



Date: October 25, 2019

To: Board of Directors

From: Kevin Sved, CEO

Subject: Letter of Intent, 407 Main Street

Overview

Navigator staff has been negotiating a letter of intent (LOI) with the owner of 407 Main Street, Watsonville, for several months. The letter of intent outlines the key business that will be in the lease, including the annual lease payments. The proposed terms include use of the entire second floor of the 407 Main Building of approximately 37,500 square feet, approximately 2,500 sf of ground floor space for an indoor playground, and an additional 700 square feet on the first floor for an exclusive entrance. Watsonville Prep School (WPS) will also have exclusive use of the alley immediately outside of its exclusive entrance during drop off and pick up hours.

The initial lease term totals 31 years, with six sequential one-year leases followed by a twenty-five year lease that increases by 2% per annum. The first six years of the lease is proposed in this way in order to qualify for the maximum eligible state reimbursement funding which only allows a lease to increase annually by a cost of living adjustment (COLA), typically around two-percent. This is a legal strategy that has been vetted by attorneys from both Kutak Rock and Young, Minney & Corr.

The lease terms are significantly below market rate in the early years based on the school's lower enrollment numbers. The lease terms are triple net (NNN) which means that the tenant shall pay a pro rata share of utilities, common area maintenance, and real estate tax. The proposed LOI is binding, and it provides for contingency period of 120 days for necessary approvals and entitlements, construction drawing development, and arranging financing. The LOI calls for a \$25,000 deposit that is refundable during the contingency period. Further details are described in the attached draft of the LOI.

Analysis

The lease terms negotiated allow for WPS to secure a permanent home on a budget that is very tight in the first four years and more affordable in the longer-term as enrollment increases. The expected burden of property taxes during the first two years of the lease also negatively impact the budget. As a non-profit, beginning mid-way through year two, it is anticipated that these property taxes will be abated.

In the event that the project does not move forward due to reasons including construction bids not being affordable, financing not being secured, or the project is not being approved by the City of Watsonville, Navigator will not be bound by the LOI or the related lease to be developed

later. Furthermore, the \$25,000 security deposit is refundable during the 120-day contingency period.

Recommendation

It is recommended that the Board delegate authority to the CEO to execute the Letter of Intent in substantially the same form as attached, conditional upon the CEO consulting with the Board Chair and Board Treasurer on the final form of the document.

Attachments:

- Resolution
- Letter of Intent

BOARD RESOLUTION 2019-13

October 28, 2019

Authority of CEO to Execute Letter of Intent for 407 Main Street, Watsonville

A RESOLUTION OF THE BOARD OF DIRECTORS of Navigator Schools authorizing the CEO to execute a Letter of Intent for 407 Main Street, Watsonville, California:

WHEREAS Watsonville Prep School (WPS) has a need for long-term facilities;

WHEREAS 407 Main Street has been identified as a viable site for a future WPS;

WHEREAS a preliminary Letter of Intent has been negotiated with the owner of 407 Main Street concerning the lease and development of long-term facilities for WPS;

WHEREAS the proposed LOI is binding and provides for a contingency period of 120 days for necessary approvals and entitlements, construction drawing development, and arranging financing; and

WHEREAS The LOI requires a \$25,000 deposit that is refundable during the contingency period;

RESOLVED, the CEO of Navigator Schools is authorized to execute a Letter of Intent for 407 Main Street in substantially the same form as attached, conditional upon the CEO consulting with the Board Chair and Board Treasurer on the final form of the document.

This resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED by the Board of Directors of Navigator Schools at its regular meeting held on October 28, 2019 at Hollister, California.

Signature of Board Chair

Caitrin Wright

Navigator Schools, a California Nonprofit Public Benefit Corporation

The Secretary of the Corporation certifies that the above is true and copy of the resolution that was duly adopted at the dated meeting of the board of directors.

Signature of Secretary

Date

Printed name of Secretary

October 18, 2019

RE: Letter of Intent ("LOI") for lease of a portion of the property ("the Property") at 407 Main Street, Watsonville, CA from Hansen Family Trust (Landlord) (***DRAFT***)

Dear Mr. Hansen,

Navigator Public Schools, a California non-profit corporation ("***Navigator***"), is pleased to submit the offer below outlining the terms and conditions pursuant to which Navigator or an affiliated entity would be willing to lease the Property from Landlord. Navigator would like to lease and improve the second floor of the property, and sections of the first floor, located at 407 Main Street, Watsonville CA (the "Premises") for use as a TK-8 public charter school to serve its students starting in fall of 2020.

1. LANDLORD: Hansen Family Trust
2. TENANT: Watsonville Prep School, a California non-profit corporation, or an affiliated entity
3. USE: A TK-8 public charter school. Tenant shall have the right to sublease to an affiliated entity, subject to Landlord's approval which shall not be unreasonably withheld. During any occupancy of Tenant, no portion of the Property shall be used for marijuana or tobacco sales or use, or as a liquor store.
4. PREMISE ADDRESS: A portion of 407 Main Street, Watsonville, CA
5. LEASED AREA: Approximately 37,750 square feet on the second floor and approximately 2,500 square feet of enclosed play space on the first floor (collectively, the "Premises"). The Premises will also include a dedicated first floor entrance, 20 parking spaces and a dedicated loading zone in front of the SW corner of the building to be available at pick up and drop off times. Each year after the 2020-2021 school year, four additional parking spaces will be added until school reaches full enrollment in 2025-26 when 40 parking spaces will be allocated.
6. LEASE COMMENCEMENT: Upon execution of the Lease.
7. CONTINGENCY PERIOD: Tenant shall have up to 120 days from the execution of LOI to conduct all investigations necessary to determine the feasibility of development of the Premises for its intended use, including, but not limited to, obtaining all required permits and approvals from the City of Watsonville and any other governmental entity with authority over tenants use of the Premises. The contingency period will also be used by tenant to obtain financing for the Tenant Improvements from a federally insured lender on terms and conditions acceptable to Tenant in its sole discretion.
8. RENT COMMENCEMENT: Rent commencement shall be July 1, 2020
9. LEASE TERM: Six (6) terms of one (1) year each from and after the Rent Commencement, one twenty-five (25) year term with two 5-year extension options. (The seven (7) separate leases totaling 31 years will

be executed concurrently so Tenant is able to fulfill the requirements of the SB 740 regulations related to rent increases beyond an annual COLA.)

10. RENT: 2020-2021 school year: annual rent \$56,664 + NNN
2021-2022 school year: annual rent \$167,912 + NNN
2022-2023 school year: annual rent \$281,266 + NNN
2023-2024 school year: annual rent \$402,852 + NNN
2024-2025 school year: annual rent \$530,191 + NNN
2025-2026 school year: annual rent \$663,486 + NNN
2026 – term: 2% annual escalation from preceding year + NNN
11. OPTION TO EXTEND Tenant shall have two 5-year options to extend the Term of the Lease after the cumulative 31-year lease period of the first seven signed lease agreements. Tenant shall provide a minimum of 180 days written notice prior to Lease Termination of its intent to exercise an Option to Extend. The Rent during each lease extension period shall continue at the same rate as the prior year's rental rate plus a 2.0% escalator + NNN.
12. SIGNAGE: The Tenant shall be permitted to install signage on the exterior of the building, subject to Landlord's approval which shall not be unreasonably withheld.
13. SECURITY DEPOSIT: \$25,000 to be paid within 10 days of execution of the LOI and fully refundable during the Contingency Period. After the expiration of the Contingency Period, Security Deposit to be applicable towards rent in the final year of the Lease. Should the tenant not proceed after the expiration of the contingency period said deposit shall be forfeited.
14. BROKER: Landlord and Tenant represent that there are no broker fees or commitments associated with this lease
15. LEASE FORM: The Tenant shall prepare a lease for Landlord's review and approval within 20 working days of Landlord's acceptance of the LOI. The lease will provide that Tenant has the right to record a leasehold mortgage or mortgages. The leasehold mortgage or mortgages will not encumber Landlord's fee interest in the Property.
16. UTILITIES/EXPENSES The lease shall be a modified NNN basis. Tenant shall pay a pro rata share of utilities, common area maintenance, and real estate tax. Tenant shall provide janitorial services and garbage services at its own cost. Common area maintenance shall not include maintenance of structural elements.
- If the Landlord obtains a real estate tax exemption as a result of Tenant's nonprofit public school status, it is assumed that any tax benefit recognized by Landlord is included in the proposed rent structure under Section 10.

17. INSURANCE:

Landlord shall insure the Building against loss by casualty in the amount of the full replacement cost of the Building. Landlord shall carry insurance naming the Tenant as an additional insured, insuring against loss, damage or liability for personal injury or death or loss or damage to the Property as a result of Landlord's use or ownership of the Property with a combined single limit of not less than \$2,000,000 and a deductible of not less than \$10,000. Tenant shall carry insurance naming the Landlord as an additional insured, insuring against loss, damage or liability for personal injury or death or loss or damage to the Property as a result of Tenant's use of the Premises with a combined single limit of not less than \$2,000,000 and a deductible of not less than \$10,000. Tenant shall further ensure that Pacific Charter School Development will maintain liability insurance naming Landlord as additional insured.

18. TENANT IMPROVEMENTS:

Tenant proposes to fund all costs associated with improving the Property for the purposes of operating a school on the entire 2nd floor, including 2,500 square feet of enclosed play space on the first floor. This includes funding of all design and permitting costs and paying for the construction costs associated with the proposed preliminary plans and specifications attached to this LOI which will be incorporated into the Lease agreement.

Tenant shall carry the full responsibility for the development of a set of final design documents on which all the Property improvements will be based. Tenant shall be responsible for obtaining all planning approvals and any other required permit approvals from the City of Watsonville. Landlord shall assist Tenant in obtaining the planning and permit approvals.

At present Tenant anticipates the total cost for the tenant improvement project including design, permitting, and financing origination fees will be \$ 5,000,000. Tenant will retain Pacific Charter School Development to act as its representative during the design, permitting and construction phases.

This Letter of Intent is a legally binding contract and is intended for the purpose of summarizing the principal business terms to be incorporated into a lease.

AGREED AND ACCEPTED:

Landlord

By:

Title:

Date:

AGREED AND ACCEPTED:

Tenant

By:

Title:

Date:

DRAFT