UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 179 OF THE BUSINESS BOARD

February 8, 2010

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, February 8, 2010 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Richard Nunn, (In the Chair)
Dr. Alice Dong, Vice-Chair of the Governing Council
Dr. C. David Naylor, President
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Mr. William Crothers
Ms Mary Anne Elliott
Mr. J. Mark Gardhouse
Mr. Steve (Suresh) Gupta
Ms Deborah Ovsenny
Ms Jennifer Riel
Professor Arthur S. Ripstein
Mr. Olivier Sorin
Professor Janice Gross Stein
Mr. W. John Switzer
Mr. John Varghese

Mr. David Palmer, Vice-President, Advancement
Ms Judith Wolfson, Vice-President, University Relations
Ms Sheila Brown, Chief Financial Officer
Mr. Louis R. Charpentier, Secretary of the Governing Council
Mr. Paul Donoghue, Chief Administrative Officer, University of Toronto at Mississauga
Ms Rivi Frankle, Assistant Vice-President, Alumni and Stakeholder Relations
Ms Sally Garner, Executive Director, Planning and Budget
Professor Scott Mabury, Vice-Provost, Academic Operations
Ms Kim McLean, Assistant Principal (Business and Administration) and Chief Administrative Officer, University of Toronto at Scarborough
Mr. Nadeem Shabbar, Chief Real Estate Officer
Ms Elizabeth Sisam, Assistant Vice-President, Campus and Facilities Planning
Mr. Ron Swail, Assistant Vice-President, Facilities and Services

Mr. Neil Dobbs, Secretary

Regrets:

Mr. Andrew Agnew-Iler
Ms Paulette L. Kennedy
Dr. Stefan Mathias Larson
Mr. Geoffrey Matus
Ms Florence Minz
Mr. Gary P. Mooney
Mr. George E. Myhal
Mr. Tim Reid
Ms Melinda Rogers
Mr. Stephen C. Smith
Mr. W. David Wilson

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In Attendance:

Professor Jill Matus, Vice-Provost, Students
Mr. Mark L. Britt, Director, Internal Audit Department
Dr. Anthony Gray, Special Advisor to the President
Mr. Anwar Kazimi, Committee Secretary, Office of the Governing Council
Ms Vanessa Laufer, Special Projects Officer, Office of the Vice-President and Provost
Mr. Henry T. Mulhall, Assistant Secretary of the Governing Council
Ms Serena Persaud, Internal Audit Department

ITEM 2 RECORDS THE BOARD'S CONCURRENCE WITH AN ACADEMIC BOARD RECOMMENDATION TO THE GOVERNING COUNCIL FOR APPROVAL.

1. Report of the Previous Meeting

Report Number 178 (December 14, 2009) was approved.

2. Capital Project: University of Toronto at Mississauga – Parking Deck

The Chair stated that the responsibility of the Business Board for the proposed University of Toronto at Mississauga (U.T.M.) parking deck project was broader than the Board's usual approval of project execution. Where a project's cost was to be covered by projected revenue, the Business Board was called upon to advise the Governing Council about the adequacy of business plan to generate the revenue needed to recover the cost. For that reason, the full Project Planning Report, including the business plan for the U.T.M. parking ancillary, had been distributed to the Board. The first part of the motion called upon the Board to concur with the recommendation for approval of the project in principle. That concurrence should be given or denied on the basis of the Board's consideration of the business plan.

Mr. Shabbar said that there had been very rapid growth at the University of Toronto at Mississauga in the past several years with enrolment increasing from about 8,000 to the current 11,000 students. Including faculty and staff, more than 13,000 people came to campus. U.T.M. had for some years been taking a number of initiatives to reduce the demand for on-campus parking, including: (a) an automated ride-share program and preferred parking places to promote car pooling, and (b) strong efforts to promote improved public transit services to the campus. However, two of the three building projects taking place at U.T.M. (the Health Sciences Complex and the Instructional Centre) were on the sites of previous parking lots and had displaced almost 450 parking spaces. The outcome was a critical shortage of parking spaces. U.T.M. had considered various alternatives to deal with that shortage including the provision of off-campus parking, additional surface lots, underground facilities and an above-ground garage. Its decision had been the construction of a parking deck above a portion of an existing surface lot to provide an additional 250 places. The cost would amount to about $26,000 per parking place compared with $50,000 - $60,000 for each place in an underground structure. In addition, the proposed parking deck could be completed to provide those places by September, 2010. The proposed deck could at some future date be expanded to cover the remainder of the surface lot to

2. Capital Project: University of Toronto at Mississauga – Parking Deck (Cont'd)

provide additional parking spots without incurring the cost for structural enhancements to the current proposed deck. The cost of the deck could be met by the budget of the U.T.M. parking ancillary, which would repay the necessary financing over a period of ten years.

Mr. Donoghue said that an internal University loan could be amortized over ten years without the need for an extraordinary increase in parking rates. Referring to the projection of operating results contained in Attachment E-1 to the proposal presented to the Planning and Budget Committee, he said that the planned rate increase of 3% per year would be sufficient to meet: (a) inflationary cost increases, (b) the operating costs for the proposed new deck, and (c) the ten-year loan amortization costs. Because the projection used an interest rate of 8% on the loan, and because it was likely that the actual rate would be lower, Mr. Donoghue in fact anticipated that it would be possible to repay the loan in fewer than ten years. While the projection included a small operating deficit for the parking ancillary in both 2010-11 and 2011-12, the operating reserve fund for the parking ancillary would more than offset the shortfalls in those years.

Among the matters that arose in discussion were the following.

(a) Adequacy of demand for parking places. In response to a member's question, Mr. Donoghue said that he was very comfortable that there would be sufficient demand for parking places to provide the revenue projected in Attachment E-1. There had been some excess supply in the previous year, but the proposed deck would provide fewer places than those lost as the result of the construction that eliminated two surface lots. There had been some reduction in the sales of parking permits, but that had been offset by the sales of pay-as-you-go parking, and Mr. Donoghue was confident that similar sales would continue.

(b) Priority for parking. A member asked whether a parking deck represented the most important priority for spending $6.5-million. Or, were there other priorities that would do more to improve the student experience? Mr. Shabbar replied that in the case of capital spending for an ancillary operation such as parking, unlike other capital expenditures, the cost would be repaid by user fees. Mr. Donoghue added that U.T.M. was a commuter campus, and a large proportion of its population relied on parking facilities. The greatest pressure for the provision of adequate places derived from students, who accounted for 81% of parking permit sales. While faculty and staff arrived early and remained on campus all day, students had more flexible schedules and they encountered the greatest difficulty in finding parking if they arrived later in the day. In spite of improvements in public transportation, the need for parking for commuter students would likely remain very great, and student frustration with the availability of parking was substantial. U.T.M. was very pleased with the steps it had taken to improve the quality of student life on campus; failure to provide adequate parking would erode the progress made thus far.

(c) Sufficiency of the proposed addition to the stock of parking places. A member observed that 450 places had been lost to construction but the proposal was to replace only about 250 of

2. Capital Project: University of Toronto at Mississauga – Parking Deck (Cont'd)

them. Students were reporting severe difficulties in finding parking, with some having to leave the campus because of their inability to park their cars. Replacing only a fraction of the lost spaces seemed especially inappropriate in that U.T.M. was expected to increase its enrolment by 650 – 700 students over the next three to four years. In the longer term, substantially more enrolment growth was planned. It therefore appeared appropriate to proceed at this time with the construction of more parking spaces, which would meet demand, take advantage of economies of scale and also take advantage of unusually low interest rates. It would also prevent the disruption of a separate, later project. While the member understood the wish of U.T.M. to promote the greater improvement of, and use of, public transit, it would be more advantageous to take a pro-active approach to supply adequate parking.

Mr. Donoghue replied that U.T.M. had considered the option of building more spaces at this time. Indeed, it now hoped that it might be able to provide more spaces – perhaps closer to 300 - within the scope and cost of the present project. While it was true that additional spaces would likely be needed at some time in the future, U.T.M. had concluded that an expanded project at this time would not be appropriate. It would be necessary, given the limited space available and the wish to conserve green space, to build a multi-level facility. Such a structure would, however, stand out on that part of the campus, and it would not be sensible for the proposed site. It would also involve substantial incremental costs including ramps, stair cases and elevators, all of which would add to the cost per parking space and the necessary parking fees. It might be possible to add a limited number of spaces to the single story facility, but even that would lead to significant cost increases because of the need for additional stairwells. Therefore, U.T.M. had concluded that the proposed facility would meet demand, would do so without a substantial cost increase, and would keep some pressure on the supply side of the equation. In addition, U.T.M. had major capital requirements, and it would prefer to use its remaining borrowing capacity for those purposes.

The member said that, while he understood the constraints, they would remain when additional parking requirements had to be met in a very few years time with expansion of the campus. Surely, it would make more sense to complete a single project at this time. While that would require the borrowing of a larger sum, the interest rate was currently low and the amortization period could be extended to keep annual payments within a manageable amount. Mr. Donoghue replied that U.T.M. was limited by University policies in its access to internal loans and in the length of their amortization. A larger loan taken out over more years would be substantially more costly to carry, and the empty parking spots arising from over-supply would not generate the revenue needed to make payments. Ms Brown confirmed the limitations on U.T.M.'s potential borrowing.

2. Capital Project: University of Toronto at Mississauga – Parking Deck (Cont'd)

On motion duly made, seconded and carried,

YOUR BOARD CONCURS

With the recommendation of the Academic Board

THAT the proposed construction of a single-level parking deck, on the site of an existing surface parking lot and with a capacity of approximately 250 spaces, be approved at a total cost not to exceed $6.5 million with funding to be provided by a loan to be repaid by the UTM Parking Ancillary over a period of ten (10) years, beginning in fiscal 2010/11; and

YOUR BOARD APPROVED

Subject to Governing Council approval of the project,

THAT the Vice-President, Business Affairs be authorized to execute the University of Toronto at Mississauga parking deck project at a cost not to exceed $6.5-million, with funding to be provided by a loan to be repaid by the UTM Parking Ancillary over a period of ten (10) years, beginning in the 2010/11 fiscal year.

THE FOLLOWING ITEMS ARE REPORTED FOR INFORMATION.

3. Senior Appointments and Compensation Committee: Annual Report, 2008-09

Dr. Dong presented the annual Report of the Senior Appointments and Compensation Committee for 2008-09. That Committee consisted of several senior, external members of the Governing Council: the Chair of Governing Council (Mr. John F. Petch), the Vice-Chair of the Council (Dr. Dong), the Chair of the Business Board (Mr. Nunn), an alumni member of the Governing Council selected by the Chair after consultation with the alumni governors (Mr. Stephen Smith), and a member of the Business Board selected after consultation with the Chair of the Board (Mr. David Wilson). The external nature of the membership was intended to ensure independence. The President was the only internal member, and he participated fully in the Committee's decisions, apart from those that concerned him personally. The Vice-President and Provost, and the Vice-President, Human Resources and Equity participated, where appropriate, as Non-Voting Assessors. The Committee was responsible for making decisions concerning compensation of the University's most senior officers. It oversaw decision-making by the President concerning senior academic administrators and senior administrative staff. In recent years, the Committee had became responsible for approval of certain appointments including Assistant Vice-Presidents and Associate Vice-Provosts. The Committee was charged to make an annual report to the Business Board to attest that appropriate compensation policies

3. Senior Appointments and Compensation Committee: Annual Report, 2008-09 (Cont'd)

and programs were in place for senior officers and that decisions about compensation had been taken in accordance with them. On behalf of the Committee, Dr. Dong so attested for the 2008-2009 academic year.

Dr. Dong summarized the Committee's work for the 2008-09 year, which included:

- Review of two compensation frameworks for members of the University's Confidential Staff and its Professional and Managerial Staff. Both had been recommended to the Business Board for approval. The Committee had also received a report on compensation decisions for the most senior Professionals and Managers (PM 7, 8 and 9).

- Review of an annual report on faculty salaries, including comparative data both from Canadian universities and peer public universities in the U.S.

- Review of similar reports on salaries for academic administrators, responsibility for which was delegated to the President by the Policy on Appointments and Remuneration.

- Normally, the Committee approved annual adjustments for the Vice-Presidential group. However, in light of the economic crisis, the entire executive group had voluntarily agreed to a compensation freeze.

- During 2008-09, the Committee had not received any recommendations for administrative appointments at the level of Assistant Vice-President.

4. Financial Forecast, 2009-10

Ms Brown presented the financial forecast for the 2009-10 fiscal year.[1] She stressed that the forecast was a projection only of the University's year-end financial results and financial position, based on reasonable "ballpark" estimates across the four funds: the operating fund, the capital fund, the ancillary operations fund, and the restricted funds. Although it was relatively near to the April 30 fiscal year-end, many uncertainties remained. The most substantial of them was investment return. While the year's operating expenditures, capital project spending, and other elements usually were as expected, the outcome of the University's investments tended to determine whether the University had positive or negative financial results for the year. For the current year, the University's revenue and expense would amount to more than $2-billion each, and Ms Brown projected that the outcome would be a net lost of $50.8-million, a dramatic improvement over the previous year's loss of $169.2-million. The forecasted year-end cumulative deficit of $42.6-million in the operating fund also represented a substantial improvement over the budgeted cumulative deficit of $77.7-million. The largest positive variance was a smaller-than-anticipated utilization by the academic divisions of the $45-million budgeted to assist them in dealing with the loss of a payout from the endowment for the year.

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[1] http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=6724

5. Property: Art Collections Policy

Professor Matus presented the proposed Art Collections Policy. There was currently no approved University-wide policy in place governing the acquisition, maintenance and removal of works of art from the University's collections. The purpose of the proposed Policy was to put in place consistent rules across the University to replace the various current practices. The proposed Policy would govern the collections on all three campuses including that of Hart House. It would not include the collections of the federated universities. The proposal was the outcome of an extensive process of consultation with, among others, (a) the Provost's Curators and Directors Group, and (b) the reconstituted University Art Committee.

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

The *University of Toronto Art Collections Policy*, a copy of which is attached hereto as Appendix A, effective immediately.

6. Capital Projects Annual Review to January 2010

Mr. Shabbar presented the annual review of capital projects. There were 35 current capital projects. Of those, 22 were completed and occupied, or substantially completed, but they were not yet formally closed, awaiting the correction of deficiencies and the end of the warranty period. A further 12 currently were underway and one was on hold. That latter project, at U.T.S.C., would probably not proceed and would be removed from the active list. The value of the projects in the first category (completed or substantially completed) was $456-million. The value of the projects underway was $365-million, and the approved cost of the "on hold" project was $3.1-million. Mr. Shabbar displayed photographs or architects' renderings of various of those projects, commenting on each. He reported that good progress was being made on the projects funded by the government Knowledge Infrastructure Program, and he was confident that they would be completed by the government's very tight deadline. He displayed a table showing seven major projects completed in 2008-09, comparing the final cost to the total budgeted cost. In all cases but one, the Economics building, the projects had come in on or under budget. Each project was classified as new construction or renovation (or a mix), with the construction cost per gross square foot shown. The cost of new construction was greater than the cost of renovation of existing space. Mr. Shabbar displayed a graph showing the cost per square foot (escalated to late 2009 dollars) of various projects completed at the University in comparison to those completed at other Ontario institutions. In general, the University's costs compared well to those elsewhere. Costs were higher in two cases: the Varsity Pavilion and the Centre for Biological Timing and Cognition, where unusual and unanticipated site conditions required that extra costs be incurred. Costs for laboratory buildings were higher than those for classroom or administrative buildings. Projects for ancillary operations, e.g. student residences, were not included in this report.

Mr. Shabbar reported that, with two exceptions, all projects had been delivered on schedule. One exception was Max Gluskin House, home of the Economics Department on the

6. Capital Projects Annual Review to January 2010 (Cont'd)

St. George Campus. Numerous problems had occurred including the bankruptcy of the contractor, a strike affecting a sub-contractor and delays in obtaining materials. The second exception was the Varsity Stadium Pavilion, where: (a) there had been need to build around a large electrical sub-station, (b) there had been issues affecting the contractor, and (c) unusually bad weather conditions had caused delays.

Among the matters that arose in discussion were the following.

(a) Cost containment. A member noted that it was unusual that a vast majority of construction projects were delivered at or under budget. Did the University achieve that outcome by fixed-price contracts or by cutting back on projects where necessary to keep them within their budget? Another member asked how it was determined what elements to scale back when projects appeared to be running over budget. A third member asked whether a contingency sum was built into proposed project costs to cover change orders or unanticipated cost increases.

Mr. Shabbar replied that arrangements with contractors were determined on a case-by-case basis. In many cases, a fixed-price contract was arranged. In other cases, such as the projects funded by the Knowledge Infrastructure Program where time limits were very tight (including the Instructional Centres at U.T.M and U.T.S.C.) design/build arrangements were used. In recent years, there had been few occasions when it had been necessary to return to the Board to request increased funding. (There had been no such occasions in the past year.) Where unexpected problems did take place (e.g. unanticipated site conditions or delays caused by strikes) every effort was made to deliver the programmatic features of the project. Value engineering was undertaken by the project's implementation committee, which included representation of the academic division. Possibilities to reduce costs were discussed with the consultants and the construction firm; they included such possibilities as the use of less expensive materials. Similarly, every change order was reviewed to ensure that it would fall within the approved budget; it if did not, efforts were made by value engineering to accommodate the order. A contingency amount was built into the budget for each project amounting to seven percent of the total project cost. Such a contingency amount was usual in construction programs. Where the cost of a project increased by less than 10% of the approved cost or by less than $2-million (whichever was least) the Vice-President, Business Affairs had authority to approve the cost increase. Where the cost increased by more than 10% or $2-million, it was required that the increase be approved by the Business Board. Where the academic or other division proposed a change that would be defined as a change in the scope of the project (i.e. a size, space plan or other substantive aspect of the project planning report), the revised plan required the same level of approval as given to the original plan. Therefore, for projects costing more than $2-million, the revised plan would require the approval of the Governing Council on the recommendation of the Planning and Budget Committee and the Academic Board, and its execution would require the approval of the Business Board.

A member asked what process could be followed to restore elements that had to be removed from projects to achieve cost savings, for example the elevator that had been removed from the

6. Capital Projects Annual Review to January 2010 (Cont'd)

renovation of the Canadiana building. Were there priorities for determining such restorations? Mr. Shabbar said that any such priorities were based on academic criteria, were recommended by the Office of the Vice-President and Provost, and (if the additional work costed in excess of $2-million) were approved through the usual governance process.

(b) Project cost. A member observed that the cost of the projects per square foot appeared, in his experience, to be relatively high, and he asked whether the University was currently negotiating any new contracts. Another member asked whether there had been any decline in the cost of projects as the result of the recent economic recession. Mr. Shabbar replied that costs might appear high relative to buildings in the private sector because the University sought to provide buildings for the very long term. It sought to avoid situations in which further capital would have to be expended on the building for many years. For example, its specifications required very high quality mechanical systems. All contracts were tendered. The tendered costs tended to be very competitive, with few bids falling outside of a close range. There had been some reductions in the cost of small projects owing to the economic slow-down. There had been much less opportunity for savings in the larger projects.

7. Capital Projects Report as at December 31, 2009

The Board received for information the regular Report on Capital Projects as at December 31, 2009. That report provided information on the status of (a) projects under construction with costs amounting to $349.90-million and on (b) projects that were completed and occupied but not formally closed with costs amounting to $28.37-million.

8. Capital Project Closures Report to January 31, 2010

The Board received for information the Report on Capital Project Closures, which recorded the formal closing of three projects: the Haultain Building Hydrogen Laboratory on the St. George Campus, the Phase VIII residence building at the University of Toronto at Mississauga, and the Wellness Centre at the University of Toronto at Mississauga. All were completed under the approved cost. Mr. Shabbar commented on the timing of official project closures. Projects were closed only after warranties ended, deficiencies had been corrected, and all costs had been settled. The result was that such closures often took place a year or years after the projects had been completed and occupied.

9. Design Review Committee: Annual Report, 2009

The Chair said that the Business Board was responsible for oversight of the execution of approved capital projects, including their architectural design. 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 carried out that responsibility on behalf of the Business Board, and it made an annual report on its activities to both the Business Board and the Planning and Budget Committee.

9. Design Review Committee: Annual Report, 2009 (Cont'd)

Ms Sisam reported that the advisory Committee had in the previous year reviewed the designs for eight projects. It assessed the design features and the public areas of capital projects and their suitable integration into the campus. Its work was important in that it looked beyond the specific interests of the building's users to consider such matters as the blending of the building into the campus, its compliance with the campus master plan and its contribution to the excellence of the physical form of the campus. The work of the Committee had made a difference. A number of the buildings it had reviewed had won both national and international awards for the excellence of their design. While the Committee was charged to make recommendations concerning design, it did not have the opportunity to increase the resources devoted to that project. Implementation of the Committee's recommendations had to fit within the approved budget. Members of the Committee, in addition to Ms Sisam and Mr. Shabbar, included representatives of the Governing Council, members of the University's design community and members of the external design community. All had demonstrated great pleasure in the work of helping the University to foster excellence in the design of its campuses.

Two matters arose in questions and discussion.

(a) Student representation. In response to a member's question, Ms Sisam said that the terms of reference of the Committee currently had no provision for a student member. If thought desirable, the terms of reference could be changed. The member thought that such a change would be highly desirable.

(b) Responsibility for recommendations in the absence of budgetary authority. A member asked how frequently the Committee was able to make recommendations if it was unable to make financial provision for their implementation. Ms Sisam replied that to implement recommended changes that would increase the cost of the project, the consultants had to reduce costs elsewhere. They would have to use the project budget in a way that would have the greatest impact on the quality of the design.

The Chair asked Ms Sisam to convey to the volunteers who served on the Committee the Board's gratitude for their efforts on behalf of the University.

10. Deferred Maintenance: Annual Report, 2009

Mr. Swail presented the highlights of the annual report on deferred maintenance for 2009 and commented on some of the projects completed during the year. The report dealt with deferred maintenance for academic and administrative buildings on all three campuses. It did not include the buildings used by ancillary operations (such as residence or day cares) and utilities infrastructure items (such as the district energy system). The report also did not take into account buildings' needs for "adaptive renewal" (in the phrase used by the Council of Ontario Universities) i.e. work to meet current building code requirements, work to meet current heating, ventilation and air conditioning requirements, and work to make buildings more suitable for their

10. Deferred Maintenance: Annual Report, 2009 (Cont'd)

current purposes. An example of adaptive renewal was the recent conversion of a vacant warehouse to use as an exam centre. The deferred maintenance list referred only to existing buildings used for their current purposes.

- **Facilities Condition Index**. The key metric used in the report was the Facilities Condition Index (F.C.I.), which summarized the condition of each building and each campus. The Index was the percent of the estimated cost of the deferred maintenance for each building or campus compared to the estimated replacement cost of the building or campus. Lower index figures represented buildings or campuses in less need of maintenance work and therefore in better condition. The F.C.I. for the University was 9.0%, under the average for the Ontario universities, which was 11.0%. The 9.0% F.C.I. was under the 10.0% threshold for campuses classified as being in poor condition. However, the F.C.I. for the St. George Campus was 10.6%, which indicated that that campus was in poor condition. The F.C.I. for the Scarborough campus was 2.8% and for the Mississauga campus 2.3%, placing those campuses well under the 5% threshold to be considered in excellent condition.

- **Deferred maintenance backlog**. The total cost of deferred maintenance work was estimated to be about $270-million – an amount that had remained generally stable over the past few years. Notwithstanding the completion of considerable work in 2009, the total amount of deferred maintenance had increased by about $13-million over the year. That increase was attributable to conditions on the St. George Campus, and it was largely the outcome of new audits carried out during the year. They were more comprehensive than those completed in the first years of the program. In particular, the estimate of the cost of deferred maintenance of the Medical Science Building – the most complex building on campus – had increased substantially. In response to a question, Mr. Swail said that the new audits would continue to correct some low estimates from the first two years of the program, and the Board could expect some further increase in the estimated cost of deferred maintenance.

- **Priorities for deferred maintenance**. The requirement of each campus for deferred maintenance work was classified into priorities from one to five, with category one being the highest priority. That was work that required completion in the current year. Priority one deficiencies on the St. George Campus amounted to $51-million for 2010, a reduction from $69-million in 2009. That reduction evidenced success in the University's targeting its work at the highest priority needs. Needs were placed into the priority categories using four criteria: needs required to meet legislated requirements or health and safety standards; needs to reduce the risks of building systems failure as identified by the facilities assessment program; work that could be completed in connection with major renovation projects; and work that supported the University's academic priorities. The University sought to achieve a balance among those priorities.

10. Deferred Maintenance: Annual Report, 2009 (Cont'd)

- **Funding for deferred maintenance projects**. Deferred maintenance work was funded from several sources. The Government of Ontario's Facilities Renewal Program provided funding of $5-million per year. The University itself had funded $10-million of deferred maintenance projects on the St. George Campus in 2009, an increase of $750,000 from the previous year. The University had also received funding from the Federal and Provincial fiscal stimulus programs, some of which had been directed specifically to deferred maintenance projects.

Mr. Swail provided illustrations of some recently completed projects. They included: the correction of conditions that had led to water leaking into the electrical sub-station in the FitzGerald building (a severe safety issue); the replacement of the roof on the Warren Stephens Building with a high-standard, long-life roof and with skylights above parts of the running track (improving the atmosphere in the building and reducing energy consumption and cost); replacing the deteriorated windows in Prichard House with new energy-saving ones; continuing the multi-year improvement of seating in the University's largest lecture theatre (Convocation Hall); improving study space for students; improving high-volume-use washrooms in Robarts Library and the Ontario Institute for Studies in Education (improving their appearance, improving hygiene by providing hands-free equipment, providing accessibility and saving water and electricity use); and acting in conjunction with the completion of renovation projects to improve facilities (including the lighting in the Sanford Fleming Building cafeteria and other improvements at 172 St. George Street). Using the significant funding that had been made available, the Facilities Condition Index on the St. George Campus had been kept relatively stable.

Among the matters that arose in discussion were the following.

(a) The Facilities Condition Index. A member asked the source of the replacement values of the buildings, as used to determine the F.C.I. On first looking at the replacement values stated in the report, he thought them to be very low. For example, the cost of replacing the Ontario Institute for Studies in Education building on Bloor Street West would be far in excess of the $75-million replacement value cited. If the replacement value was understated, then the outcome would be that the F.C.I was overstated. Ms Riggall and Mr. Swail replied that the replacement value was based on a province-wide model that depended on the function of a building and its size. The model enabled a fast estimate of value that was not costly to determine. It did not take into account the differences in property values, for example the difference between the OISE building on Bloor Street West and a comparable building in a small centre in a more remote part of the Province. The advantages of the system were not only its ease of implementation and its low cost but also its ability to provide comparability across the province. It was important that the Government of Ontario have a clear and fair comparison of the need for maintenance of each University building across the Province. In response to a further question from the member, Mr. Swail said that the cost of maintenance work was also estimated on the basis of standard costs for various types of repairs. Those costs were kept current by appropriate escalation over time.

10. Deferred Maintenance: Annual Report, 2009 (Cont'd)

It was not anticipated that the estimates could form the basis of project budgets. That would require much more extensive estimating. The objective again was to provide a relatively inexpensive estimate of costs that was comparable across the University system.

(b) Exclusion of buildings used by ancillary operations. A member asked the reason for the exclusion from the report and the F.C.I. of such buildings as student residences. Ms Riggall and Mr. Swail replied that the Government did not fund the construction and maintenance of buildings other than academic and administrative buildings. The cost of building and maintaining ancillary facilities, for example student residences and parking facilities, had to be met from the revenues generated by those facilities. The fees charged had to be sufficient to recover their costs, including a capital reserve for maintenance. Buildings such as student residences were, by and large, in better condition than the academic and administrative buildings on campus.

(c) Ability to deal with the problem in the future. A member observed that the total cost of dealing with deferred maintenance was $270-million, with nearly $250-million of that being for projects in the three highest priority categories. While the University had received substantial funding in the previous year, exceptional government stimulus funds had formed a substantial part of the amount. Another member asked what amount of funding could be expected for future years. Mr. Swail replied that it was estimated that the University would require spending of between $14-million and $16-million per year to keep the Facilities Condition Index from declining. For the current year, the University had budgeted $10-million for maintenance work, and it planned to increase that amount by $750,000 per year, if the budget conditions allowed. The University had also been receiving $5-million per year of funding from the Province's Facilities Renewal Program. In addition, the University had benefited from capital projects, in which facilities were not only renovated for new uses or improved functionality, but were also upgraded to deal with deferred maintenance problems. The combination would not eliminate the deferred maintenance problem, but it would enable the University to manage it. One significant means of improving conditions overall was to ensure highest quality work. For example, new roofs had a life expectancy of forty years.

In the course of discussion, Mr. Swail responded to questions concerning specific buildings on the deferred maintenance list.

11. Borrowing Status Report to January 31, 2010

The Board received for information the status report on borrowing to January 31, 2010. That Report showed maximum borrowing capacity of $958.4-million pursuant to the University's policy; borrowing allocated (net of repayments that could be reallocated) of $889.0-million; actual external borrowing of $532.8-million; and internal borrowing outstanding of $207.9-million.

12. Borrowing Strategy Review to January 2010

Ms Brown presented the annual review of the University's borrowing strategy.

- **The strategy**. The borrowing strategy had been approved by the Board in June 2004 and it had been unchanged since that time. The first debenture to borrow for capital projects and other purposes had been issued in 2001. Before further borrowing, however, it had been decided that it would be appropriate to put a strategy in place both to provide discipline for the University and to demonstrate that discipline to the market and to potential lenders. The administration returned to the Business Board each year with an annual review of the strategy. That review dealt with two questions: whether the strategy remained a prudent one and whether it was likely to provide borrowing room that was adequate for the University's various purposes. The maximum external borrowing capacity was defined in terms of a balance-sheet test. That capacity was defined as 40% of the University's net assets averaged over the past five years. The smoothing mechanism of a five-year average was appropriate in view of the vagaries of the securities markets and the resulting effect on the value of the University's largest balance-sheet asset – its endowment. In response to a question about the cost of the University's external borrowing, Ms Brown said that, in addition to certain mortgage loans taken out before 2001 to build student residences and parking garages, external borrowing consisted of four debenture issues: the first a 30-year debenture due in 2031 bearing interest at the rate of 6.78%; the second a 40-year debenture due in 2043 bearing interest at the rate of 5.841%; the third another 40-year debenture due in 2045 bearing interest at the a of 4.937%, and the fourth another 40-year debenture due in 2046 at a rate of interest of 4.493%. The maximum internal borrowing was defined as $200-million. Internal monies were supplied from the core funds in the University's Expendable Funds Investment Pool (the EFIP) – the pool consisting of the University's cash float. The loans were treated as investments of the EFIP. The University's Finance Department acted as a lender of the borrowed funds and the EFIP funds. Borrowers, usually divisions undertaking capital projects, signed agreements to make blended principal and interest payments to pay off their loans at a market-based, fixed rate of interest. For monies supplied by external borrowing, the repayments were (a) used to pay interest on the bullet debentures, and (b) placed into a pool and invested to accumulate the money required to repay those debentures when they became due. The strategy itself contained no parameters concerning the University's credit rating and no requirements in terms of maximum debt service costs.

- **Current borrowing status**. Pursuant to the strategy, the University's current maximum borrowing capacity was $958.4-million, providing for $758-million maximum external borrowing capacity and $200-million maximum internal borrowing capacity. Not all of the external borrowing had been done. Of the $958-million maximum capacity, $942-million had been allocated, but some of the borrowing had already been repaid. The repayments of borrowing from the debenture issues were placed in the sinking fund to accumulate monies to repay the debentures. A total of $68-million of internal borrowing had already been repaid, and those monies could be used for new projects.

12. Borrowing Strategy Review to January 2010 (Cont'd)

- **Review**. The annual review of the strategy benchmarked the University's borrowing against that by public universities and colleges in the United States with comparable credit ratings. Both actual borrowing and borrowing capacity were compared. The University of Toronto's borrowing program compared reasonably with those other institutions. This University had borrowed less than most but it also had a lower capacity for debt repayment. The University's credit ratings by all three rating agencies were excellent, with Moody's rating the University's credit at AA1 (the second highest category), Standard and Poor's at AA and the Dominion Bond Rating Service also at AA, one category below the Moody's AA1 rating and comparable with the rating of the Government of Ontario. Those ratings built in $200-million of additional borrowing that had been approved by the Business Board but not yet executed. The net assets of this University, and all others, had declined owing to the reversal in the financial markets. The rating agencies anticipated a turnaround in the markets and an increase in the value of the University's financial assets over time. While those ratings had taken into account the approved $200-million of further borrowing, any amount beyond that could result in a change. The debt-service ratios were considered by the rating agencies to be reasonable. Interest expense on outstanding external debt was 1.8% of revenues.

- **Conclusions**. The borrowing strategy going forward would depend greatly on investment returns. Those returns, at various rates, had been projected forward to 2014 and had been combined with the other assumptions built into the University's long-range budget plan to 2014. Different investment returns would lead to different amounts of net assets and in turn to different borrowing maxima. If the investment return were as low as 4%, then the maximum permissible borrowing (at 40% of net assets plus $200-million) would be $886-million, compared to the current figure of $958-million. If, at the other end of the range, the investment return were to be 12%, then the maximum borrowing in 2014 would be over $1-billion. Therefore, Ms Brown concluded that the current borrowing strategy continued to be prudent. If future investment performance were to be low, it would constrain borrowing. If, on the other hand, investment return were to be strong, there would be more room to borrow and spend on capital purposes.

  It was important to remember that the projections did not take into account any need to borrow to deal with the solvency deficit in the pension plans. While the University was working hard to formulate various options to deal with that deficit, no decision had yet been made on what steps would be appropriate. A great deal would depend on legislative requirements and on the University's decision. One option being considered to deal with the solvency funding requirement was to borrow to provide additional funding for the registered pension plans. That possibility, combined with the uncertainty of future investment returns, suggested a cautious approach to new allocations for lending in the next few years. On the other hand, the University did have very real needs for capital projects. Depending on future developments it might, therefore, be necessary to return to the Board with a proposal to re-examine the borrowing strategy.

13. Capital Project: University of Toronto at Mississauga - Chemistry Undergraduate Teaching Laboratories Renovation

Mr. Shabbar said that the existing Chemistry laboratories at U.T.M. had been in service since 1970 and had not been renovated or modernized. Since that time, enrolment had grown substantially, and the laboratories were not adequate to meet academic needs. The proposed renovation would expand the nature of the experiments that could be performed and would enable adherence to best-practice health and safety standards. In response to a member's question, Mr. Shabbar said that the project would also obviate the current need for laboratory classes in the evenings and on Saturdays, and it would enable the restoration of appropriate hours and types of laboratory instruction. Any increase in operating costs would be offset by using recirculated chilled water for the cooling of experiments and by the ability to turn off fume-hood fans (which were currently in continuous use). The $4.24-million cost would amount to $265 per gross square foot, which was consistent with costs for previous laboratory renovations, taking into account that the number of fume hoods would be increased. The cost of the project would be borne by the U.T.M. operating budget.

A member observed that all recent projects had been completed under budget. In cases where it was necessary to remove items from the project to complete it on budget, was there a list of elements so removed provided to the Provost's Office and to the division? Mr. Shabbar replied that his department would complete a project-completion report for the division to report the positive and negative variations for each project. That report would include not only variances from the budget but also from the time-line and from the trade-offs made during implementation. Those factors were discussed in meetings of the project implementation committee, on which the division was represented, and the divisional representatives would keep the appropriate faculty members informed. In addition, the project managers posted monthly reports on each project for which they were responsible, and the faculty members with responsibility for the project had on-line access to those monthly reports.

The member asked for clarification of the decision-making process when it became necessary to remove elements from a project. Ms Riggall and Mr. Shabbar replied that the elements to be included in the project and their costs were included in the detailed project planning report approved by the Governing Council on the recommendation of the Planning and Budget Committee and the Academic Board. The elements listed in that project planning report were the elements that were to be delivered. Additional approval was required in the case of two types of change. The first was a variance in the cost, but no change in the scope of the project. That was the most frequent type of change caused by such factors as unanticipated site conditions, strikes or bad weather. If the increase was less than 10% of the approved cost and also less than $2-million, the increase could be approved by the Vice-President, Business Affairs. If the cost increase was greater, the change required the approval of the Business Board. If there was need to make significant change to the scope of the project – including the removal of substantial elements described in the project planning report – those changes required the "same level of approval as the original project" – approval by the Governing Council on the recommendation of the Planning and Budget Committee and the Academic Board and approval of execution of the revised project by the Business Board. Mr. Shabbar said that there had been no need to seek such

13. Capital Project: University of Toronto at Mississauga - Chemistry Undergraduate Teaching Laboratories Renovation (Cont'd)

change in his experience at the University. Every effort was made to achieve the planned scope of each project, with value engineering undertaken to achieve that end. The Chair noted that the sponsoring division would in such cases be fully involved in decision-making.

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

Subject to Governing Council approval of the project,

THAT the Vice-President, Business Affairs be authorized to execute the University of Toronto at Mississauga Chemistry Undergraduate Teaching Laboratories Renovation project at a total project cost not to exceed $4.24-million, with full funding from the University of Toronto at Mississauga operating budget.

14. Capital Project: Centre for Microsatellite Science and Technology

Mr. Shabbar said that the proposed Centre for Microsatellite Science and Technology at the Downsview site of the University's Institute for Aerospace Studies (UTIAS) would not only provide a needed facility but would also alleviate the current deficiencies in the space and infrastructure at UTIAS. The proposed new addition would have research and analysis areas, laboratories, a clean room, vacuum chambers, vibration facilities, an anechoic chamber and related equipment, and support spaces. The centre would accommodate an anticipated complement of 5 to 10 visiting researchers, up to 20 full-time staff, and 25 graduate students. The facility was expected to serve as the basis of a network among internationally recognized scholars in the field of microsatellite science and technology. The plan was to build a single-storey addition beside the existing UTIAS building, which would share services with that building. The total project cost was estimated to be $5.4-million with a construction cost of $280 per gross square foot. Funding was anticipated from the Canada Foundation for Innovation and the Ontario Research Fund.

14. Capital Project: Centre for Microsatellite Science and Technology (Cont'd)

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

Subject to Governing Council approval of the project and subject to the availability of funding,

THAT the Vice-President, Business Affairs be authorized to execute the Centre for Microsatellite Science and Technology project at a total project cost not to exceed $5,400,000 with funding as follows:

Canada Foundation for Innovation	$ 2,700,000
Ontario Research Fund	$ 2,700,000

15. Capital Project: Centre for Collaborative Interactive Digital Media

Mr. Shabbar said that the goal of the proposed new Centre for Collaborative Interactive Digital Media, to be located in the Bahen Centre, was to facilitate internationally renowned interactive digital-media research and production. The new and flexible laboratory space would house updated data capture, usability and prototyping facilities, and it would accommodate a distributed usability experimentation and observation space, a reconfigurable sensor-rich "active" room, and a media production and collaboration room. The project would proceed in two phases. The first would be the infill of two floors within the current three-storey study space known as the Great Hall of Computing. The infill on the third and fourth floors of the Bahen Building would create approximately 210 net assignable square metres of space for the Centre. Construction would commence in May 2010, with occupancy projected for September 2010. The second phase would consist of a renovation of approximately 845 gross square metres on the fifth floor of the Bahen Centre. That phase of the project would commence in May 2011 with occupancy for January 2012. The total cost of the project was projected to be $3.2-million, amounting to $187 per square foot. The project would be funded by $1.5-million grants from each of the Canada Foundation for Innovation and the Ontario Research Fund, with additional funding of $200,000 from the Faculty of Arts and Science. In response to a question, Mr. Shabbar said that there was no anticipated need for borrowing to complete the project.

15. Capital Project: Centre for Collaborative Interactive Digital Media (Cont'd)

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

Subject to Governing Council approval of the project and subject to the availability of funding,

THAT the Vice-President, Business Affairs be authorized to execute the Centre for Collaborative Interactive Digital Media project at a total project cost not to exceed $3,187,000 with funding as follows:

Canada Foundation for Innovation	$ 1,493,500
Ontario Research Fund	$ 1,493,500
Faculty of Arts & Science	$ 200,000

16. Report Number 92 of the Audit Committee – December 8, 2009

The Chair recalled that the Audit Committee had met in December, a few days before the previous meeting of the Business Board. The Board received an oral report on the Audit Committee's review of the Pension Plans, and the Board had approved the financial statements of the two registered plans. The written Report of that meeting, (Report Number 92 - December 8, 2009), dealing with the pension plans and with various other items, was received for information.

17. Date of Next Meeting

The Chair reminded members that the next regular meeting of the Board was scheduled for **Monday, March 22, 2010** at 5:00 p.m. The agenda for that meeting was expected to be a very full one, including the tuition fee proposal and the budget report. Members were therefore asked to set aside time past the usual 7:00 p.m. adjournment time for that meeting. Similarly, it was expected that the following meeting, scheduled for **Monday, April 26, 2010**, might well be somewhat longer than usual, and members were again asked to reserve some extra time.

THE BOARD MOVED IN CAMERA.

On motion duly made, seconded and carried, it was RESOLVED

Pursuant to section 33(i) of By-Law Number 2,

THAT the Board continue its meeting *in camera* to consider the remaining items on the agenda.

18. *In Camera* Reports of the Administrative Assessors

Professor Hildyard reported on the progress of salary and benefit negotiations with the Faculty Association. In the course of her report, she advised the Board of the Academic Board's recommendation to the Governing Council of a resolution dealing with contractual provisions concerning faculty workload. That resolution would "authorize those negotiating on behalf of the University in the current Salary and Benefit negotiations with the University of Toronto Faculty Association to enter into an agreement, should they deem it advisable, whereby the existing Article 8 of the Memorandum of Agreement [dealing with faculty workload] will be amended to provide for amendments to Article 8 being made in accordance with and as part of the process under Article 6 of the Memorandum of Agreement." Article 6 set out the process for negotiating salary and benefits with the Faculty Association. If the parties do not reach agreement in negotiations, the process would proceed to mediation and if necessary arbitration.

Professor Hildyard also reported on progress towards the establishment of the proposed new Pension Committee.

19. Striking Committee: Appointment

The Chair recalled that the Striking Committee was responsible for nominating non-Governing Council members to the Business Board and to its Audit Committee and for nominating the Chair and Vice-Chair of the Audit Committee. The Chair was responsible for recommending the membership of the Striking Committee, which included (in addition to himself) one member of the Business Board from each estate represented on the Governing Council.

On motion duly made seconded and carried,

YOUR BOARD APPROVED

THAT the following be appointed to the Business Board Striking Committee to recommend appointments for 2010-11:

Mr. Richard Nunn (Chair)
Mr. Geoffrey Matus (Lieutenant-Governor-in-Council appointee; Vice-Chair)
Dr. Stefan Mathias Larson (alumnus)
Ms Jennifer Riel (administrative staff)
Professor Arthur Ripstein (teaching staff)
Mr. Olivier Sorin (student)

20. Real Estate Strategy

The Chair recalled that the Board had in 2007 received a comprehensive review of the University's real estate strategy and had approved its general direction. Mr. Shabbar presented, for information, an updated review of the strategy, its implementation to date, and plans for its further implementation.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:30 p.m.

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Secretary	Chair

February 24, 2010

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