UNIVERSITY OF TORONTO

OFFICE OF THE VICE PRESIDENT & PROVOST

APPENDIX "A" TO REPORT NUMBER 172 OF THE ACADEMIC BOARD – March 17, 2011

TO: **Planning and Budget Committee**

SPONSOR: Cheryl Misak, Vice-President and Provost

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DATE: For meeting on March 2, 2011

AGENDA ITEM: 9

ITEM IDENTIFICATION

Long Range Budget Guidelines: 2011-12 to 2015-16 and Budget Report for 2011-12

JURISDICTIONAL INFORMATION

Excerpt from the terms of reference for the Planning and Budget Committee:

4.3.2. The annual budget is considered by the Committee for recommendation to the Academic Board. [The concurrence of the Business Board is sought in regard to fiscal soundness before it is forwarded to Council.]

HIGHLIGHTS

Despite facing ongoing financial challenges, dominated by the need to fund the pension deficit and place the pension plan on a sustainable footing, the University plans for a balanced budget in 2011-12, and each of the following years. The institutional accumulated deficit will be fully paid in 2012-13 and divisional deficits in 2014-15.

Last year the University was beginning to recover from the impact of the disastrous downturn in international financial markets which resulted in an endowment payout cancellation in 2009. This represented a loss of $62M in revenue to the institution. Strong growth and creative strategic planning, particularly in the academic divisions, enabled the University to remain fiscally sound and to continue to move forward with its academic goals during this difficult period.

The University is facing a pension problem, like almost every other Canadian and US public sector institution with a Defined Benefit pension plan, and is required to fund the pension deficit and ensure a sustainable plan for the future.

The Solvency Deficit is approximately $1B. The Ontario Government has recently agreed that universities should be given some flexibility regarding Solvency Deficits. Provided that the University meets certain metrics, key among which is a negotiated agreement from employees to increase their contributions, the payment of the Solvency Deficit can be amortized over a longer period than five years. It is simply essential for the long term future health of this University that we meet the metrics specified by the Government. Being required to pay down the Solvency Deficit in five years will put unacceptable fiscal pressures on the institution – with payments reaching as much as $200M per year. These pressures can be mitigated by a longer-term amortization if increases in contribution rates satisfy the provincial regulators. A longer-term horizon also means that we may benefit from improvements in investment returns and increases in interest rates. (A 2% increase in interest rates, tellingly, cuts the solvency deficit more or less in half.) It is therefore essential for the sustainability of our Pension Plan that member contributions increase. These increases are also critical to the fairness of our Pension Plan - member contributions should bear a far closer relationship to the value of the pension benefit being earned.

But such increases are also critical to enable the implementation of a rational amortization plan. Obviously, for these two positive outcomes to occur, we need the cooperation of the University's Unions and the Faculty Association.[1]

The University must file a valuation report with the Financial Services Commission of Ontario as of July 1, 2011. For the past several months the University has engaged in developing strategies for funding the pension deficit. These strategies are likely to include: borrowing internally and/or externally, selling or leasing assets, issuing letters of credit, and increasing special payments funded through the operating budget. In anticipation of the need to utilize operating funds as a part of the overall strategy, the long range budget guidelines include additional special payments of $30M in 2011-12, another $20M in 2012-13 and another $10M in 2013-14, for a total of $60M in base funding. This is over and above the yearly $27.2M the University began setting aside in 2004-05. While manageable for the University as a whole, it cannot be emphasized enough that these payments will take an enormous toll on academic divisions, requiring them to defer many excellent plans and aspirations.

There is still also uncertainty with respect to the economic climate, and the University faces high-level uncertainty related to provincial and federal funding, with government deficits remaining high and spending cuts signaled at both levels of government. The tuition framework will expire in 2012 and uncertainty prevails there too: while universities are advocating for increased tuition flexibility, the potential for continued tuition restrictions is real. In the absence of a new framework the University will assume a continuation of the same parameters mandated in the expired framework, with the attendant adverse impacts on ability to improve on the quality of education.

Projected revenues over the five-year budget cycle remain constrained. Other than some adjustments to the funding of medical students, the Provincial government has not announced any changes in the funds available for post-secondary education. The long-awaited increase in funding for the full cost of research has not materialized, however new scholarship funding has been provided to support graduate expansion.

Careful controls on spending and contingency planning remain necessary, balanced against the need for strategic investments.

FINANCIAL AND/OR PLANNING IMPLICATIONS

Total revenue is projected to increase from $1573M in 2010-11 to $1688M in 2011-12. A large portion of this increase is in tuition revenues generated from the flow-through of higher enrolment levels and increases in tuition fees of 4.31% on average for domestic students and 6.42% on average for international students. Tuition revenue has increased in large measure by increasing international enrolment and increasing graduate enrolment. But the former type of

[1] Ensuring a Sustainable Pension Plan for the University of Toronto, Report to Business Board, January 31, 2011

increase in tuition revenue requires significant investment in services to ensure a high-quality experience and the success of our international students. The latter kind of increase in tuition revenue comes at significant cost once graduate student funding packages and other supports are taken into consideration. We continue to advocate with the provincial government on how important it is for the province and the county that we are enabled to bring in more international graduate students.

Demographic projections are such that we anticipate a continuing rise in demand for university places, particularly in the GTA. An overall increase of 2500 students across the three campuses is planned at the University of Toronto for the next five years. Current plans call for most of that increase to be on the Mississauga campus, but we anticipate that the Scarborough campus will be able to increase its enrolment as well, once space issues are addressed.

Only a modest increase of $35M is projected for the operating grant, which is primarily due to graduate expansion and an addition to medical student funds. University revenues in 2011-12, excluding divisional income and funds that flow to other institutions, are increasing by $108.5M over 2010-11. Expenditures on student aid from the operating fund are expected to increase by $8.3M and total central expenses are projected to increase by $37.4M (including $30M pension special payment) before implementing the proposed cost containment of $4.8M in central administrative divisions for 2011-12. The increase in expenditures includes increases in compensation in the administrative divisions, subject to the Compensation Restraint Act, but does not account for increases in the academic divisions. The incremental net revenue available to the academic divisions in 2011-12 is $67.6M.

Increases in compensation costs, graduate student support and capital debt-service support, repayment of divisional accumulated deficits in the academic divisions are estimated to be about $58M in 2011-12 and $220M over the planning period, based on the budget assumptions and the available enrolment and capital project estimates. This leaves academic divisions with an overall surplus of $10M in 2011-12. The impact of budget projections varies considerably from division to division.

The historical accumulated deficit is projected to drop to $35.7M by the end of the 2011 fiscal year. Repayment will continue at the rate of $11.2M next year, with a final payment of $10.3M in 2012-13. The divisional accumulated deficit, approved two years ago to manage the impact of the endowment payout cancellation, will be repaid with equal installments of $3.6M over four more years.

RECOMMENDATION

Be It Recommended to the Academic Board

> THAT the *Budget Report 2011-12* be approved, and
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> THAT the *Long Range Budget Guidelines 2011-12 to 2015-16* be approved in principle.