

A DISCUSSION OF THE PROBLEMS SURROUNDING THE PROVISION OF ACCOMMODATIONS FOR AIR CADET SQUADRONS

The purpose of this paper is to consider, particularly from the viewpoint of the Squadron Sponsoring Committees, the scope of problems surrounding the provision of accommodations for Air Cadet squadrons, including the current situation as well as trends anticipated in the future.

[1] Responsibility

The governing documents for the provision of accommodations and facilities for Air Cadet squadrons include QR (Cadets) 2.31 (c) and 2.32 (f), the 2005 Memorandum of Understanding between the Department of National Defence and the three cadet Leagues, the Bylaws of the Air Cadet League of Canada, and the Policy and Procedure Manual of the Air Cadet League.

Consideration of the impact of QR (Cadets) is beyond the scope of this paper; however, the 2005 Memorandum of Understanding sets out in clear language *“The Roles and Responsibilities to Be Assumed by Each of the Participants to This MOU to Ensure the Proper and Efficient Delivery of the Cadet Program within Canada.”* In particular, section 5.2.6.5 requires the Squadron Sponsoring Committee (SSC) to provide *“... in consultation with the Corps/Squadron CO adequate office and training facilities, where not provided by DND, including identified insurance requirements.”* This section also requires the Provincial Committees to implement League national policies on facilities and insurance requirements, and the National level to establish such policies.

Under Article 9.2.4 (ii) of the Bylaws of the Air Cadet League of Canada, it is the responsibility of the SSC to *“... maintain the squadron and secure accommodation where not provided by DND.”* Under the heading of the SSCs’ Responsibility to the Air Cadets, Article 3.6.2 of the Policy and Procedure Manual (PPM), includes *“...obtaining suitable training quarters for the squadron.”*

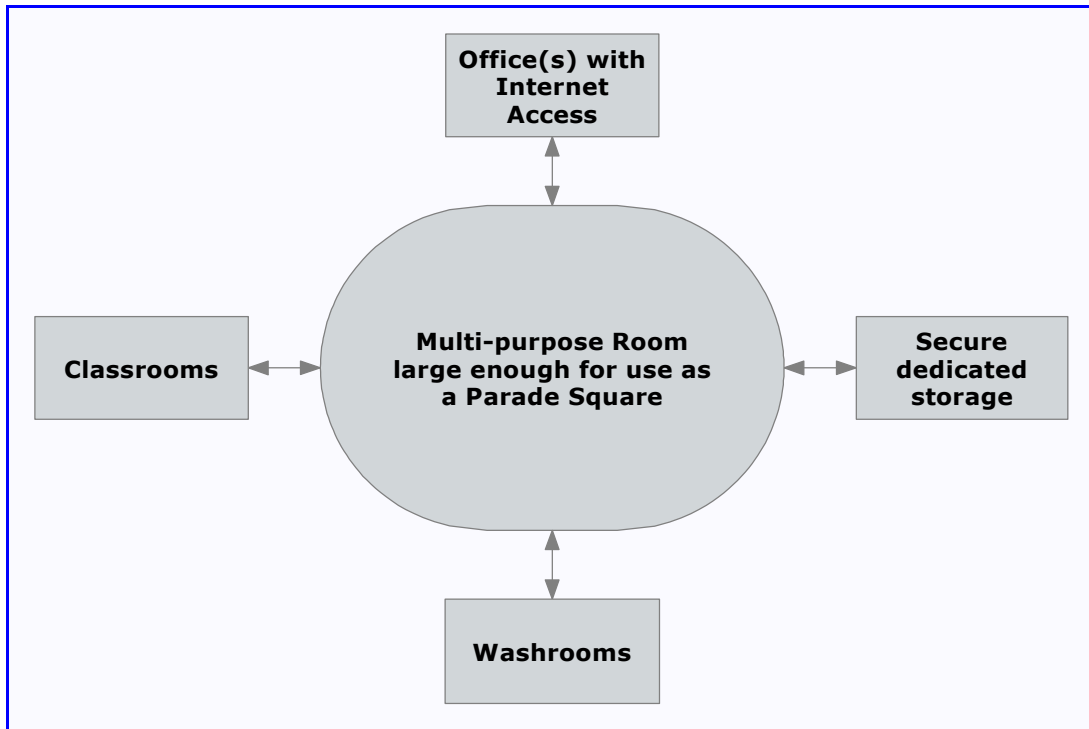
In summary, all the governing documents of the Air Cadet organization place the responsibility of providing quarters on the SSC for those units who are not accommodated in DND facilities. These quarters include training, administration and storage facilities.

[2] Minimum Requirements

There are no written standards of the minimum for Air Cadet facilities, nor is there much point in attempting to set such a standard: local exigencies (including the size of the squadron, its location and the availability of buildings in that area, funds available to secure accommodation, etc.) will, by definition, take precedence on this issue.

Nevertheless, it is helpful for the SSC to have a basic idea of the ideal quarters to aid them in their search. The first step would be to discuss the squadron’s requirements with the Commanding Officer and the financial resources available for accommodation in order to set a mutually agreed-upon goal. It would also be helpful, at this time, to reach a shared understanding that ideal circumstances are seldom achieved and that some give-and-take will most likely be required on both sides before the process is over.

The training program is similar for all Air Cadets throughout Canada, following basically the same syllabus and format, particularly for weekly parades, and this format suggests what the basic requirements will be for suitable facilities:



Ideally, such facilities will be located in the same building in close proximity to each other, will be available on more than one night per week to allow for optional activities, and will allow room for future expansion. On a practical basis, however, local circumstances will dictate how many of these factors are actually achievable.

[3] Existing Situation

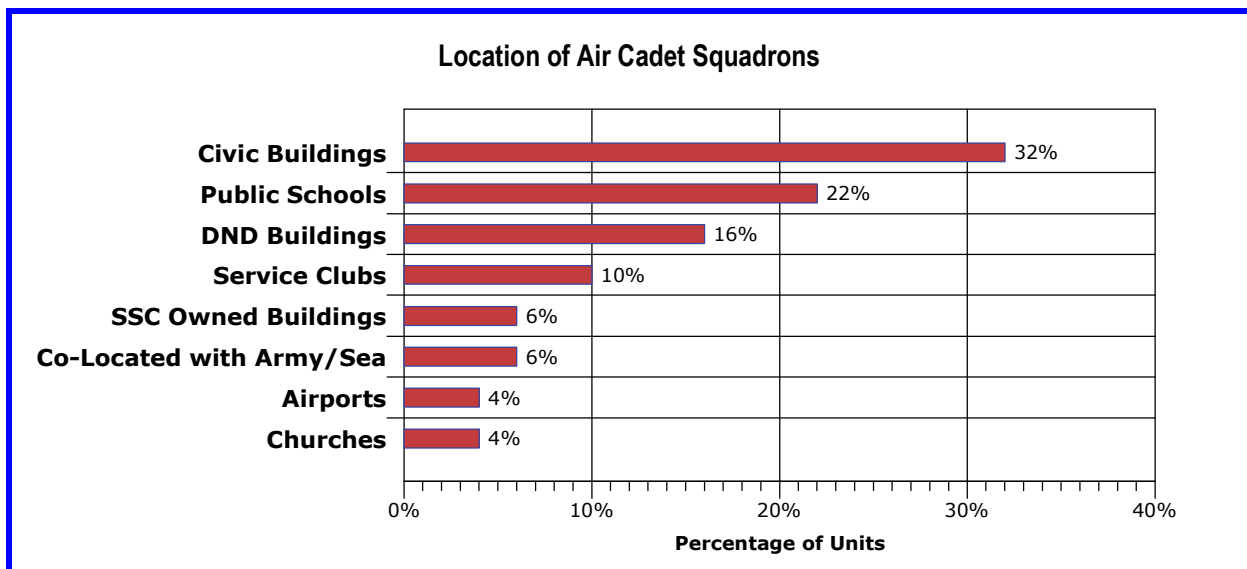
At the time of its inception during the Second World War, the Air Cadet organization was fortunate in that there was a large number of DND facilities across the country which could be used for cadet activities. At the same time, public school administrations were supportive of the program and offered suitable accommodation at little or no cost.

Since that time, finding the type of building facility conducive to cadet training became more and more difficult as DND reduced their inventory and as large, older buildings reached the end of their economic life spans. Over the course of the postwar years, the rising population generated an increase in youth groups seeking facilities in the same dwindling market, to the point where school administrations began to ration their supply by levying significant occupancy fees. Meanwhile, the continually rising trend of real estate

operating costs have made otherwise suitable privately held facilities prohibitively expensive for non-profit groups.

The result of these trends has made it increasingly difficult to find suitable facilities for Air Cadet squadrons. No national statistics are compiled of the number of units having difficulty with premises; therefore, for the purpose of this paper, a single region was analyzed on the basis that national trends would probably follow fairly closely.

At March 31, 2009, the Pacific Region Air Cadet population totalled 3,105 cadets, an average of 55 cadets for each of the 56 squadrons. Accommodations for the squadrons were classified as follows:



Only eight units were found to be accommodated within DND buildings, and many of these expressed concerns that, due to the DND's own requirements, they soon may have to relocate.

The data sample showed that 38% of the units were paying rent for their accommodation, ranging between **\$950** to **\$21,000** per annum (excluding nominal municipal rents of \$1 to \$100 per annum); the average rent paid in 2008 was **\$6,325**. One large squadron, which had been evicted from an armoury due to the 2010 Olympics, will be required to pay in excess of **\$30,000** for suitable facilities over the next year.

Of greater concern is the number of squadrons which will face accommodation difficulties in the future. No hard statistics have been gathered for this item; however, it appears that over **30%** of the squadrons will have to relocate in the near future due to the requirements of landlords. At present, there are no statistics on how many units are occupying what they consider to be unsuitable premises, although this number is clearly on an upward trend.

Although there is no data baseline from which to illustrate trends, it is clear that the situation is deteriorating for existing squadrons in this region and, in fact, across Canada. New squadrons are inevitably required to pay rent, and at rates that exceed just operating costs.

The *Spring/Summer 2007* issue of the Cadence magazine featured a number of articles on the growing accommodation problem for all cadet units right across the country. These articles provided snapshots of specific units and the difficulties they were encountering, as well as the generic problems which arise from unsuitable accommodations and their impact on the cadet unit, such as:

- the difficulty in storing uniforms and in kitting new recruits;
- limited classroom and office space;
- lack of computer or Internet access;
- falling recruiting and retention rates; and,
- decrease in funds for optional training due to higher quarter's costs.

On the positive side, while the number of squadrons domiciled in service clubs or DND buildings may be falling, the above chart suggests areas where new trends might emerge, such as greater sharing of premises with other cadet units, participation with churches, and a reinforcement of the trend towards the use of civic building and schools.

[4] How to Recognize a Developing Problem

Situations can often develop where a squadron finds itself "homeless" without warning, but these are usually in the minority, involving catastrophic events such as a fire. More often, the eviction may come as a surprise when, in fact, early signs had gone unnoticed: Learning of the sale of a privately held building may be a shock, but not if the property had been listed for sale for some time.

The reasons a squadron may have to find a new home are endless, but most fall under only a small number of main headings, including:

- Catastrophic events;
- sale or redevelopment of the property;
- expiration of the lease;
- the squadron outgrows the premises;
- the SSC cannot pay the rent.

Little can be done about catastrophic events. Insurance coverage may replace the contents, but unless the SSC owned the real estate, it will probably be necessary to find alternate accommodations. Even when structures are rebuilt, the economics of new construction usually involve new pressures that prevent the continued occupancy by a cadet unit - redeveloped Legion properties are a prime example, where building costs require the Society to generate higher cash flows.

For the same reasons, the sale or redevelopment of the property will generally preclude continued occupancy by the squadron. This type of land use change seldom occurs overnight, however, and the SSC invariably has some sort of notice that this change will or might occur. For the prudent, in view of how difficult it is to find alternate accommodations, the time to plan a move is at first notice, not when the sale actually takes place.

The expiry of a lease or other tenancy agreement presents a different set of problems to the SSC, since the motivations and intentions of the landlord are not always known or evident. Written leases provide better protection to the SSC than verbal agreements, but unless renewal terms are clearly set out, both types of tenancies end upon their expiry, and can only be renewed if the landlord agrees. An astute SSC will maintain a close relationship with the landlord throughout the term in order to be forewarned of any changes in circumstances as they develop.

The general suitability of the premises for the squadron's specific circumstances is usually easy to interpret, particularly for the SSC which discusses this aspect frequently with the CO, and both parties should be constantly measuring the degree of probability that the squadron may have to relocate upon expiry of the existing tenancy or upon a change in circumstances.

[5] Starting a Search for New Quarters

Once it has been determined that the squadron will require new quarters, and the basic requirements have been agreed upon, the SSC can strike a subcommittee to undertake the search. It is always helpful to seek personnel with previous experience in this area and/or some expertise in commercial real estate; when no such expertise is available to the SSC, the resources of the PC and local real estate firms might be considered.

The chart in Section 2 above illustrates where the majority of units currently find their quarters and these will undoubtedly form the first line of inquiry for the subcommittee, bearing in mind the basic requirements sought. The greatest number are now housed in civic buildings and schools, whose administrations are most susceptible to local political pressure from parents and supporters of the squadron. Specific circumstances in the squadron's locale will determine whether other opportunities exist. Once options have been identified, these can be ranked in terms of suitability and cost, and submitted to the SSC and CO for their consideration.

Experience has shown that this search will prove to be much more difficult for those SSC's who have not previously had to pay rent for premises, and who will naturally have problems in adapting their members and supporters to that concept. In many instances, the prospect of having to take on much larger financial responsibilities than were previously the case has actually paralysed some committees and prevented them from carrying out a relocation; thus, it would be prudent to face the financial ramifications from the outset by discussing options for funding the new responsibilities.

Another difficulty commonly faced by relocation committees is the inevitable suggestion to build their own facility. Such proposals are capable of generating a lot of excitement; unfortunately, the tremendous obstacles and costs involved have made successes very rare in the past. In fact, these proposals can work against the best interests of the unit by sapping the energy and resources of supporters, and by diverting attention from achievable goals. Unless the SSC is the recipient of a large bequest, or has sufficient funds on hand to complete the entire project, real estate development should not be considered: the SSC which cannot afford to rent, surely cannot afford to build!

[6] Regulatory Compliance

Most provincial statutes require that Societies (SSCs) must be incorporated in order to hold real estate interests such as titles, leases, licenses, etc., and most SSCs understand that incorporation involves compliance with provincial laws, as well as federal regulations if charitable institution tax status is involved. Legal counsel should be mandatory for any SSC contemplating incorporation or the acquisition of real estate interests, and such legal counsel can be obtained on their own or through their PC. The comment has often been made that SSCs cannot afford legal counsel; in fact, the opposite is true: SSCs cannot afford NOT to have legal counsel, given the amount of money involved in real estate interests.

Similarly, municipalities and provinces also regulate the occupancy of commercial buildings, even by non-profit societies such as SSCs, and it would be foolish not to seek professional advice for these areas as well. An example would be the environmental condition of buildings which are being adapted to a different use; if these buildings present environmental difficulties (asbestos, PCBs, lead, etc.), the SSC must be made aware of this before expensive renovations are carried out, bearing in mind that DND has inspected cadet premises in a number of regions in the past to determine whether they are safe, under their standards, for cadets to occupy.

Generally speaking, the costs to adapt premises for compliance with these regulations will probably rest with the SSC. It is therefore in the SSC's best interests to seek professional advice at the outset for compliance with these items.

[7] Legal Aspects

Having arranged legal counsel, on their own or through their PC, to advise on incorporation and compliance matters, SSCs will already have some legal protection in place. It is, however, helpful to understand who is actually taking on the responsibility of the real estate interest.

From a legal standpoint, only people exist. Thus, in most provinces, societies or companies must be incorporated (or given "body") in order to be legally recognized. A person may therefore buy a piece of property in these provinces, as may an incorporated society - a "squadron" may not, since it exists only as a creation of DND. It is therefore critical to ensure that legal matters are always conducted in the proper name of the SSC, and not in the name of the squadron. The danger in not doing so is that, by attesting to a document such as a lease or a mortgage in the wrong name, the signator (that is, the member of the committee who signs the document) may be incurring personal liability, with all the problems that may entail.

These provisions apply not only to real estate interests, but to any documentation signed by the SSC on behalf of the "squadron", such as car or bus rentals, loans, hall rentals, undertakings, or any other financial transaction.

[8] Financial Considerations

Real estate interests often, if not always, involve varying levels of hidden costs. Basic rental rates (often called “triple net rents”) apply, as suggested, to the basic real estate; the costs of operating the real estate such as taxes, utilities, heating and maintenance, are usually added on and these costs can often account for 25% to 75% of the base cost or even higher. Furthermore, while the base costs may be fixed by the terms of the lease, operating costs fluctuate according to the rates imposed by third parties over which the landlord has no control.

Lease arrangements which include base rents and operating costs are often referred to as a “gross rental rate”, and in these circumstances the landlord is responsible for paying the operating costs. However, even in those circumstances, rapidly increasing costs may result in an untenable situation for the landlord which can place the SSC’s tenancy in risk.

In the final analysis, whatever form the real estate interest takes (leasehold interest, ownership, in formal occupancy agreement), SSCs must take particular notice of the legacy they leave for future members of their committee: What may have been exciting in the heat of the moment concerning the brand-new facility may lose some luster in the cold light of day when the costs must be covered. Thus, the future trend of the costs associated with that particular tenancy must be thoroughly considered, with full knowledge that the occupancy costs must be covered before the first dollar is spent on cadet activities.

The British Columbia Provincial Committee has published a Rule (3.1) regarding Real Estate as part of their Provincial Administrative Manual. This document includes a comprehensive Business Plan suggestion covering most of the issues which might be encountered by SSCs wishing to undertake a new interest in real estate, and an accounting of the costs. BCPC has kindly consented to share this document, a copy of which is attached, or which is available at www.aircadetleague.bc.ca (under Manuals/Provincial Administrative Manual/Section 7 Rules and Regulations).

[9] Final Approval

Under Section 3.5.1 of the Policy and Procedure Manual, Provincial Committees are charged with overseeing the major financial expenditures of the Squadron Sponsoring Committees. SSCs are therefore advised to consult with their PC on a regular basis throughout the relocation process. Although the final decision will always rest with the SSC, the PC has an overview of all the units in the province and can offer advice and recommendations on situations it has seen before.

The procedures for approval and compliance with other regulatory bodies will vary from province to province and from municipality to municipality. SSCs should therefore rely on their legal counsel to assist them in ensuring full regulatory compliance for the protection of their interests.

BRITISH COLUMBIA PROVINCIAL COMMITTEE RULES and REGULATIONS

Rule 3.1

REAL ESTATE

Access to suitable premises for Air Cadet Squadrons is getting more and more difficult to arrange, as older buildings are demolished or withdrawn from service by their owners (often the Department of National Defence or service clubs), and as public agencies such as school boards increase the costs they charge to users. As a result, more and more Sponsoring Committees are entering into real estate transactions in order to provide quarters for their squadrons; in fact, many of these Committees often have little choice.

These transactions can take many forms, from outright ownership to informal licences of occupation; but all involve occupancy agreements and varying degrees of occupancy costs. Even units housed in military buildings are being asked to enter into tenancy agreements in some cases, and this will soon be the standard in British Columbia.

Getting involved in non-residential real estate is a process few of us have experienced before, and it is important to recognize the potential pitfalls that a Committee may face in doing so. While ownership can be a significant advantage, there are numerous considerations that need to be taken into account before entering into a purchase or lease arrangement. These considerations can have a serious impact on current and future Sponsoring Committees and could also have an impact on the squadron and the Air Cadet movement. There is also a possibility of jeopardizing the future viability of a squadron.

BUSINESS PLAN REQUIREMENT

In order to minimize the potential problems and to assist the members of the Sponsoring Committees in preparing for the tasks they will face, the British Columbia Provincial Committee requires each Committee contemplating the purchase, lease and/or development of real estate to complete a short Business Plan which **Must** be submitted **Prior** to the signing of any documentation. A draft Business Plan has been provided on the following pages to assist committees.

By completing this Business Plan before entering into a purchase or construction contract, the Committee can be sure they have not overlooked any important steps, and they can also benefit from the experiences of other Committees who have carried out similar projects. This way, they can also ensure in advance that the legacy they leave to their Squadron's future Sponsoring Committees will be beneficial, rather than a burden.

Please feel free to access our shared knowledge by contacting the British Columbia Provincial Committee on any questions you may have, or ideas you wish to share.

BUSINESS PLAN FOR REAL ESTATE DEVELOPMENT



_____ SQUADRON SPONSORING COMMITTEE

1. THE REAL ESTATE INTEREST

1.1 What kind of real estate interest is involved?: **Fee Simple Ownership**
Lease
Licence

1.2 Do you already own this interest? **Yes** **No**
Purchase Price \$ _____
Date _____

Please attach a copy of the proposed sale agreement, lease document or licence agreement.

1.3 The Legal Description of the parcel is:
The PID number is: _____

1.4 Please indicate the total cost of the development and describe briefly how the Sponsoring Committee (hereafter referred to as the "Society") intends to finance this cost:

1.5 Is the land improved with a building? **Yes** **No**
Do you intend to use this building? **Yes** **No**
Is new or additional construction intended? **Yes** **No**

Please provide a brief description:

1.6 Has a Stage 1 Preliminary Site Investigation been completed by a Professional engineer? If so, please attach a copy. **Yes** **No**
If not, one MUST be completed and filed prior to development.

BUSINESS PLAN FOR REAL ESTATE DEVELOPMENT



2 CONSTRUCTION PROCESS

- 2.1 Has an architect been retained? **Yes** **No**
If not, what does the Society intend to do for plans and approvals?
- 2.2 Will the Society act as the General Contractor? **Yes** **No**
- 2.3 Have the Directors of the Society passed the necessary resolutions to permit the Society to enter into a contract to construct a building? **Yes** **No**
Does the resolution provide for the authorization of who will sign the contract on behalf of the Society? **Yes** **No**
- 2.4 Has the contract been put out to tender? **Yes** **No**
- 2.5 Is the Contract a fixed Price or Cost Plus arrangement? **Fixed** **Cost +**
- 2.6 Has the Society been provided with a surety from the contractor? **Yes** **No**
(A surety may consist of a Letter of Credit, bond, or insurance)
- 2.7 Who has been authorized to deal with the contractor during construction?
(Please provide the name and contact information for your Development Co-ordinator)
- 2.8 Does the contract provide for draws? **Yes** **No**
How will these draws be administered? Please describe how the percentage of completion will be established and who will do the inspections.
- 2.9 Who pays taxes, utilities and insurance during construction?

BUSINESS PLAN FOR REAL ESTATE DEVELOPMENT



- 2.10 Does the contract provide for a holdback?
What percentage is involved and for how long? **Yes** **No**
- 2.11 What provisions have been made for cost over-runs?
- 2.12 Are volunteers going to be asked to assist with construction?
If so, please describe how the Society will observe WCB regulations? **Yes** **No**
- 2.13 Has the Society purchased Course of Construction insurance? **Yes** **No**
- 2.14 What provisions have been made for equipment? (Tables, chairs, office equipment audio-visual, sports)

3. THE LEGACY FOR FUTURE SPONSORING COMMITTEES

- 3.1 Has a property tax exemption been granted?
How often does this have to be renewed? **Yes** **No**
- 3.2 Who is going to manage the building when it is complete?
- 3.3 What other groups will have an interest in the property, or be able to use it?
- 3.4 Please provide an Annual Operating Budget for the completed building (a sample is attached).

BUSINESS PLAN FOR REAL ESTATE DEVELOPMENT



**ANNUAL OPERATING BUDGET
for
REAL ESTATE INTERESTS**

<i>Income</i>	
Sub-Lease Rent:	\$
Grants:	\$
Donations:	\$
Misc:	\$
Total:	\$
<i>Expenses</i>	
Rent/Mortgage:	\$
Real Estate Taxes:	\$
Building Insurance	\$
Hydro:	\$
Gas/Heating Oil:	\$
Water:	\$
Paper products & Soap	\$
Janitorial Wages:	\$
Cleaning Supplies:	\$
Maintenance:	\$
Light Bulbs:	\$
Snow Removal:	\$
Scavenging:	\$
Special Costs:*	\$
Miscellaneous:	\$
Total:	\$
Profit (Loss)	\$

* = airport maintenance charges; promotion fees; etc.