Auditor General's Office

Integrity, Excellence and Innovation

AUDIT AT A GLANCE

WHY THIS AUDIT MATTERS

Union Station has generated approximately $59.4 million in leasing revenue over the last five years. The operating costs over this same period were $62.4 million. Revenue streams from leasing activities are expected to be sufficient to repay City debt as well as fund future Station operating and capital costs. Financial controls are needed to ensure the Station is financially sustainable in both the short and long-term.

Our audit findings may be relevant to the Real Estate Services Division's entire leasing portfolio and to other City divisions, agencies and corporations which oversee leasing activities independently of Real Estate Services.

BACKGROUND

Union Station is the country's busiest multi-modal transportation hub. The Station is currently in the midst of an $800 million revitalization with a vision of becoming a destination for dining, retail, special events and culture. The Real Estate Services Division oversees leasing at Union Station.

BY THE NUMBERS

- $9.4 million in rents and recoveries estimated as owing to the City for 2012 to 2016
- $740,000 in lost interest income
- 54% to 68% of annual operating costs were recovered between 2012 to 2016
- $1.5 to $2.5 million in operating costs related to commercial space could be absorbed annually by the City
- 100,000 square feet of rentable space in the East Wing may carry opportunity costs if it remains vacant on USRP completion
- $5.8 million in property tax refunds may need to be distributed to occupants
- $54,000 to $122,000 in annual revenues if the City charges rent for future office space the Head Lessee occupies in the Station

Real Estate Services Division – Restore Focus on Union Station Leasing

What we found

Immediate Action is Needed to Remediate Leasing Activities

- Although the City receives installment payments, it has not settled actual annual rents and recoveries with Station occupants for more than 4 years.
  - $9.4 million in leasing revenue may still be owed to the City.
  - City lost the opportunity to earn a return on capital of approximately $740,000.
  - Further work is required by City staff to finalize settlements.
- Staff do not know whether amounts are due from or owing to former Union Station retail tenants for 2010 to 2015.
- Revenue and receivables data in the leasing module of the City's financial information system is not current, accurate, or complete.

Ensure Robust Financial Analysis Informs Strategic Decisions

- 54 to 68 per cent of annual operating costs are recovered from occupants.
  - A cost allocation model or methodology to determine each occupant's fair share of Station operating costs does not exist.
  - Once commercial space is fully operational, the City may absorb $1.5 to $2.5 million in annual operating costs related to this space (which is $7.5 to $12.5 million over five years) because of a contracted rate cap on the recovery of operating costs from this space.
- No strategic plans exist for the 100,000 square feet of rentable area in the Station's East Wing. There will be an opportunity cost if the East Wing remains vacant when the Union Station Revitalization Project (USRP) is complete.
- Financial forecasts for Union Station do not include all revenue streams (such as sponsorships and retail tenant percentage rents) or reflect current market conditions and revised timelines for USRP.

Improve Oversight of Commercial Operations

- No audited financial statements for retail operations were obtained from the Leasing Manager for 2010 to 2015. We were unable to verify the accuracy and completeness of the $26 million in total gross retail revenues reported as earned or the $22.3 million distributed back to the City.
- 4,000 out of an anticipated 165,000 square feet of commercial space under the Head Lease is currently operating. City staff need to proactively and effectively monitor commercial operations in order to minimize costs and maximize net operating income distributions to the City.

How Recommendations Will Benefit the City

Implementation of the 21 audit recommendations will bring the City's financial records up-to-date, and remediate the annual calculation and collection of rents and operating cost recoveries. In addition, they will help lay the foundation for the City to monitor future commercial revenue streams. This is needed to ensure adequate funding is available in the short and long-term to repay debt and cover Station operating and capital costs.

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