University of Toronto

# Service Ancillaries Report on Operating Plans

# For the Year 2003-2004

**SARG**

April 4, 2003

# For the Year 2003-2004

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# EXECUTIVE SUMMARY

## Background

Each year the University Affairs Board approves operating plans for all service ancillaries. These describe the services and programs proposed to be offered within the financial parameters set by the University's operating budget and financial policies set by the Business Board. The plans include each ancillary's annual operating budget, and describe changes to programs and levels of service, categories of users, accessibility, and compulsory or optional fees.

The service ancillaries' annual budgets for 2003-04 and long-range plans for 2004 to 2008 were reviewed by a number of student and local committees and councils. There is student representation on all committees and councils except the Resource, Planning and Priorities Committee at UTM (see page 11).

Following this consultative process, the Financial Services Department reviewed the management reports submitted by each ancillary, for completeness, adherence to fiscal policies and financial feasibility and assessed the progress made by each ancillary towards achieving the four financial objectives established for ancillaries. These are:

1. To operate without subsidy from the operating budget. Should the need for subsidy be identified, the subsidy must be expressed as a matter of policy and compete on equal terms with other priorities in the operating budget.

2. To provide for all costs of capital renewal, including deferred maintenance. Provision must be made for regular replacement of furniture and equipment.

3. Having achieved objectives (1) and (2) to create and maintain an operating reserve (excluding capital requirements) equal to fifty percent of annual expenditure budgets (net of cost of goods sold and capital costs) at a rate of accumulation of five percent per annum, as a protection against unforeseen events which would have a negative financial impact on the operation.

4. Having obtained objectives (1), (2) and (3), service ancillaries will contribute net revenues to the operating budget*. The rate of contribution will be established by each individual campus for each individual ancillary. (*For purposes of clarification, objective 4 relates to all contributions of net revenues made by the ancillary operation to any operating budget outside of their own operations.)

Issues requiring further action were identified by Financial Services and addressed by the ancillaries. Finally the budgets were reviewed by the Service Ancillaries Review Group (SARG), which includes three members of the University Affairs Board, one of whom is a full-time undergraduate student.

The SARG provides advice and formulates recommendations on the operating plans for all service ancillaries. The SARG process contributes to the success of the ancillary operations by providing direction and guidance on short and long range planning. It serves as a review and monitoring group and recommends plans and budgets for approval. It also considers other matters that fall within its purview.

This report includes a summary of key issues pertaining to ancillaries, highlights for each ancillary budget and summary financial information on the 2003-04 budgets and long range plans and on the extent to which each ancillary anticipates achieving the four objectives. Copies of the detailed submissions may be obtained from any of the following offices: Governing Council, Vice-President Business Affairs and Vice-Provost, Students.

Collectively, the service ancillaries are projecting a cumulative surplus of $23.8 million (which includes investment in capital assets of $12.2 million from St. George Parking) for 2003-2004, while contributing $0.8 million to operating funds. Graduate House and UTM residence are projecting deficits, while all other service ancillaries are projecting surpluses for the year. Commitments to capital renewal total $7.8 million. The St. George Family Housing ancillary also has a trust fund of $3.2 million, which is reserved for major capital improvements based on the purchase agreement with Ontario Housing Corporation (OHC).

# Summary of Key Issues

The key issues facing service ancillaries relate to enrolment expansion. Mississauga, Scarborough and New College residence ancillaries will have their new residence buildings ready for September 2003. University College is planning to add capacity in 2004-05 and those plans are contained in their submission. Food service expansion is in the early stages. Selected parking expansion is also planned at UTM and UTSC. Ancillary heads have agreed to meet with the Vice-President, Business Affairs on a one on one basis in the fall of 2003, to discuss issues specific to each ancillary.

A focus group of some ancillary heads lead by UTM, will be addressing the following issues,

- Concerns were raised at SARG about the level of reserves (operating and capital) for all ancillaries and the need for a guideline that requires contribution to the reserve fund before the contribution to the operating fund. (Feedback by June 2003)

- Review of residence rates with the need to balance between market rates, recruitment and accessibility.

- Defining what a subsidy is and how it currently applies to undergraduate residence, leaving no attention to family and graduate student housing.

- Study ancillary needs with two underlying themes:
    1. Ancillaries are decentralized and therefore accountability should be left with the ancillary.
    2. Premise that each ancillary should be a self-sustaining operation, with the view of identifying principles to support this and a consistent application of the principles.

**Other residence issues:**

To be reviewed by each ancillary head by Fall 2003:

- Fair application of central subsidies to all residence ancillaries including UTM & UTSC.
- Improving the marketing of each residence to potential students.
- Improve fundraising activities for residence expansion with the assistance of development division.

**Other ancillary issues:**

To be reviewed by Food & Beverage ancillary heads as a group by Fall 2003:

- Review of current 3rd party food service contracts with the view of leveraging contracts across all 3 campuses.
- Addressing F&B space requirements, as a result of enrolment growth.

To be reviewed by Parking ancillary heads as a group by Fall 2003:

- Analysing the cost of ticket and permit enforcement, with a view of improving efficiency.

To be reviewed by St. George Parking ancillary by Fall 2003:

- Review of downtown cash parking rates. The possibility of implementing a differential rate scale for each lot based on market rates within their respective neighbourhoods.

# Residences

Residence ancillaries are planning to build additional residence spaces to meet the residence guarantee for first year students. The need for residence expansion has presented a financial challenge, in that the costs of building new residences have risen faster than residence rates. Currently, the approved annual subsidy from the academic priorities fund (APF) in support of residence expansion is $1.55 million for eight years, of which $1.2 million is allocated to Woodsworth College (starting 2004-05) and $0.35 million to New College (starting 2003-04).

In the case of the first objective, a subsidy will be provided for a maximum of eight years through the APF from the University's operating budget to a college's residence ancillary budget to cover a portion of the borrowing cost. The combined ancillary operation will be required to break even annually in year 5 and cumulatively in year 8, and the subsidy amount will be calculated to achieve those break-even targets. Should special circumstances warrant, the University may continue to assist a college with principal and interest payments after eight years.

In the case of the second objective, the normal capital renewal provision for new residence buildings will be deferred until the sixth year they are in operation.

The third objective will remain unaltered, i.e., the residence ancillary will continue to be responsible for funding operating and maintenance contingencies in the residences.

The first three objectives must be met before the fourth can be invoked, i.e., transfers from the residence and conference ancillaries to the divisional operating budget can only occur when the residence and conference ancillaries combined meet the first three objectives. During the current residence expansion program, the first three objectives will only be met after

1. the annual subsidy provision has ended;
2. the annual 1.5% provision for capital renewal is being set aside; and
3. operating contingencies have been provided for by means of net surpluses.

In the intervening period, it is expected that the residence and conference ancillaries will retain within their ancillary budgets the funds normally transferred to their college operating budget and use these funds to support the expansion program. This expectation has been factored into the financial plans which colleges have submitted for their program of residential expansion and into the calculation of the maximum subsidy available to each division from the APF.

During the residence expansion program, colleges are expected to continue to strive to maximize their cash flows through revenue and expense management. Each year during which a central subsidy flows to a college, the actual amounts generated by the residence and conference ancillaries combined will be compared to the amounts required in the subsidy model. Colleges will be allowed to transfer to their operating budgets any amount in excess of the amount required by the subsidy model to generate annual break-even of the ancillary in year 5 and cumulative break-even in year 8.

The ancillary objectives have been modified for Scarborough, Mississauga, New College and Graduate House residences to allow for deficits, with annual break-even in year 5 and cumulative break-even in year 8, with deferral of the capital renewal provision on new construction to year 6. Graduate House, which opened in 2000-01, has made progress towards reducing its cumulative deficit and is now projecting its elimination two years ahead of schedule.

## *Mississauga*

The new residence (Phase 7) is scheduled to open in September 2003, without subsidy from the academic priorities fund (APF). The capital renewal provision for the new building will be deferred to year 6.

The residence operation is forecasting a cumulative deficit of ($177,961) for April 30, 2004, which is then projected to increase significantly to a deficit position of ($1,262,152) by April 2008 as a result of the Phase 7 residence operation. The ancillary anticipates a positive operating result in 2007-08, but still expects a cumulative deficit balance in 2009-10 and therefore meets the requirement that the combined residence operation, including the new residence, breakeven annually by year 5, but not the requirement that it breakeven cumulatively by year 8.

UTM has now moved to a rate structure that is based on the type of accommodations as opposed to its previously structure which was based on the academic year of the student. Regular residence room rates are expected to increase at a rate of 6.5% to 6.6%, with graduate and family housing rates expected to increase by 1.9% to 2.9% in 2003-04. Graduate and family housing rates are subject to the Tenant Protection Act.

## *Scarborough*

The new residence (Phase IV) is scheduled to open in September 2003, without subsidy from the academic priorities fund (APF). The capital renewal provision for the new building will be deferred to year 6.

The ancillary is forecasting net operating losses for the first 4 years of the long range plan as a result of the phase IV residence. 2007-08 will be the first year of operation with an operating surplus of $110,295 before commitments and a cumulative surplus balance of $64,219 and therefore the combined operations is expected to breakeven annually and cumulatively in year 5. The capital renewal balance is forecasting annual increases of $34,800 to build the reserve to $399,915 by the end of 2007-08.

All room rates are budgeted to increase. First year student room rates are to increase by 5 %, with returning student room rates to increase by 12.8%. The rate increases ensures that rates charged to first year and returning students are consistent.

## *New College*

The new residence is scheduled to open September 2003, with a $0.35 million subsidy from the academic priorities fund (APF). The capital renewal provision for the new building will be deferred to year 6.

The 2003-04 budget projects a cumulative surplus of $880,712. There are no contributions in the 5 year plan to the college's operating fund due to the new residence construction. The ancillary is transferring $750,000 from its capital renewal reserve to fund the construction costs for the new residence.

Room rates are forecast to increase by 7% in each of the first three years until 2006/07 and followed by 5% increases in next four years with rate increases returning to 3% thereafter.

## *Innis College*

The 2003-04 budget projects operating surpluses after commitments to capital renewal, operating reserve and new construction reserve, with moderate increases in the following years. The residence has established a new construction reserve with a transfer of $100,000 from capital renewal reserve in an anticipation of future residence expansion. This balance is expected to increase to $275,000 over the 5 year plan. No expansion plans are reflected in this year's submission.

Winter room rates are forecast to increase 8.0% with summer room rates increasing 9.1%.

## *University College*

The 2003-04 budget projects a cumulative surplus of $1,329,278. The ancillary plans to spend $1.6 million on capital improvements for the Whitney Hall residence in 2003-04. The long range plan also includes the associated costs of building a new residence building. The budget reflects an annual operating surplus of $481,208 in year 5 of the combined new operations and a cumulative surplus of $725,475 in year 8.

The annual contribution to the College's operating budget of $125,000 is projected for 2003-04 and will be discontinued thereafter.

Room rates are forecast to increase 8% over the next two years with rate increases returning to 7% in the following two years and 5% in year 5.

### *Graduate House*

The residence is forecasting an annual operating surplus of $81,676 after commitments in 2003-04, and increasing each year to an annual surplus of $410,623 by 2007-08. The cumulative deficit continues to decrease and will be in a surplus position by 2004-05, two years earlier than the original approved plan.

The ancillary received in 2002-03, an annual subsidy of $20,000 from the School of Graduate Studies to cover the costs of an Assistant Dean (formerly Warden/Manager). This was the last year of the subsidy.

All residence room rates are forecasted to increase by approximately 3% in 2003-04.

### *St. George Family Housing*

This residence, which consists of two properties located at 30 and 35 Charles Street West, was purchased from the Ontario Housing Corporation (OHC) in September of 2001. The 2002-03 year is the first full year of operation for this residence. The 2002-03 forecasted surplus before commitments is $1.4 million. The 2003-04 budget and long range plan projects significant annual operating surpluses after commitments, with the unappropriated surplus growing to a forecasted amount of $4,463,830 by 2007-08. The ancillary expects to increase its capital renewal balance by $517,500 annually for next five years, increasing the reserve from a forecasted balance of $862,167 in 2002-03 to $3,449,667 by 2007-08.

A trust fund was set up as part of purchase agreement whereby the ancillary contributes $600,000 annually to the fund and the major capital projects are expensed through this fund. The fund balance at April 30, 2003 is expected to be $3,661,206. The ancillary is planning major maintenance expenditures of at least $1,000,000 annually for the next 5 years, which will reduce the trust account balance down to approximately $919,489 in 2007-08.

Apartment rates are forecast to increase by 2.9% in 2003-04 and are restricted under the Tenant Protection Act.

## Conference Services

Most of the residences run conference operations. However, only Mississauga and Scarborough manage their conference operations as ancillaries separate from their residence operations. Both Mississauga and Scarborough meet all four objectives.

### *Mississauga*

The 2003-04 budget anticipates an increase in the total fund balance from a forecasted level of $76,838 in 2002-03 to $110,668 by the end of 2007-08. The ancillary plans to continue contributions of $125,000 annually to the College's operating budget.

### *Scarborough*

The 2002-03 budget and long range plan project annual net surpluses, which are expected to grow the fund balance to $322,333 by the end of 2007-08. Annual contributions of $10,000 to the residence ancillary are expected to continue until 2005-06.

## Food and Beverage Services

St.George Food and Beverage operation meets all four objectives for the 2003-04 budget year. The other operations met the first three objectives.

### *Mississauga*

UTM Food & Beverage ancillary is forecasting an annual net surplus of $35,875 before commitments and transfers in 2002-03. The budget for 2003-04, projects a net operating loss of ($125,040) before commitments and transfers and modest annual net operating surpluses thereafter. The expected operating loss in 2003-04 is a result of replacing the original complement of tables and chairs in the Spigel Hall, and the hiring of a manager to oversee growth plans within the Food & Beverage operations.

### *Scarborough*

The 2003-04 budget and long range plan projects a cumulative surplus of $45,885, which is expected to grow to an accumulated surplus position of $82,840 by 2007-08.

Two new franchises have been installed in the spring of 2002 resulting in an increase in sales volume. The renovations of the H-wing kitchens and servery will begin in summer 2003. This is the first stage to increasing the food service capacity at UTSC. With an expected increase in demand in 2003-04, a temporary solution is to use portable kiosks offering pre-packaged menu items. Plans are currently being developed to increase seating capacity by recovering space which had been previously converted from dining space to classroom use.

### *St. George*

The ancillary is generating net operating surpluses throughout the long range budget while in the process of building each of the reserve balances. The budget projects to have increases in the capital renewal reserve growing to a balance of $847,900 by 2007-08. An annual contribution to the operating fund in the amount of $200,000 is projected for 2003-04, and will be suspended thereafter until all reserves are sufficiently established. Plans for expansion include an additional retail food service outlet at the School of Continuing Studies for 2003-04.

### *New College*

The 2003-04 budget and long range plan projects operating surpluses before commitments in each year of the five year plan. The Ancillary is in the process of renovating the food services area to accommodate the increase in number of students as a result of the new residence building. The kitchen renovation project, which has been approved by AFD, is expected to be complete by September 2003.

Meal plan rates are forecasted to increase by 5% in 2003-04 and 3% thereafter.

### *University College*

Operating results for 2002-03 forecast a surplus of $214,083, which exceeds budget by $52,656. The 2003-04 budget and long range plan project a cumulative surplus balance of $609,704 by the end of 2007-08, after transferring $800,000 in 2004-05 to the residence ancillary to offset part of the costs associated with the planned new residence and kitchen.

Meal plan rates are forecasted to increase by 4% over the next two years with 2% increases in the last three years of the plan.

## Parking Services

Scarborough parking operations meets the four objectives, St. George meets the first three objectives while Mississauga meets only the first objective.

### *Mississauga*

The project to build an underground garage beneath the CCIT building is in progress and scheduled to open in September 2004. A new 300-space paved parking lot opened in September 2002 to replace the parking spaces lost due to the CCIT building construction.

In order to meet the requirements of the Master Plan and projected enrolment growth, the ancillary will need to provide more parking spaces without diminishing the green space on campus. Accordingly, another underground parking garage is being planned beneath the Library and an above ground parking structure that will accommodate 1000 spaces expected to open in 2006-07. As a result of the proposed expansion, the parking rates are expected to increase by 25%-35% per year over the next seven years. The resulting expansion plans are projecting a cumulative deficit of ($4,968,777) by 2007-08.

### *Scarborough*

The UTSC parking ancillary is expected to have completed the construction and renovation of 2,399 spaces by September 2003. The operating plan for the expanded parking operation is included in the long range plan for the partial year in 2003-04 and at full capacity thereafter.

The net operating surplus after commitments is expected to be $126,078 in 2003-04. The total fund balance (including all reserves) is expected to be $412,767 in 2003-04 and accumulate to $1,017,415 by the end of 2007-08.

### *St. George*

The ancillary will contribute to the University's operating fund again in 2002-03, with an anticipated land rent of $912,000. Due to the financing costs of the BCIT parking garage and increases in capital reserve requirements related to parking garages, the ancillary will not be able to make any further contributions to the land rent after 2002-03.

The capital renewal reserve balance will decrease to $295,147 in 2003-04 due to an increase in major maintenance expenditures, most of which relate to McCaul Street parking structure. Annual increases to the capital renewal reserve in the remaining years, the reserve is forecasted to be $629,219 by 2007-08.

Annual permit price increases are projected in the long-range plan at inflationary levels of 2%.

## Hart House

The second and third objectives are met by Hart House within the 2003-04 budget year. Hart House received transitional funding of $236,000 per year for 3 years, to facilitate the integration of Hart House Theatre into their operations. This funding will end in 2003-04. As a result of the transitional funding, Hart House does not meet the first objective. After the 3 year transitional period, a review of the Hart House Theatre operation will be completed and a decision on whether or not to continue will be made. Work is underway to generate an endowment to sustain the theatre.

The cumulative surplus balance is projected to be $919,000 in 2003-04 and $349,000 at the end of 2007-08. The capital renewal reserve balance is projected to be $515,000 in 2007-08.

The plan reflects proposed capital expenditures with both the student fee rate and senior member fee rate forecasted to increase by 3.5% in 2003-04.

# Members of the Service Ancillary Group

| | |
|---|---|
| Vice-President, Business Affairs & CFO (Chair) | Felix Chee |
| Controller and Director of Financial Services | Sheila Brown |
| Chief Administrative Officer, UTM | Paul Donoghue |
| Assistant Vice-Provost, Office of the Vice-Provost (Planning and Budget) | Marty England |
| Associate Principal and CAO, Scarborough | Kim McLean |
| Assistant Vice-President, Facility and Services | Catherine Riggall |
| Vice-Provost, Students | David Farrar |
| Vice-Provost | Ron Venter |

***Co-opted members from University Affairs Board*:**

| | |
|---|---|
| Residence Life Coordinator, Victoria College | Jason Hunter |
| Assistant Dean, Fac. of Physical Education and Health | Karen Lewis |
| Full-time Undergraduate Student | Geeta Yadav |

***Resource Staff:***

| | |
|---|---|
| Manager, Accounting Services | Lou Ranalli |
| Financial Accounting Analyst | Preetkamal Shahi |

# Review and Consultative Process
# with Student/Local Committees and Councils

## 1. University of Toronto at Mississauga

### Parking

| | |
|---|---|
| Parking and Transportation Committee | College Affairs Committee |
| *Resource, Planning and Priorities Committee | College Council |

### Residences

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|---|---|
| Residence Council (including Residence Finance committee) | College Council |
| College Affair Committee | Resource, Planning and Priorities Committee |

### Food Services

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| College Affairs Committee | Resource, Planning and Priorities Committee |
| College Council | |

## 2. University of Toronto at Scarborough

### Parking

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|---|---|
| Planning & Budget Committee | **Council on Student Services |

### Residences

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|---|---|
| Student Village Council | Residences Advisory Committee |
| Planning & Budget Committee | **Council on Student Services |

### Food & Beverage Services

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| Food and Beverage Services Users' Committee | Planning & Budget Committee |
| **Council on Student Services | |

### Facilities Rental & Conference Services

Planning & Budget Committee

# 3. St. George Campus

## Residences

Sir Daniel Wilson Residence Budget Committee
Whitney Hall Residence Budget Committee
Law Houses and Aboriginal House representatives
Graduate House Council (residents)
Residence Management Committee
University College Residence Council
New College Residence Budget Committee
Innis Residence Committee
SGS Graduate House Governing Body

## Food Services

Foods Services Committee
University College Residence Council Food Committee

# 4. Hart House

Finance Committee
Board of Stewards

All include student representation except *
**for information only

VPBA
April 1, 2003