TO: Members of Governing Council

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AGENDA ITEM: 5(d)

ITEM IDENTIFICATION

Long Range Budget Guidelines: 2011-12 to 2015-16 and Budget Report for 2011-12

JURISDICTIONAL INFORMATION

Excerpt from the terms of reference for the Planning and Budget Committee:

4.3.2. The annual budget is considered by the Committee for recommendation to the Academic Board. [The concurrence of the Business Board is sought in regard to fiscal soundness before it is forwarded to Council.]

HIGHLIGHTS

Despite facing ongoing financial challenges, dominated by the need to fund the pension deficit and place the pension plan on a sustainable footing, the University plans for a balanced budget in 2011-12, and each of the following years. The institutional accumulated deficit will be fully paid in 2012-13 and divisional deficits in 2014-15.

Last year the University was beginning to recover from the impact of the disastrous downturn in international financial markets which resulted in an endowment payout cancellation in 2009. This represented a loss of $62M in revenue to the institution. Strong growth and creative strategic planning, particularly in the academic divisions, enabled the University to remain fiscally sound and to continue to move forward with its academic goals during this difficult period.

The University is facing a pension problem, like almost every other Canadian and US public sector institution with a Defined Benefit pension plan, and is required to fund the pension deficit and ensure a sustainable plan for the future.

The Solvency Deficit is approximately $1B. The Ontario Government has recently agreed that universities should be given some flexibility regarding Solvency Deficits. Provided that the University meets certain metrics, key among which is a negotiated agreement from employees to increase their contributions, the payment of the Solvency Deficit can be amortized over a longer period than five years. It is simply essential for the long term future health of this University that we meet the metrics specified by the Government. Being required to pay down the Solvency

Deficit in five years will put unacceptable fiscal pressures on the institution – with payments reaching as much as $200M per year. These pressures can be mitigated by a longer-term amortization if increases in contribution rates satisfy the provincial regulators. A longer-term horizon also means that we may benefit from improvements in investment returns and increases in interest rates. (A 2% increase in interest rates, tellingly, cuts the solvency deficit more or less in half.) It is therefore essential for the sustainability of our Pension Plan that member contributions increase. These increases are also critical to the fairness of our Pension Plan - member contributions should bear a far closer relationship to the value of the pension benefit being earned.

But such increases are also critical to enable the implementation of a rational amortization plan. Obviously, for these two positive outcomes to occur, we need the cooperation of the University's Unions and the Faculty Association.[1]

The University must file a valuation report with the Financial Services Commission of Ontario as of July 1, 2011. For the past several months the University has engaged in developing strategies for funding the pension deficit. These strategies are likely to include: borrowing internally and/or externally, selling or leasing assets, issuing letters of credit, and increasing special payments funded through the operating budget. In anticipation of the need to utilize operating funds as a part of the overall strategy, the long range budget guidelines include additional special payments of $30M in 2011-12, another $20M in 2012-13 and another $10M in 2013-14, for a total of $60M in base funding. This is over and above the yearly $27.2M the University began setting aside in 2004-05. While manageable for the University as a whole, it cannot be emphasized enough that these payments will take an enormous toll on academic divisions, requiring them to defer many excellent plans and aspirations.

There is still also uncertainty with respect to the economic climate, and the University faces high-level uncertainty related to provincial and federal funding, with government deficits remaining high and spending cuts signaled at both levels of government. The tuition framework will expire in 2012 and uncertainty prevails there too: while universities are advocating for increased tuition flexibility, the potential for continued tuition restrictions is real. In the absence of a new framework the University will assume a continuation of the same parameters mandated in the expired framework, with the attendant adverse impacts on ability to improve on the quality of education.

Projected revenues over the five-year budget cycle remain constrained. Other than some adjustments to the funding of medical students, the Provincial government has not announced any changes in the funds available for post-secondary education. The long-awaited increase in funding for the full cost of research has not materialized, however new scholarship funding has been provided to support graduate expansion.

Careful controls on spending and contingency planning remain necessary, balanced against the need for strategic investments.

Consultation Process

The annual process for preparing the budget and long range guidelines runs over a period of several months. The first stage of consultation and discussion on budget was held as part of the annual academic and budget review process, which occurred between October and early December 2011. As part of this planning process, leading to the annual budget review meeting with the Provost (and a committee comprised of vice provosts, government relations and

[1] Ensuring a Sustainable Pension Plan for the University of Toronto, Report to Business Board, January 31, 2011

planning staff), deans were asked to indicate their plans for enrolment, tuition fees, faculty and staff complement, new programs, advancement, research activity and capital projects. Planning and Budget staff also worked with divisional staff to prepare budget plans and to provide policy and planning advice. Budget plans were discussed by the Provost's committee.

The Provost, in her regular meetings with UTSU, GSU, and the Provost's Undergraduate Student Advisory Committee, had many conversations over the course of these months on the financial challenges and opportunities facing the University in the current fiscal environment.

An information session on tuition, enrolment and budget was held in early February for Governing Council governors, including of course, student governors. Final reports were submitted to Planning and Budget, Business Board and Academic Board for approval in February and March, leading up to final submission to Governing Council in April.

Discussion at Planning and Budget Committee, Business Board and Academic Board

The Long Range Budget Guidelines: 2011-12 to 2015-16 and Budget Report for 2011-12 were presented to the above-noted committee and boards in the form of a formal presentation, followed by questions and discussion with members. The following are highlights from those discussions:

Enrolment

The overall enrolment strategy for the University remains on course, similar to the projections presented a year ago. Arts and Science St. George plans to decrease undergraduate enrolment, while UTM and UTSC plan to expand once the issue of physical space is addressed. UTM's growth plans currently exceed those of UTSC.

International undergraduate enrolment is greater at the University of Toronto than at other Ontario universities, however international student enrolment at McGill and the University of British Columbia is significantly greater than that at the University of Toronto. British Columbia and some other provinces provide funding for international students; hence, they have a greater number of international students than Ontario. The enrolment of international students at this University is less than that at peer institutions in the American Association of Universities such as the University of Michigan, and less than the University would like it to be. There is a keen desire across departments at the University for increased international graduate student enrolment. The University will continue to lobby the Government for the provision of funding for international graduate students. However, at present, fundraising remains the most likely means of obtaining funding for international graduate students.

The University remains committed to its mission as a research-intensive institution, while at the same time increasing its Professional Masters programs in response to demand from students. Many students now prefer to pursue a second Masters degree rather than a PhD.

Tuition, Student aid and Accessibility

Tuition fee increases, needs-based student aid, aid for part-time students, OSAP and non-OSAP debt levels and participation rates were amongst the topics discussed around the theme of tuition fees.

- The Noah Meltz program for student aid for part time students has been reviewed. The upcoming advancement campaign will include initiatives to raise more funds for this program.
- Tuition fee increases at the University are projected to increase by an average of 4.31% for domestic students (undergraduate and graduate) in 2011-12. This percentage is similar

to the average percentage planned by other universities in Ontario with large Arts and Science faculties.

- Debt load for students with OSAP debt can be measured as the University is required to report this to MTCU. Debt loads for non-OSAP debt are more difficult to measure, despite efforts to do so. The University will conduct a survey this year of new graduates; the survey will include a question on debt loads from all sources. In response to a request, next year's Report on Student Financial Support will include the number of students with OSAP debt as well as the dollar value.
- The University collects data on the relationship between tuition fees and participation rates and the results mirror that of the Higher Education Quality Council of Ontario (HEQCO)[2] and demonstrate that the University's participation rates have not been adversely affected by increased tuition fees; in fact, a rise in participation rates along with increased fees has been observed. However, the data should not be interpreted to suggest that higher tuition will drive improved access. While tuition fees provide revenue to create capacity, it is not the sole driver.

Pension Deficit

The University is increasing the special payments as part of a strategy to fund the pension deficit. This measure is being taken to avoid a situation where the provincial government could mandate the University address the deficit in an even shorter period of time, which would lead to severe consequences. The provincial government has placed solvency regulations for institutions to address any deficits in their pension plans. In order to avail ourselves of a longer period to address the deficit, the University is required to show that it has put a sustainable plan in place to address its pension deficits. Divisions will contribute towards the special pension deficit payments in approximately the ratio of their appointments and salaries. The impact of this cost varies from division to division.

University Fund

Each academic division currently contributes 10% of its revenues to the University Fund. A discussion was held in regards to consideration to whether the 10% might be altered in the future. A review of the budget model has been completed recently and no concerns or complaints about the appropriateness of the 10% contribution rate had been raised. This question is worthy of consideration during the next review of the budget model. Divisions retain the majority of their share of revenue. The current budget model was adopted in 2007-2008 and a decision was made not to undo historical decisions regarding the level of funding for academic priorities. Those decisions have served the University well. Per-student grants and tuition levels are subject to regulation and are not always correlated with the reasonable costs of programs. The central administration is closely attuned to the ongoing contributions of high-revenue earning divisions, and where possible, the Provost has been making allocations from the 10% pool back to these divisions. Thus, just as tuitions are better thought of as net fees rather than the original sticker price, this rebate means that any analysis needs to consider the net tax rather than the 10% notional gross tax.

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[2] HEQCO Issue Paper No. 6 - http://www.heqco.ca/SiteCollectionDocuments/AtIssueTuitionENG.pdf

FINANCIAL AND/OR PLANNING IMPLICATIONS

Total revenue is projected to increase from $1573M in 2010-11 to $1688M in 2011-12. A large portion of this increase is in tuition revenues generated from the flow-through of higher enrolment levels and increases in tuition fees of 4.31% on average for domestic students and 6.42% on average for international students. Tuition revenue has increased in large measure by increasing international enrolment and increasing graduate enrolment. But the former type of increase in tuition revenue requires significant investment in services to ensure a high-quality experience and the success of our international students. The latter kind of increase in tuition revenue comes at significant cost once graduate student funding packages and other supports are taken into consideration. We continue to advocate with the provincial government on how important it is for the province and the county that we are enabled to bring in more international graduate students.

Demographic projections are such that we anticipate a continuing rise in demand for university places, particularly in the GTA. An overall increase of 2500 students across the three campuses is planned at the University of Toronto for the next five years. Current plans call for most of that increase to be on the Mississauga campus, but we anticipate that the Scarborough campus will be able to increase its enrolment as well, once space issues are addressed.

Only a modest increase of $35M is projected for the operating grant, which is primarily due to graduate expansion and an addition to medical student funds. University revenues in 2011-12, excluding divisional income and funds that flow to other institutions, are increasing by $108.5M over 2010-11. Expenditures on student aid from the operating fund are expected to increase by $8.3M and total central expenses are projected to increase by $37.4M (including $30M pension special payment) before implementing the proposed cost containment of $4.8M in central administrative divisions for 2011-12. The increase in expenditures includes increases in compensation in the administrative divisions, subject to the Compensation Restraint Act, but does not account for increases in the academic divisions. The incremental net revenue available to the academic divisions in 2011-12 is $67.6M.

Increases in compensation costs, graduate student support and capital debt-service support, repayment of divisional accumulated deficits in the academic divisions are estimated to be about $58M in 2011-12 and $220M over the planning period, based on the budget assumptions and the available enrolment and capital project estimates. This leaves academic divisions with an overall surplus of $10M in 2011-12. The impact of budget projections varies considerably from division to division.

The historical accumulated deficit is projected to drop to $35.7M by the end of the 2011 fiscal year. Repayment will continue at the rate of $11.2M next year, with a final payment of $10.3M in 2012-13. The divisional accumulated deficit, approved two years ago to manage the impact of the endowment payout cancellation, will be repaid with equal installments of $3.6M over four more years.

RECOMMENDATION

THAT the *Budget Report, 2011-12*, which includes the long-range budget projections for 2011-12 to 2015-16, and the budget for 2011-12, be approved.