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UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

**REPORT NUMBER 138 OF THE BUSINESS BOARD**

**January 17, 2005**

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, January 17, 2005 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Ms Jacqueline C. Orange (In the Chair)
Mr. Richard Nunn, Vice-Chair
Ms Rose M. Patten, Chair of the Governing Council
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Ms Dominique Barker
Mr. Donald A. Burwash
Mr. Brian Davis
Dr. Claude S. Davis
Dr. Alice Dong
Ms Susan Eng
Ms Françoise Dolcinea E. Ko
Mr. Gerald A. Lokash
Ms Kim McLean
Mr. George E. Myhal
Dr. John P. Nestor
Mr. Andrew Pinto
Mr. Timothy Reid
Ms Marvi H. Ricker
Professor Arthur S. Ripstein
Professor Jake J. Thiessen

Professor John R. G. Challis, Vice-President, Research and Associate Provost
Professor Vivek Goel, Vice-President and Provost
Mr. John Bisanti, Chief Capital Projects Officer
Ms Sheila Brown, Acting Chief Financial Officer
Ms Rivi Frankle, Assistant Vice-President, University Advancement
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Mr. Ron Swail, Acting Assistant Vice-President, Facilities and Services
Professor Ronald D. Venter, Vice-Provost, Space and Facilities Planning

Secretariat:

Mr. Neil Dobbs
Mr. Andrew Drummond

Regrets:

Ms Mary Anne Elliott
Dr. Paul V. Godfrey
Dr. Gerald Halbert
Mr. Roger P. Parkinson
The Honourable David R. Peterson
Mr. Robert S. Weiss

In Attendance:

Mr. Felix P. Chee, President and Chief Executive Officer, University of Toronto Asset Management Corporation

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In Attendance (Cont'd)

Professor George Luste, President, University of Toronto Faculty Association
Dr. Peter B. Munsche, Assistant Vice-President, Technology Transfer
Mr. Howard Tam, Vice-President, University Affairs, Students' Administrative Council

ITEM 2 RECORDS THE BOARD'S CONCURRENCE WITH A UNIVERSITY AFFAIRS BOARD RECOMMENDATION TO THE GOVERNING COUNCIL FOR APPROVAL.

**1. Report of the Previous Meeting**

Report Number 137 (November 8, 2004) was amended on page 3, item 2, Pension Plans: Annual Financial Report, discussion item (b), Pension plan assets. The first sentence was amended from "A member asked about the breakdown of the pension plan's invested assets" to read "A member asked for a listing of the stocks and funds in the pension fund." Report Number 137, as amended, was approved.

**2. Policy on Crisis Preparedness and Response**

Professor Hildyard requested the Board's concurrence with the prospective recommendation of the University Affairs Board to the Governing Council for approval of the proposed new Policy on Crisis Preparedness and Response. The Policy would formalize and facilitate the actions the administration had been taking over the past two years in preparing for and dealing with crisis situations. The proposed policy would:

- empower the Crisis Manager with full decision-making authority to implement the policy;

- establish priorities in responding to crisis situations: (1) the safety of students, faculty, staff and affected community residents, (2) limiting or containing damage, (3) ensuring clear and effective communication, and (4) recovery and restoration of academic and research operations;

- provide that the administration revise and keep current its detailed *Guide to Responding to Crisis on Campus*;

- empower teams with designated team leaders, established by the Crisis Manager at the onset of an emergency, to mobilize the University staff and resources required to deal with the situation and to work with City and related organizations;

- require all University divisions to prepare emergency and business-continuity plans; and

- make all members of the University and others occupying space controlled by the University subject to the authorities contained in the policy, making failure to follow the directions of emergency personnel subject to appropriate disciplinary action.

**2. Policy on Crisis Preparedness and Response** (Cont'd)

The following matters arose in discussion.

**(a) Relationship of the proposed policy to other policies that might need to be consulted in developing a crisis response**. A member observed that the final section of the proposed policy listed several other policies that might need to be consulted in responding to a crisis. They included such policies as the Statement of Institutional Purpose, the Statement of Freedom of Speech, the Statement on Human Rights and the Statement on Prohibited Discrimination and Discriminatory Harassment. The listing at the end of the proposed policy, and the statement that they "may need to be consulted," made it appear that consideration of those important matters would be almost an afterthought. The member suggested changing the presentation to make clear a need for balancing the requirements of the proposed policy against those of the other policies, which protected human rights. Professor Goel and Professor Hildyard replied that the reference to the additional policies was not an afterthought. In fact, the second sentence in the proposed Policy on Crisis Preparedness and Response referred to those other policies, making clear the primacy of the need for balance between crisis response and the protections contained in the other policies. The need to consider the other policies was of particular importance in considering action to forestall crisis situations, for example when a particular group might seek to hold an event which would give rise to safety issues. The need to protect safety would have to be considered along with the need to protect the values such as those set out in the Statement on Freedom of Speech and the requirements of the Policy on the Disruption of Meetings. The member stated her satisfaction with the response, but she urged the administration to be aware that others might read the policy in a manner that focused too much attention on crisis response or prevention in contrast to other important University values.

**(b) Implementation**. A member asked about plans to test the University's ability to deal with crises. For example, would there be mock crises to test out the response? Professor Hildyard replied that one key aspect of the proposed policy was to require divisions to have crisis response plans in place. It was intended that a significant amount of training on implementation of the plans would be provided, and one aspect of such training might well be responses to mock crisis situations. She noted that the University had also learned from dealing with the crisis situations it had already faced.

On the recommendation of the Vice-President, Human Resources and Equity,

YOUR BOARD CONCURS

With the prospective recommendation of the University Affairs Board

THAT the proposed Policy on Crisis Preparedness and Response, a copy of which is attached to Report Number 125 of the University Affairs Board as Appendix "A", be approved.

**3. Chair's Remarks**

The Chair and members offered their congratulations and best wishes to Dr. John Nestor on the occasion of the birth of his daughter, Jillian Anne Hoskins Nestor on January 4, 2005.

**4. Business Arising from the Report of the Previous Meeting**

**Item 7 – Capital Project: University of Toronto at Scarborough – Food Service Revitalization, Discussion item (b), Benchmarks**

The Chair recalled that at the previous meeting, a member had asked whether the Board could have benchmarks presented as part of the proposal for each capital project. The objective would be to enable the Board to compare the proposed costs with those of other institutions and also those within the University of Toronto. That in turn would enable the Board to draw conclusions about quality and affordability. Ms Riggall had kindly taken the matter under advisement. She had not yet been able to look into the matter fully, but she would respond at an early meeting. Ms Riggall said that the matter was proving to be a complicated one, and she was uncertain that she would be able to bring forward a report at the next meeting. She would, however, make every effort to do so as soon as possible.

**5. Investments: University Funds Investment Policy**

Ms Brown said that the proposed revisions to the University Funds Investment Policy represented the continuation of a process that had begun about two years ago. At that time, the framework of responsibility for investment matters had been changed with a clear division of accountability between the University and The University of Toronto Asset Management Corporation (UTAM). The Business Board was responsible for approving policies stating the University's investment-return objectives and risk tolerances for the investment funds. UTAM was responsible and accountable for managing the funds, including: determining the appropriate asset mix to achieve the investment-return objective within the stated risk tolerance, and selecting and overseeing the primarily external portfolio managers. The Service Agreement between the Governing Council and UTAM had been revised to stipulate the new framework of responsibilities. At its meeting of March 1, 2004, the Board had approved a revision to the University of Toronto Pension Fund Master Trust Investment Policy to stipulate the objective of a real (after inflation) return of 4% per year annualized over a ten-year period within an average standard deviation of 10.0% or less in nominal terms, also over ten-year periods. The proposed revision to the University Funds Investment Policy represented the final step in the establishment of the new framework.

Ms Brown proposed two revisions to the Policy.

- **Long-Term Capital Appreciation Pool** (L.T.CAP). The L.T.CAP was the investment vehicle for the University's endowment funds as well as certain other special funds, including the money set aside to match the University's liability under the Supplemental

**5. Investments: University Funds Investment Policy** (Cont'd)

Retirement Arrangement. The proposed revision to the investment policy was a minor one. The current policy stipulated a risk tolerance of a "standard deviation of 10.0% or less in nominal terms." It was proposed to revise that statement to a "standard deviation of 10.0% or less in nominal terms *over 10 year periods*" to match the stipulation in the pension fund policy. With a real-return (after-inflation return) target of 4% per year, the Pool would be expected to provide an annual return of between a 14% gain and a 6% loss two-thirds of the time over ten years.

- **Expendable Funds Investment Pool** (EFIP). The Expendable Pool represented the University's cash not in the L.T.CAP, deriving from operating grants, tuition fees, research grants, expendable donations, ancillary revenues and all other sources. All of the cash in the Pool was committed for future uses. Because a large volume of cash flowed into and out of the Pool, much of it had to be invested with a very short-term time horizon.

The entire Pool was not managed by UTAM. Rather, it consisted of three parts. The first part was that portion of the Pool required in the very near term to pay the University's bills. That portion was managed internally by the University. The amount set aside in that portion was based on extensive cash-flow forecasting. The amount varied greatly from time to time. If the cash would be required in the immediate future, it was placed in a cash-matching bank account. Money with a slightly longer time horizon was placed in an institutional money-market account. The objective was to earn the 30-day treasury bill return on this portion of the EFIP with only minimal risk.

The second portion was the $200-million base amount of the Pool that was unlikely to be needed for day-to-day spending and which was invested in internal loans to fund capital projects. The rates for those loans were set at an appropriate spread over Government of Canada bonds for the same term. The full $200-million had not yet been invested, but some of the amount had been. The risk for that portion was also minimal, with the sole source of risk being a default on the internal loan repayment by a project or the division housed in the building.

The third portion was that managed by UTAM. The amount of that portion fluctuated substantially. The largest balances occurred in the fall and in January with the receipt of tuition-fee payments. Because of the fluctuation in the amount of that portion of the Pool, the risk tolerance for the investment was again targeted as minimal. The return objective proposed in the Policy was the one-year treasury bill rate plus 0.5%. Consultants had run simulations of a wide variety of market environments for that portion of the pool to determine the risk that would have to be assumed to achieve the target return over ten years. In the median case in the simulations and assuming the projected cash balances, the University was projected to earn $14.3-million in any one year from the investments in this portion of the pool. In the 95th percentile case, the University could lose $5.9-million in any one year. Over the full ten years, the median returns in the simulation

**5. Investments: University Funds Investment Policy** (Cont'd)

totaled $144-million and 95th percentile returns totaled $109-million. Therefore, over any ten-year period, the risk was appropriately minimal. Ms Brown added that the projection was based on the use of a variety of fixed-income investments and on projections of the likely cash balances in that portion of the expendable pool. Those balances could of course change with changes in the level of Governing funding and research support. In the median case, treasury-bill rates were forecasted to increase over the ten-year period.

Among the matters that arose in discussion were the following.

**(a) Expendable Funds Investment Pool**. Invited to comment, Mr. Chee said that UTAM was working on the asset mix for the UTAM portion of the expendable pool. The determination of an appropriate asset mix would be difficult. The objective of a one-year treasury-bill return plus 0.5% represented the return on a four-year bond, but the risk tolerance was that of a one-year treasury bill. In response to a member's questions about the implication of that assessment, Mr. Chee said that in order to reduce the volatility of the portfolio to the acceptable level, it might be necessary to employ an asset-class other than conventional fixed-income investments, where returns were not correlated with those of fixed-income investments, such as absolute-return hedge funds.

In response to a further question, Ms Brown said that the projected $144-million median-case earnings over ten years was projected total return. Because all of the money in the expendable pool had been appropriated for spending, it was necessary to minimize risk to the capital being invested. The proposed objective was one that sought a return that was slightly better than a cash or money-market investment, but one that would involve minimal risk – a level of risk in any year that the University's budget could deal with in those years with poor returns.

**(b) Long-Term Capital Appreciation Pool: Risk tolerance**. A member referred to the proposed risk tolerance for the long-term pool as a standard deviation of plus or minus 10% over a ten-year period, and she asked the standard deviation of the Pool's returns over the past year. Mr. Chee replied that it had been under 6%.

A member observed that the risk tolerance stipulation was stated over the ten-year period. That might lead to two possibilities in the early years. First, the fund might prove more volatile than 10% per year, in which case UTAM would have to adopt a more conservative asset mix in order to reduce volatility to a lower level to arrive within the 10% limit over ten years. Alternatively, performance might be less volatile in the early years. Would UTAM then adopt a more aggressive asset mix to take advantage of the opportunity to incur more risk within the ten-year average? Mr. Chee replied that the ten-year average was used for modeling purposes in the determination of the combination of appropriate return and risk tolerance. In applying the policy, UTAM would not wait until the end of ten years to be within the risk tolerance limits. It would adopt an asset mix that would aim to restrain volatility to a maximum of 10% in any year. That would involve an asset mix that would be a bit conservative, especially at first, compared to that

**5. Investments: University Funds Investment Policy** (Cont'd)

suggested by the models. The member observed that the approach to the risk budget would, therefore, not be like that of the University's long-range operating budget plan, in which deficits were incurred in the early years to be remedied by the end of the planning period.

**(c) Conflict of Interest Guidelines**. A member referred to section 7.1 of the Policy, which required anyone involved "directly or indirectly with the University's fund investments" to "immediately disclose, at the time of its discussion of the policy or of matters related to the investment of University funds, any actual or perceived conflict of interest that could be reasonably expected to impair, or could be reasonably interpreted as impairing, his/her ability to render unbiased and objective advice to fulfill his/her fiduciary responsibility to act in the best interests of the fund." The member asked to whom such disclosure would be made. Ms Riggall replied that UTAM had a policy dealing with conflict of interest. Implementation of that policy was overseen by the Audit and Compliance Committee of the UTAM Board, and the Chair of that Committee would review any disclosures of conflict. Professor Goel added that within the University, individuals were required to report any conflict to the officers to whom they reported.

**(d) Provisions for ethical restrictions on investments**. In response to a member's question, Ms Riggall said that UTAM would be guided by the University with respect to any ethical limits on investments. The University would arrive at any restrictions, within the legal limitations on fiduciaries, according to a procedure established under the 1978 Statement on Social and Political Issues with respect to University Investment.

**(e) Performance benchmarks and evaluation of investment performance**. A member pointed out the absence of an investment performance benchmarks for the Long-Term Capital Appreciation Pool. He stressed that, because the incentive compensation of UTAM employees was based on performance relative to the benchmarks, those benchmarks should not be determined by UTAM. Ms Riggall and Ms Brown noted that while the performance objective for the expendable pool happened to be included in the proposed Policy owing to its simplicity and specificity, the benchmarks for the long-term pool and the pension fund were determined following a more complex process. Based on the approved investment policies, UTAM would determine the asset mix for the year and the corresponding benchmark indices. Those benchmarks were included in Schedule "C" to the Service Agreement between the University and UTAM, and that Schedule was subject to the approval of both the UTAM Board and the Business Board.

A member observed that the return objectives were stated in terms of ten-year averages. How was the Business Board to evaluate investment performance? The Board could not be asked to wait ten years to make a judgement. Some judgement had to be made year by year. Mr. Chee replied that the performance objective had been arrived at by simulations combining various objectives and risk tolerances over ten years. In practical terms, UTAM would, by an asset mix within the risk tolerance, seek to obtain the objectives annually. Because of the unevenness of the returns provided by the securities markets, there would be need for an annual conversation as

**5. Investments: Investment Policy for University Funds** (Cont'd)

part of the performance evaluation, but the Board would not be asked to wait ten years to make judgements.

On the recommendation of the Vice-President, Business Affairs,

YOUR BOARD APPROVED

The revised University Funds Investment Policy, a copy of which is attached hereto as Appendix "A", replacing the policy approved on April 7, 2003.

**6. Senior Salary Committee: Annual Report**

Ms Patten recalled that the Senior Salary Committee made an annual report to the Business Board. She had chaired a review of the Committee's operations that had begun about one year ago. In doing so, she discovered that few members of the University knew of the existence of the Committee or its mandate. She therefore thought it important to provide some context for this year's annual report. The Senior Salary Committee had been established pursuant to the *Policy on Appointments and Remuneration*. It was responsible for assuring the Governing Council of the appropriateness of compensation programs for individuals who were remunerated above a set level. As well, the Committee was called on to give assurance that decisions about compensation had been consistent with policy and practice. In order to ensure that there was appropriately independent oversight, the Committee comprised only lay members of the Governing Council and the Business Board. The only exception was the President, who was responsible for bringing forward recommendations to the Committee. He was a full voting member. In some cases, the Committee reviewed and approved recommendations for individuals; in others, it received detailed reports on compensation decisions made under delegated authority by the President, within approved programs. The on-going emphasis of the Committee's work was disclosure, and the Board could take comfort that the administration had manifested a consistently strong commitment to disclosure in its reports, which had enabled the Committee to have full and frank discussions. The Committee also played an advisory role with the President and the Vice-Presidents on matters of compensation. For example, members of the Business Board might recall that the Senior Salary Committee had been consulted on the compensation program for Professionals and Managers prior to its being brought to the Board in 2004. In addition, the Vice-President and Provost and the Vice-President, Human Resources and Equity consulted the Committee about other compensation matters.

Ms Patten said that the Report covered the Committee's activities in the academic year 2003-2004. Because of the timing of Committee meetings, this particular Report included the annual compensation decisions effective both on July 1, 2003 and July 1, 2004. Normally, the Report would include reference to only one year's decisions. There was nothing unusual to draw to the Board's attention in terms of the Committee's decisions and accountability reports.

**6. Senior Salary Committee: Annual Report** (Cont'd)

Ms Patten reported on the review of the Senior Salary Committee that she had undertaken at the request of then-Chair of the Governing Council, Dr. Thomas H. Simpson, and had completed in early 2004. Its objective had been to increase the value the Committee added to governance and accountability. As noted, she had learned that the mandate of the Senior Salary Committee was not generally well understood, and some members of the University were not even aware of its existence. Going forward, therefore, Ms Patten would seek to ensure greater clarity about the Committee's work. Part of that effort would be to communicate with the Businesses Board and with the Executive Committee when that would be helpful to assure those bodies that particular matters were being addressed. One step towards providing greater transparency was the publication of the dates of the Committee's regularly scheduled meetings as part of the Governing Council calendar. The Business Board and the Executive Committee would also be briefed on the work of the Senior Salary Committee as part of their annual orientation discussions.

Ms Patten reported that the Committee was currently working on a comprehensive framework for senior compensation. The framework would: build on best practice, consolidate and update procedures and policies as needed, and incorporate current information and analyses. The new framework would include a process for regular updates of market data and internal comparators. Such a process was timely; the most recent review had been completed several years ago. Any policy recommendations that emerged from this activity would be brought forward to the Business Board in due course.

The following topics arose in discussion.

**(a) Membership of the Senior Salary Committee**. A member asked whether consideration had been given to student membership on the Senior Salary Committee. Mr. Charpentier replied that the Committee did not include (apart from the President) members of the teaching staff, administrative staff or students. To ensure its independence, the Committee consisted only of lay members of the Governing Council: government appointees and alumni.

**(b) Criteria for the evaluation of senior-salary teaching staff for "progress through the ranks" salary increases**. A member referred to the Provost's memorandum to Principals, Deans, Academic Directors and Chairs dealing with assessment for annual salary increases. That memorandum set out a balance of various factors in determining such increases, suggesting that those factors might be weighted four points for teaching, four points for research and two points for University service. The member noted that students' teaching evaluations were an important factor in the assessment of teaching, and he said that students would appreciate a higher weight being given to teaching performance. Professor Goel replied that the weighting derived from the standard job profile for members of the teaching staff, who were expected to devote 40% of their time to teaching, 40% to research and 20% to community service.

A member stated his pleasure in receiving the report, which made the process more open.

**7. Research: Vice-President, Research and Associate Provost: Annual Report, 2003-04 and Plans for 2004-05**

Professor Challis presented a brief overview of the research strengths, challenges and opportunities facing the University. He distributed copies of the recently published booklet on research at the University of Toronto. The highlights of his report included the following.

- **Research funding**. Over the past two decades, the amount of research funding for the University of Toronto, including the affiliated hospitals, had been on an increasing trajectory, with total direct research funding reaching $563-million in 2002-03. The trajectory of research support had accelerated since 1997-98, when both the federal and provincial governments had implemented new programs. The level of research grants from the three federal research granting councils (the tri-councils) had increased substantially. Those councils were the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, and the Canadian Institutes for Health Research (previously called the Medical Research Council).

- **Sources of research support**. Of the $563-million of research support awarded in 2002-03, the three federal granting councils had awarded 32%. Government infrastructure support programs had provided 24% of total funding. Other government sources had provided 13%. Not-for-profit organizations had provided 21% and corporations the remaining 10%. Professor Challis had concluded that the greatest opportunities for increasing research support were in the not-for-profit sector. International not-for-profit organizations currently provided only a small proportion of total research funding, but they represented the largest opportunity for increases.

- **Tri-council support** was of particular importance. That support, allocated on the basis of peer review, represented the gold standard of measurement of research capability in Canada. The extent of tri-council support determined the number of Canada Research Chairs sponsored at each University. In addition, federal funding for the indirect or overhead costs of research depended on the tri-council funding.

- **Recovery of the indirect costs of research** was crucial. For the current fiscal year, it had added between $25-million and $30-million to the University's revenues. The amount of recovery was tied to the University's tri-council grants. It had an influence on the pattern of applications for research grant. Given that grants from the tri-councils provided indirect cost recovery, where there was a choice, researchers were encouraged to apply to those councils rather than elsewhere. The recovery of indirect costs was also tied to the commercialization formula. The Government of Canada's formula for payment of indirect costs followed an unfortunate inverse allocation formula, which saw the University of Toronto recover only 18.4% of its indirect costs and some smaller universities as much as 60%. That represented a form of indirect taxation on the larger, research-intensive universities, and especially the University of Toronto, where the indirect cost recovery of the affiliated hospitals was included in the University's share,

**7. Research: Vice-President, Research and Associate Provost: Annual Report, 2003-04 and Plans for 2004-05** (Cont'd) making the University's position worse under the formula. One of the University's major objectives was to increase the recovery of the indirect costs of research to 40% of the direct costs.

- **Ontario Government Research Infrastructure programs**. The Province's programs to support research infrastructure included the Ontario Innovation Trust, the Ontario Research and Development Challenge Fund and the Premier's Research Excellence Awards. The University of Toronto had received over 40% of the infrastructure funding of $1.373-billion awarded to all institutions. Of those programs, the Ontario Innovation Trust was critical because it provided the provincial funding required to match federal research-infrastructure grants from the Canada Foundation for Innovation. The three Ontario programs had now ceased and were being rolled into a new Ontario Research Fund. One of Professor Challis's goals would be to help to define suitable terms of reference for the new fund.

- **Influence of University of Toronto research**. From 1998 – 2002, the University of Toronto led all of the top ten research universities in Canada and the public research universities in the United States in the number of health-science research publications indexed by the Institute for Scientific Information (I.S.I.). If private universities were included in the ranking, the University of Toronto would rank second only to Harvard. With respect to publications in all fields over the same period, the University of Toronto led all Canadian and U.S. public institutions in the number of publications and in the number of citations indexed by the I.S.I.

- **Commercialization of University research** had been a recent area of focus. A committee chaired by the Honourable John Manley had reviewed the University's work in facilitating technology transfer and its ability to generate revenue by doing so. That report had made recommendations concerning intellectual-property policy, co-ordination and integration of efforts to foster technology-transfer, and the encouragement of a culture of disclosure. The University would work to foster industry partnerships on campus and would provide training in various matters relating to the commercialization of the products of University research.

- **The future**. The efforts of the Research portfolio would focus on four areas: advocacy, facilitation of efforts by University of Toronto investigators to attract increased research support, differentiation of support among universities to recognize the needs of the more research-intensive universities, and integration of efforts to support research and technology-transfer activities. The University would soon have a stunning array of new research facilities including the Donnelly Centre for Cellular and Biomolecular Research, and the Leslie Dan Pharmacy Building as well as access to the MaRS (Medical and Related Sciences Discovery District) facilities immediately adjacent to the St. George

**7. Research: Vice-President, Research and Associate Provost: Annual Report, 2003-04 and Plans for 2004-05**

Campus. Specific activities would include the following:

- o responding to the review of the Innovations Foundation (the Manley Report) to establish new and improved opportunities for the commercialization of research;
- o the development and funding of an integrated undergraduate research experience;
- o seeking support for the establishment of a National Research Council Institute in the "golden horseshoe" region and preferably in Toronto (it was inappropriate that such institutes were located across Canada but not in its most research-intensive region);
- o continuing the reorganization of the International Research and Development operation to build up the University's international profile;
- o developing, utilizing and publicizing appropriate performance indicators for all disciplines (for example, the number of research publications and citations did not likely represent the best performance indicator for research in the humanities);
- o lobbying effectively for an expanded Canada Research Chair program and for full funding of indirect costs; and
- o launching a new research website as part of an enhanced communication strategy.

Professor Challis concluded that he anticipated that the University of Toronto would soon be carrying out about $1-billion per year of research, including research supported by $600-million in research grants and contracts plus 40% of that amount spent on faculty salaries and a further 40% on indirect or overhead costs.

Questions and discussion focused on the following areas.

**(a) Areas receiving research funding**. A member asked about the proportion of research grants provided to the health related areas, to science and engineering, and to the humanities and social sciences. Dr. Challis replied that 68% of research grants for 2002-03 had been directed to the health sciences, with the hospitals and their research institutes receiving about 50% of the total research funding. A further 9% - 10% had been directed to engineering, and 11% to the humanities and social sciences. The member asked whether steps could be taken to address the imbalance among areas. Professor Challis replied that one of the goals of the new academic plan, *Stepping UP*, was to promote the growth of interdisciplinary study and research, opening up new activities that might win research support.

**(b) Research productivity**. A member observed that the University's high ranking in terms of the number of publications and citations was very impressive. The University of Toronto was,

**7. Research: Vice-President, Research and Associate Provost: Annual Report, 2003-04 and Plans for 2004-05**

however, a very large institution with a large faculty. Were comparisons available for the number of publications and citations per faculty member? Professor Challis replied that it was difficult to produce such data. For example, a substantial number of faculty were clinicians in the teaching hospitals, and it was inappropriate to regard them in the same manner as faculty members who devoted full time to teaching and research. Professor Challis agreed that the University's size was an important contributor to the publication and citation figures. He nonetheless thought it important to stress the high level of University's impact on research.

**8. University of Toronto Innovations Foundation - Financial Statements, 2003-04**

The Chair said that the Innovations Foundation's financial statements had been reviewed carefully by the Audit Committee, and their acceptance was on the Business Board's agenda as a consent item. However, because Professor Challis and Dr. Munsche were present, members were invited to ask any questions about this item. Discussion focused on two matters.

**(a) Prospects for the Foundation**. A member observed that the Foundation had completed the 2003-04 fiscal year with a $2.4-million deficiency of revenue compared to expenses. She asked about the longer term prospects for the Foundation. Was there a particular item of intellectual property that the Foundation hoped would yield a substantial new stream of revenue? Professor Challis and Dr. Munsche replied that the Foundation's business plan, as approved by the Business Board, envisioned losses in the early years of the plan, with spending to build up the Foundation. It would in the early years of the plan draw on a line of credit provided by the University, to be followed by years when the Foundation's work would yield surpluses to eliminate its debt. The Foundation had made a significant investment in new staff, which had led to a large increase in invention disclosures by faculty members and by researchers at a number the affiliated teaching hospitals. Dr. Munsche recalled that there had been 23 disclosures during his first year of service; that number had increased to 162 in 2003-04. In addition, there were now a number of dedicated seed-capital funds associated with the Foundation that could invest in developing the newly disclosed intellectual property. In the past, successes had been concentrated in the life sciences area, and the Foundation hoped that it would continue to receive disclosures, royalties and equity in start-up companies in that area. It was, however, trying to balance activity in the life sciences with that in the physical sciences and information technology. Results had been encouraging to date. Perhaps the best prospect for substantial new revenue for the Foundation was BIOX, a company that used a proprietary method of turning waste cooking oil and grease into biodiesel. A $30-million plant had been built in Hamilton, and BIOX was finding a strong market for its product in Europe and elsewhere. There was therefore good reason for hope that the value of the University's equity in BIOX would grow substantially. The member requested that a report be made to a future meeting on the University's particular strengths in technology transfer.

**(b) Social benefit of the University's technology transfer**. A member asked whether any of the University's technology-transfer efforts benefited the less economically developed countries.

**8. University of Toronto Innovations Foundation - Financial Statements, 2003-04**

Dr. Munsche replied that the University's technology-transfer efforts looked primarily at the developed countries, where potential developers and investors could be found. However, some of the products were of considerable social benefit. For example, the process that had been developed by BIOX might well be of considerable use in the developing countries, and it would clearly be of significant benefit to the world's environment.

On the recommendation of the Audit Committee,

YOUR BOARD ACCEPTED

The audited financial statements of the University of Toronto Innovations Foundation for the year ended April 30th, 2004, copies of which are attached to Report Number 75 of the Audit Committee as Appendix "A".

**9. Vice-President, Human Resources and Equity: Annual Report, 2003-04**

Professor Hildyard stressed that the University's Human Resources activities were focused on the support of the University's academic mission. To achieve the best possible support for the academic mission, the University aimed to become the employer of choice. Numerous programs were in place to foster that objective. The University was a very complex, highly decentralized organization. Its faculty and staff members were represented by twenty-two different unions, as well as the Faculty Association. Professor Hildyard planned to survey all employees during the year to assess their views. Human Resources efforts would also focus on strengthening communications, with improvement of the Human Resources web site, and the initiation of orientations for new employees, to make all employees aware of the programs that were available to them. The Human Resources group would also seek to initiate scorecard and benchmark approaches, aimed at demonstrating the benefits of human resources work to the University's bottom line and to its academic successes. The Chair noted that the annual report on employment equity would be presented to the Board at its next meeting.

In response to a member's questions, Professor Hildyard said that the mentoring program currently provided for about thirty partnerships lasting for between six months and one year. Participation was voluntary, but managers were asked to identify individuals who could benefit from the program – an important step in succession planning. Professor Hildyard referred to a special effort to assist foreign-trained professionals working at the University – a program that the University was seeking to expand.

## 10. Capital Plan

The Chair reported that the proposed new Capital Plan had been recommended by the Academic Board for Governing Council approval. Because of the Business Board's interest in the financial context for individual projects, and the use of borrowing capacity, Professor Goel had suggested placing the proposed Plan on the Board agenda for information.

Professor Goel recalled that he had signaled on a number of occasions that he would bring the Capital Plan to the Board. The Board had been regularly receiving a great deal of contextual information about the University's capital priorities in the capital projects reports presented to each meeting. The current document contained the University's forecast of major new developments to be carried out both in the short term and the long term, and it showed how the University proposed to allocate its limited borrowing capacity to proceed with the capital program. The document also provided some detail about each project.

Among the highlights of Professor Goel's report were the following.

- **Background**. The University's process for capital planning was set out in the Policy on Capital Planning and Capital Projects, approved by the Governing Council in 2001. Lists of capital projects had been developed containing proposed areas for future development. Traditionally, the University had had all or most of the needed resources in hand before it proceeded with a capital project. The University sought assistance for individual projects from the Government of Ontario, which had provided targeted funding for a substantial portion of particular projects. The University had sought the remaining cost from other sources. In addition, the Government had, at the end of its fiscal year, used available funds to assist the universities in dealing with deferred maintenance. However, the Province had in recent years gradually withdrawn that approach to funding capital needs. It had been replaced by programs like SuperBuild, where the Province offered to fund its own priorities and usually required that the universities obtain or provide matching funds. Some capital support was also provided by the Government of Canada. Its Canada Foundation for Innovation had provided funding for research facilities, but it required matching funds from the Province and left the Universities with the need to provide additional funding. The funding from those new sources, as well as benefactions, was invariably insufficient, forcing the universities to begin a pattern of borrowing to initiate or complete capital projects. Since 1999, the Governing Council had approved 42 capital projects at a cost of $847-million. In order to fund those projects and previous commitments, the University had had to borrow a total of $503 million.

- **Need for capital expansion**. There was a pressing need to renew the physical infrastructure of the University. Many of the buildings on the St. George campus were over one hundred years old and were designated historical sites. In addition, there were buildings on all three campuses that had been constructed in the 1960s that were now in need of repair and upgrading to meet current standards and legislated requirements in areas such as accessibility and occupational health and safety. There was need to accommodate the expanded enrolment arising from the double cohort of graduates from the old five-year secondary school program and the new four-year program. There was need for space for research activity. It was also important to improve the accessibility of the University's buildings.

- **Progress to date**. The University had since 1999 added 165,000 gross square meters of space for academic programs. It had built 2,679 new student residence spaces. It had provided new student space on all campuses, including the Sidney Smith Hall patio enclosure, the Wellness Centre at the University of Toronto at Mississauga (UTM), and the Student Centre at the University of Toronto at Scarborough (UTSC). Enhancements to facilities and services had included the Early Learning Centre, the King's College Road portion of the open space plan, the University Art Centre, and the Doris McCarthy Gallery at UTSC.

- **Need for further additional facilities**. Notwithstanding the addition of substantial additional space, the University still had an urgent need for further buildings. The need was clearest on the Scarborough campus. In 1986, UTSC had 90% of the space capacity recommended by Council of Ontario Universities (C.O.U.) guidelines. By 2001, because of the enrolment expansion even before the arrival of the double cohort, the UTSC space capacity had declined to 74% of that recommended by the C.O.U. guidelines. It was now anticipated that following enrolment expansion, UTSC's space would be only 66% of that recommended in the guidelines – in spite of the substantial construction program underway on that campus. While the UTSC represented the most extreme manifestation of the problem, it was a University-wide one. At UTM, total space, after current construction, would amount to approximately 81% of that recommended in the guidelines. On the St. George Campus, after the current construction, space would amount to an estimated 88% of that recommended by the C.O.U. guidelines. Moreover, the guidelines represented average space needs. Because of the University of Toronto's mission to rank among the best teaching and research universities in the world, and because of its research intensity, it had greater space needs than the average.

- **Context: general limitations on capital planning**. It was essential that capital priorities be based on academic priorities, but there were a number of constraints on capital plans. Those constraints included campus master plans, open space plans, and municipal zoning regulations. There were 28 development sites in the St. George campus (defined in the City zoning by-law as the University precinct) of which 23 development sites were part of the University. The other sites included property occupied by the federated universities, the Royal Conservatory of Music, and the Royal Ontario Museum. Most of the University sites had been built upon, leaving a limited number of sites for new development. In addition, University's open space plan required that green space be retained – a factor that was highly important to the quality of campus life. Contrary to a common view, the limitation of development sites was also a major factor limiting new construction at UTM and UTSC, where the preservation of the exceptional green space in their valley lands was of great importance.

**10. Capital Plan** (Cont'd)

- **Context: financial limitations on capital planning**. The key issue, especially from the perspective of the Business Board, was the limit to the University's capacity to take on debt to finance further construction. The Board had, in June 2004, approved a revised Borrowing Strategy that defined external borrowing capacity as one third of the University's capital based on a five-year rolling average, with an outer limit of borrowing at 40% of the average capital. There was also internal borrowing available for the Expendable Funds Investment Pool – the University's cash float. The outcome was a maximum borrowing capacity of about $787-million. Total approved borrowing to date was $670-million, leaving only $110-million - $115-million of the total debt capacity to be allocated. That fact drove the need for great care in the decisions about priorities for capital projects that required financing. Professor Goel displayed a graph illustrating the projection of the principal outstanding on internal and external borrowing at year-ends from 2002 to 2046. The University would have to wait until about 2020 until it once again had $100-million of borrowing capacity available for allocation, unless there was a change in total capital. The first debenture issue of $160-million, approved in 2001, would become due in 2031. The second debenture issue of $200-million, approved in 2003, would become due in 2043. Various bank loans taken out earlier to finance the building of student residences and parking garages were being paid off over time.

- **The proposed capital plan**. The administration proposed that the new capital plan not consist of a fixed list of priorities for projects but rather a set of criteria for the selection of projects. An element of flexibility and opportunism was required to make maximum use of resources. For example, as space within a building became available for use due to the relocation of its occupants into newly constructed or renovated space, the unit best suited for the size and space configuration available had to be identified. That unit's capital project might not be the next priority on the capital plan, but it would still be appropriate to move ahead with the project in the given circumstances. The proposed prioritization contained four categories:

    - Current Capital Plan: projects with committed funding that had been approved by governance up to November 8, 2004;

    - Short Term Capital Plan: identified priorities with complete project reports and cost estimates, but no committed funding; the administration was working hard to identify sources of funding.

    - Long Term Capital Plan: identified projects with central agreement to proceed with preliminary planning, but no committed funding; such projects were included on the priority list for fundraising efforts and the University would seek government funding, but they could not proceed with the use of borrowing;

    - All Other Projects: no approval and no funding commitments (these projects were not listed in the capital plan).

**10. Capital Plan** (Cont'd)

- **Advancement to a higher category in the capital plan**. To advance to a higher priority list, a project had to satisfy various criteria. The first six criteria in the proposed Capital Plan formed the basis of a judgement of academic priority. For example, how would the capital project advance the University's long-term academic goals and the academic division's priorities? Did the project incorporate elements that would create an enriched student experience inside or outside the classroom? The remaining criteria were the following:

  - **Economic Consistency**: were there external revenue sources or other drivers to support both the capital project and the ongoing research and teaching activity to take place within the completed project? Would the project provide opportunities for growth? Was it flexible to accommodate the unit's planned academic and student complement?

  - **Resources**: was the project both a demonstrated academic priority and fiscally feasible? Was there adequate funding, or for self-funding projects a viable business plan, to meet the costs of financing and operating the facility?

  - **Deferred Maintenance**: would the project reduce the University's deferred maintenance? Would it contribute to energy conservation and therefore operating-cost reduction?

Professor Goel said that projects would be presented to governance with (a) an explanation of how they met the criteria identified in the proposed Capital Plan, and (b) (as at present for the Business Board) a revised project list to show the context for individual approvals.

During the course of the discussion, the Chair reminded members that, while she would not disallow questions on matters of capital priorities (which were within the jurisdiction of the Academic Board), the Business Board's responsibility was limited to the financial implications of the capital plan. Among the matters that arose in questions and discussion were the following.

**(a) Capital priorities: space for research and space for teaching and student life**. A member cited a press article suggesting that a large proportion of the recent capital expansion in Canadian universities had been devoted to research facilities and that teaching and student space had been neglected. The member asked whether the capital plan contained or implied a strategy for allocating resources and borrowing capacity between the construction of research and teaching space. What was the breakdown between research and teaching space since 1999? What was the projected division in capital spending for the next seven years? Professor Goel replied that the pattern at the University of Toronto was different from that at other universities. Most universities were forced to rely on grants from such bodies as the Canada Foundation for Innovation, which provided funding for research facilities. While the University of Toronto had

**10. Capital Plan** (Cont'd)

been very successful in its applications for funding from the Canada Foundation for Innovation, it had also benefited from the Ontario SuperBuild Fund and it had the ability to borrow to build facilities to provide teaching space and residence facilities for its newly expanded enrolment.

**11. Capital Projects Report**

Professor Venter said that the report had been updated to reflect the Board's approval at its previous meeting on November 8, 2004 of the spending of: a further $6-million on the 155 College Street project, $1.5-million on the Centre for Biological Timing and Cognition, and $800,000 on the first phase of the project to prepare a shelled-in floor in the Bahen Centre for Information Technology to accommodate the Department of Mathematics.

**12. Capital Project: 155 College Street**

The Chair said that the Governing Council, at its meeting of March 30, 2005, was scheduled to consider a recommendation, which had been forwarded to the Academic Board by the Planning and Budget Committee, to expand the scope and total cost of the 155 College Street project. The Business Board was being asked to approve the execution of the project, subject to the Governing Council's approval of the expanded scope and increased cost.

Mr. Bisanti recalled that 155 College Street had been the previous head-office building of the Toronto District School Board. It had been acquired in April 2002, along with three adjacent buildings: a smaller office building, a warehouse and a two-story parking garage. The University had taken possession of the building on September 1, 2003. At that time, the University had not decided which units would occupy the building, but it had now been determined that the occupants would be the Faculty of Nursing and two Departments of the Faculty of Medicine: the Department of Health Policy, Management and Evaluation, and the Department of Public Health Sciences. Completion of the project had been assigned a very high academic priority. Because the project would address many important aspects of health care, the University was actively seeking funding from the Government of Ontario. The project had been before the Board on two previous occasions, when it had authorized the spending of $1.3-million to enable the project to proceed to the early design stage and when it had authorized the spending of a further $6-million for demolition and other work that would confirm the extent of the required infrastructure upgrades. On the basis of an initial consultants' study commissioned by the previous owner, it had been estimated that the cost of the renovation would be $24.14-million. Given the need to have the project ready for occupancy in September 2005, the University had decided to utilize a construction manager rather than the using a typical general contractor. It had engaged a construction manager, and had proceeded with the on-going meetings required to determine the best way of renovating this 40-year-old building to meet current standards. Further consideration, following the completion of some demolition work and the receipt of further consulting studies, had led to the conclusion that it would be prudent and economical to expand the scope of the project to correct problems that had been revealed. If those problems were not dealt with in the renovation project, they would become items of deferred maintenance that

**12. Capital Project: 155 College Street** (Cont'd)

would have to be dealt with in the near future – at a greater cost in terms of money and program disruption. As the result of that conclusion, the estimated cost of the project was increased to $28-million. The new estimate was based on the advice of the recent consultants, the construction manager and quantity surveyors. The estimate would be all the more accurate because the asbestos abatement and demolition work had been largely completed. The outcome would be equivalent to a virtually new building with satisfactory mechanical and electrical systems. The $4-million increase in the cost would be funded by the Office of the Vice-President and Provost, and that cash funding would spare the University's limited borrowing capacity.

Invited to add his comments, Professor Venter stressed that the increased cost was not the outcome of changing the space being provided to the three academic units. Rather it was the improvement of the mechanical and electrical equipment and the wiring. It would clearly be best to upgrade this infrastructure at this time rather than do a "quick fix" within the original budget. Doing so would avoid the need to spend even further amounts in three years or so to remedy deferred maintenance items.

Among the matters that arose in discussion were the following.

**(a) Original cost estimate**. A member asked why the cost of the project had been underestimated. Had the original consultants been negligent or seeking to avoid impairing the valuation of the building in preparation for its sale? Or, had the University erred in making its estimate? Ms Riggall and Mr. Bisanti replied that the outcome had been the result of a combination of circumstances. The original consulting assignment had been commissioned by the Toronto District School Board for its own guidance and was not intended to be an-depth examination. It was, in any event, virtually impossible to know with any certainty the extent of the work required in a building as old as 155 College Street before the interior demolition work was well underway. The project could be completed at a lower cost, but the objective was to avoid future issues and to provide the academic units with reliable facilities. In response to another member's question, Mr. Bisanti said that the vendor had not provided any warranty as to the condition of the building as part of its sale. The University had been able to examine the building and make its best judgement as to its value. Notwithstanding the higher renovation cost, given the total package of four properties, the University had certainly not over-paid for the acquisition.

**(b) Risk of further cost increases**. A member noted that by proceeding through construction management rather than a general contract, the University bore the risk of further cost increases. Had the estimated project cost taken into account the significant rate of inflation in the costs of construction materials? Mr. Bisanti replied that all project cost estimates included an estimated amount for inflation including the increase in the cost of such materials as steel.

**(c) Adjacent properties purchased from the Toronto District School Board**. In response to questions, Professor Venter said that the smaller office building at 263 McCaul Street had been given relatively minor improvements under the direction of, and with funding from, the

**12. Capital Project: 155 College Street** (Cont'd)

Accommodation and Facilities Directorate, and it was now occupied. The large warehouse building had been considered as a new site for the Facilities and Services Department, but the University had concluded that that use would not have been a good choice. It would therefore be used largely for storage purposes, replacing storage space currently being rented off campus. It might also be used in part as an examination centre. That would have some cost, but not a major cost. The two-story parking garage had been deemed unsafe and it had been demolished. It would be paved and used at least for the time-being as a parking lot.

**(d) Possibility of Provincial funding**. In response to a member's question, Professor Goel said that every effort would be made to obtain provincial support, but the University would proceed with the project on its own if necessary. The proposed project was the highest priority of the use of the funds and would be the best use of them, in the absence of Provincial support.

A member spoke in favour of the proposal. It would be much wiser to spend the increased amount now that to spend more, and cause disruption, to do the needed work later. The additional cost would represent money well-spent. The Chair noted that the need to complete the project by August 2005 no doubt contributed further to the cost pressure.

On the recommendation of the Vice-President, Business Affairs,

> Subject to Academic Board and Governing Council approval in principle to undertake the 155 College Street renovation project with the expanded scope necessitated by the increased infrastructure needs of the project,
>
> YOUR BOARD APPROVED
>
> THAT the Vice-President – Business Affairs be authorized
>
> (i) to expend up to $28,000,000 to complete the overall renovation of 155 College Street; and
>
> (ii) to arrange such interim and long-term financing as required from either internal or external sources.

## 13. Ancillary Operations - University of Toronto Press: By-Law Amendments

On the recommendation of the Vice-President, Business Affairs,

YOUR BOARD APPROVED

THAT the proposed revised By-Law Number 1 of the University of Toronto Press Inc., a copy of which is attached to Ms Riggall's memorandum of January 3, 2005, be approved.

## 14. Financial Forecast

Ms Brown recalled that for many years the Business Board had received a forecast of projected operating-fund income and expense compared to the operating budget, which was cash based. In 2004, the forecast been expanded to include all University operations. The operating fund comprised about two thirds of income and expense, with the other three funds (ancillary operations, capital funds and restricted funds) making up the remaining third. The forecast had, therefore, been a University-wide one. For 2005, the forecast had been expanded further to provide a projection of the full income statement that was not cash-based but rather expressed in terms of generally accepted accounting principles, including accounting estimates.

Ms Brown cautioned that the forecast was coming forward at an early point in the fiscal year, which would end on April 30. First, the University did not have an audited report of its official November 1 enrolment count, which was the basis of the Government of Ontario operating grant. The University was, however, confident that the enrolment numbers were sound. Second, the University did not at this time know whether the Government would provide full average funding for enrolment growth. The usual funding arrangement provided fixed funding for enrolment within a pre-approved enrolment corridor. However, the Government had encouraged the universities to expand their enrolments to accommodate the increased demand for places arising from the double cohort of students graduating from the old five-year high school program and the new four-year program, and it therefore now provided full average funding for incremental enrolment. However, because of financial constraints, it was not yet known whether the Government would be able to fully meet this commitment in 2004-05. The financial forecast assumed that it would do so, and that assumption was the key risk for the forecast. If the Government failed to deliver full average funding, the financial outcome would be significantly worse than the forecast. Third, Ms Brown did not have full financial projections from all of the University's divisions, although they were currently being received. She had therefore used estimates based on previous years' experience. Finally, Ms Brown did not know what the University's investment income would be for the year ending April 30, 2005. That amount was a key variable. For purposes of the forecast, Ms Brown had assumed an investment return of 6% on the endowment funds and 3% on the Expendable Funds Investment Pool. Variances from those projections would have a major effect.

**14. Financial Forecast** (Cont'd)

Ms Brown summarized the key elements of the forecast.

- **Net loss**. The forecast predicted a net loss of $17.8-million on projected revenue of $1.6-billion. That compared to a net income of $46.6-million in 2003-04. The most important reason was the projected reduction in investment income from the extraordinarily good amount provided by the capital markets in 2003-04.

- **Capital** was projected to increase from $1.487-billion to $1.546-billion, an amount somewhat higher than the projection for 2004-05 that had been included in the capital Borrowing Strategy approved by the Board in June, 2004. However, if the projection held, five-year average capital would be unchanged from 2003-04, leaving borrowing capacity unchanged.

Among the matters that arose in discussion were the following.

**(a) Investment income**. A member remarked on the size of the change in projected investment income from $124-million in 2003-04 to $66-million projected for 2004-05. Ms Brown replied that the change was a manifestation of the extraordinary returns in 2003-04. The projected return of 6% on the endowment funds was somewhat less than the objective contained in the University Funds Investment Policy, as just approved by the Board. That Policy called for a 4% average, inflation-adjusted return over ten years. In current conditions, that would amount to a nominal return of about 7%: the 4% real return, plus about 2.5% for inflation, plus about 0.5% for the various fees levied on the endowment funds. The projected return on the Expendable Funds Investment Pool was 3% for all three parts of the Pool combined. Ms Brown noted that UTAM's reports on performance were based on the calendar year, whereas the University's fiscal year ended on April 30 – a fact that explained an apparent inconsistency between the recent report from UTAM and these projections. In particular, the very good returns of the first quarter of 2004 had been included in 2003-04 and were not included in the 2004-05 fiscal year for which the forecast had been prepared. The projected return was less than the return assumed in the 2004-05 budget, but the short-term effect on the budget would be limited. The return on the endowment funds was projected to be sufficient to handle the budgeted payout. The less-than-budgeted return would reduce somewhat the amount that could be returned to the endowment for reinvestment.

**(b) Budget model summary: projection of tuition fee revenue**. A member referred to the projection of a steady increase in revenue from tuition fees over the budget-planning period ending in 2009-10. Did that increase arise from a plan to increase tuition fees or to increase enrolment? Professor Goel replied that the tuition-fee freeze for domestic students remained in place for 2005-06. Thereafter, tuition fees were projected to increase at the rate of inflation.

**(c) Employee future benefits**. A member asked about the $25.6-million increase in the amount to be committed for employee future benefits other than pensions, from $93.5-million to the forecast $119.1-million. Ms Brown noted that the University paid the annual premiums for

**14. Financial Forecast** (Cont'd)

employee and retiree benefits (other than pension benefits, which were funded) as costs were incurred. Those benefits included medical plans, long-term disability payments and survivor income benefits. Recent changes to generally accepted accounting principles, however, required that the actuarially projected future cost of those benefits had to be recorded as a liability when they were earned by employees rather than in the future when the premiums were paid, resulting in the recording of the annual expense currently forecast at $25.6-million. In addition, the amount of the liability recorded each year included not only the current service cost but also the cost of phasing in the effect of the new accounting rule over the fifteen years. The amount of the projected liability, and the corresponding commitment of capital against the liability, was estimated to increase to $212-million in the future.

**15. Report Number 75 of the Audit Committee, November 24, 2004 – Items for Information**

The Board received the items for information contained in Report Number 75 of the Audit Committee, November 24, 2004.

**16. Date of Next Meeting**

The Chair reminded members that the next regular meeting was scheduled for Monday, February 28, 2005 at 5:00 p.m.

THE BOARD MOVED INTO CLOSED SESSION

**17. Report on Gifts and Pledges over $250,000, August 1 to October 31, 2004**

The Board received, for information, the Report on Gifts and Pledges over $250,000 for the period August 1 to October 31, 2004.

In response to a question, the Secretary said that the Report was now classified as confidential and presented in closed session for two reasons. First, doing so was consistent with policies to protect privacy. Second, the gifts that were to be made public with donor consent were sometimes reported to the Board before they had been formally announced with appropriate recognition to benefactors.

In response to a question, the Secretary said that Ms Frankle had been required to leave the meeting for another commitment, and he undertook to convey to her a member's question about a specific donation.

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**18. Other Closed Session Reports**

Professor Hildyard and Ms Sass-Kortsak reported on two health and safety matters.

On motion duly made and seconded, it was RESOLVED

> THAT pursuant to section 33(i) of By-Law Number 2, the Board continue its meeting *in camera*.

The Board dealt with two matters *in camera*.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:30 p.m.

| | |
|---|---|
| Secretary | Chair |

February 14, 2005

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