



University of Toronto

FACILITIES AND SERVICES

TO: University Affairs Board

SPONSOR: Cathy Riggall, Assistant Vice President
CONTACT INFO: 416-978-7473 or Catherine.riggall@utoronto.ca

DATE: May 16, 2003 for June 3, 2003

AGENDA ITEM: #6

ITEM IDENTIFICATION:

Operating Review: 89 Chestnut Ancillary (Former Colony Hotel)

JURISDICTIONAL INFORMATION:

The University Affairs Board is responsible for approving the operating plans of the Service Ancillaries, including residences, food services, beverage service and parking, all of which will be provided by the new ancillary.

PREVIOUS ACTION TAKEN:

The purchase of the Colony Hotel for conversion to a student residence was approved by the Business Board on February 11, 2003 and by the Governing Council on February 14, 2003. In view of the need for confidentiality before the deal was announced, the review of the plan by UAB was not conducted in advance, but was delayed until we had the information needed to prepare an operating plan with a greater level of confidence in the projections. In future years, the plans will be reviewed by the Service Ancillary Review Group before coming to UAB. Timing did not permit this step to happen this year.

HIGHLIGHTS:

On February 14, 2003 the Governing council approved the purchase of the Colony Hotel, located at 89 Chestnut Street, for conversion to a new student residence. The transaction is scheduled to close on May 30, 2003.

On May 30, the hotel operation will cease, and work will begin to convert it to a residence that will accommodate up to 1172 students, 22 Dons an Assistant Dean and a Dean. There will be 547 double rooms and 78 singles for students. The student population will be a mix of Arts and Science students and students from the professional faculties including engineering, music, Phys Ed and international students.

The residence will offer a number of features that are not prevalent in all residences. There will be a large student lounge off the main lobby, with large screen television and pool table and a light snack service. There is a pool and fitness centre. Each floor will have a common room and a study room. Extra study spaces are available on the top floor. The lower level will house six music practice rooms, a laundry room and lounge area, a multi-faith prayer and meditation room and a large bicycle storage area.

Student dining space will be provided in the former Chestnut Tree restaurant which is being reconfigured and expanded to accommodate the new population. A compulsory meal plan will be part of the residence package, with a variety of options and prices to fit the needs of the students.

The Residence life side of the Ancillary will be managed by a structure of House committees with membership from the student population, the dons and the deans.

In addition to the Residence, the building will house a major conference and banquet centre, with approximately 27,000 square feet of conference space. This business is expected to grow quite quickly over the next year, as the market becomes familiar with its availability and we finish fine tuning the marketing strategy. The first conference will take place on June 3.

In addition to the residence and banquet operations, there is a 390 spot parking operation, and several retail stores located in the building, with the possibility to add one of two more.

To operate all of these buildings, the University retained the services of approximately 100 of the former hotel employees, including the whole kitchen staff, the building maintenance staff, banquet service staff, some sales staff, front desk staff and room attendants. Most of these employees are members of HERE local 75, which had successor rights in the building; some will join the USWA and others are management staff.

We have posted a position for a Manager of the Facility, who will be accountable for the daily operation of the Ancillary and for the financial management and results. The Dean of Residence, who is responsible for the residence life and operation will have a dotted line reporting relationship to the Manager, and a direct line to the Principal of New College. New College have been instrumental in organizing the Residence Life aspects of the ancillary, providing assistance on construction priorities, hiring the Dean and Dons, managing the room offers and room assignments and working with the other Colleges and Faculties to ensure their interests are represented.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The ancillary is expected to operate on a profitable basis within a few years. It is difficult at this time to accurately forecast the levels of profit that can be expected from the

banquet and conference business, but we are confident that our estimates for the residence itself, the parking and the retail operations are reasonable and achievable.

RECOMMENDATION:

It is recommended that the University Affairs Board approve the 2003/04 operating plan for the 89 Chestnut Ancillary.

**89 Chestnut Residence Ancillary
Description of Ancillary and Residence Structure
and
2003-04 Operating Plan**

General Background

The University of Toronto will acquire the 726-room Toronto Colony Hotel on May 30, 2003, at which time a conversion process will begin to turn the building into a student residence, ready for occupancy on September 1, 2003.

The building will accommodate up to 1172 students, 22 dons, a Dean of Residence and a Deputy Dean of Residence. There will be 547 double rooms and 78 single rooms for students. Amenities available to students include common rooms and quiet study rooms on each floor, a large common study area on the 28th floor (with a panoramic view of the city); retail shops including a convenience store and a spa; a large student lounge on the main floor (the former “Dewey’s” bar); laundry room/lounge, music practice rooms and a multi-faith prayer and mediation room in the basement; and a fitness center and swimming pool on the fourth floor. Local telephone service will be provided to each room, as well as high-speed internet access and access to the University “backbone”. Weekly cleaning of rooms will also be provided.

A compulsory meal plan will be offered, with options ranging from “Carte Blanche” (unlimited on-site dining), to a 330-meal per year plan (roughly 10 meals per week). As the residence is further from campus than other University residences, flexibility is an important component of the meal plan. Take-out options, “flex dollars” that can be spent at food outlets on campus, and the opportunity to eat in the New College cafeteria will all be included with this in mind. Halal and Kosher options will be provided according to demand, as will other offerings related to dietary restrictions, allergies, etc. The current “Chestnut Tree” restaurant will be expanded and converted into a student cafeteria, and will offer continuous hours of service. The current “Dewey’s Bar” will be converted into a student lounge which will offer light food service as well as host special events for the residents of the building. All food & beverage operations on site will be self-operated, but with consulting and technological assistance from Sodexo.

A safety audit of the building was conducted by Campus Police and recommendations have been incorporated into the conversion taking place as of May 30, 2003. Improvements will include cameras, exterior lighting, alarms on key exit/entry points, “panic” stations in the parking garage and on the 3rd floor terrace, and an enhancement of the existing card entry access system. Campus Police will provide alarm monitoring and response as back-up to on-site Security, as well as training for the dons and building staff. On-site Security will be provided by the same external firm that currently operates at the 30/35 Charles Street Family Housing residences. All security guards are trained by University Campus Police.

The residence has 4 wheelchair accessible bedrooms and some accessible common areas, but it will not be marketed as an accessible residence primarily due to its distance from the main campus, and the fact that there are many common areas that would require substantial retrofitting in order to be made fully accessible. The degree of work required and limited time and budget to complete the work made this improvement impossible for the 2003-04 school year. A site tour was conducted by the University of Toronto's Accessibility Services, who subsequently presented Ancillary Services with a series of recommendations for future consideration. These recommendations will be assessed as part of the capital planning process for the ancillary.

The ancillary will have several revenue streams in addition to the residence and meal plan. A 350-spot parking garage occupies 6 floors beneath the building and there are 27,000 square feet of banquet and meeting space on the 2nd, 3rd and 27th floors. In addition, there is retail revenue from several commercial spaces on the main floor and in the basement of the building.

The banquet operation is expected to generate a significant profit for the ancillary during the year, and offers a unique opportunity for the University to operate a large full-service conference venue during the summer. This business is expected to grow quite quickly over the next year, as the market (and the University itself) becomes familiar with its availability and the marketing strategy is fine-tuned. The first confirmed event is on June 3, 2003.

Structure

The operation will be structured as one ancillary, with overall financial and facility management provided by Ancillary Services and residence management through the Vice-Provost, Students (see organization chart). 105 of the hotel's existing employees have been retained to provide building maintenance, cleaning, food & beverage, banquet sales and coordination, front desk administration, parking and human resources services. Ancillary Services accounting staff will be responsible for processing of day-to-day financial transactions, inventory management, client billings and preparation of financial statements. The Hotel and Restaurant Employees' Union (HERE, local 75) represents most of the non-management employees, and has successor rights in the building. Other employees will join the USWA and the remaining group is management.

The position of Manager, 89 Chestnut, has been posted and the hiring process will begin shortly. This individual will be responsible for the daily operation of the Ancillary, and for the financial management and results. The Dean of Residence, who is responsible for the residence life and operation, will have a dotted-line reporting relationship to the Manager, and a direct line to the Vice-Provost, Students, via the Principal of New College. New College has been instrumental in organizing the Residence Life aspects of the ancillary, providing assistance on construction priorities, hiring the Dean and dons, managing the room assignments and working with the other Colleges and Faculties to ensure their interests are represented.

Governance of the residence operation will be through a Residence House Council, comprising of representatives of each College and Faculty housing students at 89 Chestnut. House committees will also be formed with membership from the student population, dons, Deans and building management.

2003-04 Operating Plan

There will be no significant revenues during the summer of 2003, due to the conversion of the building, although parking will continue to operate, as will the banquet and commercial retail businesses. Operating costs during the summer months of 2003 will be capitalized (as “carrying costs”), and are therefore not showing on the income statement.

Revenues for 2003-04 are estimated based on 100% residence occupancy. Banquet and parking revenues are estimated at 33% - 50% of the hotel’s current level. Lease revenue is estimated at only 1/6 of current net revenue, as there is still significant uncertainty vis-à-vis which tenants will remain, whether tenants will demand rebates due to low occupancy during the summer, and what the property tax rate will be.

Operating expenses are budgeted based either on New College experience (grossed up for additional capacity), or the hotel’s past experience. Food and Beverage expenses include Sodexo consulting and technology fees. 2003-04 shows only 8 months of most building maintenance expenses as described above.

A capital renewal reserve will be established this year, at a rate of \$825,000 per year (approximately 1.5% of the building’s estimated value), to fund future building improvements. Further reserves will be established once the ancillary has built up operating experience.

At the end of 2003-04, net income after equity contribution is budgeted at \$472,000. Financial risks associated with the operation include, a) the assumption that the residence will run at 100% occupancy, b) the assumption that operating costs (especially utilities) will remain relatively stable despite the change in occupancy, c) the assumption that no significant building system failures will occur, and d) the assumption that banquet and parking revenues will operate at the budgeted level and at existing profit margins.

Operating Plan 2004-05

2004-05 will be the first full year of “normal” operation for 89 Chestnut, and operating experience gained in 2003-04 will be put to use. This will be the first year of summer conference operation. The summer conference operation will be marketed as an “upscale” version of what is already available on campus at other residences, rather than transforming the building back into a full-service hotel for 3 ½ months each year. It will offer a “bed and breakfast” style of service with limited amenities. For example: there will be no bag handler to assist with luggage, rooms will be cleaned only after guests leave (unless they check in for an extended stay), there will be no room service, etc.

Residence revenues are budgeted to increase by 5%, to offset anticipated utility cost increases. Banquet revenues are budgeted to increase significantly as a result of operating experience and time to sell and market the facility. Parking and retail revenues are budgeted to increase by 3%. Summer occupancy is assumed to be 20% students and 40% "bed and breakfast" customers. Rates for the bed and breakfast operation are currently budgeted at \$80 per room per night, but a detailed market review is still pending.

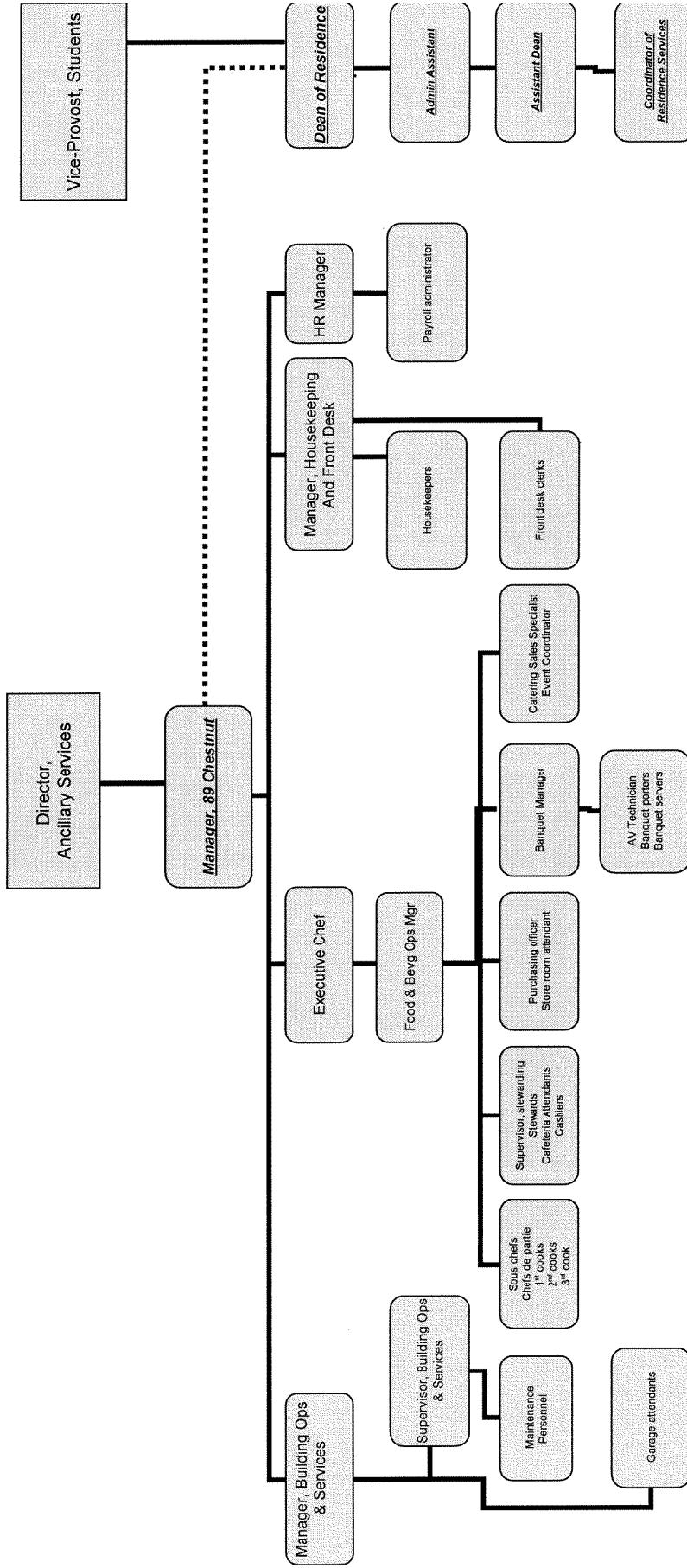
Operating costs now reflect an entire year of operation, and are budgeted to increase 3% - 5% from 2003-04. A detailed analysis of all major building contracts is currently underway, as is an analysis of all vendors supplying goods to the hotel. It is expected that some economies can be achieved by leveraging the University's buying power. These savings, if achieved, will be reflected in future submissions.

At fiscal year end, operating results after equity contribution are budgeted at \$112,000. A capital renewal contribution will again be made, growing the capital renewal reserve to \$1.15 million.

Long-range plans

The ancillary is expected to operate on a profitable basis within a few years. In addition to the review of building contracts and vendors, a major maintenance planning exercise is currently underway to determine the appropriate level of provision for building improvements for the next five years. The results of these analyses will be provided in the 2004 SARG submission for the ancillary.

89 Chestnut Org Chart



5/23/2003

**UNIVERSITY OF TORONTO
89 Chestnut Ancillary
STATEMENT OF OPERATING RESULTS
2003-2004**

	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue:					
Residence dues-Regular session					
Residence dues-Summer session					
Residence dues-Winter visitors	6,138,200	6,446,160	6,768,468	7,106,891	7,462,236
Dons accommodation	132,000	138,600	145,530	152,807	160,447
Conference - accommodation		3,165,456	3,323,729	3,489,915	3,664,411
Conference - food		285,516	289,792	314,781	330,520
Conference - sundry		5,000	5,150	5,305	5,464
Board plans	3,270,400	3,443,920	3,605,616	3,785,897	3,975,192
Vending, net	11,250	11,588	11,935	12,293	12,662
Retail food revenue	480,000	553,500	662,805	778,170	889,861
Labour recovery	129,000	193,500	199,305	205,284	211,443
Barquet F&B Sales	774,000	1,161,000	1,195,830	1,231,705	1,268,656
Barquet AV Rental	64,500	96,750	99,653	102,642	105,721
Barquet F&B Rental	358,000	387,000	398,610	410,568	422,885
Parking permits	25,000	25,000	25,000	25,000	25,000
Lease revenue	230,313	230,313	244,348	251,689	259,219
Investment income	50,000	51,853	53,045	54,636	56,279
VPSA equity	600,000	900,000	900,000	900,000	900,000
Other income	121,113	124,747	128,688	132,344	136,314
Total Revenue	12,718,506	17,251,165	18,592,013	19,501,117	20,454,502

	2003-04	2004-05	2005-06	2006-07	2007-08
Expenses:					
Direct Expenses:					
Salaries, wages & benefits	3,530,312	5,464,332	5,617,962	5,766,501	5,960,096
Dons expense	132,000	138,600	145,530	152,807	160,447
Cost of Sales - Conference Accommodation					
Cost of Sales - Conference Food		99,931	104,927	110,173	115,682
Cost of Sales - Board Plans	1,242,782	1,304,890	1,370,134	1,438,641	1,510,573
Cost of Sales - Retail Food	157,500	193,725	231,982	272,360	314,951
Cost of Sales - Banquet F&B	270,900	406,350	418,541	431,097	444,030
Cost of Sales - Banquet Equipment	32,250	48,375	49,626	51,321	52,861
Cost of Sales - Banquet AV	19,500	20,095	20,688	21,308	21,947
Marketing & Advertising	250,000	257,500	265,225	273,182	281,377
Supplies	50,000	25,000	25,000	10,000	10,000
Utilities	1,026,667	1,617,000	1,697,850	1,782,743	1,871,880
Cleaning & garbage	40,000	61,800	63,654	65,564	67,531
Grounds maintenance	40,000	41,200	42,436	43,709	45,020
Insurance	30,882	31,808	32,763	33,746	34,758
Capital renewal-Equipment repair & maintenance	20,464	50,000	51,500	53,045	54,636
Capital renewal-replacement of non-dep equip	50,000	50,000	51,500	53,045	54,636
Capital renewal-Depreciation					
Capital renewal-annual maintenance	490,444	514,967	540,715	567,751	596,138
Capital renewal-major maint. & improvement	200,000	300,000	315,000	330,750	334,184
Finance charge					
Mortgage Principal expense (amortization)	683,522	1,025,883	1,025,883	1,025,883	1,025,883
Mortgage interest expense	3,460,000	5,220,000	5,220,000	5,220,000	5,220,000
Special services	204,300	315,613	325,081	334,833	344,878
Services	93,569	101,962	104,730	107,467	110,204
Other operating expense					
Total Direct Expenses	12,077,717	17,372,795	17,865,752	18,272,244	18,744,959
Indirect Expenses:					
Central administrative overhead	20,000	30,900	31,827	32,762	33,765
College or departmental overhead	187,477	247,652	255,082	262,734	270,616
Facilities & Services overhead	15,000	23,175	23,870	24,586	25,324
Total Indirect Expenses	222,477	301,727	310,779	320,102	329,705
Total Expenses	12,300,194	17,674,522	18,176,531	18,592,347	19,074,664
Net Operating Results	418,312	50,643	475,482	908,770	1,379,838
Increase(Decrease) in commitment to Capital Renewal					
Increase(Decrease) in Operating Reserve	825,000	825,000	825,000	825,000	825,000
Increase(Decrease) in New Construction Reserve					
Operating Results after Commitments	(406,688)	(774,357)	(349,518)	83,770	554,838

Ancillary Services

UNIVERSITY OF TORONTO
89 Chestnut Ancillary
STATEMENT OF OPERATING RESULTS
2003-2004

	2003-04	2004-05	2005-06	2006-07	2007-08
COMMITMENTS TO CAPITAL RENEWAL RESERVE					
Major Maintenance	200,000	300,000	315,000	330,750	334,184
Total Planned Capital Renewal Expenses	200,000	300,000	315,000	330,750	334,184
Increase (Decrease) in Commitments to Capital Renewal	825,000	825,000	825,000	825,000	825,000
Opening Balance, May 1	0	625,000	1,150,000	1,660,000	2,154,250
Closing Balance, April 30	625,000	1,150,000	1,660,000	2,154,250	2,645,067
UNAPPROPRIATED SURPLUS/(DEFICIT)					
Opening Balance, May 1	0	(406,688)	(1,181,045)	(1,530,563)	(1,446,793)
Net Operating Results after Commitments (schedule 1)	(406,688)	(774,357)	(349,518)	83,770	554,838
Transfers (to)/from other reserves					
Net change in unappropriated surplus/(deficit)	(406,688)	(774,357)	(349,518)	83,770	554,838
Closing Balance, April 30	(406,688)	(1,131,045)	(1,530,563)	(1,446,793)	(891,956)
TOTAL FUND BALANCE	218,312	(31,045)	129,437	707,457	1,753,111

UNIVERSITY OF TORONTO
89 Chestnut Ancillary
STATEMENT OF MAINTENANCE EXPENDITURES
2003-2004

A cycle of maintenance will be developed upon acquisition and following further study

UNIVERSITY OF TORONTO
89 Chestnut Ancillary
STATEMENT OF CAPITAL EXPENDITURES
2003-2004

No known expenditures at this time; future items likely to fall into the following categories:

Furniture replacements (bedrooms)
Kitchen Equipment
Life Safety upgrades
Mechanical upgrades

UNIVERSITY OF TORONTO
89 Chestnut Ancillary
Rates
2003-2004

	<u>Room</u>	<u>Meals</u>	<u>Total</u>
Single Occupancy	6000	3235	9235
Double Occupancy	5200	3235	8435
Single Occupancy + Carte Blanche	6000	3335	9335
Double Occupancy + Carte Blanche	5200	3335	8535