FOR ENDORSEMENT AND FORWARDING	PUBLIC	CLOSED SESSION

TO: Executive Committee

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DATE: March 16, 2015 for March 24, 2015

AGENDA ITEM: 4(c.)

ITEM IDENTIFICATION:

Budget Report 2015-16 and Long Range Budget Guidelines 2015-16 to 2019-20.

JURISDICTIONAL INFORMATION:

Excerpt from the Terms of Reference for the Planning and Budget Committee:

4.3.2. The annual budget is considered by the Committee for recommendation to the Academic Board. [Once the budget is recommended by the Academic Board, the concurrence of the Business Board is sought in regard to fiscal soundness before it is forwarded to the Governing Council.]

GOVERNANCE PATH:

1. Planning and Budget Committee (March 4, 2015)
2. Business Board (March 2, 2015)
3. Academic Board (March 19, 2015)
4. **Executive Committee [for endorsement and forwarding] (March 24, 2015)**
5. Governing Council [for approval] (April 1, 2015)

PREVIOUS ACTION TAKEN:

The Budget Report 2014-15 and Long Range Budget Guidelines 2014-15 to 2018-19 were approved by the Governing Council at its April 8, 2014 meeting.

HIGHLIGHTS:

This report contains the proposed Long Range Budget Guidelines for the five-year budget cycle 2015-16 to 2019-20, including the detailed annual budget for fiscal year 2015-16. This budget represents the culmination of many months of planning and the decisions of many academic and administrative units. An essential and major part of the annual budget process is the process for budgetary reviews for both academic and shared-service divisions. Two review processes are conducted annually, one for shared-services and the associated university-wide costs, and the other for the academic divisions.

The proposed budget is balanced at the institutional level in each year of the planning period. Projections for the outer years of the cycle provide the framework in which the University's budget will be prepared for fiscal years 2017 to 2020 as anticipated at the time of preparation of this report, and will be updated as appropriate each year to reflect changes in the economic conditions and the most recent information regarding the University's revenues and expenses. It is important to note that the operating budget is prepared on a cash basis.

The economic context for the budget projections is framed to a significant extent by the Ontario economic outlook, which currently projects a provincial deficit of $12.5 billion. While the University's portion of operating revenue derived from provincial operating grants continues to decline (from 50% in 2000 to 32% in 2014-15) provincial operating funds remain a crucial source of University revenue. Despite the context of global economic uncertainty resulting from plummeting oil prices and provincial financial pressures, the University projects growth of $117 million (5.7%) in total revenues, from $2.04 billion in 2014-15 to $2.16 billion in 2015-16.

The Long Range Budget Guidelines are also shaped by the recently approved Strategic Mandate Agreement (SMA) with the Province. The SMA aligns with Ontario's postsecondary differentiation policy framework. Our SMA's central premise is based on provincial recognition of the University of Toronto as a "globally recognized, comprehensive, and research-intensive institution with a distinct leadership role in Ontario's postsecondary education system. The University of Toronto's broad range of program offerings and research activity have a major economic and social impact, locally and globally."[1]

With the requirement to fund the pension solvency deficit, the declining proportion of revenue from government funding, increased restriction under the new tuition framework, and ongoing economic instability, we must remain restrained in our allocation of resources, while ensuring we maintain standards of excellence in teaching, research and the student experience. Expenditure allocations are proposed within these competing constraints. Decisions on the allocation of resources across the institution take into consideration a balance between the rates of expenditure increase in the administrative divisions vs. the academic divisions.

Total expenditures are also projected to increase by 5.7%, commensurate with revenues. Investments in important strategic initiatives will continue to be funded across academic and service divisions. A cost containment of $2 million (1%) will be applied to the shared service divisions in 2015-16. Academic divisions are responsible for their own increases in expenses, including the cost of compensation increases, and they will implement internal cost containment

[1] Strategic Mandate Agreement (2014-17) between the Ministry of Training, Colleges and universities and The University of Toronto

measures according to their individual circumstances. This is a prudent budget which builds on cautiously ambitious strategic planning across all divisions.

FINANCIAL IMPLICATIONS:

The Long Range Budget Guidelines plan for a balanced budget in each of the five years. The University continues to demonstrate an outstanding ability to cope with financial challenges by developing strategic and creative multi-year budget plans, which maintain and enhance academic priorities while minimizing the impact of the economic volatility on the student experience and on the research strength of the University. Leaders of academic and shared-service portfolios have risen to the challenge, seeking efficiencies and collaborations wherever possible. Despite, the volatility in the economy, enrolment remains very strong and the University continues on its upward trajectory of attracting excellent domestic and international students.

RECOMMENDATION:

Be It Recommended to the Governing Council:

THAT the *Budget Report 2015-16 be approved*, and

THAT the *Long Range Budget Guidelines 2015-16 to 2019-20* be approved in principle

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DOCUMENTATION PROVIDED:

Budget Report 2015-16 and Long Range Budget Guidelines 2015-16 to 2019-20 (February 9, 2015)

Long Range Budget Guidelines 2015-16 to 2019-20

Budget Report 2015-16

February 11, 2015

Prepared by the University of Toronto Planning and Budget Office

Budget Highlights

This report contains the proposed Long Range Budget Guidelines for the five-year budget cycle 2015-16 to 2019-20, including the detailed annual budget for fiscal year 2015-16. The proposed budget is balanced at the institutional level in each year of the planning period. Projections for the outer years of the cycle provide the framework in which the University's budget will be prepared for fiscal years 2017 to 2020 as anticipated at the time of preparation of this report and will be updated as appropriate each year to reflect changes in the economic conditions and the most recent information regarding the University's revenues and expenses. It is important to note that the operating budget is prepared on a cash basis, in contrast to the accrual basis of the audited financial statements. Also, the operating budget is only one, albeit the largest, of the four funds included in the financial statements; the three others are the restricted fund, the capital fund and the ancillary operations fund.

The economic context for the budget projections is framed to a significant extent by the Ontario economic outlook, which currently projects a provincial deficit of $12.5 billion. While the University's portion of operating revenue derived from provincial operating grants continues to decline (from 50% in 2000 to 32% in 2014-15) provincial operating funds remain a crucial source of University revenue.

The Long Range Budget Guidelines are also shaped by the recently approved Strategic Mandate Agreement (SMA) with the Province. The SMA aligns with Ontario's postsecondary differentiation policy framework. Our SMA's central premise is based on provincial recognition of the University of Toronto as a "globally recognized, comprehensive, and research-intensive institution with a distinct leadership role in Ontario's postsecondary education system. The University of Toronto's broad range of program offerings and research activity have a major economic and social impact, locally and globally."[1]

The plans are informed by the goals set out in *Towards 2030:*

1. Enhancing our standing as a leader in research-intensive and undergraduate education
2. Enhancing our standing as a leader in graduate education
3. Enhancing our standing as a globally ranked research powerhouse

And finally, plans are informed by the *President's Three Priorities*:

1. Leveraging our urban location more fully, for the mutual benefit of the university and the city
2. Strengthening and deepening key international partnerships
3. Re-imagining and re-inventing undergraduate education

Enrolment, the primary driver of operating revenues, remains robust and the University continues to attract excellent domestic and international students. In 2014-15 undergraduate, master's and doctoral enrolments increased over the prior year. Undergraduate entering averages continue to

[1] Strategic Mandate Agreement (2014-17) between the Ministry of Training, Colleges and universities and The University of Toronto

increase across all three campuses. The outlook for the next few years remains optimistic with early indications of strong student demand for 2015.

The $2 billion Boundless Campaign was launched in November 2011 and has achieved notable results in the past year, crowned by the announcement of the creation of the Ted Rogers Centre for Heart Research at the University of Toronto, the Hospital for Sick Children and the University Health Network, funded by an unprecedented $130 million gift from the Rogers family. As of December 31, 2014 $1.65 billion has been raised against a target of $2 billion with $ 201 million raised in 2013-14. Divisional campaigns, with support from the Division of University of Advancement, have raised these funds to support academic programs and research, the student experience, infrastructure and faculty support. A large portion of these funds, namely those directed to research, are accounted for outside the operating budget. The operating budget reflects the annual payout from the endowment directed toward student aid and endowed chairs.

Despite the context of global economic uncertainty resulting from plummeting oil prices and provincial financial pressures, the University projects growth in total revenue of $117 million in 2015-16 (5.7% over 2014-15). This increase is comprised of increases in general revenues of $103 million and increases of divisional-specific revenues of $14 million. The projected increase in total revenue over the planning period is $618 million. Projected growth in revenue stems primarily from planned increases in both domestic and international enrolments, carefully planned across our three campuses and many faculties, and moderate increases in tuition fees.

As the University continues to bring in new students, the increased revenue comes with increased expenses. Allocations to shared-services are restrained, yet recognize the importance of continued investment, and in some cases enhancement, in vital services. Shared-service priorities over the next few years include expansion of the wireless network, ongoing improvements to the student information system, funding to sustain the services and collections of our world-class library system (ranked number three behind Harvard and Yale in the Association of Research Libraries rankings, the organization of the largest research and university libraries in the U.S. and Canada), and funding to support transition toward the formal completion of the $2 billion Boundless fundraising campaign and to capitalize on the momentum on a sustainable basis. Academic expenditure plans include additional tenure and teaching stream faculty in many divisions, enhancement of student services, support services for entrepreneurship activities, curriculum redesign with a focus on integrating new learning technologies, and operating budget contributions toward capital projects. Compensation increases are planned within the provincial restraint context. Overall expenditure plans continue to assume that the University will be granted Stage 2 pension solvency relief and pension special payments will increase to $112 million per year by 2018-19. This is a prudent budget which builds on cautiously ambitious strategic planning across all divisions.

Structure of the Long Range Budget Guidelines Report

The Long Range Budget Guidelines, including the 2015-16 budget, are presented in the budget schedules in Appendix A. The projections are presented in five schedules.

- **Schedule 1** provides a high-level summary of projected revenue and expense;
- **Schedule 2** provides further detail on Provincial Operating Grants and Student Fees;
- **Schedule 3** provides further detail on university-wide expenses and campus costs. University-wide expenses are grouped by the 12 cost bins defined in the budget model, which are the basis for cost attribution to divisions. It also provides further detail on Student Aid Expenditures;
- **Schedule 4** contains a detailed summary of revenue attributions and deductions by division for 2015-16;
- **Schedule 5** provides multi-year projections by division for the five-year budget cycle.

Fiscal Context

The Economic Climate

On January 22, 2015 the Bank of Canada released its updated economic growth forecast as part of its quarterly monetary policy report. The Bank is now projecting growth at 2.1%, down from the earlier forecast of 2.4%. In addition, the Bank made the surprise move of cutting its key overnight lending rate by a quarter of a percentage point, from 1% to .75%. Both these moves signal concern and uncertainty about the Canadian economic climate resulting from plunging oil prices. The federal budget has been delayed until at least April 2015 to allow time for the government to assess the impacts of a slowing Canadian economy. The drop in oil prices is expected to lead to reduced inflation. After a period of strong market returns in 2015, markets have been more volatile in the last few months and have fallen in reaction to euro zone concerns, declining oil and commodity prices and shaken consumer confidence. The continuing depreciation of the Canadian dollar has positive and negative impacts for the University, with a Canadian education becoming more financially attractive for international students but creating challenges when hiring in the international academic arena. These uncertainties contribute to the restrained planning contained in this report.

Enrolment and Provincial Operating Grant

Strategic Mandate Agreements were signed with all postsecondary institutions over the course of 2014. The agreements included allocations of graduate expansions spaces for 2015-16 and 2016-17. There are 2,000 spaces remaining to be allocated across the system in the following two years. Our enrolment plans are set within the context of the University's long term planning framework, *Towards 2030*, and our Strategic Mandate Agreement. The University has aspirations to expand graduate enrolment by about 1,200 master's spaces and about 800 doctoral spaces (provincially funded) over the next five years. These plans exceed an estimate of our share of the remaining 2,000 spaces and plans will be recalibrated each year based on actual results and new information from the Ministry.

The provincial grant has, in the past, represented the largest portion of the University's revenue. Per-student funding in Ontario trails behind all other provinces and this shortfall is damaging to some of Canada's finest universities. The drop in the provincial grant has dramatically altered the size and composition of the University of Toronto operating budget. This trend continues in 2015-16 with government grants expected to represent only 30% of total operating revenue, declining to 25% by 2019-20. To put this in perspective, in 2000-01 the comparable proportion was 50%.

In October 2013 the Ministry of Training, Colleges and Universities and the Ministry of Education jointly announced changes in Ontario's initial teacher education program (B.Ed.). Changes include doubling the length of the undergraduate program to two years, while maintaining the number of enrolment spaces currently available in system, thus reducing the number of new students entering, and therefore graduating, by about a half. At the same time, starting in 2015-16, the provincial funding weight of the B.Ed. program will be reduced by 33%, resulting in a reduction of over $3 million to the budget of our faculty of education, OISE. In response to these changes the University has made the decision to end its undergraduate teacher education program and focus on teacher education at the graduate level, in line with OISE's position as a leader in research-intensive teaching and learning. OISE will convert its 1,167 B.Ed spaces into approximately 500 graduate spaces, and will build on its existing Master of Teaching (MT) and Master of Arts, Child Study (MA-CSE) programs. This strategic direction has been affirmed by the province through the SMA process.

The ability to increase the number of international doctoral students is severely limited by the lack of provincial operating funding to support these students; the University and the Council of Ontario Universities continue to advocate for a change in this provincial policy.

With respect to undergraduate students, the University has been able to attract very high quality students. Entering averages continue to rise each year and are carefully monitored as an indicator of the academic quality of our students. Despite a system-wide 1.8% reduction of Ontario high school applicants for Fall 2015, the University of Toronto's first-choice Ontario high school applications have increased by 1%. Total University of Toronto Ontario high school applications (all choices) were up 1.5% relative to provincial decline of 0.8%. In the non-Ontario high school category (students from other provinces and international students) of undergraduate students, early statistics indicate about a 5% increase over last year, relative to a 0.6% decrease across the Ontario system.

Our plans call for most of the undergraduate growth to be on the Mississauga and Scarborough campuses, as specified in the University's *Towards 2030* plan. This growth will be accompanied by extensive capital investment on both campuses. Undergraduate enrolment in the Faculty of Arts and Science at the St. George campus will remain relatively constant over the next five years. Moderate undergraduate increases are planned in the faculties of Architecture, Music and Kinesiology and Physical Education. Summaries of our enrolment plans are contained in Tables 1, 2 and 3.

Table 1: Enrolment FTE results 2014-15 and projections to 2019-20

	2014-15A	2015-16P	2016-17P	2017-18P	2018-19P	2019-20P
UG Domestic	48,452	48,359	48,799	49,293	49,751	49,883
UG International	10,415	11,315	11,950	12,506	12,514	12,601
Grad Domestic	13,086	13,779	14,610	15,142	15,519	15,800
Grad International	2,564	2,538	2,576	2,614	2,655	2,681
Total FTE	74,516	75,991	77,934	79,555	80,438	80,964

Table 2: Undergraduate FTE by campus

	2014-15A	2015-16P	2016-17P	2017-18P	2018-19P	2019-20P
UTM	10,942	11,591	12,121	12,541	12,893	13,044
UTSC	10,088	10,627	10,986	11,286	11,476	11,511
St. George	37,836	37,457	37,642	37,971	37,896	37,928
Total FTE	58,866	59,674	60,749	61,798	62,264	62,483

Table 3: Graduate FTE by degree type

	2014-15A	2015-16P	2016-17P	2017-18P	2018-19P	2019-20P
Prof Masters	6,614	7,191	7,793	8,089	8,247	8,337
DS Masters	2,797	2,867	2,972	3,062	3,109	3,130
PhD	6,239	6,259	6,420	6,606	6,817	7,014
Total FTE	15,650	16,317	17,185	17,757	18,173	18,481

Note: In last year's budget report, the enrolment tables included all TST enrolment. As a result of the new Memorandum of agreement with TST, in this year's budget report, the enrolment tables include only TST conjoint enrolment.

Tuition and Student Assistance

A full discussion of tuition fees is contained in the annual *Tuition Fee Report* which accompanies this report when presented to the Business Board of Governing Council. Key highlights are noted below.

Tuition fees at the University of Toronto are determined in accordance with the University's Tuition Fee Policy, the Statement of Commitment Regarding International Students and the Provincial Government's Tuition Framework which runs for a four-year period to 2016-17. The long range projections assume the Tuition Framework will remain unchanged over the course of the planning period. Under the Framework, domestic tuition fees are regulated and increases are allowed, subject to accessibility guarantees. The new Tuition Framework has altered the way in which universities are permitted to charge students under the Program Fee methodology; as a result the Faculty of Arts and Science will be phasing in changes to their program fee structure, resulting in an annual loss of tuition revenue of about $9 million once fully phased in.

The tuition framework is accompanied by a Student Access Guarantee (SAG.) The SAG requires universities to provide sufficient financial aid to every direct-entry undergraduate OSAP-eligible student to cover expenses directly related to his or her program, including books, tuition and mandatory fees, which are not fully met by OSAP.

The University of Toronto is independently committed to student aid and is guided by the 1998 Governing Council policy on accessibility, which predates the government's framework, and will continue to drive our funding for needs-based student aid. The policy contains the following Statement of Principle:

"No student offered admission to a program at the University of Toronto should be unable to enter or complete the program due to lack of financial means."

At the University of Toronto approximately 53% of full time domestic undergraduate students and 20% of full time domestic graduate students receive support from the provincial needs-based assistance program (OSAP). Within that population many students also receive funding from the University's needs-based aid program (UTAPS). In addition, many undergraduate students benefit from the provincial Ontario Tuition Grant program which provides $865 per term for up to two terms in 2014-15. When taking all of these grant and bursary programs (not loans) into consideration, the portion of total tuition paid by OSAP-eligible students, on average in 2012-13 was 48% of the posted rate. Despite the fact that there has been a 22% increase in the percentage of students with OSAP debt graduating from direct-entry programs since 2009-10, the average OSAP debt of these students continues to decrease. The average OSAP debt in 2013-14 was $19,651, down more than 8% compared to 2009-10 levels, when adjusted for inflation.The combination of these robust student financial aid programs greatly enhances access to the University's excellent education opportunities for a wide array of students.

Federal Funding

Funding from the federal government is provided to universities primarily to support research and is not generally part of the University's operating budget. However, it interacts with the University's operating budget in three important areas: Canada Research Chairs, the institutional cost of research, and graduate student support.

The Canada Research Chairs program introduced in 2000-01 provides salary and research support for outstanding university researchers on a competitive basis. Research chairs are awarded to each university based on its share of research funding by the federal granting councils. The University experienced a decline in the number of CRC chairs to a low of 242 chairs several years ago but the trend is reversing as we increase our share in tri-council funding competitions. Since the CRC program was introduced, inflation has reduced the effective value of Chair funding by over 25%. An appropriate adjustment to government funding is long overdue.

As a long-standing subject of government advocacy, universities have been requesting that the federal government recognize the full cost of research in its research funding policy, with a 40% rate as a minimum target for the indirect costs. The government began to provide institutional costs of research (ICR) funding in 2003-04, with an effective rate for the University of Toronto now at 17.5%, up slightly from the rate of 17.2% last year due to the recent injection of $9 million in new federal funds into the program. This is currently contributing about $20 million to the University's operating budget, and continues to be considerably short of the actual institutional cost of research, estimated at 58% at the University of Toronto. In should be noted that the methodology for calculating the University's actual ICR rate was revised by the University's research office last year to reflect changes in calculations of direct vs. indirect costs. A doubling of the federal ICR rate to over $40 million would put us somewhat closer to our competitors and would have a significant impact on allowing the research intensive divisions to close the gap on their structural deficits. Without a change in the funding formula, each additional dollar of research funding places a higher burden on the University's operating funds.

In the 2014 federal budget, the government positioned postsecondary research within their Science, Technology and Innovation strategy. The federal budget announced the creation of the Canada First Research Excellence Fund, a $1.5 billion fund over ten years. The objective of the fund is to "help Canada's postsecondary institutions excel globally in research areas that create long-term economic advantages for Canada." The results for the first round will be announced in July 2015.

The federal government supports graduate students by providing fellowships on a competitive basis. Although these funds do not flow through the University's budget, they provide indirect budget relief to the academic divisions by freeing up funds that would otherwise have to be used for graduate student support. The support for graduate students has not kept pace with the rapid growth in graduate enrolment.

Compensation

The Province continues to expect broader public sector employers to exercise compensation restraint, both in collective bargaining, and in setting compensation for individuals who do not bargain collectively. In July 2012 the Finance Minister issued a letter setting out the Government's expectations for renewal collective bargaining, indicating that renewal agreements should be for a term of at least two years, with no net increase in compensation (broadly defined). The letter is still in effect. The general thrust of the Government's policy in this area has been to emphasize that institutions need to operate within their budgets in an era of ongoing compensation restraint. In addition, a number of senior staff at the University are affected by the Broader Public Sector Accountability Act, which remains in effect. The recent introduction of Bill 8 requires the development of a compensation framework for the University's most senior executives. The University will be engaged in negotiations with the majority of its unions, as well as the Faculty Association, over the next six to eight months and it will conduct its bargaining in light of, and in compliance with, the foregoing.

Pension

Like almost every other Canadian and US public sector institution that sponsors a defined benefit pension plan, the University is facing a pension deficit. Both the overall economic and financial climate and the regulatory landscape continue to be very uncertain with respect to pensions. Interest rates continue to be at historic lows, affecting investment returns and risk taking, and making it much more difficult to achieve investment returns. The strategy continues to assume that the U of T plans will be accepted to stage 2 of the Ontario Government's temporary solvency relief program. The University has fulfilled the requirement for acceptance by increasing member contributions and expects Stage 2 acceptance. Further details are included in the *Overview of Key Planning Assumptions* section of this report.

Other Future Liabilities

The University has many future liabilities, not currently funded directly through the operating budget.

Deferred maintenance across the three campuses is estimated at $505 million ($435 million at the St. George campus). The operating budget sets aside approximately $15 million annually (growing to about $18 million in a few years) for deferred maintenance at St. George. Separate funds are set aside at UTM and UTSC. Additional funds are available to address deferred maintenance through the provincial Facilities Renewal Program (FRP) program. In April 2014 the province announced its intention to phase in increases to the FRP program beginning in 2015-16. This comes as good news amongst the myriad of financial challenges the University is facing. Funding for the university sector is projected to increase from $26 million in 2014-15 to $100 million in 2019-20. The portion allocated to the University of Toronto is projected to increase from $3 million in 2014-15 to $12 million in 2019-20.

The ancillary operations' cumulative deficit has been declining over the last several years and is projected to be $56 million at April 30, 2015, a reduction of 50% of the $115 million deficit in 2011. The ancillary operations deficit is primarily due to the internal financing of capital projects, which has the impact of increasing both the University's overall deficit and the investment in capital assets. Multi-year plans are in place and are managed carefully by divisions and a review committee. All ancillary services are required to put in place a plan to eliminate deficits over a reasonable time horizon; most are well on their way toward this objective.

The capital fund cumulative deficit is projected to be $55 million at April 30, 2015. The capital fund deficit is primarily due to the internal financing of capital projects, which has the impact of increasing both the University's overall deficit and the investment in capital assets. Divisional plans include realistic multi-year strategies to repay internal loans.

The Budget Process

The Planning Process

This budget represents the culmination of many months of planning and the decisions of many academic and administrative units. An essential and major part of the annual budget process is the process for budgetary reviews for both academic and shared-service divisions. Two review processes are conducted annually, one for shared-services and the associated university-wide costs, and the other for the academic divisions.

Each shared-service division prepares multi-year budget plans for its units. These plans are reviewed by the President, who takes advice from the Divisional Advisory Committee, which includes the Principals at UTM and UTSC, and representative deans of faculties. The purpose of the review is two-fold. First, the review ensures that any proposed changes in services are aligned with the needs and priorities of the academic enterprise. Second, the review establishes spending priorities, considers the alignment of services between those provided centrally and those provided in the divisions, and ensures that all possible cost reductions have been examined.

The annual academic budget reviews (ABRs) take place throughout the autumn term. Each division submits a multi-year budget plan to the Provost based on its academic plans. Revenue projections are based on enrolment plans, new program offerings, advancement outcomes, etc. Expense projections take into account cost increases, changes in faculty and staff complement, student financial support, etc. These plans are discussed in individual review meetings with a Provostial committee that includes the Provost, the Vice Provost Academic Programs, the Vice President University Operations and senior staff in Planning and Budget. The reviews inform approvals of enrolment targets, academic appointments, allocations from the University Fund, approval of campaign priorities, and approval of capital plans.

The review process, whether for academic or administrative divisions, amounts to a high level of engagement by deans and members of the senior administration in the budget process. As a result, budgetary allocations are informed not only by the overall budget situation of the University but also by the circumstances of individual divisions and by their academic values and priorities. Cost containment measures, which are often necessary because of the constraints on revenue, are applied by each academic division based on its own circumstances.

The review process also promotes a better alignment of the University-wide services with the needs of the academic divisions. The involvement of members of the senior administration leads to a deeper understanding of the nature of the University's expenses, how services can be best delivered, and where and how savings may be realized.

The University's Budget Model

We are entering the ninth year of planning under The University of Toronto Budget Model, adopted in 2007-08. The fundamental guiding principle underlying the budget model is *"The budget allocation process is a primary tool for the implementation of the university's academic plans and academic priorities."* The model has three basic objectives:

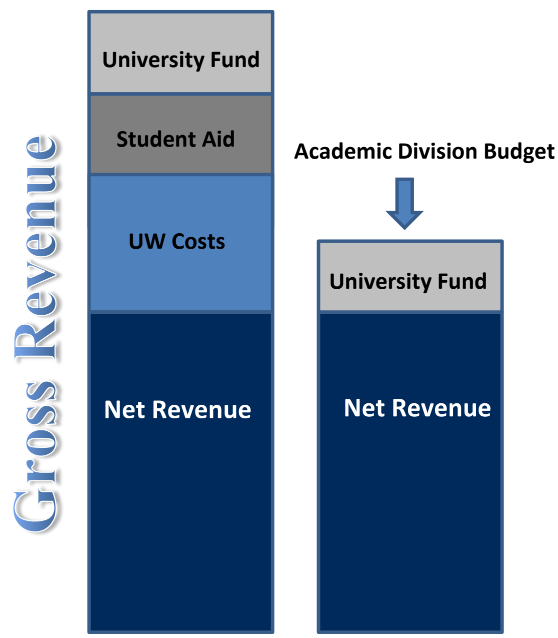
- to provide a high degree of transparency, enabling all levels of university administration and governance to have a clear understanding of university revenues and expenses,
- to introduce broadly-based incentives to strengthen the financial health of the university by increasing revenues and reducing expenses, and
- to encourage a higher level of engagement of all senior levels of administration in budget planning for academic divisions and in recommending priorities and budgetary allocations for shared infrastructure.

A review of the budget model was conducted in 2010-11 and the results of the review indicate that the budget model is meeting these objectives and serving the University well. In fact it has enabled the University to manage its resources with greater resilience and creativity through the recent challenging fiscal circumstances. Information on the budget model and the review report can be found on the Planning and Budget website.

The model introduced a simple methodology for attributing revenues and the costs of shared infrastructure to all divisions. A major portion of the expense budget allocated to an academic division is its *Net Revenue,* which is equal to its share of the University's gross revenue less its share of expenses, including its contribution to student aid and to a university-wide fund called the University Fund. A division's net revenue reflects its programs, student enrolments, advancement activities, research, etc. Divisions benefit as these activities bring more revenue and when, in cooperation with central service units, they are able to make more efficient use of the shared resources.

The remainder of a division's budget is an allocation from the University Fund. This is an entirely non-formulaic allocation, intended to provide funding in accordance with the University's academic values and priorities. It ensures that the total budget of a division is determined by the University's own priorities rather than by those of an external entities. It also enables the University to recognize differences in the cost of delivery of various programs. The following graph provides a visual presentation of how academic budgets are derived.

Figure 1: University of Toronto Budget Model



The process of attributing revenues and costs to divisions has been designed to minimize administrative overhead. For example, no transaction accounting is used to attribute the cost of a particular service. Instead, revenues and costs are attributed using readily available and verifiable parameters that provide a reasonable basis for the distribution of revenue or a suitable measure of the extent to which a division has access to a particular resource or service. These measures are referred to as revenue drivers and cost drivers, respectively. They include such parameters as number of students, number of faculty, usable space area occupied, etc.

The budget planning cycle is based on a five-year rolling window. Budget assumptions used in the Long Range Budget Guidelines are updated each year, and new assumptions are prepared for one additional year. Revised revenue and expense projections are then prepared for the new cycle based on these assumptions.

Surplus/Deficit Management

Governing Council guidelines for deficit control were revised in 2008 as a result of the change from a fixed to a rolling-window planning cycle. According to these guidelines, the University should strive to plan a balanced budget in every year of the cycle. In addition, any outstanding accumulated deficit from previous years should be reduced to zero by the end of the five-year planning period. An in-year deficit may be allowed in some years to facilitate planning, recognizing that fluctuations often occur in enrolments, government grants, investment income, etc. The deficit or surplus in the University's integrated budget is a result of the aggregated plans of individual divisions. A planned deficit may also be necessary in exceptional circumstances. Planned budgetary deficits should also be repaid over five years.

The University's budget is prepared as an aggregation of the expense budgets of individual divisions. Budget plans for both the academic and administrative divisions are reviewed and approved annually by the President and the Provost, with the assistance of appropriate advisory committees, as explained above. These management control mechanisms encourage divisions to operate within their budgets and to minimize the level of a planned budget deficit when one is necessary.

Overview of Key Planning Assumptions

Revenue Projections

Operating revenues are derived primarily from provincial operating grants and tuition fees. They also include investment income, endowment income, Canada Research Chairs, funding for the indirect costs of research, revenue from activities such as continuing education, sale of services and cost recovery and administrative ancillary fees. The University projects growth in total revenue of $117 million in 2015-16 (5.7% over 2014-15) and $618 million over the planning period.

Operating Grants

Details of operating grants are included in Appendix A, Schedule 2. An overall decrease of $7.5 million is projected in the operating grant for 2015-16 and an increase of only $16 million is projected over the next five years. The decrease next year is explained by a slight reduction in planned undergraduate domestic enrolment relative to last year, a modest adjustment to graduate enrolment projections in line with the SMA allocation, and the final year of the phasing in of the International Student Recovery. The operating grant for teacher education will also decrease as a result of provincial changes to the structure and funding of teacher education programs which include a 33% reduction in funding, as described earlier in this report. In addition, the Aiming for the Top provincial Scholarship program has now come to an end.

The budget assumes the following for provincial grants:

- The budget projections are based on the most recent divisional enrolment plans and the information available about government funding;

- The budget projections do not include funding for capital expansion;
- The provincial government operating grants will not include an inflationary increase;
- Undiscounted funding will be received for all undergraduate students as per divisional enrolment plans and funding for graduate expansion up to the estimated University of Toronto final Strategic Mandate Agreement allocation from the provincial graduate envelope; some graduate divisional plans exceed this and tuition revenue only is assumed allocated in those cases.

Tuition Fees

A breakdown of tuition fees vs. ancillary, continuing and executive education fees is included in Appendix A, Schedule 2. Tuition fees for domestic students are set within the provincial Tuition Framework. Tuition fees for international students are set at a level that takes into consideration the full cost of providing a program and with reference to fees at peer Canadian and US universities. Tuition fee increases, measured at the gross level, are assumed to be 3% on average for domestic students. The average tuition increases for international students is 6.2% in 2015-16 and varies slightly each year thereafter depending on divisional plans. When student financial aid is taken into account, the average increase for domestic students is about 2%. Details on proposed tuition fee increases program by program are found in the *Tuition Fee Report*, which comes to Governing Council for approval along with this report.

In December 2013 the Ministry issued its Revisions to Tuition Fee Framework Guidelines which included changes in the way in which universities are permitted to charge program fees. Program fees refer to a tuition fee structure in which all students in the same program are charged the same tuition fee for course loads at or above a certain threshold of the normal course load. A normal course load is defined as that which would be required for a student to earn a given credential in a prescribed amount of time (e.g., five courses per academic term to complete an honours bachelor's degree in four years). The University of Toronto threshold for program fees in the Faculty of Arts and Science is currently 60%. The new Tuition Guidelines permit a minimum course load threshold of 80% of normal course load for students charged on a program fee basis. The Guidelines allow for the change to be phased in over three years, with no mandatory change in 2014-15, moving to a 70% threshold in 2015-16 and an 80% threshold in 2016-17. Effective 2015-16 the Faculty of Arts and Science will begin to phase in the new program fee thresholds for domestic and international students in non-cohort based programs. The impact of this change is estimated to reduce tuition revenue by $9 million annually for the Faculty of Arts and Science once fully implemented. It is anticipated that the new program fee guidelines related to cohort-based programs will not have material budgetary implications for other divisions.

It is important to note that tuition revenue increases are a result of both increased tuition fees <u>and</u> higher enrolments. Under the Tuition Framework, tuition fees for entering and continuing students in

Arts and Science and selected other undergraduate programs may increase by a maximum of 3%. Tuition fees for entering and continuing students in graduate and high-cost professional programs may be increased by a maximum of 5%. Overall, the average increase in tuition for all students in any institution may not exceed 3%. The projected average for gross tuition fee increases at the University of Toronto in 2015-16 is 3%. In order to fit within the overall 3% cap, the University has not been able to maximize fee increases in all programs due to the intensity of our graduate and professional programs. As a result, tuition fees for doctoral stream students will decrease by $55 in 2015-16.

The concept of “net tuition” is an important one. Net tuition is defined as the tuition paid by a student after deducting non-repayable bursaries provided by the provincial government and the University. It does not take into account student loans. Universities and the provincial government provide significant amounts of student financial support to reduce the stated cost of tuition and to ensure that academically qualified students have the resources they need to attend university.

Over the past few years the University of Toronto has completed a study of the impact of student financial support on the tuition rates actually paid by our students. The result of the analysis yields important insights into the true cost of accessing higher education at the University of Toronto. Some of the key findings for 2012-13 include:

- About 46% of UofT full-time domestic undergraduate students received support through OSAP;
- About 41%of these students also received additional support from the University of Toronto;
- When OSAP, University bursaries and the new Ontario Tuition Grant are taken into consideration, net tuition for the OSAP-eligible population of students is 48%.

Given the relative stability of the net tuition study over the last few years, the full analysis will now be completed every second year. The study was not updated for 2013-14 data but will be completed when 2014-15 information is available.

Ancillary Fees

Ancillary fee revenue includes fees charged to students as permitted by MTCU Guidelines. These include fees in the following categories: student services, health services, athletics, Hart House, constituent college fees, student society fees, cost recovery fees, and administrative user fees and fines. Increases in compulsory ancillary fees are regulated by MTCU through their Guidelines and in accordance with the Memorandum of Agreement between the University and student governments (1996).

Tuition Fees for Continuing and Executive Education Programs

Most divisions offer continuing and/or executive education programs. Fees in these types of programs are not regulated by MTCU. Examples include: language, creative writing, and professional development programs in the School of Continuing Studies; and executive education programs in many professional faculties.

Endowment Income

The University of Toronto has many generous friends and benefactors, who have contributed a total endowment in excess of $1.88 billion (fair value at April 30, 2014.) Endowment income is highly targeted. The endowment income included in the operating budget is directed to student aid and to the support of endowed chairs and represents a modest but important part of the University's total operating revenue, 2.6% in 2015-16. It is important to note that endowment revenue for research and academic program support is not reflected in the operating budget. The Long Range Budget Guidelines build in a conservative assumption of growth in endowments; this will be adjusted each year as gifts are received.

By policy, pay-outs on the University's endowed funds range from 3% to 5% of the market value of the relevant assets, with a target around 4%. The endowment payout strategy is to increase the payout per unit annually with inflation. The payout rate per unit will be determined and announced in March 2015 and the actual distribution will occur just prior to year end at April 30, 2015, following the normal process. For 2015 the payout rate will be increased by 2% to $7.71 per unit. At April 2014, the cumulative preservation of capital was $36.3 million below the desired inflation protection. By April 2015, at the annual expected rate of 7.6%, the cumulative preservation of capital is expected to be only $8.5 million below the desired inflation protection. For this budget, we propose to keep the payout rate at $7.71 for the entire period of the long-range budget for planning purpose. In 2015-16 this payout rate projects $40 million for student aid and $16 million for chairs.

Investment Income

The University receives interest on short- and medium-term investments of the Expendable Funds Investment Pool (EFIP.) The investments are primarily managed by the University of Toronto Asset Management Corporation (UTAM). Investment income makes up a small but important portion of total operating revenue (about 1.7 %), and fluctuates with market conditions.

In 2015-16 investment income is projected to increase slightly to $37 million, and to $58 million by the end of the planning period. The projection is based on assumptions of cash balances, revenue and expenditure rates, divisional reserve balances, transfer of operating funds to capital funds, cash donations, research revenue forecasts, and investment return rates. The UTAM return rate assumption over the next 5 years is assumed to rise from 1.85% to 3.35%.

Sales, Services and Sundry Income

This income source of $94 million (2015-16) includes application fee revenue, service charges on unpaid fees, real estate rental income, licensing revenue from commercialization, and revenue collected directly by divisions for general sales and services. Income from these sources is projected to increase by $18 million to $112 million over the planning period.

Canada Research Chairs

The federal allocation of CRC chairs is based on a rolling average of proportional shares of federal tri-council funding. Several years ago the University began to experience a reduction in our allocation of CRC Chairs, bringing the number as low as 232. Recently, commensurate with increased federal tri-council funding received by the University, the number of CRC chairs has increased to 247 and is projected to increase to 250 by the end of the planning period; projections include "flex" moves, in which two Tier II chairs can be combined to form one Tier I chair or vice versa at the discretion of the University.

Institutional Costs of Research on Grants and Contracts

This category of revenue includes funding from the federal Indirect Costs Program (which applies to certain NSERC, SSHRC, CIHR and Networks of Centres of Excellence funding programs), indirect costs recovered through certain provincial funding programs, as well as indirect costs associated with various private sector-sponsored and other research funding agreements. The University of Toronto's rate of federal indirect costs recovery has generally been declining over the last many years, from 20.1% in 2008-09 down to 17.2% in 2014-15, and a slight uptick in 2015-16 to 17.5%, due to the faster growth of direct tri-agency and NCE funding, nation-wide and at the University of Toronto, compared to the envelope allocated to the Indirect Costs Program. Budget projections assume the value, at $19.6 million for campus-based research, will remain constant over the planning period. Funding from the provincial Research Overheads Infrastructure Envelope (ROIE) is projected to remain constant at $11 million over the planning period. Revenue from indirect costs on private sector-sponsored and other research funding agreements, and funds awarded through the Ontario Ministry of Research and Innovation (MRI) is projected to remain at current levels of about $14 Million in 2015-16, declining to $12 million in 2016-17, $11 million in 2017-18 and then slowly rising back to $12 million in the final year of the planning period. These changes are for the most part due to a decline in MRI funding in the near term. MRI estimates will be revised each year if and when the provincial government announces new rounds Ontario Research Fund Research Excellence (ORF-RE).

Expenditure Projections

Aggregated expenditure projections are included in Appendix A, Schedule 1. A more detailed view, outlining projections for each university-wide "cost bin" and UTM and UTSC campus costs, is included in Appendix A, Schedule 3.

With the requirement to fund the pension solvency deficit, the declining proportion of revenue from government funding, increased restriction under the new tuition framework, and ongoing economic instability, we must remain restrained in our allocation of resources, while ensuring we maintain standards of excellence in teaching, research and the student experience. Expenditure allocations are proposed within these competing constraints. Decisions on the allocation of resources across the institution take into consideration a balance between the rates of expenditure increase in the administrative divisions vs. the academic divisions.

Total expenditures are projected to increase by 5.7% from $2,043 million in 2014-15 to $2,160 in 2015-16. Investments in important strategic initiatives will continue to be funded across academic and service divisions. A cost containment of $2 million (1%) will be applied to the shared service divisions in 2015-16. Academic divisions are responsible for their own increases in expenses, including the cost of compensation increases, and they will implement internal cost containment measures according to their individual circumstances.

Shared-Services Costs

Shared service costs are detailed in Appendix A, Schedule 3. For budget allocation purposes, the shared service costs (also known as university-wide costs) are grouped into twelve costs bins.

The occupancy cost bin is the largest of the cost bins and includes the costs of the St. George campus only. Utilities, maintenance and caretaking budgets for UTM and UTSC are included in the UTM/UTSC Campus Costs budget line, as these divisions are directly responsible for funding their own services.

Occupancy costs include utilities, maintenance and caretaking, and deferred maintenance:

- Utility costs are projected to decrease slightly in 2015-16 despite increases in energy and water rates. Facilities and Services will begin to invest these savings from utility budgets into a contingency fund to manage the volatility of utility expenses. This will serve to soften the recent swings experienced by academic divisions when unexpected changes in costs are passed through to them through the budget process. All three campuses continue to invest in energy reduction programs thereby somewhat mitigating the impact of rising costs;
- The University of Toronto has established a tri-campus Utility Reduction Revolving Fund (URRF) to encourage and foster energy cost reduction strategies and initiatives. The URRF arises from a successful history of energy reduction projects at UofT. The URRF provides seed money to directly fund sustainable energy and water innovation projects that will significantly reduce our environmental footprint and save operating costs. To date we have achieved audited savings of $2.6 million across just three projects (Medical Sciences Building, OISE , Robarts Library) and many more projects are in the pipeline;
- As new space comes on line in outer years, utility and caretaking costs are projected to increase. Under the University's budget model, academic divisions are responsible for covering the operating costs of their space.
- The St. George deferred maintenance budget will increase by $1 million in 2015-16 and additional funds are expected to be added each year, bringing the total fund to $17.5 million by the end of the period. These funds are used to manage the deferred maintenance liability, estimated at $435 million for the St. George campus. UTM and UTSC each budget for their own deferred maintenance requirements, estimated at $65 million across both campuses.

MTCU has recently announced an increase to the Facilities Renewal Program (FRP), scheduled to increase from $26 million in 2014-15 to $100 million in 2019-20. It is projected that the University of Toronto share will increase from the current annual FRP allocation of $3.1 million to $12 million once the program is fully in place. We will assess the distribution of operating funds vs. FRP funds as the FRP program ramps up.

The central library cost bin is the second largest cost bin, including budgets for many centrally funded libraries. The budget includes the cost of collections, space and administrative and librarian services associated with the central library system. Additional funding is proposed for 2015-16 aligned with the library's strategic plan. Proposals for funding include:

- An increase of 4.2% ($1.3 million) to enhance and maintain the collections;
- Aligning staff to meet the expanding challenges of enabling digital research, creating and preserving digital data;
- Additional librarian support to enable creation of data management plans by faculty and graduate students, anticipated to be mandated in the future by the Tri-councils;
- Expansion of librarian capacity in the areas of data visualization, statistical data analyst, entrepreneurship, personal librarian program;
- Expansion of capacity in the Scholarly Communications and Copyright Office (year two of the funding plan based on the University's decision to begin operating outside an Access Copyright license)

Following are a few of the key priorities for other shared services for which new funding is proposed in 2015-16:

a) Additional funds are proposed in the Research and Innovation portfolio for the Innovation and Partnerships office, aligned with goals to increase revenues from licenses and patents, and to expand the Major Research Project Management Fund, which has been a highly successful fund to date in support of large multi-institutional research grant proposals;

b) Additional funds are proposed for the Provost's portfolio, including an allocation for staff in Centre for Teaching Support and Innovation, Enrolment Services and the creation of a Provost's Office Chief Administrative Officer position;

c) Additional funds are proposed to strengthen staffing in the Human Resources portfolio in order to complete and maintain the USW job evaluation project. Funds are also proposed for the next phase of the HR information system renewal project;

d) Continued investments are planned for enhanced wireless access across all three campuses as well as several other smaller IT projects. The next instalment on the multi-year new student system is also proposed;

e) Funding will be provided over the next several years to support the next phase of the Boundless fundraising campaign and the final stage of the transition to the new donor information system;

The Federated Block Grant reimburses the Federated Universities for the provision of registrarial and library services, and the cost of space. These payments are calculated based on a methodology outlined in the Memorandum of Agreement, which includes a year-end adjustment for the actual cost of utilities.

Pension special payments and pension-related costs

Original pension contribution strategy

It was reported in the Budget Report for 2012-13 that the University faced a $1 billion pension solvency deficit at July 1, 2011. The planned strategy[2] for dealing with this deficit, which recognized our recent acceptance to Stage 1 and assumed acceptance to Stage 2[3] of the Ontario Government's temporary solvency funding relief program, was as follows:

- $300 million in lump sum payments of which the first $150 million was made prior to June 30, 2011. The second $150 million payment was made by June 30, 2014, a significant portion of which was funded from a transfer of assets from the SRA fund.
- Required special payments into the pension plans were expected to be $66.6 million for each of 2012-13, 2013-14 and 2014-15 as per the actuarial valuation results at July 1, 2011 and taking into account the one year-deferral permitted under regulation.
- Based on the earlier projections done, assuming acceptance to Stage 2, the special payments would increase to $110 million per annum thereafter ($104 million adjusted by interest to reflect a one-year deferral) until July 1, 2024. Of that $110 million projected special payment, $76 million would be planned to be cash payments and $34 million, representing the net solvency deficit payments, would be planned to be addressed through utilization of non-cash letters of credit. At July 1, 2024, the annual special payment was projected to drop to $76 million per annum until July 1, 2029.

The impact of this strategy on the operating fund was an increase of $70 million per annum to the pension annual special payments budget[4], increasing it from $27.2 million per annum in 2010-11 to

[2] The pension contribution strategy anticipated in the 2012-13 Budget Report was approved by the Business Board in May 2012, based on pension results to July 1, 2011. It replaced the earlier document, entitled "Ensuring a Sustainable Pension Plan for the University of Toronto" that had been provided for information. The strategy elements were unchanged and the numbers were virtually the same.

[3] The University expects to qualify for Stage 2 given the increases being made to member contribution rates.

[4] This operating fund pension special payments budget is being used to fund special payments into the registered pension plans, and for other related costs, including Pension Benefits Guarantee Fund payments, the cost of issuing letters of credit, and the costs related to the lump sum payments (principal and interest payments on up to $150 million of borrowing and SRA payments to pensioners which must be funded from the operating fund now that the SRA assets have been utilized towards the second $150 million lump sum payment.)

$97.2 million by 2015-16, via a series of base budget increases ($30 million in 2011-12, which was approved as part of the Budget Report for 2011-12, $20 million in 2012-13, $10 million in 2013-14, $5 million in 2014-15 and $5 million in 2015-16.) This annual special payments budget was expected to remain in place at this level until at least 2029.

Update to July 1, 2014 pension results

Both the overall economic and financial climate and the regulatory landscape continue to be very uncertain with respect to pensions. Interest rates continue to be at historic lows, affecting investment returns and risk taking, and making it much more difficult to achieve our investment returns in the long-term. Key elements of actual experience as compared to key assumptions that underpin the current pension contribution strategy have been as follows:

The actual investment return was 0.9% for 2011-12, compared to a target nominal return of 5.5%, 12.1% for 2012-13, compared to a target nominal return of 5.2%, and 17.4% for 2013-14 compared to a target nominal return of 6.2%. These actual results are reflected in the going concern deficit, which, together with all other actual experience over the three-year period, and together with changes to certain actuarial assumptions, resulted in a reduction of the going concern deficit from about $1 billion at July 1, 2011 to about $720 million for the RPP and RPP (OISE) at July 1, 2014, plus about $140 million in the SRA, which last obligation is being funded annually as SRA payments to beneficiaries come due, as part of this pension special payments budget).

Long-term bond rates have fallen since 2011. These rates are required to be utilized for the regulatory calculation of a solvency deficiency. The impact of lower interest rates, together with all other actual experience over the three-year period, and together with changes to certain actuarial assumptions, has resulted in a solvency deficiency that is essentially unchanged from July 1, 2011 at just over $1 billion at July 1, 2014.

The current strategy assumes that the University plans will be accepted to Stage 2 of the Ontario Government's temporary solvency funding relief program. The University has fulfilled the requirement for acceptance by increasing member contributions, has applied for Stage 2 acceptance by December 31, 2014 on the basis of actuarial results at July 1, 2014, and is currently waiting for a response to this application from the Ontario Ministry of Finance.

The Ontario Government has further refined its temporary solvency funding relief program. Originally, the U of T plans would have been required to commence full solvency deficiency payments at July 1, 2015 and to make those payments over a 10 –year period. A further three-year deferral – in our case to July 1, 2018 – is now permitted; however, the solvency deficiency would then have to be funded in the subsequent seven years, increasing the payments because of the shorter period. The additional relief is predicated on allowing more time for interest rates to increase which would reduce solvency liabilities. The missing piece to address the potential issue as of July 1, 2018 is the ability for the University to use a non-cash letter of credit for the net solvency deficiency payments; however that ability has not yet been extended to broader public section pension plans. Discussions continue between the Government and universities, and it is not yet known what additional measures, if any, will be introduced to deal with continuing net solvency funding issues.

The Ontario Government also has initiatives underway regarding pooling of pension assets for investment purposes, although to the extent this initiative gets off the ground, it would likely start with pension plans outside of the university sector. There is work underway on investigation of a university-sector-wide jointly sponsored pension plan and on investigation of a University of Toronto jointly sponsored pension plan. Both of these initiatives are forward-looking and would not address the going concern or solvency deficits, which reflect past experience. Additionally, the Ontario government has made it clear through its legislation that permanent solvency exemptions will be considered for multi-employer jointly sponsored pension plans only (not for single employer ones) and will not be automatically granted even in the multi-employer case.

The July 1, 2014 actuarial results, which will be required to be filed with the regulators, formed the basis for the submission to the Ontario Government for acceptance to Stage 2 of the temporary solvency funding relief program, and, assuming acceptance to Stage 2, will underpin a revision of the pension contribution strategy, which will submitted to the Business Board for approval in 2015.

Last year, as a placeholder until the actual required additional funding would be determined, the operating budget added $5 million per year increase to the pension special payments budget for each of 2016-17, 2017-18 and 2018-19, increasing this budget line from $97.2 million per year to $112.2 million per year by the end of the planning period. This was an increase of $15 million over the three-year period beyond what was included in the previous year's long-range budget. Based on the going concern actuarial results to July 1, 2014 and assuming acceptance to Stage 2 temporary solvency funding relief with a start date for net solvency payments of July 1, 2018, this budget of $112.2 million is considered to be adequate for the next three years. However, work continues on the issue of net solvency deficiency payments. Possible solutions to this issue include non-cash letters of credit, participation in a multi-employer pension plan that would be approved for a permanent exemption, and/or an increase in interest rates. In the absence of a solution, and assuming everything else remains the same, including interest rates, at July 1, 2018, the special payments budget would have to increase by a further $44.4 million per annum for a seven year period from 2018-19 through 2024-25 inclusive.

UTM and UTSC Campus Costs

The University of Toronto Mississauga and University of Toronto Scarborough function both as campuses and as academic divisions. These costs include expenses for the offices of the Principals, occupancy costs (utilities, caretaking, grounds, etc.) and Student Life services on campus, defined in a manner parallel to the costs required to administer St. George at the campus level.

Academic Expense Budgets

This budget line includes most of the funds that flow to the academic divisions. Any additional allocation to academic division is included on the University Fund budget line. Under the budget model each division receives an expense budget equal to net revenue plus an allocation from the University Fund, as described earlier. Academic divisional plans include hiring of tenure and teaching stream faculty across many divisions, funding of all compensation increases, allocations for renovations and upgrades of laboratory and office space, debt service for divisions holding mortgages, and increased funding for research stream graduate students, as required to support the planned growth in graduate student numbers. Some examples of current academic initiatives and priorities include:

- Recent and planned enrolment growth requires many academic divisions to increase faculty complement, in order to maintain and enhance the quality of the student experience. New academic hiring is planned across many divisions;
- Divisions are actively engaged in developing new course delivery methods, including fully online courses, hybrid and inverted courses;
- International enrolment across all arts and science programs at all three campuses, and in the Faculty of Engineering, is projected to increase. These divisions will invest in additional academic programming, co-curricular programming, and counselling and support services to ensure the success of our international students;
- Academic plans call for increased experiential learning opportunities for students, not just in the traditional professional programs but across a wide array of science, humanities and social science programs;
- Across many divisions, graduate student expansion remains a key priority. This will require additional funding for graduate student support. Many graduate units have a goal to raise more endowments to support graduate students, using matching funding provided by the Provost's Office. Divisions will nonetheless have to set aside operating funds to support growth in graduate student numbers. The Provost has extended the Graduate Expansion Incentive Fund and renewed the Provost's PhD Enhancement Fund to further support divisions as they expand graduate enrolment;
- Many capital projects are planned, including renovations and expansion to create new space for the Daniels Faculty of Architecture and Landscape design at 1 Spadina, construction of a new building for the Faculty of Law, Both to be completed in the next year), new buildings and lab renovations for both teaching and research at UTM and UTSC, and the Centre for Engineering Innovation and Entrepreneurship for the Faculty of Applied Science and Engineering. Given the lack of capital funding from the Province, divisions will provide a portion of the funds for these buildings from their operating reserves. In all cases deans continue to strive for increased support from donors toward these important projects.

Student Aid Expenditures

The University of Toronto maintains a deep commitment to financial support for its students. As articulated in the Governing Council Policy on Student Financial Support (approved by Governing Council in April 1998): "No student offered admission to a program at the University of Toronto should be unable to enter or complete the program due to lack of financial means." The University of Toronto's Policy on Student Financial Support sets out the principle that students should have access to the resources that will enable them to meet their financial needs, as determined through the same methodology used by the Ontario Student Assistance Program (OSAP). In practice, this means that the University provides institutional student aid to qualified students whose financial need is greater than what OSAP provides. This aid is provided as non-repayable grants. This commitment goes beyond the requirements of the province of Ontario's Student Access Guarantee, which defines institutional requirements for meeting a student's financial needs. SAG requires institutions to provide non-repayable aid to assist students with expenses related to tuition, books and supplies not covered by OSAP; the University of Toronto also provides aid for living expenses.

In 2013-14 the University provided a total of $176 million in student assistance. Some of this student aid is administered directly by academic divisions and some centrally. A breakdown of student assistance is displayed in Appendix A, Schedule 3. An important financial aid program is the University of Toronto Advance Planning for Students (known as UTAPS), the University's major program for meeting financial need not addressed by OSAP, other government programs, or First Nations band funding, with a budget of $45 million for 2015-16. The provincial Queen Elizabeth II Aiming for the Top Scholarship program will be eliminated by the Province in 2015-16. Additional funds will be allocated from the operating budget to compensate for this drop to ensure adequate needs-based aid is available to meet our student access commitment. The overall planned increase in UTAPS also takes into consideration growth in the number of undergraduate students and increased tuition fees.

A significant portion of student aid ($39 million in 2014-15) is derived from endowments. The remainder of the student aid budget is derived from government scholarship grants; doctoral completion awards and grants, merit awards, and programs funded by the provincial government. The budget projections take into account the potential for continued pressure for needs-based student aid as the economic climate remains uncertain and is likely to continue to impact many students and their families.

Our graduate students receive support from several sources. Some of this is reported as part of student aid in the operating budget and some comes from other sources, such as research stipends, external awards and employment income from positions as teaching assistants. In total our graduate students received support of $252 million in 2013-14.

The Ontario Tuition Grant (OTG) was introduced by the province of Ontario in January 2012 to help offset the tuition paid by Ontario postsecondary students. Most Ontario students entering undergraduate university programs directly from high school are eligible for the grant. In 2014- 2015 the grant is available at the rate of $890 per term, up to two terms per year (maximum of $1,780.) In 2013- 2014 University of Toronto students received $37 million in grants through this program.

University Fund

As noted above, the University Fund (UF) is the non-formulaic portion of an academic division's budget, intended to provide funding in accordance with the University's academic values and priorities. Each year the Provost has 10% of incremental (unrestricted) operating revenue available for distribution to academic divisions. The distribution is made after all annual budget reviews have taken place, and takes into consideration divisional and University-wide academic priorities. The total incremental amount available in 2015-16 is projected to be $10.1 million in base funding. There is also $4.7 million of one-time-only (OTO) funding available as previous one-time-only funds allocated in prior year become available for new allocations. Over the 5-year planning period the Provost is projected to have about $55 million available for allocation to academic divisions through the University Fund. In 2015-16 allocations will be made in across four priority themes:

1. Teaching excellence

a) Student faculty ratios and PhD enrolment

There are several divisions where student/faculty ratios are significantly higher than the University average (25.7 as measured for the 2014 Performance Indicator Report). There are also several highly research-intensive divisions which have expanded, and are expanding further, their PhD enrolments. These divisions are already allocating their own new revenues each year to in efforts to keep pace with faculty hiring to support their undergraduate and graduate teaching initiatives. A University Fund allocation is proposed directed toward supporting those divisions where faculty hiring is a priority and operating budgets are unable to support growth. The Provost proposes to allocate twenty two faculty positions, budgeted at $150,000 each for a total of $3.3 million in base funding, across the following divisions:

- Arts and Science ($1.35 million, 9 positions)
- University of Toronto Mississauga ($450K, 3 positions)
- University of Toronto Scarborough ($300K, 2 positions)
- Applied Science and Engineering ($600K, 4 positions)
- Medicine ($450K, 3 positions)
- Kinesiology and Physical Education ($150K, 1 position)

b) Also aligned with the theme of teaching excellence, the following University Fund allocations are proposed:

- Transition support for OISE restructuring due to changes in provincial funding of initial teacher education (described earlier in this report), ($1 million OTO)

- The School of Continuing Studies has expanded rapidly over the last several years and the School was brought into the University's budget model in 2012-13, contributing significantly to the University Fund as the School's revenues have grown. Further expansion is planned in both the School's stand-alone programs as well as the continuing education programs they deliver for other academic divisions. Plans are underway for additional space for SCS to accommodate the growth. ($1 million OTO)
- In 2012-13 the Provost allocated $2 million UF toward renegotiating the interdivisional teaching agreement between Arts and Science and Engineering. These negotiations are coming to a successful conclusion and the next rounds of negotiations between other divisions are set to begin. ($2 million, OTO rolling into base upon completion of negotiations)

c) Aligned with the SMA and the *President's Three Priorities*, undergraduate teaching excellence, renewal, and innovation are a fundamental academic priority. An allocation is proposed to create an Instructional Innovation Fund to support undergraduate teaching innovation. The fund will be coordinated by the Provost's office through which funds will be allocated to academic divisions. ($500K base)

2. Research Excellence

a) Divisions have plans for additional growth in the doctoral stream, aligned with our academic goals as a research-intensive university. An allocation is proposed to augment the existing PhD Expansion Incentive Fund. ($ 2 million OTO, rolling into base upon conclusion of expansion)

b) On July 1, 2013 the Dalla Lana School of Public Health moved from the Faculty of Medicine and was established as an independent Faculty. In 2014-15, the Institute of Health Policy, Management and Evaluation also moved from the Faculty of Medicine into the newly created Dalla Lana Faculty. Becoming a Faculty will place the DLSPH on an equal footing with comparable Schools of Public Health, allowing it to compete for the best faculty, students, research funding and influence, both in Canada and globally. Expansions to faculty complement were committed to support the academic goals of the new Faculty. ($150K base)

c) The Faculty of Medicine is engaged in a comprehensive review of space requirements, addressing both the quantity and quality of appropriate space for teaching and research. Due to the nature of their research, the Faculty of Medicine operates some of the most expensive space on campus. An allocation is proposed in recognition of the high operating cost of space. ($1 million base)

d) In 2014 the University received $3 million in provincial funding to increase training and support for student entrepreneurship as part of Ontario's new Campus-Linked Accelerator Program (CLA). The funding is being used to better coordinate and expand entrepreneurship activities at the University. An allocation is proposed for the CLA Management Committee, composed of the Vice Presidents University Operations and Research and Innovation, and Deans involved in the accelerators. ($500K multi-year OTO)

3. Internationalization

The third theme is one of internationalization. Aligned with *Towards 2030* and the *President's Three Priorities,* divisions are expanding the number of international students coming to the University of Toronto and opportunities for students to engage in international opportunities abroad. The following allocations are proposed:

a) Funding is proposed for dedicated international student service support in divisions with high international student enrolment. Services will be coordinated between the divisions and the Vice Provost, Students office. An allocation of $150K per division is proposed. ($750K base)

    - Arts and Science
    - University of Toronto Mississauga
    - University of Toronto Scarborough
    - Applied Science and Engineering
    - Daniels Faculty of Architecture and Landscape Design

b) Students are increasingly looking for opportunities to study and conduct research abroad. The University provides many such opportunities and is seeking ways to reduce the financial burden on students for these internships, exchanges, courses abroad, research collaborations, etc. An allocation is proposed as a source of funding for which divisions may raise matching funds from donors. ($500K base)

4. Structural budget support

The final theme is financial support for divisions facing intractable structural budget challenges. An allocation is proposed to one or more divisions pending in-depth budget reviews. ($2 million base)

Flow-through revenue to other institutions

Several university programs include joint activities with other institutions, which aligns with our SMA objective of improving collaboration, pathways and student mobility. This expense category captures those portions of university revenue that flow to collaborating institutions. It includes:

- Canada Research Chair revenue flowing to hospitals;
- Provincial grant revenue flowing to the Toronto School of Theology; and
- Grant and tuition revenue flowing to the Michener Institute and Sheridan and Centennial Colleges with which the University offers joint programs.

Compensation Assumptions

Approximately 75% of operating budget expenditures fund salaries and benefits. Compensation expense increases are due both to negotiated increases for employees, to the hiring of additional faculty and staff needed to support the growth in students and research activity, and to increases in the cost of some benefits.

In July 2012 the Finance Minister issued a letter setting out the Government's expectations for renewal collective bargaining, indicating that every effort should be made to achieve renewal agreements that are for a minimum of two years, with no net increase in compensation (broadly defined). The letter is still in effect.

In addition, the Broader Public Sector Accountability Act contains provisions, enacted as part of the June 2012 Budget, for compensation restraint with respect to "designated executives" at listed broader public sector institutions, including the University. These restraints apply to the President, Vice-Presidents, Vice-Provosts, Principals, Deans, Assistant Vice-Presidents and a number of senior Professional Staff. New legislation, Bill 8, has been passed, which is expected to impact only the most senior executives. The University's budget assumes that increases negotiated within the framework of restraint described above will be implemented.

One of the Government's priorities, shared by the University, has been to ensure the long term sustainability of pension plans. The University has been successful in requiring employee groups assume increased employee contributions to their pensions, meeting the Government's requirements for granting solvency relief. However, low interest rates are resulting in a continued and growing deficit and the Government has encouraged Universities to consider adopting joint risk sharing through jointly sponsored pension plans (JSPP's). The University is participating in discussions led by the Council of Ontario Universities and by the Ontario Confederation of University Faculty Associations with respect to a provincial plan and has also agreed to enter into discussions with USW and UTFA – as well as other employee groups - regarding the long term sustainability of the University's plan.

Academic divisional budgets must cover the full cost of compensation increases. Shared-infrastructure divisions receive central funding to cover compensation increases.

Budgets for all divisions have been constructed based on the following assumptions:

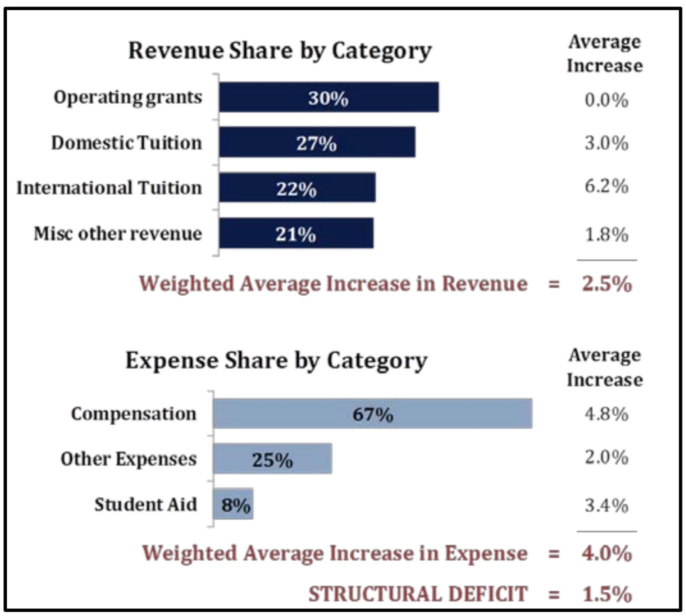
- The standard benefit rate (SBR) will remain at 24.75% for appointed staff and 10% for non-appointed staff in 2015-16. The SBR covers legislated and negotiated benefits;
- Compensation increases for all university employees are assumed to be as per negotiated agreements or, in the case of ongoing negotiations, as per the University's offer.
- The Provincial Government Bill 16, the Public Sector Compensation Restraint Act, came to an end in March 2012.
- The Provincial Government *Broader Public Sector Accountability Act, 2010 (BPSAA)* is still in effect.

- Further compensation restraint legislation, Bill 8 *Broader Public Sector Executive Compensation Act, 2014* has been passed, however will not be in effect until new compensation frameworks are established, which is not expected until late in 2015.

The Structural Budget Challenge

Like many publicly funded research intensive universities, the University of Toronto is facing a potential structural budget challenge. The weighted average rate of revenue growth is projected to be 2.5%, when enrolment levels and mix reach the long term goals, often referred to as "steady state". In other words, when the University reaches its domestic and international, graduate and undergraduate enrolment targets, and is no longer relying on growth in student numbers, it is expected that revenues will increase at about 2.5% per year. Contrasted against this, is the anticipated "steady state" weighted average rate of growth on the expense side of the budget is approximately 4.0%. This leaves a notional structural budget annual gap of 1.5%, or $170 million at steady state. Figure 2 displays the structural budget challenge.

Figure 2: Structural Budget Challenge at the University of Toronto



The University is actively pursuing strategies that align with our academic mission and allow us to close this gap. On the revenue side we are exploring opportunities to diversify revenue sources through innovative new initiatives, building the endowment and increasing expendable gifts through the Boundless campaign and beyond, advocacy with the federal government to increase the indirect costs of research rate to at least 40%, and advocacy with the provincial government for operating grant support for international doctoral students. On the expense side the single largest cost is compensation for faculty and staff. Containing annual increases of salaries and benefits to no more than the rate of revenue growth would be one of the most powerful strategies we could pursue. And finally, we are continually implementing prudent financial controls and seeking operational efficiencies through programs such as the URRF, expansion of the library storage facility at Downsview, inter-institutional collaboration on space management software and many other initiatives.

Inter-fund Transfers

Within the approved budget process, the Provost has discretion to make allocations from operating funds in support of academic initiatives. In the last few years, and more recently with the launch of the Boundless Campaign, the University has sought external donations to enhance academic initiatives by establishing matching programs to create endowments and other trust funds. To meet these commitments some divisions have earmarked operating funds within their budgeting process. Others have sought to use operating funds to established or augment endowments as the most effective way to implement an initiative. An example of this includes the College ONE program in which $500k was allocated to each of the associated colleges in support of programs for first year students in residence. Many colleges chose to endow this funding and/or use it as matching leverage for donations to their ONE program, to ensure the financial sustainability of the program. In keeping with the Policy on Inter-fund Transfers, decisions for the commitment of operating funds for restricted fund purposes do not need further approval when they are approved within the budget process. To balance the integrity of operating funds with divisional plans, the Provost is authorized to transfer operating funds to restricted and other funds up to $2 million per instance, based on requests from the budget authority for those sources.