UNIVERSITY OF TORONTO

OFFICE OF THE VICE PRESIDENT & PROVOST

TO: Business Board

SPONSOR: Cheryl Misak, Vice-President and Provost

CONTACT INFO: (416) 978-2819, sally.garner@utoronto.ca

DATE: February 21 for meeting on March 5, 2012

AGENDA ITEM: **4**

ITEM IDENTIFICATION

Budget Report 2012-13 and Long Range Budget Guidelines 2012-13 to 2016-17

JURISDICTIONAL INFORMATION

The annual *Budget Report and Long Range Budget Guidelines* is considered by the Business Board for concurrence with the recommendation to the Academic Board that the *Budget Report and Long Range Budget Guidelines* be approved. As outlined in the terms of reference, concurrence would indicate that the Business Board is satisfied that the proposed budget is financially responsible.

OTHER ACTION TAKEN

The *Budget Report 2012-13 and Long Range Budget Guidelines 2012-13 to 2016-17* was approved by Planning & Budget Committee on February 29, 2012 and will be presented to Academic Board on March 14, 2012.

HIGHLIGHTS

This report introduces the proposed Long Range Budget Guidelines for the five-year budget cycle 2012-13 to 2016-17, including the detailed annual budget for fiscal year 2012-13. Projections for the outer years of the cycle provide the framework in which the University's budget will be prepared for fiscal years 2014 to 2017 as foreseen at the time of preparation of this report. They are provided to facilitate planning, and will be updated as appropriate each year to reflect changes in the economic conditions and the most recent information regarding the University's revenues and expenses. It is important to note that the operating budget is prepared on a cash basis.

Like many public sector organizations with defined benefit pension plans, the most challenging issue facing the University of Toronto is the need to fund the pension deficit and place the pension plan on a sustainable footing. The Ontario Government has not agreed to exempt universities but has recently agreed that universities should be given some flexibility regarding payment of Solvency Deficits through a temporary solvency relief program. If the University meets certain metrics – and therefore provides some evidence to the Provincial Government that the long term sustainability of the Pension Plan has been enhanced – the Solvency Deficit can be amortized over a longer period than five years. A two stage process was initiated that will allow universities to make net solvency payments over a longer period than would otherwise be required. Metrics were put in place to measure an institution's ability to enter Stage 1, and then to move on to Stage 2. The University has recently been accepted to Stage 1 and the required special payments are now known for the period July 1, 2011 to June 30, 2015 provided that no further actuarial valuations are required to be filed prior to July 1, 2014. Funding these solvency special payments places a heavy burden on academic divisions.

The economic climate continues to present further financial challenges as the University looks to the next five years. Uncertainty prevails with regard to provincial operating grants and a new provincial tuition framework.

Deans have demonstrated an outstanding capacity to cope with these challenges by developing strategic and creative multi-year budget plans, which maintain and enhance academic priorities while minimizing the impact of the economic volatility on the student experience. Leaders of shared-service portfolios have also risen to the challenge, seeking efficiencies and collaborations wherever possible. Despite, or perhaps because of, the continued downturn in the economy, enrolment remains very strong and the University continues to attract excellent domestic and international students. The value of a post-secondary education is only becoming clearer. Plans are under development to ensure the University of Toronto participates in the Province's next phase of enrolment expansion.

The $2 billion Boundless Campaign was launched in November 2011. To date $1 billion has been raised and divisional planning is well underway to continue to raise funds for student aid, endowed chairs and capital projects.

Against this background of uncertainty and cost-constraint, the University projects growth in total revenue of $113 million in 2012-13 (6.7% over 2011-12) and $528 million over the planning period. The total operating budget for 2012-13 is expected to be $1.8 billion. Projected growth in revenue stems primarily from planned increases in both domestic and international enrolments as well as tuition revenue increases resulting from higher enrolments and continuation of the existing provincial tuition framework, which allows for modest annual increases on domestic tuition of no more than 5% on average; the actual average increase at the University of Toronto over the past six years under the framework has been approximately 4.3%. Expenditure plans assume that the University will be granted Stage 2 pension solvency relief and pension special payments will increase to $97 million per year by 2015-16. The alternative, failure to achieve Stage 2 solvency relief, resulting in pension special payments of approximately $200 million per year, would cripple the University and this scenario is not contemplated in this report.

Allocations to shared-services are cautious, yet recognize the importance of continued investment in vital services. The University plans for an overall balanced budget in 2012-13, and in each of the following years. The institutional accumulated deficit will be fully paid in 2012-13. Divisional deficits arising from the cancellation of the 2009 endowment payout will be fully paid in 2014-15. This is a prudent budget for precarious times.

FINANCIAL AND/OR PLANNING IMPLICATIONS

Revenues are comprised of general university revenues and divisional revenues. General university revenues are derived primarily from provincial operating grants and tuition fees. They also include investment income, endowment income, scholarship grants, Canada Research Chairs and funding for the indirect costs of research. Divisional revenue is raised directly by divisions and includes revenue from activities such as continuing education, sale of services and cost recovery ancillary fees. Divisional revenues flow directly to divisions and are, for the most part, directly offset related costs. Total operating revenues are projected to increase by $113 million in 2012-13 to $1.8 billion (an increase of 6.7 % over the prior year's budget) and by $528 million over the planning period, — an average increase of 5.6% per year. Of this growth, approximately $30 million over the five years is derived from divisional revenues.

Demographic projections are such that we anticipate a continuing rise in demand for university places, particularly in the GTA. Undergraduate enrolment is projected to increase at UTM and UTSC over the next five years. Graduate enrolment will increase across all three campuses.

An increase of $81 million (11.7%) is projected in tuition revenue for 2012-13 and $407 million (58.3%) over the next five years. Of the 2012-13 increase, the portion resulting from proposed increases in tuition fees is $36 million, of which about $14 million is domestic. The remaining $45 million of new revenue is projected due to the flow-through of enrolment increases and previously approved tuition increases as students move to the upper years of their programs.

With the requirement to fund the pension solvency deficit, general uncertainty in government funding and a provincial tuition framework, and ongoing economic instability, we must remain cautious in our allocation of resources, while ensuring we maintain standards of excellence in teaching, research and the student experience. Expenditure allocations are proposed within these competing constraints.

Total expenditures are projected to increase by 6.7% from $1,688 million in 2011-12 to $1,801 million in 2012-13. Investments in important strategic initiatives will continue to be funded across academic and service divisions.

RECOMMENDATION

The Business Board concurs with the prospective recommendation of the Academic Board

> THAT the 2012-13 budget be approved, and
>
> THAT the Long Range Budget Guidelines 2012-13 to 2016-17 be approved in principle.