UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 154 OF THE BUSINESS BOARD

January 15, 2007

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, January 15, 2007 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Ms Jacqueline C. Orange (In the Chair)
Mr. Richard Nunn, Vice-Chair
Ms Rose M. Patten, Chair of the Governing Council
Mr. John F. (Jack) Petch, Vice-Chair of the Governing Council
Dr. C. David Naylor, President
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Mr. Donald A. Burwash
Dr. Alice Dong
Ms Susan Eng
Mr. Robin Goodfellow
Dr. Gerald Halbert
Ms Kate Hilton
Professor Glen A. Jones
Ms Paulette L. Kennedy
Mr. Gerald A. Lokash
Mr. Geoffrey Matus
Mr. George E. Myhal
Mr. David Oxtoby
Ms Marvi H. Ricker
Professor Arthur S. Ripstein
Mr. Stephen C. Smith
Ms Estefania Toledo
Ms B. Elizabeth Vosburgh*
Mr. Robert S. Weiss*
Mr. W. David Wilson

Professor John R. G. Challis, Vice-President- Research and Associate Provost
Ms Rivi Frankle, Interim Vice-President, and Chief Advancement Officer
Professor Vivek Goel, Vice-President and Provost
Professor Cheryl Misak, Acting Vice-President and Principal, University of Toronto at Mississauga
Ms Sheila Brown, Chief Financial Officer
Mr. Louis R. Charpentier, Secretary of the Governing Council
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Ms Elizabeth Sisam, Assistant Vice-President, Campus and Facilities Planning
Mr. Ron Swail, Assistant Vice-President, Facilities and Services
Professor Safwat Zaky, Vice-Provost, Planning and Budget

Secretariat:

Mr. Neil Dobbs
Mr. Henry Mulhall

Regrets:

Mr. P. C. Choo
Ms Mary Anne Elliott

* Participated by telephone.

In Attendance:

Mr. Tim Reid, member, Governing Council
Miss Maureen Somerville, member, Governing Council

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In Attendance (Cont’d)

Mr. Graham Kemp, Director, Administrative Management Systems
Dr. Jeanne Li, Special Assistant to the Vice-President, Business Affairs
Ms Meredith Strong, Special Assistant to the Vice-President, University Relations
Ms Mae-Yu Tan, Special Projects Officer, Office of the Governing Council

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

1. Reports of the Previous Meetings

(a) Report 152 – October 10, 2006

On page 13, item 6, Office of the Vice-President and Chief Advancement Officer – Annual Report, 2005-6, the section on “Support by sector” was corrected to read as follows:

> Alumni continued to represent the highest percent of supporters, with 83.64% of donors being alumni and 41.30% of donations coming from alumni. Other friends of the University represented 13.39% of donors and supplied 23.80% of donations. Corporations represented 1.93% of donors, providing 13.60% of funds raised. A further 1.03% of donors were foundations and other organizations, with the amount from that source being 18.3% of the total. Finally, other donors represented 0.02% of donors, supplying 3.00% of the total amount donated.

Report 152 (October 10, 2006) was approved as amended.

(b) Report 153 - November 9, 2006

Report 153 (November 9, 2006) was approved.

2. Business Arising from the Reports of the Previous Meetings

Report 152 – Item 10, Endowments: Annual Financial Report for the Year Ended April 30, 2006

The Chair recalled that at the October 10 meeting, a member had raised a question concerning the proportion of funds contributed by alumni who had been graduate and undergraduate students. Ms Frankle had developed some very interesting data, a copy of which was placed on the table. Alumni donations to the endowment through the period of the

2. Business Arising from the Reports of the Previous Meetings (Cont'd)

Report 152 – Item 10, Endowments: Annual Financial Report for the Year Ended April 30, 2006 (Cont'd)

Campaign had been as follows.

	Number of Donors	Pledge Amount
Alumni with undergraduate degrees	25,954	$ 57,886,081.67
Alumni with graduate degrees	4,104	$ 30,250,863.28
Alumni with both undergraduate and graduate degrees	5,745	$ 88,924,243.44

Alumni donations of expendable funds had been as follows:

	Number of Donors	Pledge Amount
Alumni with undergraduate degrees	47,330	$ 81,520,523.47
Alumni with graduate degrees	6,290	$ 29,434,585.96
Alumni with both undergraduate and graduate degrees	9,801	$ 85,219,898.12

Total alumni donations, including donations of both endowment funds and expendable funds had been as follows:

	Number of Donors	Pledge Amount
Alumni with undergraduate degrees	55,548	$ 139,406,605.14
Alumni with graduate degrees	7,930	$ 59,685,449.24
Alumni with both undergraduate and graduate degrees	11,398	$ 174,144,141.56

The Chair said that this data had been challenging to put together, and, on behalf of the Board, she thanked Ms Frankle and her staff for providing it. In response to a question, Professor Zaky said that the data covered the period of the major fundraising Campaign, which had begun on May 1, 1995 and concluded December 31, 2003.

3. Senior Salary Committee: Annual Report, 2005-06

The Chair noted that the Chair of the Governing Council was an *ex officio* member of all Governing Council Board and Committees. Ms Patten was particularly welcome to this meeting to present the annual report of the Senior Salary Committee, which she also chaired.

Ms Patten said that this Annual Report was for information; no Board action was required. She reminded members that the Senior Salary Committee was established by the *Policy on Appointments and Remuneration*. It was responsible for assuring the Governing Council of the appropriateness of compensation programs for administrative officers and other administrative staff who were remunerated above a set level. As well, the Committee was to give assurance that decisions about compensation had been made in a manner consistent with policy and practice. In order to ensure that there was appropriately independent oversight, the Committee comprised only lay members of the Governing Council and the Business Board, including several members present at this meeting. The only exception to the lay memberships was, naturally, the President, who was responsible for bringing forward recommendations to the Committee. He was a full voting member. In some cases, the Committee approved recommendations for individuals; in others, it received detailed reports on compensation decisions within approved programs. Ms Patten was pleased with the consistently strong commitment to disclosure demonstrated by the President and the Vice-Presidents in bringing forward recommendations and reports that provided context for the Committee and that allowed it to have full and frank discussions. The Committee also played an advisory role to the President and the Vice-Presidents on matters of compensation.

Ms Patten said that the Report covered the Committee's activities in the academic year 2005-2006. There was nothing unusual to draw to the Board's attention in terms of the Committee's normal business – the decisions it made and the accountability reports it received from the President and the administration. However, the Committee had considered and approved compensation frameworks for senior executives and senior academic administrators. That work had begun under Interim President Iacobucci and, since taking office, President Naylor had worked closely with the Provost and the Vice-President, Human Resources and Equity to prepare a comprehensive approach to senior compensation. The Committee was pleased with the excellent outcome and the active engagement of the Committee throughout the process.

Ms Patten reported that the Committee had begun consideration of possible revisions to the *Policy on Appointments and Remuneration*. That reconsideration had arisen, in part, from the principles and practices that had emerged from the Committee's own work but also from changes arising from the arbitration award for faculty. Any changes to the *Policy* would be brought to the Business Board for approval. Ms Patten concluded that the Committee's goal was to continuously refine and strengthen the manner in which it did its work, ensuring accountability, consistent practice and transparency.

3. Senior Salary Committee: Annual Report, 2005-06 (Cont'd)

The Chair thanked Ms Patten for her report. The University was very fortunate to have Ms Patten, with her expertise in human-resources matters, to guide the work of the Senior Salary Committee, which was making continuing progress. It had been a particular pleasure for the Chair to serve on the Committee.

4. Vice-President, Research and Associate Provost: Annual Report, 2005-06

The Chair said that consideration of the annual report of the Vice-President, Research and Associate Provost would be re-scheduled.

5. Financial Forecast, 2006-07

Ms Brown said that the financial forecast contained a number of changes from those presented in previous years. First, work continued to make the forecast move in the direction of the audited year-end financial statements. To that end, the document now included a forecast of the statement of changes in net assets at year end. Second, the forecast included sensitivity analyses, showing the effect of differences in two key, unknown elements. The first was investment returns for the year, for which the forecast included four scenarios. The second element was quality enhancement funding from the Government of Ontario. While some of that funding had been received, the amount was considerably less than that planned. While Ms Brown hoped that the University would receive some of the balance, the timing and amount were uncertain. In the sensitivity analysis on page 2 of the forecast, the column that was enclosed by a box represented the forecast figures and expanded on the forecast itself.

Ms Brown forecast that revenues for the year would be \$1.802-billion and expenses \$1.833-billion for a net loss of \$30.7-million. That forecast included the "base case" assumption of a 3.6% return on the investment of the endowed funds. The return of 3.6% had been used as the base case because that was the return that would be required to provide the endowment payout without incursion on the inflation-adjusted value of the capital. The net income or loss for the year would vary, as shown in the sensitivity analysis, depending on the actual investment return by year-end. The actual return on the endowment funds in the Long-Term Capital Appreciation Pool (L.T.CAP) had been 5.6% from May 1 to November 30, 2006. The investment return for December was not yet available.

For the Operating Fund (i.e. excluding the Ancillary Operations Fund, the Capital Fund and the Restricted Funds) revenues were forecast to be \$1.256-billion and expenses \$1,242.5-billion for a net income of \$13.5-million. That projection had been based on the assumption that the divisions would spend their budgets, neither adding to nor spending down their carry-forward funds. If that assumption proved to be incorrect, the Operating Fund revenue would remain the same, but the expenses would be either higher or lower. After projected inter-fund transfers and a projected change in internally restricted funds, the cumulative Operating Fund deficit of \$59.5-million at the beginning of the year was forecasted to grow to \$85.8-million. That compared to the \$64.6-million cumulative deficit in the Operating Budget. If the quality

5. Financial Forecast, 2006-07 (Cont'd)

enhancement monies from the Government of Ontario were received, the $21.2-million variance from the Operating Budget would be cut in half. In any event, the amount was well within an expected variance on so large a Budget.

Ms Brown noted that the forecast had been prepared before the seasonal break, but her current view remained very close to the forecast now before the Board. The investment return for the year to date was somewhat higher than the forecast "base case." In addition, there had been some improvement in utilities costs. Ms Brown cautioned, however, that the caveats stated on pages 1-2 of her memorandum were very important. First, the allocation of the Ontario quality funds remained uncertain. Second, the November 1 enrolment count, which was required to firm up the figures for government operating-grant and tuition-fee revenue, had not yet been finalized. While estimates of enrolment in previous years had been quite accurate, the outcome was not certain.

In response to a question, Ms Brown and Professor Goel commented on the University's financial position in relation to its long-term budget plan. Ms Brown said that the Government of Ontario had two years ago, in its "Reaching Higher" Plan, announced $6.2-billion in additional funding for post-secondary institutions in Ontario. That had led to the adjustment of the University's long-term budget plan for 2006-07 and thereafter. The University was working on a plan taking into account the need to make somewhat smaller reductions than originally intended. For the current year, as noted, the projected cumulative Operating Fund deficit of $85.8-million was somewhat greater than the planned $64.6-million. For the later years of the plan, there was considerable uncertainty concerning the allocation of funds among institutions under the Government's "Reaching Higher" Plan.

Professor Goel added that the difference between the planned and forecast cumulative deficit at the end of the 2006-07 year was very small as a percent of the total Operating Budget. The outcome was very difficult to forecast even at the present time. For example, the operating grant depended on the November 1 enrolment count. While the University was confident that its tally of its own enrolment was very close to the ultimate final figure, the University did not yet know the total number of students in the Ontario system. One of the key issues was that the total would very likely be greater than that planned in the Province's budget, and it was unclear how the Province would distribute funding as a result of the higher system-wide enrolment. On the whole, however, Professor Goel was confident that the University was on track with its long-term budget plan. Going forward, the University might well move from six-year plans to five-year rolling plans, with adjustments made annually. Among other things, that would avoid the tendency to compress the needed major changes into the final two years of the plan.

A member agreed that the $21.2-million variance from the deficit projected in the long-term budget plan was a small one in percent terms, but $21.2-million did still represent a large absolute amount. Was there a risk that the cumulative deficit would increase at an accelerated rate? Or, on the other hand, was there a good prospect that revenue and expense would be brought into balance? The member understood that much would depend on Government funding decisions and on securities-market returns.

5. Financial Forecast, 2006-07 (Cont'd)

Professor Goel replied that there was a great deal of volatility in investment returns. There was also a great deal more uncertainty about Government funding than in previous years. However, he was confident, in the light of the forecast, that through the rigour of multi-year budgeting, the University would be able to bring the cumulative operating deficit to the level required by Governing Council policy, that is to an amount no greater than 1.5% of operating revenue. To do so, on-going expense containment would be required. The administration was working on various alternative ways to achieve that goal.

A member asked whether it was anticipated that the ancillary operations would be able, as they were meant to do, to at least recover their operating costs. Ms Brown replied that there had been a significant capital expansion in the ancillary operations group. Nearly 2,700 additional residence beds had been provided and over 1,400 additional parking places had been put into place. When the plans for the various expansions had been approved, the financial models had provided for the operations to run operating deficits on an annual basis for five years and on a cumulative basis for eight years. (The time frames differed somewhat for each project.) The deficits incurred in the newly expanded operations were the reason for the significant deficit in the results of the ancillary operations as a whole at this time. While two of the residence operations were behind their financial plans, others were ahead of them. In response to the member's further question, Ms Brown agreed that most of the operations should be recovering their costs in about three or four years' time.

On behalf of the Board, the Chair thanked Ms Brown for the forecast. She was particularly grateful for the inclusion of the sensitivity analysis.

6. Capital Plan / Real Estate Strategy / Borrowing Strategy

The Chair said that there would be an integrated presentation of the proposed new Capital Plan, the proposed Real Estate Strategy, and the Borrowing Strategy – a first for the Business Board. That would be followed by wide-ranging discussion by the Board. The Board would then proceed to a vote on the proposed revised Real Estate Strategy.

Professor Goel said that this represented the first comprehensive look in recent years at three distinct but inter-related matters. All began with the University's academic plan, and all are were intended to assist the University in achieving its academic objectives. Achieving those objectives required new and renovated facilities which were included in the Capital Plan. Providing the facilities in the Capital Plan required appropriate real estate, which was the focus of the Real Estate Strategy. There was need to pay for the necessary facilities and real estate, with both equity and debt, and the Borrowing Strategy dealt with providing the debt component. The objective at this time was to bring all of the pieces together. The Capital Plan was not a fixed list of projects. Rather, it was developed to respond to dynamically changing circumstances. The development of the Plan was guided by a group of criteria used to determine priorities for capital projects. Professor Goel commented on various aspects of the Capital Plan.

6. Capital Plan / Real Estate Strategy / Borrowing Strategy (Cont'd)

- **Context for the Capital Plan**. In addition to the key context – the University's academic plan – the Capital Plan was developed in the light of several contextual factors. One of those was the Council of Ontario Universities space standards. Those standards could be seen as somewhat artificial. They had been developed with a view to the needs of the average university. The University of Toronto was more research intensive, and it had to adapt the C.O.U. standards to meet its own circumstances. The C.O.U. standards did, however, provide measurable benchmarks, which were important to the Province. The Capital Plan also had to take into account the real estate available and to determine the need to acquire further properties. There was need as well to consider how to address the deferred maintenance required for existing facilities. In planning for academic needs, it was important to include the need to bring existing buildings up to standard. Municipal zoning requirements formed an important element of the context for capital planning. So too did requirements for preservation of heritage buildings and, especially at the UTM and UTSC campuses, requirements for environmental preservation. Funding and financing capacity were essential elements of the context for planning. Finally, it was very important in developing the Capital Plan to have the ability to respond to opportunities. The list of priorities in the Capital Plan had changed very considerably in the past decade to take advantage of new government programs, especially the funding of research infrastructure under the Canada Foundation for Innovation and the Ontario Research and Development Challenge Fund. Flexibility was also important to take advantage of the availability on the market of desirable real estate in close proximity to the St. George Campus.

- **University of Toronto at Mississauga**. While the UTM Campus included a great deal of land, much of it was Credit River valley land that could not be developed. There were two major building sites left on the Campus. The University could also seek rezoning for development on sites now occupied by major parking lots, which would have to be replaced by parking structures. There was also some opportunity for infill. For example, the Medical Academy would be built out from the South Building. There was, therefore, some capacity for further development at UTM.

- **University of Toronto at Scarborough**. There were a few building sites left at UTSC, but its location on the edge of the Highland Creek ravine left limited space. Other things being equal, it was likely that the property at UTSC would reach capacity before that at UTM.

- **St. George Campus**. There were very few building sites left on the St. George Campus. The available spaces were primarily occupied by parking lots; there would be no construction on approved open space. The available sites included site 11 on St. George Street to the south of the Rotman School of Management, site 12 on Devonshire Place opposite the Varsity Centre, and the parking lot behind Simcoe Hall. In addition, there could be opportunities to build further on some of the current building sites. That should accommodate a significant number of projects over the next couple of decades. The City was developing a new official plan, and the University would seek planning permission to intensify the development of some sites on the Campus. It would, however, be necessary to look beyond the current St. George Campus properties for needs past the next couple of decades.

6. Capital Plan / Real Estate Strategy / Borrowing Strategy (Cont'd)

- **The Capital Plan, 2006-2011**. The Capital Plan identified major capital projects at various stages of consideration. Principals and Deans had been invited to identify their needs for capital projects to advance their divisions' academic plans. The costs of the projects included in the plan were often of a rough order of magnitude because many had not yet reached the state of having Project Planning Reports. The total estimated cost of the projects in the plan was $700-million, but that amount could ultimately vary substantially. Since 1999, just over $1-billion of capital projects had been approved. Completion of planning for the projects on the current Plan could require more than five years. There had been a shift in the focus of the Capital Plan. The previous stress had been growth to accommodate the double cohort of undergraduate students, the construction of student residences, and the development of new research facilities funded by the Canada Foundation for Innovation and the Ontario Research and Development Challenge Fund. The new emphases would be on expansion of graduate student enrolment and the enhancement of the student experience for both undergraduate and graduate students. There would be a shift from new buildings to optimizing the use of existing facilities through capital renewal and repurposing. The University would also seize the opportunity to harmonize deferred maintenance needs with the provision of facilities for new academic priorities.

Ms Riggall briefed the Board on the University's real-estate strategy. She said that the University owned nearly 700 acres, with 75% of that property in the downtown Toronto area. That property was the site of approximately 200 buildings. The market value of the University's properties was about $4-billion – far greater than the value of the endowment funds. The quality of the University's campuses and its buildings was an essential element of the student experience. Ms Riggall's briefing included the following points.

- **The real-estate strategy**. A review of the University's real-estate strategy had begun about a year and a half ago. It had focused on three questions.

- **Need for additional land**. First, did the University have sufficient land to meet its immediate and long-term needs as identified in the academic plans and the capital plan? The review had concluded that the University did not have sufficient land. Simply to achieve the Council of Ontario Universities space standards, the University would require additional buildings on the St. George Campus providing space equal to four times that of the Robarts Library, on the UTM Campus equal to that of five Hazel McCallion Academic Learning Centres, and on the UTSC Campus equal to that of six Arts and Administration Buildings. It was clear that additional land would be required for the further development of the St. George Campus. Additional buildings would be required to accommodate a growth in the number of students, the new graduate / undergraduate student mix and the longer term aspirations of the academic divisions. It was possible that the growth of the UTM and UTSC Campuses could be accommodated by more intensive use of the current real-estate by adding height, but there were limits to growth on those campuses arising from their being surrounded by residential neighbourhoods and conservation areas. Overall, there was a long-term need for significant additional University property.

6. Capital Plan / Real Estate Strategy / Borrowing Strategy (Cont'd)

- **Strategic management of real estate**. Ms Riggall was not satisfied that the University was managing its real-estate asset strategically. While its land and buildings were its largest asset, they had not been managed with a strategic focus. Rather, decisions had been *ad hoc*. Purchases had been made opportunistically. Some opportunities had been missed. For example, the University had not had a real-estate plan and had not had an immediate use for the Centre for Addiction and Mental Health building at Russell Street and Spadina, and it had failed to make a bid for that property, which was within the St. George Campus precinct.

- **The Real Estate Ancillary**. The Ancillary had been established in 1995 to implement the Real Estate Strategy approved that year, which was focused on the acquisition of properties in the Huron-Sussex area. While the management of the residential properties in that area was an appropriate function for a self-funding ancillary operation, that operation had been assigned too much other work that did not produce revenue: managing the University's real-estate purchases and sales, advising on the development of University property for non-academic use, etc. Ms Riggall therefore proposed that the ancillary operation focus on managing the housing units in the Huron-Sussex area, both the rental units in the faculty housing cooperative and houses still leased to others. That function was appropriate. It was revenue-generating and service-intensive, and it fit the ancillary model.

- **Other real-estate management** would be performed by a new University office led by an Assistant Vice-President with a proven record in the real estate industry. That new office would have the expertise and resources to assist the University in the development of its new real-estate strategy, to implement that strategy, to arrange possible development partnerships for certain sites, to prepare a policy to deal with donations of real-estate, and to lease space to accommodate University units or to assist divisions in leasing appropriate space to others. The new officer would meet a real need for a high level of expert service and advice. The new budget model provided for services that were clearly identified and structured for efficiency. It would also provide for the allocation of revenues to the appropriate units deriving from the leasing of space to others. Similarly, it would allocate costs to the appropriate units. The officer would be assisted in the development and implementation of strategy by an advisory board of expert volunteers. To leverage further the value of its real-estate, the University would develop and implement policies to divest surplus properties, to deal with offers of donations of property, and to lease and license property. In response to a question, Ms Riggall said that she hoped to have the new Assistant Vice-President engaged and the advisory body functioning in the spring of 2007.

Ms Riggall then addressed the question of the University's ability to pay for the estimated $700-million cost of the new Capital Plan and for future acquisitions of land and buildings. The answer to that question required consideration of the Borrowing Strategy, which had been developed by Ms Brown and her colleagues in the Financial Services Department.

- **The current Borrowing Strategy** limited external debt to a maximum of 40% of the University's net assets, averaged over five years. In addition, the University could arrange

6. Capital Plan / Real Estate Strategy / Borrowing Strategy (Cont'd)

borrowing from its own expendable funds to a maximum of $200-million. Each project should include a significant equity contribution, although not all did so. The question was: would this provide the monies necessary to pay for the new Capital Plan and for possible property acquisitions?

To answer that question, Ms Riggall and her colleagues had reviewed the 2004 Borrowing Strategy. It was a recent policy, and it would be inappropriate to change it at so early a date unless there was real need. In addition, the University's excellent credit rating reflected in part the discipline represented by the current policy. The first matter to be examined was: would the 40% of net assets plus the $200-million of internal credit provide sufficient financing for the University's capital needs? The second matter was: would the University's divisions be able to repay their borrowing without undue stress on their operating budgets? Would their borrowing service costs for interest and principal repayment be a reasonable proportion of their revenue? The review then compared the University's overall level of borrowing under the current Strategy to peer institutions in the United States. Finally, the review considered controls on repayment both (a) by the individual divisions sponsoring capital projects through internal loan agreements, and (b) by the University as a whole through its sinking fund.

The conclusion was that there was still need for active efforts to seek public funding and to raise private funds. With some success in those efforts, however, the current borrowing strategy would be sufficient to provide the financing necessary to supplement equity from public and private sources. There was therefore no recommendation to revise the Borrowing Strategy.

- **Implications for financing**. The current Borrowing Strategy was prudent and well received by lenders. As a result of that Strategy, the University had been able to secure long-term, fixed rate financing. Its recent $75-million debenture had been issued at the excellent rate of 4.493%. All of the debentures required only the payment of interest semi-annually, with the bullet repayment of the principal at the maturity of the debentures. While the University was accumulating money in a sinking fund to repay the debentures, it was not required to do so by their terms. The internal financing program was well disciplined. The debt-service level was reasonable.

  It was projected that the University's debt capacity would increase with the increase in net assets. The increase in the amount available for borrowing would likely be between $251-million and $349-million by 2010. That could bring total debt to about $1-billion within the current Strategy. At 50% debt financing, that would allow another $500-million to $700-million of capital projects and property acquisitions.

- **Conclusions**. In order to achieve its goals of enhancing the student experience and attracting the best and brightest faculty and students, the University would have to make further investments in land and buildings. The University had and would continue to have the

6. Capital Plan / Real Estate Strategy / Borrowing Strategy (Cont'd)

capacity to make those investments. It would, in order to maintain its excellent credit rating and borrowing rates, have to continue to apply the discipline it had shown to date.

The administration had also concluded that it would be appropriate to review the Policy on Capital Planning and Capital Projects in the light of the review of the Capital Plan, the Real Estate Strategy and the Borrowing Strategy. The current Policy placed too much stress on procedures, whereas it should focus on the level of policy. Ms Riggall anticipated that a recommendation would come forward in about twelve to eighteen months.

In the course of discussion, the President thanked his colleagues for their work in preparing the reports currently before the Board, and he congratulated them on their quality. He also thanked the Board for its having encouraged this important initiative. He was very pleased by the result. The President was confident that the Capital Plan was sustainable. The level of borrowing undertaken and planned was not out of line with that of peer institutions in the United States, several of which had over $1-billion in debt built up for capital redevelopment. In a climate of limited base operating resources, the University had constrained opportunities; one area in which it could improve the experience of students, faculty and staff was by enhancing their learning and working environment through one-time capital investments and the limited operating costs associated with those investments.

In the course of the discussion, several members complemented Professor Goel, Ms Riggall and their colleagues on the high quality of the three papers and of the presentation. Among the matters that arose in discussion were the following:

(a) The desirability of enrolment growth and capital expansion. A member observed that the Capital Plan and the approach to real estate and borrowing were driven by the assumption that the University's enrolment would and should continue to grow. Was that appropriate? Was the University able to limit its growth, or was it being impelled to grow as the result of Government policy?

Professor Goel replied that the University's plans were not premised on continued enrolment growth beyond 2011. Undergraduate enrolment was now in a steady state and might indeed decline. Graduate enrolment growth had been planned for some years as the enrolment growth at the undergraduate level flowed through to the graduate level. That factor would also assist the University to achieve its desired rebalancing of its graduate / undergraduate ratio. Upon completion of the flow-through, it was expected that graduate enrolment, like undergraduate enrolment, would level off. Historically, the University of Toronto had doubled its enrolment every 20 – 25 years, and it was clear that it would not be feasible to continue growth at that rate. Even with a static enrolment, however, the University would require additional space. The University did not meet the space benchmarks set by the Council of Ontario Universities, and they underestimated the space needs of a research-intensive institution. Even to reach those understated benchmarks would require considerable growth of capital. Moreover, changes in the nature of scholarship and in academic teaching programs, and the University's high-priority task of improving the student experience, called for a considerable program of capital improvements and additions.

6. Capital Plan / Real Estate Strategy / Borrowing Strategy (Cont'd)

With respect to Ontario Government policy, the President said that there had been considerable pressure on the University in the past to expand its enrolment. The government placed a high priority on accessibility to higher education. Participation rates for post-secondary education had grown, and the population of the Greater Toronto Area was continuing to grow. The University of Toronto in response had expanded dramatically, but it had more recently signaled to the Government that its ability to grow, relative to the ability of other institutions, was now limited. The St. George Campus in particular faced limitations on its capability for expansion, and the undergraduate enrolment might already be too large. The best interests of its students might be served by optimizing the campus population, making it less crowded, and enhancing the graduate / undergraduate ratio.

(b) Long-term sustainability of financing a large capital program. A member observed that the University had already completed or initiated $1-billion of capital improvements and it planned to follow that with $700-million more work. At the same time, it planned to control its enrolment growth. Current projections indicated that the University would be able to manage the resulting debt to 2010-11. The member asked whether the University would be able to continue to manage its debt and its future capital needs after that time. Would it be able to handle a third and fourth wave of new capital needs?

Professor Goel replied that the University had $1.8-billion of revenues in the current year. Its property was currently valued at more than $4-billion. The new Capital Plan called for the investment of between $100-million and $150-million per year over five years to complete an estimated $700-million of further capital projects. With the current annual budget and revenue, and with the current value of the University's properties, it made sense that the University would need to maintain the current level of spending on capital improvements. The operating budget would have to be able either to provide equity for further projects or to manage their financing. The University's residence operations had for some years budgeted to add facilities by taking on debt to be repaid over a number of years. Similarly, the University was now going to budget for long-term improvements to its utilities infrastructure. It would clearly make sense to implement such a long-term capital budgeting arrangement for academic building needs as well.

(c) Expansion and land limitations. A member observed that land limitations, especially on the St. George Campus, made it essential to be able to build to the maximum density permitted on the available sites. Did the University have a strategy to deal with the matter? Professor Goel replied that Project Planning Committees would be urged to ensure that their plans called for the use of sites to their full capacity. If there were insufficient resources to make full use of a site, various strategies could be employed. Projects could be designed to be carried out in phases, which would ultimately use the site to full capacity. Early phases would be designed to accommodate later additions. Another option was to shell in space – something that had been very successful in the plans for the Donnelly Centre for Cellular and Molecular Research and in the Bahen Centre for Information Technology. Indeed, the availability of shelled space had proven to be an incentive for benefactors to make contributions to enable its completion. The President added that another option could be a co-development process or one that would see the University building to the capacity of a site and renting out a part of the space to another user for a period of time.

6. Capital Plan / Real Estate Strategy / Borrowing Strategy (Cont'd)

(d) Deferred maintenance. A member asked whether there was a plan to deal with deferred maintenance. Ms Riggall said that deferred maintenance and facilities renewal did form part of the Capital Plan. A $20-million utilities infrastructure renewal project for the St. George Campus was underway. The operating budget each year contained a substantial appropriation for deferred maintenance and facilities renewal. The Province also allocated funds each year from its Facilities Renewal Fund. As new capital projects were planned, deferred maintenance money was applied wherever possible to deal with matters that required attention. Ms Riggall concluded that the funding currently made available for deferred maintenance and facilities renewal was close to the maximum that the University could effectively manage.

Professor Goel stressed that the matter was included in the Capital Plan document. The $310-million of work needed on deferred maintenance was additional to the $700-million of new projects. The ability of a capital project to address deferred maintenance needs was one of the criteria for the assignment of a priority to a capital project. Wherever possible, new projects would be designed to alleviate deferred-maintenance problems. The University also had increased the Operating Budget appropriation for facilities renewal to $8-million per year. That was in addition to the $5-million provided by the Province's Facilities Renewal Fund. In some years when the financial situation of the Province was strong, it provided substantial year-end grants for facilities renewal work. For example, two years ago the University had received a special grant of $27-million. Funding to deal with deferred maintenance and facilities renewal was a top priority in the University's advocacy. The current level of work on deferred maintenance was sufficient to hold the problem in a steady state, unlike the earlier situation when the problem was becoming worse each year. The University would continue to seek means to reduce the level of deferred maintenance. Professor Goel hoped to be able to set aside capital funding in the Operating Budget to deal with deferred maintenance, facilities renewal and capital additions, much in the same manner as the University was now implementing improvements to the utilities infrastructure or maintaining and adding to ancillary-operation facilities. It was, of course, very difficult to use operating funds for academic buildings because that same money was not then available for other spending to improve the student experience in other ways.

The President agreed that it would be important to set aside an annual budget or to build up a special fund to deal with the decline in facilities and to rebuild University facilities, eliminating some of the deferred maintenance backlog.

(e) Space benchmarks. A member suggested, because the Council of Ontario Universities space standards were not well suited to the University of Toronto, that the University develop alternative benchmarks from the space available of other large, research-intensive universities in urban areas. Ms Riggall replied that the C.O.U. space standards were helpful, particularly because they were useful for discussions with the Government. It was clear that if the space available at the University of Toronto was to be compared with that at other large, urban, research-intensive universities, this University would be very much at the lower end of the scale.

6. Capital Plan / Real Estate Strategy / Borrowing Strategy (Cont'd)

(f) Use of other University properties. A member urged that, given its space constraints, the University make the best possible use of its properties off the three major campuses, for example the land in Downsview occupied by the Institute for Aerospace Studies and two other units.

(g) Property of the federated universities. A member recalled that one of the Federated Universities was planning to sell a part of its campus to a private-sector developer. The property might well have been a part of the solution to the University's space shortage, and the failure to have purchased it might represent a lost opportunity. Ms Riggall replied that that again demonstrated the need for the development of an up-to-date real estate strategy. The Federated Universities – the University of St. Michael's College, the University of Trinity College and Victoria University - were independent corporations and were able to dispose of their properties as they saw fit. In this particular case, the federated university was in real need of the revenue from the sale.

Professor Goel added that real progress had been made over the past few years in joint planning with the federated universities. A significant number of University of Toronto academic units were housed in the federated universities. The University of Toronto and the federated universities were beginning a review of their Memorandum of Agreement, and the University of Toronto would raise the question of real estate as part of that review. There might also be opportunities to work more closely with the affiliated teaching hospitals and with the MaRS Discovery District for the mutually beneficial use of space. There had been considerable improvement in joint planning in recent years. It would also be appropriate to seek to work cooperatively with other neighbouring institutions such as the Royal Ontario Museum, for example with respect to the planetarium site.

(h) Maximizing utilization of current space. A member noted that various factors affected the availability of space. The first was the degree of utilization of the space that was assigned to a particular purpose. For example, faculty offices might be unused except for a part of the week and might be better used. Second, new electronic methods of faculty/student interaction might well have a large impact on the need for space. The member requested a report on the University's thinking about these matters. Thinking outside of the traditional "bricks and mortar" box would be of great interest to the Governing Council and to donors.

Professor Goel said that the University did have data on classroom utilization, and University of Toronto classrooms were used well beyond their recommended capacity. The University had recently made an effort to ensure that faculty members who were affiliated with two or more academic units occupied only one office. Student space was truly constrained. Classrooms were overused. Study space was inadequate – something evidenced by the frequent sight of students seated on floors with their laptops. Student activity space was at less than 60% of the level in the C.O.U. guidelines.

6. Capital Plan / Real Estate Strategy / Borrowing Strategy (Cont'd)

(i) Organizational responsibility for real estate. A member found it surprising that the University would divide responsibility for real estate between two units rather than concentrating expertise in a single unit. Ms Riggall replied that the two units would have highly distinctive functions. The ancillary operation would manage the faculty co-operative and other rental housing in the northwest campus. It would be an ancillary operation like others seeking to recover at least its own costs. It would come under the umbrella of the Director of Ancillary Services, who was also responsible for the Chestnut Street Residence and the Family Housing buildings on Charles Street West. Its functions would be providing tenant service, collecting rents and so on, and the staff in that office would have expertise in tenant relations rather than in the real-estate business. Previous to the planned reorganization, the real estate ancillary was the only ancillary operation that was called upon to provide professional advice and services to the University administration and to University divisions. The other office, headed by an Assistant Vice-President, would have real-estate expertise, and it would provide strategic advice and carry out real-estate transactions for the University. The functions were entirely separate and should be organizationally separate. The separation of functions was particularly timely because of the retirement of the former Director of Real Estate and the departure for another position of the Business Officer in the Real Estate Ancillary.

(j) Borrowing in a period of financial constraint. A member observed that the University had a very healthy balance sheet and the report on the Borrowing Strategy expressed confidence in the University's ability to borrow a substantial further amount of money for its capital expansion. At the same time, the University was expressing concern about the absence of adequate resources for its academic programs, and it was implementing severe cost-containment measures. The member urged care in the communication of the two apparently contradictory messages.

Professor Goel replied that the University was able to continue to borrow because its net assets and its revenues continued to grow. The problem was that its expenses were growing at a faster rate than its revenues. It was true that it was difficult to communicate an optimistic message to the University's lenders while at the same time experiencing considerable financial difficulty in managing operations. Ms Brown added that the University was a very large organization in good financial condition with an excellent credit rating. In order to remain that way, the University had to live within its means. When expenses were growing faster than revenues, there was need for cost containment to retain good financial health. The President agreed that the member's point was a very good one. He was frequently asked why the University was constructing so many excellent new buildings when it was so financially constrained. It was therefore necessary to convey that there was good reason for the University to borrow to provide urgently needed academic facilities.

6. Capital Plan / Real Estate Strategy / Borrowing Strategy (Cont'd)

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

YOUR BOARD APPROVED

(a) THAT the direction outlined in the Real Estate Strategic Review be accepted, replacing the Real Estate Strategy approved by the Business Board on September 11, 1995;

(b) THAT the mandate of the Real Estate Ancillary be limited to the management of the residential properties in the Huron Sussex area;

(c) THAT all other functions handled by the real estate ancillary be transferred to central operations within Business Affairs; and

(d) THAT a real estate advisory board consisting of 3 to 4 members with demonstrated real estate expertise be established to assist the University of Toronto in evaluating real estate opportunities and strategic directions.

The Chair commented that the integrated presentation represented a splendid beginning of a much more strategic approach to the Board's consideration of the University's financial and non-financial assets. She congratulated Professor Goel, Ms Riggall, Ms Brown, Ms Sisam and their colleagues, and she encouraged them to continue to bring integrated, strategically oriented reports to the Board.

7. Health and Safety Requirements: Report on Compliance with Legal Requirements

The Board received the quarterly report on compliance with health and safety requirements. Professor Hildyard assured the Board that there was nothing out of the ordinary to draw to its attention.

8. Report Number 83 of the Audit Committee – November 6, 2006

The Chair noted that the Audit Committee had met three days before the previous meeting of the Business Board. The Business Board had in November received from the Audit Committee the annual reports on the Pension Plan and the Endowment. The written report of the Audit Committee – Report Number 83 (November 6, 2003) - was received for information.

Item 12 - Report of the Administration – Provincial Auditor

A member referred to Ms Riggall's report to the Audit Committee that the Provincial Auditor planned to visit four universities during the current fiscal year. In response to the

8. Report Number 83 of the Audit Committee – November 6, 2006 (Cont'd)

Item 12 - Report of the Administration – Provincial Auditor (Cont'd)

member's question, Ms Riggall said that three of the universities had been named: Carleton University, the University of Guelph, and McMaster University. The fourth institution had not yet been identified.

9. Reports of the Administrative Assessors

Capital Project: Varsity Centre

Ms Riggall reported that the installation of the bubble over the Varsity Centre field had been completed, and the facility was now being used by students. She thanked Mr. Zouravlioff, Acting Chief Capital Projects Officer, and his colleagues for bringing the project successfully to that stage. She noted that the new facility had received favourable coverage in the press.

10. Date of Next Meeting

The Chair reminded members that the next regular meeting of the Board was scheduled for Monday, February 26, 2007 at 5:00 p.m.

The Chair also notified members that the Vice-President and Provost would present an "off line" information session on the new budget model. That session was scheduled for Tuesday, February 27, 2007, from 4:10 to 6:00 p.m. in the Council Chamber, Simcoe Hall.

THE BOARD MOVED INTO CLOSED SESSION.

11. Report on Gifts and Pledges over $250,000, August 1 to October 31, 2006

The Board received the quarterly Report on Gifts and Pledges over $250,000, August 1 to October 31, 2006.

In response to a question. Ms Frankle said that all gifts in kind were evaluated by qualified appraisers. Such gifts frequently included archival material, which was retained in an appropriate library, or works of art which were retained by the University Art Centre. Professor Goel stressed that the University sought to ensure that it accepted only gifts in kind that were useful to its academic programs, given the cost of maintaining the items. Only rarely did the University accept gifts in kind with the intention of selling them.

REPORT NUMBER 154 OF THE BUSINESS BOARD – January 15, 2007

12. Labour Relations Matters

Professor Hildyard briefed the Board on: (a) the University's bargaining with the union representing its stipendiary instructors; (b) the University's bargaining with the union representing the graduate assistants at the Ontario Institute for Studies in Education within the University of Toronto; and (c) the renewal of its collective agreement with the University's daycare workers.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:00 p.m.

Secretary   Chair

February 6, 2007

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