Agenda – Council – March 21, 2012

Report – Standing Policy Committee on Property and Development – March 6, 2012

Item No. 5 Lease Renewal - Pembina Trail Library, 2724 Pembina Highway - Pace-Greentree Developments Inc. (St. Norbert Ward)

On March 14, 2012, the Executive Policy Committee laid over the matter its meeting on April 18, 2012.

Agenda – Council – March 21, 2012

Report – Standing Policy Committee on Property and Development – March 6, 2012

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On March 14, 2012, the Executive Policy Committee laid over the matter to its meeting on April 18, 2012.

STANDING COMMITTEE RECOMMENDATION:

On March 6, 2012, the Standing Policy Committee on Property and Development concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Title: **Lease Renewal Pembina Trail Library – 2724 Pembina Highway**

Issue: **Long Term Lease Renewal for Pembina Trail Library**

Critical Path: **Standing Policy Committee on Property and Development – EPC - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
J. Zabudney	B. Thorgrimson	M. Ruta	D. Joshi, COO

RECOMMENDATIONS

1. That the proposed Lease Renewal of the Pembina Trail Library at 2724 Pembina Hwy., between the City of Winnipeg and Pace-Greentree Developments Inc. be approved in accordance with the proposed terms and conditions outlined on the attached Schedule A, and any other conditions deemed necessary by Legal Services to protect the interests of the City.

2. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

In accordance with the Council Order of July 18, 1979, the Standing Policy Committee on Property and Development shall authorize the leasing or rental of City properties for which the Director of Planning, Property and Development Department has no authority.

Council approval is required on leases having a term of over 10 years or which have a gross value over $1,000,000.00 over the original term of the lease.

IMPLICATIONS OF THE RECOMMENDATIONS

- The Department has determined that there are no policy, regulatory, environmental or human resource implications to the lease as set out in the attached Offer to Lease.

- Acceptance of the proposal and subsequent signing of the lease agreement commits the City to a long-term contract (20 years).

HISTORY

On July 1, 1987, The Committee on Finance and Administration approved a lease of 2724 Pembina Highway for a ten year term.

On July 4, 1997, the Committee on Finance and Administration concurred in the recommendation by the Civic Buildings Department to renew the current lease at the existing rate for a term of five years.

On December 12, 2001, the Landlord granted the Tenant a further Renewal of the Original Lease for a term of (5) years from the first day of July 2002 and ending on the 30th day of June 2007.

On October 27, 2006 the Landlord granted a further renewal of (5) years form the first day of July 2007 and ending the 30th day of June 2012 at a lease rate of $11.74.

Library Services Division of the Community Services Department requested the Planning, Property and Development Department (Real Estate Division) negotiate a lease renewal for a 20-year term.

The Landlord has agreed to a lease renewal for a 20-year term. In addition, the property owner will provide the City with an option to purchase the facility in each five-year term, subject to exercising the option to renew in writing to the Landlord one year prior to the end of each 5-year term. Should the Landlord and the Tenant be unable to conclude a price and terms acceptable to either party, the Tenant's option shall be at an end and the existing terms of the lease shall remain in full force and effect.

The Landlord has agreed to replace the Heating Ventilation Air Conditioning system at the beginning of Year 1 and to paint and replace flooring/tiling throughout the library in the beginning of the sixth year of the term.

The Library Services Division of the Community Services Department concurs with the negotiated terms and conditions as outlined in the attached 'Schedule A'.

The Public Service recommends the approval of the proposed lease agreement as negotiated.

Financial Implications

An analysis of the proposed lease agreement has determined it to be an "operating lease" as it does not meet the criteria for capitalization included in PSAB PSG-2 "Leased Tangible Capital Assets" (note: PSG denotes "Public Sector Guideline"). Consequently, the related lease payments will be charged to operations as incurred (i.e. expensed on a straight-line basis over the term of the lease).

There are three criteria to consider in determining whether a lease arrangement should be classified as a "capital lease". They are:

1. There is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term. "Reasonable assurance" would be present when the terms of the lease include the transfer of ownership at the end of the lease term or when the lease provides for a bargain purchase option (BPO).
2. The lease term is of such a duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span (usually 75 percent or more of the economic life of the leased property).
3. The present value, at the beginning of the lease term, of the minimum lease payments, excluding executory costs (e.g. property taxes) is equal to substantially all (usually 90 percent or more) of the fair value of the leased property, at the inception of the lease.

If a lease agreement meets any one of the criteria, it must be classified as a capital lease with the leased asset and related long-term lease obligation (i.e. debt) recorded on the lessee's balance sheet.

		2724 Pembina Hwy.
1.	Negotiated lease agreement transfers ownership to the City or contains a bargain purchase option?	No
2.	Estimated economic life of the leased asset	30 years
	Term of negotiated lease	20 years
	Lease term as a % of economic life	66.7%
3.	Present Value of the Minimum Lease Payments	$2,249,432
	Estimated Fair Market Value of leased asset[1]	$2,593,000
	Present Value as a % of Estimated Fair Market Value	86.8%
	Conclusion	Operating Lease

[1] 2012 Assessed Value used as a proxy for FMV

FINANCIAL IMPACT

Financial Impact Statement

Date: February 15, 2012

Project Name:

Long Term Lease Renewal for Pembina Trail Library

First Year of Program **2012**

	2012	2013	2014	2015	2016 to 2031
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 86,656	$ 173,312	$ 173,312	$ 173,312	$ 3,437,118
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ 86,656	$ 173,312	$ 173,312	$ 173,312	$ 3,437,118
Less: Existing Budget Amounts	86,656	150,717	150,717	150,717	2,486,831
Net Budget Adjustment Required	$ -	$ 22,595	$ 22,595	$ 22,595	$ 950,288

Additional Comments: Direct costs in 2012 represent the $173,312/annum lease payment pro-rated for the July 1 commencement date. From 2013 onward, costs are in accordance with the rental rates outlined in Schedule A (attached). Existing budget is based on the current lease rate (2012 is pro-rated for July to December). For 2012 only, the increase in lease costs of ~ $11,295 will be absorbed by Municipal Accommodations. The budget requirement for 2013 and beyond will be included in the Community Services Dept's 2013-2015 budget submission. Note that for 2015 and onward, existing budget is assumed to be unchanged from 2014.

"Original signed by"

Mike McGinn, CA
Manager of Finance

CONSULTATION

In preparing this report there was consultation with:

Community Services Department

SUBMITTED BY

Department:	Planning, Property and Development
Division:	Real Estate
Prepared by:	S. Caputo, CPM CLO Leasing Officer
Date:	February 16, 2012
File No.	2724 Pembina – Pembina Trail Library

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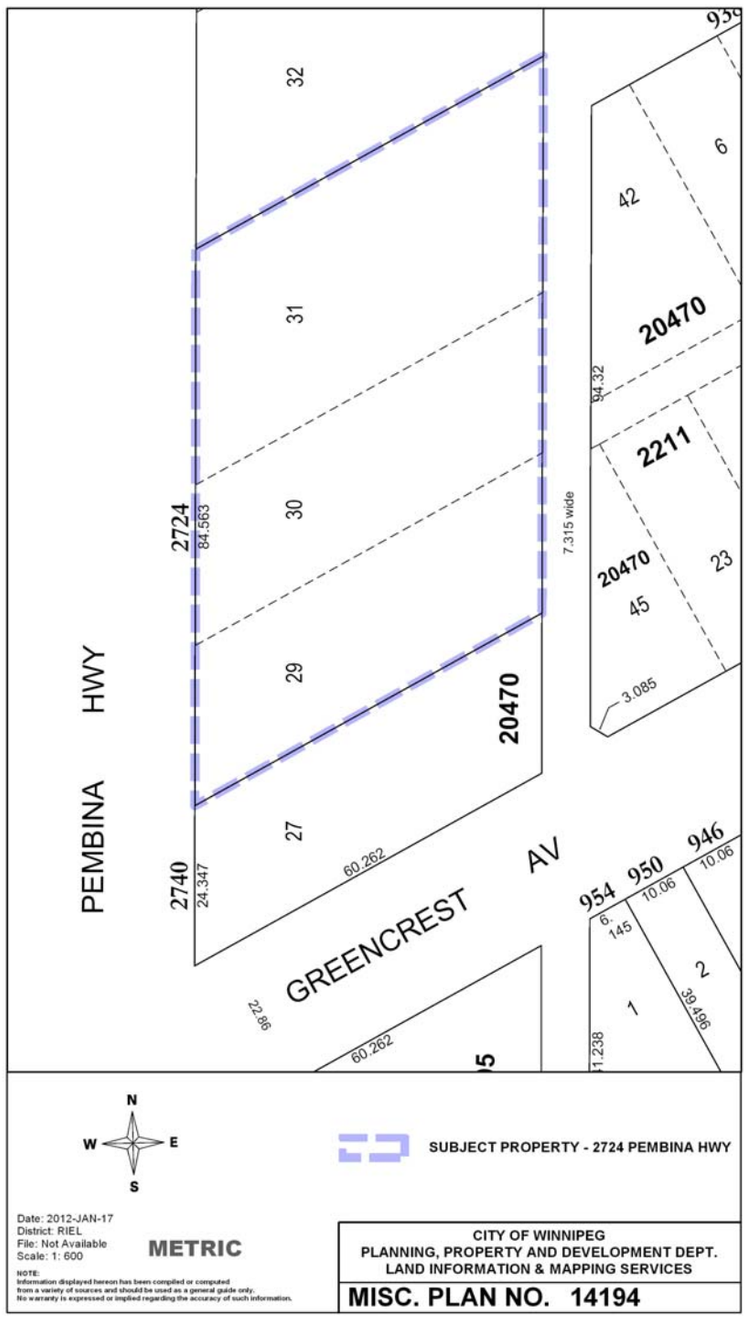
Schedule "A"

Pembina Trail Library – 2724 Pembina Hwy– Lease Renewal

Landlord/Owner:	Pace-Greentree Developments Inc.	
Location:	2724 Pembina Highway	
Rental Rate:	Years 1 - 5	$13.50 PSF / $173,312 per annum
	Years 6 - 10	$15.50 PSF / $198,973 per annum
	Years 11-15	$16.50 PSF / $211,810 per annum
	Years 16-20	$17.50 PSF / $224,647 per annum
Term:	20 years from July 1, 2012 to June 30, 2032	
Option to Purchase:	The Landlord will provide the City with an option to purchase the subject property in each five-year term, subject to exercising the option to renew in writing to the Landlord one year prior to the end of each 5 year term. Should the Landlord and the Tenant be unable to conclude a price and terms acceptable to either party the Tenant's option shall be at an end and the existing terms of the lease shall remain in full force and effect.	
Tenant Inducements:	The Landlord will replace the Heating Ventilation Air Conditioning system at the beginning of year one (2012) and to paint and replace flooring/tiling throughout the library in the beginning of the sixth year of the term.	


PEMBINA HWY
GREENCREST AV
2724
84.563
2740
24.347
32
31
30
29
27
20470
60.262
22.86
7.315 wide
42
6
20470
94.32
2211
20470
45
23
3.085
954
950
946
10.06
10.06
6.
145
1
2
39.496
1.238
N
W
E
S
SUBJECT PROPERTY - 2724 PEMBINA HWY
Date: 2012-JAN-17
District: RIEL
File: Not Available
Scale: 1: 600
METRIC
NOTE:
Information displayed hereon has been compiled or computed
from a variety of sources and should be used as a general guide only.
No warranty is expressed or implied regarding the accuracy of such information.
CITY OF WINNIPEG
PLANNING, PROPERTY AND DEVELOPMENT DEPT.
LAND INFORMATION & MAPPING SERVICES
MISC. PLAN NO. 14194