

Municipality of Central Manitoulin  
Old Mindemoya School Repurposing Final Feasibility Study

**September 23, 2019**

## Table of Contents

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<b>Acknowledgement</b>	<b>1</b>
<b>A) Executive Summary</b>	<b>2</b>
<b>B) Preamble</b>	<b>3</b>
<b>C) Introduction</b>	<b>6</b>
<b>D) Overview of Gwekwaadziwin Miikan Youth Mental Health and Addictions Centre</b>	<b>7</b>
<b>E) Overview of Building</b>	<b>8</b>
<b>F) Estimated Capital Costs to Retrofit the Building Net of Interior Leasehold Improvements</b>	<b>10</b>
<b>G) Proposed Options for Consideration</b>	<b>11</b>
1.0 Severing the Property	11
2.0 Potential Lease Options for Consideration	11
<b>H) Building Major Elements Retrofit Lifecycle Reserve</b>	<b>12</b>
1.0 Introduction	12
2.0 Scope and Limitation	12
3.0 Present and Future Value of Retrofit Reserve	13
4.0 Yearly Retrofit Reserve Required Payments	13
5.0 Retrofit Reserve Account Balance	14
6.0 Comparative Analysis Geared to Future Retrofit Cost versus 40 Year Fixed Rate Lease	<b>14</b>
7.0 Building Major Elements Retrofit Cash Flow Balance	15
<b>I) Pro Forma Financial Information</b>	<b>15</b>
1.0 Scope and Limitations	15
2.0 Estimated Revenue and Expense Statement and Cash Flow	15
<b>J) Preliminary Risk Assessment and Exit Strategy</b>	<b>18</b>
1.0 Inflation	18
2.0 Breach of Lease	19
2.1 Available Funds -Additional Loan, Retrofit Reserve and Cash	20
2.2 Using the Retrofit Reserve Financial Impact Analysis	21
2.2.1 Using the Retrofit Reserve at the End of 10 Years	21
2.2.2 Using the Retrofit Reserve in 15 Years	21
2.2.3 Using the Retrofit Reserve in 20-30 Years	22
3.0 Increases in Interest Rates	23
4.0 Summation of Risk Assessment	23
<b>K) Closing Remarks</b>	<b>24</b>
<b>L) Contact Information</b>	<b>24</b>

## Acknowledgement

*The Old Mindemoya School Repurposing Feasibility Study is proudly supported by:*

*Cette étude de faisabilité pour le repositionnement de la vieille école Mindemoya est fièrement appuyé par :*



## A) Executive Summary

- The Old Mindemoya School (Building) had been slated for demolition; however, “two delegations to council and a series of letters submitted as correspondence to council put forth impassioned pleas for council to put greater effort into saving the building by striking a committee formed of councilors, members of the public and specialized experts.
- Tulloch and Axiom were selected by the MCM to complete a feasibility study.
- To complete the outside shell of the Building including roof, windows and doors as well as retrofit the services net of interior leasehold improvements was estimated at \$1,155,000.
- Gwekwaadziwin Miikan is a residential land-based treatment program created specifically to the needs of Indigenous youth and young adults.
- Gwekwaadziwin Miikan had shown an interest in leasing the Building, but did not have the \$1,155,000 to complete the outside shell upgrades and services retrofit. They were considering a long term lease if MCM defrayed the cost to complete the outside shell upgrades and services retrofit.
- MCM would have had to borrow the \$1,155,000 amortized over 30 years at a fixed rate of 3.0% for the first five years with a blended payment of \$58,440 per year but would require a 40 year lease.
- Two lease rate options were developed; one based on an inflation rate of 1.5% and the second based on an inflation rate of 3.0%. In the first option the lease would have been \$107,600 per year with a retrofit reserve of \$34,650. In the second option the lease would have increased to \$115,450 per year with a retrofit reserve of \$42,500.
- As part of our due diligence we have assessed the impact of inflation at 1.5% and 3.0%, a breach of lease at the end of ten (10) and fifteen (15) years and an increase in loan rate from 3.0% to 5.0%.
- At the end of 10 years the retrofit reserve would have been \$362,516 along with an accumulated cash surplus of \$26,483 for total of \$388,999 representing \$52.93 per square foot (7,350 sq. ft.) which would not be enough to repurpose the building.
- The long term debt would have reduced from \$1,155,000 down to \$878,000. If the long term debt would have been increased to \$1,150,000 it would have provided an additional \$272,000 (\$37.00 per sq. ft.) for a total of \$660,999 or \$661,000 (\$89.93 sq. ft.).
- In 2019, the leasehold improvement were estimated at \$100 per square foot and if we account for a 1.5% inflation rate the leasehold improvement costs would be more in the range of \$120 per square foot leaving a shortfall of \$30 per square foot representing \$220,500. The MCM would probably have had the ability to repurpose the building, but the lease would have had to be increased from \$107,600 to \$115,050 to account for the yearly increase in retrofit reserve from \$34,650 to \$42,100.
- In the final analysis it was recommended that the initial lease be increased from \$107,600 to \$115,450 to account for 3% yearly inflation.
- On September 19, 2019, Mr. Sam Gilchrist of Gwekwaadziwin Miikan informed the MCM that they had completed their building inspection and would not lease the building. As well, Tulloch’s preliminary report confirmed the presence of contaminants with an estimated removal cost ranging from \$75,000 to \$100,000. A final report is to follow by September 26, 2019.
- Tulloch had estimated the cost to demolish the building in the \$40,000 to \$50,000 range. The total estimated cost to remove the old school would be from \$115,000 to \$150,000.
- Unfortunately, the MCM Repurposing Committee has exhausted all potential redevelopment options and faces the unenviable task of recommending that the building be demolished and removed.

## B) Preamble

In April 2019, Tulloch Engineer (Tulloch) was selected by the Municipality of Central Manitoulin (MCM) to complete a feasibility study to repurpose the Old Mindemoya School (Building). As part of the study team, Tulloch Engineering subcontracted the services of Axiom Management Consulting (Axiom) to assist with the financial analysis and developing a needs assessment survey.

The study approach was broken down in seven phases.

### Phase 1-Information Package April 8, 2019

The April initial launch meeting where we reviewed the regional demographical data, traffic counts, government stakeholder funding programs, examples of repurposed schools, review of the existing Building and development of our next step strategy.

### Phase 2–Pre-Feasibility Study June 17, 2019

The completion of a Pre-Feasibility Study in June whereas the estimated capital costs to retrofit the outside shell of the Building including roof and windows and interior leasehold improvement costs was identified. Based on the size of the Building an operational budget was developed for normal use occupancy (i.e. no high energy consumers).

### Phase 3–Needs Assessment Survey Results July 31, 2019

From mid-June to mid-July MCM completed a Needs Assessment Survey to determine what the residents felt would be a good use if the Building was to be repurposed. There were three major objectives to the survey:

- Determine if the community members would use the proposed multi-use facility and for what purposes.
- Would they be willing to pay for the use of the multi-use facility or to attend workshops and training programs?
- Would they consider being a tenant of the proposed repurposed Old Mindemoya School?

Seven hundred eighty-five (785) surveys<sup>1</sup> were mailed out along with pre-paid return envelopes. The community members could also complete the survey online.

- Based on MCM 2016 population of 2,084, the 338 survey responses represented 16% of the population.
- In total MCM received three hundred thirty-eight (338) survey responses of which one hundred sixty-two (162) were in print form and one hundred seventy-six (176) were completed online.
- One hundred forty-two (142) or 42% of the survey respondents objected to the proposed Old Mindemoya School repurposing.
- One hundred ninety five (195) or 58% of the respondents said they would make use of the multi-use facility. Of the one hundred and ninety-five respondents (195) one hundred seventy-nine (179) indicated what use they would make of the multi-use facility:
  - 83% (148) would attend social gatherings.

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<sup>1</sup> MCM 2016 Stats Can -1,629 private dwellings with 795 surveys that were mailed out = 49%

- 75% (134) would attend workshops and skills development programs.
- 71% (126) would rent it for business and government meetings as well as functions.
- Eighteen (18) respondents indicated they would be interested in renting at the repurposed Old Mindemoya School

#### **Phase 4–Meeting Briefing Report August 7, 2019**

On July 31, 2019 a presentation was made to the Old Mindemoya School Repurposing Committee (Committee) of which the following will provide a summary review of the feedback.

- The Needs Assessment survey results indicated that four persons out of ten were opposed to repurposing the Old Mindemoya School.
- Those who were in favour of repurposing the building would use the multi-use facility for social gatherings, meetings and training.
- The Needs Assessment survey also identified a fitness centre as potential use of the Building. However, there are already two fitness centers in the MCM. We doubt the government stakeholders would provide financial support for a third fitness centre that would compete against existing businesses.
- The multi-use facility cannot pay for itself without the fitness center's membership revenues.
- Other potential tenants were an art gallery and a Mental Health and Addiction Rehabilitation Centre.
- FedNor indicated that:
  - The proposed anchor tenant, the Mental Health and Addiction Rehabilitation Centre, would not be eligible for funding.
  - As for the Art Gallery they would prefer a “hub” concept for multi-users such as artists and artisans, etc. sharing the premise.
- Committee Members Suggestions:
  - A “Consignment Store” whereas people can bring their arts, crafts and other locally made products to be placed on consignment.
  - The possibility of providing a capital cost incentive that the anchor tenant would either repay over time or be offset with the anticipated value added jobs.
  - The fact the MCM is already a health and medical hub for the region and the fact that the Mental Health and Addiction Rehabilitation Centre would complement and add to this hub.
- The committee could recommend that a study be completed to determine if there are contaminants in the building.
- The proposed anchor tenant has not had the time to investigate the lease offer.
- FedNor would like to have the completed Feasibility Study as soon as possible.

Based on the above, repurposing the Old Mindemoya School would not be feasible.

- The fitness centre and anchor tenant (mental health and addition rehabilitation centre) are not eligible for government funding.
- The multi-use facility would be eligible for government funding, but would not be financially sustainable without the membership revenues from the fitness centre.

This would leave the art centre that could be eligible for government funding if it provides a facility for multiple artists, artisans, etc.

## **Phase 5-Gwekwaadziwin Miikan Old Mindemoya School Discussion paper August 14, 2019**

The Committee then decided to explore the possibility of leasing the whole building to Gwekwaadziwin Miikan Youth Mental Health and Addictions Centre who had indicated that they would be prepared to do so.

On August 14, Axiom met with Mr. Sam Gilchrist, Executive Director of Gwekwaadziwin Miikan. The purpose of the meeting was to discuss the possibility of leasing the Old Mindemoya School as sole tenant and to provide Mr. Gilchrist with background information on the Building, the estimated cost to repurpose the Building and a potential option for the Gwekwaadziwin Miikan to lease it.

In summary, the objectives were to:

1. Determine if the Gwekwaadziwin Miikan had the necessary funds to pay for the \$1,155,000<sup>2</sup> estimated capital cost to retrofit the Building net of the inside leasehold improvements?
2. Would they consider a reduced lease rate in order to recoup their \$1,155,000 upfront investment?
3. Would they be willing to pay \$34,650 per annum for the building major elements retrofit lifecycle reserve?

The Gwekwaadziwin Miikan does not have the upfront \$1,155,000 capital investment that would be required. However, they would be prepared to consider the repayment of the \$1,155,000 that the MCM would have to borrow in order to move the project forward.

## **Phase 6**

On August 26<sup>th</sup>, the Gwekwaadziwin Miikan completed a Building inspection and will follow up with its architect to determine if the Building would meet with their requirements. The inspection is scheduled for the week of September 2<sup>nd</sup>, 2019.

## **Phase 7 -Feasibility Study dated September 3, 2019**

If the Committee recommends that the MCM moves forward the municipality would have to borrow the required capital investment of \$1,155,000 and be repaid with a lease matching the amount of payments based on the life of the loan. We confirmed that MCM would not be responsible for the inside leasehold improvements. Mr. Gilchrist indicated that they could probably leverage \$500,000 to complete some of the inside leasehold improvements.

Failure to lease the Building to the Gwekwaadziwin Miikan means the demolition and removal of this historical Building. If the Gwekwaadziwin Miikan decides to move forward with leasing the Building the committee would then make its recommendation to Council and if supportive complete its business plan.

As part of the business plan the MCM would have to:

1. Develop an exit plan strategy (i.e. what happens if the lease is breached in 10 yrs. What is the exit plan to repurpose the building?)

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<sup>2</sup> Refer to Page 10 for a detailed cost breakdown



2. Fine tune the retrofit cost of \$1,155,000 to include removal of contaminants, legal and other professional fees and cost the MCM would incur.
3. Determine if the MCM could obtain 100% financing on a building located on municipal land and on what terms?
4. Weigh the public opinion on:
  - a. Using the Building as a rehabilitation centre;
  - b. MCM incurring a long term debt for the Building (risk factors);
  - c. MCM becoming a landlord.

In our feasibility study we will provide the Committee with an implementation strategy based on the assumption that the Building would be leased to the Gwekwaadziwin Miikan subject to a business plan to address the above.

### **Phase 8–Final Feasibility Study September 23, 2019**

The final feasibility study will reiterate much of what was said in the feasibility study of September 3, 2019. This is to provide the reader with the scope and depth of research completed to potentially repurpose the Building and that in the final analysis the Building would have to be demolished and removed.

## **C) Introduction**

The Feasibility Study will concentrate on:

- How will the MCM repay the debt?
- How will it pay for its yearly operational costs, repairs and maintenance?
- How will it accumulate the necessary reserve to complete its major services and building retrofits in 20, 25 and 30 years?
- Should the MCM make a modest return on its investment to repurpose and lease the Building?

The following will provide an overview of the:

- Proposed tenant, Gwekwaadziwin Miikan Youth Mental Health and Addictions;
- Location of project and an overview of the Building;
- Potential lease options and recommended option;
- Estimated average Building operating costs;
- Building Major Elements Retrofit Lifecycle Reserve 40 years;
- Pro forma financial information;
- Preliminary risk assessment and exit strategy;
- Next step strategy and closing remarks.

We hope that our feasibility study is informative and allows the Committee to make its own recommendations as it moves forward with its presentation to Council.

If the reader requires more detailed information we refer them to the supporting studies that were completed and are available from the MCM Economic Development Officer:

- Old Mindemoya School Repurposing Information Package dated April 8, 2019;
- Old Mindemoya School Repurposing Pre-Feasibility Study dated June 17, 2019;
- Briefing Report Re: Community Presentation dated August 7, 2019;



- Gwekwaadziwin Miikan Youth Mental Health and Addictions Old Mindemoya School Discussion Paper dated August 14, 2019;
- Briefing Report on Meeting Gwekwaadziwin Miikan dated August 19, 2019;
- Excel Reserves 60 Yrs. Retrofit Budget \$34,650.

The following excel files can be provided upon request:

- 20 and 40 year retrofit budget based on 1.5% / 3.0% yearly inflation rate;
- 25 and 50 year retrofit budget based on 1.5% / 3.0% yearly inflation rate;
- 30 and 60 year retrofit budget based on 1.5% / 3.0% yearly inflation rate.

## **D) Overview of Gwekwaadziwin Miikan Youth Mental Health and Addictions Centre<sup>3</sup>**

The Gwekwaadziwin Miikan Youth Mental Health and Addictions Centre is an innovative residential land-based treatment program created specifically to the needs of Indigenous youth and young adults ages 19-30 investing in the wellness of First Nations communities.

Gwekwaadziwin is located on Manitoulin Island, and is a unique key component of six First Nations and collaboration with local and provincial resources. It supports the youth and young adults on their path of recovery, from stabilization, through treatment, aftercare, and transition back into their community. Weaving traditional culture with therapeutic best practices, education, life skills, and outdoor experiential learning, allows Gwekwaadziwin to offer a full spectrum of care for individuals.

### **Mission**

To serve our youth and their families and guide them to 'Living the Right Way' by integrating the wisdom of our traditional knowledge keepers, providing a program from stabilization through reintegration into the community, and, addressing the individual needs of our participants.

### **Vision**

Healthy and prosperous Anishinabe communities on Mnidoo Mnising with youth oriented to 'Living the Right Way'. Sharing knowledge and best practices so that Indigenous communities can become healthy and prosperous.

### **Living the Right Way**

"Gwekwaadziwin" is one of the Seven Grandfather Teachings, a set of Anishinabek teachings on human conduct towards others. When translated into English, it is referred to as "Honesty," but in the Ojibwe language it means more than Honesty. Gwekwaadziwin means "Living the Right Way."

Their programs provide a client-centered model of mental health and substance abuse treatment for Anishinabek youth and young adults. It aims to support a community of healthy youth and young adults working towards wellness, education, and economic prosperity for individuals, families, and communities from an Indigenous perspective.

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<sup>3</sup> <https://gwek.ca/>

## The Seven Grandfathers Teaching

At Gwekwaadziwin, we focus on the Seven Grandfather Teachings – Wisdom, Love, Respect, Bravery, Honesty, Humility, and Truth – as our core themes for living. Our programs study each teaching in-depth and are supported to integrate these teachings into daily life.

### Connect. Recover. Heal.

Gwekwaadziwin Miikan Youth Mental Health & Addiction Program is a 3 phase program that offers land based treatment, live in after care and community aftercare programs for young adults between the age of 19-30 struggling with addictions and other mental health issues. The live in aftercare program and head office is located on the Aundeck Omni Kaning First Nation on Manitoulin Island. Gwekwaadziwin Miikan weaves traditional culture with therapeutic best practices and outdoor experiential learning to offer a full spectrum of care for individuals on their path to recovery.

### Contact Information

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Gwekwaadziwin Miikan  
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## E) Overview of Building

The Building had been slated for demolition; however, “two delegations to council and a series of letters submitted as correspondence to council put forth impassioned pleas for council to put greater effort into saving the building by striking a committee formed of councilors, members of the public and specialized experts.

*Mr. Williamson went on to note that the stone and brick building “holds testament to the quality and pride of the masons and tradesmen of the day. Towns are made up of different buildings and structures, both old and new, and serve to differentiate who we are. Who we are has a lot to do with who we were.”<sup>4</sup>*

The school is a two storey building measuring 9,800 sq. ft. that is located on municipal land. The following will provide an overview of the building and its immediate neighbours.



<sup>4</sup> <https://www.manitoulin.ca/mindemoya-old-school-building-gets-relieve-consideration-potential-new-usages/>

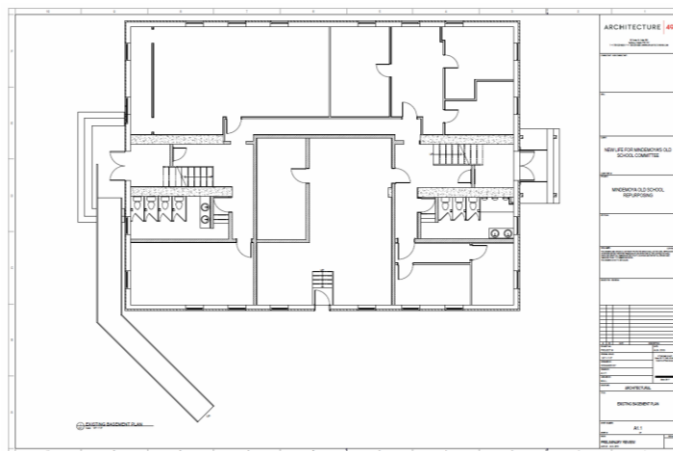
### Front, Rear and Side View of Building



### Existing Upper Floor Plan



### Existing Lower Level Floor Plan



## Building Location



## F) Estimated Capital Costs to Retrofit the Building Net of Interior Leasehold Improvements

### GENERAL CONDITIONS

GENERAL CONDITIONS	\$ 20,000
MOBILIZATION/DEMOLITION	\$ 10,000
SITE TRAILER/WASHROOMS	\$ 2,500
PERMITS	\$ 5,000

### DEMOLITION

UTILITY SHED REMOVAL	\$ 1,000
INTERIOR PARTITION REMOVAL	\$ 110,000
INTERIOR FLOOR FINISHES REMOVAL	\$ 15,000

### EXTERIOR RENOVATIONS

ROOF REPLACEMENT	\$ 42,000
SOFIT AND FACIA	\$ 8,000
EXTERIOR BUILDING MASONRY RE-POINTING	\$ 25,000
WINDOW REPLACEMENT	\$ 190,000
EXTERIOR DOORS	\$ 17,000
NEW ENTRANCE STAIRS/RAMP	\$ 50,000
NEW 3 - STOP ELEVATOR & ENCLOSURE	\$ 150,000
SITE / LANDSCAPING UPGRADES	\$ 5,000

### INTERIOR RENOVATIONS

FLOOR STRUCTURAL REINFORCING	\$ 40,000
EXTERIOR WALL/CEILING INSULATION/VAPOUR	

### MECHANICAL/ELECTRICAL

MECHANICAL / PLUMBING SYSTEMS	\$ 200,000
ELECTRICAL SYSTEMS	\$ 100,000

### ENVIRONMENTAL CONSIDERATIONS

ABOVE GROUND OIL STORAGE REMOVAL	\$ 5,000
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HAZARDOUS MATERIAL ABATEMENT	\$ 0
<b>Sub-Total</b>	<b>\$ 995,500</b>
<b>MISCELLANEOUS</b>	
CONSULTING FEES (10%+/-)	\$ 99,550
PERMITS	\$ 9,950
CONTINGENCY	\$ 50,000
<b>Total</b>	<b>\$1,155,000</b>

## G) Proposed Options for Consideration

### 1.0 Severing the Property

Severing the property so that Gwekwaadziwin Miikan owns the building could be challenging as mentioned by Tulloch Engineering:

*The arena and Old School are very close, so severing would leave one of the 2 structures with small side yards (bylaw item). The bigger concern would be Ontario Building Code Compliance. There would (likely) be an expectation that the newly severed parcel complies with OBC. The OBC stipulates minimum distance to property line and/or adjacent structures. This is to mitigate the spread of fire. The only way around this is to fire rate exposing walls. This is very common in new builds, and very difficult to accomplish with a historical building (no point in saving a historical building if you need to cover up the masonry with insulation and siding).*

Therefore, possibly the only option is to lease the Building.

### 2.0 Potential Lease Options for Consideration

There are three major cost factors that a lease agreement should address:

1. Building major elements retrofit lifecycle reserve;
2. General repairs and maintenance;
3. Adequate income to service the debt.

The following table provides the yearly payments for a \$1,155,000 loan over 20, 25, 30 and 40 years and the retrofit reserve of \$34,650<sup>5</sup>. In the first table we have used 1.5% for the general repairs and maintenance cost and 1.0% in the second table.

Loan Amortization	20 Yrs.	25 Yrs.	30 Yrs.	40 Yrs.
Loan Cost per Year	\$78,872	\$65,724	\$58,440	\$49,620
Retrofit Reserve	\$34,650	\$34,650	\$34,650	\$34,650
General Repairs and Maintenance 1.5% of \$1,155,000	\$17,325	\$17,325	\$17,325	\$17,325
<b>Total</b>	<b>\$130,847</b>	<b>\$117,699</b>	<b>\$110,415</b>	<b>\$101,595</b>
<b>Cost per Square Foot</b>	<b>\$13.35</b>	<b>\$12.01</b>	<b>\$11.27</b>	<b>\$10.37</b>

<sup>5</sup> \$1,155,000 X 3%

Depending on the amortization of the loan, the Gwekwaadziwin Miikan would pay from \$13.35 to \$10.37 per square foot.

In the following table we have reduced the general repair and maintenance cost to 1.0%. We have also calculated what would be the surplus funds if the MCM had a 40 year lease with a loan amortized over 20, 25, 30 and 40 years. As an example, if the loan was fully repaid in 20 years the MCM would still collect \$78,872 per year for the next 20 years.

<b>Loan Amortization</b>	<b>20 Yrs.</b>	<b>25 Yrs.</b>	<b>30 Yrs.</b>	<b>40 Yrs.</b>
Cost per Year	\$78,872	\$65,724	\$58,440	\$49,620
Retrofit Reserve	\$34,650	\$34,650	\$34,650	\$34,650
General Repairs and Maintenance 1.0% of \$1,155,000	\$11,550	\$11,550	\$11,550	\$11,550
<b>Total</b>	<b>\$125,072</b>	<b>\$111,924</b>	<b>\$104,640</b>	<b>\$95,820</b>
<b>Cost per Square Foot</b>	<b>\$12.76</b>	<b>\$11.42</b>	<b>\$10.68</b>	<b>\$9.78</b>
<b>Accumulated Surplus</b>	<b>\$1,577,440<sup>6</sup></b>	<b>\$985,860</b>	<b>\$584,400</b>	
Original Investment	\$1,155,000	\$1,155,000	\$1,155,000	\$1,155,000
% Return on Investment	137%	85%	51%	
<b>% Average per Year based on 40 Years</b>	<b>3.4%</b>	<b>2.1%</b>	<b>1.3%</b>	

The MCM would have to decide which of the above lease rates is most advantageous to both parties.

## **H) Building Major Elements Retrofit Lifecycle Reserve**

### **1.0 Introduction**

The following Building Major Elements Retrofit Lifecycle Reserve (Retrofit Reserve) will provide a detailed assessment of the 20, 25, 30, 35 and 40 year lifecycle reserves. We will provide our underlying assumptions which could be subject to change (i.e. higher inflation rate). Nevertheless, it will provide a baseline from which to make amendments as need be to ensure adequate funding in the Retrofit Reserve.

### **2.0 Scope and Limitation**

The following Building Major Elements Retrofit Lifecycle Reserve Analysis has been developed by Axiom Management Consulting in cooperation with Tulloch Engineering using the prevailing construction market rates. The assessment was developed on a best effort basis and reflects the conditions prevailing at the time our analysis was completed. The analysis, projections, recommendations and conclusions contained in this Building Major Elements Retrofit Lifecycle Reserve Analysis are to some degree, subject to variation, depending on future events.

Therefore, we cannot represent these results as those which will necessarily be achieved but only as those which could be attained, provided the opinions and assumptions remain valid.

<sup>6</sup> \$78,872 X 20

### 3.0 Present and Future Value of Retrofit Reserve

Tulloch Engineering estimated the 2019 cost of the retrofit to be \$622,000. In the following table we have assessed what it would cost in 20 years to replace or upgrade the major building's elements. We have used an inflation rate of 1.5% per year.

Major Building Elements	Estimated Lifecycle	2019 Estimated Cost	2039 Estimated Cost
Roof	20-30 Years	\$ 50,000	\$ 67,300
Common area	20 Years	\$ 50,000	\$ 67,300
<b>Subtotal</b>		<b>\$100,000</b>	<b>\$134,600</b>
Doors	25 Years	\$ 17,000	\$ 22,900
HVAC	25 Years	\$300,000	\$404,000
<b>Subtotal</b>		<b>\$317,000</b>	<b>\$426,900</b>
Exterior siding	30 Years	\$ 15,000	\$ 20,000
Windows	30 Years	\$190,000	\$255,900
<b>Subtotal</b>		<b>\$205,000</b>	<b>\$275,900</b>
<b>Total</b>		<b>\$622,000</b>	<b>\$837,400</b>

The estimated increase would be \$215,400 (+35%) in 2039 compared to the 2019 cost.

### 4.0 Yearly Retrofit Reserve Required Payments

We have calculated what would be required as a reserve balance for each of the above three retrofits lifecycles. In other words, we tracked exactly how much should be invested per year as the required Retrofit Reserve for the roof and common area (\$134,600) in 20 and 40 years. The same was done with the Doors and HVAC (\$426,900) to determine the required reserve balance in 25 and 50 years and the exterior siding and windows (\$275,900) reserve balance in 30 and 60 years. We have used a 1.5% yearly inflation rate.

As an example, the 20 year Retrofit Reserve would cost \$6,150 per year during the first 20 years in order to have the necessary \$134,600 that would then be required in 2039. The Retrofit Reserve would have to increase to \$8,200 from year 21 to 40 and \$11,100 from year 41 to 60.

The reader will note that the 25 year lifecycle Retrofit Reserve would have to increase from \$16,500 to \$23,600 in year 26 to 30 and the 30 year lifecycle Retrofit Reserve would have to increase from \$9,250 to \$14,500 in year 31 to 60.

Year	1-20	21-25	26-30	31-35	36-40
20 yr. Lifecycle	\$ 6,150	\$ 8,200	\$ 8,200	\$ 8,200	\$ 8,200
25 yr. Lifecycle	\$16,500	\$16,500	\$23,600	\$23,600	\$23,600
30 yr. Lifecycle	\$ 9,250	\$ 9,250	\$ 9,250	\$14,500	\$14,500
<b>Total</b>	<b>\$31,900</b>	<b>\$33,950</b>	<b>\$41,050</b>	<b>\$46,300</b>	<b>\$46,300</b>
<b>Increase \$</b>		<b>\$ 2,050</b>	<b>\$ 7,100</b>	<b>\$ 5,250</b>	<b>\$ 0</b>
<b>Increase %</b>		<b>6%</b>	<b>21%</b>	<b>13%</b>	<b>0%</b>



## 5.0 Retrofit Reserve Account Balance

If the underlying assumption<sup>7</sup> remains valid the above contribution would provide adequate cash reserves to complete each lifecycle retrofit over the next 60 years. The yearly contributions were geared to what the future retrofit cost would be, based on a breakeven or modest surplus as shown below. We have used an interest bearing account earning 1.0% per annum for the Retrofit Reserve.

20 Year Lifecycle	Yearly Investment	Reserve Balance	Retrofit Cost	Ending Reserve Balance
1-20	\$ 6,150	\$135,417	\$134,600	+\$ 817
21-40	\$ 8,200	\$181,553	\$181,287	+\$ 266
41-60	\$11,100	\$244,735	\$224,167	+\$ 568
25 Year Lifecycle	Yearly Investment	Reserve Balance	Retrofit Cost	Ending Reserve Balance
1-25	\$16,500	\$466,013	\$459,893	+\$6,120
25-50	\$23,600	\$674,272	\$672,279	+\$1,993
30 Year Lifecycle	Yearly Investment	Reserve Balance	Retrofit Cost	Ending Reserve Balance
1-30	\$ 9,250	\$321,760	\$320,193	+\$1,567
31-60	\$14,500	\$506,493	\$500,488	+\$6,005

## 6.0 Comparative Analysis Geared to Future Retrofit Cost versus 40 Year Fixed Rate Lease

A tenant may not mind a lease increase of 6% at the end of 20 years; however they may not appreciate having a lease increase of 21% five years later for its 26<sup>th</sup> year renewal and 13% for its 31<sup>st</sup> year lease renewal.

In the following table we will provide the Geared to Future Retrofit Cost Reserve balance compared to charging the tenant a Fixed Rate Lease for 40 years of which \$34,650 per year would be invested in the retrofit account reserve.

Year	20 Year	25 Year	30 Year	35 Year	40 Year
20 yr. Lifecycle	\$135,417	\$ 42,687	\$ 86,292	\$132,943	\$181,553
25 yr. Lifecycle	\$363,314	\$466,013	\$126,721	\$253,569	\$386,887
30 yr. Lifecycle	\$203,407	\$261,250	\$321,760	\$ 75,612	\$153,433
<b>Total</b>	<b>\$702,407</b>	<b>\$769,950</b>	<b>\$535,173</b>	<b>\$462,124</b>	<b>\$721,873</b>
<b>Fixed Rate Lease Reserve Balance</b>	<b>\$762,958</b>	<b>\$837,161</b>	<b>\$607,938</b>	<b>\$525,725</b>	<b>\$729,292</b>
<b>Increase %</b>	<b>+\$60,551</b>	<b>+\$67,211</b>	<b>+\$72,765</b>	<b>+\$63,601</b>	<b>+\$7,419</b>

As the above table indicates, the Retrofit Reserve would have an additional \$60,551 after 20 years with the Fixed Rate lease of \$34,650. This approach would avoid the steep increases that would be the case under the Geared to Future Retrofit Cost approach.

<sup>7</sup> 1.5% inflation rate

## 7.0 Building Major Elements Retrofit Cash Flow Balance

In the following table will provide the closing cash balance after each lifecycle retrofit.

Year	Balance	Interest 1.0%	Total	Retrofit Investments	Total	Retrofit Cost	Balance After Retrofit
20	\$721,098	\$7,211	\$728,308	\$34,650	<b>\$762,958</b>	<b>\$134,600</b>	<b>\$628,358</b>
25	\$794,565	\$7,946	\$802,511	\$34,650	<b>\$837,161</b>	<b>\$459,893</b>	<b>\$377,268</b>
30	\$533,279	\$5,333	\$538,612	\$34,650	<b>\$573,262</b>	<b>\$320,193</b>	<b>\$253,069</b>
40	\$601,398	\$6,014	\$607,411	\$34,650	<b>\$642,061</b>	<b>\$181,287</b>	<b>\$460,774</b>
50	\$828,562	\$8,286	\$836,847	\$34,650	<b>\$871,497</b>	<b>\$672,279</b>	<b>\$199,218</b>
60	\$542,502	\$5,425	\$547,927	\$34,650	<b>\$582,577</b>	<b>\$506,493</b>	<b>\$ 82,089</b>
61	\$ 82,089	\$ 821	\$ 82,910				

## I) Pro Forma Financial Information

### 1.0 Scope and Limitation

The following Pro Forma Financial Information has been developed by Axiom Management Consulting in cooperation with Tulloch Engineering using the prevailing construction market rates. The assessment was developed on a best effort basis and reflects the conditions prevailing at the time our analysis was completed. The analysis, projections, recommendations and conclusions contained in this Pro Forma Financial Information are to some degree, subject to variation, depending on future events.

Therefore, we cannot represent these results as those which will necessarily be achieved but only as those which could be attained, provided the opinions and assumptions remain valid.

### 2.0 Estimated Revenue and Expense Statement and Cash Flow

#### Underlying Assumptions

- The lease is for 40 years;
- The lease would be \$107,600 per year;
- The \$1,155,000 loan is amortized over 30 years at a rate of 3.0% with yearly payments of \$58,440;
- The lease income breakdown was estimated as follow:
  - \$58,440 to service the debt
  - \$34,650 for the Building Retrofit Reserve (3.0% of \$1,155,000)
  - \$11,550 for the yearly general repairs and maintenance (1.0% of \$1,155,000)
  - \$ 2,960 to cover minute contingencies
- Total: \$107,600

The following tables will provide the projected revenues and expenses and cash flow in blocs of five years followed with year 25, 30, 35 and 40.

The reader will note that once we factor in amortization that the Building would incur a deficit year two to nine and breakeven in year 10. It would then steadily increase its surplus contribution thereon and provide over \$40,000 in surplus contribution by year 40. On a cash flow basis the Building would generate surplus cash flow every year. Based on a 40 year lease and 30 year loan, the Building would have generated \$543,025 in surplus cash net of building reserve representing an average 1.2% return on the 40 year investment of \$1,155,000.

Fiscal Year	1 Yr.	2 Yr.	3 Yr.	4 Yr.	5 Yr.
<b>Revenues</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>
<b>Expenses</b>					
Interest Long Term Debt	\$ 34,325	\$ 33,595	\$ 32,835	\$ 32,285	\$ 31,030
Retrofit Reserve	\$ 34,650	\$ 34,650	\$ 34,650	\$ 34,650	\$ 34,650
General Repairs and Maintenance	\$ 11,550	\$ 11,723	\$ 11,899	\$ 12,078	\$ 12,259
Amortization	\$ 23,100	\$ 45,276	\$ 43,465	\$ 41,726	\$ 40,057
<b>Total Expenses</b>	<b>\$103,625</b>	<b>\$125,244</b>	<b>\$122,849</b>	<b>\$120,739</b>	<b>\$117,996</b>
<b>Surplus Contribution</b>	<b>\$ 3,975</b>	<b>(\$17,644)</b>	<b>(\$15,249)</b>	<b>(\$13,139)</b>	<b>(\$10,396)</b>
Fiscal Year	1 Yr.	2 Yr.	3 Yr.	4 Yr.	5 Yr.
<b>Cash Flow</b>					
Opening Cash Balance	\$ 5,000	\$ 7,960	\$ 10,747	\$ 13,358	\$ 15,790
Amortization	\$23,100	\$ 45,276	\$ 43,465	\$ 41,726	\$ 40,057
Surplus Contribution	\$ 3,975	(\$17,644)	(\$15,249)	(\$13,139)	(\$10,396)
<b>Total Cash In</b>	<b>\$32,075</b>	<b>\$ 35,592</b>	<b>\$ 38,963</b>	<b>\$ 41,945</b>	<b>\$ 45,452</b>
Principle Payment	\$24,115	\$ 24,845	\$ 25,605	\$ 26,155	\$ 27,410
<b>Ending Cash Balance</b>	<b>\$ 7,960</b>	<b>\$ 10,747</b>	<b>\$ 13,358</b>	<b>\$ 15,790</b>	<b>\$ 18,042</b>

Fiscal Year	6 Yr.	7 Yr.	8 Yr.	9 Yr.	10 Yr.
<b>Revenues</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>
<b>Expenses</b>					
Interest Long Term Debt	\$ 30,430	\$ 29,575	\$ 28,695	\$ 27,795	\$ 26,865
Retrofit Reserve	\$ 34,650	\$ 34,650	\$ 34,650	\$ 34,650	\$ 34,650
General Repairs and Maintenance	\$ 12,443	\$ 12,629	\$ 12,819	\$ 13,011	\$ 13,206
Amortization	\$ 38,455	\$ 36,917	\$ 35,440	\$ 34,023	\$ 32,662
<b>Total Expenses</b>	<b>\$115,978</b>	<b>\$113,771</b>	<b>\$111,604</b>	<b>\$109,479</b>	<b>\$107,383</b>
<b>Surplus Contribution</b>	<b>(\$ 8,378)</b>	<b>(\$ 6,171)</b>	<b>(\$ 4,004)</b>	<b>(\$ 1,879)</b>	<b>\$ 217</b>
Fiscal Year	6 Yr.	7 Yr.	8 Yr.	9 Yr.	10 Yr.
<b>Cash Flow</b>					
Opening Cash Balance	\$18,042	\$20,109	\$21,989	\$23,681	\$25,179
Amortization	\$38,455	\$36,917	\$35,440	\$34,023	\$32,662
Surplus Contribution	(\$8,378)	(\$6,171)	(\$4,004)	(\$1,879)	\$217
<b>Total Cash In</b>	<b>\$48,119</b>	<b>\$50,854</b>	<b>\$53,426</b>	<b>\$55,824</b>	<b>\$58,058</b>
Principle Payment	\$28,010	\$28,865	\$29,745	\$30,645	\$31,575
<b>Ending Cash Balance</b>	<b>\$20,109</b>	<b>\$21,989</b>	<b>\$23,681</b>	<b>\$25,179</b>	<b>\$26,483</b>

<b>Fiscal Year</b>	<b>11 Yr.</b>	<b>12 Yr.</b>	<b>13 Yr.</b>	<b>14 Yr.</b>	<b>15 Yr.</b>
<b>Revenues</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>
<b>Expenses</b>					
Interest Long Term Debt	\$ 25,900	\$ 24,910	\$ 23,895	\$22,840	\$21,760
Retrofit Reserve	\$ 34,650	\$ 34,650	\$ 34,650	\$34,650	\$34,650
General Repairs and Maintenance	\$ 13,404	\$ 13,605	\$ 13,809	\$14,017	\$14,227
Amortization	\$ 31,355	\$ 30,101	\$ 28,897	\$27,741	\$26,631
<b>Total Expenses</b>	<b>\$105,309</b>	<b>\$103,266</b>	<b>\$101,251</b>	<b>\$99,248</b>	<b>\$97,268</b>
<b>Surplus Contribution</b>	<b>\$ 2,291</b>	<b>\$ 4,334</b>	<b>\$ 6,349</b>	<b>\$ 8,352</b>	<b>\$10,332</b>
<b>Fiscal Year</b>	<b>11 Yr.</b>	<b>12 Yr.</b>	<b>13 Yr.</b>	<b>14 Yr.</b>	<b>15 Yr.</b>
<b>Cash Flow</b>					
Opening Cash Balance	\$26,483	\$27,589	\$28,494	\$ 29,215	\$29,708
Amortization	\$31,355	\$30,101	\$28,897	\$27,741	\$26,631
Surplus Contribution	\$ 2,291	\$ 4,334	\$ 6,369	\$ 8,352	\$10,332
<b>Total Cash In</b>	<b>\$60,129</b>	<b>\$62,024</b>	<b>\$63,760</b>	<b>\$65,308</b>	<b>\$66,671</b>
Principle Payment	\$32,540	\$33,530	\$34,545	\$35,600	\$36,680
<b>Ending Cash Balance</b>	<b>\$27,589</b>	<b>\$28,494</b>	<b>\$29,215</b>	<b>\$29,708</b>	<b>\$29,991</b>

<b>Fiscal Year</b>	<b>16 Yr.</b>	<b>17 Yr.</b>	<b>18 Yr.</b>	<b>19 Yr.</b>	<b>20 Yr.</b>
<b>Revenues</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>
<b>Expenses</b>					
Interest Long Term Debt	\$ 20,640	\$ 19,495	\$ 18,310	\$ 17,085	\$ 15,830
Retrofit Reserve	\$ 34,650	\$ 34,650	\$ 34,650	\$ 34,650	\$ 34,650
General Repairs and Maintenance	\$ 14,440	\$ 14,657	\$ 14,877	\$ 15,100	\$ 15,326
Amortization	\$ 25,566	\$ 24,544	\$ 23,562	\$ 22,619	\$ 21,715
<b>Total Expenses</b>	<b>\$ 95,296</b>	<b>\$ 93,345</b>	<b>\$ 91,398</b>	<b>\$ 89,454</b>	<b>\$ 87,521</b>
<b>Surplus Contribution</b>	<b>\$ 12,304</b>	<b>\$ 14,255</b>	<b>\$ 16,202</b>	<b>\$ 18,146</b>	<b>\$ 20,079</b>
<b>Fiscal Year</b>	<b>16 Yr.</b>	<b>17 Yr.</b>	<b>18 Yr.</b>	<b>19 Yr.</b>	<b>20 Yr.</b>
<b>Cash Flow</b>					
Opening Cash Balance	\$29,991	\$30,061	\$29,915	\$29,549	\$28,959
Amortization	\$25,566	\$24,544	\$23,562	\$22,619	\$21,715
Surplus Contribution	\$12,304	\$14,255	\$16,202	\$18,146	\$20,079
<b>Total Cash In</b>	<b>\$67,861</b>	<b>\$68,860</b>	<b>\$69,679</b>	<b>\$70,314</b>	<b>\$70,753</b>
Principle Payment	\$37,800	\$38,945	\$40,130	\$41,355	\$42,610
<b>Ending Cash Balance</b>	<b>\$30,061</b>	<b>\$29,915</b>	<b>\$29,549</b>	<b>\$28,959</b>	<b>\$28,143</b>

Fiscal Year	25 Yr.	30 Yr.	35 Yr.	40 Yr.
<b>Revenues</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>	<b>\$107,600</b>
<b>Expenses</b>				
Interest Long Term Debt	\$ 8,945	\$ 1,787	\$ 0	\$ 0
Retrofit Reserve	\$ 34,650	\$ 34,650	\$34,650	\$ 34,650
General Repairs and Maintenance	\$ 16,511	\$ 17,787	\$19,161	\$ 20,642
Amortization	\$ 17,705	\$ 14,437	\$11,771	\$ 9,598
<b>Total Expenses</b>	<b>\$ 77,811</b>	<b>\$ 68,660</b>	<b>\$65,790</b>	<b>\$ 64,890</b>
<b>Surplus Contribution</b>	<b>\$ 29,789</b>	<b>\$ 38,940</b>	<b>\$41,810</b>	<b>\$ 42,710</b>
Fiscal Year	25 Yr.	30 Yr.	35 Yr.	40 Yr.
<b>Cash Flow</b>				
Opening Cash Balance	\$22,543	\$10,025	\$224,692	\$490,717
Amortization	\$17,705	\$14,437	\$ 11,771	\$ 9,598
Surplus Contribution	\$29,789	\$38,940	\$ 42,017	\$ 42,710
<b>Total Cash In</b>	<b>\$70,035</b>	<b>\$63,401</b>	<b>\$278,480</b>	<b>\$543,025</b>
Principle Payment	\$49,495	\$56,653	\$ 0	\$ 0
<b>Ending Cash Balance</b>	<b>\$20,543</b>	<b>\$ 6,748</b>	<b>\$278,480</b>	<b>\$573,025</b>

## J) Preliminary Risk Assessment and Exit Strategy

Assessing risk means taking a hard look at the “what if” this should occur?

The first key factors to mitigate risk are the quality of the tenant, enforceability and length of lease along with the financial capacity to pay an “exit fee” or penalty if the lease is breached. However, in reality the tenant(s) in most case does not have the funds to indemnify the landlord.

Besides the initial potential retrofit cost overruns, there are three things that can jeopardize the future financial health of the Building; inflation increases beyond the projected 1.5%, the tenant breaks its lease or interest rates increase beyond the projected 3.0%.

### 1.0 Inflation

In our feasibility study we have projected a 1.5% inflation rate. What if the inflation rate was to increase to 2.0% or 3.0%? What would be the financial impact in 10, 15, 20, 25 and 30 years?

#### Inflation 2.0%

At 2% inflation rate the building’s retrofit reserve would still be adequate for the retrofit lifecycles of 20, 25, 30 and 40 years based on a \$34,650 investment per year. The retrofit reserve would have to be adjusted at the end of 40 years.

Year	Balance	Interest	Total	Investment	Total	Retrofit	Balance
30	\$469,372	\$4,694	\$474,066	\$34,650	\$508,716	\$126,265	\$382,451
40	\$462,714	\$4,627	\$467,341	\$34,650	\$501,991	\$225,220	\$276,771

### Inflation 3%

At 3% inflation rate the building's retrofit reserve would still be adequate for the first two lifecycles of 20 and 25 years, but not at the end of 30 and 40 years based on a \$34,650 investment per year. The retrofit reserve would have to be adjusted to \$42,500 for the duration of the 40 year lease in order to have the necessary funds for the 30 and 40 year lifecycle retrofits. The increase represents \$7,850 and would increase the lease by \$0.80 per square foot. The lease would go up from averaging \$10.99 per square foot (\$107,600 yr.) to averaging \$11.79 per square foot (\$115,450).

#### Retrofit Reserve Investment of \$34,650 per Year

Year	Balance	Interest	Total	Investment	Total	Retrofit	Balance
30	\$211,795	\$2,118	\$213,913	\$34,650	\$248,563	\$517,517	\$268,954

Year	Balance	Interest	Total	Investment	Total	Retrofit	Balance
40	\$30,469	\$ 305	\$ 30,773	\$34,650	\$ 65,423	\$335,990	\$270,567

#### Adjusted Retrofit Reserve Investment to \$42,500 per Year

Year	Balance	Interest	Total	Investment	Total	Retrofit	Balance
30	\$474,381	\$4,744	\$479,125	\$42,500	\$521,625	\$517,517	\$ 4,108

Year	Balance	Interest	Total	Investment	Total	Retrofit	Balance
40	\$402,655	\$4,027	\$406,682	\$42,500	\$449,182	\$335,990	\$113,192

### 2.0 Breach of Lease

Some of the avenues that would be available to the MCM to repurpose the interior of the building in the case of a breach of lease are:

- Using the accumulated retrofit reserve and cash;
- Remortgaging the Building;
- A combination of the above.

The key question is what would be the future impact?

## 2.1 Available Funds -Additional Loan, Retrofit Reserve and Cash

Until the first 25 years of the lease are completed the Building would not have enough funds to repurpose the Building unless it also took its retrofit reserve and accumulated cash.

### Additional Loan

Year	10 Year	15 Year	20 Year	25 Year	30 Year
Loan balance	\$878,000	\$705,135	\$504,295	\$271,000	\$ 0
<b>Remortgage up to \$1,150,000</b>	<b>\$272,000</b>	<b>\$444,865</b>	<b>\$645,705</b>	<b>\$879,000</b>	<b>\$1,150,000</b>
<b>\$ Per leasable sq. ft. (7,350 sq. ft.)</b>	<b>\$ 37.00</b>	<b>\$ 60.53</b>	<b>\$ 87.85</b>	<b>\$ 119.59</b>	<b>\$ 156.46</b>

### Retrofit Reserve and Cash

Year	10 Year	15 Year	20 Year	25 Year	30 Year
Retrofit Reserve	\$362,516	\$557,757	\$628,358	\$459,893	\$320,193
Cash	\$ 26,483	\$ 29,991	\$ 28,143	\$ 29,789	\$ 38,940
<b>Total</b>	<b>\$388,999</b>	<b>\$587,748</b>	<b>\$656,501</b>	<b>\$489,682</b>	<b>\$359,133</b>
<b>\$ Per leasable sq. ft. (7,350 sq. ft.)</b>	<b>\$ 52.93</b>	<b>\$ 79.97</b>	<b>\$ 89.32</b>	<b>\$ 66.62</b>	<b>\$ 48.86</b>

Even with another anchor tenant, using all the cash reserves and borrowing additional funds to repurpose the Building would present a challenge and require due consideration if it is done.

However, what if the MCM had to do it? What would be the future financial impact?

### Additional Loan, Retrofit Reserve and Cash

If the additional loan, retrofit reserve and cash are invested in repurposing the Building, the MCM would be hard pressed to do so at the end of 10 years (\$89.93 per sq. ft.), but in a much better financial position to do so in year 15 thereon (\$140.50 per sq. ft.).

Year	10 Year	15 Year	20 Year	25 Year	30 Year
Retrofit Reserve and Cash	\$388,999	\$587,748	\$656,501	\$ 489,682	\$ 359,133
Remortgage up to \$1,150,000	\$272,000	\$444,865	\$645,705	\$ 879,000	\$1,150,000
<b>Total Cash</b>	<b>\$660,999</b>	<b>\$1,032,613</b>	<b>\$1,302,206</b>	<b>\$1,368,682</b>	<b>\$1,509,133</b>
<b>Total per square foot</b>	<b>\$ 89.93</b>	<b>\$ 140.50</b>	<b>\$ 177.17</b>	<b>\$ 186.21</b>	<b>\$ 205.32</b>



## 2.2 Using the Retrofit Reserve Financial Impact Analysis

### 2.2.1 Using the Retrofit Reserve at the End of 10 Years

Year	10 Year	15 Year	20 Year	25 Year	30 Year
Retrofit Reserve	<b>\$362,516</b>	\$557,757	\$628,358	\$459,893	\$320,193
<b>\$ Per leasable sq. ft. (7,350 sq. ft.)</b>	<b>\$ 49.32</b>	<b>\$ 75.89</b>	<b>\$ 85.49</b>	<b>\$ 62.58</b>	<b>\$ 43.56</b>

If the lease is breached in 10 years and the retrofit reserve of \$362,516 is used to complete the inside repurposing of the Building it would have an impact on the retrofit reserves as it reaches its 25 year retrofit lifecycle (-\$43,602) and major impact on the 50 year retrofit lifecycle (-\$340,518) and 60 year retrofit lifecycle (-\$514,116) as shown in the table below. In order to remedy the situation the retrofit reserve would have to be increased in year 11 to \$42,100 per annum instead of \$34,650.

Previous retrofit reserve:	\$34,650
<b>New retrofit reserve:</b>	<b>\$42,100</b>
Increase:	\$ 7,450
Cost increase per sq. ft. 9,800 sq. ft.:	\$ 0.76
Cost increase per sq. ft. 7,350 sq. ft.:	\$ 1.01

#### Retrofit Reserve Account Balance Comparison with \$34,650 and \$42,100 Investment per Year

Year	20 Yrs.	25 Yrs.	30 Yrs.	35 Yrs.	40 Yrs.	50 Yrs.	60 Yrs.
\$34,650 Yr. Balance	\$227,916	-\$43,602	-\$189,269	-\$22,174	-\$27,842	-\$340,518	-\$514,116
<b>\$42,100 Yr. Balance</b>	<b>\$317,368</b>	<b>\$94,027</b>	<b>-\$ 1,006</b>	<b>\$219,306</b>	<b>\$269,569</b>	<b>\$ 77,460</b>	<b>\$ 37,044</b>

The -\$1,006 shortfall for the 30 year lifecycle retrofit would be covered with the accumulated cash surplus.

### 2.2.2 Using the Retrofit Reserve in 15 Years

Year	10 Yrs.	15 Yrs.	20 Yrs.	25 Yrs.	30 Yrs.
Retrofit Reserve	362,516	<b>557,757</b>	628,358	459,893	320,193
<b>\$ Per leasable sq. ft. (7,350 sq. ft.)</b>	<b>49.32</b>	<b>75.89</b>	<b>85.49</b>	<b>62.58</b>	<b>43.56</b>

If the lease is breached in year 15 and the retrofit reserve of \$557,757 is used to complete the inside repurposing of the Building it would have an impact on the retrofit reserves as it reaches its 25 year retrofit lifecycle (-\$238,843) thereon and major impact on the 50 year (-\$590,902) and 60 year (-\$790,696) year retrofits as shown in the table below. In order to remedy the situation the retrofit reserve would have to be increased in year 16 to 30 to \$60,000 per annum instead of \$34,650 and could be decreased to \$45,000 from year 31 to 60.

**Retrofit Reserve Account Balance**

Year	20 Yrs.	25 Yrs.	30 Yrs.	35 Yrs.	40 Yrs.	50 Yrs.	60 Yrs.
\$34,650 Yr.	\$ 42,150	-\$238,843	-\$394,470	-\$237,842	-\$254,511	-\$590,902	-\$790,696
<b>\$60k 15yrs. \$45k 30yrs Yr.</b>	<b>\$171,460</b>	<b>\$ 26,374</b>	<b>\$ 13,586</b>	<b>\$243,825</b>	<b>\$304,520</b>	<b>\$134,901</b>	<b>\$119,326</b>

**Years 16-30 Retrofit Reserve \$60,000**

Previous retrofit reserve:	\$34,650
<b>New retrofit reserve:</b>	<b>\$60,000</b>
Increase:	\$25,350
Cost increase per sq. ft. 9,800 sq. ft.:	\$2.59
Cost increase per sq. ft. 7,350 sq. ft.:	\$3.45

**Years 31-60 Retrofit Reserve \$45,000**

Previous retrofit reserve:	\$34,650
<b>New retrofit reserve:</b>	<b>\$45,000</b>
Increase:	\$10,350
Cost increase per sq. ft. 9,800 sq. ft.:	\$1.06
Cost increase per sq. ft. 7,350 sq. ft.:	\$1.41

**Year 16-60 Retrofit Reserve Equal Payments \$59,000**

We have assessed using an equal lease amount from year 16 to 60; however the retrofit would have a shortfall of -\$2,519 for its 30 year retrofit lifecycle and would have major surpluses at the end of the 40 and 60 year retrofit lifecycle.

Year	Balance	Interest	Total	Investment	Total	Retrofit	Balance
30	\$ 256,121	\$ 2,561	\$ 258,683	\$59,000	\$ 317,683	\$320,193	<b>-\$ 2,510</b>
40	\$ 549,997	\$ 5,500	\$ 555,497	\$59,000	\$ 614,497	\$181,287	<b>\$433,210</b>
60	\$1,015,947	\$10,159	\$1,026,106	\$59,000	\$1,085,106	\$506,493	<b>\$578,613</b>

**2.2.3 Using the Retrofit Reserve in 20-30 Years**

During the year 20 to 30 the risk factors would be reduced given that the Building could be remortgaged and provide \$645,705 (\$87.85 sq. ft.) in year 20 peaking at \$1,150,000 (\$156.46 sq. ft.) in year 30. Depending on the then repurposed use the tenant(s) would be expected to pay for some of the leasehold improvements.

Year	20 Yrs.	25 Yrs.	30 Yrs.
Retrofit Reserve	\$628,358	\$459,893	\$ 320,193
Cash	\$ 28,143	\$ 29,789	\$ 38,940
<b>Total</b>	<b>\$656,501</b>	<b>\$489,682</b>	<b>\$ 359,133</b>
<b>\$ Per leasable sq. ft. (7,350 sq. ft.)</b>	<b>\$ 89.32</b>	<b>\$ 66.62</b>	<b>\$ 48.86</b>
<b>Remortgage up to \$1,150,000</b>	<b>\$645,705</b>	<b>\$879,000</b>	<b>\$1,150,000</b>
<b>\$ Per leasable sq. ft. (7,350 sq. ft.)</b>	<b>\$ 87.85</b>	<b>\$ 119.59</b>	<b>\$ 156.46</b>
<b>Total per square foot.</b>	<b>\$ 177.17</b>	<b>\$ 186.21</b>	<b>\$ 205.32</b>

### 3.0 Increases in Interest Rates

Amount of Loan	Rate	Month	Year	Total Cost per Sq. Ft.	Net \$ Increase
\$1,155,000	3%	\$ 4,870	\$ 58,440	\$ 5.96	\$ 0
\$1,155,000	4%	\$ 5,514	\$ 66,168	\$ 6.75	\$ 7,728
<b>\$1,155,000</b>	<b>5%</b>	<b>\$ 6,200</b>	<b>\$ 74,400</b>	<b>\$ 7.59</b>	<b>\$ 8,232</b>
\$1,155,000	6%	\$ 6,925	\$ 83,100	\$ 8.48	\$ 8,700
\$1,155,000	7%	\$ 7,684	\$ 92,208	\$ 9.41	\$ 9,108
\$1,155,000	8%	\$ 8,475	\$101,700	\$10.38	\$ 9,492
\$1,155,000	9%	\$ 9,293	\$111,516	\$11.38	\$ 9,816
\$1,155,000	10%	\$10,136	\$121,632	\$12.41	\$10,116

In year 6, the Building would generate \$20,109 in surplus cash flow which would be enough to offset interest rate increases up to 5%<sup>8</sup>. On average each 1% increase in the interest rate from 6% to 10% would cost an additional \$9,500 in interest per year.

It could prove beneficial for the Committee to assess the merits of locking the loan for a long as feasible given the present low interest rates.

### 4.0 Summation of Risk Assessment

Inflation is not to be underestimated when it comes to long term leases. In most cases the lease is adjusted every 5 years to counteract the impact of inflation. However, under a fixed rate lease this would not be feasible. In order to cover the possibility of inflation being 3%, the Committee should consider increasing the lease to \$115,450 instead of \$107,600 per year.

It is premature to speculate on potential repurposed uses for the building until the Committee is provided with floor plans from Gwekwaadziwin Miikan. This would have to be assessed as part of the business plan due diligence exit strategy. The first 14 years of the lease are critical to the financial sustainability of the Building and capacity to repurpose the building. If we allocate a budget of \$100 per square foot for Gwekwaadziwin Miikan to complete its leasehold improvements (7,350 sq. ft.), it would have to invest \$735,000. We believe Gwekwaadziwin Miikan would have a vested interest in having a long term lease in order to recapture its investment over time.

Based on 4.0% depreciation the leasehold improvements of \$735,000 would still have an undepreciated balance of \$146,600 (book value) at the end of 40 years.

Interest rates are presently low and the Committee should consider recommending a longer term than 5 years for a fixed rate loan.

<sup>8</sup> Payment at 3% = \$58,440 + \$20,109 = \$78,549

## K) Closing Remarks

Tulloch Engineering and Axiom Management Consulting would like to thank the Municipality of Central Manitoulin and the Old Mindemoya School Repurposing Committee for selecting us to complete the feasibility study to repurpose this historical building.

We hope that our research, study approach, due diligence and risk assessment were informative and met with your requirements.

It is unfortunate that it was not feasible to repurpose the Old Mindemoya School. From April to September 2019, the MCM Repurposing Committee investigated every potential repurposing opportunity from offices, apartments, retail space, multi-use facility and leasing to one tenant. Sources of government funding were also investigated and conventional loans. However, none of the above options, save leasing to one tenant, proved financially viable. On September 19, 2019, Tulloch Engineering estimated the cost to demolish and remove the Old Mindemoya School to be from \$115,000 to \$150,000.

Again we thank the Municipality of Central Manitoulin to have had an opportunity to complete this feasibility study.

If you have any questions or require more information please do not hesitate to contact us at your convenience.

## L) Contact Information

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