UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 169 OF THE BUSINESS BOARD

November 10, 2008

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, November 10, 2008 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Richard Nunn, (In the Chair)
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Mr. David Asper
Ms Mary Anne Elliott
Mr. Steve (Suresh) Gupta
Dr. Gerald Halbert
Ms Paulette L. Kennedy
Dr. Stefan Mathias Larson
Mr. Gary P. Mooney
Mr. David Oxtoby
Ms Jennifer Riel
Mr. Stephen C. Smith
Mr. John Varghese
Ms B. Elizabeth Vosburgh
Mr. Larry Wasser

Professor Cheryl Misak, Interim Vice-President and Provost
Mr. David Palmer, Vice-President, Advancement
Ms Judith Wolfson, Vice-President, University Relations
Ms Sheila Brown, Chief Financial Officer
Ms Rivi Frankle, Chief Operating Officer, University Advancement, and Assistant Vice-President, Alumni Relations
Ms Anne E. MacDonald, Director, Ancillary Services
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Ms Elizabeth Sisam, Assistant Vice-President, Campus and Facilities Planning
Professor Safwat Zaky, Vice-Provost, Planning and Budget

Mr. Neil Dobbs, Secretary

Regrets:

Ms Susan Eng
Mr. David Ford
Dr. Joel A. Kirsh
Mr. Jim Linley
Mr. Geoffrey Matus
Mr. George E. Myhal
Ms Anna Okorokov
Professor Arthur S. Ripstein
Mr. W. David Wilson

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION

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1. Report of the Previous Meeting

Report Number 168 (September 22, 2008) was approved.

2. Vice-President, Advancement: Annual Report, 2007-08

Mr. Palmer presented the Annual Report of the Vice-President, Advancement. In his introduction to the annual report, Mr. Palmer observed that many members of the University were concerned about the likely effect of the current decline in economic and securities-market conditions on giving. He then proceeded to report on advancement highlights from 2007-2008 and concluded with some thoughts about the general outlook for advancement going forward.

Introduction

- **Philanthropy and the economy**. Apart from the severe downturn in 1987, philanthropic contributions in the United States had grown, showing remarkable resiliency. Even adjusted for inflation, U.S. gifts had grown in most years, with some relatively mild declines in slowdown or recession years. In 2007, total philanthropic gifts in the U.S. had amounted to more than $300-billion. Gifts to the educational sector in the U.S. had been somewhat more volatile but still showed remarkable resiliency, reaching close to $45-billion in 2007. Giving in the U.S. had been correlated to some extent with the equity markets, growing at an average of 3% per year and slowing in years of market decline. It was likely that philanthropy would slow this year, as it had in 1987, reflecting to some extent the conditions in the securities markets.

- **Impact of economic and market conditions on potential donors**. Current conditions might well cause some donors to defer their decisions to support the University and all philanthropic institutions. (Some benefactors, however, had chosen to accelerate their donations to complete them without the risk of further declines.) Conditions could well affect all donors, and they could have a particular effect on foundations that relied on investment income for their donations.

- **Impact of economic and market conditions on endowment donations**. There had been a continuing shift from donations to the endowment to expendable donations. Clearly, individual endowed funds had seen substantial declines as the result of the steep market decline, but the University emphasized that these were not realized losses. The University's investment policies, and its fundraising policies, emphasized performance over the long term. Mr. Palmer distributed a sample letter that was being sent to donors with their endowment-fund reports, assuring them that the University's policies stressed the preservation of the capital of endowment funds against inflation and the preservation of the real value of distributions from those funds. Moreover, the University's practices included building reserves in endowed accounts. Those reserves provided further protection for the inflation-adjusted value of endowments and permitted the continuation of distributions of the income from endowed funds in just such situations as the present one.

2. Vice-President, Advancement: Annual Report, 2007-08 (Cont'd)

- **Impact of economic and market conditions on advancement efforts**. While current conditions would have an immediate impact, delaying the University's reaching its goal of $200-million of gifts as a steady state, Mr. Palmer was confident that there would be no fundamental change to the scope and the success of the University's fundraising activity in the long term. It was of particular importance that the effects of current conditions not reduce the University's efforts to engage the University's supporters, keeping them informed of the good work enabled by their past gifts and of the University's plans for the future, and cultivating their support for the future when conditions would improve.

- **Advancement mandates**. The advancement division was guided by four mandates that were fundamental to its mission. First, it sought to improve the quality of alumni participation and programs and to enhance the satisfaction of alumni participants in them. Second, it sought to eventually grow fundraising performance from average returns of about $115-million per year over the past ten years to a sustainable level of $200-million per year. Third, it sought to build the capacity for advancement across the divisions, both large and small, creating an organization and culture that would foster leadership, initiative, effectiveness and community. Fourth, it sought to contribute to the University's external-relations strategy to build a sustaining image of the University's reputation as an excellent institution that was clearly differentiated from others.

Highlights of Activities in 2007-08

Mr. Palmer divided his annual report into two major themes: alumni engagement and University transformation.

- **Engagement**. The University sought to improve the engagement and participation of alumni in several ways: identifying, promoting and marshalling alumni leadership; growing alumni programs and events; broadening the participation of alumni in them; diversifying and personalizing programming; and improving alumni communications. Mr. Palmer cited several steps that had led to improved alumni engagement.

  The "Alumni Circle" website had been launched just after the end of the 2007-08 year. This Facebook-type site encouraged the participation of alumni. Many alumni sought to continue their participation in the University based on factors other than their division and year of graduation. For example, alumni with an interest in sports or in environmental matters, or who belonged to a particular cultural minority, could customize the site to their interests and could network with others who shared their interest or background.

2. **Vice-President, Advancement: Annual Report, 2007-08** (Cont'd)

U of T Magazine had been re-launched in 2008 with a new look and editorial direction after consultation with various alumni focus groups defined by age and frequency of readership. Of the alumni consulted, most were interested in news about the University and especially its research, news about alumni and especially their own class, and the calendar of events at the University. Accordingly, those items were given a prominent place in the redesigned magazine. The publication was reported to reach 275,000 readers four times a year.

The Alumni mentoring program had been very successful, with 340 alumni volunteering to serve as mentors to current students. Even a doubling of the number of mentors would not have filled the requests of third and fourth year students for mentors.

There had been an increased emphasis on diversification in alumni programming. The "Life after Graduation" series of professional-development seminars for new graduates had attracted over 350 new participants. The "Shaker" series of social events for younger alumni had attracted 800 alumni to events in various cities including Vancouver, Hong Kong and New York. New groups had been formed to serve black alumni and members of sexual minorities.

- **Transformation**. The year 2007-08 had been a remarkably successful year in fundraising. The University had received $183-million in new commitments, the second highest in its history. It had received the largest gifts in Canadian history for: Public Health (Dalla Lana School of Public Health), Architecture (John H. Daniels Faculty of Architecture, Landscape, and Design), Social Work (Factor-Inwentosh Faculty of Social Work) and Law (David Asper Centre for Constitutional Rights). Those record-setting gifts had not only been invaluable in themselves but they had also raised the bar for other donors and other institutions, and they had helped to generate strong interest among the academic divisions in investing more in their efforts to secure major gifts. Citing Mr. Dalla Lana as an example, Mr. Palmer noted that philanthropists were increasingly supporting areas of teaching and research they believed would have the greatest impact on society, and often that meant giving to departments, faculties, even universities, that they had not graduated from. Mr. Dalla Lana, who was not a graduate of U of T, supported the creation of the Dalla Lana School of Public Health because he believed the University of Toronto was the best place in Canada to establish a national voice for Public Health.

- **Potential gifts for 2008-09**. Total pledges and gifts to the University had increased steadily over the past few years, from $90.5-million in 2004-05 to $183-million in 2007-08. While Mr. Palmer hoped and expected to see a continuation of that trend, he recognized that it might not take place in the current year with its difficult economic environment. In addition to the new gifts and pledges received in 2007-08, there had been verbal commitments of $26-million for 2008-09, decisions pending involving

2. Vice-President, Advancement: Annual Report, 2007-08 (Cont'd)

$57-million, and solicitations in progress (that might or might not be realized) amounting to $51-million. If those potential gifts were realized, they would generate $134-million in new gifts for 2008-09.

- **Designation of gifts and pledges**. Gifts in 2007-08 had been fairly evenly spread among purposes, with 28% of gifts designated for faculty. A further 24% supported programs and research. 16% assisted students. 14% supported capital projects. A further 18% were gifts in kind, most notably a very important gift of the film archives of Lion's Gate Entertainment, providing remarkable source material in the area of film history.

- **Sources of gifts and pledges**. 73% of gifts had been provided by alumni and friends of the University – a proportion that was typical for gifts to higher education in North America. The 7% of gifts from foundations and organizations had included most prominently gifts from private and personal foundations. The final 20% of donations had been made by corporations.

- **Endowed and expendable donations**. At the time of the "Great Minds for a Great Future" campaign from 1995 – 2004, gifts had been heavily weighted towards support of the University's endowment, with those gifts forming 57%, excluding gifts in kind. That trend had reversed, with only 27% of gifts in 2007-08 supporting the endowment and 73% being expendable. Mr. Palmer expected the new trend to continue for the next five or so years.

- **Cash gifts** of $141-million (excluding pledges) showed a similar, fairly even breakdown in terms of their designation, with 23% supporting programs or research, 17% supporting students, a further 17% funding capital projects, 15% supporting faculty and a further 28% being gifts in kind.

- **Reconciliation with cash gifts reported in the audited financial statements**. The audited financial statements had reported cash gifts of $92.5-million. The Vice-President's report, now before the Board, included also cash gifts to the three federated Universities (reported on their own financial statements) in excess of $20-million, additional gifts-in-kind of nearly $25-million which were not reported in the financial statements, and about $4-million of other benefactions not included in the financial statements.

- **Categories of gifts**. The annual giving campaign had resulted in over $15-million of gifts from over 30,000 donors. Principal gifts (of $5-million or more) and major gifts (of $25,000 or more) had provided nearly $168-million. Thus, over 90% of benefactions had been provided by a small proportion of major donors. That was again a typical outcome in philanthropy in support of universities.

2. Vice-President, Advancement: Annual Report, 2007-08 (Cont'd)

- **Planned giving** was a very healthy aspect of the University's fundraising activity, but it was very difficult to project the amount of support the University might receive or the timing of those gifts. Most people who advised the University that it had been named as a beneficiary in a will did not specify the amount involved, or they specified only that the amount was the residue of the estate after other bequests. The average bequest received by the University over the past ten years or so was $88,000, and that amount did enable the University to estimate that it would receive $34.5-million from deferred planned gifts established in 2007-08. It had received $15.3-million in realized planned gifts during that year.

Outlook Going Forward

- **Outlook for 2008-09**. The total amount raised to date for the 2008-09 year was $37-million in confirmed gifts and pledges and a further $52-million in verbal commitments for a total of $89-million. There were in addition pending donations and "asks" in progress. Donations at this time were just beginning to lag behind those of one year ago. Up until one month ago, gifts had maintained the same pace as the previous year, but in the recent weeks more people were being forced to await developments before making gifts or commitments. It was necessary that the University respect and be sensitive to those decisions. Mr. Palmer was fully confident that while the outcome might be reduced donations for the current year, he anticipated that the potential benefactors would support the University in the long term.

- **Context for fundraising in 2008-09**. The University was seeking benefactions in a weakening economy and was facing the risk of donor fatigue. But, giving to the University was still considered a philanthropic priority; many people were ready to make gifts to the University. The University was coming off four years of strong growth in gifts, pointing to its achieving a steady-state level of gifts of $200-million per year. While it might, in the current conditions, take some time to reach that level, Mr. Palmer was confident that within five years, it would do so. The University did have to be concerned with the perception that it was a rich institution, a perception fostered by its large endowment, reported as being over $2-billion. The University was not, however, rich or less deserving than other post-secondary institutions. Given the University's average tuition fees of $4,700 per year and its per-student funding of $22,000 per year, it was clear that the University was not rich. It was struggling to continue its success as one of the top-rated universities in the world, as ranked by the Times Educational Supplement, with an outstanding faculty providing a high-quality, rigorous education for its students. The University was not wealthy, its meeting its financial needs was a major challenge, and its success in doing so was closely linked with the well-being of Canada as a whole.

2. Vice-President, Advancement: Annual Report, 2007-08 (Cont'd)

The University's divisions had a real appetite for serious advancement agendas to raise the funding necessary to achieve transformational goals. The *Towards 2030* process, and divisional plans to be formulated beginning in the fall, would provide an ideal basis for future campaign cases. Real growth in advancement capacity and alumni relations had to occur within the divisions, and the larger divisions were enhancing their organizational capacity to support those functions. It would, however, be very important for the University to find a way of supporting the needs of smaller divisions that had real needs but could not afford to devote sufficient staff resources to advancement and alumni affairs.

- **Towards 2030**. There was a clear need for more operating funding. The demand for University places and enrolment growth drove the need for capital expansion and the growth of the faculty. If the University were to achieve its aim of self-regulation of tuition fees, it would be important for it to re-commit itself to achieving funding to ensure student accessibility regardless of financial means. The University's goal to improve the experience of its students required the expansion of small places within the very large University – for example the program of 199 courses, the Vic 1 program and the University learning communities. It required the means to provide expanded opportunities for its students to have international experiences, to participate in collaborative initiatives and to pursue interdisciplinary studies.

- **Looking ahead**. Mr. Palmer noted that he was frequently asked when the University would launch its next major fundraising campaign. The timing of the campaign, its scope and its basic model had not yet been determined. The campaign might be based on one of two models. The first was the model of a sustainable campaign, in which the University would remain in major campaign mode all the time. Given the level of donations in the past four years, the University could be thought of as already being in that mode. That model had been adopted by such well know institutions as Stanford University. Universities that had adopted that model were confident of a strong, sustainable growth in donations over the years. That model might not, however, be suitable for the University of Toronto. It had achieved a growth in donations over the years, but that growth had been somewhat uneven. Moreover, the second model of an institution-wide, branded, major campaign had been a transformative one at the University of Toronto. At the beginning of the 1995-2004 campaign, annual donations had been around $25-million per year and had grown to approximately $115-million per year. A goal of doubling the $115-million per year might well prove to be achievable and a good basis for a major, institutional, branded campaign going forward. Mr. Palmer noted that large campaigns tended to help smaller divisions. While donors might be reluctant to give a large gift to a small division with only a handful of advancement objectives, doing so in the context of a larger, University-wide campaign might be more attractive and meaningful for donors.

2. Vice-President, Advancement: Annual Report, 2007-08 (Cont'd)

Mr. Palmer anticipated that the decision about a future campaign would be made late in 2009. The campaign might then have a public launch in 2010 and a conclusion in 2014. The goal would be between $1.5-billion and $2-billion. The University clearly had the capacity to meet such a goal, but it would require a great deal of hard work to do so. The state of the economy and the financial markets might well delay the launch of the campaign. The University would wish to have about 50% of the goal in hand before the public launch of a campaign.

Among the matters that arose in discussion were the following.

(a) University approach during difficult economic period. A member, while welcoming Mr. Palmer's positive approach, cautioned that it would be important to find new and different ways of seeking philanthropic support based on the University's long-term goals. While the University had enjoyed success focusing on a few donors who provided very large gifts, it had not yet developed in its student and alumni body the same attitude of commitment to supporting the institution as found in leading universities in the United States. The member was fearful that the University was perhaps being too optimistic in the current economic circumstances, when many supporters would not be able to contribute.

Mr. Palmer agreed that many supporters were currently stepping back, and the University was well aware that it would not be able to achieve the same outstanding results over the coming months as it had in the past year. In the long term, however, and for its forthcoming advancement campaign, Mr. Palmer was very confident in the University's ability to succeed. Many charities were very concerned at this time that they would be able to maintain their operations. The University, in contrast, would clearly be able to carry on. It should also be able to make its annual distribution from its endowment, even if that turned out to be at the low end of the range.[1] While the University could not be insensitive to the concerns of the supporters who were not able to make donations at this time, it was very important that it implement vigorously its practice of cultivation and continued involvement of those benefactors and potential benefactors in the life of the University.

Another member expressed concern that many companies would, given the current economic environment, make a permanent reduction in their budgets for philanthropy. Those budgets would not be fully restored even when the economy recovered. It was important, therefore, that the University consider carefully how it would best be able to use a lower level of contributions. It should seek ways to use contributions not as a substitute for government funding of ordinary activities but instead to achieve other, distinctive goals.

A member stressed the importance of continuing communication with individual benefactors and companies to keep them informed of the benefits derived from their past donations and of the

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[1] Since revised.

2. Vice-President, Advancement: Annual Report, 2007-08 (Cont'd)

University's progress. Then, when the economy recovered, the University would be first in line for future support.

Another member agreed, but he stressed that the University must use the contributions it received in a distinctive and highly beneficial way in order to compete in a more difficult future environment for fund-raising, when there would be many institutions seeking the reduced level of support likely to be available.

(b) Financial impact of any reduction in gifts. A member asked about the financial impact of, for example, a 10% reduction in the level of gifts to the University over a period of two years. Ms Riggall replied that the University did complete sensitivity analyses on the matter, but it was important to recognize that there were steps between a reduction in donations and its impact on the operating budget. That impact also depended a great deal on the nature of the donations. Gifts to the endowment represented a small proportion of the endowment in total, and a reduction in such donations would have little immediate effect on the endowment payout, especially (at the present time) relative to the effect of the reduction in investment returns. A reduction in gifts to support capital projects would, however, cause a delay in the execution of those projects.

A member asked whether the University mapped out possible scenarios arising from various levels of gifts in order to determine how it would deal with each. Mr. Palmer replied that the Advancement group spent a great deal of time on managing the "pipeline" of potential gifts. Given the falloff of likely gifts in the current economic circumstances, the major response was simply to seek and continue contact activity with potential benefactors. The greatest source of concern was efforts to raise support for capital projects. For example a benefactor had made a very generous commitment to support the Centre for High-Performance Sports, and Mr. Palmer was working very hard with the Business Affairs group to model the impact of various levels of other donations on the timing of completion of that project.

(c) Scope of fundraising, alumni relations and recruitment efforts. A member observed that the University relied heavily on the greater Toronto area in its fundraising, as well as in its alumni activities and its student recruitment. Its secondary market appeared to be an international one. He urged that the University, which had the best professional programs in Canada, should seek to attract students and support from across this country, and it should be active in fostering relations with alumni located across Canada. In the *Towards 2030* exercise, and in its efforts to redefine itself, the University should seek to position itself clearly as the leading University in Canada that provided teaching and research that were among the best in the world.

Mr. Palmer agreed, and the strategic-communications efforts of the University, in particular in support of the forthcoming campaign, would seek to make clear much more than the University's needs. The University would seek to make clear what it was contributing and could contribute to help solve Canada's and the world's problems. It would seek to establish a new definition of

2. Vice-President, Advancement: Annual Report, 2007-08 (Cont'd)

what the University of Toronto meant to Canada. Professor Misak added that student recruitment was a matter of immediate priority for the University and that a great deal of work was being done on developing a strategic plan.

A member who had lived in a city other than Toronto noted that the University had indeed established a presence for its alumni associations in other cities. Mr. Palmer agreed that the University was making good progress in alumni relations outside of the greater Toronto area, but it had a great deal to learn from universities in the United States about ways of fostering stronger and more active alumni loyalty nationally.

A member asked about the extent of the University's recruitment efforts at leading preparatory schools in the United States. The University of Toronto could offer such students an excellent product, and recruitment of such students could be a significant step in creating a culture of philanthropy like that of leading American universities. Professor Misak replied that the University did attend recruitment events in the United States, but doing so was expensive, and the University of Toronto lacked the budget necessary to engage in the level of recruiting of many leading U.S. institutions. To fund such efforts, it would be necessary to reduce spending in other areas, including spending in the academic divisions. The matter was indeed under discussion, but a resolution of the question of priorities was not an easy matter.

(d) Gifts of marketable securities. In response to a question, Mr. Palmer noted that gifts of marketable securities had surged in 2006-07 to over $40-million in response to the Government of Canada's decision in May 2006 to eliminate the capital gains tax on donated securities. That amount had declined to $32-million in 2007-08, and such gifts were trailing off badly in the current year owing to the extreme market downturn. The member anticipated that further such gifts would likely not be forthcoming in the current year. Another member noted that the University might expect some gifts from individuals who wished to incur a loss on the value of their securities for tax reasons.

The member asked whether the University made provision to hold donated securities for a period of time, particularly shares from founders or officers of companies, who might wish to make donations but who were concerned about the effect of the sale of those shares, particularly in the currently depressed market. While it was usual for institutional recipients of gifts of marketable securities to sell them immediately, would the University consider holding those shares if that were a condition of the gift? There might also be reason to hold gifts of corporate debt instruments, for which there might well be little or no market at the present time. Mr. Palmer replied that the University's usual practice was to sell securities within twenty-four hours in order to avoid speculating in particular shares. It would be difficult but necessary to make decisions in special individual cases of potential gifts where the benefactor wished the University to hold the security.

The Chair thanked Mr. Palmer for his report. He observed that members of the Board were highly engaged in the matter of University advancement and would no doubt be available to provide further advice in discussions outside of this meeting.

3. Design Review Committee: Annual Report, 2007-08

The Chair noted that the Business Board was responsible for oversight of the execution of approved capital projects. The *Policy on Capital Planning and Capital Projects* stated that "the standards of design excellence should be no less exacting than those that are set in the academic sphere, as campus design has a profound impact on the character and quality of human interactions within the university community." The Design Review Committee, which made an annual report on its activities to both the Business Board and the Planning and Budget Committee, was the University's instrument for ensuring excellence in the design of capital projects.

Ms Sisam noted that, in approving capital projects, the Business Board approved spending money – provided by governments, benefactors and the University's operating funds – and borrowing, but it did not usually have the opportunity to see the outcome of those approvals. The report of the Design Review Committee provided that opportunity. The objective of the Design Review Committee was to promote excellence in new campus buildings. It sought to ensure buildings that were appropriately in keeping with their surroundings and with the environment, that were welcoming, and that were conducive to the achievement of their academic and other purposes. The Committee had been formed in 2000, partly in response to some concern about the standards of design in the University's building program in the previous ten to fifteen years. The Committee had met eight times during 2007-08 and had reviewed ten projects. Its membership included some members of the Business Board. Its objective was to provide a critical review of the design of projects. It was important that the review not be parochial but focused in good part on the effect of the project on the broader campus as a whole. Ms Sisam noted that the idea of having a design review group on the model of that in place in the University had been adopted by the City of Toronto.

Ms Sisam displayed photographs or drawings of recent projects that had been reviewed by the Committee in 2007-08 or had been granted design awards during the year, and she commented briefly on each. A copy of her presentation is attached hereto as Appendix "A".

- **University of Toronto at Mississauga (U.T.M.) Health Sciences Building**. The building, scheduled to open in 2010, would accommodate the new Medical Academy of the Faculty of Medicine and would provide scientific research space for U.T.M. The building was projected to cost $36-million and it would provide about 3,000 net assignable square metres (nasm) of space. The architect for the project, Alar Kongats, was a graduate of the University of Toronto and had won awards for excellence for other projects.

- **University of Toronto at Scarborough Balcony Enclosure Project**. There had been considerable discussion of this project in the light of its cost. The original Scarborough campus building, designed by John Andrews, was architecturally significant, and it was one of the few designated buildings in the Scarborough area. Given the distinctiveness of

3. Design Review Committee: Annual Report, 2007-08 (Cont'd)

the original design, modifications to the building had been highly sensitive. That factor had contributed to its high cost. The enclosure of several external balconies had provided a number of offices and had contributed to a reduction of the deferred maintenance problem at Scarborough. The architects for the project were Baird, Sampson, Neuert, who were University of Toronto alumni.

- **St. George Campus: Varsity Centre South Pavilion**. The project would provide team changing rooms and coaches offices and would form the campus entrance to the playing field. The projected cost was $9.5-million, and the architects were Diamond and Schmidt, a firm that included University of Toronto alumni.

- **St. George Campus: Faculty of Law**. The Faculty of Law was in urgent need of additional space. The area on Queen's Park Crescent was a very sensitive one, as demonstrated by the opposition by the City to approvals to the Royal Ontario Museum to construct a tower on the site of the current planetarium. The thoughtful and responsive approach proposed for the design of facilities for the Faculty of Law also required zoning permission. However, the approach being proposed contributed to the site and was viewed positively by City planning staff and of local residents' groups, suggesting that approvals would be forthcoming when sought. The projected cost of the project was between $50-million and $85-million. The timing of the project would depend on fundraising for it. Architects for the project were Hariri Pantarini, alumni of the University of Toronto.

- **University of Toronto at Scarborough Academic Resource Centre**. The building, which included the Bladen Library, was designed by Brian MacKay-Lyons in association with Rounthwaite, Dick and Hadley architects. Some of the principals of the firms were University of Toronto alumni. The project had cost $20-million and had opened in October 2003. It had won a 2008 Ontario Association of Architects Award in 2008. The classrooms in the building had wonderful acoustics, and the building was very well used.

- **University of Toronto at Mississauga Recreation, Athletics and Wellness Centre**. The project, designed by Shore Tilbe Irwin and Partners (University of Toronto alumni), had won a City of Mississauga Urban Design Award of Excellence, one of three awarded to UTM buildings in 2007, as well as an Ontario Association of Architects award. The project, costing $24.5-million, provided 7,300 nasm of recreation-related space, which had been in very short supply at UTM.

- **University of Toronto at Mississauga Hazel McCallion Academic Learning Centre**. This new building was unique in that all printed library materials were accommodated on compact shelving, leaving a very large amount of space for individual and group study. The facility was exceptionally light and airy and very different from a prototypical library

3. Design Review Committee: Annual Report, 2007-08 (Cont'd)

facility. The project, also designed by Shore Tilbe Irwin and Partners, had won a City of Mississauga Award of Excellence and the City's People's Choice Award, as well as a 2008 Ontario Association of Architects award.

- **University of Toronto at Mississauga Centre for Communications, Culture and Information Technology**. This building, designed by Saucier + Perrotte, had won four awards: a City of Mississauga Urban Design Award, an Ontario Association of Architects Award, the Prix D'Excellence of the Ordre des Architects du Quebec, and a Governor General's Award (one of two such awards for University of Toronto buildings in 2008). The building, which opened in September 2004, had cost $24.6-million.

- **St. George Campus Multifaith Centre for Spiritual Study and Practice**. The project involved two floors of renovated space in the Koffler Building on Bancroft Avenue and Spadina Crescent. The project had been designed by Moriyama and Teshima (alumni of the University of Toronto). It had cost $3.3-million and had opened in November 2006. It had won a 2008 Ontario Association of Architects Award. The facility was very well used by students for spiritual practice as well as other activities.

- **St. George Campus Terrence Donnelly Centre for Cellular and Biomolecular Research**. This building, which extended the facilities of the Medical Sciences Building, had been built over a previous access roadway running north from College Street. At a cost of $96-million, it had provided 14 stories of research space for the Faculty for Medicine, the Leslie Dan Faculty of Pharmacy and the Faculty of Applied Science and Engineering. It included two stories of research space below grade. In total, the Centre had over 10,000 nasm for research laboratories and offices. It had been designed by Behnisch Architekten of Europe in joint venture with the Toronto group, Architects Alliance, which included University of Toronto alumni. The project had won a Governor General's Award in 2008.

Ms Sisam concluded that the objective of the work of the Design Review Committee was to promote a campus of excellence, creating an environment conducive to teaching and research. The campuses of the University should equal the highest standards of excellence and compare favourably in the City, in Canada and with the best institutions in the world. Succeeding in that goal mattered a great deal. For example, when potential students and their families visited a campus, they most often drew conclusions very quickly about whether to apply for admission – a decision deeply influenced by their feelings about the quality of the campus and its environment.

A member commented that he had found his service on the committee to be very interesting. When projects reached the Committee, decisions had already been made about the space plan and the preliminary elements of design. The architects were very open and welcomed discussion and critiques at that early stage, when changes could readily be made. They had to work in frequently difficult situations, where the sites had little room to spare. The tight sites

3. Design Review Committee: Annual Report, 2007-08 (Cont'd)

were not only on the St. George Campus but also on the Mississauga and Scarborough campuses where there was need to take into account the conservation areas around the campuses and the traffic patterns. The outcome of their openness and the discussions in the Committee usually represented very substantial improvements to the preliminary plans.

The Chair thanked Ms Sisam for the report and asked her to convey to the members of the Design Review Committee the Board's gratitude for their work.

4. Report on Capital Projects to October 31, 2008

The Board received for information the report on capital projects under construction (forecast cost of $210.21-million) and on projects occupied but not formally closed (forecast cost of $432.42-million), both as at October 31, 2008.

5. Borrowing – Status Report to September 30, 2008

The Board received for information the report on borrowing as at September 30, 2008. That report showed borrowing capacity of $948.0-million pursuant to the University's policy; borrowing allocated (net of repayments that could be reallocated) of $868.4-million, actual external borrowing of $556.3-million, and internal borrowing outstanding of $144.3-million.

6. Reports of the Administrative Assessors

Financial Situation of the University

The Chair asked that Ms Riggall comment on the financial position of the University following the recent months of declines in the securities markets. Ms Riggall stated that the market setbacks had brought about reductions in the value of the endowment and pension funds. However, most revenue sources for 2008-09 were secure. Student fees were in hand. Government grants continued to arrive in payments every two weeks. The University had been advised that it need not be concerned about a clawback of grants for 2008-09, and it was likely that grant levels would be maintained for 2009-10. The Government clearly did not wish to pull back on commitments made under the Premier's *Reaching Higher* Plan. The University would not, however, be able to anticipate additional cash payments at the end of the Government's fiscal year, like those received in the past two years, which had enabled a positive income statement in the University's financial statements. Research grants were likely to continue at the same level. Commitments to the granting councils were by and large multi-year ones, and the only variable factor should be the success of the University's faculty in continuing to win grants for their research. The University was working hard to assist its faculty in improving its record above its already high level. The endowment payout for the current year had been made. The endowment in general had declined, with an investment loss of about 22% from January 1 to the end of October. While that loss was probably less than those of many other funds, it was still some cause for concern. No decision had been taken concerning the

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

Financial Situation of the University (Cont'd)

payout for 2009-10, and that decision would be left as late as possible in the hope of some recovery in the markets.

Ms Riggall noted that many states in the United States were prohibited from running deficits, as were the universities in some states. The University of Toronto was in a good position relative to those universities. All universities in Ontario were dealing with the unfortunate consequences of the market reversal, but all were confident of their survival. The University of Toronto was probably the best off among them. It had established reserves and had taken conservative positions in its financial affairs. It had not, for example, increased its endowment payout for the current year to 5% of the market value of the fund, as some members of the University had urged. It had instead retained some assets in the endowment to deal with the eventuality of negative market returns.

It was clear that the University would have to restrain its spending. It had not, however, imposed a hiring freeze. It regularly re-examined its budget, it had been forced to make reductions each year, and it would continue to do so. In the current circumstances, the Interim Vice-President and Provost was reviewing budgets carefully to ensure that projected spending would not exceed revenue beyond a manageable level. If the financial situation continued to deteriorate, the University would then consider more aggressive action. In the meanwhile, it was not making extraordinary budget reductions before knowing the impact of the financial environment.

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

(a) Condition of the endowment fund. A member noted that for four years until the current year, investment earnings had been greater than required to retain the value of the endowment against inflation and to make the payout, leaving a cushion in the overall fund. Did a cushion remain following the recent market reversal? Ms Brown replied that while some cushion had remained as at the end of September, the rapid decline in October had likely eliminated any cushion. Ms Riggall noted that the payout from the endowment formed a relatively small proportion of the University's operating budget, but the individual endowments did fund particular chairs and student awards, and that funding had to be continued from some source, whatever the investment returns on the endowment. Professor Misak noted that any reduction in the endowment payout would amount to a further budget reduction for the academic divisions. It would be especially difficult in view of the likelihood of general reductions, after many years of making such reductions. In response to a question, Professor Misak said that the problem would occur in all academic units.

(b) Pension fund. A member asked about the additional funding that had been appropriated for the pension fund over the past few years. Ms Brown replied that the operating budget included a pension-plan payment of over $27-million in excess of the required current service contributions. That provided a significant reserving mechanism. That budget appropriation had been established

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

Financial Situation of the University (Cont'd)

in 1984 and had no end date. If it was necessary, the amount could be used to make additional contributions to the registered pension plan to bring it to a fully funded status. If not required, it would be set aside anyway to be used if needed to make additional contributions to the pension plan. That practice would provide very important flexibility for the University in the current circumstances.

The member asked whether there was a risk that the amount of the supplemental appropriation would have to be increased. Ms Brown noted that the annual report on the pension plan to July 1, 2008 would come to the Audit Committee and the Business Board at their December meetings. At the present time, it appeared that it would be appropriate only to maintain the usual $27-million additional appropriation. The member suggested that there would be value in providing additional information to supplement the report. While there would be relatively little change in the liability side of the plan's balance sheet, the assets in the plan had declined substantially in their value since July 1. Ms Brown undertook to provide an update of the value of the assets to the end of October. She stressed that the update would, however, be of limited value given that eight months would remain before the next formal valuation and there was no way of predicting market developments for that time. The member expressed her gratitude that the additional information would be provided. It would not be useful to discuss the financial health of the pension plan in the context of clearly outdated asset values.

Ms Brown noted that the University had formally filed its actuarial valuation with the Financial Services Commission of Ontario as at July 1, 2007. That meant that the next formal filing of the valuation was required as at July 1, 2010, in the absence of any plan amendments. In the event of any solvency deficit in the plan, the University would be required to make up that deficit by additional contributions over five years, unlike the previous requirement to do so over fifteen years, beginning with the date of the required filing. That meant that the University would have over two and one-half years before any formal declaration of a solvency deficit and any requirement to take the mandated action to deal with it. The University would, in any event, continue with its own practice of making the $27-million additional contribution to the plan or to the reserve each year. In addition, in the meanwhile, the Expert Commission on Pensions would report with recommendations for changes for pension-plan funding that might be appropriate in the current financial circumstances.

(c) Investment changes. A member noted that the value of the University's endowment and pension funds had declined by about 22% from January 1 to the end of October, 2008. Was there any plan, if the market decline were to continue, to implement some major change in investment policy? Ms Riggall said that a great deal of thought was being given to the matter. The decline was still deemed to be within the University's risk tolerance, which was defined as a maximum of 10% volatility but averaged over ten years. Notwithstanding the extent and seriousness of the decline to date, UTAM strategies over the years had added value that was greater than the recent loss, which compared reasonably with declines elsewhere. Nonetheless, the UTAM Board, at its meeting of

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

Financial Situation of the University (Cont'd)

November 5, 2008, had considered carefully the risk profile of the portfolios. It had concluded that while there was clearly a need to be vigilant, it would not be appropriate to sell many of the current securities at what could well be the bottom of the market or close to the bottom.

A member, who also served on the UTAM Board, said that the Board had, at its meeting in November, struggled with the question of appropriate action in terms of the desirable set of strategies for the longer time and the possibility of making tactical corrections in short-term circumstances. UTAM management had been asked to give consideration to a number of matters arising from that discussion and to make recommendations to the UTAM Board meeting on December 9. He stressed that the performance of the funds was that of the year to date and that the objective of the funds was strength over the longer term. The performance of the funds, while deeply worrying, compared reasonably well to the universe of like funds.

The Chair noted that members' concern might well relate to the ability of the Long-Term Capital Appreciation Pool to provide resources for the annual endowment payout. Ms Brown said that from the beginning of the University's fiscal year to the end of September, 2008, the decline had been about 11%. The cushion in the endowment pool, of returns in excess of those required for the maintenance of the value of the assets against erosion by inflation and those required for the annual payout, had amounted to about 20% of the inflation-adjusted value of the pool. It therefore appeared at that time that it would be possible for the Pool to provide funds both for inflation protection and for the usual payout. As a result of the sharp decline of the securities markets in October, while the University had no official numbers at this time, it appeared that the cushion had probably been eliminated. The Policy for the Preservation of the Capital of Endowment funds required that the "growth in the capital value of endowment funds matches or exceeds the rate of inflation over time." It appeared that as at the end of October, the University would fall outside of that policy requirement. If losses continued, the University might decide to invoke a provision in the policy that stated that "special situations may arise which warrant a temporary exemption from the application of this policy." To invoke that provision, it was required that there be "a plan to restore the inflation-adjusted value of a fund over time." Another possibility was that the University could dedicate operating funds to restore the inflation- adjusted value of the endowment. That did not, however, appear to be feasible. The book value of the endowment funds as a whole as at May 1, 2008 was about $1.2-billion, and the amount to be added for purposes of inflation protection was something over $250-million, leaving a cushion at that time of about $287-million for the Pool as a whole. She noted that the effect of the market decline, however, had had different effects on individual endowment funds within the University's pooled fund. In some longer-established funds, there had been an adequate cushion to enable their value to remain above the inflation-adjusted value of the original gift. For more recently established funds, their value was clearly less than the value of the gifts. Ms Brown noted that the requirement in trust law was to protect the capital of endowment funds arising from gifts; there was no requirement to provide for inflation protection.

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

Financial Situation of the University (Cont'd)

(d) General university response to the market setback. A member asked whether the University had considered making any possible "paradigm shift" in response to the extraordinary change in economic conditions. As painful as that change might be, it could have the benefit of supporting the case for fundamental change. Nothing should be regarded as immune from change apart from the University's basic academic mission. The *Towards 2030* planning process could also help to shape such a change. One possible example would be the completion of building modifications to reduce operating costs. Ms Riggall replied that the member's point was a good one, and the University's leadership was in fact thinking about and discussing various possibilities.

A member asked whether it would be appropriate to accelerate the *Towards 2030* planning process or to adopt some other process to move forward to consider possible fundamental changes in view of the "seismic shift" in the financial environment.

Professor Misak said that there was indeed a set of discussion taking place about the unfolding *Toward 2030*. The *Towards 2030* document itself was not prescriptive; rather it laid out options for consideration. However, none of those options was intended to provide a means for the University's moving forward with less funding. On the contrary, almost all of the options would require increased spending. Therefore, there would be need for some separate process to consider the hard decisions that would lead to reductions in spending. Professor Misak was currently holding budget discussions with Deans, and each Faculty was well aware of the financial situation and was considering ways of making budget reductions – often quite draconian. The Divisions were recognizing that the University would not be able to afford to continue doing everything it was currently doing. The first priority was to preserve the academic mission.

The member recognized the pressures facing the University, but he urged again that it consider fundamental changes. The University could not in the current circumstances simply stay as it was. He said that the external members of the Governing Council and the Board could well bring a valuable perspective to this process and could, for example, assist in making clear to the Government of Ontario the extent of the University's problems.

Ms Wolfson said that the *Towards 2030* process could indeed provide a helpful framework for discussions. In discussions with the Government of Ontario, it had become clear that while there would be limited resources available, we should be working with the Government on policy issues which could provide more flexibility to the University, resulting in better financial arrangements. In addition, while there would likely be little year-end relief in 2008, there was reason for optimism that the Government might provide new capital funding.

The Chair noted that Ms Wolfson would present her annual report to the December meeting, and he proposed that the Board take time to discuss this important question at that meeting.

7. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Monday, December 15, 2008 at 5:00 p.m.

THE BOARD MOVED INTO CLOSED SESSION

8. Ancillary Operations: University of Toronto Press – Annual Report and Audited Financial Statements for the year ended April 30, 2008

The Board received, for information, the Annual Report and Financial Statements of the University of Toronto Press for 2007-08.

9. Collective Agreement: Canadian Union of Public Employees, Full-time, Local 3261

Professor Hildyard reported on the terms of the collective agreement between the University and Local 3261 (Full-time service employees) of the Canadian Union of Public Employees. That agreement, for the years 2008-10, had been approved by the President. Because it included no changes to the terms of the pension plan, there was no requirement for Board approval, and Professor Hildyard reported for information only.

10. Other Closed Session Reports

Professor Hildyard reported on negotiations with the Canadian Union of Public Employees, local 3902, representing the University's teachings assistants.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:05 p.m.

Secretary	Chair

November 28, 2008

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