



UTAH SYSTEM OF
HIGHER EDUCATION

Building a Stronger State of Minds

UTAH STATE BOARD OF REGENTS
EXECUTIVE COMMITTEE CONFERENCE CALL
801.321.7150

MAY 17, 2007
4:00 P.M.

Agenda

Utah State University – Proposed Sale of Two Buildings and Ground Lease with Private Developer.

Utah State Board of Regents
Office of the Commissioner of Higher Education
Board of Regents Building, The Gateway
60 South 400 West
Salt Lake City, Utah 84101-1284

May 17, 2007

MEMORANDUM

TO: Executive Committee, State Board of Regents

FROM: Richard E. Kendell

SUBJECT: Utah State University – Approval to Sell Two Buildings and Enter into a Ground Lease with a Private Developer

Utah State University officials request approval to sell two buildings on the Innovation Campus to a private development corporation and enter into a ground lease with the developer. Woodbury Corporation has previously partnered with other USHE institutions to develop leased space on institutional land. Woodbury has made an offer to USU to purchase two buildings, known as RP1 (#1747) and RP2 (#1787), and to remodel RP2. RP1 is currently leased to InTech charter school. Woodbury would continue the lease arrangement with InTech for RP1 as well as a portion of RP2.

The proposed purchase price is approximately \$2 million, and the ground lease is proposed at \$55,000. The purchase price is equal to or slightly above appraised value, and the lease rate is favorable to the University. This proposal spares the University the cost of remodeling RP2, and provides funds for USU's USTAR matching commitment. A term sheet and executive overview are attached. This sale and lease were approved by the USU Board of Trustees on May 16, 2007.

The University is requesting Board of Regents approval even though there are conflicting Regent policies regarding the need for approval. Policy R491 delegates to USU "all powers" to operate its Research Park. But, R710 and R712 suggest that Regent approval is required for external entities to operate facilities on leased institutional property. The Commissioner believes that Regent approval is prudent.

Recommendation

The Commissioner recommends that the Executive Committee of the State Board of Regents authorize Utah State University to sell two buildings, RP1 and RP2, enter into a ground lease with the buyer.

REK/MHS
Attachments

Richard E. Kendell
Commissioner of Higher Education

Term Sheet for Sale of 1747 & 1787 (RP1 & RP2)

Research Park Way, USU Innovation Campus

Woodbury Corporation has made an offer to USU to purchase the two building and to remodel RP2. In addition, RP1 is currently leased to InTech charter high school and they need to expand their space to accommodate additional students for the 2007/2008 school year. Woodbury has agreed to continue to lease RP1 to InTech and the north half of RP2. They will also to remodel that portion RP2 to meet the school's requirements. The remainder of RP2 will be remodeled for use as a multitenant facility. They have proposed the lease agreement to the InTech board and it has been accepted.

We have reached agreement with Woodbury as to purchase price for the buildings and also to a new ground lease for the 3 parcels of land that the buildings and parking lots occupy. The following table gives the key terms of the transaction:

Item	RP1	RP2
Appraised value	\$1,230,000	\$710,000
Purchase price	\$1,230,000	\$788,000
Gross SF	15,150 SF	19,396 SF
Renovations necessary for future use	None- previous renovations were done in 2006 InTech \$800K USU \$48K	\$1,088,000
Ground lease duration	40 years + 10 year option to renew	40 years + 10 year option to renew
Ground lease payments	Initial \$15,700/acre (market value) Increase every three years by CPI	Initial \$15,700/acre (market value) Increase every three years by CPI
Closing	No later than May 31, 2007	No later than May 31, 2007
Requirements for closing	Purchase agreements, ground lease, cross easement for parking access	Purchase agreements, ground lease, cross easement for parking access

USU Retains Ownership

Sell Building

Year	Bldg Lease Revenue 3%	Vacancy Loss 15%	Mgmt Expense 8%	Replacement Allowance 10%	Net Cash Flow	Cumm. NPV 7%	Net Cash Flow	Cumm. NPV 7%	Cumm. NPV Variance
0							1,230,000	1,230,000	1,230,000
1	154,530	-	(12,362)	(15,453)	126,715	118,425	27,500	1,255,701	1,137,276
2	159,166	-	(12,733)	(15,917)	130,516	232,423	28,325	1,280,441	1,048,018
3	163,941	(24,591)	(13,115)	(16,394)	109,840	322,085	29,175	1,304,256	982,171
4	168,859	(25,329)	(13,509)	(16,886)	113,136	408,396	30,050	1,327,181	918,786
5	173,925	(26,089)	(13,914)	(17,392)	116,530	491,480	30,951	1,349,249	857,770
6	179,143	(26,871)	(14,331)	(17,914)	120,026	571,458	31,880	1,370,492	799,035
7	184,517	(27,678)	(14,761)	(18,452)	123,626	648,446	32,836	1,390,941	742,495
8	190,052	(28,508)	(15,204)	(19,005)	127,335	722,556	33,822	1,410,626	688,069
9	195,754	(29,363)	(15,660)	(19,575)	131,155	793,896	34,836	1,429,574	635,678
10	201,627	(30,244)	(16,130)	(20,163)	135,090	862,569	35,881	1,447,814	585,246
11	207,675	(31,151)	(16,614)	(20,768)	139,143	928,674	36,958	1,465,373	536,698
12	213,906	(32,086)	(17,112)	(21,391)	143,317	992,309	38,066	1,482,275	489,966
13	220,323	(33,048)	(17,626)	(22,032)	147,616	1,053,564	39,208	1,498,545	444,981
14	226,933	(34,040)	(18,155)	(22,693)	152,045	1,112,530	40,385	1,514,207	401,677
15	233,740	(35,061)	(18,699)	(23,374)	156,606	1,169,291	41,596	1,529,283	359,992
16	240,753	(36,113)	(19,260)	(24,075)	161,304	1,223,931	42,844	1,543,796	319,865
17	247,975	(37,196)	(19,838)	(24,798)	166,143	1,276,527	44,129	1,557,766	281,239
18	255,415	(38,312)	(20,433)	(25,541)	171,128	1,327,158	45,453	1,571,214	244,056
19	263,077	(39,462)	(21,046)	(26,308)	176,262	1,375,896	46,817	1,584,159	208,264
20	270,969	(40,645)	(21,678)	(27,097)	181,549	1,422,811	48,221	1,596,621	173,809
21	279,098	(41,865)	(22,328)	(27,910)	186,996	1,467,973	49,668	1,608,616	140,643
22	287,471	(43,121)	(22,998)	(28,747)	192,606	1,511,447	51,158	1,620,163	108,716
23	296,095	(44,414)	(23,688)	(29,610)	198,384	1,553,296	52,693	1,631,279	77,983
24	304,978	(45,747)	(24,398)	(30,498)	204,335	1,593,580	54,274	1,641,979	48,399
25	314,128	(47,119)	(25,130)	(31,413)	210,466	1,632,358	55,902	1,652,278	19,921
26	323,552	(48,533)	(25,884)	(32,355)	216,780	1,669,666	57,579	1,662,193	(7,493)
27	333,258	(49,989)	(26,661)	(33,326)	223,283	1,705,619	59,306	1,671,737	(33,882)
28	343,256	(51,488)	(27,460)	(34,326)	229,981	1,740,209	61,085	1,680,925	(59,284)
29	353,553	(53,033)	(28,284)	(35,355)	236,881	1,773,505	62,918	1,689,769	(83,737)
30	364,160	(54,624)	(29,133)	(36,416)	243,987	1,805,557	64,806	1,698,282	(107,275)
31	375,085	(56,263)	(30,007)	(37,508)	251,307	1,836,411	66,750	1,706,477	(129,934)
32	386,337	(57,951)	(30,907)	(38,634)	258,846	1,866,111	68,752	1,714,366	(151,746)
33	397,928	(59,689)	(31,834)	(39,793)	266,611	1,894,701	70,815	1,721,960	(172,742)
34	409,865	(61,480)	(32,789)	(40,987)	274,610	1,922,223	72,939	1,729,270	(192,953)
35	422,161	(63,324)	(33,773)	(42,216)	282,848	1,948,715	75,127	1,736,306	(212,409)
36	434,826	(65,224)	(34,786)	(43,483)	291,334	1,974,217	77,381	1,743,080	(231,137)
37	447,871	(67,181)	(35,830)	(44,787)	300,074	1,998,766	79,703	1,749,600	(249,165)
38	461,307	(69,196)	(36,905)	(46,131)	309,076	2,022,397	82,094	1,755,877	(266,520)
39	475,146	(71,272)	(38,012)	(47,515)	318,348	2,045,144	84,557	1,761,919	(283,225)
40	489,401	(73,410)	(39,152)	(48,940)	327,898	2,067,041	87,093	1,767,735	(299,306)

USU Retains Ownership

Sell Building

Year	Bldg Lease Revenue 3%	Renov. Loan	Vacancy Loss 15%	Mgmt Expense 8%	Replacement Allowance 10%	Net Cash Flow	Cumm. NPV 7%	Net Cash Flow	Cumm. NPV 7%	Cumm. NPV Variance
0								788,000	788,000	788,000
1		(140,931)	(32,003)	(17,068)	(21,336)	(140,931)	(131,711)	27,500	813,701	945,412
2	213,356	(140,931)	(32,964)	(17,581)	(21,976)	2,017	(129,949)	28,325	838,441	968,390
3	219,757	(140,931)	(33,952)	(18,108)	(22,635)	6,306	(124,802)	29,175	862,256	987,058
4	226,349	(140,931)	(34,971)	(18,651)	(23,314)	10,723	(116,621)	30,050	885,181	1,001,803
5	233,140	(140,931)	(36,020)	(19,211)	(24,013)	15,273	(105,732)	30,951	907,249	1,012,982
6	240,134	(140,931)	(37,101)	(19,787)	(24,734)	19,959	(92,433)	31,880	928,492	1,020,925
7	247,338	(140,931)	(38,214)	(20,381)	(25,476)	24,785	(76,998)	32,836	948,941	1,025,939
8	254,758	(140,931)	(39,360)	(20,992)	(26,240)	29,757	(59,679)	33,822	968,626	1,028,305
9	262,401	(140,931)	(40,541)	(21,622)	(27,027)	34,877	(40,708)	34,836	987,574	1,028,282
10	270,273	(140,931)	(41,757)	(22,270)	(27,838)	40,152	(20,297)	35,881	1,005,814	1,026,111
11	278,381	-	(43,010)	(22,939)	(28,673)	186,515	68,315	36,958	1,023,373	955,058
12	286,733	-	(44,300)	(23,627)	(29,533)	192,111	153,615	38,066	1,040,275	886,660
13	295,335	-	(45,629)	(24,336)	(30,419)	197,874	235,725	39,208	1,056,545	820,819
14	304,195	-	(46,998)	(25,066)	(31,332)	203,810	314,767	40,385	1,072,207	757,440
15	313,320	-	(48,408)	(25,818)	(32,272)	209,925	390,853	41,596	1,087,283	696,430
16	322,720	-	(49,860)	(26,592)	(33,240)	216,222	464,095	42,844	1,101,796	637,701
17	332,402	-	(51,356)	(27,390)	(34,237)	222,709	534,599	44,129	1,115,766	581,167
18	342,374	-	(52,897)	(28,212)	(35,264)	229,390	602,467	45,453	1,129,214	526,747
19	352,645	-	(54,484)	(29,058)	(36,322)	236,272	667,799	46,817	1,142,159	474,361
20	363,224	-	(56,118)	(29,930)	(37,412)	243,360	730,687	48,221	1,154,621	423,933
21	374,121	-	(57,802)	(30,828)	(38,534)	250,661	791,225	49,668	1,166,616	375,391
22	385,345	-	(59,536)	(31,752)	(39,691)	258,181	849,500	51,158	1,178,163	328,663
23	396,905	-	(61,322)	(32,705)	(40,881)	265,926	905,597	52,693	1,189,279	283,682
24	408,812	-	(63,161)	(33,686)	(42,108)	273,904	959,596	54,274	1,199,979	240,383
25	421,077	-	(65,056)	(34,697)	(43,371)	282,121	1,011,576	55,902	1,210,278	198,702
26	433,709	-	(67,008)	(35,738)	(44,672)	290,585	1,061,614	57,579	1,220,193	158,579
27	446,720	-	(69,018)	(36,810)	(46,012)	299,302	1,109,781	59,306	1,229,737	119,957
28	460,122	-	(71,089)	(37,914)	(47,393)	308,282	1,156,147	61,085	1,238,925	82,778
29	473,925	-	(73,221)	(39,051)	(48,814)	317,530	1,200,780	62,918	1,247,769	46,989
30	488,143	-	(75,418)	(40,223)	(50,279)	327,056	1,243,744	64,806	1,256,282	12,538
31	502,787	-	(77,681)	(41,430)	(51,787)	336,868	1,285,103	66,750	1,264,477	(20,625)
32	517,871	-	(80,011)	(42,673)	(53,341)	346,974	1,324,915	68,752	1,272,366	(52,549)
33	533,407	-	(82,411)	(43,953)	(54,941)	357,383	1,363,238	70,815	1,279,960	(83,279)
34	549,409	-	(84,884)	(45,271)	(56,589)	368,104	1,400,130	72,939	1,287,270	(112,860)
35	565,892	-	(87,430)	(46,629)	(58,287)	379,147	1,435,642	75,127	1,294,306	(141,336)
36	582,868	-	(90,053)	(48,028)	(60,035)	390,522	1,469,826	77,381	1,301,080	(168,746)
37	600,354	-	(92,755)	(49,469)	(61,837)	402,237	1,502,733	79,703	1,307,600	(195,133)
38	618,365	-	(95,537)	(50,953)	(63,692)	414,305	1,534,409	82,094	1,313,877	(220,532)
39	636,916	-	(98,404)	(52,482)	(65,602)	426,734	1,564,901	84,557	1,319,919	(244,983)
40	656,024	-				439,536	1,594,254	87,093	1,325,735	(268,519)

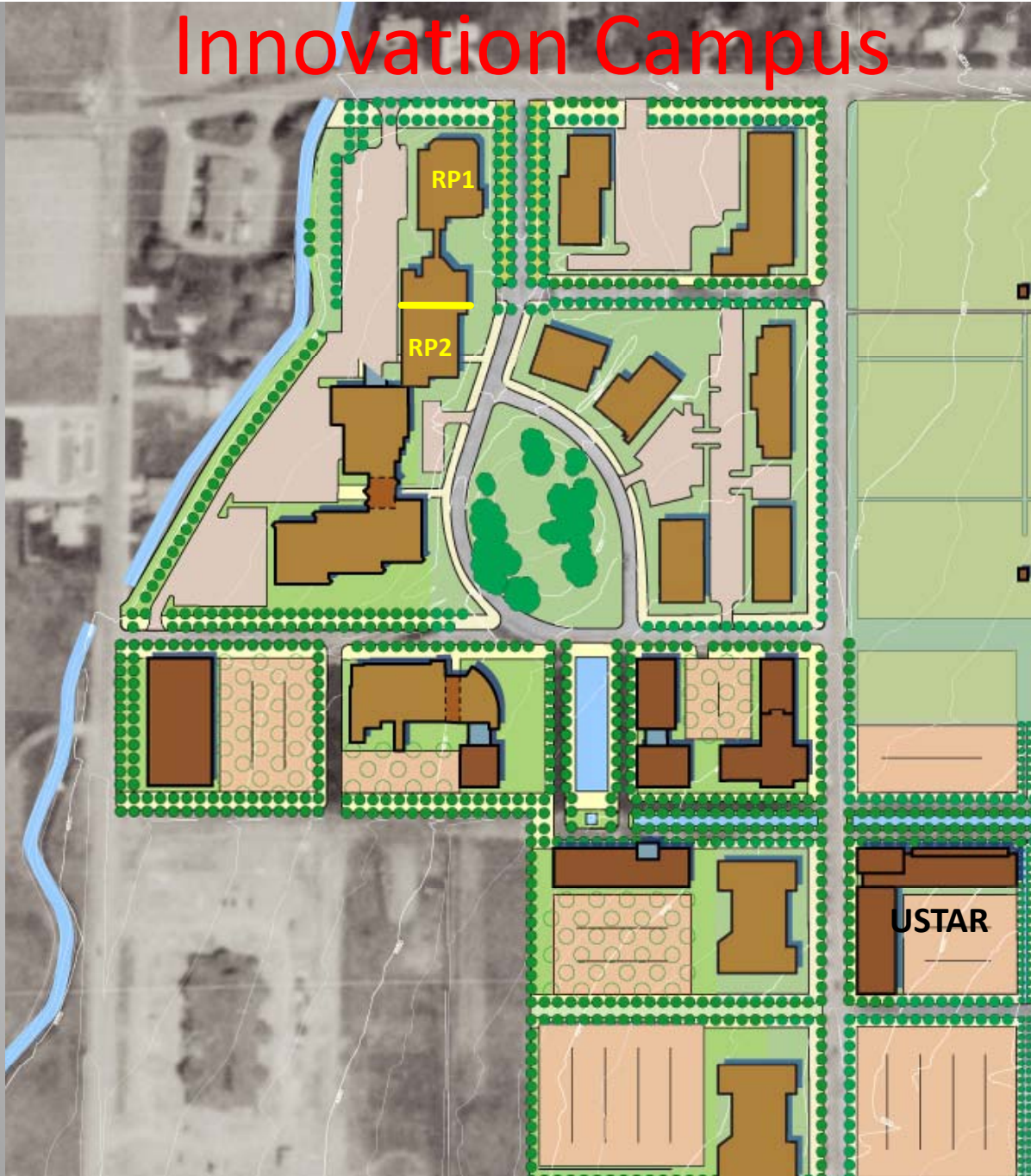
Proposed RP1/RP2 sale
BOT and Regents
Executive Review

May 5, 2007

Background

- USU has commitment to InTech Charter school with respect to location on Innovation Campus
 - InTech currently leases RP1 and needs expansion space for 3rd and 4th year students
 - Only logical expansion is into portion of RP2
 - RP2 needs extensive renovation to meet needs of school and upgrade to current codes
 - Neither InTech nor USU have adequate funds for renovation
- USU has immediate cash need to secure the USTAR “in kind” donation for new research building
- USU has negotiated with Woodbury Corp to create a solution that meets the needs of InTech and USU

Innovation Campus



RP 1 & RP2 sale

- Appraisals received from Bodell-Drimmelen for both buildings (paid for by Woodbury)

	RP1	RP2
Appraised value (After renovation)	\$1,230,000	\$1,794,264
Renovation costs	~\$850,000 (actual) ~\$800K by InTech ~\$50 by IC	\$1,088,233 (estimated)
Net appraised values	\$1,230,000	\$710,000
Purchase price proposal	\$1,230,000	\$788,000
Total Proceeds		\$2,018,000

Status: Letter of Intent with purchase price received; draft contract received

IC Governing Board approved , pending BOT & Regents approval

Use of Proceeds

- Help service bond and finish build out for the “620 building” used for “in kind” donation to USTAR
- Provide additional funds to build infrastructure for the IC Expansion
- Provide support to TCO to partially relieve Research office burden
- Other purposes as directed by the President

Pros/Cons of Sale

Pros

- Provides facility for HS on schedule
- \$2,018,000 cash up front for other purposes such as 620 building, IC infrastructure
- Creates an up to date remodel of RP2 with safety issues addressed
- Reduces future financial risk for IC due to renovations/repairs/vacancy rate/competition in park
- **Guaranteed** cash flow **at market rate** for new ground lease (~\$55K/year with CPI escalation)

Cons

- May use portion of ground lease to help subsidize InTech HS
- Potential loss of revenue long term (beyond ~30 years)