



Finance Department
Treasury Office

MEMORANDUM

TO: Chair and Members of Regional Council

FROM: Bill Hughes, Commissioner, Finance

DATE: May 29, 2012

RE: The Regional Municipality of York Police Services Board proposed lease of premises at 16775 Yonge Street

Under the requirements of Ontario Regulation 653/05 and the Region's Capital Financing and Debt Policy, the Treasurer is required to report on leases with annual payment obligations in excess of \$250,000. The report should provide an analysis for the assessment of cost and financial risk for material financing leases.

The attached analysis for the proposed lease at 16775 Yonge Street appears to be reasonable as required by the Region's Policy.

A handwritten signature of Bill Hughes in cursive script.

Bill Hughes

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REPORT OF THE TREASURER

Background

Ontario Regulation 653/05 under the *Municipal Act, 2001* requires the Regional Treasurer to report to Council when a material lease is being considered. The report must contain the Treasurer's assessment of the costs as well as financial and other risks associated with the proposed agreement. The regulation also requires that the statement of policies and goals may provide for a category of lease financing agreements, which in the opinion of the Region and the Treasurer, do not result in a material impact for the Region.

Regional Council approved the Capital Financing and Debt Policy in 2006. The Policy meets the requirements of the regulation and defines a material lease as any lease with annual payment obligations in excess of \$250,000. A policy update approved in September 2008 expanded the definition of a material lease to include those with a net present value of \$2.0 million at the time of execution.

The proposed lease is a material lease for the purposes of the policy with the result that prior to entering into the agreement, and in addition to Council approval, the Treasurer is required to submit to Council a report assessing cost and financial risk and provide a recommendation.

Lease under consideration

Council authorization is being sought to enter into the following leases with the same landlord for space to be used by Police Services at 16775 Yonge Street in Newmarket:

1. Units 403, 405 and 407 – Professional Standards Unit
2. Units 200 and 211 – Integrated Domestic Violence Unit
3. Units 6 and 7 – Recruiting and Professional Development Unit

The first two leases will commence on July 1, 2012 and the latter on October 1, 2012 with Newmarket Property Corporation (NPC). Combined, these three leases comprise over 15,000 square feet with an approximate annual rent of \$377,000 (before HST). The proposed agreements also include options to renew the lease for a two-year term, two-year term and a one-year term respectively at prevailing market rates.

Table 1 below presents NPC lease information based on existing lease agreements for each unit.

Table 1
Existing Lease Terms with NPC

Location of Premises	Square feet	Rent per square foot	Lease expiry date
Units 6 & 7	5,245	\$15.00	September 30, 2012
Units 221 & 222	6,269	\$16.00	June 30, 2012
Units 403 & 405	2,030	\$15.00	September 30, 2012
Total	13,544		

Table 2, below presents the proposed rents that are applicable:

Table 2
Proposed Lease Terms with NPC

Location of Premises	Square feet	Rent per square foot	Additional rent per square foot (estimated)	Start date
Units 6 & 7	5,245	\$15.00	\$8.04	Oct. 1, 2012
Units 200 & 211 *	6,923	\$15.00	\$10.96	July 1, 2012
Units 403, 405 & 407 *	2,884	\$15.00	\$10.96	July 1, 2012
Total	15,052			

* Units 221 & 222 are to be replaced with units 200 & 211 with an additional space of 654 sq. ft.

* Unit 407 is to be added to units 403 & 405 for an additional space of 854 sq. ft.

The base rent for each lease will be \$15.00 per square foot. Additional rent payable is based on its proportionate share of building expenses, including the cost of the Landlord's insurance, utility costs, property taxes, proportionate share of replacement costs for HVAC. The additional rent per square foot for units 6 & 7 are estimated to be less expensive due to the units being situated on the ground floor. The costs of elevators, hallways, washrooms and HVAC are not charged to ground floor tenants; however, they are responsible for their own utilities.

In addition to the base rent and additional rent, Police Services will be required to pay a \$25 per head cost for security card access.

Analysis of Lease

Ontario Regulation 653/05 requires the Regional Treasurer to evaluate specific aspects of the proposed lease. The following is an evaluation of the three primary requirements:

Requirement #1: A comparison between the fixed and estimated costs associated with proposed agreement and those associated with other methods of financing.

The base rental rates for the various areas within the location at 16775 Yonge Street are \$15.00 per square foot for the entire duration of the lease (excluding renewals). According to Police Services, three commercial available spaces are available in Aurora that meet the accessible and minimum standard requirements and, on average, are offered at a market rate of \$19.00 per square foot plus additional rent. As such, the property under consideration is being rented at rates which are more favourable than rates offered for similar properties in the market.

Police Services also conducted a search of standalone properties for purchase in Newmarket that would meet their accommodations needs. Properties at 1140 Ringwell Drive and 165 Pony Drive could meet the space requirements for Police Services. The respective costs for the standalone properties are \$2.25 million and \$2.96 million.

Police Services have highlighted that two of units will likely terminate the lease upon renewal. Recruiting and Professional Development Unit (units 6 & 7) is expected to move in Fall 2015 to Seneca's King Campus and the Integrated Domestic Violence Unit (units 200 & 211) is planning a move to a standalone building once a community network is established. Due to the short-term tenancy of the aforementioned units, this would render the purchase of such properties impractical in light of significant leasehold improvements and fit up costs.

Based on these observations, leasing is the preferred method of space procurement to meet Police Services needs. The Region has invested significant improvements such as voice data and security at the present location that allow for Police Services staff to accommodate the premises with minimal estimated fit up costs of \$25,000.

Requirement #2: A statement summarizing, as may be applicable, the effective rate or rates of financing for the lease, the ability for lease payment amounts to vary, and the methods or calculations, include possible financing rate changes, that may be used to establish that variance under the lease.

The base rent amounts of the leases as shown in Table 2 are known for the duration of the lease agreement. The additional rent is variable and is based on actual costs incurred and the proportionate share of the overall space to be occupied by the Region.

Requirement #3: A statement summarizing any contingent payment obligations under the lease that in the opinion of the Treasurer would result in a material impact for the municipality, including termination provisions, equipment loss, equipment replacement options, and guarantees and indemnities.

Legal Services has advised that the relevant leases contain no contingent payment obligations for the Region. The provisions contained in the leases respecting indemnification and termination are commercially reasonable. It is a requirement of this report that Legal Services and Regional Treasurer must authorize the leases prior to execution by the Region.

Conclusion:

The proposed leases at 16775 Yonge Street in Newmarket meet the requirements of the Capital Financing and Debt Policy.