UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

# REPORT NUMBER 109 OF THE BUSINESS BOARD

## January 15, 2001

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, January 15, 2001 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Amir Shalaby (In the Chair)
Ms Rose M. Patten, Vice-Chair
Ms Wendy M. Cecil-Cockwell, Chairman of the Governing Council
Professor Robert J. Birgeneau, President
Professor Michael G. Finlayson, Vice-President - Administration and Human Resources
Mr. Robert G. White, Chief Financial Officer
Dr. Robert Bennett
Mr. Brian Davis
Ms Susan Eng
Mr. Paul V. Godfrey
Dr. Anne Golden
Mr. Josh Koziebrocki
Professor Brian A. Langille
Ms Karen Lewis
Mr. Frank MacGrath
Professor Heather Munroe-Blum
Dr. John P. Nestor
Mr. Martin Offman
Ms Jacqueline C. Orange
Mr. Roger P. Parkinson
The Hon. David R. Peterson
Mr. John H. Tory
Professor Ronald D. Venter

Dr. Jon S. Dellandrea, Vice-President and Chief Development Officer
Professor Adel S. Sedra, Vice-President and Provost
Mr. Louis R. Charpentier, Secretary of the Governing Council
Professor Paul W. Gooch, Vice-Provost
Professor Derek McCammond, Vice-Provost, Planning and Budget
Miss Janice Oliver, Assistant Vice-President, Operations and Services

Secretariat:

Mr. Neil Dobbs
Ms Susan Girard

Regrets:

Mr. H. Garfield Emerson
Mr. James S. Kinnear
Mr. Gerald A. Lokash
Ms Nancy L. Watson
Mr. Robert S. Weiss

In Attendance:

Professor W. Raymond Cummins, member, the Governing Council
Dr. Joseph L. Rotman, member, the Governing Council; Director, MARS Discovery District
Dr. John R. Evans, President Emeritus; Chair of the Board, MARS Discovery District

Dr. Joan R. Randall, former Chairman of the Governing Council; Chair of the Board, University of Toronto Art Centre
Dr. Sheldon Levy, Vice-President, Government and Institutional Relations
Professor David Mock, Chair, Planning and Budget Committee
Dr. Peter B. Munsche, Assistant Vice-President - Technology Transfer
Mr. Don Beaton, Director, Real Estate
Mr. Mark L. Britt, Director, Internal Audit Department
Ms Sheila Brown, Controller and Director of Financial Services
Professor David H. Farrar, Chair, Department of Chemistry
Mr. Eric Fleming, Director, Risk Management and Insurance
Ms Rivi Frankle, Director of Alumni and Development
Mr. Cliff Inskip, Managing Director - Debt Capital Markets, CIBC World Markets
Mr. Graham Kemp, Director, Administrative Management Systems
Mr. Kenneth Knox; President, Ontario Innovation Trust; Managing Director, MARS Discovery District
Mr. Donald W. Lindsey, President and Chief Executive Officer, University of Toronto Asset Management Corporation
Mr. Brian Marshall, Director of Human Resources
Ms Gayle Murray, Executive Assistant to the Vice-President, and Employee Relations Coordinator, Office of the Vice-President - Administration and Human Resources
Ms Cristina Oke, Assistant Vice-Provost, Professional Faculties; Assistant Secretary-Designate of the Governing Council
Mr. Pierre Piché, Associate Controller
Mr. Kasi Rao, Director of the Office of the President and Director of Government Relations
Ms Deborah Simon-Edwards, Executive Assistant to the Chief Financial Officer
Mr. James K. (Jason) Stewart, Managing Director - Debt Markets, Merrill Lynch Canada Inc.

ITEM 2 IS RECOMMENDED TO THE GOVERNING COUNCIL FOR APPROVAL.

ITEMS 4, 16, 17 AND 18 WERE CONSIDERED *IN CAMERA*.

**1. <u>Report of the Previous Meeting</u>**

Report Number 108 (November 20, 2000) was approved.

**2. <u>University of Toronto Art Centre: Terms of Reference</u>**

Professor Gooch recalled that five and one half years ago the Board had approved the terms of reference of the then University of Toronto / University College Art Gallery Board. It had functioned alongside the broadly representative University Art Committee, which (on the advice of the University's Art Curator) advised on the purchase and de-accessioning of works of art. With the establishment of the University of Toronto Art Centre, it was appropriate to bring the work of the two bodies into closer co-operation. The authority of the President of the

University would remain unchanged with respect to art. The President would continue to give ultimate approval to the policy governing the acquisition and de-accessioning of works of art, and decisions of the Art Centre Board would still be subject to appeal to the President. The President would, however, receive recommendations on policy from the University Art Centre Board, and that Board would now have responsibility for all works of art within the University rather than only those located in the University Art Centre. The Director of the University Art Centre had been named by the President to chair the University Art Committee. One outcome would be better co-ordination of the work of the Committee and the Board. A second outcome would be a stronger role for the art collection in the University's academic programs.

In response to questions, Professor Gooch said that the University's art collection was a substantial one containing a number of culturally significant works. An inventory database had been developed, and Professor Gooch would distribute to members information on the size and value of the collection. He would be pleased, at the next meeting, to answer any questions arising from that information.

A member expressed his strong support for the proposal. It would be very valuable to have a body empowered to catalogue, curate and ensure the good care of the University's extensive art collection. Having in the past encountered some difficulty in obtaining information about the collection, the member was very pleased to learn that the inventory database had been developed.

On the recommendation of the Vice-Provost,

YOUR BOARD RECOMMENDS

THAT the proposed Terms of Reference for the University of Toronto Art Centre, a copy of which is attached hereto as Appendix "A", be approved, replacing the Constitution of the University of Toronto / University College Art Gallery Board as originally approved by the Business Board on May 23, 1995.

## 3. Chair's Remarks

The Chair expressed his regret that the November meeting had continued for so long. He would make every effort to ensure that future meetings completed their business and adjourned by 7:00 p.m.

**4. Medical and Related Sciences Discovery District: Briefing and Preliminary Consideration**

Professor Munroe-Blum said that the objective of this exciting proposal was to create, adjacent to the St. George Campus but not on it, a state-of-the art, large-scale centre for innovation in health and related sciences and technologies. The highlights of Professor Munroe-Blum's presentation were as follows.

- **Location**. The focus of current efforts was to locate the Medical and Related Sciences (MARS) Discovery District on the south side of College Street between University Avenue and Elizabeth Street (one bock east of University Avenue), adjacent to the University Health Network, previously called the Toronto General Hospital. This would be the first technology park located in the centre of a major city on a subway line.

- **What is MARS**? The MARS Discovery District would be a new innovation cluster complex, serving as a convergence point to facilitate and commercialize research conducted at the University and its affiliated teaching hospitals and by the private sector. It would serve as an innovation engine for the greater Toronto area, Ontario, and indeed Canada. Professor Munroe-Blum voiced the strong view that in the absence of action to establish this innovation cluster, Canada would not continue to be a leading centre for innovation in the medical and related sciences. Toronto was the only area that could realistically serve as such a centre in Canada. The MARS Discovery District would provide a special opportunity in the area of research applications and technology transfer. It would be led by top Canadian business and academic leaders and friends of the University of Toronto. It would have a unique emphasis on the convergence of the scientific work being done across the divisions of the University of Toronto and at the research institutes of its affiliated hospitals. It would enjoy the advantage of its unique geography, being located centrally in a major city, adjacent to a world-ranked University and four teaching hospitals, all in close proximity. This would bring together the talents of scientists not only in medicine and the biological sciences but also in applied science and engineering, the physical sciences, and the related social sciences.

- **What was the University being asked to do**? Professor Munroe-Blum commented that this was a novel recommendation. The University was being asked to invest in a vision, representing an opportunity of enormous scale. The University would contribute $5-million towards the purchase of the land for the planned Discovery District. The University's investment, along with unencumbered donations from benefactors, would purchase the property upon which the Discovery District could be established. The University was also being asked to participate on the Board of the not-for-profit corporation that would own the Discovery District, and to build on its previous entrepreneurial technology-transfer activities, along with those of the teaching hospitals.

- **Potential benefits**. The University's $5-million contribution would provide a great deal of leverage, including the acquisition of property to accommodate the MARS Discovery District that would be worth $25-million - $30-million. Once the property is acquired by

**4. Medical and Related Sciences Discovery District: Briefing and Preliminary Consideration** (Cont'd)

the MARS corporation, a further amount of approximately a half billion dollars would go into the development of the innovation centre. The MARS vision was highly complementary to the University's academic mission and its long-range plans. The activities of the MARS Discovery District would take place immediately adjacent to the St. George Campus, but would not occupy its limited space. The advantages of having the MARS activities right next to the campus would be enormous. It would be very attractive to faculty members and would assist the University's efforts to recruit and retain top faculty in a highly competitive environment. It would provide student internships and research opportunities as well as employment opportunities for graduates. It would provide increased opportunities for the University's researchers, including collaborations and facilities. It would also provide researchers with increased interaction with individuals, organizations and businesses that supported research and training.

Not unimportantly, the University's contribution to the establishment of the MARS Discovery District would demonstrate to government and to the taxpayers a real commitment to the application of university research and to technology transfer that would provide a payback to the taxpayers for their investment in research support.

Finally, the establishment of the MARS Discovery District would ensure the use of this property for public purposes rather than for solely private purposes such as condominium apartments. A part of the facility could potentially be used to meet the University's future space needs. The University, as a result of its contribution, would have the opportunity to participate in the determination of the future use of the land.

- **Risks of not participating**. The greatest risk would be missed opportunities: a missed opportunity to develop a unique Canadian research complex with a national and international profile and impact; a missed opportunity to strengthen the University's research potential and the investment in its research, missed possibilities for research collaboration with the affiliated hospitals and among related sciences; and a missed unique opportunity to develop a core area of Toronto for purposes consistent with the University's mission.

  There would also be missed opportunities: to demonstrate to the government and the public the University's commitment to realizing broad benefits from the research they sponsored; to expand and strengthen partnerships with key private-sector companies; and to realize significant potential revenue from commercialization opportunities.

  There would be missed opportunities to learn from successes and failures in other jurisdictions and to enhance the University's competitive edge in its competition with U.S. universities in recruitment and retention of faculty and in building its research impact and profile.

**4. Medical and Related Sciences Discovery District: Briefing and Preliminary Consideration** (Cont'd)

The final risk of not participating would be the likely alternative use of the property adjacent to the campus for condominium apartments or other developments not complementary to the University's academic mission.

- **Protection of the University's investment**. In most general terms, the University would be in a good position to protect its interests because of its holding one fifth of the seats on the Board, amounting to two seats on the initial ten-person Board. If the MARS corporation was not successful in acquiring the College Street property, 95% of the University's contribution would be returned. If the MARS corporation was successful in acquiring the property but was unable to conclude an arrangement with a developer, then no less than 90% of University' contribution would be returned. Finally, if the land was acquired and then sold, the University would receive back its full contribution plus interest.

In response to a question, Professor Munroe-Blum said that, if the contribution was approved, the University would borrow the $5-million amount, with the interest and principal to be repaid from the University's share of the revenue from technology transfer, both royalties and realizations from equity holdings. Professor Munroe-Blum stressed that she was referring solely to the share of such revenues that normally accrued to the University-wide operating budget. There would be no impairment of the royalty income to faculty researchers or their departments and faculties. There was a stream of such revenue, currently amounting to several millions of dollars per year.

Invited to address the Board, Dr. Evans emphasized seven points that he thought were critical. He based his view on studies of the more than 200 technology parks in the United States, some of which were highly successful and some of which were not.

- First, the commercialization of discovery was becoming more and more important for university faculty and students. For students, the opportunity to participate in the commercial development of scientific discoveries was very important to the enhancement of their experience and their employment opportunities. There was a great concentration of scientific talent at the University and its teaching hospitals. The University would be much more likely to benefit if faculty had the opportunity to develop their innovations nearby rather than having to relocate. Recruitment and retention of faculty in many disciplines would depend on the availability of this opportunity.

- An actively managed incubator for start-up businesses developing innovations improved the success rates of those businesses. That improvement, according to some studies, was by a factor of three. The reasons were: the interaction among small groups that led to the sharing of ideas, the concentration of support facilities, and the attraction of venture capital, patent and other capabilities.

**4. Medical and Related Sciences Discovery District: Briefing and Preliminary Consideration** (Cont'd)

- The convergence of disciplines was mutually beneficial to each of them. The University would be able to take advantage of certain superb facilities in the hospital research institutes. The University would provide contributions from various scientific disciplines such as computer science, material science and management. The Rotman School of Management had indicated an interest in establishing an operation in the MARS Discovery District to provide experience in high-risk, venture capital investment.

- The MARS corporation could serve as a broker or coordinator for research infrastructure initiatives and other research funding proposals, and coordination would greatly enhance the chances of success. When funding agencies such as the Canada Foundation for Innovation or the Ontario Innovation Trust received varying applications in a given field, they had difficulty in making awards. When they received one rationalized proposal from a large group of investigators, they were much more likely to award support. This would be particularly important for costly facilities such as genomic facilities.

- The MARS facilities could be useful to the University and the hospitals as a source of "swing" or staging space, especially when it was first built and less likely to be fully occupied.

- The MARS Discovery District would preserve the land adjacent to the University and the hospitals for appropriate uses rather than losing it to unrelated purposes.

Of even greater importance, Dr. Evans said that the proposed MARS Discovery District could make a very substantial contribution to the health and growth of the Canadian economy.

Dr. Rotman commented on his reasons for supporting the project and participating in it.

- Canada was far behind in promoting and rewarding innovation. If the MARS Discovery District was supported and implemented properly, it could potentially leap-frog Canada to the forefront.

- Toronto was currently an acknowledged international leader in medical and biotechnological science. The University and its affiliated hospitals formed an almost-complete cluster of research strength as good as any in the world. It was important to complete and build on this cluster; the alternative was to lose Toronto's leadership position.

- It was clear that the commercialization of health-science technology would be the next major thrust in the world economy, comparable to the recent thrust in the area of information technology. Biotechnology ideas were already being made available commercially. They would have a major positive impact on the quality of health care and would provide enormous economic benefits.

**4. Medical and Related Sciences Discovery District: Briefing and Preliminary Consideration** (Cont'd)

Both levels of Government in Canada were providing added support for scientific research in the expectation that it would come to have benefits for the economy. To continue to provide such programs as the Canada Foundation for Innovation and the Ontario Innovation Trust, governments would need to see economic benefits. If they did so, governments would enhance funding for basic research, which would in due course create further economic benefits and so forth in a virtuous circle. If, on the other hand, the University failed to promote the commercialization of the products of its curiosity-driven research, then there would be reductions of Government funding for such research, less opportunity for economic benefit, and further reductions in a vicious circle. Canada and Toronto would then fall behind in the world.

- A focused, independent entity could facilitate co-operation among researchers, serving as an honest broker. The MARS corporation, as a non-profit entity that would derive no economic benefit, could play the role of fostering individual investigators and companies working together for the public good.

Dr. Rotman observed that neither the Government of Ontario nor the University had been willing to take a leadership role in the establishment of the MARS Discovery District. A group of individuals had therefore formed a charitable foundation, which had requested not investments but instead unconditional donations to the project. The charitable foundation had requested gifts of at least $1-million; it had succeeded in raising the minimum $10-million required to proceed; and it would very likely surpass that goal. That demonstrated a real commitment to the project, and Dr. Rotman very much hoped that the University too would support it.

The President stated that he enthusiastically endorsed the proposal. It would play a very important role in attracting and retaining faculty with entrepreneurial interests. It was not appropriate for a public university to manage major venture-capital or incubator businesses itself. The MARS proposal represented an effective mechanism for the University to fulfill its responsibility to the public - to facilitate the commercial development of the appropriate products of its research - and to do so without acting like a private-sector company. He re-emphasized the fact that the University and its affiliated hospitals had a highly favourable juxtaposition of leading researchers in engineering, the sciences and medicine, which gave rise to the opportunity for a highly entrepreneurial innovation centre. The location of such a centre in an easily accessible downtown location was a very fortunate additional circumstance. The President concluded that in ten years' time, it would be clear that the opportunities provided to the University's scientists and students by the MARS Discovery District, and the University's ability to play a role in guiding the project, would have provided so great a benefit that the proposed $5-million contribution would appear a wholly trivial cost.

Professor Sedra stated that he too supported the proposal. From his perspective as Provost, its most important benefit would be the value of the MARS Discovery District in recruiting and retaining top-rate faculty. The universities that could provide good opportunities to commercialize the outcomes of appropriate research would be the ones that would win the fierce competition for the best scientific talent. The competitive position of the University of Toronto would be strengthened in making offers to potential faculty members by this important added opportunity.

The Chair said that the objective of the closed session item was to provide the Board with a briefing and to have a preliminary discussion, leading to a general agreement in principle that a contribution to the project was, or was not, a good idea. If the Board would not generally support the proposal in principle, the absence of support should be made clear before the proposal became a public one. If there was general support for the proposal, the Board should make that clear, and should also express any views about terms and conditions that should be included in the detailed agreement. If the Board was generally supportive, the administration would bring a proposal to the Planning and Budget Committee concerning the project and the allocation and source of funding to repay the loan for the University's contribution. That recommendation, if it met with the Planning and Budget Committee's approval, would be forwarded to its parent, the Academic Board. A more detailed proposal would also return to the Business Board for discussion and a vote. With the support of both Boards, the proposal would proceed to the Governing Council.

Professor Munroe-Blum assured the Board that, assuming its support at this meeting, the administration would move the proposal forward quickly, beginning with the January 23 meeting of the Planning and Budget Committee. Professor Munroe-Blum reported to the Business Board with respect to all activities related to the commercialization of the products of research. She had therefore thought it important for the Board to have this initial briefing and discussion.

A member commented that the proposal was a very exciting one, providing a much-needed facility and one that would be highly attractive to potential faculty in many fields. It represented a once-in-a-lifetime opportunity. He urged that every effort be made to seek broad support for the proposal within the University. It was important that members of the University be excited about the proposal and that they not see it as a poor use of limited resources. Building support would be important, and a key element in achieving support would be a full, open debate through the governance process.

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

**(a) Ownership of intellectual property**. In response to a question, Dr. Rotman said that the proposal would not affect the ownership of the intellectual property developed in the MARS Discovery District. For any University research completed in the new facilities, the University's Inventions Policy would continue to apply and the inventors would continue to have the opportunity to assume management of their patents or to employ the services of the U. of T. Innovations Foundation.

**(b) Role of the MARS corporation**. Dr. Evans said that many start-up companies were cash-poor and would probably wish to pay some or all of their rent by assigning equity to the MARS

**4. Medical and Related Sciences Discovery District: Briefing and Preliminary Consideration** (Cont'd)

corporation. As part of the process, the MARS corporation would eventually recycle any surplus proceeds back into tenants' research and development projects. The MARS corporation, however, would be more than an indulgent landlord. It would also provide intensive support services. Dr. Evans referred to a recent article in the *Harvard Business Review* that demonstrated the value of such support services to the success of start-up companies.

**(c) The University's financial obligations**. In response to a question, Professor Munroe-Blum stated that the University's agreement to make a $5-million contribution to the project would be the total of its financial obligation to the project.

**(d) Disposition of the property in the event of financial problems**. A member asked the outcome in the event the MARS Corporation did in fact purchase the property but could not proceed owing to a failure to secure a development agreement or owing to the Corporation's eventual insolvency. Dr. Rotman replied that the land was to be purchased for public purposes and, pursuant to any purchase agreement, would be usable only for public purposes. If a severe financial problem eventually forced the sale of the land, and if that sale was to a private-sector owner, the proceeds would be devoted to public purposes. Because the initial support from private individuals had come, and would come, in the form of charitable donations, the supporters would not be able to receive their money back. The member asked about how, in the event of financial problems, the disposition of the land would be determined. For example, the University and the hospitals might disagree. Dr. Rotman replied that the matter was being studied by an independent committee; it had not yet been resolved. Professor Munroe-Blum noted that the University would be represented on the Board of the Corporation. She reiterated that a maximum of $500,000 of the University's $5-million contribution would be at risk if the MARS Corporation was unsuccessful in arranging for a developer to proceed with the construction of facilities.

**(e) Timing**. In response to questions, Professor Munroe-Blum and Mr. Knox said that bidding for the property was currently underway. The Governing Council meeting schedule was consistent with the time lines of the bidding process. Assuming MARS' success in acquiring the property, the next step would be the preparation of a detailed business plan for presentation to developers. It was anticipated that the real estate acquisition would close in April, subject to certain necessary zoning changes. The MARS Corporation would then move as quickly as possible to find a development partner. Time lines would be built into the agreement. Professor Munroe-Blum anticipated that a development agreement would be in place within two years.

In the course of discussion a number of members indicated their support for the proposal. The Chair took a straw vote of members of the Board, and all but one indicated support. That member said that he would require further information about the specific arrangements before indicating his support.

## 5. Business Arising from the Report of the Previous Meeting

### (a) Item 6 - University of Toronto Asset Management Corporation - Reporting to the Business Board

The Chair recalled that, at the previous meeting, a member had suggested that, given the size and importance of the assets under its management, the University of Toronto Asset Management Corporation (UTAM) report on investment performance to each meeting of the Business Board or that it report at least quarterly. This would not necessarily require an oral report and Board discussion, but the distribution of a single-page performance report would enable the Business Board to stay current and to accumulate history and perspective with respect to the investment returns.

Mr. White said that he had discussed the suggestion with the Chair and the President of UTAM, with President Birgeneau, with the Chair and Vice-Chair of the Business Board, and with the member who had made the suggestion. UTAM, through the Chief Financial Officer of the University, would provide a quarterly summary report on investment performance. At the same time, Mr. White urged that the Board bear in mind that a key role of the UTAM Board was to monitor investment performance. In establishing a separate corporation with its own Board, one of the University's objectives had been to give the members of the UTAM Board a sense of responsibility as trustees. It was, therefore, important that the Business Board not usurp the role of the UTAM Board.

The member who had made the suggestion stressed that he had not suggested that the reports be agenda items for the Business Board but only that they be distributed for information. In response to the member's question, Mr. White said that UTAM's annual report would be presented to the Business Board each spring, with the Chair and the President of UTAM in attendance, and the Board would have the opportunity for a full discussion.

### (b) Item 8 - Investment Policy: Pension Fund Master Trust Statement of Investment Policies and Goals - Proposed Prohibition of Investments in Mortgage Loans to Finance the University's Capital Program

The Chair recalled that during the discussion of the Pension Fund Investment Policy at the previous meeting, a member had noted that the policy contained no prohibition on pension fund investments in loans to the University itself, for example, to finance construction projects. He had asked whether it would be appropriate to add such a prohibition.

Mr. White stated that he agreed entirely with the member's point of view. For that reason, he had included in the proposal for capital borrowing for University construction projects (item 7 below) a specific statement that the University's own Long-Term Capital Appreciation Pool and its Pension Master Trust Fund should not be used as a source of funds. The President commented that the UTAM Board would never agree to any such investment.

**5. Business Arising from the Report of the Previous Meeting** (Cont'd)

**(b) Item 8 - Investment Policy: Pension Fund Master Trust Statement of Investment Policies and Goals - Proposed Prohibition of Investments in Mortgage Loans to Finance the University's Capital Program** (Cont'd)

The member recalled that at one time the Government of Ontario had required that pension fund for the province's teachers be invested solely in Ontario Government debentures. The termination of that requirement, and the prohibition of further such investments, had been the key factor that had enabled the current Ontario Teachers' Pension Plan to become such a strong one. The member was concerned that in the absence of a specific prohibition in the investment policies, in some very difficult financial period in the future, the availability of long-term funds for investment in University projects might prove to be an irresistible temptation.

**(c) Item 14 - Capital Projects: Business Board Responsibility - "The Life Cycle of a Capital Project"**

The Chair recalled that, at the previous meeting, the Board had struggled with the question of its mandate and responsibility concerning capital projects. The Chair had, since that meeting, discussed the matter extensively with the members who had raised concerns. He had also provided a draft document outlining the life cycle of a capital project. That document attempted: (a) to provide context, (b) to describe the responsibilities of the various parts of the Governing Council with respect to capital projects, and (c) to outline specifically the mandate of the Business Board. The Chair would welcome any suggestions from members concerning that draft document, which could be incorporated into a final version. Appended to that document was the complete capital plan, showing the estimated cost of each project and its current status.

A member commented that she had found the "Life Cycle of a Capital Project" document very helpful. Given the role of the other Boards with respect to capital projects, she suggested that the final version also be distributed to them. The Chair agreed to arrange this, subject to the agreement of the Chairs of the other Boards.

**6. Vice-President - Administration and Human Resources: Annual Report, 1999-2000**

Professor Finlayson noted that this would be his final annual report to the Board. He therefore thought it appropriate to focus on changes that had taken place over the past decade. [Professor Finlayson had been appointed Vice-President - Human Resources in 1991 and Vice-President - Administration and Human Resources in 1994.] He commented briefly on the highlights of his written report.

- **Human Resources**. Responsibility for human-resources administration had been systematically decentralized since the late 1980s, with more and more functions being carried out in individual faculties and departments. In constant dollars, the cost of human-resources services in 1990-91 had been $356 per employee. In 1999-2000, that

6. **Vice-President - Administration and Human Resources: Annual Report, 1999-2000** (Cont'd)

cost had grown to $516 per employee. Services had improved considerably, but that improvement had come at a cost.

Professor Finlayson observed that there had been no strike by full-time staff groups over the past decade, notwithstanding the very difficult times caused by funding reductions. There had been a strike by the University's teaching assistants, but there had been no general withdrawal of services at the University.

- **Administrative Management Systems**. The past decade had seen the replacement of old legacy systems and the introduction of integrated information systems for finance, human resources, research and development. The further integration of those systems, and of those systems with the student records system, would become apparent over the next few years.

- **Health and Safety**. Despite a reduction in the complement of the Office of Environmental Health and Safety from 30 to 20, safety performance had improved substantially. Lost-time accidents had declined by 34.1% from 1991 to 1999. The average number of days lost had declined by 64.8% over the same period. Total staff had declined by only 16.2% over that period.

- **Operations and Services**. The space cared for by the Operations and Services staff on the St. George Campus had increased by over 1-million square feet or by 12.4%. At the same time, the number of staff had declined by 25%. The parking ancillary had contributed over $10-million to the operating budget over the past ten years. At the same time, the number of underground parking places had increased to 900. The development of underground parking would continue as more and more of the land occupied by surface parking would be required for construction.

- **Real estate**. The real estate ancillary had, among other things, established and operated a faculty housing program to accommodate new and visiting faculty members in houses on the northwest campus. That operation had proven very helpful in recruiting new faculty members.

- **Employee profile**. The total full-time staff of the University had declined by 16% since 1991, from 7,993 to 6,725. That decline had been steady until 1998 and had been reflected in all employee categories. Since 1998, there had been some recovery, most notably in tenured and tenure-stream faculty, who represented the heart of the academic enterprise. Staff in the long-standing union groups (those other than the United Steelworkers' Union, which now represented most administrative staff) had declined by 28%. Overall, this represented what would be described in the private sector as an enormous increase in productivity.

**6. Vice-President - Administration and Human Resources: Annual Report, 1999-2000** (Cont'd)

Given the Board's full agenda, Professor Finlayson offered to answer questions after the meeting or at the next meeting.

**7. Finance: Capital Borrowing for Construction Projects**

Mr. White said that the proposal represented a move from project-by-project financing of the construction program to a much more systematic means of borrowing. Mr. White was confident that the capital markets would be receptive at this time and would provide the University with a good interest rate. The University had issued a request for proposals for advisors with respect to the proposed borrowing. The outcome had been the engagement of a partnership consisting of CIBC World Markets and Merrill Lynch. The firms were providing advice and, if it was decided to effect the borrowing by way of a public debenture issue, the firms would handle the debenture issue. The University had arranged for a credit rating, provided by Moody's Canada Inc. That credit rating was Aa2, a rating higher than that of the Government of Ontario. That outcome was possible because the University no longer depended on the Province for so large a proportion of its funding; only 40% of the University's revenues now came from the Government of Ontario. Mr. White stressed that there would be no change whatever in the process for approving capital projects. The sole change was that the financing of the projects would be on a more systematic basis. The proposal for borrowing $160-million would provide financing to five projects that had already been approved as well as other residence and parking-garage projects for which approval would be sought in the near future. This was the first tranche of borrowing. The planned expansion of student residence capacity and other projects might require borrowing of as much as $300-million in total.

Questions arose with respect to the following matters.

**(a) Security for the borrowing**. In response to a question, Mr. White said that he anticipated that the borrowing would be against the general credit of the University; specific assets would not have to be put up as security. Invited to comment, Mr. Inskip said that, given the University's recently established Aa2 credit rating, he was confident that the general credit of the University would suffice to secure the borrowing.

**(b) Benefits of the proposal**. In response to a question, Mr. White said that the University would likely obtain the best rate by way of a private debt placement or a public debenture issue. To use either of those techniques, it was essential to borrow at least $150-million. Any smaller amount would not be practicable, given the legal and other expenses involved. The interest rate would depend on the debt market at the time, but in the current market Mr. White would expect an interest rate of 6.5% to 6.75%. Mr. White was confident that the University of Toronto Asset Management Corporation would be able to invest the proceeds of the loan, until they were required to pay for particular projects, in a manner that would provide a return that was very close to the interest rate on the loan, if not equal to it.

## 7. Finance: Capital Borrowing for Construction Projects

On the recommendation of the Chief Financial Officer,

YOUR BOARD APPROVED

(a) THAT the senior officer of the University responsible for financial matters, as so designated by the President, be authorized to borrow up to $160-million and to determine, in consultation with the University's financial advisor, the most appropriate financing structure for this borrowing, including without limitation, by way of private debt placement, a public debenture issue, syndicated bank financing, or securitization of residence and parking revenues;

(b) THAT borrowed funds, when received, be used to create a Long-Term Borrowing Pool;

(c) THAT an investment strategy be developed, in consultation with the University of Toronto Asset Management Corporation, to invest the borrowed funds until the funds are required for each project;

(d) THAT the senior officer of the University responsible for financial matters be authorized to allocate borrowing from the Long-Term Borrowing Pool to project spending that has been approved by the Business Board; and

(e) THAT the senior officer of the University responsible for financial matters report periodically to the Business Board on the status of the Long-Term Borrowing Pool.

## 8. Finance: Banking and Borrowing Resolution

Mr. White said that most of the changes in the proposed revised banking and borrowing resolution represented housekeeping. The one substantive change was in section 9. That section currently authorized borrowing for day-to-day purposes to a maximum of $5-million. It was proposed that the limit be increased to $25-million. Members would recall that the Board had, at its previous meeting, approved the revised University Funds Investment Policy and also the "Expendable Funds Investment Pool (EFIP) Background Paper." The new policy called for the investment of a larger portion of the University's expendable funds in longer term investments in order to seek an improved return. It was possible that on occasion, the University's cash flow estimates might miss the mark and that there would be need to draw the EFIP balance down more than expected. If that were to occur, it might well be preferable to borrow funds overnight or for some other short period rather than to sell longer dated securities that were not due. The proposed amendment would provide that option and the necessary flexibility.

**8. Finance: Banking and Borrowing Resolution** (Cont'd)

On the recommendation of the Chief Financial Officer,

YOUR BOARD APPROVED

THAT the proposed Governing Council of the University of Toronto Banking and Borrowing Resolution, a copy of which is attached to Mr. White's memorandum of January 9, 2001, be approved, replacing the former resolution approved February 2, 2000.

**9. Capital Project: Bahen Centre for Information Technology: Progress Report**

Professor Finlayson said that because of the size and importance of the Bahen Centre for Information Technology project, and because of concerns that had been expressed about two other recent projects, it would be appropriate to bring the Board up to date on the Bahen Centre Project.

Miss Oliver distributed architects' drawings of the St. George Street and College Street views of the project. She noted that the University's largest ever project was to be completed on a fast-track schedule. That meant that the University itself would sequentially tender each part of the project, and the final cost would not be known until the final tenders had been opened and the final contract awarded at the end of February. It was currently estimated that the total cost would be $117-million, with the construction cost amounting to $83-million. To date, the University had tendered 34 projects for work amounting to $68.5-million. Through value engineering, the amount of work had been reduced and the cost of those contracts reduced to $66.7-million. The budget for the work still to be tendered was $12.9-million, and over $650,000 remained in the contingency funds for the project. Therefore, the project was under budget to date. With respect to the schedule, the parking garage under the building had been completed on time. The remainder of the building, however, was six weeks behind schedule owing to harsh weather conditions and the strike of concrete workers. The construction managers, P.L.C. Constructors, were confident that they would be able to make up for the lost time and have the building ready to open in March 2002.

**10. Capital Project: Lash Miller Chemical Laboratories**

The Chair recalled that the renovation of the Lash Miller Chemical Laboratories had been before the Board on several occasions - a manifestation of the decision to proceed with the project in phases and of the success of the Department of Chemistry in raising the funds to complete the project. The project was before the Board again at this time in part because the Department had changed its priorities for proceeding with particular parts of the renovation.

Miss Oliver reiterated that the Department of Chemistry had been one of the most successful academic units in raising funds for the expansion and renovation of its facilities. In

**10. <u>Capital Project: Lash Miller Chemical Laboratories</u>** (Cont'd)

November, 2000, the Davenport Building had been formally opened. That Building was the southern wing of the Lash Miller Chemical Laboratories. That renovated building included a two-story addition. In November, 2000, the Board had approved a project to outfit four laboratories that had been shelled in on the fourth floor of the Davenport Building. The Board had also, in October 1999, approved further work in the other half of the Lash Miller Laboratories - the tower. The Department had, however, changed its priorities and requested a revised approval to meet its pressing need for renovating teaching and research laboratories. It was willing to defer the re-cladding of the tower and the provision of a meeting room. Rather, it now wished to proceed with the renovation of the lobby and library, as previously approved, but to add to the laboratory renovations. Miss Oliver referred to the photographs showing the condition of unrenovated and renovated laboratories. Subject to the Board's approval, the renovations would be completed one laboratory at a time to allow for staging which would permit the Department to carry on with its teaching and research. The availability of the renovated laboratories would be very important to the Department in its efforts to recruit top-ranked new faculty. All of the funding required for the project was in hand, including the Davenport donation and the funding from the federal and provincial infrastructure support programs. In fact, the interest earned on that funding had exceeded the original forecast, adding to the amount available for the project. In response to the Chair's question, Miss Oliver said that the total appropriations for the project authorized to date, assuming approval of the recommendation now before the Board, would be $24,746,000. The slightly different figure appearing on the "green sheet" summary was incorrect.

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

YOUR BOARD APPROVED

THAT the Vice-President - Administration and Human Resources be authorized to expend up to $7,500,000 for the renovation of the lobby, library, and research and undergraduate laboratories in the Lash Miller Chemical Laboratories.

**11. <u>Report on Gifts and Pledges over $250,000, August 1 to October 30, 2000</u>**

The Board received, for information, the Quarterly Report on Gifts and Pledges over $250,000. The Chair noted that the report was submitted pursuant to the 1998 *Provost's Guidelines on Donations*, a copy of which was attached to the report. The report was presented to both the Academic Board and Business Board for information. The objective of the report was to facilitate monitoring to ensure (a) that major gifts did not imperil the "integrity, autonomy and academic freedom" of the University, and (b) that they were consistent with University's academic priorities and did not steer the University's teaching and research to non-priority areas. Of course, the report also assisted the Business Board to carry out its responsibility for monitoring the University's advancement program.

## 12. Government of Ontario: Investing in Students Task Force

The Chair noted that the Government of Ontario had established a task force to explore the possibility of the Province's universities achieving administrative efficiencies, which would leave more of their funding for "investing in students." Professor Finlayson reported that the University's submission had proposed the reduction of various burdensome and costly government regulations and procedures. It had also outlined certain University of Toronto practices that had been valuable here and could be adopted by other universities. It had also proposed a Provincial investment in certain enhanced, web-based administrative and student-support systems that could reduce costs. The submission had been well received by the Task Force, but no formal response had been received or formal report submitted to date.

## 13. Report Number 59 of the Audit Committee (November 15, 2000)

The Board received, for information, Report Number 59 of the Audit Committee (November 15, 2000).

## 14. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Monday, February 19, 2001 at 5:00 p.m.

## 15. Other Business

### Robert G. White

The Chair reported that this was Mr. White's final Business Board meeting before his retirement on January 31, 2001. He drew members' attention to Report Number 59 of the Audit Committee, which contained a detailed tribute to Mr. White. He had served the University since 1969 and had served as Chief Financial Officer since 1994. He had done wonderful work in establishing the University of Toronto Asset Management Corporation. His work in maintaining the University's financial integrity had been demonstrated by the University's recent assignment of its very high credit rating. He had played a key role in achieving the turnaround at the University of Toronto Press. He had achieved some remarkable successes recently in converting obscure assets into cash, including inherited shares in a golf club in central Ontario and the University's position in the Toronto District Heating Corporation. He had brought the University successfully through a difficult decentralization of financial operations. He had been a strong supporter of prudence in the management of the University's financial affairs. For example, when the University had established its supplemental retirement arrangement, it could have (as did many other institutions) handle benefits on a pay-as-you-go basis. At the University of Toronto, funds would be set aside and invested to match this liability. The University would miss Mr. White's strong voice in support of financial prudence. Mr. White and his wife would, upon his retirement, take their motor home to warmer climates. Happily, Mr. White would continue for a time after his retirement to serve as a consultant, providing the University with his advice and assistance. On behalf of the Board, the Chair thanked Mr. White for his extraordinary contribution to the

**15. Other Business**

**Robert G. White**

well-being of the University and to the work of the Business Board. Members endorsed the Chair's remarks with prolonged applause.

Mr. Parkinson, speaking as Chair of the Board of the University of Toronto Press, said that Mr. White had played a very important role on the Press's Board, working hard to achieve the stability and integrity the Press now enjoyed. The Press could not have achieved its current position without Mr. White's contributions. Speaking as a member of the Business Board and the Audit Committee, Mr. Parkinson said that Mr. White and his staff had made exceptional efforts, in response to his request, to help him to understand the complexities of the University's finances. Mr. Parkinson was very pleased that Mr. White would continue to serve on the Board of the University of Toronto Press.

The President said that he had been extraordinarily privileged to have Mr. White as the University's Chief Financial Officer during the first months of his Presidency. He had done a brilliant job in helping the President to understand the complex financial affairs of the University, and the President was very grateful that Mr. White had agreed to delay his retirement to assist him during the first months of the Presidential transition.

**16. Property: Proposed Transaction**

The Board considered and approved a proposed property transaction.

**17. Human Resources: University of Toronto Faculty Association - Progress Report on Negotiations**

Professor Finlayson briefed the Board on the progress of negotiations with the Faculty Association. If negotiations with the Association led to a new agreement, the outcome would be brought to the Board for ratification.

**18. Human Resources: Policies for Non-Unionized Administrative Staff - Briefing**

Professor Finlayson briefed the Board on progress towards new human-resources policies for non-unionized administrative staff. When policies were ready, they would be brought forward to the Board for approval.

The meeting adjourned at 7:00 p.m.

Secretary　　　　　　Chair

January 31, 2001