



## Toronto Public Library - Lease Agreement and Municipal Capital Facility Designation at 85 Ellesmere Road, Scarborough

**Date:** June 19, 2020

**To:** General Government and Licensing Committee

**From:** Executive Director, Corporate Real Estate Management, and City Librarian, Toronto Public Library

**Wards:** Ward 21 - Scarborough Centre

### SUMMARY

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The purpose of this report is to obtain City Council authority to enter into a new lease agreement with FCHT Holdings (Ontario) Corporation (the "Landlord"), for approximately 11,760 square feet of space, at 85 Ellesmere Road, Scarborough (the "Leased Premises"), for the purpose of expanding the Toronto Public Library, Maryvale Branch. The report also seeks authority to designate the Leased Premises as Municipal Capital Facility, and to provide an exemption from municipal and education taxes.

The current Toronto Public Library branch, which is located in Parkway Mall at 85 Ellesmere Road, Scarborough, occupies 4,998 square feet. The proposed expansion will add 6,762 square feet, for a total of 11,760 square feet in a different and improved location within the mall. The proposed lease has favourable terms as the size of the branch will increase by 135 percent, but the gross annual cost of the lease is expected to increase by less than 70 percent. The lease proposal also includes a significant landlord contribution that will fund 30 percent of the capital costs. The proposed term for the lease is for twenty (20) years, and is expected to commence on June 1, 2021 (the "Commencement Date"). The rent and other terms and conditions of the proposed new lease reflect current market value according to market research and valuation conducted by Corporate Real Estate Management staff

The current Municipal Capital Facility designation provides a tax exemption for 4,998 square feet, and will be cancelled when the Library vacates the current location space. The requested Municipal Capital Facility designation would provide tax exemption for the new, expanded space.

## RECOMMENDATIONS

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The Executive Director, Corporate Real Estate Management, and the City Librarian, Toronto Public Library, recommend that:

1. City Council authorize a new lease agreement between the City of Toronto (the "City"), as tenant, and FCHT Holdings (Ontario) Corporation, as landlord, for Units 21 and 22, 85 Ellesmere Road, Scarborough, for a twenty (20) year term, substantially on terms and conditions set out in Appendix A.
2. City Council pass a By-law pursuant to Section 252 of the City of Toronto Act, 2006, providing authority to:
  - a. enter into a Municipal Capital Facility Agreement with FCHT Holdings (Ontario) Corporation, the landlord, that will lease Units 21 and 22 at 85 Ellesmere Road (the "Leased Premises") comprising of approximately 11,760 square feet to the City of Toronto, to be used for a public library; and
  - b. exempt the Leased Premises from taxation for municipal and school purposes, with the tax exemption being effective from the latest of: (1) the commencement date of the Lease, (2) the date the Municipal Capital Facility Agreement is entered into, and (3) the date the Tax Exemption By-law is enacted.
3. City Council direct the City Clerk to give written notice of the amended By-law to the Minister of Finance, the Municipal Property Assessment Corporation, the Toronto District School Board, the Toronto Catholic District School Board, le Conseil scolaire Viamonde, and le Conseil scolaire catholique MonAvenir.

## FINANCIAL IMPACT

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### Operating Impact

Under the proposed new lease, the base rent would be \$15.00 per square foot for Years one through five, \$16.50 per square foot for Years six through 10, \$18.00 per square foot for Years 11 through 15, and \$19.50 per square foot for Years 16 through 20. The base rent for the 20 year term will be \$4,057,200.00.

Additional Rent for Year One is estimated at \$11.20 per square foot, with an expected annual increase of two percent. Starting from Year 11, an additional heating, ventilation, and air conditioning charge of \$2.29 per square foot will be added, and will be fixed for Years 11 through 20. The estimated additional rent for the 20 year term is \$3,470,140.80. Details of estimated annual costs for the proposed 20 year term are outlined in Appendix A.

The additional rent costs will be included in future year Toronto Public Library Operating Budget submissions.

## **Capital Impact**

A council-approved Toronto Public Library capital project for Maryvale to renovate the new space with a value of approximately \$2.714 million is funded by development charges of \$1.345 million, Landlord contribution of \$0.822 million and debt of \$0.547 million, with budgeted cash flows of \$1.648 million (\$0 debt) in 2020, and \$1.066 million (\$0.547 million debt) in 2021.

All amounts are exclusive of Harmonized Sales Tax.

## **Property Tax Impact**

The Maryvale Branch currently has a Municipal Capital Facility designation in a different location at 85 Ellesmere Road. This designation provides an exemption for 4,998 square feet, representing an estimated \$40,696 of foregone annual property taxes. This designation will be cancelled when the Library vacates the current location space.

The annual property taxes on 11,760 square feet of space (currently taxable) to be occupied by the Maryvale Branch are estimated at \$97,639, comprised of a municipal portion of \$52,837, and a provincial education portion of \$44,802, based on the 2020 Current Value Assessment and 2019 tax rates. A new agreement in the expanded space will create an additional 6,762 square feet of space to be exempt from property taxes.

Property tax exemption for 11,760 square feet at 85 Ellesmere Road will result in a net annual reduction in property tax revenue to the City of approximately \$52,837, representing the municipal portion of taxes that is currently payable but will no longer be collected once the Leased Premises are designated as Municipal Capital Facility. The provincial education portion of \$44,802 will no longer be required to be remitted to the Province once the exemption for the Leased Premises takes effect.

As the City currently funds Toronto Public Library's cost of rent, including property taxes, on any leased space through an annual budget allocation, there is no net impact on the municipal portion of taxes from the Municipal Capital Facility exemption. This is because a reduction in municipal tax revenue is offset by a corresponding reduction in the annual budgetary requirement for the Toronto Public Library. The savings that result from the designation as a Municipal Capital Facility for 85 Ellesmere Road are accounted for and included in the 2020 Council Approved Operating Budget for the Toronto Public Library.

Further details of property tax figures and financial impacts are provided in Appendix B.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

## DECISION HISTORY

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At its meeting on April 29, 2019, the Toronto Public Library Board endorsed the new lease agreement and capital budget adjustment related to the new and larger location for the Maryvale Branch located within Parkway Mall.

<https://www.torontopubliclibrary.ca/content/about-the-library/pdfs/board/meetings/2019/may21/06-minutes-april-29.pdf>

The capital budget to renovate the new space, and the additional operating costs related to the lease and the expanded space were approved by City Council on February 19, 2020 as a part of Toronto Public Library's 2020-2029 Capital Budget and Plan and 2020 Operating Budget. As a result of these approvals, the timing and funding source breakdown of cash flows changes from what the Toronto Public Library Board endorsed in April, 2019, but the total project amount remained the same.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.GM31.11>

At its meeting on July 8, 2014, City Council adopted GM31.11, "85 Ellesmere Road – Maryvale Branch Library – Designation of a Portion of Premises as a Municipal Capital Facility", which authorized the City to enter into a Municipal Capital Facility agreement and exempt an additional 577 square feet of leased space at 85 Ellesmere Road.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.GM31.11>

At its meeting on July 8, 9, 10, 11 and 14, 2014, City Council adopted By-law No. 701-2014 to authorize entering into an agreement for the provision of a Municipal Capital Facility at 85 Ellesmere Road for the Maryvale Branch. This by-law exempted 577 square feet of space in addition to the initial 4,421 square feet that was formerly exempt through the City of Scarborough By-law No. 25069.

<https://www.toronto.ca/legdocs/bylaws/2014/law0701.pdf>

## COMMENTS

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### Background

The Maryvale Branch Library is a well-used neighbourhood library in the Wexford/Maryvale neighbourhood. In 2018, the branch had 137,412 visits and circulated 162,654 library materials. The branch has a total size of 4,998 square feet and is located in Unit 16 at the Parkway Mall at 85 Ellesmere Road on the southeast corner of Victoria Park and Ellesmere Road.

The Maryvale Branch is located in Ward 21 and serves a population of 27,917. The population size has increased 3.3 percent since the 2011 Census Program, and largely consists of adults (58 percent), followed by seniors (28 percent), children (15 percent) and youth (13 percent).

Toronto Public Library's Service Delivery Model is a framework that envisions the possibilities that result from an investment in library infrastructure and service delivery. Neighbourhood branches provide collections and services that meet many of the needs

of the immediate community. The Service Delivery Model identifies 10,000-20,000 square feet as the optimum size for a neighbourhood branch. At its current size, the Maryvale Branch does not meet the minimum standard size.

The Maryvale Branch currently offers a limited range of programming to different age groups due to its relatively small size. Overall, the size of the branch limits the breadth and scope of library services, some of which include: regular outreach programs for newcomers and refugee families housed at the Radisson Hotel, services for seven elementary schools and one high school, and the delivery of 20 programs on average per month from a small program room.

### **Details of Proposed Expansion**

First Capital Asset Management LP, the real estate management company for Parkway Mall, approached the Toronto Public Library earlier in 2019 to discuss a major redevelopment for the Parkway Mall, and the opportunity for the Maryvale Branch to move into a larger space located in Units 21 and 22, with 11,760 square feet of space. The new space brings the branch within the 10,000-20,000 square feet Service Delivery Model standard for neighbourhood libraries. The proposed new location provides excellent access and exposure at this location and would allow the branch to respond to the strong demand for programs and services.

Furthermore, Toronto Public Library's Facilities Master Plan identified the Maryvale Branch for major renovation and expansion. The branch received a high score relative to many other branches due to utilization, service provision, and state of good repair, and the Facilities Master Plan supported the recommendation to move and expand the branch.

The larger Maryvale Branch will include:

- Design of interior spaces in alignment with the new Toronto Public Library brand, including flexible and multifunctional layout of collections, equipment, programming spaces and staff work areas;
- Merchandizing and display opportunities throughout the branch;
- A dedicated teen space, introduction of a mini-tech hub to provide additional access to technology, and Play and Learn Science, Technology, Engineering and Mathematics kits for children;
- Acoustically-managed spaces for collaboration, programming, and community meetings that can be used as an alternate quiet study or reading space when not otherwise in service; and,
- New flooring, shelving and furniture, with ample electronic outlets and updated equipment.

Key interior features of the improved Maryvale Branch will include:

- Attractive merchandizing area and millwork;
- Excellent sightlines and traffic flow throughout;
- Flexible space with movable shelving and seating that can easily be reconfigured to take advantage of natural light;
- Wi-Fi connectivity throughout;

- Interior signage in accordance with Toronto Public Library branch signage standard;
- Digital signage for promoting library programs and services;
- Designated spaces for study and collaboration;
- Increased, accessible power outlets throughout the branch with Universal Serial Bus (USB) connectors; and,
- Public computer area with pay-for-print and self-check kiosks.

The proposed new space in the mall will allow the current branch to maintain operations while the new space is being prepared, which will minimize service disruption for customers.

### **Legislation Regarding Municipal Capital Facilities**

Section 252 of the City of Toronto Act, 2006 allows City Council to exempt from taxation, for municipal and school purposes, land or a portion of land on which a Municipal Capital Facility is, or will be located, once the City enters into an agreement with the landlord or the tenant.

Ontario Regulation 598/06 prescribes public libraries as eligible for the purpose of Section 252.

Upon the passing of the by-law authorizing the agreement and the tax exemption, the City Clerk must give written notice of the by-law to the Minister of Finance, the Municipal Property Assessment Corporation and the Secretary of any affected school board(s).

### **CONTACT**

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### **SIGNATURE**

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Patrick Matozzo  
Executive Director, Corporate Real Estate Management

Vickery Bowles  
City Librarian, Toronto Public Library

## **ATTACHMENTS**

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Appendix A – Major Terms and Conditions  
Appendix B – Detailed Property Tax Impacts

## **Appendix A – Major Terms and Conditions**

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Lease Agreement at 85 Ellesmere Road, Scarborough

### **Premises:**

Approximately 11,760 square feet of rentable space on the ground floor, Units 21 and 22, at Parkway Mall, 85 Ellesmere Road, Scarborough

### **Landlord:**

FCHT Holdings (Ontario) Corporation

### **Tenant:**

City of Toronto, on behalf of the Toronto Public Library

### **Term:**

Fixturing rent free period of 240 days estimated to commence October 1, 2020. Lease term of twenty (20) years estimated to commence June 1, 2021, following the fixturing period.

### **Use:**

Neighbourhood library branch operated by the Toronto Public Library

### **Base Rent:**

Years 1 to 5:	\$15.00 per sq. ft. or \$176,400 per year, plus HST
Years 6 to 10:	\$16.50 per sq. ft. or \$194,040 per year, plus HST
Years 11 to 15:	\$18.00 per sq. ft. or \$211,680 per year, plus HST
Years 16 to 20:	\$19.50 per sq. ft. or \$229,320 per year, plus HST

During the fixturing period there is no base rent payable.

### **Additional Rent:**

Tenant pays for its proportionate share of certain common costs, a charge for the pylon sign, and water recovery charges, estimated at \$11.20 per square foot in Year 1, plus Harmonized Sales Tax.

The charge for heating, ventilation and air conditioning is waived in Years 1 to 10, and will commence in Year 11 at a rate of \$2.29 per square foot, and is fixed for Years 11 to 20.

During the fixturing period there is no additional rent payable.



The following table details the estimated annual costs for base and additional rent for the proposed 20-year lease:

	<b>Base Rent per Sq. Ft.</b>	<b>Additional Rent per Sq. Ft.</b>	<b>Annual Base Rent</b>	<b>Annual Additional Rent</b>	<b>Total Proposed Rent</b>
Year 1	\$ 15.00	\$ 11.20	\$ 176,400.00	\$ 131,712.00	\$ 308,112.00
Year 2	\$ 15.00	\$ 11.42	\$ 176,400.00	\$ 134,299.20	\$ 310,699.20
Year 3	\$ 15.00	\$ 11.65	\$ 176,400.00	\$ 137,004.00	\$ 313,404.00
Year 4	\$ 15.00	\$ 11.89	\$ 176,400.00	\$ 139,826.40	\$ 316,226.40
Year 5	\$ 15.00	\$ 12.12	\$ 176,400.00	\$ 142,531.20	\$ 318,931.20
Year 6	\$ 16.50	\$ 12.37	\$ 194,040.00	\$ 145,471.20	\$ 339,511.20
Year 7	\$ 16.50	\$ 12.61	\$ 194,040.00	\$ 148,293.60	\$ 342,333.60
Year 8	\$ 16.50	\$ 12.87	\$ 194,040.00	\$ 151,351.20	\$ 345,391.20
Year 9	\$ 16.50	\$ 13.12	\$ 194,040.00	\$ 154,291.20	\$ 348,331.20
Year 10	\$ 16.50	\$ 13.39	\$ 194,040.00	\$ 157,466.40	\$ 351,506.40
Year 11	\$ 18.00	\$ 15.95	\$ 211,680.00	\$ 187,572.00	\$ 399,252.00
Year 12	\$ 18.00	\$ 16.22	\$ 211,680.00	\$ 190,747.20	\$ 402,427.20
Year 13	\$ 18.00	\$ 16.50	\$ 211,680.00	\$ 194,040.00	\$ 405,720.00
Year 14	\$ 18.00	\$ 16.78	\$ 211,680.00	\$ 197,332.80	\$ 409,012.80
Year 15	\$ 18.00	\$ 17.07	\$ 211,680.00	\$ 200,743.20	\$ 412,423.20
Year 16	\$ 19.50	\$ 17.37	\$ 229,320.00	\$ 204,271.20	\$ 433,591.20
Year 17	\$ 19.50	\$ 17.67	\$ 229,320.00	\$ 207,799.20	\$ 437,119.20
Year 18	\$ 19.50	\$ 17.98	\$ 229,320.00	\$ 211,444.80	\$ 440,764.80
Year 19	\$ 19.50	\$ 18.29	\$ 229,320.00	\$ 215,090.40	\$ 444,410.40
Year 20	\$ 19.50	\$ 18.61	\$ 229,320.00	\$ 218,853.60	\$ 448,173.60
<b>Subtotal</b>			\$ 4,057,200.00	\$ 3,470,140.80	\$ 7,527,340.80
<b>Total Net of HST Recoveries</b>			\$ 4,128,606.72	\$ 3,531,215.28	\$ 7,659,822.00

**Utilities:**

The tenant pays for its proportionate share of utilities for the building, estimated at \$2.00 per square foot, or \$23,520 per year, plus Harmonized Sales Tax.

During the fixturing period the Library must pay for utilities consumed.

**Tenant Leasehold Improvement Allowance:**

The Landlord is offering \$70.00 per square foot as an inducement to enter into the lease, for a total of \$823,200.

**Capital Costs:**

The cost to prepare the space for library use is estimated at \$2.714 million which will be funded by development charges of \$1.345 million, Landlord contribution of \$0.823 million and debt of \$0.547 million.

## Appendix B – Detailed Property Tax Impact

Table 1 summarizes the financial impact of exempting the newly leased space, in addition to the currently leased space that is exempt as a Municipal Capital Facility.

Table 1 – Property Taxes for Maryvale Library Branch – 85 Ellesmere Road

	Square Footage	Estimated Annual Property Taxes
Current Space (currently exempt as Municipal Capital Facility)	4,998	\$40,696
New Space (to be exempted)	11,760	\$97,639
<b>Net New Tax Exemption</b>	<b>6,762</b>	<b>\$56,943</b>

Table 2 below outlines the financial impacts resulting from property tax exemption.

Table 2 – Financial Implication of Property Tax Exemption – 85 Ellesmere Road

Location	Municipal Taxes	Education Taxes	Total Property Taxes
85 Ellesmere Road – 1901-03-2-720-01000	\$52,837	\$44,802	\$97,639
Total Amounts Payable if Exempt	\$0	\$0	\$0
Reduction in Municipal Tax Revenues			\$52,837
Reduction in Education Taxes Remitted			\$44,802