

**Item Title:** Approval of a Multi-Year Operating Lease for the Wake County Board of Education at 111 Corning Road, Cary, NC (Second Reading)

**Specific Action Requested:**

**That the Board of Commissioners adopt the attached resolution approving a Board of Education office space lease for operational, educational and student support purposes affirms the Board of Education’s application to the Local Government Commission for approval of the lease, pursuant to N.C.G.S 115C-530.**

**Item Summary:**

**Purpose:** State law requires that Board of Education receive approval from the Board of Commissioners before entering into operational leases for school buildings and/or other facilities for more than three years (NCGS §115C-530). Board approval, in the form of a resolution, is a commitment to appropriate funds in subsequent fiscal years sufficient to meet the obligations of the contract.

**Background:** The Board of Education entered a lease of the Crossroads I and II buildings containing 173,741 SF on July 1, 2010, for consolidation and location of its Administrative Central Services. To address current staff overcrowding, to further consolidate remotely located administrative functions and to provide space for future growth, additional commercial office space is needed. On November 20, 2018, the Board of Education accepted the terms and conditions of a lease amendment to add a 75,864 SF portion of an office building together with surface parking at 111 Corning Road, Cary, NC (Crossroads III Building) to the Board’s existing lease and extend the lease term for existing space to be co-terminus with the new space, subject to approval of funding by the Board of Commissioners and the North Carolina Local Government Commission. On December 3, 2018, the full Board of Commissioners received a presentation on this matter.

**Board Goal:** This action complements initiatives in the Board’s Education goal area.

**Fiscal Impact:** The lease commencement date is on or after July 1, 2019. Due to a rent abatement lease concession, no funding is necessary for the rent for fiscal year 2019-2020. Should the Board of Commissioners approve the resolution, in future years the Board of Education is required to appropriate the funding needed from resources appropriated to them by the Board of Commissioners.

**Additional Information:**

On November 20, 2018, the Board of Education accepted the terms and conditions of a Lease Agreement with Raleigh Durham Office Partners, LLC (“Landlord”), to lease a 75,864 SF portion of a 121,500 SF two story commercial office building known as Crossroads Office Park Building III (“CR III”) with surface parking at 111 Corning Road, Cary, NC, subject to approval of funding by the Board of Commissioners and the Local Government Commission. The Lease Agreement is for a 15-year term (July 1, 2019 - June 30, 2034), with options to renew for up to two eight-year periods thereafter at the then current market rate. The building is adjacent to the Crossroads I and II buildings (“CR I and II”) within which some Administrative Central Services offices are located, which provides proximity efficiencies.

The intended uses of the site are for additional consolidation of administrative functions located in other owned and leased spaces, addressing overcrowding in CR I and II, and meeting growth needs. This expansion is consistent with the Board of Education’s long-range plan for flexible office space expansion within the Crossroads Office Park when needed.

The base annual rental rate for the CR III space is \$1,807,770 (\$23.75/square foot). The rental rate shall increase 2.25% on July 1 of each year beginning on July 1, 2020. Common Area Maintenance (TICAM) costs will also be incurred for a pro rata share of operating expenses, real estate taxes and insurance to the extent they exceed a 2019 base year.

Landlord has agreed to provide monetary lease concessions including:

<b>Concession Type</b>	<b>Crossroads I &amp; II</b>	<b>Crossroads III</b>	<b>Total</b>
Abatement (“Free Rent”)	\$2,328,552	\$1,801,771	\$4,130,323
Tenant Improvement Allowance	\$1,216,187	\$2,655,240	\$3,871,427
Design Allowance	\$18,720	\$18,720	\$37,440
Data Center Restoration Allowance		\$100,000	\$100,000
Furniture, Fixtures & Equip Surplus		\$1,000,000	\$1,000,000
<b>Total Concessions Value</b>	<b>\$3,563,459</b>	<b>\$5,575,731</b>	<b>\$9,139,190</b>

The Lease Agreement also modifies the term of the Board of Education’s existing lease of 173,741 SF within CR I and CR II. The term of the existing lease is extended to be co-terminus with the new Lease Agreement. The existing terms of the lease of CR I and II will continue to the original end date of June 30, 2026, at which time the base rent for CR I and II will match the remaining rent schedule at the per square foot rental rate for the eight-year balance of the new Lease Agreement term.

There is not a current fiscal year funding need, and the funding need for the CR III rent payment for the 2019-2020 fiscal will be covered by the Landlord-provided rent abatement. Costs of the lease annually thereafter will be funded from the future appropriations of operational funding from the County beginning in FY 20-21.

**Wake County Staff Comments:**

County staff has been involved in certain aspects of the space needs analysis, prioritization process, and the site selection process and has reviewed the findings. Utilizing the site criteria and considering the program needs identified for location in the space, the CR III site meets those criteria at the lowest price available compared to other sites considered. Based on the information presented, County staff supports the lease of this parcel for office space for operational, educational and student support purposes.

**Attachments:**

1. Presentation from First Reading
2. Lease Agreement Precis
3. Resolution