UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 69 OF THE PLANNING AND BUDGET COMMITTEE

March 13, 2001

To the Academic Board,
University of Toronto.

Your Committee reports that it met on Tuesday, March 13, 2001, 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Professor David Mock (In the Chair)
Professor Avrum Gotlieb (Vice-Chair)
Professor Adel S. Sedra, Vice-President and Provost
Professor Michael Finlayson, Vice-President, Administration and Human Resources
Professor Derek McCammond, Vice-Provost, Planning and Budget
Mr. Muhammad Basil Ahmad
Professor Carl Amrhein (by teleconference)
Professor Philip Byer
Professor W. Raymond Cummins
Professor Angela Hildyard
Professor Bruce Kidd
Mr. Fayez A. Quereshy
Professor Linda Wilson-Pauwels

Non-Voting Assessors:

Ms. Sheila Brown, Acting Chief Financial Officer

Secretariat:

Mrs. Beverley Stefureak, Secretary
Ms. Cristina Oke

Regrets:

Mr. Brian C. Burchell
Mr. Brian Davis
Mr. Ljupco Gjorgjinski
Professor Susan Horton
Professor Robert H. McNutt
Professor Nancy Reid
Professor Kenneth Sevcik
Ms Wendy Talfourd-Jones
Professor Fred Wilson

In Attendance:

Mr. Louis R. Charpentier, Secretary of the Governing Council
Mr. Neil Dobbs, Deputy Secretary of the Governing Council
Mr. Marty England, Assistant Vice-Provost
Dr. Beata FitzPatrick, Assistant Provost
Miss Janice Oliver, Assistant Vice-President, Operations and Services
Professor Ian Orchard, Vice-Provost, Student Affairs
Mr. Jorge Sousa, President, Graduate Students' Association
Professor Ron Venter, Vice-Provost, Space and Facilities Planning

THE MEETING WAS HELD IN OPEN SESSION.

ITEM 4 WAS RECOMMENDED FOR APPROVAL.

The Chair, Professor Mock, welcomed Professor Philip Byer to his first meeting as a member of the Planning and Budget Committee. Professor Byer was replacing Professor Ron Venter who was welcomed to the meeting in his new capacity as Vice-Provost, Space and Facilities Planning.

1. Report of the Previous Meeting

Report Number 68 (February 27, 2001) was approved.

2. Business Arising from the Report of the Previous Meeting

There was no business arising from the previous meeting.

3. Senior Assessor's Report

Professor Sedra said he would forego making any remarks at this time to allow full discussion of the budget item later.

4. Capital Project: Bahen Centre for Information Technology – Link to Koffler Student Services' Centre. UIIF: Allocation

Professor Venter introduced the proposal (attached as Appendix "A") that the Committee recommend to the Academic Board an allocation to fund the link between the Koffler Student Services' Centre and the Bahen Centre for Information Technology. The proposed link would provide easy access between a major student area and a primary area for classrooms.

A member expressed concern that the Committee had been asked again to approve a change in scope after it had approved earlier this year a change to add another floor. He hoped that this would be the last request for this project. Professor Venter took note of the point and said that he would make every effort to ensure that all concerns relevant to a Users' Committee Report would be addressed together. He indicated that the previous change considered by the Committee was somewhat different in that it had been to shell in future floors for additional space.

Professor Sedra added that the link had been intended from the beginning of the project but that the initial design had been rejected because it would have destroyed a number of offices in the Career Centre and was too expensive. Redesign was required and, in what was a sequential tendering process to accelerate construction, this was one of the last packages to be tendered. Miss Oliver confirmed that the cost would not have been less had it come forward at an earlier stage.

In response to a member's question about the return on this substantial allocation, Professor Sedra pointed out that the link was expected to be immensely convenient for students.

On the advice of the Vice-President and Provost,

4. <u>Capital Project: Bahen Centre for Information Technology – Link to Koffler Student Services' Centre. UIIF: Allocation</u> (cont'd)

YOUR COMMITTEE RECOMMENDS

a) THAT a link between the Bahen Centre for Information Technology (BCIT) and the Koffler Student Services' Centre be included in the scope of the BCIT project;
b) THAT an additional $750,000 from the University Infrastructure Investment Fund (UIIF) be allocated to the project.

The Chair reported that the motion had been carried with one opposed.

The Chair drew the attention of members to the document "Life Cycle of a Capital Project" which had been prepared for the Business Board and which members would find useful in understanding the process under which capital funding was approved.

5. <u>Budget Report 2001-02</u>

5.1 Long-Range Budget Projections

The Chair said that the second step of the Budget Report 2001-02 would be presented today for review and advice to the administration and invited Professor Sedra to present the Long-Range Budget Projections, 2001-04.

Professor Sedra spoke to a Power Point presentation (attached as Appendix "B") briefly reviewing his oral report on February 27 and the Updated Budget Projections and Assumptions that had been presented in detail and discussed by the Committee at that meeting. He noted that revenue was expected to grow one-third from $628 million at the beginning of this six-year planning period in 1998-99 to $836 million in 2003-04. He reiterated that new six-year budget guidelines would be introduced this Fall. His overview reminded members of the major areas of revenue growth and increased expenses.

Professor Sedra pointed out that, for the first time, the financing of development costs would appear as a line in the operating budget. Revenue from stewardship and investment management fees would be applied against costs for investment management and the campaign.

The Provost noted that there were two major uncertainties relating to revenue. He said the University hoped to receive funding to cover the costs of research overhead from the Canada Foundation for Innovation (CFI) and the federal research granting councils which could amount to $30 million annually. The University also hoped to receive increased operating grants and fees from future enrolment growth, perhaps up to $100 million annually. Because of these uncertainties, revenue from neither source had been included in the projections. The projections, without intervention, indicated an accumulated deficit by 2003-04 beyond the 1.5% of operating revenue allowed by Governing Council policy. He then informed the Committee of the strategies proposed to mitigate this unacceptable deficit position.

Given the uncertainties and the new six-year guidelines scheduled for the Fall, Professor Sedra thought it unwise to overreact to the projected shortfall by proposing immediate reductions. Instead, he proposed a one-time-only deficit control reduction of 2.5%, to be implemented if necessary in the final quarter of 2001-02, which was in addition to the previously scheduled

5.1 Long-Range Budget Projections (cont'd)

0.7% one-time-only reduction for that budget year. The delay would allow time for some of the uncertainties in revenue to be resolved and perhaps obviate the need for the reduction. The long-range planning also included a base budget reduction of 1.5% in each of 2002-03 and 2003-04, if required. This would result in a balanced budget by 2003-04 and an accumulated deficit within the approved policy level. If these additional reductions were needed, they would be incorporated into the Long-Range Guidelines for the next six-year period.

Finally, Professor Sedra reiterated the plan to have the Vice-President Administration and Human Resources immediately establish two working groups with the mandate to recommend cost containment strategies for utilities expenditures and employee benefits costs.

Mr. Jorge Sousa, President of the Graduate Students' Union, was invited by the Chair to speak. He said that the long-range budget plans were positive and demonstrated an improved commitment to graduate student funding which was appreciated. He was supportive of the proposal to create an endowment for graduate student funding and thought it was critical now and in the future for the support of current students and the recruitment of the best new students.

A member asked if the projected increased revenue from undergraduate application fees related to increased fees or enrolment growth. Mr. England said fees were projected to remain the same but, with the surge in demand expected with the double cohort, student applications were expected to increase by 15% in 2002 and 20% in 2003.

A member expressed appreciation for the clear overview given by Professor Sedra, but also expressed concern about how small departments could survive the projected cuts should these become necessary. Professor Sedra recalled that in the past a transitional fund had been set up to provide one-time-only funding to assist academic units in implementing budget reductions. He assured the member that, if cuts became a reality, mechanisms would be brought forward to help divisions meet them. He noted, too, that Faculties decided how cuts were to be made and it was feasible that not all departments within a given Faculty would be required to take the same reduction.

A member queried whether the campaign costs of $9.9 million were new. Mr. England explained that until April 30, 2000, the campaign had been funded through explicit measures. The new method which appeared in this budget had been brought to the Business Board in May. The expense had existed before but had been funded outside the operating budget. This budget gave it visibility within the budget by creating the new revenue line and the corresponding expenditure.

A member commented that a number of items in the Long-Range Projections were good and reflected the strength of planning that had taken place at the University. He had some concerns as well. There was a significant increase in the cost of central administration for which he could see no corresponding benefit. The proposed 2.5% one-time-only cut, together with the previous 0.7%, threatened the fundamental *raison d'etre* of a university and could have a negative effect on morale. He was concerned about the potential of no increase in government grants and the seeming lack of planning for anticipated growth at the Scarborough and Mississauga campuses.

Professor Sedra said that startup funding for the growth at UTSc and UTM would be introduced through the Academic Priorities Fund and a proposal for such funding would come

5.1 Long-Range Budget Projections (cont'd)

forward within the next week or so. This would allow the advance hiring that was necessary to launch, for example, the University of Toronto at Mississauga's new program in Communication, Culture and Information Technology, which would enrol 510 additional students.

Although supportive of financial aid for students, a member questioned the advisability of proceeding at this time with the establishment of an endowment for graduate student funding. He posed the thought that it might be better to postpone this for a few years and meet the expectations of the support through an annual budget appropriation.

Professor Amrhein responded from the perspective of the Faculty of Arts and Science. He said that the extra 2.5% cut had been discussed by the Chairs and Principals, as had the establishment of the endowment fund. The sense had been that the endowment must proceed. The Task Force on Graduate Student Financial Support (the Orchard Task Force) had recommended a commitment to graduate student funding, and the four to five-year funding packages could not be accomplished on fluctuating funds. External reviews had highlighted an inability to fund graduate students as a serious weakness in attracting and holding good students. The quality of the undergraduate experience had a direct link to the quality of graduate students. His preference was to proceed with the plan for a 2.5% cut, if needed, and to establish the endowment fund to support graduate student funding.

Other members reinforced this view, noting that opportunities to avoid the 2.5% cut might emerge as uncertainties were removed and long-range planning continued over the spring and summer. Creating endowments could be seen as a survival strategy and in fact provided protection in the long run against uncertainties.

A member saw tremendous benefit derived from the increased spending on administration . He thought the creation of the positions of Vice-Provost, Space and Facilities Planning and Vice-President, Government and Institutional Relations were good strategic investments. Professor Sedra concurred, noting that there had been no investment in central administration over the last half dozen years, during a period when the University had grown by about one-third. With the change in Presidents, the time seemed right to make the changes necessary to attend to business matters on a full-time basis. There were currently $0.5 billion of capital projects underway which must be concluded within budget and on time. In the next six years, the faculty complement would need to increase by the equivalent of about one professor per day. The final step in the administrative reorganization would be to split Professor Finlayson's position into two later this year; this would allow the critical attention required for the human resources portfolio.

Additional members expressed support for moving forward with the endowment for graduate student support. One member said that there would need to be similar support for students in professional graduate programs.

A member said that there was also need for attention to the administrative priorities at the department and division level, where support was very thin. Professor Sedra responded that the cluster support from the Canada Research Chairs should offer some relief as would the federal funding of indirect costs for research, if it materialized.

In response to continuing discussion of where savings might be found, Professor Sedra assured the Committee that the amount of the one-time-only budget reduction for 2001-02 would be reduced by any net positive variances which arose in the financial forecast for the operating

5.1 Long-Range Budget Projections (cont'd)

budget. The administration would report to the Planning and Budget Committee on the final amount of the one-time-only reduction in February 2002, before such reductions were formally assigned to the divisions. In the normal course of events, the administration would bring forward the operating budget forecast to the Business Board for review.

A member suggested that the Committee consider reducing the amount of the proposed 2.5% one-time-only reduction by reducing the amount of the loan for the University Infrastructure Investment Fund. Professor Sedra said that the UIIF was not currently in a cash-flow negative position and that draws on the proposed loan would proceed only as necessary.

5.2 Contractual Obligations and Policy Commitments (COPC), 2001-2004

Professor McCammond said that the report on Contractual Obligations and Policy Commitments (the COPC list, attached as Appendix "C") was brought to the Planning and Budget Committee annually for scrutiny prior to the meeting at which approval of the budget was sought. The list included items such as memberships in the Council of Ontario Universities and the Association of Universities and Colleges of Canada, commitments for utilities and compensation contracts, library acquisitions, etc. Mr. England reviewed the list, highlighting unusual or new items, responding to questions, and commenting on the contingencies listed on page 7.

On page 1, Mr. England drew attention to the reduction in the transfer payment to the Toronto School of Theology and its member institutions and the discontinuation of lease payments on 252 Bloor Street West. A member asked about the projected cost of leases. Professor McCammond replied that the cost had been declining but was up slightly this year to accommodate the increase in enrolment in computer science and computer engineering under the Access to Opportunities Program while the Bahen Centre was being constructed. A member questioned the net cost or benefit of the affiliation with the Toronto School of Theology. Mr. England replied that there was no cost; from the financial point of view, the University merely served as a conduit for government funding. There was substantial academic benefit to the affiliation.

Mr. England reviewed the statutory commitments, noting that the most significant item was legal fees. In addition to the regular appropriation, there was a $500,000 contingency provision. The high contingency was based on past experience. A member asked if the University had considered hiring in-house legal counsel. Professor Finlayson said this had been considered from time to time but there had never been agreement that it would result in significant savings.

In the review of page 3, Mr. England drew attention to the dramatic increase in the cost of natural gas and oil, noting that costs for electricity were down. A member asked why there was no contingency for utilities and was told that the budgeted amount was that requested by the utilities manager, who had based the request on best advice for a realistic estimate. In addition, contingency planning for utilities was difficult because of the unpredictability of climatic conditions.

On page 4, Mr. England highlighted the administrative leaves and release time, noting that release time for the United Steel Workers of America was new this year to allow for membership of a union representative on the Health and Safety Committee. In response to a

5.2 Contractual Obligations and Policy Commitments, 2001-04 (cont'd)

question about the cost of presidential transition, he said that this reflected salary costs associated with the transition between outgoing and incoming Presidents.

The outstanding item on page 5 was the cost of sustaining purchasing power for library acquisitions. The additional contingency noted for this item was to protect against currency fluctuation, notably to protect the Library against declines in the value of the Canadian dollar. The budget was premised on a rate of CAN$1 to US$0.75. At the present time, the rate was floating near CAN$1 to US$0.65.

Speaking to items on page 6, Mr. England agreed to a member's suggestion that the Price Inflation and Formula Adjustments column be used only for those purposes and that other changes be shown in the "Other" column. He would ensure that the differentiation was made in the version of the COPC list appearing in the Budget Report. He highlighted the "expenses funded from overhead on contract research." Income of about $12 million had been received from research contracts in the 2000-01 fiscal year, $7 million of which would be appropriated and transferred to academic divisions in the 2001-02 year. These transfers were made on a slip-year basis. He noted that the list included costs for the proposed $30 million loan, amortized at 8% over 25 years. The costs shown for 56 Spadina and OISE/UT were for maintaining those newly acquired properties; the amount shown for Canadiana Building likewise was operating cost only. The cost for "global payment of admin support for the allocation of NSERC and SSHRC" was a reflection of the actual costs incurred by the School of Graduate Studies in processing payments that previously had been processed by the federal government. Funding shown for St. George Day Care was made available, as a matter of policy, to assist the day cares in making repairs required for code compliance. A member asked about the cost shown for Governing Council Elections. Mr. Charpentier responded that this was the same amount as the previous year and that the expense would be adjusted next year to reflect the actual experience of the first year of full web-based elections for the undergraduate student constituencies.

In conclusion, Mr. England said that contingency items in the document reflected those instances where the budget unit provided a range of estimated costs. The Chair added that if the total amount of the contingency items was not required, the difference fell to the bottom line, and that increased contingency amounts would have the effect of requiring cuts elsewhere in the budget.

6. Date of Next Meeting – Tuesday, March 20, 2001 at 5:00 p.m.

The Chair noted that the next regular meeting was Tuesday, March 20, at 5:00 p.m.

7. Other Business

There was no other business.

The meeting was adjourned at 7:40 p.m.

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Secretary Chair

March 19, 2001