



August 23, 2012

Mr. Joseph Pennachetti  
 City Manager  
 City of Toronto  
 City Hall, 100 Queen St. West  
 11<sup>th</sup> Floor East  
 Toronto, Ontario M5H 2N2

Dear Mr. Pennachetti,

**Re: Future Options for Casa Loma**

The Casa Loma Corporation (CLC) was established in June 2011 to manage the day-to-day operations of Casa Loma. City Council appointed the General Manager of Economic Development and Culture (GM-EDC) to Chair the CLC Board of Directors and further directed me to undertake a process to develop a long term strategy for Casa Loma for City Council approval.

In the twelve months since taking over responsibility for Casa Loma, the Board has successfully managed the business and completed an analysis of future options with input from stakeholders and the public. The Board engaged an external consulting team led by HLT Advisory in conjunction with CBRE, and Philip Goldsmith Architect to provide it with advice in the tourism, hospitality, heritage and real estate fields, and used the services of a public consultation facilitator to assist with the public engagement component of our work.

The purpose of this report is to submit the Board's recommendations concerning the future options for Casa Loma, and to share the findings of the consulting team and the feedback from public and stakeholder consultation. I thank my former and current Board Members for their dedication to the Casa Loma Corporation.

Current & Former Members of the Board

Mike Williams, Chair	June 2011 to Present
Bruce Bowes	June 2011 to June 2012
Rita Davies	June 2011 to July 2012
Terry Nicholson	July 2012 to Present
Chuck Donohue	June 2012 to Present
Michael St. Amant	June 2011 to Present
Dianne Young	June 2011 to Present

Sincerely,

Michael H. Williams  
 General Manager, Economic Development  
 & Culture Division, and Chair/Casa Loma Corporation

**Recommendations:**

It is recommended that City Council:

- 1) Authorize the Casa Loma Corporation Board (CLC Board) to undertake a Request for Proposal (RFP) process to identify a suitable entity (or consortium of entities - the “Operator”) to operate Casa Loma under a multi-year lease arrangement, subject to;
  - a) Respondents to the RFP being strongly encouraged to submit proposals covering the entire Casa Loma complex, and as a minimum requirement, submit proposals for the Main House (Castle) and grounds at 1 Austin Terrace, with the length and nature of the lease to be subject to negotiation and dependent on the capital investment, fee structure and business plan proposed by the proponent and subject to City Council’s approval; and
  - b) The RFP, aside from assuring the retention of a qualified capable Operator, lay out requirements for the Operator to maintain public access, respect the heritage and cultural significance of the land and buildings, invest in the renewal and maintenance of the buildings, and respect the community in which Casa Loma is located.
- 2) Direct the CLC Board to report back to City Council, through the City Manager, along with the outcome of the RFP process, to demonstrate how entering into a lease for a third party operator will ensure the structural integrity and longevity of the site as well as meeting the City’s objective with respect to Casa Loma and to make recommendations on an appropriate operating, capital and maintenance plan.
- 3) Direct the CLC Board to establish a subcommittee of the Board to manage the RFP process and engage a fairness monitor to oversee the RFP process.
- 4) Direct the CLC Board to seek input during the preparation and evaluation of the RFP from City of Toronto Finance, Purchasing and Material Management (PMMD) and Legal Services, Planning (Heritage Preservation), Real Estate Services and Facilities Management and other City Divisions as deemed appropriate and as directed by the City Manager.
- 5) Receive the report from Nicole Swerhun Facilitation attached as Appendix “A”.
- 6) Receive the report from HLT Advisory Inc., Philip Goldsmith, and CBRE Hotels attached as Appendix “B”.
- 7) Receive the information in Appendix “C” from the CLC Board.

## **Background:**

Casa Loma was designed by E.J. Lennox in 1915, who also designed other notable Toronto buildings such as Old City Hall and The King Edward Hotel. In 1987 the Casa Loma buildings were designated under part IV of the Ontario Heritage Act by By-Law 545-87. Casa Loma is an iconic building and major tourist attraction that was acquired by the City of Toronto in 1936 and managed for the next 75 years by the Kiwanis Club of Casa Loma. During this time the Kiwanis operated the site as a tourist attraction and special event venue. In June 2011, City Council created the Casa Loma Corporation and replaced the Kiwanis as operator.

Casa Loma consists of two contiguous land parcels:

- 5.89-acre parcel bordered by Austin Terrace (north), Walmer Road (west) and Davenport Street (south). The Baldwin Stairs City Park borders the east property line. The main parcel accommodates the “castle”, main gardens and a c1970s parking structure; and
- 1.99-acre parcel (including a City park) located on the northwest corner of Austin Terrace and Walmer Road. This smaller site contains the Hunting Lodge (the original Pellatt residence on the Casa Loma property), Stables and Potting Shed as well as a residence (330 ½ Walmer Road) originally used as the chauffeur's residence.

Both land parcels and all buildings located on these land parcels were the subject of the option identification process.

## **Option Identification Process**

To assist the CLC Board in its work a consulting team was engaged through a competitive bidding process to identify a broad range of potential options/uses for Casa Loma together with the heritage, zoning, cultural, tourism, financial and community implications of each option. The consulting team consisted of HLT Advisory (tourism and strategic planning), Philip Goldsmith Architect (heritage architects), and CBRE (real estate advisory).

The Casa Loma future options review process involved the development of a range of scenarios that included maintaining the current use of Casa Loma as well as opportunities for redevelopment of the land and buildings for a variety of residential, commercial and/or institutional uses. The consulting team conducted extensive one-on-one consultations with a broad range of stakeholders including Casa Loma neighbours, the local City Councillors, the Toronto tourism industry, heritage and culture experts, Casa Loma tenants and partners, and City officials (planning, legal). In order to gauge interest in alternate uses of Casa Loma, consultations were also held with parties potentially interested in operating Casa Loma as an attraction and special events venue (the current use) as well as parties interested in redeveloping or repurposing the land and/or buildings.

The Board also engaged the services of an experienced facilitator to conduct a public meeting, which was held on May 10, 2012; and further efforts were made to seek input from Toronto residents through the Casa Loma website.

### **The Key Decision:**

The broad consultation among local residents, the heritage community, local businesses, the Toronto tourism industry and a public-consultation session drove consideration of the future uses of Casa Loma to one clear question:

#### **Should Casa Loma’s current use (i.e., heritage tourist attraction and event venue) be maintained?**

If yes, the current use (with potential operational enhancements) is maintained, then various options exist with respect to how the current use is delivered:

- Directly managed by the City
- Indirectly managed by the City
- Third-party management contract (for all or part of current operations) reporting to an independent or City Board
- Short-term lease (i.e., less than 21 years)
- Long-term lease or sale (with restrictions to ensure current usage)

If no, the current use should be changed, then a number of alternate uses could be considered, including:

- Single-family residential
- Multi-family residential
- Commercial/retail
- Institutional

The environment within which the “use” decision must be made contains a number of issues and considerations, including:

- Casa Loma’s landmark heritage status including its high-profile, iconic image of Toronto and uniqueness;
- Its role in Toronto’s tourism attraction infrastructure;
- Restrictions on change of use and future development given zoning and heritage status;
- Timeframe to complete necessary capital upgrades;
- Annual surplus from operations of ~\$900,000 and the potential for new revenue sources from enhanced/improved operations;
- The role of the City of Toronto in operating business (and heritage) assets like Casa Loma; and
- The financial position of the City of Toronto.

Consideration was also given to the current service delivery partners (e.g., Pegasus Hospitality Group) and tenants (e.g. Queen’s Own Rifles) within Casa Loma.

## Evaluation Framework and Conclusions

The advantages and disadvantages of the “maintain use” and “change use” options are summarized in the table below:

	<b>Maintain Use</b>	<b>Change Use</b>
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Maintains an iconic heritage building under control of City of Toronto</li> <li>• Business case exists (as demonstrated through consistent positive cash flow) to permit ongoing operation as attraction and special events venue</li> <li>• Potential to engage specialized management/operational skills to add revenue sources and further improve profitability</li> <li>• Able to maintain the integral role of Casa Loma in Toronto tourism offering</li> <li>• Wide public support for “status quo”</li> </ul>	<ul style="list-style-type: none"> <li>• City is released from some capital improvement requirements (although depending on use may still require some investment)</li> <li>• Significant revenue potential is available to the City through sale of land. Sale for multi-residential development might generate in excess of \$62 million plus an additional \$6 million/annum from property taxes</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>• City potentially retains long-term capital obligation for building maintenance as well as current capital backlog (unlikely that a private operator could earn the return required on the quantum of investment to address the current backlog of capital). Future capital needs however, are expected to be funded via lease payments to the City from an outside operator</li> <li>• Process is required to select external operator; some control might be lost during negotiations with operator</li> </ul>	<ul style="list-style-type: none"> <li>• Significant limitations on building alterations</li> <li>• Significant restrictions on changes of use</li> <li>• Sale/long-term land lease requires “surplus” land designation</li> <li>• Time required to sell the property and/or effect zoning changes/obtain permissions to modify the buildings is likely substantial therefore preventing this solution from addressing the immediate capital improvement needs</li> <li>• Public resistance to change of use</li> </ul>

Consideration of the option evaluation framework, the current Casa Loma business model, financial and operating parameters, as well as the heritage, zoning and planning factors led to the following conclusions:

- The advantages and disadvantages of the “maintain current use” and “change current use” options indicate the “maintain current use” option is most advantageous as well as aligning with the majority views held by the local residents, local business and tourism industry, heritage interests and public at large (as indicated via the public meeting, input to the Casa Loma website and individual/group interviews conducted as part of the consulting study);

- Casa Loma is financially self-sufficient from an operational point-of-view but requires a significant upfront (and, thereafter, moderate continued) investment to maintain ongoing operation. If the investment and associated renovations/improvements are not completed over the next few years, the costs will likely escalate;
- Only the multi-family residential option is believed capable of generating substantive revenue to the City (minimum sale proceeds for all lands of \$62 million although this amount assumes zoning and OPA requirements are largely in place) plus annual property tax revenue of as much as \$6 million). However, no consideration of the time required to effect a zoning change or Official Plan Amendment has been taken into account nor the steps involved in obtaining a Heritage approvals. The timetable for such permissions is likely to be lengthy and may also have a negative impact on the value contemplated. Necessary capital repairs to the Casa Loma buildings will still be required during this transition period; and
- A Request for Proposals to identify a third party or third parties to lease, operate, invest in and intensify commercial activity within the parameters of a heritage attraction and special events venue (within limits to be established) is a reasonable and preferred approach to challenging the private and/or public sectors to propose creative concepts to operating Casa Loma.

### **Key considerations to be included in an RFP for a Third Party Operator**

The ultimate goal of the proposed RFP is to retain a qualified, financially-capable Operator to deliver the defined heritage attraction/special event venue mandate of Casa Loma. The RFP will set out the City's expectations with respect to how the mandate is delivered (the "Minimum Expectations") as well as requiring that proponents demonstrate how the Minimum Expectations will be met throughout the term of the lease. The Minimum Expectations include:

- Maintaining a reasonable level of public (although not necessarily free) access where the current public access hours are used as a benchmark for "reasonable" but where separate access levels may be established for tourist (i.e., summer) and local (i.e., balance of the year) constituencies;
- Respecting the heritage and cultural significance of the land and buildings by ensuring that initial (and any subsequent) modifications are consistent with heritage guidelines;
- Investing in the restoration, renewal and maintenance of the buildings to ensure the state-of-good repair upon transfer to the Operator is maintained or improved throughout the term of the lease. This might be accomplished through minimum annual capital improvement budgets/contingencies; and
- Respecting the community in which Casa Loma is located including neighbours, surrounding business and business improvement areas and the broader Toronto tourism industry.

A summary of key elements to be included in a Casa Loma lease RFP are attached as “Appendix C”.

### RFP Process

Should the decision be to proceed with an RFP, it is advisable that CLC and City representatives be involved in the process. The CLC Board will establish a Subcommittee, to include the Chair and CEO of Casa Loma, and seek advice from City divisions - including City of Toronto Finance, Procurement and Materials Management, Planning (Heritage Preservation), Facilities Management Real Estate Services, and Legal Services Divisions in the in the preparation and evaluation of the RFP. The CLC Board will issue the proposal call with project management assistance from HLT Advisory as part of their current consulting contract and engage a Fairness Monitor to oversee the process.

### Future Governance

The appropriate governance model is one that protects the interests of the City while at the same providing the operator with clear expectations, consistent terms and conditions and the flexibility to manage the business in an entrepreneurial fashion. The role of the CLC Board would likely change depending on the outcome of an RFP. In light of anticipated changes, the CLC Board has requested the City Manager to make recommendations to City Council on an appropriate governance model for Casa Loma Corporation in the context of the new service delivery model for Casa Loma.

### Building Condition Update

During the review it became evident that major information gaps exist related to the mid- and long-term capital requirements and cost estimates to complete the ongoing restoration of the site. The consultants have recommended that for planning purposes it would be very useful to update and expand upon a previous building condition review and multi-year plan prepared by Taylor Hazell Architects in 2008.

The CLC Board will be conducting a building condition review (audit) in order to update our understanding of work required to bring the buildings up to a state of good repair as a “Base Building”. This information will provide the CLC Board and the City with an understanding of:

1. Currently outstanding work as outlined in the Taylor Hazell Due Diligence report of 2008;
2. New restoration/repair needs that may have appeared since 2008; and
3. Work suggested but not fully studied or enumerated in the 2008 report which may be either restoration or renovation in nature.

This report will be completed by late September 2012 and will be available to perspective RFP proponents.

## Timing

Subject to City Council approval, the intent of the CLC Board is to release the RFP in October 2012 with a selection made in early 2013 and a lease negotiated by spring /summer 2013. Negotiation of the lease will determine the transition timetable as will the Operator's interior improvement plans. The CLC Board will not permit the transition period (including renovation) to curtail the 2013 summer operating season of Casa Loma.

## CONTACT

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## ATTACHMENTS

- APPENDIX "A"      NICOLE SWERHUN FACILITATION**
- APPENDIX "B"      HLT ADVISORY INC., PHILIP GOLDSMITH & CBRE HOTELS**
- APPENDIX "C"      TERMS TO BE INCLUDED IN THE CASA LOMA REQUEST FOR PROPOSAL ("RFP")**