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NEW LEASE FOR COMMUNITY AND HEALTH SERVICES PROGRAMS 16945 LESLIE STREET, TOWN OF NEWMARKET

The Finance and Administration Committee recommends:

1. **receipt of the deputation from Eric Brouwer of Brouwer Sod Farms; and**

2. **referral of the attached report dated February 12, 2009, from the Commissioner of Community and Health Services and the Commissioner of Corporate Services to the Commissioner of Corporate Services for a report to the Committee on the Region's policy for searching for and acquiring leasehold properties, including whether Requests for Proposals are issued for this purpose and the associated costs and timelines.**

1. RECOMMENDATIONS

It is recommended that:

1. The Region be authorized to enter into a lease for a five-year term, commencing on June 1, 2009 with 1159661 Ontario Limited, for the Community and Health Services Department, located at 16945 Leslie Street, Units 4 to 8 (inclusive), in the Town of Newmarket, consisting of 5,361 square feet, for an approximate annual cost including leasehold improvements of $145,015.05.

2. The Region be authorized to enter into a lease for a five-year term, commencing on June 1, 2009 with 1159661 Ontario Limited, for the Community and Health Services Department, located at 16945 Leslie Street, Units 27 to 30 (inclusive), in the Town of Newmarket, consisting of 4,284 square feet, for an approximate annual cost including leasehold improvements of $115,882.20.

3. The Regional Chair and the Regional Clerk be authorized to sign two leases with 1159661 Ontario Limited, subject to the approval of Legal Services and the Regional Treasurer. One lease is for Units 4 to 8 (inclusive) and the other lease is for Units 27 to 30 (inclusive), each as described above.

4. The Commissioner of Corporate Services and the Regional Treasurer be authorized to sign lease extension agreements with the landlord, if required, for an additional five-year term at the then current market rent, for each of the above-noted leases, subject to review by Legal Services.

2. PURPOSE

The purpose of this report is to seek Council authorization to enter into two new leases for space located at 16945 Leslie Street, Units 4 to 8 (inclusive) and Units 27 to 30 (inclusive). The Community and Health Services Department requires additional space to relocate the Health Connection and Contact Centre offices from the South Service Centre. The space will also provide sufficient room for a dedicated staff training area for the Emergency Medical Services (EMS) Branch and Public Health staff.

3. BACKGROUND

Health Connection and Contact Centre provide telephone support to callers

The Health Connection and Contact Centre staff have been located on the 4th floor of the South Service Centre since the building was first opened and occupied by the Region in 2001. Program staff manage in-coming calls from the public who are seeking information, advice and referral services. They do not provide a face-to-face service.

Health Connection staff provide confidential health information, support, counseling and education for individual health-related concerns primarily through Public Health Nurses and Inspectors.

Contact Centre staff provide integrated information, referral, screening, and application services for first-call and public inquiry callers related to Housing, Employment, Financial Support, Child Care and Early Intervention Services.

Call centre activities do not require prime office space

The South Service Centre is prime office space because of its location and accessibility. It is best suited to provide face-to-face regional services to residents and clients. Call centres, however, provide a telephone service requiring basic accommodation that can be located anywhere within the Region provided the space can support its telephone/ technology requirements. Therefore, it is more appropriate to relocate the call centres to a more economical space where client interface and public access and visibility are not a factor. At the same time, savings through economies of scale may be gained through shared technologies and shared common areas for the two services at a new site.

EMS training facilities have reached capacity

EMS is currently renting space in the community for training activities as the Cane Parkway EMS facility cannot meet all of the EMS training requirements. This new site will offer additional dedicated training space for EMS.

4. ANALYSIS AND OPTIONS

Site search based on call centre criteria

York Region's Property Services Branch, with assistance from a local commercial real estate broker, conducted market research of suitable facilities that are available for sale and for lease throughout the Newmarket and Aurora area. These municipalities are better suited for these programs as the market rent and market purchase price are generally lower than the southerly portion of the Region.

The search criteria identified the need for approximately 10,000 square feet of open concept space to accommodate specific design criteria for Health Connection and the Contact Centre as well as training space for EMS. Access to fibre optic technology and sufficient staff parking were also a requirement in the search parameters.

Office space in Newmarket or Aurora that is in good condition, reasonably priced and meets the above requirements is limited. The search identified only one suitable site available to lease. This property is also available for purchase; however, it is not recommended for purchase as:

- The units are part of a condominium complex and therefore risky for the Region as it would not have total control of the maintenance program of the building and concern of depreciated value over the long term.
- The significant down payment required to purchase the condominium units.
- There may be opportunity for the call centres and EMS training facility to be relocated at the end of the lease term to other proposed regional buildings in Newmarket.

Recommended Site - 16945 Leslie Street, Units 4 to 8 (inclusive) and Units 27 to 30 (inclusive), in the Town of Newmarket best meets needs

The property located at 16945 Leslie Street meets all the operational requirements identified by Community and Health Services. The space consists of two separate units located directly across from one another in two separate buildings. They consist of 4,284 square feet and 5,361 square feet. Each space is wide and open to facilitate proper design planning, are located in new buildings, are reasonably priced, and have sufficient parking spaces to accommodate staff.

Property Services staff have reached a tentative agreement with the landlord for a five-year lease term for each of the spaces, with an option to renew each lease for an additional five-year term at the then current market rent.

Backfilling of existing space at the South Service Centre is planned

There is considerable demand for additional space at the South Service Centre from a number of regional departments, including Community and Health Services. The

Property Services Branch will be initiating a space needs assessment to determine how to maximize the space within the building and how to accommodate all departmental needs.

5. FINANCIAL IMPLICATIONS

The following chart compares the cost of the existing lease at the South Service Centre to the lease costs at the new location:

Table 1
Occupancy Cost Analysis – First Year

	Area (Sq. Ft.)	Annual Base Rent (Per Sq. Ft.)	Annual Additional Rent (Per Sq. Ft.)	Total Annual Rent	Additional Occupancy Costs	Total Cost
Existing Location (SSC)	5,912	$22.50	$7.80	$179,133.60	$7.84	$225,483.68
New Location Units 4 - 8	5,361	$14.00	$5.50	$104,539.50	$4.70 est.	$129,736.20
New Location Units 27-30	4,284	$14.00	$5.50	$83,538.00	$4.70 est.	$73,350.30
New Location Leaseholds	9,645		$7.55	$72,819.75		$72,819.75

The Call Centres will be occupying 6,916 square feet and the EMS Training Centre and Public Health programs will be occupying 2,729 square feet for a total of 9,645 square feet.

The landlord will be constructing the leasehold improvements at a cost of $7.55 per square foot. This cost will be paid for over the initial five year terms of these leases at an annual cost of $72,819.75.

The additional rent includes costs such as; maintenance, snow removal, landlord’s insurance, management fees, property taxes and other operating costs. Utilities are metered separately and payable directly by the Region to the providers based on consumption.

At the South Service Centre, an occupancy cost of $38.14 per square foot is charged by the Region to each department that occupies space at that location. This occupancy cost includes the landlord's base rent and additional rent (for services as above-noted), and it also includes other costs such as utilities, janitorial services and building systems maintenance, which services are provided by Property Services staff.

As part of the tentative agreement, the landlord for the new office will produce architectural plans for the office layout suitable for permit and construction, which is to meet block plans and specifications provided to him by Property Services staff. The cost of the architectural plans will be absorbed by the rental costs. However, if this leasing arrangement does not become binding, the Region is obliged to reimburse the landlord for his costs, in the amount of $25,000.00.

The Regional Treasurer has conducted his due diligence with respect to this lease in accordance with his obligation under the Region's policy relating to financing leases contained in the recently amended Capital Financing and Debt Policy, such amendment being approved by Regional Council on September 18, 2008 through the adoption of Clause No. 8 of Report No. 7 of the Finance and Administration Committee. The Policy requires that, prior to entering into financing leases (when considered together), which is not a non-material lease as defined in the Policy, as is the case with the proposed lease, the Commissioner of Finance must assess the costs and financial and other risks associated with the proposed financing lease (*see Attachment 1*).

Provincial funding under cost sharing agreements for EMS and Public Health Programs will provide subsidy and reduce the tax levy impact to the Region by approximately $100,000.

All costs associated with these new leases and relocation costs have been included in the approved 2009 Community and Health Services Budget.

6. LOCAL MUNICIPAL IMPACT

The proposed leases will enable the Health Connection and Contact Centre staff to be relocated to a more suitable, cost-efficient space that will allow for the continued provision of effective, call-centred-based services to the residents of York Region. EMS will also acquire space to address the ongoing training requirements of York Region paramedics.

7. CONCLUSION

The relocation of Health Connection and Call Centre staff provides an opportunity to better utilize prime office space at the South Service Centre. It also provides more suitable space for the call-centre-based services that do not require face-to-face interaction with the public and where public access and visibility are not a factor. The additional space also provides the much needed training space for EMS paramedics.

For more information on this report, please contact Paul Roberts, Manager, Realty Services at Ext. 1424.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause was included in the agenda for the April 9, 2009 meeting.)

From: Tammi Roberts [mailto:troberts@georgina.ca]
Sent: Monday, April 06, 2009 4:03 PM
To: Kelly, Denis
Subject: Deputation Request

Good Afternoon Denis,

Messrs. Gerry and Eric Brouwer of Brouwer Sod Farms, have asked Mayor Grossi to inquire if they would be able to be deputants at the Region's Finance and Administration meeting on Thursday, April 9? Mr. Eric Brouwer wishes to speak with respect to Item # 8 on the agenda and the potential leased space at their building on Woodbine Avenue in the Town of Georgina.

Thank you,

Tammi Roberts
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Treasurer's Report on a Material Lease

Background

Ontario Regulation 653/05, under the *Municipal Act, 2001* requires the Regional Treasurer to prepare a report to Council for material leases. The report must contain the Treasurer's assessment of the costs and financial and other risks associated with the proposed agreement. The regulation also indicates that municipal councils must provide a statement of policies and goals which may provide for a category of lease financing arrangements which in the opinion of the Treasurer and Council does not result in a material impact for the municipality.

As such, Regional Council approved the Corporate Financing and Debt Policy in 2006 which defined a material lease as having payments in excess of $250,000 a year. A policy update approved in September 2008, (Clause 8, Report No.7 of Finance and Administration Committee) extended the definition of a material lease as having a net present value of $2.0 million.

Lease under Consideration

Council authorization is being sought to enter into two leases to rent condominium space at 16945 Leslie Street in Newmarket for units 4 to 8 comprised of 5,361 square feet, and units 27 to 30 comprising 4,284 square feet respectively. These spaces will be used to relocate the Health Connection and Contact Centre offices from the South Services Centre and to consolidate and provide sufficient room for a staff training area for the Emergency Medical Services Branch.

The leases will have a five year term will be identical in all respects excepting municipal addresses, unit sizes and rent amounts payable due to size differences. The base rent cost will be $21.55 per square foot per year (plus GST) for the first 24 months and a base rent cost of $22.55 per year (plus GST) for the final 36 months. Additional rent to the Region is based on its proportionate share of the building expenses, including property taxes, common area utilities, maintenance, snow removal, building insurance, management expense, and all other expenses incurred in the operation of the building. This additional rent which is currently estimated by the landlord to be $5.50 per square foot (plus GST) shall be adjusted from time to time based on actual expenses. On this basis, assuming no increase in the additional rent, annual payments including GST will be $273,941 for the first two years and $284,069 in years 3-5.

The landlord will complete the leasehold improvements at his cost. The base rents include the amortised repayment of the leasehold improvements.

The lease contains the right to renew for one five year term at then current market rates.

The Region's obligations under the Offer to Lease include:

- Paying first and last month's rent deposit totalling $46,500.96;
- Paying the landlord a non-refundable payment of $25,000 for the production of architectural plans if the lease is not executed by February 28, 2009;
- Paying for own in-suite heat, hydro and equipment maintenance;
- Carrying content insurance; and
- Maintaining premises in reasonable condition.

Analysis of Lease

Ontario Regulation 653/05 requires the Regional Treasurer to comment on specific aspects of the proposed lease. These aspects are noted below with the appropriate analysis of each requirement. The lease itself has not been analysed as it was not available. Legal staff has advised they will not approve the final lease document until such time as the Regional Treasurer has concurred with provisions of the lease and is satisfied as to its requirements.

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

Property Services have advised that they have conducted a market review of comparable space in the Newmarket and Aurora areas and that this is the only site available that meets the space requirements of the Region, is in good repair and is reasonably priced. Additionally, renting the subject spaces will give the Region flexibility to relocate these operations to other Regionally owned buildings which may become available by 2014.

Although there is an option to purchase the subject spaces, Property Services has recommended not purchasing the spaces due to significant down payment requirement, the lack of control over the maintenance program in a condominium setting and the lack of flexibility over the long term use of the spaces if other Regionally owned properties become available.

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

The base rent amounts of the lease are set for the entire term of the lease. The additional rent is variable as it is based on actual costs incurred and the proportionality of the space occupied by the Region. These are industry standard terms. It is recommended as per the Region's standard practice the final lease contains a clause allowing the Region the right to review the actual expenses reported upon to determine their reasonableness.

A statement summarizing any contingent payment obligations under the agreement 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 advises the Offer to Lease does not contain any contingent payment obligations. It is a requirement of this report that Legal Services will be required to approve the finalized leases prior to their execution by the Region. Legal Services has agreed they will not provide this authority without the concurrence of the Regional Treasurer that the final lease contains no material termination provisions, contingent liabilities, or indemnities, or lease escalation clauses not in line with normal commercial practice.

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