

Appropriations Committee's Questions on Nebraska Innovation Campus (NIC) LR200 (2015)

1. The Developer

a. What is the status of the developer who was to be "at risk"?

The original developer, Nebraska Nova, evolved in ownership. The Woodbury Corporation which was the managing partner withdrew and Tetrad, the original Nebraska partner, became the developer. Tetrad continues to bear considerable financial risk on the development. Most significantly, they bear the financial risk of:

- (1) The TIF bonds that they purchased to construct the infrastructure on the property. They have the risk that build out will not occur fast enough to provide TIF financing for the bonds.
- (2) Unleased space in the NIC Office building and the remaining ½ of the former 4-H building.
- (3) They are currently obligated and are proceeding to build an 80,000 sq. ft. building for future leasing but without any identified tenants.

b. What type of due diligence as to financial capabilities, length of time in business, references, etc. was conducted regarding the developer?

Founded in 1919, Woodbury Corporation, the managing partner of the investors Nebraska Nova, is a privately held company. NICDC officers contacted references provided by Woodbury and contact was made with other university developments in which Woodbury participated. Selected members of the NICDC Board visited a Woodbury project in Utah. After Woodbury withdrew from the project and Tetrad, the original Nebraska partner, became the developer, the NICDC Treasurer reviewed financial statements of the two Tetrad partners.

Was the contract for the developer competitively bid?

Yes. The Board of Directors of NICDC engaged in a national RFI and RFP processes to select an initial developer of the property. A number of firms applied and were interviewed.

c. What were the standards or criteria for letting the contract?

The RFP made clear that the developer would be expected to bring investment capital, to assume some of the financial risk of the project, and to be an active partner in the development of NIC. Eventually, Woodbury Corporation, managing partner of the investors Nebraska Nova LLC, was selected.

The firm had experience developing a similar research campus for the University of Utah and had begun other projects in Lincoln in association with Nebraska partners. They agreed to initiate the construction of the necessary infrastructure, in part through TIF financing. They also agreed that once 50% of a proposed building was leased, they would take the financial risk of constructing the entire building and this commitment would be ongoing. Thus, once a first building was fully leased, they would be prepared to build a second building once 50% of the next building had signed tenants. No other responders to the RFP were willing to assume any financial risk.

The partnership between Woodbury and the Nebraska developers ultimately was dissolved and Woodbury withdrew from the project. Tetrad, Inc., the original Nebraska partner, is currently the developer, and assumed the obligations originally accepted by Woodbury. They are not, however, an exclusive developer. Any other developer (or a company wanting to use its own developer) can secure a site development lease from NICDC, but must, of course, reimburse Tetrad for the appropriate share of the infrastructure.

d. What is the status of the original contract? How many times has it been amended? Please summarize the changes.

The original Phase I Development Agreement, NICDC executed February 24, 2011 with Nebraska Nova, was amended and restated in October 30, 2012. A summary of the major changes is attached.

e. Please summarize the status of Nebraska Nova's February 2014 commitment to design and construct an 80,000 GSF facility for future NIC tenants.

Recently Tetrad selected The Clark Enersen Partners to begin programming and designing the building.

f. What was the actual amount of TIF funding?

TIF fund for the first phase of buildings built at NIC was approved by the Lincoln City Council in the amount of 12.2M.

2. NICDC Board of Directors

a. What are the Board's goals and objectives? How are the goals and objectives measured?

The Board's function is to provide strategic direction and oversight over the development of Innovation Campus. Its goals and objectives are aligned with the purposes of Innovation Campus—to leverage the research and talent of the University to produce economic development for the State of Nebraska. Initially, the goals have

been to assure the creation of an administrative structure designed to permit Innovation Campus to succeed, to establish strategies for initiating construction of the facilities and the recruitment of private sector tenants, and to develop operating processes to assure continued success.

During the initial phase, the Board met regularly with NIC management to oversee the strategies used to get construction underway, to evaluate recruitment strategies, and to develop processes most likely to incent private sector companies to locate on Innovation Campus. Measurements for phase 1 included the timely construction of the infrastructure necessary for further development and the actual construction of the space. Other oversight evaluations included progress with regard to the engagement with potential private sector tenants.

b. Please provide the NIC’s operating budget for FY2014-15 and FY2015-16 estimated.

The operating budget for Innovation Campus must be considered from two different perspectives. NICDC is an independent, private corporation that essentially operates Innovation Campus. However, in the early phases of the development until significant tenants are secured, the University will be subsidizing these operations. In addition the University is a tenant on the property, residing in privately owned space and bears the costs of those leases. The table immediately below provides the University’s costs including not only operation related expenses for NIC generally, but also lease costs.

	Actual FY 2015	Budget FY 2016
Annual Expenses		
NIC Operating Costs	255,611	1,024,419
Leases, CAMs, Condo Fees	802,607	5,038,570
Bus Transportation	-	316,000
CRES (Heating/Cooling)	1,882,964	806,593
NICDC Subsidy	773,431	427,721
	<u>3,714,613</u>	<u>7,613,303</u>

NICDC functions as a private corporation. While some of its financial transactions must be kept in confidence to protect its relationship with private sector tenants, the operating budget is as follows:

	FY 2015 Actual	FY 2016 Budget
REVENUE	\$ 680,047	\$ 1,053,652
EXPENSE		
Salary & Benefits	\$ 318,034	\$ 671,852
Operating Expense	99,204	235,500
Building Expense	234,027	146,300
Total Expenses	<u>\$ 651,265</u>	<u>\$ 1,053,652</u>
Net Income	\$ 28,782	\$ -

c. Please provide the source of revenue that supports the NIC's operating budget.

NICDC's operating budget is derived from two sources. NICDC secures a ground lease payment from the developer which is calculated based on rent received. Obviously, this revenue will increase as the property is built out and more tenants are secured. In the meantime, the University is subsidizing its operations from operating revenues.

d. Please provide the number of NIC staff and their positions.

Daniel J. Duncan Executive Director,
Nebraska Innovation Campus Development Corporation (NICDC)

Kate A. Engel Community Engagement & Operations Manager,
Nebraska Innovation Campus Development Corporation (NICDC)

Ann Willet
Director of Strategic Alliances for Food, Fuel & Water,
Nebraska Innovation Campus Development Corporation (NICDC)

e. Are the NIC's operations audited? If yes, by whom? Are copies available?

Yes. NICDC has as a sole member the University Technology Development Corporation (UTDC) which is subject to audits performed by KPMG. UTDC's audits are available by contacting David Lechner, UTDC Treasurer.

f. Please provide a copy of the Articles of Incorporation, Bylaws, and any operating agreements. ATTACHED

3. In September 2014, UNL decided it would take over the development of NIC. What does this mean? Please cite activities that UNL would be doing vs. the developer.

- a. What are the cost to UNL of this take over?
- b. Does UNL have the expertise to take on development activities?
- c. Would there be any outsourcing of the development activities?

d. Please explain the rationale for UNL to take over the development of the NIC vs. the NICDC Board of Directors and the NIC staff.

The question may suggest a misunderstanding of the action taken in September 2014. In anticipation of leasable space being available by summer of 2015, the question arose as to which party, the developer or NICDC should control the recruitment of private sector tenants. It was originally contemplated that the developer would be primarily responsible. However, it became clear that with the requirement that an approved tenant have a relationship with the University, the driver of our recruitment efforts had to be those associated with the University. This was particularly important given the University decision to lease the entire Food Innovation Center and to sublease unused space. Ann Willet, who had extensive experience in the pharmaceutical industry and understood the nature of potential relationships between universities and private sector companies, was initially hired by the University to market its sub leasable space. She was subsequently moved to NICDC and now manages the recruitment effort.

The developer, of course, retains an interest in recruiting tenants as well. Tetrad recently issued an RFP and is in the process of negotiating and contracting with a private firm at its own expense to also recruit potential partners on a national level and to otherwise market NIC.

It is difficult to quantify the actual expense of the recruitment effort, in as much as the responsibility for recruitment is a pervasive one. For example, while Ann Willet leads our efforts, all staff members at NICDC as well as the leadership of the University are actively engaged in recruiting tenants.

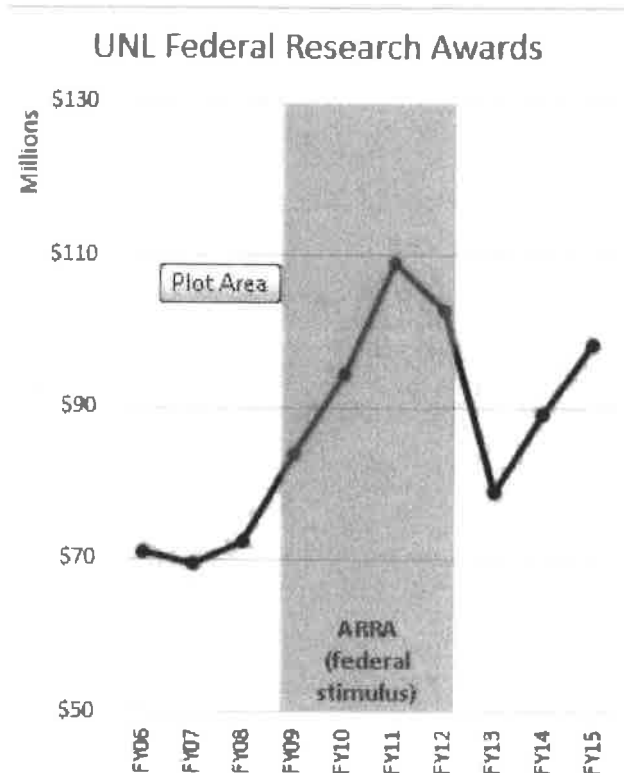
4. What are UNL's total Federal research dollars now compared to 2008, when the decision was made to move ahead with a research park?

- a. UNL Federal Research Expenditures
 - i. 2008: \$82,732,378
 - ii. 2014: \$94,264,992

5. Please describe the effect(s) of sequestration on UNL's Federal research budget.

Sequestration resulted in declining federal funding for UNL – both in terms of smaller federal agency budgets from which to fund research programs in general and, more specifically, in reduced funding for awarded research projects. The effects of sequestration, along with the end of the ARRA (federal stimulus) resulted in decreased research funding to UNL during FY2013, as shown, below. However, as the chart demonstrates, our federal funding is again starting to trend upward. The University also recognizes that the instabilities in the federal government funding means that we should give increased attention to potential research partners in the private

sector. This is one of the reasons why Innovation Campus is important for the long-term university research enterprise. In addition, federal agencies are increasingly requiring private sector partners for major grant awards.



6. What is the status of the USDA research facility?

Shortly after Innovation Campus was created, we worked with Senator Ben Nelson to attract an Agriculture Research Service facility focused on biofuels. It would have housed the ARS facility already existing at the University. Through the legislative earmark process, funds had started to accumulate to construct the facility. However, when the federal earmarking process was abandoned by Congress, this project was impacted and is no longer on any federal priority list of which we are aware. We continue to be vigilant for opportunities to attract a federal facility.

7. Please describe the competition from other research parks now and into the future versus 2008.

There are numerous research parks in the United States and abroad that theoretically “compete” with NIC. However, the real competition is not so much between research parks but between universities. Because potential partners must interact with the University to be eligible for locating at NIC, potential partners must want the expertise and talent in the University. This is why NIC initially is focused on areas where the University and the State have comparative

advantages, i.e. food, water, and energy. The depth and breadth of faculty research and the access to student talent are important ingredients in making NIC competitive.

Where competing universities have relatively comparable research and talent assets, elements of the parks themselves, as well as State economic incentives, will play a role in attracting companies. As one of the “newest kids on the block” we have taken the opportunity to look at what has made other parks successful.

The real question is not whether Innovation Campus can successfully compete but whether it provides Nebraska the option of competing for opportunities it otherwise would not have. We believe it does.

8. UNL has moved the Food Science and Technology Department to NIC. How has the Food Science and Technology Department space been re-purposed?

The UNL Institute of Agriculture and Natural Resources has significantly expanded its tenure-track faculty since 2012, resulting in a total of 72 new tenure-track faculty anticipated to be in place on campus by the end of FY 16. Additionally, in order to make room for a needed new student residence hall on east campus to accommodate 11 successive years of student enrollment growth in the College of Agricultural Sciences and Natural Resources, the former Biochemistry building was razed in the summer of 2015. Collectively, this has resulted in 100% of the lab and office space formerly occupied by the Department of Food Science and Technology in the former Food Industry Complex building on east campus already having been completely re-purposed and filled with existing programs including the USDA-ARS partner labs co-located at UNL as well as UNL programs in forensic science, statistics, nutrition and health sciences, and agricultural education, communication, and leadership.

The ground floor of the former Food Industry Complex is currently under planning for re-design into a new student classroom learning center which will add critically needed instructional space in short supply on east campus. It is anticipated that this project will be initiated in FY 2017.

Has the bus service been established? What is the estimated annual cost for the service?

Bus service to/from City and East Campuses was established in late August 2015. The cost of UNL’s contracted services with StarTran, the provider, increased by \$636,000 in FY 2016 to add bus service to NIC.

9. In September 2014, UNL indicated that it had made considerable investments in NIC beyond those originally contemplated. Please describe those investments and the cost (one-time and on-going) associated with those investments.

As the LR 200 report indicates, the University has invested considerable resources to initiate the development of Nebraska Innovation Campus. With almost half of those resources dedicated to the move of State Fair, the University has also committed to the creation of the Food Innovation

Center based in part on our continued partnership with ConAgra through research in the area of food processing and the desire to create a university presence at NIC.

The table on page 30 of the LR200 Report notes those and other private and public investments.