

Union Station Acquisition - Post-Closing Items and Proposals for a Governance Structure

(City Council on August 1, 2, 3 and 4, 2000, adopted this Clause, without amendment.)

The Policy and Finance Committee recommends the adoption of the Recommendation of the Administration Committee embodied in the following communication (July 11, 2000) from the City Clerk.

Recommendations:

The Administration Committee on July 11, 2000, recommended to the Policy and Finance Committee and Council, the adoption of the report (July 10, 2000) from the Chief Administrative Officer respecting the Union Station Acquisition Post-Closing Items and Proposals for a Governance Structure, subject to striking out the Recommendations embodied therein and inserting in lieu thereof the following:

“It is recommended that:

- (1) the Chief Administrative Officer be requested to submit a report to the Administration Committee for its meeting scheduled to be held on September 12, 2000, on options for a governance model for Union Station, after further discussions with representatives of the Federal Government and in consultation with the Office of the Mayor, GO Transit and the Chair of the Toronto Transit Commission or his designate;
- (2) the Federal proposal for a governance model that allows for Federal and Municipal participation in a separate entity and for a minimum federal financial contribution of \$25 Million be pursued;
- (4) that there be a requirement that City Council shall have the right to appoint a majority of the members of any governing body for Union Station;”
- (5) until a separate governing body has been established, a staff team headed by the Commissioner of Corporate Services, with assistance from the Commissioner of Urban Development Services, the Chief Administrative Officer, the Chief Financial Officer and Treasurer and the City Solicitor and other staff as required, in consultation with GO Transit, VIA Rail; TTC and federal government officials, prepare and issue an international Request for Expressions of Interest in order to determine the extent of private sector interest in the restoration, economic revitalization and ongoing management of Union Station;
- (6) the terms of the Expressions of Interest be finalized in consultation with the Chair of the Administration Committee and the Chair of the Toronto Coach Terminal and be circulated to Members of the Administration Committee for information;”

- (7) the retainer of Davies Ward and Beck be continued with the necessary funds up to \$200,000.00 to be allocated from Corporate Contingency; and
- (8) the appropriate City staff be authorized and directed to take all necessary actions to give effect thereto;”.

Background:

The Administration Committee at its meeting held on July 11, 2000, had before it a report (July 10, 2000) from the Chief Administrative Officer respecting Union Station acquisition post-closing items and proposals for a governance structure; and recommending that:

- (1) Council authorize the Chief Administrative Officer to pursue a governance model for Union Station that allows Federal and Municipal participation in a separate entity and the Mayor and the Chief Administrative Officer continue discussions with representatives of the Federal Government with regard to the terms and conditions under which such an entity will operate including a minimum federal financial contribution of \$25 million and report back to the September Administration Committee on those terms;
- (2) until a separate governing body has been established, a staff team headed by the Commissioner of Corporate Services, with assistance from the Commissioner of Urban Development Services, the Chief Administrative Officer, the Chief Financial Officer and Treasurer and the City Solicitor and other staff as required, in consultation with GO Transit, VIA Rail; TTC and federal government officials, prepare and issue an international Request for Expressions of Interest in order to determine the extent of private sector interest in the restoration, economic revitalization and ongoing management of Union Station;
- (3) the retainer of Davies Ward and Beck be continued with the necessary funds up to \$200,000.00 to be allocated from Corporate Contingency; and
- (4) the appropriate City staff be authorized and directed to take all necessary actions to give effect thereto.

(Report dated July 10, 2000, addressed to the
Administration Committee from the
Chief Administrative Officer)

Purpose:

The purchase of Union Station by the City of Toronto has closed in escrow subject only to the required filings approval and registration of the numerous legal documents with the Registry Office. Once these are complete, likely by the end of July, 2000, title will transfer and Union Station will officially belong to the City. Council direction is required on a preferred governance option and for the issuance of a Request for Expressions of Interest from the private sector as a

first step in the revitalization process.

Financial Implications and Impact Statement:

The City is acquiring all of the real estate assets of the Toronto Terminals Railway Company Limited (TTR) for a net purchase price of \$55 million and a mutual release of all outstanding rental amounts owing from TTR to the City which are estimated at \$25 million. The \$55 million net purchase price has been financed by the transfer of the Rail Corridor, the CP Express Building and certain prepaid leasehold space in Union Station to GO Transit for the sum of \$55 million. A proposed contribution of \$25 million from the federal government depends on a governance structure to be determined by Council.

Completion of this transaction has taken more than twice as long as anyone had anticipated. To date, all costs for outside legal counsel have been paid out of the Legal Division budget. However, no further funds are available in the Legal Division's budget to cover Davies Ward and Beck's retainer. That firm's continuing involvement is critical to a timely and satisfactory resolution of this transaction. Funding to complete the transaction, up to and including the award of an RFP, will be required.

The Chief Financial Officer and Treasurer has reviewed this report and concurs with the financial impact statement.

Recommendations:

It is recommended that:

- (1) Council authorize the Chief Administrative Officer to pursue a governance model for Union Station that allows federal and municipal participation in a separate entity and the Mayor and the Chief Administrative Officer continue discussions with representatives of the federal government with regard to the terms and conditions under which such an entity will operate including a minimum federal financial contribution of \$25 million and report back to the September Administration Committee on those terms;
- (2) until a separate governing body has been established, a staff team headed by the Commissioner of Corporate Services with assistance from the Commissioner of Urban Development Services, the Chief Administrative Officer, Chief Financial Officer and Treasurer, and the City Solicitor and other staff as required, in consultation with GO Transit, VIA Rail; TTC and federal government officials, prepare and issue an international Request for Expressions of Interest in order to determine the extent of private sector interest in the restoration, economic revitalization and ongoing management of Union Station;
- (3) the retainer of Davies Ward and Beck be continued with the necessary funds up to \$200,000.00 to be allocated from corporate contingency; and

- (4) appropriate City staff be authorized and directed to take all necessary actions to give effect thereto.

Background:

At its meeting held July 27, 28 and 29, 1999, Council authorized the purchase of Union Station and other real estate assets of TTR and recommended that the Chief Administrative Officer report back on the structure and financing of the acquisition of TTR's assets and employment issues. A full business case analysis of the transaction was provided to Council on February 1, 2 and 3, 2000 at which time Council adopted the following recommendations:

- (1) authority be granted to continue with the completion of the purchase of the real estate assets of TTR, including the Rail Corridor and CP Express Building Site, at a net purchase price of \$55 million subject to satisfaction (or waiver) of all the terms and conditions of the Purchase Agreement, including the financial arrangements with GO Transit, VIA Rail and other necessary parties and execution of all other agreements, consents, releases and other documents required to complete this transaction, as determined by the Chief Administrative Officer and in form satisfactory to the City Solicitor;
- (2) the Chief Administrative Officer be authorized to report directly to Council in the event further instructions are required in order to complete the transaction;
- (3) authority be granted for the conveyance by the City of the Rail Corridor, the CP Express Building site and a long term operating lease of portions of Union Station for GO transportation facilities, to GO Transit for consideration of \$55 million, on a basis generally in accordance with the terms and conditions outlined in this report;
- (4) authority be granted for the execution of an operating lease agreement with VIA Rail on terms comparable to the proposed operating lease with GO Transit;
- (5) the Mayor initiate discussions with representatives of the federal government for financial contributions for the rejuvenation of Union Station including heritage aspects;
- (6) upon completion of the transaction, the City's appeal to the Supreme Court of Canada on the issue of interest be withdrawn;
- (7) the retainers of Davies, Ward and Beck and Namara Associates Limited be continued in order to complete the transaction;
- (8) funds for consulting fees and closing costs to be allocated out of funds received from TTR pursuant to the existing ground lease and on account of interest; and
- (9) that appropriate City staff be authorized and directed to take all necessary actions to give effect thereto.

Council has also directed that any private sector proposal for Union Station should contribute to the Union Station subway platform improvements.

Comments:

Upon completion of the real estate transactions:

- (i) The City will own Union Station and the underlying real property;
- (ii) GO Transit will own the rail corridor from the Don Valley to Strachan Avenue (including the train sheds and platforms) and the CP Express site and will have a secure long term lease with the City for space within Union Station; and
- (iii) VIA Rail will have secure long-term arrangements with the City for space within the Station and with GO for its operations in the Rail Corridor.

As provided in the Purchase Agreement approved by Council, TTR will stay on as the interim manager of Union Station and the rail corridor in order to allow the City and GO to make an orderly transition to other arrangements. The interim management agreement with the City can be terminated on 5 months notice to TTR.

Council has identified its financial objective for the purchase of Union Station as maximizing the City's asset (by consolidating its land ownership in the block and rejuvenating the Station to optimize its potential) in order to obtain a reasonable return. This is to be achieved at no net cost to the City.

In order to meet this objective, it has always been anticipated that the City will engage a private sector developer/property manager to restore, rejuvenate and manage the Union Station building through a public Request for Proposals (RFP) process. In order to meet Council's expectation that funding will be provided for subway platforms as part of this proposal, reference to the Union Station building will also include the subway station. Much of the existing building is underutilized at the present time. In order to track the business case and timing presented in the business case analysis, the City must move forward to a RFP at the earliest opportunity, commencing with a Request for Expressions of Interest. It is recommended that a high level staff team headed by the Commissioner of Corporate Services, and necessary staff from Planning, Finance, Legal and my office prepare and issue an international Request for Expressions of Interest, in consultation with the various stakeholders, to predetermine what proposals might be forthcoming for Union Station before the end of this Council's term. In order to assure continuity in the RFP process, it is recommended that Robert Bauer of Davies, Ward and Beck also be retained to provide legal advice and assistance through completion of the RFP.

Governance of Union Station:

Equally as important as the City's financial objectives, a number of public policy objectives can be better achieved with public ownership of Union Station. These include:

- (1) improved delivery of local, regional and national transportation through an enhanced intermodal transportation facility at Union Station with improved access to the subway, commuter and passenger railway and bus connections and potential for links to both the Island and Pearson airports;
- (2) increased pedestrian permeability from downtown through the railway lands to the waterfront via Union Station to accelerate development of surrounding lands; and
- (3) preservation, restoration and enhancement of Union Station as a significant historic and architectural landmark.

In the course of completing this transaction, it became apparent that the federal government shared many of these public objectives. Union Station was already designated under the federal Heritage Railway Stations Protection Act and as a national historic site. That legislation required TTR to obtain federal cabinet approval of the sale of Union Station to the City. As a condition of the sale, the City has been required to enter into a Heritage Easement Agreement respecting the heritage aspects of the building. A further collateral agreement will clearly identify the historically significant zones within the station. In anticipation of this happening, Council had previously directed the Mayor to explore the possibility of federal funding for Union Station.

In the course of these discussions, other federal interests in Union Station were identified in addition to the heritage aspects of the station. The possibility of a future rail transit link to Pearson Airport is a key objective of the federal Minister of Transport as well as an interest in the continuing financial viability of VIA Rail at this location. To assure a continuing voice in these policy objectives, the Minister has expressed a willingness to provide federal funding in exchange for participation in the redevelopment of the station. Previous reports have alluded to the possibility of the City enlisting other public sector participants to own and manage the Station. A federal / municipal entity which would oversee the redevelopment of the station has been suggested as a vehicle for federal funding for the Station.

While it is likely that a private sector manager/developer is best suited to restore, manage and maximize the economic potential for the Station, the same public policy objectives which convinced the City to purchase Union Station suggest that there must be a continuing public presence to oversee these objectives. This can be achieved in one of two ways.

Option A:

Once Union Station is transferred to the City it will be added to the City's inventory of buildings. The City can either manage the building itself in the usual manner through the Facilities and Real Estate Division or (recognizing the comprehensive resources required for such a project) retain a property manager/ developer to assume all costs and risks associated with restoring and

revitalizing the Station in exchange for a return on that investment. City Council would provide the public oversight as it does for any City asset.

There would be no direct role for the Federal government in this model and the federal funding of \$25 million would not be available.

Option B:

As indicated in the business case analysis, Union Station will require quality management. It derives its net revenues from two key sources, transportation users and retail/office tenants. Each will have different needs. Any restoration and economic revitalization must also respect and further the other public policy objectives. It is appropriate to create a new separate entity to oversee the redevelopment of Union Station which could be more hands on and responsive than Council. The restoration and management of the building would still be handled by a private sector developer/manager but accountable to a separate entity acting on behalf of Council. This model has been used in similar redevelopments of historic railway stations elsewhere in North America with good results.

If the City and federal government participate together in some form of oversight authority, membership and appointment of board members or directors would have to reflect the financial or other contributions each has made. The federal government has indicated a willingness to contribute \$25 million in exchange for such a role.

In either option, the City would retain title to Union Station and would provide the station building to the governing body or the manager/developer by way of lease or other contractual arrangement. This assures that Council will have continuing control and a source of revenue.

If Council directs me to pursue the federal/municipal governance option further, staff will review the various models available to Council and bring forward a report to the September Administration Committee recommending a governance structure for Union Station. This will address the nature of the entity (a board, corporation or other agency), any legal requirements, the role of the federal government, membership, appointments and any other issues that arise.

The City Solicitor's report on employment issues arising from the transaction should wait to accompany that report since the governance structure may impact on his opinion. As long as TTR is managing the building for the City no issue arises.

In the meantime, Council should still proceed with a Request for Expressions of Interest in order to move the process along. In light of the potential for federal involvement, in addition to consulting with the affected stakeholders such as GO, VIA and TTC as part of the process, federal government officials will also be included until negotiations have been concluded and a final decision made on the governance structure.

Conclusions:

With the closing of the real estate transactions, the City will finally own Union Station. TTR will continue to manage the property for the City on an interim basis. It is now appropriate to invite expressions of interest from the private sector in order to achieve the City's financial and other objectives for Union Station including the subway station.

Discussions are continuing with federal officials with respect to federal funding for Union Station. While the economic revitalization envisioned for the Station is best suited to the private sector, the public policy objectives for the station require ongoing public oversight and input through the restoration and revitalization process. A governance model that allows both the City and the federal government to exercise control over the development of the Station could be beneficial to all parties. Option A does not allow a direct role for the federal government at the station. Without such a role, federal funding will not be available.

Contact:

Alan Slobodsky, CAO's Office, 395-6459, Aslobod@city.toronto.on.ca
Patricia Simpson, Legal Services, 392-8057, psimpson@city.toronto.on.ca
Joe Farag, Finance, 392-8108, Jfarag@city.toronto.on.ca