EX35.2 Confidential Attachment 2 - Financial Impact - made public on July 5, 2016

The Board of Casa Loma Corporation ("CLC") is recommending that City Council enter into a twenty year agreement with the recommended proponent to lease, improve and operate the Main House and Grounds of Casa Loma. The recommended proponent has also offered to maintain the North Grounds at no cost to the City until such time that the City concludes a process to identify alternate uses for that portion of the property.

Under the recommended proponent's proposal, a guaranteed base rent would be paid. However, the City would be responsible for any property taxes that may be imposed on any existing uses that may become taxable under a commercial lease arrangement, and for the municipal portion of property taxes on any new uses. The proponent will only pay the provincial portion of property taxes on any new uses. The City would also incur costs related to the necessary oversight function. In addition, the City may receive participation rent in years 6 through 20 of the lease based on 15% of gross revenue after the first $7.5 million in each year. From the table below, over twenty years, the base rent less expenses is expected to generate $35.9 million – $38.7 million in income for the City ($20.9 million - $22.6 million on a Net Present Value – "NPV" basis), which is approximately nil to $1.8 million on an NPV basis greater than the City earn under continued CLC management ($20.8 million). In addition, the City expects it will realize participation rent from admission fees and restaurant revenues in the order of $31.7 million ($16.6 million NPV). As such, the City is better off financially from entering into the recommended agreement rather than continuing to operate the facility, with significant upside potential. Any such proceeds will be placed in the Casa Loma Capital Maintenance Reserve Fund (Account XR1501) for the restoration and state of good repair at the Casa Loma complex, including the north complex, to be allocated for expenditure in future years through the City's capital budgeting process.

Summary of Financial Comparison of Proposal vs. Status Quo
(Nominal and NPV in $000's)

	Nominal	NPV
Status Quo:	**35,176**	**20,833**
Recommended Proposal:		
Base Rent	43,785	25,649
Less: Staff Oversight Cost	(1,456)	(919)
Less: Estimated Property Taxes	(6,449) - (3,628)	(3,832) - (2,155)
Net Rent	**35,880 - 38,702**	**20,899 - 22,575**
Potential Other Revenues:		
Participation Rents - Museum	17,038	8,996
Participation Rents – Restaurant and Other	14,681	7,615
Potential Total Benefit	**67,600 - 70,421**	**37,510 - 39,186**

Risks to the City:
Employment Issues – the Agreement provides that the Proponent shall offer comparable employment to existing staff. The CLC shall be responsible for accumulated sick bank benefit payouts, accumulated vacation allowance payouts and accumulated length of service credits on commencement of the lease. The CLC shall be responsible for severance liability if staff is terminated by the Proponent within the first six months. In respect of the latter, there is a risk that employees may be severed within the first six months, wherein the CLC will be required to pay severance under the agreement. The CLC Board advises it has made a provision of $1.5 million in anticipation of these costs.

Early Termination of Agreement – the Agreement provides for:

- at the Proponent's option, within the first three years if the proposed restaurant does not receive the necessary approvals, to terminate the Agreement with one year's notice, and the City shall pay the proponent undepreciated capital cost of leasehold improvements. The proposed investment is in the order of $7.2 million.
- At the City's option, at any time if property taxes reach certain threshold, the City will be required to pay the proponent its undepreciated capital cost of leasehold improvements and capital investments.

Should such circumstances occur, the City will have to identify options at that time to deal with the facility and the funding for the payout of undepreciated costs.

Property Taxes - the Agreement provides that the Tenant shall only be responsible for provincial portion of property taxes on new uses; existing uses, if they become taxable, shall be responsibility of City (e.g. Gift shop, cafeteria, office, parking). This approach presents several risks. For one, until the Municipal Property Assessment Corporation (MPAC) reassesses the property under the commercial lease, there is some uncertainty how the uses will be classified and the values that will be attributed to those uses. For another, there may be some degree of ambiguity around what are new uses versus existing uses - there does not appear to be any constraints on the Proponent in regards to existing uses that would become taxable under a commercial lease, such as the gift shop, cafeteria, and potential parts of the parking, and that the Proponent may be able to change/increase the scale of these existing uses with no financial consequence to the Proponent as the City is responsible for those taxes. Either of these events will result in an erosion of the net income to the City through the payment of the provincial property taxes.

To reduce this risk, a tax consultant was engaged who estimated the maximum provincial taxes under the proposed uses to be in the order of $135,000 to $240,000 annually, which was used in the financial analysis. Furthermore, the report recommends the City shall use best efforts to designate portions of the property used for cultural, recreational and tourist purposes as a Municipal Capital Facility for the purpose of property tax exemption.

Participation Rent – should gross revenues earned by the Proponent be less than projected, the City's participation rent will also be proportionately less. If gross revenue falls below $7.5 million, there will be no participating rent for the City.