UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 173 OF THE BUSINESS BOARD

March 23, 2009

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, March 23, 2009 at 5:00 p.m. in the Council Chamber, Simcoe Hall. In the absence of the Chair and Vice-Chair, with the agreement of the Board, Mr. Myhal assumed the Chair. The following members were present:

Mr. George E. Myhal (In the Chair)
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. Steve (Suresh) Gupta
Dr. Gerald Halbert
Ms Paulette L. Kennedy
Dr. Stefan Mathias Larson
Mr. Jim Linley
Mr. Gary P. Mooney
Ms Anna Okorokov
Ms Jennifer Riel
Professor Arthur S. Ripstein
Mr. Stephen C. Smith
Mr. John Varghese
Ms B. Elizabeth Vosburgh
Mr. W. David Wilson

Professor Cheryl Misak, Vice-President and Provost
Ms Judith Wolfson, Vice-President, University Relations
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
Ms Anne E. MacDonald, Director, Ancillary Services
Mr. Nadeem Shabbar, Chief Real Estate Officer
Mr. Ron Swail, Assistant Vice-President, Facilities and Services
Professor Safwat Zaky, Vice-Provost, Planning and Budget

Mr. Neil Dobbs, Secretary

Regrets:

Mr. David Asper
Ms Susan Eng
Mr. David Ford
Dr. Joel A. Kirsh
Mr. Geoffrey Matus
Mr. Richard Nunn
Mr. David Oxtoby
Mr. Larry Wasser

In Attendance:

Mr. Olivier Sorin, member, the Governing Council
Mr. Bruce Dodds, Director of Utilities, Facilities and Services Department

In Attendance (Cont'd)

Ms Sheree Drummond, Assistant Provost
Ms Sally Garner, Executive Director, Planning and Budget
Dr. Anthony Gray, Special Advisor to the President
Ms Anne Lewis, Manager, Student Accounts
Professor George Luste, President, University of Toronto Faculty Association
Mr. Sandeep Malik, Senior Manager, Budget Planning and Administration
Ms Bryn Macpherson, Director, Office of the President and Special Events
Ms Sara Suliman, Vice-President External, Graduate Students' Union

1. Report of the Previous Meeting – Report Number 172 (February 11, 2009)

The Chair said that members had received a report that was marked "revised." It included one correction from the version sent earlier to the Governing Council. The revision had been proposed by Mr. Nunn. On page 12, item 4, the "Financial Forecast for 2008-09," the final two sentences have been amended to a single sentence. It stated the commitment to provide the Board with information on the effect of spending-control measures on the divisions. That information would not necessarily take the form of a written document. Revised Report Number 172 (February 11, 2009) was approved.

2. Enrolment Report, 2008-09

The Chair stated that the Enrolment Report was prepared for the Planning and Budget Committee of the Academic Board, which was responsible for enrolment planning. It was, however, also provided to the Business Board as background information to show the Board that the University's tuition policies were not having a negative effect on enrolment.

The Enrolment Report, 2008-09, was received for information.

3. Student Financial Support: Report of the Vice-Provost, Students, January 2009

The Chair said that the report on student financial support was intended to satisfy the Board that that the proposed level of tuition fees would not have a negative effect on accessibility, especially on the enrolment of students from financially disadvantaged backgrounds. Governance responsibility for student financial support resided with the Committee on Academic Policy and Programs, which had received the Report on March 3rd and had raised no concerns.

The Board received for information the Report of the Vice-Provost, Students on Student Financial Support, January 2009.

4. Tuition Fees and the Budget: Presentation

Professor Misak said that tuition fees and the budget were inter-related, and it was impossible to understand one without reference to the others. The annual Enrolment Report clearly showed that the University's enrolment continued to meet its targets. Applications continued to be very strong for both graduate and undergraduate places in the University. Similarly, the annual report on Student Financial Support demonstrated clearly that the University was continuing to meet its commitment to accessibility and student financial support. The Budget Report demonstrated a very impressive effort in a very difficult economic climate to maintain the level of needs-based student financial support. The proposed tuition-fee schedule was well within the framework established by the Government of Ontario. The University's administration and its student organizations were continuing to make strenuous efforts to seek increased government support. Unfortunately, Ontario continued to compare very poorly with all other provinces in terms of its support per student for higher education. It was clear that tuition fees would always be a pillar supporting efforts by the University of Toronto and other institutions to provide a first-rate education for their students. In the very difficult economic environment and in a situation of negative investment returns in the endowment funds, revenue would be further constrained. Even after stringent budget reductions, proposed expenditures would outstrip anticipated revenue. The overall consequence was the recommendation of a Budget Report that would allow a one-time-only $45-million deficit for the 2009-10 year.

Professor Zaky presented the tuition-fee and budget proposals.

- **Tuition-fee policy framework: University policy**. The proposal before the Board adhered to the University's Tuition Fee Policy. The University continued, as a top priority, to work very hard to advocate an appropriate level of public support for post-secondary education. Nonetheless, tuition fees remained an essential component, needed to complement government funding, to enable the University to offer its students a very high-quality education. The University, in assessing fees, continued to differentiate among programs, charging higher fees in those programs that had higher costs and that were more likely to provide highly remunerative employment.

- **Tuition-fee policy framework: Ontario Ministry of Training, Colleges and Universities**. The University also adhered to the Provincial Government's framework, introduced in 2006, which placed limits on annual tuition-fee increases for domestic students. That framework capped the average fee increase across the University at 5% per year, with the increase for continuing students limited to 4%. The increase in fees for students entering most undergraduate programs was capped at 4.5%, with the increase for students entering professional and graduate programs limited to 8%.

- **Enrolment**. The University carefully monitored its enrolment to ensure that tuition-fee increases were not hampering enrolment. The Enrolment Report, earlier on the agenda,

4. Tuition Fees and the Budget: Presentation (Cont'd)

clearly demonstrated that planned and actual enrolment continued to be very close – within one half of one percent each year. Enrolment yield on offers of admission had remained steady, in fact increasing slightly over the past several years. There was, therefore, no concern that tuition fee levels had exerted a negative effect on enrolment.

- **Proposed tuition-fee increases**. The average fee increase proposed for domestic students across all programs was 4.31%, and the average increase proposed for international students was 5.9%. For example, the fees for students coming into most first-entry programs, with the exception of Applied Science and Engineering, were proposed to increase by 4.5%. They included students entering programs in Arts and Science, Physical Education and Health, and Music. The increase proposed for students continuing in those programs was 4%. Those increases would also apply to some second-entry programs including Education, Nursing and the upper years of Computer Science and Bioinformatics. It was proposed that fees increase by 8% for students entering professional programs such as Engineering, Law, Dentistry and Commerce. Again, the increase for continuing students would be 4%. For domestic graduate students, the proposed fee increase for all research-based Master's and Doctoral programs was 4%, with the increase of 8% being applied to meet the high costs of professional Master's degree programs.

- **Effect of proposed fee increases**. The proposed increase for almost three quarters of domestic students was $250 or less. For another 11% - 12% of domestic students, the increase would amount to something between $251 and $350. The remaining 14% - 15% would have larger increases. Looked at another way, the increase for 93.4% of students would be between 4% and 4.5%. For 0.4% of students, the increase would be less than 4% with the remaining 6.2% of students having increases more than 4.5%.

  Compared to the group of thirteen research-intensive universities in Canada, fees for Arts and Science students at the University of Toronto would be in the middle of the group, with students at several other universities being required to pay higher fees. For international students, in comparison to peer universities in the Association of American Universities, fees for Arts and Science students at the University of Toronto would be significantly below the mean. The level of tuition fees would not, therefore, be a disadvantage in attracting excellent students.

- **Budget impact**. The proposed tuition-fee increases for Canadian students would provide an additional $17.6-million for the University's operations, and the fee increases for international students would provide a further $7.5-million. The total amount of $25.1-million would be very important, especially in the very bad current economic situation.

4. **Tuition Fees and the Budget: Presentation** (Cont'd)

- **Student aid and accessibility**. Student accessibility was a key element in considering tuition fees. The University was guided by the principle contained in its 1998 Policy on Student Financial Support, which stated that "no student offered admission to a program at the University of Toronto should be unable to enter or complete the program due to lack of financial means." The University had just completed an analysis that showed that 48% of students in first-entry programs received financial assistance. The effective tuition fee (tuition fee minus amount of financial assistance) for students in first-entry programs who received student aid was less than $3,000. That average included students in Applied Science and Engineering, which had a higher level of tuition fees than other first-entry programs.

  The University had also adopted a Statement of Commitment Regarding International Students. In order to obtain a student visa, international students were required to demonstrate their financial ability to complete their programs. However, when students were enrolled and then ran into unanticipated financial difficulty, the University had undertaken to provide financial assistance to enable such students to complete their programs.

  The Ministry of Training, Colleges and Universities' own Student Access Guarantee, required that "students will have access to the resources required for tuition, books and mandatory fees." The University was required to undertake to adhere to the Ministry guarantee in its annual sign-off to its Multi-Year Agreement with the Ministry. In fact, the University's own policy was more rigorous than the Ministry's requirement.

- **Student aid provided**. As shown in the Report on Student Financial Support, in 2007-08, the University had provided $48-million of needs-based student aid. A further $185-million of graduate student funding had been provided, and $3.4-million had been supplied for needs-based aid to international students. Those amounts were in addition to loans provided by the Ontario Student Assistance Program (OSAP) and in addition to externally provided scholarships.

- **OSAP debt load**. Of graduates from the University's first-entry programs, 55% had incurred no debt from OSAP loans. Of those who had incurred debt, the average amount on graduation was $19,400. The proportion of students with debt loads greater than $25,000 was about 14%. That proportion had increased in the past two years, probably reflecting the end of the three-year Arts and Science degree program and the requirement that students complete the equivalent of four years of full-time study for their B.A. or B.Sc. degrees. The Ministry monitored the default rate of former students on their OSAP loans, and the 3.4% rate for University of Toronto graduates was significantly below the Ontario average rate of 4.3%.

4. Tuition Fees and the Budget: Presentation (Cont'd)

- **Conclusion concerning tuition fees**. Professor Zaky concluded that the proposed tuition-fee increases were absolutely essential to maintaining academic quality. The University constantly monitored demand for student places at the University, and that demand continued to be very strong. Applications for admission had increased by about 5% over the previous year. While there were various factors behind that increase, it was clear that tuition fees were not causing any reduction of demand. The University continued to maintain accessibility through its programs of student financial support. It was very competitive with other institutions in Canada and across North America in attracting both domestic and international students.

- **Budget: Governing Council policy**. Governing Council budget policy had changed one year ago. The change had been made in part as the result of the new, more decentralized budget model. In place of five-year fixed budget planning cycles, long-range planning would take place for five-year rolling windows. The Budget Report each year would include a five-year forward projection. As part of the new model, the administration had undertaken a commitment to make every effort to balance the budget each year, and the budgets for the past two years had been balanced. Only in extraordinary circumstances would there be a proposal for a budget deficit, but that proposal would have to be accompanied by a plan to pay off that deficit over the five-year planning window.

- **Budget overview**. It was clear that 2009-10 would be an extraordinary year. It appeared that the government per-student grant would not be increased by any significant amount. The anticipated $25-million increase in revenue from tuition fees would, in essence, only offset the loss of the payout from the endowment. At the same time, the University would face the usual cost increases, some of which were beyond its control. In addition, the University would have to find a way to meet an extraordinary cost: the cost of various commitments usually funded by the endowment payout - salaries of the holders of endowed chairs and professorships and the cost of needs-based student financial assistance. Therefore, a budget deficit of $45-million would be necessary for the forthcoming year.

- **Budget assumptions**: **Revenue – Government funding**. Government funding per student had been essentially unchanged for the past two years, and it was assumed that it would remain so over the five-year budget period. In terms of its value adjusted for inflation, government funding per student had actually declined by 27% over the past twenty years. It was anticipated that revenue from government grants would increase by $11-million because of changes in enrolment and the enrolment mix, for example a greater number of graduate students. The University did not plan substantial further growth, and therefore the five-year budget plan did not anticipate a significant further increase in funding from government grants.

4. Tuition Fees and the Budget: Presentation (Cont'd)

- **Budget assumptions**: **Revenue – Endowment payout.** The University would under usual circumstances have received a payout of $62-million from its endowed funds. Of that amount, $46-million would have flowed through the operating budget. (A further $16-million would have flowed through trust funds to support research programs and other purposes.) The University would have to find some other means to pay the salaries and provide the needs-based student aid that would otherwise have been provided by the endowment payout. It was projected that the endowment would recover and that the payout would resume over the final four years of the budget plan. The University had, of course, no particular foreknowledge of the financial markets, but it would be essential to manage the endowment in a manner that would enable it to resume a payout to fund endowed chairs and needs-based student support. It was projected that revenue from the payout from the endowed funds would be about 50% in 2009-10 and close to its full value in subsequent years.

- **Budget assumptions**: **Revenue – Tuition fees.** It was anticipated that revenue from tuition fees would increase by just under $40-million. Of that amount, $25-million would come from the proposed increases in tuition fees, and the remaining amount would come from increases to enrolment. It was projected that revenue from tuition fees would increase by $210-million over the five years of the budget plan.

- **Budget assumptions**: **Revenue – Overall.** After taking into account changes in other income and in the revenue that was merely flowed through to affiliated institutions, it was anticipated that revenue for 2009-10 would be essentially flat and that revenue would increase by $239-million over the five years of the budget plan to 2013-14.

  For the current year, provincial operating grants supplied 41% of the University's revenue. It was projected that that proportion would decline to 35% by 2013-14. Provincial operating grants had provided about 75% of revenue some twenty years ago, but the decline had been precipitous since then. Tuition fees currently supplied 36% of the University's revenue, and it was projected that the proportion would grow to 42% over the five years of the plan.

  Other sources accounted for the remaining revenue in an amount over 20%. The largest element of that other revenue for 2009-10 was the 13% provided by divisional income. Those monies were earned by the divisions from activities that were not funded by the Government such as continuing studies courses. The Government of Canada provided operating support amounting to 3% of the budget through its sponsorship of the Canada Research Chairs and a further 2% through its payments to cover a part of the indirect costs of federally funded research grants. As noted, there was no income from the endowments included in the 2009-10 budget. The 1% of revenue projected for investment income was from interest on monies in the University's cash float.

4. Tuition Fees and the Budget: Presentation (Cont'd)

- **University-wide expenses**. The budget included University-wide shared services such as the maintenance of space, the provision of library and information-technology services and so on. The costs of all of those services were reviewed annually by the Budget Planning and Priorities Committee, which was chaired by the President. All units responsible for University-wide services submitted their budgets annually for review. The Committee worked to achieve two objectives. First, it ensured that the services offered were aligned with the needs of the academic divisions. To that end, the Deans of the academic divisions were members of the Committee. Second, it ensured that appropriate cost-containment measures were applied. For 2009-10, that Committee's review had been an especially rigorous one.

  In some cases, increases in university-wide expenses were not discretionary, and those increases amounted to $9.8-million. Those increases included an estimated additional $3.6-million for utilities costs and an estimated $3-million arising from a review of position evaluations for members of the administrative staff, most of whom were represented by the United Steelworkers of America. In addition, an amount of $5-million was set aside for compensation increases for University-wide service staff, based on actual and anticipated settlements with their unions. Other costs for shared services were budgeted to increase by $6.5-million for a total amount of $20.3-million.

  In order to meet these non-discretionary expenses, the University had been able to redirect $6.3-million of funds from those that would normally have been carried forward in certain accounts. It had done so by "emptying the cupboards." It had also implemented cost-containment measures amounting to $4.5-million. The combined outcome was to reduce the amount needed to meet the cost increase for shared services to $10.5-million. Next, it had applied $11-million of central funds, which were funds used by the Provost to supplement divisional funds during the academic year as needs arose. The result was to handle the increase in the cost of shared services and to have some small amount – about $500,000, remaining.

  Professor Zaky displayed a pie chart showing the breakdown of the expense budget for University-wide costs. The largest cost, at 25%, was occupancy cost – the amounts required for heating, cooling, cleaning and otherwise maintaining the University's buildings and grounds. The second largest cost, at 20%, was Library costs.

- **Budget for student aid**. The University remained fully committed to the accessibility guarantee contained in its Policy on Student Financial Support – that no student offered admission to a program should be unable to enter or complete that program due to the lack of financial means. It was anticipated that, owing to the current economic circumstances, there would be a higher level of demand for need-based student aid. There would

4. Tuition Fees and the Budget: Presentation (Cont'd)

therefore be no reduction in the amount budgeted for this purpose. The University had been able to redirect $5-million of carry-forward and other funds to meet student aid costs, meaning that the cost of student aid to the operating budget could be $5-million less. The outcome however, would be to maintain $90-million of funding for student aid.

- **Funding for the academic divisions**. The spending budget for each division was based the amount of revenue it generated after its contributions to shared expenses, student aid and the University Fund. The latter was a University-wide fund to which each academic division contributed 10% of its revenues for allocation to support University-wide priorities. It was clear that the academic divisions would face significant financial challenges. Therefore every effort had been made to ensure that as much funding as possible was left in the hands of the academic divisions. Each year, each division prepared a multi-year budget plan for review by the Provost and her advisory committee. The outcome of that review informed the allocations made from the University Fund. Those allocations were not automatic or formulaic but represented a much more considered approach to University priorities.

  Net revenue for the University was to increase by 0.5-million for 2009-10. The budget for University-wide costs had been reduced by $0.5-million, and the operating budget would supply $5.2-million less for student aid – with provision for that aid being made (as noted) from other sources. As a result, the net revenue available for the academic divisions would increase by $6.2-million for 2009-10. The Long-Range Budget Guidelines, however, projected that amount to increase by $183-million for the budget in 2013-14.

- **Cost increases for the divisions**. From that funding increase, however, the academic divisions had to meet increasing costs including: compensation, support to the expanded number of graduate students, and construction, renovation and maintenance projects. The estimated cost increase facing the divisions for 2009-10 was $61-million. After the projected increase in their net revenue of only $6.2-million, the divisions were left with a potential overall deficit of $54.8-million in 2009-10.

- **Need for deficit financing**. In the light of that serious situation, the University was proposing $45-million of potential deficit financing in the 2009-10 budget. Divisions would still be required to find and implement $9.8-million in expense-containment measures for the year. The University had concluded that while the divisions could not manage an additional $45-million in cost reductions in 2009-10, they could, with difficulty, manage the $9.8-million reduction.

  It was then important to ask whether the potential $45-million deficit could be handled over the longer term, or whether there was risk of its becoming a structural deficit. The University had concluded, that, to the best of its knowledge and based on a projection of revenues and expenses, it would be difficult but possible to pay down the deficit at the rate

4. Tuition Fees and the Budget: Presentation (Cont'd)

of $9-million per year over the next five years. In addition to the $9.8-million of expense reductions in their base budgets for 2009-10, the divisions would have to find $9-million in one-time-only savings for the coming year. The remainder of the $45-million could then be paid down by similar savings over the following four years.

Moreover, it was very important to note that the proposed $45-million of deficit financing for 2009-10 would not be simply allocated to the divisions and spent. Rather, the amount would be placed in a special fund. Divisions that were unable to reduce their expenses beyond the amount required for 2009-10 would be able to approach the Vice-President and Provost, demonstrate their need, and request an allocation from the fund, to be repaid over the five years. Some divisions, perhaps those that had significant carry-forwards of unspent appropriations from the previous year, or those not as severely affected by the loss of income from the endowment, might be able to carry on without deficit financing. Others would be unable to do so. Appropriate allocations of the debt to divisions represented a much better and more informed way of dealing with the need for deficit financing.

- **Outcome to the divisions**. The divisions were already in the process of paying down the historical accumulated deficit at the rate of $11.2-million per year until 2012-13. If the divisions used the full amount of $45-million of deficit financing for 2009-10, that would add another layer of deficit repayment amounting to $9-million per year. In the absence of cost-containment measures, the University's costs would have outgrown its revenue by a considerable amount. In fact, over the past ten years, owing to the absence of real (after-inflation) growth in government funding per student, the University had been forced to remove a total of $200-million per year from its base budget through expense reductions.

- **Endowment loss**. The loss of the endowment payout for 2009-10 had exacerbated the situation. To replace the endowment payout, the Faculty of Arts and Science, for example, would have to find alternative funding of $2.5-million for endowed chairs and $5.5-million for endowed student aid. The Faculty of Applied Science and Engineering would have to find $2.4-million to fund its endowed chairs and $3.7-million to provide endowment-supported student aid. In the Faculty of Medicine, there would be need for $2.3-million to replace the endowment payout for endowed chairs and $4.4-million for student aid. The Rotman School of Management would require $2.6-million to handle the cost of endowed chairs and $600,000 for the cost of endowed student aid.

- **Divisional responses to the endowment and general revenue shortfall**. The divisions were taking several steps in their efforts to deal with the absence of an endowment payout for 2009-10. First, they were redirecting any carry-forwards of unspent appropriations from 2008-09, originally planned for other purposes. Those carry-forward funds could be used both to replace the endowment payout and to deal with any other needs arising from the required reductions in the divisions' expense budgets. Then a number of mechanisms

4. Tuition Fees and the Budget: Presentation (Cont'd)

were being put in place: using additional income from faculty members' research grants, as far as permissible by the terms of the grants, to provide funding for the graduate students working under the supervision of the funded faculty members; making short-term adjustments to enrolment targets to admit more students and generate more revenue; reducing spending by canceling searches for new faculty and leaving vacant staff positions unfilled; reducing such discretionary costs as travel to academic conferences; etc.

A number of academically sound and valuable new professional programs had been introduced in recent years that would also have the effect of generating new revenue. They included the professional master's degree programs in Public Policy (with an enrolment of 64 students), Environmental Science (44 students), Management of Innovation (with a concentration in the health area, initial enrolment of 14 students), Master of Health Information (7 students) and Master of Finance (60 students).

The service divisions were also doing their part. Their relamping and chiller-replacement program had enabled an estimated saving of 126 gigawatt hours in electrical consumption, enabling a budget saving of $1.6-million per year. A review of printing costs was underway to seek University-wide cost reductions. A Resources Committee, led by Ms Riggall, was looking for ways to improve services and deliver them more cost-effectively. That Committee was bringing together central and divisional officers to consider the possibility of restructuring certain services. For example, the recently established position of Chief Information Officer had, as one of its key mandates, to find opportunities of rationalizing information-technology services to provide better services and to do so more cost-effectively.

- **Divisional income**. The academic divisions had been enjoying considerable success in their efforts to generate additional income. For the University as a whole, divisional income had increased by 41% over the four years 2004-05 to 2008-09 to a new total of $184-million. The Faculty of Arts and Science had increased its income by 200%, the Faculty of Medicine by 175% and the Faculty of Applied Science and Engineering by 290% over the four years. There were, of course, costs associated with the increased revenue, but the increases in revenue did clearly demonstrate the extent of the divisions' efforts to deal with their budgetary stresses.

Professor Zaky concluded that the University was continuing to make every effort to deal with the severe problems associated with the absence of any real increase in government funding, combined with the added pressure of the loss of an endowment payout for 2009-10. Many innovative approaches were being undertaken both to generate revenue, to reduce expenses and to ensure the continuing financial soundness of the University.

5. Tuition Fees for Publicly Funded Programs: Discussion and Resolution

In the course of discussion, the Chair invited Ms Sara Suliman to address the Board on behalf of the Graduate Students' Union (G.S.U.) Ms Suliman said that the G.S.U. was very concerned about any decision to increase the financial burden on students in the current economic downturn, when the vocational future of many students was so uncertain. The cumulative student debt across Canada was over $13-billion, not including private sources of credit. Retention rates were declining as students found it very difficult to focus on their studies when they encountered difficulty in financing their studies. It was wrong in a recession both to increase taxes and to increase the financial burden on students. Many potential students were unable to pursue higher education for financial reasons and consequently would find themselves in dead-end, low-paying positions. If tuition-fee increases were to continue, the next generation would be even further divided in its access to higher education. Although the University might not have seen its overall enrolment decline as the result of higher fees, Ms Suliman was concerned that people from marginalized communities were unable to afford to attend the University and their futures were being destroyed. The University was already seeing the effect of high, unregulated tuition fees on the enrolment of international students, with fewer able to gain access and with the University very close to losing its international reputation owing to the financial burdens it imposed on international students. The inability to recruit international students severely limited a very important perspective for domestic students. It was wrong to assert that higher tuition fees protected academic quality. On the contrary, in spite of years of on-going increases, class sizes had continued to increase and the time available for interaction between professors and individual students had continued to decline. The financial packages and employment opportunities for graduate students were not keeping up with increases in tuition fees, especially for international students. Many scholarships and bursaries were being discontinued, and many graduate students were not funded. Many of the new graduate programs were not eligible for graduate student funding, and often students in funded and unfunded programs were registered in the same courses, leading to a very uncomfortable atmosphere. While it was true that Ontario Government funding per student was the lowest in Canada, students should not be asked to bear the consequences and forced to take out larger loans. And, marginalized students should not be prevented from gaining access to the University and to the opportunity to improve their lives and their society.
Ms Suliman urged the Board to reject the proposal. Rather, all groups should work together to lobby the Government to move higher education up from the bottom of its list of priorities.

Professor Misak said that she agreed entirely with Ms Suliman's stress on the importance of accessibility for all groups of students. She noted, however, that there was no evidence of any decline in retention rates, and the University would do everything possible to ensure that that remained the case.

Among the matters that arose in discussion were the following.

(a) Fee increases for students entering the second year of certain programs. A member observed that there were substantial fee increases for students entering the second year of such programs as Commerce and Computer Science. Professor Zaky replied that students were not in fact admitted to begin those programs until their second year of full-time study (or equivalent).

5. Tuition Fees for Publicly Funded Programs: Discussion and Resolution (Cont'd)

Students began their studies in the regular Arts and Science program, took certain required courses for their proposed program, and then applied for admission to begin that program in their second year. Such students paid the regular Arts and Science fee in their first year and, if they were admitted, paid the higher fee for (for example) the Commerce program beginning in their second year.

(b) Tuition-fee increases and the quality of the student experience. A member referred to the statement in the cover sheet that "without the $39.9-million of new revenue from the proposed tuition fee schedule, some of the planned improvements to student experience would need to be delayed." However, the Budget Report made it appear that the funding would only offset the loss of the endowment payout for 2009-10. Professor Zaky replied that the expense budget included funding for the plan to improve the student experience. That three-year plan included a fund, which would grow to $10-million per year, to fund projects to enhance the student experience. That fund had been disbursed to the divisions for various projects. The member asked whether the Board could be confident that the planned projects would go forward in the current circumstances. Professor Zaky replied that the funds granted to the division had been provided for the specific projects, which were on-going. Professor Misak referred to a recent newspaper article that asserted that the financial stress on universities was such that this generation of undergraduate students would be short-changed.

Professor Misak said that the University of Toronto was trying to ensure that the prediction in the newspaper article would not come to pass. It was, nonetheless, clear that the funding situation would likely have an impact on the quality of the student experience. For instance, each time a faculty search was cancelled, the faculty:student ratio would be affected. Students would have one less opportunity to have an outstanding instructor.

(c) Merit-based scholarships. A member noted references to the maintenance of needs-based financial support. She asked about the maintenance of merit-based awards. Professor Misak replied that while needs-based awards would be maintained at their current level, all other elements of spending were subject to change in the current budgetary circumstances. However, the University recognized the value of merit-based scholarships, and it would do its utmost to maintain them to the extent possible in the circumstances.

(d) Tuition-fee increases at other institutions. In response to a member's question, Professor Misak and Professor Zaky said that they did not have specific information about the tuition fees planned by other universities, but they understood that proposed increases elsewhere in Ontario would be very similar to those being proposed at the University of Toronto, within the Province's tuition-fee framework.

5. Tuition Fees for Publicly Funded Programs: Discussion and Resolution (Cont'd)

On the recommendation of the Vice-President and Provost,

YOUR BOARD RECOMMENDS

THAT the Tuition-Fee Schedule For Publicly Funded Programs in 2009-10, as described in Appendix "A" hereto, and the tuition fees in 2009-10 and 2010-11 for the special programs identified in Tables B2 and C2 of Appendices B and C of the report, be approved.

6. Tuition Fee Schedule for Self-Funded Programs, 2009-10

On the recommendation of the Vice-President and Provost,

YOUR BOARD RECOMMENDS

THAT the tuition-fee schedule for self-funded programs for 2009-10, a copy of which is attached to Appendix "B" hereto as Table 1, be approved.

7. Budget Report: Discussion and Resolution

In the course of discussion, the Chair invited the President to comment on the Budget Report. The President recalled that it was traditional for the President to comment on the budget plan, and in particular on his judgement of its prudence and its risks. The budget was a reasonably cautious one. He noted that there were certain resources that were not visible in the Budget Report, including carry-forwards of unspent appropriations from the prior year and unspent amounts in the expendable accounts associated with particular endowment funds. Those amounts could be mobilized to deal with the deficit in the year ahead. But, those amounts were limited to use that year. Therefore the University's circumstances were not easy. The University was moving forward to examine all sources of revenue and all expenses. It was necessary to pay close attention to each on an on-going basis because failure to do so would lead to a structural problem in the budget. Further increases in costs would lead to severe problems over time.

The President said that the University's problem was exacerbated by the absence of endowment revenue for the year. The shortfall caused by the need to forego the endowment payout would amount to $62-million. Of that amount, $42-million was expected but would not be provided to the operating budget. The University would honour its commitments to pay the salaries of endowed chairs and professors and to provide needs-based student aid. But, by avoiding any draw on the capital of the endowment, the University would preserve its long-term health. Preserving as much capital as possible would ensure that the endowment was in the best possible position when markets recovered. Many benefactors had expressed their understanding and support, making one-time gifts to support the purposes of the endowments they had established or

7. Budget Report: Discussion and Resolution (Cont'd)

making extra capital contributions to ensure the health of those endowments. The President suggested that on an on-going basis the investments in the endowment would generate dividend and interest income, which would help to provide a foundation for pay-outs even if the recovery in equity values was very gradual. While it was important to preserve the capital of the endowment at this time, he did not anticipate that a payout from the endowment would be omitted in future years. While it was not clear when the securities markets would turn around, it was clear that those who were prudent with their capital would come out best.

The budget proposed that $45-million be made available to the divisions if they were unable to reduce their budgets by the needed amount for 2009-10. It was unknown what amount the divisions would actually use, but it was clear that they were very concerned about assuming additional debt. The President stressed that even if the full amount of $45-million was used by the divisions for 2009-10, the budget remained a prudent one.

The President said that the University was doing everything possible to enable the divisions to make their own decisions in the light of their financial situations, their academic priorities, and their students' needs. The University would empty its cupboards during the 2009-10 year, and it had made severe cost reductions in its central shared services. The cost reductions that would be required in subsequent years would include reductions in University-wide costs. The President's Budget Planning and Priorities Committee was considering various options for spending reductions, and it would hold the central shared-service divisions to a very high standard in order to deliver the most resources possible to the academic front lines.

The President commented on the assumptions underlying the budget. First, the University assumed that there would be no growth in the less-than-adequate Provincial grants and no increase in compensation for the institutional costs of research. The University did assume that the Province would continue to deliver promised funding for growth in graduate enrolment. The University was continuing to deal with the balance of its enrolment of master's degree and doctoral degree students, and it was talking with the Government about the appropriate balance. The President noted that it was, in general, difficult to make the case for increased operating funding at a time when the Government was stressing fiscal stimulus through capital spending on infrastructure. The University was, however, seeking to make that case.

The President commented on areas of risk in the budget. The first area of risk was unanticipated cost over-runs. Utilities costs were always uncertain. The University had, however, consulted widely on the subject and had budgeted an additional $3.6-million to cover both utility price increases as well as usage increases arising from campus expansion. It was highly unfortunate that neither level of government had established a "green fund" to assist with one-time costs to reduce energy consumption and to contribute towards sustainability. The University had invested in its relamping and chiller-replacement projects and had saved 126 gigawatt hours of energy use, providing an annual saving of $1.6-million per year. But it had borne the cost of that work largely unaided. It would continue to seek both ecological and cost benefits by such projects. The cost of unanticipated major failures in utilities infrastructure was another possible

7. Budget Report: Discussion and Resolution (Cont'd)

source of a cost over-run. The University had, however, put a reserve fund in place to deal with that risk. While it would omit a contribution to that fund in the exceptional financial circumstances of 2009-10, the fund remained in place to mitigate any unanticipated problems. In addition, the University maintained its usual suite of insurance to deal with certain potential problems such as boiler failures.

The second major area of risk was revenue shortfall. The revenue assumptions were, however, very cautious. Enrolment assumptions were based on divisional plans. It was assumed that there would be some small growth in Arts and Science enrolment on the St George campus for 2009-10 followed by a modest reduction. Modest enrolment growth was projected for the Mississauga campus. Enrolment would be held steady on the Scarborough campus until it could remedy its shortfall of space. Revenue from tuition fees was projected to reflect the schedule on the current Board agenda, with increases consistent with those of recent years and other institutions. The University was closely attuned to the financial pressure on its students, pressures made clear by Ms Suliman in her comments about graduate students and their situation. It was therefore unrelenting in its efforts to promote the growth of graduate scholarships and bursaries, and it hoped that such growth would not be funded in future years by reallocations from the budgets of the three Federal granting councils, as had happened in 2008-09.

The President returned to the issue of future availability of a payout from the endowment funds. He hoped that a recovery would enable the University to resume its normal payouts. Even if such a recovery did not occur, as noted, the University had the foundations for a payout from the interest and dividend income associated with the securities in the endowment. A resumed payout at the end of 2009-10 had been factored into the budget projections, at a prudent level.

With respect to student aid, the absence of an endowment payout left a shortfall of $34-million in funding for that purpose. The University had been able to make up for $29-million of that shortfall from other sources - both central sources and those in the divisions. A further $5-million had been redirected from carry-forward funds and other sources to deal with the needs of students arising from an anticipated need for emergency funding. Therefore, in spite of a very difficult financial environment, with flat government funding, no endowment revenue and increasing costs, including those of salary settlements, the University would maintain the same level of student aid in 2009-10 as it had provided in the previous year. That reflected the shared concern within the University for accessibility and the strong commitment to maintain it.

The President concluded that the budget process had worked very well owing to very hard work by all concerned: leaders in the divisions, Professor Misak and Professor Zaky and their team, and Ms Riggall and Ms Brown and their team.

7. Budget Report: Discussion and Resolution (Cont'd)

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

(a) Paying down the accumulated deficit. A member referred to the Long-Term Budget Guidelines, 2009-10 to 2013-14, and noted that beginning in 2010-11 it would be necessary not only to continue to pay down the historical, institutional accumulated deficit at a rate of $11.2-million per year but also to pay down the new divisional deficit at a rate of $9-million per year. She asked about the source of the funds to pay down those amounts. Professor Zaky replied that the funds would have to be found from spending reductions in all of the divisions. Professor Misak added that the problem would be an on-going one. The officers of the University and the divisions were engaging in intensive discussions of global and local measures that could be taken to deal with the need to pay down the deficit. In the past, the University had been able to deal with the problem by increasing its revenue through increasing its enrolment, but that strategy could not be pursued into the indefinite future.

Another member observed that the presentation of the Long-Range Budget Guidelines, 2009-10 to 2013-14, made it appear that the operating expenditures would equal operating revenue after 2009-10. In fact, the budgets were not at this stage in balance because the University would have to find about $20-million a year for three years to achieve balance. Professor Misak replied that the amount would indeed have to be found. Some of the Deans had expressed concern that it was a very bad time to have to be paying off the historical accumulated deficit, but the University had no choice in the matter. The member asked if the Board was being asked to approve the Long-Range Budget Guidelines without knowing what the steps would be to deal with the accumulated deficit. Professor Misak replied in the affirmative. Those steps were now being planned. In some cases, the solutions would be structural and University-wide ones. For example, the University was seeking new ways of delivering information technology that could potentially lead to savings of many millions of dollars over many years. But most solutions would be local ones. For example, the Faculty of Arts and Science was planning a substantial increase in the number of summer courses it offered. Many Toronto students registered at other universities could benefit from taking summer courses in Toronto. Providing those courses would not only be very useful for the students but would also generate substantial revenue for the Faculty of Arts and Science. Other solutions were being contemplated in other divisions. It was the sum of those solutions that would provide the means to pay down the current institutional deficit and the proposed future divisional deficits.

(b) Local responsibility for the budget. A member observed that the decision to decentralize a great deal of the responsibility for budget decision-making to the divisional level had been a very good one. It had been particularly beneficial that responsibility had been devolved to the divisions before the current problems arose. The member was, however, concerned that it was not clear from the Budget Report which divisions would be able to proceed without incurring large deficits and which would encounter difficulties. Professor Zaky replied that the Budget Report did not contain information about which divisions would request deficit financing. The divisions, having

7. Budget Report: Discussion and Resolution (Cont'd)

received the proposed University Budget Report, were now formulating their budget plans. They would, based on their needs, make proposals to the Provost's Office, requesting where necessary an allocation from the special fund set up for the $45-million of permissible deficit spending.

On the recommendation of the Vice-President and Provost,

YOUR BOARD CONCURS

With the recommendation of the Academic Board,

THAT the Budget Report 2009-10, which includes the long range budget projection for 2009-10 to 2013-14 and the budget for 2009-10, be approved.

8. Academic Incidental Fees: Administrative User Fees and Fines, 2009-10

On the recommendation of the Vice-President and Provost,

YOUR BOARD APPROVED

i. That the Woodsworth Summer Abroad Site Service Fee – China (Shanghai and Beijing) be added to the Administrative User Fee Schedule.

ii. That the Faculty of Dentistry Dental Trainees Visiting DDS Student Course Fee be added to the Administrative User Fee Schedule.

iii. That the Faculty of Nursing Out-of-Province Clinical Placement Fee be added to the Administrative User Fee Schedule.

iv. That the OISE Technical Studies and Apprenticeship Programs Application Fee be added to the Administrative User Fee Schedule.

v. That the Economics Qualifying Examination Fee be removed from the Administrative User Fee Schedule.

vi. That the Woodsworth Summer Abroad Site Service Fee – Russia (Moscow) be removed from the Administrative User Fee Schedule.

8. Academic Incidental Fees: Administrative User Fees and Fines, 2009-10 (Cont'd)

vii. That the Faculty of Medicine Physical Therapy Clinical Fee per Placement - U of T Students, International Placement be removed from the Administrative User Fee Schedule.

9. Academic Incidental Fees: Cost-Recovery Ancillary Fees and Administrative User Fees and Fines (Reported for information), 2009-10

The Board received, for information, the annual report on cost-recovery ancillary fees and administrative user fees and fines for 2009-10.

10. Pension Plans: Annual Financial Report for the Year ended June 30, 2008 – Revision

Ms Brown presented an update to the annual financial report on the pension plans, which had been submitted to the Board at its December meeting. She recalled that there were three actuarial valuations of the pension plans provided in the annual report: The first was the going-concern valuation, used by the University in its analysis and management of the plans. The second was the solvency valuation, which hypothetically assumed that the plans would be wound up as at the valuation date and tested whether the pension funds would be able to provide for their full pension obligations, except for partial inflation protection. The solvency valuation was required by the Financial Services Commission of Ontario as part of plan sponsors' filings. The third was the wind-up valuation, which also made the hypothetical assumption that the plans would be wound up and tested the ability of the pension funds to pay full pensions, including their provisions for partial inflation protection. Ms Brown said that the revision to the report concerned only the solvency valuation. The valuation of the liabilities of the plans used a specified rate to discount the cost of future pension payments to their present value, following guidance by the Canadian Institute of Actuaries. On July 1, 2007, the discount rate had been 5%. On July 1, 2008, it had been reduced to 4.5% based on an anomalously tight spread over Government of Canada bonds. That rate had been used in the solvency valuation originally presented to the Business Board. In February 2009, however, the Institute had increased the rate by 70 basis points (7/10 of 1%) to reflect deteriorating credit conditions and increasing interest rates on other-than-government credit, and it had concluded that it would be reasonable to use that higher rate for 2008 valuations, beginning with those effective February 29, 2008. The University had decided to revise its solvency valuation using the new guidance. As a consequence, the solvency deficit in the University's main pension plan was reduced from $217.2-million to $65.5-million. The $3.2-million solvency deficit of the OISE plan was eliminated and changed to a surplus of $3.2-million.

Ms Brown recalled that the University budgeted for special pension-plan payments of $27.2-million per year, over and above the required current service cost of its registered plans. The special payments allowed the University to deal with deficits in the registered plans. When the amount was not required to deal with a deficit, it was nonetheless reserved and held outside

10. Pension Plans: Annual Financial Report for the Year ended June 30, 2008 – Revision (Cont'd)

of the registered plans. The University now planned to file the actuarial valuation as at July 1, 2008, including the revised solvency valuation. It would use the $27.2-million amount set aside in the budget to make a $14.8-million special contribution to the main registered plan, with $9.8-million representing a special going-concern payment and a further $5.0-million being a special solvency payment. This change was reflected in the revised pages to the pension-plan report.

The Chair invited Professor Luste to address the Board. Professor Luste said that the report touched on a much larger concern: the very large off-balance-sheet liability represented by the pension plan. Professor Luste had recently attended hearings sponsored by the Ministry of Finance on pension plans, where there was very clear reason for concern about pension plans being voiced by the very large attendance of automobile workers, Nortel Networks employees and Air Canada employees. The matter of unfunded pension liabilities had also received a good deal of attention in the media. Professor Luste found it inappropriate for the University to rely on either the going-concern valuation or the solvency valuation. The going-concern valuation depended on what he regarded as a very questionable assumption: that the pension fund would achieve a real (after inflation) return of 4% per year. The return used in actuarial valuations some twenty years ago was 2.5% and even less. The assumption of a 4% real return was, in his view, overoptimistic. Relying on the solvency valuation was also inappropriate because it made no provision for the payment of pensions that would increased by 75% of the rate of inflation – something which had been promised to every member of the pension plan. The only valuation that provided a true picture of the financial condition of the pension plans was the wind-up valuation. Even in that valuation, there was reason for concern. The market value of the assets included in that valuation had declined substantially since the valuation date, probably by at least $600-million, because of the downturn in the securities markets.

Professor Luste said that, given the short-term financial problems being faced by the University, it was difficult to face up to a problem that had been created over the past twenty or more years. It was, however, essential to accept the long-term responsibility represented by the pension plan and its true deficit, and it was the responsibility of the Faculty Association to insist that the University do so. Professor Luste found it ironic that the source of the new valuation was the high yield spread on bonds. It represented a flight to safety and a concern about default – a general lack of confidence in the economy. It was, however, that very lack of confidence that provided the basis for the University's reducing its ostensible pension plan liability. That situation did, however, reflect the rules and it did provide the University with another year's time to deal with the solvency deficit. Professor Luste referred members to the document he had handed out for a more detailed statement of the Faculty Association's view.

Ms Brown reiterated that it was the low interest rate (and therefore the low discount rate) that was anomalous during the past year. She noted that the University had taken good advantage of that low rate for its several borrowings for capital projects. She also observed that the Pension

10. Pension Plans: Annual Financial Report for the Year ended June 30, 2008 – Revision (Cont'd)

Funding Strategy (approved by the Business Board in 2004) provided for the annual $27-million special budget for pension costs. That had been a very wise strategy that had proven its value over time.

11. Capital Projects: Capital Projects Report as at February 28, 2009

The Board received for information the Capital Projects Report as at February 28, 2009. That report showed projects under construction (forecast cost of $192.21-million) and projects that were occupied but not formally closed (forecast cost of $445.69-million).

12. Capital Projects: Borrowing: Status Report to March 4, 2009

The Board received for information the status report on borrowing to March 4, 2009. 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 $913.3-million; actual external borrowing of $556.3-million; and internal borrowing outstanding of $172.5-million.

13. St. George Campus Utilities Infrastructure Renewal Projects

The Chair asked that the Board add to its agenda proposals for two capital projects to take advantage of possible government funding for "shovel ready" infrastructure projects: St. George Campus Utilities Infrastructure Renewal Projects and the Faculty of Applied Science and Engineering Interdisciplinary Design Studios Project. It was AGREED to add to the Board's agenda proposals for the two capital projects.

Ms Riggall said that the University hoped that the two proposed projects would be the first of a series of projects to take advantage of government funding for infrastructure projects, which was designed to counter the current downturn in the economy. The Government of Canada had announced such a program, with $2-billion of federal funding. (A comparable Provincial program was expected.) It was a condition of funding that work begin as soon as funding was made available and be "materially complete" by March 2011. The University hoped that it would fulfill the requirement if the projects were ready for use for the beginning of the 2011-12 academic year. The infrastructure renewal projects were parts of a longer list that the University had identified over time as needing completion. Their completion would upgrade the capacity of the physical plant of the University in a number of ways. All of the work would require completion at some time in the not-too-distant future in any event, and the opportunity to proceed with the work at this time and with government funding would be very beneficial to the University. In response to a question, Ms Riggall said that proceeding with the projects at this time was subject to the receipt of government funding, as stated in the motion below.

13. St. George Campus Utilities Infrastructure Renewal Projects (Cont'd)

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the program of projects,

THAT the Vice-President, Business Affairs be authorized to execute, and arrange any necessary financing for, the Utilities Infrastructure Renewal program of projects, at a total cost not to exceed $15.9-million, using the following sources of funds as part of the government economic stimulus program:

- Government of Canada $8.0-million
- Government of Ontario $7.9-million

14. Capital Project: Faculty of Applied Science and Engineering Interdisciplinary Design Studios within the Department of Civil Engineering and the Lassonde Institute for Engineering Geoscience

Ms Riggall reported that the proposed design studio project had been reviewed by the Planning and Budget Committee and the Academic Board in the spring of 2008, and approved in principle by the Governing Council, in an earlier form. That project had been expanded somewhat in its scope, but the planning was now well advanced, and the University would be able to proceed quickly with it. In addition, a possible gift(s) to support the project had been identified. In response to a question, Ms Riggall said that the possible donation(s) were either in hand or were under active consideration by the benefactor(s). The University hoped that the availability of government funding would be very helpful in encouraging the potential donation.

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the enhanced project,

THAT the Vice-President, Business Affairs be authorized to execute, and arrange any necessary financing for, the Mining Building renovation project to construct interdisciplinary design studios for the Department of Civil Engineering and the Lassonde Institute for Engineering Geoscience and to improve accessibility to the Mining Building, at a total cost not to exceed $20-million, using the following sources of funds:

- Government of Canada $10.0-million
- Government of Ontario 1.0-million
- Donations 9.0-million

15. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Monday**,** April 27, 2009 at 5:00 p.m. That meeting would have two main themes: Human Resources and Equity matters and also the annual report from the University of Toronto Asset Management Corporation (UTAM).

The Chair noted that because of the difficult financial markets over the past several months, and because of the Board's very full agenda, Ms Riggall had arranged for a private "off line" session for members in the hour before the April 27 meeting. The session would focus on University and pension plan investments. Senior staff and members of the Board of UTAM had also been invited to attend and participate in the session. Because of the importance of the matter, members of the Business Board were urged to make every effort to attend.

THE BOARD MOVED INTO CLOSED SESSION

16. Report on Gifts and Pledges over $250,000, November 1, 2008 to January 31, 2009

The Board received, for information, the Report on Gifts and Pledges over $250,000 for the period November 1, 2008 to January 31, 2009.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:00 p.m.

Secretary	Chair

April 15, 2009

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