

# APPENDICES

<b>APPENDIX A - Capital Improvement Qualifications And Terminology</b>	<b>148</b>
I. Projects That Qualify for State Capital Funds	148
A. Real Property Acquisition:	148
B. Design and Preparation of Plans and Specifications:	148
C. Construction	149
D. Initial Equipment and Furnishings:	152
II. Projects That Do Not Qualify for State Capital Funds	152
<b>APPENDIX B - Program Description And Justification</b>	<b>154</b>
<b>APPENDIX C - Capital Grant And Loan Program Fund Summary Table</b>	<b>157</b>
<b>APPENDIX D - Private Activity Limitations on General Obligation Bond Financed Projects</b>	<b>159</b>
I. Background	159
II. Surveys	159
Example - Cb Form D1	160
Example - Cb Form D2	162

## APPENDIX A

### CAPITAL IMPROVEMENT QUALIFICATIONS AND TERMINOLOGY

The Department of Budget and Management (DBM) has developed this material to assist State agencies in determining those types of projects that are eligible for funding through the capital budget, regardless of fund source. This section also provides a definition of the terms most commonly used in conjunction with capital improvement projects.

The State Finance and Procurement Article, Subsection 8-127, Annotated Code of Maryland states that the useful life of a **capital improvement** shall be at least equal to the life of the bonds by which it is financed. State capital projects are usually financed by general obligation bonds, which by constitutional provision must be amortized within a 15-year period. Thus, to qualify for State capital funds, a proposed project or its equipment must have a useful life expectancy of at least 15 years. Throughout this document, when the term “**capital project**” is used, it is understood to mean “capital improvement.”

A **capital program** is a means for distributing State capital funds among a number of capital projects that share common characteristics, particularly as to function and or purpose. Examples of capital programs are the Public School Construction Program and the Facilities Renewal Program. Programs generally receive funding annually and seldom have an end date, although the projects they finance have beginning and end dates.

The **Capital Improvement Program (CIP) and Capital Budget** are two terms grouped together to clarify both their similarities and their differences. The Capital Improvement Program is published in January of each year as the Capital Budget Volume by the Department of Budget and Management. It portrays the administration’s plan for allocating State capital funds among capital projects and capital programs over the ensuing five years. The capital budget is limited to the fiscal year that begins on July 1<sup>st</sup> after the document is published, while the CIP includes five fiscal years. A project included in the capital budget is therefore by definition included in the CIP. The capital budget is enacted into law (sometimes with amendments) by the General Assembly, whereas the CIP is not; however, the CIP is used as the basis for formulating capital budgets in the succeeding four years and is also used to persuade the State’s bondholders that the State is managing debt prudently by not planning more capital investments over the next five years than it can afford. The CIP may also form the basis of pre-authorizations contained in the capital budget.

#### I. PROJECTS THAT QUALIFY FOR STATE CAPITAL FUNDS

##### A. Real Property Acquisition:

Acquisition of any freehold, fee or leasehold interest in land, including structures and fixtures located on the premises.

##### B. Design and Preparation of Plans and Specifications:

1. Includes the physical design of a project, prior to releasing a construction project to the competitive bidding process, and services required of an architect/engineer during the construction and post-construction stages.
2. Design funds are normally requested one year prior to the time the construction appropriation is to be requested. For projects whose total cost is expected to exceed \$10 million, the design funds should be requested two years before the

construction appropriation. For very complicated projects, the design request must be phased over two years. In such cases, preliminary planning funds are requested the first year and detailed planning funds the second year. Normally 45% of design funds for projects over \$10 million should be requested in the first year with 55% in the second year.

3. Preliminary planning includes: the preparation of a site plan and a floor plan; the outline specifications for architectural, structural, and site improvements; civil, mechanical, and electrical work; and a definition of the components of each of the systems and materials intended to be used on the project. Planning also includes cost estimates. For further details, see the Procedures Manual for Professional Services, Department of General Services (DGS).
4. Detailed planning includes the preparation of all contract documents, such as detailed site plans, floor plans, excavations, specifications, etc., necessary for the construction of the project. For further details, see the Procedures Manual for Professional Services, Department of General Services. It also includes the services required of an architect/engineer during the construction and post-construction stages.

### **C. Construction**

A construction project is a single undertaking involving construction applicable to one or more real property facilities or structures. Construction includes all work necessary to produce a complete and usable new facility or a complete and usable improvement to an existing facility. The work includes associated architectural work and other technical requirements. A construction project may include one or more of the following:

- Demolition of an existing facility;
- The construction, installation, or assembly of a new facility;
- The addition to, alteration, conversion, expansion, relocation, renovation, or restoration of an existing facility or structure;
- The installation, extension, or replacement of utility systems;
- The fixed equipment installed and made part of a facility;
- Site development and improvement.

Construction may include “self-help” projects accomplished using agency employees under certain approved conditions and situations advantageous to the State. However, capital funds may not be used to pay any operating expenses associated with a self-help project, including wages and salaries of permanent employees.

The actual physical construction phase of a capital improvement project must be preceded by the preparation of both preliminary and detailed plans and specifications.

Specialized categories of construction are defined as follows:

1. Addition/Expansion/Extension:

The physical increase to a real property facility/structure, which adds to its overall external dimension.

2. Alteration:
  - (a) The work required to change the arrangement of internal space and other physical characteristics of an existing facility, or to change the location of functional space within a facility, so that it may be more effectively utilized for its presently designated functional purpose.
  - (b) No facility should be considered for alteration until it has been in use for at least 15 years, except when required to make the facility usable; to meet State or federal codes, regulatory or licensing requirements; or when major priorities have changed, or new programs have been implemented.
  
3. Conversion:
  - (a) The work required to change the arrangement of internal space and other physical characteristics of an existing facility so that it may be effectively utilized for a new functional purpose. This includes the utilities and fixed equipment installed on and made part of the facility.
  - (b) Adjustment of exterior space arrangement is normally considered to be an Addition/Expansion/Extension and is not normally included in conversions; however, the addition of a small amount of circulation and/or mechanical space to the exterior of a building to meet code requirements is permissible with the approval of DBM and DGS.
  
4. Relocation:
  - (a) The movement of a facility from one site to another, either intact or by disassembly and subsequent reassembly. A new foundation may be constructed at the new location as part of the project. This category includes movement of utility lines, but excludes relocation of roads, pavements, or similar facilities.

When a facility is relocated to another site and the new facility consists primarily of new components, the project is considered a replacement rather than relocation.
  - (b) Relocation of two or more facilities resulting in a single facility will be considered a single project.
  
5. Renovation:
  - (a) The work required to restore and modernize most or all of a facility, or an existing mechanical system, so that the facility may be effectively utilized for its designated functional purpose or to comply with current code requirements.
  - (b) Renovation normally is required as a result of general deterioration and obsolescence due to age, deferred maintenance, original faulty construction, or damage from natural disasters. It may be funded as a

capital improvement project in these cases where the cost of the project is \$100,000 or more, and it cannot be accommodated in the agency operating or special fund budget.

- (c) The primary difference between renovation and alteration is that alteration involves significant modification to a facility's interior space arrangements while renovation does not.
- (d) Generally, no facility should be considered for renovation until it has been in use for at least 15 years, except when such work is necessary to meet State or federal codes, regulatory or licensing requirements, or to correct major basic faults originally incorporated into the facility.

6. Replacement:

- (a) The complete reconstruction of a facility, a mechanical system, or a utility system. The original building or mechanical or utility system must be beyond the point where it can be economically repaired or renovated, and it can no longer be used for its designated purpose. Certain conditions, such as age, hazardous conditions, obsolescence, structural and building safety conditions or other causes may contribute to the need to replace a building or system. The reconstruction of minor components of a mechanical or utility system is considered maintenance/repair, rather than replacement.
- (b) A facility should not normally be considered for replacement until it has been in use for at least 40 years.
- (c) Replacement will normally be allowed as a capital improvement project only when a facility cannot be cost-effectively renovated or repaired.

7. Restoration:

The work required to restore a facility, to the maximum extent possible, to its former or original state. Normally, restoration will involve historic properties. In these cases, the Maryland Historical Trust should be consulted.

8. Site Development and Improvements:

These include such items as: grading and installation of drainage facilities; construction of new roads, walks, parking areas, retaining walls, recreational areas, fences and similar improvements; standard and essential landscaping; street or other outdoor lighting.

9. Utilities:

These include the installation, extension or replacement of systems for the provision of sewer, water and electrical service; power plant facilities and appurtenances; heating, ventilating and air conditioning; fire escapes, sprinklers and automatic fire alarms, and telecommunications.

**D. Initial Equipment and Furnishings:**

Items of initial equipment and furnishings will be eligible for funding as a capital improvement only if they meet conditions as detailed in the [Capital Equipment Guidelines](#). These guidelines and a template of the [Equipment and Furnishings Request Form](#) are available on the DBM webpage under [Forms and Templates](#).

**II. PROJECTS THAT DO NOT QUALIFY FOR STATE CAPITAL FUNDS**

- A. Master plans, feasibility studies, alternative project proposals, or the development of programs required as a prerequisite to the authorizing of funds for the preparation of plans and specifications.
- B. Payment of salaries or wages of State employees for work performed directly in conjunction with an authorized capital improvement project. This includes the preparation of plans and specifications.
- C. Capital improvements for auxiliary enterprise programs in the public four-year institutions of higher education. These are to be funded from program revenues unless State capital funds are specifically authorized by the Governor and General Assembly.
- D. Interim or temporary accommodations or equipment while another facility is being renovated. However, equipment may be pre-purchased if it is to be moved and reused in the renovated facility.
- E. Maintenance/repair projects, except as noted in subsection 4 below:
  - 1. Maintenance is the recurrent day to day, periodic (i.e., weekly, monthly, annual) or scheduled work required to preserve or maintain a facility or system in such a condition that it may continue to be effectively utilized for its designated purpose during its life expectancy. Maintenance includes work undertaken to prevent damage to a facility or system which otherwise would be more costly to restore or work to sustain existing components of a facility or system. Construction of new maintenance sheds or buildings, and extension or expansion of utilities are excluded from this definition.
  - 2. Repair is the work required to restore a facility or system to such a condition that it may continue to be appropriately and effectively utilized for its designated purpose by overhaul, or replacement of constituent parts or materials which have deteriorated by action of the elements or wear and tear in use. This includes the correction of conditions, which adversely affect the use of a facility for its designated purpose due to non-conformance with prescribed standards and codes, except for major changes necessary to cover newly mandated accreditation or certification requirements.
  - 3. The following are examples of maintenance/repair projects (exceptions may be allowed for major projects):

- (a) Painting, decorating, caulking, repainting, or treatment of masonry and other surfaces;
  - (b) Replacing or repair of wall or floor tiles, shingles or siding;
  - (c) Sealing asphalt surfaces, ditching, replacement of gutters and curbs, patching or resurfacing roads;
  - (d) Replacement or repair of sprinklers and automatic alarm systems;
  - (e) Replacement or repair of components, elements or units of an elevator or escalator;
  - (f) Replacement or repair of plumbing, sanitary facilities, or the pre-heat, reheat, and chilled water coils or other components of a heating, ventilating and air conditioning system; and
  - (g) Replacement or repair of components of lighting and electrical systems.
4. Exceptions to #3 include maintenance/repair projects administered through the DGS Facilities Renewal Fund and the Department of Natural Resources Critical Maintenance Program. Agencies may request funding through the Facilities Renewal Fund for projects estimated to cost between \$100,000 and \$5 million. Agencies must submit requests to the DGS for prioritization.

## APPENDIX B

### PROGRAM DESCRIPTION AND JUSTIFICATION

This section instructs applicants in describing background information required about their Grant and Loan Programs. Each request for capital funding must document and justify the need for the amount of funds clearly and succinctly. A template of this form is available on the DBM webpage under [Forms and Templates](#).

**PROGRAM REQUESTS** - Each request must:

- I. **Cite the program's enabling legislation.**
- II. **Describe the program. Give a brief description of the program including:**  
the year the program began; the purpose of the program; the type of assistance the program provides, such as grants and/or loans or other types of financing; the maximum amount or percentage of support projects may receive. Discuss how the program supports or relates to the agency's Managing for Results (MFR) goals and objectives. If law or regulations limit the program, cite the statutes or regulations that set the limits. If specific projects are not identified in the project request section of the Capital Budget Information System (CBIS), the description should explain why no project list is being provided and how the amount requested was determined. Include any other significant descriptive information.
- III. **Indicate the forms of financing:**
  - A. **GRANTS.** If financial assistance is in the form of a direct grant, describe the provisions for matching funds by the grantee. Cite statutes or regulations governing matching funds.
  - B. **LOANS.** If financial assistance is in the form of a loan, describe the provisions for repayment.
  - C. **OTHER.** If financial assistance is a guarantee or other form of assistance, describe the form of assistance and payment provisions required of the recipient. Examples are fees, premiums, or royalty payments.
- IV. **Describe the availability of federal or other sources of funds.** Funding requests should indicate both the status and the date of the program's most recent application for federal and/or other sources of funds. Include the Catalog of Federal Domestic Assistance identification number.
- V. **Cite applicable statute(s) that authorize the program to use funds for administrative services.** Salaries, wages, benefits and closely related personnel and administrative costs for State employees are **not** eligible for funding in the capital budget, unless specifically authorized by statute.
- VI. **Describe the criteria used to determine project priority.** Describe the priority criteria



here. If a point system was used, describe the elements evaluated. If a goal specific system

was used, state the goal. An example of a goal might be, “ability to meet an emergent need.”

- VII. Describe the application of priority criteria.** This should be a description of how you apply the criteria to rank priorities if a ranking system is used. An example of a process description might be:

*All projects were ranked by a committee of five independent health care workers; each committee member scored every qualifying project using a 100-point scale. The scale measures mitigation of the magnitude of threats to health; immediacy of the health threat; and cost per affected person.*

- VIII. Explain differences in this request from the five-year CIP.** If this year’s request for funds differs from the amount shown in the five-year CIP, explain the reason for those differences.

- IX. List the name and telephone number of the agency contact person.**

## APPENDIX C

### CAPITAL GRANT AND LOAN PROGRAM FUND SUMMARY TABLE

Use this table for requests involving a financing fund, which provides for repayable loans or loan guarantees (e.g. State Agency Loan Program, Neighborhood Business Development Program, and Rental Housing Programs). The table is submitted in addition to the CBIS submission for grant and loan programs. Modify the table if necessary to accommodate special reporting requirements for the capital program. You may download the Excel spreadsheet at the DBM website under [Forms and Templates](#).

The table requires the agency to list the various sources of revenue and various encumbrances and expenditures for the loan programs it administers. These tables are used to recommend funding in the annual budget and Five-Year Capital Improvement Program.

The following table is fairly self-explanatory. If you need to add lines to indicate other revenues or expenses, or conversely, delete some existing lines that may not apply to you, you should do so. The year in the first column should be last fiscal year, the year in the second column should be the current fiscal year, and the year in the last column should be the next fiscal year. If there are any questions, you should contact your capital budget analyst.

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
**Homeownership Programs**

	FY 20__	FY 20__	FY 20__	FY 20__	FY 20__	FY 20__	FY 20__	FY 20__
<b>BEGINNING BALANCE</b>	3,441,943	4,558,696	1,982,646	6,000,000	6,216,505	6,172,875	6,192,462	5,682,548
<b>REVENUE:</b>								
GO Bonds	2,989,000	1,205,000	0	0	0	0	0	0
General Funds	0	0	1,555,000	0	900,000	700,000	650,000	1,000,000
Loan Repayments/Interest	7,923,305	12,110,175	8,293,141	8,595,483	8,515,348	8,538,565	8,599,064	8,848,204
Transfer In (Out) Other Funds	3,800,000	0	12,148,191	0	0	0	0	0
Federal Funds	96,655	2,246,630	217,503	217,503	217,503	217,503	217,503	217,503
Cancellation of Encumbrances	775,139	3,300,710	621,022	621,022	621,022	621,022	621,022	621,022
<b>TOTAL REVENUE</b>	15,584,099	18,862,515	22,834,857	9,434,008	10,253,873	10,077,090	10,087,589	10,686,729
<b>TOTAL AVAILABLE</b>	19,026,042	23,421,211	24,817,503	15,434,008	16,470,378	16,249,965	16,280,051	16,369,277
<b>ENCUMBRANCES</b>								
Loans	12,496,253	18,038,041	15,600,000	7,600,000	8,500,000	8,300,000	8,750,000	9,100,000
State Administrative Expenses	1,874,438	3,200,755	3,100,000	1,500,000	1,680,000	1,640,000	1,730,000	1,800,000
Federal Administrative Expenses	96,655	199,769	117,503	117,503	117,503	117,503	117,503	117,503
<b>TOTAL EXPENDITURES AND ENCUMBRANCES</b>	14,467,346	21,438,565	18,817,503	9,217,503	10,297,503	10,057,503	10,597,503	11,017,503
<b>ENDING BALANCE</b>	4,558,696	1,982,646	6,000,000	6,216,505	6,172,875	6,192,462	5,682,548	5,351,774

## APPENDIX D

### PRIVATE ACTIVITY LIMITATIONS ON GENERAL OBLIGATION BOND FINANCED PROJECTS

This section describes the circumstances under which agencies must complete an individual survey form for each individual project where the general obligation bond-financed project may involve a limiting private activity. Agencies requesting stand-alone projects should fill out the Tax Exemption Survey in CBIS and do not need to fill out this form. Agencies requesting projects within a program should fill out this form as the Tax Exemption Survey is not available in CBIS for those projects.

#### I. BACKGROUND

The Internal Revenue Service limits the use of tax-exempt bonds for “private purpose” projects to no more than five percent of the tax-exempt bonds issued in a given bond issue. This limit applies to the State’s general obligation bonds, as well as to tax-exempt bonds issued by instrumentalities of the State. Projects that meet two conditions may be subject to the limitation: private use and private payment. Project funds meeting this test are commonly called “Private Activity” or “Bad Money.”

“Private use” is use of a tax-exempt financed facility by any entity other than an instrumentality of State or local government or use on a different basis than members of the general public. One example of private use is the rental of space in a tax-exempt financed building to businesses. Another example of private use could be the operation of a bookstore or dining facility by a private company. Research sponsored by private companies can sometimes constitute private use.

“Private payment” is payment for the privately used portion of a facility above the costs of operating and maintaining that portion of the facility. Also, taking an equity position in a tenant company could lead to a private payment. An example of private payment would be for a tenant in a tax-exempt financed building to pay enough rent to cover some of the debt service. The use of tax-exempt financing for loans would lead to a private payment.

#### II. SURVEYS

This section includes two surveys. Applicants for general obligation bond funds must complete the forms, describing proposed uses of capital budget funds. The main role of the Office of Capital Budgeting is to identify possible projects for further investigation by the Treasurer’s office and the State’s bond counsel.

- A. **Required surveys.** Project requests must include one of the two enclosed surveys for general obligation bond funds where private use may be involved. Responses to this survey that indicate that there will be private use and private payment may mean that the project falls beyond the 5% limit, and a more detailed investigation may be needed to determine exactly how much “private activity” or “bad money” is in the project.
- B. **Survey forms.** The first survey ([CB Form D1](#)) applies to projects that are not higher education facilities; the second ([CB Form D2](#)) is for higher education facilities. Both forms are available on the DBM website under [Forms and Templates](#). Complete the survey form that applies to each individual project and submit it via email or upload to CBIS with your capital budget request. Completed examples follow.

EXAMPLE – CB Form D1

SURVEY OF PRIVATE USES OF TAX-EXEMPT FINANCING	Place an x below to Respond "Yes" or "No" to Each Question	
Name of Facility: General Government Office Building	YES	NO
#1 Will the project be part of a Higher Education facility? If "Yes," use the Higher education survey form.		x
#2 Will any part of the project be funded with general obligation bonds?	x	
#3 Will the project, or any portion of it, be owned by a person or entity other than the State or its political subdivisions? If "Yes," what percentage of the project will be so owned? <u>0%</u>		x
#4 Will the project, or any portion of it, be leased to a person or entity other than the State or its political subdivisions? If "Yes," what percentage of the project will be so leased? <u>25%</u> If #4 was "Yes," describe the terms of the lease on a separate sheet. (See attached example.)	x	
#5 Will the rents exceed operating and maintenance costs?	x	
#6 Will the State gain any other financial interest in any lessees?		x
#7 Will the project, or any portion of it, be managed or operated by a person or entity other than the State or its political subdivisions? If "Yes," what percentage will be managed or operated? <u>25%</u>	x	
#8 Other than by lease or management contract, will any person or entity, other than the State or its political subdivisions, use any portion of the project that is not a general public use? If "Yes," what percentage of the project which will be used? <u>0%</u> If #8 was "Yes," describe the nature of use on a separate sheet.		x
#9 Will the use, ownership, or management of the project or any portion of the project change within fifteen years after the project is placed in service? If "Yes," please describe the nature of the projected change on a separate sheet.		x

Name of Contact: Jan Joans

Phone Number of Contact: (410) 123-4567

Date Completed: June 20, 20\_

CB Form D1

**Example of a Response to Question #4**

#4 Will the project, or any portion of it, be leased to a person or entity other than the State or its political subdivisions? If #4 was “Yes” describe the terms of the lease on a separate sheet.

The project is a 20,000 square foot office building that the Department intends to purchase. The Department plans to lease 5,000 square feet or 25 percent of the project to a current occupant of the building, a private mail delivery firm, Independent Postal, Inc. Independent Postal will be using the space for customer services and general office space. Independent Postal will pay the Department \$15 per square foot per month. The firm has agreed to a two-year lease with two, two-year renewal options. Independent Postal will pay all utilities associated with the leased space and any renovation costs the firm might require to occupy the building.

**EXAMPLE – CB Form D2**

<b>Private Use of Tax-Exempt Financed Higher Education Facilities</b>		
Name of Facility: University Service Center		
The facility will be used for the following purposes (List approximate percentages; Total to 100%)		
Classrooms and/or labs for instruction of enrolled students	10%	
Research	5%	
Administration	0%	
Other academic	10%	
Auxiliary services (specify parking, dining, housing, etc.)	40%	
Lease to non-university/college entity	35%	
Other (specify)		
<b>TOTAL</b>		<b>100%</b>
Place an X in the columns to Respond “Yes” or “No” to Each Question	YES	NO
#1 Will any part of the facility be rented, leased, or otherwise made available to any entities outside the institution? If “Yes,” on a separate sheet describe the intended use, including percentage of building, anticipated use, and anticipated users.	x	
#2 Other than described in (1) above, will the facility, or any portion of the facility, be operated by an entity other than the institution? If “Yes,” describe on a separate sheet.	x	
#3 Will any sponsored research activity take place in the building? If “Yes,” answer the following. 3(A) Will the institution’s employees be paid from federal contracts and grants awarded to perform the research? 3(B) Will the institution’s employees be paid from other than federal contracts and grants to perform the research? 3(C) Will non-institution employees perform the research?	x  x x x	
3(D) Will the agreements for sponsoring the research give the institution exclusive and complete title and ownership to the research and to all patents, licenses, technology and other legal rights to any product or technology developed from the research? If 3(D) was “no,” on a separate sheet, identify who will have an interest and describe the interest.		x
#4 On a separate sheet, describe any revenue that will be generated from the intended use of the facility other than leases, management contracts and/or sponsored research described above.		



Place an X in the columns to Respond "Yes" or "No" to Each Question	YES	NO
#5 Will any person, other than the institution's employees, faculty, staff, and students, have a right to use the facility for their own purposes, other than those purposes described above? If "yes," describe on a separate sheet.		x
#6 Will the use, ownership, or management of any portion of the project change within fifteen years after the project is placed in service? If "Yes," please describe on a separate sheet, the nature of the projected change.	x	

Name of Contact: Jan Joans

CB Form D2

Phone Number of Contact: (410) 765-4321

Date Completed: June 20, 20\_

Example of Responses to Questions #1, 3(D), 4, and 6

- #1 Will any part of the facility be rented, leased, or otherwise made available to any entities outside the institution? If “Yes,” on a separate sheet describe the intended use, including percentage of building, anticipated use, and anticipated users.

The Project is to build a multi-use center. The University will lease 35,000 square feet or 35 % of the building to a private grocery company, Goods Food, Inc. Goods Food will be using the space for customer services and general office space. Goods Food will pay the Department \$15 per square foot per month. The firm has agreed to a two year lease with five, two-year renewal options. Goods Food will pay all utilities associated with the leased space and any renovation costs the firm might require to occupy the building.

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- #3(D) Will the agreements for sponsoring the research give the institution exclusive and complete title and ownership to the research and to all patents, licenses, technology and other legal rights to any product or technology developed from the research? If 3(D) was “No,” on a separate sheet, identify who will have an interest and describe the interest.

The University is sponsoring pharmaceutical research. Pharmax, Inc., the primary contractor for the research, will own no less than a majority interest in any patents, licenses or titles of products or technology resulting from the research; the University will, however, retain no less than 10 percent of any resulting proceeds from the research. The exact amount of the University’s interest is still under negotiation.

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- #4 On a separate sheet, describe any revenue that will be generated from the intended use of the facility other than leases, management contracts and/or sponsored research described above.

The University will lease 15,000 square feet to Students, Inc., a group of students who will operate a bowling alley. The university will receive 25% of the gross revenue from the bowling alley’s operations.

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- #6 Will the use, ownership, or management of any portion of the project change within fifteen years after the project is placed in service? If “Yes,” please describe on a separate sheet the nature of the projected change.

The University is considering sale of the building to Pharmax, depending on Pharmax’s acceptance of the option on its lease. Should Pharmax choose not to renew its lease, the University would consider converting the building into a conference center.