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AGREEMENTS RELATED TO THE IOWA STATE UNIVERSITY DAIRY FARM

Actions Requested: Consider recommending to the Board approval of the following agreements related to the University's Dairy Farm operations:

1. Lease agreement with the City of Ankeny, Iowa, for the University's continued use of 599 acres of land at the existing Ankeny Dairy Farm site following the sale of the land to the City of Ankeny and until relocation of the University's dairy farm operations; and
2. Purchase agreement with the Committee for Agricultural Development (CAD) for acquisition of agricultural land south of Ames, Iowa, as a site for the University's new dairy facilities.

Executive Summary:

Legislation passed by the 2002 General Assembly directed the sale of ISU's Ankeny Dairy Farm. The legislation directs that the proceeds from the sale be used to establish a new dairy research and dairy teaching facility, or to support the University's Plant Sciences Institute.

At its June 2005 meeting, the Board approved the sale of the Ankeny Dairy Farm (1,031.15 acres) to the City of Ankeny, at the net sale price of \$20.6 million, with the real estate documents (to be signed at closing) to be approved by the Board Office and Attorney General's Office. The City of Ankeny will pay for the land in three installments, with the first payment due at closing and the final payment due on September 1, 2007 (although the City has the right to accelerate the payments). The scheduled closing date for the sale is September 19, 2005; the real estate documents have been finalized and approved by the Board Office and the Attorney General's Office.

As indicated with approval of the Ankeny land sale, the Board and the City of Ankeny will enter into a farm lease agreement for the University's continued use of a portion of the property until the dairy farm operations are relocated. The lease would be effective from the closing date for the land sale through December 31, 2007, unless the University needs additional time to relocate the farm operations. Since the City plans to sell the property to a developer during the lease term, the lease agreement requires the Board to consent to assignment of the lease to the developer as the City's successor to the agreement.

The Board previously approved the project budget (\$15,350,000) and schematic design for Phase 1 of the **Dairy/Animal Science Education and Discovery Facility** project which would construct new dairy education and research facilities to replace the operations of the Ankeny Dairy Farm. The new dairy facilities would be constructed on agricultural land located south of Ames, which would be purchased from the current property owner, CAD, with proceeds from the sale of the Ankeny Farm.

The first parcel of land (80 acres), which is needed for the Phase 1 construction project scheduled to begin this fall, would be purchased with proceeds from the first payment to be received from the City of Ankeny. The anticipated completion date for the Phase 1 project is fall 2006, which the University believes will allow sufficient time for relocation of the dairy operations from the Ankeny site prior to the end of lease term for that location (December 31, 2007). The remaining land, approximately 805 acres, would be purchased from CAD when sufficient proceeds are available from the sale of the Ankeny Farm.

The lease agreement with the City of Ankeny and purchase agreement with CAD have been reviewed by the Board Office and the Attorney General's Office and are recommended for approval.

Details of Lease Agreement with City of Ankeny

The Board would lease from the City of Ankeny a total of 599 acres of land (559 acres of cropland and 40 acres of permanent pasture) at the Ankeny site for the University's dairy farm operations. The land would be leased at the annual rate of \$140 per acre for tillable crop land harvested, and \$40 per acre for permanent pasture.

Since construction of the new dairy facilities is anticipated to be complete in the fall of 2006, the University believes it will have sufficient time to relocate the farm operations (cows and movable equipment and facilities) to the new dairy site prior to December 31, 2007 (the end of the lease term). However, should the University not be able to vacate the Ankeny land prior to the end of the lease term, the lease allows the Board to continue to lease the land for one additional year at the rate of \$1,610 per year per acre occupied, to be prorated on a daily basis.

The 2005 crop at the Ankeny Dairy Farm will remain the property of the Board of Regents and the University will be allowed to harvest the crop at no charge. The lease allows the Board to reduce the number of acres rented for the 2006 and 2007 crop years, but the City may not reduce the amount of leased land to less than the minimum amount required by the University (450 acres of cropland and 40 acres of permanent pasture).

Following purchase of the property by the City of Ankeny, the City plans to sell the property to DRA Properties for development of the Prairie Trail project. Accordingly, the lease agreement provides for the City's assignment of the lease to a developer.

Details of Purchase Agreement with Committee for Agricultural Development (CAD)

A total of approximately 885 acres of agricultural land south of Ames would be purchased, at the price of \$6,250,000, as the site for the **Dairy/Animal Science Education and Discovery Facility** project. The agreement requires the Board's use of the property for agricultural education and research for a period of at least 20 years from the date of the agreement.

The building site for the Phase 1 project consists of 80 acres; construction of the dairy facilities at the site cannot begin until title to this portion of the property has been obtained. The first parcel (the 80-acre building site) would be purchased from CAD in the amount of \$563,680 upon receipt of the first payment from the City of Ankeny for the sale of the Ankeny Dairy Farm.

Under the terms of the purchase agreement the remaining parcel of land would be acquired at the purchase price of \$5,686,320. This purchase price is contingent upon acquisition of this parcel by April 30, 2008. If the purchase is not complete by that date, the agreement allows the property to be leased at the prevailing rate for comparable farm land, with the option and right of first refusal to purchase the remaining property at the appraised value, but no less than \$7,046 per acre, with written notice to CAD prior to April 30, 2023.

Upon the Board's purchase of the second parcel, CAD agrees to make a \$1 million grant to the University to support the new dairy facilities. In return, the University will acknowledge CAD's contribution with signage at the new dairy farm and make available public information about CAD and its purposes and programs. However, if CAD is required to expend funds for environmental remediation at the site, the grant will be reduced by the amount of that expenditure.

If the property is purchased at the proposed price of \$6,250,000, the Board would need to waive Policy Manual §9.02 C.3. which requires the Board to purchase property at no more than the higher amount of two appraisals, or not more than five percent over the average of the two appraisals, whichever is the lower figure. Based on the two appraisals for the CAD property (\$6,200,000 and \$6,193,000), the purchase price should not exceed \$6,200,000 under Board policy; however, the proposed purchase price exceeds this amount by \$50,000, or 0.8 percent. The University believes the additional cost is reasonable given CAD's \$1 million contribution to the new dairy facilities.

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