

Union Station Revitalization Project – Supplementary Report – Alternative Financing Options

Date:	October 31, 2013
To:	Government Management Committee
From:	Deputy City Manager and Chief Financial Officer and Chief Corporate Officer
Wards:	Ward 28 – Toronto – Centre Rosedale
Reference Number:	P:\2013\Internal Services\FAC\Gm13014fac (AFS #18532)

SUMMARY

The purpose of this report is to outline additional incremental financing options to address the forecasted \$80 million increase in Union Station capital project costs. To date proposed financing options have included increasing recoverable debt by \$60 million based on a revised revenue forecast of commercial rents from the Head Lessee and drawing from the Union Station Reserve (XR2501) for the \$20 million balance. The Union Station reserve fund consists of net rental revenues from operating Union Station that have accumulated over the years, with no tax funding contributions.

Alternative funding options include (1) seeking funding support from Transport Canada and Metrolinx, our funding partners, and (2) accessing funding from the recent development charge allocations for the Union Station location.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer and the Chief Corporate Officer recommend that:

1. City Council refer consideration of the revised financial plan incorporating \$60 million increase to recoverable debt and the \$20 million from the Union Station Reserve Fund (XR2501) to address the need for additional funding of \$80 million to Budget Committee as part of the 2014 Capital Budget process.

2. City Council authorize the Deputy City Manager and Chief Financial Officer to reduce the City's use of recoverable debt on the Union Station capital project if new sources of funding from Transport Canada and/or Metrolinx become available resulting from requests of these funding partners to share in the project cost increases.
3. City Council authorize the Chief Corporate Officer (CCO) to implement the ongoing and future construction work either through a continuation or combination of the current contractual arrangement of the retained Construction Manager / General Contractor or other available construction delivery mechanisms currently approved under current City Council procurement policies and procedures.

Financial Impact

Funding options in the amount of \$80 million for the Union Station capital project were presented to Government Management Committee at its meeting on October 15, 2013 to address the project funding shortfall. The revenue sources for the additional funding were twofold: (1) \$60 million of Recoverable debt funded by incremental future lease revenues as per a revised Head Lessee revenue forecast, and (2) \$20 million from the Union Station Reserve (XR2501), which represents accumulated net revenues from the Station over the years.

The incremental forecasted Head Lessee revenue for the Union Station capital project could possibly be reduced by up to \$35 million as we seek funding partner support from Transport Canada and Metrolinx by accessing additional Federal and Provincial funding contributions as set out in Table 1.0 below.

Table 1.0: Proposed Funding Source Options

Source of Funding	Proposed Additional Funding Contribution
Transport Canada	\$20 million
Metrolinx	\$15 million

The proposed additional funding contributions from Transport Canada and Metrolinx are proportionate to each funding partner's original contribution to major components of the Union Station Revitalization project, factoring in adjustments and exclusions that are directly attributable to the City or other stakeholders at Union Station.

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

DECISION HISTORY

At its meeting on October 15, 2013, Government Management Committee reviewed the Union Station Revitalization Project – Status Update staff report. This report is available on line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.GM25.7>

ISSUE BACKGROUND

Government Management Committee deferred endorsing funding and financing options for the \$80 million Union Station Revitalization capital project costs increase until staff approached Metrolinx and Transport Canada to provide additional contributions for the additional costs forecasted on the project.

COMMENTS

The Union Station Revitalization project is currently in year 4 of a 6 year construction schedule. Forecasted costs to the end of the project exceed current funding levels by \$80 million. Initial funding for the Union Station Revitalization project was approved by Council in August of 2009 in an amount of \$640.2 million. Total project costs have since increased by \$75.2 million to a total of \$715.4 million, mainly for additional work to be completed on behalf of third party contributors (\$35.2 million) and for increased forecasted costs for the NW PATH (\$40 million). Both the Federal and Provincial governments, through Transport Canada and Metrolinx respectively, have combined to contribute \$355.8 million towards the current \$715.4 million budget. Internally, the original business case for the project allowed for \$130.5 million of debt financing to be repaid through increased revenues generated from the revitalized Station (recoverable debt). The current budget for the project includes minimal funding from development charges, totalling only \$0.43 million. These funding sources have been identified as potential sources to funding the current forecasted additional costs of \$80 million.

Federal Contributions (Transport Canada)

Contributions from the Federal government have been committed through a Contribution Agreement with Transport Canada as part of the Building Canada Fund. Total committed through this agreement is \$133 million towards various major components of the Revitalization, namely heritage restoration, state of good repair, pedestrian flow and structural elements of the project. The current agreement stipulates that Transport Canada's contribution through the Building Canada fund is up to an amount not to exceed \$133 million of eligible costs. Any additional funding requests must be made through an application to existing funding programs or a request to amend the existing agreement.

The request for an additional \$20 million in funding from Federal Contributions is proportionate to its original contribution to major components of the Revitalization project where forecasted funding pressures that make up the additional \$80 million cost have been identified. The major components and proportionate additional Federal share

include heritage restorations and conditions (\$7.5 million), state of good repair (\$3 million), new concourses (\$4 million) and various elements related to pedestrian flow, structural repairs and servicing (\$5.5 million).

The City is requesting that the Federal Government increase its funding participation in accordance with the items identified above.

Provincial Contributions (Metrolinx)

Contributions from the Provincial government have been committed through various agreements with Metrolinx. Total funding committed through these agreements originally totalled \$172 million, and subsequently various new and modified agreements have resulted in additional contributions of \$50.8 million. The current agreements are specific to major elements and portions of Union Station, including the West Wing, Concourses and the NW PATH connection, as well as additional work being carried out by the City on behalf of Metrolinx requested after the original project was approved. Each of these agreements outline fixed contribution amounts, and any additional contribution require amendments to the agreements.

The request for an additional \$15 million in funding from Provincial Contributions is also proportionate to its original contribution to major components of the Revitalization project. The major components and proportionate additional Provincial share include heritage restoration and conditions (\$2.3 million) and state of good repair (\$2.5 million) cost pressures, and additional pressures related to servicing and base building work on the new concourses (\$8 million) and West Wing (\$2.2 million).

The City is requesting that Metrolinx increase its funding \$15 million and that our agreements be amended accordingly.

Development Charges

The Union Station Revitalization project was included in the new development charges by-law. The total amount attributable specifically to this project (i.e. net growth-related capital costs) was \$64.7 million, with \$38.8 million expected to be recovered within the next 10 years. Currently no additional funding from development charges are being applied to the Union Station project as this funding is being directed to other growth-related transit capital projects. The TTC's 2014 – 2023 Capital Plan identifies approximately \$2.5 billion in additional projects over and above the 10-year forecast included in the 2013 – 2022 Capital Plan. A significant amount of these additional projects were not included in the recently approved Development Charges by-law. Accordingly, while it is possible to apply Transit DCs to the Union Station project, this would only lead to an even larger funding shortfall in other TTC/transit related projects.

CONCLUSION

Alternate capital funding options are being explored, including funding requests to both the Federal and Provincial levels of government and consideration of development charge funding. Should additional contributions be secured, these amounts could be used to offset City contributions to the project.

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SIGNATURE

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