Students' Society of McGill University
Association étudiante de l'Université McGill
Office of the Vice-President (Finance & Operations)
Bureau du Vice-Président (Finance et Opérations)

Rent and Utilities Fee Report

Executive Summary

The cost of the Lease for rent and utilities should be covered by a student levied fee of $6.08 each semester for full time students and $3.04 each semester for part time students. This fee should be indexed to a rate of 5.6% in order to cover the increases in rent and utilities each year.

This fee was chosen as the most financially sustainable alternative. This fee will support the costs associated with the lease for its duration and it will not jeopardize SSMUs financial position once the proposed lease agreement has concluded. The fee will not negatively impact SSMUs services in any way.

While the proposed fee may be overly conservative with its assumptions, the question internally restricts the capital to be spent on building renovations. In this way, the fee levies the only costs associated with running the William Shatner University Center.

Current Situation

Lease negotiations have reached the point where the duration of the lease and the actual amounts due from SSMU to McGill for both Utilities and Rent per year have been decided. The duration is for 7 years beginning next year and the amounts for rent and utilities each year are listed below in Appendix 1. The costs associated with Rent begin at $130,000 starting this school year and increase by $5,000 each year. Utilities cost $100,000 this year and will be indexed to the Consumer Price Index 2011 bundle for Energy within Quebec. If the index increase year by year is greater than 8% for any one year, the cost of utilities will only increase by 8% for that year.

The major question is how to fund the cost associated with the new leases.

Decision Criteria

The choice made must be financially sustainable in order to last for the entire duration of the lease. The alternative decided upon should not jeopardize the financially sustainability of the organization after the lease has ended either. The alternative chosen must not lower the level of service SSMU provides. The choice made must respect SSMU's constitution and all other political documents.

Alternatives

Introduce a Student Levied Fee:

Firstly SSMU could increase the base fee by the needed amount or SSMU could levy a new fee to cover the lease. Either way, the fee should be non-opt-out-able since the building is open to all students. The fee should be split into different amounts for part time and full time students, since part time students are less likely to use the building. I believe that by having the rent and utilities fee be separate from the SSMU base fee's imparts a high degree of financial transparency as students can immediately tell, when looking at their e-bill, what portion is going to support the current lease agreement.

Secondly, the amount of the fee must be determined. SSMU could set a flat fee that would be charged each year. During the first half of the lease, this flat fee would build up a reserve of capital that would pay out during the second half. The main issue with this is that it may be difficult to internally restrict the capital for this purpose. Since the utilities portion of the lease agreement is indexed to a volatile index, there is a possibility that the flat fee would be too low in the long run. This solution also disproportionately levies the cost of the building onto students; students who pay now will effectively be paying more than their proportionate fair share, as this does not reflect the increasing costs of the lease on a year-to-year basis. SSMU's restriction to break even on an annual basis is in direct

Another possible solution would be to index the fee so that students are paying roughly the necessary amount to pay the lease on a year-to-year basis. This solution is likely to be financially sustainable for the duration of the lease and not decrease SSMU's level of service as long as the decided upon index is accurate.

Pay the Increased Rent out of the Investment Portfolio:

SSMU could periodically pay out the amount of rent and utilities due to McGill by liquidating amounts in the investment portfolio. This solution is feasible and it would not lower the level of service SSMU provides in the short term. However; this solution could have long term repercussions for SSMU in that it decreases the amount of capital SSMU has access to overall. In case of crisis or necessary expenditures outside of normal operations, SSMU would not have this amount to fall back on. Given the current plan to pay out the interest generated by the portfolio on a yearly basis, this would decrease the amount of capital expenditure SSMU would be able to make each year. This would actually decrease the level of service SSMU provides. This solution is financially feasible for the duration of the lease (see appendix 2) but it is not sustainable after this agreement is terminated, and may jeopardize the long term financial sustainability of the society.

Recommendation

I recommend introducing a new student levied fee, one which will cover both the rent and utilities expenses stipulated in the agreed upon lease with McGill. This fee should be indexed to an appropriate rate so as to be able to cover all costs associated with the lease for the duration of the agreement. This fee should be as close as possible to the costs associated with the rental agreement so as not to generate excess capital by having students pay more than what is required.

Finances

The Excel table that follows shows the calculation of the fee amount per student and the appropriate indexation amount. This calculation makes several assumptions:

1) Each year there will be roughly 21,000 SSMU members, of which 19,000 are estimated to be full-time students and 2,000 are estimated to be part-time students. While these numbers are unlikely to be accurate looking at any particular year, the averages are likely to hold over time. I have erred on the side of caution with this estimate; using a number even slightly too high grossly affects the appropriate fee.

2) The Utilities portion of the lease will be indexed at the possible maximum, 8% each year. This was done to be conservative. Since the index used for the utilities cost is particularly volatile, it is difficult to forecast a robust average that could be used each year without risk of coming up short in lease payments. Since the solution must not decrease the level of service SSMU provides, the maximum indexation percentage was used.

Given our assumptions, the appropriate fee for the next school year, 2014/2015, should be $12.15 for full-time students and $6.08 for part-time students on a yearly basis. Since fees are charged on a semester basis, these values were divided by 2 and rounded up to the nearest cent. The indexation fee was set to the amount that would closely mirror the increases of the fee for each year. As demonstrated in the tables, an indexation rate of 5.6% closely mirrors the actual amount needed; only falling short a single year by $32.00.

Contract Year	Rent	Utilities(Max)	Total Amount	Number of Full Time McGill Students	Number of Part Time McGill Students
2011/2012	$ 126,900		$ 126,900		
2012/2013	$ 126,900	$ 70,000	$ 196,900		
2013/2014	$ 130,000	$ 100,000	$ 230,000		
2014/2015	$ 135,000	$ 108,000	$ 243,000	$ 19,000	$ 2,000
2015/2016	$ 140,000	$ 116,640	$ 256,640	$ 19,000	$ 2,000
2016/2017	$ 145,000	$ 125,971	$ 270,971	$ 19,000	$ 2,000
2017/2018	$ 150,000	$ 136,049	$ 286,049	$ 19,000	$ 2,000
2018/2019	$ 155,000	$ 146,933	$ 301,933	$ 19,000	$ 2,000
2017/2019	$ 160,000	$ 158,687	$ 318,687	$ 19,000	$ 2,000
2019/2020	$ 165,000	$ 171,382	$ 336,382	$ 19,000	$ 2,000
2020/2021	$ 170,000	$ 185,093	$ 355,093	$ 19,000	$ 2,000

Contract Year	Amount Charged Per Full Time Student (5.6%)	Amount Charged Per Part Time Student (5.6%)	Total Needed	Total Generated	Variance
2014/2015	$ 12.15	$ 6.08	$243,000	$243,000.00	$ -
2015/2016	$ 12.83	$ 6.42	$256,640	$256,608.00	$ (32.00)
2016/2017	$ 13.55	$ 6.78	$270,971	$271,011.84	$ 40.64
2017/2018	$ 14.31	$ 7.15	$286,049	$286,145.59	$ 96.69
2018/2019	$ 15.10	$ 7.55	$301,933	$302,067.63	$ 134.83
2017/2019	$ 15.94	$ 7.97	$318,687	$318,841.04	$ 153.61
2019/2020	$ 16.83	$ 8.41	$336,382	$336,533.93	$ 151.50
2020/2021	$ 17.76	$ 8.88	$355,093	$355,219.84	$ 126.82

Contingency

A major flaw with this solution is that the Utilities indexation rate is always assumed to be the maximum, 8%. It is highly unlikely that it will be this high each year, however; it exposes the Students Society to a high degree of risk by having the indexation rate assumed to be lower. Firstly because an appropriate average using past data may not be predictive of future energy rates and secondly because if the index is consistently 8% for several years early during the lease, the fee may not be adequate if a lower indexation rate is assumed.

A possible solution would be to have two separate questions, one for rent and one for utilities. This could risk SSMU, as having more questions introduces the possibility that students will not pass one of them. Since fees and indexation rates must be separately asked to students, this means that four referendum questions would have to be posed to students. This is politically risky as even a single failed referendum question would leave the fee generated inadequate to cover the associated costs of the lease agreement.

Since this situation cannot be helped, the most suitable solution is to internally restrict any excess capital generated from the fee. While it is likely that assuming an 8% maximum will generate excess capital, SSMU can still be financially transparent by restricting this capital to the capital expenditures reserve fund specifically for building renovation projects. Therefore, any excess generated will still be used for costs associated with having the building for student use.

Implementation

This student levied fee question has been drafted and sent to the Deputy Provost of Student Life and Learning. The question is below:
Resolved, that the SSMU Legislative Council approve the following question for the Winter 2014 Referendum period:

PART 1: Do you support the creation of a new student levied fee, labeled "William Shatner University Center Building Fee", payable and non-opt-outable on Minerva by all full-time and part-time members of the Students Society of McGill University be implemented at $6.08 per full-time student per semester and $3.04 per part-time student per semester in effect from the start of the semester in Fall 2014 until Fall 2021 (inclusive) at which point the current lease agreement with McGill will end?

Resolved, that the SSMU Legislative Council approve the following question for the Winter 2014 Referendum Period:

PART 2: Do you agree that the SSMU Building Rent and Utilities Fee be indexed to increase at a rate of 5.6% per year at the beginning of the Fall semester each year in order to compensate for the year to year rent and utilities increases agreed upon between SSMU and McGill?
Resolved, that this fee will be used to pay the rent and utilities of the current agreed upon lease agreement with McGill. Any excess of the rent and utilities payments that is generated by this fee will be internally restricted within SSMU's capital expenditures reserve fund for building renovation projects or future rent and utilities payments.

The question will be posed to SSMU Members via online referendum and they will decide if this decision is acceptable.

CONTRACT YEAR	RENT	CONTRIBUTION TO ENERGY COSTS	TOTAL AMOUNT	COMMENT
YR1 2011-2012	**$126,900**	---------	**$126,900**	***Paid in full***
YR2 2012-2013	**$126,900**	**$70,000** [i.e. **$9,010 + $60,990**]	**$196.900**	*As **$135,910.00** was paid, **$60,990** is due by **October 31, 2013***
YR3 2013-2014	**$130,000**	**$100,000.00**	**$230,000**	
YR4 2014-2015	**$135,000**	$100,000 increased by EPI to a max of 8% as set out below		
YR5 2015-2016	**$140,000**	Amount of energy costs in preceding year increased by EPI to a max of 8% as set out below		
YR6 2016-2017	**$145,000**	Amount of energy costs in preceding year increased by EPI to a max of 8% as set out below		
YR7 2017-2018	**$150,000**	Energy costs in preceding year increased by EPI to a max of 8% as set out below		

Appendix

Appendix 1

YR8 2018-2019	**$155,000**	Energy costs in preceding year increased by EPI to a max of 8% as set out below		
YR9 2019-2020	**$160,000**	Energy costs in preceding year increased by EPI to a max of 8% as set out below		
YR 10 2020-2021	**$165,000**	Energy costs in preceding year increased by EPI to a max of 8% as set out below		

Appendix 2

Contract Year	Rent	Utilities(Max)	Total Amount	Investment Portfolio Balance
2011/2012	$ 126,900		$ 126,900	
2012/2013	$ 126,900	$ 70,000	$ 196,900	
2013/2014	$ 130,000	$ 100,000	$ 230,000	$ 2,733,489
2014/2015	$ 135,000	$ 108,000	$ 243,000	$ 2,490,489
2015/2016	$ 140,000	$ 116,640	$ 256,640	$ 2,233,849
2016/2017	$ 145,000	$ 125,971	$ 270,971	$ 1,962,877
2017/2018	$ 150,000	$ 136,049	$ 286,049	$ 1,676,828
2018/2019	$ 155,000	$ 146,933	$ 301,933	$ 1,374,896
2017/2019	$ 160,000	$ 158,687	$ 318,687	$ 1,056,208
2019/2020	$ 165,000	$ 171,382	$ 336,382	$ 719,826
2020/2021	$ 170,000	$ 185,093	$ 355,093	$ 364,733