

RE: PROPOSED LEASE TERMS FOR MUNICIPALLY-OWNED LAND
AT 5789 AND 5761 SUNSET STREET FOR A 10-BED
RESIDENTIAL SHELTER

MUNICIPAL MANAGER'S RECOMMENDATION:

1. THAT the recommendation of the Director Planning & Building Inspection be adopted.

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TO: MUNICIPAL MANAGER
FROM: DIRECTOR PLANNING & BUILDING INSPECTION
SUBJECT: PROPOSED LEASE TERMS FOR MUNICIPALLY-OWNED LAND AT 5789 AND 5761 SUNSET STREET FOR A 10-BED RESIDENTIAL SHELTER

SUPPLEMENTARY
1984 NOVEMBER 21
OUR FILE: 17.406
X-REF: RZ#83/84

RECOMMENDATIONS:

1. THAT Council authorize the Municipal Solicitor to post the land for lease and subsequently to enter into an agreement to lease, subject to the completion of the rezoning, based upon the lease terms outlined in Section 4.1 of this report.

REPORT

1.0 BACKGROUND:

On 1984 November 05 Council authorized the Solicitor to negotiate a lease subject to posting of vacant land at 5761 and 5789 Sunset Street. A lease arrangement is now proposed for the consideration of Council.

2.0 DESCRIPTION OF THE PROPERTY PROVIDED BY THE MUNICIPAL SOLICITOR:

2.1 Site Size.

The site is composed of two vacant lots having a combined area of 13,926 square feet on a paved road with curbs, street lights and a sidewalk on the south side. The surrounding land uses include senior citizens housing, churches and residential.

2.2 Zoning.

The site is currently zoned R4 (Residential) and will require rezoning to CD, based upon the P5 Community Institutional use.

1985 Assessed Value:

5789 Sunset Street	land	\$ 66,900
5761 Sunset Street	land	<u>66,900</u>
Total combined assessed value		<u>\$133,800</u>

The 1985 assessed value is based upon its current value as R4 zoned residential use.

Appraised Value:

Discussions with the Directors of the Dania Society for the acquisition of additional lands, together with our most recent sale of lands to the Salvation Army Church on Cariboo Road, indicate the most reasonable value of institutionally zoned land is \$8.00 per square foot. When applied to the subject property, the land value so indicated is \$111,408.

3.0 SERVICES:

The site is serviced except for a storm sewer and a sidewalk. The Director Engineering has provided current preliminary estimates for the work as follows (1984 November 23).

Storm sewer (along lane to Godwin)	\$ 7,000
Separated sidewalk (abutting site north side)	<u>3,500</u>
Total	<u>\$10,500</u>

In addition there would be a fee of \$550. for the necessary water connection.

In the letter from the Society they propose to pay for servicing the site except for the sidewalk. No curb works or street lights are required.

While there is a sidewalk on the south side of the street, it is normal Municipal practice to require that all necessary services be installed as a condition of rezoning. In this case, the sidewalk would form a part of the pedestrian system in this institutional area. Given the church-bound traffic, the seniors in the area and the children which may occupy the subject site, the provision of the sidewalk is a basic need here.

4.0 NEGOTIATIONS:

In the initial discussions about the various sites and in discussion with the Life Line Society a market value approach to the lease was discussed. The Municipal Solicitor advised on 1984 November 19 that:

"During discussions with representatives of the Life Line Society it became evident that a conventional lease agreement was beyond the Society's budget constraints. We advised the Secretary to write a letter setting out the type of lease it could afford.

Attached is a copy of their letter, prepared by Mr. P.J. McLaren, C.G.A., offering a prepaid lease arrangement based upon 1% of the 1985 assessed value of \$133,800, or \$1,338 per annum. Present value of income stream at 11% per annum, \$11,995.05 represents the prepaid value of the proposed lease over the initial lease period of 41 years."

The Solicitor goes on to conclude that:

"This is a community service and a commercial lease rate cannot be economically applied. The offer to prepay the initial term of 41 years will save a considerable amount of staff time over the years. We therefore favour the prepaid lease arrangements."

- 4.1 The Planning & Building Inspection Department supports a land lease agreement for 41 years; however, the additional twenty-year option requested by the Society would, from a long-term land-use point of view, not be supported.
- The offer from the Society as expressed in the attached letter dated 1984 November 16, proposes a prepaid lease for 41 years, in the amount of \$11,995. This figure represents 10.77% of the estimated market value of the land (\$111,408 based on the institutional land use designation as set out in the approved guideplan for the area). This lease rate is considerably less than originally anticipated.

For comparison, a market lease based on the same estimated market value would yield a projected income stream of \$6,684 per annum; the present value of such a market lease discounted at 11 percent per annum over 41 years would be \$59,921.

The amount Burnaby would receive under the lease being proposed by the Society is \$11,995. The difference of \$47,926 would amount to a subsidy being extended by the Municipality over a 41 year period for the benefits derived from the operation of the Life Line service.

Recognizing that the value of the virtual subsidy in such a case is a function of the discount rate assumption the following table illustrates the lease amounts that would be generated and the resulting "equivalent annual subsidy" relative to a market lease that would be incurred, based on different discount rates:

<u>LAND LEASE - 41 YEARS</u>			
<u>Discount Rate</u>	<u>Lease Amount</u>	<u>Difference Compared with Market Value</u>	<u>Equivalent Annual Subsidy</u>
11%	\$11,995	\$47,926	\$5,346
9%	\$14,432	\$45,489	\$4,217
7%	\$17,921	\$42,000	\$3,236

With respect to the matter of granting aid to such an organization by way of accepting less than market value for the lease, Council is informed that under Section 269(h) it may, by a vote of at least 2/3 of the Council members, grant aid for or to an organization considered by Council to be contributing to the general interest and advantage of the municipality. Additionally Section 272 of the Act makes provision for a council granting aid to an institution, organization or society to specify terms for representation by the council on the board of directors or other governing body. Council may wish to consider such representation if it determines to grant aid in terms of the beneficial lease rate being advanced.

Under the terms proposed by the Society, that organization will be responsible for servicing the property and it acknowledges that full

annual property taxes will be payable.

It is recognized that Council will wish to take the community service contribution of this non-profit society into account in determining what is an acceptable lease rate under the circumstances. The Planning & Building Inspection Department supports the proposed rate based on the following reasons:

- the operation will continue to meet an important social need in our community;
- the development scheme will make it possible for the care function to be carried on in a modern new facility that will be vastly superior to the present situation;
- the land use fits with the Municipality's objectives for the area in which it is to be located; and
- the Corporation will preserve the ownership of the land.

However, it should be pointed out that it is normal Municipal practice to require that all servicing costs be borne by the applicant under rezoning and subdivision. Accordingly it is recommended that the cost of providing the sidewalks be maintained as a normal servicing requirement, in the servicing required to be provided by the Society.

In summary, it is proposed that a prepaid lease in the amount of \$11,995 be accepted for a 41 year lease without option to renew, that the lessee be responsible for the installation of all the required services, and that the Solicitor be authorized to proceed on this basis. Preparation of the lease bylaw has already been authorized by Council (1984 November 05) and a further report will be submitted for the information of Council when the final terms of the agreement have been drawn up.

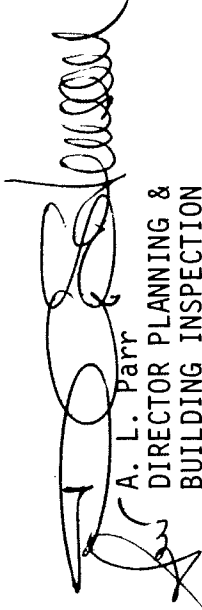
5.0 CONCLUSIONS/SUMMARY:

The Municipal Solicitor has met with the Life Line Society and has proposed that a basic 41 year lease be entered into with the Society for a nominal lease rate. In order to obtain the funding guarantee from Canada Mortgage for the capital cost of the project the Society must submit their total project costs within a short time.

Upon Council approval of this proposal and following completion of the posting period an Agreement to Lease would be entered into and the funds for the lease prepayment would be put up immediately prior to final rezoning of the site. After completion of the rezoning the lease will be executed.

AP
BR/nb
ttachment

cc: Municipal Solicitor
Director Engineering
Director Finance


A. L. Parr
DIRECTOR PLANNING &
BUILDING INSPECTION

ITEM 'SUPPLEMENTARY'
MANAGER'S REPORT NO. 18
COUNCIL MEETING 84/11/26 75

McLAREN & CO.

CERTIFIED GENERAL ACCOUNTANT

PETER J. McLAREN

November 16, 1984

The Corporation of the
District of Burnaby
4949 Canada Way
Burnaby, B.C.
V5G 1M2

Attention: Fred Evans, Legal Dept.

Dear Sirs:

Re: Life Line Society Application for Lease

Further to our meeting at your office Thursday, November 15, 1984 the Directors have reviewed the position of the Municipality and confirm we are not in a position to accept your proposal of an economic lease at 6% of assessed value. Also, we cannot accept either of the methods used to calculate present value by yourself or C.M.H.C.

We have discussed this situation further and now make the following offer to lease:

- a) The Life Line Society will agree to enter into a 41 year lease with a 20 year option on the following terms and conditions.
- b) Price - One (1) percent of the most recent assessed value (\$133,800) per year.
- c) Terms - The full 41 year initial term to be prepaid in full using the "Present value of annuity" formula to calculate the total net present value.
- d) Conditions - The Life Line Society will not be required to pay for sidewalk and curbs.

The Life Line Society will pay for servicing of the property and will pay annual property taxes.

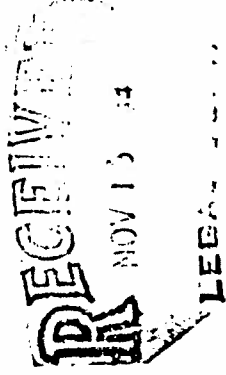
We recognize the difference between the economic lease and our proposal represents a contribution from the District of Burnaby of approximately \$6,700 per year. This of course would be recognized by the Society as your ongoing support to our community service.

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ATTACHMENT #1

350 - 522 SEVENTH STREET
NEW WESTMINSTER, B C
V3M 5T5

TELEPHONE 524-8688



....2
District of Burnaby

The suggestion by C.M.H.C. concerning the calculation of the prepaid lease value was not put forward on our behalf, or with our knowledge or consent. It does not make fiscal sense to make a lump sum payment of 75% of the value of a property under lease terms, nor does the resulting sum represent the arithmetic present value of the corresponding annual lease payments.

Based on these proposed values, we calculate the annual lease fee to be \$1,338.00 and the corresponding present value of all annual future payments for 41 years, discounted using a rate of 11% to be \$11,995.05. Your own suggestion that Burnaby was currently earning 12.2% on its investments was considered, but we feel with interest rates now falling, that 11% reflects the current value of money. Using 12% the present value would be \$11,043.01.

As timing, dictated by C.M.H.C., is crucial, we ask that you give this matter your immediate attention and that you forward this specific proposal to Council for their consideration. We must know what our "total cost to be financed" is before applying for mortgage funding. The mortgage approval must be obtained from one of the banks by December 15, 1984 at the latest. You will appreciate that we will not be in a position to even make an application for the mortgage until Council has confirmed our cost of the lease, and the question of sidewalk construction.

If you require further details concerning this matter, please contact me by telephone at 524-8688.

Yours truly,

LIFE LINE SOCIETY



P. J. McLaren, C.G.A.
Treasurer