



Montana Department of Natural Resources & Conservation
Trust Land Management Division
Real Estate Management Bureau

February 26, 2015

Former Corrections Office Site Redevelopment Project- Timeline.

- September 2005- Department of Corrections forced to vacate the basement of what once was the Intermountain Union College Dormitory (aka Mills Hall), as it was condemned.
- August 2010- Department of Corrections vacates Mills Hall and relocates to old State Fund building.
- May 2011 – At the request of Mary sexton, DNRC Trust Land staff begin discussions with DOA staff concerning possible acquisition of the old Corrections property.
- March 2012 – Appraisal of the property completed by Mike Joki, Highest and Best Use analysis indicates redevelopment with a new office building, sets the value as a vacant site at \$803,000, estimated demolition costs are \$350,000.
- September 2012 – as part of due diligence to acquire the property DNRC acquires estimates for both renovation and redevelopment of the site from Diamond Construction, Helena, MT.
- December 2012 – Land Board approves administrative transfer of property from DOA to DNRC at the appraised value less demolition costs estimated in appraisal. Total costs to UM and MSU trusts, \$435,000.
- February 2013 – DNRC closes transaction and works with DOA to “mothball” the building.
- March 2013 to May 2014 – DNRC works with DOA to draft a Request for Proposal for 1.) a ground lease of the site and 2.) a developer to provide office space on the site that DNRC would lease.
- December 2013 - Appraisal of the property updated by Mike Joki, Highest and Best Use analysis still indicates redevelopment with a new office building, sets the value as a vacant site at \$778,000, estimated demolition costs are \$370,000.
- May 9, 2014 – Request for Proposal issued, primary objective is to secure a ground lessee, and lease-back of office space for DNRC.
- May 21, 2014 – Pre-proposal conference and walk through with potential developers, Dick Anderson, Diamond Construction, and Golden Eagle Construction.
- August 2014 – RFP response due date, one proposal submitted by Dick Anderson. Proposal is for demolition and redevelopment of site with a new three story office building with a two story parking structure.

- September 16, 2014 – Proposal scoring meeting by DOA and DNRC, determine if proposal meets requirements of RFP.
- August- September 2014 – MEPA analysis.
- November 2014- Land Board approval for commercial ground lease and redevelopment of the site.
- December 2014- Commercial ground lease and build to suit leases are executed.
- January 2015- Demolition of Mills Hall commences.



Montana Legislative Services Division
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TO: President Barrett
FROM: Julie Johnson, Staff Attorney
RE: DNRC Lease
DATE: January 14, 2015

You have asked a number of questions related to the construction of a building to be leased to the Department of Natural Resources and Conservation (DNRC).

BACKGROUND

The property where the building will be constructed is located on 11th Avenue, just north of the Capital Hill Mall. The previous structure on the property was recently demolished and had been unoccupied since 2010 due to health concerns. The State Board of Land Commissioners approved the acquisition of the property from Department of Administration in December of 2012. According to DNRC, an appraisal of the property at that time determined that the land was worth more without the building and noted that: "Maximum productivity of the subject site would be for redevelopment with a new office or retail building that is commensurate with the current land values in the neighborhood." According to the department, the Land Board paid the Department of Administration the appraised value of the land less the anticipated demolition costs.

Lease of Land

The DNRC also reports that the standard procurement and commercial lease processes were followed. A Request for Proposal was issued in the spring of 2014 and awarded to Dick Anderson Construction in the fall of 2014. The accepted bid proposed to demolish the building and construct a three-story building with a two-story parking structure. According to the DNRC, the lease on the property is expected to generate \$45,000 in annual revenue for Montana University System and will increase during the term of the lease.

Building Lease

The new construction will house the Department of Natural Resources and Conservation. The lease between Dick Anderson Construction and the DNRC is for 20 years and is for 39,085 square feet at an annual cost of \$24.75 per square foot. The total annual lease cost in the new building will be \$967,354. This compares to a current total annual cost of \$796,815, or \$18.78 per square foot. This figure includes an anticipated lease of 12,175 square foot in addition to its present location at 1625 Eleventh Avenue.

LAW

Article X, sec. 4, of the Montana Constitution provides that the Board of land commissioners "has the authority to direct, control, lease, exchange, and sell school lands and lands which have been or may be granted for the support and benefit of the various state educational institutions, under such regulations and restrictions as may be provided by law."

Article X, sec. 10, of the Montana Constitution provides that "rent from leased lands or properties, shall be devoted to the maintenance and perpetuation of the respective institutions [of the Montana university system]."

Montana law allows a state agency to enter into a lease agreement without legislative approval as long as: 1) the lease is for no more than 40,000 square feet; and 2) the term of the lease is 20 years or less. 2-17-101(5), MCA. Leases involving more than 40,000 square feet or having a term exceeding 20 years must be submitted as part of the long-range building program and approved by the legislature before the lease may proceed. 2-17-101(5), MCA.

Montana law requires legislative approval for the construction of a building in excess of \$150,000. However, this provision does not apply to a private entity building on land leased from the state.

CONCLUSION

The Land Board is authorized to lease the property under the Constitution. The DNRC is authorized to enter into a lease for the new building under 2-17-101(5), MCA, because the term of the lease does not exceed 20 years and the square footage to be leased is under the 40,000 square foot limit. Explicit legislative approval for a lease under these terms is not required.

Funding for the lease would come from the same source as its payments for DNRC's current location, out of its operations budgets.

Please let me know if you have any further questions or would like further research on a particular issue.

DNRC BUILDING RENT (USF&G & NEW BUILDING)

Description	Inception		FY 2015	PROJECTED	
	Date	Expiration Date		FY 2016	FY 2017
Billings SLO/CARDD/WRRO, Logan Intl. Airport	3/24/2014	2/28/2019	87,184	87,184	87,184
Conrad Unit Office, Pondera Village Shop Center	11/1/2013	10/31/2018	9,408	9,408	9,408
Dillon Unit Office, 730 N Montana St	5/1/2015	1/1/2035	30,702	79,839	79,839
Ft. Benton, 1402 Front St. Suite #2	6/1/2013	5/31/2015	5,125	5,420	5,420
Glasgow WRRO/Unit Office, 222-224 6th St S	10/1/2012	9/30/2015	47,690	49,121	49,121
Havre WRRO/Unit Office, 320 14th St. W.	6/1/2014	5/31/2019	32,252	32,252	32,252
Helena Main Office, New Hqt	7/1/2010	4/30/2036		161,226	967,354
Helena Main Office, 1625 11th Ave	7/1/2010	6/30/2016	422,159	575,088	598,091
Helena WRRO/Adjudication 910 Helena Ave	7/1/2005	6/30/2015	136,927	139,666	142,459
Helena WRD Main Office (DOA/GSD)			229,764	274,209	274,850
Lewistown WRRO/Unit Office, 613 NE Main	1/1/2014	12/31/2018	55,440	55,440	55,440
Miles City CARDD/ELO, 321 Main St.	5/1/2010	4/30/2020	22,931	30,280	30,280
Polson Unit Office, 410 1st St. E.	5/15/2010	5/31/2015	3,300	3,600	3,600
Shelby O&G Office, 165 Main St.	6/1/2011	5/31/2015	11,550	12,600	12,600
Total			1,094,432	1,515,332	2,347,897

Rosendale DP 1,099,619

Difference (415,713) (1,248,278)



Contact: John E. Tubbs Director
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3/4/2015

<u>USF&G</u>	<i>Incr-Added</i>	<i>Incr-Added</i>	<i>l</i>				
	<i>Prop Tax</i>	<i>Prop Tax</i>	<u>FY02</u>	<u>FY01</u>	<u>FY00</u>	<u>FY99</u>	<u>FY98</u>
Building Rent	\$ 422,159	\$ 370,841	\$ 281,050	\$ 267,709	\$ 254,961	\$ 242,806	\$ 231,243
Building Utilities**	120,941	103,219	<i>ive Detail Not Available)*****</i>				
Total Paid to Landlord	\$ 543,100	\$ 474,060	\$ 281,050	\$ 267,709	\$ 254,961	\$ 242,806	\$ 231,243
Per Sq Ft-Office (29,325 Sq Ft)	14.25	12.50	9.48	9.03	8.60	8.19	7.80
Per Sq Ft-Storage (600 Sq Ft)	7.13	7.13	5.08	4.84	4.61	4.39	4.18
Per Sq Ft-Utilities (29,925 Sq Ft)	4.04	3.45	<i>ive Detail Not Available)*****</i>				
	14.0%	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%
	FY98-FY14 = 4% Annual Incr						

*Schweitzer Administration Rent Reduction

** Includes Property Taxes FY11 to Present



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DNRC Rent Comparison - Existing Building with Additional Space, New Building

Existing Office Space:

Current Square feet		Year	Office	Storage	
Office	29,325 sq.ft	2014	\$14.25	\$7.13	\$4.04
Storage	600 sq.ft	2015	\$14.25	\$7.13	\$4.20
Utilities	\$120,941 per year	2016	\$14.25	\$7.13	\$4.37

2016 per square foot charge: \$18.48 per sq. ft
 2016 Square foot: 42,100 sq.ft
 Annual Rate Increase: 4%

Existing building all floors: 42,100 sq. ft.

YEAR	% INCR	RATE	Annual Payment
1	4%	19.22	\$ 809,062.53
2	4%	19.99	\$ 841,425.03
3	4%	20.79	\$ 875,082.03
4	4%	21.62	\$ 910,085.32
5	4%	22.48	\$ 946,488.73
6	4%	23.38	\$ 984,348.28
7	4%	24.32	\$ 1,023,722.21
8	4%	25.29	\$ 1,064,671.10
9	4%	26.30	\$ 1,107,257.94
10	4%	27.35	\$ 1,151,548.26
11	4%	28.45	\$ 1,197,610.19
12	4%	29.58	\$ 1,245,514.60
13	4%	30.77	\$ 1,295,335.18
14	4%	32.00	\$ 1,347,148.59
15	4%	33.28	\$ 1,401,034.53
16	4%	34.61	\$ 1,457,075.91
17	4%	35.99	\$ 1,515,358.95
18	4%	37.43	\$ 1,575,973.31
19	4%	38.93	\$ 1,639,012.24
20	4%	40.49	\$ 1,704,572.73
			\$ 24,092,327.64

New building, 39,085 sq. ft.

Year	Rate	Annual Payment
1	24.75 \$	967,353.00
2	24.75 \$	967,353.00
3	24.75 \$	967,353.00
4	24.75 \$	967,353.00
5	24.75 \$	967,353.00
6	26.48 \$	1,034,970.00
7	26.48 \$	1,034,970.00
8	26.48 \$	1,034,970.00
9	26.48 \$	1,034,970.00
10	26.48 \$	1,034,970.00
11	28.21 \$	1,102,587.00
12	28.21 \$	1,102,587.00
13	28.21 \$	1,102,587.00
14	28.21 \$	1,102,587.00
15	28.21 \$	1,102,587.00
16	29.94 \$	1,170,204.00
17	29.94 \$	1,170,204.00
18	29.94 \$	1,170,204.00
19	29.94 \$	1,170,204.00
20	29.94 \$	1,170,204.00
	\$	21,375,570.00

Savings over 20 year lease period =	\$2,716,758
Taxes to L&C county @ \$90,000 per year =	\$1,800,000
Payment to the Trust, benefit UofM, MSU =	<u>\$1,022,828</u>
Total Savings	\$5,539,586



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