



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: January 23, 2024

TITLE: Contracts Requiring Board Approval

- a. Institutional Effectiveness and Technology Renovation, Metropolitan State University
- b. McElroy G Hall HVAC Upgrade, Minnesota State University, Mankato
- c. Updated Office Space Lease, System Office

Action

Review and Discussion

This item is required by policy

PRESENTERS

Bill Maki, Vice Chancellor for Finance and Facilities

Brian Yolitz, Associate Vice Chancellor for Facilities

PURPOSE

Board Policy 5.14, Contracts, Procurements, and Supplier Diversity, requires Board of Trustees approval of any procurement, lease agreement, or professional, technical, or consulting service contract with a value in excess of \$1,000,000 or contract amendment that would increase the total value of a contract to more than \$1,000,000.

Contract Requiring Board Approval: Institutional Effectiveness and Technology Renovation, Metropolitan State University

BACKGROUND INFORMATION

This construction contract renovates over 8,000 square feet of office space on the St. Paul campus of Metropolitan State University to create a service center for the university's Institutional Effectiveness and Technology (IET) activities. This contract and associated work helps consolidate university functions moving from leased spaces at Energy Park. The scope of work includes creating a welcoming Service Center to better serve students and university employees and a highly flexible and functional workspace supporting approximately 50 employees in both on campus and hybrid work and provide a dedicated working space for the Endpoint Services team and the Network, Systems and Security team.

FINANCIAL TERMS

This project is funded with university operating funds and student technology fees. The estimated construction contract for this project is \$1.2 million and is being competitive bid using Quest CDN our electronic bidding system and awarded to the lowest responsible bidder.

RECOMMENDED ACTION

The Finance and Facilities Committee recommends that the Board of Trustees authorize the Chancellor or the Chancellor's designee, to enter into a construction contract not to exceed \$1.2 million to renovate the Institutional Effectiveness and Technology spaces at Metropolitan State University.

<i>Date Presented to the Finance and Facilities Committee:</i>	<i>1/23/2024</i>
<i>Date Presented to the Board of Trustees:</i>	<i>1/24/2024</i>
<i>Date of Implementation:</i>	<i>1/24/2024</i>

Contract Requiring Board Approval: McElroy G-Hall HVAC Upgrade, Minnesota State University, Mankato

BACKGROUND INFORMATION

McElroy G-Hall is the four-story wing in the McElroy Residence Community which contains 95 student rooms. This construction contract will provide air conditioning to student rooms and replace the existing hydronic piping and fin-tube radiation room heating system with new radiators and individual room controls. The project includes asbestos abatement for hydronic piping insulation.

This project is part of Residential Life’s long-range plan to renovate and improve student rooms and provide greater resident satisfaction. The addition of the air conditioning and radiation units will allow for individual room temperature controls. Upon completion of this project, only 1 wing of the Crawford Community will remain without air conditioning.

FINANCIAL TERMS

This project is funded with Minnesota State University, Mankato Residential Life revenue funds. The estimated construction contract for this project is \$2,000,000 and is being competitively bid using Quest CDN, our electronic bidding system and awarded to the lowest responsible bidder.

RECOMMENDED ACTION

The Finance and Facilities Committee recommends that the Board of Trustees authorize the Chancellor or the Chancellor’s designee, to enter into a construction contract not to exceed \$2,000,000 to upgrade the HVAC system in McElroy G Hall at Minnesota State University, Mankato.

Date Presented to the Finance and Facilities Committee: 1/23/2024
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Contract Requiring Board Approval: Updated Office Space Lease, System Office

BACKGROUND INFORMATION

During their October 2023 meeting, the Board of Trustees authorized the Chancellor or the Chancellor's designee to enter into a lease at Wells Fargo Place not to exceed \$18.0 million over the initial 10-year term for housing the Minnesota State system office and associated functions. This authorization includes provisions for two (2) five-year options to extend the lease subject to board approval.

During negotiations with Wells Fargo Place building management representatives through Minnesota State's real estate consultant CBRE, it became evident the initial financial framework was based on application of the usable rather than rentable square footage. Staff had been working on fit testing offices, workstations, and flexible group spaces and focusing on usable square footage to house the system office functions. The usable square footage figures were incorporated in modeling the lease financial framework for board consideration. Unfortunately, this was the wrong application of the square footage measurement.

Upon providing counterproposals and entering final negotiations on lease terms, we learned the lease financials should have been presented in terms of rentable square footage.

Building Owners and Managers Association International (BOMA) has established a uniform standard for the measurement and leasing of office space referred to as the BOMA Standard. Under the BOMA Standard, usable square feet refers to the total area unique to the tenant, space specifically set aside for the tenant's single use. Other tenants have little or no access to this space. Rentable square feet is defined as the usable square feet plus a portion of the building's common space. Common spaces are areas usable by all tenants in the building and include, but are not limited to, hallways, lobbies, public restrooms, fitness facilities, and other shared amenities available to all tenants. The ratio of rentable vs usable square footage is referred to as the load factor.

For the planned system office spaces, the load factor is 16 percent (53,444 vs 46,073) which is within the office building real estate norms and reflective of the availability of an expanded lounge area, a dedicated tenant lounge, vending area, fitness center, and new conference center within Wells Fargo Place. All are attributes employees prioritized in the in defining desired attributes for office spaces.

Through subsequent negotiations with the Wells Fargo Place building management, the base rate was adjusted down by \$1.25 per square foot. Building management also offered a \$10 per square foot increase in the tenant improvement (TI) allowance (Excess TI) to be amortized, with no interest, over the initial 10-year term of the lease. To accept the Excess TI allowance, a \$1.00 per rentable square foot per year is added to the annual rate.

The impacts are shown below:

	August 1, 2023	October 2023 Presentation	Updated December 2023	Change from October
Square footage	89,013 (RSF)	46,073 (USF)	53,444 (RSF)	N/A
Base Rate (\$/yr)	\$13.75	\$15.50	\$14.25	(\$1.25)
Operations (\$/yr)	\$16.20	\$16.20	\$16.20	\$0.00
Excess TI Amortized	N/A	N/A	\$1.00	\$1.00
Gross Rate (\$/SF)	\$29.95	\$31.70	\$31.45	(\$0.25)
Annual Base (\$)	\$1,223,929	\$714,132	\$761,577	\$47,446
Annual Operations (\$)	\$1,442,011	\$746,383	\$865,793	\$119,410
Annual Amortized TI	N/A	N/A	\$53,444	\$53,444
Total Initial Annual (\$)	\$2,665,939	\$1,460,514	\$1,680,814	\$220,299

The total increase in the first year from what was presented in October 2023 is approximately \$220,299. This remains a significant reduction in annual cost totaling over \$1.2 million compared to the current lease costs or more than 40 percent. With annual base rate increases of \$0.25 per square foot and 3 percent annual inflation on operations, the total cost of the 10-year term is approximately \$20.7 million (\$20,692,275) an increase of \$2.6 million from what was presented to and approved by the board in October 2023.

Other elements of the lease terms remain the same with tenant improvement allowances providing 95 percent of the estimated buildout cost of \$4.8 million.

These financial changes would not have impacted the recommendation to seek a lease in the Wells Fargo Place facility for the system office of the future. That recommendation was built upon a combination of cost and an array of attributes for an effective system office work environment. These attributes included location, complementary amenities, and physical space and were developed and refined through a nearly yearlong process that included leadership and employee interviews and surveys concerning work practices and preferences for work in the post pandemic environment as well as an intense workforce strategy project.

The site review and selection process assessed available office spaces from across the Twin Cities metropolitan area against these attributes. A detailed review of 15 candidate properties along with site visits by the project Advisory Team of 5 properties as well as two properties by system office cabinet, staff brought the recommendation of Wells Fargo Place to the board in October 2023.

Next Steps

Subject to board approval the lease will be finalized with Wells Fargo Place building management.

In December, Pope Design Group was selected through a competitive public solicitation process to design the new system office spaces and guide the construction process. They have already gathered physical and operational information; started the programming process by hosting a design kick off meeting with cabinet staff (January 3), engaging in eleven listening sessions with

system office divisions and work groups (January 8-13), and participated in Chancellor Olson's All Staff Meeting (January 18). They are currently in the schematic design phase of their work which is planned to take four weeks.

Design options and recommendations will then be offered to cabinet for consideration before entering the design development and construction document phases which together will take as long as ten weeks. At that time a general contractor will be hired to build out the spaces.

The total cost for this project has not changed and is expected to be on the order of \$9.0 million. With the change in tenant improvement authorizations in the current lease structure, approximately \$4.5 million is available through the lease terms, an increase of \$1.0 million from the October 2023 estimate of \$3.5 million. The balance will be financed through system office lease cost savings realized over five years due to the reduction in square footage. Project priorities remain stewardship of resources while creating professional, equitable, and flexible workspaces for the next decade and beyond.

Change management and communication throughout the process will prepare employees for use and operation in the new spaces. The intent is to create flexible, seamless technology enabled spaces to meet the needs of the Minnesota State system office and its associated activities into the future. Flexibility will allow leadership to respond to changes in workforce posture, technology, and other forces impacting the work of the system office. All system office employees will be impacted during this process.

The Finance and Facilities committee will be updated on project delivery progress over the coming months and be presented with any contracts requiring Board approval.

FINANCIAL TERMS

The Board of Trustees is asked to approve an updated lease of office space for the Minnesota State system office and associated functions at Wells Fargo Place in St. Paul, Minnesota for an initial term of 10 years with two (2) five-year options to extend the lease subject to board approval. The first-year lease cost is estimated to be \$1,680,900, a reduction of 42 percent from the current annual cost. The estimated total cost for the initial 10-year term is \$20.7 million.

The lease and associated work will continue to be funded with biennial state appropriations designated for system office operations. Specifically, over five years, realized annual lease cost savings will be used to repay the estimated upfront project costs associated with the buildout of and move to the updated spaces. The proposed motion is for \$22.0 million to provide flexibility in closing the lease arrangement over the 10-year term by providing for potential increases in the estimated annual operations rate specifically around the energy and labor costs.

RECOMMENDED ACTION

The Finance and Facilities Committee recommends the Board of Trustees authorize the Chancellor or the Chancellor's designee to enter into a 10-year lease at Wells Fargo Place not to exceed \$22.0 million over the term for housing the Minnesota State system office and associated functions. This authorization includes provisions for two (2) five-year options to extend the lease subject to board approval.

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