

CITADEL THEATRE - LEASE APPROVAL

Recommendation

That Executive Committee recommend to City Council:

1. That a lease agreement between the City of Edmonton and the Citadel Theatre, as outlined in Attachment 1 of the May 3, 2024, Financial and Corporate Services report FCS02006, be approved, and that the lease agreement be in a form and content acceptable to the City Manager.
2. That Administration prepare a funded service package for consideration by Council during the Fall 2024 Supplemental Operating Budget Adjustment to increase funding to support the City's ongoing repair and maintenance obligations for the Citadel Theatre, as outlined in the May 3, 2024, Financial and Corporate Services report FCS02006.

Requested Action	Council decision required		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	Urban Places		
City Plan Values	CREATE		
City Plan Big City Move(s)	A community of communities Catalyze and converge	Relationship to Council's Strategic Priorities	Arts and culture
Corporate Business Plan	Serving Edmontonians		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> • N/A 		
Related Council Discussions	<ul style="list-style-type: none"> • November 22, 2011, City Council 8.1 Citadel Theatre Funding (J. Batty) • July 4, 2016, Community Services Committee report CR_3775, the Citadel Theatre Roof Repair Funding Support. • July 12/13, Citizen Services report CR_3775, the Citadel Theatre Roof Repair Funding Support. 		

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- February 13, 2019, Citizen Services report CR_5816, Citadel Theatre Roof Rehabilitation - Funding Options.
- April 2, 2019, Financial and Corporate Services report CR_6400rev, Bylaw 18587, To authorize the City of Edmonton to undertake and finance the construction of the Citadel Theatre Construction Project
- April 2, 2019, Financial and Corporate Services report CR_6401rev, Bylaw 18588 To authorize the City of Edmonton to lend money to a non-profit organization, the Citadel Theatre
- May 14, 2019, Financial and Corporate Services report CR_7131rev, Bylaw 18859 To authorize the City of Edmonton to undertake and finance the construction of the Citadel Theatre Construction Project
- May 14, 2019, Financial and Corporate Services report CR_7132rev, Bylaw 11860, To authorize the City of Edmonton to lend money to a non-profit organization, the Citadel Theatre
- June 29, 2020, Citizen Services report CR_8343, Citadel Theatre Roof Project Update

Executive Summary

- The Citadel Theatre (the Citadel) is a not-for-profit entity that has built and operated the building located at 9828 101A Avenue (the Facility) for nearly 50 years.
- The Citadel's land leases with the City expire on September 30, 2024.
- The Citadel does not have the financial or operational capacity to continue to manage/maintain the Facility under current lease arrangements.
- Administration and the Citadel have worked collaboratively to negotiate a new long-term lease, which would result in Administration taking on the maintenance and renewal of the Facility. The Citadel would be responsible for tenant related items such as utilities, tenant improvements etc. and will contribute a minimum of \$100,000 per year towards the Facility's maintenance and renewal work.
- If the recommendation is approved, the City and the Citadel will enter into a new 10-year lease agreement at a nominal rate of \$1 per year and otherwise under the terms and conditions outlined in Attachment 1.

REPORT

This report seeks approval of a long-term lease agreement between the Citadel as Tenant and the City as Landlord, as outlined in Attachment 1. Administration does not have the delegated authority to enter into this lease agreement as it falls outside of the Non Profit Leasing Guidelines dated March 16, 1999 (Attachment 2) for the following reasons:

1. The Citadel Facility is specifically noted in the Non-Profit Leasing Guidelines as a unique facility which is to be dealt with on an individual basis by City Council.
2. The Citadel will not be responsible for paying all capital and maintenance costs for the Facility.
3. Although the Citadel is a not-for-profit corporation, it will have commercial subtenants.

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The Citadel

In 1974, the Citadel and the City entered into a land lease wherein the Citadel would construct a theatre complex in the downtown core of Edmonton, with the first phase of the Facility opening in 1976. Subsequently, in 1981, the Citadel and the City signed a second land lease for additional lands to expand the Facility and incorporate an indoor public park and public pedway to promote connectivity and to accommodate access to Edmonton's LRT system. The Facility's phase two opened in 1984, and in 1989 the Facility was fully completed.

The Citadel and the Facility are cultural institutions in Edmonton offering a range of theatrical experiences to the community. Being located downtown, adjacent to the civic precinct, the Citadel plays a major role in bringing Edmontonians and visitors to the core, contributing to vibrancy and employment within the art sector. During the 2023/2024 production year, the Citadel had over 110,000 attendees while staffing over 500 permanent and temporary positions, volunteers and contractors.

Aligning with The City Plan, the continued operation of the Facility is important for the promotion of art and culture in Edmonton. The City has committed to partnering with organizations to enhance creativity, arts and cultural industries. The City Plan states, "Edmonton is where creative spaces emerge and arts, design and culture flourish". The Citadel is an important partner for the City in these efforts.

The New Lease

Through initial discussions about renewing its leases, which were set to expire on September 30, 2024, the Citadel informed Administration that they did not have the required financial resources or expertise to continue to repair, maintain and complete capital renewal work for the Facility. The Citadel has operated the Facility for nearly 50 years, during which time the City also has provided varying subsidies towards repair, maintenance, security, utilities, janitorial and horticulture of the indoor public park and public pedway. The original lease agreements indicate that the Facility would ultimately be surrendered to the City at the end of the term. With this in mind, Administration and the Citadel have been working to negotiate a new lease based on a set of key principles:

- Consolidating the two lease agreements into one and addressing inconsistencies;
- Allocating duties based on competencies;
- Clarifying roles and responsibilities throughout the Facility, and;
- Considering opportunities to share in risks/costs.

Administration determined that, based on each organization's capabilities and except for the commercial spaces and the Citadel's theatre and other improvements, it is in the City's best interest to take on the Facility's regular maintenance and capital renewal. The Citadel will remain responsible for the repairs and maintenance of the commercial use spaces and the theatre and other tenant improvements. Having the City take over the majority of the maintenance and all of the capital renewal has significant cost implications, as described in the budget section below. In turn, the Citadel's focus would be on promoting and creating a vibrant downtown arts scene while also redirecting its resources to programming and away from Facility management.

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With the City taking on maintenance, repairs and capital renewal, the Citadel would be responsible for janitorial, insurance, security, utilities and property tax costs. In addition, the Citadel has agreed to an annual contribution at a rate that allows the City to offset some of the Facility costs without negatively impacting the Citadel's ability to provide programming. The resulting contribution is a minimum of \$100,000 per year towards the capital renewal for the Facility. To help achieve this, the Citadel plans to implement a \$2 per ticket fee to raise the necessary funds. Based on projected ticket numbers and past attendance, the ticket fee likely will result in a contribution greater than \$100,000 per year. Should the collected ticket fee be less than \$100,000 per year, the Citadel will use other revenue to meet the minimum annual \$100,000 contribution requirement.

To provide the Citadel with opportunities to attract more guests downtown, the Citadel will be allowed, with written approval from the City, to sublease portions of the Facility to commercial tenants. The rent from subtenants will be used towards the Citadel's expenses in operating the Facility, their capital costs contribution, with any remaining funds to be used towards other non-profit purposes.

If the proposed lease agreement to the Citadel is not approved, the existing leases will remain in effect until the term expires on September 30, 2024. At that time, the Facility and lands would either be returned to the City, resulting in the City incurring all the costs associated with programming, operating, maintenance and capital or the existing leases would go into overhaul and could be terminated by either party on short notice. If the Facility and lands were returned to the City, the costs for those responsibilities would be significantly higher than the costs incurred via the recommended lease agreement. The City would then be required to manage the Facility's specialty and public spaces or find a new operator. The City could also choose to close the Facility and demolish the building, which would require a further cost estimate, however this approach is not recommended. The City has not included the costs of operating the Facility in its 2023-2026 budget.

Budget/Financial Implications

Operating funded repair and maintenance obligations for the Facility are estimated at \$1.36 million per year, including the addition of three full-time positions. Capital requirements of up to \$375,000 may be required to support the maintenance work. The City will use the existing operating maintenance budget to address the requirements of the lease, which may impact facility maintenance services levels across the City. Administration will evaluate the net impact of services to this facility across the City's inventory of buildings and adjust service levels and funding in future budgets. Administration will address the additional maintenance requirements through a funded service package and capital profile as part of the Fall 2024 supplemental budget reports.

The estimated capital renewal cost over the next 25 years is \$131.0 million (-50/+100 per cent). The Facility capital renewal would be partially funded by the Citadel capital repair and maintenance contribution (minimum \$100,000 per year) per the lease agreement. The estimated capital renewal costs over the initial term of the proposed 10-year lease is estimated to be \$56.2 million (-50/+100 per cent). The City's overall 2023-32 capital renewal investment gap is estimated

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to be \$4.8 billion; adding the capital renewal costs from this Facility, without an increase in funding will increase this gap. If the recommendation in this report is approved, Administration will determine the prioritization of this Facility's renewal work within the City's overall facility portfolio. If the Citadel renewal work is of higher priority, the renewal of other City facilities could be deferred, increasing the risk of service impacts and increased future maintenance and capital renewal costs for the other facilities.

Community Insight

Although Administration has not completed public engagement specific to the new proposed Citadel lease, groups such as the Downtown Business Association and the Downtown Recovery Coalition emphasize the importance of safety and vibrancy in the downtown core. The Citadel Theatre directly contributes to this vibrancy, particularly through its connection to the pedway system. The pedway system within the facility is a key transfer point between surface and subsurface LRT stops at Churchill Square.

The Citadel also provides educational programming, artist mentorship, event venue rentals, meeting and corporate spaces, and other community benefits.

GBA+

The Citadel is one of Canada's largest and busiest professional, not-for-profit theatre companies and facilities, drawing in patrons from the greater Edmonton area and central and northern Alberta.

Their mission statement, "the Citadel Theatre believes in being Inclusive, Innovative and International in our programming and practices," is a guiding principle for their operations. The theatre is an accessible facility.

The Citadel has had a significant impact on Edmonton's 2SLGBTQIA+ community by serving as the creative workplace for hundreds of talented 2SLGBTQIA+ artists and staff members. The Citadel has also been a supportive community ally, hosting events such as Pride festivals, musical performances, exhibitions, and community dances throughout the years.

Examples of initiatives that the Citadel undertakes include:

- In September 2020, they released their first annual Inclusivity and Diversity Report to provide transparency about the people who work, create and learn at the Citadel
- 35/50 Initiative, aiming for the organization to be composed of a minimum 35 per cent Black, Indigenous and People of Colour (BIPOC) and 50 per cent women or non-binary people by the 24/25 season
- Scholarships enhancing community accessibility to train in the performing arts
- Inclusive programming with support from Centre for Autism Services Alberta
- Hearing Loop for hard of hearing in theatre spaces
- Accessibility in the public park
- Pay What you Choose program in conjunction with Alberta Blue Cross

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Risk Assessment

Risk Category	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
If recommendation is approved						
Financial	Increased pressure on the facility maintenance operating budget which will impact the prioritisation of work.	5 - almost certain	3 - major	15 - high	Administration will prepare a funded service package and capital profile as part of the Fall 2024 supplemental budget.	Operating expenses will be drawn from the tax levy.
Financial	Adding the capital renewal requirements without an increase in funding could result in deferring renewal of other facilities leading to increases in future renewal costs, increases likelihood of system failures and increased likelihood of service level reductions,	5 - almost certain	3 - major	15 - high	A capital contribution from the tenant will offset some costs. Reallocation of capital funding from less critical renewal projects Using Facilities - Minor Renewal Program profile CM-19-0000 to address asset failures and extend the life of assets until major renewal can occur	Creation of a dedicated renewal fund Seek other funding sources (e.g. grants, other orders of government, etc.)
If recommendation is not approved						
Financial	Tenant has indicated challenges to perform renewal/maintenance work, which can result in the asset reverting to the City at the end of the existing lease term.	3 - possible	3 - major	9- medium	None	Operating and capital expenses will be drawn from the tax levy as it will be a City owned asset, vacant, and without an operator in the downtown core.
Financial	Lease goes into overhold and the tenant is not able to complete preventive or other required maintenance/renewal work	4 - likely	3- major	12 - medium	Property Management staff would request the tenant provide plans related to maintenance and capital renewal, and follow up on what actions have taken place.	Tenant would attempt to obtain grant funding, and/or the City would be requested to provide funding

Attachments

1. Lease Terms
2. Non-Profit Leasing Guidelines