

# TORONTO STAFF REPORT

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July 15, 2003

To: Administration Committee

From: Commissioner of Corporate Services

Subject: Union Station Request for Proposals-  
Negotiations with Union Pearson Group  
(Ward 28 - Toronto Centre-Rosedale)

Purpose:

This report responds to the Administration Committee's request that the Commissioner of Corporate Services report back on negotiations with Union Pearson Group with respect to any necessary revisions to the timelines detailed in the Master Agreement dated January 2003 and a reduction in the length of the lease term, including the financial consequences of doing so.

Financial Implications and Impact Statement:

The City's RFP required the proponents to submit a base proposal responding directly to a fixed set of requirements to restore, develop and operate Union Station for a fixed term of 35 years plus a 15 year renewal. The proponents also had the option of proposing to create additional development space by excavation within the existing building or proposing an alternate approach to the business/legal structure of the base proposal to enhance the returns to the City. If either was proposed, the proponent could then also propose a longer lease term.

Union Pearson Group (UPG) submitted a proposal to restore, develop and operate Union Station that included the excavation of additional space below the VIA concourse. For doing so, UPG proposed an additional 50-year renewal. The Administration Committee requested staff to explore with UPG a reduction in the term to 50 years (35 years with a 15 year renewal) or as much as possible. UPG and City staff have attempted to negotiate a mutually satisfactory reduction in the term of the lease without success. UPG has indicated a willingness to reduce the term to 60 years in exchange for \$10 million compensation or 80 years for \$5 million. City Finance staff have analysed UPG's offer and cannot recommend it be accepted. A separate confidential report details the basis for City staff's negotiating position and the financial implications of each offer.

### Recommendations :

It is recommended that:

1. the Administration Committee select one of the four options outlined in the body of this report for recommendation to City Council;
2. regardless of which option is recommended, the Commissioner of Corporate Services be directed to commence a state of good repair program for Union Station and include the necessary capital budget requirements in the 2004 capital budget;
3. net revenues to the City generated from Union Station be placed in a reserve account to be used solely for Union Station purposes pending a determination of the status of the Walks and Gardens Trust;
4. the Commissioner of Corporate Services be directed to continue discussions with Enwave on a mutually beneficial strategy to rationalize the provision of steam to Union Station and the adjacent buildings; and
5. appropriate City staff be authorized and directed to take all necessary actions to give effect thereto.

### Background:

In August, 2000, City Council directed the Commissioner of Corporate Services to issue an international Request for Expressions of Interest (REOI) to determine the extent of private-sector interest in restoring, developing and operating Union Station. Three respondents from the REOI were pre-qualified to participate in a Request for Proposals (RFP). This process eventually led to the selection of the Union Pearson Group (UPG) as the preferred proponent by City Council in July 2002. At that meeting, City Council directed staff to attempt to negotiate the appropriate legal agreements with UPG, in accordance with the terms of the RFP. If no agreement could be reached with UPG, City staff were to seek City Council's authority to commence negotiations with LPHeritage + Union Station Consortium (LP Heritage).

At its special meeting held January 29, 2003, the Administration Committee considered a staff report dated January 22, 2003 outlining the negotiated terms of a proposed Master Agreement with UPG. A copy of that report is included for ease of reference as Attachment 1 to this report. Responding to public concern about the evaluation process, the Administration deferred consideration of that report pending a review of the Union Station RFP evaluation process by the Honourable Coulter Osborne and directed the Commissioner of Corporate Services to:

- (a) negotiate further with Union Pearson Group with the intent of removing the second 50 year term of the lease or otherwise reducing the length of the lease or redefining the triggering mechanisms that afford greater control to the City;

- (b) produce the lease and any agreements related to future density rights over Union Station lands to Council for consideration, through the Administration Committee;
- (c) review further the design issues and other concerns raised by the deputants to that meeting;
- (d) provide a public report comparing the financial arrangements negotiated with Union Pearson Group with the original financial proposals of Union Pearson Group and LP Heritage + Union Station Consortium and with a “public sector comparator” and commenting on the extent to which the City is encumbered or specific rights assigned to the proponent of reciprocal rights regarding the upper area of Union Station.

On May 23, 2003 the Honourable Coulter Osborne presented his report to City Council concluding, among other things, that the RFP process had been “fair to both proponents”. City Council referred the report to a special meeting of the Administration Committee.

On June 17, 2003 the Administration Committee convened the special meeting to consider the Osborne report, the deferred report on the Master Agreement and two staff reports addressing the various requests. With respect to negotiation of a reduced term for the lease, City staff advised that, under the circumstances, there had been only very preliminary discussion of this matter with UPG. As a result, on June 17, 2003 the Administration Committee directed the Commissioner of Corporate Services to:

- (a) continue negotiations with Union Pearson Group (UPG) respecting a revised Master Agreement, revised due diligence and closing schedule and specifically raise in those negotiations a 35 year lease with a 15 year extension;
- (b) reduce the length of the term of the lease as much as possible and report on the financial implications in doing so;
- (c) with respect to future density, draft any agreement so that the successful proponent has no direct or indirect advantage if any such discussion takes place;
- (d) discuss the potential and practicality of including an opening of a pedestrian door to align with the TTC pedestrian circulation

and to report back to another special meeting of the Administration Committee to be held in advance of the July City Council meeting. This report responds to those requests.

### Comments

- (a) Revisions to the Master Agreement

Due to the passage of time, revisions are necessary to the Master Agreement dated January 2003, particularly with respect to timelines. The original Master Agreement contemplated execution by the parties in mid-February with a due diligence date of April 9, 2003 and a final closing date (i.e. leasing Union Station to UPG) on October 31, 2003. This schedule can no longer be achieved.

During the due diligence period, targeted for April 9, 2003 in the original Master Agreement, the parties were to finalize the Station Lease and reconcile the 2002 Operating Income Statement for Union Station. When this Agreement was being considered in January 2003, UPG had satisfied itself with respect to the various contracts, leases and other agreements affecting operation of the station. Due to the passage of time, some of these documents have been amended or replaced or new agreements negotiated as part of the ongoing operation of the station. UPG has requested that it be allowed to satisfy itself that these new or amended agreements do not adversely affect its position during the due diligence period. This is not unreasonable and it is recommended that the Master Agreement be amended to add this as a pre-closing condition. It is anticipated that these three tasks can be completed in time for City Council to consider the Station Lease Terms at the Council meeting in September. The parties have therefore agreed to amend the due diligence date to August 15, 2003, or such later date as may be agreed to.

Between the time the Master Agreement is executed and the closing date (the "Pre-closing Period"), a number of pre-conditions must be satisfied by both the City and UPG. These preconditions were detailed in the January 29, 2003 report on the terms of the Master Agreement and have not changed. For its part UPG must finalize the project scope, detailed design and development plans, including a public consultation process; obtain all necessary heritage and other approvals, including site plan approvals and permits; finalize the pre-construction project budget for the Phase 1 work and a pre-development budget for the following phases; finalize a comprehensive development schedule and the construction contract for the Phase 1 work; and obtain the construction financing commitment as well as all necessary bonding, insurance or other security satisfactory to the City. These will require significant time to complete.

For its part, the City must finalize all its closing documentation and deliveries (such as tenant and contract estoppels and the GO and VIA leases); obtain Council approval of an updated zoning for Union Station; and attempt to finalize the governance structure including a contribution agreement with the Minister of Transport (Canada) with respect to the proposed federal government contribution of \$25 million to Union Station. Due to the Council hiatus for the municipal election, the rezoning now cannot be completed until the new Council begins to meet in January, 2004. As a result City staff have proposed a revised closing date of February 28, 2004. UPG does not disagree with the need to extend the date as suggested but with one caveat.

As indicated in the January 2003 report, UPG had already expressed serious concerns with the passage of time and the adverse impact on its financial proposal of the delays in finalizing this project due to delays to its construction schedule and the increase in construction costs due to inflation. To address this, the Master Agreement provided that if the closing did not occur by October 31, 2003 as a result of a default by the City of its obligations (specifically approval of a rezoning by City Council and finalizing the GO and VIA leases), then any increase in the construction costs attributable to the resulting delay would have to be satisfied out of third party funding or an alteration to the scope of Phase 4 or a deferral of that Phase until such funding became available. UPG is agreeable to moving the closing date to February 28, 2004 and amending its construction schedule accordingly. However, it is not willing to adjust the October 31, 2003 date for purposes of this penalty provision. As indicated above, a rezoning cannot be completed by October 31, 2003. This means that, in the event UPG incurs increased construction costs as a result of a delay beyond October 31, 2003, an alternate source of funding would have to be provided for those costs or else the ultimate completion of Phase 4 of the

project (renovation of the East Concourse) would be delayed. City staff do not agree with this position and the parties have been unable to resolve this issue.

(b) Reduction in the Lease Term

The RFP required proponents to submit a “Base Proposal” that addressed the restoration, development and operation of the Union Station building as it currently exists for a fixed term of 35 years plus a 15 year renewal. However, proponents were also invited to propose as an additional element either an alternate business arrangement or the creation of additional development space by excavating beneath the building. If proposed, the proponent could then also propose a longer term beyond the 50 years identified by the City. UPG included additional development space by excavating below the VIA concourse and, in return, requested a further 50 year term.

The Administration Committee directed staff to explore with UPG a reduction to the term of the lease to 50 years or as much as possible and report on the financial implications in doing so. As of the date of writing this report, the negotiating teams for the parties have been unable to reach an agreement on an appropriate lease term due to a difference of opinion as to the value of reducing that second 50 year term.

UPG’s Position

UPG has indicated that it believes that the second 50 year term has a net present value (NPV) in excess of \$35 million but in exchange for reducing the term of the Station Lease to 60 years (35+15+10) it would accept a payment of \$10 million toward its project costs as compensation. This could be achieved in any number of ways including third party sources such as the potential heritage tax credit program or the federal contribution. If these funds do not materialize, or to the extent \$10 million is not achieved from these sources, UPG expects the City to make up the difference. If not paid at the outset, this amount would accrue interest to the date of payment.

This was rejected by City Staff.

UPG countered with an alternative proposal of \$5 million compensation to reduce the term to 80 years. Its original proposal of a 100 year term and the offer to reduce it to 60 years for \$10 million would still remain. The City would have up to the start of construction to make its election from these three alternatives.

City Staff Position

City staff believe that the net present value of the term reduction from 100 years to 60 is substantially less than \$10 million. It is noted that the ability to renew the lease for a further 50 years is conditional on UPG proceeding with its excavation under the VIA concourse (included in Phase 3). City staff have been firm in their position that any funds to compensate UPG for the reduction in the second renewal term cannot constitute an added budget pressure to the City and so must come from the Union Station project or outside/other sources.

Therefore, City staff proposed a reduction in the lease term to 50 years, along with an approach for UPG to achieve up to a \$10 million contribution through a combination of sources. If by the "Stabilization Date" (anticipated to be Year 11) UPG had not received the full \$10 million, there would be a variation in the calculation of the "Stabilization Adjustment" (the bonus rent), which could effectively result in a benefit from the City to UPG (out of projected revenues) of up to \$5 million combined with diligent efforts by the City to source the balance of the contribution up to a total of \$10 million from the targeted other sources. This was rejected by UPG.

City staff proposed alternative approaches to achieve the \$10 million, including recourse to the Participation Rent instead of the Stabilization Adjustment and a rent holiday for the first two years. However, City staff remained firm on the 50 year term. These were rejected by UPG.

As a final attempt to bridge the gap, City staff proposed the following:

1. The term would be reduced to 60 years (35+15+10);
2.
  - (a) the City would use diligent efforts to source funds to be applied directly against UPG's budgeted construction costs to a maximum of \$10 million;
  - (b) the Minimum Guaranteed Rent would not be payable for the first two years of the term (a rent holiday);
  - (c) pursuant to a predetermined formula, the City would vary the "Stabilization Adjustment" under the Station Lease to return to UPG up to a maximum of \$4 million in present value terms out of the bonus rent.
3. If UPG did not in fact carry out the development below the VIA concourse, UPG would make up the payment of the two years' Minimum Guaranteed Rent in question in equal monthly payments over the next two lease years after it was determined that such development is not proceeding, plus interest.
4. The maximum funds to be applied to UPG's budgeted costs under this arrangement would be \$10 million. However, any funds in excess of \$9 million would be applied to repay the City the Minimum Guaranteed Rent plus interest.

UPG has also rejected this proposal. Essentially they have not moved from their original position that a reduction to 60 years warrants compensation of \$10 million (although they have proposed an alternative at 80 years and the original 100-year proposal remains on the table).

City staff do not concur with the amount of compensation proposed by UPG for the reduced term. The staff negotiating team believe that the City's final offer is fair and generous. The basis for this position and the financial impact to the City is outlined in the companion report from the Chief Financial Officer and Treasurer.

(c) Future Density

The Administration Committee has directed that any agreement(s) be drafted so that the successful proponent has no direct or indirect advantage should the City proceed with an approach to create additional density at Union Station. This is the intent of the Station Lease Terms. In order to protect the City's ability to build out improvements in the "Upper Area" UPG will be required to provide easements for access and support, subject to reasonable objective requirements. To build out any improvements in this space will necessarily interfere with UPG's tenancy and will therefore require its consent and cooperation, not to be unreasonably withheld. The restoration and operation of Union Station itself must not be materially impeded and the rights of the successful proponent and its subtenants to certain basic protections must be preserved. This would include indemnification of its (and any sub-lessees) costs of disruption (i.e. actual direct costs of accommodating the build-out and lost revenues, if any, during disruption) to be covered by the party undertaking the build-out.

While this might be construed by some as providing some indirect advantage to the successful proponent, the key to ensuring that any protections to the successful proponent do not in fact prevent any ultimate build-out of the Upper Area or give that proponent an unfair advantage is to incorporate objective criteria and to provide for a binding dispute resolution framework in case the parties cannot agree.

(d) Potential for New Doors from Union Station to align with TTC Subway Doors.

As part of the assessment and design process for the TTC Union Station Subway Second Platform Project, appropriate pedestrian routings and any necessary doors to accommodate same will have to be assessed against the heritage character statement for Union Station, the structural feasibility, impact on UPG's retail merchandising scheme and the potential costs/benefits of doing so. This process is underway.

(e) Other Items.

(i) Negotiations with Enwave:

City staff have been approached by representatives of Enwave with respect to the potential for a transfer of certain assets from the City to Enwave related to the steam distribution system at Union Station. Union Station is heated with steam purchased from Enwave. Union Station also re-distributes some of that steam to the Bank of Nova Scotia (in the East Wing) and some of the neighbouring buildings. The City now owns all the steam pipes running into and through Union Station that serve Union Station and these adjacent buildings. Because steam is priced by volume incorporating discounts for bulk purchases, Union Station buys it at the bulk rate and sells it to the neighbouring buildings at a higher rate thereby generating a small operating profit.

Enwave wants to purchase the steam contracts with the adjacent buildings in order to assure their continued service and has also expressed interest in taking over ownership and maintenance of the steam infrastructure within Union Station. Such a transfer will have financial implications to the operation of Union Station and may affect the financial return to the City (or successful proponent). However, this may be an opportune time to simplify the steam distribution system

and protect these assets for Enwave. It is recommended that City staff enter into negotiations with Enwave and report back..

(ii) State of Good Repair

Since it acquired Union Station in August 2000, the City has basically taken a caretaker role in its operation of the station in anticipation of the Successful Proponent taking over the station. Toronto Terminals Railway Company Ltd. (TTR) has continued to manage the day to day operation of the station on an interim basis. A companion report seeks an increase in the management fee paid to TTR pursuant to the Building Management Agreement. The City is responsible for any capital maintenance and repairs outside day to day operations.

In the past year, Facilities and Real Estate has identified and undertaken three emergency capital repairs funded out of station revenues. In anticipation of the 2004 budget submission cycle, it was considered prudent to undertake an updated review of the station in the event this transaction is further delayed or if no deal can be reached with either proponent and the station remains in the City's building portfolio. This review identifies approximately \$27 million of necessary capital repairs at Union Station over the next five years to bring it into a state of good repair. It is recommended that the Commissioner of Corporate Services include a capital allocation for Union Station in the 2004 capital budget submission so that this program can be implemented if required.

(iii) Walks and Gardens Trust

As indicated in the January report on the Master Agreement, there remains an outstanding issue with respect to the application of the Walks and Gardens Trust to Union Station revenues. This issue will be reported through the Waterfront Reference Group to Policy and Finance Committee as requested. In the meantime, regardless of the selection of the Successful Proponent, it would be prudent for all net revenues accruing to the City from its operation of Union Station to be placed in a separate reserve account to be used solely for Union Station purposes until the Trust issue is finally determined.

Discussion

Union Pearson Group and City Staff have attempted to negotiate a mutually satisfactory reduction to the Station Lease Term but without success. The parties cannot agree on the amount of compensation attributable to the reduction. City Council will have the following options to consider:

Option A.

Adopt the original Master Agreement including the 100 year term as outlined in the January 22, 2003 report from the Commissioner of Corporate Services (Schedule 1), but with the necessary amendments to the dates and due diligence provisions outlined in the body of this report as follows:

1. a Master Agreement to Lease Union Station to the Union Pearson Group be approved on terms and conditions outlined in Attachment 1 to this report subject to the revisions to the dates and due diligence provisions set out in the body of this report and in a form satisfactory to the City Solicitor;
2. the proposal deposit in the amount of \$50,000 be refunded to LP Heritage + Union Station Consortium;
3. revenues to the City generated from the lease of Union Station to the Union Pearson Group be placed in a reserve account to be used solely for Union Station capital requirements, any post-closing adjustments and transaction costs, and outside legal, accounting or other consultants' fees necessary to finalize this transaction, pending a determination of the status of the Walks and Gardens Trust.

#### Option B.

Accept UPG's proposal to amend the Master Agreement to allow the City the option to reduce the term of the lease from 100 years to either 80 or 60 years and compensate UPG accordingly and incorporating the necessary amendments to the dates and due diligence provisions outlined in the body of this report as follows:

1. a Master Agreement to Lease Union Station to the Union Pearson Group be approved on terms and conditions outlined in Attachment 1 to this Report subject to the following revisions:
  - (i) prior to the date UPG commences construction, the City may elect to leave the term at 100 years or to reduce the term of the Station Lease to either
    - (a) 80 years in return for payment of \$5 million in compensation from the City to UPG ; or
    - (b) 60 years in return for a payment of \$10 million compensation from the City to UPGsuch payments to be made prior to the start of construction (or accrue interest until paid) and may include funding from other sources ; and
  - (ii) the dates and due diligence provisions be amended as set out in the body of this report and in a form satisfactory to the City Solicitor; and
2. the proposal deposit in the amount of \$50,000 be refunded to LP Heritage + Union Station Consortium.

Option C.

Endorse the final City staff offer for a 60-year term and the revision to the closing date to February 28, 2004 as outlined in the body of this report and instruct the Commissioner of Corporate Services to reiterate this position to UPG as a City Council position. If UPG does not accept this final offer by August 1, 2003 the Commissioner of Corporate Services be directed to contact LP Heritage to commence negotiation of the appropriate legal agreements with LP Heritage to restore, develop and operate Union Station in accordance with the terms set out in the Request for Proposal, subject to a total lease term of 60 years, to the satisfaction of the Commissioner of Corporate Services.

Option D.

Reject the UPG proposal completely and direct the Commissioner of Corporate Services to contact LP Heritage to commence negotiation of the appropriate legal agreements with LP Heritage to restore, develop and operate Union Station in accordance with the terms set out in the Request for Proposal, subject to a total lease term of 60 years, to the satisfaction of the Commissioner of Corporate Services.

Regardless of which of these options is recommended to Council, the other items listed earlier in the report must also be addressed.

Conclusions:

The Master Agreement requires only minor modifications to update the timing and due diligence provisions and the negotiating teams have agreed on amendments with only one exception. UPG has not agreed to extending the date in the provision in the Master Agreement that could defer completion of Phase 4 until UPG recovers increased construction costs, if any, resulting from the rezoning for the station not being approved by City Council by October 31, 2003. The risk and financial consequences of doing so are now increased to the point that City staff cannot recommend this provision unless the date corresponds to the revised closing date of February 28, 2004.

Negotiations have been undertaken with respect to the Administration Committee's direction to reduce the lease term to 50 years or as much as possible. They have not been successful.

City staff do not concur with UPG's position on compensation for the reduced lease term. Four options available to City Council have been identified above. Each may have legal and financial implications to the City to be addressed separately. Unless City Council is prepared to accept the 100-year term as originally recommended by City staff and UPG or provide further direction that would resolve this impasse, it would appear that negotiations cannot be concluded with UPG. In accordance with the direction provided by City Council in July 2002, it would be appropriate for City staff to approach LP Heritage to commence negotiation of the appropriate legal agreement(s) based on a 50 or 60-year lease term.

Regardless of whether agreement can be reached with either proponent, net revenues from Union Station should be placed in a reserve account to be used solely for Union Station purposes

pending a determination of the status of the Walks and Gardens Trust. Similarly, due to the passage of time, the Commissioner of Corporate Services should include funding in the 2004 capital budget submission to address the repairs necessary to return Union Station to a state of good repair.

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M. Joan Anderton  
Commissioner, Corporate Services

# TORONTO STAFF REPORT

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January 22, 2003

To: Administration Committee

From: Commissioner of Corporate Services

Subject: Union Station Request for Proposals- Status Report  
Negotiations with Union Pearson Group  
(Ward 28 - Toronto Centre-Rosedale)

Purpose:

To report on the status of negotiations with the Union Pearson Group and seek authority to execute a Master Agreement with the Union Pearson Group.

Financial Implications and Impact Statement:

If this transaction is approved and a Master Agreement executed on the terms and conditions identified herein, the City agrees to lease Union Station to the Union Pearson Group (“UPG”) for 35 years with one 15 year renewal and the possibility of a further 50 years if the lower level access route is constructed. On closing of the transaction, the City will receive a minimum guaranteed annual rental income stream of \$500,000 with the opportunity to share in excess revenues plus a participation component. UPG will invest up to \$150 million in the restoration and renovation of the Union Station building to revitalize this underperforming asset for the City and then maintain and operate the building to be self-sustaining. In addition to the financial return to the City, it is anticipated that this transaction will provide public benefits in both transportation improvements and heritage preservation, the creation of a tourist destination and a renewed civic pride in this treasured building.

This transaction does not include any right of UPG to create or build out any additional development in the air space above the building or the tracks. UPG will have no exclusive rights in respect of additional density. All right to create, market and develop any additional density available above Union Station and the rail corridor between York and Bay Streets rests with the City, subject to a defined “moratorium” period to allow UPG to fulfill the restoration and redevelopment obligations without interruption or interference.

The transaction contemplates the usual due diligence period for the parties to settle further lease details and other closing documentation and contains other pre-closing conditions to be satisfied as outlined in this report. If there are financial implications arising out of those matters not

identified in this report, a further report will be provided. Delays in the closing of this transaction beyond the anticipated closing date may result in increased costs to the City.

All transaction costs, including legal or other consultants, can be funded from the revenues currently earned at Union Station.

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

Recommendations :

It is recommended that:

1. a Master Agreement to Lease Union Station to the Union Pearson Group be approved on terms and conditions set out in the body of this report and be in a form satisfactory to the City Solicitor;
2. the proposal deposit in the amount of \$50,000 be refunded to LP Heritage + Union Station Consortium;
3. revenues to the City generated from the lease of Union Station to the Union Pearson Group be placed in a reserve account to be used solely for Union Station capital requirements, any post-closing adjustments and transaction costs, and outside legal, accounting or other consultants' fees necessary to finalize this transaction, pending a determination of the status of the Walks and Gardens Trust;
4. the Public Advisory Group initiated by Councillors Holyday, Sutherland and Ashton be continued to provide public input as part of the ongoing review process for the revitalization of Union Station and be formalized as part of the governance structure for Union Station;
5. the retainer of Davies Ward Phillips & Vineberg be continued to complete this transaction with costs, not to exceed \$250,000, to be paid out of revenues from Union Station; and
6. appropriate City staff be authorized and directed to take all necessary actions to give effect thereto.

Background :

The City purchased Union Station in August 2000. In doing so it identified three public policy objectives:

- (a) promotion of Union Station as a multi-modal transportation hub;

- (b) preservation of Union Station as a heritage building; and
- (c) revitalization of Union Station as a destination in order to ensure its financial stability.

The station requires both an infusion of capital and an experienced operator/manager to achieve these public objectives. It is underperforming financially and is in serious need of basic capital repairs and refurbishment of at least \$16 million. To completely restore and revitalize the existing heritage building requires a significant infusion of capital funds. After purchasing the station, City Council directed the Commissioner of Corporate Services to initiate a Request for Proposals (“RFP”) to restore, develop and operate Union Station that is the subject of this report.

At its special meeting held July 30, 31 and August 1, 2002, City Council selected Union Pearson Group (“UPG”) as the Preferred Proponent to revitalize Union Station and directed City staff to negotiate acceptable contractual terms with UPG based on its proposal. The results of those negotiations are the subject of this report.

### Comments

As a result of negotiations, in consultation with GO Transit, VIA Rail, TTC, Transport Canada and Parks Canada, City staff and UPG have settled the terms of a Master Agreement (similar in nature to an Agreement to Lease) with UPG to restore, develop and operate Union Station on terms and conditions detailed herein and in a form satisfactory to the City Solicitor. UPG has approved the terms of the Master Agreement subject to obtaining certain requisite shareholder confirmations.

The RFP required the proposals to be irrevocable after submission and remain valid for one year following submission. That year has now passed. Inflation and increases in construction costs make the construction costs and other financial projections provided in the proposals less reliable as time progresses. While neither proponent has indicated they are withdrawing their proposal on this basis, it provides some urgency to complete the transaction without undue delay.

Both proponents were also required to submit a proposal deposit of \$50,000 to be refunded to an “unsuccessful proponent” when either its proposal has been “rejected” or another proposal is “unconditionally accepted”. To this date, neither has happened. If the recommendations in this report are adopted, there will still be conditions to be satisfied before UPG is awarded a lease to the station. LP Heritage + Union Station Consortium (LP Heritage) has raised the issue of the retained deposit of \$50,000 in light of the length of time the process has taken. It is not unreasonable for them to request the return of this deposit under the circumstances. Therefore it would be appropriate to refund the proposal deposit to LP Heritage.

The formal agreement to be entered into between the City and UPG, while principally an agreement to lease, is a more comprehensive agreement (the “Master Agreement”) given the complexities of the transaction. It identifies and commits UPG in principle to its proposal including the Key Components as shown on the Concept Design and described on the Preliminary Outline Specifications including:

- (a) treatment of the moats and teamways;
- (b) an opening in the VIA concourse to a south access route below;

- (c) central stairwells within the arches in the Great Hall allowing access to all levels within the station; and
- (d) creation of a “South Central Concourse” beneath the VIA concourse.

These significant elements of the UPG proposal respond to City objectives to enhance pedestrian circulation and wayfinding within, around and through the building as identified in the Railway Lands Plan and related Precinct Agreements. The South Central Concourse and retail area beneath the VIA concourse allows for a separation of inter-city travellers from commuters and creates additional retail opportunities without impeding GO and VIA concourse space. It also creates the opportunity for a mid-block linkage to the railway lands and the waterfront to the south.

GO Transit, TTC and VIA Rail are supportive of the UPG proposal and have provided their concurrence in principle to these key components. GO, TTC, and VIA will continue to be involved in the development of the detailed design for the station, particularly as it affects their leased space and operations in the station.

The Master Agreement also identifies the City’s key objectives for the station and commits UPG to adhere to them:

- (i) enhancement and integration of the transportation functions;
- (ii) a demonstrated conservation ethic and respect for the heritage character and design of the station and its Beaux-Arts architecture;
- (iii) development of a distinguished identity and creation of a destination;
- (iv) integration and connectivity to its surroundings, including enhanced pedestrian circulation and an improved south access route;
- (v) use of major architectural elements; and
- (vi) accommodation of servicing requirements.

#### Process

The Master Agreement anticipates that this transaction will close on October 31, 2003. After execution of the Master Agreement, there is a “Pre-closing Period” during which various pre-conditions must be met by UPG to the City’s satisfaction in order for the City to execute a Lease to UPG for the station. These preconditions include:

- (a) finalizing the project scope, detailed design and development plans, including any modifications to the Concept Design identified to date in order to meet the City’s Key Objectives and deliver the Key Components including a public consultation process;
- (b) obtaining all necessary approvals, including any necessary Parks Canada/heritage approvals, site plan approvals, permits or other pre-construction approvals to commence

construction of the Phase 1 work including the usual City requirements such as the provision of public art;

- (c) finalizing the pre-construction project budget for the Phase 1 work and a pre-development budget for the following phases;
- (d) finalizing a comprehensive development schedule, based on the preliminary development schedule established to date, including a staging approach approved by GO Transit, VIA Rail and TTC which integrates the station work with the GO, VIA and TTC projects and minimizes disruption to their ongoing operating functions in the station;
- (e) finalizing a construction contract for the Phase 1 work and all necessary bonding, insurance or other security satisfactory to the City; and
- (f) obtain construction financing commitment.

For its part, the City must:

- (a) finalize all its closing documentation and deliveries (such as tenant and contract estoppels and the GO and VIA leases);
- (b) obtain Council approval of the required technical amendment to update the zoning for Union Station to recognize all available gross floor area in the station, including the moats and teamways and to amend the use provisions to allow the commercial uses envisioned by the City for the station; and
- (c) attempt to finalize the governance structure and a contribution agreement with the Minister of Transport (Canada) with respect to the proposed contribution of \$25 million to Union Station by the Government of Canada

Once these requirements have been met by both parties, then the transaction would be completed by execution and delivery of the station lease and any other necessary agreements to be delivered on closing to allow UPG to take possession of the station and commence operations.

UPG is extremely concerned about the passage of time and delays to their construction schedule and the increase in construction costs due to inflation. Therefore, if the closing does not occur by October 31, 2003 as a result of a default by the City of its obligations (as noted above) then any increase in the construction costs attributable to the resulting delay would have to be satisfied out of third party funding or an alteration to the scope of Phase 4 or a deferral until such funding becomes available.

Running concurrently with the Pre-closing Period, there is also a shorter “ Due Diligence Period” targeted for April 9, 2003, during which the parties are to:

- (d) Finalize the Station Lease in accordance with the Principal Terms (summarized on Appendix 1 to this report); and
- (e) Reconcile the 2002 Operating Income Statement for Union Station.

## Key Terms

Execution of the Master Agreement constitutes approval in principle by the City of the UPG Concept Design, the Preliminary Outline Specifications, Principal Station Lease Terms and other matters addressed in the Master Agreement. It is emphasized that these approvals are at a conceptual level and will be subject to further review and refinement in the pre-closing period. The following summarizes the key business terms from the Master Agreement:

### (i) Development Schedule and Phasing

The revitalization project will be undertaken in four discrete and sequential phases (as shown on Appendix 2 to this report):

Phase 1 – North and South ends of GO East Concourse

Phase 2 – Great Hall, West Wing, Central and West Concourse

Phase 3 – GO West Concourse, Moats and Teamways, VIA Concourse and the South Central Concourse below

Phase 4 – GO East Concourse

These will be co-ordinated and integrated with TTC, GO and VIA projects within or adjacent to the station (described elsewhere in this report). Because of the uncertainties associated with timing of the later phases of the project (depending on heritage approvals and TTC, GO and VIA approvals and budgets) it is not possible to address detailed design and budget for those later phases of the project at this time. The detailed design will be developed for Phase 1 prior to closing and the detailed design for subsequent phases will proceed in advance of such phase and in accordance with the master site plan to be completed in the pre-closing period.

### (ii) Completion Assurance

UPG will be required to maintain the Project Team and UPG organization in place to carry out UPG's obligations to restore, develop and operate Union Station in accordance with the Station Lease. The Lease cannot be transferred or assigned without the City's approval. Any changes to the structure of UPG must also be approved by the City to ensure that replacement participants will have the requisite qualifications to complete UPG's obligations.

PCL Constructors will provide a "Completion Assurance Agreement" committing it to complete construction notwithstanding any default by UPG or failure by UPG to provide funding. This Completion Assurance commitment will be provided on a phase by phase basis and must be in place as a precondition to proceeding with the phase in question.

### (iii) City Security

On execution of the Master Agreement, UPG is required to provide a \$5 million Letter of Credit to secure its obligations for the length of the redevelopment period for all four phases. In

addition to the completion assurance agreement, noted above, the City will also require appropriate performance bonds, labour and material bonds, payment bonds and insurance as is typically required for a project of this nature. These will be determined in consultation with the City's risk management advisors once the construction contract has been finalized. The City will also obtain and register a mortgage, charge and security interest against UPG's leasehold interest in the station as further security for the performance of UPG's obligations under the Station Lease and subject to the terms and conditions defined under "City Charge".

UPG may only mortgage its leasehold interest to lenders approved by the City to secure construction financing, permanent refinancing and capital improvement financing unless that financing does not exceed specified debt service and loan to value ratios .

(iv) Management Agreement

The station is currently being operated by Toronto Terminals Railway Company Limited (TTR) on the City's behalf pursuant to an Interim Building Management Agreement executed when the City purchased Union Station from TTR. TTR is also managing the rail corridor on a similar basis for GO Transit. The Interim Building Management Agreement requires 5 months notice to be given in advance of termination of the agreement. To avoid any possibility of a disruption in building management services should the transaction be delayed or not close for any reason, the required notice will be given to TTR on closing. Accordingly the City will maintain the Interim Building Management Agreement in place with TTR and subcontract to UPG for the first 5 months of the lease. This will also allow an orderly transition of management from TTR to UPG. It should be noted that UPG has indicated a willingness to employ TTR employees if not required elsewhere by TTR. These discussions will take place in the pre-closing period.

(v) Naming/Signage Policy and other Tenant Criteria

It is essential to the City that the historic significance and heritage character of Union Station be respected. To this end, UPG will be required to prepare detailed tenant criteria modelled on those developed for Union Station Washington or Grand Central Terminal, which will be attached to the Station Lease.

(vi) Financial Terms

In accordance with the terms of the RFP, the term of the Lease is 35 years with a 15 year renewal. If Union Pearson Group is entitled to proceed with the development of the South Central Concourse below the VIA concourse (which is subject to obtaining approvals from VIA and Parks Canada) they will have an option to renew the lease for a further 50 years.

The Lease is to be net to the City.

UPG will pay a Minimum Basic Rent of \$500,000 adjusted by Consumer Price Index at five year intervals.

UPG will also pay Additional Basic Rent allowing the City to take advantage of the success of the project. Once the redevelopment of the station is "Stabilized", (which essentially means fully completed, with permanent financing in place, tenant space leased up and tenants are through their initial adjustment process and a positive cash flow being regularized) there is a formula by

which the base rent is increased to capture a percentage (25%) of the amount by which the actual net rental income being achieved exceeds the net rental income that was projected in the proposal. This is a one-time adjustment to be made on the third anniversary of substantial completion of the project. However, if there are any significant delays in proceeding with Phase 3 (because it is conditional on GO Transit's plans) the City may elect to invoke an interim stabilization calculation on the third anniversary after the completion of the Phase 2 work. If the City makes this interim election, there would then be a final Stabilization calculation made on the third anniversary after substantial completion of the entire project as contemplated.

UPG will also pay participation rent, commencing in Year 11, at 5% of net revenue. The City will have all the usual rights to obtain statements and audit to confirm net revenues.

The total investment in the station by UPG with a hotel in the west wing is approximately \$150 million. If an office alternative is pursued the total investment is approximately \$115 million. In either scenario, the majority of the investment is made in the first two phases. In the office scenario Phases 1 and 2 together total \$67 million and in the hotel alternative \$102 million. Phases 3 and 4 are estimated at this stage at \$48 million for either alternative.

(vii) Walks and Gardens Trust

The City Solicitor and the Commissioners of Urban Development Services, Economic Development, Culture and Tourism and Chief Financial Officer and Treasurer have previously reported on the Walks and Gardens Trust, which is registered against a portion of the property. If still applicable, it only affects how the City accounts for the rental income to the City and does not affect any financial dealings of UPG. Further investigations are still being made as to the applicability of this trust and a further report is pending. Until this matter is finally determined, it would be prudent for the City to keep the revenues from Union Station separately reserved and only use them for Union Station purposes.

(viii) Environmental Indemnities

The City has always owned the majority of the land beneath Union Station. It will be responsible for any environmental risks/liability associated with the existing condition of the station lands on the commencement date of the Lease. It will also be responsible for liability related to any cause of action arising prior to the Lease commencement with respect to the station building. All other risks are the responsibility of the Lessee.

(ix) Additional Density

City Council at its meeting held July 30, 31 and August 1, 2002 made it very clear that selection of a Preferred Proponent did not constitute approval of an additional density concept and it intended to proceed solely with the Base Proposal. City Council also expressed its concern with the air rights associated with Union Station and gave direction to staff on a confidential basis to preserve the interests of the City and to negotiate an approach that separated any opportunity to pursue additional density at the site from the proposal to revitalize the existing building.

The UPG Concept Design does not include the creation of any additional development in the air space above the building or the tracks. The proposal is solely to restore and renovate the existing station building. UPG will have no exclusive rights in respect of the additional density. The City

will retain the sole right to create and build out any additional density on its own or with such other parties as it may determine. In order to ensure that UPG can fulfill its restoration and redevelopment obligations for the station within the applicable timelines. The City will commit not to create or propose to third parties any development or density rights over either the station or the rail corridor during a specified period of time necessary to allow UPG to fulfill its restoration and redevelopment obligations for the station within the applicable timelines (the “Moratorium”). The periods of time will be determined separately for each location having regard to UPG’s development schedule and the City’s planning priorities. That period would vary depending on the proposed location of any air right build out, and would be established as part of the Station Lease terms.

The Station Lease will also provide easements for access and support to allow the City to accommodate the possible build out of additional density over the station or the Rail Corridor. UPG’s consent will be required where there is a material impediment, restriction or interruption of its activities and the costs of the disruption will be reimbursed. There will be the usual reciprocal arrangements for joint initiatives, cross indemnities and equitable allocation of shared costs.

(x) Due Diligence Issues

As a result of the more detailed due diligence undertaken by UPG during this negotiation phase, some financial issues have arisen which need to be addressed.

The RFP was issued in August 2001. In the RFP document the City identified the anticipated financial performance at the station for 2001. The City had been in possession of the station for only part of 2000 and so this was based on the best information available at the time. Due to a number of extraordinary items that occurred in 2001, the fact that TTR uses a cash based system of accounting, and because some expenses, such as property taxes, were still applied to both the station and the rail corridor, it has been determined that 2001 is not indicative of the financial performance at the station. In order for the parties to be able to verify the actual net operating income available at the station, it would be appropriate for the City to retain an independent accounting firm to review the financial performance at Union Station for 2002 and reconcile the Operating Statement for 2002. If the 2002 net operating income available at the station differs materially (ie. by more than 10%) from that identified in the RFP, the parties will have to re-adjust for this difference. It will be up to the City to elect how to deal with this adjustment such as by adjusting for that amount at closing, establishing pre-closing reserves or deferring certain future expenditures.

The Building Condition Audit undertaken by Cole Sherman and provided as part of the RFP document, addressed cost estimates of deferred maintenance and required capital improvements for all systems, mechanical, electrical, life safety etc. It was prepared as an overview document to identify the condition of the capital asset the City was purchasing. Subsequently, the City commissioned a more detailed fire life safety audit of the station. That report has identified a number of capital items that should be addressed in the immediate to short term not anticipated in the Cole Sherman report. While the UPG proposal addressed significant capital improvements and other necessary expenditures in this area, there is the possibility of duplication if some work is required to be completed in advance of their construction-phasing schedule. The City intended that the successful proponent would be responsible for all work identified in the Cole Sherman

report. With respect to any immediate life safety improvements, it is appropriate that the City immediately undertake this work at its cost. A further report on what improvements are required will be submitted in the near future.

As part of a more detailed architectural review and design exercise, both the scope of work to be undertaken at the station and the costs of some of the budgeted items by UPG has increased from their proposal as a result of heritage issues. UPG estimates these additional items at a minimum of \$4,000,000. City staff have reviewed the items with UPG and concur that at least \$1,800,000 of those additional costs relate to additional work associated with the historic nature and maintaining the heritage character of the building. The Memorandum of Understanding with the federal government anticipates a contribution of \$25 million to Union Station once a governance body is in place to oversee the revitalization project. It anticipates those funds being used for items such as this – additional capital requirements related to transportation or heritage requirements.

The RFP advised the proponents not to incorporate any of this potential funding in their proposal. The costs being identified here are necessary over and above the proposal. The City concurs that the improvements or additional costs are reasonable to incur and will enhance the project. UPG has agreed to fund these additional costs, which are in the first two phases of the project, in anticipation of the ability to receive federal funding at a later date. City staff will support this request if and when a contribution agreement is in place and funds are available for the purposes identified. In the event this funding does not materialize and no other source of funding is available, UPG may, in consultation with the City, seek to alter the scope of the final phase of work at the station to account for the difference.

(xi) Concept Design

Simultaneously with the negotiation of the Master Agreement terms, UPG has been working diligently with City staff from the relevant areas (planning, transportation, facilities and real estate and heritage preservation) in consultation with GO Transit, VIA Rail, TTC, Parks Canada and neighbouring property owners to address any issues identified through the review and evaluation phase and to finalize a recommended Concept Design that is satisfactory to all parties. This is a refinement of the UPG concept plan presented to City Council. A Preliminary Specification Outline is attached as Appendix 3 to this report providing a written explanation of the anticipated scope of work for this concept. A detailed review on a line by line basis will be undertaken during the Pre-closing period as part of the detailed design. A similar document, the Statement of Interventions has been prepared to outline the proposed scope of the heritage interventions associated with the concept design.

This concept design is acceptable in principle to City staff. It should be recognized that once UPG have the certainty of an executed Master Agreement they can commence a more detailed planning and design process. Any background studies or other documentation required to finalize a detailed design and master site plan for the station will be submitted as part of this process. Public consultation and input will be an important element in the finalization of the Concept Design.

(xii) Heritage Issues

Fournier Gersovitz Moss (FGM) have submitted a strategy document entitled Statement of Interventions to the City and Parks Canada as an indication of the scope of the proposed interventions associated with the Concept Design. The Toronto Preservation Board is reviewing this document with specific regard to the interventions required conceptually for the key components at a special meeting to be held in advance of this Administration Committee meeting. A separate report will be forwarded from that meeting to accompany this report. Parks Canada has indicated its approval in principle to the key components in the concept design.

UPG have also committed to the preparation of a Historic Structures Report that will document in great detail the past architecture of Union Station, its present status and their proposal in order to inform the proposed interventions. All work will be subject to detailed review in accordance with the Heritage Easement Agreement and the Review Process, which is being finalized between Heritage Preservation Services and Parks Canada. The heritage design guidelines will be followed and augmented with detailed architectural and tenant design criteria modelled after those employed in the railway station restorations in Washington and New York. City staff are now confident that UPG and specifically its heritage consultant has the required expertise and heritage conservation ethic required for this project.

(xiii) Public Process

At its meeting held November 5, 2002, the Administration Committee established a Reference Group comprised of Councillors Holyday, Ashton and Sutherland to assist staff to expeditiously formulate a public consultation and public input process that optimizes public involvement in reviewing all aspects of the concept design, including transportation components and heritage strategy. A Public Information evening was held at Metro Hall Council Chamber on November 25, 2002 and attended by approximately 200 people. Presentations were made by City staff and UPG, focusing on the RFP process, UPG's concept design for the station and specifically heritage and transportation issues.

Comments and concerns related generally to 4 topics:

1. Public process:
  - suggesting establishment of a citizen advisory group
  - lack of public consultation when RFP was developed
2. Transportation issues:
  - pedestrian movements and linkages to the rest of city
  - the ability to accommodate all modes (buses; air rail link; etc. new technology, high speed trains)
  - long range planning and ensure there is flexibility
3. Concerns with regard to long term redevelopment of additional density and public involvement at that time
4. Heritage – the review process and how it will work

appropriate standards/criteria for advertising/naming/tenant design

The second public date, an Information Forum was held on Saturday afternoon, January 18, 2003 at St. Lawrence Hall. Approximately 150 people attended this informal event to view displays of UPG's proposal as well as the projects of the three transportation operators at the station, GO, VIA and TTC and ask question directly to City staff, the transportation operators and UPG representatives.

The City's web site continues to be updated to allow easy access to the various public reports and other useful information related to the station. Comments can now be emailed to unionstation @ toronto.ca. A public display of the UPG concept design has been available in the Great Hall since November along with comment sheets. Approximately 20 comment sheets have been received from the station display. Comments were generally evenly divided between those who favour the proposal and those who do not. However, the majority of comments reinforce their affection for the station.

At the first meeting, the councillors determined that a public advisory group representing a wide-range of specific stakeholders who have a distinct interest in the restoration and revitalization of Union Station should be formed to assist them in providing advice to City Council on the revitalization proposal. The Toronto Preservation Board already serves this function for the heritage aspects of the proposal. Invitations were issued to interested parties/ groups and an initial meeting was held on January 18, 2003 immediately prior to the Public Information Forum. A list of the representatives attending the first meeting is attached as Appendix 4 to this report. They determined their mandate should appropriately be to provide community input and advice to the Councillors' reference group and City Council and its Committees on the concept design, including transportation elements, design components and public benefits including governance issues to assist Council in its evaluation of the proposal for the restoration and revitalization of Union Station. This group will be reviewing this report and providing advice to the Councillors.

The public advisory group will serve a very useful function as the detailed design for the station progresses and it was recommended that the group should continue in place through this process and be formalized in the governance structure – which they intend to address in their deliberations. City staff concur. Administration Committee, on a motion from Councillor Ashton, had also asked City staff to report on a project management model that would ensure public accountability of a major Toronto Heritage landmark and transportation asset. This should be addressed in the context of the outstanding report on the governance structure which will be coming forward to a subsequent Administration Committee, once the appropriate vehicle for the required special legislation is determined.

UPG has welcomed the opportunity to engage the public in their design process and has undertaken to:

- (1) Create and regularly update a web site informing the public of its plans and construction progress;
- (2) Create public input opportunities on the web site as well as a call –in hot line'
- (3) Host a minimum of two public meetings to review the plans for each of Phases 1/2 and Phases 3/ 4, (i.e. at least four meeting) prior to the commencement of construction;

- (4) Meet quarterly with the Public Advisory Group to review development plans, construction progress and operations issues of interest to the public.

It is intended that there will be full public consultation in the development of the detailed design for the station.

#### Questions from City Council

When Council dealt with this matter at its special meeting held July 30, 31 and August 1, 2002, I was asked to address with UPG as part of the confidential negotiations or respond to a issues, in addition to the additional density issue addressed earlier. Now that the negotiations are complete, I can report as follows:

- Q1. Pursue the development of an ambitious plan for cycling facilities, cycling rentals and service, modelled on the best practices from Europe, and further, that there be consultation with the City's Cycling Committee.
  - A1. UPG has committed to do this as part of the detailed design phase for the Concept Design. The Cycling Subcommittee has been made aware of the proposal and will review the plan when it is available.
- Q2. Ensure taxi access is incorporated into the project.
  - A2. There will be no vehicular access into Union Station. Appropriate taxi access will be considered as part of the design review process.
- Q3. Pursue district heating and cooling options plus state of the art Energy Efficiency and Renewable Energy Program, in consultation with the City's Energy Efficiency Office.
  - A3. UPG will be reviewing energy efficiency measures for the station as part of their continuing due diligence and review.
- Q4. Ensure that the sculpture to multiculturalism donated by Toronto's Italian Community retains a place of pride at Union Station and that a status update be provided.
  - A4. UPG have no plans to move the statue. Economic Development Culture and Tourism staff advise that the statue is in need of maintenance to ensure its preservation . Staff will be investigating this further and will be consulting with UPG as part of the review process.
- Q5. Strengthen the heritage component of the UPG proposal.
  - A5. This issue was addressed in the previous report on the status of negotiations and in the body of this report.
- Q6. Review the lower level access route with an emphasis on the financial and structural implications.

A6. UPG had Yolles Structural Engineers review the feasibility of lowering the existing lower concourse slab on grade below the VIA concourse. They have advised that it is structurally acceptable and will not jeopardize the ability of the support columns and caissons to support the load above. In the event this element could not be constructed, UPG have committed that they would amend the design in consultation with the City and the transportation operators to ensure that the City receives the same rental revenue.

Q7. Provide a report on the GO, VIA and TTC projects underway at the station.

A7. GO Transit

GO has a number of ongoing projects underway at Union Station. The Phase I contract work was completed August 2002 for the GO Bus Terminal across Bay Street. The remaining phase of Contract work for the new Bus Terminal is scheduled for completion in the spring of 2003. Once completed, GO buses currently using Front Street will be transferred to this new Terminal.

In conjunction with GO's ongoing annual building maintenance program, repair work to critical sections of the concrete smoke ducts and roofing materials in the train shed is scheduled for completion this month. Similar, due diligence repair work will be done every year until the entire smoke ducts and roof is permanently replaced.

Contract work is currently also underway for improvements to the VIA platforms 7/8 and 8/9. This work is scheduled for completion March 2003. Once completed, the VIA Rail operation will be consolidated to the south, from Track 8 to 13 inclusive, freeing up platform 6/7 for GO Transit use.

The design and preparation of tender documents for improvements to platform 6/7 are nearing completion. This work is scheduled for tendering January 2003 with completion by the summer of 2003. These improvements include the construction of several additional vertical pedestrian connections to the teamways and concourses.

The next phase of platform improvements by GO, scheduled over the next 5 to 10 years, is the construction of additional vertical connections to the concourses and Teamways from the remaining GO platforms located between Track 2 to 6, inclusive.

On the rail corridor, by 2006, it is proposed to complete the selection and design of a new signal control and communication system, to govern all train movements through Union Station. This new signal control system will replace the existing 80 year old signal system. Also, over the next 10 years or so, it is proposed to undertake certain track and signal plant improvements, on a phased basis, in the rail corridor. Completion of this work will enable GO to substantially increase the number of GO Trains operating in the peak periods.

TTC

One of the four priority projects for the Toronto Waterfront Revitalization is the addition of a new platform to the Union Station subway station. This involves the addition of a second subway platform to the south of the existing subway tracks, reconfiguration of the mezzanine level of the station and provision of a direct connection to the existing Harbourfront LRT platform. This will greatly increase the capacity of the station to carry highly concentrated customer demands following the end of major downtown events. This project is subject to both a federal environmental assessment process and provincial. The project only recently received funding and will be proceeding through the approval process. The work will be completed in two phases commencing in 2002, construction would start in mid 2004, with an opening target at the end of 2007. This is a very preliminary schedule only and is subject to change. UPG has been in contact with TTC to co-ordinate scheduling of the two projects.

#### VIA Rail

Since the City purchased Union Station, VIA has consolidated its operations in the station to reduce its space requirements. VIA is just completing a \$10 million renovation of its concourse to add a new VIA 1 Lounge, upgrade the Concourse to eventually provide escalators and elevators to all platforms and provide a new baggage handling system. Any further work in the concourse will be co-ordinated with UPG.

It is clear from this summary that UPG will be required to co-ordinate a large amount of construction while maintaining operations at the station. The transportation operators are prepared to work closely with UPG to ensure that the revitalization improves their operations, which depend on adequate access and circulation at the station.

#### Conclusions:

City staff are satisfied that the Union Pearson Group and its consulting team have demonstrated the necessary expertise, experience and financial resources to complete the restoration, development and operation of Union Station in a manner that will meet the City objectives. The recommended Master Agreement commits UPG to a development concept that meets the City's key objectives for the station and is consistent with their proposal as selected by Council. UPG has provided a heritage strategy that provides sufficient comfort to both Heritage Preservation Services staff and Parks Canada that they can recommend that the proposal go forward in principle. The proposed business plan will provide a guaranteed base rent to the City with the opportunity to participate in increased revenues as the project matures. UPG will invest significant monies in capital improvements to the station. Capital reserves will be maintained at appropriate levels to ensure that the station does not fall into a state of disrepair again.

The requirements of Chapter 213 of the Municipal Code, respecting the disposal of City property, have been complied with and the notice given. City staff are satisfied that the proposed transaction constitutes fair market value for the leasehold interest being transferred to UPG.

If this report is adopted, City staff and UPG would continue to work to complete the closing conditions including finalizing the Station Lease in accordance with the terms and conditions identified herein. In the event further instructions are required, Council direction will be sought.

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