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Town of Aurora
Council Report
No. CA022-003

Subject: Armoury Lease Restart
Prepared by: Doug Nadorozny, Chief Administrative Officer
Department: Office of the Chief Administrative Officer
Date: July 12, 2022

Recommendation

1. That Report No. CA022-003 be received; and
2. That the start date of the term of the lease with Niagara College for the operations of the Armoury be amended to July 1, 2021, and
3. That the lease be amended to reduce the town's annual fee incentive in the first year by \$37,500 to \$37,500 112,500 (75% of the Annual Fee) and to reduce the catering commitment to \$37,500 in all years of the lease; and
4. That the budget pressures resulting from the timing difference in 2022 of \$136,250 be funded from the safe recovery grant funding.

Executive Summary

This report outlines the proposed changes to the lease between the Town and Niagara College for the operations of the Armoury.

- The pandemic had a significant impact on the start-up of the Armoury
- A proposed restart date for the lease of July 1, 2021 (backdated), is recommended
- The Town has negotiated a reduction to the Town's annual fee in the first year and the catering commitment in the first two years

Background

The Town has a five-year lease arrangement with Niagara College for the use of the Armoury. The lease was originally set to begin in March 2020. The lease includes three main components including payments to and from both parties.

The lease payments from Niagara College to the Town increase over the lease term

The lease is valued at \$315,000 per year. Over the five-year term of the lease the total cost of the lease is phased over the first three years:

- Year 1 at 25% of the lease value
- Year 2 at 50% of the lease value
- Year 3 at 75% of the lease value
- Year 4 at 100% of the lease value
- Year 5 at 100% of the lease value

The lease also includes a security deposit from Niagara College to the Town of \$150,000 which is not factored into this analysis as securities are repayable to the payer.

The lease includes an incentive annual fee payment from Town of Aurora to Niagara College for the first two years of the lease which declines over the lease term

The lease includes an incentive annual fee that the Town pays to Niagara College. This incentive is: annual fee is valued at \$150,000. Over the duration of the lease this amount decreases to 50 percent of the original value:

- Year 1 \$150,000 at 100% of the annual fee
- Year 2 \$75,000 at 75% of the annual fee
- Year 3 \$37,500 at 50% of the annual fee
- Year 4 \$37,500 at 50% of the annual fee
- Year 5 \$37,500 at 50% of the annual fee

The lease also includes a provision that the Town will commit to using use-catering services up to \$75,000 per year. In year 2 and thereafter this commitment fee was to be reduced to \$37,500, along with an equivalent reduction in the annual fee.

The net revenue for the town increases to \$277,500 in year five

In summary the current lease agreement increases the net revenue (lease revenue less annual fee incentive payments) from a net payment of \$71,250 to Niagara College in year one to net revenue of \$277,500 in year five as shown in Table 1 below.

Table 1
Current Lease Summary

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<u>Lease Payment</u>	78,750	157,500	236,250	315,000	315,000
<u>Less: Incentive</u>	(150,000)	(75,000)	(37,500)	(37,500)	(37,500)
<u>Net Lease Revenue</u>	(71,250)	82,500	198,750	277,500	277,500
<u>Catering Commitment</u>	75,000	37,500	37,500	37,500	37,500

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Lease Payment	78,750	157,500	236,250	315,000	315,000
Less: Annual Fee	(150,000)	(112,500)	(75,000)	(56,250)	(37,500)
Net Lease Revenue	(71,250)	45,000	161,250	258,750	277,500
Catering Commitment	75,000	56,250	37,500	37,500	37,500

Delaying the start of the lease with the current terms will defer this increase in net revenues for the town. The Safe Recovery grant funding can be used to offset this timing difference.

Analysis

The pandemic had a significant impact on the start-up of the Armoury

The original lease agreement was scheduled to start in March 2020. That month the province implemented broad public health restrictions, including the closing of restaurants for in-person dining, in response to the pandemic. This had significant impacts on the operations of the Armoury and the ability of Niagara College to fully use the space as planned.

A proposed restart date for the lease of July 1, 2021 (backdated), is recommended

The various levels of public health restrictions have impacted the operations of the Armoury for two years. Niagara College have only recently been able to resume their plan for operating the Armoury and offering the programs and services they had planned to start in March 2020. Staff are recommending, after negotiations with Niagara College, that the start date of the lease be revised to July 1, 2021.

The Town has negotiated a reduction to the Town’s annual fee in the first year and the catering commitment in the first two years

In the negotiation for restarting the lease, Niagara College has agreed to a reduction of the first year’s annual fee, which is paid by the town to the college, and the town’s catering commitment.

The annual fee would be reduced by \$37,500 in the first year and the catering commitment to \$37,500 in the first two years of the lease. This results in a revised lease schedule as shown in Table 2 below.

**Table 2
Revised Lease Summary**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<u>Lease Payment</u>	<u>78,750</u>	<u>157,500</u>	<u>236,250</u>	<u>315,000</u>	<u>315,000</u>
<u>Less: Incentive</u>	<u>(37,500)</u>	<u>(37,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Lease Revenue</u>	<u>41,250</u>	<u>120,000</u>	<u>236,250</u>	<u>315,000</u>	<u>315,000</u>
<u>Catering Commitment</u>	<u>75,000</u>	<u>37,500</u>	<u>37,500</u>	<u>37,500</u>	<u>37,500</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Lease Payment	78,750	157,500	236,250	315,000	315,000
Less: Annual Fee	(112,500)	(112,500)	(75,000)	(56,250)	(37,500)
Net Lease Revenue	(33,750)	45,000	161,250	258,750	277,500
Catering Commitment	37,500	37,500	37,500	37,500	37,500

Safe recovery grant funding can be used to manage the timing difference of the lease restart

March 2020 to July 2021 represents a 16-month delay in the start of the lease. Since the net lease revenue increases for the town over time, the timing difference of the restart reflects a savings of \$56,250 for the town during the 16-month deferral period.

The lease renegotiation has been discussed between staff and Niagara College throughout the pandemic. As a result, the college and the town have held off on making any payments on the lease. Should Council agree to the amended terms of the lease, the net amount owed to the town Niagara College as of July 1st, 2022 would be ~~\$41,250~~16,875 which can be funded from the safe recovery grant funding. In 2022, the timing difference results in a budget pressure of ~~\$98,750~~136,250 which can also be managed through the safe recovery grant funding.

The restart will result in pressures in 2023 through 2025 as shown in Table 3. These pressures will be addressed through the 2023 Budget and the 2024 to 2025 Budget in the next term of Council.

Table 3
Timing Difference of Lease Restart

<u>Year</u>	<u>Original Lease</u> <u>Net Revenue/(Cost)</u>	<u>Revised Lease</u> <u>Net Revenue/(Cost)</u>	<u>Variance</u> <u>Net Saving/(Cost)</u>
<u>2020</u>	<u>(\$59,375)</u>	<u>\$0</u>	<u>\$59,375</u>
<u>2021</u>	<u>\$56,875</u>	<u>\$20,625</u>	<u>(\$36,250)</u>
<u>2022</u>	<u>\$179,375</u>	<u>\$80,625</u>	<u>(\$98,750)</u>
<u>2023</u>	<u>\$264,375</u>	<u>\$178,125</u>	<u>(\$86,250)</u>
<u>2024</u>	<u>\$277,500</u>	<u>\$275,625</u>	<u>(\$1,875)</u>
<u>2025*</u>	<u>\$277,500</u>	<u>\$315,000</u>	<u>\$37,500</u>

<u>Year</u>	<u>Original Lease</u> <u>Net Revenue/(Cost)</u>	<u>Revised Lease</u> <u>Net Revenue/(Cost)</u>	<u>Variance</u> <u>Net Saving/(Cost)</u>
2020	(\$59,375)	\$0	\$59,375
2021	\$25,625	(\$16,875)	(\$42,500)
2022	\$141,875	\$5,625	(\$136,250)
2023	\$242,500	\$103,125	(\$139,375)
2024	\$274,625	\$210,000	(\$64,375)
2025*	\$277,500	\$268,125	(\$9,375)

*Assumes that the original lease value remains the same past the term of the original lease which starts March 2020 and ends February 2025.

The lower amount of revenue generated by the lease through 2025 reflects on the delay, timing difference, of the payments. Assuming that the terms of the original lease continue through 2025, the value of the original lease and the revised lease become equal as of July 1, 2025 with an annual lease payment from the college of \$315,000 and an annual fee from the town to the college of \$37,500 generating a net revenue for the town of \$277,500.

Advisory Committee Review

None

Legal Considerations

If Council approves staff's recommendation, the lease agreement will be amended to affix the term at July 1, 2021 and to reduce the annual fee in Year 1 by \$37,500 (being

75% of the Annual Fee) and to revise the catering ~~commitment credit~~ to \$37,500 per year.

All other terms and conditions of the lease agreement will remain the same.

Financial Implications

The restart of the lease will result in a pressure of ~~\$98,750-136,250~~ in 2022. This pressure can be managed with the safe recovery grant funding as the delay in the restart of the lease is as a result of the pandemic.

The future pressures for 2023 through 2025 can be managed through the budget process in the next term of Council. Safe recovery funds will be considered to manage this pressure so long the province permits using them beyond 2022.

Communications Considerations

None.

Link to Strategic Plan

The partnership with Niagara College supports the **Community** and **Economy** pillars of the Strategic Plan. The partnership supports **Promoting service accountability, excellence and innovation** through delivering services to reflect current and future demographic trends and supports the plan to revitalize the downtown.

Alternative(s) to the Recommendation

1. Council provide direction.

Conclusions

The lease with Niagara College for the operations within the Armoury is recommended to be amended with a start date of July 1, 2021, a reduction of \$37,500 for the town's annual fee paid to Niagara College in the first year and a reduction to the catering commitment to \$37,500 in the first two years.

Attachments

None

Previous Reports

PDS17-089, Lease Agreement - 89 Mosley Street, November 14, 2017

Pre-submission Review

Town Solicitor and Director of Finance/Treasurer

Approvals

Approved by Doug Nadorozny, Chief Administrative Officer