Appendix "A"

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Subject: Risk analysis of the UTSC Student Centre Project

Scope of review:

UTSC proposes the construction of a multi purpose student centre. The Scarborough campus is seriously deficient in student and study space. It is currently one of only two University campuses in Canada without a Student Centre. The Student Centre will be a multi purpose facility incorporating space for student government, clubs and associations. It will include services, such as a convenience store, copy centre, food outlets, meeting rooms, a multi-faith prayer room and lounges. It will house the Office of Student Affairs and the Wellness Centre. The Student Centre is scheduled to open in 2004/05 and will be operated by the Scarborough Campus Student Union (SCSU).

The financial model submitted includes the following financial parameters and assumptions:

Financial Parameters

1. The projected cost of the Student Centre is estimated at $14.78 million.

2. Current funding for the project has been identified as $1.0M in donations. Student levy and service fee will contribute $1.25M upfront, with the Provost contributing a 50% match of the total Student Levy, which amounts to a present value contribution of $3.75M. UIIF contribution is $0.98M and the remaining $7.8M will be funded by a mortgage.

Assumptions

1. The Mortgage will be for 25 years at an annual interest rate of 8%.

2. The Provost contribution is based on a 50% match of student levies, and is bounded by the phase I enrolment growth projections. The present value of the provost contribution is $3.75M based on a discount rate of 7%. The Provost match and the UIIF contribution are planned for payment out of the University's operating fund budget in 2003-04.

3. Annual operating costs are indexed at 5% and Salary costs are indexed at 3%.

4. Student service fee commitments include $30K plus cpi for 25 years to cover the titanium roof and initial landscape costs, and $100K per year for 25 years for operating reserves. The student centre fees are also expected to cover all the operating costs of the building.

5. The student levy revenue stream has been modelled based on the phase III enrolment growth projections and assumes an annual increase based on cpi.

6. The model assumes cpi to be 2%.

Financial Analysis:

A student levy was approved by a two thirds majority at a referendum in March 2001. The levy was officially approved by the University Affairs Board on May 1st 2001 and is in the amount of $60 per full time student per session and $18 for each part time and summer student per session. The levy is indexed to the Consumer Price Index and is for the lifetime of the mortgage. The student levy represents approximately 50% of the total annual revenues supporting the project and the operation of the student centre.

A Student Centre Management Agreement (SCMA) between the UTSC and SCSU has been drafted and is in the process of being finalized. The draft SCMA stipulates that the student levy will remain in place until the mortgage has been repaid. The draft SCMA also indicates that the SCSU (through student levies, student service fees, inflation adjustments, advancement gifts and SCSU business plan revenues) must meet the following financial guidelines:

Cover all the costs of the Student Centre mortgage.
Cover all the operating costs of the Student Centre.
Establish building contingency and maintenance reserves.
Cover all costs pertaining to activities in the Student Centre.

The SCSU has put in place two additional funding amounts from the student service fee. The SCSU has committed $30K annually plus cpi, to cover the capital cost of the titanium roof (200K) and the initial landscape costs (100K). SCSU has also committed $100K annually to cover business plan fluctuations. Both commitments have been budgeted to start in 2003/04, one year before the scheduled opening date. The expected enrolment increases are projected to cover these additional commitments and there should be no impact on any of the other programs currently funded by the student service fee.

The financial model also contains conservative retail revenue assumptions as compared to student centres at Centennial College and Wilfred Laurier University.

The financial model contains operating expenditures which will be 200% more than those charged for 2002/03. This is based on the fact that the entire student centre operating cost will be borne by the SCSU. The building operating cost used in the model is based on current operations at UTSC, and has been modelled with a cost index factor of 5%. The building operating cost will be funded from the student service fees, which are collected from each enrolled student on a per session basis.

The SCSU projects an operating reserve of $289K by 2008/09 and expects to start contributing to the capital renewal reserve in 2014-15.The annual cost of financing is $719,662 based on the SCSU meeting its funding projections of $7,006,773. The annual financing cost represents approximately 50% of the total operating costs of the SC.

Identified Risk Factors:

1. Donations of $1,000,000 will be raised by September 2004.
2. Construction costs exceeding current project projections.
3. Student levy projections are not met due to lower enrolment.
4. Retail revenue forecasts are not met.

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 donation funding was identified as high risk and therefore additional analysis was performed. The results of the financial analysis are summarized in Appendix 1.

The financial plan submitted by UTSC will support the current level of construction costs and breakeven on an annual and cumulative basis from the beginning in year 1. However, this is contingent on achieving the underlying objectives. Risk factors are:

1) Donation of $1,000,000 - The assumption is that UTSC will be able to raise $1.0M in donations before the opening of the student centre in 2004. Currently no donations are in hand, and this assumption should be considered as high risk.

2) Construction Cost overrun: It is assumed that construction costs do not exceed current capital cost projections. The current project cost has built in a contingency of $0.95M and should be considered as low risk.

3) Student Levy Revenue Projections: Assumption is that revenue from the student levy materializes. The student levy is based on the phase III enrolment projections. Any variability in the enrolment drastically changes the breakeven years of the financial model, assuming that there is no compensating change to the levy charged to each student. The risk of a revenue shortfall would be low, since enrolment projections are on target to meet the phase III growth projections as provided by the Planning and budget department.

4) Operating Revenues: Assumption is that revenue from retail operations materializes. The retail revenue assumed is conservative as compare to

similar size colleges and universities and has a small impact on the overall viability of the financial model.

Conclusion:

Overall, the SCMA indicates that the SCSU must meet all of the financial obligations of the SC, including the mortgage. The financial model also contains conservative operating revenue estimates and achievable enrolment growth projections and therefore, the risk to the university should be considered low.