TO: **Planning and Budget Committee**

SPONSOR: Cheryl Misak, Vice-President and Provost

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AGENDA ITEM: 4

ITEM IDENTIFICATION

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

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

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 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 assumes 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

Total revenue is projected to increase from $1688M in 2011-12 to $1801M in 2012-13. 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 4.30% on average for domestic students and 6.35% 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. Our plans call for most of the undergraduate growth to be on the Mississauga and Scarborough campuses as called for in the University's *Towards 2030* plan. Small undergraduate increases are also planned in the faculties of Music; Kinesiology and Physical Education; Architecture and Landscape Design; and Applied Science and Engineering. Future growth on the Scarborough campus is still heavily dependent on funding for capital expansion. Undergraduate enrolment at St. George Arts and Science will remain constant at the 2011 level. Expansion of graduate enrolment is also planned at all three campuses, once again in accordance with the direction set by the *Towards 2030* plan.

The only increase in the provincial operating grant is due to undergraduate and graduate expansion. University revenues in 2012-13, excluding divisional income and funds that flow to other institutions, are increasing by $99.2M over 2011-12. Expenditures on student aid from the operating fund are expected to increase by $9.4M and total central expenses are projected to increase by $29.4M (including $20M pension special payment) before implementing the proposed cost containment of $3.3M in central administrative divisions for 2012-13. The increase in expenditures includes increases in compensation in the administrative divisions but does not account for increases in the academic divisions. The incremental net revenue available to the academic divisions in 2012-13 is estimated at $64.2M.

Increases in compensation costs, graduate student support and capital debt-service support and repayment of divisional accumulated deficits in the academic divisions are estimated to be about $42M in 2012-13 and $232M over the planning period, based on the budget assumptions and the available enrolment and capital project estimates. This leaves academic divisions with an overall balance of $22M in 2012-13, to be used toward new initiatives. The impact of budget projections varies considerably from division to division.

The historical accumulated deficit is projected to drop to $21M by the end of the 2012 fiscal year. A final payment of $10.3M will be made next year. The divisional accumulated deficit, approved three years ago to manage the impact of the endowment payout cancellation, will be repaid with equal installments of $3.6M over three more years.

RECOMMENDATION

THAT the *Budget Report 2012-13 be approved*, and

THAT the *Long Range Budget Guidelines 2012-13 to 2016-17* be approved in principle.