AMENDED

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 137 OF THE BUSINESS BOARD

November 8, 2004

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, November 8, 2004 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Richard Nunn (In the 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
Dr. Alice Dong
Ms Mary Anne Elliott
Ms Susan Eng
Dr. Paul V. Godfrey
Dr. Gerald Halbert
Ms Françoise Dolcinea E. Ko
Mr. Gerald A. Lokash
Ms Kim McLean
Mr. George E. Myhal
Mr. Roger P. Parkinson
The Honourable David R. Peterson
Mr. Andrew Pinto
Mr. Timothy Reid
Ms Marvi H. Ricker
Professor Arthur S. Ripstein
Professor Jake J. Thiessen
Mr. Robert S. Weiss

Dr. Jon S. Dellandrea, Vice-President and Chief Advancement Officer
Professor Carolyn Tuohy, Vice-President, Government and Institutional Relations
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
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:

Ms Jacqueline C. Orange
Dr. John P. Nestor

In Attendance:

Ms Elizabeth Finney, Director of Government Liaison, Office of the Vice-President, Government and Institutional Relations and Office of the Vice-President, Research and Associate Provost
Professor Lynn Hasher, Chair, Department of Psychology

32428

In Attendance (Cont'd)

Mr. Hal Koblin, Special Adviser to the Vice-President and Chief Advancement Officer
Ms Rosie Parnass, Quality of Work Life Advisor and Special Assistant to the Vice-President, Office of the Vice-President, Human Resources and Equity
Mr. Pierre Piché, Acting Controller
Professor Jeremy Quastel, Acting Chair, Department of Mathematics
Mr. Allan Shapira, Hewitt Associates

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

1. Report of the Previous Meeting

Report Number 136 (October 6, 2004) was approved.

2. Pension Plans: Annual Financial Report

The Chair said the Business Board treated most items from the Audit Committee as consent items. However, given the importance of the pension plan to the financial health of the University, the report had traditionally received the attention of the Board, although that attention was moderated by the fact that it had already been carefully reviewed by the Audit Committee. While most of the report was for information, the audited financial statements required the Board's approval prior to their submission to the Financial Services Commission of Ontario.

Mr. Myhal reported that the Audit Committee, at its meeting of October 27, had completed a careful review of the financial status of the University's pension arrangements as at June 30, 2004. The actuaries, the external auditors and the Vice-President, Human Resources and Equity had been in attendance. In the registered pension plan, the Committee had been pleased that good investment returns and the resumption of employer contributions had resulted in a reduction of the market-value deficit from $203.5-million to $113.2-million. The market value deficit was determined by subtracting the value of the assets of the plan as at June 30 from its accrued liability. In the actuarial valuation, the value of the pension-fund assets was smoothed over three years. In that process, the benefit of the good investment returns in 2003-04 had been reduced and the two previous years of poor returns had been taken into account. As a result, the plan had fallen from a small actuarial surplus to an unfunded liability of $39-million. Adding the effect of a change in the actuarial assumptions, that unfunded liability had become $69-million.

Mr. Myhal reported that the key change in the actuarial assumptions had been a reduction in the projected rate of inflation from 3% per year to 2.5% per year. That had resulted in a reduction in the other economic assumptions by one half of one percent per year, including the assumed rate of investment return and the rate of salary increases for active members of the plan.

There was also a solvency valuation. If the plan had been wound up on June 30, 2004, there would have been sufficient assets to make unindexed pension payments to members of the

2. **Pension Plans: Annual Financial Report** (Cont'd)

plan, but insufficient funds to provide the partially indexed pensions promised in the plan. The University was required by the Pension Benefits Act to amortize the unfunded liability over fifteen years.

Mr. Myhal noted that there was a smaller registered plan for employees of the Ontario Institute for Studies in Education prior to its merger with the University of Toronto. That plan continued to enjoy market-value and an actuarial surpluses. Indeed, the size of the surplus was such that the Income Tax Act precluded employer contributions at this time. The main development in the OISE plan had arisen from the Monsanto decision by the Supreme Court. The ruling stated that in the case of a partial wind-up of a pension plan, the plan members in the wind-up group were entitled to a distribution of the assets of the pension fund related to them, including any surpluses. A group of OISE employees had taken up special early retirement and voluntary severance offers in 1996, the year of the merger. In so doing, they had become a group in a partial wind-up of the plan. As a result, it was possible that, some years down the road, the University might be required to resume current-service contributions to this plan. If so, the amount would be approximately $1-million per year.

Mr. Myhal reported on the unregistered Supplemental Retirement Arrangement or S.R.A. It provided supplemental benefits to registered plan members over the limit of the registered plan and up to a salary cap of $150,000. The University was in the process of building up a special fund to match the liability under the S.R.A. The value of that fund as at July 1, 2004 had been $6.9-million less than the $123-million accrued liability of the S.R.A.

Mr. Myhal recalled that the Board had, in January 2004, approved a funding strategy to bring the pension arrangements up to a fully funded position. That strategy involved the University's resuming full employer pension-plan contributions and making additional special payments of $26.4-million per year. The report before the Board provided a projection of the outcome, demonstrating that the University should remain on course with the strategy. It was projected to bring the assets set aside for the S.R.A. above the estimated liability in 2013, and to bring the registered pension plan into equilibrium, with assets matching the accrued liability, by 2016.

Among the matters that arose in discussion were the following.

(a) Effect of potential legislation to end mandatory retirement at age 65. Invited to respond to a member's question, Mr. Shapira said that his firm was beginning to consider the impact of a significant number of postponed retirements on the University of Toronto pension plan. The outcome would depend on the terms of the post-age-sixty-five pension arrangements. If employees continued to accrue pension benefits during the post-age-sixty-five period, that would have a cost, but it would be more than offset by the plan's eventually paying pensions to those employees for fewer years.

(b) Pension plan assets. A member asked for a listing of the stocks and funds in the pension fund. Ms Brown replied that the Board received information about pension fund investments

2. Pension Plans: Annual Financial Report (Cont'd)

through the annual report of the University of Toronto Asset Management Corporation, presented in the spring, with a semi-annual update, which had been presented at the previous meeting.

(c) Actuarial and market value of the assets. A member noted that the good investment returns in 2003-04 had increased the market value of the pension funds' invested assets, but there had nonetheless been a decline in their actuarial value. Mr. Shapira explained that there had been significant losses from previous years that had not yet been fully recognized in the smoothed actuarial valuation. He noted that the deferred loss was currently only a small one, and, if the pension fund continued to earn returns significantly above the assumed return, the market value would exceed the actuarial value. In response to questions, Mr. Shapira said that the actuarial valuation was useful in providing a long-term view that provided some consistency and flexibility in determining the level of employer contributions. Ms Brown said that for purposes of the plans' financial statements, which focused on the immediate situation, the market value of the assets was used. For purposes of funding the pension plans, a longer perspective was required, and the actuarial valuation was appropriate. She observed, however, that for purposes of financial planning, it was prudent to consider both the actuarial valuation and the market value of the assets.

(d) Actuarial and accounting assumptions. In response to a member's question, Ms Brown said that the University's financial statements for 2003-04 had used a 6.25% assumed rate of investment return for the pension plan assets, which was a different assumption than the one used in the actuarial valuation. The assumptions used for the actuarial valuation were determined with a view to the long term. The assumptions used for accounting purposes were based upon management's best judgement and typically had a shorter term perspective. Only time would tell whether the assumptions used for actuarial and accounting purposes would once again be the same.

On the recommendation of the Audit Committee,

YOUR BOARD APPROVED

(a) The audited financial statements of the University of Toronto Pension Plan, June 30th, 2004, a copy of which is included in Appendix "B" to Report Number 74 of the Audit Committee; and

(b) The audited financial statements of the University of Toronto (OISE) Pension Plan, June 30th, 2004, a copy of which is included in Appendix "B" to Report Number 74 of the Audit Committee.

3. Rae Review of Post-Secondary Education in Ontario: University of Toronto Submission

The Chair said that the Governing Council, at its meeting of November 1, 2004, had reviewed, accepted and reaffirmed the principles and directions of the University's draft submission to the Higher Expectations for Higher Education Review (the Rae Review), dated October 28, 2004, as the basis of the University of Toronto submission to the Review. Nonetheless, it would be valuable for the Business Board to receive a brief presentation on the key elements in the University's submission.

Professor Tuohy said that her objective would be to highlight a few features of the University's submission to the Rae Review and to seek members' support for the University in making its case. Professor Tuohy reviewed the consultative process to date and the schedule for submitting the University's response. It was anticipated that the Rae Report would be issued late in January, 2005. The University's advocacy effort would not stop at that time; on the contrary every effort would be made to advocate implementation of favourable recommendations in the forthcoming Provincial Budget.

The highlights of Professor Tuohy's report were as follows.

- **Rae discussion paper**. Mr. Rae, in his discussion paper, had issued a clarion call to action. He had stated that higher education in Ontario was in serious jeopardy, balanced on the edge of either achieving great improvement or continuing a steady decline. The current financial gridlock could not continue. Ontario required a more productive formula, based on public funding, donor generosity, and reasonable tuition fees. Government student aid was "broken" and required repair. Finally, one size did not fit all; each institution should have the autonomy to chart its course, within a coordinated and well-governed system.

- **The University's response** would be to re-assert its consistent position. Public funding for postsecondary education in Ontario should be at least at the national average. Tuition fees should be set by the Governing Council and tuition fees should always be coupled with a financial aid guarantee. The different missions and roles of postsecondary institutions should be recognized. That should include the recognition of the historic and distinctive mission and leadership role of the University of Toronto and the recognition of the distinctive needs of Ontario's research-intensive universities.

- **The University of Toronto position on tuition fees** was consistent with the University's policies. The tuition fees policy was grounded in the mission of the University to be an internationally leading public teaching and research University. As a public University, the University of Toronto should receive its funding principally from public sources: the provincial and federal governments. Tuition fees would be accompanied by a robust program of financial aid to maintain accessibility. Finally, tuition fees should be neutral with regard to enrolment levels. Implementing the tuition fees policy involved a number

3. **Rae Review of Post-Secondary Education in Ontario: University of Toronto Submission** (Cont'd)

of key elements. The University should continue its strong advocacy of substantial public support for universities. Tuition-fee revenue would continue to be viewed as supplemental to public funding and assessed as necessary to attain a high quality standard. Tuition fees would continue to be differentiated among programs, with, for example, higher fees for higher cost programs and those that led to careers providing higher financial rewards. The tuition-fee-level guarantee would continue in place, enabling all students to know before registering for their programs the level of fees to be charged throughout the normal course of their full-time programs of study. The University would continue to monitor the effects of tuition fees. The annual Enrolment Report, prepared for the Planning and Budget Committee, would continue to be presented to the Business Board at the same meeting as the Tuition Fee Schedule, and it would include commentary on the effects, if any, of changes in tuition fees on enrolment.

- **University of Toronto policies on student aid**. The Tuition Fee Policy would continue to be accompanied by the Policy on Student Financial Support, which was based on the following central principle: no student offered admission to a program at the University of Toronto would be unable to enter or complete that program for reason of a lack of financial means. Implementing the Policy on Student Financial Support involved a number of key elements. First, the Ontario Student Assistance Plan (OSAP) would provide the first tier of student financial aid. Second, while the OSAP program assessed the need, the support it provided did not always meet the assessed need. The University of Toronto would build on OSAP, and fill the gap of need not met by OSAP, through grants to students in first-entry programs and a mix of grants and loans to students in second-entry programs. Third, the University would continue to provide a funding guarantee for doctoral-stream students, which would involve aid equal to tuition fees plus a minimum stipend. Fourth, specific financial assistance would be provided for part-time students and students with special needs. Finally, the University would continue to monitor the outcome of its tuition fee and financial aid policies on accessibility. An annual report on student financial support, prepared by the Vice-Provost, Students for the Committee on Academic Policy and Programs, was also was presented to the Business Board at the same meeting as the tuition fee schedule.

- **The University's submission: Introduction**. The University of Toronto echoed the concerns about the post-secondary education system expressed in the Rae discussion paper. It was in some ways difficult for the University of Toronto to communicate such concerns. Members of the public observed the University's extensive construction program, its research successes, its successful accommodation of the double cohort of secondary-school graduates, and its continuing first-place ranking in the McLean's rankings of post-secondary institutions. The University appeared to be doing exceptionally well. However, those successes, and enhanced funding for research and for enrolment expansion, had masked an underlying downward slide in operating funds per

3. Rae Review of Post-Secondary Education in Ontario: University of Toronto Submission (Cont'd)

student, a slide that had placed the post-secondary education system in Ontario in serious jeopardy. Students and society as a whole needed and deserved better, and the University of Toronto could play a leadership role in charting the course of improvement. Unlike the series of seven reviews of the post-secondary system in Ontario from 1966 to 2001, it was essential that this particular review at this particular time make a difference. The previous reviews had been carried out by extraordinarily capable people and had provided excellent reports. Nonetheless, funding per student, adjusted for inflation, had continued to decline. That contrasted with public funding for elementary and secondary education and for health care, which had essentially tracked the growth in real per capita Gross Domestic Product since 1989. Universities were important to students and to society. Universities were: portals of access to opportunity; engines of economic growth and prosperity; custodians and creators of cultural wealth; and contributors to building cities and communities. Investing in post-secondary education was a matter of intergenerational equity. The current generation of students was clearly receiving a lesser post-secondary educational experience than had the previous generation.

- **The University's submission: Foundational principles**. The University advocated three objectives for Ontario's system of post-secondary education. First, students should have access within the Province to post-secondary programs of the highest quality. Second, students should have the support they would require to succeed in their programs. Third, the system should contribute not only to the success of individual students but also to the public good. To achieve those objectives, the University proposed three principles of design for the post-secondary system. First, the various institutions should have distinctive and complementary roles. Second, each institution should be responsible for achieving its distinctive role and should be accountable to its governing body for doing so. Third, the system should provide for sustainability for each institution within an appropriate framework. That would involve multi-year funding agreements in return for the institutions' undertaking to achieve stated and measurable objectives. The multi-year arrangements should not change with each change of government.

- **The University's submission: Responses to specific questions asked by the Rae Review**. Five questions had been put to the universities. How could participation and success in higher education be increased? How could the quality of higher education be improved? How could it be ensured that postsecondary institutions constituted a coherent, coordinated system to meet Ontario's goals for higher education? How could higher education be funded to ensure opportunity and excellence? Were the right structures in place to know that the system was achieving the results that were wanted? For each question, the University of Toronto response would begin with an outline of the University's own experience, emphasizing what the University could achieve with the correct funding and regulatory environment. Examples would include: the small

3. **Rae Review of Post-Secondary Education in Ontario: University of Toronto Submission** (Cont'd)

seminar courses for first-year Arts and Science students (now available only to 40% of new students); the fourth year project program in the Faculty of Applied Science and Engineering; the bridge programs offered by the Faculty of Law; and the involvement of graduate students in major research breakthroughs. The problem was that funding constraints meant that not enough students had access to those excellent opportunities. The submission would then, for each question, indicate the areas in which the University of Toronto had played a leadership role: its presence on the world stage; its tuition-fee policy; its policy on student financial support, including its accessibility guarantee; certain divisions' initiatives such as the back-end debt-relief programs for students entering less lucrative areas of their new professions; its graduate funding packages; and its culture of donor support. Finally, the University would offer its advice in answer to the questions. The recommendations in the draft outline that had been distributed to members would be refined on the basis of further discussions.

- **Highlights of the submission: Three spheres of university education**. The submission would emphasize that university education did not come from a single mold. There were three very different types of programs: first-entry undergraduate programs; second-entry programs for students with previous university training; and doctoral-stream graduate programs. Each had a different catchment, placement, pedagogy, and program peers. The mission and identity of each university was defined by its proportion of students enrolled in those types of programs and the inter-relations among them. Universities with varying mixes competed with, and compared themselves with, other universities with similar mixes.

- **Highlights of the submission: Student experience and student:faculty ratio**. The fundamental marker of quality across all spheres was student:faculty ratio, which translated into student experience: exchange with faculty, availability of writing assignments, availability of small group discussions, and so on. A university might have an outstanding faculty, but that fact would not translate as well into an outstanding student experience in the absence of the opportunity for individual interaction with those exceptional faculty members. All surveys had shown that students wished to have more time with faculty members – something that was very difficult to achieve with a high ratio of students to faculty. The University of Toronto sadly lagged its peer institutions in the Association of American Universities in that respect. The ratio of students per professor should be 22 to 1 to bring the University to the A.A.U. mean; it was currently 30 to 1.

- **Highlights of the submission: Graduate education**. The cap on the number of graduate students who would be funded at each institution, in place since 2001-02, had led to serious under-investment in graduate education. That was particularly short-sighted because Ontario lagged peer U.S. jurisdictions in residents with graduate degrees. Ontario universities had conferred 0.79 masters degrees per 1,000 population in 1997-98 compared

3. **Rae Review of Post-Secondary Education in Ontario: University of Toronto Submission** (Cont'd)

to 1.61 in peer jurisdictions – less than half. Ontario universities had conferred 0.13 PhD degrees per 1,000 population, compared with 0.17 in peer U.S. jurisdictions. The cap on funded graduate places was also short-sighted given the forthcoming demand for graduate and professional-school places from students in the double cohort. The problem of the cap on funded graduate enrolment was particularly damaging to the University of Toronto as an institution because of its high proportion of graduate students. Doctoral-stream graduate students had formed about 14½% of total enrolment in 1997-98 but only about 12½% of total enrolment in 2003-04.

- **Highlights of the submission: Professional education**. It was very important to the Province that the University of Toronto continue to be a leader in professional education. It offered the broadest scope of professional programs and was the largest contributor of health professionals in the Province. The Ontario Institute for Studies in Education of the University of Toronto (OISE/UT) was a major resource to educational system. The University of Toronto was well suited to its leadership role in professional education. That leadership required that professional education be connected to the underlying research base, and that faculty and students in the professional faculties have the ability to make cross-professional and cross-disciplinary links.

- **Key recommendations: General**. The University's key recommendations to the Rae Review would include the following. The ratio of students to professors at the University of Toronto should be improved by more than 25 percent. All students graduating at the University should have had an appropriately balanced mix of seminar- and lecture-based formats through their programs of study. Graduate education must be concentrated in centres of research and scholarship. The current cap on graduate enrolment must be immediately lifted.

- **Key recommendations: Funding**. There should be an appropriate balance in funding the universities among governments, students and their families, and private donors. The contribution of students should be offset by a strong program of need-based financial aid. The University of Toronto's per-student grant in 2003-04, adjusted for inflation, was about two-thirds of what it was in 1992-93. Combined revenue per full-time-equivalent student from government grants and tuition fees over that same period had declined by 14.5%. Total revenue per full-time-equivalent student had declined by 8.1%. One outcome was deferred maintenance costs that stood at $315-million. Another was external borrowing for capital purposes that had increased to more than $415 million. The government operating grant had provided more than 70% of the University's total revenue in 1992-93. By 2002-03, that had declined to just over 40%. Support from the income earned by the University's endowment had grown substantially, but it still remained a small proportion of the operating budget. The student:faculty ratio had grown from about 16 to 1 in 1986-87 to 25 to 1 in 2003-04. Still, the University's long-range budget projection foresaw an operating

3. Rae Review of Post-Secondary Education in Ontario: University of Toronto Submission (Cont'd)

fund deficit of $97-million by 2010 unless further budget reductions were made. That would mean further service reductions, the inability to appoint any new faculty in the Faculty of Arts and Science, even to replace retirees, and therefore a further deterioration in the student:faculty ratio. Consequently, it was essential that the level of operating funds per student in Ontario be increased to at least the average level of the other nine provinces. The universities also required the leverage to enhance their other sources of funding – sources such as federal government funding, donations and tuition fees – that would be required to achieve their distinctive missions.

- **Key recommendations: Tuition fees and financial aid**. Tuition-fee levels should be differentiated across spheres of higher education and across institutions. Tuition fees should be set within a stable, multi-year framework of mutual obligations, which was best done at the level of the governing bodies of universities themselves, within an overall framework of accountability for ensuring access. The reform of government student aid was essential. That would include: extending eligibility to students from families with a broader income range; up-dating the needs-assessment criteria; addressing the issue of post-graduation student debt through a post-graduation repayment/relief mechanism related to income; and simplifying and streamlining the currently complex system. The Ontario Student Opportunity Trust Fund (O.S.O.T.F.) program to match donations to endowment funds for need-based student aid, or one modeled on its principles, should be maintained and enhanced.

- **Key recommendations: Research**. Existing programs should be enhanced as they are consolidated in the new Ontario Research Fund. Priority should be given to funding the full costs of research, including overhead costs. Special recognition should be given to meeting the cost of important, flagship resources such as the University of Toronto Library, which was used by scholars throughout the Province.

- **Key recommendations: Physical plant**. Bridging the gap in operating funding should include as a corollary providing the funding necessary to build and maintain the universities' physical plant.

- **Key recommendations: Accountability**. The University recognized that this was appropriately an era of accountability and it was prepared to develop models for accountability. It had led in the development of performance indicators and in the measurement of performance against those indicators, and it was willing to work with the Government on a province-wide system. A possible model was the provision of stable, multi-year funding in return for assurances concerning measurable results in terms of accessibility, the quality of the student learning environment, student success, research

3. Rae Review of Post-Secondary Education in Ontario: University of Toronto Submission (Cont'd)

performance and other factors. It was, however, essential that the Government recognize that the appropriate locus of responsibility and accountability was the governing body of each institution. There might well be need for a province-wide intermediary body between the institutions and the Government, but its role should be research and analysis. Among the matters that arose in discussion were the following.

(a) Cost to the Province to implement the University's recommendations. In response to a member's question, Professor Tuohy said that a $1-billion increase in the annual operating grants to the Ontario universities would both bring their funding per student to the national average and fund the enrolment increase across the Province. The University of Toronto's share of that increased funding would be $180-million per year, which would eliminate the University's projected budget deficit and enable it to improve its student:faculty ratio. In response to a later suggestion that the University would require more funding than the average to achieve the benchmarks it set for itself in areas including graduate education, Professor Tuohy said that the additional cost to the Province to enable the achievement of appropriate goals in graduate education would be $400-million. The University of Toronto's share of that additional funding would be about $150-million per year.

(b) Making the case for increased funding. A member urged that the University should make it clear what would happen with increased funding and why, therefore, the Province should provide that additional support. One of the outcomes clearly would be an improved student:faculty ratio, but others should be specified. The University should also state how it would measure and demonstrate the benefits of improved funding in terms of the quality of its faculty and the quality of its graduates. The University should support a principled view of an appropriate balance of funding. It should make a reasoned case for the specific proportion of university funding that should properly come from government, from students through their tuition fees, and from other sources. It should also make a reasoned case for the uses of that funding including, for example, the proportion that should be available to support research. Such inclusions would make the University's prospects for achieving improved funding much stronger. Professor Tuohy replied that she had been asked in her presentation to the Business Board to focus primarily on revenue sources. She had taken the message from discussion at the Governing Council that it would be highly advisable to flesh out the submission to make it clear that the University's objective was not improved funding *per se* but rather the ability to improve the quality of its education and research endeavour. The submission would contain many good examples of the academic work that was being done and that would be done with improved support.

Another member suggested that to make the case for increased funding it would also be important to demonstrate graphically how much the University had been forced to cut from its activities because of past-under-funding, for example the number of people who had been laid off.

3. Rae Review of Post-Secondary Education in Ontario: University of Toronto Submission (Cont'd)

(c) Differentiation. A member commended the response's stress on the differentiation among universities. It was appropriate for the University of Toronto to be aggressive and urge the support needed for it to maintain and enhance its special strength as the largest and leading institution in the Province.

(d) Benefit of university research to the economy. A member observed that the commercial application of university research in many areas could be of great benefit to the economy. It appeared, however, that the Rae Review had no mandate in that area. Would that impede the University's ability to make its case for increased funding in terms of the contribution of such better funding to the economy? Professor Tuohy replied that the University had been advised to include strong advocacy for research and to make clear the University of Toronto's leadership role in research. The Province was currently consulting universities as it proceeded to establish a new Ontario Research Fund, and it was essential that the University make its case along that parallel track.

(e) Broader economic impact of university education. Another member urged that the University make the broader case of the overall potential impact of university education on the economy (beyond the impact of research) and to demonstrate the cost to the economy of under-funding.

(f) Ontario Student Assistance Program (OSAP). A member urged that the submission be expanded to demonstrate more fully the need for OSAP reform. A joint administration – student working group had completed a valuable study on the matter that could provide the basis of an enhancement to the submission.

(g) Tuition fees. A member urged that the submission be expanded to demonstrate the impact on students of steadily increased tuition fees.

(h) Performance benchmarks and the funding required to achieve them. A member observed that the submission included a recommendation ("paying for results") for a multi-year funding agreement combined with agreed-upon measures of performance in areas such as accessibility, quality of the learning environment, graduate education, student success and research performance. There was ample evidence that the University had already taken very seriously its responsibility to be accountable for the use of public funding - establishing a series of benchmarks and measuring performance against those benchmarks. The member cautioned that it would be wrong both to propose the need to meet benchmarks and at the same time to request only average funding per student, which might well be insufficient to enable the University to achieve its benchmarks.

(i) Institutional accountability. A member noted the stress on the University's being accountable to the Governing Council. Did the University oppose peer reviews or evaluation by

3. Rae Review of Post-Secondary Education in Ontario: University of Toronto Submission (Cont'd)

separate bodies? Professor Tuohy replied that the University fully recognized the importance of appropriate accountability, and it did not in any way oppose the idea of peer review. The point was simply that, ultimately, accountability within an appropriate framework should be to the Governing Council. The University therefore sought a multi-year framework agreement whereby the Province would provide adequate funding in return for certain outcomes to be delivered. That accountability framework was like that for the health-care system, and the University should lead in its development. What the University wished to avoid was the prescription of actions and measures that were not consistent with its mission.

The Chair thanked Professor Tuohy for her report and invited members to forward any other advice directly to her.

4. Vice-President and Chief Advancement Officer: Annual Report Including Final Campaign Report

Dr. Dellandrea presented his tenth annual report to the Board. The University had succeeded in its $1-billion fundraising campaign one year ahead of schedule. That great achievement, however, represented only the end of a chapter; the book continued. The University would, to achieve its academic plan, need to receive gifts of at least a further $1-billion over the next decade.

- **The Campaign as at December 31, 2003**. Gifts and pledges amounted to $895.8-million, and gifts in kind amounted to $114.9-million, so that the $1-billion campaign goal had been exceeded by $10-million. In addition, the separate goal to receive notification of future bequest intentions of $200-million had been achieved and exceeded by $8.6-million.

- **Financial impact of the Campaign on academic priorities**. The generous gifts of the University's supporters had been leveraged to win matching government funding of $400-million, all for academic priorities.

- **History of the Campaign**. The pre-launch Campaign goal had been $300-million. That goal had been established after a highly successful campaign by McGill University had raised $200-million. That goal had, however, been increased by a series of steps to $1-billion. The University of Toronto was one of only seventeen public research universities in North America to have raised $1-billion or more and the only university in Canada to have done so.

- **Sources of donations**. Alumni had given 43% of the total amount. Foundations and organizations had given a further 21%. Friends of the University who were not alumni had contributed 18%. Corporations had donated a further 18%.

4. Vice-President and Chief Advancement Officer: Annual Report Including Final Campaign Report (Cont'd)

- **Impact of the Campaign: Gifts by academic priority**. 28% of donations supported chairs and professorships. The University had progressed from 15 endowed chairs in 1995 to 160 in 2003. A further 27% of donations supported academic programs. 20% of donations had been made to provide student support. In 1995, the University had $69-million of endowed funds to provide student aid. That amount had increased to $500-million by 2003. The Ontario Student Opportunity Trust Fund, which had matched donations to endowments for need-based student aid, had been a very important factor. The restoration of that program, which had been re-started and then temporarily suspended, was very important to the University. 16% of donations had supported capital projects – an area where there remained a very substantial need. 9% of donations had been made to the Library. Those gifts came very close to mirroring the University's goals as established by its academic plan.

- **Donor base**. The University had tripled its donor base and quadrupled the levels of giving. The University had 50,000 new donors, including nearly 200 first-time donors of $1-million or more.

- **Campaign costs**. From the time of the pre-Campaign Budget, Dr. Dellandrea had made a commitment that the Campaign costs would be at the lower end of the benchmark range of 11% to 15% of donations generated. The all-in cost of the Campaign had been 10.57% of proceeds.

- **2004**. The Division of University Advancement had reset the counter following the official end of the Campaign on December 31, 2003. Gifts and pledges received from January 1 to September 30, 2004 had been $61.9-million with a further $11.3-million of gifts in kind. The University was therefore on track to its 2004 goal of receiving $80-million to $100-million in 2004.

- **Translating academic priorities into fundraising**. Dr. Dellandrea stressed that all fundraising work was in support of the University's academic priorities. The process began with the President and the Provost working, in consultation with the academic leaders of the University, to frame the University's overall academic plan. The Principals and Deans consulted with their faculty, staff and students to develop their divisional priorities. Together, the University leadership finalized the academic priorities for presentation to the Planning and Budget Committee, the Academic Board and the Governing Council for approval. Those priorities then provided direction to the Division of University Advancement to seek private support, consistent with the University's policies and guidelines.

- **The next advancement initiative**. The University would enter the "quiet phase" of the next initiative in the spring of 2005. That would involve, under Ms Frankle's leadership,

4. Vice-President and Chief Advancement Officer: Annual Report Including Final Campaign Report (Cont'd)

planning, developing the case for support, assembling the professional advancement staff and recruiting the volunteer leadership. It was anticipated that the next initiative would be formally launched in the spring or fall of 2007.

- **Major gifts**. Dr. Dellandrea stressed the importance of major gifts. 217 benefactors had made donations to the Campaign of $1-million or more. The University would identify its top 400 donors and make every effort to keep them involved in the University and to make them knowledgeable about its continuing academic mission. Donor stewardship activity would be the key to the success of the next initiative.

- **Alumni participation**. Fostering and increasing alumni participation was another key. Efforts would continue to involve alumni in student recruitment, public advocacy, governance, informal advice to the University's leaders and resource generation. Dr. Dellandrea observed that in advocacy and advancement efforts, one sentence from an alumni leader was often better than five paragraphs from a University officer or advancement professional.

- **Communications and marketing**. The Division would undertake a complete review of University communications and branding strategy. The "Great Minds" idea had worked very well, but it was now appropriate to determine whether it was time for a change.

- **Future role of advancement at the University**. At the time of the academic planning exercise that had preceded the recent Campaign, *Planning for 2000*, the University of Toronto had committed itself to international aspirations, but it had lacked the private revenue to achieve those aspirations. While the University of Toronto was raising about $20-million per year, its U.S. peer institutions were raising over $100-million per year. The University of Toronto had now joined that select group of public institutions that had successfully completed $1-billion campaigns. That provided a platform for future efforts, which would be guided by the need to raise money for a number of very specific things.

Among the matters that arose in discussion were the following.

(a) Congratulations and thanks. In the course of discussion, the Chair and a number of members congratulated and thanked Dr. Dellandrea and his colleagues for their outstanding work in the highly successful Campaign.

(b) Support for improving the student experience. In response to a member's question about advancement activities to support the improvement of the student experience, Dr. Dellandrea said that the current academic planning exercise included the improvement of the broad student

4. Vice-President and Chief Advancement Officer: Annual Report Including Final Campaign Report (Cont'd)

experience as one of the highest priorities. That included the student experience in the classroom and outside of the classroom as well as the experience arising from the general feel of the campuses.

(c) University of Toronto Foundation. In response to a question, Dr. Dellandrea said that the University of Toronto Foundation - a Crown Foundation dedicated to receiving gifts for the University - had been discontinued. It had been established in the mid-1990s to provide specific tax benefits to large donors to the University. Because the relevant legislation had benefited only such large institutions as universities and hospitals, the legislation had been changed. Under the new tax rules, the Crown Foundation had become unnecessary.

(d) Risk of dependence upon private support. A member expressed concern that the University was becoming too dependent upon private support in lieu of more appropriate public funding of a public university. Dr. Dellandrea replied that the aspirations of the University of Toronto were higher than those of most or all other publicly funded Canadian universities. In the light of the realities with respect to government finances and the other demands on them, the University's ambitious goals could not be accomplished solely on the basis of public funding, even supplemented by the current level of donations. The status quo was a recipe for moving backwards.

(e) Role of volunteer leaders. In response to a question, Dr. Dellandrea said that volunteers played an highly important role in advancement efforts. It was, however, essential to use their time and influence strategically and to ask them to become involved only when they uniquely could made a difference to an outcome. Arriving at a major gift could require up to twelve months' work by staff. Clearly, a volunteer could be asked to participate only at a key turning point(s). As a result, it was essential for the University not only to recruit volunteer leaders but also to assemble a next generation of outstanding staff.

5. Capital Projects Report

The Chair reminded members that the key criteria for Business Board consideration of capital projects were value for money and the prudence of the financing arrangements. Other questions that should be considered, according to the Policy on Capital Planning and Capital Projects, section 5C, included, as appropriate for each project:

- Does the project conform in its essential elements with the Project Planning Report approved by the Governing Council?

- Has the design been reviewed by the Design Review Committee, and are there any variances with the advice rendered by that Committee?

5. Capital Projects Report (Cont'd)

- Can the University provide the cash flows necessary to complete the project?
- Is any remaining funding from donors obtainable?
- What are the contingency provisions in the project budget if costs escalate?
- Are there any "significant outstanding and unresolved issues with respect to the project"?

Professor Venter reported that the only major change on the report since the previous version was a $9-million increase in the cost of the Terrence Donnelly Centre for Cellular and Biomolecular Research. That increase reflected the Governing Council's approval to complete the project, including the five floors previously to have been only shelled and including the enhanced atrium. The Report also reflected the $5.093-million increase in the use of borrowed funds arising from that decision. The second change, a minor one, showed the approval by the Vice-President, Business Affairs of a project at the University of Toronto at Scarborough – the $263,000 project to improve the drop-off circle. That project would require borrowed funds, to be repaid from revenues generated by the parking operation at Scarborough, partly as a result of the project.

Professor Venter said that the administration was continuing its work on the proposal to amend the capital plan. It was planned to bring that proposal to the Planning and Budget Committee on December 7, 2004 as a first step in seeking Governing Council approval. The proposed, revised plan would be brought to the Business Board for information. The projects to be presented to the Business Board on this agenda would appear on the plan and would not have an impact on the University's borrowing.

6. Capital Project: 155 College Street Renovation

Mr. Bisanti recalled that the Board had, on June 17, 2004, approved the spending of $1.3-million to engage the architect and consultants to undertake the design of the renovation of the former Board of Education Building on College Street. In April 2002, the University had purchased that building and three adjacent properties from the Board of Education for $17-million. The University had taken possession of the properties on September 1, 2003, and they had remained largely idle until this time. It was planned that the main building would be the new home of the Faculty of Nursing and of two departments in the Faculty of Medicine: (a) Public Health Sciences, and (b) Health Policy, Management and Evaluation. The project, at a projected total cost of $24.14-million, would be a very high priority on the proposed, revised capital plan. The architect and consulting team were at work on the project. In order to speed the project forward to an August 2005 completion date, the University was considering using a construction management arrangement rather than a contractor. Mr. Bisanti proposed that the Board approve the spending of a further $6-million to enable the required interior demolition,

6. Capital Project: 155 College Street Renovation (Cont'd)

asbestos abatement, elevator modernization and pre-ordering of certain equipment with long lead-times for delivery. That work would be required for any use of the building. The $6-million amount, like the initial $1.3-million, would be borrowed. Mr. Bisanti anticipated that design would have proceeded sufficiently to enable him to return to the Board early in the new year to request approval to proceed with the full project.

The following matters arose in discussion.

(a) Provincial funding. A member asked for a report on the progress of efforts to obtain Provincial funding for this project. What was the likelihood of success? What would be the consequence if external funding was not forthcoming? The question was an important one in the light of the comment in the proposal that "once the project is completed, the Faculty of Nursing and the Faculty of Medicine will be required to service the outstanding mortgage which will certainly present a difficult challenge to both Faculties." Professor Venter replied that the Faculty of Nursing was applying for assistance for the equipment for its planned clinical skills simulation laboratories. In the light of the shortage of nurses, it had also increased its enrolment substantially, and it would therefore have additional income from the Enrolment Growth Fund. The matter of the ability to handle the borrowing was being worked out as the final proposal was being developed. The member asked whether it would be possible for the project to proceed if external funding was not forthcoming. Ms Riggall replied that, because of its high academic priority, the project would probably proceed on the basis of debt funding.

(b) Cost. A member observed that the project would have a high cost, including both the $17-million purchase price and the anticipated $24-million renovation cost. Mr. Bisanti replied that the $17-million purchase had included not only 155 College Street but also an office building, a warehouse building and a parking garage all on McCaul Street. He thought that the University had received very good value for its money in the purchase of the properties.

(c) Use of current Nursing Building. A member observed that the project cost did not include the secondary cost of renovating the buildings currently occupied by the proposed occupants of 155 College Street. He asked about future use of the building now accommodating the Faculty of Nursing. Professor Venter said that the eventual use of the Nursing Building was under consideration, and a proposal would eventually be brought to the Planning and Budget Committee. He anticipated that it might be used as a temporary site for a department of the Faculty of Arts and Science during the renovation of facilities for that department. Its long-term use was unclear; one possibility was a student center.

(d) Parking garage on McCaul Street. In response to a question, Mr. Bisanti said that the parking garage purchased from the Toronto District School Board at the same time as 155 College Street had been closed for safety reasons. He anticipated that the structure would be demolished and used at least for the time being as a surface parking lot accommodating 100 or so cars.

6. Capital Project: 155 College Street Renovation (Cont'd)

(e) Impact of borrowing. In response to a member's question, Ms Riggall said that the proposed borrowing for the project was part of the current planned borrowing tranche of $150-million. A member asked what would happen if the actual project cost were more than the projected $24-million. Mr. Bisanti replied that the $24-million cost represented a best estimate arrived at with the aid of cost consultants with a good track record. The project was, however, a renovation of an older building, and therefore its cost would be subject to unanticipated developments. The University, eager to have good control of the budget for the project and to have it completed for occupancy by September 2005, was planning to engage a construction manager rather than a general contractor, and that did involve the assumption of some risk with respect to unforeseen costs. Mr. Bisanti assured the member that every effort was being made to explore in a diligent manner the work that would be required and its cost.

(f) Governance review of the project. A member asked about the process for governance review of the project. Did the Governing Council know before its approval of the purchase of the Toronto District School Board properties the full cost that would be required to make use of them and the amount of borrowing required. Mr. Bisanti replied that the acquisition was a response to an unexpected opportunity that had arisen to acquire properties contiguous to the campus at an attractive price. That was consistent with the University's overall real estate strategy. The University had not at the time determined the best use for the properties and was therefore not able to estimate the ultimate cost. When the project was approved in principle by the Governing Council in June, 2004, the cost estimate was, as now, $24-million. It was and remained a very high priority capital project, and the borrowing required was included in the reports presented to the Board at each meeting. Professor Venter noted that the Accommodation and Facilities Directorate had approved a $300,000 project to renovate the smaller office building behind 155 College Street to accommodate the Department of Rehabilitation Medicine and two other units in the Faculty of Medicine. The administration had considered using the warehouse building as the location of the Facilities and Services Department, but the move would have been too costly. It was now planned to use the space for storage, saving the cost of other storage space. Professor Venter stressed that the full plan to renovate 155 College Street had been approved in principle by the Governing Council in June. While the administration did not wish to ask the Business Board for approval to proceed with the full project until the capital plan was approved and the design work further along, the project did represent a very important priority, and it was of great importance to proceed with it expeditiously to allow occupancy in September 2005.

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

YOUR BOARD APPROVED

THAT the Vice-President, Business Affairs be authorized to expend up to an additional $6.0 million to complete the demolition, asbestos abatement, elevator upgrades and pre-ordering of equipment for the 155 College Street Renovation Project.

7. Capital Project: University of Toronto at Scarborough: Food Service Revitalization Project

Professor Venter said that there had been significant amount of construction at the University of Toronto at Scarborough (UTSC) over the past several years. Because the priority was elsewhere, the number of cafeteria seats had not kept up with the pace of other construction. Notwithstanding the addition of 200 seats in the recently opened Student Centre, the ratio of students per cafeteria space had increased from 9.8 to one in 2000-01 to 11 to 1 at present. That number did not take into account the approximately 500 faculty and staff who also used the food-service facilities. Moreover, further enrolment growth was expected at UTSC. It was therefore proposed to renovate a former food-service area, which had been converted to a classroom, and restore that room and a nearby servery to their previous uses. Sources of funding included: a $1,460,000 million loan from the Enrolment Growth Fund to be repaid over twenty years; $200,000 from Aramark – the catering firm that would operate the facility; $50,000 from the UTSC food-services ancillary; and $1,355,000 from the UTSC operating budget.

Among the matters that arose in discussion were the following:

(a) Funding from the catering company. A member asked whether there were conditions attached to the $200,000 being provided by the catering company that would operate the facility. Ms Riggall replied that the contract with the caterer required that the firm contribute to the cost of food-service equipment, which would be and remain the property of the University. The cost was to be amortized over ten years. If, therefore, the contract was terminated within ten years, the University would rebate to the caterer the unamortized portion of the cost.

(b) Benchmarks. Two members asked about benchmarks for the number of food-service places for post-secondary institutions and the capital cost per place. Professor Venter replied that the number of students for each food-service place varied between five and eight. It was important to remember that much depended on location. Students at the St. George Campus, for example, had the opportunity to purchase meals at a large number of inexpensive restaurants located close to the campus. Students at UTSC did not enjoy a comparable opportunity. In terms of cost, Professor Venter noted that it had been the University's experience that the cost of food-service facilities was expensive. While it would be desirable to spend less, that had not proven possible. Ms McLean (who was Assistant Principal [Business and Administration] and Chief Administrative Officer at UTSC) added that it would not be appropriate to consider only the cost per place. An important element of the project was to increase the efficiency and throughput of the full central food service facilities, which were based on an old design, so that more students and staff could be served. There were other places on campus where people could take and eat their food.

A member observed that members had frequently asked for benchmarks, including benchmark costs, for capital projects to enable the Board to compare the proposed costs with those of other institutions and also within the University of Toronto so that the Board could draw conclusions about quality and affordability. The member asked whether the Board could have benchmarks

7. Capital Project: University of Toronto at Scarborough: Food Service Revitalization Project (Cont'd)

presented as part of the proposal for each capital project. The Chair asked Ms Riggall to take the matter under advisement and to report at the next meeting.

(c) Opportunity cost. A member referred to the proposed use of $1.46-million from the Enrolment Growth Fund for the project, money that could otherwise be used to improve the University's faculty:student ratio. He asked what proportion of the Enrolment Growth Fund was to be used for capital construction purposes. Professor Venter replied that about half of the Fund's allocation to the UTM and UTSC would be used for capital purposes. He noted that this project would be the final one to come before the Board that would use that source. About 27% or 28% of the Fund University-wide would be used for capital purposes.

(d) Student support. A member asked whether students recognized a need for more food-service places. Professor Venter replied that the new UTSC Student Centre, which was being partly funded by a strongly supported student levy, included 200 food-service places. It was important that the University match that commitment.

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

YOUR BOARD APPROVED

Subject to Governing Council approval in principle to undertake the food service revitalization project at the University of Toronto at Scarborough,

THAT the Vice-President, Business Affairs be authorized to complete the full food services revitalization project at the University of Toronto at Scarborough at a cost not to exceed $3,065,000 using funding sources as follows:

i) An allocation of $1,460,000 million from the Enrolment Growth Fund to be provided through a mortgage and repaid over a period of 20 years;
ii) A cash contribution in the amount of $200,000 from Aramark;
iii) A cash contribution in the amount of $50,000 from the University of Toronto at Scarborough food services ancillary;
iv) A cash contribution in the amount of $1,355,000 from the operating budget of University of Toronto at Scarborough.

8. Capital Project: Department of Mathematics

Professor Venter said that the Department of Mathematics was an internationally leading department that was currently accommodated in very poor space, primarily in Sidney Smith Hall but with faculty scattered over five other locations. Because Sidney Smith Hall was badly over-crowded, it was necessary to look elsewhere to find a satisfactory site for the Department. It was proposed to use the currently shelled-in sixth floor of the Bahen Centre for Information Technology as the new home for the Department. There were links between the Department and the occupants of the other floors of the Bahen Centre - the Department of Computer Science and the Department of Electrical and Computer Engineering - and the Fields Institute for Research in Mathematical Sciences was located in an adjacent building. It would also be possible, as a second phase of re-locating the Department, to consider the construction of a bridge between the Bahen Centre and an upper floor of 215 Huron Street, and two floors of that building could accommodate the remainder of the Department's space need. It might also be possible to locate the Department's Library in the lower level of the Fields Institute. Work on the complete plan was proceeding, and Professor Venter anticipated bringing a final Project Planning Report to the Planning and Budget Committee on December 7, 2004. It was very important to move forward expeditiously with the project because it was proposed to use the site for one year as temporary accommodation for the Department of Economics while its building was being renovated beginning in September 2005. Professor Venter therefore recommended that, subject to Governing Council approval of the project in principle at its December meeting, the Board authorize the expenditure of up to $800,000 to engage consultants to begin design work on the project.

In response to a member's question, Professor Venter said that the estimated cost of the project was $5.5-million. That estimate could well change because planning was incomplete. The full cost would, however, be borne by the Faculty of Arts and Science and by the Department; it would not have an impact of the University's borrowing.

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

YOUR BOARD APPROVED

Subject to Governing Council approval in principle of the Department of Mathematics, Phase I project within the Bahen Centre for Information Technology [BCIT] on the St. George Campus,

THAT the Vice-President, Business Affairs be authorized to expend up to $800,000 to allow for the selection of the consultants for the design and outfitting of the sixth floor of the Bahen Centre for Information Technology to accommodate the Department of Mathematics, Phase I project, with funding from the Faculty of Arts and Science.

9. Capital Project: Centre for Biological Timing and Cognition

Professor Venter said that the Department of Psychology, along with a number of other partners, had succeeded in winning support from the Canada Foundation for Innovation (C.F.I.) for the establishment of a research centre to study the impact on cognitive ability and mental health of biological timing, environmental cycles and work schedules. That support had been matched by the Government of Ontario through the Ministry of Economic Development and Trade / Ontario Innovation Trust. The public funding, along with funding from the Faculty of Arts and Science and in-kind contributions from a number of suppliers, would allow the construction of an approximately $13-million facility to house the new research Centre. It was proposed to construct the new Centre on the south side of the Ramsay Wright Zoological Laboratories with the addition of a few floors on the existing structure. The Ramsay Wright Laboratories building was located just to the north of Sidney Smith Hall, which accommodated the Department of Psychology. The new facility would, however, be independent of the operations in the Ramsay Wright Building. While the site would be a difficult one for construction, it was the best available alternative. To protect the government funding for the construction and operation of the Centre, it was important to move forward expeditiously with the project. Again, therefore, it was planned to bring the complete Project Planning Report to the Planning and Budget Committee on December 7, 2004. Professor Venter recommended that, subject to Governing Council approval of the project in principle at its December meeting, the Board authorize the expenditure of up to $1.5-million to engage consultants to begin design work on the project.

Professor Venter and Mr. Bisanti responded to questions in a number of areas.

(a) Flow of funds for the project. In response to a member's question, Professor Venter said that the government funding would begin to flow only after the project was approved and as construction proceeded. The $2,440,000 contribution from the Faculty of Arts and Science would, therefore, be used to fund the design work and the initial costs of construction. The Government funding would flow on time for the remainder of the work.

(b) Deferred maintenance at the Ramsay Wright Laboratories. A member asked whether the project would reduce the deferred maintenance problem at the Ramsay Wright building. Professor Venter replied that the project would have no direct effect. Work was proceeding independently on a maintenance project, and the Department of Zoology had submitted an application for a Canada Foundation for Innovation grant for another project. That project, if funded, would result in the renovation of a part of the Ramsay Wright Laboratories. But both developments were independent of the proposed project for the Centre for Biological Timing and Cognition.

(c) Green space. In response to a member's question, Professor Venter and Mr. Bisanti said that apart from the relocation of parking and service access during construction, there would be no encroachment on the limited green space adjacent to Sidney Smith Hall and the Ramsay Wright Laboratories.

9. Capital Project: Centre for Biological Timing and Cognition (Cont'd)

(d) Funding for Centre operations. A member asked how long the research in the new facility would be funded and would continue. Professor Venter and Professor Hasher replied that the funding form the Canada Foundation for Innovation and the matching Ontario funding would enable the project to continue for a period of between three and five years. The subject of the research was, however, a complex and important one, and Professor Hasher said that funding from other sources such as the Canadian Institutes for Health Research would be sought to enable the research to continue.

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

YOUR BOARD APPROVED

Subject to Governing Council approval in principle of the Centre for Biological Timing and Cognition [CBTC] project as an addition to the Ramsay Wright Building on the St. George Campus,

THAT the Vice-President, Business Affairs be authorized to expend up to $1,500,000 to allow for the selection of the consultants for the design of the Centre for Biological Timing and Cognition, with funding from the Faculty of Arts and Science.

10. Physical Plant: St. George Campus District Heating System – Overview and Future Options

Ms Riggall reported that a review was underway of the University's utilities structure on all three campuses. Mr. Swail would report on the analysis of options for the provision of steam heating and cooling on the St. George Campus.

Mr. Swail noted that the infrastructure to be discussed represented an aspect of the University's deferred maintenance problem outside of the deferred maintenance of buildings and grounds that had been reported to the Board in the *Crumbling Foundations* report and its update. The highlights of Mr. Swail's report were as follows.

- **History**. The University had a central steam plant and a district heating system with 85% of the buildings on the St. George Campus tied to the system. Steam from the central plant was carried to campus buildings through three kilometers of underground tunnels. That had been a vital part of the campus infrastructure since the early 1900s. Two buildings (the recently purchased 500 University Avenue and the Banting Institute) were serviced by Enwave, and the remaining buildings had stand-alone systems.

  In the late 1990s, discussions had been held with the Toronto District Heating Company (T.D.H.C., now Enwave) about a possible interconnection of the University's distribution

10. Physical Plant: St. George Campus District Heating System – Overview and Future Options (Cont'd)

system and the T.D.H.C. system. The proposed interconnection of systems would have provided redundant capacity as a back-up for the St. George Campus system and would also have provided an inexpensive route through the University's tunnels to Bloor St. for the T.D.H.C. However, no agreement had been reached.

In mid 2004 the University had been approached by Enwave about its possible purchase of the St. George Campus's central steam plant and the associated distribution system.

- **Advantages of a district heating system**. A district heating system provided a number of advantages. First, it enabled lower energy and operating costs. The University saved money by making bulk gas purchases. A centralized system, compared to several stand-alone systems, also provided significant savings on the cost of equipment, maintenance and labour. Significantly, a centralized system also saved space. District heating systems were more environmentally friendly, emitting lower levels of greenhouse gases than stand-alone systems. A district heating system also tended to be more reliable than a collection of stand-alone systems. Back-up sources of heat could be used if a part of the central system failed. Moreover, additional buildings could easily be added to the system. It was much easier to obtain approvals to add a building to an existing system than to establish a new local system.

- **Disadvantages of a district heating system**. First and most importantly, although the overall costs of a district heating system were lower, renewal and major replacement costs tended to require very large investments. Second, while there was redundancy in many of the components of the system, the University did not have complete redundancy of the system; if certain components failed, the system would fail. The external provider, Enwave, had two steam plants, which were able to provide full back-up to each other. Third, a central system had, by law, to be operated by a first-class stationary engineer, and such employees were in short supply.

- **Current situation**. The University's current system was well maintained and had sufficient capacity to meet short- to mid-term plans for new buildings. Moreover, expansion of that capacity would be relatively inexpensive. When that capacity was reached, the University could chose to expand its system, connect the new buildings to supply from Enwave, or install independent boilers. However, the system did require significant capital investment at this time to ensure its future reliability.

- **Customers**. While most of the steam produced by the system was used to heat the University's academic and administrative buildings, there was some cost-recovery. Steam was sold to related or previously related organizations (the federated universities, the Royal Ontario Museum, the Royal Conservatory of Music and others), to self-funded

10. Physical Plant: St. George Campus District Heating System – Overview and Future Options (Cont'd)

University operations (the student residences and the Faculty Club) and to the Hydro Place Building. The costs recovered from the related organizations included a small charge for internal overhead and equipment depreciation. While the University might consider an increase in the charge for steam, such an increase would not be affordable to the internal and related users.

- **Capital renewal forecast**. A study completed by consultants working with the University's Financial Services Office concluded that an initial $6-million investment should be made as soon as possible to replace two boilers. Those boilers had been installed in the 1950s. They had initially been coal-fired, but they had been retrofitted for gas and fuel oil. They were well past their usual life expectancy. Over the next ten years, investments amounting to $30-million would be required.

- **Options**. Given the need for significant capital investment in the system on the St. George Campus, the University had two options. First, it could sell the system outright and enter into a long-term supply contract with the purchaser. Second, it could retain the system, make the needed investment, and allow future rates to include a renewal component for capital needs. The administration had eliminated a third option of contracting out the management of the internal system, which would not add value.

- **Option 1 – Selling the system**. In July 2004, Enwave had approached the University to discuss the possibility of purchasing the University's systems and supplying service to the University on a contract basis. Reaching a satisfactory agreement to sell the system would have several advantages. First, it would eliminate $13-million of current debt incurred for the system. Second, it would eliminate the need to invest an estimated $30-million in the system over the next ten years. Third, because Enwave had the full redundancy created by two separate systems, it would reduce the risk of service interruption. Fourth, it would eliminate the specialized staffing requirement. Fifth, it would reduce the environmental risk facing the University, particularly that arising from the remaining asbestos in the steam tunnels. There would, however, be disadvantages. First, it would have an impact on the ten staff members operating the current system. Second, the University would lose direct control over its heating and would have to rely on the contractor.

- **Option 2 – Continuing to run an in-house operation**. There would be advantages of continuing to operate an in-house system – the obverse of the disadvantages of selling it. The University would retain the very capable staff members now operating the system. It would also retain control of the operation and of the prices charged to all units. There were also disadvantages. There would be need for the $30-million investment. There would be the risk of service interruption. The University would have to bear the cost of asbestos clean-up and would retain other environmental risks. It would also have to incur the cost of obtaining expertise in purchasing utilities equipment.

10. Physical Plant: St. George Campus District Heating System – Overview and Future Options (Cont'd)

Mr. Swail concluded that the University was faced by the need for a decision because of the requirement for significant capital renewal in its utilities infrastructure. The administration would continue to investigate the various options.

The Chair said that the objective of having the item on the agenda was to provide a forum for discussion of the options. The administration would no doubt take the discussion into account in its consideration of the matter and in its preparation of any proposal for the Board's approval at a later time.

Among the matters that arose in discussion were the following.

(a) Appropriateness of selling the system. A member, whose company included a major real-estate business, said that it has been his experience that selling such systems was usually highly advisable. That would be all the more so in this case where the central steam plant dated from the 1950s and the tunnel system was over 80 years old. So long as the price of the sale and the cost of heat supply under a long-term contract were appropriate, a sale would be the correct course of action. The University was in the business of education and research, and it should focus its attention and resources on those areas.

(b) Possibility of sale to other buyers. A member observed that pension funds were demonstrating a recent interest in purchasing and operating utilities. Might a pension fund be a possible buyer? Had the University of Toronto Asset Management Corporation (UTAM) considered the operation as a potential investment for the pension fund and/or the endowment fund? Ms Riggall replied that Enwave was in fact owned by a pension fund, the Ontario Municipal Employees Retirement System (OMERS). UTAM had decided, that as a matter of policy, it would not make direct investments. (Rather, it placed money for private equity investments with external portfolio managers.)

(c) Cost of contracting for heat with an external supplier. Two members expressed concern that, in the long run, the University would wind up paying more for its heating from an external supplier, who would enter into an arrangement only if it would generate a profit, than it would for a service it ran on its own. The University, reliant upon an external provider, would no longer be able to control the cost of steam heating. Ms Riggall replied that Enwave would be able to supply the University's needs in a cost-effective manner because (a) it would be able to use its existing capacity; (b) it would therefore not have to repair the University's aging central steam plant; and (c) it would gain efficiencies by having access to the University's steam transmission system for use for other clients. As part of any arrangement, the University would insist upon a very long-term supply contract, with provisions protecting its interests upon renewal. A member observed that an external supplier using the University's steam tunnels would, like the University, incur the cost of repairing them and dealing with the asbestos problem in the tunnels. Another member commented that the potential external supplier would be

10. Physical Plant: St. George Campus District Heating System – Overview and Future Options (Cont'd)

operating a completely different system and one on a much larger scale, allowing for the possibility of considerable cost savings. A member observed that the saving of capital costs averaging $3-million per year over the next ten years would enable the University to pay considerably more for steam heat and still come out well ahead financially.

(d) Human resources consequences. A member expressed concern about the job loss to employees who had clearly been doing a good job operating the current, aged system if that system were sold. Professor Hildyard assured the member that her office would be involved and would act only in full consultation with the appropriate union(s). Any job loss would be well into the future.

(e) Plea for wide-ranging consideration of the long-term consequences of the decision. A member urged Ms Riggall and her colleagues to consider the matter from more than the perspective of short-term cost considerations. It would be very important to take a long-term view and to take into account non-monetary considerations, for example, the opportunity for better management of the system to meet the University's needs. Ms Riggall assured the member she would do so. The engagement of consultants had been intended to enable just such a broad, long-term view. They had provided a model for the long-term evaluation of options. That model would help to evaluate any terms of any sale and long-term supply agreement that might be negotiated to determine whether it made sense both from a financial point of view and from a broader point of view.

(f) Alternative heating systems. A member asked whether either option would limit the University's freedom, in the long term, to switch to some other heating system. Ms Riggall and Mr. Swail replied that a steam heating system, with a central steam-generating plant and an underground distribution system, was the most efficient and trustworthy system available. That would not preclude the use of new and different energy sources to create the steam - sources that could in the long term be used either by the University or an external supplier.

In the course of discussion, a member expressed his gratitude to Ms Riggall and Mr. Swail for their bringing the matter to the Board for discussion at an early stage of decision-making. It was valuable for the Board to have the opportunity to provide advice before being faced with a final proposal which it could only, by and large, accept or reject.

11. University of Toronto Press Inc. - Annual Report and Financial Statements, 2003–04

The Chair noted that the item arose from the October 27 meeting of the Audit Committee and was on the Board's "consent agenda."

11. University of Toronto Press Inc. - Annual Report and Financial Statements, 2003–04 (Cont'd)

On the recommendation of the Audit Committee

YOUR BOARD ACCEPTED

Subject to their approval by the Board of Directors of the University of Toronto Press Inc.,

The annual report and financial statements of the University of Toronto Press for the year ended April 30th, 2004, copies of which are attached to Report Number 70 of the Audit Committee as Appendix "A".

12. Reports of the Administrative Assessors

Employment Equity: Federal Contractors' Program Audit

Professor Hildyard reported on the outcome of an audit performed under the terms of the Federal Contractors' Program, which required that employers comply with the employment-equity guidelines established by the Program. The auditor had interviewed union and non-union staff and had reported that staff at different levels of the organization worked together very well. The University had signaled three areas in which it planned to take further action, and those areas were noted in the report, meaning that the University was obligated to proceed with its planned action. They included instituting a program of exit interviews for employees who left the University; conducting a new survey of the workforce to up-date the numbers of employees in the designated groups and provide new base-line information; and, to include in the survey an invitation to employees to notify the University of any changes in the future that would result in their inclusion in a designated group (for example, the development of some physical disability). The outcome and overall tone of the report, however, had been exceptionally positive.

13. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Monday, January 17, 2005.

14. Closed Session Reports

Professor Hildyard reported with respect to the University's early retirement window.

The meeting adjourned at 7:30 p.m.

Secretary	Chair

December 2, 2004

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