



PORTLAND PUBLIC SCHOOLS
OFFICE OF PLANNING AND REAL ESTATE

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Date: May 25, 2021
To: School Board
From: Dan Jung, Chief Operating Officer
Dana White, Director of Planning and Real Estate
Subject: Approval of the Early Termination of De La Salle North Catholic High School at Kenton Elementary School

BACKGROUND

KENTON ELEMENTARY SCHOOL:

Kenton Elementary School (Kenton) is a three-story brick veneer building built in 1913. The gymnasium was added in 1928. The 3.96-acre campus is located at 7528 N Fenwick Avenue, and includes a 33,450 square foot building and three portable buildings (See Attachment A).

Kenton has 20 classrooms (3 of which are portables), a library, an auditorium, and a gym. The site is well served by frequent-service public transit via Interstate MAX line and bus along N Lombard St.

The District closed Kenton after the 2004-2005 school year, and in 2006, Kenton was master-leased to De La Salle North Catholic High School (DLS). The original lease provided tenancy through July 31, 2026, and three ten-year options to renew through 2056. In 2016, at DLS's request, the lease expiration date was amended to July 31, 2021.

BENSON MODERNIZATION:

Board Resolution No. 5859 Authorizing Benson Campus Master Plan Revisions & Updates identified Kenton as a swing space during the modernization of the Benson Campus.

Construction of the Campus will begin at the end of the 2020/21 school year, with the majority of the Campus moving to Marshall High School over the next 3 to 4 years.

Kenton will act as the home to Alliance at Benson, DART / Clinton and Reconnection Services, until the new MPG building is completed at the Benson Campus for the 2024/25 school year.

The Benson project team requires access to Kenton in June 2021 in order to have sufficient time to complete the tenant improvements required to prepare the building for the District's students, including upgrades to the IT and security infrastructures and improvements to the kitchen and classrooms.

DE LA SALLE NORTH CATHOLIC HIGH SCHOOL:

DLS is a private, coeducational, Roman Catholic high school offering a faith-based, college preparatory high school education to underserved students from the Portland area. It was the first school to replicate the innovative Corporate Work Study Program pioneered by Cristo Rey Jesuit High School in Chicago, in which students attend class four days per week and work for a local company one day each week. The school currently serves two hundred and eighty students.

In 2015, due to the withdrawal of its main funding sponsor, DLS requested a substantial reduction in lease rate for Kenton and also requested a long-term lease of at least sixty (60 years with no right to terminate by PPS), in order for it to fundraise for capital improvements and to grow its enrollment to a financially sustainable level. Allowing such a lease amendment would have meant the building would not be available for PPS use for a very long time.

With those avenues closed, DLS decided to purchase its own facility or site on which to build. In 2016, DLS requested a modification of its lease terms and negotiated a termination date of July 31, 2021 (instead of 2026) and relinquished all renewal options.

DLS ultimately found a new home for their new \$23 million dollar campus at St. Charles Parish (5310 NE 42nd Ave) where they hope to expand the student body gradually to 350 over the next few years. The campus is scheduled to open for the 2021/22 school year.

In June 2020, DLS sent a letter to staff requesting that the final year (2020-21) of lease payments be reduced 40%, a reduction of nearly two-hundred thousand dollars (\$200,000), due to the severe revenue loss due to COVID-19. The DLS President later informally requested an 80% reduction, and, in November 2020, DLS stopped paying rent. .

In March 2021, after the update of Board Policy 8.70.040 Preservation, Maintenance, and Disposition of District Real Property, DLS was notified that a rent reduction would not be provided because DLS did not meet the qualifying criteria as set forth in the new Policy.

Although DLS was regularly notified that it was in default of the lease, as of April 2021, DLS owed \$297,354 in back rent. Rent in arrears would grow to approximately \$413,000 by the end of the lease term July 2021 in the event DLS remained in the Kenton building and made no further rent payments. The lease allows for the early termination as a remedy of default; however, a court process to take possession of the building would be costly and not the District's preferred path for resolving tenant disputes.

In addition to the unpaid rent issue, DLS's President indicated to PPS staff that the construction of DLS's new campus at St. Charles may not receive approval for occupancy by July 31, 2021, raising concerns that DLS may not vacate Kenton in a timely manner at the end of the current lease term at the end of July, but instead holdover as prescribed in the lease. This, along with the need to begin tenant improvements in June 2021 to prepare Kenton for the District's students for the school year 2021/22, prompted staff to enter into discussions with DLS about terms for a negotiated early termination of the lease. This would provide assurance of the building possession. It will also provide for the recovery of a portion of the past due rent.

RELATED POLICIES/BEST PRACTICES

Board Policy 8.70.040-P Preservation, Maintenance, and Disposition of District Real Property
Board Policy 8.70.044-P Capital Asset Renewal Funds and Plans

ANALYSIS OF SITUATION

Early Termination of the Lease:

Staff have negotiated terms under which DLS agrees to a June 18, 2021 termination (approximately 1 ½ months early). They are as follows:

- DLS will vacate Kenton on or before Friday, June 18th.
- PPS will provide space, including the gym, for DLS at the Columbia campus weekdays from June 14, 2021 to August 13, 2021.
- PPS will waive rent for the months of May, June, and July, 2021.
- In recognition of costs that DSL will incur relative to moving and storage and including any security paid, PPS agrees to reduce the back rent owed to \$150,033 (a reduction of \$185,189) paid by DLS as follows:
 - \$50,033 by June 18, 2021
 - \$100,000 by December 31, 2021

It is understood that these final terms of a lease termination need to be approved by the Board of Directors and Portland Public Schools Board of Education.

FISCAL IMPACT

Cost Increase/Loss of Revenue Estimates

- | | |
|--|------------|
| ● Loss of lease 2020/21 lease revenue (May, June, July) | \$ 112,165 |
| ● DLS moving and storage costs and return of security deposit
(Provided as a credit against past due rent of \$297,354) | \$ 147,321 |

COMMUNITY ENGAGEMENT (IF APPLICABLE)

There has been extensive communication and planning with the Benson community.

TIMELINE FOR IMPLEMENTATION / EVALUATION

Parties must execute an early termination agreement by June 1, 2021, to provide DLS adequate time to execute a move and vacate Kenton by June 18, 2021.

BOARD OPTIONS WITH ANALYSIS

1. Authorize staff to execute the early termination of the DLS lease to provide the Benson Campus a clear path to occupancy for the school year 2021/22 and recover a portion of past due rent from DLS without the need for judicial remedy;

2. Deny the execution of the early termination of the DLS lease and wait for the July 31, 2021 termination as provided in the lease, risking the Benson occupancy for the 2020/21 school year and the recovery of a portion of the rent past due from DLS without the need for judicial remedy.

CONNECTION TO BOARD GOALS

NA – Real estate transactions are directed by Board Policies.

STAFF RECOMMENDATION

Staff recommends the Board of Education authorize staff to execute the early termination of the DLS lease.

As a member of the PPS Executive Leadership Team, I have reviewed this staff report.

_____ (Initials)

ATTACHMENTS

- A. Attachment A - Site Map

Attachment A

