



FOR RECOMMENDATION

CONFIDENTIAL

IN CAMERA

TO: Business Board

SPONSOR: Scott Mabury, Vice-President, Operations and Real Estate Partnerships

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PRESENTERS: Andrew Arifuzzaman, Chief Administrative Officer, UTSC
Gilbert Delgado, Chief, University Planning Design and Construction
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DATE: September 19, 2019 for October 7, 2019

AGENDA ITEM: 21(a).(i.)

ITEM IDENTIFICATION:

Capital Project: Report of the Project Planning Committee for a New Student Residence at the University of Toronto Scarborough - Further Revised Total Project Funding and Sources of Funding – **Financing Requirement**

JURISDICTIONAL INFORMATION:

Section 5.2 (b) of the *terms of reference* for the Business Board states that the Board is responsible for “approval of capital expenditures for, and the execution of, approved projects, as required by approved policies.”

Under the *Policy on Capital Planning and Capital Projects*, “...proposals for capital projects exceeding \$20 million must be considered by the appropriate Boards and Committees of Governing Council on the joint recommendation of the Vice-President and Provost and the Vice-President, University Operations. Normally, they will require approval of the Governing Council. Execution of such projects is approved by the Business Board. If the project will require financing as part of the funding, the project proposal must be considered by the Business Board.”

For project budget increases, the *Policy on Capital Planning and Capital Projects* states that “...should the cumulative budget increases total \$5M or more, the project will require a revised level 3 project approval.

GOVERNANCE PATH:

A. Further Revised Total Project Cost, and Sources of Funding

1. UTSC Campus Affairs Committee [for recommendation] (September 11, 2019)
2. UTSC Campus Council [for recommendation] (September 25, 2019)
3. Academic Board [for recommendation] (October 3 2019)
4. **Business Board [for approval for financing] (October 7, 2019)**
5. Executive Committee [for endorsement and forwarding] (October 15, 2019)
6. Governing Council [for approval] (October 24, 2019)

B. Execution of the Project:

1. Business Board [for approval] (October 7, 2019)

PREVIOUS ACTION TAKEN:

At the May 25, 2015 Capital Project and Space Allocation Committee (CaPS) Executive Committee, the request to proceed with a Request for Expression of Interest (RFEI) to select a development partner and for the expenditure of funds to engage consultants to a maximum of \$2 million to proceed with design of the new student residence were approved.

A presentation was given to the Campus Affairs Committee on the Student residence model on March 23, 2016. At the Campus Council meeting on April 19, 2016, the Chair of the Campus Council reported to the members that she would work with the Chair of Business Board to conduct ongoing consultation with Business Board members to provide input on the proposed model leading up to the Business Board approval meeting for November 17, 2016. These consultation meetings occurred on June 7, 2016 and October 27, 2016.

At the November 17, 2016 Business Board meeting, Professor Scott Mabury, Vice-President, University Operations was given authority to execute the *Letter of Intent (LOI) – UTSC Residence (Capital Project)* (and accompanying Schedules) and move to the development of definitive agreements between the University of Toronto and the preferred development partner. The *LOI* was executed on November 30, 2016. The *LOI* outlined the principal terms and conditions relating to the development and construction of a 750 bed residence for first year students on the University's Scarborough campus at a total estimated cost of approximately \$92.6 million with an addition of \$5 million by the investor as a buffer, outlays in excess of approximately \$97.6 million would be the sole responsibility of the University.

On March 7, 2017 the *Report of the Project Planning Committee for New Student Residence, University of Toronto Scarborough*, dated February 21, 2017, and the Total Project Cost Estimate of \$92.6 million were presented to the UTSC Campus Affairs Committee to begin its path through the governance cycle. The Project Planning Report advised that the residence building was estimated at 25,061 gross square meters with net assignable square metres estimated at 14,321 nasm (using a gross-to-nasm ratio of 1.75), and was to provide approximately 750 residence beds, a dining hall, amenity space, and retail space.

On May 18, 2017 Governing Council approved the Total Project Cost estimate for the New Student Residence at the University of Toronto Scarborough of \$92.6 million with a buffer of \$5 million totalling \$97.6 million.

On June 15, 2017 Business Board gave authority to the Vice-President, University Operations to execute the Definitive Agreements between the Governing Council of the University of Toronto and the Investment Partner Fengate Capital Management Ltd. “Fengate” for the New Student Residence.

On December 20, 2016 a Request for Proposal (RFP) was issued for the *Development of Performance Output Specifications and Architectural Compliance Services* for the student residence project. The selected consultant team developed the project requirements and created the Project Specific Output Specifications (PSOS). The PSOS was utilized in a Request for Supplier Qualifications (RFSQ), dated June 21, 2017, for a Design-Build contracting team and was meant to form the basis of the contract with the successful Design-Build contractor. Three Design-Build proponent teams were shortlisted and invited to respond to the Design-Build RFP issued September 8, 2017. Submissions were received December 19, 2017 but all three proponents were over budget. On June 20, 2018 Business Board gave approval for a revised Total Project Cost of up to \$108.6 million to enter into negotiations with the lowest bidding proponent. The funding for the additional costs was to be provided from UTSC operational funds. Unfortunately, the negotiations were not successful as the project still could not be achieved for the approved project budget.

The search for a consultant / building team restarted in 2018. Rather than procure a Design-Build contracting team as before, it was decided to split the procurement into a two step process following the project delivery method known as the “Bridging Method”. The first step is the procurement of the Owner’s Design Consultant (an architect team to produce the Bridging Contract Documents), and the second, the procurement of the Design-Build contractor who will produce the Contract Documents for the project with their own architect as subconsultant. The Owner’s Design Consultant is responsible for checking the contractors Contract Documents to ensure the design intent is maintained.

The first step, an RFSQ for *Professional Services for a New Student Residence at University of Toronto Scarborough*, was issued November 20, 2018. Proponents were shortlisted based on the results of the RFSQ, and an RFP for the Bridging Design-Build Architect consultant team was issued February 11, 2019. The successful proponent was the Handel / CORE consultant team who have developed the current design for the student residence, and will act as the Owner’s Design Consultant under the Bridging Methodology.

The second step, an RFSQ for *Design-Build Services for a New Student Residence at UTSC* was issued August 15, 2019 (closing September 13, 2019) to begin the process of selecting a Design-Build contractor.

At its meeting on September 11, 2019, the UTSC Campus Affairs Committee considered and recommended the proposal to the UTSC Campus Council for consideration.

HIGHLIGHTS:

The increased Total Project Cost and Funding Sources are the only elements of the project that require approval. The increase in Total Project Costs requires an increase in Funding Sources provided by both the University and Fengate, including a new source of funding provided by UTSC in the form of mezzanine construction financing.

Certain transaction costs, such as financing costs, parking replacement costs, and land transfer taxes, are now included in the project description to be completely transparent of the total costs required in addition to the hard and soft costs that typically make up the Total Project Costs during construction. These transaction costs are not new. The University and Fengate were always expecting to incur these costs.

The only meaningful increase in transaction costs between now and the first set of governance approvals is associated with the construction financing interest, which has increased as a result of the increase in senior construction financing required to cover the increase in Total Project Costs. Given that the University is providing the senior construction financing, all interest will be paid to the University so this should be seen as a positive addition.

Although Fengate and the University are contributing additional funding sources to cover the increase in Total Project Costs, the fundamental business deal between the two parties has not changed. The University is contributing construction financing at market interest rates and will eventually participate in the future cash flow. Fengate will still receive their capital back plus their preferred return of 8%, however as a result of the changes they anticipate it will take longer to receive their equity and preferred return in full.

FINANCIAL AND PLANNING IMPLICATIONS:

a) Total Project Cost

The estimated Total Project Cost (TPC) for the UTSC Student Residence is \$126,185,151. The TPC is based on the following assumptions:

- The project is being designed to the Passive House standard; and,
- All financing costs (including construction financing interest, commitment fees, and legal fees) of approximately \$7.7 million, UTSC parking displacement costs of approximately \$2 million, and land transfer tax of approximately \$2 million are excluded from the TPC but still require funding sources during construction as transaction costs.

Total Project Costs (TPC)	\$126.2 million
Transaction Costs	
Financing Costs	\$7.7 million
UTSC Parking Displacement Costs	\$2 million
Land Transfer Tax	\$2 million
TOTAL incl. Transaction Costs	\$137.9 million

At the May 25, 2015 CaPS Executive meeting, the expenditure of up to \$2 million in consulting fees, included in the TPC, was approved.

b) Funding Sources

The funding sources for the New Student Residence at the University of Toronto Scarborough of \$137.9 million (including both TPC and transaction costs) includes \$42.1 million of equity provided by Fengate, approximately \$9.8 million mezzanine construction financing provided by UTSC, and approximately \$86 million senior construction financing provided by the University. During construction, the land and building being constructed are owned by the University. After construction and upon stabilization, the University will still own the land but will lease such land to an investor partnership whereby Fengate is a limited partner and University is the general partner. Upon completion of construction and operation of the project, it is anticipated that a long-term source of funding will be provided to the project through the investor partnership that would reimburse the University and UTSC for all construction financing provided to the project, including both principal and interest. The size of the long-term funding is to be determined and subject to change based on market conditions. In summary:

Construction Sources of Funding	
Equity (Fengate)	\$42.1 million
Mezzanine Construction Financing (UTSC)*	\$9.8 million
Senior Construction Financing (UofT)*	\$86.0 million
TOTAL	\$137.9 million

* The ratio of senior construction financing to mezzanine construction financing may vary based on negotiations with Fengate but the University and UTSC will be responsible for some combination of short-term construction financing of up to \$95.8 million.

c) Operating Costs

Operating expenses of approximately \$128 per square metre (or \$11.90 per square foot) (approximately \$3.0 million in year 1) are in line with the average operating costs of existing student residences at UTSC. The University will charge annual ground rent (\$0.4 million in year 1) to the partnership for use of the project lands. The University will also charge an annual student life fee to the project (\$0.6 million in year 1) to recover the cost of providing student life programming services. The operating budget will also include an annual reserve for major maintenance and lifecycle costs calculated at 4% of total annual revenues.

Operating Expenses (Year 1)	(\$ m)
Operating Expenses ^{1,2}	\$3.0
Annual Lifecycle Maintenance Reserve ³	\$0.4
Residence Life Costs ⁴	\$0.6
Total Operating Expenses	\$4.0
Annual Growth Rate for Operating Expenses	CPI%

RECOMMENDATION:

Be It Recommended:

1. THAT the revised total project funding of up to \$137.9 million for the project, of which \$126.2 million represents the revised total project cost and up to \$11.7 million of financing and other transactional costs, for the project that is identified in the *Report of the Project Planning Committee for a New Student Residence at the University of Toronto Scarborough*, dated February 21, 2017 (approved by the Governing Council on May 18, 2017), be approved in principle; and,
2. THAT the project scope of 14,974 net assignable square metres (nasm) (25,726 gross square metres (gsm)), consisting of 746 residence beds, a dining hall, and amenity space be approved in principle, to be funded as follows:

Equity (Fengate)	\$ 42.1 million
Mezzanine Construction Financing (UTSC)	\$ 9.8 million
Senior Construction Financing (UofT)	<u>\$ 86.0 million</u>
Total Project Funding Cost	\$137.9 million

DOCUMENTATION PROVIDED:

- *SEE TAB 21.8.1 in Diligent: CAPITAL PROJECTS – REFERENCE DOCUMENTS Report of the Project Planning Committee for a New Student Residence at the University of Toronto Scarborough*, dated February 21, 2017

¹ Operating Expenses are calculated at \$128/sm and include Property Management Fees, Insurance, Utilities, Salaries & Benefits, General & Administrative, Repairs & Maintenance, and Contract Services costs

² Ground rent is not included in the Operating Expenses figures presented above

³ Annual Maintenance Reserve is calculated as 4% of Total Revenue

⁴ Costs incurred by the University to deliver Residence Life Program will be reimbursed by the Limited Partnership



FOR APPROVAL

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ITEM IDENTIFICATION:

Capital Project: *Report of the Project Planning Committee for a New Student Residence at the University of Toronto Scarborough - Further Revised Total Project Funding and Sources of Funding – Execution of the Project*

JURISDICTIONAL INFORMATION:

Section 5.2 (b) of the *terms of reference* for the Business Board states that the Board is responsible for “approval of capital expenditures for, and the execution of, approved projects, as required by approved policies.”

GOVERNANCE PATH:

1. Business Board [for approval] (October 7, 2019)

PREVIOUS ACTION TAKEN:

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HIGHLIGHTS:

See the “*Highlights*” section of the cover sheet *In Camera* Item 21(a.)(i.) for the Capital Project: *New Student Residence at the University of Toronto Scarborough – Further Revised Total Project Funding and Sources of Funding – Financing Requirement*

FINANCIAL AND PLANNING IMPLICATIONS:

See the “*Financial and Planning Implications*” section of the cover sheet *In Camera* Item 21(a.)(i.) for the Capital Project: *New Student Residence at the University of Toronto Scarborough – Further Revised Total Project Funding and Sources of Funding – Financing Requirement*

RECOMMENDATION:

Be It Resolved:

Subject to Governing Council approval in principle of the project,

THAT the Vice-President, Operations and Real Estate Partnerships be authorized to implement the capital project for the *New Student Residence at the University of Toronto Scarborough* at a revised total project cost of \$137.9 million for the project, of which \$126.2 million represents the revised total project cost and up to \$11.7 million of financing and other transactional costs.

DOCUMENTATION PROVIDED:

- *SEE TAB 21.8.1 in Diligent: CAPITAL PROJECTS – REFERENCE DOCUMENTS Report of the Project Planning Committee for a New Student Residence at the University of Toronto Scarborough, dated February 21, 2017*