Report of the Building and Property Committee

GD14-17

Board of Governors meeting of February 2, 2015

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The report arises from the Building and Property Committee meeting of December 4, 2014, and is presented to the Board of Governors for its consideration.

I. FOR ACTION BY THE BOARD OF GOVERNORS

1. Proposed Plan for Deferred Maintenance [BP14-08]

Further to the Finance Committee's request, which was endorsed by the Board in April 2014, the University is working on developing a financial plan to support a major initiative intended to address deferred maintenance, information technology and space needs, which have reached a critical threshold at McGill.

The Building and Property Committee considered a proposed plan to undertake a series of projects to meet the most pressing deferred maintenance needs. The proposed plan is summarized in Appendix A.

While the Committee acknowledged that financial options will be examined further by the Finance Committee in early 2015, it indicated its full support for the initiative in order to respond to the University's accumulated deferred maintenance, information technology and space needs. It had a thorough discussion and unanimously recommended that the Board of Governors approve this initiative and that the Finance Committee recommend a financing plan required to implement it.

Be it resolved that the Board of Governors, on the recommendation of the Building and Property Committee, approve an initiative to respond to the University's accumulated deferred maintenance, information technology and space needs, on the understanding that the Finance Committee will consider and make recommendations to the Board of Governors on resources required to implement this initiative.

II. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

1. Presentation on Master Real Estate Plan [BP14-07]

The Committee received a presentation on the development of a master real estate plan, which contained several space scenarios that the University is currently considering in order to respond to the University's space needs.

2. Plan of BPC Projects for 2014-15 and Financial Summary [BP14-09]

The Committee received an updated list of anticipated projects that are planned for consideration by the Building and Property Committee in 2014-15, as well as a corresponding financial summary.

3. Reports on Major Construction Projects

In accordance with its terms of reference, the Committee received progress reports on major construction projects.

4. Possible Interest in Purchase of University Property

The Committee was briefed on possible interest to purchase an off-campus property not currently used for university purposes.

5. Report from Senate Committee on Physical Development [BP14-10]

The Committee received the annual report of the Senate Committee on Physical Development (SCPD), which contained a summary of matters considered by the Committee in the 2013-14 academic year.

END

February 2015

Capital Investments and Financing Plan for McGill University

February 2015

Context

Infrastructure needs at McGill have reached a critical threshold. In spite of significant investments in recent years, we have been unable to keep pace with the need for well-maintained, modern spaces that are appropriate to and equipped for our teaching and research needs. The current state of our infrastructure does not do justice to our role as one of the world's foremost universities, and it is having demonstrable negative impacts on our ability to fulfill our mission. The time has come for McGill to address its infrastructure challenges comprehensively and proactively. This document and the accompanying spreadsheet present the full scope of McGill's infrastructure challenges and some possible measures to address them.

Current Challenges

McGill's infrastructure challenges are complex and interrelated. In the past, infrastructure-related issues have sometimes been addressed independently, but they do not stand alone. For example, the same challenging financial context that has led to accumulated deferred maintenance of our buildings has created a backlog of deferred maintenance of our IT infrastructure. Renovations of laboratory buildings to address critical health and safety concerns cannot be undertaken without consideration of our research space needs, and, reciprocally, renovations of research space supported by research funding should not be completed without reference to broader plans for building maintenance and upgrade.

For the first time, this plan attempts to take account of the full scope of McGill's infrastructure needs over the next seven years across all categories, with best estimates of project costs, available funds and projected shortfalls.

It is important to recognize that we do not receive enough funding from MESRS year-over-year to maintain our buildings and IT infrastructure. The Quebec government's funding formula excludes certain types of space (e.g. residences, parking garages, arenas, tenant space, rentals, etc.) resulting in our 'eligible' space being approximately 70% of the total submitted space inventory. In addition, due to budget limitations, the actual funding envelope is substantially less (as much as 60% less for renovation in 2013) than the theoretical envelope, which would be required to properly maintain buildings using industry recognized maintenance investment formula. Because McGill's buildings are older than those of most of its peers, we receive a greater percentage of the annual envelope for the network (24% in 2013) than our proportionate share of space in the network (18% in 2013), but given the significant underfunding of the actual total envelope, it is nowhere near sufficient. Therefore, our deferred maintenance continues to grow. We are proposing a plan at this time because we must first and foremost address issues of health, safety and security in order to support the University's academic mission and to meet legal obligations (building codes or other).

To understand McGill's infrastructure situation it is necessary to recognize three key drivers of our infrastructure needs, summarized in this document, with reference to the relevant sections of the accompanying spreadsheet.

1. **Deferred maintenance—buildings** (Section 1: Ongoing Projects & Other Essential Postponed Projects)
2. **Deferred maintenance—IT infrastructure** (Section 2: IT Projects)
3. **Inadequate & inappropriate space** (Section 3: Plan décennal d'investissements universitaires (PDIU) projects submission list & Section 4: Placeholder project list)

1. Deferred Maintenance—Buildings

Compared with other Quebec universities, McGill's buildings are significantly older, smaller, and more numerous. These characteristics make them expensive to maintain and difficult to adapt to modern teaching and research needs. As a result of decades of chronic underfunding for maintenance, the University has been unable to keep pace with the speed at which its aging infrastructure continues to deteriorate. The resulting accumulated load of deferred maintenance issues is a serious and widespread problem at McGill.

In 2007, 1,417 deferred maintenance (DM) issues were identified with respect to McGill's academic buildings, having an estimated total value of **$647.5 million**. An additional **$185 million** of deferred maintenance issues were identified in self-financing and non-academic buildings (e.g. student residences). At that time, the condition of McGill's infrastructure was deemed to be far beyond the "serious" threshold and in a critical state.

One measure of the state of an institution's facilities is the "Facilities Condition Index" (FCI) which measures the value of deferred maintenance as a percentage of the total replacement cost of the facilities. An acceptable FCI is normally between 5 and 10. McGill's FCI in 2007 was approximately 31.

Although we have strategically reduced the burden of accumulated deferred maintenance problems originally identified in 2007, new issues continue to arise faster than we can address them. This challenge has proven to be beyond our capacity to correct given current budgetary constraints. The risk that building system failures may occur and that buildings may need to be closed may now be higher than in 2007. This is because: (a) existing untreated maintenance problems worsen with time; (b) new unanticipated deferred maintenance issues continue to arise on a regular basis, and; (c) projects, once started, often prove to be more complex, problematic and expensive than originally anticipated.

A new study, led by the Bureau de coopération interuniversitaire (BCI) (formerly CREPUQ), is currently underway to evaluate the current state of deferred maintenance at Quebec universities. Preliminary results of this study demonstrate the current value of McGill's deferred maintenance to be at over $1 billion.

As the accompanying spreadsheet details, the anticipated cost of addressing only the most pressing deferred maintenance issues between now and 2021 is **over $625 million**. These are not optional

repairs; they are absolutely critical projects that must be undertaken as soon as possible to ensure health, safety, code compliance and the ability to continue to achieve our mission.

2. Deferred Maintenance—IT infrastructure

In the last ten years, the investment into information technology at McGill has been minimal. Many of the maintenance costs for existing IT systems and network infrastructure have been deferred over time – causing a backlog of upgrades that need to be addressed in the short term. Additionally, the lifecycle of existing assets such as our phone and data networks has been lengthened far beyond marked norms, posing productivity and efficiency risks.

The status quo is unsustainable—we rely on outdated technology that could fail at any time, user expectations have grown substantially beyond what many of the current systems will support, and IT must dedicate staff to support the aging equipment and software rather than leveraging more efficient newer technologies and focusing resources on enhancing the experience of users.

An independent assessment of the overall institutional needs and the state of IT was concluded in 2013, identifying more than 70 projects across 10 programs as high-priority. The projects were prioritized along two axes: their return on investment and the contribution to improving the experience of faculty and students. The list of projects was further reduced to those identified as "must dos". Although some of these are approved in principle, budget allocation and internal capacity (by both IT and the institutional partners) remains an open issue that needs to be resolved. The top institutional initiatives were identified as:

- R2R (The new HR system)
- Network and Telephony upgrade
- Gestion des données sur l'effectif universitaire (GDEU) Reporting
- Finance / Budget solution
- Banner evolution (Student Information Services)
- Customer Relationship Management System (CRM) system
- Graduate Milestones

The cost to comprehensively address these most pressing IT challenges between now and 2021 would be **over $110 million**.

3. Inadequate & Inappropriate Space

It is widely recognized that McGill currently does not have enough space to meet its academic mission. The Quebec government puts McGill's space deficit at 65,000 square metres, or 700,000 square feet. Because our downtown campus is mostly built out, it offers few opportunities for expansion and creativity will be required in determining how to effectively meet this space need for the future.

In addition to quantity of space, McGill needs to proactively address issues related to quality of space. Laboratories, classrooms, and the buildings that house them, must adapt as disciplines develop new research and teaching techniques.

There are currently many mismatches between buildings, facilities and the current or anticipated activities carried on in them at McGill. Some of the university's flagship research and training units, for instance, are housed in dramatically inappropriately space in scattered small, historic residential buildings. In some cases inappropriate space has been raised as a concern in program accreditation reviews.

Even units that have been well-accommodated in their space have evolving, and often intensifying, infrastructure needs. Many current research activities impose requirements, such as powerful computers and cooling, that were unimaginable when the buildings now housing them were designed. Indeed, the need to upgrade research spaces to accommodate newly recruited professors or fulfill the mandate of research grants is one of the driving forces behind many of McGill's infrastructure-related projects.

Adaptations to our existing space can and must be made to ensure that we are using our buildings as efficiently as possible to meet our current needs, but we cannot solve our space deficit through retrofitting alone. In the near future, McGill will need to acquire additional real estate adjacent to its downtown campus to accommodate the growth and development of the University. There are many scenarios for how this space could be acquired. One important and unique opportunity with the potential to solve our long-term space needs and provide a land reserve for future growth is the Royal Victoria Hospital site. McGill and the Royal Victoria Hospital share a history, an architectural heritage, and a public purpose. We are currently exploring the possibility of acquiring the Royal Victoria site, in close consultation with the City of Montreal, the Government of Quebec, the Government of Canada, and other partners.

Our vision of the Royal Victoria is as a carrefour, a meeting place that connects Quebec and the world. Architecturally, the vision is to open up the Royal Victoria to make it a gateway to the Mount Royal. We plan to increase public access, expand green space, preserve heritage buildings, and open the skyline.

In terms of the funding model, we expect roughly equal contributions from the Government of Quebec, the federal government, and McGill. Whether or not we move forward with this project depends very much on whether this funding model is sustainable.

Current Resources Available

As the accompanying spreadsheet indicates, McGill is and has been working creatively to finance our infrastructure needs. We are maximizing the available resources devoted to infrastructure from many sources: provincial capital grants, provincial grants for special projects (e.g. Wilson Hall), federal allocations, research funds (e.g. CFI and CERC), and donations. By fully tapping all available sources of funds, we expect **approximately $625 million** to be available for infrastructure projects between now and 2021. Unfortunately, this is nowhere near enough to meet the need. To comprehensively address our current infrastructure-related needs, McGill would require **$1.58 billion** over this timeframe, leaving a **projected shortfall of approximately $953 million**. This does not take into account any provisions

addressing emergency repairs or the necessary annual allocation for adequate, regular maintenance to ensure sustainability of our infrastructure.

Proposed Plan of Action

We will continue to devote all possible effort to maximizing funds available for infrastructure through fundraising strategies to increase donations and through coordinated advocacy with the provincial and federal governments to secure new sources of funding.

It is important to recognize, however, that these strategies will not generate sufficient resources to address urgent infrastructure needs in the timeframe and at the scale that is required.

Given the scope of funding required, and also the current favourable interest environment, we propose a two tiered borrowing plan.

Short term:

For fiscal years 2016 to 2019, the recommendation is to request a separate line of credit facility to facilitate our borrowing for capital investments in those respective years. Any additional borrowing beyond our current authorized limit of $300 million requires approval by Treasury Board and the Board of Governors. As the interest rates are currently relatively low, modest capital payments would be possible based on manageable interest burden from an annual operating fund allocation. This facility would be closely monitored in the event that interest rates increase or that the operating fund allocation is reduced due to any further government imposed budget compressions. Additional contributions to the financing requirements via donations or other new initiatives revenue would alleviate the interest costs. These have not been factored in the current analysis.

Long term:

Beyond FY19, the capital requirements escalate. Because the contribution from the operating fund to repaying a borrowing would only cover interest payments, we would issue a financial instrument, such as a bond, to finance the debt long term. Our last bond issue was successful when combined with the defeasance to pay off the bond at maturity (2042). There are other financial instruments to meet our requirements which must be explored with the financial institutions based on market conditions. The long term recommendation is to go to market over a 25-30 year horizon, the details of which will be obtained upon consultation with the financial institutions.

Conclusion

McGill's identity is deeply tied to its historic, iconic infrastructure. Ensuring that that infrastructure will be able to support McGill's mission throughout the 21st century and beyond is a complex challenge that will require far-sighted planning and significant investment of resources.

Decades of under-investment in infrastructure are already having significant impacts on our teaching and research, as well as our ability to recruit and retain top talent at the University and to provide the best possible environment for all members of the community. Without a significant and comprehensive reinvestment in our infrastructure, these impacts will only worsen. To ensure its ability to fulfill its mission in the coming decades McGill must act quickly and strategically to meet its infrastructure needs.