Item Title: Request from Wake County Public Schools for Approval of a Multi-Year Operating Lease – Dillard Drive (First Reading)

Specific Action Requested:

That the Board of Commissioners receives this information from the Board of Education, so that upon answering any outstanding questions this item will be placed on a future Agenda for consideration pursuant to NCGS 115C-530 to:

1. **Adopt the attached resolution approving a Wake County Board of Education flex/office space lease for educational and support purposes and directs staff to submit an application to the local government commission for approval of the lease.**

2. **Approve approximately $4 million of cash from the Wake County Board of Education operating budget to address the lease costs over the term of the lease.**

Item Summary:

On December 1, 2015, the Board of Education accepted the terms and conditions of a Lease Agreement with Chaucer Investments, LLC, ("Landlord"), to lease a building containing approximately 21,756 square feet of flex space upon a ±3.2 acre lot with surface parking at 5651 Dillard Drive, Cary, NC, subject to approval of funding by the Board of Commissioners and the Local Government Commission. The Lease Agreement is for a 10 year term, with options to renew for up to two additional five year periods (April 1, 2016 – June 30, 2026).

Planned Program

The building is located immediately adjacent to the existing WCPSS leased administrative buildings at Crossroads Corporate Park. The flex space will be used for educational and student support purposes. Due to continued growth in school populations in Wake County, it has been determined that the use of this site for these purposes is both needed and cost effective. There are three planned purposes of the space: (1) a flexible academy to provide primarily high school students three hour sessions to deliver face-to-face instruction to supplement on-line learning, (2) additional space to support long-term suspended students, including the provision of wrap-around services for students and their families, and (3) a space for the consolidation of WCPSS instructors who deliver on-line instruction for students throughout the system. WCPSS intends to use the site beginning with the 2016-2017 school year or as soon thereafter. Greater program detail follows:

1. Enterprise Learning Model High School/Flexible Academy: Enhances academic standards with innovative approaches to learning that maximize student potential with personalized, competency-based content. Students take ownership of their progression through a full course load with flexible access to teacher, content, peers, and learning utilizing the best of both online and face-to-face education (synchronous and asynchronous instruction). The flex space leased building

provides a central location for collaboration, critical activities and teacher-led instruction.

2. Alternative Learning Center Hub: Educational support to SCORE (Second Chance On-line Resource for Education) enrolled middle and high school long-term suspended students. Course content is primarily delivered through synchronous and asynchronous instruction utilizing technology. The flex space leased building provides a central location for face-to-face extra support, including wrap-around services for targeted support to address socio-emotional needs and enhanced transition services (access to counselor, psychologist, social worker, etc.) for the student and family.

3. Flexible Learning Support Space: Centralized space for teachers to prepare and oversee delivery of synchronous and asynchronous core course content utilizing technology, and evaluate and coordinate elective course delivery via NCVPS and other online vendors. Also supports Homebound/Home Hospital programs, Single Subject Acceleration, and other on-line instruction

Costs and Funding

The base annual rental rate is $348,096 ($16.00/square foot) and shall increase 2.5% on July 1 of each year beginning on July 1, 2017. The provision of utilities, custodial services, tax and insurance charges are not included in the lease rate of $16.00/square foot, and Common Area Maintenance (CAM) costs will also be incurred beginning July 1, 2018 to the extent they exceed those of the base year. The terms of the lease are generally comparable to those of the adjacent Crossroads administrative space approved by the Board in 2010, which had a base rental rate of $16.50 a square foot. Purchase of the site is untenable due to the seller's unwillingness to sell.

The Landlord will provide a Tenant Allowance in the amount of up to $326,340 ($15.00/sq.) to be used by Tenant for the costs of design and construction of Tenant Improvements, including but not limited to all permits and signage; furniture, fixtures and equipment and cabling. These costs are expected to be incurred in the first eight months of 2016. If costs exceed the Tenant Allowance of $326,340, additional funds will be identified in the WCPSS operating budget.

The total facility operating costs, including operating lease rental, common area maintenance, and utilities and janitorial, is expected to cost $4.7 million over ten years.

Fiscal Year	Lease Square Footage	TICAM	Utilities	Janitorial	Total
2017	$ 348,096		$ 29,385	$ 29,948	$ 407,430
2018	356,798	2,353	30,414	30,996	420,561
2019	365,718	4,788	31,478	32,081	434,066
2020	374,861	7,309	32,580	33,204	447,954
2021	384,233	9,917	33,720	34,366	462,237
2022	393,839	12,617	34,901	35,569	476,926
2023	403,685	15,412	36,122	36,814	492,033
2024	413,777	18,304	37,386	38,103	507,570
2025	424,121	18,945	21,298	39,436	503,800
2026	434,724	19,608	24,396	40,816	519,545
	$ 3,899,852	$ 109,254	$ 311,680	$ 351,334	$ 4,672,121

WCPSS has stated that existing funds will be sufficient to cover FY 2016 operating costs. However, WCPSS will submit a budget request for additional funds to address the lease obligation and associated operating costs via the Board of Education's Proposed Budget fiscal years 2017 and beyond. In addition to the previously mentioned lease, common area maintenance, janitorial, and utilities; the business case would include estimates for recurring instructional operating costs such as local positions, local supplement, security, digital infrastructure and resource cost estimated around $425,000. Some of the instructional operating costs may come in lower, if able to earn state allotments for some of the categorical positions.

Resolution

State law prohibits the Board of Education from entering into operational leases for school buildings and/or other facilities for more than three years without prior approval from the Board of Commissioners (NCGS §115C-530). As the terms of this lease meet these criteria, staff is requesting approval for submission of an application to the LGC in coordination with WCPSS. By approving the request for submission of an application, the Board finds that because the property is not for sale, and because the school system desires adjacencies to their existing administrative space for programmatic purposes, an operating lease was deemed the most desirable option. 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. Should the Board of Commissioners approve the resolution, the Board of Education is required to appropriate the current year's portion from existing funds, and in future years, from additional resources appropriated to them by the Board of Commissioners. It is requested that the operating lease be approved by the Local Government Commission at their February 3, 2016 meeting.

Wake County Staff Comments:

County staff has been involved in certain aspects of the space needs analysis and 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 Dillard Drive site meets those criteria at the lowest price available compared to other sites considered.

WCPSS has provided estimates of operating costs associated with this lease and anticipated programmatic costs, as noted above. Per 115C-530, if an operational lease is approved by the Board of County Commissioners, in each year the County Commissioners shall appropriate sufficient funds to meet the amounts to be paid during the fiscal year under the lease. Because WCPSS states that there are insufficient funds in their local budget to absorb the operating costs, by approval of the operating lease, the Board of Commissioners is approving recurring additional funds to WCPSS to support the lease and additional operating costs of the facility as noted previously.

Attachments:

1. Power Point Presentation
2. Precis and Proposed Lease
3. Resolution
4. Lease Space Cash Flow Analysis