THE GOVERNING COUNCIL

REPORT NUMBER 87 OF

THE PLANNING AND BUDGET COMMITTEE

March 26, 2003

To the Academic Board,
University of Toronto.

Your Committee reports that it met on Wednesday, March 26, 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
Professor Derek McCammond, Vice-Provost, Planning and Budget
Professor Carl Amrhein
Professor Philip H. Byer
Professor Edith Hillan
Professor Bruce Kidd
Ms. Karen Lewis
Professor John F. MacDonald
Professor Ian McDonald
Professor David Mock
Mr. Colm Murphy
Mr. Timothy Reid
Professor J. J. Berry Smith
Mr. Nick Turk-Browne

Non-voting Assessors:

Ms. Sheila Brown, Controller and Director of Financial Services
Professor Ron Venter, Vice-Provost, Space and Facilities Planning

Secretariat:

Mr. Neil Dobbs
Mrs. Beverley Stefureak, Secretary

Regrets:
Professor Michael Berkowitz
Mr. Felix Chee
Professor Paul J. Halpern
Ms. Shirley Hoy
Professor Ian Orchard
Mr. Josh Paterson

In Attendance:
Professor W. Raymond Cummins, Member of The Governing Council and Chair of the Academic Board
Ms. Sue Bloch-Nevitte, Director, Public Affairs and Advancement Communications
Professor Don Dewees, Faculty of Arts and Science
Mr. Marty England, Assistant Vice-Provost, Strategic Planning
Dr. Beata Fitzpatrick, Assistant Vice-President and Director of the President's Office
Dr. Sheldon Levy, Vice-President, Government and Institutional Relations
Ms. Erin McGinn, Director, Operations and Government Relations

ITEMS 4 AND 6 ARE RECOMMENDED TO THE ACADEMIC BOARD FOR APPROVAL.

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

With the permission of the Committee, the order of the agenda was varied to consider item 6 prior to item 4.

1. Report of the Previous Meeting

The Chair was aware that a member had requested an addition to Report 86 of March 18, 2003. He agreed with the addition and, accordingly, the following would be added to the second paragraph in item 7, page 9. "A member raised a concern about the use of operating funds for ancillaries." With that amendment, Report Number 86 of March 18, 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 informed the Committee that the SuperBuild announcement, which had been expected this week, had been delayed by the Government for about ten days. The administration did not expect that the news would be different from what they had received informally.

Professor Neuman briefly reviewed the revised schedule for the academic plan, noting that the process had been slowed somewhat to allow for careful consideration of the input and a second round of consultation. She expected still that the draft white paper would be made public by the end of May, with sector group consultation following. Meetings would occur with students in the early fall, with the hope that the white paper could be presented to governance by late fall.

4. Budget Report, 2003-04

Professor Neuman began her report by recalling the major factors that had had a negative impact on the operating budget this past year. The massive downturn in the financial markets and the absence for 12 years of inflation protection in governments grants rated high among those. Because the University was at the end of a six-year planning period, by direction of the Governing Council, it was required to present a balanced annual budget, with an accumulated deficit of no more than 1.5% of the operating budget. In absolute terms, the latter condition meant that by April 30, 2004 the accumulated deficit could not exceed $14.7 million.

Professor Neuman spoke to the 2003-04 Budget Report (attached hereto as Appendix "A") with the assistance of a powerpoint presentation (attached hereto as Appendix "B"). The presentation, which captured extensive highlights of the Budget Report and its attachments, had been shared with Governors and Committee members at an off-line discussion on Friday, March 21. Professor Neuman elaborated on several of the slides.

Looking at the budget context, and revising previous revenue and expense assumptions for 2003-04, Professor Neuman noted that investment losses would be amortized over five years. In addition, a revised investment policy would be brought forward designed to provide some level of stability to projected revenue from investment income. Contributions to the pension plan would need to commence a year earlier than anticipated. For twelve years the University had been prohibited by federal law from making contributions to the pension plan because the plan's surplus had exceeded the allowable limit. Seventy-five percent of the pension contribution savings had been retained annually in the budget and used for one-time-only expenditures, such as matching funds for

4. Budget Report -2003-04 (cont'd)

endowed chairs, the voluntary early retirement plan implemented to meet budget cuts at the end of the 90's, and to fund the University Investment Infrastructure Fund. Twenty-five percent of the pension contribution savings dropped to the bottom line. In 2003-04, the University would no longer be able to use the 75% set aside from pension contributions to meet one-time-only expenses. It had been anticipated that this adjustment, including adding the remaining 25%, would be necessary in 2004-05 and that it could be phased in. Because of depletion of the pension plan surplus as a result of poor investment performance, the period of pension contribution savings would end earlier and more abruptly than planned.

Looking at major revenue assumptions, Professor Neuman noted that the endowment pay-out had been negatively affected both by lower unit market value and by lower investment return. Two and a half million dollars would be required to assist divisions in the transition to the lower pay-out in those areas (for example, salaries for endowed chairs) where expenditure could not reduced. The budgeted amount was not expected to be sufficient to meet all of the shortfall.

Income from provincial operating grants would increase from $391.2 million to $412.9 million. This was almost entirely volume-related since the value of the basic operating grant per basic income unit (BIU) had increased only very slightly. The increase in revenue of $47.6 million from tuition fees was a combination of mostly volume and some increased tuition. Looking at total operating revenue and comparing from 1998-99 to what was projected for 2003-04, the dramatic increase was attributable to tuition fees and other sources.

Professor Neuman pointed out that the basic operating grant per BIU had been $4,419 in 1991-92, had dropped to a low of $3,176 in 1996-97 and, at $3,699 in 2002-03, was actually still $700 less per student than it was 12 years ago. When this was adjusted for inflation, the University was, in fact, receiving $1,600 less per student from provincial operating grants than it had in 1991-92. Therein was a significant source of ongoing financial difficulty.

In comparisons with other Canadian provinces Ontario was by far the most poorly funded by operating grants. The University of Toronto Arts and Science tuition and other fees were among the lowest in comparisons with other AAU peer institutions. Looking at statistics comparing the University of Toronto with AAU peer institutions in state appropriations plus fees, Toronto was the lowest and significantly lower than the peer group average.

Professor Neuman expanded briefly on the major cost drivers of the 2003-04 budget. The Library acquisitions fund was a significant item but one of the more important to ensure that the Robarts Library remained in the top three to five private and public libraries in North America and to preserve its function as a critical support to teaching and research for the entire University community. For many years the University had not had a capital budget. With the extensive capital activity currently underway, it would have been unrealistic to proceed with capital projects, many requiring debt financing, without a comprehensive capital budget. The debt service charge of $11.7 million in 2003-04, which subsumed $8.9 million of annual principal and interest charges on borrowing to fund the UIIF and the University's contribution to MARS, was included as an expense in

4. Budget Report -2003-04 (cont'd)

the operating budget. Finally, graduate student aid increases would be a major cost driver in 2003-04. This would be the final year to fully implement the guaranteed funding packages for doctoral stream students. The program had been enormously successful, as manifested by the greater number of high quality doctoral applicants choosing to come to the University of Toronto.

Professor Neuman noted that the proposed budget reduction of 4.45% would amount to $22.2 million and allow the University to meet its objective of a balanced operating budget for 2003-04. The long-range budget projection anticipated an April 30, 2004 surplus of $19.4. Members might wonder why, in a very difficult year, the budget was projecting an in-year surplus. Professor Neuman explained that, with a start-of-year deficit of $34 million, this would enable the University to reach the end of year with a cumulative deficit of no more than 1.5% of operating budget -- $100,000 under the level permitted by Governing Council guidelines.

In summary, Professor Neuman believed that this was a fiscally prudent budget. Some members of governance had asked why the administration had not requested the Governing Council to raise the limit on the end-of-cycle deficit. This might seem justifiable in light of the unforeseen circumstances that had caused the revenue difficulties and the continuing hope that the provincial government would move to inflation adjusted operating grants. The administration had not made this request because they believed it would have been unwise to avoid dealing with the deficit this year. There were two reasons for this caution. First, although the federal budget had provided for base funding of 20% to help with the indirect costs of research, the manner in which this would be administered appeared to allow for a slip year in which universities would not actually receive any funds. Secondly, the pension plan was now in a deficit. To meet the liabilities of the plan, there needed to be a 6.5% to 7% return on investment annually. With the growing gap between the reduced return on investment and the increasing liabilities, this was presenting a challenge for which a solution had not yet been developed. In this context, it would not be prudent to delay addressing the deficit.

Finally, Professor Neuman said that if there were an increase in the provincial operating grants, this could eliminate the need for a one-time-only budget reduction and could offset the lack this year of funding for federal indirect costs. Either of these would be helpful to the divisions in meeting their objective to maintain the quality of the academic programs.

A member asked what was being done to deal with divisions that would be unable to balance their budgets this year. Professor Neuman said that she and Professor McCammond had just completed a month of meetings with deans in which a number of coping strategies had been identified. These ranged from cutting programs that were already fragile to aggressive ways to increase revenue. Where possibilities for addressing the problem were limited or non-existent, she hoped that the $1.5 million allowed in the budget for this purpose would help.

The President recalled that there had been some questions at earlier meetings and informally about the consequence of a tuition freeze. He believed this presentation made it clear that any reduction in revenue would have a very serious impact on the University's operations. Because the source of student financial support was a holdback of 30% of any increases in tuition, there would be an immediate reduction of $5 million in funds available to students in need. Additionally, $11.7 million would be permanently removed

4. Budget Report -2003-04 (cont'd)

from the base budget and the deficit would increase to more than $25 million. He could understand the sentiment underlying the rhetoric, but in the current environment of funding for post-secondary education, the revenue projections were necessarily supported by tuition increases. It would be fiscally irresponsible to take a different approach, and it would be socially irresponsible to be the cause for such a reduction in student financial support.

A member cautioned against relying on tuition fees from enrolment growth to fund capital expansion. If the University were intending to rely on tuition from deregulated programs to fund capital growth, what was the assurance against poor planning in these divisions? Further, he hoped that this would not become the easy way to increase revenue.

Professor Neuman responded that every effort was made to ensure good financial planning up front so as not to have cost overruns on capital projects. Using the Bahen Centre as an example, she wondered if that building were not now available, where else would the students who populate those classrooms be taught. The tremendous enrolment growth over the past six years had been accompanied by direct costs related to the pressing need for classroom spaces, laboratory spaces, etc. As well, good teachers were needed to appropriately provide students with the quality instruction for which they paid fees and they needed office space. In her view, it was appropriate to partially finance capital expansion out of student fees and the University had never fully funded capital projects from that source.

The President added that, while he appreciated the concern that tuition fees were seen as an important source of revenue, it was a social judgment about what was a fair portion of education costs for students to pay. He noted that the difference between the annual income of those with a university degree and those without was greater than the total of the former's university tuition over four years. In any way one looked at it, a university education was probably the best investment one could make. Finally, he wanted to assure members that he and others in the administration worked relentlessly to make the government understand that it needed to give a higher priority to funding universities.

A member complimented the Provost and Professor McCammond and his team for recommending a difficult but prudent budget. He cautioned against under-estimating the implications of this budget. In his view, it would increase overcrowding everywhere; it would increase workload; and, it would slow down the realization of divisional ambitions. He believed it was important that a communication strategy be developed to handle the news of this budget in a positive way. He was concerned that divisions could not withstand many more years of budget cuts and believed that additional sources of revenue were urgently needed. He believed that the capping of tuition in 75% of the programs was damaging. Intensive lobbying had to continue to address the government-imposed revenue problem. In addition to a good communication strategy to inform members of the University community, it was necessary to effectively inform the people of Ontario and to have a public discussion about the real costs of post-secondary education.

Professor Neuman indicated that a plan was in place to send out a communique on Friday morning in the context of the budget announcement on Thursday afternoon. She thought it was important to note that, even with severe fiscal restraint, this University was outperforming every university in North America in faculty awards and quality of graduate

4. Budget Report -2003-04 (cont'd)

students and it had a reputation for exceptional undergraduate programs. This was especially commendable in these difficult times.

Professor Cummins was recognized. He noted that amidst the bad news of budget reductions and poor investment returns there was actually good news in the increased revenue. He believed that inroads had been made with the government. This was remarkable in the current environment and reflected a great deal of effort on the part of the administration.

Dr. Levy was recognized. He noted that the last decade had been difficult. With the high level of talent among the numerous presidents who had served universities in Ontario over this period, the people of Ontario had not been convinced, through three governments, of the case for appropriate post-secondary funding. Some years ago the British government had moved to an income-contingent repayment plan of student loans to pay higher tuition fees, once the income of a graduate rose above the level of the average income in the country. This had been discussed in Ontario but university administrations and student leaders had not been able to agree to it. In his view, such a program was the answer and he believed that if students and administration were to cooperate in putting this forward, it could become a reality.

A member acknowledged that many students appreciated the University's financial situation. The calls for a tuition freeze were related to what students perceived to be the impact on society of higher tuition fees. He saw anecdotal evidence of linkages between higher tuition fees and career choices in, for example, the Faculty of Medicine. He shared with members an excerpt from an article in *The Economist* which cautioned about raising education costs and limits to accessibility.

A member echoed earlier comments about how long the University could continue to do well with reduced funding. He believed the University had done a good job of publicizing its successes but it also needed to publicize its fiscal problems. In particular, the message needed to be conveyed successfully to the public.

A member expressed concern that at a time when Ontario universities were funded the least of all their peers, politicians were boasting about the efficiency of public institutions. He reiterated that underfunding had gone on for a long time and, in his view, it was now reaching the period when reinsertion of revenue was absolutely critical.

The Chair agreed with comments that the University had been tremendously successful with ever-reducing resources. Referring to the anecdotal evidence of linkages between increasing education costs and career choice in the Faculty of Medicine, his experience confirmed the shifts in career choice. However, these were clearly not related to expectations of higher salary because in the specialty of choice this was not a reality. Some of the issues that had been articulated to him were those of life style and, in particular, the promise of a more challenging career.

A member reiterated an earlier comment about the importance of lobbying political candidates, particularly with an election expected. Professor Neuman assured members that the President and Dr. Levy had been spending a great deal of time over the past few months speaking with political leaders and the higher education critics. They were aggressively working all three political parties. In addition, if a recent Council of Ontario

4. Budget Report -2003-04 (cont'd)

Universities initiative for increased funding were successful, it would be as a result of effective lobbying by the Ontario university presidents.

A member thought this budget had been brought about by unavoidable circumstances that would be difficult to communicate to the University community. He hoped the white paper would confront the reality of the hard decisions that needed to be made. He hoped the administration would challenge the divisions to deal with the realities and he saw the white paper as a mechanism for hope.

On motion duly moved and seconded,

YOUR COMMITTEE RECOMMENDS

THAT the Budget Report for 2003-04 (attached as Appendix "A") be approved.

5. School of Graduate Studies: New Program - Master of International Trade in Forest Products

The Chair referred members to Professor McCammond's memorandum of March 6 which reviewed the financial or planning implications of the proposed Masters Program in International Trade in Forestry Products in the Faculty of Forestry. There were no questions.

6. Capital Project: Project Planning Report - Faculty of Arts and Science, Economics Building

The Chair welcomed Professor Don Dewees to the meeting for this item. Professor Berkowitz, Chair of Economics, was out of the city and had been unable to attend the meeting. In his absence, Professor Dewees and Professor Amrhein would respond to questions about the project. The Chair invited Professor Venter to comment on his memorandum of March 12, 2003 and its attachments (attached hereto as Appendix "C").

Professor Venter briefly reviewed the history of this capital proposal, highlighting changes in plans for funding that had taken place since the Committee first gave approval in principle in September 2001. The project had been separated into two phases. The intent was to proceed with the design of the complete project, Phases 1 and 2, and appoint the consultants with the instruction that the project could, depending on the funding available, be constructed in two phases. Phase 1 could proceed under a mortgage for $6 million to be assumed by the Faculty of Arts and Science with an expected construction start date of December 2004. Funding for Phase 2 would be raised from external sources, with the full amount to be secured before commencement of construction December 2004. In the event that all of the funds for both phases were secured by the completion of the design stage, the entire project could proceed to construction.

A member expressed the view that, given the current fiscal and recruitment environment, this was not the best time to be making this kind of a financial commitment. The member was unconvinced that there was a need for the space that this project would provide, pointing to available space only a block away from the Department. The Department of Economics had other needs that would be competing for these funds in the very near

6. Capital Project: Project Planning Report - Faculty of Arts and Science, Economics Building (cont'd)

future. In particular, with the pressure on salaries for academics in this discipline, recruitment and retention of faculty would be a serious need.

Dean Amrhein responded, assuring the Committee that the Department of Economics had been scrupulous in the planning of this project. It had managed to significantly raise its rankings internationally and had been able to recruit highly qualified young faculty members, who were now being housed in facilities that were seriously inadequate in every way. There was concern that faculty members who had been attracted by the Department's academic reputation would not stay because of the deplorable physical surroundings in which they were required to work. He was not aware of any other available space to meet the Department's needs. The financing for this project would be derived from revenue arising from graduate and undergraduate enrolment growth. This project had been identified by the Department as its top priority, it had been carefully scrutinized for fiscal feasibility and he was in full support of it.

Professor Dewees was invited to comment. He confirmed the conclusion of the project planning report that space was badly needed in the Department of Economics. Office space for new faculty was poor; doctoral-stream students were minimally accommodated and space of any kind for graduate students was a problem. The Department would be hiring additional faculty members this year which would require the dislocation of the doctoral-stream students. He confirmed that newly recruited faculty had left after a couple of years because of the very poor office space. This was a situation that the Department could not afford, given the current competitive market for faculty. Every review of the Department in the past number of years had echoed the concern about unsatisfactory office space. In closing, he expressed appreciation for the support of colleagues in Arts and Science and from the senior administration of the University.

A member raised the general question of how office space allocation on the St. George campus for faculty members from the east and west campuses complied with the new policy for academic space. Professor Venter replied that assignments were in compliance with the policy. Most often allowances were made for shared space in these instances.

A member enquired about the use of the space that would be vacated in the Institute for Policy Analysis as a result of this project. Professor Venter said there was a great shortage of office space in other departments in the Faculty of Arts and Science for which this vacated space would be welcomed.

In response to questions about alternative uses for the $6 million and any risk that this funding might not be achieved, Professor Venter reiterated that the project had been identified as a top priority by the Department after an exhaustive and careful review of its needs. There was risk only if the enrolment objectives were not realized and that was highly unlikely. Dean Amrhein expanded on this, explaining the revenue sharing in the Commerce program, and closing with the assurance that there was virtually no risk to Phase 1, and Phase 2 would not proceed until fund-raising had secured the necessary funds.

6. Capital Project: Project Planning Report - Faculty of Arts and Science, Economics Building (cont'd)

A member asked for clarification of the funding. Was the revenue coming from enrolment growth in all Arts and Science programs? Dean Amrhein answered that it was coming from the differential fees paid only by Commerce students.

On motion duly moved and seconded,

YOUR COMMITTEE RECOMMENDS

1. THAT the project planning report for the Department of Economics be approved in principle. The project has two phases and the initial design will incorporate both phases in the design stage. The two phases will only be constructed concurrently if all funding is secured; presently only the funding for phase 1 has been defined.

2. THAT the project scope of 1880 nasm of new space and 450 nasm renovated space be approved at an estimated total project cost of $14,300,000 (May 2004), with funding as follows:

   (i) Financing of a mortgage in the amount of $6,000,000 to be repaid over a 25 year amortization period at 8% per annum by the Faculty of Arts and Science to coincide with needs of the project. This contribution will address the first phase of the project.

   (ii) $8.3 million to be raised from external sources by the Faculty of Arts and Science for the second phase of the project. The second phase of the project will only proceed to construction once all funds are secured.

7. Capital Projects: Project Planning Committees – Membership and Terms of Reference

7.1 89 Chestnut Residence
7.2 University of Toronto at Mississauga Student Residences, Phase VIII

In response to a question, Professor Neuman said that the purchase of the Colony Hotel would end the subsidization of residence space to fulfil the first-year guarantee. Negotiations were ongoing with the Primrose Hotel and it was possible that there might be some cost to breaking that contract which had one year remaining.

Professor Venter noted a correction to the memorandum on the University of Toronto at Mississauga Student Residence, Phase VIII. Item 3 in the Terms of Reference should have indicated "approximately 400 beds" rather than "200".

8. Other Business

There was no other business.

9. Date of the Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Tuesday, April 15, 2003 in the Council Chamber, beginning at 5:00 p.m.

The meeting adjourned at 7:15 p.m.

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Secretary Chair

April 1, 2003