



STAFF REPORT ACTION REQUIRED

Union Station Proposed Building Enhancements

Date:	December 24, 2015
To:	Government Management Committee
From:	Chief Corporate Officer
Wards:	28 – Toronto Centre-Rosedale
Reference Number:	P:\2016\Internal Services\RE\Gm16004re (AFS # 21837)

SUMMARY

In 2013, City staff reported to Council that the City's Head Lessee at Union Station, Osmington (Union Station) Inc., was interested in developing a renewed vision for the commercial retail and event elements at the Station. As the revitalization of Union Station has progressed, Osmington has further developed the design for the commercial retail and event spaces to create a 2015 vision for a dynamic, customer-focussed experience that includes engaging the top restaurateurs, retailers and cultural institutions of the City. The City shares this vision with Osmington to create a destination for commuters, local residents and visitors alike. In order to create a world class destination, base building and leasehold enhancements to the building are needed, including lighting, audio-visual equipment, furniture, amenities and other improvements to the retail and event offerings for Station users.

The enhancements are estimated to cost \$32 million plus HST and contingency, and will be shared between Osmington (60%) and the City (40%). The City's 40% portion of the enhancement costs will be funded by Osmington and recovered with revenue that is generated from sponsorship and retail tenant percentage rent (as defined in the attached Term Sheet). The proposed enhancements do not require the City to use its own capital funding and presents no risk to the revenues that the City would receive in the absence of these enhancements.

This report recommends that City Council authorize an amendment to the 2009 Head Lease Agreement between the City and Osmington and authorize any necessary related agreements to allow Osmington to fund, design and construct enhancements to Union Station that will make it a City-wide destination for dining, retail, events and culture.

RECOMMENDATIONS

The Chief Corporate Officer recommends that:

Union Station Proposed Base Building Enhancements

1. City Council authorize an amendment to the 2009 Head Lease Agreement between the City of Toronto and Osmington (Union Station) Inc. ("Osmington"), and authorize any other necessary agreements, to implement the building enhancements for Union Station, any necessary upgrades required to allow for retail on the GO West Concourse, and the heritage interpretation plan, substantially on the terms set out in the Term Sheet attached to this report as Attachment 1 and such other or amended terms as may be acceptable to the Chief Corporate Officer and in a form satisfactory to the City Solicitor.
2. City Council authorize an amendment to the retainer agreement with Davies Ward Phillips and Vineberg LLP (Purchase Order No. 6025203), in the additional amount of up to \$350,000.00 (net of all applicable taxes), to provide continuing real estate legal advice and expertise for the on-going agreement updates associated with the revitalization project.
3. City Council authorize an amendment to the retainer agreement with PwC (Purchase Order No. 6037971), in the additional amount of up to \$150,000.00 (net of all applicable taxes), to provide continuing real estate advice and expertise for the on-going lease related matters associated with the revitalization project.

Implementation Points

Osmington has retained a design team consisting of DIALOG Design, Partisans and GH+A for the design of the enhancements. This team will implement the changes to the Station when the necessary areas are turned over to Osmington by the Union Station Revitalization Project team. This will minimize potential for interference between constructors and delays to the core revitalization program.

Section 6.1 of the Head Lease Agreement obligates the City to carry out the "Redevelopment" of the Station and, in particular, to carry out the Commercial Premises Base Building Work in accordance with the Commercial Premises Base Building Plans. Those plans are to be based on the "Base Drawings" as identified on Schedule B to the Head Lease Agreement, as finalized through the design development process.

Through design development, down to final detailed design, both the City and Osmington have recognized that the 2009 vision for retail and events at the Station is inefficient in today's market. When the initial designs were created, they were utilitarian, focussed mainly on transit and commuters, and tempered by a harsh economic climate. The City and Osmington have agreed that the 2009 vision needs to be enhanced, with the result that certain aspects of the 2009 base building designs need to be updated, with the update to be implemented through finalizing the detailed design pursuant to Section 6.3 of the Head Lease Agreement and through the Change Order process in Section 6.4 of the Head Lease Agreement.

The base building enhancements will improve the viability of the Station as a retail and events destination by attracting significant sponsorship opportunities and greater rents from high quality tenants. The City will remain the landlord of the property and will retain an active oversight role for the project to ensure that the changes do not have any negative impact on the City or the Station.

Due to the ongoing nature of the revitalization and the continued negotiations with Metrolinx, VIA and Osmington at Union Station, the City requires additional real estate legal advice from Davies Ward Phillips and Vineberg LLP. A Purchase Order for services from Davies Ward Phillips and Vineberg already exists and, as per recommendation 2 in this report, should be amended to increase its value and avoid any gaps in services to the City.

Additionally, because of the ongoing nature of the revitalization and matters relating to real estate and leasing transactions, the City requires additional real estate advice from PwC. A Purchase Order for services from PwC already exists and, as per recommendation 3 in this report, should be amended to increase its value and avoid any gaps in services to the City.

Financial Impact

Commercial Premises Enhancement Works

The proposed enhancements to the commercial premises have an estimated total construction cost of \$37 million (including a contingency of approximately \$5 million). According to the proposed terms, Osmington will initially fund this total cost.

However, the proposed terms would temporarily amend the revenue-sharing formulas established in the existing head lease agreement so that the City's share of certain components of commercial revenue will be applied to permit Osmington to recover the City's 40% share of the construction cost expenditure, which it will make on behalf of the City, up to a total maximum amount of \$15 million, plus accrued interest based at the Prime Rate.

The revenue components that Osmington will use to recover the enhancement costs are retail tenant percentage rent and sponsorship revenue. According to the City's real estate advisors, PwC, these components of revenue would yield little or no revenue in the absence of the proposed enhancements. Therefore, the City would only be using incremental revenue generated by the enhancements themselves to fund the City's share of their cost.

If the revenue components yield insufficient revenues to recover the City's share of the costs, the proposed terms call for Osmington to cover the balance of the City's 40% share of the enhancement fifteen years after the commencement of the Head Lease.

The original revenue sharing formulas will be reinstated on the earlier of:

- the date on which Osmington has recovered the City's share of the enhancements costs (plus accrued interest) or
- fifteen years after Commencement Date under the Head Lease.

It is anticipated that the City will receive greater annual revenues than it would have without the enhancements; even during the period when tenant percentage rent and sponsorship revenue are diverted for repayment of the enhancement costs. This is because PwC has forecast that the tenant base rents, which will continue to be shared in accordance with the existing formula, will increase due to the expanded retail area (the enhancements will result in 11,000 sq. ft. of

additional space), and because the improved condition of the retail area will attract tenants willing to pay higher base rental rates.

PwC and City Real Estate staff have forecast, as a result of expressions of interest received by Osmington, that substantial sponsorship revenues generated by the proposed enhancements will allow the City to repay its share of the costs within approximately six years. After the original revenue sharing formulas are reinstated, the City will begin to receive its 50% share of these sponsorship revenues along with a 50% share of the retail tenant percentage rents.

Therefore, the proposed enhancements provide the City with significant potential for improved retail revenues without requiring the direct use of the City's own capital funding and without risking the revenues that that the City would receive in the absence of these enhancements.

West Concourse Enhancement Works

The proposed west concourse enhancements have an estimated total construction cost of \$640,000. According to the proposed terms, Osmington will initially fund this total cost but it will recover a 30% contribution from the City through a temporary assignment of the City's share of the rental revenue received from the West Concourse. No revenue from the West Concourse had previously been incorporated in the operating budget for the station.

DECISION HISTORY

City Council on August 5 and 6, 2009 adopted Item EX33.44, entitled "Union Station Revitalization Implementation and Head Lessee Selection", and granted authority to enter into the Head Lease Agreement, with Osmington being granted the exclusive right to operate all Commercial Uses in the Station, including all commercial signage, commercial advertising and commercial special events, of which sponsorship is a part.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX33.44>

City Council on December 16, 17 and 18, 2013 adopted Item GM26.5, entitled "Union Station Revitalization Project – Status Update", which outlined the vision to create a cultural, entertainment and retail destination at the Station.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.GM26.5>

ISSUE BACKGROUND

The base building enhancements proposed by Osmington will create an improved retail environment, greater sponsorship opportunities, and higher rental income from space tenants. For example, the food court and fresh market will generate \$1.7 million more in revenue than what was originally projected based on the 2009 plans. Those plans provided for 150,000 sq/ft. of leasable space. However since then, an additional 11,000 sq/ft of rentable retail space has been created through the proposed base building enhancements, which will generate significantly more income than projected under the previous plans.

The cost of the enhancements is proposed to be shared between Osmington and the City. The City's portion will be initially funded by Osmington and recovered with revenue that is generated from sponsorship and space tenant percentage rent (as defined in the attached Term Sheet), as the same becomes available. Sponsorship revenue was previously forecasted to generate approximately \$100,000 per year in revenue beginning in 2018. However, current sponsorship revenue projections show significantly higher amounts being generated once the Station is fully operational with the proposed enhancements.

The new design will include facilities for special events in the Great Hall and West Wing Waiting Room. Enhancements will also include improved lighting and finishes, a reconfigured food court, and a new fresh food market that will enliven the customer experience throughout the Station.

While the work currently under way for the 'dig down' and the restoration of the heritage building is already delivering a much improved commuter facility, Union Station still requires a bold vision to make it a destination in the City for commuters, workers, visitors and residents. The enhancements will create Union Station as a destination with self-sustaining retail and commercial uses serving commuters and the surrounding residential and office community. This vision is consistent with the mixed use and function models employed at both Grand Central Station in New York City, and St. Pancras Station in London.

In 2009, the original retail vision for Union Station was tempered by a harsh economic climate and a correspondingly pragmatic approach to retail, focussed on supporting the basic needs of commuters. The emphasis on the Station as a commuter hub was paramount, and was reflected in the utilitarian, commuter-focussed design and finishes. At that time, it was also anticipated that changes to the base building condition may be required as market forces and landlord base building needs evolved. Since 2009, Union Station has become an important location for the City's proper functioning, a connection of the Financial Core to the South Core and a gateway to the City for tourists.

In 2013, based on an improved economy and a desire to enhance the offerings at the Station, the staff report on the Union Station Revitalization Project Status Update indicated that Osmington was interested in refreshing the vision for retail, restaurants and special events at the Station. Since then, Osmington and Real Estate Services have evolved the vision into one that complements the Station's transportation function while making it an integral part of the downtown community - a destination for culture, events, dining and retail. The enhancements are intended to upgrade Union Station from its utilitarian design and finishes to a level that befits the heritage and locational significance of the Station in Toronto.

COMMENTS

Osmington and Real Estate Services' vision for Union Station is to enhance its function as a commuter hub and ensure that it becomes a destination for arts and cultural experiences, as well as one of the best retail and restaurant experiences in Toronto. The retail environment requires an elevated experience. Included in the Osmington vision is the programming of entertaining or educational events, with partnerships forming with the Canadian Opera Company, the National

Ballet of Canada, the TSO, Luminato, and TIFF, among many others. The creation of an exciting and inviting environment is key. The proposed enhancements to the Station are critical to bringing these partnerships to life.

Union Station as a Cultural Destination

A key part of the vision for the enhancements is to create Union Station as a retail destination, cultural hub and special events venue. It is anticipated that the enhancements will increase the appeal of the Station for use by cultural institutions and for civic events that will make the Station a major cultural attraction in the downtown core. The central location, iconic building and large number of commuters create an ideal environment to make the Station a destination in its own right. The opportunity to animate the Station has been demonstrated by the summer food market that ran for three months and enjoyed both local and international success. The Toronto arts and cultural community has embraced the opportunity to host events and programming at Union Station. They see it as a wonderful opportunity to give back to the community. TIFF sponsored screenings on Sir John A MacDonald Plaza, various entertainers and events in the Great Hall such as Nuit Blanche, the Union Summer food market, the Holiday Market and the Contact Photography festival all show how important Union Station can be to Toronto.

Enhanced Retail Vision

Since 2013, the retail design review exercise has resulted in approximately 11,000 sq ft of more rentable retail space than in 2009. The enhancements will create an appealing and more attractive atmosphere that will encourage retailers that are unique to Toronto and encourage complementary international brands to locate at the Station. These enhancements will include a showplace 'fresh market' on the lower level that will be home to unique fresh and prepared food vendors. A new restaurant and oyster bar will be built in the north part of the Great Hall where the ticket counters used to be located - this area will also be used as a stage for special events.

Once the enhancements are complete, the Station will be a showpiece for the City that will allow for partnerships with both local and international cultural institutions. The combination of unique tenants, the central location, and the iconic heritage building will in turn attract corporate sponsorships.

Examples from Other Cities

New York City NY, Grand Central Station

In 1982, Metro-North took over the station, which was primarily a commuter hub, and launched a four-year, \$12 million repair program that stopped further deterioration but didn't erase decades of decay. In 1990, Metro-North announced ambitious plans to restore the station's structural, architectural, and decorative glory. Metro-North's vision went far beyond simply refurbishing the building. Its master plan reimagined Grand Central as a vibrant shopping and dining destination, reclaiming its role as New York's town square.¹ Grand Central Station is now one of the premier destinations in New York City.

¹ <http://www.gcthistory.com/#s8>

Washington DC, Union Station

The revitalization of Union Station in Washington DC included the addition of a head house wing, while the original station was renovated for retail use. Today, Union Station is one of the busiest rail facilities and shopping destinations in the country, and is visited by over 40 million people a year. The former "Pit" area houses restaurants and a large food court is located in the former baggage-mail level. The food court still retains the original arches under which the trains were parked as well as the track numbers on those arches. A variety of shops opened along the Concourse and Main Hall, as well as a new Amtrak terminal behind the original Concourse.² The East Hall is also used for special events, such as weddings and meetings.

Philadelphia PA, 30th Street Station "The Porch"

In November 2011, "The Porch" at 30th Street Station was opened. It has become a transformative new urban open space adjacent to the second busiest train station in the country. Once a congested parking lane and bland, barren sidewalk, The Porch has quickly become one of the most animated public places in Philadelphia, with amenities such as food trucks and beer garden, abundant seating, vibrant seasonal plantings, ongoing performances, and a variety of special events.³

London UK, St. Pancras Station

After escaping planned demolition in the 1960s, the complex was renovated and expanded from 2001 to 2007 at a cost of £800 million. A security-sealed terminal area was constructed for Eurostar services to continental Europe via High Speed 1 and the Channel Tunnel, with platforms for domestic trains to the north and south-east of England. The restored station has 15 platforms, a coach facility, and a shopping centre that was the focus of extensive publicity introducing it as a public space.⁴

GO West Concourse Upgrades

The GO Transit West Concourse was not originally designed to accommodate retail and food services, relying instead on offerings available throughout the rest of the Station. However, Osmington, Metrolinx and the City have since recognized the need and financial opportunity of creating retail and food offerings on the concourse. In order to support retail tenancies on the concourse, upgrades need to be undertaken, such as the provision of electrical, mechanical and ventilation systems for the targeted retail locations.

Heritage Interpretation Plan

As one of the conditions of sale of Union Station from The Toronto Terminal Railways Company Limited to the City of Toronto, Parks Canada required that the City complete a heritage interpretation plan for the Station. Real Estate Services Division has retained a team of interpretation planners and designers, led by Terra Media and Hayley Sharpe Design, to tell the story of the architecture and development of Station, and its surrounding areas. The design phase is complete and will be installed prior to 2018.

² [https://en.wikipedia.org/wiki/Union_Station_\(Washington,_D.C.\)#Restoration](https://en.wikipedia.org/wiki/Union_Station_(Washington,_D.C.)#Restoration)

³ <http://www.universitycity.org/the-porch>

⁴ https://en.wikipedia.org/wiki/St_Pancras_railway_station#New_role

There is a synergy between the interpretation plan and the implementation of the enhancements proposed for the Station, and therefore a benefit to combining them under the Osmington-led enhancement project. Osmington will complete the fabrication and installation of the heritage interpretation plan and charge back the costs to the City.

Financial Terms of the Agreement

Commercial Premises Enhancement Works

The proposed enhancements to the commercial premises have an estimated total construction cost of \$37 million (including a contingency of approximately \$5 million). According to the proposed terms, Osmington will initially fund this total cost.

However, the proposed terms would temporarily amend the revenue-sharing formulas established in the existing head lease agreement so that Osmington can recover the City's 40% share of the cost of these enhancements, plus accrued interest at the Prime Rate, from revenues that would have otherwise flowed to the City.

Under the existing Head Lease agreement, the City is to receive head lease rental payments from Osmington that are equal to 50% of the total net income generated from the commercial premises; but with a minimum annual floor payment amount starting at \$2,250,000 on the Commencement Date.

The proposed amendments would use certain revenue components that would have flowed equally to Osmington and the City and instead permit Osmington to recover the City's 40% share of the construction cost expenditure, which it made on behalf of the City,, up to a total maximum amount of \$15 million, plus accrued interest based at the Prime Rate.

The revenue components that will be used for the enhancements are sponsorship revenue and space tenant percentage rent. The retail tenant percentage rent is a common component of retail tenant lease agreements that provides a landlord with participation in a retail tenant's success through the sharing of the retailer's revenues above a certain income threshold. This percentage rent is usually provided to the landlord by the retail tenant in addition to a regular monthly base rental payment.

According to the City's real estate advisors, PwC, the revenue components that would be temporarily used for the enhancements would yield little or no revenue in the absence of these proposed enhancements. Therefore, the City would only be using incremental revenue generated by the enhancements themselves to fund the City's share of the cost.

If the revenue components yield insufficient revenues to recover the City's share of the costs, the proposed terms call for Osmington cover the balance of the City's 40% share of the enhancement fifteen years after the commencement of the Head Lease.

The original revenue sharing formulas will be reinstated on the earlier of:

- the date on which Osmington has recovered the City's share of the enhancements costs (plus accrued interest) or
- fifteen years after the Commencement Date under the Head Lease.

It is anticipated that the City will receive greater annual revenues than it would have without the enhancements; even during the period when tenant percentage rent and sponsorship revenue are diverted for repayment of the enhancement costs. This is because PwC has forecast that the tenant base rents, which will continue to be shared in accordance with the existing formula, will increase due to the expanded retail area (the enhancements will result in 11,000 sq. ft. of additional space), and because the improved condition of the retail area will attract tenants willing to pay higher base rental rates. The agreement will retain the existing minimum annual payment amount.

PwC and City Real Estate staff have forecast, as a result of expressions of interest received by Osmington, that substantial sponsorship revenues generated by the proposed enhancements will allow the City to repay its share of the costs within approximately six years. After the original revenue sharing formulas are reinstated, the City will begin to receive its 50% share of these sponsorship revenues along with a 50% share of the tenant percentage rents.

Therefore, the proposed enhancements provide the City with significant potential for improved retail revenues without requiring the direct use of the City's own capital funding and without risking the revenues that that the City would receive in the absence of these enhancements.

West Concourse Enhancement Works

The proposed west concourse enhancements have an estimated total construction cost of \$640,000. According to the proposed terms, Osmington will initially fund this total cost but it will recover a 30% contribution from the City, up to a maximum amount of \$200,000, plus accrued interest based at the Prime Rate, through a temporary assignment of the City's share of the rental revenue received from the West Concourse. No revenue from the West Concourse had previously been incorporated in the City's operating budget for the station.

CONCLUSION

The enhancements proposed by Osmington and the Real Estate Services Division for Union Station are an important part of making the Station a destination and hub of the downtown. The Osmington and Real Estate Services Division vision is bold and based in high quality design that will attract sponsors, retailers and cultural events to the Station. Staff have carefully reviewed the proposal and financials, and believe that this initiative will benefit both Union Station and the City.

As a result of the vision set out in this report, Osmington has already announced TD Bank Group as a Founding Sponsor and Exclusive Financial Services Partner for Union Station. Once City Council approves the recommendations contained in this report, Osmington will be able to secure additional agreements with sponsors and retailers who wish to participate in this vision of Union Station.

CONTACT

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SIGNATURE

Josie Scioli
Chief Corporate Officer

ATTACHMENTS

Attachment 1: Term Sheet: Union Station Building Enhancements

Attachment 1

TERM SHEET UNION STATION BUILDING ENHANCEMENTS

1. Parties:

- (a) The City of Toronto (the "**City**")
- (b) Osmington (Union Station) Inc. ("**Osmington**")

2. Purpose:

To set out the terms for amending the December 7, 2009 head lease agreement between Osmington and the City, as amended to date (the "**Head Lease Agreement**") to provide for the design, construction, funding and repayment with respect to:

- (a) certain enhancements to the event and related facilities in the Great Hall and the West Wing, components of Union Station and new retail designs with improved lighting, increased ceiling heights, and upgraded finishes within the station, including the moats and team-ways but excluding areas owned or leased by Metrolinx (the "**Commercial Enhancements**");
- (b) certain work required on the Metrolinx West Concourse to support retail tenants in that area (the "**West Concourse Enhancements**"); and
- (c) the fabrication and installation of interpretive program elements and exhibits related to the required heritage interpretation plan for Union Station (the "**Heritage Interpretation Program**");

as has been identified by the parties (collectively the "**Enhancement Work**"). Defined terms used herein have the meanings given to them in the Head Lease Agreement unless defined herein.

3. Construction Cost Responsibility:

The construction costs for:

- (a) the Commercial Enhancements (the "**Commercial Enhancement Costs**") have been budgeted by Osmington at \$32 million, before contingencies, excluding HST;
- (b) the West Concourse Enhancements (the "**West Concourse Enhancement Costs**") have been budgeted by Osmington at \$640,000, before contingencies, excluding HST; and
- (c) the Heritage Interpretation Program costs are being finalized having regard to funds already available to the City within its Union Station budget.

(collectively, the "**Enhancement Costs**").

Subject as hereinafter provided, the City contribution to the Commercial Enhancement Costs, to be funded from sponsorship revenue and from percentage rent payable pursuant to Space Leases, currently as referenced in Section 3.3 of the Standard Form of Space Lease for Union Station ("Percentage Rent"), shall be 40% of the actual expenditures for Commercial Enhancement Costs, up to a maximum amount of \$12.8 million (i.e., \$12.8 million is 40%), plus 40% of any contingency amount that is actually expended up to a further \$2 million (i.e., \$2 million is 40%), for a total maximum amount of \$14.8 million, excluding HST.

The City contribution to the West Concourse Enhancement Costs shall be 30% of the actual expenditures for construction costs, up to a maximum of \$200,000 (i.e., \$200,000 is 30%), with Osmington to be responsible for 40% of the cost (acknowledging that Metrolinx is also to repay Osmington for 30% of the West Concourse Enhancement Costs).

Heritage Interpretation Program costs will be for the account of the City to be funded from monies available to it in its budget for Union Station.

4. Funding of Commercial Premises Enhancement Costs:

Osmington will pay, up front, all Commercial Enhancement Costs, on an "as incurred" basis. Provided that the City is satisfied that there are sufficient sponsorship commitments in place, the City will permit Osmington to recover Osmington's expenditure of the City's portion of the Commercial Enhancement Costs, together with accrued interest, as follows:

- (a) until the City's portion of all of such Commercial Enhancement Costs, plus accrued interest thereon, has been fully recovered, gross sponsorship revenues and gross Percentage Rent revenues, as received by Osmington as Head Lessee (other than in respect of the Metrolinx Demised Premises) shall be excluded from the calculation of Net Operating Income and shall be payable to Osmington (i.e. both the City's 50% share and Osmington's 50% share) quarterly on the last days of March, June, September and December of each Lease Year;
- (b) the City's 50% share of such sponsorship revenue and such Percentage Rent revenue shall be promptly applied, by Osmington on an "as received" basis, as a recovery of Osmington's expenditure of the City's 40% share of the Commercial Enhancement Costs , plus interest thereon at the Prime Rate per annum;
- (c) in the event that there is no sponsorship revenue and no Percentage Rent revenues paid in any year, Osmington will have no entitlement to recover the City's share of Commercial Enhancement Costs in that year;
- (d) in the event that, by the fifteenth anniversary of the Commencement Date, Osmington has not fully recovered its expenditure of the City's share of Commercial Enhancement Costs plus accrued interest thereon at the Prime Rate, Osmington shall have no further right to recover such Commercial Enhancement

Costs from gross sponsorship revenues or from gross Percentage Rent revenues; and

- (e) on the earlier of (A) the date on which Osmington has fully recovered Osmington's expenditure of the City's share of Commercial Enhancement Costs, plus accrued interest thereon, and (B) the fifteenth anniversary of the Commencement Date, the gross sponsorship revenues and the gross Percentage Rent revenues as above referred to shall thereafter form part of the Net Operating Income.

5. Funding of West Concourse Enhancement Costs:

In respect of the West Concourse Enhancement Work, Osmington will pay, up front, all West Concourse Enhancements Costs. The City shall reimburse Osmington for the City's 30% share of such costs, together with accrued interest thereon at the Prime Rate per annum (to a maximum of \$200,000 plus HST), once the work has been completed in accordance with the terms of the Second Amendment to the Head Lease Agreement, such payment to be from that portion of the Metrolinx Basic rent payable under the Second Amendment to the Head Lease Agreement that the City does not in turn pay to Metrolinx (i.e., the City retains 30% of Metrolinx Net Operating Income), as and when received by the City.

6. Funding of Heritage Interpretation Program Costs:

Osmington will pay up front, all costs for the fabrication and installation of the Heritage Interpretation Program, which costs shall be reimbursed to Osmington by the City from funds available to the City in its budget for Union Station.

7. Construction:

Construction of the Commercial Premises Enhancements and the Heritage Interpretation Elements shall form part of the Head Lessee's Work under the Head Lease Agreement and shall be carried out in accordance with the terms thereof, including in particular the terms of Article 6 thereof.

Construction of the West Concourse Enhancements shall form part of the Allowance Work under the Second Amendment to the Head Lease Agreement and shall be carried out in accordance with the terms thereof.

8. Timetable:

The parties acknowledge that they have developed the following timetable for completing the matters required prior to commencement of construction of the Retail Enhancement Work.

- (a) City Government Management Committee: January 4, 2016;
- (b) City Council Approval of Term Sheet: February 3, 2016;

- (c) Negotiation and Finalization of Amendment to Head Lease Agreement: March 31, 2016;

9. Good Faith Negotiations:

The parties agree to work diligently, co-operatively, and in good faith with one another toward the shared goal of negotiating, finalizing and executing an amendment to the Head Lease Agreement to address the terms of this Term Sheet.

10. City Not Fettered:

Nothing in this Term Sheet derogates from, interferes with, or fetters the exercise by the City, its officers, employees, agents, representatives or elected and appointed officials, of all of its rights and obligations as a municipality (whether discretionary or mandatory), or imposes any obligations on the City in its role as a municipality, and the City shall not be prevented from or prejudiced in carrying out its statutory rights and responsibilities, including its planning rights and responsibilities.