OFFICE OF THE VICE PRESIDENT & PROVOST

TO: Business Board

SPONSOR: Cheryl Misak, Vice-President and Provost

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DATE: February 18 for meeting on March 7, 2011

AGENDA ITEM: 4

ITEM IDENTIFICATION

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

JURISDICTIONAL INFORMATION

The annual *Budget Report and Long Range Budget Guidelines* is considered by the Business Board for concurrence with the recommendation to the Academic Board that the *Budget Report and Long Range Budget Guidelines* be approved. As outlined in the terms of reference, concurrence would indicate that the Business Board is satisfied that the proposed budget is financially responsible.

OTHER ACTION TAKEN

The *Budget Report 2011-12 and Long Range Budget Guidelines 2011-12 to 2015-16* was approved by Planning & Budget Committee on March 2, 2011 and will be presented to Academic Board on March 17, 2011.

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 in 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 Budget Report signaled last year that the deficit in the combined pension plans exceeded $1 billion, that the unfunded position was continuing to deteriorate and that there was a potential need to make payments into the pension plan. One year later, the University is progressing toward greater clarity on the pension problem and is in the process of developing strategies for addressing the situation. A great deal more work will be done over the coming year, leading up to July 1, 2011, the date of the next regulatory filing.

The University is also committed to enhancing the long term sustainability of the pension plan. As stated in the January 21, 2011 report to Business Board, the University is looking to move to a shared responsibility funding model, that is, a model in which the University and the plan members jointly share responsibility for ensuring the financial sustainability of the plan, with contributions more commensurate with the value of the benefit.

While the revenue outlook for 2011-12 is strong, projected revenues over the five-year budget cycle remain constrained. Uncertainty in government funding, and the requirement to fund the pension deficit remain significant concerns. The provincial government has not announced any changes in the funds available for post-secondary education other than the long overdue increase in per-student funding for medical students. The tuition framework expires in 2012 and in the absence of a new one the University will assume a continuation of the same parameters mandated in the expired framework, with the attendant adverse impacts on ability to maintain the quality of education.

The University began to invest in several high-priority institutional initiatives last year and investments will continue in 2011-12. These include enhancing support services for international students, the implementation of a new student system to replace ROSI, enhancements to the wireless network and the learning management system, the launch of a major fundraising campaign and strengthening of the University research services infrastructure.

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

The Business Board concurs with the prospective recommendation of the Academic Board

> THAT the 2011-12 budget be approved, and
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> THAT the Long Range Budget Guidelines 2011-12 to 2015-16 be approved in principle.