

UNIVERSITY OF TORONTO
THE GOVERNING COUNCIL
REPORT NUMBER 186 OF THE BUSINESS BOARD

January 31, 2011

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, January 31, 2011 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. W. David Wilson (In the Chair)
Ms Shirley Hoy, Vice-Chair
Professor David Naylor, President
Ms Catherine J. Riggall, Vice-
President, Business Affairs
Professor Angela Hildyard,
Vice-President, Human Resources
and Equity
Mr. Jeff Collins
Mr. William Crothers
Ms Mary Anne Elliott*
Ms Paulette L. Kennedy
Mr. Kent Kuran
Mr. Gary P. Mooney
Ms Deborah Ovsenny
Mr. Tim Reid
Ms Penny Somerville
Mr. Olivier Sorin*
Mr. W. John Switzer
Ms B. Elizabeth Vosburgh

Mr. David Palmer, Vice-President,
Advancement
Ms Sheila Brown, Chief Financial Officer

Mr. Louis R. Charpentier, Secretary of the
Governing Council
Ms Sally Garner, Executive Director,
Planning and Budget
Professor Edith M. Hillan, Vice-Provost,
Faculty and Academic Life
Professor Scott Mabury, Vice-Provost,
Academic Operations
Ms Kim McLean, Assistant
Principal (Business and Administration)
and Chief Administrative Officer,
University of Toronto at Scarborough
Ms Christina Sass-Kortsak, Assistant
Vice-President, Human Resources
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, Secretariat
Mr. Anwar Kazimi, Secretariat

Regrets:

Mr. P. C. Choo
Mr. J. Mark Gardhouse
Mr. Steve (Suresh) Gupta
Mr. George E. Myhal

Professor Arthur S. Ripstein
Ms Melinda Rogers
Professor Janice Gross Stein

* By telephone.

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011

In Attendance:

Professor Franco Vaccarino, Member, the Governing Council, Vice-President and Principal,
University of Toronto at Scarborough
Ms Gillian Morrison, Assistant Vice-President, Divisional Relations and Campaigns
Mr. Andrew Arifuzzaman, Chief Strategy Officer, University of Toronto at Scarborough
Mr. John Aruldason, President, Scarborough Campus Students' Union
Ms Helen Choy, Manager, Trust Accounting and Treasury, Financial Services Department
Mr. Bruce Dodds, Director – Utilities and Building Operations, Facilities and Services
Department
Dr. Anthony Gray, Special Advisor to the President
Prof. Rick Halpern, Dean and Vice-Principal (Academic) University of Toronto at
Scarborough
Professor George Luste, President, University of Toronto Faculty Association
Mr. Pierre Piché, Controller and Director of Financial Services
Mr. Desmond Pouyat, Dean of Student Affairs, University of Toronto at Scarborough (UTSC)
Mr. Allan Shapira, AON Hewitt Associates

In the course of the meeting, it was agreed that the pressure of time would require the deferral of consideration of the following reports for information:

- Capital Projects and Real Estate: Annual Review to December 31, 2010
- Design Review Committee: Annual Report, 2009-10
- Deferred Maintenance: Annual Report, 2010
- Capital Projects Report as at December 31, 2010

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

1. Report of the Previous Meeting

Report Number 185 (December 13, 2010) was approved.

2. Senior Appointments and Compensation Committee: Annual Report, 2009-10

The Board received the Annual Report of the Senior Appointments and Compensation Committee for 2009-10. In the absence of Mr. Petch, the Chair of the Governing Council, Mr. Charpentier, Secretary of the Governing Council and Secretary of the Senior Appointments and Compensation Committee, presented the Report. He noted that, because of the Province of Ontario's *Public Sector Compensation Restraint to Protect Public Services Act, 2010*, and because of the absence of significant changes from the previous year, the Committee had made a limited number of decisions.

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**3. Financial Forecast, 2010-11**

Ms Brown said that the forecast was a projection of the audited financial statements as expected at the April 30 end of the fiscal year. The forecast was a conservative one. For example, it contained no provision for any year-end funding from the Government of Ontario, which had been provided in some years and not in others. The forecast assumed an investment return of 5% for the Long-Term Capital Appreciation Pool (The L.T.CAP or endowment fund) for the 2010-11 year. That pool had already earned a return of 5.89% for the fiscal year to December 31. Because of the unpredictability of investment returns, the forecast also contained a sensitivity analysis showing the outcome of other investment returns (of zero, 6% and 10%) for the year. The forecast included the financial results for the entire University across all funds: (1) the Operating Fund, which formed two thirds of the amount of the total, covering most of the University's academic and administrative operations; (2) the Ancillary Operations Fund covering such services as residences, food and beverage services, parking, Hart House, and U of T Press; (3) the Capital Fund, including each capital project that had its own budget; and (4) the Restricted Funds including research grants and trust funds, each of which was intended to operate on a break-even basis. Each year, the Board saw the cash-based operating budget. The forecast projected the financial statements, which were prepared on the basis of Canadian Generally Accepted Accounting Principals (GAAP) as applied to universities, which included accounting accruals for such things as amortization and pension and benefits expense and liability. The forecast report did, however, also include direct cash comparisons to major elements in the operating budget. The highlights of Ms Brown's report were as follows.

- **Projected result of operations.** Based on the assumed investment return of 5% and on the assumption of no year-end Government funding, the projected loss for the year would be \$90.8-million, on projected revenues of \$2.26-billion. That compared with a net income of \$45.4-million in 2009-10. Ms Brown had advised the Board in previous years that the University's net income or loss depended largely on investment returns. If, for example, the investment return for the year were to be 10%, the net loss was forecasted to be \$69.5-million. For the 2010-11 year, the loss also reflected a large increase in pension expense. Pension expense was an actuarially calculated expense representing the cost of providing pension benefits for the year. That expense was projected to increase substantially for 2010-11 because of two factors. The first was a reduction in the discount rate used to calculate pension liabilities, reflecting the general reduction in long-term interest rates. The second factor was the amortization of a part of the investment losses incurred by the pension fund assets in 2009.
- **Forecasted net assets.** Ms Brown said that the net loss flowed through to affect the value of the University's net assets, which had been \$1.8-billion at the end of the 2009-10 year and which were forecasted to decline to \$1.74-billion at the end of the 2010-11 year, assuming a 5% investment return. With an investment return of 10% on the endowment pool, the value of the net assets was forecasted to be \$1.825-billion.
- **Forecasted Operating Fund result.** The budgeted deficit in the Operating Fund, on a cash basis was \$35.7-million. The projected deficit, however, determined on a comparable

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**3. Financial Forecast, 2010-11 (Cont'd)**

- basis, was projected to be only \$2.2-million – a very good result. The reasons were provided on page 7 of the Report.

Among the matters that arose in discussion were the following.

(a) Increase in internally restricted funds. In response to a question, Ms Brown said that the largest part of the \$133.2-million decrease in internally restricted funds represented a commitment for pension expense that expense would have to be paid in the future.

(b) Valuation of land. Expressing surprise that the value of land in the University's financial statements was less than that of the library collections, a member asked how land was valued. Ms Brown replied that according to current accounting rules, land was recorded in the University's financial statements at its historical cost rather than its current fair value.

(c) Pension plan assets. In response to a member's question, Ms Brown said that the proposed internal borrowing of \$150-million for a pension-plan contribution had not yet been approved, had not yet taken place, and was therefore not reflected in the financial forecast.

4. Borrowing Status Report to January 31, 2011

The Board received for information the Borrowing Status Report as at January 31, 2011. That Report showed a maximum borrowing capacity of \$971.5-million pursuant to the University's Borrowing Strategy. \$894.1-million of borrowing had been allocated, net of repayments that could be reallocated. The allocated amounts were required only as projects proceeded; therefore not all of the allocated borrowing had been executed. Actual external borrowing amounted to \$525.9-million. Internal borrowing outstanding was \$214.4-million.

5. Borrowing Strategy Review, January 2011

Ms Brown reminded members that the University's Borrowing Strategy, established in 2004, permitted borrowing from external sources to a maximum of 40% of the value of the University's net assets averaged over the previous five years. The current maximum external borrowing capacity was \$771.5-million. In addition, there was provision for borrowing of up to \$200-million internally from other University funds. In effect, the University's Expendable Funds Investment Pool invested up to \$200-million in loans made to the University's own capital projects, which paid interest and repaid principal over time. The purpose of the annual review of the Borrowing Strategy was to determine whether it remained a prudent one and whether it would provide sufficient resources to meet the University's needs.

Ms Brown outlined the highlights of the review.

- **External borrowing.** The review paper compared the University's borrowing to that of public universities and colleges in the United States with credit ratings similar to that of the

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**5. Borrowing Strategy Review, January 2011 (Cont'd)**

University of Toronto. The tool used for the benchmarking was a study by Moody's Investors Services issued in July 2010. While the University of Toronto was not a part of the study, it provided very useful benchmarks for this University. Compared to the U.S. institutions with similar Moody's credit ratings, the University of Toronto had somewhat less debt than other institutions, but it also had fewer resources to support debt. That was the case primarily because very little of the University's endowment was unrestricted compared to many U.S. universities. At the University of Toronto, the income from most endowment funds had to be used for purposes specified by their donors. Therefore, the lower level of debt meant that the current level of external borrowing continued to be a reasonable and prudent one.

- **Internal borrowing.** Ms Brown and her colleagues undertook comprehensive and detailed monitoring of the University's cash flows, and they were confident that it continued to be very reasonable to use \$200-million of assets from the Expendable Funds Investment Pool (EFIP) for long-term fixed-income investments in the form of loans to capital projects. Therefore, both the external and the internal borrowing programs remained prudent.
- **Projected future external borrowing capacity.** Because external borrowing capacity was based on the amount of the University's net assets, Ms Brown and her colleagues had prepared a projection of net assets, and therefore of external borrowing capacity, to 2015. She noted that there was some potential for a decline in net assets arising from projected increases in expense for the pension plans and for other employee future benefits. That outcome would reduce external borrowing capacity. If that were to happen, the administration might have to return to the Board with a recommendation to review the current restraints. Second, there were anticipated changes in the accounting rules that would affect net assets.
- **Future internal borrowing.** The Expendable Funds Investment Pool had grown substantially, leading to the possibility of its being used for further investments in long-term internal loans. Ms Brown and her colleagues had completed a detailed analysis, and they had reached the conclusion that the EFIP would be able to make an additional long-term loan(s) of up to \$150-million.

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

(a) Future net assets and external borrowing capacity. A question arose concerning the possibility of the forthcoming changes to the accounting rules leading to a change in the valuation of the University's real estate, which was currently recorded at historical cost, often from many decades previously, and therefore at an amount well below its current market value. Ms Brown replied that the matter was still uncertain. It appeared that universities would choose not to adopt the new International Financial Reporting Standards, which would be used for accounting by public companies in the for-profit sector. Rather, most universities would adopt the rules for private enterprises, with additional rules for not-for-profit organizations. A very

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**5. Borrowing Strategy Review, January 2011 (Cont'd)**

recent announcement had given reason to believe that it might be possible for the University (and other similar organizations) to revalue their land holdings on a one-time-only basis to bring them more into line with their current market value. Ms Brown would arrange for an analysis of the costs and benefits of making any change that might be permitted.

(b) Benchmarking borrowing. A member observed that the review of borrowing had benchmarked this University's external borrowing against United States institutions with comparable credit ratings. Had there been any comparisons with other Canadian universities? Ms Brown replied in the negative. Many Canadian universities had not taken on debt for capital projects. Some universities had done so, but they tended to benchmark their debt level against that of the University of Toronto. Therefore any benchmarking against other Canadian universities would be somewhat circular. In the U.S., however, numerous institutions had borrowed for capital purposes, resulting in a much more developed market that had been in place for many decades and that provided much more useful benchmarking comparisons.

In response to another question, Ms Brown said that she knew of no general guidelines with respect to the level of university debt.

Ms Brown presented information on the Expendable funds Investment Pool (EFIP), with a view to demonstrating the University's ability to use the Pool for purposes of a further long-term loan comparable to the current long-term loans of about \$200-million to capital projects. In this case, the further long-term loan would amount to \$150-million.

- **Contents of the EFIP.** Virtually all of the University's monies were held in one of two pools. The first was the Long-Term Capital Appreciation Pool (L.T.CAP) which contained the endowment funds as well as some other, smaller long-term funds. The second was the Expendable Funds Investment Pool, which contained all other monies, including monies received from: student fees, government grants, divisional revenues, investment earnings (on monies other than the endowed funds), revenues from ancillary operations, capital funds, research grants and expendable trust funds. All of the monies in the EFIP were earmarked for particular expenditures over time. However, arising from the timing difference between the receipt and the spending of the monies, the University had a large cash pool on an on-going basis. As at the end of the previous fiscal year, i.e. at April 30, 2010, the balance in the EFIP was almost \$900-million, excluding the \$210.2-million that had been invested by EFIP in internal loans to capital projects. Because the monies in EFIP were all designated for particular spending, the Pool itself was invested with a tolerance for only minimum risk. As at April 30, 2010, investments included: \$556.3-million in cash, money-market funds, short-term notes and treasury bills; \$302.4-million in short-term Government and corporate bonds; and \$34.8-million in hedge funds.
- **Cash-flow patterns.** Cash receipts followed a regular but asymmetric pattern, with (for example) large cash inflows from student fee payments in August and, to a lesser degree, November. Disbursements, on the other hand, were more steady and largely reflected payroll

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**5. Borrowing Strategy Review, January 2011 (Cont'd)**

and other regular outflows. There was a positive balance between cash receipts and disbursements that followed a regular annual pattern and that had grown over time with the growth of the University. Ms Brown displayed a graph showing the average monthly balance for the years 1996-97 to 2010-11. In 1996-97, that balance had hovered around \$300-million. By 2010-11, that figure had grown to one larger than \$800-million, in some months exceeding \$1-billion. That growth in the EFIP balance had taken place notwithstanding the \$200-million of loans from EFIP to various capital projects, which loans had been made by 2011. Ms Brown stressed that the growth in the positive balance in the EFIP had been the outcome of the very large growth in the size of the University over the past fifteen years.

Ms Brown observed that the University could not rely on the minimum monthly balance in the EFIP; bills had to be paid on a daily basis. She therefore displayed another graph illustrating the daily balances in the EFIP since 2002, also excluding the amounts that had been lent to capital projects. The lowest daily balance had taken place in July 2003, amounting to \$225.8-million. In 2008-09, the lowest daily balance – again occurring in July before the receipt of tuition fee payments – had amounted to \$655.0-million.

- **Projection of the EFIP balance going forward.** Ms Brown displayed a projection of the balance in the EFIP going forward to 2015-16. The projection assumed the income and expenditures contained in the long-range budget projection and assumed that key capital projects would proceed as planned. It assumed that the University would execute the \$200-million in external borrowing previously approved by the Governing Council but not yet required or executed. Finally, the projection assumed a continuation of the current cash-flow patterns of receipts and disbursements. The projection illustrated the highest average balance, the lowest average balance, and the overall average balance for each year. It projected that the cash balances would continue to increase, albeit at a lower rate of increase than in previous years. The projection showed that the lowest balance in the EFIP (excluding the \$200 million already loaned out) would be very substantially in excess of the \$150-million amount of the proposed EFIP investment in a further long-term loan.
- **Proposed additional long-term loan.** In years prior to the University's making loans from the EFIP to capital projects, it had invested a part of the minimum cash balance in the Long-Term Capital Appreciation Pool (alongside the endowment funds) in order to earn an additional return. Many universities followed such a strategy, and many had lost a great deal of money in the most recent economic and market downturn. The University of Toronto had lost \$45-million in the previous downturn in 2003 and had withdrawn the EFIP funds from the L.T.CAP. It had required payments from operating revenues over four years to repay the EFIP. As a consequence, the University wished to invest the on-going cash balance in the EFIP in a very conservative manner, avoiding long-term investments that could be at all speculative. Investment of a part of the EFIP cash balance in fixed-income internal loans was seen as an essentially conservative investment for the EFIP. Ms Brown therefore concluded that there was a significant core balance in the EFIP that could be invested for the long term

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**5. Borrowing Strategy Review, January 2011 (Cont'd)**

without any impairment of the University's daily cash needs. That investment should not be in the market, but could be in an internal loan. Such an investment in the amount of a further \$150-million would be a prudent one to make. For the 2009-10 year, such an investment would still have left a \$500-million cash balance in the EFIP to deal with any change that might have occurred in the University's cash-flow pattern. As was the case with the \$200-million already loaned to various capital projects, the University would, in the event of any unforeseeable situation, go to the external market to borrow if cash had to be made available to fulfill the EFIP's obligations.

Ms Brown responded to a number of questions.

(a) Financial statement and financial forecast presentation of the EFIP. In response to a member's question, Ms Brown said that the EFIP did not appear as a separate line item in the University's balance sheet or in its financial forecast. On the asset side of the balance sheet, the amounts in the EFIP appeared primarily in the line for investments. On the liability / equity side, the amounts in the EFIP appeared in a number of different lines. For example, cash received from research grants but not yet spent was a liability – a deferred contribution. Amounts in reserves held by the various divisions represented a substantial part of the cash amount and appeared as an element of the University's equity or net assets.

(b) Characterization of the \$150-million amount as an investment for EFIP. A member noted that the proposed \$150-million loan from the EFIP had been characterized as a long-term investment for EFIP. From the point of view of the University, however, the transaction would be an internal transfer, and the net impact would be that the University would not earn a short-term investment return on the amount. Ms Brown said that the accounting entry would be a reduction of the University's cash or short-term investments but also a reduction of its pension liability. In terms of overall cash flow, the effect would be the loss of short-term earnings, now about 1% per year, on the \$150-million amount. The Chair observed that the University would, in effect be exchanging one liability (the pension liability) for another (the liability to repay the holders of the EFIP funds).

(c) Trigger for external borrowing to repay the internal loan. A member noted that if, contrary to the current expectation, it became necessary to replace the \$150-million amount to maintain cash-flow obligations, the University would borrow externally. He asked if a threshold had been established that would cause the University to move to implement that contingency plan. Ms Brown recalled that at the time it had been decided to make loans of up to \$200-million from the EFIP for capital projects, the trigger to move to external borrowing had been a reduction in the EFIP cash balance to \$75-million. The EFIP cash balance had remained very substantially above that amount, and Ms. Brown would be comfortable to retain that minimum as a trigger for action.

(d) The \$150-million amount as internal borrowing. A member observed that, although the University's cash balance was very likely to remain above the amounts of internal borrowing, the

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**5. Borrowing Strategy Review, January 2011 (Cont'd)**

monies involved would have to be repaid. Another member asked why the transaction was to be regarded as internal “borrowing” rather than internal “funding.” Ms Brown replied that the proposed borrowing of \$150-million from the EFIP for purposes of a special pension contribution was conceptually the same as the previous borrowing of \$200-million from EFIP for capital projects. It was, however, important that the two loans be kept entirely separate and that a disciplined repayment process be in place for each loan. Almost all of the University’s cash was designated for specific purposes. Some of it was allocated to divisions through the budget process, and the divisions had chosen to defer spending in order to accumulate monies for a particular purpose. Other amounts were received for research grants or were held in trust funds. While the University could use the positive balance in the cash flow, it had to ensure a strong, disciplined process for repayment to provide the funds for the uses prescribed by the providers and expected by the internal recipients. Ms Riggall observed that the University did not, as did a for-profit corporation, generate any significant amounts of unrestricted net income.

(e) Risk. A member observed that the analysis presented to the Board made it clear that there was little risk that the proposed additional internal borrowing would cause a cash-flow or other financial problem. He asked, however, what “downside” event(s) could take place that would make the proposed transaction unwise. Might there be a problem if, for example, the Government of Ontario were to freeze the amount of its operating grant and the amount of permissible tuition fees? Ms Brown could foresee two scenarios in which the action could become problematical. The first would be the shrinking of the size of the University. Its enrolment had grown by 45% since 2000. If its enrolment were to decline, its expenses would also have to be reduced correspondingly, but there could be a time lag. Such a lag had occurred in the mid-1990s, when severe funding reductions had required spending reductions, but the University had gone about making those reductions in a disciplined manner over three years in order to avoid lasting damage to its programs. The second scenario would be a significant change in the pattern of the University’s cash flows, which was the reason Ms. Brown wished to limit the increase in internal borrowing to \$150-million and to leave a very substantial cushion.

(f) Mechanics to implement back-stop external borrowing. A member asked whether further authority from the Board would be required if it were to become necessary to seek external borrowing to replace the proposed internal borrowing. For clarity, Ms Brown recalled that the Governing Council had granted authority for the external borrowing of \$200-million. The current borrowing strategy indicated capacity to borrow \$771-million externally, but the University had actually borrowed only \$525-million to date. Ms Brown would execute that already authorized \$200-million of external borrowing when it was opportune for the University to do so. The use of further external borrowing, as a contingency if necessary to replace the proposed internal borrowing, was a separate matter. If there was a need to resort to external borrowing to backstop the proposed internal loan, the administration would return to the Board to explain the circumstances and to request approval of the external borrowing by means of a structured resolution in a format acceptable to the lenders and the regulators.

The Chair said that the review of the Borrowing Strategy was a report for information. The proposal for a further internal loan would be made under the next item on the agenda.

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto**

Professor Hildyard said that the University's pension plan faced a roughly \$1-billion deficit and that this would result in significant additional contributions to the pension plan. There were a number of different ways of expressing the deficit, but two were most salient for today's discussion: a going-concern basis or a solvency basis. In the case of the deficit calculated on a going-concern basis, it was assumed that the organization and the pension plan would continue indefinitely into the future, and it was normally required that the deficit be paid down over a period of fifteen years. In the case of a deficit calculated on a solvency basis, it was assumed conceptually that the organization and the pension plan would be wound up, and it was normally required that the deficit be paid down over five years. In the case of the University's plan, that latter assumption would require additional contributions of roughly \$200-million per year over five years.

Professor Hildyard said that numerous factors had led to the current situation. First, for a number of years previously, contribution holidays had played a role. In many of those years, the University had not been permitted by the Canada Revenue Agency to contribute to the plan because the surplus was so high. Employees had also enjoyed a contribution holiday for some of those years. During the period of the Ontario Government's "social contract," universities were encouraged to take contribution holidays in order to deal with Government funding reductions. Second, a significant amount of the then surplus was used to provide benefit improvements to active and retired members of the plan. The estimated past-service cost of those improvements was about \$450-million. Third, the 2008-09 market meltdown had had a very large impact on the University's pension plan as well as every other pension plan. The University's pension fund had enjoyed an exceptionally good investment return in 2007 – better than that of almost all other funds – but it had suffered a greater decline in 2009. As a result of the problems that had taken place in 2009, the President had commissioned an external review of the University of Toronto Asset Management Corporation (UTAM) and had made substantial changes to its oversight and to the investment-advisory function. The pension fund investments were now doing substantially better, but even with an improvement in the financial markets, the University would be required to make very significant payments to address the deficit. Fourth, a situation of historically low interest rates was continuing. Because prevailing rates were used in the solvency valuation to discount the plan liability to its present value, the current low rates had driven up the plan's liability. It was noted that if current interest rates were to increase by 2%, the outcome would be a reduction in the solvency deficit by one half. Finally, the longevity of members of the plan had been increasing and with it the actuarial assumption of longevity. Because pensioners would live longer and draw their pensions longer, the plan liability had increased.

Professor Hildyard said that the plan's deficit situation was a common circumstance across North America and certainly across Ontario. Regardless of the decisions made over the past fifteen to twenty years, all plans were in the same general situation. It was therefore important to leave the history behind, to focus on the current situation, and to move forward.

Professor Hildyard recalled that the Government of Ontario had been reviewing public-sector pension plans in Ontario, guided by the Report of the Expert Commission on Pensions (the

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto**
(Cont'd)

Arthurs Report). Looking at the current situation of public-sector plans in Ontario, the Government had said that it would be willing to offer public-sector plans some relief from the current solvency requirements, in terms of the time allowed to meet the solvency test, but on condition of their meeting certain conditions designed to enhance long-term plan sustainability. The Ontario Government was willing to do so because public-sector bodies such as universities did not normally go out of business. While many provincial governments had excluded universities from the solvency tests, the Government on Ontario wished to keep those requirements in place to ensure that the university pension plans would be sustainable in the long term.

Ms Brown said that the University had considered various different ways to achieve a funding and financing strategy for the pension plan. She would present one model that had emerged from that process that appeared to be a reasonable and workable one. She would not request approval for a comprehensive strategy at this time. The University still did not know the details of the Province's solvency-funding relief regulation, and it did not have the July 1, 2011 actuarial valuation of the plan, upon which the funding requirements and the comprehensive strategy would be based. The objective at this time was to provide a reasonable approach that, while painful, could be managed. Ms Brown outlined the assumptions upon which the model was based.

- **Pension fund investment return.** It was assumed that the pension fund would provide a return of 10% for the 2010-11 year (ending June 30, 2011), and 6.5% per year - basically the target return - thereafter. The pension fund had earned a return of 9.1% from July 1 to December 31, 2010; therefore the 10% assumption for 2010-11 appeared to be a reasonable one, although the actual outcome could be greater or less than the 10% assumption, depending on market developments for the remainder of the plan year.
- **Extra lump-sum contribution before June 30, 2011.** It was assumed that \$150-million, from the pension reserve and from borrowing, would be contributed to the fund, in addition to the usual current-service contributions and the special contribution that had been made over the past few years (\$27.6-million in 2009-10). The objective would be to reduce the solvency deficit upon which the annual funding requirement would be based.
- **Subsequent filing.** It was assumed that, after the filing required as at July 1, 2011, the University would not be required to submit a new actuarial valuation until that for July 1, 2014.
- **Annual recalculation of required payments.** It was assumed that the University would be able to recalculate the required solvency payment each year and reflect improvements in the solvency funding status.
- **Interest rate assumption.** It was assumed in the model that there would be no change in the prevailing interest rates. As noted by Professor Hildyard, the interest rate assumption had a

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto**
(Cont'd)

major impact on the calculation of the solvency deficit. An increase of 2% in the interest rate would result in a reduction of the solvency deficit by approximately one half. The University would still have to clear up the going-concern deficit, but it would have a longer number of years to do so. Because interest rates were currently so low, an assumption that they would continue was a very conservative one.

- **Actuarial assumptions unchanged.** The model assumed that the current actuarial assumptions would remain in effect. The University's administration was in fact considering recommendations to change certain assumptions, in particular the mortality table (to reflect the currently longer lifespan) and the interest-rate assumption. The model, however, assumed no change.
- **Required contributions to reflect asset smoothing.** The model assumed that that the contributions required to deal with the going-concern deficit would be based on the smoothed value of assets over time, as determined by the method of the actuarial valuation.
- **Acceptance for solvency relief.** The model assumed that the University's plan would be accepted for the Province's solvency-deficit relief program

Ms Brown said that the basic idea behind the model was to use large lump-sum payments to achieve an immediate enhancement of the financial health of the plan, to reduce interest charges on the deficit, to reduce the size of the required on-going payments and, if investment returns were good, to produce additional investment earnings that would help protect the University's core mission.

Ms Brown recalled that the University had a number of potential sources for short-term and long-term financing of the pension deficit. They included: the pension reserve fund; borrowing (as discussed in the previous agenda item); using some or all of the assets set aside to support the Supplemental Retirement Arrangement; increasing the budget for annual special payments into the pension plan; selling or (more likely) leasing certain capital assets not required for current operations; and issuing letters of credit (which could be utilized only for solvency payments).

Ms Brown displayed a graph (from page 14 of the paper before the Board) showing a projection for funding and financing the special payments that would be required under the anticipated provisions of the Province's solvency-relief program. A key provision in the model was the \$150-million lump-sum payment, to be made before June 30, 2011. It would reduce the size of the future payments required. The University would continue to make payments from its current special payments budget of \$27-million per year, and it would add \$35-million per year for three years (July 1, 2011 to June 30, 2014). In the third year of the program, the University would make a second \$150-million lump-sum payment, which would again affect the amount required for all future payments. It would then increase its budget for additional special

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011

6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto (Cont'd)

payments (additional to the current \$27-million) from \$35-million to \$44-million per year for the remaining sixteen years of the model. Finally, the University would issue letters of credit to guarantee additional payments of \$33-million per year.

Ms Brown displayed a second graph (from page 16 of the paper) demonstrating the additional budget impact of the special payments and other costs. In addition to the budget for current-service contributions and the special payments of \$27-million per year, costs would be as follows:

- Additional special payments amounting to \$35-million per year for three years and then increasing to \$44-million per year.
- Costs arising from the lump sum payments (principal and interest repayment on the borrowing, and pension payments to SRA pensioners) amounting to \$10-million per year, increasing to \$22-million per year after three years.
- Fees for issuing letters of credit (assumed to be 0.5% of the face value of the letter of credit), a projected amount of about \$1-million per year.
- Current-service employer contributions to the plan for members of the Ontario Institute for Studies in Education before and at the time of the merger of OISE with the University. That plan had enjoyed a very large surplus for many years. In accordance with Ontario Pension Regulations, there had been a partial wind-up of the OISE plan and a distribution of some of the then-surplus to some members of the plan. The plan had then had the same investment return as the main plan, leading to a deficit position and requiring that the University resume making current-service contributions, amounting to about \$1-million per year.
- Required contributions to the Ontario Pension Benefit Guarantee Fund, required from all plans in a deficit position, with the payment amounting to about \$5-million per year.

Ms Brown observed that the shape of the “additional budget impact” graph was very different from the shape of the graph illustrating the required funding and financing for the plans. The key to the budget-impact graph was the need to arrange payments that were steady and predictable and could be handled by the operating budget. That total impact on the operating budget, according to this model, would be \$51-million per year for three years beginning July 1, 2011, increasing to \$73-million per year thereafter.

Ms Brown said that the University was working on finding a way to deal with that impact. Initially, in 2011-12, an amount of \$30-million per year from new revenues was being allocated to that purpose. The intention was to increase that amount if necessary. The amount required arose from models based on particular assumptions, and the actual outcome would no doubt change

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto**
(Cont'd)

over time. Another strategy currently under active consideration was the sale or lease of capital assets that were not essential to the University's operations. Planning was actively underway. The objective would be to raise a lump sum to augment or replace other sources of lump-sum payments to the plan or to provide a stream of income that could fund annual special payments.

Professor Hildyard said that the sample funding model was based on the assumption that the University would be granted solvency relief by the Province. The Provincial government had, however, made it clear that that its granting relief would be conditional on the University's meeting certain conditions. Key among them was the expectation that pension-plan members would over time come to contribute closer to one half the cost of their pension benefits. Presently, current-service contributions were shared on a two to one basis. In the most recent year, the University had contributed \$78.3-million in current-service contributions to the plan and the employees had contributed \$37.2-million in current-service contributions. Professor Hildyard noted that the Ontario Teachers' Pension Plan was a jointly sponsored and governed plan with the cost shared on a one to one ratio by the employer and the employees, each of whom contributed 11% of payroll to the plan. In the Ontario Healthcare Plan, contributions were shared on a 1.26:1 basis by employer and employees. In U.S. public universities with defined-benefit plans, even before the 2008 problems, costs were shared between the university and their employees on a 1.5:1 basis. It was clear that the Government of Ontario wished to see the Ontario universities moving more towards a 1:1 cost sharing. While Professor Hildyard acknowledged that it would take a number of years to reach that target, she emphasized that in the meantime the Province would need to see that progress was being made if the University was to be granted solvency relief. She stressed that asking employees to contribute more to the pension plan would not solve the past-service deficit problem. Each 1% increase in employee current-service contributions would add about \$7-million per year to the pension plan. Rather, the aim was to achieve a sustainable plan and one in which the beneficiaries paid a fair share of the cost of their very good benefit rather than expecting the taxpayers and the students – who funded the University – to do so. Increases in employee contributions were being made in other public-sector pension plans, including those at a number of Ontario universities, the Ontario Public Service Pension Plan and the Alberta Universities Academic Pension Plan. The University would certainly face challenges in negotiating contribution increases with ten unions and with the Faculty Association, but it was essential that it do so. Professor Hildyard noted that pension contributions did provide employees with tax relief; therefore employees would not have to bear the full cost.

Ms Brown reiterated that it was not possible to ask for approval of a comprehensive strategy at this time, although the administration had made clear the approach to such a strategy. That approach did depend on a cash infusion being made into the pension plan in the current plan year. Therefore, the administration was recommending the establishment of a \$150-million pension borrowing capacity under the current Borrowing Strategy, but separate and apart from the current maximum internal and external borrowing capacity that was utilized primarily for capital projects. All borrowing under the strategy, both for purposes of the pension plan and for

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto**
(Cont'd)

capital projects, would be included in the regular reports made to each Business Board meeting. The administration recommended that the \$150-million in internal borrowing be made available from the Expendable Funds Investment Pool. The execution of the actual borrowing, whether internally or externally, would be carried out at the discretion of the senior University officer responsible for financial matters. As with the internal borrowing already authorized and carried out for capital projects, if funds were needed sooner than anticipated from the Expendable Funds Investment Pool, the internal borrowing would have to be re-financed externally.

The Chair invited Professor Luste to speak. Professor Luste drew members' attention to his memorandum to the Board, which had been placed on the table for the meeting. The solvency funding issue was a very serious one. While Professor Luste would very much have liked to challenge some of the statements made to the Board today, time would not permit. He therefore wished to focus on three or four main issues. First, while it was easy to blame the market meltdown for the plan's problems, the fact was that equity markets had come back since 2008, and the University's pension fund had not done so. He cited as an example the Healthcare of Ontario Pension Plan (HOOPP), which had lost substantially less than the University's pension fund in 2008 and had made substantially more in 2009. By the end of 2009, the HOOPP was 102% funded. That should give members of the Board pause in their understanding of the underlying problem. Second, Professor Luste questioned the assertion that employee contribution increases were the key to the University's receiving solvency relief. In discussions he had attended with officials of the Government of Ontario, there had been no ranking or weighting of metrics for eligibility for solvency-funding relief and no declaration of any one metric as a key one. Third, the administration had asserted that the current pension benefits warranted a higher contribution by plan members. Professor Luste did not believe that to be the case. The matter had been discussed at length with Mr. Martin Teplitsky in his recent mediation and arbitration of salary and benefits negotiations. Mr. Teplitsky had concluded that there was no reason to justify an increase in members' contributions. The solvency deficit problem had arisen from the past and did not justify an increase in contributions in the future. The current-service contributions of members at this time represented a higher share of the total compared to those of the University than they had in the years before 1995. Moreover, the University's share of contributions had at the time frequently not been made owing to the contribution holidays. If they had been made, or if the funds had been reserved, Professor Luste believed that the current solvency funding deficit would not exist. Fourth, the administration had asserted that a 1:1 funding ratio was more appropriate than a 2:1 ratio going forward, with employees and the employer contributing an equal amount. Professor Luste again did not believe that to be the case. In almost all large universities, the pension plans for faculty were separate from those for other employees. The fact that there was only a single plan at the University of Toronto was the source of many unique problems. He did not believe that a 1:1 ratio was not a viable one for a plan for faculty at an internationally competitive university. Most members of the faculty had to invest many years to complete their Ph.D. studies and often post-doctoral research before they began their careers. As a result, they often began their careers in their 30s, with fewer years to accumulate pension benefits and fewer years for their plan contributions to earn compound investment growth. In many universities in

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto**
(Cont'd)

North America, including such institutions as Princeton and Harvard, the institution bore the full cost of pension-plan contributions. (This comparison was complicated by the fact that in many other institutions, the pension plans offered were defined contribution plans rather than defined-benefit plans, or hybrids with some element of each.) Therefore, this University's paying only one half of pension-contribution costs would weaken substantially its ability to recruit and retain excellent faculty.

Professor Luste concluded that the Faculty Association would endorse the administration's efforts to extend the solvency-deficit amortization period from five to ten years, but not at the cost of a 1:1 current-service contribution ratio. The current 2:1 ratio was both justified and necessary for faculty, and it was in line with faculty pension benefits at competing peer universities.

Professor Luste drew members' attention to a newsletter he had written ten years previously, in which he had argued that the University was not contributing its fair share to the pension plan. In his view, "the chickens were now coming home to roost."

The President said that the University was very fortunate to be in a position where growth of cash in hand would enable the plan proposed by Ms Brown for a loan from EFIP to finance a significant immediate extra payment into the pension plan. The University had repeatedly observed the growth in the carry-forwards of unspent appropriations by the divisions and the growth of other elements of daily balances, and the President was confident that the internal loan could be made with very minimal risk. The plan was clearly prudent in the light of the alternative. If the University were to suspend current capital projects and to eat more deeply into its operating budget for pension-plan contributions, the outcome would be serious problems arising from a loss of momentum and damage to morale. Prudent implementation of Ms Brown's recommendations would instead permit the University to continue to recruit and retain great faculty, staff and students.

The President observed that while he would disagree with many of Professor Luste's views on this matter, there were areas where he had some sympathy with those views. Many in the University had for some time had misgivings about the investment management of the pension fund by the University of Toronto Asset Management Corporation (UTAM). It had required a long and difficult process to straighten out those problems, and it was time to look ahead. A new expert Investment Advisory Committee had been established. It was not tied to UTAM as a Board of Directors. Rather, it made recommendations to the President and provided a source of independent advice and oversight. The new Pension Committee, when it commenced its operations, would provide another layer of oversight that would be valuable. If the University did achieve a true jointly sponsored plan, there would again be a change to pension investment oversight. In short, many positive changes were underway.

The President commented on areas where his views differed from those of Professor Luste. At the time of the contribution holidays, the amounts had been used to make up for the

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto**
(Cont'd)

funding reductions of the social contract period and had been used for matching funds to attract donations to the endowment. At that time, however, there had also been substantial improvements made to pension benefits. The President emphasized that these decisions had been taken in consultation with, and with the support of, the Faculty Association. It was the combination of contribution holidays and benefit improvements together that had, along with the recent market decline, led to the current problem. It was unfortunate that those improvements in benefits were made at a time when neither the employer nor the employees were contributing. Those improvements were a key reason for the President's view that it was now appropriate to seek an increase in member contributions that would make the plan sustainable on an ongoing basis.

The President stated that his views on a fair contribution ratio and those of Professor Luste were, however, now largely beside the point. This University and others had tried very hard to exclude university and similar public-sector pension plans from the solvency tests as routinely applied to private-sector plans. That argument had not carried the day with the Expert Commission on Pensions (the Arthurs Commission), which had formulated its case during the investment-market bubble that had preceded the 2008 reversal. Not only the universities, but also a number of well-informed and influential individuals, had put forward the case for a normalized 6.5% interest rate and a fifteen-year amortization period for public-sector plans. However, at that time and more recently, the Government of Ontario had stated that solvency relief would be available only on specific conditions. The reasons for those conditions appeared to be a view that many in Ontario had no pension plan at all, and a related perspective by those in government that those in the public sector who enjoyed good pension plans should pay more for them. The President stated that he had no fixed view of the appropriate contribution ratio. While he did believe strongly that a higher employee contribution was appropriate, it might well be that a 1:1 ratio was not the right one in a situation where many employees entered the pension plan relatively late in their lives. However, arguing with the Government that there should be no increase whatever would not help matters. There was a clear need for collective reasoning rather than traditional collective bargaining with a view to agreement on a reasonable ratio to propose to the Government. If the University could not reach agreement on a reasonable contribution ratio, it was highly unlikely that the Government would be patient. All of the careful planning such as covered at this meeting of Business Board – funding strategies for the pension deficit that would allow the University to maintain its momentum, or plans for land remediation at UTSC to permit further growth – these and more would fall by the wayside. Then students and staff as well as the faculty Professor Luste represented would all face serious problems.

The President concluded that it would be extremely unfortunate for the University of Toronto if the University administration and the Faculty Association could not arrive a sensible common position to take to the Government as part of the University's application for solvency-deficit funding relief. He was confident that there was sufficient common cause between the University and the Faculty Association that would enable them to arrive at a sensible common position on this specific issue.

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto**
(Cont'd)

A number of matters arose in questions and discussion.

(a) Borrowing to make special payments into the plan. A member stated his understanding that it was proposed to borrow an initial amount of \$150-million to make a special contribution to the pension plan. It was proposed to make a second \$150-million lump-sum contribution in three years' time, which could require further borrowing, as well as to issue letters of credit, which could result in the need to borrow still further monies. How would it benefit the pension plan when the borrowed sums had to be repaid with interest? Ms Brown replied that the first lump-sum contribution was planned to be borrowed from cash on hand in the EFIP, but the source of funds for the planned second lump-sum payment had not yet been determined. The University might use the proceeds of the sale or lease of assets for the contribution, or it might use some or all of the money it had set aside to match its obligations under the Supplemental Retirement Arrangement – which was likely to have declining obligations and likely ultimately to become a closed plan as the maximum pensionable earnings under federal legislation increased. Ideally, the University would have to borrow less than the full amount of the lump sum payments.

Mr. Shapira added that the most significant benefit of borrowing, to the extent that it would be required, was that the funds would go into the pension plan in a lump sum, thus improving the plan's financial health immediately, while at the same time the University would have a longer amortization period for the repayment of borrowing, and it could therefore place less strain on the operating budget in any given year. In addition, the interest rate on the pension plan deficit was 6.5%, whereas the proposed internal borrowing in 2011 would be structured based on current market values, with the model assuming a rate of 5.5%.

Another member expressed concern that the University was risking going too deeply into debt, and he questioned whether the University would have adequate borrowing capacity to take on additional debt for this purpose as well as debt for capital purposes. The member urged review of proposals for future capital projects, and their possible deferral, where additional borrowing would be required.

The President stated his view. There were certain projects currently under active consideration that should be undertaken. The opportunity to remediate land on the Scarborough North Campus and to provide an athletic facility for UTSC students was a unique one that should not be missed. There were also certain important commitments to provide facilities on the St. George Campus that were of great importance to the quality of faculty, staff and student life, including the planned Student Commons and the Goldring Centre. However, looking at the University's financial numbers, it was clear that beyond those current projects, the University would have to be much more "hard nosed" in undertaking further capital spending. In the past, borrowing was required to leverage contributions and benefactions in support of various projects. In the future, it might well be necessary to delay projects or to seek to redirect the benefactions to other purposes. Similarly with Government funding for buildings, many universities were facing

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011

6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto (Cont'd)

significant debt problems - often incurred for operating purposes - and those universities as well as the University of Toronto might have to conclude that they could not accept, say, 50¢ dollars for capital projects. They would need to make it clear that they would be able to expand their enrolments only with full assistance for the construction of new facilities, on the model of the Government infrastructure programs that were funding the full cost of the new instructional centres at UTM and UTSC.

A member expressed concern about the motion. Part (c) would approve “actual borrowing up to \$150 million . . . internally *or externally* [emphasis added] at the discretion of the senior officer responsible for financial matters.” Part (d) of the motion provided that, “if this additional \$150 million invested by EFIP were to be needed for short-term expenditures, the borrowing would have to be re-financed externally.” The member was concerned that approval of the motion would have the effect of authorizing the University to take on external debt in excess of the maximum now in place – i.e. in excess of 40% of average net assets over the past five years. Ms Brown said that she hoped and anticipated that there would be no need to resort to external borrowing for the initial \$150-million lump-sum payment into the plan. The information provided on current cash flow had been intended to make it clear that it would be highly probable that the borrowing could be internal. The motion was simply to make it clear that it might, as a contingency, be necessary to borrow externally. Doing so would indeed represent an increase beyond the current limit on external borrowing. Proceeding to external borrowing would, however, require further approval of the Board of a more complex resolution in a form acceptable to the lenders and regulators. It was AGREED: to remove the phrase “internally or externally” from part (c) of the motion; and to add to part (d) of the motion, which dealt with the contingency of external refinancing of the \$150-million loan from EFIP, the phrase “and approved by the Business Board.”

A member requested clarification of the Borrowing Strategy. Ms. Brown replied that, with approval of the motion on the floor, that strategy would have three elements. The first was external borrowing to the limit of 40% of average net assets over the past five years. The second was the \$200-million of internal borrowing from the on-going cash balance in EFIP to finance capital projects. The third proposed element would be the separate \$150-million of internal borrowing from the on-going cash balance in EFIP to finance a special contribution to the pension plan.

The President remarked that many universities in the United States had borrowed amounts of up to 100% of their net assets. Those universities included ones that had, as did the University of Toronto, highly earmarked endowments. That was, however, a very risky strategy and one that could have a negative effect on the University's credit rating, and there was no proposal that the University of Toronto undertake so high a level of debt. The University could be forced to exceed its external borrowing limit of 40% of net assets only if there were a combination of events. The first would be the University's proceeding with the already authorized additional external borrowing of \$200-million, which would bring it very near to the 40% limit. The

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto**
(Cont'd)

second would be a highly negative change in the current cash-flow patterns that would force the external refinancing of the \$200-million of internal loans for capital projects and the proposed \$150-million of internal borrowing for a lump-sum payment into the pension plan. The use of internal borrowing was highly attractive in the current circumstances where short-term interest rates were so low that the University was earning a very low return on the positive balance in the EFIP. If short-term rates were to increase, there would be a greater opportunity cost to the internal borrowing, but there would be another outcome as well: an increase in the discount rate for the determination of the pension plan liability and a corresponding reduction in the plan deficit.

(b) Cost to the operating budget. In response to a member's questions, Ms. Brown commented on the additional cost to the operating budget of the funding and financing strategy. That cost would be in addition to cost of the usual current-service contribution and the \$27-million special payment already made each year. The additional budget impact would be \$51-million per year in 2011-12 and the next two years, increasing to \$73-million per year thereafter. The budget for 2011-12 would allocate \$30-million per year from new revenues toward this cost, with additional work required to determine how to fund the remainder of the cost. Those projected costs included the additional budget for special payments, the repayment of loans for the lump-sum payment(s), pensioner payments under the Supplemental Retirement Arrangement, OISE current-service employer contributions, and payments into the Ontario Pension Benefits Guarantee Fund. The amounts involved in the later years could well change, depending on the means found to fund the second lump-sum payment (e.g. sale or lease of capital assets) and depending on investment returns of the pension fund.

(c) Proposal for increased current-service contributions by plan members. A member referred to the statement of the Ontario Government view that employees' contributions should increase to half of the annual current service contributions to the plan. That would place "increased responsibility on the shoulders of those who will enjoy the excellent benefits being earned, rather than on the shoulders of students and taxpayers who are, of course, the primary contributors, through tuition fees and government grants, to the University's operating budget." The member strongly endorsed that view, particularly from the point of view of shifting some of the burden of pension costs from students to the eventual beneficiaries of the pension plan.

Two members spoke generally in support of the proposal. One member commented that he had listened carefully to Professor Luste's comments. He believed that they were deserving of attention because they had proven over the years to have some substance and truth. Professor Luste was now the Vice-Chair of the Pension Committee. The member said that that he and his colleagues on the Board had a fiduciary responsibility to make a judgment about two matters: (a) the need to deal with the pension-plan deficit, and at the same time (b) the need to ensure the health of the University's academic programs. In dealing with this responsibility, the Board was burdened by history, but there was no benefit in revisiting history. Rather, it had to deal with the current situation. It was unfortunate that the question of pension-plan sustainability and therefore

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**6. Pension Plans: Ensuring a Sustainable Pension Plan for the University of Toronto**
(Cont'd)

contribution levels had arisen at the same time as the need to deal with the solvency deficit. The University was only partly free to choose how to deal with the deficit. The Government of Ontario would pass judgment on the University's plan, and its decisions would not be determined or perhaps even influenced by the views of Mr. Teplitsky as arbitrator. The proposal before the Board was a sensible and reasonable one. The ratio of employer to employee contributions would not change from 2:1 to 1:1 immediately, and it might not change that much even in the longer term, unless, that is, a ratio was imposed by the Government. However, the proposal in general was a reasonable one. It used some creative means to deal with the deficit problem such as irrevocable letters of credit. While the University would no doubt continue to struggle with the problem, the proposal represented a good first step.

Another member agreed that the proposal represented a thoughtful and creative approach to dealing with a very serious problem. She supported the proposed first step of borrowing from the EFIP to make an immediate additional cash contribution to the plan, provided that the University had good reason for confidence that placing borrowed money in the plan would satisfy the Province's concern about making the plan sustainable. She was also pleased that the comprehensive strategy for dealing with the problem would be brought back to the Board when the necessary information became available.

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

YOUR BOARD APPROVED

- (a) THAT a \$150-million pension borrowing capacity be established, separate and apart from the maximum borrowing capacity established under the current borrowing strategy;
- (b) THAT \$150 million in internal borrowing be made available from the Expendable Funds Investment Pool (EFIP) for pension purposes;
- (c) THAT actual borrowing up to \$150 million may be made at the discretion of the senior officer responsible for financial matters; and
- (d) THAT, as with the existing \$200 million internal borrowing capacity, if this additional \$150 million invested by EFIP were to be needed for short-term expenditures, the borrowing would have to be re-financed externally and approved by the Business Board.

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**7. Capital Projects: University of Toronto at Scarborough North Campus – Land Remediation and Sport and Recreation Centre****(a) Introduction**

Mr. Shabbar introduced the proposals for land remediation on the north campus of the University of Toronto at Scarborough (UTSC) and for the construction on that campus of a Sport and Recreation Centre, which would form a part of the Pan-American Games Aquatics Centre, Field House and Canadian Sport Institute / Ontario. He displayed a map of the approximately 300 acres of the UTSC Campus, which could be looked at in three sections. Most operations were currently located on the 60-acre south campus, which was now fully occupied. The 150 acres of valley lands in the Highland Creek ravine, were protected for conservation purposes and could not be built upon. Therefore, the only location for expansion of the campus was the north campus, located to the north of Ellesmere Avenue. A new building, the Instructional Centre, funded by the Federal and Ontario Governments' Knowledge Infrastructure Program, was currently in the final stages of construction on the southern edge of the north campus. The current enrolment at UTSC was about 9,000 full-time-equivalent students, but the campus was projected to grow to about 12,000 full-time-equivalent students. The obstacle faced by UTSC was that much of the land of the north campus had previously been owned by the municipality and had served as a site for disposal of household waste. Methane gas was now escaping from the buried waste, and the land was therefore in need of remediation. The removal of the buried waste would be required in order for the University and the three levels of government to proceed with the plan to build facilities for the 2014 Pan-American Games, which facilities would serve after the games as the UTSC Sport and Recreation Centre and as a high-performance sport and community recreation centre. The removal of the waste was required not only on the site of the proposed facility but also on some of the adjacent land, which would eventually be used for the buildings required to accommodate enrolment growth at UTSC. The City of Toronto would bear a part of the cost of the remediation of the land, including the cost of construction of a slurry wall to protect the campus from contamination from adjacent City land, where buried waste would remain. Mr. Shabbar stressed that the remediation project was an essential condition not only for the proposed Sport and Recreation Centre but also for the achievement of the UTSC vision for its future expansion.

Invited to comment, Principal Vaccarino said that the proposed projects represented a significant opportunity to meet a need that had been recognized for twenty-five years for proper athletic facilities at UTSC. With the increase in enrolment on the UTSC campus from 5,000 to 10,000, the need for such facilities had become absolutely critical to establishing a sustainable platform for the strength and growth of the campus. The proposed facility would speak to the standards of excellence the University sought in all of its aspects. The forthcoming Pan-American games provided an unprecedented opportunity to provide a state-of-the-art facility for students and for the community. The implications of the project went far beyond the development of an athletic facility. Secondary benefits would include a very large general improvement in the quality of student life and in the provision of the usable land that would allow the growth of the campus, to meet not only future plans but even UTSC's current academic

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**7. Capital Projects: University of Toronto at Scarborough North Campus – Land Remediation and Sport and Recreation Centre (Cont'd)****(a) Introduction (Cont'd)**

plan. The absence of usable land for expansion was placing an absolute constraint on UTSC's ability to grow.

Invited to comment, Mr. Aruldason said that the value placed by students on the proposed facilities was amply demonstrated by their support in a referendum of the levy to be added to student fees to pay a significant portion of its costs. The proposed projects would bring to UTSC a wealth of partnerships, and their support would enable not only the completion of the Sport and Recreation Centre but also the growth of UTSC.

(b) UTSC North Campus Site Remediation

Mr. Shabbar outlined the cost of the proposed site remediation project, which would be carried out by the City of Toronto with the participation of the University. While the final cost would not be known until the City's receipt of tenders in February, Mr. Shabbar was confident that they would fall within the proposed amount. The total cost of remediation, involving the removal of all waste from the site, was estimated to be \$52-million. The University's share of the cost would be \$30-million, including \$10-million to remediate the building site and \$20-million to remediate the remainder of the UTSC north campus land. The City's share of the cost would be \$22-million, including \$20-million to remediate the building site and \$2-million for the cost of the slurry wall. For the University's cost, a \$5-million amount would be supplied by the UTSC operating budget. The remaining \$25-million would be borrowed, with the debt being serviced by both the University-wide operating budget and the UTSC operating budget. It would be possible to borrow that amount, within the University's maximum borrowing capacity, only if there was a hoped-for \$20-million contribution from the Province of Ontario for a high-performance sport facility on the St. George Campus. That would free borrowing capacity that had been set aside for the St. George Campus facility and would allow the University to use the remaining borrowing capacity for the UTSC land remediation project. In response to a question, Mr. Shabbar said that in the absence of the Province's support for the high-performance sport facility on the St. George campus, the University would not have the capacity to borrow for the UTSC project, and neither the land remediation project nor the Sport and Recreation Centre project would be able to proceed.

Discussion focused on the subject of safety risk. A member cited events in a similarly aged landfill in the west end of the greater Toronto region where a methane gas explosion had taken place causing damage and injury on adjacent sites. The problem had arisen notwithstanding remediation of the built-up sites, appropriate Government sign-off, and monitoring of the remaining landfill site. There had been other examples of similar problems. The member expressed strong concern about the risk of a similar problem at the UTSC site, and he urged that the University proceed, if at all, only with the highest level of care. He urged in particular that the University not rely solely on Government permission to proceed but also that it engage highly qualified external experts to provide advice.

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**7. Capital Projects: University of Toronto at Scarborough North Campus – Land Remediation and Sport and Recreation Centre (Cont'd)****(b) UTSC North Campus Site Remediation (Cont'd)**

Mr. Shabbar replied that the existing landfill site had been monitored since 1968. While there were certain “hot spots,” the problems were not severe overall. The site would be remediated according to Ministry of Environment regulations. Both the University and the City of Toronto had engaged consultants, and implementation of their recommendations was included in the proposal before the Board. A total of 300,000 cubic meters of waste would be hauled from the site. Professor Mabury said that in addition to removing all of the waste from the University-owned land, an impermeable barrier wall would be built. The only waste that would remain would be on the City’s side of the property and of the wall, with a substantial buffer separating the UTSC north campus and the remaining landfill / waste. The President commented that while he was unable to speak of the specific risk of methane explosion, he was aware of health regulations concerning the remediation of former landfill sites, and those regulations reduced the risk of exposure and associated health problems to an almost infinitesimal level.

The Chair referred to a part of the condition of the Board’s approval of the motion, i.e. that it was subject to “anticipated new funding for high-performance sports facilities.” He stressed the meaning of that condition - that the Board approval was conditional of the receipt of \$20-million of funding for the planned high-performance sport facility on the St. George campus, which would be necessary to free up the borrowing capacity needed to be used for the proposal now before the Board.

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the project, and subject to all required government approvals and government funding, including anticipated new Government funding for high-performance sport facilities,

THAT the Vice-President, Business Affairs be authorized

- (a) to oversee University participation in land remediation on the north campus of the University of Toronto at Scarborough, to be completed by the City of Toronto, at a cost to the University not to exceed \$30-million, using funding as follows:
 - (i) \$5-million of funding from the University of Toronto at Scarborough; and

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011

7. Capital Projects: University of Toronto at Scarborough North Campus – Land Remediation and Sport and Recreation Centre (Cont'd)

(b) UTSC North Campus Site Remediation (Cont'd)

- (ii) \$25-million of borrowing, to be repaid by the University of Toronto at Scarborough and/or the University of Toronto, in part using \$20-million of borrowing capacity created by anticipated Government funding for high-performance sport facilities; and

- (b) to arrange the necessary borrowing on an interim and long-term basis.

(c) UTSC Sport and Recreation Centre as Accommodated in the Pan-American Aquatics Centre, Field House and Canadian Sport Institute

Mr. Shabbar said that the capital project to build the Pan-American Aquatics Centre, Field House and Canadian Sports Institute Ontario, including the eventual UTSC Sport and Recreation Centre, would be managed by the Province of Ontario's agency, Infrastructure Ontario, with financial participation from the Government of Canada, the Province of Ontario, the City of Toronto and the University. The cost of the total project at the time of the Toronto bid for the Pan-Am Games, made in 2008, had been estimated at \$170.5-million. With knowledge of the detailed program for the facility and with the escalation of construction costs, it was estimated that the total cost of the project to be completed in 2014 would be \$248.9-million. The new anticipated cost would be shared proportionally by all of the partners, with the University's share in 2008 dollars of \$37.5-million increasing to \$54.8-million. That sum would be borrowed, with \$43.8-million to be repaid from the proceeds of a student-fee levy over twenty-five years and with \$11.0-million to be repaid by the University's operating budget and that of the University of Toronto at Scarborough.

Mr. Shabbar said that after the Pan-Am Games, the building would become a legacy facility for the City and the University. The City and UTSC had estimated the cost to operate that facility to be \$10.3-million per year. The University's share was to be 17% of the total or an initial \$1.69-million per year. The City's share would be 30% or an initial \$3.11-million per year. Substantial space would be leased to the Canadian Sports Institute Ontario for training and competition for high-performance athletes, and its share of the operating cost would be 30% or \$3.01-million per year. In the financial model for the operation of the facility, it had been assumed that 22%, or an initial \$2.56-million, of the operating cost would be earned from rentals to swim clubs and other private user groups. The facility would be managed under the oversight of a joint City – University committee.

Discussion focused on the subject of the cost of operating the facility. A member asked who would be responsible for operating costs in the event that the projected income from the

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011**7. Capital Projects: University of Toronto at Scarborough North Campus – Land Remediation and Sport and Recreation Centre (Cont'd)****(c) UTSC Sport and Recreation Centre as Accommodated in the Pan-American Aquatics Centre, Field House and Canadian Sport Institute (Cont'd)**

Canadian Sports Institute Ontario and from rentals and permits was less than expected. Ms McLean replied that the matter of operating costs had received very careful attention. The City and the University had initially engaged Deloitte as consultants to model major operating costs such as utilities and major maintenance. Because the facility, including three swimming pools, would be a very expensive one to operate, City and University officials had also engaged in full discussions with those responsible for managing current City facilities (the Etobicoke Olympium) and the pools on the St. George campus. Expert engineers from the City and University had also been consulted. Estimates of operating costs were very conservative. A detailed list of maintenance and equipment requirements had been developed, and the University had planned for equipment replacement over a fifty-year time horizon. Operating costs included a \$3-million maintenance reserve. While it was anticipated that the time available for facility rentals would be 100% used, revenue had been discounted to 75% use. Highly experienced new consultants had been engaged to review the methodology and modeling used, and they had, on initial examination, found no reason for concern. Ms McLean said that UTSC was very concerned about the potential liability that could be incurred in operating the facility, and there was clearly some level of risk. However, the modeling had been very carefully examined by many highly knowledgeable people. The University was working very hard with all levels of government to reach an agreement that would stabilize contributions to operating funding. In particular, the University was seeking agreement on a methodology for cost sharing. Ms McLean concluded that the modeling with respect to operating costs had been very prudent and very conservative, with the matter having been examined in great detail and with prudent reserves having being planned.

A member observed that in her experience, no matter how prudent the planning, operating costs did increase beyond those originally projected. She urged that the University make every effort to negotiate an agreement that would limit the University's share of responsibility for operating costs at a fixed maximum, for example 20%. Ms Riggall said that every effort was being made to do that. The difficulty being encountered was that the senior levels of government did not normally provide for the costs of operating facilities they did not own and operate. The member urged that, notwithstanding that difficulty, the University's efforts be pursued vigorously.

The Secretary drew members' attention to the revised agenda that had been posted on the Board Books site and placed on the table for the meeting. That revised agenda included a clarified motion for this item, which was the one now before the Board.

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011

7. Capital Projects: University of Toronto at Scarborough North Campus – Land Remediation and Sport and Recreation Centre (Cont'd)

(c) UTSC Sport and Recreation Centre as Accommodated in the Pan-American Aquatics Centre, Field House and Canadian Sport Institute (Cont'd)

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the project, and subject to the timely completion of site remediation,

- (a) THAT the Vice-President, Business Affairs be authorized to oversee University participation in the completion by Infrastructure Ontario of the University of Toronto at Scarborough Sport and Recreation Centre project at a total cost not to exceed \$37.51-million (2008 dollars) or, increased by inflation and anticipated inflation in construction costs, \$54.8-million, with sources of funding as follows:
 - (i) \$30-million (2008 dollars) or \$43.8-million after inflation and anticipated inflation in construction costs, from the proceeds of a student levy; and
 - (ii) \$7.51-million (2008 dollars) or \$11.0-million of funding from the University of Toronto at Scarborough operating budget and/or the University of Toronto operating budget, as determined by the Vice-President and Provost;
- (b) THAT the \$17.3-million cost increase arising from inflation and anticipated inflation in construction costs be borrowed, with \$3.47-million to be repaid by the University of Toronto at Scarborough and/or the University of Toronto, as determined by the Vice-President and Provost, and \$13.82-million to be repaid from the proceeds of the student levy; and
- (c) THAT the Vice-President, Business Affairs be authorized to arrange borrowing as required for the project on an interim and long-term basis.

8. Capital Project: St. George Campus Utilities Infrastructure Renewal - Connection to Enwave Deep Lake Water Cooling System

Ms Riggall said that the proposed St. George Campus Infrastructure Renewal project had been approved in principle by the Governing Council in December 2009, and the Business Board had approved its execution. It was, however, proposed that the execution of the project be amended to provide for use of the Enwave Deep Lake Water Cooling System rather than the use

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011

8. Capital Project: St. George Campus Utilities Infrastructure Renewal - Connection to Enwave Deep Lake Water Cooling System (Cont'd)

of a new cooling tower for the South East Chilled Water Plant, housed in the Medical Sciences Building. The change would achieve significant financial saving as well as significant environmental benefit.

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

YOUR BOARD APPROVED

THAT the Vice-President, Business Affairs be authorized to change the implementation of the program of St. George Campus utilities infrastructure renewal, as approved by the Business Board on November 9, 2009, to substitute for the installation of a cooling tower (i) a connection to the Enwave Deep Lake Water Cooling system, and (ii) installation of an underground equipment room near the southeast corner of the Medical Sciences Building.

9. Date of Next Meeting

The Chair reminded members that the next regular meeting of the Board was scheduled for Monday, March 7, 2011 at 5:00 p.m. The agenda for that meeting was expected to be a very full one, including tuition fees and the budget report.

THE BOARD MOVED *IN CAMERA*.

10. Human Resources: Benefit Program Enhancements for Professional/Managerial and Confidential Staff

Professor Hildyard presented her proposal for enhancements to the benefit program for professional / managerial and confidential staff. She stated that the proposal would be funded by savings from other benefit programs, thereby complying with the Province's compensation restraint legislation.

On the recommendation of the Vice-President, Human Resources and Equity,

YOUR BOARD APPROVED

The proposed benefit enhancements for Professionals/Managers and Confidentials, as outlined in Professor Hildyard's Memorandum to the Business Board meeting of January 31, 2011.

REPORT NUMBER 186 OF THE BUSINESS BOARD – January 31, 2011

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:40 p.m.

Secretary

Chair

March 2, 2011

53573