @$16.5 per sq. ft.)			775,500	775,500	775,500	775,500	775,500		Base rent to construct facility	
	Laboratory and other equipment			76,000	20,000	20,000	20,000	20,000		Most equipment will be transferred from existing UH program	
	Curb Cut			150,000	150,000	150,000					
	Total Non-Personnel			1,509,500	1,453,500	1,453,500	1,303,500	1,303,500	7,023,500		
Allocated to university operations				-	-	-	-	-			
Total Annual Expense				$ 2,395,848	$ 2,339,848	$ 2,339,848	$ 2,189,848	$ 2,189,848	11,455,239		
Revenue											
	Formula Funding Generated			318,186	318,186	840,309	840,309	895,290		Existing programs	
	Local Tuition Applied to Formula			(246,750)	(336,000)	(431,550)	(344,400)	(372,750)			
	Subtotal: State General Revenue			71,436	(17,814)	408,759	495,909	522,540			
	Tuition and Fees			1,603,875	2,184,000	2,805,075	2,238,600	2,422,875			
	Allocated to set aside per student			102,223	139,197	178,781	142,677	154,422			
	Total Revenue from Enrollment			1,573,088	2,026,989	3,035,053	2,591,832	2,790,993	12,017,955		
	Philanthropy			175,000	175,000					Committed from Parks & Henderson/Wessendorff	
	External Revenue			255,000	255,000	255,000	255,000	255,000		Lease payment from WCJC	
	Net Revenue			1,828,088	2,281,989	3,290,053	2,846,832	3,045,993	12,017,955		
	Net Annual Gain/(Loss)			**$ (567,760)**	**$ (57,859)**	**$ 950,205**	**$ 656,984**	**$ 856,145**	1,837,716		
	Cumulative Gain/(Loss)			**$ (567,760)**	**$ (625,619)**	**$ 324,586**	**$ 981,571**	**$ 1,837,716**			