

Item Title: Approval of a Multi-Year Operating Lease for Wake County Board of Education at 3080 Business Park Drive, Raleigh, NC (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 Board of Education warehouse/flex space lease for operational, educational and student support purposes and directs staff to submit an application to the local government commission for approval of the lease;**
- 2. Approve the Reallocation of the necessary funding from current allocation from Capital Outlay (Fund 4) mobile leases to Local Current Expenses (Fund 2) Real Estate Services contracted services.**

Item Summary:

On September 19, 2017, the Board of Education accepted the terms and conditions of a Lease Agreement with Duke Realty Limited Partnership ("Landlord"), to lease a 44,000 SF portion of a commercial building containing \pm 131,640 square feet of warehouse/flex space upon a \pm 7.5 acre lot with surface parking at 3080 Business Park Drive, Raleigh, 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 (December 15, 2017-December 31, 2032), with options to renew for up to two five year periods (January 1, 2033 – January 1, 2043).

The base annual rental rate is \$242,000 (\$5.500/square foot). The rental rate shall increase 3.0% on July 1 of each year beginning on July 1, 2019. The provision of utilities, custodial services, tax and insurance charges are not included therewith, and Common Area Maintenance (CAM) costs will also be incurred beginning December 15, 2017 and are estimated at \$74,800 (\$1.70/square foot). Landlord will provide a Tenant Allowance in the amount of up to \$176,000 (\$4.00/square foot) to be used by Tenant for the costs of Tenant Improvements, with up to 75% being allocable to furniture, fixtures, equipment, with any unspent funds being allowed to offset rent. Landlord will also provide Tenant six (6) months free rent (\$121,000) to be applied to the first six months of the lease term.

The building is located off New Hope Road between Poole Road and NC 264, within 4.5 miles of the WCPSS Central Services Campus on Rock Quarry Road, which provides proximity efficiencies. The warehouse/flex space will be used for operational, 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. Since construction of the Purchasing warehouse on the Central Services Campus on Rock Quarry Road in 1988, student

growth in Wake County has been nearly 200% but the amount of purchasing warehouse space attributable to system operations have remain substantially unchanged and is inadequate to support efficient operations. The specific intended uses of the site beginning with the 2017-2018 school year are warehouse space with related offices and parking areas to support Purchasing warehouse operations including but not limited to centralization of CIP furniture and materials staging for new schools and major renovation projects, and Equipment Record and Disposition (ERD) processing and disposition of furniture and equipment as identified in the Board of Education's Space Needs Analysis and Prioritization (SNAP) process. The terms of the lease are generally comparable to those of the Board's recent lease of the Wake County EM/EMS Warehouse and Training Facility.

Funding for the costs of the portion of the lease that falls within the 2017-2018 fiscal year is available from the current WCPSS operating budget. Prior to the commencement date of the lease, a request will be brought back to the Board of Commissioners to approve reallocation of the necessary funding from current allocation from Capital Outlay (Fund 4) mobile leases to Local Current Expenses (Fund 2) Real Estate Services contracted services. Funding for the costs of the portion of the lease that falls within the 2018-2019 fiscal year and annually thereafter will be covered within the existing budget of the Board of Education.

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). 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 resources appropriated to them by the Board of Commissioners.

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 Business Park Drive 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 warehouse/flex space for operational, educational and student support purposes.

Attachments:

1. PowerPoint Presentation
2. Lease Agreement Precis and Lease Agreement
3. Resolution
4. Lease Space Cash Flow Analysis