

FOR APPROVAL**CONFIDENTIAL****IN CAMERA SESSION**

TO: Governing Council

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PRESENTER: See Sponsor
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DATE: April 23, 2014 for June 25, 2014

AGENDA ITEM: 12

ITEM IDENTIFICATION:

Capital Project: UTM North Building Phase B – Project Scope and Source of Funds

JURISDICTIONAL INFORMATION:

The *Policy on Capital Planning and Capital Projects* provides that capital projects exceeding \$10 million (Approval Level 3), at UTM will first be considered by the UTM Campus Affairs Committee and the UTM Campus Council, which shall recommend approval to Academic Board. The *Policy* further states that “If a project will require financing as part of the funding, the project proposal must be considered by the Business Board.” Following consideration and approval by the Academic Board, such proposals are then brought forward to the Executive Committee for endorsement and forwarding, before being considered by the Governing Council for approval.

Separate from the approval of the Project Planning Report, the *Policy* also requires that “Execution of such projects is approved by the Business Board.”

GOVERNANCE PATH:**A. Project Planning Report:**

1. Campus Affairs Committee [For Recommendation] (April 28, 2014)
2. Campus Council [For Recommendation] (May 29, 2014)
3. Academic Board [For Recommendation] (June 2, 2014)
4. Business Board [For Recommendation*] (June 12, 2014)
5. Executive Committee [For Endorsement and Forwarding] (June 16, 2014)
6. **Governing Council [For Approval] (June 25, 2014)**

* Business Board recommends approval of the Financing component of the Project Planning Report proposal.

B. Execution of the Project:

1. Business Board [For Approval] (June 12, 2014)

PREVIOUS ACTION TAKEN:

Phase A of the North Building re-construction, (Deerfield Hall), a \$56 million, 5,200 net assignable square meters (nasm), building, was approved by Governing Council on February 16, 2012.

HIGHLIGHTS:

Detailed discussion of the background, space plan and site can be found in the “*Report of the Project Planning Committee for the North Building Reconstruction, Phase B at the University of Toronto Mississauga*”.

As has been well documented elsewhere, UTM is guided by a tightly-woven, integrated plan that provides for the one-time investment of continuing growth revenues in critical capital projects that, in turn, accelerates progress in a number of priority academic areas, especially faculty recruitment. It is an approach that has served UTM well and has enabled the campus to sustain significant growth while protecting and improving academic standards. Over the past five years, this strategy has enabled the investment of more than \$70 million of Capital Reserves to leverage new construction, renovation and campus infrastructure projects with minimal borrowing.

The timing for this next phase of capital renewal at UTM, linked to the next stage of enrolment expansion, aligns extremely well with the Province’s December 2013 Major Capacity Expansion Framework announcement. The provincial government is seeking proposals for capital projects that meet their goals for post-secondary education, including increased capacity in undergraduate enrolment, cost efficiencies and regional economic benefits. With enrolment at UTM projected to reach twenty thousand students in the longer term, these provincial objectives are well served by the North Building Phase B project, which will be submitted to the Ministry of Colleges, Training and Universities (MTCU) as a University of Toronto priority.

The estimated Total Project Cost (TPC) is \$121.2 million: within that total, construction costs (excluding hazmat/demolition costs) are estimated at \$96.5 million, or \$439 per square foot.

Of the TPC of \$121.2 million, the University will submit a proposal to MTCU for \$85 million (70%). In the last round of MTCU funding for capital projects, the Province contributed 70% toward an approved project, with the remaining 30% to be funded by the institution. UTM was successful in receiving \$52.5 million (70%) toward the North Building Phase A and South Building renovations; it is anticipated a similar approach will be taken by MTCU for this round of capital expansion. Proposals are due by September 26, 2014, but there is no indication yet of what might be the time line for the government’s decision.

North Phase B will also be accorded priority for UTM’s Boundless fund raising campaign and a target of (at least) \$5 million has been made against the project: \$2.5 million in donations coupled with \$2.5 million from the recent commitment by the Provost of up to \$6 million over three years from the University Fund (UF) to match such donations. The situation is similar to that of the \$35 million UTM Innovation Complex, now under construction. Initially approved as being fully funded from UTM Capital Reserves, that project subsequently received a pledge from the City of Mississauga for \$10 million over ten years. (The \$5 million fund raising target for the North Phase B project will remain in place whether or not government funding is received.)

Should the requested government funding of \$85 million be received the balance of the project cost beyond \$5 million in fundraising, \$31.2 million, will be funded by Capital Reserves derived from the UTM Operating Budget as follows: \$18.3 million now in-hand; and \$12.9 million in fiscal 2014-15.

If the project does not receive approval for funding from the Province, \$85.9 million will be funded by Capital Reserves derived from the UTM Operating Budget and UTM would seek to finance the balance of the total project cost through long-term borrowing of \$30.3 million. Provision has been made within UTM’s approved five-year Operating Budget to service the \$31.2 million borrowing. The multi-year plan for funding from Capital Reserves is shown in the table below:

Capital Reserves derived from UTM Operating Budget (\$ millions)

| Current | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|----------------|----------------|----------------|----------------|----------------|----------------|
| \$18.3* | \$13.0 | \$6.75** | \$17.0 | \$15.9 | \$15.0 |

Notes: * Cash in-hand

** Lower amount reflects other 1-time commitments already planned.

Estimates of amounts available for roll-over from the Operating Budget into Capital Reserves are not based on optimistic revenue growth or “to-the-bone” expenditures plans. They do represent the continuation of sound planning, prudent fiscal management, are informed by experience to-date and are based on confirmed enrolment growth commitments as contained in UTM’s approved five-year Operating Budget. Nevertheless, these contributions will be treated by the centre as a “first-call” against UTM’s gross revenues in each of the years as shown above.

Should the government respond positively to UTM’s request for funding support but at a level less than \$85 million, government funds would first be used to eliminate the need for borrowing and the balance used to offset amounts that would otherwise be provided from Capital Reserves derived from the UTM Operating Budget.

It is important to proceed on the understanding that UTM can indeed financially support North Phase B as outlined herein, even in the absence of any government grant, as significant preliminary work must be done so that the project is “shovel ready”. Delaying project approval while awaiting confirmation of government funding will delay completion of the project by a full academic year: a delay that will jeopardize UTM’s ability to meet current and planned enrolment growth targets.

FINANCIAL IMPLICATIONS:

a) Total Project Cost Estimate

The North Phase B project cost has been established at \$121.2 million.

b) Funding Sources

The primary plan for funding sources for the North Phase B project is as follows:

| | |
|---|------------------|
| • Provincial Capital Funding (Major Capacity Expansion Framework) | \$ 85.0 M |
| • Capital Campaign (Donations and Matching Funds) | \$ 5.0 M |
| • Capital Reserves from the UTM Operating Budget | <u>\$ 31.2 M</u> |
| Total: | \$121.2 M |

The alternative funding plan for funding sources for the North Phase B project is as follows:

| | |
|---|-----------------|
| • Capital Campaign (Donations and Matching Funds) | \$ 5.0 M |
| • Capital Reserves from the UTM Operating Budget: up to | \$ 85.9 M |
| • Borrowing: up to | <u>\$ 30.3M</u> |
| Total: | \$121.2 M |

RECOMMENDATION:

Be It Resolved

1. THAT the project for the North Building Phase B, with a space program of 10,247 nasm (20,494 gsm) as outlined in the Project Planning Report dated April 23, 2014, be approved in principle with a total project cost of \$121,200,000, be funded as follows:

| | |
|---|----------------------|
| Provincial Capital Funding (Major Capacity Expansion Framework) | \$ 85,000,000 |
| Capital Campaign (Donations and Matching Funds) | \$ 5,000,000 |
| Capital Reserves from the UTM Operating Budget | <u>\$ 31,200,000</u> |
| Total: | \$121,200,000 |

2. THAT should government funding not be received, or partially received, that the project for the North Building Phase B be funded as follows, with the draw on capital reserves being utilized to the maximum before borrowing funds would be accessed:

| | |
|---|----------------------|
| Capital Campaign (Donations and Matching Funds) | \$ 5,000,000 |
| Capital Reserves from the UTM Operating Budget: up to | \$ 85,900,000 |
| Borrowing: up to | <u>\$ 30,300,000</u> |
| Total: | \$ 121,200,000 |

DOCUMENTATION PROVIDED:

- *Report of the Project Planning Committee for the North Building Reconstruction, Phase B at the University of Toronto Mississauga (April 23, 2014) – provided for 3. (a).*