THE GOVERNING COUNCIL

REPORT NUMBER 86 OF

THE PLANNING AND BUDGET COMMITTEE

March 18, 2003

To the Academic Board,
University of Toronto.

Your Committee reports that it met on Tuesday, March 18, 2003, 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present

Professor Avrum Gotlieb (in the Chair)
Professor Susan Horton, Vice-Chair
Professor Shirley Neuman, Vice-President and Provost
Mr. Felix Chee, Vice-President, Business Affairs
Professor Derek McCammond, Vice-Provost, Planning and Budget
Professor Michael Berkowitz
Professor Philip H. Byer
Professor Bruce Kidd
Ms Karen Lewis
Professor John F. MacDonald
Professor Ian McDonald
Professor David Mock
Mr. Colm Murphy
Mr. Joshua Paterson
Mr. Timothy Reid
Professor J. J. Berry Smith
Mr. Nick Turk-Browne

Non-voting Assessors:
Mr. John Bisanti, Chief Capital Projects Officer
Ms. Catherine Riggall, Assistant Vice-President, Facilities and Services
Professor Ron Venter, Vice-Provost, Space and Facilities Planning

Secretariat:

Mr. Neil Dobbs
Mrs. Beverley Stefureak, Secretary

Regrets:

Professor Carl Amrhein
Professor Paul J. Halpern
Professor Edith Hillan
Ms. Shirley Hoy
Professor Ian Orchard

In Attendance:

Ms. Lesley Lewis, Assistant Provost
Mr. Eric Fleming, Director, Risk Management and Insurance
Mr. Marty England, Assistant Vice-Provost, Strategic Planning

ITEM 6 IS RECOMMENDED TO THE ACADEMIC BOARD FOR APPROVAL.

ALL OTHER ITEMS ARE REPORTED TO THE ACADEMIC BOARD FOR INFORMATION.

1. Report of the Previous Meeting

Report Number 85 of January 28, 2003 was approved.

2. Business Arising from Report of the Previous Meeting

There was no business arising from the Report of the previous meeting.

3. Senior Assessor's Report

Professor Neuman gave a brief update on academic planning. Throughout the green paper phase, which was now complete, 1,400 individuals had attended town hall meetings and 827 pages of single-spaced text had been submitted in response to the papers. The process would slow down somewhat as the administration focused on deficit reduction planning. However, she hoped to have a first draft of the white paper to the President and Vice-Presidents by the end of April and a draft academic plan to the University community by the end of May. To be successful, an academic plan required a high level of community buy-in. In the context of the current fiscal situation, therefore, she believed it to be imperative that a second round of consultations occur. These consultations would take the form of focus groups comprising community members with similar interests. To ensure that student groups had the opportunity for input to this second round, the last of the focus groups would be planned for when they had returned to campus in early September. It was expected that the academic plan would be presented to governance in late September or early October.

Professor Neuman noted that the Committee would be considering today the Long Range Budget Guidelines and Projections for the final year of the current six-year planning cycle, as well as the Contractual Obligations and Policy Commitments list. As she had indicated at an earlier meeting, the news was not good. Meetings with the deans had been underway to determine how the University might best meet the budget cuts. There was no firm news from the Government relative to operating grants. Some University initiatives were still under discussion but there was no degree of certainty that any would be accepted, and so the assumptions in the 2003-04 budget would be very conservative. Informal information on SuperBuild indicated that the University of Toronto would be successful but in an amount less than requested. The announcement was anticipated soon. The University's submission anticipated that most of the funding would be allocated to the University of Toronto at Mississauga and the University of Toronto at Scarborough, with a small amount for St. George undergraduate laboratory renovation.

A member asked how the revised schedule for the academic plan would affect planning in the academic divisions. Professor Neuman replied that the draft white paper, which should be available to divisions by late spring, would include criteria or guidelines for unit plans. These would be subject to discussion but would include a six-year budget framework and a suggested budget model. By September, the guidelines should be fairly well defined and divisions should be able to determine their own academic plans based on these new guidelines. Given the budget situation, Professor Neuman accepted that some academic divisions might be unable to complete their divisional plans until well into 2004.

A member asked if the divisions could expect the framework to indicate where additional funds should be directed and where the divisions should put less. Professor Neuman said that many of those initiatives would be at the divisional, faculty and department levels and, as well, many of the decisions would be made at those levels. She cautioned, however, that overall the University needed to be thinking about what it could not continue to do. In terms of larger scale central initiatives, she could not give an answer at this time because she was not prepared to put such initiatives ahead of the academic planning exercise.

4. Long-Range Budget Guidelines and Projections 1998-2004 and Contractual Obligations & Policy Commitments, 2003-04

Professor Neuman said that, entering the final year of the 1998-2004 planning cycle, the Long-Range Guidelines and Projections Update this year reflected a number of unrealized revenue assumptions and a much smaller variance in expenses. She highlighted a number of areas which had caused some difficulty for the operating budget and where significant adjustments in assumptions were made for 2003-04.

The general rate of inflation (CPI) had ranged from 0.8% to 3.8% in 2002 and for next year it was assumed at 2%. The yield rate on long-term investment was assumed to be 0%; on short-term investments to be 2.6% and on fixed-income investments to be 4.5%. Investment revenue available from the Expendable Funds Investment Pool was expected to be lower than the projected level in 2002-03. The losses would be amortized over a five-year period. The investment revenue projection for 2003-04 was being further reduced to $11.3 million from $13.7 million.

In 2000-01, a significant commitment had been made to increase graduate student funding. Next year would be a transitional year, when the central subsidy per Ontario Graduate Scholarship award was to be replaced by the revenue generated from the OGS campaign donations. Nevertheless, it would be necessary to increase graduate student funding to fully implement the University's commitments in this area. This would continue to be expensive until permanent funding arrangements for graduate enrolment increases over 2000-01 levels were worked out with the Ministry.

Professor Neuman commented briefly on Government operating grants, recalling that over the past decade planning guidelines had projected inflationary increases in those grants. That assumption had been a strategic political decision so as not to take the issue off the table in discussions with the Ministry. In earlier years, the unrealized assumption had been offset by other sources of revenue. This year, however, there was a major problem in that there was no compensating revenue to offset the 1% assumed but unrealized inflation grant and this had been a major contributory factor in the deficit. An initiative of the Council of Ontario Universities was directed at obtaining grant increases for program quality enhancement, but the outcome was uncertain. Therefore, no assumption of such increased revenue was being built into the budget for 2003-04.

Referring to section 14.a, Professor Neuman explained that funds from the Research Performance Fund were distributed to universities based on benchmarks tied to the level of Provincially assisted research grants. The funding envelope was fixed, so that when other universities and hospitals improved performance and the University of Toronto stayed the same, the grant to this University went down. The reduction from 2000-01 to the current level was a reflection of improved performance in other universities and hospitals.

Revenue contributions from ancillary operations had gone down. For 2003-04 it was projected that the land rent contribution from the parking ancillary would be $0.9 million, $300,000 less than projected in the update last year.

Professor Neuman asked members to note that the total student support budget was projected to increase to $95.9 million in 2003-04, a $3.0 million increase in student aid despite declines in investment income. While investment income was a source for student aid, the greater portion derived from the 30% holdback from all revenue from domestic

4. Long-Range Budget Guidelines and Projections 1998-2004 and Contractual Obligations & Policy Commitments, 2003-04 (cont'd)

tuition fee increases. Increased enrolment and increasing tuition allowed student financial aid funding to stay high.

Reviewing the projections related to compensation, Professor Neuman indicated that agreements were in place for all bargaining units for 2003-04 with the exception of the University of Toronto Faculty Association. The total cost of compensation increases, including costs associated with benefits improvements in 2003-04, was projected at 3% (plus, in the case of UTFA, the cost associated with progress through the ranks). This projection was for modeling purposes only and did not represent a strategy for salary negotiations. Professor Neuman emphasized, too, that this projection had to be the outside limit.

Looking at item 20, Professor Neuman reviewed briefly the circumstances that had resulted in the build-up of the University's pension plan surplus, the uses of the surplus permitted by law and how the University of Toronto had used some of its surplus. The remaining surplus had now been depleted because of poor investment returns. In addition, pension liabilities had grown. While these increased liabilities had been predicted, the intention had been to begin addressing them in 2004-05. It was now necessary to begin addressing them in 2003-04 and to do so more aggressively than anticipated. Over the years of pension surplus, 75% of the funds intended for pension contributions had been set aside and used for one-time only expenditures (such as matching funds for endowed Chairs). The remaining 25% had not been put aside. Unfortunately, this unfunded liability came due in the same year as the end of the planning cycle, wherein the budget must meet a Governing Council imposed limit on operating fund deficit.

Professor Neuman briefly addressed changes in utility costs, which were projected to be $1.4 million over budget in 2002-03. The major negative variances resulted from higher than expected gas costs, problems with the heat recovery project and emergency repairs to the cogeneration project. Utility costs for 2003-04 were projected to be $0.4 million over the previous year's budgeted level. The cost of leased space, which was in high demand, was projected to be $0.99 million in 2003-04 and that was slightly higher than anticipated when the administration had looked ahead last year.

Professor Neuman informed members that the Provost's Contingency Fund had been established at $350,000 annually. When she arrived, it had been over-committed, having been used wisely for worthy expenditures, but for items that were base budget commitments. The amount was projected to be the same for next year, but it would be established as a base component renewable each year.

Members' attention was drawn to item 27, Infrastructure Funds. Professor Neuman said that for many years these had been managed as part of the operating budget. Those were years where capital activity was not intensive. However, the University was now into a phase of major capital construction on each of three campuses, most of which would entail long-term debt. In such an environment, it made sense to establish a capital budget and to reflect in the operating budget the debt service costs. The Vice-President, Business Affairs had been supportive of this change and had worked with the Planning and Budget Office to develop processes for appropriate capital projects initiatives and for development of a capital budget. The end result should be positive and financially beneficial to the academic mission.

4. Long-Range Budget Guidelines and Projections 1998-2004 and Contractual Obligations & Policy Commitments, 2003-04 (cont'd)

Finally, Professor Neuman spoke briefly about performance based funding. As the University dealt with budget cuts, academic units would still owe the 1.5% reallocative levy. She was meeting with units that were unable to meet these budget reduction commitments. $1.25 million had been set aside in the base budget, which would be used for one-time-only allocations to assist a limited number of divisions who needed this assistance. The provision of the funding would be dependent on attainment of performance objectives developed in agreement with the Provost.

Professor Neuman invited Mr. Marty England to introduce the Contractual Obligations and Policy Commitments list. Mr. England explained that the Contractual Obligations and Policy Commitments were those, like utility costs, which were unavoidable and/or those protected as institutional commitments. The list before the Committee was the result of weekly meetings throughout the year of a small group, chaired by Professor McCammond, of which the Chair of Planning and Budget was a member. The group engaged in careful scrutiny of each item on the list which had been distributed with the agenda package, and from which he would highlight only those items that were extraordinary or unusual.

Mr. England first commented on the reduction in the Toronto School of Theology grant. This was the third and final reduction as a result of the School's enrolment decline in the past five to six years. The amount shown represented a pass-through of the reduction in grants. In the same section, "Transfer Payments re Joint Programs with Colleges" came about as a result of a memorandum of agreement with the Michener Institute, Sheridan College, and Centennial College, and represented the sharing of government operating grants and tuition fees for programs in which there were joint programs with these institutions. The amount included a holdback by the University of the 30% of tuition increases designated for student financial assistance.

Within section 3, Institutional Statutory Commitments, Mr. England noted that the budget for 2003-04 legal fees was $2.8 million which was a reduction from what was likely to the actual for this year. In addition, within the contingencies on the final page of the list was a $500,000 item for legal fees. He hoped that the costs could be constrained within this total figure, but this was an area that was difficult to predict. Within that same section, Mr. England noted the items related to waste disposal and the environmental health and safety fund. Increased commitments in these areas could be attributed to several factors. First, construction of the Bahen Centre for Information Technology had required the demolition of a hazardous waste disposal site. The University was now obliged to contract out waste disposal at rates which themselves had increased. Additionally, costs were increasing because of the continual need for compliance with new regulations that were expensive to implement

On page 3, Utilities, Mr. England asked members to note an inadvertent figure reversal. In the first line, Energy Management Fund the figures under "Price Inflation and Formula Adjustments" and "Other" [$745,516 and ($1,786,781) respectively] should be transposed. The large negative number came about as the result of the cap on hydro rates imposed by the Ontario Government, after $3 to $4 million had been committed last year to accommodate the anticipated rate increases. The reduction from the cap was in the budget this year. The hydro rates were offset somewhat by the increases in natural gas prices. The large positive numbers in the cogeneration and heat recovery budgets represented a reduction in savings. The administration had forecasted a much larger

saving which had not materialized because facilities installed for energy conservation were showing age and required repair.

With respect to the additional cost of new space, Mr. England cautioned on the need to pay careful attention to the maintenance of the University's ever increasing space inventory. Where possible, costs for maintenance were charged back to the unit that benefited from the space. Increased maintenance was estimated to be $805,000 in addition to $801,000 which could be recovered from divisions that occupied the space.

Mr. England referred to section 7, "Library Acquisitions Commitments" and indicated that the Library would continue to receive inflationary protection from price increases on acquisitions. This was important support to allow the Library to maintain its holdings. Budgetary support for the Library was also the most significant item within the contingency funding on the final page. The $4.5 million provided there was considered necessary to shore up the diminished buying power of a weakened Canadian dollar, which though it had rebounded slightly in recent weeks, had been benchmarked at $0.75 at the beginning of this planning cycle. Mr. England indicated that the benchmark value of the Canadian dollar might need to be reconsidered as the University moved into the next planning cycle.

Finally, Mr. England referred to the $5.7 million item under "Other" in section 9. This represented the amount that would be transferred from the operating budget to the capital budget each year.

A member noted that it might be helpful to members to see what the effect would be of a 2.5% inflation rate as opposed to the 2% assumed; to see what impact there would be if the long-term investment return declined to negative 5% rather than the 0% assumed; to see what the impact would be if the interest rates came in higher than assumed; and, finally, he thought the contingency amount mentioned by the Provost was small in terms of an institution this size.

Professor McCammond responded to the query about inflation assumptions, saying that the impact of a half a percent at this stage would be negligible. The effect in the early years would have been more significant because it would have figured into salary and revenue assumptions. At this late stage within a six-year planning cycle a small change in the assumption would have little impact. Salary assumptions had already been fixed and revenue inflation assumptions from the government were zero.

Mr. Chee responded to the question about modelling for a negative 5% on investment income. He indicated that the assumptions in this document reflected very conservative approaches and already took into account actions that the administration was undertaking to extensively limit exposure to the volatility to which investments had recently been exposed.

Responding to the comment about the Provost's contingency fund, Mr. England noted that it was only one of a number of funds for contingencies, some of which were listed on the final page of the COPC list.

4. Long-Range Budget Guidelines and Projections 1998-2004 and Contractual Obligations & Policy Commitments, 2003-04 (cont'd)

A member asked how the amortization of investment losses effected future years in the event that the University's investments were subjected to further decline. Mr. Chee responded that the Expendable Funds Investment Pool currently had some exposure to equity volatility. The pool would be transferred to fixed income wherein losses were effectively capped. Without the exposure, the amortization would be stable. Professor Neuman added that, had the amortization not been possible, taking the full loss during the upcoming year would have had dramatically negative effects on the operation of the University.

In response to a question, Professor Neuman said that the Colony Hotel did not appear on the COPC list because it was a residence ancillary – a cost recovery operation – and, as such, not part of the operating budget.

A member enquired about the University's obligations under the new asbestos guidelines. Ms. Riggall was invited to respond. She indicated that the Ministry of Labour had identified several concerns and had ordered a cleanup of several sites. The sites had been contained and the asbestos now had to be removed. She hoped the work could be completed by September.

A member asked how much flexibility the University had with respect to expenses funded from overhead on contract research. Mr. England responded that, though the University had infinite flexibility in theory, in practice this was a commitment under policy that had been carefully negotiated. The amount of $6.5 million shown on the COPC list represented the approximately 50% of the overhead portion of contract research grant funding that flowed to the divisions, and he suspected that it was unlikely divisions would be amenable to a reduction of this amount.

A member asked about the results of the review of the Library noted on page 24 of the Long-Range Guidelines and Budget Projections. Professor McCammond reported that a review had taken place. The small group conducting the review had concluded that the 4.2% inflation protection was the best trade-off in allowing the Library to maintain quality holdings. Professor Neuman added that it had been a decision of Provost Sedra to protect the purchasing power of the Library. She had reviewed the decision and concluded that it had been a wise one. It was likely because of this foresight that the University of Toronto Library continued to rank in the top three to five publicly-funded libraries in North America. This Library was a great factor in the excellent reputation of the University of Toronto and was fundamental to the research infrastructure that served all of the University community. Under-spending for Library acquisitions was also the most difficult mistake to fix. Gaps in acquisitions often could not be filled several years down the road when the books and periodicals were no longer available and, if available, could be very expensive. Despite the best efforts of Provost Sedra and continuing best efforts of the University Librarian to maintain excellent holdings, the purchasing power had been eroded over the past several years. The University Librarian had had to examine carefully how to maximize the budget and, in making careful choices, the librarians had consulted closely with the faculties which they supported in teaching and research. Finally, it was difficult to predict where research would be in five to ten years so this purchasing protection was necessary to allow the comprehensive selection of acquisitions.

4. Long-Range Budget Guidelines and Projections 1998-2004 and Contractual Obligations & Policy Commitments, 2003-04 (cont'd)

A member asked about increases in graduate student support and was assured that the new increases came about as a result of the 30% holdback on tuition fees. No additional money had been transferred from the operating budget, except for the holdback. This funding could not be reallocated because the University would not then be able to meet its policy commitments to doctoral students.

Noting the increased legal fees, a member commented that they seemed too much and, on the other hand, the amount for insurance seemed too low. Professor Neuman replied that it was a triumph that legal fees had risen by only $400,000. Several difficult suits had been settled this year for which there had been no budget. Part of the fees shown was for advice to avoid lawsuits. The arrival of an in-house lawyer had been effective in reducing grievances. The number of outstanding grievances had been reduced by 75% and most were off the table before the final stage. There were currently no outstanding suits and, comparatively speaking, the legal costs were actually low.

Speaking to the comment on insurance, Mr. England indicated that the assumptions were prudent and conservative. He had been informed by Mr. Fleming that there were sufficient funds in the insurance reserve to endure the current year's premium increase and still maintain the capital in the reserve at or near the targeted $1.5 million level. However, as the reserve would likely dip below this target in 2003-04 fiscal year due to claims and continued volatility in the insurance market, a $100,000 contingency amount had been added in this COPC list as a reminder that the University could not indefinitely rely on its reserve.

A member noted that, in general, he supported this item and the process by which it came to the table. However, with respect to the assumptions related to tuition fees, he wished to record his continuing serious concern with respect to the dramatic increases in the fees for the deregulated programs. They were troubling in terms of accessibility and career choice. He wished these remarks to be couched within the framework of support for the Long-Range Budget Guidelines and Projections.

In response to a question, Professor McCammond stated that the $11.7 million to be transferred to the Capital Budget subsumed the $8.9 million debt service charge on the $90 million borrowed for the University Infrastructure Investment Fund and the $5 million borrowed in support of the MARS project.

A member asked if approving the Guidelines for the budget signaled approval of each item therein, or approval of a comprehensive document. Professor McCammond indicated the latter.

On motion duly moved and seconded,

YOUR COMMITTEE APPROVED FOR INCLUSION IN THE 2003-04 BUDGET REPORT

THE Updated Long-Range Budget Guidelines and Projections, 1998-2004 and Contractual Obligations and Policy Commitments expenditures, as outlined in the attachments to Professor Neuman's memorandum of February 27, 2003.

5. School of Graduate Studies: New Programs - Master of Visual Studies

The Chair referred members to Professor McCammond's memorandum of February 28 considering the financial implications of the proposed new Master of Visual Studies program. There were none and, therefore, this item was for information. Members had no questions.

6. University of Toronto at Scarborough: Discontinuation of Three-Year Degree Program

Professor McCammond reviewed his memorandum of February 25, 2003 (attached hereto as Appendix "A"). Several years ago this Committee had approved the elimination of the 15-credit degree on the St. George campus and soon after it was eliminated at the University of Toronto at Mississauga. This was a request to do the same at the University of Toronto at Scarborough. There were no resource implications to the recommendation since adjustments to enrolment fell within the enrolment plan at that campus.

On motion duly moved and seconded,

YOUR COMMITTEE RECOMMENDS

THAT the proposal for discontinuation of the 15 credit BA and BSc degrees, as described in the University of Toronto at Scarborough submission, dated February 26, 2003, (attached as Appendix "A") be approved, effective for students registering at the University of Toronto at Scarborough in the summer of 2004.

7. Capital Projects: Project Planning Reports – Membership and Terms of Reference
7.1 Undergraduate Science Laboratory Upgrades - Lash Miller Building
7.2 University of Toronto at Scarborough: Food Services
7.3 Lash Miller/McLennan Courtyard

The Chair referred to memoranda from Professor Ron Venter outlining the terms of reference and the membership of three new project planning committees for upgrades to the Undergraduate Science Laboratory in the Lash Miller Building, Food Services at the University of Toronto at Scarborough and the Lash Miller/McLennan Courtyard. These reports were for information.

A member asked if it was known what the cost of the food services project was likely to be. Professor Venter indicated that the total project cost was not known at this time but could possibly exceed $2 million. The food services facilities were seriously inadequate at the current time and the situation would be exacerbated significantly with the increased enrolment anticipated for fall 2003. Because they were so out of date, renovation and expansion of the food services would require a capital infusion larger than what the ancillary could manage. The current food services provider, Aramark, had indicated a willingness to contribute to the funding.

8. Enrolment Report, 2002-03

Professor McCammond briefly pointed out some highlights from the Enrolment Report 2002-03. This was generally a good news document. Enrolment had been over target in all areas but not by more than could be effectively accommodated. First-year undergraduate enrolment had been over target by 500; 2nd year by 90; graduate in professional masters by 50; and, the doctoral stream had been five under target. International enrolment continued to climb. It had reached its highest percentage in twenty years and now had fully recovered to the level it had been before the Government stopped funding international students. The future looked good, given that first-choice applicants this year were up by 36%. He was confident that the University would be able to take in the extra enrolment to which it had committed without reducing the entry average.

9. Other Business

There was no other business.

10. Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Wednesday, March 26, 2003 at 5:00 p.m. in the Council Chamber.

The meeting adjourned at 6:55 p.m.

Secretary ______________________ Chair ______________________

March 25, 2003