UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 136 OF THE BUSINESS BOARD

October 6, 2004

To the Governing Council,
University of Toronto.

Your Board reports that it met on Wednesday, October 6, 2004 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 Catherine J. Riggall, Interim 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
Ms Susan Eng
Dr. Gerald Halbert
Ms Françoise D. E. Ko
Mr. Gerald A. Lokash
Ms Kim McLean
Dr. John P. Nestor
Mr. Roger P. Parkinson
Mr. Timothy Reid
Ms Marvi H. Ricker
Professor Arthur S. Ripstein
Professor Jake J. Thiessen
Mr. Robert S. Weiss

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
Professor Ronald D. Venter, Vice-Provost, Space and Facilities Planning
Professor Safwat Zaky, Vice-Provost, Planning and Budget

Secretariat:

Mr. Neil Dobbs
Mr. Andrew O. P. Drummond

Regrets:

Dr. Alice Dong
Ms Mary Anne Elliott
Dr. Paul V. Godfrey
Mr. George E. Myhal
The Honourable David R. Peterson
Mr. Andrew Pinto

In Attendance:

Mr. Felix P. Chee, President and Chief Executive Officer, University of Toronto Asset Management Corporation
Professor Peter Lewis, Vice-Dean, Research, Faculty of Medicine
Ms Elizabeth Sisam, Director, Campus and Facilities Planning
Professor Anastasios Venetsanopoulos, Dean, Faculty of Applied Science and Engineering

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

REPORT NUMBER 136 OF THE BUSINESS BOARD – October 6, 2004

1. Report of the Previous Meeting

Report Number 135 (June 17, 2004) was approved.

2. Chair's Remarks

The Chair welcomed members, assessors and guests to the first meeting of the Business Board for 2004-05. She introduced new members and invited returning members and assessors to introduce themselves. She invited the administrative officers present to introduce the members of their teams who were present and who would participate in preparing items for the Board.

The Chair said that she and the Vice-Chair continued to aim to conduct meetings of the Board in an efficient and effective manner. One goal would be to complete the Board's business in no more than two hours. While it would be a challenge to complete all meetings within two hours, and while it had been necessary to extend some meetings in the previous year, the Chair would continue to make every effort to respect members' time. She therefore asked members for their co-operation and understanding if it were to become necessary to limit discussion of a particular item in order to ensure sufficient time for the consideration of the other items on the agenda. She and the Vice-Chair would make every effort to use the agenda planning meetings, which preceded each Board meeting, (a) to review the agenda to determine a good allocation of time for each item, and (b) to review each agenda item to ensure that it contained the information members would need to consider the item expeditiously.

The Chair noted that many members had been able to attend the Board's orientation on October 1, 2004. The objective had been to enable the Board to take a strategic view from the beginning of the year of the University's financial, budgetary, capital-program and human resources issues. As the year proceeded, the Chair would ask the Vice-Presidents to provide the context necessary to keep the focus on the big picture as they brought various items forward.

The Chair reviewed the focus of the Board's responsibility. It was charged to ensure that the University was managing its resources responsibly and effectively. The management of the University was accountable to the Business Board for its use of public monies. That did not mean that the Board decided how the University's resources would be used. The University was, in many ways, a self-governing community. Therefore, the Academic Board (which consisted largely of members of the faculty, staff and students) had primary responsibility for recommending the University's budget. The Business Board, however, was called on to advise the Governing Council whether the budget was financially responsible and prudent. Similarly, the Academic Board recommended priorities for building projects, but the Business Board ensured that they were being carried out in a cost-effective manner and that they were soundly funded or financed.

The Chair recalled that the Chair of the Governing Council had stressed that members of the Council and its Boards were fiduciaries. All members brought their own perspectives as

2. Chair's Remarks (Cont'd)

alumni, students, faculty, and so on. However, in accepting membership of the Governing Council and the Business Board, members undertook a duty to act in the best interests of the University as a whole, and to exercise diligence in doing so. Members were individually and collectively stewards for the University. The *University of Toronto Act* made that duty very clear; section 2(3) stated that "members of the Governing Council [and by extension members of the Board] shall act with diligence, honestly and with good faith in the best interests of the University."

Later in the meeting, the Chair commented on the Board's practice concerning consent agenda items. In order to leave more time for major issues, the Board dealt with many of the reports for information, as well as more routine approval items, on a "consent" basis. Agendas would usually contain two headings, each with a number of sub-sections: "other items for approval" and "other items for information." Members were asked to review those items carefully and, well before the meeting, to call the sponsor with any questions. The name, telephone number and e-mail address of the sponsor appeared on the summary sheet covering the item. If, after a discussion with the sponsor, members still had concerns about one of the consent items, they were asked to notify the Secretary well in advance of the meeting. The item would then be flagged for the usual discussion at the Board meeting, and the Secretary would notify the relevant assessor so that appropriate personnel could be asked to attend for the discussion. Where no member gave notice of a wish for discussion, the items would be dealt with quickly. The "other items for approval" would be voted on as a package, with no introductions and (usually) with no discussion, although last-minute questions would not usually be ruled out of order. Similarly, the "reports for information," would simply be taken as received and (normally) there would be no discussion at the Board.

3. Business Arising from the Report of the Previous Meeting

(a) Item 5 – Borrowing Strategy

The Chair recalled that she had, during the discussion of the proposed Borrowing Strategy, asked Ms Riggall to provide a report on the University's debt load relative to capital, when new data became available from Moody's.

Ms Riggall reported that the data were not yet available, but they were expected soon. She was able to report on the outcome of a survey on the proportion of debt to total assets of Ontario universities as of April 30, 2004. The range of debt to total assets was between 3.5% and 40.4%, with the University of Toronto's 20.3% placing in the middle of the range. The proportion of debt to total assets was 36.5% for York University, 14% for the University of Western Ontario and 9.4% for Queen's University.

3. **Business Arising from the Report of the Previous Meeting** (Cont'd)

(b) **Item 6 – Business Arising from Report Number 133, Tuition Fee Schedule for Publicly Funded Programs, 2004-05: Report on Fundraising for Financial Support for International Students**

The Chair recalled that at the previous meeting, Dr. Dellandrea had undertaken to provide a fuller report towards the end of the year on fundraising for financial support for international students. The matter would be included on the agenda of a future meeting.

4. **Investments: Semi-annual Update on Investment Performance**

The Chair said that the terms of reference made the Board responsible for the "review of annual reports on investment performance, or more frequent reports as the Board may from time to time determine." Because of the importance of investment returns to the University's financial well-being, the Chair had requested that a semi-annual report on investment performance to June 30 be provided in addition to the usual annual report from the University of Toronto Asset Management Corporation.

Ms Riggall reminded members that the Business Board was responsible for approving the University's investment policies, which provided the goals and risk tolerances for the investment funds. The University employed the University of Toronto Asset Management Corporation (UTAM), which had its own Board and Audit Committee, to implement the policies. The Business Board was not, therefore, responsible for managing investment performance. The objective of the current report was to let the Board know, for its information, how the investment funds were doing.

Mr. Chee recalled that the securities markets had been down from the time the equities bubble had burst early in 2000 until early in 2003. For the following nine months, the markets had improved. The current report was for the period ending June 30, 2004, but Mr. Chee would add information on performance since that time. The highlights of the report included the following.

- **Assets under management**. The balances in all three funds had increased in the year from June 30, 2003 to June 30, 2004: the Long-Term Capital Appreciation Pool (the L.T.CAP or the "endowment fund") by 18.5% to $1.2-billion, the pension fund by 13.3% to $2.208-billion and the original Expendable Funds Investment Pool (EFIP or the expendable pool) by 19.7% to $292-million. That had been the outcome both of cash flows into the funds and decent investment returns.

  Mr. Chee reported that the expendable pool was now in two parts. The second part consisted of the proceeds of the second debenture issued to finance capital projects. That second expendable pool had been invested to match the University's projection of cash flows required for the capital projects.

4. Investments: Semi-annual Update on Investment Performance (Cont'd)

- **Investment performance relative to benchmarks**. For the year to date – the six months ended June 30 - the endowment fund's return of 6.11% was just below the benchmark, lagging it by only 0.17%. For the pension fund, the return of 5.38% was 0.33% above the benchmark. For the year ended June 30, 2004, the endowment fund return of 18.54% just exceeded the benchmark by 0.01% and the pension fund return of 16.28% exceeded the benchmark return by 1.34%.

  Mr. Chee noted that performance overall had been choppy in current conditions, with the securities markets going up and down.

  Mr. Chee observed that benchmark performance could be replicated at very low cost by investing in the component market indices with an asset mix equal to the benchmark. UTAM's objective was to add value above such a strategy. He noted that the returns reported were net of costs: UTAM's management fee and fees of the external portfolio managers and custodians. Previously, performance had been reported on a gross basis.

  A member observed that the numbers reported by Mr. Chee appeared to indicate that UTAM was not adding value. Mr. Chee replied that the performance numbers over one month and over the longer periods of two and three years had evidenced the addition of considerable value above the benchmarks.

- **Investment performance relative to other funds**. For the year ended June 30, 2004, the endowment fund had ranked in the seventh percentile relative to about 500 comparable institutional funds (mostly pension funds) in the RBC Global Services peer universe. Placing in the seventh percentile meant that returns in 93% of the comparable funds were worse than those of the endowment fund. The pension fund had ranked in the nineteenth percentile. That ranking represented a substantial improvement from previous years. The first-quartile ranking had persisted for the three-month period ended June 30, 2004. Therefore, while the funds' performance for recent periods had been relatively flat compared to the benchmarks, very few funds were doing better.

  A member asked how, for example, the endowment fund had ranked in the seventh percentile when the rankings for all of the component parts of the fund except for fixed income had placed in a lower rank. Was fixed income that large a proportion of the endowment fund? Mr. Chee replied that the fund's performance was based on two factors: the performance of each asset class (Canadian, U.S. and other equities and fixed income) and the mix of those asset classes. The asset mix of the endowment fund had proven to be a good one. Fixed income represented only 20% of the fund.

- **Asset-class returns**. Mr. Chee displayed for both the endowment fund and the pension fund the returns of each asset class over the past year and the six months to June 30,

4. **Investments: Semi-annual Update on Investment Performance** (Cont'd)

2004, showing the value added relative to the benchmark index. The returns were, by and large, displayed in local currency: Canadian dollars for Canadian stocks, bonds, real-return bonds and real assets, and U.S. dollars for U.S. stocks, high-yield bonds and absolute-return funds (the last being relatively conservative hedge funds). Returns for non-North-American stocks were shown in Canadian dollars because they were denominated in a mix of currencies: euros, yen, etc. The table then showed the effects of translating the returns back into Canadian dollars, after the effects of the currency hedging program.

For Canadian stocks, U.S. stocks, non-North American stocks and high-yield bonds, substantial value had been added through returns well above the benchmark indices. Bond investments, which were largely indexed investments, were relatively flat compared to the benchmark indices, except that investments in high-yield bonds had added considerable value. The environment for real assets (real estate, oil and gas properties, and timberlands) was very attractive and the University's investments in this category (primarily real estate) had added value above the benchmark index over the past year.

Because a large part of both funds was invested outside of Canada, the effect of currency was substantial. The increase in the value of the Canadian dollar had had a significant negative effect, particularly in the endowment fund (foreign investments in pension funds were limited by law). In general, currency exposure was 50% hedged, reducing the negative effect. Of course, when the Canadian dollar declined in value relative to other currencies, the currency effect would be positive.

- **Market conditions and the positioning of the funds**. The securities markets were now moving without direction, with gains in some months and losses in others. The largest factor was event risk, with markets being driven up and down by developments in the mid-east war, the upcoming U.S. presidential election, and terrorist acts. The fundamental factors in the economy and for individual companies were relatively good, with investors entering and leaving investments in response to political developments. Therefore, UTAM had moved its portfolios to a more defensive posture. It had reduced the funds' exposure to the stocks of small companies and had added "blue chip" companies. Bond duration had been reduced so that the fixed-income portfolio would be exposed to less risk arising from increases in interest rates. The overall credit quality of the bond portfolios had been increased. The objective at this time was less to outperform the benchmarks and more to avoid the funds' suffering major losses.

Among the matters that arose in discussion were the following:

(a) Foreign currency exposure. A member noted that the increase in the value of the Canadian dollar had accelerated since the June 30 reporting date, which would lead to a further decline in the value of foreign, especially U.S., investments. Had UTAM considered hedging more than

4. Investments: Semi-annual Update on Investment Performance (Cont'd)

50% of its foreign currency exposure or reducing its foreign investments? Mr. Chee replied that 50% hedging was only the broad benchmark for foreign equity investments. Any foreign bond exposure was fully hedged against declines in the value of the foreign currency relative to the Canadian dollar. Hedge-fund investments were 75% hedged against currency loss. With those broader hedges, and with an active currency-management program seeking to improve on the benchmark, about 75% of the foreign investments in the endowment fund were currently hedged. In addition, all foreign investments in the Expendable Funds Investment Pool were hedged. UTAM had considered a reduction in foreign content, but it had taken the view that it should not constrain investment opportunities. While the value of most foreign currencies had recently declined against the Canadian dollar, they would in the future no doubt increase. In the long run, the ebbs and flows tended to even themselves out.

(b) Real assets and private equity. A member asked whether private-equity investments (those in companies that did not have shares that were traded by the public on stock exchanges) were included in the "real asset" category. Mr. Chee replied that UTAM's asset mix included a separate 10% weight for private-equity investments. The private-equity portfolio was, however, only a nascent one, with less than 10% of the funds in that category being committed so far to private-equity investment funds and still less being invested by the managers of those funds. After those investments were made, it would take a substantial period of time for the investments to provide a stream of returns.

The real-asset category included real estate and commodities such as oil and gas properties and timberlands. In response to a member's question, Mr. Chee said that the benchmark for real assets was 50% each for accepted real-estate and commodity indices.

(c) Expendable Funds Investment Pool. A member noted that UTAM anticipated that the achievement of the 5% benchmark return for the expendable pool would require holding its bond investments to maturity. Mr. Chee replied that the short-term bonds in the pool had an average coupon return of 4%. The pool also held a number of internal loans ("mortgages") to various academic divisions, taken out to fund capital projects. They bore higher interest rates. The combination would likely achieve the targeted 5% return. Mr. Chee noted that the 5% benchmark was under review on the basis of a study of the expendable pool's liabilities. It was, however, not possible to expect a 5% return year after year on a portfolio of expendable monies invested for the short term.

The Chair thanked Mr. Chee for his report. Members of the Board took great comfort from the fact that Mr. Chee was responsible for the University's investments.

5. University of Toronto Asset Management Corporation: By-Law Amendment to Increase the Size of the Board from Eleven to Twelve

The Chair noted that this "consent" item requested the approval of a minor amendment to the UTAM By-Law to increase the size of the Board by one. That would allow for the appointment of a current member of the Governing Council or the Business Board to the UTAM Board without that Board's losing one of two past-members of the Governing Council. Both were playing central roles on the UTAM Board.

A member asked whether the proposal was intended for long-term benefit or solely to accommodate the current members of the UTAM Board. Ms Riggall replied that the proposal was also intended to provide long-term benefit. UTAM had, with a smaller Board, encountered difficulty securing sufficient participation in the work of the Board's committees.

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

YOUR BOARD APPROVED

The following amendment of By-Law Number 1 of the University of Toronto Asset Management Corporation:

THAT the first sentence of clause 3 of By-Law Number 1 be amended to read as follows: The number of directors of the Corporation is hereby increased from eleven to twelve (including three ex officio directors as hereinafter provided), and the affairs of the Corporation shall hereafter be managed by a board of twelve directors, each of whom at the time of his or her election or within ten days thereafter and throughout his or her term of office shall be a voting member of the Corporation.

6. *Ontarians with Disabilities Act*: University of Toronto Accessibility Plan, 2004-05

Professor Hildyard noted that the proposed plan was subject to Governing Council approval on the recommendation of the Planning and Budget Committee and the Academic Board, both of which had already endorsed it. It had also been received by the University Affairs Board, which had recommended to the Governing Council the approval of a Statement of Commitment Regarding Persons with Disabilities – one of the elements of the Proposed Accessibility Plan. The proposed plan was forwarded to the Business Board for information because of the Board's responsibility for human-resources matters with respect to administrative staff. Professor Hildyard presented the proposed Plan, with the highlights of her presentation as follows.

- **The University's approach**. The proposed Plan built on the University's academic plan, Step*ping UP*, with its stress on equity and access. It celebrated the work done by

6. *Ontarians with Disabilities Act*: University of Toronto Accessibility Plan, 2004-05 (Cont'd)

combining individual expertise and collective initiates to achieve accessibility. It was the outcome of a highly consultative process, which included faculty, staff, students and alumni and people with visible and invisible disabilities. The process had been a very active and very helpful one. It was important to recognize that while the Province of Ontario had mandated compliance with the *Ontarians with Disabilities Act*, it had provided no additional resources to public institutions to achieve compliance. Therefore, the University's various units had to achieve compliance within their existing budgets. The capital costs of making facilities accessible were included in the overall budgets of each capital project; a separate report of such costs was prepared annually. A significant part of the cost of achieving compliance was the time and effort put forward by all members of the faculty and staff, all of whom were expected to make the achievement of equity a component of their work.

- **Key accomplishments**. The University had prepared a Statement of Commitment Regarding Persons with Disabilities, which had been received very positively by the University Affairs Board and (as noted) recommended by that Board to the Governing Council for approval. The University had sponsored a number of conferences and one symposium on disability issues. Professor Hildyard was, however, most proud of an awareness campaign developed through the Student Affairs Department. It involved a series of posters featuring students with disabilities who had succeeded in achieving very substantial accomplishments. Professor Hildyard was very proud of these outstanding students, who had voluntarily disclosed their sometimes hidden disabilities to encourage others. The posters also demonstrated that the University was open and welcoming to students with disabilities.

- **Goals for 2004-05 and beyond**. The University's goals were stated in detail in the proposed plan. They included the commencement of a detailed assessment of signage and way-finding on all three campuses. The University would develop a new equity survey as a part of its commitments under the Federal Contractors' Program. The survey would be very helpful to the University to determine the number of faculty and staff who identified themselves as people with a disability. The University would begin a study of best practices at other institutions with respect to assisting people with chemical and environmental sensitivities. It would explore issues related to mental health and mental illness and seek means accommodating employees with mental illness back into the workplace. Finally, the University would encourage further scholarship in the area of disabilities studies.

Professor Hildyard was very pleased with the progress made on those initiatives. She expressed her gratitude to Ms Connie Guberman, the Status of Women Officer, who had done an excellent job in coordinating work on the proposed Accessibility Plan.

6. ***Ontarians with Disabilities Act*: University of Toronto Accessibility Plan, 2004-05** (Cont'd)

Questions and discussion focused on the following matters.

(a) Chemical and environmental sensitivity. In response to a member's question, Professor Hildyard said that individuals with chemical and environmental sensitivity might, for example, develop a reaction to carpeting. That led to the need to develop special examination rooms with all natural materials. More students required such environments for their classes. While it was becoming clear that the University would be unable to provide facilities to accommodate such students in every program, it was examining best practices to determine what could be done within resource constraints.

(b) Meeting the expectations of people with disabilities. A member recalled that there had, some time ago, been strong expressions of concern by some students and others with disabilities about the University's efforts to accommodate them. Were those people participating in the processes outlined in the proposed Plan? Professor Hildyard replied that people with disabilities had served on the forty-person O.D.A. Planning Committee and its sub-groups, which were trying to find ways to address the various issues. While it would probably be impossible on so old a campus as the St. George Campus to make every building and room accessible to people with physical disabilities, the University was making progress to make enough rooms accessible to enable people with disabilities to pursue their studies and careers. Professor Hildyard was confident that people with disabilities were now satisfied that their concerns were being heard and that their issues were being dealt with.

7. **First Collective Agreement with the Canadian Union of Public Employees (CUPE), Local 2484, Representing Day Care Workers**

The Chair recalled that Professor Hildyard had briefed the Board on this matter in closed session at the end of the June meeting. The Board's terms of reference, item 5.9(b), required Board approval for initial agreements with any employee group. Thereafter, the administration had authority to approve changes to agreements with unions, provided that they contained no new policy directions.

Professor Hildyard said that this bargaining unit had been the result of the merger of three daycare centres in July 2003. Some of the employees had previously been covered by a collective agreement with another employer and were inherited by the University at the time of the merger. The objective in negotiating this first collective agreement was to bring it into line with those for other groups of University employees. That objective had been attained. The proposed salary increases were in line with those for other employees, and there were no unusual features in the agreement.

In response to a member's question, the Secretary said that By-Law Number 2, section 27(d), provided that no University employee, apart from the President or a Vice-President, could vote on a motion related to the remuneration of any group of University employees.

7. First Collective Agreement with the Canadian Union of Public Employees (CUPE), Local 2484, Representing Day Care Workers (Cont'd)

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

YOUR BOARD RATIFIED

The initial collective agreement with the Canadian Union of Public Employees (CUPE), local 2484, representing the University's day care workers, essentially as outlined in Professor Hildyard's memorandum of September 22, 2004.

8. Capital Projects Report

The Chair drew members' attention to the Capital Projects Report, October 1, 2004, which had been placed on the table. It was intended to provide context for members and to assist in monitoring the progress of the University's extensive construction program. It was important to stress that the Board was not responsible for setting priorities for capital projects. Its responsibility was the cost-effectiveness, execution, and the security of funding and financing of projects.

Professor Venter commented on the report.

- The cost of all projects on the report, as well as other borrowing requirements including funds to match donations to the endowment, amounted to $993-million.
- The required borrowing included all projects that had been approved by the Business Board up to June 30, 2004, as well as the other borrowing requirements. The total required borrowing was $653-million.
- The total cost of the capital projects on the report that were either completed, under construction, or at the pre-tender or tender stage amounted to $837.7-million.
- In addition, however, section 3a and 3b of the report listed a number of projects on the capital plan that the administration would like to bring forward. Given funding constraints, however, the administration would be looking very carefully at priorities within this group and would bring a proposal to the Planning and Budget Committee for a revised Capital Plan.
- Finally, section 3c of the report listed projects for which there was an urgent need but no funding. Full funding would have to be found if those projects were to proceed.

8. Capital Projects Report (Cont'd)

Professor Venter and Ms Riggall responded to a member's questions for clarification. The sources of funding for the projects included gifts and pledges, the Enrolment Growth Fund, government grants and divisional funds. Of the projected total cost of the capital projects on the report plus the other borrowing requirements, two thirds would have to be borrowed. The borrowing for capital projects would be repaid from the following sources: the University's operating fund through the University Infrastructure Investment Fund; the University's operating fund through the Enrolment Growth Fund; the University's operating fund through budgets appropriated to various academic units; the proceeds of student levies for student facilities; loan repayments from the ancillary operations (primarily student residences and the parking operations); and other central funds.

9. Capital Project: Terrence Donnelly Centre for Cellular and Biomolecular Research: Completion

Professor Venter stressed that the Terrence Donnelly Centre for Cellular and Biomolecular Research (C.C.B.R.) had been the University's highest priority project since its original proposal. It would accommodate researchers from the Faculty of Medicine, the Faculty of Applied Science and Engineering and the Leslie Dan Faculty of Pharmacy. The project had originally been projected to cost $105-million. Because the University had lacked adequate funding to complete the project, it had originally been decided to complete the structure but to leave five floors as shells to be completed at some future date when funds might come available. In June, 2001, the Governing Council had approved execution of the partial project at a cost of $85.1-million. Since that time, additional funding had become available. Most importantly, Mr. Terrence Donnelly had committed a substantial further gift, bringing his total benefaction to $13-million for the C.C.B.R. of which $11.5-million was to be directed to the construction project. Further interest of $782,000 would be earned on funds in hand. Support anticipated from the McLaughlin Fund had been firmed up, and monies to match the Donnelly gift had been approved. As a result, it was now possible to proceed with the full project, completing the five floors and enhancing the atrium. The total project cost would be $96.6-million, rather than the originally projected $105-million. That was the outcome of three factors, First, the project was being completed fully rather than in two phases. Second, there had been some excellent work in controlling costs. Third, building escalation costs had been reasonable in recent years.

Professor Venter noted that the additional funding meant that the amount of long-term borrowing had been reduced somewhat from $16.91-million to $14.003-million. Furthermore, the Donnelly benefaction was directed primarily to the Faculty of Medicine, with the result that the borrowing required by the Faculty of Medicine had been reduced from $11.650-million to $4.628-million. However, the amount of borrowing for the Faculty of Pharmacy had increased from $1.992-million to $3.630-million, and the borrowing of the Faculty of Applied Science and Engineering had increased from $2.995-million to $5.445-million. The three Faculties were, however, engaged in an on-going discussion about the use of the building, and it was possible that the Faculty of Medicine would locate more laboratories there, with the result that it would

9. Capital Project: Terrence Donnelly Centre for Cellular and Biomolecular Research: Completion (Cont'd)

assume a greater proportion of the debt load. To cover the debt service, the three Faculties would use monies gained from increases in the enrolments in their PhD programs and, to the extent necessary, other operating funds. In response to a question, Professor Goel and Professor Venter said that the increased PhD enrolment being relied upon had taken place before the cap had been placed on Government of Ontario formula funding for additional graduate enrolment.

Professor Venter said that while the long-term borrowing required for the project had declined, it had also been necessary to borrow a further $8-million short term to finance the building until the full amount of the Donnelly benefaction would be received. Mr. Donnelly's annual gifts to the project would be complete by 2012. Professor Venter stressed that the $8-million of short-term borrowing for the project had been accounted for as a use of the University's borrowing capacity; the administration was being very conservative in its accounting for borrowing room.

Professor Venter reported that the originally approved, partial project was under construction, and it was both on budget and on schedule. It was anticipated that the original project would be completed by June 2005. Assuming approval, it was anticipated that the full project, including the outfitting of the five floors, would be completed by September 2005.

Among the matters that arose in discussion and questions were the following.

(a) Cost reduction and scope of the project. In response to a member's question, Professor Venter said that the reduction in the cost of the complete building from the originally projected $105-million to $96.6-million was not the outcome of removing any element(s) of the project. On the contrary, the atrium had been enhanced. The project had benefited from a more modest escalation in costs in the construction industry than had been anticipated. Professor Goel noted with pleasure that this was a case that was different from the usual one in which costs had increased. In this case, an improved building was being proposed at a lower cost.

(b) Short-term financing and borrowing capacity. In response to a member's question, Professor Venter assured the Board that the administration would disclose any future short-term borrowing needed for interim financing between the completion of a project and the receipt of donations or government funding. Such financing would be treated as a use of borrowing capacity. Professor Goel recalled that he was planning to bring to the Planning and Budget Committee a new capital plan that would resemble the long-term budget guidelines for the operating fund. The new plan would show the availability of borrowing capacity year by year as funds were expended and as internal loans were repaid. He anticipated that there would be further situations when short-term borrowing would be required to bridge projects to the receipt of government funding or donations. He noted that a number of the Faculties that had taken out internal loans for capital projects, to be repaid from appropriations from the Enrolment Growth Fund, currently planned to repay their loans more quickly than originally planned.

9. Capital Project: Terrence Donnelly Centre for Cellular and Biomolecular Research: Completion (Cont'd)

Ms Riggall added that she would propose the use of borrowing, within the current borrowing capacity, for purposes of infrastructure renewal. The outcome of the infrastructure renewal would be a saving of operating costs, which saving would be used to repay the borrowing.

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

Subject to Governing Council approval in principle to complete the atrium and the five shelled-in floors of the Terrence Donnelly Centre for Cellular and Biomolecular Research and to make them fully operational,

YOUR BOARD APPROVED

THAT the Vice-President, Business Affairs be authorized to complete the full project to construct the Terrence Donnelly Centre for Cellular and Biomolecular Research at a cost not to exceed $96,600,000, using funding sources as follows:

(a) $30,800,000 from the Canada Foundation for Innovation [CFI],
(b) $30,000,000 from the Ontario Innovation Trust [OIT],
(c) $2,000,000 from the I'Anson Fund,
(d) $2,800,000 from the University Infrastructure Investment Fund,
(e) $1,275,000 from the interest on funds received,
(f) $11,500,000 contribution from Terrence Donnelly,
(g) $4,522,000 matching from the McLaughlin Fund [OIT/ U of T],
(h) $2,500,000 Faculty of Medicine cash contribution
(i) financing (an internal "mortgage") in the amount of $11,203,000 to be amortized over 20-25 years and to be repaid by collective contributions from the Faculty of Medicine, the Leslie Dan Faculty of Pharmacy and the Faculty of Applied Science and Engineering through revenue from Ph.D. enrolments and/or the operating budgets of these Faculties.

The Chair thanked Professor Venter for his presentation of the proposal. The very complicated matter had been presented as clearly as possible.

10. Approvals under Summer Executive Authority: Annual Report

The Board received the annual report on matters within its terms of reference approved under summer executive authority. For 2004, there had been no such approvals.

11. Calendar of Business, 2004 – 05

The Board received for information its Calendar of Business for 2004-05. The Chair noted that the Calendar of Business showed the items planned to come before the Board in the coming year. It was subject to change. The timing might not be precise, and changes might arise for a variety of reasons, including the emergence of new priorities and issues. A consolidation of the Calendars of Business of all Governing Council Boards and Committees was available on the Governing Council website at www.utoronto.ca/govcncl/tgc/consolidate.

12. Report Number 73 of the Audit Committee – June 16, 2004

The Board received for information Report Number 73 of the Audit Committee (June 16, 2004). The Board had, at its meeting of June 17, endorsed the Audit Committee's recommendations to approve the audited financial statements and to appoint external auditors. Those recommendations had later been approved by the Governing Council. The written Report of the Audit Committee's meeting (held just the day before the Business Board meeting) was now before the Board for information.

13. Reports of the Administrative Assessors

(a) Varsity Stadium

Ms Riggall reported that the administration had decided not to bring forward a proposal, like that discussed at the Board's June meeting, for a joint development of Varsity Stadium in partnership with the Toronto Argonauts. Rather, the University would step back and consider alternative facilities that would meet the needs of the student body. She hoped that a proposal would be ready for governance later in the academic year. The cost of the original project had increased from $80-million to $100-million, and it had become clear that it would not be possible to reduce the cost to one the University could afford. The University had therefore decided to focus on a realistic alternative to the joint development.

(b) Utilities Infrastructure Review

Ms Riggall reported that she planned to bring to the next Board meeting a preliminary paper on a planned review of the University's utilities infrastructure. This represented a new initiative for the University. The University currently had a very large-scale utilities operation, which was in need of considerable deferred maintenance. Ms Riggall was receiving proposals from several organizations, which she would use initially to help clarify the situation internally. She and her colleagues had built a financial model to help evaluate the outside proposals, taking into account both the capital costs and the projected savings. The projected savings would in turn depend on assumptions concerning future utilities rates. The report to the Board's next meeting would concentrate on the current condition of the utilities infrastructure. Ms Riggall would return later with a proposal for action. In response to a member's question, Ms Riggall said that it was too early to forecast the capital cost of the infrastructure renewal. It would probably be within the member's suggested range of $10-million to $100-million.

13. Reports of the Administrative Assessors (Cont'd)

(c) Borrowing and the University's Credit Rating

Ms Riggall reported that the Dominion Bond Rating Service had reduced the University's credit rating from AA High to AA. The change had been expected because the new rating took into account the University's plan to take on additional debt of $150-million through a new debenture issue. The rating also took into account the Government of Ontario's operating funding and tuition-fee freeze. With respect to the debenture issue, the University had recently initiated discussions with advisors. No decision had been taken with respect to the timing of the issue or the advisors to be used. In response to a question, Ms Riggall said that she did not anticipate an increase in the cost of borrowing arising from the credit-rating change.

14. Date of Next Meeting

The Chair reminded members that the Board's next regular meeting was scheduled for Monday, November 8, 2004 at 5:00 p.m.

THE BOARD MOVED INTO CLOSED SESSION.

15. Closed Session Reports

The Chair recalled that, pursuant to section 6.1 of its terms of reference, "the Board routinely moves into closed session at the end of each meeting to consider receipt of any closed session reports from its assessors. Assessors are invited to report on any matters of a confidential nature and to initiate discussion on any policy matters at an early stage of policy development, before they wish to bring a recommendation forward for debate and approval."

(a) Quarterly Report on Gifts and Pledges over $250,000, May 1 – July 31, 2004

The Board received for information the Quarterly Report on Gifts and Pledges over $250,000, May 1 – July 31, 2004. The Chair recalled that the origin of the reports was the 1998 *Provost's Guidelines on Donations*. The quarterly reports were presented to both the Academic Board and Business Board for information. The objective of the reports was to enable monitoring to ensure that major gifts were consistent with the University's fundamental principles: that they did not imperil the "integrity, autonomy and academic freedom" of the University, and that gifts were consistent with academic priorities and did not steer the University's teaching and research to non-priority areas. The reports also assisted the Business Board to carry out its responsibility to monitor the University's advancement program.

The Chair noted that the reports were now classified as confidential and were made in closed session. In some cases, the gifts had not yet been announced, and, unless benefactors had agreed to public announcements, the University had a duty to protect the donors' privacy. Where benefactors had agreed to their gifts' being made public, those major gifts were announced publicly in an appropriate manner.

15. Closed Session Reports (Cont'd)

(a) Quarterly Report on Gifts and Pledges over $250,000, May 1 –July 31, 2004 (Cont'd)

In response to a member's question, Ms Frankle said that amounts reported included only benefactions; they did not include any matching funding provided by governments.

(b) Human Resources: Compulsory Retirement

Professor Hildyard reported on discussions with the Faculty Association concerning compulsory retirement.

THE BOARD RETURNED TO OPEN SESSION.

The Chair thanked Ms Riggall and Professor Hildyard for their reports, which had been very helpful and which contributed to an environment of "no surprises."

The meeting adjourned at 6:50 p.m.

Secretary	Chair

October 25, 2004

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