Supplementary Report: Union Station Proposed Building Enhancements

Date: January 15, 2016
To: City Council
From: Chief Corporate Officer
Wards: Ward 28 – Toronto Centre-Rosedale
Reason for Confidential Information: This report is about a proposed or pending land disposition by the City or one of its agencies, boards, and commissions.
Reference Number: P:\2016\Internal Services\RE\Gm16004Are (AFS # 21837)

SUMMARY

The purpose of this report is to provide further information pertaining to the sponsorship proposal that will fund the recommended building enhancements at Union Station, as well as the existing and projected number of pedestrian Station users.

RECOMMENDATIONS

The Chief Corporate Officer recommends that:

1. City Council direct that the confidential information in Attachment 1 remain confidential as it pertains to a proposed or pending land disposition by the City or one of its agencies, boards and commissions and it contains confidential business information of the head lessee.

Financial Impact
The financial implication of the sponsorship revenue related to the Union Station Building Enhancements is included in the confidential Attachment 1.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.
DECISION HISTORY
On January 4, 2016, the Government Management Committee recommended that:

1. City Council authorize an amendment to the 2009 Head Lease Agreement between the City of Toronto and Osmington (Union Station) Inc. ("Osmington"), and authorize any other necessary agreements, to implement the building enhancements for Union Station, any necessary upgrades required to allow for retail on the GO West Concourse, and the heritage interpretation plan, substantially on the terms set out in the Term Sheet - Attachment 1 to the report (December 24, 2015) from the Chief Corporate Officer and such other or amended terms as may be acceptable to the Chief Corporate Officer and in a form satisfactory to the City Solicitor.

2. City Council authorize an amendment to the retainer agreement with Davies Ward Phillips and Vineberg LLP (Purchase Order No. 6025203), in the additional amount of up to $350,000 (net of all applicable taxes), to provide continuing real estate legal advice and expertise for the on-going agreement updates associated with the revitalization project.

3. City Council authorize an amendment to the retainer agreement with PwC (Purchase Order No. 6037971), in the additional amount of up to $150,000 (net of all applicable taxes), to provide continuing real estate advice and expertise for the on-going lease related matters associated with the revitalization project.

At its meeting on December 16, 17 and 18, 2013, City Council adopted Item GM26.5, entitled "Union Station Revitalization Project – Status Update", which included an update to the business case that was originally developed in 2009. The report is available on-line at:

At its meeting on August 5 and 6, 2009, City Council adopted Item EX33.44, entitled "Union Station Revitalization Implementation and Head Lessee Selection", and gave authority to proceed with the Union Station Revitalization Project, subject to confirmation of Federal and Provincial Funding commitments, and also gave authority to enter into the Head Lease Agreement with Osmington for the commercial space within Union Station. The original business case set out in the report was based on the terms of the Head Lease Agreement. The reports are available on-line at:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX33.44

COMMENTS
Additional information pertaining to the financial terms of the sponsorship proposal that will fund the recommended enhancements, as well as the existing and projected pedestrian counts at Union Station, are provided in this report in response to questions from members of the Government Management Committee at its meeting on January 4, 2016.
Business Case Analysis

The requested financial information on the sponsorship proposal is set out in Confidential Attachment 1, which outlines the incremental financial impacts of the proposal.

The original business case for the retail areas with respect to the Head Lease Agreement with Osmington was first presented to Council in 2009. This business case was then updated and presented to Council again in 2013. Below is a table outlining the forecasted retail area revenues from the 2009 and 2013 analyses:

<table>
<thead>
<tr>
<th>Year</th>
<th>Forecasted Retail Area Revenues</th>
<th>Present Value of Forecasted Retail Area Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$241.7 million</td>
<td>$110.044 million (2009)</td>
</tr>
<tr>
<td>2013</td>
<td>$368.046 million</td>
<td>$167.685 million (2013)</td>
</tr>
</tbody>
</table>

These projected cash flows, along with other revenue streams expected from other areas of Union Station, supported recoverable debt funding of $190 million for the Revitalization project, to be paid back over a 30 year period. This analysis was based on the terms of the original Head Lease Agreement.

The proposed amendments to the Head Lease Agreement would only apply to revenues generated through sponsorships and retail space tenant percentage rents. No revenues from sponsorships or retail space tenant percentage rents were included in the figures outlined in the table above. The terms and conditions of the original Head Lease Agreement will continue to apply to all other revenues received by Osmington, and will remain unchanged. Therefore, the proposed amendments will not have an impact on the updated business case that was presented to Council in 2013, nor on the City's ability to repay the recoverable debt of $190 million over the 30 year period. In fact, the City's consultants who developed the 2013 business case update, PwC, as well as Osmington, have suggested that the proposed enhancements could result in future revenue streams in excess of what was forecasted in the 2013 business case.

In the event that the proposed building enhancements are not approved by City Council, Osmington has indicated that it will not pursue them independently. The effects of not providing the enhancements include:

- the City will forgo its projected share of sponsorship revenue, as detailed in Confidential Attachment 1;
- potentially lower base rents due to a less appealing retail environment;
- the City will forgo 11,000 square feet of retail space and associated rents;
- the City will forgo special events capacity and associated revenue; and
- lower interest in advertising and promotional opportunities and associated revenue.
Metrolinx has advised that the existing number of pedestrian users at the Station is 215,000 per weekday (56 million annually). That number is projected to increase to 300,000 pedestrians per weekday (78 million annually) by 2030\(^1\).

In addition, the new neighbourhoods immediately surrounding Union Station are growing rapidly. Local residents will be drawn to the Station to experience the cultural, culinary, retail and event offerings. The population within 1 km of Union Station, based on existing approved residential units, is approximately 100,000\(^2\).

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**SIGNATURE**

Josie Scioli
Chief Corporate Officer

**ATTACHMENTS**
Attachment 1: Confidential Information - Sponsorship Revenue and Financial Analysis for Union Station Building Enhancements

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\(^1\) Appendix 1: Go Transit Regional Express Rail Overview (2015)
\(^2\) This estimate assumes "full build-out" of all units proposed and does not take into account replacement units or the natural movement of people in and out of the area. Also, the estimate does not account for additional potential set out in secondary plans that have not resulted in planning applications as of yet.