

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** May 21, 2008

Agenda Item: Metropolitan State University Facility Lease

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

Cite policy requirement, or explain why item is on the Board agenda: Board Policy 5.14, Procurement and Contracts, Subdivision 3, requires Board of Trustees approval of all contracts, including leases, valued greater than \$2 million.

Scheduled Presenter(s): Allan Johnson, Associate Vice Chancellor
William Lowe, Interim President, Metropolitan State University
Cathleen Brannen, Vice President of Administration and Finance, Metropolitan State University

Outline of Key Points/Policy Issues: Metropolitan State University is proposing the expansion of leased space at the Energy Technology Center (ETC) in the Midway area of Saint Paul to accommodate growth in program offerings at that location. The University expects to add 6,545 usable square feet (increasing total square footage from 47,479 square feet to 54,024 square feet) to the leased space. The landlord will cover the cost to build out the additional space, and the lease will be extended from its current expiration date of July 31, 2010 to July 31, 2013. The lease amendment is valued at nearly \$5.5 million.

Background Information: Metropolitan State University entered into the lease at 1450 Energy Park Drive, Saint Paul, beginning on September 1, 1995. The University has delivered a wide variety of academic programs at its Midway location, offering about 50 classes from 25 different departments and serving approximately 1400 students daily, Monday through Thursday.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

BOARD ACTION

Metropolitan State University Facility Lease

BACKGROUND

Board Policy 5.14, Procurement and Contracts, Subdivision 3, requires Board of Trustees approval of all contracts, including leases, valued greater than \$2 million.

Metropolitan State University entered into a lease at 1450 Energy Park Drive, Saint Paul, also known as Energy Technology Center (ETC) beginning on September 1, 1995. The ETC building is located in the Midway neighborhood of Saint Paul. Since that time, Metropolitan State University has delivered a wide variety of academic programs at its Midway location, offering about 50 classes from 25 different departments and serving approximately 1400 students daily, Monday through Thursday. This is the largest classroom site for the University, with 37 classrooms and four computer laboratories. The main Saint Paul campus has 22 classrooms and its allocation at its Minneapolis Campus (co-located with Minneapolis Community and Technical College) is 25, which is largely evenings only.

Starting in FY1996, Metropolitan State University leased 26,397 square feet at ETC. Due to the success of the programs at the site, the University expanded its lease incrementally every few years since inception, and is currently on its 10th lease amendment. The University's current lease of 47,479 square feet is scheduled to expire July 31, 2010. The historical fiscal year rent costs and square footages of the lease are shown in Attachment A.

MASTER PLAN CONSIDERATIONS

The current facilities master plan for the University was completed in 2002. This plan will be updated in the next several months with participation by the University's new president. The current plan projects a number of new instructional classroom buildings on the Saint Paul campus. However, as planning for Metropolitan State's role in the expansion of bachelor degree and graduate programs in the Twin Cities is refined, the additional instructional/office capacity could be built on Metro Alliance partner campuses or other state-owned sites. Until additional buildings are constructed, the University will continue to rely on leased space for classrooms and some academic offices well into the future (2016 and beyond). The University currently plans to submit a project for a new health and science building for design funding in the 2010 Capital Budget and construction funding in the 2012 Capital Budget.

CURRENT SITUATION

The University desires an expansion at ETC to accommodate growth in biological sciences (consistent with Board of Trustees’ Action Plan STEM Targets) and to accommodate a large grant project from the Department of Human Services. The expansion would include the addition of two biology labs and two classrooms on the third floor. The first floor would be built out as office space to accommodate the Minnesota Center for Professional Development, which serves all early childhood and school age professionals in the State of Minnesota. The proposed expansion is summarized below:

EXPANSION SPACE:

Biology Labs and Two Classrooms	4,317 sq. ft	3 rd floor.
Center for Professional Development	2,228 sq. ft.	1 st floor
Expansion Space Subtotal	6,545 sq. ft.	
Current Space	47,479 sq. ft.	
Grand Total with Expansion:	54,024 sq. ft.	

The cost to build out the expansion space is approximately \$275,000 or about \$41 per square foot. The landlord has agreed to absorb the cost of the build out. In return for covering the cost of build out, the landlord has requested an extension of the term of the lease by three (3) additional years, which would extend the lease from its current expiration date of July 31, 2010 to July 31, 2013. Tables of the current and proposed lease terms are shown below:

Current Lease (Lease Amendment #10)

Term	9/1/06 - 6/30/2010	
Square Footage	47,479	(basement & 1st floor)
Rent Rate (gross)	\$19.10	(rent + operating expenses)
Parking	153 stalls	(daytime)
Ave. Annual Rent	\$ 906,848.90	
Total Cost	\$ 3,476,254.10	

Proposed Lease (Lease Amendment #11)

Term	8/1/2008 - 7/31/2013	Add 3 years to existing term
Square Footage	54,024	Adds lab, classroom and office
Rent Rate (gross)	\$19.25-\$21.00	Rent, op. expenses and buildout
Parking	add 50 stalls; total of 203	Daytime
Build Out Cost	\$275,521	Landlord financed
Ave. Annual Rent	\$1,099,388	
Total Cost	\$5,496,942	

As part of the lease amendment, the University has included an option to expand up to an additional 3,000 sq. ft. for the relocation of First College faculty offices at ETC. The option would be exercised on or before December 31, 2008. The University will provide an update on the status of the exercise of this option at the Board meeting. Adding 3,000 sq. ft. would add approximately \$310,000 of total rent cost, and another \$123,000 to the build out cost.

A map showing the location of the leased premises in relative to the University's Saint Paul campus is included for reference as Attachment B.

RECOMMENDED COMMITTEE ACTION:

The Facilities/Finance/Technology Policy Committee recommends that the Board of Trustees adopt the following motion:

RECOMMENDED MOTION:

The Board of Trustees authorizes the chancellor or his designee to execute a lease amendment with the owners of 1450 Energy Park Drive, Saint Paul, consistent with the terms as summarized on Attachments C and D.

Date Presented to the Board: May 21, 2008

**ENERGY TECHNOLOGY CENTER (ETC)
HISTORICAL LEASE SYNOPSIS**

Fiscal year	Rent	Ave. Sq. Ft.	Ave. \$/ Sq. ft.
FY96*	\$ 59,393.25	26,397	\$13.50
FY97	\$ 370,333.25	26,610	\$13.92
FY98	\$ 417,319.25	28,947	\$14.42
FY99	\$ 441,662.75	29,607	\$14.92
FY00	\$ 457,366.25	29,667	\$15.42
FY01	\$ 500,879.75	31,460	\$15.92
FY02	\$ 564,833.00	34,393	\$16.42
FY03	\$ 655,523.67	38,731	\$16.92
FY04	\$ 687,888.67	39,496	\$17.42
FY05	\$ 707,636.67	39,496	\$17.92
FY06	\$ 798,770.92	39,496	\$20.22
FY07	\$ 891,764.00	46,896	\$19.02
FY08	\$ 906,848.90	47,479	\$19.10
FY09	\$ 906,848.90	47,479	\$19.10
FY10	\$ 906,848.90	47,479	\$19.10
Rent Total:	\$ 9,273,918.12		

*The University had been leasing a portion of the building prior to the original lease start date of September 1, 1995.

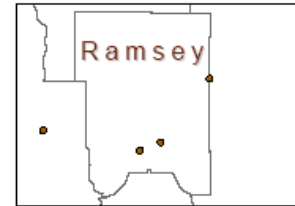


Metropolitan State University
St. Paul ***Board Attachment***



May 20-21, 2008
This map was created for display purposes only. It should not be used for accurate measurements or where a survey is required.

Sources: Metropolitan Council parcel data, Metropolitan Council imagery, MnDNR, MnDOT.



**ENERGY TECHNOLOGY CENTER (ETC)
SUMMARY OF MAJOR PROVISIONS
LEASE AMENDMENT NO. 11**

Premises	<p>Current: 47,479 square feet</p> <p>Adds: 6,545 usable square feet with an option to expand another 3,000 square feet (exercise by December 31, 2008).</p> <p>Proposed: 54,024 square feet occupying basement, first and third floors.</p>
Commencement	The later of August 1, 2008 or 30 days after construction completion.
Term	<p>Adds 3 years to existing lease term for a total of five (5) years.</p> <p>New term would be August 1, 2008 – July 31, 2013.</p>
Rental Rate	Starts at \$19.25/usable square foot, including operating expenses and leasehold improvements; escalates to \$21.00 by year five.
Tenant Improvement Allowance	\$41 per square foot. The University will also have a cost for furniture, fixtures and equipment.
Renewal Option	None.
Expansion Rights	One expansion option of 3,000 square feet exercisable by December 31, 2008. Rental at same rate as above.
Parking	Currently 153 stalls dedicated for daytime use, increasing to 203 stalls when amendment goes into effect.
Termination option	Right to terminate with no penalty if loss of state funding support or if relocating to state/MnSCU owned building.
Sublease	Generally allowed subject to landlord's standard lease agreement.
Signage	No change. Signage exists on monument sign along Energy Park Drive.

ATTACHMENT D

**FINANCIAL SUMMARY
Metropolitan State University
Lease Amendment No. 11
Energy Technology Center
1450 Energy Park Drive, Saint Paul**

Average annual gross rent	\$1,099,388
NPV - 5 years at 8%	\$ 4,183,786
Average annual rent rate	\$20.35 per usable square foot
Other Tenants in ETC	Higher Education Office, MINNCOR, and Department of Corrections.
Other Recent Transactions	Lease rates in the immediate area of Energy Park Drive are at or above the lease rates being charged at 1450 Energy Park Drive (approximately \$12-\$14 net plus \$8-\$10 operating expenses). Very few properties are able to support the intensity of parking required at ETC.