



Office of the Assistant Vice-President, Operations and Services  
March 6, 2002

**MEMORANDUM TO:** Members of the Business Board

**FROM:** Janice Oliver

**RE:** **Business Board Approval**  
**Increased Appropriations for New College**

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**Previous Action Taken**

In November 2000 Business Board concurred with the recommendation by the Academic Board to Governing Council for the approval of a New College Residence at a cost of \$22.4 million.

In November 2001 Business Board was asked to approve expenditures which increased the cost by \$1.0 million. This total project cost was based on a cost estimator's analysis of the 90% contract drawings. The analysis estimated the construction value at \$16,759,000 which with contingency, fees, furnishings, demolition, secondary costs and other soft costs, resulted in a forecasted total project cost of \$23,400,000. The estimated \$1 million increase in costs was the result of design features added to secure the Committee of Adjustment process, inflation, sprinklers and site conditions. The Business Case attached to the submission had a 5% per year fee increase to cover the increased costs for the first five years.

**Current Status**

The project was tendered in December. Seven firms were invited to bid. Six submitted bids. The bids ranged from \$19.96 to \$21.1 million versus the \$16.759 projected by the cost estimator. The implementation team met the lowest bidders and based on their input the architect eliminated features/materials worth \$1.3 million. The drawings were streamlined with the deletions and retendered to the lowest four contractors in late January. When the bids were opened, the results were extremely disappointing as the new tenders ranged from \$19.395 to \$20.591 million.

Four factors most probably combined to produce the \$2.6 million increase in the bids over the estimate:

- the cost estimator did not properly account for the complexity of the design;
- inflated prices due to the amount of institutional building currently under construction or at bid;
- the cost estimator did not properly capture these rising costs in the construction market;
- the contractors perceive the University is in a seller's market as the residence has to be open by September 2003.

The implementation committee met to review these tenders and possible options. In evaluating the total project cost, the contingency has been set at 10% (a \$700,000 increase) to protect against any escalating costs incurred on site or coordination change orders. The resulting project cost is \$26,760,000, or an increase of \$3,360,000.

New College evaluated this cost through the business model. The results show that the mortgage costs for this increased capital cost is covered by raising fees 9% in 2003/04 and 8.5% in 2004/05 for an increase of \$76 per year over the fee included in the November 2001 Business Board plan. This results in the fees being at \$4,132 by 2003.

One option the implementation committee considered was to cancel the bids and undertake a total redesign of the project. This option would delay the project; September 2003 could not be met and there is no guarantee that market conditions will have eased so that a lower price could be obtained. A delay in the opening of this residence would adversely affect the plans of the University to accommodate all first-year undergraduates requesting residence on campus, thereby increasing the cost of housing these students in hotel accommodation. The New College Principal and his staff believe the current design meets their needs and will in fact generate an increased desire on the part of incoming students for placement at New College. Given the need for the residence in September 2003, New College is comfortable with the increased fees which will be necessary to cover the mortgage, as these fees are still at the lower range of the University of Toronto residence rates. In agreeing to secure Business Board approval for the increased capital expenditure, New College staff and the University Design & Construction staff have agreed to continue to work with the architect and contractor for cost savings on the design and to agree to strict control of expenditures against the contingency reserve.

#### **Review with Chair/Vice-Chair, Business Board**

In reviewing this proposal for increased expenditure and recognizing the current volatile market conditions, the Chair and Vice-Chair of Business Board have asked the administration to review policies and practices to mitigate similar exposures on future projects. They have also requested three conditions: the authorization be an absolute cap; the administration continue to look for cuts in the design; and that strict controls be placed on the use of the contingency reserve. New College and the administration have agreed to these conditions.

#### **Recommendation**

It is recommended:

- that the Vice-President, Business Affairs be authorized to expend up to \$26,760,000 for the construction of a new residence at New College subject to the understandings (a) that the total cost of the project will be the maximum cost, (b) that every effort will be made to seek cost reductions, and (c) that strict controls be placed on the use of the contingency reserve and any user changes have the express approval of the Vice-President, Business Affairs.
- that the Vice-President, Business Affairs undertake a review of existing processes to minimize reoccurrence on future projects.