
2013-14 Capital Budget

A. The Evolution of Capital Expenditures

The Capital Budget for 2013-14 should be seen in the context of both recent trends in capital spending and the University's proposed Long-Range Space Plan as outlined in section C of the Operating Budget portion of this document. Table 15 sets out expenditures in the Capital Budget since 2009-10 in nine categories.

Category 1 shows all new construction, while categories 2 to 7 show renovations to existing space. Category 1 expenditures are usually funded from general University funds, the major exceptions being projects funded all or in part from external research grants, private funds, government, student contributions, and Housing construction – the latter being funded from the Housing budget. Categories 2 to 5 are funded primarily from general University funds and government, while category 6 is funded from Housing operations, and category 7 is funded by the particular Ancillary undertaking the work. Categories 8 and 9 involve carrying costs and loan repayments, and other expenditures such as purchases of land and buildings and transfers from the capital budget for other purposes. Planned capital expenditures for 2013-14 total \$132.6 million.

Categories 2 to 5 involve **Maintenance, Modernization, and Infrastructure (MMI)** and are eligible to receive funds from the annual MMI transfer from the operating budget to the capital budget, which is budgeted to increase to \$12.5 million in 2013-14 (\$11.75 M in 2012-13). These are expenditures directed at modification of existing space and renewal and expansion of the utilities and infrastructure of the University.

In planning future expenditures on Maintenance, Modernization, and Infrastructure, it is useful to review the value of our current fixed assets on campus. At February 28, 2013, our buildings and infrastructure have a current replacement value (CRV) of approximately \$1,984 million, as follows:

	<u>CRV \$M</u>	<u>Square Metres</u>	<u>Major Buildings</u>
Major Non-Residential Buildings	1,425	501,230	65
Utilities and Infrastructure	<u>183</u>		
Subtotal, Eligible for MMI	1,608	501,230	65
Housing	292	233,159	14
Other Ancillary Buildings	<u>84</u>	<u>45,949</u>	<u>7</u>
Total	1,984	780,338	86

At February 28, 2013, the University had 501,230 gross square metres in 65 major non-residential buildings, ranging in size from the Cronyn Observatory (338 square metres) to the Social Science Centre (33,757 square metres). Those buildings, and some \$183 million in utilities and infrastructure, are the physical assets generally eligible for MMI expenditures. On that same date, the University had 233,000 square metres of Housing space in ten major undergraduate residences, four major apartment buildings, and numerous smaller buildings for graduate students in Platt's Lane Estates. Other than Housing, there are seven major buildings which are operated largely or entirely as ancillaries: Western Student Recreation Centre, Thompson Recreation and Athletic Centre, TD

Waterhouse Stadium, Boundary Layer Wind Tunnel, Child Care Centre, Spencer Hall, and the Fraunhofer Project Centre.

With this background in mind, we briefly set out the nine categories of capital expenditures.

1. New Construction. This category includes projects which create new buildings, including housing, additions to existing buildings, and other new facilities such as parking lots and athletic fields. It does not include projects which improve the space within existing buildings or projects which upgrade other existing facilities.

2. Major Building Renovations. This category involves major maintenance and renovation expenditures on non-residential building projects of over \$1 million – and the projects generally span more than one year. Of the 500,000 square metres in major buildings, over 59% was built before 1980, so renovations to major buildings will be a continuing part of University capital planning.

3. Utility Infrastructure Projects. This category involves projects with values greater than \$10,000 directed at the upgrading and new installation of utilities and other infrastructure, including boilers and chillers, as well as electrical, water, and sewer distribution systems. Given that most of our Utilities and Infrastructure plant and equipment is over thirty years old, these projects will continue to be a critical part of our capital budget. It is noted that proposed projects in this category include many that are devoted to the renewal of portions of our steam, water and chilled water systems. Major projects in future years will include continued work on electrical distribution systems and utility conservation.

4. Modernization of Instructional and Research Facilities. This category includes the renewal and modernization of classrooms, laboratories, libraries, and other space used for instruction and research, as well as upgrades to information technology. These expenditures are critical to maintaining Western's reputation as a leader in the quality of teaching and research. These projects are sometimes funded by the units themselves with operating or research funds.

5. General Maintenance and Modernization Projects. This category consists of a wide variety of maintenance and modernization projects which are not included in categories 2 to 4. Most of the projects are under \$100,000, involving such work as roof replacement, interior and exterior painting, road, bridge, and sidewalk repair, and general maintenance of structures and systems. A provision of \$500,000 for unforeseen projects forms part of the allotment in this category.

6. Housing Renovations. This category includes all maintenance and modernization expenditures on University residences and apartment buildings. Construction of a new residence or apartment building would be included in category 1. Maintenance and modernization expenditures, projected to be \$8.5 million in 2013-14, are funded from Housing revenues and debt. Housing has always set aside adequate maintenance funds and does not have the significant deferred maintenance on its buildings which may be observed in many other University buildings.

7. Ancillary Projects. This category includes capital expenditures on Ancillaries other than Housing, including Hospitality Services, the Book Store, Parking Services, student fee-funded units, self-funded support units, and self-funded research units. These units pay a charge to the University for the space they occupy.

8. Carrying Costs and Debt Repayments. This category consists of principal repayments and interest on debt for capital projects.

9. Other Capital Expenditures. This category includes asset acquisitions and other miscellaneous expenditures. It has been an established principle in Western's Campus Master Plan that the University pursue, as appropriate, the purchase of lands contiguous to University property as lands become available. Western will continue to seek to protect the Regional Facilities zoning around the main campus and to buy land near our campus when it comes up for sale. The University will also look to acquire strategic physical assets.

The last twelve lines of Table 15 are labeled A to M. Line A shows total sources of funding for the capital budget, including debt; B, sources of funds less expenditures; C, the capital reserve at year-end (which changes each year by the amount in line B); and D, capital debt outstanding at year-end. Details on these items are shown in Tables 17 and 19. Annual changes in the Capital Reserve (line C) are driven by the differences between funding and expenditure (line B). Thus for 2011-12, line B shows (\$6,566), the difference between funding of \$91,242 (all figures in \$000) and expenditures of \$97,808. The capital reserve in line C decreases by this same amount of \$6,566, reflecting a reduction in the capital reserve.

Line E shows the replacement value of non-residential buildings and utilities and infrastructure – the assets eligible for MMI spending -- while line F shows the ratio of the annual MMI expenditure to the replacement value. For example, in 2011-12, MMI expenditures were \$31.5 million, while the estimated replacement value of non-residential buildings, utilities, and infrastructure was \$1.6 billion. The ratio of the two is 2.0%, as shown in line F.

Line G of Table 15 shows the annual transfer from the operating budget to the capital budget for Maintenance, Modernization, and Infrastructure (the MMI transfer). As part of the 1995 Strategic Plan, the Board of Governors approved an incremental annual base transfer of \$750,000 from operating to capital in support of maintenance spending for ten years, from 1996-97 to 2005-06. Since there was an existing transfer of \$500,000 in 1995-96, the annual transfer was \$8.0 million in 2005-06. In 2004, Western's Board of Governors approved the recommendation that the base transfer of \$750,000 be continued for another ten years after 2005-06 until 2015-16, when the annual transfer will be \$15.5 million. This commitment established Western as a leader among Canadian universities in maintaining its facilities and dealing with deferred maintenance. For 2009-10 and 2010-11, given the financial constraints faced by the University at that time, the Board approved the annual transfer be held at \$10.25 million. Since that time the base transfer has resumed. In 2013-14, the base transfer will be increased by \$750,000 to \$12.50 million (2012-13, \$11.75 million) and will reach the intended maximum annual transfer of \$15.5 million in 2017-18.

Line H of Table 15 shows the ratio of the annual MMI transfer to total MMI expenditures; for example, in 2011-12, the transfer was \$11.0 million and MMI expenditures were \$31.5 million, so the ratio in line H is 34.9%. Other sources of funding for MMI expenditures include the annual capital facilities renewal grant from the Province (currently about \$1.5 million); special Provincial grants; additional one-time allocations from the University's operating budget; additional one-time allocations from the Province; research funds from such sources as the Canada Foundation for Innovation and the Ontario Ministry of Research and Innovation; fundraising; and borrowing.

Line J contains an estimate of maintenance spending, defined narrowly as spending required to bring aging facilities up to their condition when originally built. In fact, whenever Western undertakes a major maintenance project, there is also modernization of the facility, and whenever we carry out a major modernization project, there is generally some maintenance expenditure; it is thus difficult to separate the two. Line J is calculated on the assumption that 2/3 of the expenditures in categories 2, 3, and 5 involve maintenance (the remaining 1/3 involve modernization), while 1/3 of the expenditures in category 4 is for maintenance (the remaining 2/3 involves modernization). While these ratios would vary by project and by year, Facilities Management considers them a reasonable average for the four categories over a number of years.

The value of line J in 2011-12 is \$19.6 million, or (in line K) 1.2% of the replacement value in that year. A standard target in industry for this ratio is 2.0%: if large buildings last an average of 50 years, then on average maintenance spending should be 2.0% of replacement value. When the actual ratio is consistently lower than 2.0%, as has been the case at Western and most Canadian universities over the last three decades, the level of deferred maintenance will grow. Two years ago, the Provincial Budget reduced the facilities renewal funding envelope for Colleges and Universities from \$40 million to \$26 million. Western's share of this funding is \$1.5 million.

Table 16 reviews major capital projects – and the projects are assigned to one of the nine categories. For most of the projects, the year and month of the start and end of construction are shown.

The projects listed in Table 16 are the result of an update to the Long-Range Space Plan outlined in Table 14 of the Operating Budget portion of this document. These projects include new construction that will create the additional space necessary to accommodate undergraduate and graduate enrolment expansion and the associated additional faculty and staff, and major building renovations and utilities and infrastructure projects – reflecting the need to maintain and modernize Western's aging physical plant.

B. Sources of Funding and Capital Expenditures in 2013-14

Table 17 displays sources of funding for budgeted capital expenditures with estimates of comparative data for 2012-13, divided into seven major categories: federal, provincial and municipal government grants; funds from the Canada Foundation for Innovation (CFI) and the Ontario Ministry of Research and Innovation (OMRI) awarded on a competitive basis; funds transferred from Western's operating budget; undistributed investment returns; general fundraising; borrowing; and other sources, including internal recoveries. As compared to a decade ago, the University is more dependent on capital revenues from competitive research sources (e.g. CFI/OMRI), private fundraising, transfers from the operating budget, and debt.

Table 18 shows expenditures in Categories 1 and 2, for 2012-13 (estimates as of February 28, 2013) and 2013-14 (current proposals).

The details for expenditures in Categories 3 through 7, and can be found at:

http://www.ipb.uwo.ca/documents/2013-14_Capital_Budget_Detail_Tables.pdf

Table 15
CAPITAL BUDGET SUMMARY, 2009-10 TO 2013-14
(\$000)

Category	Purpose	Actual 2009-10	Actual 2010-11	Actual 2011-12	Projected 2012-13	Budget 2013-14
	New Construction					
1	New Construction (Table 18, line 15)	23,775	38,141	56,062	107,404	75,350
	Maintenance, Modernization, and Infrastructure (MMI)					
2	Major Building Renovations (Table 18, line 27)	23,835	31,281	15,284	7,986	9,180
3	Utilities and Infrastructure Projects	4,777	5,347	4,819	5,462	10,624
4	Modernization of Instructional and Research Facilities	4,285	5,102	4,089	5,305	5,919
5	General Maintenance and Modernization Projects	9,320	7,583	7,288	6,299	7,641
	Sub-Total MMI	42,217	49,313	31,480	25,052	33,364
	Other					
6	Housing Renovations	4,736	5,393	6,039	6,410	8,488
7	Ancillary Projects	179	535	459	1,042	320
8	Carrying Costs and Debt Repayments	3,327	2,626	3,704	3,569	15,069
9	Other Capital Expenditures	1,758	262	64	50	50
	Sub-Total Other	10,000	8,816	10,266	11,071	23,927
10	Total Expenditures	75,992	96,270	97,808	143,527	132,641

Line		Actual 2009-10	Actual 2010-11	Actual 2011-12	Projected 2012-13	Budget 2013-14
	Sources of Funding, Reserves, and Debt					
A	Total Sources of Funding, Including Debt (Table 17)	70,304	118,368	91,242	137,531	126,276
B	Sources of Funding less Expenditures	(5,688)	22,098	(6,566)	(5,996)	(6,365)
C	Capital Reserve, Year End (Table 19)	8,725	30,823	24,257	18,261	11,896
D	Capital Debt Outstanding, Year End (Table 19)	208,923	217,014	215,406	314,075	306,658
E	Replacement Value of Nonresidential Buildings, Utilities & Infrastructure, \$M	1,341	1,469	1,596	1,608	1,625
F	MMI Expenditures/Replacement Value	3.1%	3.4%	2.0%	1.6%	2.1%
G	Annual MMI transfer from Operating to Capital Budget	10,250	10,250	11,000	11,750	12,500
H	MMI transfer/MMI Expenditures	24.3%	20.8%	34.9%	46.9%	37.5%
J	Estimate of Maintenance Expenditure	26,716	31,175	19,624	14,933	20,270
K	Maintenance Expenditure/Replacement Value	2.0%	2.1%	1.2%	0.9%	1.2%
L	Number of Major Buildings	83	82	84	86	90
M	Total Gross Square Meters (000's)	753	747	777	780	824

Category 8 does not include carrying costs and loan repayments for Residences and Apartments, Research Park and Richard Ivey School of Business.

Line B is equal to Line A Total Sources of Funding less Total Expenses.

The change in line C from one year to the next is equal to Line B.

Line J consists of 2/3 of Category 2, 3 and 5 and 1/3 of Category 4.

Table 16
MAJOR CAPITAL PROJECTS

		Category	Start	End	Cost
					(\$M)
1	Projects Completed up to March 2013				
2	IT Network and Infrastructure Upgrades (VOIP)	2	May 08	Jun 12	4.7
3	Physics and Astronomy Building Renovations	2	Mar 10	Jul 12	26.5
4	Dental Sciences Building 2nd Floor Renovations	2	Jul 11	Jul 12	2.8
5	Total				34.0
6	Projects Underway				
7	New Ivey Building	1	Aug 09	Aug 13	
8	The Wind Engineering, Energy, and Environment Facility (WindEEE) - at AMP	1	Dec 10	Nov 13	
9	Ontario Hall - New Undergraduate Residence	1	May 11	Jan 14	
10	Fraunhofer Project Centre - at the AMP	1	Aug 11	Mar 14	
11	Western Centre for Public Health and Family Medicine	1	Oct 11	Jul 13	
12	Centre for Technology Commercialization - at the AMP	1	Jan 12	Mar 14	
13	Expansion/Modernization of Talbot College	1&2	Mar 12	Aug 14	
14	Ivey Toronto Facilities Expansion/Renovations	2	Jul 12	Sep 13	
15	Renewal of Former Ivey Facilities and Follow On Renovations	2	Sept 12	Dec 15	
16	Dental Sciences Building General Anaesthesia Suite	2	Nov 12	Sept 13	
17	Conversion of former Thames Hall Pool to GU Facilities	2	Dec 12	Aug 13	
18	Artificial Turf Sports Fields	1	Jan 13	Sept 13	
19	Nursing Space - Addition to the Labatt Health Sciences Building	1	Jan 13	Jan 15	
20	Building Materials Test Centre - at the AMP	1	Mar 13	Mar 14	
21	Projects Planned or Under Consideration				
22	Graduate Student Housing Expansion	1	tbd	tbd	
23	Delaware Hall Residence Renovations	7	tbd	tbd	
24	Interdisciplinary Advanced Studies Building	1	tbd	tbd	
25	Campus Sustainability Initiatives	3&5	Ongoing		
26	Projects for Future Consideration				
27	Renewal of University College	2	tbd	tbd	
28	Renewal of Medical/Dental School Facilities	2	tbd	tbd	
29	Renewal of SEB, TH, HSA and Elborn	2	tbd	tbd	
30	Expansion of Medical School Facilities	1	tbd	tbd	
31	New Research Initiatives/Partnerships at the Advanced Manufacturing Park	1	tbd	tbd	
32	Library Facilities - Renewal, Realignment and Expansion	1&2	tbd	tbd	
33	Consolidation of the Psychology Department	1	tbd	tbd	
34	North Academic Campus	1	tbd	tbd	
35	Athletic Facilities - Indoor and Outdoor	1	tbd	tbd	
36	Asset Acquisitions	9	tbd	tbd	

Table 17
CAPITAL BUDGET: SOURCES OF FUNDING
(\$000)

		Projected 2012-13	Budget 2013-14
1	Government Grants		
2	Federal Economic Development Agency for Southern Ontario (Fed Dev)	1,403	6,431
3	MTCU Graduate Expansion Capital Grant	3,889	3,899
4	MTCU Capital Support Program - Renewal of Former Ivey Facilities	500	2,910
5	MTCU Annual Capital Grant (Facilities Renewal Program)	1,517	1,517
6	City of London - Fraunhofer Project Centre	1,312	0
7	MOHLTC - Dental Sciences Building General Anaesthesia Suite	900	0
8	Sub-Total	9,521	14,757
9	CFI/OMRI Federal/Provincial Funding		
10	The Wind Engineering, Energy, and Environment Facility (WindEEE)	7,576	0
11	Brain and Mind Renovations in Natural Sciences Building	300	0
12	Addition to the Museum of Ontario Archaeology	109	0
13	Sub-Total	7,985	0
14	Operating Budget		
15	Operating Budget MMI Transfer - Base	11,750	12,500
16	Operating Budget MMI Transfer - Base (Ancillaries)	600	600
17	Operating Budget - FFICR	3,000	3,000
18	Operating Budget - One-Time Allocation	257	3,893
19	Operating Budget - CRC Transfer	904	912
20	Ivey Operating Budget - New Ivey Building	1,500	1,700
21	Library Operating Budget - Map and Data Centre in Weldon Library	376	1,350
22	Dentistry Operating Budget - Dental Sciences Building General Anaesthesia Suite	760	795
23	Dentistry Operating Budget - Dental Sciences Building 2nd Floor Renovations	750	0
24	Science Operating Budget - B&GS Courtyard: Create Outdoor Gathering Space	0	200
25	Engineering Operating Budget - Fraunhofer Project Centre	1,000	0
26	Miscellaneous Faculty/Department Budgets	483	435
27	Sub-Total	21,380	25,385
28	Interest Earned	38	39
29	Undistributed Investment Returns - for Ontario Hall (to be repaid)	0	35,000

Table 17
CAPITAL BUDGET: SOURCES OF FUNDING
(\$000)

		Projected 2012-13	Budget 2013-14
30	Fundraising		
31	New Ivey Building	7,500	3,346
32	The Claudette MacKay-Lassonde Pavilion (Green Building)	830	525
33	Western Fund	350	350
34	SuperBuild Projects	463	93
35	All Other	326	52
36	Sub-Total	9,469	4,366
37	Borrowing		
38	Ontario Hall - New Undergraduate Residence	47,191	29,650
39	Graduate Student Housing Expansion	0	2,500
40	Long-Range Space Plan	29,550	0
41	Sub-Total	76,741	32,150
42	Other		
43	Housing Contribution - Ontario Hall	0	2,200
44	Richard Ivey School of Business Foundation - Toronto Facilities Expansion/Renovations	1,054	1,446
45	Student Contributions - Western Student Recreation Centre	1,069	1,129
46	Targeted Student Fee - Artificial Turf Sports Fields	0	152
47	University Students Council (USC) - UCC Renovations	200	50
48	Energy Conservation Incentives	35	35
49	Projects Funded by Housing	6,410	8,488
50	Projects Funded by Units	2,587	759
51	Projects Funded by Ancillaries	1,042	320
52	Sub-Total	12,397	14,579
53	Total Sources of Funding	137,531	126,276

Table 18
CAPITAL EXPENDITURES FOR NEW CONSTRUCTION AND MAJOR BUILDING RENOVATIONS
2012-13 and 2013-14
(\$000)

		Projected 2012-13	Budget 2013-14
1	<i>Category 1: New Construction</i>		
2	Ontario Hall - New Undergraduate Residence	46,100	31,850
3	Expansion/Modernization of Talbot College	2,000	16,500
4	Centre for Technology Commercialization - at the AMP	230	6,690
5	New Ivey Building	29,445	6,655
6	Artificial Turf Sports Fields	20	4,552
7	Nursing Space - Addition to the Labatt Health Sciences Building	250	4,360
8	Graduate Student Housing Expansion	0	2,500
9	Building Materials Test Centre - at the AMP	83	1,117
10	Western Centre for Public Health and Family Medicine	15,150	490
11	B&GS Courtyard -- Create Outdoor Gathering Space	236	246
12	The Wind Engineering, Energy, and Environment Facility (WindEEE) - at the AMP	10,174	217
13	Fraunhofer Project Centre - at the AMP	3,607	173
14	Addition to the Museum of Ontario Archaeology	109	0
15	<i>Total, Category 1</i>	<i>107,404</i>	<i>75,350</i>
16	<i>Category 2: Major Building Renovations</i>		
17	Conversion of former Thames Hall Pool to GU Facilities	70	2,890
18	Renewal of Former Ivey Facilities and Follow-on Renovations	860	2,550
19	Ivey Toronto Facilities Expansion/Renovations	1,054	1,446
20	Physics and Astronomy Building Renovations	2,429	1,149
21	Dental Sciences Building General Anaesthesia Suite	1,660	795
22	Support Services Follow-on Renovations	380	300
23	University Community Centre Renovations (USC)	0	50
24	Dental Sciences Building 2nd Floor Renovations	750	0
25	Stevenson Hall and Lawson Hall Renovations	623	0
26	Brain and Mind Renovations in Natural Sciences Building	160	0
27	<i>Total, Category 2</i>	<i>7,986</i>	<i>9,180</i>

Table 19
CAPITAL RESERVES AND DEBT AT FISCAL YEAR END
(\$000)

		Actual 2009-10	Actual 2010-11	Actual 2011-12	Projected 2012-13	Budget 2013-14
1	A. Capital Reserves					
2	General Capital Fund	15,483	15,015	12,633	12,475	6,717
3	Designated Capital Fund	(8,380)	14,186	9,998	4,152	3,536
4	Gibbons Property	1,622	1,622	1,626	1,634	1,643
5	Total Capital Reserves	8,725	30,823	24,257	18,261	11,896

		Actual 2009-10	Actual 2010-11	Actual 2011-12	Projected 2012-13	Budget 2013-14
6	B. Capital Debt					
7	New Construction, Major Renovations & Other	45,900	77,500	91,500	121,050	108,331
8	Housing	88,288	81,713	90,342	130,725	155,027
9	Robarts Capital Leases	926	284	0	0	0
10	Research Park	32,463	32,325	31,752	31,000	30,300
11	Richard Ivey School of Business Foundation	3,300	2,300	1,800	1,300	800
12	Unused and Invested Debenture Proceeds	38,046	22,892	12	30,000	12,200
13	Total Capital Debt	208,923	217,014	215,406	314,075	306,658

Line 2 represents the capital reserve fund mandated by the board and carry forward funds for smaller capital project.

Line 3 includes fund balances for large capital projects with construction budgets greater than \$1 million.

Long-Term Financial Trends

The Operating and Capital Budgets set out in this document describe, in Tables 2 and 15, proposed spending of some \$795 million for the single year of 2013-14. That spending will take place, however, in a longer term context which must be understood in evaluating the Operating and Capital Budgets. The Administration and Board have identified three elements of that longer term context which should be reviewed in the annual Budget of the University: capital reserves and debt, employee future benefits, and deferred maintenance. These three items are described below.

The long term context for Western changed in May 2007, when the University issued its first debenture, for \$190 million. As part of this process, the University received a credit rating of AA from Standard & Poor's. This credit rating was reaffirmed in February of 2013. Part of the credit rating evaluation focused on a number of long-term obligations that the University manages on an ongoing basis, including the three which we review below.

A. Capital Reserves and Debt

Table 19 displays Capital Reserves and Debt for April 30 fiscal year-ends. Capital Reserves are divided into three categories:

- The General Capital Fund, not yet designated for specific purposes
- Designated Capital Fund, which has been assigned to specific projects
- Gibbons Property, the remaining funds from the sale of that property

The University's intention is that when the Gibbons funds are spent, there will be naming opportunities to honor the Gibbons name.

Capital Debt is divided into the following categories:

- **New Construction, Major Renovations, and Other** – represents debt on projects that are largely new construction, additions to existing buildings, other new facilities, non-residential projects that involve major maintenance and renovations to existing space. It also includes debt on purchases of property.
- **Housing** – debt required for new construction, maintenance, and modernization projects for University residences and apartment buildings.
- **Robarts Capital Lease** – with the integration of Robarts into Western, a capital lease for equipment has been added to Capital Debt (noting that the lease came to an end in 2010-11).
- **Research Park** – debt incurred by the Research Park.
- **Richard Ivey School of Business Foundation** – debt held by Richard Ivey School of Business Foundation.

- **Unused and Invested Debenture Proceeds** – unused proceeds from Western’s first debenture issue that have been committed, and invested until the specific capital project requires the funding.

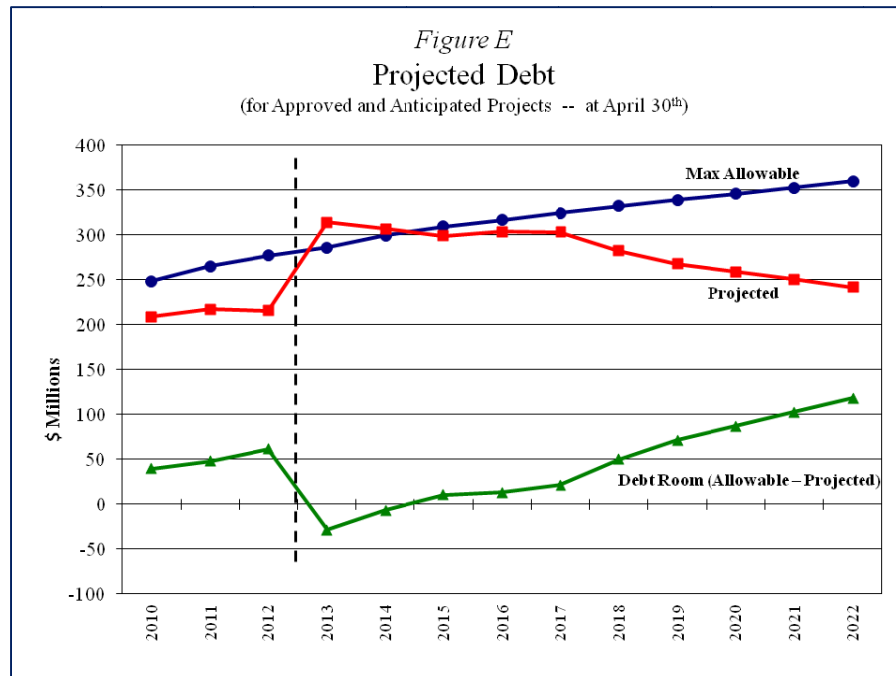
In 2002-03, the Board of Governors approved a Capital Debt Policy, which included a limit of \$7,500 in debt per student full-time equivalent (FTE). In 2005-06, the Board policy was modified to increase the \$7,500 each year by the change in the CPI, beginning in 2002. The table below shows the allowed debt per FTE (shown with indexation beginning in 2003-04) and actual debt per FTE; the figures are for years ending on April 30th. Debt was increased significantly in 2008 due to the issuance of the \$190 million debenture, and again in 2013 when the University entered into a \$100 million long-term facility to finance the new 1,000 bed residence and other capital projects.

	Actual		Forecast	
	2011	2012	2013	2014
Total Debt (in millions)	\$ 217	\$ 215	\$ 314	\$ 307
FTE Enrolment	29,913	30,679	31,018	31,904
Allowable debt per FTE	\$8,851	\$9,028	\$ 9,209	\$9,393
Actual debt per FTE	\$7,255	\$7,022	\$10,125	\$9,612
Debt room per FTE	\$1,596	\$2,006	\$ (916)	\$ (219)

In 2013, the maximum allowed debt per FTE under Western’s Capital Debt Policy is \$9,209 and the forecast is \$10,125. To accommodate the additional debt that issued in fiscal 2013, the University has received board approval to exceed the limits set out in the Capital Debt Policy, if required, by up to \$45 million for the fiscal period 2013 and 2014.

Figure L shows total debt as well as three measures of debt per FTE since 2010: the maximum allowable debt, indexed to the CPI; the actual and projected debt; and the difference between the two, which we call debt room. The projected debt is based on Board-approved projects with allowance for other projects which may be presented to the Board during the period under consideration. Figure L shows that projected debt grows beyond the maximum allowable debt from 2013 to 2014 to support the funding of the new student residence (as discussed previously). In 2015, total debt once again reduces to within Board Policy.

Actual debt has increased by 39% since 2008, while revenues have grown by 20% over this same period, representing an increase in the ratio of debt to revenue from 26.61% to 30.74% in 2013. The forecast level of debt at April 30, 2013 is \$314 million or \$10,125 per FTE.



	<u>Debt</u> \$M	<u>Combined Revenue</u> \$M	<u>FTE</u>	<u>Revenue per FTE</u>	<u>Debt / Rev %</u>
2008	225.8	848.7	27,981	\$30,333	26.61%
2009	222.2	834.9	28,197	\$29,610	26.61%
2010	208.9	961.1	28,987	\$33,155	21.74%
2011	217.0	995.0	29,913	\$33,263	21.81%
2012	215.4	1,017.4	30,679	\$33,163	21.17%
2013p	314.1	1,022.0	31,018	\$32,949	30.74%

B. Employee Future Benefits

Subject to eligibility rules set within various collective agreements, the University provides medical, dental and life insurance benefits to eligible employees after their employment with Western has ended.

These employee future benefits are determined using actuarial valuations every three years. In the years between valuations, an extrapolation of the actuarial valuation is used to determine the projected benefit obligations. At April 30, 2012, the University's accrued benefit liability relating to the employee future benefit plans was \$307 million (2011 - \$287 million).

Cost containment of active and post-retirement benefits has been a focus in recent negotiations. For staff, Western introduced a measure that limits cost increases for active and retiree benefits to no greater than CPI (3% maximum) in each year, reduced the age limit for dependent coverage and increased service requirements to qualify for post-retirement benefits to 10 years. For faculty, the threshold for eligibility has been increased from 5 to 10 years for all new employees and cost containment changes were introduced to the plan.

Included in the University's 2012 Audited Combined Statement of Operations is an annual expense in the amount \$20.0 million (2011 - \$23.3 million) for non-pension employee future benefits.

A recent comparison amongst G13 universities identified only five universities with significant post-employment benefit obligations greater than \$100 million, ranging from \$137 million to \$379 million and an unweighted average of \$262.4 million. Western ranked 2nd in total liability for Employee Future Benefits. The ratio of obligations to total revenues ranged from 16.3% to 38.8% with an unweighted average of 26.0%.

**Employee Future Benefits (EFB) – Obligation and Expense
as a % of Total Expenditures
2008 through 2012**

	<u>Obligation</u> (\$M)	<u>Expense</u> (\$M)	<u>Total</u> <u>University</u> <u>Expenses</u> (\$M)	<u>EFB</u> <u>Obligation</u> <u>as % of Total</u>	<u>EFB</u> <u>Expense</u> <u>as % of Total</u>
2008	\$ 208.2	\$ 20.0	\$ 845	24.6%	2.4%
2009	\$ 229.9	\$ 21.7	\$ 905	25.4%	2.4%
2010	\$ 248.1	\$ 18.3	\$ 915	27.1%	2.0%
2011	\$ 287.4	\$ 23.3	\$ 952	30.1%	2.4%
2012	\$ 307.3	\$ 20.0	\$ 975	31.5%	2.1%

C. Deferred Maintenance

Deferred Maintenance is defined as work on the maintenance of physical facilities that has been deferred on a planned or unplanned basis to a future budget cycle or postponed until funds become available. To avoid increasing the size of the deferred maintenance backlog, it is necessary to carry out replacement of facility components on an annual basis.

The estimates of deferred maintenance are different than estimates of debt or employee future benefits in the previous sections. There are actual contracts in place for the first two that allow us to make reasonable estimates. For deferred maintenance, that is not the case; therefore, we have to find other ways to quantify this liability. In 2001, a common capital-asset management system was purchased by the Ontario University system to assess, track, and report on the condition of facilities. The system requires that each major component of a building – roof sections, classrooms, heating,

ventilation, air-conditioning systems and so on – be inspected, either entirely or on a sample basis. Data on the findings of these inspections are entered into a central database. The system uses industry-standard cost and lifecycle data to forecast the timing and costs of capital renewal projects. The Facilities Management Division estimates that (as of February 28, 2013) deferred maintenance at Western is \$169 million for non-residential buildings and \$25 million for residences. Slightly more than 50% of the deferred maintenance for non-residential buildings relates to mechanical, electrical, and infrastructure requirements. Other major components include maintenance driven by code requirements and maintenance for roofs and windows.

A common measure for determining the overall condition of facilities is the ratio of deferred maintenance over replacement value of the facilities. The calculation for February 28, 2013 is as follows:

	<u>Non-Residential Buildings</u>	<u>Residences</u>
Current Replacement Value (CRV)	\$1,608 million	\$ 292 million
Deferred Maintenance (DM)	\$ 169 million	\$ 25 million
DM/CRV	10.5%	8.6%

The average age of buildings for universities in the Province of Ontario was over 30 years as of March 2007. Western's average age is 38 years. Over 59% of our buildings were built before 1980. Western's residences are funded through rents which cover maintenance; the University has never had a problem with deferred maintenance on residences. A ratio of 10.5% (Deferred Maintenance/Current Replacement Value) for non-residential buildings indicates a significant need for maintenance funding.

If the average component of a large building lasts 50 years, then on average maintenance spending should be 2.0% of replacement value. This level of spending is a standard target in the industry. When the actual ratio is consistently less than 2.0%, as has been the case at most Canadian universities, the volume of deferred maintenance will grow. Failure to adequately address deferred maintenance results in substandard facilities and could result in the failure of critical systems. Based on the current replacement value of our facilities at \$1.6 billion, spending on major maintenance for campus buildings at 2% should be in the range of \$32 million annually.

As part of the 1995 Strategic Plan, the Board of Governors approved an incremental annual base transfer of \$750,000 from operating capital in support of maintenance spending for ten years, from 1996-97 to 2005-06. In 2004, Western's Board of Governors approved the recommendation that the base transfer of \$750,000 be continued for another ten years after 2005-06, until 2015-16, when the annual transfer will be \$15.5 million. However, for 2009-10 and 2010-11, the annual transfer was maintained at \$10.25 million. For 2013-14, the base transfer will be increased by \$750,000 to \$12.5 million (2012-13, \$11.75 million) and will reach the intended maximum annual transfer of \$15.5 million in 2017-18.

As explained at the start of the Capital Budget, the maintenance transfer is used for Maintenance, Modernization, and Infrastructure (MMI). The administration is sometimes asked by faculty and staff if the MMI transfer is too large. As lines G and E in Table 15 show, the ratio of the MMI

transfer to the current replacement value (CRV) of our nonresidential buildings, utilities, and infrastructure has been below 1% in recent years.

	<u>Actual</u> <u>2009-10</u>	<u>Actual</u> <u>2010-11</u>	<u>Actual</u> <u>2011-12</u>	<u>Projected</u> <u>2012-13</u>	<u>Budget</u> <u>2013-14</u>
MMI	\$10.25m	\$10.25m	\$11.00m	\$11.75m	\$12.50m
CRV	\$1,341m	\$1,469m	\$1,596m	\$1,608m	\$1,625m
Ratio	0.76%	0.70%	0.69%	0.73%	0.77%

Thus the MMI transfer from the operating to the capital budget is less than half the 2% required to keep deferred maintenance from growing. Continuation of this MMI transfer is essential to maintaining a safe and reliable campus infrastructure, which supports modern research and teaching, and sustains faculty, staff, and student morale.

Line J of Table 15 presents an estimate of maintenance spending from all sources, with maintenance defined as spending required to bring aging facilities up to their condition when originally built. During the five years, 2006-07 through 2010-11, the ratio was about 2%, so that the level of deferred maintenance was stabilized. The University reached the 2% ratio with one-time funds from the provincial and federal governments, and by borrowing. The actual ratio in 2011-12, and the estimated ratios through 2013-14 have fallen short of the 2% target.

To sustain the 2% rate of expenditure, we need a greater annual commitment from the Province beyond the annual facilities renewal funding of \$17 million (for Ontario's universities) – of which Western's share is about \$1.5 million. A facilities renewal grant of \$1.5 million is 0.1% of the current replacement value in 2012-13.