



TO: GENERAL COMMITTEE

SUBJECT: BARRIE FIRE AND EMERGENCY SERVICE (BFES) STATION 5 - LEASE RENEWAL

SUBMITTED BY: R. PEWS, P.ENG., DIRECTOR OF CORPORATE FACILITIES, EXT. 4710

NOTED: C. MAINPRIZE, FIRE CHIEF/DIRECTOR OF EMERGENCY SERVICES

GENERAL MANAGER APPROVAL: D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES

CHIEF ADMINISTRATIVE OFFICER APPROVAL: M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That the Mayor and City Clerk be authorized to execute an agreement with Hassey Management Corporation to extend the lease of Barrie Fire and Emergency (BFES) Station 5 for a period of 15 years commencing on January 1, 2020 and in accordance with Option 4 identified within Staff Report FCT006-19 with the agreement conditions and in a form to the satisfaction of the Director of Legal Services, Director of Finance and Treasurer and the Director of Corporate Facilities.
2. That a by-law be prepared in accordance with Section 110(6) of the *Municipal Act, 2001*, S.O. 2001 c.25, as amended, to be exempt from municipal and school board taxation for the portion of 361 King Street leased for use by the City of Barrie for BFES Station 5.
3. That the lease extension for 361 King Street be drafted to reflect the tax exempt status.
4. That Capital Project "Z255 – BFES Station 5 New Building Development" currently forecast in the City's Capital Plan starting in fiscal year of 2023, be re-forecast to commence in 2035 and the City's Capital Plan be updated accordingly.

PURPOSE & BACKGROUND

Report Overview

5. The purpose of this Report is to provide recommendations regarding an extension of the lease of existing Fire Station 5, located on King Street in southwest Barrie, and to seek Council approval to declare the portion of the facility currently used by Barrie Fire and Emergency Service (BFES) to be exempt from municipal and school board taxation.
6. In January of 2010, an amendment to the 2010 Business Plan was made (motion 10-G-023) *"that the workplans for staff in the Leisure, Transit and Facilities Department and Barrie Fire and Emergency Service be adjusted to permit an investigation of options for enhancing fire service response in the south west quadrant of Barrie including the consideration of a temporary station until such time as a permanent station location is finalized and the station constructed, and report back to General Committee in conjunction with or in advance of the development of the report on the 2011 Budget Directions associated with the 2011 Business Plan, to allow for any recommendations to be incorporated into the Plan"*.

7. In response to this motion a Request for Expression of Interest (EOI) was issued and publicly advertised in July of 2010. Two submissions were received in response to the EOI when it closed August 5, 2010. The received submissions indicated there is interest in the market and potential sites available to serve as a location for an interim fire station. The location of the buildings identified in the submissions also fell within the boundaries as described in the EOI, which was to be east of Reid Drive, west of Highway 400, north of Salem Road and south of Caplan Avenue.
8. Staff Report FES007-10 identified an approximate combined facility cost of \$2M which included a lease rate over a 5 year period and a capital investment of \$980k towards leasehold improvements. The submissions received as part of the EOI confirmed that these budgeted costs would prove to be sufficient in order to deliver this project.
9. As directed under motion 10-G-023 staff included a program change form as part of the 2011 business plan for Council consideration identifying both operational and capital implications associated with the Interim Fire Station 5 alternatives confirmed through the EOI process.
10. In April 2011 during Council's consideration of the 2011 Business Plan, motion 11-G-072 provided authorization to initiate an RFP process in order to firm up and validate the results of the EOI and secure a location for Council's consideration. This amendment further stated that the 2011 Program Change Form as submitted be moved to the 2012 Business Plan as an approved program change form.
11. In March 2012, the City entered into an agreement with Hassey Property Management / Fernbrook Developments for the lease and fit-out of Units 1 and 2 at 361 King Street (now collectively known as Unit 1) for the City's use as a temporary fire station in advance of the development of the Salem Secondary Plan area. The existing agreement as negotiated is for a seven year term, with the option of two two-year renewal terms at rates to be negotiated but no less than the current rate of \$22 / ft². Under the existing agreement the landlord was responsible for undertaking all necessary leasehold improvements required to provide a fully functional fire hall.
12. The term of the original lease plus available extensions were chosen to coincide with the anticipated development of the Salem Secondary Plan areas. However, at the current rate of development the Salem area will not be serviced or built out within this timeframe.
13. Barrie Fire and Emergency Service has confirmed that the temporary Station 5 location on King Street continues to serve the service well and can continue to serve southwest Barrie until significant growth in the Salem area drives the need for a station within the growth lands.
14. In the summer of 2019, staff met with Hassey Property Management to discuss potential lease renewal options and rates. Various options were discussed as outlined below.

ANALYSIS

15. Located at 361 King Street, BFES Station 5 was constructed as a new facility in 2012. Opening in 2013 the building, systems and fixed equipment are now approximately 7 years old. While various facility components have differing design lifespans, a 25-year lifespan for major building components is not unreasonable, after which time significant renewal expenditures can be expected.
16. Aside from miscellaneous interior furniture, fixtures and equipment, all capital costs related to the construction of the station and its supporting infrastructure were borne by the developer, and although the use of these systems and fixed equipment solely benefit the City, the facility and infrastructure is owned by the landlord. Under the terms of the existing lease agreement, the repair or replacement of major building infrastructure is the landlord's responsibility.

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17. The existing lease contemplates up to two 2 year renewal terms at rates no less than the current \$22/ft² plus maintenance, utilities, and taxes (MUI) Exercising both extension options would see the lease expire at the end of the 2023 calendar year.
 18. Contemplating the temporary nature of the King Street facility, capital project Z255, BFES Station 5 New Building Development was entered into the city's capital forecast in 2015. This project would see the construction of a permanent Fire Station 5 in the Salem growth lands, southwest of the interim King Street station.
 19. Initially aligning with the temporary King Street station lease term (including the first extension), the BFES Station 5 New Building Development project entered into the City's capital plan in 2015 would have seen the permanent station open within 2021. However, with growth not advancing as quickly as initially forecasted, the facility has been re-forecast over the past two years and is currently included in the City's capital plan with an opening date in the year 2026. Based on current growth projections this date may be premature.
 20. In addition to reviewing the 2 year lease extension option identified in the current lease agreement, staff have solicited additional options for Council's review and consideration. As may be expected, the shortest lease terms are also the most expensive in terms of monthly lease rates.
 21. During its analysis of leasing options, several outside factors were considered by staff:
 - a) Timing of the Salem land development and servicing, anticipated to be several more years before servicing is complete and sizeable neighbourhoods are developed;
 - b) The City's financial situation and long range financial plan. Executing a lease extension of 10 years or more would place the capital expenditure of a permanent facility in direct alignment with additional fire service needs and more recent planning projections; and
 - c) Based on the age of the temporary facility, significant life remains in the current systems and equipment utilized by Barrie Fire and Emergency Service.
 22. A complete lease vs. build analysis has been completed for various lease term options. The basis of the analysis assumes that annual operating, maintenance, utility and tax costs of a new City-owned building would be equivalent to the current costs of the temporary facility on King Street. While it is reasonable to assume a new purpose-built facility constructed to current or future building codes will be more efficient and therefore less expensive to operate than the current leased BFES Station 5 space, this savings cannot be quantified at this time, and no allowance has been included for it in the net present value table associated with the analysis. An analysis would be undertaken when planning for the construction of a new facility. Summarizing, the analysis various options include:
 - i) Option 1
 - a) 2 years with a 2 year renewal option as envisioned in the existing lease agreement;
 - b) Base rate of \$24/ft² plus MUI, no annual rate increase; and
 - c) The base option contemplated in the current lease agreement, this option would require the construction of a new Fire Station 5 facility prior to significant growth in the Salem lands. Pricing for the second term of this lease was not provided. Staff do not recommend this option.

ii) Option 2

- a) 5 year term, no renewal option;
- b) Base rate of \$24/ft² plus MUI, no annual rate increase; and
- c) An alternate option provided for Council's consideration, staff believe that the construction of a new facility to coincide with the end of this term would be premature, and this option is not recommended.

iii) Option 3

- a) 10 year term with a 5 year renewal option;
- b) Base rate of \$22/ft² plus MUI with annual rate increase of 2%; and
- c) While somewhat more expensive than the 15 year term listed below, this option coupled with the inclusion of a 5 year extension clause would provide the greatest flexibility for the City, providing the ability to move to a permanent location more quickly should growth in the Salem area proceed quickly. The first year lease rate under this option is \$22/ft² followed by annual lease rate increases of 2% thereafter for the first 10 years. Rates for the extension term would be subject to negotiation at that time. For the purposes of the lease analysis; it has been assumed the 2% annual rate increase will continue during 5 year renewal.

iv) Option 4

- a) 15 year term, no renewal term;
- b) Base rate of \$22/ft² plus MUI with annual rate increase of 1.25%; and
- c) Financially, the fifteen year rate is the most cost-effective option for the City. The first year lease rate under this option equals the current lease rate of \$22/ft² and increases at 1.25% per year thereafter. Major building systems and equipment as well as City-owned fixed assets are expected to be at end-of-life by the end of this term.

v) Option 5

- a) Build at a cost of approximately \$2.9 million.
- b) Terms beyond 15 years were not reviewed. It is believed that by that time City growth will necessitate a new Fire 5 facility in the Salem area. Staff recommend that any significant capital renewal outlay instead be directed towards a City-owned facility.

- 23. As a result of the above analysis, staff are recommending Option 4, for a lease of a 15 year term.
- 24. City currently pays property taxes on this unit through the landlord and a management fee applies to the City's portion of the property tax payment. By declaring the space utilized by BFES exempt from municipal and school taxes, the City would realize a savings of the education tax assessment on the space of approximately \$10,500 per annum. The actual value will be determined in due course through an updated MPAC assessment.

ENVIRONMENTAL AND CLIMATE CHANGE IMPACT MATTERS

25. Ownership of the asset notwithstanding, continuing to utilize a relatively new asset purpose-built for Barrie Fire until significant reinvestment is required makes the most efficient use of finite resources, minimizing the City's carbon footprint. It is anticipated that advancements in technology over the coming years will enable the design and construction of a much more efficient, possibly Net-Zero, facility when significant renewal is required.

ALTERNATIVES

26. There are three alternatives available for consideration by General Committee:

Alternative #1

General Committee could decide to extend the lease for the 2-year terms contemplated in the existing lease agreement and construct a new Station 5 to coincide with the end of the original lease terms.

This alternative is not recommended. Growth in the Salem Secondary Plan area is not proceeding as quickly as originally anticipated, and the existing King Street location is expected to be able to continue to serve the existing community as well as projected short to mid-term growth neighbourhoods until significant renewals and upgrades at that site are required.

Alternative #2

General Committee could decide to extend the lease for a 5 year term.

This alternative is not recommended. As identified in Alternative #1 growth in the Salem Secondary Plan area is not proceeding as quickly as originally anticipated, and the existing King Street location is expected to be able to continue to serve the existing community as well as projected short to mid-term growth neighbourhoods until significant renewals and upgrades at that site are required.

Alternative #3

General Committee could decide to authorize a 10 year extension to the existing lease agreement, including an additional 5 year renewal option should it become necessary.

This option would see the construction of a new Fire 5 facility in the Salem community when it is likely to be needed. Compared to a 15 year lease, a shorter 10 year lease period will result in a net increase in the equivalent annual lease costs by \$7,880 / yr.

FINANCIAL

27. The proposed lease is considered a financing lease for the purposes of the City's lease policy as the commitment term exceeds the elected term of the present Council. Under the City's Financial Policy for leasing, Finance is required to prepare a Lease Financial Report to document the analysis of the lease option. Key excerpts from the report are found below.

Lease Financial Report

Financial Summary

28. The lowest cost option runs for a term of 15 years, starting at \$22 per square foot plus MUI per year with an annual rate increase of 1.25%.

Financial Analysis

29. The financially significant terms and conditions for each option are reported in the Analysis section above (e.g. annual lease rate). The financial analysis is based on using the EAC (equivalent annual cost) method which is a capital budgeting tool used to compare assets with unequal useful lives. A discount rate of 5.25% was used for the calculation.
30. The present value of the proposed 15 year lease is \$1,716,568, discounted at a rate of 5.25% and has an EAC of \$168,184. The EAC for the 15 year lease compares favourably with the build option resulting in annual savings of \$8,153. The table below presents a comparison of all options with the lowest EAC representing the lowest cost option.

Options (#5 Build)	Term	Renewal Term	Net Present Value	Equivalent Annual Cost (EAC)	Net Advantage to Building
1	2	2	\$ 598,967	\$ 169,898	\$ (6,440)
2	5	-	\$ 730,513	\$ 169,898	\$ (6,440)
3	10	5	\$1,796,992	\$ 176,064	\$ (273)
4	15	-	\$1,716,568	\$ 168,184	\$ (8,153)
5	40	N/A	\$2,925,000	\$ 176,338	N/A

31. The lease option will not require the City to access debt financing.

Financial Risks

32. Risks typically associated with leased spaces including obsolescence, ongoing fitness for purposes, and escalating operating and capital costs are deemed to be minimal for the proposed duration of the lease. As a relatively new purpose-built facility obsolescence of the base building structure and equipment is not anticipated to be a factor. Obsolescence of owner-supplied equipment specific to Barrie Fire Service's core operations may be a risk, but this risk would exist in either a leased or City-owned facility scenario. Finally, cost increases for the leased facility will be limited to those outlined in the lease agreement and, with the exception of an unlikely force majeure situation, known at the time of signing.
33. The City may be exposed to business risk if the lease contains provisions for significant future cost increases to be passed on to the City (e.g. lease payments fluctuate with a specific index such as CPI). No indication of an indexing provision was received in respect to this lease. Therefore, lease payments have not been indexed for the purposes of this analysis.
34. Unlike the 10 year lease which carries a 5 year renewal option with rates negotiable at the time of renewal, the lowest cost 15 year lease does not provide a renewal option.

Debt Capacity

35. As per the requirements of the Municipal Act the total lease payments over the fixed non-cancellable term of the lease will be included in the City's debt capacity calculation.



LINKAGE TO 2018-2022 COUNCIL STRATEGIC PLAN

36. The recommendation(s) included in this Staff Report support the following goals identified in the 2018-2022 City Council Strategic Plan:
- ☒ Growing Our Economy
 - ☒ Fostering a Safe and Healthy City
37. By continuing to lease of the current Station 5 facility, Barrie Fire and Emergency Services will be able to meet the needs of southwest Barrie while allowing the deferral of a new capital build. Funding currently included in the City's capital forecast for this build may be reprioritized to other initiatives that will help grow the City and its economy.