UO, Resolution Authorizing Proposal to Acquire a Federal Building

The University of Oregon is seeking Board approval of a resolution authorizing the University to propose to acquire and, if selected by the General Services Administration (GSA), to accept on behalf of the Board and to renovate a soon-to-be-surplus federal building at 511 NW Broadway in Portland. The GSA deadline for submission of the University’s proposal is February 10, 2006.

The federal building at 511 NW Broadway was a post office and currently is used by the U.S. Citizenship and Immigration Services, which may seek to remain in the building for up to two years.

While approval of the resolution is intended to keep open the UO’s options for Portland-based facilities, the resolution commits the Board to act only after a 120-day due diligence period, consistent with the Application and Letter of Commitment that require Legislative approvals, and does not commit the University or the Board to acquire the property.

Background:
The University of Oregon has long provided educational opportunities in Portland, the primary one being a Masters in Architecture, which has been offered in Portland for more than 20 years. The Law School has regularly offered continuing legal education; UO Continuing Education has taught courses; the Labor Education and Resource Center has conducted programs; and the School of Journalism and Communications has considered offering a program in Portland for many years. Recently, Journalism has received over $9 million in endowment funding to support a journalism program in Portland and is in the planning phases of that program, with an intention to accept its first students in the fall of 2007. In addition, the UO, Portland State University, and Oregon State University long have collaborated to operate the Oregon Executive MBA program (OEMBA), recently relocated from Beaverton to downtown Portland. The Board approved that lease at an earlier meeting.

The University also has a number of administrative offices which it wishes to locate in Portland. Administratively, UO Athletics has had offices in Portland; the UO Development Office has had a Portland presence; the UO Career Center has had an office to assist alumni in locating jobs in Portland; and, most recently, the UO acquired AHA International, a study abroad provider which organizes international study opportunities for more than 30 universities, including OUS institutions. The UO also leases space for a large research project, Project Alliance, operated through its College of Education.

Approximately ten years ago, the University acquired the “Willamette Block” building located at 2nd and Yamhill. This 40,000 square foot building provided adequate space for the University’s programs until two years ago. At that time, the UO participated in a proposal to acquire space, primarily for architecture and the OEMBA programs, in the
Customs House Building at Broadway and Everett. This effort fell through when the federal government did not accept the developer’s proposal.

By that time, the University’s programs had outgrown the Willamette Block facility. Consequently, the University began working directly with the primary anticipated users (e.g., architecture, OEMBA, journalism, AHA) to find a site that would meet the current and future program needs of the UO in Portland. The University considered a large number of possibilities in the general downtown area, for lease, for purchase, and as major renovation projects. Given the UO’s financial situation and the fact that the programs in Portland have to be able to pay for the space they occupy, the search was concentrated on “special opportunities” where space could be obtained at very favorable rates. University administrators considered space near its current location at the Willamette Block, but determined that no favorable opportunity existed in that area.

A program planning process with the remaining users estimated space requirements in a three to five year period at about 60,000 square feet. Since the University was not in a position to purchase such space, its representatives continued to seek appropriate space to lease. That effort led to consideration of the White Stag complex of three buildings at Burnside and Naito Parkway. The special circumstance that makes this location affordable is the Portland Development Commission’s willingness to devote significant incentive funding to the project—tax credits, low interest loans, and grants—totaling about $10 million. This led to a potential fully serviced lease rate in the range of $20 per square foot in a fully renovated historic building directly on the MAX line and with nearby public parking. Although the building is in an area that is currently in need of redevelopment, PDC presented to the University a plan for the redevelopment of the area and its belief that, with the UO in this key location, the plan had a very high probability of success.

The University had intended to bring to the Board a proposed lease for the White Stag space at a meeting this spring. The actual occupancy would not occur until late in 2007, leaving time to either dispose of, or find lessees for, the Willamette Block building. However, at its meeting on January 25th, the Portland Development Commission placed a requirement on the developer to have a signed lease by the end of March 2006. This is necessary to assure PDC that the tax credit instruments will be utilized before they expire. The developer will also need the signed lease to assure both the seller of the property and the lender of funds for the redevelopment that the project will proceed as planned.

In December 2005, the federal government made the decision to surplus a large building at 511 NW Broadway. This building, formerly a post office and currently used by U.S. Citizenship and Immigration Services, is another historic building and has approximately 130,000 square feet. Although this is more space than the UO currently needs, the University administration believed it prudent to consider this alternative and submitted a letter of intent to acquire the building by the January 7, 2006, deadline. Government regulations allow the University only until February 10th to submit the full proposal to acquire the building. The UO solicited interest in a joint proposal from the
Chancellor’s Office, Portland State University, the Oregon Health and Sciences University, and Portland Community College. None of these institutions chose to partner with the UO in the acquisition and renovation of the building due, at least in part, to the short timeline to develop the proposal for acquisition.

Since the UO already had program plans for 60,000 square feet and had plans in the 10-15 year time frame for 120,000 square feet, the University was able develop a plan for the entire building. UO worked with the Melvin Mark Company to estimate the costs and phasing of the needed renovations, which can be expected to cost a significant amount of money. The University believes this building would be affordable for the UO programs, leading to annual costs in the same range as those associated with the White Stag buildings. However, UO needs time to further refine these numbers, to conduct due diligence investigations of the federal property, and to make a decision as to which of the two locations would best serve the University’s long-term needs.

The University is, therefore, requesting that the Board pass the attached resolution, required by the U.S. General Services Administration, so that the University can submit a proposal to acquire the building by the February 10 deadline. The University may know prior to the March Board meeting whether it has been selected to acquire the building and would continue to do the due diligence to determine which, of this building or the White Stag buildings, is best for its programs. Currently, University administrators believe either facility would serve the University well.

If the UO is selected to acquire the federal building and if the Portland Family of Funds approves the tax credits as recommended by the Portland Development Commission, the UO hopes to come to the March Board meeting with a recommendation as to which of these two properties best suits the UO’s Portland programs.

**Staff Recommendation:**
Staff recommends that the Board adopt the proposed attached resolution with the following understandings: 1) that the University will conduct appropriate due diligence of the 511 NW Broadway property and report its findings to the satisfaction of the Board; 2) that the University will provide to the staff all appropriate legal and cost estimating documents that will permit an analysis of the project to acquire and renovate the facility; 3) that the acquisition and renovation of the property and the financing of the project are subject to the approval of appropriate legislative authority; and 4) that the University report to the Board its long-term plans for programs and services in Portland.

*(Board action required.)*
RESOLUTION

WHEREAS, certain real property owned by the United States of America, located in the County of MULTNOMAH, State of Oregon, has been declared surplus to the needs of the Federal government, and is subject to assignment for disposal for educational purposes by the Secretary of Education, under the provisions of Section 203(k)(1)(a) of the Federal Property and Administrative Services Act of 1949 (63 Stat. 377) (Act), as amended, and rules and regulations promulgated pursuant thereto, more particularly described as follows:

511 NW Broadway Avenue, Portland, OR

WHEREAS the State of Oregon acting by and through the Oregon State Board of Higher Education on behalf of the University of Oregon needs and can utilize said property for educational purposes in accordance with the requirement of said Act and the rules and regulations promulgated thereunder of which this Board is fully informed, including commitments regarding use and time within such use shall commence.

NOW, THEREFORE, BE IT RESOLVED, that the OREGON STATE BOARD OF HIGHER EDUCATION shall make application to the Secretary of Education for, and secure the transfer to it of, the above-mentioned property for said use upon and subject to such exceptions, reservations, terms, covenants, agreements, conditions and restrictions as the Secretary of Education, or his authorized representative may require in connection with the disposal of said property under said Act and rules and regulations issued thereto; and

BE IT FURTHER RESOLVED, that the Oregon State Board of Higher Education has legal authority and is willing and is in a position financially and otherwise, consistent with the conditions identified in its Application and Letter of Commitment included in the Application to assume care and maintenance of the property, and that George Pernsteiner, Chancellor of the Oregon University System, or his designee is hereby authorized, for and on behalf of the Oregon State Board of Higher Education to do and perform any and all acts and things which may be necessary to carry out the foregoing resolution including the preparing, making and filing of plans, applications, reports and
other documents; the execution, acceptance, delivery and recordation of agreements, deeds and other instruments pertaining to the transfer of said property; and the payment of any and all sums necessary on account of the purchase price thereof including fees or costs incurred in connection with the transfer of said property for surveys, title searches, real estate appraisals, recordation of instruments or costs associated with escrow arrangements; together with any payments necessary by virtue of nonuse or deferral of use of the property. If the applicant is unable to place the property into use (or determines that a deferral of use should occur), IT IS UNDERSTOOD AND AGREED that the Oregon State Board of Higher Education will pay to the United States Department of Education for each month of nonuse beginning twelve (12) months after the date of the deed, or thirty-six (36) months where construction or major renovation is contemplated, the sum of $1/360^{th}$ of the then current fair market value of the property for each month of nonuse.

If submission of the Application for Public Benefit Allowance Acquisition of Surplus Federal Real Property for Educational Purposes is approved, a copy of the application and standard deed conditions will be filed with the permanent minutes of the Board.

Oregon State Board of Higher Education  
P.O. Box 751  
Portland, Oregon 97207-5700

I, Ryan J. Hagemann, hereby certify that I am the Secretary of the Oregon State Board of Higher Education and that the foregoing resolution is a true and correct copy of the resolution adopted by the vote of a majority of the members of said Oregon State Board of Higher Education present at the meeting of said Board on the Eighth day of February, 2006, at which a quorum was present.

____________________________  
Signature of certifying officer

(Please note: The official certifying and attesting to the action taken by the governing board in this resolution must NOT be the same individual designated and authorized to represent the applicant organization in the body of the resolution.)
To Whom It May Concern:

I write in regard to the application submitted by the University of Oregon for Public Benefit Allowance Acquisition of Surplus Federal Real Property for Educational Purposes. Section 6(C) requires a letter of commitment from the prospective financing sources confirming they are prepared to lend the sums needed.

To spend the funds necessary for renovation of the facility, the State Board of Higher Education and the University of Oregon must receive expenditure authorization from the Oregon Legislature. The Board will request such authorization if the University notifies the Board, after completing its due diligence period, that the University wishes to proceed.

Neither the University of Oregon nor its governing Board, the State Board of Higher Education, is authorized to borrow money for financing except through means expressly authorized by the Oregon Constitution. In this instance, the University intends to finance the necessary remodeling through the sale of Article XI-F(1) bonds. Article XI-F(1) is one of the state constitutional provisions authorizing sale of general obligation bonds for higher education building projects.

This letter evidences my intent to submit a request for approval for the sale of bonds to the Board, the Governor, and the Legislative Assembly when it next convenes in January 2007. It is my understanding that the building and property in question will not be available until 2008 so the delay of approval should not delay the transfer. Although the State Board of Higher Education cannot approve the issuance of bonds without approval of the Legislative Assembly, it is our experience that projects using Article XI-F(1) bonds are usually approved because they do not rely on state appropriated funds for repayment.

I hope this provides the adequate confirmation of the State Board’s commitment to this project.

Sincerely,