



Union Station Revitalization Project (USRP) – Status Report

Date: June 18, 2018

To: Government Management Committee

From: Deputy City Manager, Internal Corporate Services

Wards: Ward 28 – Toronto-Centre Rosedale

SUMMARY

The purpose of the report is to advise on the status of the City of Toronto's Union Station Revitalization Project, including an update on the construction progress and project budget.

The project remains within the current approved budget of \$823.9 million and is scheduled for substantial completion in Q1 2019.

RECOMMENDATIONS

The Deputy City Manager, Internal Corporate Services recommends that:

1. Government Management Committee receive this report for information.

FINANCIAL IMPACT

Total Project Cost and Current Estimates:

The project remains within the current approved budget of \$823.9 million and funding is available within the approved 2018 - 2027 Council Approved Capital Budget and Plan for Facilities, Real Estate, and Environment & Energy (FREEE).

Future cash flows based on current estimates, and a comparison to the current approved plan, is outlined in table 1 below:

Table 1: Forecasted Cash Flows vs Current Approved Plan (\$ millions)				
	Amount Spent to Dec 31, 2017	2018	2019	Total Forecasted
Current Estimates	\$707.9	\$65.8	\$50.2	\$823.9
Approved Plan	\$707.9	\$112.5	\$3.5	\$823.9
Variance	-	(\$46.7)	\$46.7	-

Projections to year-end indicate that the USRP's capital expenditures are forecasted to be \$65.8 million or 58.4% of the 2018 approved cash flow of \$112.5 million. The construction forecast in 2018 is attributable to resourcing of contractor trades and coordination of capital projects with other stakeholders at the station. The estimated expenditure for 2019 is \$50.2 million, representing 6% of the approved project budget.

Current forecasts continue to be within the approved budget of \$823.9 million, however the project continues to face on-going challenges. These include, but are not limited to: site conditions found associated with Stage 2/3, performance issues with 3rd party contractors and consultants, project delivery and coordination of work programs with Metrolinx and other stakeholders and projects at the station, and integration of transfers of work scope from Stage 1 to Stage 2/3. The project team is working to actively manage these challenges within the approved budget and will report back at the regularly scheduled status updates or through the capital budget process as the outcome and any associated financial impacts become known. The City also continues to engage in discussions with external project stakeholders and other funding partners/sources to obtain reimbursement or fund components of the work being undertaken. Lastly, the current approved budget and forecasted total project cost does not include any future cost of claims that are currently being actively managed by the project team, with support from City and external legal.

Financing Sources:

The Council approved budget and financing plan for the Union Station Revitalization project is outlined in table 2 below:

Table 2: Union Station Revitalization Project Funding Sources	Approved Budget \$ millions
Province (GO / Metrolinx)	191.8
Federal	139.5
VIA Rail	24.9
Other stakeholders	2.4
Total External Funding Sources	358.6

City Debt	180.5
Recoverable Debt	190.5
Reserves	83.6
Development Charges	7.9
Section 16 Agreements	2.8
Total Internal Funding Sources	465.3
Total Project Funding Sources	823.9

See appendix A at the end of this report for the current approved budget and life to date spending by major component. Forecasted spending does not include any future claims paid or received, as noted in previous reports.

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

DECISION HISTORY

At its meeting of February 12, 2018 City Council approved the 2018 Capital Budget and 2019-2017 Capital Plan for Union Station Revitalization Project, including an increase to the total project cost from \$800.7 million to \$823.5 million, requiring additional reserve funding and an increase to Facilities, Real Estate, and Environment & Energy (FREEE)'s 2018 – 2027 Preliminary Capital Budget and Plan for the Union Station Revitalization project in the amount of \$22.8 million in 2018, funded through the Capital Financing Reserve Fund. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX31.2>
<http://www.toronto.ca/legdocs/mmis/2018/ex/bgrd/backgroundfile-111951.pdf>

At its meeting of January 31 and February 1, 2018 City Council increased the approved 2018 Capital Budget for Real Estate Services, on a onetime basis by \$0.385 million gross, \$0 net, from Section 37 from 15 York Street community benefits to be used for the installation of a public art piece at Union Station. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.MM36.29>
<http://www.toronto.ca/legdocs/mmis/2018/mm/bgrd/backgroundfile-112366.pdf>

At its meeting of May 29, 2017 Government Management Committee received a status update on the Union Station Revitalization Project, including approval of an amendment to the retainer of Davies Ward Phillips and Vineberg LLP. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.GM21.14>

At its meeting on February 3, 2016, City Council authorized an amendment to the Head Lease Agreement to implement the building enhancements for Union Station. A report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM9.5>
<http://www.toronto.ca/legdocs/mmis/2016/gm/bgrd/backgroundfile-87143.pdf>

At its meeting of July 7, 8, and 9, 2015, City Council approved the Union Station Status Update, resulting in a budget increase of \$4.3 million related to forecasted cost increases. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM5.19>
<http://www.toronto.ca/legdocs/mmis/2015/gm/bgrd/backgroundfile-81488.pdf>

At its meeting of January 29 and 30, 2014, City Council approved the 2014 Capital Budget and 2015-2024 Capital Plan for Union Station Revitalization Project, including an increase of \$80 million related to forecasted cost increases and \$1 million for Heritage Plan and chandeliers. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.EX37.1>
<http://www.toronto.ca/legdocs/mmis/2014/ex/bgrd/backgroundfile-65945.pdf>

At its meeting of December 16, 17 and 18, 2013, City Council approved the Union Station Revitalization – Status update, including authorization for the Chief Corporate Officer to change the delivery method for construction work and the amendment of four existing contracts required to carry out the remainder of work within the Union Station Revitalization project, as well as for additional work to be carried out on behalf of 3rd parties, namely Metrolinx. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.GM26.5>

At its meeting on January 15 and 16, 2013, City Council approved the 2013 Capital Budget and 2014 - 2023 Capital Plan for the Union Station Revitalization project, resulting in an increase of \$48.2 million to the overall project cost. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX27.1>
<http://www.toronto.ca/legdocs/mmis/2013/ex/bgrd/backgroundfile-54840.pdf>

At its meeting on October 2, 2012, City Council approved an increase to the 2012 approved budget and 2013 capital plan of \$0.25 million for the installation of a commemoration of the Walks and Gardens Trust, funded through the Union Station reserve fund. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.GM11.6>

At its meeting on April 10, 2012, City Council approved an increase to the Union Station Revitalization budget of \$1.75 million to provide heritage architectural lighting and a heritage interpretation plan for Union Station, funded from a development agreement for 15 York Street. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX18.8>

At its meeting on January 17, 2012, City Council approved the 2012 Capital Budget and 2013 - 2022 Capital Plan for the Union Station Revitalization project, including increase to the original capital budget of \$25 million all related to work being carryout on behalf of various stakeholders at Union Station, funded through 3rd party contributions. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX14.1>

At its meeting on August 5 and 6, 2009, Council approved a report giving authority to proceed with the Union Station Revitalization Project, and confirmation of Federal and Provincial Funding commitments, as well as authorization to execute the necessary agreement with a Head Lessee for the commercial space within Union Station. The report is available on-line at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX33.44>

COMMENTS

Union Station was opened to the public in 1927 and is a National Historic Site and one of the finest examples of Beaux-Art architecture in Canada. As part of the sale in 2000 from the Toronto Terminals Railway Company Limited to the City of Toronto, the City was required to enter into a Heritage Easement Agreement with Parks Canada which governs all the restoration work at the station. In July 2006 City Council approved the Master Plan for the Union Station Revitalization project as Council's vision to invest in the restoration and revitalization of this historic site and to expand the life of this vital transportation hub for the next 50 to 100 years. To put the City's current investment in the station into context, Union Station has seen no significant capital investment by its owners for the past 90 years. As such, this project reflects a "once in a century" type of investment in city building.

Council's vision has three main objectives:

1. Expansion and enhancement of the transportation purpose, primarily through improved pedestrian flows,
2. Restoration of this National Historic Site, and
3. Creation of a destination, a commercial retail hub as important in Toronto as Grand Central Station is in New York and others in similar world-class cities.

In 2009, the City signed the Head Lease Agreement with Osmington Inc. The agreement gives Osmington Inc. the exclusive right to carry out commercial uses in the Station, including leasing of the newly built retail spaces, advertising, commercial signage and special events, with the City and Osmington Inc. sharing equally in the profits that are generated from these commercial activities.

Furthermore, in 2009 the City executed agreements with Metrolinx to complete base building work and effectively sell the new York Concourse, floors 2 to 4 of the West Wing and the renovated Bay Concourse to Metrolinx. Upon completion of this base building work Metrolinx would complete fit-out of these spaces and open them for internal and public access and use. To date the City has completed its construction work and executed the sale of the new York Concourse and the West Wing, and these spaces are now open and active.

The Union Station Revitalization Project is now in its eighth year of construction and is one of the most complicated projects in the country, "wedged" into one of the most congested parts of the City. The project began physical construction in 2010, with the major construction works beginning in 2011. At that time, a construction management

contract was awarded to Carillion Canada Inc. for the full scope of work. Subsequently, Carillion Canada Inc. construction management contract was reduced to encompass Stage 1 only, and Stages 2 and 3 were awarded to Bondfield Construction Inc. under a stipulated price lump sum contract. Carillion Canada Inc. has filed an unsubstantiated construction claim action against the City. There is at present no factual or legal basis upon which to accept any portion of claims submitted by Carillion as legitimate. All allegations are unproven and untested. The City has retained 3rd party legal support and is, and will continue to, actively defend its interests with respect to these claims and proceed through the proper process to bring them to a conclusion.

Overall, the achievements to date on the USRP has allowed for Union Station to act as more than a transportation hub for commuters to and from Toronto. The project has allowed for the following:

- Opening of retail space that has driven financial benefits for the City (at or above expectations) and that are servicing the new residential and commercial communities in the surrounding area,
- Partnerships to allow for programming in collaboration with key arts and cultural organizations across Toronto, generating an emotional and positive connection with people moving through the station, and
- Positive press and social media interest as a result of the programming, the engineering accomplishments from the USRP, and the restoration of this landmark heritage facility that preserves its historical significance and allows it to service the needs of both the community and commuters of today.

The completion of the Revitalization will provide a pedestrian destination with self-sustaining retail and commercial uses serving the rapidly increasing densification in the adjacent residential and commercial community. In conjunction with the transit infrastructure improvements current and planned in the future, the station will act as a gateway to the waterfront and surrounding community and will renew and revitalize a major centrepiece of the city.

Work Completed To Date

Significant progress has been made on the Union Station Revitalization Project. Stage 1 is fundamentally complete but for minor deficiencies being rectified and closeout documentation. Key milestones reached and components completed include:

Stage 1 and the North West PATH:

- VIA Elements – Panorama Lounge, York West Teamway Catering space, East Concourse offices, baggage handling system, heritage washrooms, office space and Great Hall ticket offices.
- York West Concourse – base building fit-up work including stairs / elevators to platforms, life safety systems, loading docks and access/egress through Air Canada Centre, Maple Leaf Square and Telus building tunnels with York Concourse strata sold to and occupied by Metrolinx.
- West Wing - Floors 2 through 4 complete, strata sold to and occupied by Metrolinx.
- Structural Support Column Replacement (Stage 1) is complete.

- Electrical systems completed including installation, commissioning and operation of main and emergency power, lighting and lighting control, safety/security and communications systems.
- Mechanical systems completed including installation, commissioning and operation of HVAC, fire protection, plumbing, building automation and mechanical equipment systems.
- Exterior heritage façade restoration of the West, East Wings and Centre Block.
- NW Path Phase 1 complete and opened to the public.
- Stage 1 base building Retail Concourse beneath York and VIA Concourses is complete. Retail areas have been released to the Head Lessee for installation of fixtures and occupancy by tenants. Some retail operations are open and active.

Stage 2/3:

- Exterior restoration of the East Wing is 99% complete.
- Great Hall Restoration: East and West arches, including windows, north wall, south wall and ceiling cleaning complete. The floor restoration remains outstanding.
- VIA Concourse restoration is 90% complete.
- Front Street West Moat: Moat cover Installation is 95% complete.
- Front Street East Moat: Moat cover Installation is 80% complete.
- East Wing ground floor over 80% complete.
- Bay Concourse/Retail: Excavation, structural column replacements, and new Bay Concourse suspended slab and slab on grade completed.
- Interior finishing work is 50% complete.

Future Milestones Planned

The remaining work comprises of completion of Stage 2/3, which includes the Bay Concourse, VIA Concourse, Great Hall, remaining retail areas, East Wing exterior façade, and the York and Bay Street moat covers. The Bay Concourse is currently expected to be completed by late 2018. This will trigger the turnover of the Bay Concourse to Metrolinx to facilitate the fit out and completion of the concourse for future public access. It should be noted that upon the turnover and official sale of the Bay Concourse to Metrolinx for final fit-out, Metrolinx will determine the actual public opening of the Concourse.

Schedule Update

Project substantial completion is currently scheduled January 2019, as per the latest agreed upon schedule between the City and Bondfield Construction Co. This is based upon and within the parameters of the awarded Stage 2/3 construction contract to Bondfield Construction Co. and represent their contractual schedule. Note, this completion date excludes the Bay Street Moat Covers which will be completed by March 2019 per the construction contract. Achieving substantial completion by January 2019 remains a very challenging objective. Based on forecasted expenditures in 2018 and the current pace of work, achieving substantial completion by January 2019 is at

risk. City staff are working diligently with its third party consultants to manage the contractor and risks to project schedule.

Head Lease Agreement

Since the Head Lease Agreement was signed in 2009 the vision of the Station becoming a commercial retail hub and a world class destination has taken form. In August of 2009 Council authorized the CCO to administer and manage the Head Lease Agreement with the Head Lessee, Osmington Inc. Since then City staff have been working with Osmington Inc. in managing and maximizing the value of the current and future retail spaces within the Station.

In February 2016, the City and Osmington Inc. entered into a retail enhancement agreement which will generate additional revenue for both the Head Lessee and the City through sponsorship and retail tenant percentage rent. Staff will continue to work with Osmington Inc. on potential enhancements to this space and will report back to Council in the future on any matters that require its determination or direction.

The newly created retail space within Union Station is expected to open in phases as construction progresses. The City turns over "raw" retail spaces to Osmington to take possession, who in turn complete the necessary base building retail work. The units are then turned over to the tenant for tenant fit-up. Typically this process would take months anywhere from four to eight months, depending on the type of use for the unit. The York Street Promenade, and the Front Street Promenade (West side only) opened for business in November 2017. The West Wing TD Credit Card Lounge will open in the fall of 2018. The Food Court will have a soft opening in the fall of 2018. It is anticipated that the Fresh Market retail in the station will be open in the spring of 2019, with the remainder of the retail units scheduled for opening in the fall of 2019.

Update on Auditor General Recommendations

On June 27, 2017, the Auditor General presented to the Audit Committee their report entitled: "*Real Estate Services Division – Restore Focus on Union Station Leasing*", which contained 21 recommendations to improve timely collection of annual leasing revenues, contract compliance, internal controls, and ensure long-term financial stability of this asset. At its meeting on July 4, 2017, City Council adopted these recommendations, including a request to report back to Council on two of the recommendations in the report. City Staff committed to reporting back on by Q2 2018. Updates on these items are outlined below.

Recommendation 9: City Council request the Chief Corporate Officer to report to City Council on the plans for the East Wing of Union Station. Such plans should include a complete financial analysis of the capital funding requirements and potential profits, costs, and opportunity costs of the available options for the space, such as City purposes, retail, office, or strata sale.

Update: City staff continue to assess options for the future uses of the East Wing of Union Station. The City is assessing options for best use internally in conjunction with the City-Wide office optimization strategy. This strategy is expected to be developed over the remainder of 2018, and a business case and multi-year implementation plan will be brought forward in 2019. Concurrently, alternate non-City uses are also under consideration. As management noted in its response to the AG's recommendation, the existing space will require a significant investment to bring it to acceptable standards for occupancy. One floor is currently being used to accommodate the City and third party construction teams working on the revitalization project, along with building operations staff until construction is completed. City staff are ensuring, through the USRP, the proper infrastructure is available to accommodate whichever future use is recommended. These plans will be reported to Council, as requested through the AG's report.

Recommendation 10: City Council request the Chief Corporate Officer, in consultation with the Corporate Finance and Financial Planning Divisions, to validate assumptions underlying the existing financial forecasts for Union Station and report back to City Council with an up-to-date forecast of expected revenues and expenses.

Update: City staff continue to engage with the Head Lessee to review the forecasted leasing revenue and underlying assumptions for 2018 and future years. At the same time, City staff are also reviewing internally all costs associated with Union Station operations to develop an operational model on the future state of the Station (post revitalization). Operational requirements and future lease revenue will be analysed against the latest existing financial forecast for Union Station. As of the end of 2017, approx. 8% of the total future retail area (once the USRP is complete) is leased and open for business. As construction progresses, more space will be made available and leased out. Updates to the existing Union Station financial model will be made as more accurate & complete leasing data becomes available, closer to completion of the tenant fit up of retail space, expected by mid-2019. In the interim, staff are monitoring the financial results at the station on a regular basis, and are updating forecasts and budgets with the latest information available.

CONCLUSION

The Union Station Revitalization project continues to progress within the current approved budget, but with risk to contractor schedule. Financial pressures and schedule risks continue to exist, which are typical on a project of this size and complexity. Staff continue to actively manage these risks and have taken substantial measures to minimize any adverse impacts to the project through implementation of a new contractor, active management of project costs, and re-sequencing, re-contracting and re-staging of the work. Staff, with the assistance of external legal counsel, continue to manage and respond to the construction claims filed in Court by Carillion Canada Inc. The overall project remains both a technical marvel and an important revitalization initiative that will act as the centrepiece of the downtown core and transit.

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SIGNATURE

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ATTACHMENTS

Appendix A – Union Station Revitalization – Current Approved Budget and Life-to-Date Spending