

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 148 OF THE BUSINESS BOARD

March 27, 2006

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, March 27, 2006 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Ms Jacqueline C. Orange (In the Chair)	Professor Vivek Goel, Vice-President and Provost
Professor C. David Naylor, President	Ms Rivi Frankle, Interim Vice-President, and Chief Advancement Officer
Ms Catherine J. Riggall, Vice- President, Business Affairs	Professor Ian Orchard, Vice-President and Principal, University of Toronto at Mississauga
Professor Angela Hildyard, Vice-President, Human Resources and Equity	Mr. John Bisanti, Chief Capital Projects Officer
Mr. Husain Aboghodieh	Ms Sheila Brown, Chief Financial Officer
Mr. Donald A. Burwash	Mr. Louis R. Charpentier, Secretary of the Governing Council
Dr. Alice Dong	Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Ms Mary Anne Elliott	Ms Elizabeth Sisam, Assistant Vice-President, Space and Facilities Planning
Ms Susan Eng	Professor Safwat Zaky, Vice-Provost, Planning and Budget
Mr. Ran Goel	
Dr. Gerald Halbert	Secretariat:
Professor Glen A. Jones	
Ms Paulette L. Kennedy	Mr. Neil Dobbs
Mr. Geoffrey Matus	Mr. Andrew Drummond
Ms Kim McLean	Mr. Henry Mulhall
Mr. George E. Myhal	
Mr. Roger P. Parkinson	
The Honourable David R. Peterson	
Mr. Timothy Reid	
Professor Arthur S. Ripstein	
Ms B. Elizabeth Vosburgh	

Regrets:

Ms Dominique Barker	Mr. Richard Nunn
Mr. Brian Davis	Ms Marvi H. Ricker
Mr. Gerald A. Lokash	Mr. Robert S. Weiss

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In Attendance:

Mr. David Bateman, Treasurer, Graduate Students' Union
Mr. Paul Bretscher, President, Students' Administrative Council
Mr. Felix P. Chee, President and Chief Executive Officer, University of Toronto Asset Management Corporation
Dr. Christopher Cunningham, Special Advisor to the President
Ms Sheree Drummond, Assistant Provost
Ms Mary Jane Dundas, Special Assistant to the Vice-President, Human Resources and Equity
Professor David Farrar, Deputy Provost and Vice-Provost, Students
Ms Sally Garner, Senior Planning and Budget Officer
Professor Jane Gaskell, Dean, Ontario Institute for Studies in Education of the University of Toronto
Professor Wayne Hindmarsh, Dean, the Leslie Dan Faculty of Pharmacy
Ms Anne Lewis, Manager, Student Accounts
Dr. Jeanne Li, Special Assistant to the Vice-President, Business Affairs
Professor George Luste, President, University of Toronto Faculty Association
Ms Bryn Macpherson-White, Director, Office of the President and University Events
Ms Carole Moore, Chief Librarian
Professor Mayo Moran, Dean, Faculty of Law
Professor Susan Pfeiffer, Vice-Provost, Graduate Education and Dean, School of Graduate Studies
Ms Marny Scully, Director, Enrolment Planning and Statistics
Professor Pekka Sinervo, Dean, Faculty of Arts and Science
Ms Karel Swift, University Registrar and Director of Admissions and Awards
Professor Catherine Whiteside, Vice-Provost, Relations with Health Care Institutions and Dean, Faculty of Medicine

ITEMS 3 CONTAINS RECOMMENDATIONS TO THE GOVERNING COUNCIL.

1. Report of the Previous Meeting

Report 147 (February 27, 2006) was approved.

2. Business Arising from the Report of the Previous Meeting

The Chair reported on several items arising from the Report of the previous meeting. She informed the Board (in relation to item 6, Infrastructure: Planning for Renewal) that the administration would be working to update its utilities strategy and plan, which would be received by the Board in the Fall of 2006. Concerning Item 13, the Report on the Audit by the Canadian Nuclear Safety Commission, the Chair noted that Professor Hildyard had undertaken to provide the Board with a briefing on the University's response; that briefing would take place at the May 3, 2006 meeting, at the same time as the annual report on health and safety. Regarding Item 14 (a), on the social and political aspects of University investments, the Chair referred to an editorial from the March 24, 2006 *Toronto Star*, which commented on the work of Mr. Ran Goel in promoting responsible investing. Ms Riggall noted that she had referred to the Rotman

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School of Management the question of the cost of the proposal for responsible investing as a potential student project, but it was too late in the academic year for students to undertake a cost analysis. The administration was continuing its consideration of the matter. Lastly, the Chair reminded the Board that a member had suggested, in response to aspects of three collective agreements (Items 17-19), that the Board receive a five-year summary of salary and benefits settlements to provide context for considering future agreements. Professor Hildyard had taken that question under advisement.

3. Budget and Tuition Fees**a) Budget Report and Tuition Fees, 2006-7: Presentation**

The Chair invited Professor Goel to make a presentation on the budget and tuition proposals. Professor Goel reminded the Board that the context of the presentation included the Enrolment Report (discussed by the Board at its meeting of February 27, 2006), as well as the Report on Student Financial Support (discussed by the Committee on Academic Policy and Programs at its meeting of March 1, 2006, and provided for information to the Board under item 3 (b)). He informed the Board that the context of the Budget and Tuition proposals had been contingent upon the framework for tuition defined by the Government of Ontario. That framework had been released only two weeks prior to the meeting, and the timely preparation of the documents before members had been possible only with extraordinary dedication and persistence by staff members. The University, Professor Goel noted, was entering the third year of its six-year budgetary cycle. The Budget provided a fiscally responsible approach, and identified the means by which the current gap between revenues and expenses would be reduced to within policy tolerances by the end of the six-year cycle. The University's policy required that the accumulated deficit at the end of a planning cycle total no more than 1.5% of revenues. He reminded members for clarity that the operating budget represented only one of the funds described in the Financial Statements.

The proposed budget was based on numerous assumptions, which were formed by the latest and best available analyses of a variety of factors, including governmental policy directions and the broader fiscal environment. Professor Goel noted that the current Government had indeed been more generous to post-secondary institutions than any recent government. Its recent announcements in the 2006 budget of a \$500 million funding increase, however, represented only a reconfirmation of funding announced previously as part of the 2005 *Reaching Higher* plan and had already been included in the University's budget planning. The University was still awaiting decisions on the allocation of funding for graduate expansion, the split of funds between the University and College sectors beyond the current fiscal year, and the size of and mechanisms for distributing funds to improve quality. Because of those uncertainties, the Budget was predicated upon a base case for reason of fiscal prudence. Professor Goel emphasized to the Board that the Budget and its assumptions were not the University's advocacy objectives.

Professor Goel then summarized the various revenue assumptions built into the Budget. Undergraduate enrolment for domestic students had peaked as the double cohort was working its

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way through the system, and was therefore expected to remain at its steady state. By contrast, the University forecast a significant increase in international student enrolment. In addition, graduate enrolment was expected to increase. He noted that although the plan for graduate enrolment was subject to decisions made by the provincial government, because the announced money for graduate expansion was scaleable and revenues and expenses were coupled, the net impact on the budget of any significant differences in numbers of students would be minimal. Despite these revenue assumptions, Professor Goel reinforced for the Board the significant uncertainty in the ministry's policy directions and strategies.

On tuition, the University remained governed by the 1998 policies on Tuition Fees and Student Financial Support. Domestic tuition levels were also governed, in part, by the provincial framework that capped total institutional increases to 5%, and levels for continuing students in most programs at 4% and for most incoming students at 4.5%. Professional and graduate program increases were capped at 8%. As part of the government's accountability initiatives, all universities increasing tuition would be subject to access guarantees. In addition, the Government of Ontario had set an ambitious target to set up an integrated student financial aid system by 2007. The Government's student access guarantee was very similar to the University's own commitment that no qualified student should be left unable to attend the University for financial reasons alone. The current governmental policy that 30% of revenues from tuition increases be set aside for student aid would be lifted, a change that the University supported because it shifted the accountability from a process-based test to an outcome-based test. The University, he noted, would continue to set aside significant proportions of its budget for student assistance; however, he stated his view that the overall system remained unsustainable without additional government support over time.

The proposed tuition schedule called for an overall increase of 4.1%. International students would see their tuition increase by 5%, as planned and reported to the Business Board in 2005. Tuition would rise by 2% for students in the MD program, by 4.0% for most continuing students in entry-level programs and second-year entry programs. Tuition levels for entering students would rise by 4.5%, for Engineering students by 6%, and for Law, Dentistry and MBA students by 8%. Overall, the vast majority of students (96%) would see their tuition rise at a rate of 4-5%. In absolute dollars, 62% of students would pay under \$200 more than currently, 26% would see an increase of between \$200 and \$300, and the remaining 12% would see an increase of over \$300. If tuition were not raised, the additional expense containment required would total a 3% base-budget reduction and an additional 1.5% one-time only (OTO) reduction to total the \$17.2 million revenue lost. Limiting the tuition increase to 2% (the level at which former regulations had set a limit for most non-professional programs) would require a further 1% base-budget reduction and a 1.5% OTO reduction to accommodate the \$8 million of revenue lost. By contrast, the increase in the tuition proposal would not require any further reduction beyond the 5% reduction already planned.

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Professor Goel stated that needs-based student aid had risen dramatically over the previous several years to a total of \$46 million. Partly as a result, accessibility for individuals had improved: in 2005-06, 51% of undergraduate students self-identified as members of a visible minority, 39% reported that they came from households with parental income of under \$50,000, and 38% had applied for OSAP funding. In professional programs, 45% were from visible minorities, 27% came from households with parental income of under \$50,000, and 64% had applied for OSAP. The yield rate for offers and registrations remained strong, and had allowed for growth of international student enrolment.

The final major assumptions relating to revenue in the budget were that the Canada Research Chairs (CRC) program would be continued, but without increases in the grant amount; and that support for the indirect costs of research from governmental sources would continue at the current levels. Professor Goel noted that as beneficial as the CRC program was to the University, its award amounts were not indexed to inflation, and over time this would create greater effects on the operating budget. Concerning support for the indirect costs of research, Professor Goel reminded the Board that if governmental support for overhead rose from 20% of grants to 40%, that change alone would result in by far the greatest impact on the bottom line of the University of any revenue possibilities.

Professor Goel then outlined some of the expense-related assumptions contained within the budget. He said that compensation for faculty and staff remained the highest expense in the budget, and was driven by recent negotiated settlements. He noted that assumptions for compensation increases beyond current contracts were for the University's position in its negotiations, and beyond that for increases equal to the projected increase in the Consumer Price Index (CPI). He reiterated to the Board that these assumptions were separate from actual outcomes of negotiations. They were assumptions for modeling purposes only and did not represent the University's strategy. Expenses were affected by recently-concluded negotiations, which required a small increase in pension deficit amortization. Another major driver for expenses was the sharp increase in the cost of utilities, which had risen dramatically and which were forecast to remain very high by historical standards.

Professor Goel reported to the Board that 70% of the expense in the budget was for program delivery, support for academic programs, and student aid. Significant changes in expenses included the spike in utilities costs, compensation increases, benefit cost increases, new expenses associated with the wind down of the University of Toronto Innovations Foundation (UTIF), as well as the Varsity redevelopment and the Multi-Faith Centre, the creation of a Student Experience Fund to assist the University's key strategic goal of the improvement of the student experience, and the support for proposed graduate expansion. The Student Experience Fund, in particular, was created to address issues arising from analysis of strengths and weaknesses in the current system. Professor Goel noted several initiatives that were under

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3. Budget and Tuition Fees (Cont'd)

a) Budget Report and Tuition Fees, 2006-7: Presentation (Cont'd)

development or in pilot projects that would require funding if they were to be expanded, such as the student portal project, the Vic One and Trin One first-year experience programs, or the expansion of the Learning Management System.

Overall, the budget saw significant growth in both revenues and expenses. Without reductions, however, expenses were expected to outstrip revenues, and therefore the budget proposed several cost containment measures over the four years remaining in the six-year budget cycle: 5%, 3%, 2% and 1% in base reductions, and 0%, 1.5%, 3% and 2% in OTO reductions in the same years. The containment of 5%, scheduled for 2006-07, would have a significant impact, but one of the main virtues of the multi-year planning model was that administrators had had time to plan for it. Over the remaining four years, the reallocations proposed would result in a cumulative deficit of 1.5% of revenues, which was within acceptable policy parameters.

In summary, Professor Goel stated that although the University could anticipate substantial revenue increases, they would fall short of expenses without significant reallocations. He reflected that the Rae Review of 2005 had set 'stretch targets' for universities in Ontario, but that the reality was that the *Reaching Higher* plan did not come close to meeting those targets. Recent investments by the University in key priorities would help close the funding gap faced by Ontario's universities (whose per-student funding remained tenth out of the ten provinces). Unfortunately, he reported, at the end of the current Government's *Reaching Higher* plan, the universities in Ontario might still remain tenth in per-student funding. In terms of American public universities that were members of the Association of American Universities (AAU), the gap was even larger, with per-student funding at the University of Toronto, as the sum of grants and tuition fees, amounting to only half of the mean (i.e., \$20,522 for the University compared to \$42,801 of peer institutions in the AAU).

b) Tuition Fee Schedule for Publicly Funded Programs , 2006-07 and, for Special Programs, 2007-08

Following Professor Goel's presentation, the Chair invited Mr. David Bateman, Treasurer, Graduate Students' Union (GSU), to address the Board. Mr. Bateman stated that the preferred option for tuition for the GSU would be for zero tuition, but that, absent government funding, for no increase. He noted that the University's system of high tuition/high support appeared to benefit the well-off, who could easily afford the costs associated with going to the University, and the poor, who were (appropriately) supported by the University's commitment to ensure that no qualified student should be unable to attend for solely financial reasons. Unfortunately, he stated, the costs of a University education had risen so dramatically that it was becoming unaffordable for the large, middle-class group of students who were not eligible for the support mechanisms in place but who were unable to pay the expenses of a University education without real difficulty. Mr. Bateman observed fellow graduate students, who would be well-paid by University standards to do research, were still faced with the very high expenses of living in

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Toronto. The message the GSU wanted to send was that the system required more government funding, and levels of support provided by the University were insufficient. He felt that if student organizations and the University administration provided the same message to the Government, the Ministry might be persuaded to fund Universities at a high enough level to avoid the problems facing both the University and the students.

The Chair then invited Mr. Paul Bretscher, President, Students' Administrative Council (SAC), to speak to the Board. Mr. Bretscher stated his view that the post-secondary education system in Ontario was at a turning point. Although the University of Toronto was blessed with strong faculty, a significant endowment and considerable institutional momentum, difficult choices needed to be made. He asserted that the average debt load upon graduation, according to Statistics Canada, was approximately \$25,000, and with rising tuition fees, rising debt would be a direct outcome. He was concerned that student access was diminished by increased tuition. Although the University allocated an admirably high amount of money in student financial support, it seemed to be increasingly difficult for middle-income families to afford a post-secondary education, especially one in professional Faculties. In order to balance expenses, increasing number of students were working part-time jobs, and thus sacrificing elements of their student experience as a result. Students, he said, were increasingly tired. Although the University could claim that the quality of instruction had improved, the system of financing the Universities resulted in a diminished capacity to educate top-quality students. He feared that the University of Toronto was becoming like two institutions: one, for those without financial worries, that could offer a great education, with endless possibilities for development and personal growth; the other, which would see thousands of students simply go through the process of obtaining a degree, bleary-eyed, tired, and without the ability to enrich themselves in the ways that the University had to offer. Those 'two institutions' were linked by the institution's model of high tuition. Students and administration should work together to encourage the Government to offer higher funding than currently available. The unfortunate choice facing the University was, on the one hand, increased fees, diminished access, higher student debt, and increasing inequality of experience, and on the other hand, additional base budget cuts and diminished institutional quality.

As part of Mr. Bretscher's presentation, the Chair then invited a student in the Faculty of Arts and Science to speak. She noted that, despite increases in student assistance limits, the great majority of students would still not have sufficient funds. She held two jobs in order to pay her fees, and still required financial aid from her parents. As a result, she was unable to save any money for postgraduate education. Student loans, she stated, could take up to 15 years to pay off, with the average monthly payment of \$200; this burden was excessive. As a result, tuition increases, which would lead to greater debt, would increase the already high burden upon students and their families, and away from the Government at Queen's Park.

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Among the matters that arose in discussion were the following. A member observed that, with the total of the tuition increase taken into account, tuition revenues amounted to 34% of operating revenues. She asked what an appropriate institutional target would be. She further noted that the total increases would be largely divided between utilities costs and increases in compensation for employees. She also stated her concern that the University might be driven to an excessive extent by governmental priorities rather than the University's.

Professor Goel confirmed that 34% of the operating budget's revenue was from tuition fees; he then stated that it was difficult to assess an appropriate 'target' because of the variability of other sources of revenue. Professor Naylor informed the Board that different institutions in the Association of American Universities (AAU), of which the University was a member institution, had an enormous range. He noted that the administration was supportive of lowering that proportion over time. He then thanked the student intervenors for their comments, stating that it was inappropriate for the University to be forced into the role of being a *de facto* tax collector through the redistribution of tuition revenues. He noted that the Ontario Student Assistance Program (OSAP) had improved eligibility criteria to encompass those individuals from households with an annual income of \$75,000. This was seen as a positive step. A system for student assistance funded by the taxation of a portion of tuition fee increases, which recycled some portion fee payments, would be unsustainable in the long run. He stated that the reality was that, in Ontario, despite the province's wealth, per capita spending on health was at an average level, and spending on higher education was last in the country (with Newfoundland, the least wealthy province, spending 40% more per student than Ontario on postsecondary education). At the same time, the fiscal condition of the province meant that, in effect, each Ontarian sent \$1800 to other parts of Canada, while each Newfoundlander received more than \$4000 from other Canadians. An unintended consequence of the complexity of fiscal federalism seemed to be that prosperity for Ontario seemed to result in less money for its university and college systems. The Council of Ontario Universities (COU) had stressed that the system could not bear these contradictions over the long term.

A member asked what the University was doing to bring the concerns of the postsecondary sector to the forefront of the Ontario Government's attention, and what strategy it had over a five- to ten-year horizon. Professor Naylor responded that advocacy to different levels of government was a careful balancing act, given the provincial government's view that it had already made a major investment. A possible federal policy change that would have the single greatest budgetary impact would be for the federal government to fund the indirect costs of research at 40% of direct costs rather than the current rate of less than 20% for research intensive universities; that would net the University \$23 million per year. Unfortunately, any new general transfer program created at the federal level would mean that for every dollar Ontarians paid in, only 87 cents would be returned. The Association of Universities and Colleges of Canada (AUCC) had been lobbying for a dedicated federal transfer for the postsecondary sector, but this would be a mixed blessing for Ontario.

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A member noted that he had heard and seen anecdotal evidence over several years, evidenced in part by the student intervenors' comments, that more and more students were choosing to work in part-time or even full-time jobs while attending University, a situation that diminished their potential to experience the full benefits of a University of Toronto education. He asked if there were any data on how much employed work full-time students were engaging in. He also asked whether any work was being done on the concept of student loans with income-contingent repayment, stating that it was important to have a rational, careful discussion on the topic without the high emotion displayed by discussions in the previous years. In response, Professor Goel stated that the administration shared his concerns that if students were working too much, they would not be able to benefit to the greatest degree possible from the student experience. He agreed that income-contingent loans needed an open and honest discussion; the structuring of debt was an important topic given the realities of student finance. Furthermore, there had been experience in some jurisdictions that could inform how to implement an income-contingent repayment scheme. Professor Naylor stated that income-contingent loans were inappropriate if their implementation merely 'released the brake' on tuition increases and deferred huge debt service payments. There was a concern, too, with intergenerational equity of such schemes. Any discussion would have to take into account what tuition parameters were needed to make an income-contingent loan repayment system workable. Professor Farrar, in response to the question of proportion of students who were employed, stated that about 40% of students had paid positions. This marked a shift, since students were working during their degree time as well as during the summertime. However, many felt it was important to obtain experience for post-degree employment.

A member asked whether the planned increase to international student tuition fees of 5% was appropriate, especially given the previous year's significant increase of 25%. Professor Goel responded that the schedule presented the previous year to the Business Board included a plan to proceed with the 5% increase in order to bring the revenue from tuition paid by international students to the same level as the revenue of the grant plus tuition for domestic students. The fee remained below cost. In the mean time, applications from and enrolment by international students had jumped and were projected to continue to increase.

A member stated that the University should be prepared to take leadership of an advocacy program in favour of a revised student financial assistance program. Another member asked whether the terms of the funding arrangements provided by the Ontario Government's *Reaching Higher* plan were clearly understood and agreed by both the Government and institutions. Professor Naylor responded that the COU member institutions were engaged with the issue and in regular contact with the Government, but that final agreement had not yet been reached.

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3. Budget and Tuition Fees (Cont'd)

b) Tuition Fee Schedule for Publicly Funded Programs , 2006-07 and, for Special Programs, 2007-08 (Cont'd)

On the recommendation of the Vice-President and Provost,

YOUR BOARD RECOMMENDS

THAT the "Tuition-Fee Schedule For Publicly Funded Programs, 2006-07," a copy of which is attached hereto as Attachment "A", be approved, including: the tuition fees for domestic students for 2006-07 contained in Table 1 of Appendix "B", the tuition fees for domestic students in special programs for 2006-07 and 2007-08 contained in table 2 of Appendix "B", and the tuition fees for international students for 2006-07 contained in Appendix "C".

c) Tuition Fee Schedule for Self-Funded Programs, 2006-07

Professor Goel informed the Board that self-funded programs did not receive any grant to operate, and therefore were required to recover all costs through fees.

On the recommendation of the Vice-President and Provost,

YOUR BOARD RECOMMENDS

THAT the proposed tuition-fee schedule for self-funded programs for 2006-07, which is Table 1 to Attachment "B" hereto, be approved.

d) Budget Report, 2006-07

Professor Naylor reminded the Board of the thorough presentation on the Budget given earlier by Professor Goel. He then stated that the Budget was consistent with the existing framework for planning, as well as with past plans. The proposed 5% containment was onerous, but had been anticipated, and administrators had had time to plan for it. Despite a lack of clarity on the framework for graduate expansion in Ontario, all parameters were reasonably specified or considered. This lack of clarity about graduate funding was not enough to put the budgetary framework into question.

Professor Naylor stated that the mix of one time only (OTO) and base reductions was prudent; despite the fact that no one in the University was looking forward to the reductions, their necessity was acknowledged. Some flexibility had been given to units to help offset the impact of the containment measures. Those measures needed to be placed in clear context. For that

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purpose a new budget model was under development by the Office of the Vice-President and Provost. The budget also saw major growth in divisional revenue as the plan progressed; however, a rigorous reallocation and priority-setting exercise would need to continue. Unfortunately, the budget would see no significant reduction in the student-faculty ratio as the plan progressed, despite the apparent influx of new governmental funds to the system.

Many initiatives were underway to continue the University's momentum, and the budget allowed a wide latitude for creativity at the divisional level. Professor Naylor noted his particular delight at the establishment of a 'Student Experience Fund', which could be allocated to projects designed to improve the experience of students in small and large ways.

The Chair briefly summarized the responsibility of the Business Board with respect to the Budget, along with the differing roles of the Business Board and the Academic Board within the governance system. She then stressed the Board's duty to satisfy itself: that the budget framework was achievable and financially prudent; that the budget plan would be able to conform to the policy limit of a 1.5% cumulative deficit by the end of the planning cycle; that the assumptions were realistic; and that the risk was acceptable.

A member asked for some examples of what the Student Experience Fund was meant to address. Professor Goel responded that the Fund could be used, for example, for the creation of space for study or student activity, for renovations to libraries to improve the learning environment, and for the expansion of first-year experience programs (especially, he indicated, pilot projects). Professor Sinervo stated that a significant portion of students were the so-called 'commuter students', who traveled to and from the University daily from their family homes. The integration of these students was difficult. One critical element was the provision of high-quality, accessible study space for those students with links to the technology they used. In 2005-06, 220 students in the Faculty of Arts and Science were in programs like 'Vic One' and 'Trin One', which Victoria and Trinity Colleges used to help engage students in the University and their Colleges. With 4,500 students entering the Faculty annually, however, such programs had significant challenges in providing small group experiences for every student. Another example cited by Professor Sinervo was the expansion of experiential learning programs, such as that used by the Urban Studies Program at Innis College.

On the recommendation of the Vice-President and Provost,

YOUR BOARD CONCURS

With the recommendation of the Academic Board

**THAT the Budget Report for 2006-07, dated
March 13, 2006, be approved.**

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THE FOLLOWING ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

4. Interim Appropriations

Ms Riggall informed the Board that, because of the timing of Governing Council meetings in the spring of 2006, it was necessary for the Board to extend to the administration the authority to spend an interim appropriation to ensure the continuing functioning of the University.

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

YOUR BOARD APPROVED

THAT the administration be authorized to spend up to \$200-million of operating funds for the normal operation of the University of Toronto for the period May 1, 2006 to June 30, 2006.

5. Investments: University of Toronto Asset Management Corporation: Annual Report, 2005

Ms Riggall said that the University of Toronto Asset Management Corporation (UTAM), while controlled by the University of Toronto, was a separate corporation with its own Board that provided investment-management services to the University. The relationship between the University and UTAM was a complicated one, but one that was clearly established by a service agreement. The nature of the relationship was outlined in a summary that had been placed on the table. The Business Board, on behalf of the University, approved investment-return targets and risk tolerances as well as basic investment policies. UTAM managed the University and pension plan investments pursuant to those parameters. The Chair noted that the UTAM Board had approved the annual report and financial statements at its meeting of March 8, 2006.

Mr. Chee presented the annual report.

- **Market environment.** As Mr. Chee had noted in his mid-year briefing to the Board, UTAM had expected a major inflection in the capital markets. Such an inflection could have been the product of interest rates that were too low and likely to rise, high energy prices, and events arising from an unstable world geopolitical environment. As a result, UTAM had positioned its portfolios in a defensive posture. Mr. Chee did not wish to see a repetition of the experience of 2001-02, when UTAM had outperformed its benchmarks, but, because of very poor market conditions, the University had lost money. While there had been no inflection point in the capital markets in 2005, they still lacked conviction, and UTAM's portfolios remained defensive and flexible. UTAM was very sensitive to the fact that the University's paramount need was to preserve its capital.

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5. **Investments: University of Toronto Asset Management Corporation: Annual Report, 2005 (Cont'd)**

- **Assets under management.** The Long-Term Capital Appreciation Pool (L.T.CAP) was the investment vehicle for the University's endowments and for the money being set aside to meet the University's obligations under its Supplementary Retirement Arrangement. The market value of the L.T.CAP had increased by 14.9% over 2005 to \$1.7-billion. The market value of the pension funds had increased by 11.8% over the year to \$2.6-billion. Finally, the market value of the Expendable Funds Investment Pool (EFIP) had increased by 11.1% to \$478-million. Overall, assets under management had increased by 12.9% to \$4.8-billion. The increases had been the outcome of net cash flows moving into the funds and of good investment returns.
- **Investment performance compared to market benchmark.** UTAM measured its performance against a benchmark which consisted of a combination of market indices such as the Standard and Poor's / Toronto Stock Exchange Capped Composite Index of Canadian stocks, the Russell 3000 Index of U.S. stocks, etc. For 2005, the L.T.CAP return of 11.73% had lagged the benchmark return by 1.42%. The pension fund return of 12.94% had lagged its benchmark by 0.64%. In the previous two years, both funds had outperformed their benchmarks.

The underperformance had been the outcome of three factors. The first was the defensive position adopted in 2005. UTAM had adopted a shorter bond duration in anticipation of an increase in interest rates. [As interest rates increase the market value of existing bonds declines.] UTAM had also reduced its exposure to smaller companies. In the area of absolute-return investments, it had concentrated on funds of hedge funds with records of lower risk and lower volatility. While UTAM had positioned the portfolio defensively, world markets, while gyrating from month to month, had finished 2005 with modest positive returns. Moreover, the Canadian market, with its heavy weighting in resource stocks, had posted very good returns. Also largely because of the strength of the resource sector, the Canadian dollar had appreciated in value against foreign currencies. Because of the high level of UTAM's investments in the U.S. and international markets, that had had a significant impact.

The second factor had been UTAM's work to restructure its public-markets investments, including both equity and bond investments. To achieve the repositioning, while at the same time maintaining flexibility to deal with the anticipated inflection in the markets, UTAM had retained more of its assets in cash and in index investments, reducing the opportunity for active managers to outperform their indices.

The third factor was that one of the benchmarks was inappropriate – that for absolute-return investments. That benchmark was a short-term money market rate – the London Interbank Offering Rate plus 450 basis points [one basis point is 1/100 of 1%] or LIBOR

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5. **Investments: University of Toronto Asset Management Corporation: Annual Report, 2005 (Cont'd)**

plus 4.5%. Achieving that benchmark would have required a return of 8.1% for 2005, compared to the return on the U.S. equity market of 6.1%. UTAM's actual return on its absolute-return investments for the year had been 6.1%. The return on the Goldman Sachs index of absolute-return hedge funds had been 2.6% for the year. The return on the Morgan Stanley Capital International index of hedge funds had been 4.7%. Mr. Chee thought that a more appropriate benchmark would be LIBOR plus 300 basis points.

Mr. Chee stressed that all returns had been reported after all fees and all costs – something that had not always been the case. He noted that while he was disappointed that the funds had not again outperformed their benchmarks, looking back, he would not, in the light of information available at the time, have acted any differently, apart perhaps from moving more quickly to place further funds under active management.

- **Value added.** The key measures of value added by UTAM was the amount earned in excess of the University's requirement for a real (after-inflation) return of four percent per year, after taking into account all costs. The ultimate purpose of the investments was to meet the liabilities of the pension and endowment funds, and the ability to do so was the key factor in UTAM's structuring of its portfolios. For the two major funds combined for 2005, UTAM's investments had earned 5.14% in excess of the return requirement, providing \$196-million in excess of that requirement. Over the three years from 2003-05, UTAM's investments had earned \$614-million in excess of the return requirement. The proportion of that excess return for the pension plans had served to reduce the deficit in the plans.

For the three-year period, the value added in excess of the market benchmark return had been \$18-million. In 2003, the funds had earned \$36-million above the benchmark return and in 2004, they had earned \$18-million above the benchmark return. In 2005, they had earned \$36-million less than the benchmark return, in effect giving back 2003's excess return and leaving the three-year return above the benchmark by \$18-million.

- **Costs.** UTAM's internal costs had declined from 10 basis points (i.e. 1/10 of 1% of total assets under management) to 8 basis points since 2003. That was largely the outcome of UTAM's having restructured and reduced its senior staff. Costs for the services of the funds' custodian had also declined from 4 basis points to 3 basis points. The fees charged by the external fund managers had increased from 58 basis points to 67 basis points over the three years. That increase had been attributable to moving more money from index funds to actively managed funds and to moving more money into higher-cost asset classes. While those changes had increased costs, they were expected to increase returns by a much larger amount over time. The total cost for investment management for 2005 was 67 basis points, which was the average cost for the management of the major U.S. endowment funds. UTAM was continuing to seek ways to reduce costs.

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5. Investments: University of Toronto Asset Management Corporation: Annual Report, 2005 (Cont'd)

- **Investment returns compared to peers.** The University of Toronto was the only Canadian university to participate in the survey of endowment funds carried out by the U.S. National Association of College and University Business Officers (NACUBO). For 2005, the investment return on the University's endowment had ranked fourth of 670 funds. For the three years 2003-05, the University's endowment had ranked third of 633 funds. The high return was in part the outcome of the fact that the survey measured returns in U.S. dollars, and the Canadian-dollar-denominated assets had appreciated substantially against their U.S. counterparts. However, even removing the effect of currency, the University's endowment fund had ranked in the top 25% of the NACUBO endowment funds.

The funds' returns also compared very well against their official peer benchmark, the RBC Global Services Canadian Funds Universe. Both the pension fund and the L.T.CAP had performed significantly better than the median fund for 2005, ranking in the second quartile. For the three years 2003-05, both funds ranked in the top quartile.

- **Organizational developments.** Mr. Chee had completed the restructuring of his senior management team. Performance measurement had been outsourced and custody arrangements streamlined. The outcome of all of those actions had been operating savings of \$170,000 per year. UTAM had completed its move to its new offices in the MaRS Centre. It was currently focusing on the restructuring of its private-markets portfolio.

Invited to speak, Professor Luste referred members to a memorandum to the Board that had been distributed at the meeting. He thought it very important that the Board also see the UTAM annual report from a different perspective. Very large sums were involved. In salary and benefit negotiations, the Faculty Association had urged the augmentation of benefits to current pensioners to enable them to keep up with inflation. The administration had argued against an augmentation because the pension plan was in a deficit. Investment returns and expenses were directly connected to the plan's deficit. There had been a dramatic increase in pension plan expenses, particularly from the late 1990s onwards, as shown in the annual reports from the actuaries. Current expenses for managing the pension plan were over \$10-million greater than they had been prior to 1998. While some of that increase was attributable to the fact that the plan was now larger, the annual expenses per dollar of assets had also grown from less than 25 basis points as late as 2000 to over 65 basis points in 2005. Professor Luste noted that he managed his own self-directed registered retirement savings plan for a cost of 30 basis points.

Professor Luste stated his view that the increase in cost had not been accompanied by value added over simple passive investing. If the University's pension fund managers had placed the fund in simple index-based investments in 1998 and then fallen asleep, he believed that the fund would have performed significantly better than it had done. He referred members to his handout, which compared the returns of a passive portfolio consisting of 25% Canadian long-

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term bond index, 25% total Canadian bond index and 50% Toronto Stock Exchange Composite Index. According to his calculations, that passive portfolio would over the three-year period 2003-05 have earned a return of 2.2% per year more than that generated for the pension fund by UTAM, amounting to an additional \$40-million to \$50-million per year for the pension fund.

Finally, Professor Luste was concerned about the risk UTAM had assumed in managing the pension fund. The volatility of returns appeared to him to be quite extreme, compared to the longer term history of market returns.

Ms Kennedy reported that the Audit Committee had reviewed UTAM's audited financial statements at its meeting of March 22, 2006. It had also received UTAM's annual report for its background information. Ernst & Young, the external auditors for both the University and UTAM, had been present at the meeting. Mr. John Hsu, UTAM's Managing Director for Risk Management and Operations, had also been present and had been very helpful in answering all of the questions posed by members of the Audit Committee. The Audit Committee therefore recommended that UTAM's audited financial statements for 2005 be accepted.

A member asked the reason for the substantial increase in investment-management costs since 1998. Mr. Chee replied that it was his understanding that prior to 1998, most assets were passively managed. The increase in the investment-management portion of pension costs was attributable to a much greater portion of the fund being actively managed as well as the initiation of investments in certain asset classes with high management fees. In response to the member's question, Mr. Chee said that UTAM was using active management and was investing in the higher cost asset classes because it believed that the after-fee returns would be greater. He stressed that all returns were now reported net of all fees.

A member urged objectivity in making decisions about pension-fund management. He noted that the top returns over the past fifteen years had been generated by the investment-management corporation of Harvard University and by the investment office of Yale University. Because of the vocal concerns of faculty and alumni about management costs some years ago, the President of the Harvard Management Company (which manages the Harvard University endowment) had resigned and had begun his own investment-management company. Harvard, seeking to maintain the same high level of returns, had retained that company as one of its managers at a significantly greater cost.

The President observed that it was very important that there be clear communications about these issues. The money being managed by UTAM in the pension and endowment funds had been generated by faculty, staff, students and donors. It was essential that the funds be managed in a transparent way. It was very helpful that questions were being raised by the Faculty Association and by other interested parties. Following the turbulence of the past few years, it was very important that good information about the management of the funds be widely available. The President was grateful that UTAM was moving to share this information and to do so in a widely accessible way.

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5. Investments: University of Toronto Asset Management Corporation: Annual Report, 2005 (Cont'd)

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

YOUR BOARD ACCEPTED

The University of Toronto Asset Management Corporation annual report and financial statements for 2005.

6. Pension Fund Master Trust Investment Policy, 2006 Review

Ms Riggall recalled that the Pension Fund Master Trust Investment Policy had previously been approved by the Board on April 4, 2005. Both the Pension Benefits Act and the Board's terms of reference required that the Policy be reviewed annually. Ms Riggall outlined the minor changes proposed. First, with the elimination from the Income Tax Act of the limit on pension funds' foreign investments, references to that limit had been removed from the Policy. Second, the asset mix specified in the UTAM policy had been amended to make the asset mix of the pension fund consistent with that of the Long-Term Capital Appreciation Pool. The provision for fixed-income investments had reduced by 10% to 20%, and the provision for investment in each of U.S. and non-North American equities had been increased by 5% to 20%. The change reflected the removal of the foreign-content limitation. It also provided for administrative simplicity, with the same asset mix for both major funds. Most significantly, it more fully used the University's risk allowance in order to seek a better return. The final change was to update the data about the pension plans from the most recent actuarial report.

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

YOUR BOARD APPROVED

- (i) The proposed University of Toronto Pension Fund Master Trust Investment Policy, a copy of which is included in Attachment "C" hereto, replacing the Policy approved by the Business Board on April 4, 2005; and
- (ii) THAT, taken together, (i) the proposed University of Toronto Pension Fund Master Trust Investment Policy, (ii) the University of Toronto Asset Management Corporation Pension Fund Master Trust Investment Policy, approved by the UTAM Board on March 8, 2006, and (iii) the Amended

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and Restated Service and UTAM Personnel Agreement made as of the 14th Day of May, 2003, including the amended Schedule C approved by the Business Board on April 4, 2005, all included in Attachment "C" hereto, be approved as the University of Toronto's Pension Fund Master Trust Statement of Investment Policies and Procedures, replacing the Statement approved by the Business Board on April 4, 2005.

7. University Funds Investment Policy: Annual Review

Ms Riggall noted that the University Funds Investment Policy currently in effect had been approved on April 4, 2005, and that Policy required that the Board review it annually. The proposed Policy contained a change in the wording concerning the University's endowment stewardship fee and investment management overhead fee. The current policy specified a levy of "0.4% to 0.5% of assets." The proposed policy would specify a levy of "no more than 0.5% of assets." In fact, it was anticipated that levy for 2005-06 would be 0.32% of assets and that it would be less than 0.1% for 2006-07. The University's return objective and risk tolerance for the Long-Term Capital Appreciation Pool were unchanged in the proposed Policy, and the provisions concerning the Expendable Funds Investment Pool were also unchanged.

A member urged that the University become active in exercising its proxies in the companies in which it owned shares. It was becoming increasingly important for investors to vote their shares and to do so prudently. To do so, institutional investors should establish proxy-voting guidelines and ensure that portfolio managers voted shares in a manner consistent with those guidelines. For example, it was important that investors vote prudently about provisions for poison pills to prevent takeovers, which were sometimes not in shareowners' interest. Active proxy voting and voting guidelines were now in place at such major institutional investors as the Canada Pension Plan and the Ontario Teachers' Pension Fund. The member urged that the University establish proxy voting guidelines and disclose them to the University community.

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

YOUR BOARD APPROVED

The proposed University Funds Investment Policy, a copy of which is attached hereto as Attachment "D", replacing the policy approved by the Business Board on January 17, 2005.

REPORT NUMBER 148 OF THE BUSINESS BOARD – March 27, 2006**8. Administrative User Fees and Fines, 2006-07**

A member noted that fees for Athletics co-curricular programs, previously funded by the University, were now supported by compulsory non-academic incidental fees. Professor Goel replied that fees for co-curricular athletic activities were proposed by the Council on Athletics and Recreation and approved by the University Affairs Board. Co-curricular athletics was one of a number of areas, including student services, that were now supported by compulsory non-academic incidental fees as the result of policies established some years ago by the Government of Ontario.

On the recommendation of the Vice-Provost, Planning and Budget,

YOUR BOARD APPROVED

1. THAT the Faculty of Applied Science and Engineering Summer Internship Program (eSIP) fee be added to the Administrative User Fee Schedule;
2. THAT the Ontario Institute for Studies in Education of the University of Toronto Counselling Psychology Program Optional Additional Practica fee be added to the Administrative User Fee Schedule;
3. THAT the Woodsworth College International Summer Program to Amazon and Galapagos Islands (placement fee and course fee) and Tokyo (placement fee and course fee) fee be added to the Administrative User Fee Schedule;
4. THAT the Faculty of Information Studies Application fee be added to the Administrative User Fee Schedule;
5. THAT the Mathematical Finance Program Application fee be added to the Administrative User Fee Schedule;
6. THAT the Concurrent Teacher Education Program Application fee be added to the Administrative User Fee Schedule;
7. THAT the Centre for Medieval Studies Dossier Service fees be removed from the Administrative User Fee Schedule; and
8. THAT the MSc in Speech Pathology Application fee be removed from the Administrative User Fee Schedule.

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9. Ancillary Operations: Real Estate – 2005-06 Operating Results and 2006-07 Budget

A member asked if there was any overarching strategy to purchase the properties in the northwest corner of the campus not already owned by the University. Ms Riggall responded that there was no specific plan to do so. She further noted that the administration would return to the Board in the fall of 2006 with a revised real estate strategy, which was under review. A member asked what prompted the review of the University's strategy. Ms Riggall responded that it was being done as part of a study of the long-term need for space for potential capital projects over the next twenty-five years.

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

YOUR BOARD APPROVED

The operating budget for the Real Estate Ancillary for 2006-07, as contained in the fourth column of the Five-Year Operating Plan, attached to the Real Estate Department Unincorporated Business Ancillary Operating Plan, 2007-2011 as Schedule 1.

10. Cost-Recovery Ancillary Fees and Administrative User Fees and Fines (items for information), 2006-07

The Board received for information the Report on Cost-Recovery Ancillary Fees and Administrative User Fees and Fines (items for information), 2006-07.

11. Report Number 79 of the Audit Committee, November 23, 2005

The Board received for information Report Number 79 of the Audit Committee (November 23, 2005).

12. Dates of Next Meetings

The Chair reminded members that the next regular meeting was scheduled for Wednesday, May 3, 2006 at 5:00 p.m. in the Croft Chapter House, University College. The following meeting was scheduled for Monday, May 29, 2006 at 5:00 p.m. – a reserve date.

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13. Audit Committee: Appointment

THE BOARD MOVED *IN CAMERA*.

On motion duly made and seconded, it was RESOLVED

THAT pursuant to section 32 of By-Law Number 2, the Board continue its meeting *in camera* to consider a proposed Audit Committee appointment.

On motion duly made and seconded, it was RESOLVED

THAT Ms Paulette L. Kennedy be appointed as Vice-Chair of the Audit Committee for the remainder of a term to June 30, 2006.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:25 p.m.

Secretary

Chair

April 25, 2006

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