

SUBJECT	STUDENT HOUSING FINANCE ENDOWMENT INTEREST RATE INCREASE
MEETING DATE	FEBRUARY 14, 2017

Forwarded to the Board of Governors on the Recommendation of the President

**APPROVED FOR
SUBMISSION**



Santa Ono, President and Vice-Chancellor

DECISION REQUESTED	IT IS HEREBY REQUESTED that the Board of Governors approve an increase in the Student Housing Financing Endowment interest rate, from 5.75% to 6.0%. Note: The increase, if approved, will not apply to the Exchange Residence at Gage South project, to be 'grandfathered' at 5.75%.
Report Date	December 22, 2016
Presented By	Andrew Simpson, Vice-President Finance & Operations Ian Burgess, Comptroller Peter Smailes, Treasurer

EXECUTIVE SUMMARY

New student housing projects are financed through the Student Housing Financing Endowment (SHFE). The interest rate on loans issued with SHFE funds is set out in the Student Housing Financing Endowment Terms of Reference. The terms of reference require the rate to be no less than the projected interest rate, which is made up of the projected rate of inflation plus the endowment spending rate.

As the endowment spending rate is increasing from 3.5% to 4.0% on April 1, 2017, a review of the SHFE interest rate is required. Treasury recommends increasing the SHFE lending rate from 5.75% to 6.0% for future SHFE loans.

The rate for existing SHFE loans and for the Exchange Residence will continue at 5.75%.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

- Learning
 Research
 Innovation
 Engagement
 International
 (Internal / External)
- or Operational

DESCRIPTION & RATIONALE	New student housing projects are financed through the Student Housing Financing Endowment (SHFE). The interest rate on loans issued with SHFE funds is set out in the Student Housing Financing Endowment Terms of Reference. The Board approved Terms of Reference state: “The per annum interest rate for all SHHS loans shall be no less than: a) The projected rate of inflation over the repayment term, as determined by Treasury, as at the execution date of the internal loan agreement
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plus

- b) The endowment spend rate, established pursuant to University Policy #113, as at the execution date of the internal loan agreement.”

The current interest rate charged to student housing residence projects financed through SHFE is 5.75%. This interest rate was set at 5.75% in order to be consistent with all other long-terms loan issued by Treasury and is comprised of an inflationary amount of 2.25% and an endowment spending rate of 3.5%.

In December 2016, the Board of Governors approved an increase in the endowment spending rate from 3.5% to 4% effective April 1, 2017. While this 0.50% increase in the spending rate would suggest the SHFE financing rate be increased from 5.75% to 6.25%, inflation over the past 20 years has been 1.86% on average and the inflation target set by the Bank of Canada and the Government of Canada is 2%. Based on this information Treasury recommends increasing the SHFE lending rate from 5.75% to 6.0% for future SHFE loans. The rate for existing loans will continue at 5.75%.

AMS Response to a Potential SHFE Spending Rate Increase

The AMS provided UBC Treasury with the following statement in December 2016:

“Today, the UBC Board of Governors announced an increase in the endowment’s target spend-rate from 3.5% to 4%. The AMS is very pleased to hear that UBC’s endowment will be able to generate additional resources to support students, faculty, and staff.

As the recently approved motion currently reads, this increase in spend rate has the potential to affect the interest rate that applies to the loans for building of student housing in the future. As such, the AMS has concerns about the possibility that rent may be increased for students living in future housing projects.

We would like to see a commitment from the University that student housing costs will not increase in parallel with this spend rate increase. While this is exciting progress on the stability and growth of the University’s finances, the AMS looks forward to working with the Board to clarify the intention of the changes.”

UBC Student Housing and Hospitality Services (SHHS) funds debt services from all housing rents and other revenues. Increases in the cost of borrowing will not impact rents but instead may extend the period of negative cash flow on a specific project. Rent increases are calculated by inflation and/or extraordinary cost increases aside from borrowing costs and will continue to be brought forward to the UBC Board of Governors for approval annually. For example, if the interest rate on the \$77 million Exchange Student Residences was increased from 5.75% to 6.0%, the additional annual cost of borrowing would have extended the time it would take the project to become cash flow positive by one year. The residence project is projected to be cash flow positive by 2023/24 but if there was a 0.25% increase in the borrowing costs (\$140,000 a year) the residence project would be cash flow positive in 2024/25. Please note: the Exchange Residence interest rate will remain at 5.75%. The proposed change to the interest rate is immaterial relative to overall budget of SHHS.

Exchange Residence Financing

The UBC Exchange Residence is seeking financing approval from the Board at this meeting. The financing will be sourced from the Student Housing Financing Endowment. This project was developed, the financial pro-forma was finalized and the lending approval (subject to Board approval) all falls before the proposed April 1, 2017 SHFE interest rate change. For these reasons, the interest rate for the Exchange Residence has been kept at 5.75%.

BENEFITS	The per annum interest rate for all SHHS loans going forward is set by policy. A 6% interest rate is more beneficial for SHHS than a 6.25% interest rate.
Learning, Research, Financial, Sustainability & Reputational	

RISKS	Should interests rates remain the same the projected inflation rate may increase beyond 2%, SHFE will not keep pace with inflation. The expectation is that interest rates will increase stabilizing the target inflation rate set by the Government of Canada.
Financial, Operational & Reputational	

COSTS	There are no costs associated with administering the rate increase.
Capital & Lifecycle Operating	

FINANCIAL	There is no impact on liquidity as a result of the rate increase. The increase in the SHFE interest rate will be funded by Student Housing and Hospitality Services.
Funding Sources, Impact on Liquidity	

SCHEDULE	The SHFE interest rate will be increased to 6.0% for all eligible student housing residence projects that require financing after April 1, 2017.
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CONSULTATION	
Relevant Units, Internal & External Constituencies	<ul style="list-style-type: none"> • Student Housing and Hospitality Services • UBC Finance • UBC Treasury
