THE GOVERNING COUNCIL

REPORT NUMBER 78 OF

THE PLANNING AND BUDGET COMMITTEE

April 1, 2002

To the Academic Board,
University of Toronto.

Your Committee reports that it met on Monday, April 1, 2002, 5:00 p.m. in the Croft Chapter House, with the following members present:

Professor Avrum Gotlieb (in the Chair)
Professor W. Raymond Cummins, Vice-Chair
Professor Robert J. Birgeneau, President
Professor Adel Sedra, Vice-President and Provost
Mr. Felix Chee, Vice-President, Business Affairs
Professor Derek McCammond, Vice-Provost, Planning and Budget
Professor Carl Amrhein
Professor Susan Horton
Mr. Brian Davis
Professor Ruth M. Gallop
Professor Marc Gotlieb
Professor Paul Halpern
Professor Susan Horton
Ms. Shirley Hoy
Professor Bruce Kidd
Professor Robert H. McNutt
Professor David Mock
Professor Victor R. Timmer

Non-voting:

Professor Heather Munroe-Blum Vice-President, Research & International Relations
Professor Carolyn Tuohy, Vice-President, Policy and Planning
Professor Ron Venter, Vice-Provost, Space and Facilities Planning

Secretariat:

Mr. Neil Dobbs
Mrs. Beverley Stefureak, Secretary

Regrets:

Ms. Françoise Ko
Professor Ian McDonald
Mr. Kashif Pirzada
Mrs. Susan Scace
Ms. Heather C. Schramm

In Attendance:

Mr. David Melville, Member of the Governing Council
Mr. Chris Ramsaroop, Member-elect of the Governing Council
Dr. Sheldon Levy, Vice-President, Government and Institutional Relations
Mr. Marty England, Assistant Vice-Provost, Strategic Planning
Ms. Susan Girard, Assistant Secretary, Office of the Governing Council
Professor Roger Martin, Dean, Rotman School of Management
Ms. Mary McGee, Assistant Provost
Mr. Jorge Sousa, President, Graduate Students' Union

ITEMS 4 IS RECOMMENDED TO THE ACADEMIC BOARD FOR APPROVAL.

1. Approval of Report Number 77 of March 19, 2002

Report Number 77 of March 19, 2002 was approved.

2. Business Arising from the Report

There was none.

3. Senior Assessor's Report

In the interests of providing as much time as possible for discussion of the proposed Budget Report, Professor Sedra said he would not give a report.

4. Budget Report, 2002-03

The Budget Report 2002-03 had been distributed to members under cover of a memorandum from Professor Sedra (both attached as Appendix "A"), and an amended page 3 of the Budget Report had been placed on the table at this meeting. Professor Sedra reviewed the Report, highlighting changes from the last Report and new directions, with the assistance of a Powerpoint presentation (attached as Appendix "B").

Professor Sedra noted that this was the ninth and last budget of his tenure as Vice-President and Provost. It was unusual in that it was an expansion budget that at the same time called for a reduction in spending. Looking first at the revenue, and noting that this would be year five of a budget plan which had begun in 1998-99 and would continue to 2003-04, Professor Sedra indicated that the two most important sources of revenue continued to be government grants and tuition. A comparison, year over year, showed that both had risen steadily though at different rates of growth. There would be more detailed comment on this later in the presentation.

Professor Sedra recalled that, some years ago, the University had aggressively pursued greater diversification in revenue sources. This strategy had been not only wise but successful. Income from other sources had more than doubled in the five years of this planning period. This budget was based on assumptions that the upward trajectory of these sources, with the exception of the investment income, would continue.

Noting the dramatic decrease in investment income owing to the decline in the stock market, Professor Sedra recalled an assumption from last year's budget report that projected the transfer of a portion of investment income to the endowment for graduate student funding. Though it had not been possible to make the transfer from this source, this Budget Report, nevertheless, proposed to further increase the graduate student support. There would be more discussion of this later in the presentation.

Professor Sedra reminded members that Divisional Income was earned, budgeted and expended in the divisions. There was no central control and, although it appeared in the projections of operating revenue, it had no implications for the bottom line of the budget.

A bar graph of operating income from all sources showed a growth in revenue. The portion from provincial grants had not increased substantially except to fund increased enrolment, while revenue from tuition had doubled. The relative shift in these two main sources of revenue was troubling. Four years ago, provincial operating grants accounted

4. Budget Report, 2002-03 (cont'd)

for 50% of revenue; this Budget Report projected that they would account for only 41% next year, suggesting a trend in Ontario of moving away from publicly funded universities to publicly assisted universities. The University would continue trying to reverse this negative trend.

Professor Sedra drew attention to the bar graph showing changes in revenue between 1998-99 and 2002-03. The total change in the expense budget had been about $240 million. Only $60 million of the funding that supported these increased expenses came from provincial grants, while tuition fees accounted for an additional $95 million. Proportionately, within the ten-year time period, federal grants had increased substantially as had the income from the endowment.

Concluding the presentation on revenue, Professor Sedra referred to the line graph that showed the system-wide trend of Basic Operating Grants per Basic Income Unit (BIU). In real dollars, not adjusted for inflation, this ratio had declined from $4,429 in 1991-92 to a low of $3,176 in 1996-97, rising gradually to $3,691 in 2001-02. In the ten-year period, this represented, in effect, a 16% reduction in the funding per student. When one factored in the rate of inflation, it became clear why there were serious concerns within the Ontario university system about the level of provincial funding.

Professor Sedra explained that, though the operating revenues had been shown in the slides as absolute amounts, annual operating expenditures were expressed as year-over-year changes. Significant upward changes in expenditures were projected for the overall amount for contractual obligations and policy commitments and for compensation. Of the former, $5.6 million was due to increases in utilities costs and within the latter there was the assumption of a 3% annual increase in total salary and benefits costs.

Professor Sedra noted the $20 million increase in expenditures from the Enrolment Growth Fund for support to academic divisions and the Library to effectively accommodate the programming for the increased enrolment. Student aid had been increased to both undergraduates and graduates, though in the case of the latter the change was substantial to meet the target for full implementation of the minimum guarantee for doctoral-stream students by September 2003.

President Birgeneau commented on the success of this innovative student funding program, noting that there had been a phenomenal increase in both applications to doctoral programs and in the acceptance rate of prospective doctoral-stream students.

Professor Sedra explained that the $3.7 million shown as divisional expenses from federal research overhead represented 25% of the aggregate federal grant and would be returned to divisions engaged in research funded by the federal granting councils.

The Rotman School of Management would be placed on Responsibility Centre Management and the change in expenditures shown for that division represented transfers necessary to effect this change. Professor Sedra saw this as a positive move, both for the Rotman School of Management and for the University.

The Academic Priorities Fund would increase significantly from budget reallocation and increased revenue from tuition. In general, 75% of fee increases in deregulated programs, net of student aid, was allocated back to divisions. Over the planning period, approximately $60 million of allocations to base operating budgets from this fund had allowed the University to maintain a forward momentum and to continue exploring new

4. Budget Report, 2002-03 (cont'd)

and exciting avenues. The Administrative Priorities Fund would be supplemented this year by $1.4 million and next by $1.5 million, of which $0.9 million and $1.0 million respectively resulted from the 1.5% reallocation cuts.

Professor Sedra informed the Committee that, in the absence of remedial action, total expenditures were projected at $917.9 million. In order that the deficit could be kept at an acceptable level, expenditures would have to be reduced by $13.6 million to $904.3 million. This would be most difficult for those divisions that were not benefiting by increased tuition or enrolment. The target for 2003-04 was a modest surplus, which would be necessary to reduce the cumulative deficit to an acceptable amount.

Professor Sedra recalled there were two conditions to be met in the final year of the budget plan: first that the budget would be balanced or have no more than a modest deficit and second that the accumulated deficit would be no more than 1.5% of the operating revenue.

The Long Range Budget Projection predicted an operating deficit of $17 million for 2002-03. Pension contribution savings were projected at $19.8 million, but could not be directed to the University Infrastructure Investment Fund as planned because they were needed for the bottom line. Investment losses would be amortized over three years; $7.2 million of the loss would be absorbed in 2002-03. The outcome was a predicted deficit for 2002-03 of $4.4 million. The year would begin with a deficit of $16 million. Adding the budgeted deficit of $4.4 million for the year would bring the cumulative deficit to $20.3 million at the end of the year. By the end of 2003-04, this would need to come down to $14.5, which was the level of accumulated deficit that was acceptable to Governing Council.

Professor Sedra summarized what had been presented to this point. Year over year, the proposed operating budget for 2002-03 projected a small increase in operating grants, about twice that increase in tuition revenue, and increases in income from the endowment, the stewardship and investment management fees and the Canada Research Chairs' program. The table was misleading relative to income from overhead on federal research because, though none had been budgeted in 2001-02, $14.6 million had been received and was expected in 2002-03. The assumption was that this would remain constant for 2002-03 but increase by 50% in 2003-04. Investment income was expected to be down by about $6.7 million from the 2001-02 budget. The overall expected increase in revenue for 2002-03 was $75 million.

A summary of projected expenses for 2002-03 showed a large increase in total academic expenses, with small increases in academic services, administration and campus and student services. Utilities costs and funding for student financial aid would see significant increases. The total expenses were projected to increase by $81 million.

Professor Sedra reviewed the significant expenditures of this Budget Report, the most important of which, in his view, was the proposed program of funding for graduate students. An additional $5.1 million for 2002-03 and $2.8 million for 2003-04 would be provided for that program. This would mean that at the end of this planning period, the base funding for this program would have increased by $12.8 million. If one were to equate this to income from an endowment, that would translate into an endowment fund of $250 million. What was proposed in this Budget Report would achieve by September 2003, two years earlier than expected, the target proposed by the Task Force on Graduate Student Funding that a guaranteed funding package be available to all doctoral-stream

4. Budget Report, 2002-03 (cont'd)

students, including those at the Ontario Institute for Studies in Education/University of Toronto.

As Professor Sedra had indicated earlier, this was achieved despite the significantly reduced revenue from investment income. The Assistant Vice-President, Alumni and Development and the Assistant Vice-Provost, Strategic Planning had identified $6.5 million in unrestricted donations to the Ontario Students' Opportunity Trust Fund which, when combined with the matching $6.5 from the Provincial Government, had enabled the University to establish a $13 million graduate student aid endowment fund. Thus, the University had been able to fulfill its promise to graduate students. The endowment would allow the Vice-Provost, Students to allocate annually $650,000 to divisions for aid as required. Professor Sedra informed the Committee that the Vice-Provost, Students would report annually in future years on graduate student aid.

On a less positive note, Professor Sedra said extraordinary cost pressures had been identified. A $4.2 million contingency had been established to compensate the Library for escalating acquisition costs due to the weak Canadian dollar. An increased appropriation and a significant contingency amount were necessary to address steadily increasing legal fees. Utilities costs were unpredictable and employer health care costs continued to increase at about $5 million per year.

Finally, Professor Sedra reported that the University Infrastructure Investment Fund (UIIF) was under unprecedented pressure. This Budget Report proposed $30 million in new borrowing for the UIIF in each of 2002-03 and 2003-04, in addition to the $30 million of borrowing approved for 2001-02. This would cover existing commitments only. The result would be annual principal and interest charges to the operating budget of approximately $8.5 million by 2003-04.

In closing, Professor Sedra reviewed the implications of the proposed budget for divisions in 2002-03. Overall, the total increase to divisional budgets in 2002-03 would be an additional $82.6 million. The reallocation reduction and the proposed new reduction to address the deficit would be $6.7 million and $13.6 million (2.75%) respectively, for a net increase to divisional budgets of $62.3 million, or 14%. He recognized that this increase came about as a result of additional students, but he thought this was a positive budget.

The Chair recognized Mr. Sousa. He applauded Professor Sedra and his staff for having met their objective for graduate student funding. He had thought the goal was ambitious and unattainable and he, as well as his colleagues at the Graduate Students' Union, were very pleased to be wrong. However, he noted there remained hurdles to be overcome in the implementation at the divisional level. Inequities in the way the program was administered should be addressed. Some students in some departments had to work for their full package; others did not. In his view, inequities abounded and this was disappointing. He hoped for transparency and consistent principles in the administration of the program. He had concerns about increasing tuition and the unknown impact of rising costs on degree-completion rates. He urged the administration to freeze tuition fees until more information was available on their impact on graduate students successfully completing their programs. In closing, he wished Professor Sedra well in future endeavours and thanked him for his contribution to a better understanding among students of the relationship between tuition fees and revenue. He recognized Professor Sedra's major accomplishments as Vice-President and Provost but cautioned that there was still work to do.

4. Budget Report, 2002-03 (cont'd)

A member expressed concern about the level of capital debt combined with divisional mortgages. Carrying costs for the UIIF debt were expected to be $8 million at a time of low interest rates. If interest rates were to rise suddenly, those costs could be substantially increased. Professor Sedra said that, while that was so, if one assumed a worst-case scenario, with no further donations or government support for new buildings, the University's capital debt would be a little over $200 million. Carrying costs represented less than 1% of revenue and this was a comfortable level of debt, given the importance of proceeding with this capital construction now. The President added that at least half the capital debt derived from new research. The federal funding of indirect costs for research should be factored into these decisions. It was possible that within a few years, half these carrying costs would be recovered from that source and the other half from the increased operating revenue derived from increased enrolment, both of which depended on this program of capital construction. Professor Munroe-Blum cautioned that one needed to look at the cost of not going ahead with the capital initiative at the very time when the research mission was expanding. Constraints on research and the research infrastructure at this juncture would leave the University in a position of catch-up and it quite possibly would never recover.

A member asked for clarification relating to the Enrolment Growth Fund table on page 11, how allocations to divisions were determined and what portion stayed with the central budget. Professors Sedra and McCammond explained that one-time-only allocations made this year moved into base budgets next year and that the Fund operated on a slip-year basis. The unallocated amount of $18.4 million for 2002-03 reflected the expectation that there would be more students next year. It would be allocated when the divisions met the targets that generated this revenue. Finally, none of this fund remained in the central budget – all was allocated to the divisions to fund their enrolment growth.

Noting the absence of a Provincial budget this year to date, a member asked how the University's budget accounted for the uncertainty in operating grants. Professor Sedra replied that the Budget Report was produced using this year's assumptions correcting for the loss of an inflationary grant of 2% for the current year and for 2002-03. Further, it assumed for 2002-03 a combination of targeted funding and some relaxation on the tuition fee cap for regulated programs. In response to a further question about when the Provincial budget might be expected, Dr. Levy said that it was not likely to be brought forward before May and maybe not until September. Professor Sedra added that if the Provincial budget were better for the University than expected, the budget reduction would likely be decreased.

A member asked the basis on which the Rotman School of Management was chosen for Responsibility-Based Management (RCM) and if RCM were being considered for other divisions. Professor Sedra recalled that there had been an experiment with RCM at the University of Toronto at Scarborough (UTSC) and it turned out to be not a positive one. UTSC had been taken off RCM last year. Going forward, any future proposal would be considered on its individual merits. There were advantages and disadvantages to RCM. The Rotman School of Management had made a good case for being placed on that system and it could lead to more responsible budgeting. No other division had proposed RCM and there was no intention in the Office of the Vice-President and Provost to propose it elsewhere.

Responding to a question about the specific numbers on page 32 relating to transfers to the Rotman School of Management, Professor Sedra indicated that they were misleading and appeared to be large because the transfer in systems was coincident with a large

4. Budget Report, 2002-03 (cont'd)

increase in tuition fees for the MBA program and an increase in enrolment. He noted that in the future the School would not have access to funding sources that other divisions in the University did. They would receive no allocations from the Academic Priorities Fund, no maintenance support, and no salary support (across-the-board, anomaly or PTR). Budget modeling had shown that this change would be fair for the Rotman School of Management as well as for the rest of the University.

A member referred to what appeared to be a generous assumption for the cost of hydro electricity in the upcoming year. Mr. England indicated that the projection had been the result of bidding by the Ontario universities acting as a consortium. What was reflected in the budget was the most competitive tendered rate of $0.088 per kilowatt-hour. Mr. Chee added that it was going to take a few years before the competition in a privatized electricity market normalized. The market was likely to be volatile for awhile; this multi-year contract, with flexibility to buy annually increasing amounts of electricity elsewhere, provided the University with a fair degree of certainty.

A member thanked members of the administration for the leadership they had shown in the past few years, in planning and in initiatives with respect to the Canada Research Chairs' program and the federal funding of indirect costs of research overhead. Tremendous benefits had accrued to the University and, although the member did not like the 2.75% reduction, he would welcome growth. Overall this was a good budget report which he was pleased to support.

Professor Sedra and Mr. Chee responded to a question about why the loss in investment income (relative to budget) would be amortized over only three years. Professor Sedra indicated that it was the wish of administration to deal with this quickly and get past it. Mr. Chee said that it was the conservative approach to amortize a loss over a shorter period of time.

A member queried how the deregulation of fees at the Rotman School of Management affected undergraduate Commerce programs in other divisions and if this posed a long-term problem for inter-divisional cooperation in the delivery of programs. Responses indicated that this should not interfere with the ability of the divisions to cooperate. Where fees differed, sharing was based on appropriate formulae. Professor Sedra concluded that individual situations would have to be carefully monitored to ensure the overall good of the University. In any event, a member recalled that, under RCM as now, Governing Council approval for fee increases at the Rotman School of Management would be required. This would be an effective way of monitoring overall impact.

A member asked if a recommendation to approve this document included governance approval of the tuition fee schedule. Professor Sedra indicated that it did not. The tuition fee schedule would be considered by the Business Board on Monday, April 8 and a recommendation from there would go forward to Governing Council.

In further discussion about the level of debt required to support the University Infrastructure Investment Fund, the President and the Vice-Presidents reaffirmed points made earlier in the meeting, that borrowing was not imprudent when the level of debt was comfortable, when the debt could be easily serviced, and when the alternative would place constraints on the research and teaching mission of the University. Less and less of Government grant revenue was available for the classroom and for capital, and internal sources of funding for capital would never be enough. In closing, Dr. Levy reminded members that without the capital construction there would be a reduction in operating

4. Budget Report, 2002-03 (cont'd)

income as a result of the University's inability to participate in the increased student demand for university spaces. There had been a fundamental change in the Government's approach to funding. There was now a greater reliance on the institution's ability to provide quality programs to more and more students. The University's capital program was essential to support the students that would bring the revenue necessary to service the capital debt and so there was a great deal of interdependence between the debt and anticipated revenue from traditional sources.

On motion duly moved and seconded,

YOUR COMMITTEE RECOMMENDS

THAT the proposed Budget Report for 2002-03 be approved.

5. Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Tuesday, April 16, 2002 in the Council Chamber.

There was no other business.

The meeting adjourned at 6:55 p.m.

Secretary Chair

(19530)