



Meeting Date: June 15, 2022

Submitted by: M. Di Lullo, CAO

Report No: CAO-20-2022

Subject: Ratification of Lease Agreements for the Middlesex Centre
Regional Medical Clinic

Recommendation:

THAT Report CAO-20-2022, re: Ratification of Lease Agreements for the Middlesex Centre Regional Medical Clinic be received;

AND THAT the Municipality of Middlesex Centre approve the lease agreements for the Middlesex Centre Regional Medical Clinic as recommended by the Middlesex Centre Regional Medical Clinic Board;

AND FURTHER THAT the Municipal Clerk be directed to prepare the executed agreements for ratification by the Western Board of Governors.

Purpose:

The purpose of this report is to update Council on the medical board meeting of May 31, 2022 regarding updated lease agreements that were ratified by the board for the Middlesex Centre Regional Medical Clinic.

Background:

The Middlesex Centre Regional Medical Clinic is a full-service academic practice that aims to provide same-day access to residents. The clinic was opened in 2010 as a partnership arrangement involving Western University, the Municipality and the doctors/pharmacist who are the tenants in the facility.

As illustrated in the diagram in Appendix 1, there is a Head Lease that is between the Municipality and the Middlesex Centre Regional Medicine Clinic that is under the mandate of the Board of Governors at Western University. The intent of the Head Lease is to ensure that the facility remains as a teaching site.

There are also two sub-lease arrangements between the Middlesex Centre Regional Medicine Clinic and the Middlesex Centre Family Medicine Clinic (the doctors) and the pharmacy.

In terms of governance, there is a Board that manages the sub-lease agreements which is composed of members from the Municipality of Middlesex Centre (Mayor, Deputy Mayor, and CAO), one physician, representative from Western University, along with a community representative. Because it is the owner of the facility, the Municipality is the landlord and provides oversight for the facility in conjunction with the doctors and pharmacy.

The Board convenes to make decisions with respect to the property to ensure that it is operational and that costs and expenses are accounted for. Any decisions affecting the cost arrangements are changed through the lease agreements which are approved by the Western Board of Governors.

Analysis:

On May 31, 2022, the medical board convened as per general practice which occurs on an annual basis. One of the topic items at the meeting was to review the existing lease agreements as there was direction to review these agreements.

The purpose of reviewing these agreements was to make appropriate adjustments and updates as the existing agreements date back to as early as 2010.

In summary, some of the notable changes are as follows:

Head Lease

- The date / terms are updated from June 1, 2010 to June 1, 2022;
- Name change to reflect the current organization to Middlesex Centre Regional Medical Clinic;
- Term of agreement updated to 10 years and 7 months (duration of agreement is to 2032);
- The lease base rent amount will be reduced from \$7,971.36 per month to \$5,415.34 (subject to adjustment from time to time as hereinafter provided);
- All operating costs and property taxes will continue to be paid for by the tenants – Middlesex Centre Family Medicine Clinic and Excel Pharmacy;
- The insurance section of the agreement is expanded and tied to the sub-lease.

Middlesex Centre Family Medicine Clinic (Ilderton Doctors) Sub-Lease

- The date / terms are updated from January 1, 2014 to June 1, 2022;
- Name change to reflect the current organization to Middlesex Centre Regional Medical Clinic and Middlesex Centre Family Medicine Clinic;
- Term of agreement updated to 10 years and 7 months (duration of agreement is to 2032) and to align with the Head Lease;
- The lease base rent amount will be reduced to \$4,706.57 per month (subject to adjustment from time to time as hereinafter provided);
- All operating costs and property taxes will continue to be paid by the tenants – Middlesex Centre Family Medicine Clinic and Excel Pharmacy;
- The insurance section of the agreement is expanded and tied to the sub-lease.

Other points:

1. The Sub-Landlord shall provide an estimate of the upcoming years operating costs that will be based on the prior year actual operating costs indexed for inflation based on the September over September consumer price index.

This is to align with the current practice as part of the current letter of understanding the CAO of the Municipality of Middlesex Centre supplies each year.

2. In 2022 and on a go-forward basis, the Municipality will be enforcing the following clause:

The Sub-Landlord shall, within one hundred and eighty (180) days after the end of each Lease Year, submit to the Sub-Tenant a statement setting out the Operating Costs and Taxes and the Sub-Tenant's Proportionate Share. To the extent that the Sub-Tenant's Proportionate Share is greater than the amount actually paid by it, the Sub-Tenant shall promptly and within 30 days upon receipt of the said statement pay such difference to the Sub-Landlord. In the event that the Sub-Tenant's Proportionate Share is less than the amount actually paid, such excess payment shall, at the option of the Sub-Landlord, be retained by the Sub-Landlord to be applied to the next succeeding instalment or instalments of Rent due or may be refunded by the Sub-Landlord to the Sub-Tenant.

Once the reconciliation is provided, either a refund will be applied to the account, if the account is in a surplus position, or an invoice will be created to cover a deficit.

3. The insurance shall be in the joint names of the sub-tenant and Municipality of Middlesex Centre. The Middlesex Centre Regional Medical Clinic will need to obtain a copy of the insurance annually.

Pharmacy Sub-Lease

- The date / terms are updated from August 11, 2010 to June 1, 2022;
- Name change to reflect the current organization to Middlesex Centre Regional Medical Clinic and Excel Pharmacy Inc.;
- Term of agreement updated to 10 years and 7 months (duration of agreement is to 2032) and to align with the Head Lease;
- The lease base rent will be reduced to \$708.77 per month (subject to adjustment from time to time as hereinafter provided);
- All operating costs and property taxes will continue to be paid by the tenants – Middlesex Centre Family Medicine Clinic and Excel Pharmacy;
- The insurance section of the agreement is expanded and tied to the sub-lease.

The summary of changes are explained as per the same justification noted in the sub-lease with the doctors.

Based on the above, the medical board proceeded to ratify the agreements (Head Lease and both sub-lease agreements) subject to approval by the Municipality and then by the Western Board of Governors.

Once the Municipality affirms the updated leases, the Municipal Clerk will proceed to forward to the Western Board of Governors for execution

Financial Implications:

Since 2013, the Municipality has been working with the Doctors at the Medical Clinic with respect to an appropriate rent amount. The full base rent has not been changed since the beginning of the agreement.

The Head Lease entered into in 2010 outlined the following:

- Minimum Base Rent of \$95,656.32 (Section 3.5)
- Interest on past Rent Due (section 3.8)
- Plus all operating costs (section 4.1 and Section 7.1 to 7.3)

From 2013 to 2021, the Municipality has only charged the Doctors and Pharmacy the operating costs, and a portion of the base rent, that varies from year to year. This is outlined in the chart below.

Middlesex Centre Regional Medicine Clinic Base Rent Payments			
	As Stipulated in Head Lease	Actual Payment	Difference
2010	1,000.00	1,000.00	-

2011	1,000.00	1,000.00	-
2012	1,000.00	1,000.00	-
2013	95,656.32	1,000.00	94,656.32
2014	95,656.32	1,000.00	94,656.32
2015	95,656.32	1,000.00	94,656.32
2016	95,656.32	19,397.99	76,258.33
2017	95,656.32	37,619.64	58,036.68
2018	95,656.32	33,136.71	62,519.61
2019	95,656.32	31,036.05	64,620.27
2020	95,656.32	58,920.43	36,735.89
2021	95,656.32	58,314.27	37,342.05
Total	863,906.88	244,425.09	619,481.79

In a continuing effort to support the medical clinic, the Municipality is proposing a decrease to the monthly base rent as outlined in the Head Lease from \$7,971.36/month to \$5,415.34/month, to be divided among the 2 sub-tenants based on their proportionate usage of the facility.

In 2020 and 2021, the Municipality signed into a letter of understanding with both the Doctors at the Medical Clinic and the Pharmacy. The total costs included to be recovered, included the annual amortization costs. The annual amortization costs represented the Base Rent. Staff have used the annual amortization cost of \$64,984.08 (amortization on the original construction of the Medical Centre) to determine the Base Rent on a go forward basis, so the Doctors and the Pharmacy will not see a change in the annual reconciliation – other than reclassifying the Amortization cost to Rental cost, the amount will remain the same.

In addition, as noted above in the summary of the changes, the Municipality will be enforcing the payment of any deficit to be covered by the Doctors and the Pharmacy, or a payment to them if there is a surplus.

Strategic Plan:

This matter aligns with following strategic priorities:

- Sustainable Infrastructure and Services

The Middlesex Centre Regional Medical Clinic is an important benefit for the community, the relationship with Western and the doctors has been beneficial and we are fortunate to have a medical service facility located in Ilderton. Since the agreement was a long-term arrangement, it is important to ensure that the costs are updated and will cover the operations of the site and this exercise was important to ensure that the Municipality is able to fulfill its obligation as the landlord of the facility/site.

Attachments:

Appendix – Medical Centre Lease Structure

Appendix – Head Lease for Middlesex Centre Regional Medical Clinic

Appendix – Sub-Leases with Doctors and Pharmacy