



## ADMINISTRATIVE REPORT

Report Date: January 24, 2017  
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Meeting Date: February 21, 2017

TO: Vancouver City Council

FROM: General Manager of Community Services in consultation with the General Manager of Real Estate and Facilities Management

SUBJECT: 1396 Richards Street Childcare Facility – Appointment of Operator, Lease of City-owned Property, and Approval of Grants

### RECOMMENDATION

- A. THAT Council appoint the Vancouver Society of Children’s Centres (“VSOCC”) as the non-profit operator of the licensed group childcare centre to be located at 1396 Richards Street, currently legally described as *Parcel Identifier: 029-261-767; Lot 1, Block 115, District Lot 541, Group 1 New Westminster District, Plan EPP37033*, subject to the City becoming the owner of the air space parcel containing the childcare facility.
- B. THAT Council authorize the Director of Real Estate Services to negotiate and, upon the City obtaining ownership of the air space parcel containing the childcare facility, to execute a lease agreement with VSOCC as the tenant and operator of the future City-owned childcare facility to be built upon the property situated at 1396 Richards Street on the following basic terms, and on terms and conditions consistent with the Term Sheet attached hereto as Appendix A, and otherwise satisfactory to the Director of Real Estate Services, the Director of Legal Services, and the Managing Director of Social Policy and Projects:
  - i. Term and Renewal Options: Initial term of Five (5) years, with two (2) renewal options each for a further period of five (5) years.
  - ii. Total Rent: Nominal Rent of Ten Dollars (\$10.00) for the term or any renewal term, payable in advance, plus applicable taxes.
- C. THAT Council approve a one-time grant of up to \$74,000 to VSOCC for operational start-up costs, to be disbursed over two years. Source of funds: Childcare Reserve.

- D. THAT Council approve an annual grant of up to \$19,800 to VSOCC in the form of an Infant/Toddler Grant (12 toddler spaces at \$1,650 per space) pro-rated to the start date of operation, and on the condition that VSOCC enters into a Childcare Reserve Operating Agreement with the City of Vancouver, subject to annual staff review, to confirm certain aspects of the operation and financing of the childcare centre and the application of Childcare Reserve grants. Source of funds: Childcare Reserve.
- E. THAT no legal rights or obligations be created or arise by Council's adoption of these Recommendations unless and until the lease is signed by the City and VSOCC.

*Note: Recommendations B, C and D represent grants and therefore require eight affirmative votes.*

### **REPORT SUMMARY**

This report recommends VSOCC be appointed as the operator of the new purpose-built 37-space childcare facility currently under construction at 1396 Richards Street.

In addition, this report seeks Council authority to enter into a nominal lease for the childcare facility on terms discussed in the body of the report. The market rental value for the childcare facility over the initial five year term of the lease is estimated at approximately \$939,000. This lease will also provide for a limited indemnification on the part of VSOCC to the City, as described in Appendix A.

Finally, this report seeks Council approval of grants up to \$93,800 to assist the recommended operator with the opening and operating costs of the new childcare.

### **COUNCIL AUTHORITY/PREVIOUS DECISIONS**

Pursuant to Section 206(I) (a) of the Vancouver Charter, not less than two-thirds of all members of Council must approve a resolution for a grant to a charitable institution. Start-up and operating grants, and a lease of City-owned property at less than market rent are considered to be grants.

The proposed lease to VSOCC is for a nominal rent, and is therefore submitted to Council for approval.

On May 3, 2007, Council approved the Downtown South Public Benefits Strategy, which included a target to create 323 new childcare spaces by 2021.

On June 18, 2013 Council approved the CD-1 Rezoning for 1396 Richards Street, which included a fully fit, finished, furnished and equipped 37-space childcare facility to be secured through a legal agreement, and a cash contribution of \$1,174,000 to go towards operational start-up costs (\$74,000), Childcare Reserve (\$550,000) and Childcare Facility Reserve for this childcare (\$550,000).

On December 16, 2014, Council passed a motion to renew its commitment to childcare, along with a target to facilitate the creation of 1,000 new childcare spaces between 2015 and 2018.

## ***CITY MANAGER'S/GENERAL MANAGER'S COMMENTS***

The General Manager of Community Services recommends approval of Recommendations A through E.

## ***REPORT***

### ***Background/Context***

While recognizing that the mandate for childcare rests with senior governments, the City of Vancouver values the importance of affordable, available and quality childcare to the social and economic sustainability of Vancouver's families and neighbourhoods. To this end, the City uses its municipal tools to facilitate the creation and on-going support of non-profit childcare.

The Vancouver Society of Children's Centres (VSOCC) was created in 1994 in collaboration with the City, and as part of the Civic Childcare Strategy, to be a non-profit agency with a mandate to work with City staff to design, develop and operate City-owned or leased childcare facilities in the downtown district. One of the original terms in establishing VSOCC was to ensure the Society would undergo an organizational review once it was responsible for a capacity of 359 childcare spaces. As per this stipulation, the City undertook an independent review of the Society in 2011. The findings of this review were that VSOCC had more than met its established mandate and had developed and maintained a generally successful partnership with the City. Regular reviews of VSOCC's financial and organizational capacity are also conducted through annual application processes for City of Vancouver Community Service Grants.

As 1396 Richards Street is located in the downtown district, no public selection process was required to recommend VSOCC as the operator for the childcare facility in this development project. To date, VSOCC is a registered non-profit that operates over 680 licensed childcare spaces and serves over 1,800 children in 14 City-owned or leased facilities, with an annual budget of over \$11 million from a variety of funding sources, including parent fees, the Province, the City, and foundations.

This childcare facility is currently under construction. As it nears completion, the operator will need to begin the staff hiring, equipment purchase and waitlist management processes to ensure an efficient start-up period. Council approval of lease terms and authority to release the start-up grant is required.

The 37 childcare spaces currently under development are included below in the Targets and Progress Table (Table 1), as 'Committed Spaces'. With these additional 37 committed spaces, the City will have achieved 62% of Council's four-year target to facilitate the creation of 1,000 new childcare spaces by 2018. In addition, once built, these 37 spaces will contribute to the achievement of 34% of the Downtown South 10-year childcare target, with a total of 111 childcare spaces created in the Downtown South area since 2012.

**Table 1: City of Vancouver Childcare Targets and Progress against Targets**

	Childcare Space Target	Built Spaces	Committed Spaces	Total Built and Committed
City-wide Childcare Target, 2015-2018	1,000	252	365	617
Downtown South Childcare Target, 2012-2021	323	74	37	111

The childcare facility at 1396 Richards will include approximately 533 m<sup>2</sup> (5,737 square feet) of at-grade indoor space, and approximately 401 m<sup>2</sup> (4,320) square feet of contiguous outdoor space. The amount of indoor area allocated for the childcare includes an additional multipurpose room approximately 81 m<sup>2</sup> (873 square feet) larger than the City’s Childcare Design Guidelines. This indoor area will be a welcome addition to the centre, given that the downtown core provides limited opportunities for large-muscle play, which is important to children’s physical development. The additional space will also enable VSOCC to offer enhanced programming compatible with parent, family and early learning and care services, both during and after regular childcare hours.

***Strategic Analysis***

Childcare provides a significant social and economic benefit to the city by providing a sound basis for early childhood development and enabling labour force participation by parents. Childcare also plays an important role in helping to meet the City’s Healthy City Strategy goals, by reducing child vulnerability and ensuring school readiness for children; school readiness in turn is a key indicator of whether children will thrive in education, health and wellbeing later in life.

Council approved this rezoning subject to several conditions of enactment, including the application of accumulated Downtown South Development Cost Levies (DCLs) towards the cost of constructing a 37-space childcare facility. This rezoning also generated a Community Amenity Contribution (CAC) towards the provision of a childcare facility. In addition, the developer provided a cash CAC to ensure ongoing conservation of the facility, and viability for the operation of the proposed toddler program. The City will pay its contribution to the developer upon acceptance of the childcare facility and transfer of the air space parcel to the City, as provided for in the childcare legal agreement registered on title for this property.

*Terms of Lease*

The City will exercise its Option to Purchase the air space parcel containing the childcare facility once the childcare facility is completed to the City’s satisfaction. Completion of construction is estimated for 2018.

Recommendation B requests approval to enter into a nominal lease with VSOCC. The City will begin negotiating the lease prior to obtaining ownership of the childcare facility, however, the lease will not be executed until the ownership of the property has been transferred to the City and registered in Land Title Office. The Term Sheet outlining the key basic lease terms are attached as Appendix A.

Should Council approve Recommendation B, staff recommend the City and VSOCC enter into the City's standard non-profit childcare lease, being a term of 5 years with two further 5 year renewal options for a total term of 15 years, at nominal rent of \$10 per term. The City's standard childcare lease requires that the childcare facility program meet Provincial Community Care Facilities Licensing regulations, and operate at maximum capacity on a full time basis.

The operator will be responsible for all expenses related to utilities, communications (including internet, cable, and phone), security systems for the childcare, routine maintenance and minor repairs, janitorial, liability and contents insurance, and program operating and service delivery costs. The City retains responsibility for the base building systems within or dedicated solely to the City's air space parcel and for that portion of the allocated portion of the common area costs that relate to common building systems and structures. The responsibilities of the parties regarding the maintenance, repair and replacement for the facility, as well as the proportionate share of the development-wide common costs, will be further detailed in a Service Level Agreement, which will be attached as a schedule to and form part of the lease.

The Lease will include provisions to ensure that priority enrolment is given to families residing or working in Vancouver, parent fees are maintained at or below the citywide average, and parent involvement is encouraged in decision making processes. It also ensures that financial accountability is adhered to through an annual reconciliation process outlined in the agreement based on year-end actuals.

#### *Childcare Grants arising from cash CAC*

In order to commence the childcare services at the new development, VSOCC must prepare for opening. Should Council approve Recommendation C, a one-time operational start-up grant of up to \$74,000 will support costs over the first two years of operation, such as covering lower revenue during gradual enrolment, development of policies and practice guidelines, program development, staff recruitment, hiring and orientation.

Should Council approve Recommendation D, a pro-rated annual grant of up to \$19,800 for the toddler program will offset the high cost of toddler fees to cover the period of time once the childcare is in operation, which is anticipated for late 2018, subject to the Society entering into an operating agreement with the City. In future years, this annual grant will be subject to the annual budget process, and award of this grant will be dependent upon adhering to the terms of the operating agreement, as well as demonstrated need. The source of funds for this grant is the developer's cash CAC contribution to the Childcare Reserve.

#### ***Implications/Related Issues/Risk (if applicable)***

##### ***Financial***

The cost to construct this 37-space childcare facility is estimated to be approximately \$4,200,000, paid from two funding sources (approved as part of rezoning RTS 10106): an in-kind Community Amenity Contribution of \$1,618,884, and a maximum City contribution of \$2,581,116 from Downtown South DCLs (included in the 2017 Capital Budget, with disbursement forecast for 2018). The City has also secured a cash CAC in the amount of \$1,174,000 as part of this rezoning (RTS 10106). Of this, \$624,000 will

be transferred to the Childcare Reserve to support start-up costs and \$550,000 will be transferred to a Childcare Facility Reserve. The total CAC (in-kind and cash) is valued at \$2,792,884.

This report recommends that:

- \$74,000 be allocated from the Childcare Reserve to this new 37-space childcare to cover one-time operational start-up costs; and
- Up to \$19,800 be allocated annually from the Childcare Reserve to subsidize the toddler program at this childcare (12 spaces at \$1,650 per space); the amount for 2018 will be pro-rated and amounts for subsequent years will be brought forward as part of the City's annual budget.

The annual maintenance cost for this childcare facility is estimated to be about \$35,000, at approximately \$6/square foot. There will also be occasional capital maintenance costs as the facility ages. The annual maintenance costs will be funded from the Childcare Facility Reserve as appropriate. Amounts will be brought forward and managed by Real Estate and Facilities Management as part of the City's annual budget process.

Total Rent - The childcare facility will be leased to VSOCC at a nominal total rent of ten dollars (\$10.00) for the initial five year term, with two (2) renewal options each for a further five (5) year term at the same nominal rate. The current comparable market rental value for the childcare facility over the initial five year term of the lease (based on 5,737 square feet of net leasable above-grade area) is estimated at approximately \$939,000.

Should Council approve Recommendation B, the nominal rent lease to VSOCC represents a grant in the above-noted amount for the initial five year term.

## **CONCLUSION**

Staff recommend that Council authorize entering into a lease agreement with VSOCC for the childcare facility under construction at 1396 Richards Street. Staff also recommend Council authorize a one-time start-up grant to VSOCC of up to \$74,000, and a toddler subsidy grant of up to \$19,800 annually, to be brought forward in the annual budget process and entering into an operating agreement with the City.

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Appendix A: VSOCC Term Sheet for 1396 Richards Street Childcare

**BASIC LEASE TERMS FOR THE CHILD CARE FACILITY  
AT  
1396 Richards Street (The "Premises")  
BETWEEN  
THE CITY OF VANCOUVER (The "Landlord")  
AND  
VANCOUVER SOCIETY OF CHILDREN'S CENTRES (The "Tenant")**

**Lease Term and Renewal Options**

Five (5) years, with two (2) further options to renew each for a term of five (5) years.

**Rent**

Nominal Rent of Ten Dollars (\$10.00) for the term or any renewal term, payable in advance, plus applicable taxes.

**Utility Charges**

The Tenant will be responsible for any and all costs and obligations associated with metered utilities directly serving the Premises, including any municipal utility charges serving or associated with the Premises.

**Operating Costs, Repairs and Maintenance**

The responsibility for all costs, obligations and expenses related to the operation, regular repairs and routine maintenance, and any required preventative maintenance of the Premises, including the play area and its equipment, will be as set out in a Service Level Agreement to be attached to and forming part of the lease. Generally, the Tenant will not be responsible for the cost of maintenance of the base building systems within or dedicated solely to the Premises. The Tenant will be responsible for routine maintenance, regular repairs and operational costs of the childcare facility and ancillary rooms and areas within the Premises, including janitorial, utilities, pest control, and security services, and for the allocated portion of the common area costs associated with general maintenance of common areas throughout the development.

**Capital/Life Cycle Replacement Costs**

The responsibility for all capital/life cycle replacement costs associated with the Premises - for example, mechanical, electrical and plumbing systems and other capital costs including those associated with the building envelope, including roof membrane, wall membrane, exterior painting, and any structural components of the building such as foundation and slab - will be as set out in a Service Level Agreement to be attached to and forming part of the lease and otherwise as specifically provided for in the lease, all on terms and conditions satisfactory to the Landlord. In general, the Landlord will be responsible for capital/life cycle replacement of and major repairs to the base building systems and structural components of the Premises (ie, foundations, flooring sub-structure, building envelope and roof). Capital costs associated with the play yard and its equipment, as well as security systems serving the Premises shall be the Tenant's responsibility.

**Insurance**

The Tenant is responsible at all times for maintaining commercial general liability insurance and all risk (broad form) tenants' legal liability insurance, as well as insuring for equipment,

trade fixtures, furniture and all other contents, in the amounts and types of insurance to the satisfaction of the Landlord. The Landlord will be named as additional insured on each and every policy.

### **Indemnity**

The indemnity granted by the Tenant to the Landlord and its personnel under the Lease will be limited to amounts recovered under the Tenant's insurance. This limited indemnity is a departure from the City's standard indemnity and is exclusive to the Vancouver Society of Children's Centres based on specific input from its insurance brokers and consultation with the City's Risk Management Committee.

### **Use**

The Premises are to be used for the delivery of licensed child care programs on a full time basis. The Premises may also be used for support activities including but not limited to office, early care and learning programs for children from newborn to twelve (12) years of age, parenting and family development programs, and similar activities compatible with early care and learning services, on the condition that such does not interfere with the child care services requirements.

### **Public Service Objectives**

The Tenant will use the Premises for the provision of licensed child care services and in a manner that benefits the citizens of Vancouver. The Tenant will be required to articulate and follow a set of *public service objectives* including minimum hours of operation; type and range of services; and its commitment to quality and accessibility in its programs and procedures.

### **Third Party Use**

On condition that it does not interfere with the childcare service required under the provisions as described under the Use section herein, the Tenant may permit third parties to use the Premises, but only for the purpose of providing early childhood development and learning programs for children from the ages of twelve (12) down to newborns, as well as family development programs.

### **Assignment and Subleasing**

The Tenant shall not assign its leasehold interest in the Premises or any portion thereof, and, other than as permitted by the Third Party Use section herein, the Tenant shall not be permitted to sublease the Premises or any portion thereof, save and except with the prior written consent of the Landlord, which consent may be arbitrarily withheld.

### **Naming Rights**

The Lease will require the Tenant to follow the City's *Naming Rights Policy*, including potential restrictions on the right to name the Premises (or any portion of the Premises).

### **Parking**

Seven (7) underground parking spaces on the P1 level: 2 staff parking spaces plus 5 childcare drop-off/pick-up spaces.

### **Early Termination by Tenant**

The Tenant may terminate the lease upon giving the Landlord not less than (90) days' written notice of such termination.



**Early Termination by Landlord**

The Landlord may terminate the lease upon giving the Tenant not less than ninety (90) days' written notice of such termination if the Landlord's elected council is not satisfied with the group childcare service provided by the Tenant, among other reasons.

**Additional Lease Terms**

All of the foregoing lease terms and all additional terms and conditions shall be as required by and be to the satisfaction of the Director of Legal Services and the Director of Real Estate Services in consultation with the Managing Director of Social Policy and Projects.

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