

EDMONTON PUBLIC SCHOOLS

March 25, 2003

T0: Board of Trustees

FROM: A. McBeath, Superintendent of Schools

SUBJECT: District Lease Rate Review

ORIGINATOR: A. Habinski, Executive Director, School and District Services

RESOURCE

STAFF: Jenise Bidulock, Gloria Chalmers, Meredith Colgan, Robert Craig, Randy Leal, Cindy Skolski

RECOMMENDATION

1. That the minimum rate of \$0.86 per square meter per month for Community based play school programs set in 1982 be rescinded;
2. That the minimum rate of \$1.94 per square meter per month for not-for-profit child care providers set in 1982 be rescinded;
3. That the lease rates based on the categories identified in Appendix I and the 5-Year implementation plan as shown in Appendix II be approved;

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Review Process

The process for reviewing the district lease rates included comparison of rates used by other school districts in the surrounding area, consultation with district principals, CUPE Local 474 Custodial Union, Facilities Maintenance, as well as input from current tenants and with those agencies involved with the district in educational and co-curricular provision of services.

The district leases approximately 28,156 square meters in operational schools at an average rate of \$2.41 per square meter per month. The space costs the district \$2,100,000 to maintain and operate each year while recovering only \$814,239 annually in lease revenue. The district is currently subsidizing lease space by \$1,250,000 per year. The recommended rates would gradually reduce the district's subsidy over a five year period but not eliminate it. The majority of tenant should be expected to pay the cost of providing the space while subsidized rates would be offered to agencies that have partnership agreements with the district. The administration will continue to push towards a cost recovery model for lease rates in their next review. Phasing in of new rates over five years addresses the concern of sharp increases of lease rates.

The administration also acknowledges the need to provide quality space for interagency provision of early educational and intervention programming that, while outside the district's immediate K-12 mandate, are integral to the success of district students. The administration continues to advocate with Alberta Infrastructure and Alberta Learning for recognition of the district's contribution to these educational partnerships. Recognition of these partnerships may take the form of additional space exemptions and/or Plant Operating and Maintenance support for co-curricular activities in schools especially when they are supported by government departments other than Learning. The various agencies that provide these programs are organizing to work with the administration in this endeavor.

The board set minimum rates in 1982 for specific users. These minimum rates were meant to ensure that schools were not unnecessarily subsidizing leases. These minimum rates (\$0.86 per square meter per month for community based preschools and \$1.94 per square meter per month for non-profit child care providers) no longer allow schools to recover operating costs. Therefore, the administration recommends that these minimum rates be rescinded.

The administration commits to review lease rates within the recommended model and recommend adjustments every two years after a review of three key factors.

1. The average cost to operate space in the district based on calculations provided by Facilities Services using actual daily operating costs and capital renewal;
2. Comparison of lease rates charged in a minimum of three school districts in the surrounding area;
3. Cost of Living Index for Edmonton and area over the preceding two-year period.

The tiered model of lease categories (Appendix I) recommended by the administration reflects the educational and utilization benefit to the district of each tenant and the critical need to recover the cost of providing the space from the majority of tenants.

In all categories custodial services remains an option. Schools are encouraged to contract for custodial services and to charge \$1.32 - \$1.50 per square meter per month, depending on the level of service requested from the tenant.

All tenants in Category A and B (34 out of 116) would be subsidized to the amount of \$2.50 to \$3.00 per square meter per month. All tenants in Category C (44 out of 116), non-profit child care providers, would be subsidized by the district in the amount of \$1.00 per square meter per month. In order to provide this level of subsidy and recover the total costs of providing leased space, it is recommended that the difference be recovered from those leases in Category D, E, and F. There are currently 25 leases in Category D, 1 in Category E and 12 in Category F.

There are 7 leases that would not be affected by the proposed rate increases as 2 are in partnership agreements at George P. Nicholson School and under contract cover the operational costs in addition to their cost of construction. Two are under review as they hold Service Agreements with the district for provision of credit programming in the schools that accommodate them, 1 is the lease at Fulton Place Annex where the lease agreement requires the tenant to pay full operating and maintenance costs for the space while 2 leases are for access to a district parking lot and after hours use of a gymnasium that are not impacted by a per square meter rate.

The plan for implementation of the new rates for current tenants is contained in Appendix II. The plan outlines the need to have the target rates in place by year five of a five-year implementation with year one have the least amount of increase (10%). The remainder of the variance required to meet the new target rates would then be divided equally over the remaining four years.

Schools would receive the full amount of the lease revenue in year one. This is necessary to minimize the impact on school budgets already being developed at this time. Starting in year two the lease revenue would be collected centrally and pooled. From that full revenue schools would be credited for their portion of the operating costs incurred to accommodate their leases. Schools accommodating leases at a subsidized lease rate would receive credit for the full operating cost from the central pool of revenue. Once schools have been credited for operating costs then that portion of revenue that is for utilities would be forwarded to Facilities Maintenance for utility payments. The portion of the revenue remaining after schools and utilities have been covered would be directed to Facilities Maintenance to cover facility maintenance projects required in leased space. The provincial funding formula for major facility maintenance projects does not cover the cost for leased space. There would be very little money for these projects in the initial years of the implementation plan until all leases have reached the target rates.

Should the balance of subsidized and non-subsidized leases be changed then the amount of money available for covering the cost of operation would require rebalancing. Future lease rate reviews would have to look at this balance of rent collected and subsidies being provided.

The administration will explore the feasibility of collecting all lease revenue centrally and distributing the fund to schools and central units that pay for utilities and maintenance. This would mean that each school benefits from a neutral impact on their operating budgets while the district covers the cost of subsidizing specific tenants from the pooled lease revenue. Each school would receive a minimum projected to be \$0.95 per square meter, per month for a lease plus the amount of custodial service fees collected, if contracted for.

An average classroom of 83 square meters would cost under each category:

Category	Rate	Lease Per Month	Custodial Fee Per Month (approx.)
Category A Partnership	\$2.00/square meter	\$166.00	\$110.00
Category B Preschool	\$2.50/square meter	\$207.50	\$110.00
Category C Part-time, Non-Profit Child Care	\$2.00/square meter	\$166.00	pro-rated to time used
Category C Full Time Non- Profit Child Care	\$4.00/square meter	\$332.00	\$110.00

Category	Rate	Lease Per Month	Custodial Fee Per Month (approx.)
Category D Full Time For-Profit Child Care and For-Profit Pre-School Programs	\$7.50/square meter	\$622.50	\$110.00
Category E	\$6.00/square meter	\$498.00	\$110.00
Category F	\$7.50/square meter	\$622.50	\$110.00

The impact of the recommendations on tenants would be increased lease rates phased in over five years resulting in rates that are still lower than the same space in Edmonton Catholic Schools. The following table is a quick comparison with the school jurisdictions consulted.

EPS Proposed Categories	EPS Proposed Rates	Edmonton Catholic Schools	Calgary Board of Education	St. Albert Protestant Schools	Elk Island Public Schools
Category A Partnerships	\$2.00/sq. meter/month	No category	No category	No category	No category
Category B Preschools	\$2.50/sq. meter/month	\$1.79/sq. meter/month	\$3.58/sq. meter/month	\$4.49/sq. meter/month	\$2.21/sq. meter/month
Category C Non-Profit Child Care	Part-time \$2.00/sq. meter/month	Part-time \$2.69/sq. meter/month	No category	No category	No category
	Full-time \$4.00/sq. meter/month	Full-time \$10.67/sq. meter/month	\$3.58/sq. meter/month	\$4.49/sq. meter/month	\$2.21/sq. meter/month
Category D For Profit Child Care	\$7.50/sq. meter/month	\$10.67/sq. meter/month	\$3.58/sq. meter/month	\$4.49/sq. meter/month	\$7.09/sq. meter/month
Category E Public Service Sector	\$6.00/sq. meter/month	\$10.67/sq. meter/month	\$3.58/sq. meter/month	\$4.49/sq. meter/month	\$7.09/sq. meter/month
Category F Other	\$7.50/sq. meter/month	\$10.67/sq. meter/month	\$3.58/sq. meter/month	\$4.49/sq. meter/month	\$7.09/sq. meter/month

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Appendix I
Appendix II
Appendix III

Recommended Lease Rates by Category
Implementation Plan for Lease Rates
Summary of Feedback during Lease Rate Review Process

RECOMMENDED LEASE RATES BY CATEGORY

- CATEGORY A: Educational Services Partnerships**
Leases with agencies that provide co-curricular programs and educational services under a formal interagency partnership agreement with Edmonton Public Schools.
- Examples: Head Start Programs, Literacy Programs
- RATE: \$2.00 per square meter per month exclusive of custodial services
- CATEGORY B: Pre-Kindergarten Educational Programs and Child Care Providers**
Leases with operators of licensed Pre-Kindergarten Educational Programs, daycare and out of school care centers.
- Examples: Springhill Community Nursery School Society, Babar's Children's Centre Society, Ottewell Community League Playschool
- RATE: Licensed Pre-Kindergarten Program by a non-profit organization:
\$2.50 per square meter per month exclusive of custodial services
- CATEGORY C: Part-time Licenses by a non-profit organization for use that is less than 65% of the school week and in which the school shares in access to the same space for the balance of the school week.**
- Examples: YMCA Out of School Care Centre, Thorncliffe After-School Care Association
- RATE: \$2.00 per square meter per month exclusive of custodial services PLUS GST
- CATEGORY C: Full-time leases for Daycare, Out of School Care, Kindercare or other child care service centres by a non-profit organization**
- Examples: Glengarry After School Care Society, Waverly Daycare Ltd.
- RATE: \$4.00 per square meter per month exclusive of custodial services
- CATEGORY D: Full-time leases for Daycare, Out of School Care, Kindercare, Pre-Kindergarten Programs by a for profit organization.**
- Examples: Sabrina's Kids Cove, Little Professor Childcare Inc.
- RATE: \$7.50 per square meter per month exclusive of custodial services

CATEGORY E: Public Sector Services
Leases with other levels of government to provide public services for the community at large:

Examples: Public Health Clinics, Government offices, and or Public Libraries

RATE: \$6.00 per square meter per month exclusive of custodial services

CATEGORY F: General
Leases with tenants that are not represented in the above categories

Examples: Society offices, Religious organizations and Churches, Francophone School District

RATE: \$7.50 per square meter per month exclusive of custodial services

ALL OF THE ABOVE RATES ARE FOR GROSS RENT IN OPERATIONAL SCHOOLS. Gross rent is defined as basic rent for the demised space as outlined in the lease agreement including utilities (except telephone or computer service). The school district provides for the maintenance of the foundation, major mechanical, electrical and plumbing components of the building as well as access to common areas for entry and washrooms. The tenant is responsible for the cost of custodial care in the demised space and minor maintenance maintained at the district's standards plus any upgrades or improvements to the space as deemed necessary by the tenant to meet licensing requirements and codes.

FULL CUSTODIAL SERVICES RATE: \$1.50 per square meter per month

The lease revenue collected and allocated to the school would be adequate to include leased space in any cleanliness assessments and facility inspections conducted by the school. Facilities Maintenance will automatically include leased spaces in their scope of work when a school requests service. The school principal has the responsibility to monitor leased space for cleanliness standards and for health and safety conditions. Principals are encouraged to contract with tenants for the custodial services with a minimum service level of hard floor finishes and carpet steam cleaning being required. The cost of any custodial service provided to a tenant should be recovered by the school either by invoice or by including payment within the lease agreement. Leasing & Rental Services is available for advise and assistance to principals in these matters. Facilities Maintenance is able to customize maintenance agreements with a school to include leased space at specified costs to tenants. These maintenance agreements would result in lower costs for both schools and tenants while improving the overall condition of the school and leased space.

Tenants must be included in a school's emergency preparedness plans and drills. School should perform a security orientation with all tenants at the start of a lease and periodically throughout the tenancy. Tenants must pay for security call out costs if they are the cause of the security breach.

IMPLEMENTATION PLAN FOR LEASE RATES

The consensus from tenant feedback indicates that a full five year plan is required to implement the rate changes being proposed. In this plan any future review of lease rates would be put on hold until the fourth year of the five year plan to allow for stability in rates for tenants.

Tenants would see the smallest adjustment upward in rates in year one of approximately 10%. Due to the timing of the lease rate review, tenants indicated that budgets have already been set for next year and very little room was available to absorb increases in rates. For years two through five, tenants would have their variance in rates divided in equal increases for each of the 4 years. Upon approval, the rates for each tenant would be calculated out based on current square meters in their lease for the full five year process. Leases are year-to-year as stipulated by the *School Act*; and lease terms and conditions are reviewed each spring with the tenant and school principal.

Those tenants who do not have large increases in rates would have their rates fully adjusted by year four and they will benefit from no increases in year five.

Tenants who currently pay over the recommended rate within their category would have their current rent frozen and then adjusted in equal increments once other tenants in the same category have reached the same rate.

The full revenue from leases would be directed to schools for year one to help with budget planning. The administration will explore the feasibility of collecting all lease revenue centrally and distributing the fund to schools and central units that pay for utilities and maintenance to start in year two. Each school would receive a minimum projected to be \$0.95 per square meter, per month for a lease plus the amount of custodial service fees collected, if contracted for.

For those tenants with binding lease agreements that specify rental rates into the implementation plan time frame would have a slightly altered implementation plan to adjust for the shortened time frame. Their rents would also be fully implemented by the end of year five.

The following are samples of the implementation plan using hypothetical tenant scenarios:

Category A – Tenant XYZ – Head Start Program in 83.0 square meters

Current	Year One	Year Two	Year Three	Year Four	Year Five
\$0.86	\$1.00				
	(+0.14) 16% increase				
\$71.38/m \$856.38/yr	\$83.00/m \$996.00/yr				

* Year two through five would be subject to response from Alberta Infrastructure to fully fund PO&M for this category of lease holder.

Category B - Tenant XYZ –Non-Profit Licensed Playschool in 83 sq. m

Current	Year One	Year Two	Year Three	Year Four	Year Five
\$0.86	\$0.93	\$1.32	\$1.71	\$2.10	\$2.50
	(+0.09) 10% increase	(+0.39)	(+0.39)	(+0.39)	(+0.40)
\$71.38/m \$856.38/yr	\$77.19.00/m \$926.28/yr	\$109.56/m \$1,314.72/yr	\$141.93/m \$1,703.06/yr	\$174.30/m \$2,091.60/yr	\$207.50/m \$2,490.00/yr

Category C - Tenant XYZ –Non-Profit Part-Time License Out of School Care in 83 sq. m

Current	Year One	Year Two	Year Three	Year Four	Year Five
\$0.86	\$0.93	\$1.20	\$1.47	\$1.74	\$2.00
	(+0.09) 10% increase	(+0.27)	(+0.27)	(+0.27)	(+0.26)
\$71.38/m \$856.38/yr	\$77.19.00/m \$926.28/yr	\$99.60/m \$1,195.20/yr	\$122.01/m \$1,464.12/yr	\$144.42/m \$1,733.04/yr	\$166.00/m \$1,992.00/yr

Category C - Tenant XYZ – Full time Non-Profit Daycare in 83 sq. m

Current	Year One	Year Two	Year Three	Year Four	Year Five
\$2.54	\$2.79	\$3.09	\$ 3.39	\$3.69	\$4.00
	(+0.25) 10% increase	(+0.30)	(+0.30)	(+0.30)	(+0.31)
\$210.82/m \$2,529.84/yr	\$231.37/m \$2,778.84/yr	\$256.47/m \$3,077.64/yr	\$281.37/m \$3,376.44/yr	\$306.27/m \$3,675.24/yr	\$332.00/m \$3,984.00/yr

Category D - Tenant XYZ – Full time For-Profit Daycare in 83 sq. m

Current	Year One	Year Two	Year Three	Year Four	Year Five
\$6.00	\$6.00	\$6.60	\$7.00	\$7.50	\$7.50
	(+0.00) 0% increase	(+0.60) 10% increase	(+0.40)	(+0.50)	(+0.00)
\$498.00/m \$5,976.00/yr	\$498.00/m \$5,976.00/yr	\$547.80/m \$6,573.60/yr	\$581.00/m \$6,972.00/yr	\$622.50/m \$7,470.00/yr	\$622.50/m \$7,470.00/yr

Category E - Tenant XYZ –Public Library in 83 sq. m

Current	Year One	Year Two	Year Three	Year Four	Year Five
\$3.55	\$3.91	\$4.43	\$4.95	\$5.47	\$6.00
	(+0.36) 10% increase	(+0.52)	(+0.52)	(+0.52)	(+0.53)
\$294.65/m \$3,535.80/yr	\$324.53/m \$3,894.36/yr	\$367.69/m \$4,412.20/yr	\$410.85/m \$4,930.20/yr	\$454.01/m \$5,448.12/yr	\$498.00/m \$5,976.00/yr

Category F - Tenant XYZ –Church Organization in 83 sq. m

Current	Year One	Year Two	Year Three	Year Four	Year Five
\$3.74	\$4.11	\$4.96	\$5.81	\$6.65	\$7.50
	(+0.37) 10% increase	(+0.85)	(+0.85)	(+0.84)	(+0.85)
\$310.42/m \$3,725.04/yr	\$341.13/m \$4,093.56/yr	\$411.68/m \$4,940.16	\$482.23/m \$5,786.76/yr	\$551.95/m \$6,623.40	\$622.50/m \$7,470.00/yr

SUMMARY OF FEEDBACK
LEASE RATE REVIEW PROCESS

All feedback attached has been taken into consideration in making the recommendations contained in the Lease Rate Review Report.

PRINCIPAL SURVEYS:

Surveys were provided to all principals attending the February 5, 2003 vertical team meeting and 121 responded as follows:

What value does your school place in the following type of leases?	High	Neutral	Low
Category A – Educational Services Partnerships (agencies that provide co-curricular programs) Head Start Programs ESHIP Literacy Programs	52%	31%	17%
Category B – Child Care Providers & Early Education Programs (tenants that potentially feed enrolment) Daycares Out of School Care Centres Community Playschools or Pre-Kindergarten Programs	52%	24%	24%
Category C – Services to the Community (tenants that serve the wider community) Health Clinics (e.g. Westlawn Health Clinic) Government Offices Public Libraries	11%	39%	50%
Category D – General (all other tenants that do not compliment the district educational mandate) Francophone School District Churches and Religious Organizations	7%	23%	70%
	Agree	Neutral	Disagree
The district should subsidize the lease rates to those types of leases valued most highly.	20%	15%	65%
The lease revenue should follow to the area responsible for the costs.	78%	10%	12%
The district should charge a set rate per category of lease.	65%	24%	11%
	Every Year	2-3 Years	4-5 Years
The district should review and adjust lease rates every....	44%	52%	3%
	1-2 Years	3-5 Years	At Renewal
The district should phase in any new system of rates over	55%	11%	34%

Summary of Principal Feedback:

- strong support for providing space within schools for interagency children’s services, pre-kindergarten and other early educational programs
- schools and the district should not be subsidizing the cost of operating leased space
- revenue from leases should go to those areas that pay for the costs

The Status Report was shared with 73 principals of schools who accommodate leases with highlights of what the changes being contemplated by the review committee of the 73 principals contacted by e-mail, 8 provided written responses indicating support for the process, 2 principals requested assistance in meeting with their tenants 3 principals requested and received additional information.

DISTRICT PARTNERS/ALLIANCES

Input was received from the YMCA, Capital Health Ma’mowe Capital Region Child and Family Services, Centre for Family Literacy, ESHIP and Martin Garber Conrad of the Edmonton City Centre Church Corporation. All agencies appreciated having been asked for input and provided feedback on the categories, rates and potential impact of the rates on their programming and other tenants.

Summary of District Partners/Alliances Feedback:

- agencies were concerned that the review process would result in partnership agreements being dissolved and replaced with leasing agreements
- the YMCA indicated that the proposed changes would likely cause some families to withdraw children from care. This could put the program(s) in jeopardy
- Capital Health indicated that they expect existing lease provisions to govern until expired and that space for ESHIP will be at no cost as it represents the district’s contribution to the partnership
- Ma’mowe Capital Region Child and Family Services indicated that the proposed rates would put additional financial pressure on both Head Start and child care service providers and was concerned for the potential cost increase and Ma’mowe’s ability cover these extra costs
- the Centre for Family Literacy indicated that their programs are dependent upon non-profit groups with whom they collaborate (e.g. ABC Head Start).
- Edmonton City Centre Church Corporation through Martin Garber Conrad indicated that a long-term solution for Category A would be getting the province to allow the district to “count” them in district occupancy statistics

TENANTS

Tenants were first consulted with through a letter giving financial breakdowns, lease rate comparisons with other districts and a draft of the lease category model in early January, 2003. This information letter resulted in 25 responses from a total 116 tenants. A second subsequent mail-out was done after February 25th with a proposed rate for each of the lease categories. This second contact resulted in a larger response from tenants (50/116) with the preschool providers being the highest.

Phase In Survey Results

Lease Type	One Year	Two Years	Three Years	Four Years	Five Years
A	0	0	0	6	2
B	3	2	1	1	29
C	0	0	0	0	0
D	1	1	0	0	2
Total	4	3	1	7	33

Summary of Tenant Feedback:

- deep concern expressed that unreasonable rate increases would reduce or eliminate educational and child care services
- non-profit and for-profit child care business felt they benefited from being located in a school and that it gave them a business advantage
- non-profit and for-profit child care business cited that the year-to-year leases posed a disadvantage
- the Edmonton Preschool Association provided detailed information on preschool programming and the value of the program in terms of pre-kindergarten education
 - Preschools get no government funding nor do parents qualify for subsidies for preschool
 - there are a limited number of grants available from various organizations
 - preschool programs are co-operative with parents taking part
 - advantages for the community kept at the lowest possible cost and programs are located in their immediate community

CUPE LOCAL 474 (Custodial Union)

The CUPE local was consulted on the lease rate review early in the process. The local, through means of survey, was able to provide information regarding the types of custodial services that cost schools.

Summary of CUPE Local 474 Feedback:

Concerns were expressed regarding:

- lack of cleanliness assessments for leased space and monitoring of tenant activities
- the need to monitor closely basic building conditions needed to determine if tenants were indeed meeting district standards for custodial care and minor maintenance
- more enforcement of district standards for cleanliness and maintenance
- the condition of leased space when a tenant leaves a school
- lack of security orientation for tenants
- custodial costs should be incorporated in lease rates

GENERAL

The information amassed during the consultation portion of the lease rate review process will be provided in its entirety in the trustee's reading room.