

**48 Water Street / 111 Lakeside Drive, Stratford, ON
Cash Flow Analysis**

NOTICE TO READER

On the basis of information provided by Paula Lombardi (Siskinds LLP) and Rob Horne (City of Stratford), we have compiled a cash flow analysis concerning the property known municipally as 48 Water Street / 111 Lakeside Drive in Stratford, Ontario for the purposes of informing a broader analysis by the City of Stratford concerning the potential disposition of said property.

We have not performed an audit or a review engagement in respect of the cash flow analysis, and accordingly, we express no assurance thereon. Actual results may differ significantly from the projections.

Readers are cautioned that these projections are solely for the use of Siskinds LLP and the City of Stratford and may not be appropriate for their purposes.

London, Ontario
February 1, 2018

Ford Koest LLP

Chartered Professional Accountants
Licensed Public Accountants

Private & Confidential

February 1, 2018

Paula Lombardi
Partner
Siskinds LLP
680 Waterloo St.
London ON N6A 3V8

Dear Ms. Lombardi:

**RE: Analysis Requested
City of Stratford - 48 Water Street / 111 Lakeside Drive, Stratford, ON**

We were engaged by your firm to provide our analysis in connection with your client, the City of Stratford ("the City"). Specifically, you have requested preparation of a report calculating the cash flow implications of the City's proposed disposition of the property known municipally as 48 Water Street / 111 Lakeside Drive in Stratford, Ontario ("the Property").

Our firm is pleased to provide the results of our analysis in this letter and in the attached calculation summary (Appendix A.) Our work was compiled by Chartered Professional Accountants with significant experience analyzing similar cost-benefit scenarios and divestiture decisions.

Supporting documents

In the course of our work we have relied upon the following documents provided to us by your office and Rob Horne, Chief Administrative Officer for the City:

1. January 23, 2018 letter from NA Engineering Associates Inc. concerning the Property and its building;
2. March 31, 2008 lease agreement with The Stratford Shakespearean Festival of Canada;
3. March 9, 2015 lease agreement with Kiwanis Club of Stratford Incorporated;
4. January 1, 2015 lease agreement with Stratford Lakeside Active Adults Association; and,
5. June 13, 2016 lease agreement with Stratford Lawn Bowling Club.

Option 1: Sell Property

Option 1 in the attached summary computes the cash flow to the City if the decision is made to dispose of the Property to one interested party, being The Stratford Shakespearean Festival of Canada ("the Festival"). The present value of the cash flow to the City (using 2018 dollars)

under Option 1 is estimated to be approximately \$3,277,295. The supporting calculations for this figure can be found in Appendix A.

Option 1 is a long-term cash flow analysis that considers more than the current cash inflow from the sale of the property. A complete analysis should consider the current value of future lost revenues and other costs and benefits associated with the sale. Option 1 therefore reduces the estimated sale proceeds of \$4,900,000 by the following factors:

- (i) Estimated relocation costs for existing tenants other than the Festival;
- (ii) The future value of lost lease revenue from current Property tenants, offset by reinstatement of lease revenue at alternate City-owned locations from current Property tenants other than the Festival; and,
- (iii) Transaction costs associated with the sale of the Property.

Taking all of the above factors into account, the Property sale could generate net long-term cash flow to the City of approximately \$3,277,295. Appendix A describes other cost-benefit factors considered in our analysis but which resulted in no adjustment to the cash flow figures for Option 1.

Option 2: Retain Property

Option 2 in the attached summary computes the cash flow to the City if the decision is made to retain ownership of the Property. The present value of the cash flow to the City (using 2018 dollars) under Option 2 is estimated to be approximately \$935,239. The supporting calculations for this figure can be found in Appendix A.

Option 2 could be regarded as a "do nothing" alternative prepared for comparison's sake to Option 1, as Option 2 calculates only the future lease revenue from existing Property tenants. However, it is important to note that Option 2 does not attempt to calculate the costs associated with the significant updates required to the Property's building as outlined in the January 23, 2018 NA Engineering letter. Consideration should be given to whether updates to the building situated on the Property are physically and economically feasible given the commentary provided by NA Engineering about the significant deficiencies observed and the life expectancy of the entire structure. The building upgrade costs may significantly reduce, and could potentially exceed, the net long-term cash flow calculated for Option 2.

Hybrid Option

Our analysis does not include a hybrid option in which the City retains ownership of the Property, demolishes the existing building, and permits the Festival to build a new facility in its place, which we understand to be the Festival's purpose for acquiring the Property. In our experience, we have not seen an investment of this magnitude in a building absent owning the property.

Summary

The net long-term cash flow from the Property under Option 1 and 2 represents an estimated \$2,342,056 difference to the City in favour of a sale. This difference could be significantly larger in reality given the lack of estimates concerning update costs for the Property's building as discussed above. While there may also be many qualitative factors to consider with respect to the decision to sell or retain the Property, a purely quantitative analysis suggests greater financial benefit to the City through sale of the Property.

We would be pleased to address any questions you have with respect to our report in order to help move this project forward. We appreciate the opportunity to be of service.

Yours very truly,

FORD KEAST LLP



Per: Shaun V. Brown, CPA, CA
Manager, Tax Services



A. Glenn MacKinnon, CPA, CA
Partner

Attachment

SVB/lp

**APPENDIX A
CASH FLOW ANALYSIS**

Option 1: Sell Property

Sale proceeds (figure provided by the City)	\$ 4,900,000
Proceeds designated for relocation of existing tenants other than the Festival (figure provided by the City)	(800,000)
Loss of future lease revenues at existing property (Note 1)	
Present value of existing lease with The Stratford Shakespearean Festival of Canada (see next page)	(817,705)
Present value of existing lease with the Kiwanis Community Centre (see next page)	(23,165)
Present Value of existing lease with the Stratford Lakeside Active Adults Association (see next page)	(60,383)
Present Value of existing lease with the Stratford Lawn Bowling Club (see next page)	(33,986)
Present value of future lease revenues of Kiwanis Community Centre, Stratford Lakeside Active Adults Association and Stratford Lawn Bowling Club (Note 2)	117,534
Legal and other professional fees incurred on disposition (estimated)	(5,000)
Operating cost savings from disposal of buildings (Note 3)	-
Increase in property tax revenue following sale (Note 4)	-
	<u><u>\$ 3,277,295</u></u>

Option 2: Retain Property

Continued lease revenues (Note 5)	
Present value of existing lease with The Stratford Shakespearean Festival of Canada (see next page)	\$ 817,705
Present value of existing lease with the Kiwanis Community Centre (see next page)	23,165
Present Value of existing lease with the Stratford Lakeside Active Adults Association (see next page)	60,383
Present Value of existing lease with the Stratford Lawn Bowling Club (see next page)	33,986
Costs to update Tom Patterson Theatre / Kiwanis Community Centre building (figure provided by the City) (Note 6)	-
	<u><u>\$ 935,239</u></u>

Notes:

1. Assumes existing tenants will receive financial assistance for relocation but will not enter into a new lease with the City on City-owned property.
2. Assumes existing tenants other than the Festival will be relocated to another City-owned property, and all tenants other than the Festival will enter into a new lease with the City but with the same payment as specified in existing leases.
3. The Festival is currently responsible for all ongoing operating costs, including maintenance and repairs.
4. The City anticipates the Festival will apply for and receive exemption from MPAC for the principal use of the property, being the Theatre. Any property tax revenues from ancillary uses of the property is expected to be nominal and has therefore not be quantified for purposes of this analysis.
5. The existing lease with the Festival has a 10-year term ending March 30, 2028. For sake of comparison and consistency, cash flow from all other leases (regardless of lease end date) has been extended to also end March 31, 2028.
6. The January 23, 2018 NA Engineering Report on the building describes the significant system and component deficiencies that would require considerable effort and cost to bring the existing facility up to current codes and standards. Due to the potential unsalvageable condition of the building, a cost estimate cannot be provided.

APPENDIX A, Cont'd

Present value of existing leases on Property

All amounts written excluding any applicable taxes

Stratford Festival

Year	April 1, 2018 - March 30, 2019	April 1, 2019 - March 30, 2020	April 1, 2020 - March 30, 2021	April 1, 2021 - March 30, 2022	April 1, 2022 - March 30, 2023	April 1, 2023 - March 30, 2024	April 1, 2024 - March 30, 2025	April 1, 2025 - March 30, 2026	April 1, 2026 - March 30, 2027	April 1, 2027 - March 30, 2028
Annual Basic Rent	85,859	90,152	94,660	99,393	104,362	109,580	115,059	120,812	126,853	133,196
Present Value (5% discount rate)	81,771	81,771	81,771	81,771	81,771	81,771	81,771	81,770	81,771	81,771

Total Present Value of Existing Lease **\$ 817,705**

Kiwanis Club of Stratford Incorporated *

* For this analysis, we have assumed the Kiwanis Club of Stratford will continue to renew its lease for a period up to the end of the existing Stratford Festival Lease, for consistency with other Property tenants.

Year	April - September 2018	April - September 2019	April - September 2020	April - September 2021	April - September 2022	April - September 2023	April - September 2024	April - September 2025	April - September 2026	April - September 2027
Annual Basic Rent	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Present Value (5% discount rate)	2,857	2,721	2,592	2,468	2,351	2,239	2,132	2,031	1,934	1,842

Total Present Value of Existing Lease **\$ 23,165**

Stratford Lakeside Active Adults Association ^

^ For this analysis, we have assumed the Kiwanis Club of Stratford will continue to renew its lease for a period up to the end of the existing Stratford Festival Lease, for consistency with other Property tenants. We have also assumed annual increases to the basic rent of \$200 per year as stipulated in the existing lease. We have also ignored the impact of the funds stipulated in paragraph 2b of the existing lease as it appears these funds will be immediately spent on furnishings and/or equipment for the facility and so the City would remain cash-neutral with respect to this item.

Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Annual Basic Rent	7,000	7,200	7,400	7,600	7,800	8,000	8,200	8,400	8,600	8,800
Present Value (5% discount rate)	6,667	6,531	6,392	6,253	6,112	5,970	5,828	5,685	5,544	5,402

Total Present Value of Existing Lease **\$ 60,383**

Stratford Lawn Bowling Club

Year	April - September 2018	April - September 2019	April - September 2020	April - September 2021	April - September 2022	April - September 2023	April - September 2024	April - September 2025	April - September 2026	April - September 2027
Annual Basic Rent	3,900	4,020	4,140	4,265	4,392	4,512	4,635	4,758	4,881	5,004
Present Value	3,714	3,646	3,576	3,509	3,441	3,367	3,294	3,220	3,146	3,072

Total Present Value of Existing Lease **\$ 33,986**