

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Proposed Purchase of Property Located in Waverly, Iowa  
**Date:** October 9, 2000

**Recommended Action:**

Deny the University's request to purchase the property located in Waverly, Iowa, which is currently leased by the University to house the Ag-Based Industrial Lubricants (ABIL) Research Program.

**Executive Summary:**

The University has requested Board approval to purchase the property which it currently leases in Waverly, Iowa, to house the Ag-Based Industrial Lubricants (ABIL) Research Program. The property consists of approximately 4.52 acres of land and a facility of 18,386 gross square feet of space. The facility was constructed by the City of Waverly in 1993 with City funds and a grant from the federal Economic Development Administration (EDA). The ABIL program has leased the space since 1996.

The proposed purchase price for the facility is \$300,000; the University proposes to fund the purchase with Income from Treasurer's Temporary Investments (TTI). However, the property transfer to UNI requires written approval of the EDA in accordance with the terms of the grant for construction of the facility; this approval has yet to be received.

The purchase agreement has been reviewed by the Attorney General's Office. The Attorney General's Office does not recommend approval of the purchase, due to several issues associated with the conveyance of the property.

The Board Office also does not recommend purchase of the property for several reasons, including the following:

- The property is located outside of the Cedar Falls/Waterloo area. Historically, Regent institutions have not engaged in real estate purchases outside their proximate campus areas, but have on occasion assumed an ownership interest in real property by private donation. The Board and the Regent institutions have utilized leases, rather than purchases, of property to accommodate institutional or Regent initiatives outside of their local communities. This historical practice has served the Regent institutions well by providing maximum flexibility, convenience, and cost-effectiveness.
- In 1995, the institutions prepared a comprehensive listing of property owned at the request of the Legislative Fiscal Bureau. The Board Office staff has reviewed this listing and subsequent Board documents. According to the institutional information and the Board documents, the Board has not approved any property purchases outside of the county in which the institution is located, other than for farm land.
- The Board's historical practice of leasing rather than purchasing real estate recognizes the preeminent role of the private sector in real estate ownership and development, and precludes the necessity for substantial up-front investments and continuing operating costs incurred in real estate purchase and ownership.
- The Board Office recommends that the TTI funds could be utilized to address critical deferred maintenance needs at the institution.
- The University appears to have the option to continue lease arrangements for ABIL in Waverly at a favorable rate, since the current lease rate is less than \$1 per square foot.

**Background and Analysis:**

The mission of ABIL is to expand the market for crops grown in the United States by providing research and technology transfer leading to commercialization of environmentally-friendly industrial lubricants. ABIL is recognized nationally as a leader in the development and commercialization of soybean-based industrial lubricants.

The ABIL facility was constructed in 1993 in the Waverly Industrial Park by the City of Waverly. Construction of the facility was funded by a grant from the federal Economic Development Administration (EDA) in the amount of \$492,600, and \$300,000 from City of Waverly entities (including the City, Waverly Light and Power, and Waverly Economic Development). The building was originally constructed to house the Iowa Plastics Technology Center, which was a UNI program that leased the space from the City. The building was later leased to the University's Department of Industrial Technology, which established the ABIL program in 1995. The current lease is in effect through January 31, 2001.

The lease rate for the Waverly space has been very favorable for the University, which currently pays an annual rental rate of \$16,320 for 18,386 gross square feet of space (\$0.89 per square foot). In addition to this cost, the University is also responsible for payment of all utilities and other services including trash and snow removal, and lawn care. The University has indicated that comparable space in the Waterloo/Cedar Falls area would be leased at the rate of approximately \$15 per square foot. At the current lease rate, it would take the University more than 18 years to recoup its investment, not considering interest, that would be earned on the proposed source of funds from the purchase. In addition, the University, as landlord, would become responsible for the structural condition of the building and possibly other costs such as fire protection.

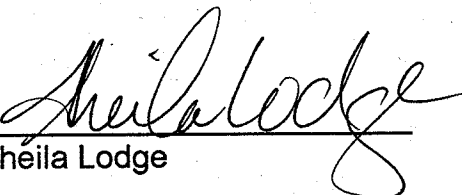
The University has received two appraisals for the property which have placed the value at \$460,000 and \$683,000, well above the proposed purchase price of \$300,000 (equivalent to approximately \$16 per square foot). According to the University, the City is only interested in recovering its initial investment in the property. The City plans to invest the proceeds from the sale into additional development at the industrial park.

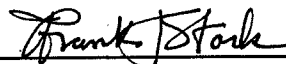
The EDA grant which partially funded construction of the facility (\$492,600) requires prior written approval for the transfer or conveyance of the property. The grant also stipulates that the transfer of the property to parties which are not eligible to receive EDA funding will require the grant funds to be re-paid to the EDA. The University has requested written approval from the EDA for the transfer of the property; approval has yet to be received.

In its fall 1999 report, the University identified deferred maintenance totaling \$53.4 million. This sum includes individual building projects, components of major renovations on the Board's Five-Year Capital Program, and needed utility work. The Board's top priority for the University for FY 2002 capital funding is the steam distribution system (\$12.7 million).

The University's income from Treasurer's Temporary Investments is approximately \$500,000/year. The carryforward from prior years to FY 2001 is approximately \$2.3 million. The report recently prepared for the Legislative Fiscal Committee shows a planned FY 2001 use of \$350,000 of Treasurer's Temporary Investments for steam vault structural repairs. In view of the magnitude of the deferred maintenance needs on campus and the need to maintain the integrity of the utility system until major improvements can be made, the Board Office believes that the TTI funds planned to be used for the purchase would be better employed to address campus deferred maintenance needs.

The purchase agreement includes a November 1 effective date and stipulates that the purchase is subject to written approval of the transfer by the EDA, and approval by the Board of Regents and Executive Council.

  
\_\_\_\_\_  
Sheila Lodge

Approved:   
\_\_\_\_\_  
Frank J. Stork