

**TOPIC:** University of Maryland, College Park: Guaranty and Lease Assumption Agreement for the College Park Academy in Riverdale Park

**COMMITTEE:** Finance

**DATE OF COMMITTEE MEETING:** October 6, 2016

**SUMMARY:** The University of Maryland, College Park requests approval to enter into a Guaranty and Lease Assumption Agreement in order to provide additional security for the College Park Academy (CPA) lease.

At its June 10, 2016 meeting, the Board of Regents approved a joint venture between the University and St. John Properties, Inc. That joint venture has been formed with the creation of SJP UMD Lot 2R, LLC. The joint venture is to build a 50,107 square foot building to be leased by the joint venture to CPA. At that time, the Board was informed that "it is anticipated that CPA will enter into a 15-year lease for this building."

As the CPA lease negotiations and due diligence moved forward, two issues arose. First, CPA had an insufficient length of credit history and prior insufficient revenues (in part because the school's enrollment continues to grow as extra classes are added each academic year) in order for the CPA lease, alone, to satisfy lender underwriting requirements. Second, under the charter school law, CPA is unable to commit to a lease term longer than the length of its shorter-term charter. CPA's attorneys, therefore, required a right for CPA to terminate its lease if its charter was not renewed. The 15-year term (and firm lease commitment) is required to allow the joint venture to recoup, through the rent income, the joint venture investment of just over \$3,750,000 for tenant improvements benefiting CPA.

CPA is a high priority for the University that was created through an alliance with the City of College Park and the Prince George's County Public Schools.

To resolve the credit and potential early lease termination issues, the University proposes to enter into a Guaranty and Lease Assumption Agreement with the joint venture. As guarantor, the University effectively "co-signs" the CPA lease and commits to cure any monetary default by CPA.

In addition, the proposed agreement provides that in the event the CPA lease terminates at any time prior to the end of its natural 15-year term, then, in that event, the University would be automatically assigned CPA's rights under the CPA lease and would become the new tenant under that lease.

**LESSOR:** SJP UMD Lot 2R, LLC (headquartered 2650 Lord Baltimore Drive, Windsor Mill, MD)

**LESSEE:** College Park Academy, Inc.

**ALTERNATIVE(S):** The University can decline to guarantee the CPA lease. In that event the joint venture would not be able to lease property to CPA or build the school as proposed. CPA would need to immediately begin trying to find another relocation site. Under a negotiated (but not yet signed) lease amendment, CPA would be able to remain at its existing location, in St. Mark's Catholic Church, until June, 2018 (although it would not have the space needed to add another grade in the 2017-18 academic year). Beyond that date, CPA would still need to find an alternative site.

**FISCAL IMPACT:** The proposed joint venture and CPA lease that the University proposes to guarantee is a triple net lease with first lease year base rent of \$1,202,568 (increasing 2.5% annually). The proposed CPA lease provides that the lessee also pays, as additional rent, its share of utilities, real estate taxes and operating expenses.

Even without the proposed Guaranty and Lease Assumption Agreement, the University had always contemplated financial support of CPA, much of which would be funded with the University's projected returns as a member of the joint venture. Ideally, CPA through a combination of increased enrollment, grants and other fundraising would work to achieve financial self-sufficiency.

If the CPA lease were terminated early and the University were obliged to assume the lease, then University would either sublease all or part of the building to third parties at then-current market rates or use any remaining space for then-existing University operational needs. The building will be well located close to transit (both the College Park Metro station and the Purple Line) and immediately adjacent to the major new mixed use development that features the first Whole Foods in Prince George's County.

**CHANCELLOR'S RECOMMENDATION:** That the Finance Committee recommend that the Board of Regents approve for the University of Maryland, College Park to enter into a Guaranty and Lease Assumption Agreement and any other required documentation required to implement the transactions described above; and delegate to the Chancellor the authority to execute, after appropriate legal review, all required documentation consistent applicable University System of Maryland Policy and Procedures on the Acquisition and Disposition of Real Property.

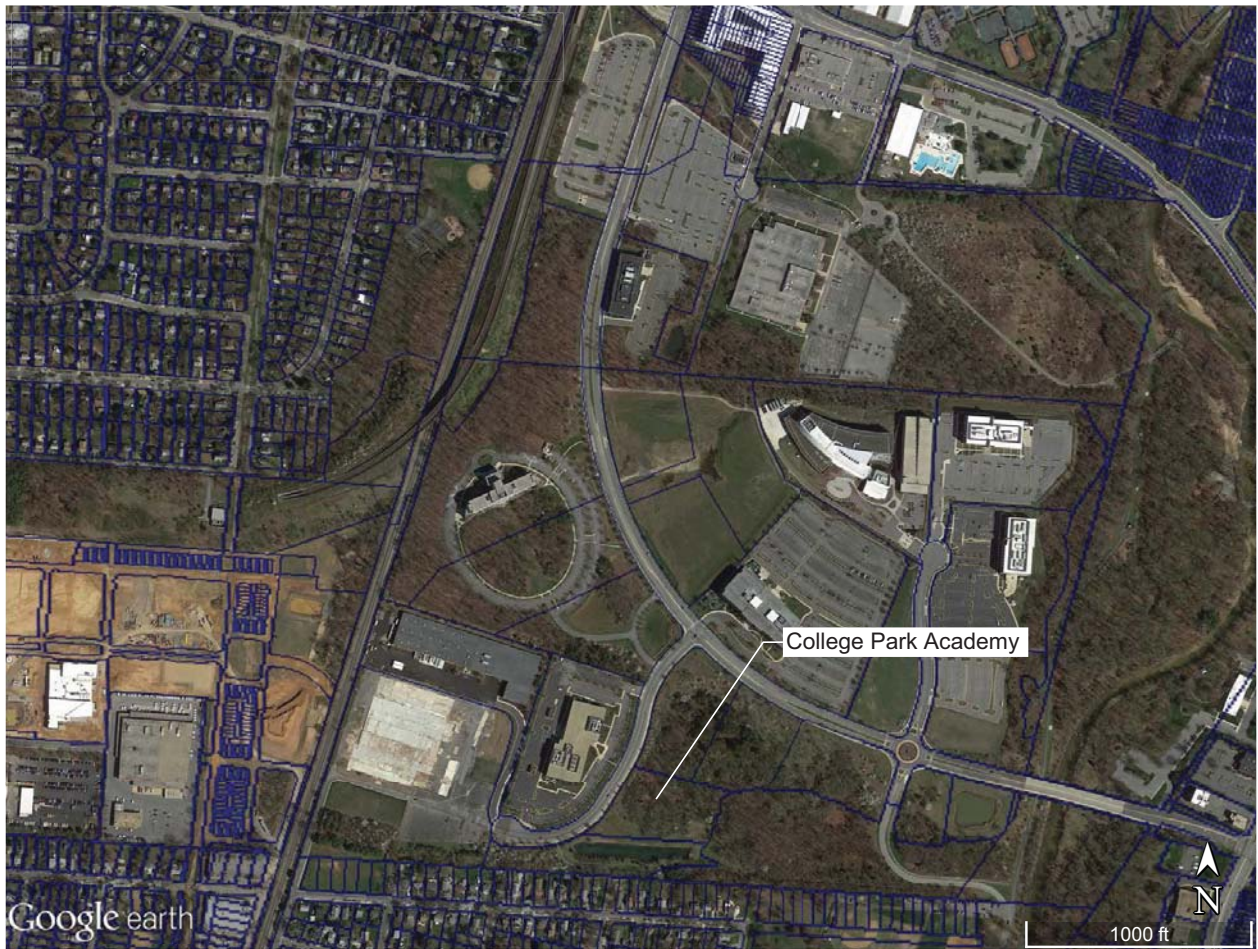
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COMMITTEE RECOMMENDATION: RECOMMEND APPROVAL	DATE: 10/6/16
BOARD ACTION:	DATE:

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SUBMITTED BY: Joseph F. Vivona (301) 445-1923

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Google earth

1000 ft



TOTAL BUILDING AREA  
50,107 SF SCHOOL



**College Park  
Academy**  
Total Building Area  
50,107 SF



Riverdale  
Park Maryland

