Real Estate Services Division – Restore Focus on Union Station Leasing

What we found

Immediate Action is Needed to Remediate Leasing Activities

• Although the City receives installment payments, it has not settled actual annual rents and recoveries with Station occupants for more than 4 years.
  o $9.4 million in leasing revenue may still be owed to the City.
  o City lost the opportunity to earn a return on capital of approximately $740,000.
  o Further work is required by City staff to finalize settlements.

• Staff do not know whether amounts are due from or owing to former Union Station retail tenants for 2010 to 2015.

• Revenue and receivables data in the leasing module of the City’s financial information system is not current, accurate, or complete.

Ensure Robust Financial Analysis Informs Strategic Decisions

• 54 to 68 per cent of annual operating costs are recovered from occupants.
  o A cost allocation model or methodology to determine each occupant’s fair share of Station operating costs does not exist.
  o Once commercial space is fully operational, the City may absorb $1.5 to $2.5 million in annual operating costs related to this space (which is $7.5 to $12.5 million over five years) because of a contracted rate cap on the recovery of operating costs from this space.

• No strategic plans exist for the 100,000 square feet of rentable area in the Station’s East Wing. There will be an opportunity cost if the East Wing remains vacant when the Union Station Revitalization Project (USRP) is complete.

• Financial forecasts for Union Station do not include all revenue streams (such as sponsorships and retail tenant percentage rents) or reflect current market conditions and revised timelines for USRP.

Improve Oversight of Commercial Operations

• No audited financial statements for retail operations were obtained from the Leasing Manager for 2010 to 2015. We were unable to verify the accuracy and completeness of the $26 million in total gross retail revenues reported as earned or the $22.3 million distributed back to the City.

• 4,000 out of an anticipated 165,000 square feet of commercial space under the Head Lease is currently operating. City staff need to proactively and effectively monitor commercial operations in order to minimize costs and maximize net operating income distributions to the City.

How Recommendations Will Benefit the City

Implementation of the 21 audit recommendations will bring the City’s financial records up-to-date, and remediate the annual calculation and collection of rents and operating cost recoveries. In addition, they will help lay the foundation for the City to monitor future commercial revenue streams. This is needed to ensure adequate funding is available in the short and long-term to repay debt and cover Station operating and capital costs.