



## Attachment 1

October 15, 2013

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

Dear Mr. Pennachetti:                      RE: Future Options for Casa Loma – Report # 2

At the direction of City Council, the Casa Loma Corporation (CLC) undertook a two stage process (Request for Pre-Qualification issued December 17, 2012 followed by a Request for Proposal issued May 1, 2013) designed to identify an entity to lease, improve and operate the Main House and Grounds of Casa Loma. The purpose of this report is to summarize the RFP process and to submit the Board's recommendation: that City Council enter into a lease and operating agreements with the Recommended Proponent, namely a new company controlled by the Liberty Entertainment Group.

This report further recommends steps to address the Casa Loma North of Austin Terrance Properties (CL-North) that were not included in the RFP process (i.e., the potting shed, garage, stables, hunting lodge and chauffeur's residence). Specifically, the CLC recommends undertaking a feasibility study to determine the capital and operating costs, timing, and viability of creating a Museum of Toronto within the CL-North site. The results of the feasibility study would inform a Request for Expression of Interest (REOI) seeking ideas for alternative uses for the CL-North site, including the possibility of a Museum of Toronto on that site that would be linked to the Main House and Gardens of the Casa Loma Complex. Once the feasibility study and REOI are completed, City Council will have the necessary information to make an informed decision about the future of CL-North.

In order to transition the Main House and Grounds to the Recommended Proponent and to manage the CL-North feasibility study and REOI process, the Corporation recommends that it, and the current Board, be left in place. Once decisions have been made about CL-North and the connections between the Main House and CL-North, Council would then decide on the most appropriate governance model.

Sincerely,

Michael H. Williams

Chair/Casa Loma Corporation and General Manager, Economic Development & Culture Division

## **Recommendations:**

It is recommended that City Council:

- 1) Enter into a twenty year agreement (will include a lease and an operating agreement) with the Recommended Proponent, a new company controlled by Liberty Entertainment Group as shown in the Confidential Attachment to lease, improve and operate the Main House and Grounds of Casa Loma substantially on the terms and conditions contained in this report and the Confidential Attachment as well as such other terms and conditions satisfactory to the City Manager, Chief Corporate Officer, the Deputy City Manager and Chief Financial Officer, and the City Solicitor.
- 2) Direct that the lease and operating agreement information contained in the Confidential Attachment to this report not be released publicly until a binding lease is signed with the Recommended Proponent in order to protect the competitive position and future economic interests of Casa Loma Corporation and the City of Toronto.
- 3) Maintain the Casa Loma Corporation, and the existing Board of Directors, as the primary governance structure for the Main House and Grounds as well as the Casa Loma – North Complex (CL-North), until transition to the Recommended Proponent is complete and the future of the CL-North site has been determined.
- 4) Direct the General Manager, Economic Development and Culture, to undertake a feasibility study to determine the capital and operating costs and long term viability of a Museum of Toronto on the CL-North and report on the findings by late spring of 2014.
- 5) Direct the Casa Loma Corporation to review options for the CL-North site, including consideration of issuing a REOI, and in doing so, to :
  - a. identify a vision and uses for CL-North that could include a Museum of Toronto;
  - b. ensure the vision and uses be complementary to the heritage/tourism/event uses at Casa Loma Main House and Grounds;
  - c. restrict the REOI to options that do not include the sale of any city-owned land; and
  - d. ensure the review process includes significant consultation with the community and key stakeholders
- 6) City Council pass a by-law pursuant to section 252 of the *City of Toronto Act, 2006* , providing authority to:
  - a. Enter into a municipal capital facility agreement with the Recommended Proponent in respect of the portions of 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
  - b. 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 (i) the date the municipal capital facility agreement is signed, (ii) the date the tax

exemption by-law is enacted, and (iii) the commencement date of the Lease with the Recommended Proponent.

- 7) City Council direct the City Clerk to give written notice of the by-law, when enacted at a future date, as required under the *City of Toronto Act, 2006*.
- 8) City Council pass a resolution that the above municipal capital facility is for the purposes of the City and is for public use.
- 9) Direct that the proceeds from the Lease with the Recommended Proponent, net of all CLC costs be placed in The Casa Loma Capital Maintenance Reserve Fund XR1501, to fund as much as possible future restoration and State of Good Repair work on the entire Casa Loma Complex, subject to future Council approvals.

## **Financial Impact**

The Confidential Attachment to this report identifies the financial impact of entering into a lease agreement with the Recommended Proponent. The City currently contributes no funds for the operations of Casa Loma. The City currently does have a multi-year capital program in Economic Development and Culture (EDC) to restore the exterior of the buildings on the Casa Loma Complex. This program is funded in approximate equal parts by City debt and by payments from the operations of Casa Loma. There are 8 phases to restoring and repairing the exterior of the Main House of which 7 have been completed and the 8<sup>th</sup> and last is underway. The next series of restoration projects, currently estimated at \$ 16 million, will deal with the CL-North properties, perimeter stone fence, and the parking garage. The 2016-2023 EDC capital budget includes \$ 7.4 million in debt funding to continue the restoration program. The Lease with the Recommended Proponent will provide significant additional funds to support this program over the life of the Lease.

As detailed in the Confidential Attachment, the Recommended Proponent undertakes to make a significant Capital Investment in the interior of the Main House and to make significant lease payments that are composed of Base Rent and a Percentage Rent on Gross Revenue. Combined, these amounts are significantly above what the Casa Loma Corporation Board would expect Casa Loma to earn on an 'as is' basis, with less risk.

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

## **Background**

The Casa Loma Complex (See Diagram 1 at end of this Report) is a collection of iconic buildings and one of Toronto's leading tourist attractions that was acquired by the City of Toronto in 1933 and managed from 1936 to 2011 by the Kiwanis Club. During this time the Kiwanis operated Casa Loma as a heritage tourist attraction and special event venue.

In July 2011, City Council created the Casa Loma Corporation (CLC) and replaced the Kiwanis as operator. In addition to responsibility for maintaining ongoing, day-to-day operations of Casa

Loma, the CLC managed a process to identify a range of options for the use of the land and buildings. In early 2012, the CLC engaged a consulting team through a competitive bidding process to identify options/uses while taking into account the heritage, zoning, cultural, tourism, financial and community implications of each. The consulting team consisted of HLT Advisory (tourism and strategic planning), Philip Goldsmith Architect (heritage architects) and CBRE (real estate advisory).

The consulting team conducted extensive one-on-one consultations with a broad range of stakeholders including Casa Loma neighbours, the Toronto tourism industry, heritage and culture experts, Casa Loma tenants and partners and City officials. 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 consulting team also held a public meeting on May 10, 2012 to seek input from all interested parties.

Following the consultation process and considering the recommendations contained in the consultant's report, the Casa Loma Board recommended to the City Manager, Executive Committee and City Council that Casa Loma be maintained as a heritage tourism attraction and special events venue and that an RFP process be implemented to identify a suitable party to take on long-term responsibility for the heritage asset.

On October 2, 2012 City Council directed the following:

1. City Council authorize the Casa Loma Corporation 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 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;
  - b. the RFP, aside from assuring the retention of a qualified capable Operator, included 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; and
  - c. the RFP include criteria to reserve space for permanent and/or rotating displays of Toronto's history in addition to that of Sir Henry Pellatt and of Queen's Own Rifles that will complement the activities proposed for the Main House.
2. City Council authorize the City directly or through the Casa Loma Board to undertake a Request for Expressions Interest (REOI) as soon as practical to identify a vision and uses for the portion of the Casa Loma complex north of Austin Terrace ("CL-North") that includes the Hunting Lodge, Stables, Potting Shed, Garage, Chauffer's Residence and associated green space, subject to:

- a. the REOI encourage applicants to explore the feasibility of philanthropic donations to provide funding for the significant necessary capital repairs for the Casa Loma properties north of Austin Terrace and to support the operations proposed in their response to the REOI;
- b. the REOI be restricted to options that do not include the sale of any city-owned land; and
- c. respondents to the REOI consider the feasibility of including the Museum of Toronto in their submission.

The City Council decision and background material (including the consultant's reports) may be found at <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX22.2>

In consultation with the City Manager the CLC elected to proceed with an RFP process for the Main House and Grounds first, reserving portions of the Main House to provide access to the Casa Loma North Complex for future uses.

### **THE RFPQ/RFP PROCESS**

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

- Stage 1 (RFPQ): The purpose of the Request for Pre-Qualification was to establish a list of Pre-Qualified Respondents for issuance of the subsequent RFP. Only those Respondents selected through the pre-qualification process were eligible to respond to the RFP.
- Stage 2 (RFP): The 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 Lease will address standard commercial terms for the tenancy together with improvements and parameters of the operation of the Main House and Grounds.

The Corporation engaged HLT Advisory as the Process Advisor. Taylor Hazell Architects was also engaged to provide third party advice on heritage building considerations together with City's Heritage Preservation Services.

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 to Improve, Lease and Operate a Heritage

Attraction and Special Events Venue at Casa Loma process. The report concludes that Knowles consultants “witnessed a concerted effort by the Corporation, the evaluation team and the advisor support team to satisfy all municipal standards and public procurement best practices for administering an open, fair and transparent procurement process. The Corporation sought to engage City procurement and legal advisors, as well as external advisory teams on the project working with the Corporation throughout the duration of this process for the purposes of responding ethically and fairly to all Proponents whom participated in this process.”

The submissions were evaluated in two parts consisting of rated criteria (150 possible points) and the net present value of the proposed lease terms (i.e., base and percentage rent as well as proposed capital renovation costs up to a maximum of 150 points for a total maximum of 300 points. The rated criteria included:

	Points
Overall concept	5
Improvements to Main House and Grounds	25
Operations Plan (heritage attraction and special events venue)	50
Transition Plan	25
Management Structure	20
Financial Capacity	25
<u>Total</u>	150
<p>Note: The rated criteria included minimum thresholds in the Operations and Heritage Plans as well as a minimum overall score of 90 out of 150 points. Proposals that did not achieve these thresholds were not evaluated further (i.e., the financial terms were not considered).</p>	

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.

The Evaluation Committee recommended to the Board of the Corporation that, consistent with the process set out in the RFP, the Board strike a negotiating committee and proceed to negotiate a lease with the Recommended Proponent. On August 14, 2013 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.

Debrief sessions will be offered to unsuccessful Proponents on request, once a lease has been finalized. The Fairness Consultant has written a very positive report about the processes used.

The negotiating committee is composed of the Board Chair and two expert City staff members (Legal and Real Estate). The negotiating committee reported to the Board of CLC on September 30<sup>th</sup> and the Recommended Proponent had agreed on all main Lease and Operating Agreement terms and that the Board should recommend to the City Manager and Council that the City and Board be given approval by Council to finalize the lease on terms consistent with Appendix A of this Report and its Confidential Attachment.

The CLC Board of Directors is satisfied that the Recommended Proponent's proposal 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. The Recommended Proponent has provided assurances that utmost priority will be given to carefully restoring interior spaces. Heritage Preservation Services has submitted a report that will be considered by the Toronto Preservation Board on Nov 5th, and Toronto York Community Council on November 19th and Council on December 16th seeking authority to enter into an Heritage Easement Agreement with the Recommended Proponent.

The Recommended Proponent's summary of its vision and plans is included in the Confidential Attachment.

## **NEXT STEPS**

### *Casa Loma – North Complex (CL-North)*

The CL-North site consists of 1.99 acres and 22,000 square feet of buildings. The 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.

When City Council considered the Future Options report and the Board's recommendations, it determined that the RFP for a third party operator should be limited to the Main House and Grounds because:

- the Main House is fully operational with less uncertainty about continuing its established uses; and
- there were potentially more creative, community-driven, uses that might better utilize the Casa Loma North Complex (Hunting Lodge, Potting Shed, Stables and Chauffeur's residence).

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.

With the RFP for the Main House and Grounds completed, the Board has turned its attention to the CL-North site. The Board is recommending a two-prong approach incorporating:

- 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 long-term governance of the Casa Loma Complex (Main House and Grounds and North of Austin properties) could take various forms depending on what happens with CL-North. Options could range from a city agency, board or corporation with citizen and City Council representation to assigning responsibility for management of the Lease and development of CL-North to a City division. Ideally, the preferred model will be determined once the Lease is executed and the process to decide the future uses of CL-North is concluded and considered by City Council. It would be premature to create a permanent governance structure, with potential overhead for staffing and operating funds, until the outcome is known of the Toronto Museum site-specific feasibility study and the REOI for the CL-North.

In the interim the Board recommends continuing the current Casa Loma Corporation as the governance body, with following objectives:

- ensure a smooth transition with the Recommended Proponent;
- manage the Lease, at least at the outset;
- oversee Museum of Toronto at Casa Loma feasibility study;
- issue the REOI as appropriate ,and
- report to Council in 2014 with recommendations.

Once the future use for the CL-North is determined, a permanent governance model that considers the role of citizens, councillors and other stakeholders will be recommended to the City Manager.



### Municipal Capital Facility Designation:

Given the ownership of Casa Loma by the City of Toronto and operation by the CLC as a heritage tourism attraction and special event venue, the property is currently exempt from taxation, with no property taxes payable. The CLC is recommending to Council that the eligible portions of the Main House and Grounds (and CL-North as appropriate) be designated as a Municipal Capital Facility (MCF), and they be made exempt from taxation. Such designation is appropriate for the portions used as cultural, recreational or tourist facilities.

Given that the detailed operational plans and the Heritage Easement Agreement have yet to be approved, and use agreements are still to be negotiated with current partners (Queen's Own Rifles, Toronto Theatre Organ Society, Girl Guides of Canada, Garden Club of Toronto), and renovations will not be completed until 2015, the exact location of the eligible tax exempt portions have not been determined.

As the lease is based on a rent which is inclusive of some property taxes, the City will be obligated to allocate some portion of its lease revenues to payment of property taxes. Consequently, the net financial implication of the MCF designation to the City will result in savings through the reduction in the education portion of the taxes.

### **CONCLUSIONS**

The Casa Loma Corporation Board has assessed the RFP process and the results of the negotiations with the Recommended Proponent and can make the following conclusions:

- The RFPQ and RFP processes were fair and transparent. The Fairness Consultant has written a very positive assessment of the processes.
- The Recommended Proponent understands the operations of Casa Loma and has a long and successful track record in Toronto and elsewhere of working with heritage sites (several awards) and running special event and restaurant facilities. The Board is comfortable that the Recommended Proponent can apply the same talents to a successful management of an important heritage attraction. In addition, the Board is satisfied that the Proponent has the necessary financial resources.
- The proposed base rent (guaranteed rent) is higher than historical 'profit' and higher than forecasted dividends if the City were to continue to run the operations. Thus the City gets more guaranteed money with far less risk. The amounts the City is likely to get are much higher when percentage rent is added to the financial picture – upwards of double. Plus the City-owned facility will receive a badly needed capital infusion for the interior of \$7 mil in the first five years.

# Diagram 1

## Casa Loma Complex

