



**FOR APPROVAL**

**PUBLIC**

**OPEN SESSION**

**TO:** Business Board

**SPONSOR:** Sheila Brown, Chief Financial Officer  
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**DATE:** March 12, 2018 for March 21, 2018

**AGENDA ITEM:** 4

**ITEM IDENTIFICATION:**

Government Support for Capital Needs of Graduate Expansion – Update

**JURISDICTIONAL INFORMATION:**

The Business Board approves the financing of capital projects.

**GOVERNANCE PATH:**

1. Business Board [for approval] (March 21, 2018)

**PREVIOUS ACTION TAKEN:**

Government support for graduate expansion was noted in the Framework for Graduate Expansion approved by the Governing Council on December 14, 2006. The Business Board approved borrowing of \$78.0 million to fund graduate expansion capital and renovation projects by 2008. The Business Board approved additional borrowing of \$37.2 million on October 24, 2011 for graduate capital expansion projects as part of Phase 2 of the Government funding, bringing total borrowing for Capital Graduate Expansion to \$115.2 million.

**HIGHLIGHTS:**

In 2006, the Province announced its plan to provide capital funding (including principal and interest) in support of the expansion of graduate education. The annual grant was determined by the Ministry to be \$3,470 per new graduate student over the 2002-03 enrolment baseline, up to 1,700 new master's and 814 new doctoral spaces. Using the University's estimates of graduate enrolment growth and the projected stream of grant payments at that time, the Provost conservatively allocated a notional capital value of \$78 million for this program. The notional capital is funded through internal loans with principal and interest to be repaid by the annual grants.

In February 2009, the Ministry announced a second phase of graduate expansion, increasing the target spaces for new masters by an additional 839 FTEs, but the value for these new spaces was only \$2,060 per FTE. This additional grant funding enabled the Provost to allocate an additional \$37.2 million for capital and renovation projects, for a total notional capital value of \$115.2 million for the two phases. To April 30, 2017, \$100.2 million of the notional capital was spent on capital and renovations projects.

	<b>Masters</b>	<b>Phase 2 Masters</b>	<b>Doctoral</b>	<b>Total</b>
Maximum FTE	1,700	839	814	3,353
Payment per Student	\$ 3,470	\$ 2,060	\$ 3,470	
Maximum Annual grant	\$5.9M	\$1.7M	\$2.8M	\$10.4M

### Revised Projections

Now that the University has fully met its enrolment growth targets for masters and doctoral students (save for 4 doctoral students), and the cost of borrowing for the approved notional capital of \$115.2 million has been determined, we currently project that the annual grants will more than cover the principal and interest of the notional capital currently approved.

The total cost of internal loans issued (principal plus interest) for the notional capital of \$115.2 million is \$165.9 million. The University has received \$77.7 million from the Government to April 30, 2017, and it is expected to receive an additional \$103.8 million to the end of the program (fiscal 2026-27). With a total expected grants of \$181.5 million, less a total expected principal and interest cost of \$165.9 million, the University projects a surplus of \$15.6 million by the end of the program.

### Sensitivity Analysis

Two factors can affect the projected surplus at the end of the program: enrolment growth in future years beyond 2017 and interest rates for the additional \$10 million loan. For example, if enrolment growth for doctoral students were to decrease by 50 FTE each year in the future from the 2017 count, Government funding would be reduced by \$1.2 million. If the interest rate for the \$10 million loan were to increase from 5% to 6%, the cost of the loan would increase by \$0.6 million. If both of these scenarios materialized, it would reduce the projected surplus by \$1.8 million.

### Conclusion

Given the projection of a \$15.6 million surplus, the University is proposing to increase the notional capital value by \$10 million (\$12.7 million including interest at 5%). With this additional loan, the projected surplus would be reduced from \$15.6 million to \$2.9 million.

It should be noted that capital projects over \$5 million funded fully or partially by the allocation of graduate expansion capital funds will continue to be reviewed and approved by the Business Board based on their own merits. Projects below \$5 million funded by the allocation of graduate expansion capital funds will also continue to be approved by the Capital Project and Space Allocation Committee.

**FINANCIAL IMPLICATIONS:**

Construction and renovation costs of \$10 million will be recovered from the Ministry's annual funding, with the last payment expected to be received in the fiscal year 2026-27. The unallocated borrowing capacity will be reduced by \$10 million.

**RECOMMENDATION:**

Be it Resolved

THAT the Chief Financial Officer be authorized to arrange borrowing of \$10 million from either internal or external sources to be used for the allocation of graduate expansion capital and renovation projects.

**DOCUMENTATION PROVIDED:**

- N/A