UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 164 OF THE BUSINESS BOARD

February 4, 2008

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, February 4, 2008 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Richard Nunn, (In the Chair)
Mr. John F. (Jack) Petch, Chair of the Governing Council
Dr. C. David Naylor, President
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Ms Mary Anne Elliott
Mr. Alex Kenjeev
Ms Paulette L. Kennedy
Dr. Stephan Mathias Larson
Mr. Jim Linley
Mr. Gerald A. Lokash
Mr. Gary P. Mooney
Mr. David Oxtoby
Professor Arthur S. Ripstein
Mr. Stephen C. Smith
Mr. John Varghese
Ms B. Elizabeth Vosburgh
Mr. Larry Wasser
Mr. W. David Wilson

Professor Vivek Goel, Vice-President and Provost
Ms Judith Wolfson, Vice-President, University Relations
Professor R. Paul Young Vice-President- Research
Ms Sheila Brown, Chief Financial Officer
Mr. Louis R. Charpentier, Secretary of the Governing Council
Ms Rivi Frankle, Chief Operating Officer, University Advancement, and Assistant Vice-President, Alumni Relations
Mr. Nadeem Shabbar, Chief Real Estate Officer
Ms Elizabeth Sisam, Assistant Vice-President, Campus and Facilities Planning
Mr. Ron Swail, Assistant Vice-President, Facilities and Services
Professor Safwat Zaky, Vice-Provost, Planning and Budget

Mr. Neil Dobbs, Secretary

Regrets:

Mr. P. C. Choo
Ms Susan Eng
Dr. Gerald Halbert
Dr. Joel A. Kirsh
Mr. Geoffrey Matus
Mr. George E. Myhal
Mr. Robert S. Weiss
Mr. Yang Weng

In Attendance:

Ms Deepa Jacob, Research and Policy Analyst, Office of the Vice-President, Business Affairs
Mr. Ben Louie, Development Manager, Capital Projects Department
Mr. Henry T. Mulhall, Assistant Secretary of the Governing Council
Mr. Ed Odette, Construction Manager, Capital Projects Department

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ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

The Chair noted that the major theme of the meeting was the University's capital program. That program had a significant impact on the University, exposing it to significant risks – financial and other risks. Therefore, careful planning was required for individual projects and for the capital program overall. The Board would be reviewing the capital program, the risks inherent in it, and the University's plan to manage those risks. It would first receive a report on the program – on its progress over the past year and its current status. Having looked at new buildings, the Board would then look at how the University was doing managing the old ones – reviewing the annual Report on Deferred Maintenance. Finally, the Board would look at the University's strategy for borrowing to finance the capital program. That would be followed by consideration of a proposal to permit borrowing to finance government-backed projects to enable the expansion of graduate-student enrolment.

1. Report of the Previous Meeting

Report Number 163 (December 17, 2007) was approved.

2. Senior Appointments and Compensation Committee: Annual Report, 2006-07

The Board received the Annual Report of the Senior Appointments and Compensation Committee for 2006-07. Mr. Petch said that the work of the Committee was evolving. It was currently a different and broader-based committee than it was in previous years when it was called the Senior Salary Committee. The Committee consisted of several senior, external members of the Governing Council: the Chair and Vice-Chair of Council, the Chair of the Business Board, an alumni member of the Governing Council selected by the Chair after consultation with the alumni governors, and a member of the Business Board selected after consultation with the Chair of the Business Board. The external nature of the membership was intended to ensure the Committee's independence. The President was the only internal member; he participated fully in the Committee's decisions, apart from those that concerned him. The Vice-President and Provost, and the Vice-President, Human Resources and Equity participated, where appropriate, as Non-Voting Assessors. The Committee was responsible for making decisions concerning compensation of the University's most senior officers. It oversaw decision-making by the President concerning senior academic administrators and senior administrative staff. The Committee now also approved certain appointments including Assistant Vice-Presidents and Associate Vice-Provosts.

Mr. Petch said that the Committee was charged to make an annual report to the Business Board to attest that appropriate compensation policies and programs were in place for senior officers and that decisions about compensation had been taken in accordance with them. As members would see, the annual report did confirm that appropriate policies were in place and were followed. The year had been an active one for the development of the Committee's processes. Among other things, the Committee had begun the exercise of its new authority to approve appointments to a number of positions. The first appointee was one of the Assistant Secretaries of the Governing Council.

2. Senior Appointments and Compensation Committee: Annual Report, 2006-07 (Cont'd)

The year 2007-08 would be the first full year of operations under the revised Policy, and the Committee's report in one year's time could follow a new format. Mr. Petch was pleased with the progress of the Committee and with the broader base of its activities.

3. Capital Program Review

Mr. Shabbar presented an update on the capital program, dealing with projects since the previous review in December, 2006. The program had been a very active one. Mr. Shabbar displayed pictures of the major projects that had been completed during the reporting period, many of them winning significant awards for their design. Those projects included several at the University of Toronto at Mississauga: the Hazel McCallion Academic Learning Centre (LEEDS Silver Award and Mississauga Urban Design Award of Excellence), the Centre for Culture Communications and Technology (Mississauga Urban Design Award of Excellence), the Athletics and Wellness Centre (Mississauga Design Award of Excellence) and the Oscar Peterson Residence. Projects in the Report on the St. George Campus included the Multi-Faith Centre (LEAF Awards Nominee) and Phase I of the Varsity Centre, including the new track and field surfaces and the spectator stands. The University was currently working on the design for the second phase of that project. The topics covered in Mr. Shabbar's presentation were as follows.

- **Risk management: general**. Risks for capital projects fell into three major categories: budget, schedule, and change or creep in project scope. While some of the risks could not be controlled, the University made every effort to mitigate potential risks, and it had achieved considerable success overall.

- **Budget risk**. Budget risks included those involving market conditions, and the construction market had been very tight in recent years, particularly in the greater Toronto area. Such market conditions of course drove prices up as the demand for various construction services often exceeded supply. Prices could also be driven up by change orders arising from changing requirements by building occupants and by architects, as well as by claims filed by contractors for costs in addition to construction costs. The University sought to mitigate those risks by using pre-qualified contractors with good reputations and with whom the University had enjoyed good relations in the past. For example, there was a list of eight contractors who were welcomed to bid on contracts for major projects. Projects were overseen by good project managers – either on the staff of the Capital Projects Department or external managers. Finally, the University sought to prevent budget overruns by building a reasonable amount for contingencies into the budget for each project.

3. Capital Program Review (Cont'd)

In response to questions, Mr. Shabbar said that the list of pre-qualified contractors was kept up to date on an on-going basis. Contractors regularly solicited the University, seeking to be added to the list. A rigorous process was used to consider new firms, which included reference checks in each case. Factors considered by the University included the contractor's financial stability. Project managers were often in-house staff members, with an individual staff member overseeing most projects. Depending on the size of the projects, individuals would be assigned one large project or several small projects. The University could also outsource project management when the schedule of projects was high and could not be accommodated by in-house resources. It had developed a good group of pre-qualified external project managers to whom it could turn.

- **Schedule risk**. There were various reasons why a project might not be completed by the planned occupancy date – a serious problem in the light of the needs driven by the academic year. Trades services might, owing to tight market conditions, not be available when required. Similarly, materials might not be available on time – a particular problem in building the highly specialized projects required to house teaching and research activities. Weather conditions could delay projects, and the University could not control that factor. There might be delays in obtaining necessary approvals from the City. Finally, there might be site problems that could not be identified until construction had begun. For example, in one current project, the University had discovered that the site had been used as a snow-salt dump and the sub-surface soil had been left in a contaminated condition. The University used several methods to mitigate schedule risk. It worked closely with contractors, with whom the University maintained good relations, ensuring that timelines were laid out and well understood. It also made payments promptly. The review of designs by the expert Design Review Committee helped to mitigate change orders; a firm design was put into place before projects began.

- **Risk of project scope change**. Various factors could be responsible for requests to change project scope. They included changes in academic requirements, changes arising from unanticipated site conditions, and objections or other input from the neighbouring community. Input from donors could also affect building design. That problem was, however, rare; it was well controlled by relations between the donor and the University Advancement office, which ensured clarity of expectations from the beginning of the process. Similarly, community liaison efforts sought to ensure that there were no surprises to the community before projects had begun. Mitigation efforts with respect to project creep also included management of the project budget, the inclusion of a reasonable contingency budget, and good contract management, involving lump sum contracts and oversight by project managers.

3. Capital Program Review (Cont'd)

- **Risk mitigation: general**. Mr. Shabbar stressed that the University had been successful in its recent history in mitigating the risk factors.

  A member asked whether the University could allocate some of the risks of capital projects to others, or was if required itself to bear all of the risks? Mr. Shabbar replied that the answer depended on the contract arrangements for a particular project. If the project was one to be completed based on a lump sum, the University bore a great deal of the risk. If the University chose to contract based on construction management, the risks were on the construction management company. Using construction management involved paying a premium.

- **Program and program budget**. The previous review of capital projects had taken in the period beginning in 1999 and continuing to August 2006. During that period, the University had engaged in 55 projects at a total cost of over $935-million. The originally approved cost of those projects had been $835-million. Over $100-million of supplemental approvals had been required to handle scope changes and difficulties incurred as the result of site conditions and other factors.

  For the period of the current report, September 2006 to December 2007, the University had undertaken 11 new projects at a cost of $204-million. No supplemental approvals had to date been required for those projects. Supplemental approvals of $6.3-million had been required for projects that had begun earlier but were not yet closed. That consisted of governance approval for $4-million of additional costs and approval by the Vice-President, Business Affairs for $2.23-million. (The Vice-President had authority to approve cost increases of up to $2-million or 10% of the project cost, whichever was less.) The projects that had required increases were the Science Building at the University of Toronto at Scarborough, the Multi-Faith Centre, and the upgrade of the cooling infrastructure.

  Of the fifteen projects formally closed during the reporting period, one had been completed at the final approved budget and fourteen had been completed for a cost below the approved amount, leading to a positive variance of $9.19-million.

- **Occupancy target.** Two of the eleven new projects had been completed within the target date. Nine others remained under construction. Of the ten projects, old and new, completed in the September 2006 – December 31, 2007 period, four had been completed by the target date and three had been functionally completed, enabling the occupants to move in and to perform their usual functions while deficiencies were cleaned up. Three had missed their target dates. Phase I of the Varsity Centre project had not been completed owing to additions to the scope of the project and delays by the City in issuing the necessary permission for the revised project to proceed. The Multi-Faith Centre had

3. Capital Program Review (Cont'd)

been delayed by the time lag in receipt of the imported alabaster material required for the ceiling. Finally, the Hazel McCallion Academic Learning Centre had been late in opening owing to contractor delays. The contractor had underestimated the resources required to complete the project. The University was now dealing with a disputed claim arising out of the situation.

In response to a member's question, Mr. Shabbar noted that the contractor involved in the claim concerning the Hazel McCallion Academic Learning Centre was also involved in a second claim situation. The University was considering whether the firm should remain on its list of approved contractors.

4. Capital Projects Report as at December 31, 2007

The Chair noted that the report on capital projects appeared as background information on the agenda for every meeting when the Board was asked to consider approval of capital projects. The current agenda, stressing the capital program, would provide an opportunity to give more careful attention to the report.

Mr. Shabbar observed that the report was in two parts: one dealing with projects under construction and the second with projects where construction had been completed but where the project had not been formally closed, perhaps awaiting the end of the warranty period. The report provided the date and amount of governance approval and of any supplemental approval, the forecast of the final cost, and the dollar and percent variance of the final cost from the approved amount. The report showed the cause of any variance (scope greater, tender higher, site conditions / coordination problems or a combination) and provided a brief commentary on the project. The report finally showed the target occupancy date or, for projects that were occupied, the actual occupancy date.

5. Deferred Maintenance: Annual Report to December 2007

Mr. Swail presented the Annual Report on Deferred Maintenance. He noted that the report was based on the Vanderweill Facilities Assessment (V.F.A.) program, which was used by all Ontario universities to record deferred maintenance. The database was maintained by the Facilities and Services Office. The Report dealt with academic and administrative buildings on the three campuses. To be consistent with the methodology used by the other Ontario universities, the report did not include the buildings used by the ancillary operations and day cares and also did not include the central utilities infrastructure. It also did not encompass certain environmental liabilities such as asbestos or mould, and it made no provision for the need for "adaptive renewal" of buildings. That is, it did not take into account the cost of installing new systems to bring buildings up to current standards: current fire code requirements (including secondary fire exits or sprinkler systems), current heating and air conditioning, etc. It did not bring in the cost making

5. Deferred Maintenance: Annual Report to December 2007 (Cont'd)

buildings accessible to the physically handicapped. It also did not include the cost of the planned conversion of buildings to new uses. The sum of those various costs was a very substantial one.

The highlights of the report included the following.

- **Facilities Condition Index** (F.C.I.) The Facilities Condition Index was determined by dividing the total cost of deferred maintenance (as defined to exclude the items above) by the replacement value of all buildings. The F.C.I. for the University of Toronto for 2007 was 9.5%, down from 10.3% the previous year. That was a milestone because the F.C.I. was below the 10.3% average for the other Ontario universities and below the 10% at which a university's buildings were deemed to be in poor condition. For the St. George Campus alone, the F.C.I. was 10.8% - a reduction from the 12.0 % the previous year.

- **F.C.I. improvement**. There were several reasons for the improvement in the University's F.C.I. First, there had been significant spending to deal with deferred maintenance: both from the University's operating budget and from the Province's Facilities Renewal Fund. Second, there had been significant improvements owing to the renovation of a number of older buildings, for example the Canadiana Building on Queen's Park Crescent and the Economics Building on St. George Street. Third, to achieve consistency with other Ontario universities, there had been a change in the methodology used to calculate the F.C.I. For example, buildings used to house central infrastructure facilities, such as the Central Steam Plant on the St. George Campus, had been removed from the calculation. Fourth, new buildings had been added to the inventory, such as the Donnelly Centre for Cellular and Biolmolecular Research and the Leslie Dan Pharmacy Building. They had increased the denominator of the fraction determining the F.C.I., resulting in a reduction in that index.

- **Deferred maintenance by campus**. Mr. Swail displayed a graph showing the amount of deferred maintenance over the past three years, with a breakdown by campus. It was clear that the problem was one that most afflicted the St. George Campus, with its predominance of older buildings critically needing repairs.

- **Priorities for work**. Mr. Swail said that deferred maintenance work was classified according to priority. He displayed a graph showing the amount of work that should be done over various time periods. For example, $71.6-million of work should be completed on the St. George Campus within one year. A total of $400,000 of work on the Mississauga campus and $700,000 of work on the Scarborough Campus work should be completed within a year. In between one and three years, $94.7-million of deferred maintenance work should be completed on the St. George Campus, $2.3-million on the Mississauga Campus and $4.1-million on the Scarborough Campus. Clearly, the largest portion of needs for work early on was again on the St. George Campus.

5. Deferred Maintenance: Annual Report to December 2007 (Cont'd)

Several factors were taken into account in determining priorities. First, the University had to move to deal with health and safety needs and other legislated priorities. Second, the University had to complete work where there was a risk of building failure according to V.F.A. criteria. Third, the University would complete projects that were required to support academic priorities. Fourth, the University would complete deferred maintenance projects that could be coordinated with other major renovations to buildings. Such work included projects in the Koffler Multi-Faith Centre, the Canadiana Building, the Hughes Building, the Economics Building and the new Examination Centre.

In response to questions, Ms Riggall and Mr. Swail said that the Facilities and Services Department had developed and maintained a five-year list or plan. It had, for example, a listing of $12-million of roof-replacement projects ready to go at this time, should funding become available. The administration sought to make its decisions strictly according to the criteria noted above and to keep campus politics out of the decision-making. It sought to make some progress each year on all of the criteria, including improving the accessibility of buildings, improving the appearance of the campuses, and dealing with problems that were not visible to most observers such as roof replacements. A conscious decision had been taken to make deferred maintenance a University-wide cost in the new budget model so that the work could be done where the need was greatest rather than where most money was available.

Ms Sisam stressed that the project planning reports for major renovation projects invariably included sections that specifically addressed deferred maintenance needs in order to harmonize the deferred maintenance work with the adaptive renewal involved in the renovation.

Mr. Swail displayed photographs of recent deferred maintenance projects. The replacement of external staircases serving Sidney Smith Hall remedied a safety problem and helped to enhance the student experience by enhancing the campus environs. The replacement of fencing around the Wallberg Building (Chemical Engineering and Applied Chemistry) again served to enhance the campus and the student experience. The roof replacement on the Gerstein Science and Medicine Library was carried out at the same time as a major interior renovation to that building. It had been very important to replace the roof, which had been leaking in a number of locations. The tiles used on the roof were replaced with slate – a more costly material but one that lasted much longer. The renewal of the ramp leading to the Pratt Building enhanced the accessibility of that building and attached buildings including the Wallberg Building. Interior maintenance work had been performed in Convocation Hall – a very important ceremonial building and the University's largest classroom. The work had been made possible by a donation. The seating in the Hall had been beginning to break up and was replaced. The interior finishes of the Hall were repainted and improved. The original boiler had been replaced in the building housing the Ontario Institute for Studies in Education at 252 Bloor Street West. Because no

5. Deferred Maintenance: Annual Report to December 2007 (Cont'd)

provision had been made for replacement at the time of the construction of the original building, not then a University of Toronto building, it had been necessary to cut a hole in the building envelope to remove the older boiler, which was replaced by a new, smaller boiler. The replacement of building identification signs to meet a new standard would be completed in the 2008 year. Renewal of washrooms in areas of high student traffic was being completed. The improved aesthetics would enhance the student experience, and the new fixtures would use less water.

Mr. Swail concluded that the University was working on a wide variety of projects based on competing criteria. Through significant direct funding from the Province and from the University's operating budget, and also indirectly through renewals combined with major capital projects, the University had been able to reduce its deferred maintenance slightly and to improve its Facilities Condition Index. The liability would remain for decades to come, but with sustained annual funding the University would be able to manage the issue. Going forward, the Council of Ontario Universities, through its Ontario Association of Physical Plant Administrators, was working on a review of the infrastructure at Ontario universities. Much of that work had already been completed at the University of Toronto. Buildings housing ancillary operations, such as residence buildings, were not currently included in the database. The Ontario Association and the University might well, however, wish to consider adding those buildings to enable the universities to have a single number to express their deferred maintenance liability. The University had recently received a supplemental grant of $25.6-million from the Province of Ontario to help deal with the matter – a very welcome development.

Among the matters that arose in questions and discussion were the following.

(a) Facilities condition calculations for individual buildings. A member asked how the deferred maintenance cost and the replacement value of each building was calculated. How reliable were the estimates? Mr. Swail replied that that the costs were calculated beginning in 2001 as part of a common program established by the Council of Ontario Universities. The costs for the various items of deferred maintenance were based on standard cost models. They did not necessarily reflect the cost of the work that the University would choose to do. For example, the University had decided to use roofing materials that would be guaranteed for twenty-five years rather than the standard guarantee, which was shorter. The estimates were determined by detailed studies conducted by engineers who reviewed the history of each building and then examined each. While the numbers in the report were not absolutely reliable estimates of the cost of the deferred maintenance or of the replacement value of each building, they did provide a good indication of what those costs would be.

(b) Facilities of ancillary operations. A member asked whether there was a prioritized list of deferred maintenance for ancillary operations such as student residences similar to the list now before the Board for academic and administrative buildings. Ms Riggall and Mr. Swail replied

5. Deferred Maintenance: Annual Report to December 2007 (Cont'd)

that each ancillary was responsible to maintain its own facilities. An amount for capital renewal was included in the plan for each operation; that amount was to be taken into account in the determination of the fees or other charges levied by each ancillary operation. Mr. Swail noted that as a result, most of the student residences were in good condition. Nonetheless, some were in need of work, and it would be worth considering the development of common standards and the inclusion of the ancillary operations in the general assessment of deferred maintenance.

(c) Facilities of the federated universities. A member noted that the facilities of the federated universities were not included in the report. The deferred maintenance problem was worst at the St. George Campus owing to the age of its buildings, and the age of the buildings of the federated universities was probably greater on average than that of the other buildings of the St. George Campus. Did the federated universities face similar or even greater challenges than those facing the University of Toronto on its St. George Campus? Mr. Swail replied that, given the age of the buildings and the financial constraints faced by the federated universities, the member's conclusion was probably correct. However, not all of the federated universities had completed a comparable assessment of the deferred maintenance their buildings required. Victoria University had done so.

(d) Progress in dealing with deferred maintenance. A member noted that 83% of the buildings on the St. George Campus were in fair to poor condition. Yet the University was spending only about 20% of what would be required to deal with the problem adequately. Mr. Swail said that the spending of $13.6-million in 2006-07 had served to keep the Facilities Condition Index from deteriorating. However, the University was able to deal with the problem not only through direct spending on maintenance but also through the completion of major capital projects. The completion of such projects provided the University with a new or renovated building with no deferred maintenance, leading to some improvement of the situation.

(e) Provincial funding. A member asked how provincial funding was allocated. Could the University of Toronto take steps, such a lobbying the Government of Ontario, to improve its funding? Ms Riggall replied that funding was provided on a *pro rata* basis to each university relative to its total space. That, unfortunately, ignored that fact that the older universities had more substantial problems. There was also a bias towards the smaller universities arising from the fact that there was a minimum grant to each institution. The larger, older universities lost out for both reasons.

(f) Energy conservation projects. A member asked whether the University undertook energy conservation projects that received government support and that could eventually pay back their costs through energy savings. Mr. Swail replied that the University had about two and one-half years ago undertaken a chiller replacement and lighting retrofit program that would be completed shortly. That program had received support from all three levels of government - federal,

5. Deferred Maintenance: Annual Report to December 2007 (Cont'd)

provincial and municipal - and it would save the university about $1.2-million per year in operating costs. The University was engaged in a further project to replace all incandescent bulbs, which would save about $400,000 per year in operating costs. The Facilities and Services Department had requested that the University's operating budget supply it with a loan that would enable upgrades to heating systems, which would also lead to further operating savings. The time required for payback of projects depended on the building and the system improvements. However, there were limits to what the University could do. An external consulting study had found that the University's building systems were currently well managed and the University's performance exceeded benchmarks for comparable institutions. The University's design standards for capital projects certainly included the requirement for the most energy efficiency and consequent savings possible.

6. Borrowing Strategy Review

Ms Brown said that the report of the borrowing strategy included the same analysis and followed the same methodology as the previous year's report. Upon completion of the review, the administration had concluded that the current strategy remained a prudent one: that external debt not exceed 40% of net assets smoothed over five years, and that internal loans from the Expendable Funds Investment Pool not exceed $200-million. Comparisons with other comparable universities, using surveys conducted by Moody's Investor Service on U.S. public colleges and universities, indicated that the relative debt position of the University of Toronto remained very much the same as in the previous year.

In response to questions, Ms Brown said that the strategy had originally been developed by examining the University's balance sheet to ensure that the balance between the proposed liability and the assets and net assets was a reasonable one. The University had then, on a going-forward basis, projected out its net asset positions and had also looked at its future debt position relative to U.S. peers with similar credit ratings. The definition of net assets used was consistent. In most cases, universities' net assts consisted primarily of their endowments. The sinking fund used to accumulate money to repay the bullet debentures at their maturity was invested by the University of Toronto Asset Management Corporation (UTAM) in the Long-Term Capital Appreciation Pool – the same pool as that used for the investment of the endowment.

7. Borrowing: Status Report to December 31, 2007

Ms Brown noted that the borrowing status report provided information to December 31, 2007. (The information cited in the review of the borrowing strategy was to November 30, 2007.) The maximum borrowing capacity for 2007-08 was $875-million. The Board had allocated $825-million of that borrowing. However, of that amount, $22-million of internal borrowing had been repaid as at April 30, 2007– a fact taken into account for the first time in the current status report. The report did not take into account the repayment of external borrowing.

7. Borrowing: Status Report to December 31, 2007 (Cont'd)

Although occupants repaid project borrowing – principal and interest - into the internal sinking fund, the University's central external borrowing took the form of bullet debentures, which would be repaid only at the end of the debenture period. The effect of the repayment of the $22-million of internal borrowing meant that the effective amount of allocated borrowing was $803-million. The University's external borrowing had been raised through four debenture issues and through a number of small loans taken out prior to the implementation of the current borrowing strategy. In response to a question, Ms Brown said that the full amount of funds had not yet been borrowed for the projects for which borrowing had been allocated. Allocations took place at the time of project approvals. Short-term financing was provided to projects during the construction period. The issuance of long-term financing took place upon the completion of the project. Actual borrowing through the issue of debentures had taken place when market conditions were favourable.

8. Borrowing: Graduate Expansion

Ms Brown noted that a revised proposal had been posted to the web on the previous Friday, and members had been notified by e-mail. A copy of the revised item had been placed on the table for the meeting. Ms Brown said that there was only one difference between the original proposal and the one now before the Board: the authorization of borrowing for projects to enable graduate expansion was now specified for each of three years – $16-million for 2007-8, $31.4-million for 2008-09 and $5.6-million for 2009-10. Individual loans would not be issued for the various projects designed to provide accommodation for the planned expansion of graduate enrolment. Rather, three loans would be issued, one per year, to the Office of the Vice-President and Provost, which would in turn finance the projects. The individual projects costing $2-million or more would continue to come to the Governing Council and the Business Board for approval in the usual way, and projects costing less than $2-million would continue to be approved by the Accommodation and Facilities Directorate, again in the usual way. It would not, however, be necessary to authorize borrowing to support the individual projects. The principal and interest amounts, providing total notional capital of $78-million, was expected to be repaid by annual payments from the Government of Ontario over twenty years. The Government had approved this funding, subject to the University's increasing its graduate enrolment above 2002-03 levels by the numbers planned. The University's loan of $53-million of this notional capital would be allocated pursuant to the proposal now before the Board. The allocation of the rest had already taken place for larger individual projects that had come forward for approval earlier. The objective of the proposal was simply to make it easier to manage a range of projects. It would be possible to allocate small amounts of the approved borrowing to, for example, begin design work before submitting individual projects for approval. Approval of the proposal would mean that the administration would not have to seek approval twice – once for the small amount to begin feasibility and design studies and the second time for final approval. Ms Brown stressed that approval of the proposal would not authorize additional external borrowing. Before such borrowing took place, Ms Brown would seek separate governance approval in the form of the

8. Borrowing: Graduate Expansion (Cont'd)

specific resolution required by the lenders. In response to a question, Ms Brown said that the Vice-President and Provost intended to hold back approving $10-million of the proposed allocation in order to ensure that the University's enrolment did grow to the level required to realize the full Provincial funding.

On the recommendation of the Vice-President, Business Affairs,

YOUR BOARD APPROVED

THAT the Vice-President, Business Affairs be authorized to arrange borrowing from either internal or external sources to fund graduate expansion capital projects and renovation projects in the year indicated below:

$16.0 million	2007-08,
$31.4 million	2008-09,
$ 5.6 million	2009-10.
$53.0 million	

9. Financial Forecast, 2007-08

Ms Brown said that the University-wide forecast had been prepared on the same basis as that of the forecast presented in the previous year. The forecast was submitted with the usual caveats necessary for the projections involving forward-looking information. The forecast was based on an assumed investment return of 3.5% on the Long-Term Capital Appreciation Pool and on the assumption of no change in the funds carried forward by the budget units. The forecast included sensitivity analyses projecting the University's financial position in the event of a loss of 3.5% on the investments of the Long-Term Capital Appreciation Pool, a 0% return and a 7.0% return, in addition to the assumed 3.5% return. The forecast also showed the impact of a $30-million reduction in the divisional carry-forward funds. Ms Brown recalled that the Province of Ontario had provided very welcome additional funding to the universities at the end of its 2006-07 fiscal year. The forecast did not include any such funding for the 2007-08 year. The Province had announced additional funding to assist in dealing with the deferred maintenance, and the University of Toronto anticipated the receipt of $26-million of funding for that purpose.

10. Social and Political Issues with respect to University Divestment: Revised Policy

The Chair noted that the University Affairs Board was responsible for "non-financial aspects of University investments," It had recommended the revised Policy for Social and Political Issues with respect to University Divestment" to the Governing Council for approval. The proposal was being presented to the Business Board for information because of its interest in financial aspects of University investments.

10. Social and Political Issues with respect to University Divestment: Revised Policy (Cont'd)

Ms Riggall said that the University did not normally take institutional positions on social and political issues. Rather, as a steward of academic freedom, freedom of speech, and open debate, it provided the opportunity for the discussion of such issues. Occasionally however, the University as an institution reached the conclusion that appropriate debate on a social or political issue was over, for example in the case of tobacco use. In such unusual cases, there was need for a process to ensure that the University's investments did not conflict with its fundamental values. The process currently in place, which had originated in procedures adopted in 1978, provided for a review of petitions for action by a representative advisory board appointed by the President consisting of members of the Governing Council. That board made a recommendation to the President, who decided on any appropriate course of action. It was incongruous that the President should decide for or against a recommendation by a committee of members of the Governing Council, and it was therefore being proposed that the representative *ad hoc* advisory committee consist of people with appropriate qualifications who were not members of the Governing Council. The committee would continue to include at least one member of the teaching staff, one student, one member of the administrative staff and one alumnus/alumna. The President would continue to make decisions on the recommendation of the advisory committee and would continue to report the outcome to the Governing Council, now through its Executive Committee.

Ms Riggall reported that a proposal along those lines had been brought to the University Affairs Board in November, 2007. That Board had proposed certain changes, which had been made and which had improved the procedures. First, a preamble had been added to clarify the role of the University as guardian of open debate on public issues rather than as an institution taking positions on such issues. It was therefore not to be anticipated that the procedure would be used at all frequently. Second, the appointment of the membership of the representative advisory committee would be approved by the Executive Committee of the Governing Council.

Ms Riggall noted that an attempt had been made at the University Affairs Board meeting to bring forward from the floor an alternative proposal that would have the University practice socially responsible investing – using its investments in an effort to influence the outcomes with respect to social, environmental and government issues. While the alternative proposal had not been considered by the University Affairs Board, it was possible that it might be brought forward at a future date. Ms Riggall took the view that the proposal was one of implementation of investment policy and was therefore one that would more properly come to the Business Board. She had agreed to meet with representatives of the group that was urging action, and the issue would be considered at an off-line session to which members of both the Business Board and the University Affairs Board would be invited.

Discussion focused on the implementation of any decision. A member noted that UTAM did not make investments directly but rather hired external managers. In some cases, UTAM invested in indexes or funds, and it did not control the investments that were made. Very often it would learn of investments only after the fact. In those circumstances, how would UTAM be

10. Social and Political Issues with respect to University Divestment: Revised Policy (Cont'd)

able to implement social or political constraints? In addition, UTAM investments were broadly diversified, and many individual investments would therefore be small. Would there be a minimum amount deemed to be material for the application of political or social criteria? Ms Riggall said that those were indeed the difficult issues that would require consideration and discussion. Some opinion had been voiced that the University should use its shareholder rights to advance appropriate causes. Currently, UTAM gave its managers the instruction to vote the University's proxies in what was judged to be in the best interest of enhancing shareholder value. Many advocates of social and political action would like to see the University voting its proxies to make political statements. The problem was that the University did not normally make political statements. While it would be sensible to specify a minimum value of holdings as subject to any action, Ms Riggall did not expect the proponents of social and political actions to be satisfied with such a response. She therefore expected to see a request for a standing advisory committee that would make recommendations for action to the Business Board.

A member commented that there were presumably investment products that could be used to avoid investments in particular areas that were deemed to be inappropriate. On the other hand, the number of such areas could be very great, and it would be a breach of fiduciary duty to limit the University's investments to avoid all "gray areas." Ms Riggall agreed that the member's concern represented one of a large number of practical issues.

11. Report Number 86 of the Audit Committee – November 29, 2007

The Chair noted that the Audit Committee had met a few days before the previous meeting of the Business Board. The Business Board had at its previous meeting received from the Audit Committee the annual report on the Pension Plans and had approved the financial statements of the two registered plans. The written report of the Audit Committee meeting was now received for information.

12. Reports of the Administrative Assessors

(a) Real Estate Transactions: Wellesley Street West and Queen's Park Crescent

Ms Riggall recalled that the board, meeting in closed session on February 26, 2007, had approved the following transactions:

1. The purchase of 90 Wellesley Street West from the Sisters of St Joseph for $11.5 million;

2. The lease of space at 43 Queen's Park Crescent East and 90 Wellesley Street West to the Jesuit Fathers of Upper Canada for an upfront payment of $4.0 million; and

12. Reports of the Administrative Assessors (Cont'd)

(a) Real Estate Transactions: Wellesley Street West and Queen's Park Crescent (Cont'd)

3. The repatriation of the leases for 39 and 43 Queen's Park Crescent East for up to $1.0 million.

Those transaction had recently been closed. A member observed that the completion of those real estate transactions had required a very long and complicated process, with the sale of the property at 90 Wellesley Street West even requiring Papal approval. He congratulated Ms Riggall on her success in bringing the transactions to a satisfactory completion.

(b) Real Estate Transaction: 240 McCaul Street

Ms Riggall recalled that the Board has also approved a further transaction at the February 26, 2007 meeting: the sale of 240 McCaul Street to Toronto Children's Care Incorporated for $3.0 million. Ms Riggall reported that the sale, which would see the property used for a Ronald McDonald house, had been conditional on the new owners' securing appropriate rezoning from the City of Toronto. That rezoning had not yet taken place. Should the condition on the sale of this property not be fulfilled, the University would continue to use the property as a parking lot.

(c) Real Estate Transaction: 245 College Street

Ms Riggall reported that the acquisition of 245 College Street, approved at a special meeting of the Board held on October 30, 2007, had been completed at a cost of $2.075-million. The building would accommodate the Professional Experience Year Program of the Faculty of Applied Science and Engineering.

(d) Real Estate Transaction: 58 Spadina Road

The acquisition of 58 Spadina Road at a cost of $1.275-million, also approved at the meeting on October 30, 2007, had been completed to accommodate the expansion of the Institute for Child Study.

13. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Wednesday, March 5, 2008 at 5:00 p.m.

14. Other Business

Investments: University of Toronto Asset Management Corporation

In response to a member's question, Ms Riggall said that the University and the University of Toronto Asset Management Corporation were in the final stages of the search for a new President and Chief Executive Officer. She anticipated that the search would be brought to a close in the next few weeks and that the outcome would be highly positive.

The meeting adjourned at 6:30 p.m.

Secretary Chair

February 22, 2008

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