

COMMITTEE MEMORANDUM

TO: Property and Facilities Committee Members
Board of Regents, State of Iowa

FROM: Sheila Doyle, Susan Anderson, and Joan Racki

DATE: June 13, 2005 *ASN*

SUBJ: Iowa State University Real Estate Matter

Recommended Action:

Review and recommend to the Board approval of the:

1. University's plan for the sale of the Ankeny Dairy Farm, in accordance with the 2002 legislation authorizing the sale, with the proceeds from the sale to be used for the purchase of land and development of a new **Dairy/Animal Science Education and Discovery Facility**.
 2. Sale of the Ankeny Dairy Farm to the City of Ankeny, Iowa, at the net sale price of \$20,605,933, with the real estate contract (to be signed at closing) to be approved by the Board Office and Attorney General's Office.
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Executive Summary:

The Ankeny Dairy Farm, which is surrounded by the City of Ankeny, is inhibiting the City's future growth; the existing facilities at the farm are extremely outdated.

Legislation passed by the 2002 General Assembly directed Iowa State University to sell the Ankeny Dairy Farm; the legislation requires the University to submit its plan for the sale of the land to the Board of Regents for review and approval prior to implementation.

The University wishes to use the proceeds from the sale to establish the new **Dairy/Animal Science Education and Discovery Facility** (to be constructed south of Ames), which is one of the uses permitted by the legislation.

Due to the operation of the Des Moines Ordnance Plant at the Ankeny site during World War II, the federal Environmental Protection Agency (EPA) has determined that environmental issues exist at the site which must be resolved prior to development of the land.

The University proposes to sell the Ankeny Dairy Farm to the City of Ankeny, Iowa based on the average of two appraisals, less the cost of the environmental removal and remediation estimate caused by the operations of the original munitions factory.

The net sale price would be \$20.6 million. According to the agreement with the City, payments would be made to the University over a three-year period. However, the buyer has the right to accelerate payments at any time during the term of Real Estate Contract without penalty.

The City would be responsible for the future development of the site.

The sale would close on September 1, 2005 or such other date as mutually agreed to by the parties; the Board, on behalf of the University, and the City would enter into a farm lease agreement for the University's continued use of a portion of the property for its dairy farm operations until the new **Dairy/Animal Science Education and Discovery Facility** is completed. The lease would need to be approved by the Board by roll call vote.

At closing, the buyer and seller will enter into a real estate contract which will be consistent with the terms of the purchase agreement; the form and content of the real estate contract will be mutually agreed upon by the parties. It is recommended that this contract be approved by the Board Office and Attorney General's Office before signature.

The Real Estate Purchase Agreement has been reviewed by the Attorney General's Office and the requested changes to the Agreement have been made.

Background and Analysis:

Background

From 1941 to 1945, the Des Moines Ordnance Plant was located at the Ankeny Dairy Farm site; the Ordnance Plant produced approximately two million ammunition shells per day.

In 1946-1947, when the Ordnance Plant was no longer in production, Iowa State College acquired a portion of the property. Since that time, the property has been used as the site for the Ankeny Dairy Farm, which has been used primarily for entomological and dairy research.

The 2002 General Assembly (SF 2316) (Iowa Code 266.39F) directed Iowa State University to sell the Dairy Research Farm located in Ankeny, Iowa.

The legislation requires the University to submit its plan for the sale of the land to the Board of Regents for review and approval prior to implementing the plan and stipulates that the sale is to be handled in a manner that is the most financially beneficial to the University.

According to the legislation, the proceeds from the sale of the farm are to be used to establish a new dairy research and dairy teaching facility, or for the University's Plant Sciences Institute.

- The University has been planning the **Dairy/Animal Science Education and Discovery Facility** project which would construct a new dairy education and research facility on a 600 acre agricultural site south of Ames; this would serve as the primary location for the education and research activities of the University's dairy science programs.
- The Board previously approved a project budget of \$15,350,000 and the schematic design for the Phase 1 component of the project; the construction would be funded with proceeds from the sale of the Ankeny Farm.

Environmental Issues

Since the Ankeny Dairy Farm is located at the former Ordnance Plant site, the U.S. Environmental Protection Agency (EPA) and the U.S. Army Corps of Engineers have conducted various site investigations over the last two decades to assess possible contamination at the site.

Most recently, the EPA conducted a site survey in 2003 to identify any potential environmental issues; the EPA's Expanded Site Inspection Report was issued in March 2004.

Based on its investigation, the EPA concluded that the site would no longer be considered for listing on the CERCLA (Comprehensive Environmental Response, Compensation and Liability Act) National Priorities List.

- The CERCLA establishes the government's authority to respond to the release or threat of release of hazardous wastes, including clean-up and environmental actions.
- The National Priorities List, which is the list of national priorities among the known or threatened releases of hazardous substances, pollutants, or contaminants, is intended to guide the EPA in determining which sites warrant further investigation.

However, the EPA determined that environmental issues exist on portions of the site and need to be addressed. Accordingly, the EPA and Iowa Department of Natural Resources (DNR) agreed that these concerns would be handled under the jurisdiction of the DNR.

Development of the land cannot occur until the environmental issues are resolved and there is regulatory approval permitting development of the site.

The Iowa Department of Natural Resources has indicated that hazardous conditions will have to be addressed under the Department's Administrative Rules. The land use and zoning plans of the buyer (the City of Ankeny) determine the required level of environmental clean-up for the site.

The University has received cost estimates for clean-up of the site from Chase Environmental Group of Louisville, Kentucky, an environmental remediation, engineering and consultation firm.

Based on the Chase survey, the estimated costs for site characterization, remediation, containment removal, and structure demolition and removal total \$3,000,000.

Site Development The Real Estate Purchase Agreement between the Board/University and the City of Ankeny provides that the City would have the responsibility for the future development of the site.

The University has no objections to the City's land use plan, which is the basis of the appraisals.

The City of Ankeny has indicated the process it will follow would permit interested parties to participate in the development.

Appraised Land Values The University received two appraisals for the property dated April 30, 2005 based upon the City of Ankeny's proposed use of the land; the appraisals do not reflect the possible existence of environmental hazards at the site.

- Iowa Appraisal and Research Corporation, Des Moines, Iowa, appraised the total property value at \$24,261,912.
- Commercial Appraisers of Iowa, Des Moines, Iowa, appraised the total property value at \$22,949,954.

The average of the two appraisals is \$23,605,933, for 1054.11 acres, which includes the actual land being sold (1031.15 acres) plus an additional 22.96 acres that the City of Ankeny was to transfer to Iowa State University for the right-of-way provided for the construction of State Street which bisects the property. This is the equivalent of \$22,394.18 per acre.

The appraisals do not reflect the possible existence of environmental hazards at the site. Accordingly, the University and the City have agreed to adjust the average appraised value by the estimated environmental clean-up costs to determine fair market value of the property.

Sale Price

The agreed upon adjustment is \$3,000,000, leaving a net sale price of \$20,605,933 which the City has agreed to pay over a three-year period.

The terms of the sale include an initial cash payment of \$4,868,644 at closing, with the remainder to be paid over a two-year period (\$7,868,644 due September 1, 2006, and \$7,868,645 due September 1, 2007), with interest on the unpaid balance to be paid at the rate of 7 percent per annum. With interest earnings estimated at \$1,652,415, the University's total proceeds from the sale would equal \$22,258,348.

However, the buyer has the right to accelerate payments at any time during the term of Real Estate Contract without penalty.

The University reports that it has been contacted by a number of prospective developers and possible buyers since the legislation was approved. Those conversations, according to the University, have indicated land values substantially less than the current appraised value.

The size of the parcel requires substantial resources and there are a limited number of developers who have indicated they could finance the total purchase, particularly in cash.

The University is not interested in selling on contract, assuming interest rate risks or speculating on the length of time it may take to develop the acreage.

The proposed sale to the City of Ankeny would transfer the development risk from the University and would provide the resources to proceed with development of the new **Dairy/Animal Science Education and Discovery Facility**.

It is the University's intent to request approval of a rental farm lease with the City of Ankeny for the site of the existing dairy operations while the new **Dairy/Animal Science Discovery Facility** is under construction.