

Capital Funding to Support the Graduate Education Expansion From the Ministry of Training Colleges and Universities – Phase II

Government Program

The Ministry of Training Colleges and Universities announced on June 15, 2006 its plan to provide capital funding to support the expansion of graduate education. The plan included the provision of an annual stream of grants for 20 years, commencing in 2007-08, based on the institution's actual graduate enrolment growth. The value of the grant transferred to Ontario universities is determined annually, based on the graduate FTE growth over the 2002-03 enrolment baseline as reported through the University Statistical Enrolment Report (USER).

First Round

The University of Toronto received a notional allocation of capital of \$38,250 per FTE or \$96,650,850 million (target increase of 2,527 FTEs times \$38,250 plus rounding), calculated on the basis on a notional capital value of \$38,250 amortized over 20 years using a 6.5% interest rate. This translated into annual payments of \$3,470 for each new graduate FTE enrolment. For 2007-08, the value of the capital grant was \$1,457,400, which increased gradually to \$8,397,560 in 2010-11.

Using the University's estimates of graduate enrolment growth and the projected stream of grant payments at that time, the Provost conservatively allocated a notional capital value of \$78.0 million for this program. As \$25.0 million was allocated to capital projects previously approved by Business Board, the Business Board approved borrowing of the remaining \$53 million on February 4, 2008.

Second Round

In February 2009, the Ministry announced a second round of graduate expansion spaces. The target increase for the University of Toronto was an additional 839 FTEs. The distribution methodology was the same as the first round, to be calculated using the 2009-10 USER data. However, the value of the annual grant for the second round allocation will be reduced to \$2,060 per new student due to a higher number of graduate spaces than originally projected. In summary, the University will continue to receive \$3,470 for each new student over the 2002-03 enrolment baseline up to 2,527 FTEs. The University will then receive an annual grant of \$2,060 per new student up to 839 FTEs for additional growth above the initial target of 2,527 FTEs.

Actual graduate enrolment growth has been proven to be higher than the initial conservative estimates. These results, combined with additional grants to be received from the second round allocation, and lower interest rates for internal loans and shorter amortization periods, will enable the Provost to allocate an additional Phase II notional capital value of \$37.2 million for capital and renovation projects beyond the \$78.0 million allocated in the first round. The total notional capital value of the two phases is \$115.2 million.

Administration

Given that capital projects require funding upfront to pay for construction costs and that Government funding will come in annual streams similar to mortgage payments, the University will continue to manage this program by issuing internal loans under the University's internal borrowing programme. The funding provided by the internal loans will be allocated to capital and renovation projects that are essential to graduate expansion and the annual government grants will be used to pay the loan principal and interest on the loans.

Capital projects over \$2 million funded fully or partially by the allocation of graduate expansion will continue to be reviewed and approved by the Business Board based on its own merits. Projects below \$2 million funded by the allocation for graduate expansion will also continue to be approved by AFD.

Effect on Borrowing Capacity

The borrowing available is reduced by \$37.2 million, since we will continue to issue internal loans for this program. In anticipation of this approval, we had allocated \$31.0 million in the May 31, 2011 borrowing status report, as a reserve for this program. Therefore, the unallocated borrowing capacity reported will only be reduced by \$6.2 million.

At the moment, the \$37.2 million has been allocated by divisions but not to specific projects. At this time, we are not aware if any of the allocated funds by divisions will be used for projects that have already been approved by Business Board as replacement of the borrowing required. If a decision is made that will reduce borrowing allocated at a prior date, we will then add back the amount to the unallocated borrowing capacity.

Recommendation

Be it Resolved

THAT the Vice-President, Business Affairs be authorized to arrange borrowing of \$37.2 million from either internal or external sources to be used for the allocation of graduate expansion capital and renovation projects.