Tuesday, September 18, 2007

SUBJECT: Harbor Branch Transaction Update

PROPOSED BOARD ACTION

Not Applicable

BACKGROUND INFORMATION

Collaborative efforts between FAU and the Harbor Branch entities have been proceeding along several fronts involving the following aspects of the proposed consolidation: (1) operational integration of academic/research programs and support functions; (2) conveyance of real property and other tangible and intangible assets; and (3) transformation of Harbor Branch Oceanographic Institution, Inc. (“HBOI”) into an FAU direct-support organization.

Drafts of a definitive Memorandum of Understanding (“MOU”) have been exchanged between FAU and the Harbor Branch entities as we continue to work cooperatively to finalize the transaction details. Highlights of the proposed MOU follow below. Concurrently with our efforts to complete the MOU, operational representatives—including those from accounting and payroll, human resources, administrative and financial technical support, academic affairs, budget, communications, facilities, sponsored research, IRM, purchasing and safety and security—have been meeting and coordinating on a regular basis to prepare and provide for a smooth and efficient transition.

The assets transferring to FAU will include real property, personal property, operational and research contracts and intellectual property. Assets will be transferring from two Harbor Branch entities—HBOI and Harbor Branch Environmental Laboratory, Inc. (HBEL) (collectively “Harbor Branch”). The transferring assets will become a part of FAU and remain intact as an FAU research institute, reporting primarily to the Provost’s office and other organizational divisions throughout FAU.

The Harbor Branch employees shall be offered employment with FAU at their current salary. Those employees fully funded with state dollars may not be terminated by FAU without cause earlier than June 30, 2008. Harbor Branch shall retain all employee liabilities prior to the closing date (estimated to take place on or about December 31, 2007) and shall compensate the Harbor Branch employees for all vested paid time off. With limited exceptions, the Harbor Branch employees will come into FAU as new FAU employees.
The HBOI Board is working on a corporate reorganization to become a direct-support organization of FAU—to operate exclusively to receive, hold, invest and administer property to and for the benefit of FAU and the FAUHBOI Institute. The HBOI Foundation will have two appointees from FAU. The current HBOI endowment and debt liabilities will remain with the HBOI Foundation.

The exact acreage and property transferring to FAU is under evaluation and discussion between the parties. We are working together to compose a real property solution agreeable to HBOI that provides FAU with the most contiguous parcels and efficient access, easement and riparian rights solutions. HBOI shall retain all property not transferring to FAU. FAU shall have the right to approve any future sales, leases or other dispositions of the retained HBOI property.

The parties have commenced due diligence activities including surveys, appraisals, environmental investigations and evaluations of facility and utility needs. Title reports will be forthcoming. The proposed facilities action plan contemplates a comprehensive solution involving demolition, repair and renovation and new construction.

**IMPLEMENTATION PLAN/DATE**

The final MOU will be presented to this Board for approval this Fall. The proposed transition/closing date for the transaction is projected for December 31, 2007. Preparations for the transition are ongoing.

**FISCAL IMPLICATIONS**

Governor Crist had previously approved the appropriation to FAU of $8.5 million in recurring funding for the operation of Harbor Branch by FAU and a one-time appropriation to FAU of $44.6 million in funds for site work, renovations, environmental, health and safety, IRM, and new construction, expendable as of July 1, 2007. The Personnel Services Agreement (“PSA”) previously approved by this Board—under which FAU retained the services of HBOI with the appropriated funds to preserve, maintain and enhance the value of the Harbor Branch assets during the interim period—is currently in effect until December 31, 2007. Payments to HBOI under the PSA through September 18, 2007 total $1,886,635 (3 payments of $628,878). On July 1, 2007, the proposed HBOI budget underwent a 4% reduction (or $340,000), consistent with the remainder of the FAU budget for campuses and units in response to the legislative mandate on 2007-08 budget reductions.

On September 6, 2007, Governor Crist proposed that the $8.5 million Harbor Branch appropriation be delayed/withdrawn. We will closely monitor the progress of any subsequent legislative and gubernatorial actions in this regard.

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**Supporting Documentation:**

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FAU and HBOI

A Partnership for the Future of Florida:
A Progress Report

Presented to the
Florida Atlantic University Board of Trustees
September 17-18, 2007
The 2007 Florida Legislature appropriates:

- $8.5M for administrative and operational costs associated with the transfer of Harbor Branch to FAU ($13.75M requested)
- $44.6M for site work, remodeling, renovation, and new construction of Harbor Branch campus and facilities

The FAU Board of Trustees in June 2007 approves:

- Personnel Services Agreement, effective July 1, 2007

  (Agreement allows FAU to retain the services of HBOI in order to preserve, maintain and enhance the value of the HBOI assets prior to the projected transition date.)
Preparing for Launch
Target Date: December 31, 2007

Planning efforts from three perspectives:

- Facilities (Land and Buildings)
- Administrative Services
- Academic Programs and Research
Facilities

- Land Transfers
- Facilities Inventory
EXISTING CAMPUS SURVEY

- HBOI PROPERTY = 513.30 ACRES
- PROPERTY TO BE TRANSFERRED TO FAU = 125.00 ACRES MIN.
FAU and HBOI
2007-2008
PECO Appropriations

- **Remodel and Renovations/Harbor Branch Campus** - $14,141,984.00
  - Land transfer - due diligence
  - Infrastructure mapping
  - Master Planning
  - Building demolition
  - Site deferred maintenance
  - Building deferred maintenance

- **Harbor Branch/FAU Transition** - $30,500,000.00
  - New facility - 50,000 gsf of labs/admin
  - New facility infrastructure
  - Equipment
EXISTING HBOI FACILITIES G.S.F. 338,105
PRELIMINARY DEMOLITION PLAN G.S.F 181,290
REMAINING EXISTING FACILITIES G.S.F. 156,815
RECENTLY COMPLETED JOINT USE FACILITY G.S.F. 40,454
PROPOSED NEW JOINT USE FACILITY G.S.F. 50,000
TOTAL FACILITIES ADDED TO INVENTORY G.S.F. 247,269
Administrative and Budgetary Details
Timeline of FAU/HBOI Transition

• President Brogan “concept” presentation to the Board of Trustees: March 21, 2007
• Letter of Intent: April 25, 2007
• HBOI Personnel Services Agreement: Board of Trustees approval June 27, 2007 (Effective July 1, 2007 through December 31, 2007)
• Memorandum of Understanding: In progress
• Reorganization of Harbor Branch Oceanographic Institution, Inc. into an FAU DSO: In progress
  • FAU BOT reserves approval rights over disposition of adjacent HBOI-retained property
  • New FAU-HBOI DSO to be independent of the existing FAU Foundation, Inc.
• Projected Transfer Date – December 31, 2007
Institutional Relationships

FAU

FAU-HBOI Research Institute

FAU-HBOI DSO

2 FAU Appointees to DSO Board
Administrative Services

• **Merger Leadership Team**
  
  HBOI, Director for the Center for Ocean Exploration
  
  Associate Provost – FAU Academic Affairs
  
  Assistant Vice President – FAU Financial Affairs

• **HBOI and FAU transition components and participants**

  Administrative and Financial Technology
  
  Budget
  
  Communications
  
  Controller
  
  Division of Research
  
  Facilities and Plant Operations
  
  General Counsel
  
  Government Relations and External Affairs
  
  Human Resources
  
  IRM Technology Services
  
  Police and Safety
  
  Purchasing
  
  Treasure Coast
State of Florida Funding

- **HBOI Recurring Budget - $8,160,000 (includes 4% reduction)**
  
  HBOI Personnel Services Contract -
  
  July 1, 2007 through December 31, 2007
  
  Total Payment to HBOI: $3,773,271
  
  Monthly contract: $628,878
  
  Payments to date: $1,886,635 (3)

  (Includes payments to date for non-research activity such as operating, salaries and fringes for 174 employees, and various contracts)

- **PECO Funding**
  
  State of Florida - Appropriation 27
  
  Remodel and Renovation/ Harbor Branch Campus: $14,141,984
  
  Harbor Branch and FAU Transition: $30,500,000
  
  Total PECO funding: $44,641,984
Academic Programs and Research
Early Academic Initiatives

- FAU and HBOI have been collaborators in marine research and educational projects for the past decade or more.

- A special program, “Semester by the Sea,” has been hosted by HBOI and is a residential one semester undergraduate practical experience where students spend the semester and take specific classes at HBOI.

- FAU and HBOI scientists have worked together to discover new “medicines from the sea” which was part of the first Center of Excellence Grant -- $10 million -- awarded to FAU in 2003. Currently, two proposals from FAU are being prepared for the 2008 State of Florida Center of Excellence program that include research projects from HBOI.
Current Academic Initiatives

• A new Marine Science Center opened in November, 2006. This is a 40,000 GSF state-of-the-art research and teaching facility that contains specialized laboratories for chemistry, biology, microbiology, histology, including special environmental rooms, fermentation lab and aquaculture/saltwater labs, as well as dive lockers. It is shared by FAU and HBOI faculty and students.

• Torrey Pines presently occupies space in the building.

• Currently, two FAU Biology faculty members are housed in the new building at HBOI along with HBOI scientists. Ultimately, we propose to hire 8-10 additional new marine biology faculty for the HBOI campus.

• 15 HBOI staff are currently affiliate faculty in the Departments of Biological Sciences and/or Chemistry at FAU, and participate in the instructional programs of the departments and college.

• Both Master’s and Doctoral students study at HBOI with HBOI scientists.
Future Academic Initiatives

• FAU/HBOI will become home to the John Thomas Ladue McGinty Eminent Scholar Chair in Marine Science.

• The goal is to ultimately develop world class research and instructional programs in Marine Sciences with graduate degree programs in Marine Science, and a 2+2 undergraduate program with FAU, IRCC and HBOI. The faculty will also contribute to the current BS in Biological Sciences, thus widening the science offerings on the Treasure Coast Campuses. Planning is underway for expansion of science positions.

• FAU will continue to promote the K-12 programs currently offered at HBOI, providing us with the opportunity to effectively develop and support interest in marine and biological sciences as future educational and career goals.
Future Research Initiatives

- Future research will continue in marine biotechnology and will expand to include sustainability of the world’s oceans as the program at HBOI is developed along with an overarching program in environmental science, conservation and sustainability at FAU.

- We anticipate expanding collaborative programs with the Department of Ocean Engineering and SeaTech.
Opportunities for Opportunities for Cutting-edge research Academic Initiatives K-12 Mentoring

And collaborations with...

College of Engineering & Computer Science
Department of Ocean Engineering
ADVANCED MARINE SYSTEMS

Centers of Excellence/Ocean Energy Technology
CENTER FOR MARINE MATERIALS

State, Federal and International Center for
Harbor Branch Oceanographic Research
Research Centers
Ocean Science for a Better World

Charles E. Schmidt College of Science

Cutting-edge research
Center for Hydrodynamics and Physical Oceanography