

Department of Administrative Services

Request: Acknowledge receipt of a report on a plan for the sale and distribution of property formerly siting the Oregon School for the Blind. Allocate \$900,000 from a special purpose appropriation made to the Emergency Board for the disposition of the Oregon School for the Blind and appropriate \$2,138,324 General Fund to carry out the disposition plan.

Recommendation: Acknowledge receipt of the report, defer action on allocation of the special purpose appropriation, and deny the request for General Fund appropriation.

Analysis: House Bill 2834 (2009) directs the Department of Administrative Services (DAS) to develop a plan for the sale of the real property owned by the Oregon Department of Education (ODE) known as the Oregon School for the Blind (OSB). The legislation and associated budget report set out sale criteria, cost recovery provisions for DAS and ODE, plan components, and a February 2010 reporting deadline.

After assuming responsibility for the property effective July 1, 2009, DAS worked with ODE to dispose of personal property at the site. The agency then took over maintenance support for structures, secured the facility, and obtained several property assessments. These include a real property appraisal, review appraisal, environmental site assessment, title survey, utilities survey, and historical resource assessment. The agency has also completed a report on its plan for disposition of property, including sale options and the agency's recommended course of action.

HB 2834 directs DAS to determine the sale price of the property but states that the sale price must meet or exceed the fair market value of the property. In addition, the budget report for HB 2834 directs DAS to outline multiple options, with a return on investment (net proceeds) for each option identified.

In its report, DAS explores four primary sale options, as follows:

1. Sell the property as is without any modifications
2. Sell the property as brownfield site after completing building demolition and hazard abatement
3. Sell the property with some buildings remaining
4. Postpone sale to a defined or indeterminate date

The table below displays estimated sale price, costs, and net proceeds for Options 1 and 2. The sale prices are based on appraisal values and costs are split into two primary phases: Phase 1 consists of site management and assessment costs through February 2010, Phase 2 consists of costs associated with demolition and hazard abatement for Option 2.

Opt #	Description	Appraised market value	Phase 1 Costs	Phase 2 Costs	Net sale proceeds
1	As Is	5,470,000	431,156	0	5,038,844
2	Brownfield	7,700,000	431,156	2,607,168	4,661,676

Each option has an additional cost component for ongoing monthly expenses incurred until the property is sold. Costs for Option 1 are estimated to be about \$30,000 per month, while Option 2 is projected to be about \$6,000 per month. Option 1 costs are greater due to facility maintenance and security requirements. Please note that the property in as is condition (Option 1) would need to be on

the market for approximately 13 months before associated monthly costs would erase the higher net sale proceeds projected under that option.

The agency's report also presents estimates for sales proceeds under multiple scenarios (Option 3) in which some buildings are retained on the property, and in some cases, renovated. Costs for these options and the associated lower net sales proceeds make these less desirable. In addition, both the original and review appraisal are in agreement that the highest and best use for the property is demolition of the existing buildings and future redevelopment.

Under Option 4 (delay sale), the state would continue to incur monthly costs for site maintenance and security. The report does not specifically address a timeframe or methodology for delaying the sale.

The agency recommends Option 2, as DAS believes the state can get the best price by selling the real property as a brownfield site. The agency also indicates that proceeding with Phase 2 as soon as possible would result in significant cost savings due to current conditions in the construction market. A cost savings amount was not identified in the agency's report. As noted in the previous table, Phase 2 is estimated to cost \$2.6 million.

At the request of the Legislative Fiscal Office (LFO), DAS sought out additional information from potential buyers, developers, and real estate experts to help identify the advantages and disadvantages of the different options. The majority of those providing input acknowledged that the site would have more development appeal and a higher sales price if it were shovel ready. At the same time it was recognized that there would be potentially significant upfront costs associated with hazard mitigation and demolition. Several of the respondents indicated there are benefits to the other options as well.

Legislative Fiscal Office Observations

LFO does not see a compelling case in support of sale Option 2. The agency's report does not clearly demonstrate that this option will generate higher net sales proceeds – especially one worth the General Fund price tag in tight budget times. LFO would also like to draw attention to the following:

- For its preferred option, DAS is using a 5% differential for the estimated sales price of the property. While both the appraisal and other expert comments do note there potentially are motivated buyers that could result in a price higher than appraised value, that feedback does not make a distinction between the property being in as is or brownfield condition. The property's size and location appear to be more significant factors related to buyer motivation.
- The DAS report mentions that building renovation costs for a private buyer would be lower due to avoidance of prevailing wages. This cost differential is not, however, noted in report's discussion of the buyer's costs for hazard mitigation and demolition under the as is scenario.
- The "high risk" designation for selling the property in as is condition seems extreme. The school had been operating at the site since 1884. The hazards are known and have been evaluated multiple times.
- The DAS contract for the title survey and environmental assessment work is structured to add on services for actual hazard abatement and demolition services. While this may be proactive contracting, this provision makes it seem like the agency was predisposed toward Option 2 from the beginning of plan development. The contract does not leave the agency liable for costs associated with not requesting those additional services.

Legislative Fiscal Office Recommendation

The Legislative Fiscal Office recommends that the Committee acknowledge receipt of the report, defer action on allocation of the special purpose appropriation, and deny the request for General Fund appropriation. The agency should have sufficient Other Funds limitation and cash to continue to front costs associated with the property sale until the Emergency Board meeting anticipated for May 2010. Please note that resources set aside in the Special Purpose Appropriation (SPA) would be able to cover the agency's initial and ongoing costs while the property is up for sale, even if that timeframe continues into the 2011 calendar year. Setting aside Option 2 eliminates the need for General Fund.

In addition, direct the Department to take the following action:

- 1) Move forward on Option 1 and place the property up for sale as soon as possible. The agency's report indicates this could occur as soon as March 2010.
- 2) Review monthly costs associated with maintaining and securing the property to ensure that minimal levels of services are being performed.
- 3) Return to the anticipated May 2010 meeting of the Emergency Board with an update on sale progress and steps taken to mitigate ongoing costs.



Oregon

Theodore R. Kulongoski, Governor

Department of Administrative Services

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February 9, 2010

The Honorable Peter Courtney, Co-Chair
The Honorable Peter Buckley, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Department of Administrative Services (DAS) is reporting, as directed by the Budget Note to House Bill 2834 (2009) on a plan for the sale and distribution of Oregon School for the Blind (OSB) property. As part of the plan, it is anticipated that DAS will complete an environmental assessment and title survey. The plan shall clearly outline options for sale (e.g., "as is", demolition of buildings, etc.) and the anticipated return on investment for each option.

Agency Action

The plan that DAS has developed consists of two primary phases: Phase 1 consists of the shut down of the school, environmental site assessment (e.g. presence of asbestos, presence of other hazardous substances, presence of soils contamination, etc.), American Land Title Association (ALTA) survey, and the appraisal of the real property. Phase 2 consists of hazardous materials abatement, demolition, and cleanup. DAS has developed a projected budget for the costs related to implementation of the plan. The projected cost for Phase 1 is \$431,156. The projected cost for Phase II is \$2,607,168. The total projected cost is \$3,038,324.

DAS has entered into an Interagency Agreement with the Oregon Department of Education (ODE) and started Phase 1 of the project. Working closely with ODE, DAS began the process of closing down the School. At the same time, DAS contracted with an appraisal firm to prepare a current appraisal of the real property. DAS also hired an architect & engineering consultant to carry out the environmental site assessment, ALTA survey, historical resource assessment, as well as develop cost estimates for abatement of hazardous materials located on the site.

The Honorable Peter Courtney, Co-Chair
The Honorable Peter Buckley, Co-Chair
February 9, 2010
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Action Requested

DAS requests the acceptance of the follow up report submitted on the Plan for Sale of the former Oregon School for the Blind and Legislative approval to proceed with Phase 2 of the plan and the subsequent sale utilizing one of the sales options identified in the report.

DAS requests the release of the \$900,000 special purpose appropriation set aside in the Emergency Fund for our portion of the work related to the sale of this property. These funds will be used to cover Phase 1 and a portion of Phase 2 project costs.

DAS also requests a General Fund appropriation of \$2,138,324 for the balance of the costs related to Phase 2.

These requests total \$3,038,324 General Fund and cover the costs of Phase 1 and Phase 2 of the project. DAS recommends the General Fund be reimbursed in this amount from the proceeds realized from the sale of this property.

Legislation Affected

None.

Sincerely,



Scott L. Harra
Director

**PLAN FOR THE SALE OF
THE FORMER OREGON SCHOOL FOR THE BLIND**
Department of Administrative Services
Facilities Division

Executive Summary

Background:

During the 2009 Regular Session, the Legislature enacted HB 2834, which called for closure of the Oregon School for the Blind. The bill directed the Department of Administrative Services (DAS) to work with the Oregon Department of Education to shut the school down and sell the property. A budget note required DAS to report to the Special Session of the Legislature in February 2010 and present a plan for disposition of the property. This report—*DAS Plan for the Sale of the Former School for the Blind*—summarizes the efforts carried out thus far and currently under way to prepare the property for sale.

Status:

The facility is now vacant. DAS and the Department of Education have dealt with all personal property that had been on the site. The DAS Facilities Division has installed security fencing around the perimeter of the property, and has completed an assessment of the physical condition of the facilities and grounds. A thorough survey and appraisal are complete. DAS staff has met with the South Central Area Neighborhood Association and the City of Salem, and has held a public meeting to update interested parties concerning the state’s efforts and plans.

Recommendation:

The Legislature directed DAS to sell the property at a price equal to or above the real property’s fair market value. Having examined several approaches that to selling the property, DAS believes the highest price is attainable by selling the real property as a *brown field site* (all buildings and tunnels have been removed and the property is ready for site preparations necessary for new construction). Making this site available as a clean, ready-to-build site will ensure that a purchaser can begin construction as quickly as possible.

Construction costs are lower now than they have been for some time. Building as soon as possible could save a buyer a significant amount. Few, if any, potential buyers will accept the risk associated with the abatement of the existing hazardous materials (substantial asbestos; limited lead paint, mercury, and pcb) and site cleanup. More buyers are willing to purchase a clean site. The appraisals commissioned by DAS suggest that several potential buyers may have strong incentive to obtain the property. These are buyers who would likely enable the state to reach its goal of obtaining the highest possible price, which would in the greatest benefit to the Education Stability Fund.

Type of Buyer	Facilities Condition	Appraised Value	Cost to Sell	Est. Sales Proceeds	Est. Net Proceeds
Risk Taker	As Is	\$5.5M	\$.5M	\$5.5M	\$5.0M
Normal (Avoids Risk)	Brown Field Site	\$7.7M	\$3.0M	\$7.7M	\$4.7M
Motivated ¹	Brown Field Site	\$7.7M	\$3.3M	\$8.3M+	\$5.0M+

¹ Assumes a Real Estate Broker is hired to assist with the marketing effort.

**PLAN FOR THE SALE OF
THE FORMER OREGON SCHOOL FOR THE BLIND
REPORT**

**Prepared by the
Department of Administrative Services
Facilities Division**

1) Purpose

This report describes the Department of Administrative Services' plan to meet the Legislature's directive to sell the real property that the former Oregon School for the Blind Program utilized while it was in operation. The report identifies sales options and describes the steps the Department of Administrative Services (DAS) has taken, as well as the steps that we anticipate taking in the future. The language in the approved bill requires DAS to sell the property for a price that equals or exceeds the fair market value of the real property; DAS will determine the sale price.

2) Real Property Overview

The former Oregon School for the Blind (School) real property is located approximately six blocks from downtown Salem. It is adjacent to Bush Pasture Park, the South Central Area Neighborhood (SCAN), and Salem Memorial Hospital. It consists of 8.37 acres of landscaped property occupied by 11 buildings and parking lots. Mission Street borders the property to the south; Church Street to the west; Winter Street to the east; and Pringle Creek and Salem Memorial Hospital to the north.

3) Collaboration with ODE

Upon passage of HB 2834 (Exhibit 1), DAS entered into an Interagency Agreement (Exhibit 2) with the Oregon Department of Education (ODE). The purpose of the agreement was to identify specific steps required to close the school and relieve ODE of the responsibility for the physical caretaking of the property. The agreement addressed operations and maintenance of the existing facilities; removal of all personal property; transfer of two maintenance staff from ODE to DAS; transfer of equipment and tools from ODE to DAS; transfer of responsibilities for utilities, data and telephone lines, and tenant leases from ODE to DAS.

4) DAS Project Team

DAS put together a project team for carrying out the responsibilities that HB 2834 set forth. The purpose of this team is to carry out all aspects of the project appropriately and efficiently, including interpretation of statutory requirements, the physical caretaking of the real property, and completion of the sale process.

The Project Team:

- Facilities Division Deputy Administrator
- Manager of the Operations and Maintenance Section
- Maintenance Manager
- Manager of the Planning and Construction Section
- Statewide Property Management Section Manager

- Senior Construction Project Manager
- Property Transaction Coordinator
- Property Development and Disposition Planner/Coordinator

DAS Facilities is working with the Department of Justice to ensure that the sales process complies fully with the law. DAS Facilities is also coordinating communications on the project with the DAS Public Affairs Office, and has held neighborhood meetings with SCAN. DAS Facilities has also met with City of Salem staff, and has held a public meeting to update interested parties.

5) *Preparation for Sale*

DAS divided the preparation of the sale process into two phases, which enables us to gather and assess critical information about the condition and sales potential of the school before embarking on the irreversible activities required to achieve a clean site (*i.e.*, hazardous materials abatement and building demolition).

Phase 1 includes closing the school and reducing the facilities operations to the minimum level required to prevent physical deterioration due to winter conditions. DAS hired contractors to appraise the real property, carry out an environmental site assessment (*e.g.*, check for presence of asbestos, other hazardous substances, soils contamination), conduct an ALTA survey, and do an historical resource assessment. Because of the sensitive nature of the project, DAS hired a second firm to review the original appraisal. DAS coordinated efforts with ODE for the removal, transfer or disposal of all personal property at the site. This personal property included the following:

1. Items that were usable in the new locations for the transferred students
2. Items otherwise usable by other school programs
3. Personal property with potential historical significance (relocated to ODE-controlled storage)
4. Usable materials not needed by school programs (State Surplus acquired these for sale)
5. Non-usable materials (recycled)
6. Material taken to the County Landfill

Phase 2 preparation for sale consists primarily of irreversible activities: hazardous materials abatement and demolition of the buildings. We will not undertake these activities until DAS receives further direction from the Legislature.

6) *Factors that Impact Sales Proceeds*

Several factors will affect the amount of proceeds received from the sale of the property.

- a) **Appraisal.** The current appraisal of the real property at the school considered two scenarios. The first scenario assumes sale of the property *as-is*, meaning the

buildings and grounds remain in their current state. The second scenario assumes sale of the property as a *brown field* site, meaning that all buildings and tunnels have been removed and the property is ready for site preparations necessary for new construction.

Under current economic conditions, the unencumbered market value of the *brown field* site is approximately \$7.7 million, according to the appraisal (see Exhibit 3). This value reflects current economic conditions and assumes that the state pays all the costs associated with the hazardous material abatement, demolition of buildings, removal of tunnels, and site clean up. The projected cost associated with creating a vacant site that's ready to build on (i.e., the *brown field* site) is approximately \$2.6 million (see Exhibit 5).

The *as-is* appraised market value is approximately \$5.5 million. This value assumes that the purchaser of the property pays for all work required to prepare the site for new construction. Under this alternative, the purchaser would bear responsibility for abatement of all hazardous materials, as well as the resulting liability—a provision that would likely reduce the number of potential buyers.

- b) **Environmental assessment.** The presence of hazardous materials at the site drives up the cost of bringing the site to a condition that eliminates or minimizes potential exposure to those materials. DAS hired a consultant to examine the site for hazardous materials. The consultant's report shows evidence of significant amounts of asbestos and other hazardous materials throughout the buildings and grounds (see Exhibit 7). Abatement of the hazardous materials, combined with related activities, would cost an estimated \$1.4 million.
- c) **Demolition.** The existing buildings fail to meet current building codes. Additional issues—such as seismic stability, hazardous materials, and ADA considerations—cause significant concerns for health, life and safety. The state can maximize the sale value of the property only through demolition and cleanup of the site.

In addition to the buildings, the property includes a network of tunnels that house the utility lines to most of the buildings. The concrete tunnels (see Exhibit 7) require demolition in a way that will support new construction. The estimated cost for demolition of the buildings is approximately \$1.0 million. The estimated cost for the demolition of the tunnels is about \$300,000. These estimates reflect the current economic environment, but they will likely be higher if the demolition takes place after the economy improves. Minimizing demolition costs will increase the net proceeds from sale of the property and increase the benefit to the Education Stability fund.

- d) **Historical resource evaluation.** Activities required to preserve buildings or grounds designated as historical resources, or to mitigate damages to them, would

drive up the cost of making the site viable for future development. DAS has contracted for a historical resource investigation and assessment of the school (see Exhibit 7). The report indicates that one building on the property bears a designation as a historical resource: Howard Hall appears on the City of Salem Landmark Commission's local historical register.

Two of the remaining ten buildings may meet the eligibility requirements for designation as historical resources (local or national). The consultant's report has contains no compelling reasons for designation and registration of the school as a historic resource. ORS 197.772 (Exhibit 6) states that if the owner of a property objects to a designation as a historical resource on a local historical register, then the property may not be placed on the local historical register.

In the past, the Oregon Department of Education has objected to placing the school on the City of Salem's Landmark Commission's historical register. DAS has recently affirmed that objection because we believe that such designation would be inconsistent with the Legislature's direction to sell the property for the maximum benefit to the Education Sustainability fund. We have submitted the consultant's report to the State Historic Preservation Office for review. DAS believes that designation or registration of any portion of the property as a historic resource will significantly reduce its marketability, thereby diminishing the sales proceeds available to support the Education Stability fund.

- e) **Economic environment.** The economic conditions at the time of sale will affect the amount received from the sale of the property. If a sale happened today, the price would be low, due to the current recessionary conditions. As preparations for a sale continue, however, the economy will likely improve, meaning that we could expect a higher sales price in the future when preparations are complete.
- f) **Litigation.** Challenges to ownership of real property generally require time to resolve. Uncertainty over pending lawsuits and the risk of adverse outcomes reduce the attractiveness of this property to potential buyers. Some potential buyers may decide not to bid on the property for this reason. Legal challenges will also likely result in lower offers from those who do. The current litigation involving Lot 5 and Lot 6 of the property (approximately 7 percent of the property) requires handling the sale of that portion of the property through a somewhat different process than the one used for the rest of the property.
- g) **Motivated Buyers.** *Market value* results from a sales process that assumes "normal" motivations on the part of buyers and sellers of real property. Certain circumstances may exist, however, that provide strong incentives for potential buyers, making them willing to pay more than market value. This situation is likely to occur if more than one potential buyer feels a strong motivation to buy. The appraisal and review commissioned by DAS (see Exhibits 3 and 4) suggests that several parties could have unusually strong incentives to buy the school

property. If the Legislature approves proceeding with the sale, DAS believes that the state would benefit from acquiring the services of a licensed, professional real estate broker. Doing so would help ensure identification of all potential buyers who may have strong motivations to buy the property, thereby maximizing proceeds from the sale.

7) **Sales Options** (see Exhibit 8 for Return on Investment information)

- a) **Selling as-is.** Proceeds of sale would be minimal, not likely to exceed the *as-is* market value of \$5.5 million (approximate net sales proceeds of \$5.0 million). If the buyer intended to reuse some or all of the existing buildings, they would face considerable costs in renovating any of the existing buildings to a condition acceptable for use under current building codes. If the buyer intended to make a clean site (*brown field* site), the cost of doing so would be substantial, very likely similar to the \$2.6 million that DAS estimates. The state's costs would be minimal if the real property sold in a reasonable amount of time; but the likely net sales proceeds would also be minimal, as a result of fewer buyers willing to deal with the hazardous materials abatement, demolition and site cleanup.
- b) **Selling as a *brown field* site.** Proceeds of the sale would be maximized. If the property sells at the unencumbered market value, the proceeds would be approximately \$7.7 million (net sales proceeds of approximately \$4.7 million). The buyer would incur a minimal cost to make the site ready for new construction. The state would face higher costs, however, because we would be responsible for hazardous materials abatement, demolition of buildings and cleanup of the site. The net sales proceeds would likely be significantly higher, through the influence of motivated buyers.

Purchase by a motivated buyer would increase the return on investment. Although the return on investment from the sale as a *brown field* site would be significantly less than the return on investment for a sale *as-is*, the net sales proceeds could potentially be much greater, having generated more money to support the Education Stability fund. Motivated buyers would more likely be interested in a *brown field* site than an *as-is* site.

- c) **Selling with some buildings remaining.** Several scenarios could result in selling the property with some of existing buildings in place (*e.g.*, local or national historical designation). These scenarios would all very likely result in selling only a portion of the property, with the state retaining ownership of a portion of the property with remaining buildings. Any such scenario would generate substantial costs for the state.

The state would have two options for any remaining buildings: 1) mothball them, or 2) renovate them to a usable condition. Mothballing the buildings in a condition that allows for future renovation would generate substantial ongoing costs. This scenario would also leave the buildings in an ongoing unattractive

condition that would surely raise protests from numerous interested parties. Renovating any of the buildings to meet current building codes would be very costly (*e.g.*, abating hazardous materials). Most of the existing buildings are served by campus-wide utilities that would no longer exist. The state would not likely generate enough revenue by renting out the renovated buildings to cover the debt service on renovation costs.

Keeping one or more of the existing buildings may require retaining several acres of the property, reducing the amount of property for sale. We can reasonably expect that selling only a portion of the property would generate less than selling all of the property *as-is*. To ensure that adequate utilities services would be available for the remaining buildings, the state would likely retain responsibility for the demolition and cleanup of the portion of the property to be sold, incurring the required substantial costs and generating lower sales proceeds to cover costs and provide income for the Education Stability fund.

- d) **Delaying the sale.** If the Legislature decides to delay the sale, and does not give DAS authority to proceed with Phase 2, the state will incur substantial monthly costs. Preventing deterioration of the facility and the property will cost DAS approximately \$30,000 a month (see Exhibit 5). Leaving the School in an *as-is* condition for any length of time also increases the likelihood of a liability issue arising from unauthorized occupancy, vandalism, or criminal activity. Should the Legislature authorize DAS to proceed with Phase 2, but still delay the sale of the real property, monthly costs would be about \$6,000.

8) Recommendation

The Legislature directed DAS to sell the school at a price equal to or above the real property's fair market value. The Legislature's apparent intent is to obtain the maximum sale price in order to generate the greatest benefit to the Education Sustainability Fund. DAS believes the state can get the best price by selling the real property as a *brown field* site. Significant costs savings are possible if DAS receives authority to proceed with Phase 2 of the project as soon as possible. Current conditions in the construction market enable DAS to spend less on the necessary abatement, demolition, and site preparation. These services will cost more when the pool of contractors becomes smaller as the construction market improves.

Time, risk, and costs are significant motivators for buyers of property for development. Making this site available as a clean, ready-to-build site will ensure that a purchaser can begin construction as quickly as possible. Construction costs are lower now than they have been for some time. Building while costs are low could potentially save a buyer a significant amount. As for risk, few potential buyers will accept the risk associated with the abatement of the existing hazardous materials and site cleanup. More buyers are willing to purchase a clean site.

9) List of Exhibits

- Exhibit 1 – Enrolled HB 2834
- Exhibit 2 – DAS\ODE Interagency Agreement
- Exhibit 3 – Appraisal
- Exhibit 4 – Review Appraisal
- Exhibit 5 – Budget Projection
- Exhibit 6 – ORS 197.772
- Exhibit 7 – Consultant Report
 - i) ALTA Land Title and Utilities Survey
 - ii) Hazardous Materials and Chemicals Survey
 - iii) Historical Survey
- Exhibit 8 – Return on Investment Analysis
- Exhibit 9 – HB 2834-B Budget Report and Measure Summary

**PLAN FOR THE SALE OF
THE FORMER OREGON SCHOOL FOR THE BLIND**
Department of Administrative Services
Facilities Division
Follow Up Report
Facilities Division Recommendation
02/01/2010

The Facilities Division's recommendation is to sell the former School for the Blind property as a fully shovel ready Brown Field site, without retaining any of the buildings. This sales approach will generate the maximum net sales proceeds for the Oregon Department of Education - Education Stability Fund.

This recommendation is based on information contained in the just completed appraisal of the property by PGP Valuation, Inc. and the subsequent review appraisal by First Real Estate Consulting. We also obtained additional information on sales approaches and current market considerations from a commercial real estate broker (CB Richard Ellis), five commercial developers (Merrill Contractors, Touch Mark Development, Venerable Development, Winkler Development, Capstone Partners, LLC), and two local interested parties (Salem Hospital, Willamette University).

The Brown Field site sale option maximizes the number of potential buyers that will be willing to make an offer to purchase under the current economic conditions. This results from minimizing the risk that the potential buyer will have to assume. Evidence of the elimination of all risks associated with the existing hazardous materials will be provided through the issuance of a "No Further Action" letter issued by the Department of Environmental Quality, upon completion of the abatement work by DAS. Other potential liabilities will also be minimized when the site is left in a clean, restored, ready-to-build condition with the completion of the demolition and tunnel removal work by DAS.

The elimination of the risks and the "ready-to-build" condition of the site will demonstrate to potential financial sources that a buyer will be able to proceed quickly with their construction project, taking advantage of the prevalent low construction bid environment that currently exists. Financing will be much more readily available for acquisition of a site with little or no risk which is available for immediate building.

Information in both the appraisal and the review appraisal substantiate the existence of motivated buyers. A motivated buyer is one that for specific reasons (location, similar zoning, or speculation) is likely to have a very high interest in buying the property. The appraisal reports briefly discuss the 2002 sale of Bush School, only a few blocks from the former School for the Blind property which sold for \$54.75/sq.ft. This is 258% higher than the current appraised value for the former School for the Blind property of \$21.25/sq.ft. .

While the market conditions that existed then were somewhat different than those of today, the information we have received strongly suggests that the existing motivated buyers will be willing to pay a premium above the current appraised value, to obtain this property in a shovel ready, Brown Field site condition. Our analysis includes a conservative premium above the current appraised value of 5%. We believe this is a very conservative addition that does not overstate the value of the property as a shovel ready, readily financed building site.

PLAN FOR THE SALE OF THE FORMER OREGON SCHOOL FOR THE BLIND

Department of Administrative Services Facilities Division

Follow Up Report – Summary

Follow up investigation of the interest in purchasing and the marketability of the former School for the Blind property provided further insight into the sales options identified in the original report by the DAS. The table below reflects the numerical results of the findings.

Sales Option	Phase 1- Capital Constr. Fund \$	Phase 2 - General Fund \$	Renovation Costs for Retained Buildings	Total Cash Required	Estimated Value	Buyer Costs	Est. Net Sales Proceeds	Est. Sales Time In Months	Level of Buyer Risk	Number of Potential Buyers
Brown Field Site – Removal of All Bldgs. by State	\$431,156	\$2,607,168	\$0	\$3,038,324	\$8,085,000	\$0	\$5,046,676	16 – 18	Low	Many
As Is – Removal of All Buildings by Buyer	\$431,156	\$0	\$0	\$431,156	\$7,700,000	\$2,607,168	\$5,092,832	Unknown	Very High	Few
Retention of Howard Hall – Removal of Other Buildings by State	\$431,156	\$2,607,168	\$2,212,893	\$5,251,217	\$7,700,000	\$0	\$2,448,783	16 – 22	Medium	Many
Retention of Howard Hall, School Building, Irvine-Bracher Hall – Removal of Other Bldgs. by State	\$431,156	\$2,607,168	\$8,686,136	\$11,724,460	\$7,700,000	\$0	(\$4,024,460)	16 – 22	Medium	Few
Retention of All Buildings – Abatement and Renovate to Meet Code	\$431,156	\$1,353,200	\$12,786,124	\$14,570,480	\$0	\$0	(\$14,570,480)	18 – 24	None	None
2 Step Hybrid Sale: 1) Solicit Proposals for Purchase As Is, 2)	\$431,156	\$0	\$0	\$431,156	\$7,700,000	\$2,607,168	\$5,092,832	6 – 12	Very High	Few
If Proposals Inadequate Implement Brown Field Site Sale		\$2,607,168	\$0	\$3,038,324	\$8,085,000	\$0	\$5,046,676	16 – 18	Low	Many

**PLAN FOR THE SALE OF
THE FORMER OREGON SCHOOL FOR THE BLIND**
Department of Administrative Services
Facilities Division
Follow Up Report

The Department of Administrative Services (DAS) was requested by the Legislative Fiscal Office to provide additional information to supplement the initial report prepared by DAS on the Plan for the Sale of the Former School for the Blind. The additional information was requested to provide greater clarity on the sales potential and marketability of the property. We have attempted to do this by examining specific issues.

Key Issue: Sale of the former School for the Blind property – what sales approach will generate the greatest net sales proceeds (return on investment)?

Secondary Issue: Minimizing expenditures and current cash flow required to carry out the sale.

To address these issues we examined the four primary sales options identified in our initial report, looking at the costs (risks) and benefits associated with each. To assist our analysis we solicited professional opinions on the sales options and other market considerations from parties actively involved with commercial property transactions today (1 Commercial Real Estate Broker, 8 Commercial Property Developers) and other parties (Salem Hospital, Willamette University, Western Oregon University) known to have interest in this property. Summaries of responses are contained in Exhibit A. Full copies of responses are in Exhibit C.

Conclusion: Our conclusion remains that preparing the property, as quickly as possible, and selling it as a Brown Field site (shovel ready) will generate the largest net sales proceeds (greatest return on investment) because of the larger pool of potential buyers and more competitive sales process. The sale will occur much quicker as an unburdened, shovel ready site, than if potential buyers have to take time to obtain financing for the site preparation (challenging considering the existing environmental and tort liabilities) as well as acquisition. The result will be that the proceeds of the sale are available for use by the Education Stability Fund in the shortest amount of time. This approach will have a larger impact on current cash flow requirements for the state. Cash requirements would be minimized by selling As Is. However, from what we have learned through this current investigation, we continue to believe net sales proceeds would be less than selling as a Brown Field site. Retaining any of the existing buildings results in a significant cash requirement (renovation costs) at the same time reducing the sales price (less property being sold, fewer development options). The resulting net sales proceeds would be less than from a Brown Field site sale.

Respondent Recommendations: The recommendations received from these parties generally support two options, sale as a Brown Field site, or sale leaving one or a few of the buildings and converting the remainder of the property to a Brown Field site. Two of the respondents make a point of stating that selling the property As Is would be the least attractive sales option (e.g. environmental liability, tort liability, fewer interested parties, a lower price).

The responding parties unanimously agree that abatement of all of the hazardous materials is necessary. The opinions of all but one of the parties indicated that it would cost the state more in lost revenue to leave the abatement to the buyer, than it would cost the state to pay for the abatement. The opinions are that the high level of risk associated with non-abatement by the state would also significantly reduce the pool of buyers while also reducing the size of the offers from those still willing to make an offer. DAS believes that both quickest sale and greatest net return on investment can be achieved by the state carrying out the hazardous material abatement. The estimated cost for the abatement is \$1.4M ± (this is 52% of the total cost for Phase 2 of the Brown Field site preparation process). The other major costs for converting the property to a Brown Field site are demolition (\$991K ±) and removal\backfill\restoration of the existing tunnels (\$263K ±).

Retaining Existing Buildings: Several responses recommended retaining one, or several of the buildings. The stated benefits are preservation of historical resources and a more attractive mixed use development. The three buildings most frequently mentioned, to be retained, are Howard Hall, School Building, and Irvine-Bracher Hall.

There are several significant cost factors associated with retaining existing buildings (see analysis of retaining buildings in Exhibit B). The buildings do not meet current building codes (seismic, fire, life/safety, ADA). In addition, the abatement of the asbestos would result in significant interior refinishing costs. DAS worked with the Oregon Department of Education in 2008 on a feasibility study for the School for the Blind and School for the Deaf to determine renovation and replacement costs for existing buildings. The costs estimates developed, in that study, for renovating these three buildings to meet current building codes was significant (Howard Hall-\$2,212,893, School Building-\$2,879,521, Irvine-Bracher Hall-\$3,593,722). These amounts still reasonably approximate what renovation costs would be today.

Renovations to retain buildings and place them in service would require substantial cash if done today, and most likely a great deal more if the renovations were postponed to a later date. Such postponement would also result in significant ongoing maintenance costs. Renovation and rental of the buildings would not generate any net revenue to contribute to the Education Stability Fund. All state owned facilities are rented out at rates calculated to cover their costs (operating costs, depreciation, debt service).

Selling As Is: One of the respondent's recommendations is to sell the property As Is. They go on to say that upgrades to the existing buildings to meet current codes are cost prohibitive; that they do not contribute to the value of the property. Their recommendation is that the costs for the abatement, demolition of all buildings, and tunnel removal all be negotiated with a motivated buyer (i.e. Salem Hospital, Willamette University, Western Oregon University, or speculative developer) as an off-set to the shovel ready site value. This approach minimizes the current cash requirement for the sale of the property. It also minimizes the sales price for the property, and potentially the net sales proceeds. One of the suggested motivated buyers, Salem Hospital, has already stated their preference for the removal of the majority of the buildings, they would have temporary uses for some of the buildings on Church Street.

Leave All of the Buildings (Selling As Is?): Another of the respondents preferred option is to keep all buildings intact to preserve the historical resource; to clear all hazardous materials and rezone to allow for commercial office use. This approach would place the burden of renovating all of the existing buildings to meet current building codes on the buyer. The state would still incur the \$1.4M ± hazardous materials abatement cost. This impacts the return on investment by diminishing the sales price by significantly limiting the development potential to what can be accommodated by the existing buildings, and by the state still having to incur significant costs. The major benefit of this approach is the preservation of the historical resource. It also results in a minimal return on investment for the financial benefit of the Education Stability Fund.

Timelines: Information provided from the responding parties indicates that because of the current economy and lack of available financing, the general market for commercial properties is very weak; selling today would normally require taking a low price. However, the existence of parties with specific interests from an owner/user perspective indicates that it may be possible to sell the property for a reasonable price at this time. Marketing of the property could be undertaken as early as March 2010 with approval by the Legislature.

Sale As Is: Unknown A marketing effort and sale would likely take a significant amount of time because of the inability of potential buyers to obtain financing for a project where they have to take on all of the risks associated with the abatement of hazardous materials and demolition. Increasing their difficulty further is the current very limited availability for funding capital construction work.

Sale as Brown Field site: 16 – 18 months The conversion to a Brown Field site and sale would require the following steps 1) abatement of hazardous materials – approximately four months, 2) demolition of above ground structures – approximately four months, 3) removal, fill, restoration of tunnels – approximately two months, 4) marketing three – four months, sale three – four months.

Sale Retaining One or More Existing Buildings

with Remainder of Property Brown Field site: 16 – 22 months This approach would effectively require the same steps (and time) needed for the Brown Field sit sale. In addition it would require renovation of the remaining buildings at some point which would require approximately six – twelve months. The two efforts, if renovation funding were available could take place simultaneously.

Hybrid Sales Approach – Request Proposals on Three Options 1) As Is, 2) Brown Field sit, 3) All Property Except Howard Hall: 6 – 28 months This approach would solicit proposals for purchase prior to work required to convert the property to a Brown Field site. The solicitation would be structured so parties submitting proposals on the property could provide three alternative proposals. DAS would review the submitted proposals and make a determination which of the three approaches appears to generate the greatest return on investment. If the most attractive offers involved conversion to a Brown Field site, DAS would be able to undertake that work after the close of the solicitation process and after consideration of all submitted proposals. The additional time required to carry out this approach will very likely result in increased costs for the hazardous materials abatement, demolition, and removal of the tunnels—again diminishing the net sales proceeds (return on investment).

Other Issues:

City of Salem - The Mayor and City Council have communicated their interest in and concerns regarding the sale of the former School for the Blind property through a December 14, 2009 Council agenda item (4.3i) and a subsequent letter from Mayor Taylor to the DAS Director. The City has express the hope and desire to work cooperatively with the state on the disposal of the property. The City indicated that the property is in close proximity to City of Salem landmarks: the Gaiety Hill – Bush’s Pasture Park Historic District and Bush Park. They are very keen on ensuring subsequent land use and development of the site is compatible with its surroundings. They are also interested possible parking and traffic circulation impacts from proposed developments.

Zoning – The property is zoned PE (Public and Private Education). This zoning is compatible with potential uses by the three potential end user\owner parties that we have asked for input from: Salem Hospital, Willamette University, and Western Oregon University. Other potential commercial uses which may also be appropriate at this site, would require rezoning to implement.

Lawsuits – At present we understand that there is one lawsuit potentially impacting the sale of Lots 5 & 6. These two lots represent a small portion of the property. The DAS effort to sell the property is focusing on the balance of the property. If the legal action involving these two lots has not been resolved prior to the marketing efforts beginning for the property, the marketing will proceed exclusive of them. This will have a negative impact on the sales proceeds.

Historical Registration – None of the buildings on the property are listed on the National Historic Place Register. The State Historic Preservation Office is currently reviewing the report submitted by the consultant hired by DAS. The results of the report indicate that three of the buildings may meet the eligibility requirements these buildings are Howard Hall, School Building, and Irvine-Bracher Hall. One of the eleven buildings (Howard Hall) is currently on the City of Salem’s Historic Landmarks Commission’s historic resource inventory. Historic resource designation will reduce the potential sales proceeds. Preservation of the buildings adds significant costs. Mitigation of the designation (allowing for removal) is possible, increasing costs minimally.

**PLAN FOR THE SALE OF
THE FORMER OREGON SCHOOL FOR THE BLIND**
Department of Administrative Services
Facilities Division
EXHIBIT A
Follow Up Report
Interested Parties Responses Summary

We requested their professional opinions regarding the sales options presented in our initial report¹, as well as asking for their opinions on the use or uses of the former School for the Blind property that could be expected to generate the highest sales price for the property. In addition to these private sector commercial sources, we contacted three entities who have significant involvement\ interest in this community, which in the past have expressed possible interest in this property. Copies of their responses are attached as exhibits to this supplemental report². Summaries of the responses are provided below:

COMMERCIAL BROKER RESPONSE

1. CB Richard Ellis –

- *Best Option – Sell leaving some of the buildings (only Howard Hall)*
 - Advantages –
 - Broadens the buyer pool
 - Reduces operating costs and tort liability significantly
 - Historic preservation issues are minimized
 - Vast majority of the property is available for development
- *Next Best Option - Selling as a shovel ready brown field site:*
 - Advantages -
 - Potential for higher sales price
 - Eliminates property deterioration and most operating costs
 - Reduces barriers for prospective buyers
 - Creates new jobs – short term construction and long term occupier
 - Disadvantages –
 - Significant initial remediation and demolition cost
 - Potential for third party historical preservation issues

COMMERCIAL DEVELOPER RESPONSES

1. Merrill Contractors –

- *Best Option - Selling as a shovel ready brown field site:*

¹ The sales options we identified in the initial report were as follows:

1. Leaving all of the buildings and infrastructure intact, and marketing as is.
2. Leveling all of the buildings, removing the steam tunnels, conducting a complete demolition and hazardous materials cleanup to create a ‘brown field’s site’ that is shovel ready.
3. Sell the property with some buildings remaining
4. Postpone sale to a defined or indeterminate date

²Requests for opinions were also made to the following developers from which we have not received responses: OPUS Development, Schnitzer (Harsch) Development, Trammel Crow Development. A responses was also requested from Western Oregon University. The University indicated a strong interest in responding but no response was received by close of business Friday, January 29, 2010.

- Advantages -
 - Cost of demolition and abatement as low as it will ever get
 - Carrying costs of surplus but available land is as low as it will ever get
 - A clear site can be subdivided making it more marketable to a wider group of buyers
 - LEED³ points are given for redeveloping a brown field site
 - The unpredictability of the costs for seismic, HVAC, and other upgrades to used buildings results in inflated budgets and higher financing costs
 - The existing buildings are special use and mostly obsolete
 - Timing required for brown field site preparation should result in property availability just in advance of the coming economic recovery
- *Next Best Option - Postpone Sale:*
 - Advantages –
 - Preservation of capital
 - Disadvantages –
 - Inflation, costs, and interest rates will all be going up

2. Touch Mark Development –

- *Best Option – Sell leaving some of the buildings (abate all hazardous materials in all buildings)*
 - Advantages –
 - Some buildings may be worth saving for nostalgic reasons
- *Next Best Option - Selling as a shovel ready brown field site:*
 - Advantages -
 - Could be used for:
 1. Medical support service facilities
 2. School or college
 3. Housing, various density and types
 4. Hotel

3. Venerable Development –

- *Best Option - Selling As-Is (abate all hazardous materials):*
 - Advantages -
 - Existing buildings attractive to general office users or institutional users
 - Some of the small buildings ideal for owner users
 - Retaining National Register eligible properties is important
 1. helps retain community support for development
 2. consistent with planning goals for historic resource protection
- *Next Best Option - Sell leaving some of the buildings (abate all hazardous materials)*
 - Advantages –
 - Existing buildings attractive to general office users or institutional users
 - Clear site more desirable for new construction

4. Winkler Development –

- *Best Option – Sell leaving some of the buildings (abate all hazardous materials in all buildings)*
 - Advantages –
 - Mix of old/historic with new creates a more organic, textured project

³ Leadership in Energy and Environmental Design (LEED) - LEED certification provides independent, third-party verification that a building project meets the highest green building and performance measures.

- Preserves much of the benefits of the existing buildings
- *Next Best Option - Selling as a shovel ready brown field site:*
 - Advantages -
 - Greater development appeal
- *Worst Option - Selling As-Is:*
 - Advantages -
 - Would generate a modes price
 - Disadvantages –
 - Complexity of the site
 - Lender reservations for a project needing hazardous materials abatement

5. Capstone Partners LLC –

- *Best Option – Sell As-Is*
 - Advantages –
 - No costs incurred for hazardous materials abatement or demolition
 - Strategically market to short list of buyers -
 1. Salem Hospital, Willamette Univ., or Western Oregon Univ.
 - Negotiate costs and terms of conversion from As-Is to Brown Field
- *Next Best Option - Selling as a shovel ready brown field site:*
 - Advantages -
 - Greater sales price
 - Disadvantages –
 - Incurring upfront costs associated with abatement and demolition

PRIVATE PARTY RESPONSE

1. Salem Hospital –

- *Best Option – Sell leaving some of the buildings (abate all hazardous materials in all buildings)*
 - Advantages –
 - It is the site, not the buildings that is of primary interest
 - Prefer most buildings to be removed before purchase
 - Have near-term uses for some of the Church Street buildings

GOVERNMENT ENTITY RESPONSES (Willamette University, Western Oregon University)

1. Willamette University –

- *Best Option – Postpone sale to a defined or indeterminate date.*
 - Advantages –
 - Would allow more interested community members to become involved
 - Would provide more time to gather information regarding buildings and site

**PLAN FOR THE SALE OF
THE FORMER OREGON SCHOOL FOR THE BLIND**

Department of Administrative Services

Facilities Division

EXHIBIT B

Follow Up Report

Retaining Existing Building Analysis

A number of the submitted responses reflect the opinion that the best approach to development of the former School for the Blind property would retain some of the existing buildings while converting the remainder of the property into a brown field site. This analysis looks at the potential cost impacts to the State from utilizing this approach.

There are 11 buildings on the former School for the Blind property. The cost to renovate each of these buildings to a condition meeting current building code requirements is substantial. In 2008, DAS assisted the Oregon Department of Education (ODE) with a feasibility study looking at the cost to renovate or replace with new the facilities on both the School for the Blind campus and the School for the Deaf campus. An outcome of this feasibility study was a cost analysis for both renovation and new construction for most of the buildings on the campus. Those costs are as follows:

Building	Cost to Upgrade to Current Code	New Replacement Cost
1 – Administration Building	\$658,953	\$1,340,505
2 – Infirmary	\$485,993	\$1,082,564
3 – Dining Building	\$1,143,982	\$3,663,098
4 – Howard Hall	\$2,212,893	\$4,486,724
5 – School Building	\$2,879,521	\$9,074,151
6 – Irvine-Bracher Hall	\$3,593,722	\$9,863,500
7 – Gymnasium/Pool	\$1,305,343	\$2,888,191
8 – Boiler Building	\$505,717	\$1,943,122
9 – Shop ¹	N/A	N/A
10 – Commission Building	N/A	N/A
11 – Residence	N/A	N/A
Total Campus	\$12,786,124	\$34,341,855

Although this study is now a couple of years old, the costs estimates identified at that time are still reasonably representative of what the renovation or new construction costs would be today. For purposes of this report we are assuming that any of the existing buildings on the School for the Blind property that would be retained during a sale of the property, in order to be placed back in service, would require renovation equivalent to that identified in the 2008 feasibility study.

In the historical assessment that DAS has just had completed, three buildings were determined to potentially be eligible for the National Register for Historic Places (NHRP). These buildings are Howard Hall, School Building, and Irvine-Bracher Hall. These are the buildings most likely to be retained for purposes of historical resource preservation.

Retained for State Use –

If the buildings are retained for state use, based on the estimated costs of renovation from the 2008 feasibility study, the cost to renovate these three buildings to a point where they could put back in service meeting current building codes would be \$8,686,136. This would be a cost that the state would be required to fund in order to make these facilities available for occupation for use. The funding of a renovation project such as this would likely be provided through sales proceeds for the sale of Certificates of Participation (COP). The average annual debt service cost for a COP of this size for a period of 20

¹ The Shop, Commission Building, and Residence were not included in the 2008 feasibility study cost estimate process.

years would be approximately \$713,000. Upon completion of the renovation, we would proceed to lease the facilities for occupancy by state programs. The annual revenue that would be received from the Uniform Rent charges for the space would be \$1,083,130². In addition to the debt service costs there would be moving and tenant improvement costs required in order for the facilities to be occupied. There would also be operations and maintenance costs, and depreciation costs paid by state agencies occupying the buildings. DAS owned and operated facilities do not generate net income. As Uniform Rent facilities, these buildings would be added to the Uniform Rent Pool. The Uniform Rent rate is calculated to cover the costs generated by ownership and operation of facilities. Two-thirds of the Uniform Rent revenue generally covers everything but debt service. In this case the rent revenue would not be sufficient to cover debt service, operating costs, and depreciation. There would be no income (net return) generated that could be provided to the Education Stability Fund.

Retention of these three buildings by the state would diminish the amount of property to be sold by approximately 30% - 40%, substantially reducing both the potential sales proceeds and the marketability of the property.

Sale to Private Sector Buyers (Retaining Historical Exteriors) -

There are two ways in which it would be possible to retain these three buildings on the property, maintaining their historical presence, while selling to a private sector buyer. The first is to sell just the three buildings and the land they are on to a private party that would be interested in their preservation and use. A sale requirement would be that the buildings be renovated in a manner that does not alter their external appearance. Renovation costs for this option would very likely be similar to those that the state is estimating. The avoidance of the need to pay prevailing wage rates for the work involved with the renovation would lower the cost, but it would remain substantial. Private parties likely to be interested in purchasing the buildings, with the historical preservation requirement, would have to be enticed into buying by a very low price.

The second means of selling these buildings to a private party would be selling all of the former School for the Blind property to a private party with a sale restriction that these three buildings would have to be renovated with historical preservation of their exterior required. All of the other property would be converted to a brown field site by DAS and made shovel ready. Again, retention of the three existing buildings and the land they occupy as a historical resource significantly diminishes the amount of property that a private sector buyer would have available for development.

The current zoning (Public and Private Education³) of the former School for the Blind property also limits the private sector use considerably. Without rezoning of the area, many potential private sector uses would not be possible.

Three specific existing buildings have been used in this analysis to illustrate what would be involved if it is required that some of the existing buildings be retained when the property is sold. Should it be a different grouping of buildings that were retained the numbers used in this analysis would change, but the basic requirements associated with retaining existing buildings would not change.

² Existing space in Howard Hall, School Building, and Irvine-Bracher Hall rented at a Uniform Rent rate of \$1.40/sq.ft./month.

³ **160.050. Permitted Uses; PE (Public and Private Educational Services) District.**

The following uses, when developed under the general development standards in this zoning code applicable to the PE district and to all such uses, generally, are permitted in the PE district:

(a) Services:

- (1) Health services (80);
- (2) Educational services (82);
- (3) Social services (83).

(b) Public Administration:

- (1) Fire Protection (9224)

(c) Other uses:

- (1) Dwelling for the caretaker or watchman or housing for staff. (Ord No. 43-06)

**PLAN FOR THE SALE OF
THE FORMER OREGON SCHOOL FOR THE BLIND**

Department of Administrative Services

Facilities Division

EXHIBIT C

Follow Up Report

**Copies of Responses to Request for Opinions
From**

Commercial Real Estate Broker

Commercial Developers

Local Interested Parties



Scott Weigel
Senior Associate

Office/Flex Properties
CB Richard Ellis, Inc.

Wells Fargo Center
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Portland, OR 97201-5609

503 221 4818 Tel
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January 22, 2010

Via E-Mail – fred.lord@state.or.us

Mr. Fred Lord
Property Transactions Coordinator
DAS Facilities – Statewide Property Section
1225 Ferry Street SE, Suite U100
Salem, OR 97301-4281

Re: Real Estate analysis of alternative options for the sale and disposition of the Oregon School for the Blind property located at 700 Church St. SE, Salem, Oregon

Dear Fred:

Thank you for the opportunity to provide this real estate analysis of the options for the sale and disposition of the Oregon School for the Blind property. In accordance with our draft Consulting Agreement dated January 15, 2010, the following summarizes our real estate review and analysis of the four draft options for the disposition of this property as drafted by the Department of Administrative Services ("DAS").

This letter presents the strengths and weaknesses of the draft disposition options as well as an opinion of the most recent appraisal by PGP Valuation, Inc. dated September 10, 2009.

Option 1. Disposing of the property as is, with all educational and other buildings and structures intact

Strengths

- a. There will be no upfront demolition or clean-up costs which are estimated at approximately \$2,234,583 referenced in the appraisal.
- b. This option avoids demolition delays as well as community push-back and/or opposition resulting from demolition.
- c. Provides for a wider range of prospective uses includes rehabilitation and new ground up construction, allowing for the broadest range of prospective buyers.
- d. Leaves any and all potential historic structures intact

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- e. Has the potential in the future to create new jobs including short-term construction jobs, and long-term occupier jobs

Weaknesses

- a. There will be unknown ongoing environmental risk to the State of Oregon including liability for contamination which will remain in place through the sale with potential adverse affects to both the Buyer and the Seller
- b. There will be ongoing property deterioration and maintenance operating costs
- c. There is the potential for liability under the Attractive Nuisance doctrine (i.e. swimming pool, track and field and vacated buildings)
- d. Reduced sales price due to remediation and demolition costs being deferred to the Buyer
- e. The adaptive reuse/rehabilitation of the existing structures is cost prohibitive to potential buyers
- f. This may slow down the sale as a result of environmental and other protracted due diligence required by potential buyers.

Conclusion

Disposing of the property as-is presents significant challenges to a potential buyer, and does not diminish on-going potential environmental or tort liability. These factors coupled with on-going maintenance costs and a diminished sale price, make Option 1 the least attractive of the three options.

Delaying the sale on an as-is basis delays disbursement of net sales proceeds to the Education Stability Fund, and delays creation of short-term construction jobs, and potential long-term occupier jobs. Delaying the sale presents issues with on-going property deterioration, on-going operating costs, and potential liability under the Attractive Nuisance doctrine. Additionally, there are no guarantees market conditions will improve within the next 24 months, thus delaying the sale does not guarantee an increased sale price due to a possible upswing in market conditions. Market conditions could potentially worsen.

Option 2. Disposing of the property leveled and cleaned up, with no environmental or other structural or clean up issues remaining, and ready to be sold as a 'shovel ready' site

Strengths

- a. There is the potential for a higher sales price

- b. Eliminates on-going property deterioration and most operating costs
- c. "Shovel ready" condition significantly reduces barriers to entry for prospective buyers
- d. Will create new jobs including short-term construction jobs, and long-term occupier jobs

Weaknesses

- a. Significant initial remediation and demolition cost estimated at approximately \$2,234,583 referenced in the appraisal
- b. The possibility of third parties desiring preservation of potential historic buildings could become a significant challenge

Conclusion

Disposing of the property completely leveled and cleaned up, as a "shovel ready" site, broadens the potential buyer pool, by significantly reducing the barriers to entry. Operating costs will be significantly reduced or eliminated, and tort liability will be significantly reduced, by cleaning the site of all attractive nuisances. However, leveling the entire property may present significant issues in regards to the demolition of the historic structure Howard Hall. That said, Option 2 is the number two recommendation behind Option 3, which levels the site and preserves Howard Hall.

Delaying the disposition of the property as a completely leveled and "shovel ready" site again delays disbursement of net sales proceeds to the Education Stability Fund, and delays creation of short-term construction jobs, and potential long-term occupier jobs. Additionally, delaying a sale after leveling the entire site, opens the door for historic preservation opposition, for example a lawsuit over the demolition and clouding title. However, delaying the sale presents the ability to complete all due diligence prior to sale. As previously stated, there are no guarantees market conditions will improve.

Option 3. Disposing with some buildings left standing, but the majority of the site leveled and cleaned up in "shovel ready" condition. (Analysis assumes leveling all buildings other than Howard Hall, a potentially historic structure)

Strengths

- a. Preserves a historic structure with potential transferable historic property tax credits
- b. "Shovel ready" condition significantly reduces the barriers to entry for prospective buyers
- c. Significantly reduces ongoing operating costs but does not eliminate them

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- d. Will create new jobs including short-term construction jobs, and long-term occupier jobs

Weaknesses

- a. Significant initial remediation and demolition cost estimated at approximately \$2,234,583 referenced in the appraisal
- b. Preservation of potential historic building could become a price reduction issue due to significant setbacks and the building footprint.
- c. Potential liability under Attractive Nuisance doctrine (i.e. vacated building)

Conclusion

Disposing of the property leveled and cleaned up, as a "shovel ready" site with Howard Hall a potentially historic structure remaining, captures a broad potential buyer pool by significantly reducing the barriers to entry. Operating costs will be significantly reduced, and tort liability will be significantly reduced, by cleaning the site of everything but Howard Hall. Leaving Howard Hall intact and leveling the remainder of the site will eliminate potential issues regarding historic preservation, while leaving the vast majority of the site for development. Leaving Howard Hall will diminish the potential buildable area, however the remaining buildable area still presents a quality user site with the potentially historic structure remaining. Delaying the disposition of the property as a level and "shovel ready" site with Howard Hall remaining, again delays disbursement of net sales proceeds to the Education Stability Fund, and delays creation of short-term construction jobs, and potential long-term occupier jobs. However, delaying the sale presents the ability to complete all due diligence prior to sale.

Option 4. Delaying the sale

See Options 1-3 conclusion paragraph number 2, in each section.

The PGP Valuation Inc.'s appraisal referenced above estimates two value conclusions for this subject property (please see attached Exhibits A, B, C and D):

A.	"Shovel Ready"	\$7,700,000 or \$21 per SF*
B.	"As-Is"	\$5,470,000 or \$15 per SF

*assumes Howard Hall is scrapped

Generally speaking, we support these value estimations. Given the current market conditions, it is very difficult to find competitive sales comps for this type of real estate.

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Therefore, it is our opinion that these estimates are the Market Value for this property at this time.

It is our opinion that the most likely buyer will be an owner user and, quite possibly, the Salem Hospital or Willamette University. It would appear that the current zoning, Public Private Education would work for each of these prospective buyers. Selling the property to a developer on a spec basis in this current economy would be very difficult at best. The good news is this site is located within the Salem Urban core and there are other owner user facilities that may have outgrown their facilities.

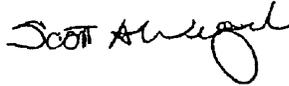
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In conclusion, we recommend that the State of Oregon proceed simultaneously with Option 3 described above and with listing the property for sale with a commercial real estate brokerage company capable of marketing the property to the largest prospective buyer pool.

Sincerely,



Ted Nicholson
Senior Vice President
(503) 221-4815



Scott Weigel
Senior Associate
(503) 221-4818



Preston C. Greene
Sales Associate
(503) 221-4887

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Exhibit B

SITE & IMPROVEMENT DESCRIPTIONS (CONTINUED)

ZONING MAP

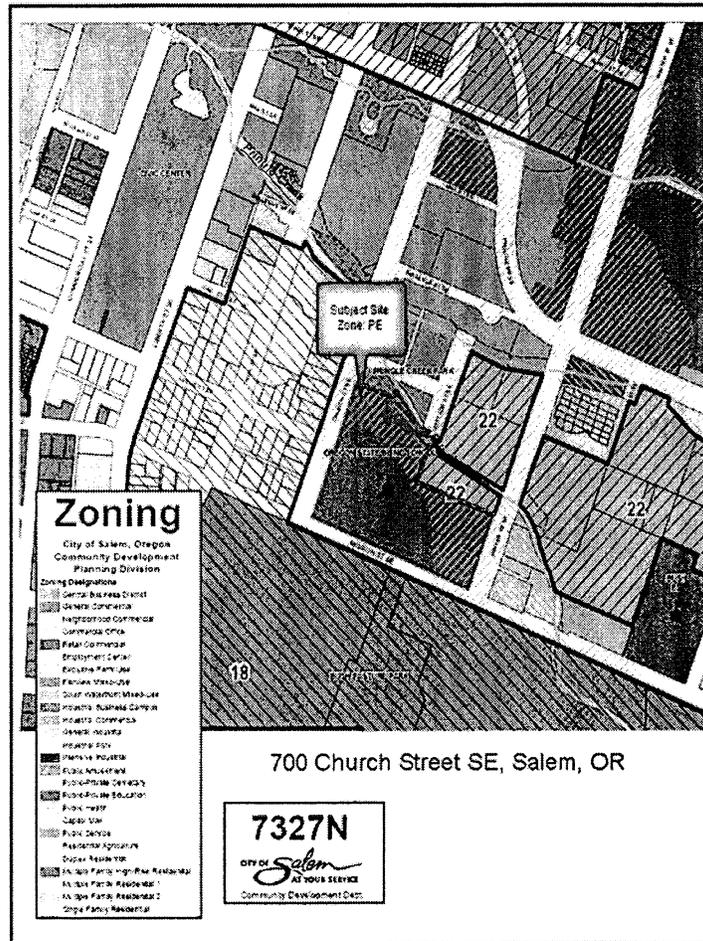
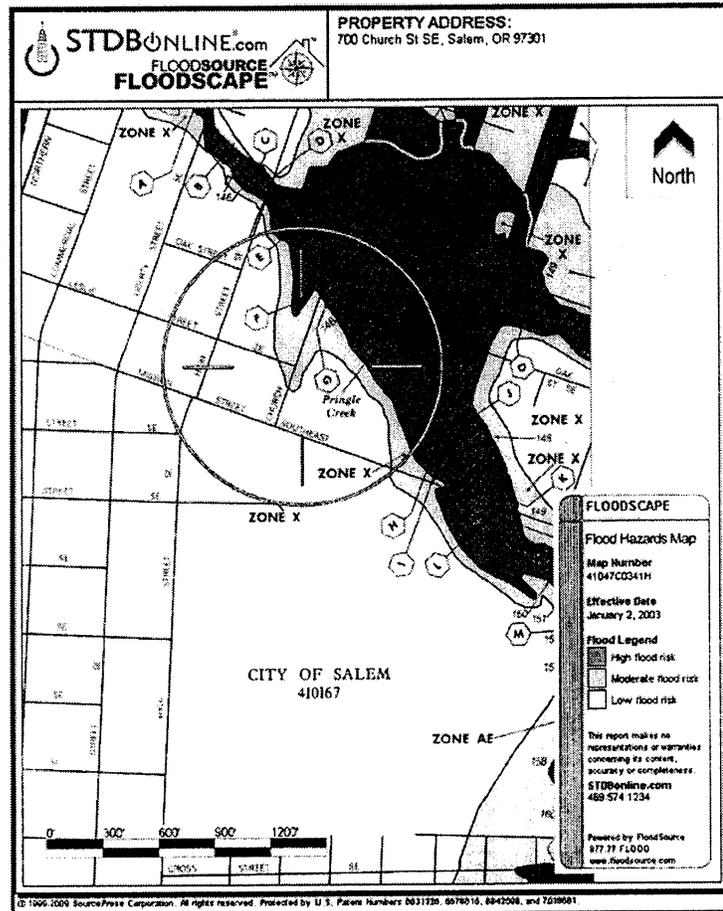


Exhibit C

SITE & IMPROVEMENT DESCRIPTIONS (CONTINUED)

FLOOD MAP



CG90879

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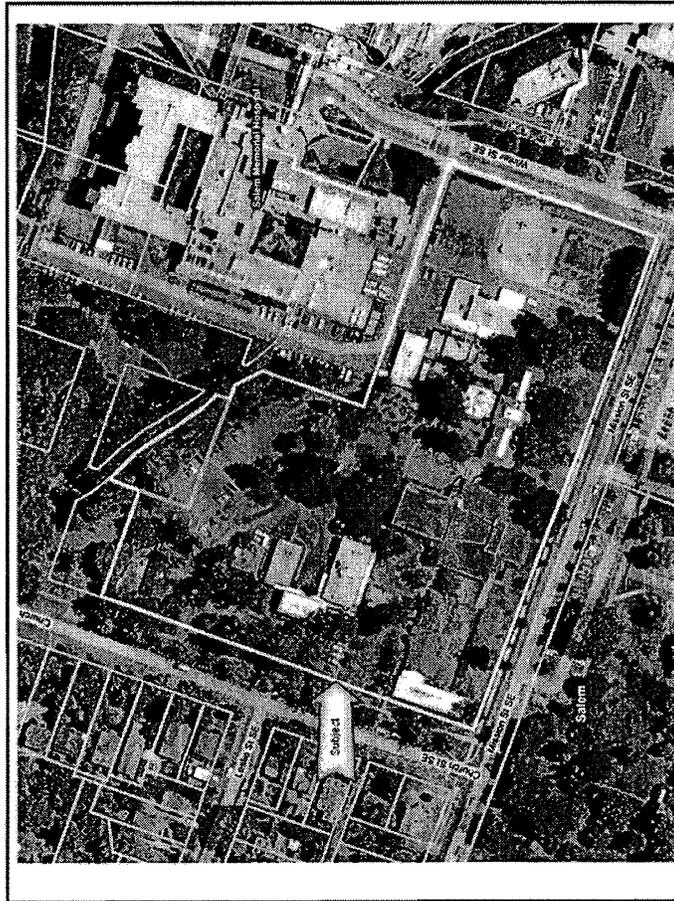
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Exhibit D

SITE & IMPROVEMENT DESCRIPTIONS (CONTINUED)

AERIAL PHOTOGRAPH



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Oregon

Theodore R. Kulongoski, Governor

Department of Administrative Services

Facilities Division

1225 Ferry St SE U100

Salem, OR 97301-4281

PHONE: (503) 378-2865

FAX: (503) 373-7210

January 15, 2010

Mr. Jeff Sackett,
Capstone Partners
1015 Northwest 11th Avenue
Portland, OR 97209-3496

RE: Oregon School for the Blind Campus in downtown Salem Oregon.

Subject: Your firms' opinion as to the most attractive scenario when the property is listed for sale.

Dear Jeff:

This letter is in follow up to my earlier conversation with your office regarding the 8.22 acre campus that was formally known as the Oregon School for the Blind located in Downtown Salem.

First of all, I would like to say thank you for speaking with me and responding to this request.

As I mentioned in our conversation, with the help of Fletcher Farr Ayotte (FFA) Architects, the Department of Administrative Services (DAS) has completed a recent study of the existing campus for the Oregon Legislative session which reconvenes this February. Please see the attached CD which includes the entire study and background information of this recent study.

The Purpose in contacting your firm:

- DAS has made our recommendations to the Oregon Legislation as to what the physical status or scenario of the existing facilities should be when the property is offered up for sale.
- The Legislative Fiscal Office (LFO) has made the following additional request to DAS; "What is the most attractive scenario to potential private sector developers" To get this opinion, is the reason as to why I am contacting your firm.

History:

- The former Oregon School for the Blind was closed by action of the Oregon Legislature earlier in 2009 (House Bill 2834). Through HB 2834, the Legislature has directed DAS to sell the former Oregon School for the Blind, and has authorized the use of commercial brokers and consultants. The property is located at 700 Church St SE, Salem, Oregon, and located on Tax Lots 300 and 500, 7 3W 27DB, Marion County, Oregon.
- The property is approximately 8.22 acres in size, and is bounded by Mission Street (and Bush Park) on the south, Church Street on the west, Winter Street on the east, and Salem Memorial Hospital and Pringle Creek on the north.
- Included on the property are eleven buildings (see attached list). All are vacant, or will be vacant by the end of February 2010.
- At this time, the facilities and landscaping are being maintained at a minimal level while DAS is preparing for the sale of the property. The buildings have been vacated and the furnishings removed. Fire Life (fire sprinkler & heating) safety systems remain active. Temporary security fencing has been installed



- The Oregon Department of Administrative Services (DAS) was directed by the Legislature to develop a plan of action for the sale, prepare the property for sale, and to sell the property at a price equal to or greater than the fair market value of the property. An appraisal and review appraisal have been completed.
- In February 2010, DAS is to present a report to the Legislature explaining the results of the due diligence work being done and information on sales options for the property.
- At this time, we need a commercial property developer to provide us with a very fast review of our options for selling the property. We need to know what you believe are the obstacles, if any, to the success of each sales option, and why you believe it. What sales scenario, from a developer's point of view, would most likely generate the highest interest in the property in this time period (18 months or less from now).in today's market.

DAS Identified Scenario's or Options Have Included:

1. Leaving all of the buildings, infrastructure (below grade steam tunnels) and hazardous materials intact, and marketing as is.
2. Removing all of the hazardous materials, and leaving the buildings and infrastructure (steam tunnels) intact and marketing the campus.
3. Removing all the Hazardous materials, demolition of all of the buildings, demolition of the infrastructure (steam tunnels) to create a 'brown field's site' that is shovel ready and then market the campus.
4. Abate all hazardous materials form all the buildings: Demo some of the more expensive to update buildings, and then sell the property with some buildings remaining.
5. Postpone sale to a defined or indeterminate date due to poor market conditions.

Just a reminder that this study has not been officially provided to the Legislature yet, so please keep it confidential. Also, any suggestions that your firm makes will be kept confidential at our end.

In closing, please forward your response by January 22 or earlier if possible. Any suggestions for scenarios that we may have not listed or thought of are certainly welcome.

Please do not hesitate to contact me or respond to this request at any of the below listings with any questions you may have.

Respectfully



Larry A. Befus
 Senior Project Manager
 Department of Administrative Services
 Facilities Division
 1225 Ferry Street SE U100
 Salem, OR 97301-4281

Contact Information;

Phone: (503) 373 - 7110
 Fax (503) 373 - 7210
 E-mail larry.befus@state.or.us



Thursday, January 21, 2010

Larry Befus, Senior Project Manager
The State of Oregon Department of Administrative Services
Planning & Construction Management Section
1225 Ferry St SE U100
Salem, OR 97301-4281

Subject: OR School for the Blind Campus – Highest and Best Use (HABU)

Dear Mr. Befus:

Thank-you for the opportunity to share my thoughts on the various options you present in your letter of January 13th. As you compare my opinion against others please consider the influence my background exerts. I am:

- A self employed commercial building Contractor since 1977.
- Proven successful in handling projects of up to 7.5mm and work backlogs of 17mm.
- Versed in all commercial building, retail, institutional, and public works sectors.
- Experienced in multi-family residential built by my residential LLC.
- Experienced firsthand with the redevelopment of the Dammish State Hospital site in Wilsonville into what is now known as the Villebois Village Center.
- Successful with development having designed, developed, financed, leased and managed projects for my own account.
- A LEED AP.
- A CCIM candidate having completed the core classroom requirements.
- A licensed Realtor associated with the Phillips Group. Phillips handled the HP Vancouver sale to SHE America which as a 63mm transaction was 2nd largest in the region in 2009.

So from the above perspective, I have reviewed the FFA study you provided me along including the five proposed options. I also took the additional step of discussing the options with Terry Phillips the broker I work with. After review, my conclusion is that option number three your best solution, followed by number five.

Option number three is the most attractive to me because:

- The cost of demolition and abatement is as low as it will ever get.
- The carrying cost of surplus but available land is as low as it will ever get.
- A clear site will allow subdivision which will make it more marketable to a wider group of prospective investors.

3205 NE 78th Street, Vancouver, WA 98665 *360.574.4339 * Fax 360.574.5082
www.merrillcontractors.com * mmerrill@merrillcontractors.com

- There are LEED points for redeveloping brown field site.
- The cost of seismic, hvac and other upgrades to used buildings is difficult to predict causing developers to hedge their budget numbers and banks to require more equity and fees due to the added risk.
- The existing buildings are special use and for the most part obsolete.
- You will be on the market in advance of the coming economic recovery and have a timing advantage over other similar properties.

The only advantage of #5 is the preservation of capital. The disadvantage is that costs are already beginning to stabilize and increase, inflation will increase and interest rates will go up as the market improves.

I hope this information proves helpful in forming your final recommendation. The Phillips Group offers market feasibility consulting services should you need additional HABU study.

Respectfully,

Mike Merrill, President

TOUCHMARK DEVELOPMENT

From: Joseph A. Billig [jab@touchmark.com]

Sent: Sunday, January 24, 2010 5:54 PM

To: larry.befus@state.or.us

Subject: Oregon School for the Blind

Dear Mr. Befus:

I had an opportunity to review the survey materials.

I felt scenario 4, abate all the hazardous material, demo some buildings and leave some remaining would be an attractive option for developers. While I read the Historical Research and understand there is not much cohesiveness to the campus planning nor are the buildings "significant", there may be some pieces worth saving for nostalgic reasons in the community. It would be helpful to have more detail on building plans and elevations as it was hard to get a real sense of the quality of architecture from the older black and white photos.

The next best option in my opinion would be option 3 - a shovel ready site.

I could see a variety of uses on the site (prefaced by not knowing anything about the hospital, land values) neighborhoods) including:

- Skilled nursing campus, hospice, rehab, physical therapy, medical office - hospital adjacency could be beneficial
- Another school, college, satellite college campus - nursing school
- office, government agency
- Housing, various density and types
- McMinnemins? / hotel

Certainly with current focus on sustainability this site would be attractive as a LEED project for developers. Financing is extremely difficult in this climate, perhaps a HUD project would also be suitable for this site.

This project recalls one our company built in South Dakota, a retirement community incorporating a 100 year old Catholic girls school which had several alumni in the community return in their seventies and eighties as residents. That kind of community connection may be a positive in keeping some of the older buildings, as well as providing architectural interest.

Thank you for the opportunity to review the material, best of luck with the project.

Sincerely,

Joseph A Billig, AIA LEED AP
Vice President - Architecture
Touchmark Development & Construction Co.
(503) 646-5186
(503-644-3568 (fax)
jab@touchmark.com
www.touchmark.com

From: James Winkler [jhw@winklercompanies.com]
Sent: Monday, January 18, 2010 1:55 PM
To: 'BEFUS Larry * FACL PCM'
Subject: RE: School for the Blind Campus - Additional Information
 Larry,

WINKLER DEVELOPMENT

Thank you for providing the CD and other information re: the Oregon School for the Blind Campus in downtown Salem, Oregon. I reviewed the material briefly and offer the following response. First, speculative real estate development is at a virtual standstill, essentially hostage to the frozen and dysfunctional capital markets resulting from a global financial meltdown. Accordingly, the appetite for acquisitions by developers is far more limited than at any other time in my career. Most acquisitions today are either on extremely favorable terms arising out of distress situations or for a specific known use. Assuming the disposition assumes that no prospective user of the campus has been identified, I'd respond to the five scenarios as follows:

Scenario 1: As is marketing will generate a very modest price. The complexity of the site and lender reservations about providing any financing to a project in need of haz mat remediation will result in achieving a lesser value for the property. From the state's perspective, I'd view this as the least attractive alternative.

Scenario 2 has more appeal to a user rather than a redeveloper while Scenario 3 creation of the shovel ready site has development appeal. Because I was unable to view the property, I cannot offer an opinion on the relative merits of Scenario 3 vs. 4. Intuitively, I am disposed to Scenario 4 and the opportunity to mix "old/historic" with new structures to create an organic, more textured project with an appropriate mix of prospective tenants while preserving as much of the benefit of the existing buildings as possible. Both scenarios 3 and 4 have appeal to developers with access to capital, local market knowledge etc.

The option to postpone the sale to await more favorable market conditions is a decision many sellers have made in this marketplace. Given that prices are at historic lows and will likely rebound in the next two to three years, DAS is right to consider this option.

As a developer, I didn't review zoning or entitlement information or plans or photos of the buildings/campus at the level of detail needed to assess the quality and adaptive reuse potential of the existing buildings, but find Scenarios 3 and 4 worth further consideration.

This email is a little vague, but I hope it's of some use.

Jim

From: BEFUS Larry * FACL PCM [mailto:larry.befus@state.or.us]
Sent: Thursday, January 14, 2010 9:31 AM
To: James Winkler
Subject: School for the Blind Campus - Additional Information

Good Morning Jim:

Your office will be receiving the back ground information today on the School for the Blind campus that we recently discussed. Just a reminder that this study has not been officially provided to the Legislature yet, so please keep it confidential. Also, any suggestions that your firm makes will be kept confidential at our end in so far as other developers or interested parties go.

Thanks again for providing us with your views.

Larry Befus
 Senior Project Manager
 DAS Facilities Division | <http://oregon.gov/das/fac>
 1225 Ferry Street SE, U100, Salem, OR 97301
 Phone (503) 373-7110 | Cell (503) 559-5018 | Fax (503) 378-4947

Please tell us how we are doing!

The Facilities Division is a flexible team that relies on the strengths of its people to effectively pursue excellence in state government.



January 29, 2010

Larry Befus
Senior Project Manager
Oregon Department of Administrative Services
1225 Ferry Street, SE U100
Salem, OR 97301-4281

Via e-mail: larry.befus@state.or.us

Dear Larry,

You have requested that Capstone Partners LLC (“Capstone”) provide you with our investor/developer perspective and input on DAS’ disposition strategy for the property commonly referred to as the Oregon School for the Blind (herein “Property”). In response to your request, Capstone principals toured the Property with you and Fred Lord on Jan. 22nd. Additionally, we briefly reviewed the due diligence information provided by you, and considered the uses permitted within the underlying Public Services (PS) zoning designation.

As you are aware, the Property is surrounded to the north and east by Salem Hospital’s Main Campus, to the west by an established single-family residential neighborhood, and to the south by Bush Pasture Park and Willamette University athletic stadium. Pringle Creek runs along the north property boundary and the Property is impacted by existing Flood Zones. The existing building improvements are essentially beyond their useful life, and would require extensive upgrades to meet current code requirements (seismic, ADA, fire/life-safety, etc.) and renovation (asbestos abatement, new interior finishes, etc.) before they could be re-occupied. While we have not conducted specific studies or estimates, we believe that renovating the existing buildings for re-use would be cost prohibitive. Therefore, the existing building improvements do not contribute to the value of the site as is.

Following is a summary of our thoughts and input on the highest and best use, marketability, and strategy for disposition of the Property.

- Upgrades needed to meet current code (seismic, ADA, fire/life-safety, etc.) and renovation (hazardous abatement, new interiors, new systems, etc.) are extensive and cost prohibitive.
- Existing building improvements do not contribute to the value of the Property.

- Cost of hazardous materials abatement, demolition of buildings and tunnels, and back-filling of tunnels will be an off-set against value of the “shovel-ready” site.
- The Property is surrounded on the north and east by Salem Hospital’s main campus and Salem Hospital has limited land available for future growth/expansion.
- Established residential neighborhood to the west of the Property, established regional park (Bush Pasture Park) to the south, across Mission Street.
- Existing zoning allows full range of medical, educational, and government administrative uses.
- Eating and drinking establishments are the only commercial uses allowed. These uses, on any large scale appropriate for the site, are not likely to be desirable to the surrounding residential neighborhood, or to the adjacent hospital.
- Medical or healthcare facility is a permitted use, is consistent with the neighborhood, and is likely the highest and best use of the vacant Property.
- Current demand for speculative commercial development is non-existent due to lack of tenant demand and lack of available financing. Any private development (including medical office building) will require substantial (75% plus) pre-lease commitments from credit tenants in order to secure construction financing.
- Given all of the above, Salem Hospital emerges as a strong likely buyer/user prospect for the Property.
- In addition to Salem Hospital, an existing medical group or clinic that is associated, affiliated, or would benefit from proximity to the hospital would be a potential buyer/user. However, Salem Hospital is in the best position to identify/source this type of user(s).
- Other potential users/buyers, some of which are already engaged with DAS, might include Willamette University, Western Oregon University, and/or uses affiliated with higher education institutions that would benefit from proximity and synergy with Salem Hospital.
- Relative to the various alternatives being considered by DAS, Capstone would not recommend additional clean-up, hazardous material abatement, demolition, or other site renovation work prior to “marketing” the Property to the likely buyer/users identified above.
- The “value” of the completed clean-up is not likely to be incrementally greater than the cost incurred, and the terms of the transaction can include negotiation of the cost, risk, and resources required to complete any specific clean-up and demolition tasks.
- Furthermore, Capstone recommends strategically “marketing” the Property to the short list of prospective buyers/users already identified first, rather than engaging

in a broader regional marketing campaign. If an acceptable buyer does not emerge from the existing prospect list, a broader marketing campaign could be used as a follow-up strategy.

We appreciate the opportunity to review the Property and provide our thoughts and input. Please do not hesitate to call if you should have any further questions.

Capstone Partners LLC, formed in 2002, has offices in Portland, Oregon and Seattle, Washington, and provides asset management, transaction advisory, development and entitlement management services. We would welcome the opportunity to provide disposition advisory services to DAS on the former Oregon School for the Blind Property, including developing a strategic asset positioning and marketing plan, soliciting offers from key prospects and negotiating the transaction terms, managing any site clean-up, partitioning or other appropriate site work, and executing on the sale of the Property.

Sincerely,

A handwritten signature in cursive script that reads "Martha A. Shelley".

Martha A. Shelley

C: Chris Nelson, Capstone Partners
Jeff Sackett, Capstone Partners

From: Jessica Engeman [mailto:Jessica@venerableproperties.com]
Sent: Thursday, January 28, 2010 10:53 AM
To: BEFUS Larry * FACL PCM
Cc: Art DeMuro
Subject: RE: Oregon School for the Blind

Larry,

In reviewing the information on the school campus, Art and I came up with two options we would like to suggest to you:

Option A

- Keep all existing buildings
- Clear all hazardous materials
- Rezone the site to allow for commercial office use and live/work
- Sell as-is (could also sell contingent on rezoning and environmental remediation)

Option B

- Retain buildings 4, 5, and 6, and possibly 8 (Howard Hall, School Building, Irvine-Bracher, and Boiler)
- Demolish remaining buildings and clear site for new construction
- Rezone and hazmat as above or do a contingent sale

For both of these options, we see the existing buildings as being attractive to general office users and/or institutional users (doctors' offices or university facilities). Some of the smaller buildings would be ideal for owner-users.

We also believe retaining the National Register-eligible properties is important. Not only will this increase local political/community support for redevelopment of the site, but it is also consistent with state-wide land use planning goals for historic resource protection and sustainability.

I hope our thoughts are helpful to you, Larry. Please let us know if you would like to discuss further.

Jessica

Jessica Engeman
Historic Preservation Specialist

Venerable
70 NW Couch St., Suite 207
Portland OR 97209
503.943.6093 - direct
503.224.2311 - fax



Salem Health

Salem Health
P.O. Box 14001
Salem, Oregon 97309-5014
503-561-5200
salemhealth.org

January 27, 2010

Fred Lord
Property Transactions Coordinator
DAS Facilities Division
1225 Ferry Street SE, U100
Salem, OR 97301

Dear Fred

This letter is to confirm our previous discussions that Salem Health (Salem Hospital) has an interest in acquiring the property on which the Oregon School for the Blind was formerly located. Salem Health has leased from the State of Oregon a portion of the northern part of the property for several years.

Salem Health has been an adjoining landowner to the School for the Blind for a significant number of years. Salem Health is committed to remaining a centrally located urban hospital facility serving the medical needs of the greater Salem area. When the decision was made to build the recently constructed patient tower, Salem Health again renewed its commitment to its patients and immediate neighbors. In continuing to commit to the Salem Health neighborhood, Salem Hospital believes that the acquisition of adjacent surrounding property, as it becomes available, is sound planning. Salem Health views this as a long-term investment that would provide options for the future.

Potential near-term uses, should we purchase the property, include surface parking on the Winter Street side and occupation of some of the existing buildings on the Church Street side of the property. Possible building occupants include an employee daycare site and a guest house for hospital patients' families. In general, however, Salem Health prefers that the majority of the buildings be removed before purchase. It is the site, not the buildings, that is of primary interest.

Long-term uses will take into consideration the compatibility of the use with the surrounding neighborhood, impact on traffic circulation and parking. Salem Health looks forward to working cooperatively with the City of Salem, State of Oregon, neighborhood associations and the greater community in developing its long-term use of the property.

Thank you again for the opportunity to confirm our interest in acquiring the property.

Sincerely,


Cynthia Wagner
Director, Facilities & Environment
503-561-2601



WILLAMETTE

THE FIRST UNIVERSITY IN THE WEST

900 STATE STREET
SALEM, OR 97301

Fred Lord
Property Transactions Coordinator
Statewide Property Section
Department of Administrative Services

1/28/2010

Dear Fred,

Thank you for your inquiry to Willamette University about the Blind School property. It is a splendid piece of property! We have previously toured the property and the buildings, and have a pretty good understanding of what is available. Your letter appears to outline many options for DAS to consider.

Many opportunities could exist for the Salem community at the Blind School site. From your list, I understand one option might be to delay action. A delay may allow for more interested community members to become involved, so this appears as an interesting option.

Willamette has a natural interest in the disposition of this property as its location is very near our core campus, and our Stadium Property. We also hold a sincere interest in seeing this property develop into use that builds and enhances the Salem community.

The other options you listed for the site are difficult to assess. We do not truly know the accurate structural conditions of each facility. We would need the most complete information that could be assembled to make a judgment about the cost/benefit viability of building rehabilitation.

Our expectations about the value for future intended use would likely be based upon the value you place on these buildings against a concise price for mitigation, seismic upgrading and rehabilitation. Also, we cannot accurately assess the costs for permitting, zoning, and other foreseeable and unforeseeable challenges that might come from tearing down buildings in this particular area. There does not appear to be a "current price" to compare the value of the buildings and property "as is," to a price after each of your listed options.

We would like to stay involved in the discussions around this property in the future and seek to be included in any communications you may have related to its disposition. Please consider me your primary contact for Willamette related to this property. Please don't hesitate to contact me if you have any questions.

Sincerely,

Jim Bauer
Vice President for Administrative Services
Willamette University