

Nutrien Wonderhub Lease Renewal

ISSUE

The Children’s Discovery Museum (Nutrien Wonderhub) currently has a 10-year lease, expiring on July 31, 2029, with the City of Saskatoon (City), to occupy most of the City-owned property formerly known as the Mendel Building at 950 Spadina Crescent East. The lease includes the provision to renegotiate the base rent every five-years with the initial five-year term ending on July 31, 2024. During renegotiation of the base rent amount, Nutrien Wonderhub has requested an adjustment that is outside the approved terms of the existing lease and Administration does not have the ability to approve based on previous direction from City Council. This report provides an update on the request from Nutrien Wonderhub, the current agreement and options for City Council’s consideration.

BACKGROUND

At the August 7, 2024 Standing Policy Committee on Finance meeting when considering the [Nutrien Wonderhub Lease Renewal](#) report, committee resolved in part:

- “1. An amendment to the Lease and Operating Agreement with Children's Discovery Museum on the Saskatchewan Inc., such that the overholding provision requiring a 150% increase in base rent is suspended until a future decision report is considered by City Council at the 2025 budget deliberations, be approved; and
2. That the Administration provide an update to the Committee on negotiations with the other levels of government and current and potential corporate sponsors.”

For additional history, at the December 14, 2015 Regular Meeting of City Council when considering the [Offer to Lease - Mendel Building report](#), City Council resolved:

- “1. That an Offer to Lease Agreement between the City of Saskatoon and the Children’s Discovery Museum on the Saskatchewan Inc. for a portion of the Mendel Building based on the terms as set out in the following report be approved”

Within this 2015 report on page 293 of the agenda, two of the terms of the lease as approved by City Council outline the following:

- **Occupancy Costs:** The Museum shall be responsible for paying its proportionate share of occupancy costs, including utilities and building insurance.
- **General Maintenance:** The Museum shall pay for non-capital expense items that would generally entail regular maintenance and general expenses within the CDM area.

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Under the current lease agreement the base rent is to be considered as the annual contribution to the Civic Building Comprehensive Maintenance (CBCM) Reserve for the premises in accordance with the [Capital Reserve Bylaw No. 6774](#), which is targeted at 1.2% of the appraised insurance valuation for the building adjusted for Nutrien Wonderhub's proportionate use. This base rent is transferred into the City's CBCM reserve which is used to finance the cost of capital repairs to the City's buildings and structures, including the Mendel Building. The City does not generate any general revenue off of the lease to the Nutrien Wonderhub as all payments are reinvested back into the buildings maintenance requirements. The base rent for the first year of the term was \$135,000 and has increased annually by \$5,000, reaching \$155,000 during the fifth year of the term that expired July 31, 2024.

The City currently provides \$25,000 in annual grant funding to Nutrien Wonderhub under the City's [Culture Grant Program](#) in the Cultural Partners funding category. Nutrien Wonderhub also receives an additional \$70,000 as an annual program services grant, approved by City Council in 2014 when approval was granted to proceed with the partnership with Nutrien Wonderhub. The two grants have been subsequently rolled into one \$95,000 grant and accounted for within the Culture Grant Program and the amounts have remained at the same level since 2020.

CURRENT STATUS

The 2025 facility costs related to the Nutrien Wonderhub's proportionate use of the building are estimated as follows:

| Item | Low Est | High Est |
|---|------------------|------------------|
| Civic Building Comprehensive Maint. Reserve Contribution | \$164,900 | \$164,900 |
| Parking | \$ 7,800 | \$ 7,800 |
| City Performed Repairs/Inspections under \$5,000 (Note 1) | \$ 40,000 | \$ 75,000 |
| Building Insurance | \$ 14,600 | \$ 14,600 |
| Utilities | \$ 81,900 | \$ 81,900 |
| Total Estimated 2025 Costs | \$309,200 | \$344,200 |

Note 1 – City performed repairs/inspections under \$5,000 are estimated in the \$40,000 to \$75,000 range. Facilities Management continues to mature its enterprise asset management and work order inputs and data, these figures will continue to be further refined.

In 2024, Nutrien Wonderhub paid approximately \$244,700 to the City which excluded the City Repairs/Inspections under \$5,000 and Building Insurance costs. These costs were funded by the City in each of the first five years of the agreement (including 2024).

In reviewing the original lease report from 2015, the original intent approved by City Council was that Nutrien Wonderhub was to cover all facility costs related to their proportionate use of the building, including City Repairs/Inspections under \$5,000 and Building Insurance. City funding of these costs over the past five years has contributed to unfavourable variances in the City's Facilities Management operating budget and/or underfunding of the CBCM Reserve as no budget existed for these expenses.

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It is important to note, that the Wonderhub does not have the same interpretation as the City and believe they are not required to pay the Repairs/Inspections under \$5,000 and Building Insurance costs under the existing lease. While the lease agreement could have been clearer in relation to this, the original intent from the 2015 City Council decision is clear as outlined in the background of this report. While these costs were not passed on in the first five years of the lease, Wonderhub has now approached the City to re-negotiate the base rent provision outside of what is allowed for in the lease and as the lease is being re-negotiated the Administration would like to align City Council's original intent more clearly in the agreement to avoid dispute in the future.

DISCUSSION/ANALYSIS

As outlined in the [Nutrien Wonderhub letter](#) to Committee presented as an appendix to the Administrative report on August 7, 2024, Nutrien Wonderhub is experiencing financial challenges such as rising costs and no Provincial or Federal Government support. As such, Nutrien Wonderhub had requested that the City's CBCM Contribution or Base Rent be reduced by 50% to \$82,450.

No reference was made to the responsibility of the City Repairs/Inspections under \$5,000 and Building Insurance in the letter, however, the Administration's interpretation of the agreement and previous direction from City Council is that the proportionate costs were to be covered by Nutrien Wonderhub. Table 1 provides an overview of the 2024 actuals paid by Nutrien Wonderhub, 2025 anticipated City operational costs and Nutrien Wonderhub's request which assumes that the City continues to fund the City Repairs under \$5,000 and Building Insurance costs.

Table 1: Nutrien Wonderhub Lease Overview

| | 2024 Wonderhub Lease Payments | 2025 Estimated Operational Costs for Wonderhub Space | Wonderhub 2025 Lease Request |
|-------------------------------------|--|---|---|
| CBCM Contribution | \$ 155,000 | \$ 164,900 | \$ 82,450 |
| Parking | \$ 7,800 | \$ 7,800 | \$ 7,800 |
| City Repairs Under \$5,000 (Note 1) | \$ - | \$ 57,500 | \$ - |
| Building Insurance (Note 2) | \$ - | \$ 14,600 | \$ - |
| Utilities (Note 3) | \$ 81,900 | \$ 81,900 | \$ 81,900 |
| Total | \$ 244,700 | \$ 326,700 | \$ 172,150 |

Note 1 – City Repairs under \$5,000 will be charged based on actuals and subject to change. For estimating purposes this calculation has used the mid-point of the estimated range of \$40,000 to \$75,000.
Note 2 – Building Insurance would be charged based on actuals and is estimated using the 2023 amount.
Note 3 – Utilities will be charged based on actuals and subject to change. For estimating purposes this calculation has used the 2023 actual amount.

The \$326,700 in 2025 is the estimated facility costs for Nutrien Wonderhub's proportionate share of the facility that is going to be incurred in 2025 regardless of funding source. Therefore, the remainder of this report outlines options on how this could be funded and impacts on the City and Nutrien Wonderhub's lease agreement.

OPTIONS

Option 1 – Maintain Original City Intent of the Lease Agreement

This option would result in maintaining the City's intent of the original lease in that Nutrien Wonderhub would be responsible for operating expenditures and general maintenance of the facility for non-capital items for their proportionate use.

This option would include requiring Nutrien Wonderhub to pay the estimated \$326,700 in annual costs as outlined in Table 1 in 2025, with calculated increases thereafter based on building valuation and inflationary changes. This would be an estimated \$82,000 or 33.5% increase in the payment requirements for 2025 compared to what Nutrien Wonderhub paid in 2024 (\$244,700). The annual grant to Nutrien Wonderhub would be maintained at the current \$95,000/year under this option.

The benefits of this option are:

- The City would cost recover the anticipated costs to maintain Nutrien Wonderhub's proportionate use of the space, in line with the original intent of the lease.
- Maintains a comparatively strong annual contribution/commitment by the City (\$95,000) to Nutrien Wonderhub.
- The Base Rent which is directed to the City's CBCM Reserve would be funded adequately and be able to provide funding in the future for large building maintenance requirements (roof, large mechanical, structural maintenance).

The drawbacks of this option are:

- Approximate 33.5% increase in 2025 for Nutrien Wonderhub's lease costs.
- Would create additional financial pressures for Nutrien Wonderhub.

Option 2 – Maintain City's Intent of the Original Lease Agreement with a Phase-in

This option is similar to Option 1 as it would see Nutrien Wonderhub be required to fund all aspects of operating and maintenance costs such as CBCM contributions, parking, City Repairs/Inspections under \$5,000, Building Insurance costs and utilities. However, this option would provide consideration to the large increase (33.5%) Nutrien Wonderhub would experience if this was fully implemented in 2025.

Specifically, Option 2 would see the City Repairs/Inspections under \$5,000 and Building Insurance costs portions be phased in over the five years of the agreement. It is anticipated that this would result in an 9.9% increase in 2025 with smaller and decreasing increases in the following years as the full amounts are phased-in as outlined below in Table 2:

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Table 2: Option 2 Phase In

| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| CBCM/ Base Rent | \$ 155,000 | \$ 164,900 | \$ 175,900 | \$ 185,900 | \$ 196,900 | \$ 206,900 |
| Parking | \$ 7,800 | \$ 7,800 | \$ 7,800 | \$ 7,800 | \$ 7,800 | \$ 7,800 |
| City Repairs Under \$5,000* | \$ - | \$ 11,500 | \$ 23,000 | \$ 34,500 | \$ 46,000 | \$ 57,500 |
| Building Insurance * | \$ - | \$ 2,920 | \$ 5,840 | \$ 8,760 | \$ 11,680 | \$ 14,600 |
| Utilities * | \$ 81,900 | \$ 81,900 | \$ 81,900 | \$ 81,900 | \$ 81,900 | \$ 81,900 |
| Total | \$ 244,700 | \$ 269,020 | \$ 294,440 | \$ 318,860 | \$ 344,280 | \$ 368,700 |
| \$ Annual Increase | | \$ 24,320 | \$ 25,420 | \$ 24,420 | \$ 25,420 | \$ 24,420 |
| % Annual Increase | | 9.9% | 9.4% | 8.3% | 8.0% | 7.1% |

*Utilities, Insurance and City Repairs under \$5,000 will be charged based on actuals. The Utilities and Building Insurance estimate is based on 2023 actuals while City Repairs under \$5,000 is based on phasing in to the mid-point of the estimated range of \$40,000 to \$75,000.

The annual grant to Nutrien Wonderhub would be maintained at the current \$95,000/year under this option. In addition to the grant, the City would be providing indirect support through the City funded phase-in of City Repairs/Inspections under \$5,000 and Building Insurance equivalent to approximately \$144,200 in total over the course of 2025, 2026, 2027 and 2028.

It is important to note the City does not have allocated budgets for this phase-in support, however, the Administration would propose as this phase-in is temporary in nature that no permanent budget be added and the Administration would continue to do its best to manage this through the Facilities Management operating budget and associated variance management. As this is not budgeted, it will contribute to unfavourable variances for the Facilities Management operating budget in the short term that would need to be managed within the overall City budget.

The benefits of this option are:

- The City would eventually recover the full cost of the operational maintenance requirements of Nutrien Wonderhub's proportionate use of the building, in line with the original intent of the previous City Council.
- With a phase-in, Nutrien Wonderhub would be given time to adapt their business model to the cost of the new lease agreement.
- The Base Rent which is directed to the City's CBCM Reserve would be funded adequately and be able to provide funding in the future for large building maintenance requirements (roof, large mechanical, structural maintenance).

The drawbacks of this option are:

- It would still result in an overall increase to Nutrien Wonderhub's lease requirements further increasing their financial challenges.
- The City would continue to subsidize the City Repairs under \$5,000 and Building Insurance as it is being phased in which would put pressure on the City's Facility Management team to deliver a balanced budget.

Option 3 – Maintain City’s Intent of the Original Lease Agreement with a Phase-in and \$25,000 Increase in the Cultural Partners Grant

This option would be similar to Option 2 in that the City would look to phase-in the original intent of the lease agreement which was from the City’s perspective to have Nutrien Wonderhub cover all day-to-day operating and maintenance requirements.

However, this option would also increase the City’s Cultural Partners Grant to Nutrien Wonderhub from \$95,000 to \$120,000 in 2025. This increase would begin in 2025 and would be ongoing annual support. It is important to note that \$25,000 is simply an arbitrary amount used as an example and City Council could choose to increase the grant amount more or less than this amount.

This would be in addition to the indirect support through the phase-in of City Repairs/Inspections under \$5,000 and Building Insurance costs equivalent to approximately \$144,200 in total over the course of 2025, 2026, 2027 and 2028.

As outlined in option 2, while the City would continue to fund the temporary phase-in impacts through the Facilities Management operating budget and associated variance management, the \$25,000 increase in the Cultural Partners grant would need to be added to the 2025 budget, as it would be annual ongoing support.

The benefits to this option are:

- The City would eventually recover the full cost of the operational maintenance requirements of Nutrien Wonderhub’s proportionate use of the building.
- With a phase-in, Nutrien Wonderhub would be given time to adapt their business model to cost of the new lease agreement.
- An increase to the Cultural Partners grant of \$25,000 would provide additional support for Nutrien Wonderhub to meet their financial challenges.
- The Base Rent which is directed to the City’s CBCM Reserve would be funded adequately and be able to provide funding in the future for large building maintenance requirements (roof, large mechanical, structural maintenance).

The drawbacks of this option are:

- Nutrien Wonderhub currently receives the second largest Cultural Grant (second to Wanuskewin Heritage Park at \$214,400) within the City’s program at \$95,000. This is larger than organizations such as Persephone Theatre (\$60K), Saskatoon Symphony Orchestra (\$60K), Shakespeare on the Saskatchewan (\$35K) and the Western Development Museum (\$35K). Increasing Nutrien Wonderhub’s grant further creates additional disparity and may provide precedent for other requests outside of the existing program.
- It would result in an overall increase to Nutrien Wonderhub’s lease requirements further increasing their financial challenges.

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- The City would continue to subsidize the City Repairs/Inspections under \$5,000 and Building Insurance costs as it is being phased in which would put pressure on the City’s Facility Management team to achieve budget.

Option 4 – Agree to Nutrien Wonderhub’s Lease Agreement Proposal

Under this option, the City would agree to the lease proposal as presented by Nutrien Wonderhub in their letter to the August 7, 2024 Standing Policy Committee on Finance.

This would include a 50% reduction in the required CBCM/Base Rent amount. In addition, although the original letter did not address City Repairs under \$5,000 and Building Insurance costs, under this option it is assumed that the City would continue to fund these under this option.

Table 3 summarizes the \$172,150 lease payment from Nutrien Wonderhub under this option:

Table 3: Option 4 Lease Option as Requested by Nutrien WonderHub

| | 2024 Wonderhub Lease Payments | 2025 Estimated Operational Costs for Wonderhub Space | Wonderhub 2025 Lease Request |
|-------------------------------------|--|---|---|
| CBCM Contribution | \$ 155,000 | \$ 164,900 | \$ 82,450 |
| Parking | \$ 7,800 | \$ 7,800 | \$ 7,800 |
| City Repairs Under \$5,000 (Note 1) | \$ - | \$ 57,500 | \$ - |
| Building Insurance (Note 2) | \$ - | \$ 14,600 | \$ - |
| Utilities (Note 3) | \$ 81,900 | \$ 81,900 | \$ 81,900 |
| Total | \$ 244,700 | \$ 326,700 | \$ 172,150 |

Note 1 – City Repairs under \$5,000 will be charged based on actuals and subject to change. For estimating purposes this calculation has used the mid-point of the estimated range of \$40,000 to \$75,000.

Note 2 – Building Insurance would be charged based on actuals and is estimated using the 2023 amount.

Note 3 – Utilities will be charged based on actuals and subject to change. For estimating purposes this calculation has used the 2023 actual amount.

In 2025, \$326,700 of estimated facility costs for Nutrien Wonderhub’s proportionate share of the facility would still be incurred by the City under this option, however, Nutrien Wonderhub would only contribute \$172,150 towards these costs. This would equate to an in-direct subsidy of \$154,550 (\$326,700 in estimated operational cost less \$172,150 in lease payments).

In order to maintain transparency, if this option is selected, the Administration would recommend increasing the grant to Wonderhub from \$95,000 to \$249,550 to account for the \$154,550 Facility subsidy. This level of contribution would make it one of largest annual Community Investments made by the City, surpassing the contribution to Wanuskewin Heritage Park (\$214,400) and only trailing Meewasin Valley Authority (\$1.51 million), SREDA (\$885K) and Discover Saskatoon (\$619K) as the largest support by the City to a single organization. The increase contribution of \$154,550 would need to be added to the operating budget and increased over time as the subsidized items

such as City Repairs under \$5,000, CBCM Contributions and Building Insurance will continue to rise with inflation.

The benefits to this option are:

- Increase to the contribution from the City to Nutrien Wonderhub would assist in meeting their financial challenges.

The drawbacks of this option are:

- The City would require additional budget in order to support the grant amount of \$267,050 in order to meet the facility requirements.
- As the Base Rent or contribution to the CBCM reserve would only be 50% of the Bylaw target of 1.2%, future major building and mechanical replacements and repairs would be underfunded.
- The direct and in-direct support provided to Nutrien Wonderhub would be increased significantly, which could have an impact on the City's relationships and funding requirements of other community groups.
- Providing ongoing indirect reduced operating facility costs for occupants of City owned buildings would be uncommon and lack the transparency that a typical increase in grant funding would allow for.

RECOMMENDATION

That City Council approve option direct Administration to proceed with a renewed lease agreement with Nutrien Wonderhub in line with Option 2 - Maintain Intent of the Original Lease Agreement with a Phase-in.

RATIONALE

The Administration is recommending Option 2 as it is consistent with the City's original intent of the lease approved by City Council in 2015 that Nutrien Wonderhub is to be responsible for all general operating and maintenance expenses of their proportionate share of the building. In addition, this option recognizes the financial challenges Nutrien Wonderhub is facing and provides a phase-in to allow time for them to adjust their operational requirements and continue conversations with other levels of governments and private sector partners accordingly. This recommendation takes into account the support already provided to Nutrien Wonderhub including the \$95,000 annual grant and current below market lease rate.

If this recommendation is approved, the City would proceed to working with Wonderhub on a lease agreement in line with the directed terms. However, if Wonderhub does not agree to the proposed amendments, the provisions of the existing agreement would apply, which includes the enactment of an overholding provision equivalent to 150% of the most recent Base Rent. This would see the base rent increase from \$155,000 to \$232,500 in 2025, unless directed otherwise.

In relation to the disputed items of insurance and building repairs under \$5,000; if an amended agreement is not reached, the City would need to consider whether to use the collaborative dispute resolution mechanisms included in the existing agreement.

ADDITIONAL IMPLICATIONS/CONSIDERATIONS

The Administration has had several meetings with Nutrien Wonderhub over the past year regarding lease negotiations. Nutrien Wonderhub has communicated to Administration that Option 4 is the only viable option. While Administration has appreciated the financial challenge facing the Nutrien Wonderhub throughout the negotiations, the Administration has been working to achieve an agreement that was in line with the original intent of the partnership, agreement and lease which included Nutrien Wonderhub being responsible for the occupancy costs of their proportionate use of the facility.

In discussions with Nutrien Wonderhub they have had meetings with Provincial Government representatives since the August 7, 2024 Standing Policy Committee on Finance meeting regarding potential ongoing funding support. While these discussions have not been successful to date, it is the Administration's understanding that meetings are continuing following the Provincial Election with the continued goal that the Provincial Government would be willing to provide funding to Nutrien Wonderhub.

In addition, Nutrien Wonderhub has continued to focus on fundraising efforts for the organization through corporate sponsors. However, these types of opportunities typically take time to develop and are more suited for expanded and enhanced programming as opposed to ongoing operating funding. While Nutrien Wonderhub remains optimistic that their efforts to find corporate support will be fruitful in the long run for expanded and enhanced programming, finding operating support through corporate sponsors in the near term remains challenging.

REPORT APPROVAL

Written by: Clae Hack, Chief Financial Officer
Reviewed by: Andrew Roberts, Director of Recreation and Community Development
Pam Hamoline, Director of Facilities Management
Angela Gardiner, General Manager, Utilities and Environment
Celene Anger, General Manager, Community Services
Approved by: Clae Hack, Chief Financial Officer
Jeff Jorgenson, City Manager