TORONTO CITY CLERK

Consolidated Clause in Policy and Finance Committee Report 6, which was considered by City Council on July 25, 26 and 27, 2006.

11

Union Station Revitalization - Termination of Master Agreement with the Union Pearson Group and Next Steps (Ward 28 - Toronto Centre-Rosedale)

City Council on July 25, 26 and 27, 2006, amended this Clause by amending Recommendation (6) contained in the report (July 4, 2006) from the Deputy City Manager and Chief Financial Officer, to provide that the requested Strategy include project goals, deliverables, timelines and an estimated five-year budget for the 2007 Capital Budget, so that Recommendation (6) now reads as follows:

> *"(6) the City Manager convene an interdivisional staff team, utilizing expert consultants as may be required to review models for the restoration and continued operation of Union Station, in consultation with the station's stakeholders, based on the principles and objectives confirmed in Appendix A and assuming City control of the revitalization or a hybrid model involving both public and private investment and/or operation, discussed as Options 4, 5 and 6 in the body of this report, including a business case analysis, and provide City Council with a strategy, including project goals, deliverables, timelines and an estimated five-year budget for the 2007 Capital Budget, for the revitalization of Union Station for the new term of Council;".*

This Clause, as amended, was adopted by City Council.

Council also considered additional material, which is noted at the end of this Clause.

The Policy and Finance Committee recommends that:

(1) City Council adopt the staff recommendations contained in the Recommendations Section of the report (July 4, 2006) from the Deputy City Manager and Chief Financial Officer; and

(2) the Deputy City Manager and Chief Financial Officer be requested to report to the Policy and Finance Committee, as soon as possible, on a strategy for the revitalization of Union Station, including recommendations with respect to a new governance structure for the station.

The Policy and Finance Committee submits the report (July 4, 2006) from the Deputy City Manager and Chief Financial Officer:

Purpose:

This report updates City Council on the termination of the transaction with The Union Pearson Group, addresses interim management issues for Union Station, confirms the City's principles and objectives for revitalization and identifies options for the future.

Financial Implications and Impact Statement:

The transaction with The Union Pearson Group ("UPG") did not close on June 1, 2006. As a result the City remains responsible for all capital and operating costs associated with Union Station. In addition to returning UPG's deposit cheque (as required by the Request for Proposals) the City must also reimburse UPG for the cost of the Phase 1 Pedestrian Study prepared by Arup Napa and the Historic Structures Report prepared by Fournier Gersovitz and Moss Architects totalling $168,375. These studies were not specific to UPG's proposal and will be useful to the City in any future revitalization plans.

The Pedestrian Study cost $20,000.00 and was integral to the completion of the Union Station Master Plan and District Study. Funds are available in the 2006 Approved City Planning Capital Budget, Union Station Design Study (CUR905-1). The Historic Structures Report cost $148,375.00 and was required by the federal government as part of the staged approval process for capital alterations to the building. To cover this cost, funds can be made available within the 2006 Approved Capital Budget for Union Station by reallocating funds from the pedestrian bridge sub- project (CCA908– 10) that is being deferred to 2007.

A new building condition assessment and cost estimate, including restoration of heritage elements and assuming a generic revitalization program is recommended at a cost not to exceed $300,000.00. To cover this cost, funds will be re-allocated from the same sub-project within the 2006 Approved Capital Budget for Union Station (CCA 908-10).

To revitalize the station in the manner envisioned by UPG will require a significant infusion of capital dollars and a dedicated management strategy. Once City Council has provided direction on its objectives for Union Station and revitalization options, City staff will prepare a business case analysis of the chosen options in order to recommend a course of action for the future. This may also require expert advice and assistance. Funds are available from Union Station Cost Centre FA1948 to be funded from Union Station operating revenues should this be required.

In the interim, Toronto Terminals Railway will continue to manage the station on the City's behalf, under the direction of the Chief Corporate Officer.

Recommendations:

It is recommended that:

(1) the Deputy City Manager and Chief Financial Officer return UPG's proposal deposit cheque and reimburse UPG for the costs of the Pedestrian Study at a cost of $20,000.00 to be funded from the 2006 City Planning Approved Capital Budget, Union Station Design Study Sub-project (CUR905-1) and the Historic Structures Report at a cost of $148,375, to be funded by reallocating funds within the 2006 Approved Capital Budget for Union Station, Pedestrian Bridge Sub-project CCA908-10;

(2) the existing Building Management Agreement with Toronto Terminals Railway Company Limited (TTR) be renegotiated by the Director, Real Estate Services to ensure TTR has all necessary operating authorities to deal with security and other regulatory issues together with any potential operating cost savings, in a form satisfactory to the City Solicitor;

(3) until a new revitalization strategy for Union Station is implemented, the monetary limit of $500,000.00 on the City Manager's delegated authority to approve leases or licenses be removed for retail units (including parking spaces) at Union Station provided the space is less than 1,000 square feet; the term (including renewal options) does not exceed 10 years; the rent is at market rates; and the City retains the ability to terminate the agreements on short notice i.e. up to 6 months;

(4) Fournier, Gersovitz and Moss, Architects be retained to complete a building condition assessment and cost estimate including restoration of the heritage elements of Union Station at a cost not to exceed $300,000.00 to be funded by reallocating funds within the 2006 Approved Capital Budget for Union Station, Pedestrian Bridge Sub-project (CCA908-10);

(5) City Council re-confirm its principles and objectives for the revitalization of Union Station as stated in Appendix A to this report;

(6) the City Manager convene an interdivisional staff team, utilizing expert consultants as may be required to review models for the restoration and continued operation of Union Station, in consultation with the station's stakeholders, based on the principles and objectives confirmed in Appendix A and assuming City control of the revitalization or a hybrid model involving both public and private investment and/or operation, discussed as Options 4, 5 and 6 in the body of this report, including a business case analysis, and provide City Council with a strategy for the revitalization of Union Station for the new term of Council;

(7) the funding for consulting costs that may be required to review models for restoration and continued operation for Union Station be made available from Union Station Cost Centre FA 1948, funded from Union Station operating revenues;

(8) the City's 2006 Budget be adjusted in accordance with the recommendations above; and

(9) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Background:

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

(a) promote Union Station as a multi-modal transportation hub first and foremost;
(b) preserve it as a heritage building; and
(c) revitalize Union Station as a destination in order to ensure its ongoing financial stability.

At that time City Council determined that Union Station required both major capital repairs and an experienced operator/manager to achieve these public objectives. It decided to enlist the private sector to restore, develop and operate Union Station. An international Request for Proposals led to the selection of UPG in July 2002. UPG proposed to lease Union Station for 99 years and in return it would undertake all capital and tenant improvements required to revitalize Union Station. A Master Agreement setting out the terms and conditions required by both parties in order to close the lease transaction was executed on November 30, 2004, with a closing deadline of March 31, 2005. This deadline could not be met by either party and in December 2005 the Master Agreement was amended to provide a closing deadline of May 31, 2006. The terms of the Station Lease were settled and approved by City Council at its meeting held January 30, 31 and February 1, 2006.

On April 25, 2006, UPG issued a statement indicating that, faced with an extensive list of items to complete the transaction, it was not prepared to proceed. City staff worked to complete the City's closing obligations as required under the Master Agreement to protect the City's interests. However, UPG is entitled at law to rely on its conditions and refuse to close the transaction. UPG has relied on the condition that "both parties be satisfied with the outcome of the Master Plan Review". The legal implications of the termination of the Master Agreement are discussed in a confidential companion report from the City Solicitor.

Despite the fact that the transaction with UPG did not close, much has been accomplished by the City. Union Station has been rezoned to permit the revitalization. City Council adopted a Union Station Master Plan in November 2004, and the Union Station District Plan, the first step in implementing the Master Plan's "Big Moves", at its meeting held June 27, 28 and 29, 2006. A Master Plan implementation working group has been created to prioritize and identify funding options for those Master Plan initiatives. The Union Station Revitalization Public Advisory Group has been formally constituted and hosted a successful public event on the history and future possibilities for the Union Station train shed. A Heritage Conservation District for the area surrounding the station has also been approved. Good working relationships have been established with Parks Canada, Transport Canada and the transportation operators including approval of a formal, heritage review process for alterations.

Leases with GO Transit and VIA Rail were settled by early May, 2006. UPG's announcement necessitated some revisions to those lease arrangements which were premised on the UPG concept design. These will be explored in greater detail over the next few months as the City reconsiders how best to move forward with the revitalization process for Union Station. Similarly, the need for and nature of a governing entity for Union Station will depend on the chosen option for revitalization. The federal government's commitment of $25 million was premised on the establishment of a distinct corporate entity and having at least one third of the seats on the board of the governing entity.

City staff are convening an interdivisional team to be lead by the Chief Corporate Officer to review options for the revitalization of Union Station, prepare a business case analysis of the preferred options and report back on a revitalization strategy for the future of Union Station. This report reviews those options and seeks confirmation of the key principles which should underlie any strategy for revitalization. It also addresses interim management issues with the intention of improving the operation of Union Station.

Comments:

(i) Interim Management Issues:

When the City acquired Union Station from Toronto Terminals Railway Company Limited (TTR) in 2000, Council authorized the retention of TTR's services to continue to manage the interim operation of the station including maintenance, repairs and property management, pending the conclusion of the City's request for proposals process (RFP). The Union Station Building Management Agreement with TTR was initially for a six month term. It was automatically extended for consecutive one-month periods subject to a 150-day termination clause which may be invoked by either party. This agreement has now been in place for almost six years.

For some time, TTR has wanted to revisit the terms of this agreement to address operating constraints with respect to increased security and regulatory requirements. Because of the impending transfer of operating responsibilities to UPG this was not pursued. However, it would now be appropriate for the Director, Real Estate Services to review the terms of the Union Station Building Management Agreement with TTR to address the scope of its duties as well as opportunities for operating efficiencies and cost saving measures that may be achieved pending a decision on how to move forward with the revitalization process.

While TTR is responsible for the day to day operation of the station, the City's Facilities and Real Estate Division maintains control over the leasing operations. Over the past six months, due to the anticipated head lease of the station to UPG, the City's asset manager for Union Station did not seek out new tenants for the station and has delayed a number of lease renewals to allow UPG flexibility to take over these negotiations and meet its objectives for commercial development. Now that UPG will not be taking over, it would be prudent to fill the vacant space as quickly as possible where appropriate and renew existing leases to increase net revenues. All new leases and renewals will be subject to a short termination provision to allow the City flexibility in any revitalization strategy.

The City Manager currently has delegated authority to approve leases and licenses where the City is the Landlord provided the term (including renewal options) does not exceed 10 years, the rent is at market rates and the total payment does not exceed $500,000.00. Certain areas of Union Station command high rental rates such that even where the term is less than 10 years and the space is small, the total revenue can easily exceed $500,000.00. For example, rental rates for retail space in the station range from $40.00 per square foot to $278.00 per square foot, depending on the location. A retail unit consisting of 800 square feet at $278.00 per square foot results in an annual basic rental payment of $222,400.00. The delegated authority restrictions would be exceeded with only a three year lease term despite this being a minor space in the station.

A number of the leases to be re-negotiated will exceed the City Manager's delegated approval authority. Delays in implementing new rental rates will be costly and can discourage potential new tenants. Therefore, in order to deal expeditiously with these leases in light of the City Council hiatus for the municipal election, it is recommended that, pending approval of a new revitalization strategy for Union Station, the monetary limit be waived for the City Manager's delegated approval authority for leases or licenses of retail units (including parking areas) at Union Station provided the space is less than 1,000 square feet; the term (including renewal options) does not exceed 10 years and the City retains the ability to terminate on short notice i.e. up to six months.

(ii) Capital Repairs:

In 2003, in accordance with the terms of the Master Agreement with UPG the City commenced a basic capital repair program to return Union Station to a state of good repair. If the transaction had closed, UPG would have reimbursed the City for all costs incurred to the date of closing. Carruthers and Wallace Limited was contracted to prepare designs for six capital repair projects funded through the City's capital budget. All decisions on these projects were made jointly with UPG and Parks Canada in accordance with the Master Agreement and the required approval process under the federal Heritage Easement Agreement. These projects include:

(a) repairs to the skylight in the West Waiting Room;
(b) repairs to the West Window of the Great Hall;
(c) repairs to the building façade;
(d) repairs to the main pedestrian bridge;
(e) installation of roof anchors; and
(f) repairs to the expansion joint at the York Street tramway.

The first four projects have been designed. The façade repairs and installation of roof anchors were deferred at UPG's request so they could be incorporated at a significant cost saving into UPG's construction program. These projects will now be re-activated.

The Skylight and West Window projects were designed and tendered as one project. A delay was encountered because the tenders all significantly exceeded the budget estimates. Subsequently, funds have been re-allocated and the project has been awarded. It is anticipated that the project will be completed by December 31, 2006.

Drawings and specifications for the repairs to the pedestrian bridge are complete and have been sent to Parks Canada for final approval. This project must be coordinated with TTC's Union Station Subway Second Platform project and therefore cannot start until 2007.

The repairs to the expansion joint must be coordinated with GO's train shed rehabilitation project, which is now scheduled to commence late this year or early 2007.

The 2006 Capital Budget identified $5,462,000 for these six projects (some of which were carried over from 2005), plus potential life safety upgrades and a contingency for emergency repairs. However, due to the delays and deferrals associated with heritage approvals, the UPG transaction and the need to carefully stage the various projects at Union Station highlighted above, it will not be possible to complete all the capital projects within 2006.

It was always anticipated that the lease transaction with UPG would close and all capital projects would be funded by UPG. With this in mind, projects have been deferred and budget submissions cut back to achieve savings elsewhere. In 2003 staff identified a state of repair program totalling $35 million over five years. In actual fact, since then less than $25 million has been allocated and spent on capital repairs for Union Station through 2010. Now that the transaction has been terminated with UPG it is imperative that the City give immediate and serious attention to the state of repair at Union Station. Experience to date has shown that the extent of deterioration is generally greater than anticipated and costlier to undertake due to the heritage requirements. Consequently, the capital repair program must be revisited and re-prioritized.

In order to prepare a sound business plan for the revitalization of Union Station, a new building condition audit is required to update the physical state of the building, including restoration of heritage elements, and provide a cost estimate. To make a sound business decision on an overall revitalization strategy this report should also identify the capital renovation costs (not including tenant improvements) of a generic revitalization program. The sooner this can be completed the better.

Fournier Gersovitz and Moss, Architects did an extensive review of Union Station and its heritage elements in 2004 as part of the Historic Structures Report. With this background knowledge it would be time efficient and cost effective to have this firm prepare the building condition assessment. The cost to complete this assessment is estimated not to exceed $300,000. It is therefore recommended that Fournier Gersovitz and Moss, Architects be retained to conduct the building condition assessment and restoration cost estimate.

(iii) A Renewed Strategy to Revitalize Union Station:

There are a variety of options open to City Council for proceeding with the development and operation of Union Station. In order to determine which of these options should ultimately be pursued it is necessary to reconfirm the principles upon which the City intends to revitalize Union Station. As noted above, the City has always identified three public policy objectives for the station:

(a) Union Station is a transportation hub first and foremost;

(b) the heritage elements of the building should be restored and preserved; and

(c) Union Station must be revitalized to place it on a sound financial footing so it can eventually be self sustaining.

In issuing the RFP, the City was seeking to:

(a) minimize the City's financial investment in the station;
(b) maximize the value of this asset; and
(c) enlist the expertise of the private sector.

The Union Station Master Plan has identified six structuring principles for any revitalization of Union Station and the surrounding area:

Transportation first –ensure transportation is the primary function of Union Station.

Safe, Efficient and Coherent – provide for each of the necessary transportation functions in a safe, efficient and coherent manner.

Respecting Heritage, Leveraging its Value – respect the historic significance of Union Station.

Accommodating Change, Protecting for the Future – ensure flexibility for expansion and future changes of use.

Connected and Integrated – ensure that Union Station is fully integrated internally and with its environs.

Compelling and Beautiful – establish civic design quality (within Union Station and environs).

Other objectives that have been identified through Council directions or other initiatives:

(a) Union Station should remain in public ownership;

(b) a distinct corporation or other governance entity should be pursued to oversee the revitalization process;

(c) the City should pursue partnerships, support and funding from other governments; and

(d) the public (through the Union Station Revitalization Public Advisory Group) must remain involved throughout the process.

City staff have reviewed these principles in light of current events and particularly the termination of the transaction with UPG and restated a series of Principles and Objectives in Appendix A to this report and seeks City Council's confirmation that these are the principles upon which a course of action for the future should be structured. It is recommended that City Council reconfirm its commitment to the Principles and Objectives in Appendix A to this report.

The range of options available to City Council is summarized below in Table 1.

Table 1 – Options For Union Station Redevelopment

	Description	Pros	Cons
1.	Status Quo	(i) Limited capital expenditures; and (ii) Less financial risk than redevelopment options.	(i) Condition of station is deteriorating with current level of capital expenditure; and (ii) Available funding subject to capital budget considerations/ unpredictability as station is competing with other City initiatives.
2.	Issue New RFP for Long-Term Lease to a Private Developer/Operator	(i) Allows City to avoid further capital expenditures and reduces potential financial risk to the City; and (ii) Private developer will likely be more efficient than City in planning and developing the retail/office/hotel portions of the station.	(i) Loss of City control over building to private interest; (ii) New RFP process will require significant period of time; and (iii) New RFP may not result in favorable lease terms as there are limited number of potential proponents with necessary skill, experience and resources.
3.	Sale to Another Public Agency	(i) Station will remain in public control; and (ii) Allows City to avoid further capital expenditures and eliminates financial risk to the City.	(i) Lengthy negotiations may be required before transfer of ownership and implementation of required capital works; and (ii) Loss of City control over building.
4.	Full Redevelopment under City Control	(i) Greater flexibility to implement changes to station; (ii) Greater control over construction and renovation work; and (iii) Potential for increased financial return as a result of City's lower cost of capital and tax-free status.	(i) Requires significant ($100 million+) upfront funding commitment; (ii) Greater financial and operational risk; and (iii) Property managers hired on short-term contracts may not have same incentives for long-term performance as private operator/tenant with long-term leasehold interest and investment.

Table 1 – Options For Union Station Redevelopment			
	Description	Pros	Cons
5.	Incremental Redevelopment under City Control	(i) Limited annual capital expenditures; (ii) Greater control over construction and renovation work; and (iii) Less financial risk than full redevelopment.	(i) Incremental approach towards redevelopment may not be successful in establishing new retail image for station; and (ii) May not result in the commercial rents that could be achieved under the full redevelopment.
6.	Hybrid Model	(i) Private developer will likely be more efficient than City in planning and developing the office/hotel/retail portions of the station; (ii) Public transportation agencies (VIA, GO) are best able to manage development of their own facilities; and (iii) City maintains control over public spaces and restoration of heritage elements.	(i) Difficulties may arise in determining responsibility for problems and defects; and (ii) City funding required for heritage restoration and development of public spaces.

(1) Status Quo:

Under a status quo option, the city would continue to fund capital repairs out of its capital budget while maintaining TTR (or other property manager) to operate the station on behalf of the City.

The current five year capital program for Union Station will deal only with a state of good repair program. While these works will address some basic building condition and health and safety issues, they will not result in the overall restoration, renovation or improvement of the building. Without an overall renovation, it is unlikely that net revenues generated from the station will ever be sufficient to offset the cost of the state of good repair program.

This is not considered a viable option.

(2) Issue Another RFP for a Long-Term Lease to a Private Proponent:

The City could reissue an RFP on similar terms with the objective of entering into a lease with another private proponent that will restore, renovate and operate Union Station.

This approach was recommended by staff for the original RFP process in order to achieve the following principal objectives that were identified by Council:

(a) minimizing the City’s financial investment in the station;
(b) maximizing the value of this asset; and
(c) enlisting the expertise of the private sector.

The first of these objectives was driven by the City's financial position at the time of amalgamation. By comparison, as shown in Appendix B, other major, recent transportation hub projects of this scale have received very significant portions of their overall funding from other governments. The City has only received a conditional commitment of $25 million from the federal government for improvements at the station that have yet to be determined.

The extent of the financial commitment required of the private-sector proponents necessitated a long-term lease to recoup such a major investment. An analysis of similar projects indicated that a large equity investment by a private sector proponent, coupled with a long-term leasehold interest, would result in strong incentives for the most efficient development and management of this asset. It would also minimize the City's risk and staffing requirements to oversee the station's development and operation.

A drawback to this approach is that there are only a small number of proponents with the necessary expertise and experience to manage the restoration, redevelopment and operation of a major transportation facility such as Union Station. With the limited response to the original RFP and the protracted negotiations and eventual withdrawal of UPG, a new RFP may not generate a significant level of competition between potential proponents.

A second drawback to the original approach is that it places the station largely in the control of a private sector proponent. This may limit the flexibility that the City would have in carrying out functional changes to the station's layout required for transportation operations; particularly if these impact on the private proponent's potential revenue from the station.

A third drawback is that re-issuance of an RFP for a long-term lease of the whole station will undoubtedly still be a lengthy process during which the station will continue to deteriorate.

For the reasons cited, this is not considered a viable option at this time.

(3) Sell the Station to Another Public Agency:

Although no formal expressions of interest have been received, another potential approach would be to explore the possibility of selling the station to one of the public sector stakeholders such as GO Transit and VIA Rail, the provincial or federal governments. This would ensure it remained in public hands. There may also be important benefits arising from the principal railway tenants of the station being able to coordinate the station's redevelopment with their own plans for the train shed and platforms.

This approach would allow the City to avoid further expenditures on the station and it may result in a significant up-front purchase payment that can be applied to address other City capital budget pressures.

However, while this approach may have important functional benefits, GO and VIA may not share the same public objectives for Union Station as the City and may not place the same emphasis on carrying out a full restoration of the heritage aspects of the station or on implementing other public space improvements. In addition, prolonged negotiations may be required to reach an agreement for the sale of the entire station.

In light of the significant history to Union Station and efforts taken to bring it under City control, this option is also not recommended.

(4/5) Carry out the Revitalization Under City Control:

Under these options, the City maintains ownership and control over the station while carrying out more extensive renovations than under the status quo option. Renovations to the station could proceed using one or a combination of: station revenues, funds raised through the issuance of City debenture debt and/or financing mechanisms as well as other government funding. There is still an outstanding commitment by the federal government to provide funding of $25 million towards works that achieve certain transportation and heritage objectives. Other such funding initiatives could be considered.

Within this model there are different avenues that could be pursued depending on the nature and availability of funding. An incremental approach to development would put a slower pace on the restoration and revenue generation. A full redevelopment would see the City invest significant capital into the station upfront (as UPG would have done) in order to create momentum and the sense of destination that would positively impact revenues in a shorter time frame.

The City’s lower cost of capital, compared to a private-sector developer, would have a very positive impact on overall development costs. This means that there is a theoretical potential for the City to realize a net financial return over the long term.

However, even with the use of consultants and property management firms under contract for all or portions of the station, the City may not be as nimble and efficient in managing the development and operations of the station as a long-term private leasehold tenant/operator would be. In addition, the City would have to maintain a firm commitment towards stable capital funding in order to carry out a full revitalization on its own.

Nevertheless, by retaining control of the station, the City would benefit from greater flexibility in achieving other objectives for the station. This flexibility would apply in particular to potential future alterations to the station’s layout which may be required as part of the station’s future evolution as a multi-modal transportation hub.

This option has considerable merit and should be reviewed further.

(6) Hybrid Model:

One final option would be to parcel control over specific portions of the station to different entities to attempt to maximize the potential benefits to all of the station's stakeholders. As shown in Appendix B, this is the approach applied to a number of recent projects such as the development of Boston South Station and Terminal 4 of John F. Kennedy Airport in New York. The specific details of an ideal hybrid option for Union Station would have to be considered with input from its stakeholders but the principal elements for a hybrid option are as follows:

(A) Provide full control of transportation-specific facilities to GO and VIA:

With full control over their respective concourses, GO and VIA would be able to better coordinate the redevelopment of these concourses with their own plans for the train shed and the platforms. They would also be able to manage the extent of any retail activity in these concourses and, therefore, the impact that this activity will have on pedestrian traffic movement to and from the trains.

Although no formal proposal has been received, GO has expressed continuing interest in purchasing all or part of the station. The capital infusion could then be used by the City to kick- start the revitalization.

(B) Provide control over exclusively private sections of the station to a private developer:

Portions of the station with little or no public activity, such as the west wing or lower concourse, could still be offered to a private developer or "AAA tenant" under a long-term lease, as is already the case in the east wing (leased to the Bank of Nova Scotia).

This would allow the City to avoid the capital expenditures required to upgrade these parts of the building but would still result in the City deriving some increased revenues from areas which are currently vacant. A private developer will likely be more efficient than the City in planning and developing these areas for commercial use.

The areas best made available under long-term lease to a private developer/tenant would be those with fewer heritage requirements in order to reduce uncertainty faced by the developer regarding the restoration requirements associated with the federal heritage easement agreement. They would also be areas with minimal direct interaction with the transportation functions of the station. This should reduce the need for potential proponents to engage specialized expertise in preparing their response and in ultimately carrying out their redevelopment. It should also reduce uncertainty in the proponents' cost and revenue forecasts and result in more favourable financial offers to the City.

(C) Maintain maximum City control over public spaces and heritage restoration:

Another opportunity in the hybrid model is to allow the City take full responsibility for the major aspects of the station's heritage restoration and the development of the station's public spaces.

Under this approach, the restoration of the building's exterior and its critical interior spaces, such as the Great Hall, could be carried out by private contractors, managed by the City's Facilities and Real Estate Division in an approach similar to the recent restoration of Old City Hall. The City would also maintain responsibility for the development of additional public elements such as new pedestrian connections. By taking control of these facets of the station's development, the City's objectives for the station can be secured and uncertainty over the status of these issues can be reduced for the station's other stakeholders.

Although the hybrid option would aim to carefully separate responsibilities based on the interests of the various stakeholders, each of the controlling entities would still be impacted by the decisions and activities of other controlling entities in the station. For instance, the tenant/ developer of a hotel in the west wing would still be relying on a timely restoration of the exterior of the building by the City's contractor. Disputes could still arise if this restoration is delayed because of the City's capital budget pressures.

Divided authority over the station can also lead to difficulties in delineating the responsibility for each aspect of the station's development and operation. Even with careful development of the legal documentation, the recent dispute with GO over leakage in the station roof demonstrates the difficulty in completely articulating responsibility for every facet of the station's operation.

Overall costs may also be impacted negatively by the need for each entity controlling a section of the station to become experienced with the logistics of managing activities in the station. Until this experience is gained, additional costs will be incurred as each of these entities will be "tripping over each other" while carrying out their development and operations activities.

Finally, although the City will likely receive some up-front revenues from the sale of the concourses, a substantial amount of up-front capital funding may still be required by the City to carry out the necessary heritage restoration.

This option should also be examined.

<u>Conclusions</u>:

For the interim, TTR will continue to manage Union Station for the City. It is recommended that the Building Management Agreement with TTR be revisited to ensure TTR has all necessary operating authorities to deal with security and other regulatory issues and seek the potential to achieve operating savings from some expenses.

City staff will renew their efforts to lease space in the station through new tenancies and renewals. It is recommended that the City Manager's delegated approval authority for leases or licenses of small spaces (less than 100 square metres) at Union Station be revised to remove the monetary restriction provided that the term (including renewal options) does not exceed 10 years, it is at market rates, and the City can terminate on short notice.

City staff are proceeding with the most urgent capital repairs. These include the west window and skylight and the pedestrian bridge in front of Union Station. The Union Station capital program should be re-visited and re-prioritized and the budget adjusted to reflect these changes. It is recommended that Fournier Gersovitz and Moss, Architects complete this assessment, including heritage restoration costs, at a cost not to exceed $300,000.00. City staff will continue to work with GO and the TTC to coordinate the City's capital repairs with the capital programs of the transportation operators.

City staff have reviewed the principles and public objectives identified for Union Station since it was purchased by the City in 2000. In light of current events and particularly the termination of the transaction with UPG, a series of principles and objectives have been consolidated in Appendix A upon which a course of action for the future should be structured. It is recommended that City Council reconfirm its commitment to the principles and objectives for revitalization set out in Appendix A to this report.

This report identifies six broad options for the continued operation of Union Station, ranging from retaining the status quo to selling it to others. For the reasons set out, Options 1 through 3 are not recommended. It is recommended that City staff consult with the various stakeholders and review Options 4, 5 and 6 in greater detail, including a business case analysis, employing outside expert assistance as may be required and report back on a new strategy for the revitalization of Union Station.

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<u>Attachments</u>:

Appendix A – Principles and Objectives for the Revitalization of Union Station; and
Appendix B – Examples of Other Recent Transportation Hub Renovation/Expansion Projects.

Appendix A

Union Station is the most important transportation center serving the Greater Toronto Area. It is a cherished heritage building and civic landmark.

The following principles and objectives shall guide the revitalization of Union Station:

Principles:

(1) A Public Asset – ensure Union Station remains in public ownership.

(2) Transportation first –ensure transportation is the primary function of Union Station.

(3) Safe, Efficient and Coherent – provide for each of the necessary transportation functions in a safe efficient and coherent manner.

(4) Respecting Heritage, Leveraging its Value – respect the historic significance of Union Station.

(5) Accommodating Change, Protecting for the Future – ensure flexibility for expansion and future changes of use.

(6) Connected and Integrated – ensure that Union Station is fully integrated internally and with its environs.

(7) Compelling and Beautiful – Union Station and its environs shall be re-established as a civic landmark of the highest design quality.

Objectives:

(1) The revitalization of Union Station is intended to improve the delivery of national and regional rail passenger services, enhance pedestrian circulation; increase capacity for transportation uses, including a possible air-rail link and airport check-in services, improve space utilization, restore certain heritage aspects of the building and expand and rehabilitate the retail and office components of the station.

(2) Union Station will include connections for inter-city rail, commuter rail, bus terminal and TTC services and accommodate transportation tenants – primarily GO Transit and VIA Rail.

(3) Union Station is Canada’s busiest passenger transportation facility and is critical to the City’s economic well being. It must accommodate volumes that are expected to more than double over the next 20 years.

(4) Union Station will become economically self-supporting and gain a significant component of its revenue from expanded transportation, retail, office and other commercial sources.

(5) Funding partnerships will be sought with other governments and where appropriate, private investment and expertise may be utilized to restore, develop or operate all or portions of Union Station.

(6) Improvements will be undertaken to maintain and restore the architectural structure and historical features of the building while also improving its overall ability to serve its tenants and the public.

(7) The functional layout of the various uses within Union Station shall address pedestrian circulation, including barrier free accessibility to and from the platforms, within, through, into and out of the station.

(8) A comprehensive way finding and passenger information system will be developed for the station including additional connections to the PATH system.

(9) Concourses are to provide safe, efficient and convenient passenger waiting and ticketing areas and pedestrian access between the various transportation uses, including the platforms, and to destinations beyond the station. They will also provide expanded commercial facilities to serve the general public and transportation tenants and provide revenue.

(10) Public input will be maintained throughout any revitalization through the Union Station Revitalization Public Advisory Group.

Appendix B – Examples of Other Recent Transportation Hub Renovation/Expansion Projects				
Project	Non-Transportation Uses	Construction Cost ($US millions)	Financing	Private Sector Input
Boston South Station	(i) office; and (ii) retail	100	(i) Federal government financed base building; and (ii) Developer financed retail fit-out	(i) Private developer selected through RFP process to develop, operate and manage retail area; and (ii) Developer received 30-year lease with two potential 10-year renewals
Grand Central Terminal, New York	retail	220	- State and Local Revenue Bonds	(i) Construction, project management and initial leasing awarded to privately-held company through bid process; and (i) Ongoing management of station handled by separate firm on 3-year contract.
JFK Airport Terminal 4, New York	retail	1,300	Primarily Port Authority bonds with small equity investment by developer	(i) Private consortium awarded contract for design, construction, and operation; and (ii) Consortium received 25-year post-construction lease.
Pearson Airport, Toronto	retail	3,300	Federal funding	Project manager hired on fee basis.

Appendix B – Examples of Other Recent Transportation Hub Renovation/Expansion Projects				
Project	Non-Transportation Uses	Construction Cost ($US millions)	Financing	Private Sector Input
Pittsburgh Airport	retail	783	Federal, State and Local funding	Private partnership chosen to manage the design, construction and operation of the retail development under 15-year master concessions agreement.
Union Station, Washington, DC	(i) office; and (ii) retail	175	(i) 75 percent of funding from Fed. Govt. and Amtrak; and (ii) 25 and private equity	Private firm responsible for construction, operation and management of station under 99-year sublease.
Union Station, Los Angeles	(i) office; and (ii) retail	319	Federal, State, Local and transit authority funding	Private developer under fixed fee contract for design, construction, operation, and management of station.

The Policy and Finance Committee also considered a confidential report (June 30, 2006) from the City Solicitor entitled “Union Station Revitalization - Termination of Master Agreement with the Union Pearson Group – Legal Implications”, which was forwarded to all Members of Council under separate cover and a copy is also on file in the office of the City Clerk, City Hall.

The Policy and Finance Committee also considered a communication (July 18, 2006) from Janice Etter, Chair, Union Station Revitalization Public Advisory Group, which was distributed at the July 18, 2006, meeting of the Policy and Finance Committee.

City Council – June 25, 26 and 27, 2006

Council also considered the following:

- *Confidential report (June 30, 2006) from the City Solicitor [Confidential Communication C.12(a)]. This report remains confidential, in its entirety, in accordance with the provisions of the Municipal Act, 2001, as it contains information that is subject to solicitor-client privilege.*