



Date: February 1, 2020

To: Board of Directors

From: Kevin Sved, CEO

Subject: 407 Main Project Update

The project, while experiencing some setbacks described below, is still on track for being completed in time for the start of the 2021-22 school year. While construction costs are higher than anticipated, the owner's willingness to lower lease costs to offset increased debt service enables the project to still be affordable. Additional details will be presented during the Board Meeting.

Since the December Board meeting, the following developments have taken place:

1. A Phase I Environmental Report was conducted and determined that there are no environmental concerns on the 407 Main Street premises.
2. An asbestos study was conducted on the building. Minimal amounts were found in adhesives used on the roof which will have minimal impact during roof replacement.
3. Initial cost estimating was completed with construction cost estimates coming in at \$8m compared to projected \$6m.
4. Pacific Charter School Development is willing to finance the difference in construction costs at a 2.5% interest rate.
5. Proposed lease terms with owner were renegotiated with owner as a result of the projected increased debt service.
6. City of Watsonville determined that Navigator's special use application is incomplete and requires a traffic study as well as an initial study to determine the environmental of the project. It is anticipated that the initial study can be submitted by April 1.
7. Building plans were developed for submission and are on hold until the initial study is submitted.
8. Potential lenders associated with the New Market Tax Credit visited WPS and 407 on January 22 as part of due diligence.

Next Steps

The lenders will continue due diligence. A special board meeting will likely be necessary to provide consider approving a term sheet with the lenders.