

INTEROFFICE MEMORANDUM

June 10, 2013

MEMO TO: J. Russell Allen
City Manager

FROM: Diane Sauer, Parks and Recreation Director
Stephen C. Bentley, Parks and Recreation CIP Manager

SUBJECT: Budget Note 30 –Dorothea Dix Park Annual Lease Payment

The recent events by the North Carolina General Assembly related to the Dorothea Dix lease impacts the budgeted amount for the annual lease costs in the proposed FY14 budget.

The existing executed lease between the City of Raleigh and the State of North Carolina identifies the parameters for both parties to calculate the annual lease payment. These are outlined in further detail below from section 4 of the executed lease. *(Listed at the end of this Memorandum.)*

To summarize these parameters, the City and State are to meet annually and “mutually” agree upon and calculate the “Retained Premises” and verify these measurements. The adjusted annual rent which is determined from the base rent minus the agreed upon “Retained Premise” measurements. This action is to occur prior to July 1, 2013.

Despite consistent and diligent efforts by the City of Raleigh Parks and Recreation Department to convene a meeting with the State of North Carolina to discuss this the mutually agreed upon retained premises, calculation has not occurred. The most recent correspondence from the State of North Carolina Department of Administration (DOA) to the Parks and Recreation Department stated that all further discussions about the calculation of the retained premises is “premature” until the State General Assembly gives the DOA further direction.

Based on a review of the existing executed lease agreement, Exhibit B - Description of Retained Premises, identifies that at the point in time of the lease’s execution on December 28th, 2012 the retained premises was 1,492,650 or 34.27 acres. This calculation would generally make the City of Raleigh’s retained premises as all areas on the Dorothea Dix campus except the building and parking lot foot prints. Examples include sidewalks, areas outside the existing State of NC used buildings like break areas and lawns. This annual lease payment cost is \$444,186.

Currently, the FY14 Parks and Recreation Department’s proposed operating budget includes \$250,000 for the annual lease payment. This amount was estimated based on preliminary conversations with the Department of Health and Human Services staff. Should the final agreement require the City to pay the full annual lease cost, an additional \$194,186 will be needed in FY14.

Section 4 of the Executed Lease.

4. Rent.

4.1 Base Rent. The "Base Rent" paid by Lessee to Lessor for the Land for each Annual Rental Period, as said term is defined herein, during the Term shall begin at Five Hundred Thousand and 00/100 Dollars (\$500,000.00).

4.2 Annual Rental Period. Each "Annual Rental Period" shall consist of one (1) year beginning on the Commencement Date and on each subsequent anniversary of the Commencement Date throughout the Term, and terminating on the 30th day of December next following that anniversary date at 2400 hours. If Lessee exercises its option to renew this Lease for the Renewal Term and this Lease is not sooner terminated as provided herein, there shall be ninety-nine (99) Annual Rental Periods during the Term.

4.3 Annual Increased Rent. At the beginning of the second (2nd) Annual Rental Period and at the beginning of each Annual Rental Period thereafter throughout the Term, the Base Rent paid by Lessee to Lessor for the Land shall be increased by multiplying the then existing unadjusted Base Rent by the sum of 1.015; said product becoming the Base Rent for the Annual Rental Period then commencing.

4.4 Rent Adjustment in Consideration of the Retained Premises. The initial Base Rent paid by Lessee to Lessor for the Land during the first Annual Rental Period and the Base Rent paid by Lessee to Lessor for the Land for each subsequent Annual Rental Period shall be reduced by the percentage by which the Land comprising the Retained Premises (calculated to the nearest one hundredth acre) bears to three hundred twenty-five (325). The Base Rent as increased in Section 4.3 and adjusted in this Section 4.4 is hereinafter referred to as "Rent." Any adjustment in Rent will be effective for the Annual Rental Period next following the date on which any relinquishment of the Retained Premises occurs. The Parties shall meet at such time or times as are mutually agreeable prior to the 1st day of July, 2013, to verify the measurements used to calculate the Retained Premises as described in Exhibit B attached hereto.

4.5 Due Date. Rent for the first Annual Rental Period shall be due and payable on the 1st day of July, 2013. Rent for each Annual Rental Period thereafter shall be due and payable on the 1st day of July each year during the Term. For the purposes of the payment of Rent, July 1, 2013, and each anniversary thereof, is referred to herein as the "Due Date." Rent shall be payable to Lessor c/o DOA at 1321 Mail Service Center, Raleigh, North Carolina 27699-1321, or to such other agency or place as Lessor may, from time to time, designate in writing at least thirty (30) days in advance of the Due Date.