

**Infrastructure Services Report to
Infrastructure and Planning Committee
2023 June 07**

**ISC: UNRESTRICTED
IP2023-0638
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Proposed Lease Amendment (Sunalta) - Ward 8 (1920 Pumphouse RD SW)

RECOMMENDATION:

Review By: 2023 January 5

That the Infrastructure and Planning Committee recommend that Council:

1. Authorize the Recommendations as outlined in Attachment 3; and
2. Direct that the Closed Meeting discussions, report, and attachments be held confidential pursuant to Sections 23 (Local public body confidences), 24 (Advice from officials), and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act* until the lease amending agreement has been executed.

**RECOMMENDATION OF THE INFRASTRUCTURE AND PLANNING COMMITTEE,
2023 JUNE 7:**

That Council:

1. Authorize the Recommendations as outlined in Attachment 3; and
2. Direct that the Closed Meeting discussions, report, and attachments remain confidential pursuant to Sections 23 (Local public body confidences), 24 (Advice from officials), and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act* until the lease amending agreement has been executed.

HIGHLIGHTS

- Administration recommends the approval of a lease amending agreement with Renfrew Chrysler Inc. ("Renfrew").
- What does this mean to Calgarians?
 - Renfrew is a long-standing business that stimulates business, jobs and revenue streams on the west edge of downtown.
 - The longstanding tenant, Renfrew, constructed the building on the Property and has invested in the site over the past 50+ years resulting in lease and property tax revenue to The City of Calgary ("The City").
- Why does this matter?
 - Continued long term activation of the West Village property which could otherwise be vacant will mitigate operating and maintenance costs to The City, will continue to draw destination visitors and customers and, continue to generate revenue to The City.
 - The proposed lease amending agreement would offer the possibility of an additional twenty-five years of term, over and above the current 5 years, with increased lease rates that match inflation which would support Renfrew by providing necessary security of term to their business to support investment by Renfrew in the Property.

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- Continued management of the environmental risks on the Property via annual reports by Renfrew's consultants which are provided to and reviewed by The City's environmental experts.
- Renfrew is unable to continue to operate successfully within the existing lease due to upgrades required to the Property.
- Renfrew needs to invest approximately \$2,250,000 in infrastructure and building upgrades to remain compliant with their franchise agreement with Chrysler:
 - The roof is failing and requires total replacement;
 - The building is aging and requires upgrades; and
 - Rapid charging stations are required for new electric vehicles coming onstream.
- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

- The lease amending agreement will allow for the possibility of adding 25 years to the existing lease if the Property is not required for municipal purposes.
- The current form of agreement is a ground lease which requires Renfrew to maintain the building and all associated costs of the Property.
- For Renfrew to remain in compliance with their franchise agreement, they are required to install charging stations.
- Renfrew's investment for immediate requirements is estimated at \$2,250,000.
- If early termination is exercised by The City during the Third Renewal Term The City would provide an interest free payout to Renfrew for the remaining straight-line amortized value of the improvements Renfrew makes to the Property during the Third Renewal Term, which is not to exceed \$225,000 for each year of the Third Renewal Term.
- The lease termination will increase from 18 months' to 36 months' notice by either Party.
- There is an outstanding COVID rent abatement totaling almost \$1,000,000, for which repayment has commenced 2023 May 1, and will be fully repaid by Renfrew within 36 months.
- The COVID rent abatement will be repaid even if the lease is terminated.

Valuation

An external appraisal was completed in 2018, and it was reviewed and endorsed by Administration's Valuation Review Committee. During the negotiations for the rental rate for the Second Renewal Term, The City and Renfrew agreed that should the option for the Third Renewal Term be exercised, the annual rental rate would be \$693,000 plus GST for the first year of the Third Renewal Term and thereafter increase with inflation each year. This was previously approved at Council in 2020, therefore, a new appraisal was not completed.

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ENGAGEMENT AND COMMUNICATION

- | | |
|------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <input type="checkbox"/> Public engagement was undertaken | <input type="checkbox"/> Dialogue with interested parties was undertaken |
| <input type="checkbox"/> Public/interested parties were informed | <input checked="" type="checkbox"/> Public communication or engagement was not required |

IMPLICATIONS

Social

There is citizen value as the lease will ensure benefit to Calgarians by providing an optimal interim use that protects long-term public needs, mitigates City maintenance costs, and will generate ongoing revenue to the Revolving Fund that funds City real estate operations (non-mill rate) and future land acquisitions.

Environmental

The Property has been reviewed in accordance with The City of Calgary's Sales, Acquisitions and Leases Environmental (S.A.L.E.) Policy.

The Property is located in an area of known contamination that is associated with the historical wood preserving activities that have taken place in the area. Contaminant concentrations of chemical compounds have been found to exceed provincial regulatory criteria in certain areas. In the late 1990s, Alberta Environment and Protected Areas took responsibility for managing the contamination as it relates to reducing further migration towards the Bow River and constructed a containment barrier and extraction system. Since that time, The City has also conducted additional environmental assessments including a preliminary screening of potential for human health risks that was provided to Renfrew.

The Property was purchased in 1998 with a pre-existing lease. Phase II Environmental Site Assessments (ESAs) conducted in 2002 and 2010 were used to establish baseline conditions and the requirement for an annual environmental assessment was incorporated into the lease signed in 2011. The scope of work for the annual environmental assessment includes conducting semi-annual groundwater monitoring and sampling, reconnaissance of the facility and operations and preparing a report summarizing the findings and recommendations. According to the annual environmental assessment reports prepared between 2011 and 2022 the groundwater monitoring and sampling results were generally consistent with the historical findings suggesting that the car dealership activities between those dates do not appear to have made the pre-existing groundwater contamination worse.

As part of the lease agreement Renfrew is responsible for:

- Determining the suitability and safety requirements for the premises including any structures pertaining to the pre-existing contamination;
- Preparing an environmental management plan for their operations that includes routine submission of the environmental assessment to The City at their sole cost and expense; and
- Complying with all applicable environmental laws and managing and remediating any contamination that Renfrew has released.

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The City has indemnified Renfrew for all other contamination, in turn The City is the beneficiary of an indemnity from the Province.

Economic

Long term redevelopment of the west end of downtown Calgary is not yet in the planning phase. Significant environmental remediation will be required as will alignment with long term transportation infrastructure requirements. The interim use by a car dealership is considered ideal. This will support The City through a lease rate along with the tax base.

Service and Financial Implications

The Lease will generate an average monthly revenue of \$55,938.52 plus GST from 2023 August 01 to 2024 July 31, and then for each remaining year of the Third Renewal Term the lease rate will be established by multiplying the annual Consideration payable for the immediately preceding year by a fraction, the numerator of which is the Canadian Consumer Price Index, provided by Statistics Canada, for the year in question and the denominator of which is the Consumer Price Index for the immediately preceding year. All the funds will be recognized in Program 488. Program 488 is directed to the revolving fund which supports other corporate land initiatives.

RISK

If the proposed Recommendations are not approved, Renfrew has indicated that they would move from the Property to a location outside the city limits which would also impact the property tax base. There is a risk that The City will have a large vacant site and a significant loss of revenue to the portfolio along with the tax base. The impact and likelihood of this risk is considered to be high.

If the proposed Recommendations are not approved, there is also the potential for reputational risk to The City associated with not being willing to work towards a business-friendly Calgary. This would be further supported by a loss of jobs, the cost of The City to maintain the Property, and the eyesore of another vacant building in West Village, including the challenges of another vacant building to secure from vandalism and break ins. The impact and likelihood of this risk is considered to be high. Renfrew is a long-standing business that stimulates business, jobs and revenue streams on the west edge of downtown.

In order to mitigate these risks, Administration is proposing that Council approve the attached Recommendations.

ATTACHMENTS

1. Previous Council Direction
- 2a. Site Map
- 2b. Context Map
3. Recommendations
4. Summary of Additional Property Information
5. Alberta Corporation/Non-Profit Search
6. Presentation

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Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Michael Thompson, General Manager	Infrastructure Services	Approve
Campbell Berry, Director	Real Estate & Development Services	Approve