

Questions/Answers Regarding Preschool Proposal

[Why are we doing this?](#)

[Proposal](#)

[Lease \(rent\) pricing](#)

[Cost of utilities](#)

[List of improvements/cost of improvements](#)

[Timeline of construction/preschool startup](#)

[Liability/liability insurance](#)

[Unplanned maintenance issues](#)

[Non-Binding Letter of Intent](#)

[Lease and terms](#)

[Asbestos issues](#)

[ADA \(Americans with Disabilities Act\) issues](#)

[Other concerns](#)

Why are we doing this?

Holding Hands Montessori (HHMont) contacted the church office back in September of 2023 in search of a facility to lease space from for the purposes of opening a non-profit preschool. The church council has been working with them for over the past four months to develop this opportunity in the best interests of both parties.

1. Are we doing this to support the church's mission, bring in rental income, or both?

Both. The mission of Good Shepherd is to reach out in Jesus's name and serve our neighbor. A preschool would serve our neighbors by providing a much-needed resource in our local community. Many local churches have preschools operating on-site, and they are typically all fully utilized.

Moreover, independent of the church's mission, there is a financial aspect that could prove to be advantageous to Good Shepherd. The church is currently not bringing in enough income to match expenses on an annual basis. As a result, some personnel compensation is below targets, some donations to the synod and other service organizations have been halted, some facility repairs and maintenance are being deferred, and some programs are underfunded or not funded at all. The long-term trend in overall giving to the church continues to decline year after year. Rental income from a lease to a preschool would go a long way to increase income and address some of these issues.

2. Do we want to be a landlord?

In many ways, Good Shepherd (GSLC) already operates as a “landlord”. The cell towers are one example. The Fellowship Hall is “leased” to short-term users, we have “leased” the Sanctuary and Fellowship Hall to other churches in the past, and we even had another Montessori Preschool on site in the 1970s. This is just an extension of our current “landlord” role.

[Return to Table of Contents](#)

Proposal

3. Where will the playground be located?

After consultation with an Arborist, HHMont is proposing to site the fenced playground area in the empty field to the west of the Sanctuary, adjacent to the flag pole, near the planter boxes, and below the Fellowship Hall, where it will have no impact on the established redwood grove and its current uses by GSLC. The Arborist expressed concern regarding the current health of the redwood trees and the potential negative impact of a playground underneath them on their roots.

[Return to Table of Contents](#)

Lease (rent) pricing

4. Base Rent - References a rate of \$1.00 per square foot. Why is this different from Section 2.0 of the proposal which lists a rate of \$1.35 per square foot?

Per the Letter Of Intent (LOI), \$1.00 per square foot is “base rent”, for the floor space itself. \$0.35 per square foot is for “additional rent”, covering items beyond the floor space. In this case, the basic utilities discussed. The “total rent” of \$1.35 per square foot combines the base rent and additional rent.

4.A How specifically is the "0.35 per square foot additional rent" determined?

This was based on an estimate of HHMont’s expected power usage over a year, averaged on a monthly basis. We expect winter power usage to be the greatest, due to the need to heat the space. We expect summer cooling to be moderate, given the conditions present in the lower level of the Sanctuary

building. This is one of the reasons HHMont intends to replace the lighting in the classroom with LED-based lighting at HHMont's cost, as it is a major driver of constant power usage in the space.

5. Why is the 2,000-square-foot outdoor play area space not included in the monthly lease price calculation? It seems that it should be included since it will be dedicated to preschool use under the lease terms.

In general, outdoor space does not have a square footage cost associated with it. Most properties do not have a charge for outdoor space, unless it was improved by the property owner for the specified use of the tenant. An example would be a restaurant space with an adjacent ready-to-use patio for the seating of customers. In general, if the outdoor space is required by code or regulation for occupancy of the indoor space, such items are included in the base rent. As another example, parking and paved access to the building are code requirements for occupancy, so would be included in the base rent. A fenced outdoor area is required for a licensed childcare facility to operate, and such space would be included in the base rent. Given the unimproved state of the proposed outdoor area, we will have to make a significant investment of \$25,000+ in the property to make this space usable for our needs. If the church would like to construct and equip the outdoor playspace for our use, we would be open to renting it as such.

6. Rent seems low when compared to other church preschools and the local commercial rental market.

There are several factors to take into account when determining the per-square-foot rate:

1. This isn't commercial space. Commercial space of similar size, configuration, and characteristics would not attract commercial market rates.
2. Most preschools located on church grounds are heavily subsidized by the church in which they reside or are missions of the church.
3. Other church preschools are located in rooms whose original design was to be classroom space, with ample windows and easy access to parking for drop-off and pick-up.
4. Based on HHMont's discussions with other preschool programs located at churches in the area, we have found that most are paying a similar square footage price to the proposal.

HHMont has received price feedback from members of the council several times through their engagement with GSLC, and increased their offer at least twice. However, there are limits to further pricing increases without negatively impacting the business model and ability to operate with a balanced budget. HHMont has addressed the concerns about the utilities costs by increasing the proposed cost for "additional rent".

7. Base Rent - References a 3% increase per year. Why is this different from Paragraph 7.0 of the same LOI which references a 5% increase per year?

The difference is how we were proposing to treat the "base rent" and the "additional rent" increases. The base rent is proposed to increase at a rate of 3% per year, which is standard. Additional rent was

proposed to increase at a rate of 5% per year as it contains real costs incurred by the church that are likely to increase in the future. Rather than treating them both the same, we proposed a slightly higher increase on the “additional rent”, as it covers real costs the church will bear from our occupancy, and it contains costs that are likely to experience more aggressive increases from inflation (power, water, etc).

[Return to Table of Contents](#)

Cost of utilities

8. The cost of utilities increases unknown and could exceed lease income. Possible lease term to cover abnormally high utility costs?

We have proposed a provision to change the additional rent amount after the first year, to encompass the true utilities usage of the program. We have asked that such a comparison be made based on the actual units utilized, vs. just the dollar value increase YoY. As an example, we would compare the net increase in KWh of electricity, or gallons of water used, and control for any increases attributable to other non-standard uses. We can also look to install monitoring on electrical circuits that feed the preschool space, to better gauge actual usage.

[Return to Table of Contents](#)

List of improvements/cost of improvements

9. The cost of improvements seems low. What is the basis for the costs listed?

These were offered as high-level budgetary estimates based on prior research HHMont completed for other properties reviewed. We have started collecting actual quotes from local providers based on the actual site conditions. Estimates received to date are not locked in and may change based on market conditions until a contract is executed by the church. So far, some projected costs have been found to be lower than expected, and some higher, once contractor bids were collected. Overall, the projected high-level estimate has been accurate, in total.

10. Section 2.0 of proposal: Mini-Split System. What is meant by 2 - 4 cooling units and where are they proposed to be located?

Mini-split systems consist of an outdoor compressor unit, and one or more indoor air handler units that actually heat and cool the indoor space. Different installers use different manufacturer products in their installs, and the way they configure their indoor units varies. Based on the choir room square footage, we expect to install either a single higher capacity unit mounted to the ceiling, or 2 smaller wall mounted units. For the hallway space we will need either 1 or 2 units, which are most likely going to be wall-mounted. The quantity and positioning ultimately relies on the selected system design after competitive bidding.

We have received bids from local HVAC contractors that were \$10k , \$13k, and \$18k for similar equipment and sizing.

The outdoor unit(s) is/are proposed to be located on the west wall of the sanctuary building, facing the empty field, and largely out of sight of the street.

11. Mini-Split System. Approximately 18,000 BTU's. How is this number determined (basis and calculations)?

This estimate was completed using online HVAC load calculators. Based on the square footage of this space, what we know of the building construction (partially underground, perimeter walls mostly poured concrete, 8" thick framed walls with significant insulation) and the location being on the downstairs northern side of the building, the average of the estimates showed a need of approximately 12,000 BTU of heating, and roughly 6,000 BTU of cooling. We selected a slightly higher capacity system (18k BTU) from our estimated maximum load (12k BTU), and made several queries regarding the price to source and install such a system. We included a budgetary estimate of \$9,000 based on the information we received at the time. So far, actual contractor bids have been slightly higher than this estimate, on average, a few thousand dollars more.

12. Concern about costs (escalating). Would be more comfortable with hard quotes than estimates.

Both the church and HHMont have been actively working to obtain contractor estimates for the various improvements planned to be outsourced. So far, costs appear to be generally in line with initial estimates, with some coming in higher, and some lower than initial estimates. Based on actual contractor estimates, the project is estimated to cost roughly the same as the initial projected costs.

Cost management is a primary concern of both parties. It affects the viability of a preschool as a business, and affects the church in terms of risk tolerance for funds dedicated to the partnership. Neither party wants to spend any more than is necessary to support a safe, profitable, and attractive preschool.

After considering the concerns of the Council regarding upfront costs and in order to minimize the perceived financial risks of this partnership, HHMont is offering to cover the costs for the HVAC upgrades (mini-split system) and self-locking doors between the Sanctuary and lower level of the building. The total amount HHMont pays for the mini-split HVAC and self-locking doors will be used to offset base rent on the space until the total is reimbursed to HHMont. Further details of this proposal are contained in section 12 of the Letter of Intent (LOI).

[Return to Table of Contents](#)

Timeline of construction/preschool startup

Note: The initial proposal contained a timeline that was not achievable due to multiple circumstances. That timeline was replaced with a new timeline on the current proposal.

13. Overall concern is that the timeline is too aggressive.

Based on Council feedback, we have proposed a new opening date of August 1, 2024. To meet this date, we intend to take possession of the premises on May 1, 2024 to complete tenant improvements prior to this opening date as required.

14. Church people resources to manage work and timeline of improvements expected to make space tenant-ready are very limited.

Scott Etzel has offered to serve in a church project manager role and work with Robert Capps (preschool project manager.) Robert will manage the construction tasks related to the preschool. Scott will manage the church-related tasks. Mike Henry (church Property Committee lead) has been and will continue to support the project as needed and available. Other church members are welcome to volunteer and assist.

[Return to Table of Contents](#)

Liability/liability insurance

15. What is/will the preschool liability insurance coverage dollar amount (be)?

Note: Anessa Hileman (church treasurer) reached out to the church's insurance broker who provided a recommended Facilities Use Agreement & Waiver which addressed liability insurance coverage amounts.

We have sent the church's Facilities Use Agreement & Waiver to our insurance agent, and we think the insurance requirements of the church are doable, except for the Student Accident Limit. We ask this to be limited to \$20k per student, as this will give us a wider range of choice among insurance carriers. HHMont will carry the following insurance limits:

- General Liability Limits- \$1,000,000 per occurrence/ \$3,000,000 aggregate covering Bodily Injury, Property Damage, Personal Injury, Advertising Injury, Products/Completed Operations, Non-Owned & Hired Automobile and Sexual Misconduct (a sub-limit is acceptable for sexual misconduct coverage).
- Fire Legal Liability Limits - \$100,000 per occurrence.
- Premises Medical Limit - \$15,000 per injury.
- Student Accident Medical - \$20,000 per student. (for schools/daycare/preschool user groups)
- Workers' Compensation Coverage for employees with limits of \$1,000,000/\$1,000,000/\$1,000,000.

16. Playground as an "attractive nuisance" (akin to a pool). Will the preschool's liability insurance provide primary coverage? Is the church's liability insurance coverage enough and worded to cover this?

Note: Anessa Hileman (church treasurer) reached out to the church's insurance broker who stated that the church insurance coverage is \$5 million and would cover liability from church facilities and actions.

As part of our agreement, HHMont will provide insurance coverage in line with the church's specifications detailed in their Facilities Use Agreement & Waiver.

Additionally, the playground area will be securely enclosed by a 6-foot tall solid wood fence, adhering to city requirements, and serving as a crucial measure to control access. During weekends and other occasions when the preschool is not in operation, we would be open to discussing the church utilizing the playground. If the church decides to take advantage of this access, it should ensure there is appropriate liability insurance coverage to safeguard against any potential incidents during church events on the playground. In addition, HHMont can implement a self-locking gate to minimize the risk of unauthorized access from the local community when neither a church representative nor HHMont staff are present, thus enhancing the overall security of the space. This gate will add an extra layer of protection and control to prevent any unintended openings, similar to how pools are secured as an additional safety measure, especially when unattended. This dual arrangement can help mitigate the "attractive nuisance" concern, ensuring that the playground remains a safe and inviting space for all while adequately addressing liability insurance coverage.

17. What if the preschool "goes under" or decides for whatever reason to cease operations and lease payments? Please provide a funding strategy to support startup and operation through initial proposed three-year lease term. Preferably a timeline that includes startup capital, operational revenue, and other funding inputs such as government grants, donations, loans, etc (if included in strategy) Is the preschool open to a surety bond or other financial arrangement to cover costs incurred by church?

HHMont is proposing a \$5,000 security deposit as part of the lease. HHMont is also open to offering a security interest in the preschool furniture, and improved playground as additional collateral for the lease. These assets will cover the investment of the church in making the proposed updates specific to our use.

In 2023, HHMont raised over \$50,000 in tax-deductible donations towards opening the preschool, and we have targets to raise an additional \$30,000 in 2024. HHmont currently has approximately \$50,000 in liquid funding, which is expected to cover more than our expected startup costs in the first half of 2024. Additionally, HHMont has a line of credit we can access if needed, to fund additional operational capital. HHMont will continue to fundraise, as well as explore grants available to us, moving forward.

18. At what dollar cost do we decide not to proceed (such as if costs exceed \$20,000 listed in the proposal due to unforeseen costs not in estimate, and/or costs exceeding estimate by a significant margin)? Can this be added to the proposal?

This is really a decision of the Council. HHMont is not asking the church to fund any changes required by the preschool use. HHMont's intent in the division of expenses was for the Church to take on the burden of changes they requested (such as a separate HVAC system and installing locking doors on the Sanctuary stairwell, whose upfront costs will be the responsibility of HHMont and repayment be treated as rent abatement), as well as life safety issues that were found during the fire department inspection, and deferred maintenance items that need to be addressed regardless of if the preschool program moves forward in this space.

HHMont has proposed shouldering all costs directly related to use of the space as a preschool - such as playground construction, cleaning, painting, lighting replacement, removal of the choir risers, etc. The interior and exterior spaces HHMont intends to utilize have not been adequately maintained, and the deferred maintenance issues may lead to unforeseen expenses that would need to be addressed regardless of the proposed preschool use. HHMont has done their best to estimate, or collect actual contractor bids for these costs to minimize the possibility of unforeseen costs.

It's important to note that HHMont has already covered all costs associated with inspections by the fire department, an arborist, and a licensed architect. HHMont has also managed the collection of contractor bids for the HVAC system.

[Return to Table of Contents](#)

Unplanned maintenance issues

19. What about a high-cost unplanned maintenance issue such as a large plumbing issue or other high-cost maintenance issue (repair, replace, etc). Who/How is that paid for?

HHMont maintains reserves in its operating budget to take on routine issues encountered in our day-to-day operations (leaking fixture, clogged toilet, minor repairs to a wall or door due to wear and tear, etc). Major issues that impact the entire building (or the campus) would likely fall back to the church - as they do today. Examples include window leaks, roofing repairs, systemic plumbing issues, public vandalism, etc. Upgrades to facilities within the tenant space would need to be discussed as they come up, but if they benefit HHMont, or are caused by HHMont use, HHMont would generally take those costs as operational expenses, not leaving them to the church.

Note: From the perspective of the church, if the unplanned maintenance issue(s) is/are attributed to the church as a landlord then the cost would be assessed against lease rental income. Some of this has been addressed in a lease revenue/expense forecast for the first three years.

[Return to Table of Contents](#)

Non-Binding Letter of Intent (LOI)

[Return to Table of Contents](#)

Lease and terms

20. Please provide an advance copy of the proposed lease and addendum.

As HHMont intends to pay for the generation of the final lease documents; HHMont does not wish to engage the Attorney to do so until we have agreement on the terms contained in the LOI. A proposed LOI and a sample of the AIR CRE Standard Industrial/Commercial Multi-Tenant Lease form have been provided for review to assist in this discussion. If the GSLC prefers to instead review and negotiate based on a customized draft lease document, it is welcome to draw the documents up using its own Attorney, at its own expense.

21. Who is/will be responsible for warranty repair of any items or improvements that the preschool is making as a part of the lease agreement? Examples would be new lighting fixtures, access control on doors, and playground equipment.

These expenses would fall on Holding Hands Montessori, as they are the needs of the preschool and not the church.

22. Who is/will be responsible for consumables (such as light bulbs, toilet paper, paper towels, hand soap, cleaning supplies, etc)?

These expenses would fall on Holding Hands Montessori, as they are the needs of the preschool and not the church.

23. What specific dispute resolution process is proposed?

We anticipate including a dispute resolution process in the lease agreement. We will work with the church on a commonly agreed-upon process.

[Return to Table of Contents](#)

Asbestos issues

24. What asbestos requirements and costs apply?

As HHMont does not intend to perform any modification of the space (with the exception of riser removal) so they do not expect to trigger any Asbestos abatement requirements, if such materials are even present. Before riser removal, the tile and adhesive materials will need to be tested, but an initial visual inspection does not show the tell-tale signs that asbestos is likely present.

There is a small ceiling tile repair that may possibly involve asbestos in the hallway which has been identified as a landlord's responsibility and included in the cost estimate.

[Return to Table of Contents](#)

ADA (Americans with Disabilities Act) issues

25. Will compliance with ADA apply, and if so, what will that do to the scope of work, costs and timeline?

As no physical changes to the building are proposed, no such upgrades are expected to be required. HHMont walked the space with their licensed architect, and confirmed that no such requirements should apply to the preschool use of the existing space, and that the various codes that apply to the building do support the intended use of this space for up to 15 students.

[Return to Table of Contents](#)

Other Concerns

26. Who will be preschool and church contact for ongoing issues and repairs after startup?

From the church perspective this will be a shared role between church members which the specific individual(s) dependent on the issue at the time. For property issues it will be Mike Henry who can involve other Property Committee or church members as needed. For lease issues, it will be Pastor Serrano or another church council member depending on the specific issue and availability. Other church member volunteers are welcome to assist as well.

From the preschool perspective, it will be [Julia Wolfe](#) and Robert Capps.

[Return to Table of Contents](#)