



University of Toronto

CAPITAL PROJECTS DEPARTMENT

TO: Business Board

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DATE: June 9th, 2004 for June 17th, 2004

AGENDA ITEM: 7(h)

ITEM IDENTIFICATION:

Capital Project – Department of Economics Expansion Project (Phase 1)

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:

The Business Board approved the expenditure of \$6,000,000 to design and construct Phase 1 of the Economics Building on May 3, 2003.

Other Board and Committee approvals to-date include:

- Planning & Budget – November 13, 2001 and March 26, 2003
- Academic Board – April 10, 2003
- Governing Council – May 1, 2003

HIGHLIGHTS:

External reviews of the Department of Economics have, through the years, identified a lack of space for graduate students within the Department. The addition of the Master of Financial Economics program and expansion of the Undergraduate Commerce program have resulted in additional demands that can not be accommodated within their existing facilities.

The initial capital project was planned to be constructed at a total cost of \$14.3 million. The new facilities were to include space for the Institute for Policy Analysis currently located at the Robarts Library, and to provide a new 75-seat tiered electronic lecture hall.

As work commenced on the design of the facilities, it became apparent that the fundraising goal of \$14.3 million was not easily attainable, and in order to address immediate space deficiencies, the project should preferably be conceived as two distinct phases. The first phase was estimated to cost \$6 million with funding arranged by a University of Toronto mortgage and the debt service being the total responsibility of the Faculty of Arts and Science. The balance of the funds, \$8.3 million, for Phase 2 was targeted to be raised entirely from external sources. Approval to proceed with the two phased approach was received in May 2003. The facilities were to be designed to permit either the first or both phases to be constructed simultaneously or in sequence, depending upon available funding. Phases 1 & 2 were estimated to cost \$6 million and \$8.3 million respectively. This revised plan also permitted the tiered lecture hall to be paid from funds raised for Phase 2 as distinct from using central internal funds.

The Project Implementation Committee has now completed the schematic design; the total project cost for Phase I has been revised and is now estimated at \$7,818,132, an increase of \$1,818,132. The scope of Phase 2, if constructed, has also been revised and is estimated to cost a total of \$4,962,566, a decrease of \$3,337,434.

The revised Total Project Cost for Phases 1 and 2 is estimated at \$12,780,698 with Phase 1 at \$7,818,132 and Phase 2 at \$4,962,698.

Phase I now includes an expanded number of deferred maintenance items and will, when completed, provide sufficient space to address the immediate inadequacies of space within the Department of Economics, and reduce the urgency to undertake Phase 2. Portions of the south building which were initially planned to be demolished will instead be renovated. New space will be constructed to the north and west of the original north building. Unfortunately, the 75-seat tiered classroom has been eliminated from the space program as a result of the need to reduce the overall cost as well as seeking ways to maintain sufficient space available for use by the Department of Economics during what could have been an extended period to complete both Phase 1 and 2, and indeed the period between completion of the two phases.

It should however also be clarified, that the decision not to incorporate the 75-seat tiered classroom within the overall plans does represent a change of scope for Phase 2 only, but does not impact Phase 1. Additionally, the plan to relocate the Institute for Policy Analysis within Phase 2 remains intact.

Phase 1 has had to be redeveloped with a careful examination of the site conditions, the relatively poor deferred maintenance condition of the existing buildings and the need to fully appreciate that the possibility of securing the full funding to complete Phase 2 in a reasonable time frame of a few years was unrealistic. If, and when, Phase 2 is initiated, full approval will be required and the changes in scope briefly referred to above fully clarified.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The total project cost for Phase 1 of the Department of Economics Expansion Project has been estimated to be **\$7,818,132**.

With the approvals in May 2003, the Faculty of Arts and Science had committed to finance the first \$6 million for Phase 1 from a mortgage to be repaid over 25 years at a rate not to exceed 8%. These funds were to be derived from revenues generated within the Commerce programs. This situation has not changed. The additional funding required, in the full amount of \$1,818,132, will also be provided by the Faculty of Arts and Science. The arrangement proposed requires that the full amount be considered as two components, namely an amount equal to \$415,000 which is equivalent to the furniture and equipment requirements for the project and the balance, \$1,404,132. The furniture and equipment items are independent of the project construction schedule and these purchases will be tied to the funds being available by the Faculty of Arts and Science. The Faculty will provide this funding from operating funds over fiscal years 2004/2005 and 2005/2006 when the furnishings is required to be purchased. The balance, equal to \$1,403,132, will be paid in a lump sum cash contribution by the Faculty at the time the mortgage is established upon completion of the project. This is required to maintain the approved mortgage limit for this project at \$6 million or less. The Faculty, in the interim, will continue to actively seek the external funding for Phase 2 consistent with the earlier approval demanded with the staged approach for Phase 1 and Phase 2.

It should be noted that the revised Phase 1 project will proceed as planned; it is however unlikely that Phase 2 will proceed in the near future, unless of course a major donation is forthcoming. The approach put forward is sensible in that it addresses the space needs of the Department, confronts serious deferred maintenance issues, and is fiscally more conservative in that a workable solution is being presented that is less dependent on the absolute need to secure the previously defined \$8.3 million that had been required for Phase 2. It is also should be noted that the roof of the existing Economics Building will be replaced as the project proceeds and will be funded outside of this project cost.

RECOMMENDATION:

THAT the Interim Vice-President – Business Affairs be authorized:

- i. to execute the revised Phase 1 of the Department of Economics Expansion Project at a cost not to exceed \$7,818,132 with the funding sources to be a mortgage to be amortized over a period of 25 years in the amount of \$6,000,000 with payments forthcoming from the Faculty of Arts & Science and a cash contribution of \$1,818,132 to be made by the Faculty of Arts & Science at project completion.
- ii. to arrange such interim and long-term financing as required from either internal or external sources.