



REPORT FOR ACTION

Union Station Revitalization Project – Status Report and Contract Amendments

Date: August 28, 2020

To: General Government and Licensing Committee

From: Executive Director, Corporate Real Estate Management, and
Chief Procurement Officer

Wards: Ward 10 - Spadina-Fort York

SUMMARY

The purpose of the report is to advise on the status of the City of Toronto's Union Station Revitalization Project ("USRP"), including an update on the construction progress and project budget. The report also requests authority to amend four (4) existing contracts under the USRP, funded within the existing approved budget. These contract amendments will allow for total project completion and ensure continuity of professional services for the remainder of the project.

The project remains within the current approved budget of \$824.0 million. The COVID-19 pandemic has impacted the project schedule as the project is now scheduled to be substantially complete by the end of 2020. Staff are working with the City's consultant, contractor, its bonding company, and other stakeholders to complete the work as quickly and efficiently as possible.

RECOMMENDATIONS

The Executive Director, Corporate Real Estate Management, and the Chief Procurement Officer, recommend that:

1. In accordance with Section 71-11.1.1.C of the City of Toronto Municipal Code (Financial Control By-law), the General Government and Licensing Committee authorize the amendment of existing contracts, in accordance with the details as specified below:
 - a. NORR Limited, Architects and Engineers, Purchase Order number 6030175, in the additional amount of up to \$1,270,000, net of all taxes, revising the current contract authority from \$45,323,000, net of all taxes, up to a maximum value of

\$46,593,000, net of all taxes, to provide required additional design and construction services, and warrantee support for two years following project completion.

b. WSP Canada Group Limited, Contract number 47020883, in the additional amount of up to \$800,000, net of all taxes, revising the current contract authority from \$11,534,840 net of all taxes, up to a maximum value of \$12,334,840, net of all taxes, to continue to provide contract administration services and expertise through the construction duration.

c. Bondfield Construction Company Limited, Purchase Order number 6041873, in the additional amount of up to \$5,000,000, net of all taxes, revising the current contract authority from \$215,842,180, net of all taxes, up to a potential value of \$220,842,180, net of all taxes, to provide construction services for the completion of the Union Station Revitalization Project; and

d. Davies Ward Phillips and Vineberg LLP, Purchase Order number 6025203, in the additional amount of up to \$330,000, net of all taxes (\$335,808 net of Harmonized Sales Tax recoveries), revising the current contract authority from \$3,985,000, net of all taxes, up to a potential value of \$4,315,000, net of all taxes (\$4,390,944 net of Harmonized Sales Tax recoveries), to provide real estate legal advice, draft legal terms and agreements for the on-going agreements and negotiations with Union Station tenants.

FINANCIAL IMPACT

Contract Amendments:

Funding for the requested amendments in recommendations 1a, b and c (totalling \$7.1 million) is available within the existing approved budget of \$824.0 million for the Union Station Revitalization Project (Work Breakdown Structure element CCA911) in the 2020 - 2029 Council-Approved Capital Budget and Plan for Corporate Real Estate Management.

Funding for the requested amendment in recommendation 1d (\$0.330 million) is available and will be funded through the existing 2020 Council Approved Operating Budget and future 2021 Operating Budget submission for Corporate Real Estate Management.

Total Project Cost and Current Estimates:

The USRP remains within the current approved budget of \$824.0 million and funding is available within the approved 2020 – 2029 Capital Budget and Plan for Corporate Real Estate Management. Table 1 below illustrates the re-forecasted cash flows for the USRP are compared against the approved plan.

Table 1: Forecasted Cash Flows vs Current Approved Plan (\$ millions)

	Life to Date Spend as of Dec 31, 2019	2020 Plan	2021 Plan	Total Project Costs
2019-2028 Capital Budget and Plan	\$779.5	\$41.0	\$3.5	\$824.0
Projected Spending	\$779.5	\$22.6	\$21.9	\$824.0
Variance	-	(\$18.4)	\$18.4	-

Projections to year-end indicate that the USRP's capital expenditures are forecasted to be \$22.6 million or 55.1 percent of the 2020 approved cash flow of \$41.0 million. The revised forecast in 2020 is attributable in part to site conditions, coordination of work programs with other stakeholders, performance issues with the general contractor, and impacts associated with the COVID-19 pandemic, such as the reduced availability of trades staff. The project team is working to actively manage these challenges within the approved budget and will report back through the capital budget process with further updates and if any financial impacts arise as a result of these issues.

The estimated expenditure for 2021 is \$21.9 million, representing 2.6 percent of the approved project budget, and reflects close out costs for construction and other services to achieve total project completion

See Appendix A for the current approved budget and life-to-date spending by major component.

Forecasted spending does not include any potential future claims paid or received, as noted in previous reports. Any claims or expected claims 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

Funding Source	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	2.9
Total Internal Funding Sources	465.3
Total Project Funding Sources	824.0

The financial model for the USRP includes \$190.5 million of debt financing to be re-paid through increase revenues generated from the revitalized Station (recoverable debt). Table 3 compares current and previous forecasts of incremental revenues and debt servicing costs resulting from the USRP. This illustrates current forecasts of new incremental rental revenues exceeding current estimated debt and interest payments by \$175.4 million (\$109.2 million after accounting for existing revenues and expenses) over a 30 year period.

Table 3: Comparison of Updated Forecast with Historical (\$ millions)

	2009 Forecast	2013 Forecast	Updated Forecast
Recoverable Debt	130.5	190.5	190.5
Total Interest	109.9	160.4	109.5
Total Debt Servicing	240.4	350.9	300.0
Incremental Revenues	368.9	466.8	475.4
Surplus (Deficit)	128.6	115.9	175.4

The updated forecast net revenues are more than sufficient to offset debt servicing over a 30 year period. It should be noted this update was completed at the end of 2019 and does not include the impacts of the COVID-19 pandemic. As expected, performance of existing retail operations has been significantly impacted over these past four months. These impacts are expected to continue into the near future, with the potential for gradually improvements as the Province continues through stage three of reopening of Ontario. While the Station's retail operations are impacted in the short term, long term impacts are unknown and City staff are working with the Head Lessee on revising forecasts in the short term and trying to understand, plan for and mitigate any long term impacts to retail operations and performance.

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. A significant portion of funding contributions from both the Federal and Provincial governments has been received to date, with the remaining balances expected to be received over the next two years as the project is completed and the funding agreements are closed.

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

DECISION HISTORY

At its meeting of January 6, 2020 General Government and Licensing Committee adopted GL11.9 "Amendment to Purchase Order Number 6040342 with Osler, Hoskin & Harcourt, LLP for Construction Law Support and Litigation Services for the Union Station Revitalization Project," which noted that the project remained within the approved budget of \$824.0 million.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL11.9>

At its meeting of May 21, 2019 General Government and Licensing Committee adopted GL5.9 "Union Station Revitalization Project - Status Report and Contract Amendments," which noted that the project remained within the approved budget of \$823.9 million and authorized amendments to existing contracts with NORR Limited, WSP Canada Group Limited, and Osler, Hoskin & Harcourt, LLP.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.GL5.9>

At its meeting of July 3, 2018, Government Management Committee adopted GM29.22 "Union Station Revitalization Project (USRP) – Status Report," which noted that the project remained within the approved budget of \$823.9 million.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.GM29.22>

At its meeting of March 26, 2018, City Council adopted GM25.10 "Union Station Revitalization Project - Contract Amendments" and authorized amendments to existing contracts with NORR Limited, Architects and Engineers, WSP Canada Group Limited, Bondfield Construction Company Limited, and Osler, Hoskin & Harcourt, LLP.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.GM25.10>

At its meeting of February 12, 2018, City Council adopted 2018.EX31.2 "2018 Capital and Operating Budgets" and approved the 2018 Capital Budget and 2019-2027 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.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX31.2>

At its meeting of May 29, 2017, Government Management Committee adopted 2017.GM21.14 "Union Station Revitalization Project - Status Update" and approved an amendment to the retainer of Davies Ward Phillips and Vineberg LLP.

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

At its meeting on February 3, 2016, City Council adopted 2016.GM9.5 "Union Station Proposed Building Enhancements" and authorized an amendment to the Head Lease Agreement to implement the building enhancements for Union Station.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM9.5>

At its meeting of July 7, 8, and 9, 2015, City Council adopted 2015.GM5.19 "Union Station Revitalization Project - Status Update" approving a budget increase of \$4.3 million related to forecasted cost increases and awarding a contract for Tender Call No. 75-2015 for the Union Station Revitalization Project Stages 2 and 3 to Bondfield Construction Company Limited in the amount of \$178,542,180 net of Harmonized SalesTax, including all allowances, contingencies and charges.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM5.19>

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.

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

COMMENTS

Union Station opened to the public in 1927. A National Historic Site, it is 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 had three main objectives, for which the USRP has enabled to be fulfilled:

- Promote Union Station as a multi-modal transportation hub first and foremost, achieved by expanding and enhancing its transportation purpose, primarily through improved pedestrian flows;
- Preserve it as a heritage building, which has been achieved through the restoration of this National Historic Site; and

- Revitalize Union Station as a destination in order to promote financial sustainability, achieved through the creation of a destination and 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 executed agreements with Metrolinx to complete base building work of the new York Concourse, floors two to four of the West Wing and the renovated Bay Concourse, and upon completion sell ownership of these spaces 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. This, along with additional pedestrian access, capacity and improved flow, has enhanced the transportation purpose and use of Union Station benefiting residents and commuters across the GTA.

A significant effort and investment was made to restore heritage elements of Union Station to its original state, including the exterior heritage façade restoration of the West and East Wings, Centre Block, and Great Hall Restoration including the East and West arches, windows, north wall, south wall and ceiling cleaning. This has all been completed, preserving this National Historic.

In 2009, the City signed the Head Lease Agreement with Osmington Inc. ("Osmington"). The agreement gives Osmington 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. The agreement allows the City and Osmington Inc. to share equally in the profits that are generated from the commercial activities within Union Station.

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. City staff have been working with Osmington to manage and maximize 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.

When completed there will be over 160,000 square feet of total rentable retail space at Union Station. Currently, over 40 percent of total retail space has been turned over to Osmington.

- Over 20 percent of total space is fully leased and operational, which includes the York Concourse, Food Court, West Wing, TD Lounge, 75 percent of the York Street Promenade, and 70 percent of the Front Street Promenade, and
- Approximately 20 percent of total space remains under construction by Osmington in preparation for leasing. Areas include portions of the Front Street Promenade and Fresh Market.

The Bay retail areas, East Wing, and remainder of the Fresh Market are the next final major retail areas to be turned over to Osmington for landlord work to be undertaken once base building construction is complete. The Fresh Market will include local, national, and international food and market-style retailers and the Bay Concourse will feature international brands that elevate the overall retail experience at Union Station.

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:

- Retail space that has driven financial benefits for the City (at or above expectations) and that are servicing the Opening of 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

The Union Station Revitalization Project is now in its tenth 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 (Stages 1, 2, and 3). 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.

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 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 two through four 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, smoke evacuation, building pressurization system, 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 100 percent complete.
- Great Hall Restoration: East and West arches, including windows, north wall, south wall and ceiling cleaning complete.
- VIA Concourse restoration is 99 percent complete.
- Front Street Moat: Moat cover installation is 100 percent complete, all works 99 percent complete.
- York Street Moat: Moat cover installation is 100 percent complete, all works 99 percent complete
- Bay Street: Moat cover installation is 100 percent complete, all works 65 percent complete
- East Wing ground floor is over 98 percent complete, excluding the Scotiabank Lobby.
- Bay Concourse/Retail: Excavation, structural column replacements, and new Bay Concourse suspended slab and slab on grade completed. Over 99 percent complete, remaining works include vertical access and deficiency corrections,
- 80 percent of the Commercial Retail Units in the Front Street Promenade have been completed and are currently operating or are in the process of opening.
- Interior finishing work is 85 percent complete.

Schedule Update and Future Milestones

The City continues to manage and mitigate contractor performance issues that have experienced on stage 2/3 work since mid-2018. The City has continued to work with the contractor's bonding company and third-party consultants to resolve these issues to keep the project on track. While significant progress has been made up to the first quarter of 2020, the project incurred delays due to the State of Emergency declared in March 2020 in response to the COVID-19 pandemic. The remaining work to complete Stage 2/3 includes the rectification of deficiencies in the Bay Concourse, VIA Concourse, Great Hall, remaining retail areas, and the York, Front and Bay Street moat covers. While substantial completion is expected by the end of 2020, minor work on certain portions of the station will continue into early 2021 due to logistics and construction coordination and to ensure full project closure. City staff continue to work diligently with the contractor's bonding company and third-party consultants to manage the contractor and risks to the project schedule.

The USRP team has implemented a strategy to expedite ongoing construction and ensure that completed areas of the station open to the public as soon as possible. In the fourth quarter of 2019, an early access agreement with Metrolinx was implemented which allowed Metrolinx into sections of the Bay Concourse to accelerate the completion of their fit-out work in order to open to the public as soon as possible. As the Bay Retail, Front Street Promenade, and remaining retail areas are completed in the third and fourth quarters of 2020, they will be turned over to Osmington for interior fit-out prior to public opening. This phased turnover will lead to new areas of the station opening up as they are ready, which will contribute to improved pedestrian flow through the station and enjoyment of the commercial and retail amenities.

Metrolinx and Osmington will ultimately determine exactly when these areas of the station open to the public. Based on typical construction schedules it is anticipated that Osmington will open the remaining retail units on a rolling basis throughout 2021 and that Metrolinx is expected to open the Bay Concourse to be available for public usage in late 2020.

Contract Amendments

As the project nears completion, an amendment to the construction contract with Bondfield Construction Company Limited (purchase order number 6041873 for construction services for stage 2/3) is required to address remaining work and changes to achieve full project completion. Additional changes required are due to evolving requirements resulting from the age of the building, requests from Metrolinx in order to complete their work, the costs of which are charged back by the City (per City Council direction in 2018.EX31.2), and work to address site conditions that are necessary to meet the design intent and to achieve occupancy. None of the changes are for additional scope or unnecessary items. If approved, the requested additional contract value of \$5,000,000, net of all taxes, will increase the total upset limit of the contract will be \$220,842,180, net of all taxes. This represents a two percent increase in the contract

value and will ensure proper authority is in place to complete the project. The increase in contract value is within the existing approved budget for the USRP.

Existing professional services contracts assumed that the project would be completed by end of the third quarter of 2020. In order to ensure continuity of professional services for the duration of the project the following contract amendments are recommended:

- Purchase Order Number 603017, issued to NORR Limited, Architects and Engineers for design and construction services be increased by \$1,270,000, net of all taxes for a revised total potential contract value of \$46,593,000, net of all taxes.
- Contract Number 47020883 with WSP Canada Group Limited for contract administration services and expertise be increased by \$800,000, net of all taxes, for a revised total potential contract value of \$12,334,840, net of all taxes.
- Purchase Order Number 6025203, issued to Davies Ward Phillips and Vineberg LLP for real estate legal advice, drafting legal terms and agreements for the on-going agreements, and negotiations with Union Station tenants. If approved, the requested additional contract value of \$330,000 net of all taxes (\$335,808 net of Harmonized Sales Tax recoveries), will increase the total potential contract value to \$4,315,000, net of all taxes (\$4,390,944 net of Harmonized Sales Tax recoveries).

The City is working with the contractor's bonding company to recover all costs associated with the contract amendments that are attributable to delays and performance issues with the general contractor. All contract amendments requested represent the maximum upset limits of the contracts and may not be fully used if not required.

Update on the Financial Model

The latest financing model for the Union Station Revitalization Project presented and approved by Council in December 2013 (re-confirmed in 2016) includes \$190.5 million of debt financing to be re-paid through increased revenues generated from the revitalized Station. As the project nears total completion, City staff updated the financial model with updated forecasts of expected revenues and expenses. This update reflected market conditions and assumptions as of the end of 2019, updated timelines for completion and opening of new retail spaces, and financial commitments from existing and active agreements and contracts entered into since 2013. More specifically, the updated model now includes:

- Additional revenue streams from sponsorships and from new retail space, as well as percentage rent from applicable retail spaces.
- Updated operating costs and lower operating cost recoveries based on current estimates and agreements.
- Removal of the Union Station East Wing revenue and expenses, reducing net revenue, as this space is now being used for the office swing space under the Office Optimization Plan, which will unlock value, reduce operating costs and improve fiscal

sustainability City-wide. Details of this Council-approved strategy (EX7.4) can be found at <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX7.4>

- Updated cost of borrowing reflective of current market conditions

Appendix B outlines the annual net revenues from Union Station operations, as well as the annual debt and interest repayments. The updated financial model illustrates there are sufficient net revenues to offset debt and interest repayments. Any surplus net revenues, after debt repayments, will be allocated to the Union Station reserve fund to support future capital maintenance and repairs, supporting the objectives of preserving the Station and ensuring it remains financially sustainable. As noted, the updated model does not incorporate impacts from the COVID-19 pandemic, which staff are working to assess with the Head Lessee. Any impacts to revenue or operating costs in the short term that are known will be reported and addressed through the 2020 variance reporting and the 2021 Budget process.

Conclusion

The Union Station Revitalization project continues to progress within the current approved budget, but with risk to the completion 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 the impacts to the project through implementation of the contractor's bonding company management firm, active management of project costs, and re-sequencing of the Stage 2/3 work. 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

Appendix B – Union Station Revitalization – Union Station Cash Flow Forecast

Appendix C – Union Station Map