# REPORT TO THE BOARD OF GOVERNORS

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| **SUBJECT** | **INTEGRATED RENEWAL PROGRAM \| INTEREST-FREE LOAN FROM WORKING CAPITAL** |
| **MEETING DATE** | **APRIL 18, 2019** |
| **APPROVED FOR SUBMISSION** | Forwarded on the Recommendation of the President<br><br>Santa J. Ono, President and Vice-Chancellor |
| **DECISION REQUESTED** | **IT IS HEREBY REQUESTED that *approval be granted for an interest-free loan in the amount of $120 million from working capital to finance a portion of the Integrated Renewal Program.*** |
| **Report Date** | March 14, 2019 |
| **Presented By** | Peter Smailes, Vice-President Finance & Operations |

## DESCRIPTION & RATIONALE

The Integrated Renewal Program (IRP) is a multi-year initiative to transform UBC's academic and administrative support processes and system environments, which are integral foundations in meeting UBC's future needs and requirements. The IRP is inclusive of Human Resources, Finance, Student core systems and related business processes including updates and integration of other university systems that exchange data with our core systems as part of our regular business processes.

The IRP is reflected in the UBC Strategic Plan under "Strategy 5: Systems Renewal" to "transform university-level systems and processes to facilitate collaboration, innovation and agility." Funding for the project will be from working capital loans with the majority of the loans being financed over a 10 year period at the University's cost of capital of 5.75%.

The Student Information System is more than 30 years old, and the last major enterprise systems renewal of the HR and Finance systems was approximately 25 years ago. Since that time the PeopleSoft (Human Resources and Finance) and UBC developed Student Information Systems platforms have reached their ends of life and require replacement. These systems have incurred massive deferred maintenance that must be addressed immediately. The University is proceeding with Workday's "software as a service" platform to replace the Human Resources, Finance and Student Systems. The advantage of a "software as a service" delivery is that the systems are updated every six months, with a requirement that they be no more than one version behind, which minimizes deferred maintenance.

The initial plan was to finance the entire IRP cost over 10 years. However, the double burden of addressing the accumulated deferred maintenance of the last 30 years and the increase cost of moving to a system that minimizes future deferred systems maintenance should not be the full responsibility of the students over the next ten years. In order to partially offset this burden, a $120 million interest free loan from working capital over a 20 year term is recommended. This loan will partially correct the intergenerational inequity that would otherwise be borne by students over the next 10 years. The remainder of the total cost will continue to be financed from working capital over 10 years at 5.75%.

**STRATEGIC CORE AREAS SUPPORTED**

✔ **People and Places** ☐ **Research Excellence** ✔ **Transformative Learning** ☐ **Local / Global Engagement**

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| **BENEFITS** Learning, Research, Financial, Sustainability & Reputational | The intergenerational inequity associated with replacing existing systems and moving to a “software as a service” delivery will be reduced. |
| **RISKS** Financial, Operational & Reputational | The loan will be amortized over a period that is longer than a typical systems renewal project. The amortization period has been chosen to address an intergenerational inequity as opposed to match an asset’s benefit to its liability. However, the University is unlikely to undertake a similar comprehensive systems renewal within the next 20 years. |
| **COSTS** Capital & Lifecycle Operating | The cost of the interest-free loan is approximately 2.5 – 3% forgone interest on working capital investments. |
| **FINANCIAL** Funding Sources, Impact on Liquidity | In a typical loan with constant payments, the real dollar cost of the debt services decreases over time as a result of inflation. The $120 million loan debt service be constant in inflation-adjusted dollars and therefore will start at $4.9 million in year one and increase at 2% (or inflation) to $7.2 million in year 20. The IRP interest-free loan payment will be approximately equal when calculated in real (inflation adjusted) dollars. |