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CAPITAL PROJECTS DEPARTMENT

TO: Business Board

SPONSOR: John Bisanti, Chief Capital Projects Officer
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DATE: June 11th, 2003 for June 19th, 2003

AGENDA ITEM: 6(e)

ITEM IDENTIFICATION:

Capital Project - University College Residence, Revised Project

JURISDICTIONAL INFORMATION:

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

PREVIOUS ACTION TAKEN:

This Project was presented and approved by the Business Board on September 30, 2002. After approval of this project, the University entered into further discussions with the City of Toronto. At that time they reneged on certain planning commitments and decisions which required the University to re-design the project. The key revisions have been the need to re-design the overall layout and massing of the building and the interfaces with St. George Street and the Back Campus.

HIGHLIGHTS:

The demand for residence places at the University of Toronto, especially places for first year students, has grown steadily over the last few years. University College has the most critical need for student housing of all colleges on the St. George campus. It currently can house only 11% of its students. This compares unfavorably with similar colleges notably Victoria, St. Michael's and Trinity where the corresponding numbers are 24%, 24% and 36% respectively.

In January 2000 a Project Committee was established. The Principal of University College chaired this Project Committee composed of students, faculty and staff. Key alumni also formed an informal advisory group to the Principal. Over the past three years the College has

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examined a number of potential building sites. The initial site proposed was the western edge of the back campus. By April, 2002 the location had shifted and it was proposed, following a study by the architectural firm of Diamond Schmitt Architects to add a north/south wing to complete the eastern edge of the Sir Daniel Wilson residence quadrangle and to also use an approved building site, Site 22, currently a parking site immediately north of Sir Daniel Wilson. The Sir Daniel Wilson residence quadrangle is presently zoned UOS (University Open Space) within the City of Toronto zoning by-laws and as such would require re-zoning before any structure could be built. Numerous town hall meetings took place to discuss this particular option. College Council unanimously approved both the need for the residence and the proposed location. The University College Alumni Association and University College Committee both unanimously recognized the need for a residence and supported this location.

The revised plan, referred to as the Sir Daniel Wilson quad site model was tabled and approved at Planning & Budget on April 16th, 2002. Thereafter, the planned UC residence was approved by the University Affairs Board and the Academic Board respectively. The new residence wings were to be constructed in a modified dormitory style, with washrooms and small common kitchens shared by "clusters" of single student bedrooms. Two bedrooms were designed to be fully accessible, and the layout of all spaces was to incorporate the principles of universal design. Additionally, common space was designed to have multi-purpose use.

The design and detailing of the new residence was to be of a good quality, with good exterior finishes to be compatible with the historic buildings that surround the site. Part of the addition to the Sir Daniel Wilson residence was to eliminate the surface parking from Site 22, and thereby allow the creation of an improved east-west pedestrian walkway and sight lines connecting the Back Campus to St. George Street, adjacent to the University College Union building. A total of 28 parking spaces were to be lost from this site, resulting in a net decrease of approximately $28,800 annually to the parking ancillary of the University. The existing sunken rose garden south of the UC Union was to be re-located and incorporated into the overall University College landscape plan. In addition, a pedestrian loggia was recommended along one side of the new n/s wing to provide additional covered amenity along one of the most heavily trafficked pedestrian routes through the site.

This particular siting of the UC residence was unfortunately not well received by the City of Toronto in large measure as a result of the University Open Space zoning. In a memorandum, dated May 27th, 2002, the Planning & Budget Committee were informed that the City of Toronto was opposed to the siting of the residence on University Open Space, and recommended that the proposed residence should preferably be entirely located on the St. George Street parking site, immediately north of Sir Daniel Wilson Residence.

This relocation required that a taller building envelope be accommodated on the parking lot site [site 22] to permit the required 300 beds. This change in scope from the original submission also necessitated other adjustments, most notably to the dining hall, utility infrastructure and the drama centre. All required changes were investigated within the guidelines recommended by the City of Toronto to address the density needs of the project. The Vice-President Business approved an allocation of $50,000 to undertake this investigation to provide a clearer definition of the project scope and the total project cost.

In September 2002, the Planning and Budget Committee approved the revised Project Planning Report for the UC residence expansion. The approvals continued through the Academic Board, University Affairs Board, Business Board culminating with Governing Council approval on October 31st, 2002. The residence was to be totally located on Site 22 with 288 beds, including 5 Dons and one residence life coordinator. Following governance approval the architectural firm, Zeidler Grinnell Partnership was appointed to develop the design. Discussions with the City of Toronto continued, the design concepts were shared and reviewed by the Design Review Committee [DRC], redesign occurred and ultimately a design emerged to construct a tower on a very difficult and bounded site. As with all such sites, and compounding its immediate proximity to the more traditional buildings on the St George campus, various views and concerns have been raised. These concerns have been fully explored in the design of the building and while each critic has valid points of view, it does appear that the building has been carefully optimized within the difficult set of constraints imposed by the site, by the City requirements as well as the massing on the site itself.

The proposed residence as designed will be approximately equal height to Sidney Smith Hall on the west side of St. George Street.

The residence will consist of 277 beds within 9,329 gross square meters and include an 800 gross square meter kitchen/servery area. The total project is $24,040,000.

The target opening date is February 2005.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The current plan for the residence proposes 277 residence beds including 5 Dons, 1 Junior Don and 1 Residence Life Coordinator, student amenities and dining/servery facilities in 9,329gsm of space. The estimated cost of construction, including all furnishings and finance costs is now estimated at $24,040,000 or $86,785 per bed. Of this cost, approximately $2,767,000 is required to construct and furnish the kitchen and servery. Therefore, the cost of the residence only is $21,273,000 and the residence only cost per bed is approximately $76,797.

Proposed funding for the project includes (i) $10M in donations of which $8M is currently secured, (ii) $1.485M in UC residence ancillary contributions, (iii) $800,000 in UC food service ancillary contributions, (iv) $50,000 allocation from the University Infrastructure Investment Fund to help support the maintenance of the drama space and (v) a mortgage in the amount of $11,705,000.

Clearly, as a result of the large sum contribution already received from fund-raising, interest on mortgage payments for this project has been reduced from the earlier projections in September 2002. Assumptions carried within the business case include a mortgage rate of 8% over a 25 year amortization period. A separate assessment of the risk analysis for this project within the context of the UC ancillary as a whole has been prepared by the Financial Services Department (see Appendix "A") and conforms to University policy guidelines. Proposed monthly bed rates are set at $620 for the new residence and $572 for existing residences. The average annual increase to bed rates is calculated at 7% per year on existing residences and 5% per year on new residences increasing room rates to $757 and $756 respectively in 2008/09.

All cost overruns that could occur with this project as a result of unexpected difficulties with this relatively difficult site will be the responsibility of University College.

RECOMMENDATION:

Subject to the understanding that the rates of the University College residence ancillary operation are increased sufficiently to ensure that the operation continues to recover its own costs.

THAT the Vice-President –Business Affairs be authorized:

- to execute the revised University College Residence project at a cost not to exceed $24,040,000 with the funding sources as follows:

    (i) $2,500,000 externally secured contribution,
    (ii) An additional $7,500,000 to be secured from additional external fund-raising by University College,
    (iii) $1,485,000 contribution from the UC residence ancillary,
    (iv) $800,000 contribution provided by the UC food service ancillary,
    (v) $50,000 allocation from the University Investment Infrastructure Fund in support of space for the Drama Program.
    (vi) A mortgage to be amortized over a period of 25 years in the amount of $11,705,000 with payments forthcoming from residence revenues and the UC ancillary.

- to arrange such interim and long-term financing as required from either internal or external sources.

Attachments:

- Appendix "A"-Financial and Risk Analysis memo dated June 12,2003 from the Financial Services Department.

Appendix "A"

MEMORANDUM

To: John Bisanti
Capital Projects Department

From: Financial Services Department

Date: June 12, 2003

Subject: Financial and risk analysis of the University College residence expansion proposal

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Summary

The UC residence model has a robust financial plan that breaks even annually and cumulatively in year 1. Sensitivity analysis indicates that even with some deterioration in the assumptions, it should be possible to maintain the opening bed rate at a $620 per month and the entire UC residence operation would continue to breakeven cumulatively in year 1.

Scope of review:

The revised University College residence expansion proposal requires the construction of a 277 bed, dormitory style residence with a newly constructed kitchen. The residence is scheduled to open in 2004/05 and will be operated by the UC residence ancillary.

The revised model for the whole residence ancillary operation, including the new residence, which has been submitted by University College includes the following financial parameters:

1. The projected cost of the new residence is estimated at $24.04 million, of which $2.77 million for the new kitchen. The total project cost includes $1,375,000 for new furniture and equipment, of which $525,000 for the kitchen operations.

2. Current internal funding for the project has been identified at $12,335,000 consisting of:
    - $10,000,000 in donations, of which, $2.5M has already been raised or pledged. Another $6M has been committed and will be contributed during the construction process.
    - $2,285,000 in ancillary contributions, of which $1,485,000 from the UC residence ancillary and $800,000 from the UC food service ancillary.
    - $50,000 from the Academic Priorities Fund, to support the drama facility.

The remaining $11,705,000 funded by borrowing.

3. The proposed monthly bed rates for the new residence are set at $620, with the existing residence at $572. The combined blended rate would be $590 per month.

Appendix 2 displays a comparison of the financial model approved at Business Board on September 30, 2002 with the revised financial plan. A summary of the changes are listed below:

- Due to rezoning issues, the location of the proposed residence was moved and therefore redesigned at a cost of $24.04 million, an increase of $2 million over the September 2002 plan.
- Revised model increases starting bed rate from $597/month to 620/month and blended from $581/month to $590/month.
- Revised model significantly reduces the project borrowing requirement by $5.44 million.
- The revised model has significantly increased donations, from $2.5 million to $10 million.
- The new financial model has significant improvements in internal rate of return (IRR), net present value (NPV), and breakeven figures.

Financial Analysis:

The proposed UC residence is very similar in size and style to the New College residence and the expectation is that operationally, they would be similar. The revenue and expense projections contained within the UC financial model were compared to those submitted by the New College residence operation as part of SARG 2003.

The UC model was found to contain operating expenditures that were on average $537,000 lower than those contained within the New College submission. The difference mainly is attributed to lower staffing costs. The monthly bed rates were also compared and found to be slightly higher in the UC model then the NC model. The starting monthly bed rate at UC is $620 as opposed to $542 for New College. The rate difference of $78 per month reflects a 14.4% premium over New College. The average capital renewal expenditure in the UC model exceeds the New College model by approximately $1,120,000 per year over the next 5 years. The large variance is attributed to the forecasted upgrades to UC residences, which are much older then the NC residences.

Ancillary contributions of $2,285,000 are comprised of $1,485,000 from the UC residence ancillary and $800,000 from the UC food ancillary. In both cases, these contributions will consume most of the unappropriated surplus anticipated in their current long-range plans. The residence ancillary expects to have at the beginning of 2004-05, a capital renewal reserve of $351,000 with an offsetting unappropriated deficit of ($157,000). The low reserves represent a risk factor in this proposal when combined with the deferral of capital renewal contributions on the new residence until year 6.

The current financial model yields a per bed cost of $86,787 based on the total project cost. The cost per bed is $75,498 for project costs specifically related to the residence.

The annual cost of external financing is $1,084,093 based on the ancillary meeting its internal funding projections of $12,335,000.

With bed rates at $620/month in year 1 for the new residence, the overall ancillary operation breaks even both annually and cumulatively in year 1.With an IRR of 16.72% and a NPV of $16.1 million, this is a healthy financial plan.

Identified Risk Factors:

1. Ancillary contributions totalling $2,285,000 will be available for project funding.

2. Donations of $10,000,000 will be raised and cash received by September 2004.

3. Construction costs exceeding current project projections.

Sensitivity analysis:

Since the capital project contains multiple risk factors, a sensitivity analysis was prepared to account for the various possibilities. Low-risk, medium-risk and worst-case scenarios were modelled. The results of the financial analysis are summarized in Appendix 1.
The financial plan submitted by University College will support the current level of construction costs, with annual and cumulative breakevens in year 1, contingent on the following:

1. Ancillary contributions materialize – The assumption is that the residence and food & beverage ancillaries will make contributions from their surpluses. This assumption puts each ancillary at risk, since it depletes all of the forecasted reserves by April 30, 2004, and therefore should be considered as high risk.

2. Donations of $10,000,000 – It is assumed that UC will be able to raise $10,000,000 in donations before the opening of the residence in 2004/05. Given the history of the residence and it's ability to fundraise along with it's current donations received or pledged, which amounts to $2,500,000, and $6,000,000 committed for 2003/04, the risk should be considered as low.

3. Construction Cost overrun – It is assumed that construction costs will not exceed current capital cost projections. The current project cost has a built in contingency of $1,713,000 and should be considered as low risk.

The sensitivity analysis in appendix 1 shows that the risk of cost overruns or funding shortfalls causing a significant deterioration in the financial outcome is low. Even with the worst-case scenario the bed rates remain at $620/month, with IRR of 12.43% and NPV of $10.5 million. Borrowing would increase to $16.99 million in the worst-case scenario.

Conclusion:

Given that the ancillary has been relatively conservative within its financial model and has a considerable down payment, we would consider the project to be low risk.