



University of Toronto

CAPITAL PROJECTS DEPARTMENT

TO: Business Board

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AGENDA ITEM: 4(d)

ITEM IDENTIFICATION:

Capital Projects Report Expanded and Renovated Outer Parking Facilities at the University of Toronto at Scarborough ("UTSC") with reference to the Right of Way Improvements required by the City of Toronto.

JURISDICTIONAL INFORMATION:

Pursuant to Sector 5.2.(b) of its Terms of Reference, the Business Board approves expenditures for, and the execution of, approved Capital Projects.

PREVIOUS ACTION TAKEN:

None.

BACKGROUND:

In March 2001 the University of Toronto submitted to the Province of Ontario a proposal for "Development on the University of Toronto Scarborough Campus". This identified the need for enrolment growth on the campus, in the first instance to meet the needs of the double cohort in 2003-04, and subsequently to support underlying growth in demand for University places in the GTA.

UTSC is primarily a commuter campus and additional enrolment will require additional parking facilities. Part of the Scarborough campus, bordered by Morningside & Ellesmere Roads and Military Trail has been leased to Centennial College for its new campus; an agreement to the

lease requires that UTSC provide parking spaces for 1,000 cars for Centennial College use. The University of Toronto Scarborough Master Plan 2001, anticipated all of these needs, and has identified a substantial new area of parking on the Outer Campus of UTSC as well as revisions to the existing parking area.

In association with the rezoning of the site for Centennial College, the City of Toronto required that an appropriate area for projected parking needs for UTSC and Centennial also be rezoned. The area identified for rezoning was consistent with that in the Master Plan. Rezoning was formally approved in December 2001.

The Parking By-Law for the City of Toronto that applies to the University of Toronto at Scarborough requires 2.15 parking spaces per 100 gross square meters of buildings. Although 1,615 parking spaces are required for the existing physical inventory of UTSC, the four new building projects underway on the UTSC campus will increase that requirement to 2,155. In addition, the University of Toronto has agreed to lease part of the property at UTSC to Centennial College for a new campus. The Centennial College Building, currently under construction, increases the total By-Law requirement to 2,626 spaces. UTSC currently (2002) has a total of 1,791 parking spaces. The proposed Outer Parking Facilities, in combination with the residual spots on the campus' Inner Lots and Centennial's new lot on Morningside will increase the total parking spaces on UTSC lands to 3,003. These 3,003 spaces exceed the By-Law requirement by 377. A supply and demand analysis by UTSC has determined that with these additional spaces the minimum by-law requirements and the need for parking spaces for both UTSC and Centennial can be met.

Reconstruction of the existing outer lots (1,150 spots) is necessary to bring them to City standards for grading, storm water management, etc. as required for Site Plan Approval from the City of Toronto. The first new buildings at UTSC will open in August 2003, and Centennial College is scheduled to open in January 2004. For the purposes of development approvals, the provision of parking is closely tied to construction and the City has required a commitment that the expanded parking areas be completed by September 2003.

To summarize, the total number of parking spaces planned within the current project is 2,399, which translates into \$3,439 per parking spot or a project cost of \$8,250,000. For the 1,000 spaces planned for Centennial College use the proportionate cost is \$3,439,000. The balance of parking estimated at \$4,811,000 is to address the UTSC parking requirements.

HIGHLIGHTS:

A SuperBuild Lease Agreement between the UTSC and Centennial College has resulted in a net transfer of \$9,270,000, plus the accrued interest, to UTSC. These funds were in large measure to be directed towards the construction costs of the Academic Resource Centre (ARC) on the UTSC campus. However, other outstanding commitments and or obligations against these funds are also required to be addressed, namely soil remediation, the Outer Parking Facilities and Right of Way Improvements (traffic flow) to accommodate the projected enrolment expansion at both UTSC and Centennial College on the UTSC campus etc.

The original plan was to address the cost of the Outer Parking Facilities (estimated at some \$1,500,000) and the Right of Way Improvements outside of the planned Lease Agreement. At present, the cost of parking has increased substantially to approximately \$3,439,000 to meet the Centennial College requirement of 1,000 parking places only. Additional parking is also required for UTSC growth. A revised parking plan, recommended by UTSC, is for the UTSC Parking Ancillary to construct and operate the entire Outer Parking Facility and to request that Centennial College guarantee the operating income from the required parking spots over the 25 year life of the mortgage required to finance this component of the Outer Parking Facility. Additionally, a commitment for separate funding for the Right of Way Improvements has been secured with Centennial College so that the only other obligations on the SuperBuild Lease Agreement, outside of the \$3,439,000 possibly needed to support the outer parking facilities, is for the soil remediation, now estimated at \$280,000 and the due diligence costs (legal etc.) estimated at \$174,000. Deducting these obligatory expenses [parking, soil remediation and due diligence] from the SuperBuild Lease Agreement reduces the funds available to support the ARC to approximately \$5,377,000 ($\$9,270,000 - (\$3,439,000 + \$280,000 + \$174,000)$) plus the interest, estimated at approximately \$1,000,000, for a total of \$6,377,000 that is available and will be directed to support the ARC.

These revisions will reduce the original allocation of \$9,270,000 from the SuperBuild Lease Agreement to the ARC to the \$6,377,000 identified above, a change of \$2,893,000. Fortunately, the cost of the ARC project will come in under budget by an approximately corresponding amount.

Furthermore, as noted below, the cost of the planned Outer Parking Facilities (for Centennial College and UTSC needs) can be mortgaged and carried by the UTSC Parking Ancillary, so that the \$3,439,000 identified previously as an obligatory parking commitment will therefore be redirected to support other needed infrastructure development requirements at UTSC.

An allocation of \$1,110,000 of these funds will be used to support the Right of Way Improvements at UTSC. Project. The Scarborough Master Plan has identified where these might be located on both the Inner and the Outer parking areas but no costs for them have been included in this project.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The estimated cost of the total project is \$10,150,000. The Outer Parking Facilities are projected to cost \$8,250,000 with the Right of Way Improvements requiring an additional \$1,900,000.

UTSC will construct and operate the Outer Parking Facilities. In return, Centennial College will guarantee the sale of 1,250 annual parking permits for a period of 25 years, which corresponds to the duration of the mortgage.

Scope of Review:

The proposal submitted requires the construction of additional surface parking spaces and the complete reconstruction of the existing outer parking spaces with expected construction completed by September 2003. The Scarborough parking ancillary currently provides 1,791 revenue generating parking spaces to the students, faculty, staff and visitors. The parking ancillary is expected to lose 393 parking spaces due to the construction of the new Residence – Phase IV and Management buildings, but is expected to add 169 spaces to its existing outer lots due to the reconstruction. The additional 1,249 spaces will be allotted accordingly, 1,000 will be reserved for Centennial College, while the remaining 249 spaces will be used to offset expected increase in demand from the double cohort. The total inventory of revenue generating parking spaces is expected to be 2,399 in the Outer Lots and 417 in the Inner Lots for a total of 2,816 spaces by the year 2003-04.

The final model submitted by UTSC includes the following assumptions:

1. Permit prices are forecast to increase significantly with the additional parking spaces in 2003-04. The parking rates at UTSC were increased by 25% in 2002-03 (as approved by SARG), and the current model has additional 25% increases for 2003-04 and 2004-05, followed by 5% annual increases for the remaining 23 years of the financial model.
2. Sales of parking permits is assumed to be unaffected by the construction of the additional parking spaces or the increase in the price of the permits, based on the expected enrolment increases at UTSC and the demand from Centennial College. Included in the model is the guaranteed purchase of 1,250 permits annually by Centennial College.
3. The total project cost for the Outer Parking Facilities is estimated at \$8.25 million. The renovation cost to the existing outer parking spaces will be \$3.9 million and the new outer parking spaces will cost \$4.3 million. Internal funding contributions consists of, \$232K from the UTSC parking operation's surplus and \$184K from the Academic Resource Center (ARC). The total external financing requirement will be \$7.8 million.
4. Financing for the renovation and expansion will be obtained through a mortgage. The model assumes a rate of interest of 8% for 25 years.
5. Contributions to the capital renewal and operating reserves are made throughout the 25-year model.
6. Annual contributions to Scarborough's operating budget will continue, starting at \$170,000 in 2003-04 and increasing by \$5,000 per year for the entire 25-year period.
7. The \$1,900,000 costs associated with the right of way improvements required by the City of Toronto will be borne by Centennial College (\$790,000) and the ARC (\$1,110,000). Therefore, the assumption is that there will be no cost impact on the UTSC parking ancillary.

(See Appendix 1 for Model Criteria & Summary)

Financial Analysis:

The proposed UTSC parking expansion will be slightly larger in size than the current UTM parking facility, but very similar in style and therefore it's expected that operationally they would be similar. The revenue and expense projections contained within the UTSC financial model were compared to those submitted by the UTM parking operation as part of the last SARG review.

The UTSC model was found to contain expenditures levels that were \$136,000 lower than those contained within the UTM submission. The difference being attributed to lower capital renewal costs. The annual parking rates were also compared and found to be slightly higher in the UTSC model than the UTM model. The inner lot annual rate at UTSC is \$515 as opposed to \$450 for UTM's reserved parking space. The rate difference of \$65 per annum reflects a 14% premium over UTM, but UTSC has reflected conservative permit sales figures in their model submission.

The UTSC parking ancillary anticipates contributing \$232,000 to the parking expansion project. This contribution will consume 40% of its projected cumulative surplus at the end of 2002-03. The expected operating reserve at the end of 2003-04 will be \$114,500 or 20% of annual operating costs. The ancillary also expects to have \$66,400 remaining in its capital renewal reserve at the end of the 2003-04 fiscal year. The low capital renewal reserve represents a risk factor in this proposal, but the ancillary expects to continue to make capital renewal contributions annually and not defer to year six, which has been the case in other new ancillary construction projects.

The current financial model yields a cost of \$3,439 per parking space, based on the total project costs. The annual cost of external financing is \$722,230 based on the ancillary meeting its internal funding projections of \$416,000.

The UTSC model assumes a small annual deficit for the total ancillary operation (before a transfer of \$170,000 to the College operating budget) in 2003-04 and annual surpluses thereafter.

Identified Risk Factors:

1. Ancillary and ARC contributions totaling \$416,000 will be available for project funding.
2. Construction costs exceeding current project projections of \$8.25 million.

Sensitivity Analysis:

Since the capital project contains multiple risk factors, a sensitivity analysis was prepared to account for the various possibilities. Medium-case and worst-case scenarios were modelled. The results of the sensitivity analysis are summarized in Appendix 2.

Conclusion:

The financial plan submitted by UTSC will support the current level of construction costs and maintain a positive cumulative surplus from the start. However, the surplus balance for the operating reserve is forecasted to be 20% of operating costs and the capital renewal reserve is projected to be \$66,400 at the end of 2003/04. One factor for these low reserve balances is that the ancillary has modeled annual contributions of at least \$170,000 to the College operating budget. UTSC has also modeled contributions to all reserves starting in year 1 and therefore expects to build both reserves to current requirements by year 5.

Overall the financial model is sound, based on the fact that permit sales figures are conservative given that the enrolment is expect to increase by 35% and the risk factors identified would be categorized as low. The ancillary has a cumulative surplus in year one under all scenarios and that's without reducing the contribution to the College operating budget. Based on the sensitivity analysis, the proposal for the new parking facility at Scarborough is financially viable at an overall cost between \$8.2 million and \$9.0 million.

This financial model has been thereby reviewed and approved by the Financial Services Department and conforms to University policy guidelines.

RECOMMENDATION:

Be It Resolved

- (i) Subject to Governing Council approval of the prospective recommendation of the University Affairs Board that, to meet the funding requirements of the Outer Parking Facility, approval be given to allow the University of Toronto at Scarborough parking ancillary to increase fees by 25% in 2004-05 and by a minimum of 5% thereafter, with the understanding that an increase of a higher percentage may be approved by the University Affairs Board on an annual basis, if needed to meet currently unforeseen circumstances,

THAT the Business Board concur with the prospective recommendation of the Academic Board.

THAT the proposed capital project to expand and renovate the outer parking facilities at the University of Toronto at Scarborough, to allow for the provision of a total of 2,399 new parking spaces and right-of-way improvements, at a cost of \$10,150,000, be approved; and

- (ii) Subject to Governing Council approval in principle of the project,

THAT the Vice President, Business Affairs be authorized to expend \$10,150,000 for the construction of the Outer Parking Facilities and the Right of Way Improvements. The funding sources for this project will be as follows:

For the Outer Parking Facilities:

- I. UTSC Parking Ancillary allocation of \$232,000,
- II. Contribution identified within the Academic Resource Centre project of \$184,000,
- III. Financing of a mortgage in the amount of \$7.8 million to be repaid from parking fee revenues over a 25-year amortization period at 8% per annum.

For the Right-of-Way Improvements:

- IV. Contribution from Centennial College for \$790,000 to support right-of-way improvements consistent with an agreement with Centennial College.
- V. Contribution from UTSC of \$1,110,000 derived from the funds received from the College Super Build Lease Agreement.

Appendix "A"

To Report #122 of the Business Board (January 20, 2003)

APPENDIX 1

University of Toronto at Scarborough

Renovation and expansion to existing parking facilities

Standard Criteria

Analysis of revenue generating parking spaces

	<u>Before Project</u>	<u>After Project</u>
<u>Inner Lots</u>	810	810
less: lost spaces re:building construction		
Residence		(157)
Management		(236)
Total Inner	<u>810</u>	<u>417</u>
<u>Outer Lots</u>		
Existing	981	981
add: extra spaces due to renovation		169
add: new construction		
Centennial		1,000
UTSC		249
Total Outer Lots	<u>981</u>	<u>2,399</u>
Total Parking Spaces	<u>1,791</u>	<u>2,816</u>
<u>Mortgage Terms</u>		
Rate	8%	
Amortization - Years	25	
Compounding (monthly)	12	
<u>Capital Renewal to start in year</u>		
Existing	1	
New	1	
<u>Operating reserve to start in year</u>		
Existing	1	
New	1	
<u>Breakeven Year</u>	<u>Annual</u>	<u>Cumulative</u>
New Operation only	4	7
Existing Operation only	3	1
Total Operation	3	1

Project Cost Allocation and Funding Sources

	<u>Renovation of Existing Outer Lots</u>	<u>Construction of Additional Outer Lots</u>	<u>Total</u>
<u>Project Costs</u>			
Construction Costs	<u>\$3,937,493</u>	<u>\$4,276,460</u>	<u>\$8,213,953</u>
<u>Funding Sources</u>			
<u>Internal</u>			
UTSC Parking Ancillary Contribution	\$232,000		\$232,000
Academic Resource Center		\$184,000	\$184,000
	<u>\$232,000</u>	<u>\$184,000</u>	<u>\$416,000</u>
<u>External</u>			
Mortgage	\$3,705,493	\$4,092,460	\$7,797,953
Total Funding	<u>\$3,937,493</u>	<u>\$4,276,460</u>	<u>\$8,213,953</u>
Present value of annual cashflows not including cost of financing, for 25 years	<u>\$6,541,428</u>	<u>\$5,092,662</u>	<u>\$11,634,091</u>
Internal Rate of Return	13.99%	10.23%	12.15%

APPENDIX 2

UTSC Parking Expansion Proposal - December 2002 Submission

Sensitivity Analysis if Project Costs Increase and Funding Shortfall Occurs

	Model 1	Model 2	Model 3
	<u>UTSC Submission</u>	<u>Medium Case</u>	<u>Worst Case</u>
Project Cost Overrun of 10%	\$0	\$0	\$820,000
Ancillary Contribution Shortfall	\$0	\$232,000	\$232,000
ARC Contribution Shortfall	\$0	\$184,000	\$184,000
<u>Annual Parking Rates (2003/04)</u>			
Inner Lot	\$515.63	\$515.63	\$515.63
Outer Lot	\$359.38	\$359.38	\$359.38
<u>Annual Breakeven Year</u>			
Combined Operations	3	4	5
New Operations	4	5	9
Existing Operations	3	3	4
<u>Cumulative Breakeven Year</u>			
Combined Operations	1	1	1
New Operations	7	8	8
Existing Operations	1	1	1
<u>Internal Rate of Returns</u>			
Combined Operations	12.15%	11.56%	10.53%
New Operations	10.23%	9.77%	8.79%
Existing Operations	13.99%	13.27%	12.17%
NPV - Combined Operations (Cashflows before financing costs and net of capital cost)	\$11,634,091	\$11,634,091	\$11,634,091

