



**STAFF REPORT
ACTION REQUIRED
with Confidential Attachments**

Casa Loma Request for Proposals: Operator for Main House and Grounds

Date:	October 16, 2013
To:	Executive Committee
From:	City Manager
Wards:	All
Reason for Confidential Information:	This report involves the security of property belonging to the City or one of its agencies, boards, and commissions.
Reference Number:	

SUMMARY

In October 2012, City Council authorized Casa Loma Corporation to undertake a Request for Proposals (RFP) for a suitable operator to manage the main facility at Casa Loma, known as the Main House, and to undertake an RFP for the north portion of the site.

This report transmits the results of the RFP issued by Casa Loma Corporation to operate and manage the Main House and grounds, and recommends an operator on specific terms over a twenty year term. The report also seeks related authorities required to implement the proposal.

Furthermore, the report recommends that Casa Loma Corporation complete its mandate through a review of options for re-use of the northern portion of the Casa Loma complex, including the issuance of a Request For Expressions of Interest.

The report adopted by the Board of the Casa Loma Corporation is contained in attachments to this report with the details of the proposed lease and financial terms set out in a separate confidential attachment.

RECOMMENDATIONS

The City Manager recommends that:

1. City Council enter into a twenty year agreement with the a newly formed company controlled by Liberty Entertainment Group (the "Recommended Proponent") to improve, and operate the Main House and Grounds of Casa Loma substantially as set out in Confidential Attachment 1 of this report with other such terms to be incorporated to the satisfaction of the City Manager the Chief Corporate Officer, and the City Solicitor;
2. City Council direct the City Clerk not to publicly release the lease and operating agreement information in confidential attachments to this report until such time that the General Manager of Economic Development and Culture confirms that a binding lease and any other agreements between the Recommended Proponent and the City respecting operation of the Main House and Grounds Casa Loma have been executed;
3. City Council direct that the net proceeds from the lease with the Liberty Group for the Main House and Grounds be placed with the Chief Financial Officer and Deputy City Manager Officer 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 in future years through the City's capital budgeting process.
4. City Council pass a by-law pursuant to Section 252 of the *City of Toronto Act, 2006*, providing authority to:
 - i) Enter into a Municipal Capital Facility Agreement with the Recommended Proponent in respect of the portions of the Casa Loma that will be used as an eligible municipal capital facility for cultural, recreational and tourist purposes and for parking ancillary to such facilities, when such use can be determined; and
 - ii) Exempt the portions of Casa Loma to which the municipal capital facility agreement will apply from property taxation for municipal and school purposes, which tax exemption is to be effective from the latter of the following dates: the date the municipal capital facility agreement is signed, the date the tax exemption by-law is enacted, or the commencement date of the Lease with the Recommended Proponent.
5. City Council authorize the City Clerk to give written notice of the By-law when enacted pursuant to the requirements of the *City of Toronto Act, 2006*;

6. City Council request that the Casa Loma Corporation review options for the north portion of the Casa Loma complex, including consideration of issuance of an Request for Expressions of Interest, and in doing so:
 - i) Identify a vision and uses for the north portion of the Casa Loma complex;
 - ii) Ensure the vision and uses proposed are complimentary to the heritage, tourism and event uses at the Main House and Grounds;
 - iii) Preclude the sale of City owned lands; and
 - iv) Provide that the review process includes significant community and key stakeholder consultation.
7. City Council as the sole shareholder of the Casa Loma Corporation direct the Corporation to manage the transition to the new operator for the Main House and Grounds, and undertake the review for the north complex; and
8. City Council direct that Casa Loma Corporation, through the City Manager, report to Council on the review process for the north portion of Casa Loma; and the City Manager to report back on the appropriate future governance structure for the Casa Loma complex no later than the spring of 2015.

Implementation Points

If approved, the Casa Loma Corporation will assist in the transition of the management of the Main House and Grounds to the new operator. The Casa Loma Corporation will conduct a review of the re-use of the north portion of the Casa Loma site. The review may include issuance of an REOI. The City Manager will conduct a governance review of the Casa Loma complex in 2016.

A Heritage Easement Agreement for the Main House and Grounds is required to implement the proposal. The Toronto Preservation Panel will consider the matter at an upcoming meeting.

Financial Impact

Confidential Attachment 2 to this report includes a financial analysis, including the financial impacts of the recommended proposal. The recommended proponent will make a significant capital investment in the interior of the Main House. Further, over twenty years the base rent from the lease will generate income for the City greater than that earned under continued management by Casa Loma Corporation. In addition, the City expects to earn significant participation rents from admission fees and restaurant revenues in excess of current operating revenues. As such, the City is better off financially entering into an agreement with the recommended proponent than having the Casa Loma Corporation operate the Main House and Grounds.

The Deputy City Manager and Chief Financial Officer has reviewed this report, including the confidential attachment, and agrees with the financial impact information.

DECISION HISTORY

At its meeting of June 2011 City Council agreed to transition management of the Casa Loma complex from the Kiwanis Club to a City Services Corporation established pursuant to the City's powers under Section 148 of the *City of Toronto Act*. The Corporation's mandate was to stabilize operations and investigate future options for Casa Loma.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX6.7>

At its October 2012 meeting City Council authorized the Casa Loma Corporation to undertake an RFP to undertake an RFP for a suitable operator of the Main House, and to undertake an RFP for the north portion of the site. The City Manager was to report on the appropriate governance changes, including to the shareholder declaration based on the results of the RFP process.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX22.3>

COMMENTS

RFP Process

This report recommends that a private sector operator with experience in dining and special events be recommended to manage and operate the Main House and Grounds at Casa Loma for a period of twenty years subject to execution of an agreement setting out the appropriate terms and conditions of the arrangement.

The Corporation conducted a two-stage RFP process approach to selecting an appropriate entity to lease, improve and operate the Main House and Grounds of Casa Loma.

A Request for Pre-Qualification was issued to establish a list of Pre-Qualified Respondents. The subsequent Request for Proposal was issued to five Qualified Respondents for the purpose of selecting a Successful Proponent with whom to negotiate a Lease for the Main House and Grounds of Casa Loma for use as a heritage attraction and a special events venue.

The Corporation engaged HLT Advisory as the Process Advisor. Taylor Hazell Architects was engaged to provide third party advice on heritage building considerations together with City's Heritage Preservation Services. The board also received support and input from City Legal, PMMD, Economic Development and Culture, and Facilities and Real Estate. The Board retained Knowles Canada ("Knowles") as the Fairness Consultant to provide fairness oversight to the Corporation from the development of the RFQ document

prior to issuance, through to the completion of the RFP evaluation process and identification of the highest ranked Proponent.

Knowles was present for and reviewed all aspects for the RFQ and RFP procurement processes and procedures to identify a Successful Proponent. The Board has received an attestation report from Knowles confirming that the Casa Loma Corporation has taken all available due diligence steps in their evaluation of the responses to the RFP and that the evaluation team and the advisor support team satisfied all municipal standards and public procurement best practices for administering an open, fair and transparent procurement process.

The submissions were evaluated in two parts consisting of rated criteria and the net present value of the proposed lease terms (i.e., base and percentage rent as well as proposed capital renovation costs. The rated criteria included: overall concept, improvements to the Main House and Grounds, Operations Plan, Management Structure and Financial Capacity.

The Recommended Proponent's proposal had the highest score on rated criteria as well as the highest financial value (both on gross and net present value basis, and in the context of capital commitments and lease payments). One other proponent was qualified through the rated criteria.

All Pre-Qualified Respondents were informed that the evaluation was complete and a First-Ranked Proponent had been identified. The Recommended Proponent was informed of their status. The second scored proponent was also informed that in the event a lease is not successfully negotiated with the Recommended Proponent, the second place respondent may be approached at a future point.

The negotiating committee was composed of the Board Chair and two City staff members (Legal and Real Estate).

The CLC Board of Directors has recommended a proposal that meets the City's objectives in seeking a third party operator for Casa Loma. Heritage programming will be enhanced. Management, staffing, and professional services capacity will be significantly expanded. Existing partners and stakeholders will continue to have an ongoing presence and role at Casa Loma (Queens Own Rifles, Girl Guides of Canada, Toronto Theatre Organ Society, Garden Club of Toronto, Kiwanis Club of Casa Loma) Major new capital will be invested in the building interiors and the lease revenue generated for the City will provide the necessary funding to complete the state of good repair capital restoration of the Casa Loma complex, including the perimeter walls, and have funds available for the revitalization and programming of the Casa Loma – North Complex.

Casa Loma – North Complex

The Casa Loma North Complex (CL-North) site consists of 1.99 acres and 22,000 square feet of buildings and was not included in the RFP to operate the Main House and Grounds.

This underutilized site includes the Hunting Lodge, Potting Shed, Garage, Stables; these buildings have no plumbing, HVAC, and very limited electrical capacity. Significant work is still required to restore and repair the building exteriors the cost of which is currently estimated at approximately \$11 million. Interior capital requirements could double the amount of Capital expenditures required, depending on the nature of the anticipated use of the buildings.

The concept of utilizing these properties as the home of a future Museum of Toronto was introduced at City Council as was the concept of issuing a wide ranging REOI for a “vision and uses” for the CL-North. Both of these directions were set aside until the board knew if the RFP for the Main House and Grounds would lead to securing a suitable tenant.

Now that the RFP for the Main House is completed the Board is recommending a two-prong approach for addressing CL-North:

- A feasibility study pertaining to the cost, pros and cons of the CL-North for a potential Museum of Toronto versus the Old City Hall site already designated by City Council or other potential sites.
- An REOI to identify creative uses for the CL-North buildings, including the possibility of the Museum of Toronto.

Until the process to determine the future of the CL-North site is concluded, the Recommended Proponent has agreed to lease CL-North on an 'as is' basis and operate it as part of the Casa Loma heritage experience with no cost to the City. This portion of the Lease can be terminated at any time with 12 months' notice to permit a smooth transition to the future vision as decided by Council.

Governance

The Casa Loma Corporation was established by the City with a mandate to stabilize operations and transition the Casa Loma complex to future re-use. The Board is comprised of senior City staff chaired the General Manager of Economic Development and Culture. The Corporation has been successful at improving the financial performance of Casa Loma. To examine options for the future re-use of the site the Corporation decided to conduct the RFP for the Main House and Grounds initially with exploration of the operations for re-use of the North casa Loma complex following later.

There are no governance changes to the Casa Loma Corporation being recommended at this time. The Casa Loma Corporation will continue under its mandate to assist the new operator with the transition of the management and operation of the Main House and Grounds, and will lead the RFP process for the north complex through 2014. Once the outcome of the RFP process is completed and the future use and tenure of the north complex is determined, a review of the governance of the Casa Loma Corporation is warranted. It is anticipated the review will occur in 2015 with reporting back no later than the spring of 2015.

CONTACT

Michael H. Williams, General Manager of Economic Development and Culture
Tel: 416-397-1970; Fax: 416-397-5314; E-mail: mwillia5@toronto.ca

Joe Farag, Director, Corporate Finance
Tel: 416-392-8108, Fax: 416-397-4555, E-mail: jfarag@toronto.ca

Peter Notaro, Strategic and Corporate Policy Division
Tel: 416-392-8066; Fax: 416-696-3645; E-mail: pnotaro@toronto.ca

SIGNATURE

Joseph P. Pennachetti
City Manager

ATTACHMENTS

Attachment 1: Report from the Board of the Casa Loma Corporation
Confidential Attachment 1: Confidential Board Report on Negotiation Results
Confidential Attachment 2: Financial Impact
Confidential Attachment 3: Liberty Entertainment Group: Proposal for Casa Loma