

November 17-18, 2016

ITEM 173-2005-R1116

**Request for authorization for Montana State University to enter into a Letter of Intent with the Montana State University – Innovation Campus (MSUIC) for future lease payments for applied research space**

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**THAT**

The Board of Regents of the Montana University System authorizes Montana State University (MSU) to enter into a Letter of Intent (LOI) for an off campus lease to facilitate infrastructure development of MSU Innovation Campus land and follow-on construction of an Applied Research Laboratory as a first step prior to coming back to the Board for lease approval under Board of Regents Policy 1003.6 (III) (B).

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**EXPLANATION**

1. Montana State University desires to lease 20,000-40,000/sf to support U.S. government research with specific facilities requirements.
2. Montana State University is undergoing security upgrades to meet U.S. government security requirements for research. This includes federally funded research in photonics, hyperspectral imaging, computer algorithms, and space systems. This research will complement and expand current research efforts associated with MSU's Biosafety Laboratory 3 (BSL-3), export controlled research, and research involving the use of specialized radiation equipment.
3. Construction of an Applied Research Laboratory (ARL) is desired on MSU Innovation Campus land of approximately four acres. This project will be funded by the MSU Innovation Campus via a loan from a local bank consortium. The MSU Innovation Campus (MSUIC) is a subsidiary of the MSU Alumni Foundation (MSUAF), which is itself a separate legal entity.
4. The Montana State University Innovation Campus will own and manage the Applied Research Laboratory, while MSU desires to enter into a lease with MSUIC that will provide for long-term use of the ARL building by the university. The lease is expected to have an initial ten year term with an annual lease amount to facilitate financing of the project. After the initial ten year term, MSU expects to pay only a land lease and the actual costs for operations and maintenance (O&M) of the building, as well as for any tenant improvements MSU might require. All revenues generated by the ARL building during the lease will accrue to Montana State University.
5. The annual lease rate for the initial ten year period is expected to be no greater than \$2,000,000, which includes the ARL building, the land allocated to the building, and O&M costs. The land lease (only) rate, which will commence after the initial ten year period, will not exceed fair market value and will be reviewed by MSU and MSUIC at a minimum of every five years. Rates may be adjusted as agreed to by both parties if market values have changed. While Montana State University expects to occupy the ARL building for many years (i.e. - 30+ years), MSU will reserve the right to cancel the lease agreement at any time after fifteen (15) years from the original lease inception date with six months' notice to MSUIC.

6. All funding for this lease and related costs is expected to come from facilities and administrative cost reimbursements (F&A's) generated from research grants. No state funds or tuition dollars will be used.
7. Montana State University requests approval to negotiate a Letter of Intent (LOI) between MSU and the MSUIC, conditional upon final review and approval (of the LOI) by the Commissioner of Higher Education. The final lease agreement(s) will be brought to the Board of Regents for approval after project details are finalized and prior to lease inception dates.
8. BOR Policy 1003.6, III, B, requires Regents approval for leases that exceed five (5) years in duration or for which total lease payments will exceed \$25,000 per year. Therefore, no lease has been executed.

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**ATTACHMENTS**

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None.