THE UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 125 OF THE BUSINESS BOARD

April 7, 2003

To the Governing Council,
University of Toronto.

Your Board reports that it held a meeting on Monday, April 7, 2003 at 4:00 p.m. in the Council Chambers with the following members present:

Mr. Amir Shalaby (In the Chair)
Ms. Jacqueline Orange, Vice-Chair
The Honourable Henry N.R. Jackman, Chancellor
Dr. Thomas H. Simpson, Chair of the Governing Council
Professor Robert J. Birgeneau, President
Mr. Felix P. Chee, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources
Mr. Donald A. Burwash
Professor Sherwin S. Desser
Ms. Susan Eng
Ms. Shirley Hoy
Professor Brian A. Langille
Mr. Gerald A. Lokash
Mr. George E. Myhal
Mr. Richard Nunn
Mr. Roger P. Parkinson
Mr. John F. (Jack) Petch
Mr. Chris Ramsaroop
Mr. Timothy Reid
Ms. Carol Stephenson
Mr. Robert S. Weiss

Mr. John Bisanti, Chief Capital Projects Officer
Ms. Sheila Brown, Controller and Director of Financial Services
Mr. Louis R. Charpentier, Secretary of the Governing Council
Dr. Jon Dellandrea, Vice-President and Chief Advancement Officer
Dr. Sheldon Levy, Vice-President, Government and Institutional Relations
Professor Derek McCammond, Vice-Provost, Planning and Budget
Professor Shirley Neuman, Vice-President and Provost
Ms. Catherine Riggall, Assistant Vice-President, Facilities and Services
Professor Ronald D. Venter, Vice-Provost, Space and Facilities Planning

Secretariat:
Mr. Neil Dobbs
Mrs. Beverley Stefureak

Regrets:

Mr. Mark Braun
Mr. Brian Davis
Dr. Claude S. Davis
Dr. Paul V. Godfrey
Ms. Shirley Hoy
Ms. Kim McLean
The Hon. David R. Peterson
Mr. John H. Tory

In Attendance:

Professor Michael Marrus, member, the Governing Council
Professor Carolyn Tuohy, member, the Governing Council, Vice-President, Policy Development & Associate Provost, and Interim Vice-President, Research and International Relations
Mr. Don Beaton, Director of Real Estate Operations
Ms. Sue Bloch-Nevitte, Director, Public Affairs and Advancement Communications
Mr. Mark Britt, Director, Internal Audit Department

In Attendance (Cont'd)

Mr. Marty England, Assistant Vice-Provost, Strategic Planning
Dr. Beata Fitzpatrick, Assistant Vice-President and Director, Office of the President
Ms. Rivi Frankle, Assistant Vice-President, Alumni and Development
Ms. Lesley Lewis, Assistant Provost
Mr. Donald W. Lindsey, President and Chief Executive Officer, University of Toronto Asset Management Corporation
Ms. Erin McGinn, Director, Operations and Government Relations, Office of the Vice-President, Research

ITEM 4 IS RECOMMENDED TO THE GOVERNING COUNCIL FOR APPROVAL. OTHER ITEMS ARE REPORTED FOR INFORMATION.

1. Report of the Previous Meeting: Report Number 124 – March 3, 2003

Report Number 124 of March 3, 2003 was approved.

2. Business Arising from the Report of the Previous Meeting

There was no business arising from the Report of the previous meeting.

3. Investments

(a) University of Toronto Asset Management Corporation: Annual Report, 2002

The Chair welcomed Mr. Donald Lindsey and members of the University of Toronto Asset Management Corporation staff to the meeting. He informed members that this was Mr. Lindsey's last day in his position and, on behalf of the Board, he thanked him for his service to the UTAM and the University of Toronto.

Mr. Chee presented the 2002 Annual Report of the University of Toronto Asset Management Corporation. The Report had been reviewed and approved by the UTAM Board of Directors and was presented to the Business Board for information. Mr. Chee recalled that the substance of the Report had been reviewed extensively in an off-line session in March and that the issues therein had been discussed at length in that session and at meetings of the Board. Mr. Lindsey was present to respond to questions if members had any.

A member noted that the Report did not signal the policy changes that were coming forward as a result of proposals that were before the Board at this meeting. Mr. Chee replied that the Report was not intended to take a prospective approach and, so, could not anticipate what policy changes may be approved, nor, if approved, what strategy they might support. There was discussion about the advisability of releasing the Annual Report without a supplementary report that summarized how policy changes were expected to affect investment return next year. Mr. Chee believed that this information would be available to the community once the UTAM Board had interpreted the proposed, revised Investment Policy for University Funds and developed an investment strategy therefrom.

The Chair of the Audit Committee noted that the University's Audit Committee would review the financial statements of UTAM in May. He indicated, therefore, that it was probably appropriate for distribution of these documents to remain restricted until the Audit Committee had met. The Chair agreed that this would be done.

3. Investments (Cont'd)

(a) University of Toronto Asset Management Corporation: Annual Report, 2002 (Cont'd)

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

YOUR BOARD RESOLVED

Subject to the prospective recommendation of the Audit Committee that the financial statements for 2002 be accepted,

THAT the University of Toronto Asset Management Corporation annual report and financial statements for 2002, a copy of which is attached hereto as Appendix "A", be accepted.

(b) Investment Policy for University Funds: Proposed Revision

Mr. Chee introduced the proposed changes to the *Investment Policy for University Funds*, recalling that the existing policy was unclear on whether primary accountability for the asset mix was with the University or with UTAM. The proposed revised policy stated the return objective and risk tolerance for the two funds and made it clear that UTAM was responsible for selecting the appropriate asset mix to achieve the return objectives within the stated risk tolerance.

The University Funds Investment Policy provided investment direction from the University to the UTAM with respect to the long-term capital appreciation pool (LTCAP), the expendable funds investment pool (EFIP) and specifically invested funds. Recent discussions in a number of fora had focussed on the LTCAP. The proposed policy changes related thereto were to reduce the return objective from 5.0% to 4.0% real (after inflation) return, to establish a risk tolerance expressed as a target standard deviation of 10.0% or less, and to delegate determination of asset mix to UTAM. Changes to the policy would clarify that UTAM would be expected to determine the appropriate asset mix to meet the University's objectives and that it would be held accountable for doing so. Concurrence for the UTAM strategy to meet policy objectives would be captured in the revised service agreement, a proposal for which would be considered as the next item on the agenda.

With respect to the EFIP, revisions to the policy would allow for an investment strategy that would provide for stability in investment income stream. To achieve the desired stability, for the foreseeable future, EFIP longer term investments would be invested in fixed income investments with a more predictable return. On a go forward basis UTAM would apply a swap to the long-term investments to convert them to fixed income. This strategy was proposed for a period of five years to allow enough flexibility to return to the original investment strategy incrementally, without having to constantly rewrite the policy.

Revisions to the policy governing the pension plan investments would be addressed in a separate item, later on the agenda.

Mr. Chee concluded by noting that the proposed revisions by and large were policy refinements from which an operational strategy could be developed. Statements that had been removed

3. Investments (Cont'd)

(b) Investment Policy for University Funds: Proposed Revision (Cont'd)

from the policy were those that typically addressed operational issues. These operational directives would now be delineated in the service agreement between the University and UTAM.

Replying to questions, Mr. Chee explained that authority on behalf of the University relative to asset mix and benchmarks was delegated by the President to the Vice-President, Business Affairs, who in turn would need to keep the Business Board informed of the particulars as well as the rationale as to why the decisions were appropriate. The responsibility for developing the asset mix to meet the University's policy objectives would clearly lie with UTAM. UTAM would report to the Business Board annually or when significant change was made in the asset mix. The checks and balances were realized when the University set the outcome objectives, UTAM defined the strategy to meet those objectives, and the University had the opportunity to concur or not. Asset mixes could be set as ranges and, presuming the University agreed with the ranges, UTAM would have, and be expected to use, the authority to move within those ranges so as to meet the target outcomes set by the University. Mr. Chee believed it was of critical importance that the Business Board asked due diligence questions. When the Board received responsible answers, it was equally important that UTAM be allowed to apply its investment expertise as it deemed appropriate.

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

YOUR BOARD APPROVED

The revised Investment Policy for University Funds, a copy of which is attached hereto as Appendix "B", replacing the policy approved on November 19, 2001.

(c) Service Agreement between the University and the University of Toronto Asset Management Corporation

Mr. Chee referred to his memorandum of March 24, 2003 under cover of which he had proposed a revised Service and UTAM Personnel Agreement between the University of Toronto and the UTAM. These proposed changes to the Service Agreement should be considered in tandem with the policy revisions discussed in the previous item. This revised service agreement reflected the amended policy and defined the operational responsibilities of UTAM. The latter had previously been in the policy and did not belong there. Under the revised service agreement, UTAM would have a wide mandate but would be held accountable to the investment objectives defined by the University. Joint sign-off on the service agreement, by the University and by UTAM, would be required.

A member asked, with the shift in responsibility for asset mix to UTAM, who in the University was responsible during the interim between annual reports to ensure that UTAM was meeting the objective of a defined return and limited risk. The President responded that, while this was primarily a responsibility delegated to the Vice-President, Business Affairs, members should recall that both the incumbent in that portfolio and the President were *ex officio* members of the Board of Directors of UTAM. Members of that Board were appointed by the Executive Committee of the Governing Council and it met a minimum of five times a year. Progress reports were received quarterly the UTAM Board. The onus would be on UTAM, as investment

3. Investments (Cont'd)

(c) Service Agreement between the University and the University of Toronto Asset Management Corporation (Cont'd)

managers, to develop a layer of operational risk controls to reflect the risk tolerance level established by the University. UTAM was obliged to deliver the desired results and to assemble the right assets, resources and systems to achieve those results.

Mr. Chee distributed a two-page document summarizing the market indices and peer universes to be used as benchmarks for UTAM performance. These pages would serve as a revised Schedule "C" to the proposed policy. Mr. Chee indicated that UTAM used Cambridge Associates College and University Endowment Universe as the total-fund peer universe for the LTCAP for purposes of incentive compensation. He described the formula by which incentive compensation was determined and approved by a compensation committee of external UTAM Board members. Mr. Chee noted that a new asset mix would be developed by UTAM which in turn would be reflected in the establishment of revised benchmarks. A suggested target and a discretionary limit bracketing around the target should provide for a fair mechanism by which employees could be compensated while meeting the University's objectives. Noting the choice of an American index, a member expressed the view that a Canadian index might be more appropriate. Mr. Chee indicated that this would be among the factors that would be considered when defining revised incentive compensation formulae.

A member asked why the Cambridge index had been chosen. Mr. Lindsey was invited to respond and said that it had been selected because, given the current UTAM investment strategy, it made sense to look at an index that was weighted in terms of the asset capitalization of the world markets, and there was no other index that met those criteria at this time. Mr. Chee confirmed that Cambridge had been used because it was reflective of the asset mix.

Members noted that there had been a significant increase in expenses at UTAM, both in percentage and in absolute dollars, and asked why that had occurred. Mr. Lindsey replied that the cost was reflective of the asset mix. It was normal that costs were 1% of assets. The increased cost in absolute dollars was because of an increase in staff and infrastructure. A member disagreed that 1% was usual, reflecting that many investment managers charged considerably less.

A member saw that the index related to American universities and that the University of Toronto return was very poor when compared to other large universities in Canada. Mr. Chee agreed but pointed out that had this same comparison been done several years ago, it would have been evident that the investment return at the University of Toronto was considerably better than its Canadian counterparts.

In the course of discussion, it was AGREED to amend clause 10 of the proposed service agreement, which concerned securities lending, to add a new third sentence, reading as follows: Direct loans of securities in segregated accounts shall be subject to policies and guidelines approved by the Board of Directors of UTAM.

3. Investments (Cont'd)

(c) Service Agreement between the University and the University of Toronto Asset Management Corporation (Cont'd)

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

YOUR BOARD APPROVED

The proposed Amended and Restated Service and UTAM Personnel Agreement between the Governing Council of the University of Toronto and the University of Toronto Asset Management Corporation made as of the 14th day of May, 2003, as amended, a copy of which is attached hereto as Appendix "C".

In response to a question, the Secretary said that the date of the proposed agreement, May 14, 2003, was the date scheduled for the meeting of the UTAM Board, the other party to the agreement, and the agreement would come into force only upon that Board's approval.

4. Budget Report, 2003–04

Professor Neuman spoke to the 2003-04 Budget Report with the assistance of a powerpoint presentation (attached hereto as Appendix "D"). The University was at the end of a six-year planning period where, by direction of the Governing Council, it was required to present a balanced annual budget, with an accumulated deficit of no more than 1.5% of the operating budget. In absolute terms, the latter condition meant that by April 30, 2004 the accumulated deficit could not exceed $14.7 million. To provide further context to the report, she reported that the projected accumulative deficit of $20.3 million for the end of 2002-03 had to be adjusted, when actual year-end results for 2001-02 were known, to $22.4 million. At this time, the deficit for 2002-03 appeared to be evolving to worse than projected and was now anticipated to be $34.1 million by April 30, 2003. This had come about mainly as a result of unrealized operating and investment revenue. There were also higher than predicted expenses, primarily related to costs for natural gas and for asbestos removal.

Revised revenue and expense assumptions for 2003-04 provided for an increase of $4.4 million in the amortization of investment losses. The amended investment policy approved in this meeting should allow for investment decisions that would lead to more stability in revenue from investment income. Contributions to the pension plan would need to commence a year earlier than anticipated. For a number of years the University had been prohibited by federal law from making contributions to the pension plan because the plan's surplus had exceeded the allowable limit. Seventy-five percent of the pension contribution savings had been retained annually in the budget and used for one-time-only expenditures, such as matching funds for endowed chairs, the voluntary early retirement plan implemented to meet budget cuts at the end of the 90's, and to fund the University Infrastructure Investment Fund. Twenty-five percent of the pension contribution savings dropped to the bottom line. In 2003-04, the University would no longer be able to use the 75% set aside from pension contributions to meet one-time-only expenses. It had been anticipated that this adjustment, including adding the remaining 25%, would be necessary in 2004-05 and that it could be phased in. Because of depletion of the pension plan surplus as a result of poor market performance and increased benefits, the period of pension contribution savings would end earlier and more abruptly than planned. It now seemed likely that the pension plan would be in a market and actuarial deficit by July 1, 2004.

Professor Neuman pointed out that the inflation adjustment of 2% on government operating grants would no longer be assumed. This had been kept in the budget during the past six years as a continuing focus of discussion with the Government. In previous years, other sources of revenue had made up for this unrealized revenue. This year, those sources were not available.

4. Budget Report, 2003–04 (Cont'd)

In its budget on March 27, the Government had announced quality assurance funding, which would address, to some degree, the erosion in the operating grant from inflation, and Professor Neuman would speak to the effect of that later. She also noted the elimination of $6.2 million previously assumed as the increase from 20% to 30% in grants for indirect costs of federally funded research.

Looking at major revenue assumptions, Professor Neuman recalled the zero increase in grants for general inflationary purposes in 2003-04. Tuition fee revenue from the majority of students would remain capped by the Ministry of Training Colleges and Universities (MTCU) at 1.9 %, which, when stripped of the 30% holdback on the increase assigned to student financial aid, became 1.3%. When adjusted for inflation, this percentage was reduced further. Investment revenue had been reduced by a further $2.4 million and past losses would be amortized over five years. The University expected full average funding for enrolment growth in undergraduate programs and assumed an MTCU imposed cap on graduate enrolment growth funding. Revenue of an additional $17.1 million in grants and fees was assumed over that previously budgeted. This was largely volume-driven. Indirect cost recovery of federally funded research was projected to be $15.8 million, assuming a 20% rate. The endowment payout would reduce to 4.2% of the November 2, 2003 market value, from 5%. Finally, $2.5 million had been provided in the operating budget to assist those units who would have the most difficulty in the transition to the lower pay-out, for example in those divisions where the endowment payout covered fixed costs. The budgeted amount was not sufficient to meet the entire shortfall.

Income from provincial operating grants would increase from $391.2 million to $412.9 million. This was almost entirely volume-related since the value of the basic operating grant per basic income unit (BIU) had increased hardly at all. The increase in revenue of $47.6 million from tuition fees was a combination of mostly volume and some increased tuition. Looking at total operating revenue and comparing from 1998-99 to what was projected for 2003-04, the dramatic increase was attributable to tuition fees and other sources.

Professor Neuman pointed out that the basic operating grant per BIU had been $4,419 in 1991-92, had dropped to a low of $3,176 in 1996-97 and, at $3,699 in 2002-03, was actually still $700 less per student than it was 12 years ago. When this was adjusted for inflation, the University was, in fact, receiving $1,600 less per student from provincial operating grants than it had in 1991-92. Therein was a significant source of ongoing financial difficulty.

In comparisons with other Canadian provinces Ontario was by far the most poorly funded by operating grants. The University of Toronto Arts and Science tuition and other fees were among the lowest in comparisons with other AAU peer institutions. Looking at statistics comparing the University of Toronto with AAU peer institutions in state appropriations plus fees, Toronto was the lowest and significantly lower than the peer group average.

Professor Neuman expanded briefly on several of the major cost drivers of the 2003-04 budget. The Library acquisitions fund was a significant item but one of the more important, so as to ensure that the Robarts Library remained in the top three to five private and public libraries in North America and to preserve its function as a critical support to teaching and research for the entire University community. This Library had been and continued to be a major source of support for research to universities across the country and the budgetary support it had received over the years was a great tribute to the wise planning at the University of Toronto.

Professor Neuman noted that for many years the University had not had a capital budget. The one presented as part of this Budget Report had evolved from the University Infrastructure Investment Fund (UIIF). It comprised projected numbers rather than commitments and should

4. Budget Report, 2003–04 (Cont'd)

be viewed as very much a work in progress. The debt service charge of $11.7 million in 2003-04, which subsumed $8.9 million of annual principal and interest charges on borrowing to fund the UIIF and the University's contribution to MARS, was included as an expense in the operating budget.

Finally, Professor Neuman recalled that the guaranteed funding packages for doctoral-stream students was to be fully implemented by September 2003, though she was not certain that it would be possible to achieve that objective this year with the students in programs at the Ontario Institute for Studies in Education (OISE). The major financial commitment to this very important program had been made during this past year and all reports from the divisions indicated that the initiative was achieving its objective of attracting top students.

Professor Neuman noted that the proposed budget reduction of 4.45% would amount to $22.2 million and would allow the University to meet its objective of a balanced operating budget for 2003-04. The budget projection anticipated an April 30, 2004 surplus of $19.4 million. Members might wonder why, in a very difficult year, the budget was projecting an in-year surplus. Professor Neuman explained that, with a start-of-year deficit of $34 million, this would enable the University to reach the end of year with a cumulative deficit of no more than 1.5% of operating budget -- $100,000 under the level permitted by Governing Council guidelines.

Professor Neuman identified financial challenges beyond 2003-04 related to pension plan contributions, the growing need to fund deferred maintenance, funding for initiatives evolving out of the new academic planning process, and the considerable costs for capital expansion together with the operating costs accompanying additional space. If, as projected, the pension plan was in an actuarial deficit by July 2004, the University would be required to pay the full current service costs, $9.4 million in 2004-05 over the cost for 2003-04, and make up the actuarial deficit, unless there were a significant improvement in the market conditions. Professor Neuman noted that the Business Board would hear a full report on deferred maintenance later in the meeting, but reviewed briefly the extent of what was identified as a $276 million problem. Nine million dollars in base funding was required to hold the line on deferred maintenance and to improve routine maintenance operations.

Following the presentation of the Budget Report to the Planning and Budget Committee, the Provincial Budget had announced increased revenue to universities. Quality Assurance Funds of $75 million in 2003-04, rising to $200 million in 2006-07, were expected to mean $15 million additional funding to the University of Toronto in the upcoming year if the funding was allocated on a pro-rata manner. However, an issue had arisen with the indirect costs of research, namely, the University had attributed last year's allocation to 2001-02. The Government's understanding was that the base allocation was to be attributed to 2003-04, leaving us with a gap in 2002-03. The University was still in discussion with the Government on this matter. The OTO budget cut of 1.46% could likely be eliminated by the Provincial grant increase even if there was a gap year in the delivery of the Indirect Cost of Federal Research funding.

In summary, Professor Neuman believed that this was a fiscally prudent budget. Some members of governance had asked why the administration had not requested the Governing Council to raise the limit on the end-of-cycle deficit. This might seem justifiable in light of the unforeseen circumstances that had caused the revenue difficulties and the continuing hope that the Provincial Government would move to inflation-adjusted operating grants. The administration had not made this request because they believed it would have been unwise to avoid dealing with the deficit this year. This caution was related to the probability of a gap-year in the base funding of the Indirect Costs of Research and to the deficit situation of the pension

4. Budget Report, 2003–04 (Cont'd)

plan. To meet the liabilities of the plan, there needed to be a 6.5% to 7% return on investment annually. With the growing gap between the reduced return on investment and the increasing liabilities, this was presenting a challenge for which a solution was being developed. In this context, it would not be prudent to delay addressing the budget deficit.

Professor Neuman closed her presentation with a review of what could be expected to be the net changes to divisional budgets. These totaled $39.3 million but, if the Quality Assurance Funding came through as expected, the total net increase to divisional budgets would likely rise to $46.6 million, with elimination of the need for OTO deficit control measures.

Prior to beginning debate, the Chair reminded members that the Business Board was asked to concur with the recommendation of the Academic Board that the Budget Report be approved. The concurrence would indicate the Board's view that the Budget was a financially responsible one. The Board's focus and duty was to satisfy itself that the bottom line was acceptable, that the assumptions were realistic and that the level of risk was prudent.

The President expressed his view that the policy revisions that had been undertaken with respect to revenue from investment performance (for example, the adjustments related to the endowment payout) would reduce vulnerability to swings in the market.

The President spoke briefly about the positive news in the Provincial budget, thanking Dr. Levy for his consistent and effective lobbying of the Provincial Government and recognizing Dr. Mordecai Rozanski, Chair of the Council of Ontario Universities and President of the University of Guelph, and Dr. Ian Clark, President of the Council of Ontario Universities, for achieving the objective of increased funding that, hopefully, would translate into $40 million per year for the University of Toronto by 2006-07.

The President noted that, although the budget made no assumptions for the next year about increased funding for indirect costs of federally funded research, he was optimistic that the percentage would eventually go up to 30% as had been anticipated.

In closing, the President acknowledged that these had been very difficult circumstances in which to bring together a budget and he applauded Professor Neuman, Professor McCammond and the staff in the Planning and Budget Office for a job well done. Professor Neuman added that it was with great regret that she informed the Board that this would be the last budget prepared by Professor McCammond before he stepped down as Vice-Provost, Planning and Budget. The quality of the Budget Report before the Board spoke to the great integrity with which Professor McCammond carried out his responsibilities, and his assistance and advice would be greatly missed.

Several members expressed their appreciation to the Provost for an excellent Budget Report. They applauded the quality of the Report, the clarity with which it was presented; the transparency of the risks; and, in particular, the reversal of the trend in which operating expenditures were greater than revenue. A member asked for an explanation of the three line items related to pension contributions in the slide depicting the Long Range Budget Projection from 1998-99 to 2003-04. Professor Neuman replied that the first item of $21.2 million was what had been projected to be Pension Contribution Savings in 2003-04. The second amount, $18.8 million, represented what had to be used of that amount to meet the pension service cost for 2003-04, an expenditure that, in long-range planning, had not been expected to occur until 2004-05. The third, $19.7 million, represented pension savings that had been directed to the UIIF in the past and now, because these funds were required for pension service costs, were included in the debt to be serviced in the Capital Budget.

4. Budget Report, 2003–04 (Cont'd)

A member expressed some concern over the plan to amortize investment losses over the next five years. Was it the most prudent course of action and were the University's auditors in agreement that this was acceptable accounting practice? Professor Neuman replied that the amortization of Expendable Fund Investment Pool (EFIP) losses was acceptable only with the concurrent changes in investment policy that ensured stability in investment return. While this may not be the most conservative nor prudent approach, the University was left with no choice. It would be unable to meet its obligation to provide quality programming to its students if it were to absorb these losses in a shorter period of time. Mr. Chee added that this had been discussed with the University's auditors.

A member asked what effect the 4.45% budget cut might have on jobs and programs. Professor Neuman indicated that these were decisions that were made in the divisions. However, given that the turnover in administrative staff was fairly constant in an institution this large, it was usually the case that an individual, whose job was lost due to organizational change resulting from a reduction in divisional operating budget, would be able to find employment in another division.

A member expressed great satisfaction that there was to be funding within the next budget plan to begin addressing deferred maintenance. This was a high priority in his view and warranted a tough look at justifying academic programs. Professor Neuman agreed that the problem was critical, but said that its magnitude required that funding had to be found from sources outside of the operating budget. With respect to program justification, she thought that this was a decision that would happen within divisions as they saw the need for it.

On motion duly moved and seconded,

YOUR BOARD CONCURS WITH THE PROSPECTIVE RECOMMENDATION OF THE ACADEMIC BOARD

THAT the Budget Report, 2003-04, be approved.

5. Capital Projects

(a) Capital Projects Report:

Professor Venter had provided an **General Update** of the Capital Plan for Buildings and Projects in Excess of $2 million, sorted into those projects which had been approved and were moving forward (1.1), those which could be targeted to move forward if the second round of SuperBuild were received (1.2) and those for which there had been no approval to date (1.3). He informed members that all capital projects were under review and a new list would be presented to the May meeting.

A member noted that deferred maintenance was not included in this list and wondered if it should be. Mr. Chee responded that items on the deferred maintenance list would be a mixture of capital and operating. Those, like upgraded heating systems, which should be capitalized would appear on an updated capital list.

Mr. Bisanti informed the Board that issues with the City of Toronto relating to the **University College Residence Project** had been resolved. The College had compiled a new business case and the project would be coming back through governance soon.

5. Capital Projects

(a) Capital Projects Report:

The **Leslie L. Dan Pharmacy Building project** was before the Ontario Municipal Board on issues related to the need for a Heritage Easement Agreement for the Fitzgerald Building. Mr. Bisanti hoped to have the Board's final decision by next week.

Replying to a question, Mr. Chee stated that the funding gap should be understood as follows: In the event that fund-raising for these projects did not yield the expected funds, the gap would be the amount of additional money the University would need to find to get the project underway.

(b) Deferred Maintenance: Annual Report

Ms. Riggall reviewed the highlights of the Annual Report on Deferred Maintenance with the assistance of a powerpoint presentation. Deferred maintenance was a significant and growing concern at this University and she was pleased that budget plans for next year had begun to address the problem. Some items, like asbestos, PCB and CFC removal, needed to be addressed within regulatory time limits. Other occupational health and safety issues were also dealt with on an immediate basis. Overall, the magnitude of the problem often meant that only those immediate concerns could be funded annually and it was clear that external sources of funding would be necessary to fully catch-up.

In response to a question, Ms. Riggall indicated that she was not aware of any current deferred-maintenance problem that would give rise to a health and safety issue that would expose members of the Board to the possibility of legal action.

A member asked for an explanation of the difference between "critical" and "doesn't meet code". Ms. Riggall said the latter referred to concerns, like accessibility issues and fire regulations in old buildings, that did not meet current code requirements but did not require either immediate remedy or the closing down of an area.

A member noted that deferred maintenance was receiving much attention now because of the inordinately large amounts of money needed to resolve the problem. Meanwhile, the University was continuing to build more and more buildings. The member had a concern about mortgaging the future and wondered if the funding priorities should be redirected from new construction to deferred maintenance.

6. Other Items for Approval

The items listed as 6 (a) to 6 (e) were put forward as consent agenda items. Members had been invited to act prior to the meeting to ask questions of the relevant assessor or to notify the Secretary of the wish for individual consideration of an item. None had done so. The Chair invited questions on any of the items now and there were no questions.

(a) Pension Fund Master Trust Investment Policy: Proposed Revision

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

YOUR BOARD APPROVED

The proposed revised Pension Fund Master Trust Investment Policy (Statement of Investment Policy and Goals), a copy of which is attached hereto as Appendix "D", replacing the policy approved on November 19, 2001.

6. Other Items for Approval (Cont'd)

(b) University of Toronto Asset Management Corporation: By-Law Revision

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

YOUR BOARD APPROVED

Subject to their approval by the Board and the members of the University of Toronto Asset Management Corporation,

The following amendments to By-Law Number 1 of the University of Toronto Asset Management Corporation:

(i) THAT clause 3, "Board of Directors," be amended to read as follows:

The number of directors of the Corporation is hereby reduced from fourteen to ten (including three ex officio directors as hereinafter provided), and the affairs of the Corporation shall hereafter be managed by a board of ten directors, each of whom at the time of his or her election or within ten days thereafter and throughout his or her term of office shall be a voting member of the Corporation.

(ii) THAT clause 6, "Ex Officio Directors" be amended to read as follows:

The following persons shall be nominated ex officio for election to the board and elected as such by the voting members:

(i) the President of the University;
(ii) the senior officer of the University responsible for financial matters as so designated by the President of the University ("senior financial officer"); and
(iii) a member or former member of the Governing Council or the Business Board of the Governing Council having investment experience or expertise as approved and nominated by the Executive Committee of the Governing Council on the recommendation of the President of the University.

Ex officio directors shall have the same rights, powers and duties as other members of the board.

(iii) THAT clause 25, sub-clause (c), be amended from "reviewing and recommending annual adjustments to base salaries, if and as required, taking into account latest market data" to "reviewing and recommending to the board of directors annual adjustments to base salaries, if and as required, taking into account latest market data."

6. **Other Items for Approval** (Cont'd)

(b) **University of Toronto Asset Management Corporation: By-Law Revision (Cont'd)**

(iv) THAT clause 25, sub-clause (d), be amended from "reviewing and recommending annual performance bonus awards for the President and the senior officers and senior staff of the Corporation, based on corporate and individual performance against benchmarks" to "reviewing and recommending to the board of directors annual performance bonus awards for the President and the senior officers and senior staff of the Corporation, based on corporate and individual performance against benchmarks."

(v) THAT clause 66 be amended to read as follows:

The board of directors may enact and re-enact by-laws or repeal, amend, alter or add to the by-laws or any of them, provided:

(a) that no such enactment, re-enactment, repeal, amendment, alteration or addition shall be enforced or acted upon until sanctioned and confirmed at an annual or special general meeting of the voting members of the Corporation called for the purpose of considering the same; provided also

(b) that notice of any enactment or repeal of, or amendment, alteration or addition to, the by-laws shall first have been given in writing to the directors at least five days before the day of the meeting at which it is proposed to enact the same; and provided also

(c) that, in the case of clauses 3 to 9 inclusive, 16, 17, 22, 25, 30, 41, 59, 64 and 66 hereof, no such enactment, re-enactment, repeal, amendment, alteration or addition shall be enforced or acted upon until approved by the Business Board of Governing Council.

(c) **Administrative User Fees and Fines, 2003-04**

On the recommendation of the Vice-Provost, Planning and Budget,

YOUR BOARD APPROVED

1. That the Postgraduate Medical Education licensing fee be added to the Administrative User Fee Schedule.

2. That the Scarborough Neuroscience Co-op fee (Year 1 entry and Year 2 entry) be added to the Administrative User Fee Schedule.

3. That the Scarborough Health Informatics Co-op fee (Year 1 entry and Year 2 entry) be added to the Administrative User Fee Schedule.

4. That the Woodsworth College International Summer Program to Herstmonceux Castle, England (placement fee) be added to the Administrative User Fee Schedule.

6. Other Items for Approval (Cont'd)

(c) Administrative User Fees and Fines, 2003-04 (Cont'd)

5. That the Woodsworth College International Summer Program to Oxford (placement fee and course fee) be added to the Administrative User Fee Schedule.

6. That the Woodsworth College International Summer Program to Sydney (placement fee and course fee) be added to the Administrative User Fee Schedule.

7. That overdue fine for software be added to the Administrative User Fee Schedule.

8. That the OISE Application fee be expanded to include all graduate applicants.

9. That the PGME replacement of postgraduate student card fee be removed from the Administrative User Fee Schedule.

10. That the Woodsworth College International Summer Program to Jerusalem be removed from the Administrative Fee Schedule.

(d) Ancillary Operations: Real Estate – 2002-03 Operating Results and 2003-04 Budget

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

YOUR BOARD APPROVED

The operating budget for the Real Estate Ancillary for 2003-04, as contained in the fourth column of the Five-Year Operating Plan, attached to Mr. Chee's memorandum.

(e) Budget: Interim Operating Budget Appropriation

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

YOUR BOARD APPROVED

THAT the administration be authorized to spend up to $160-million for the normal operation of the University of Toronto for the period May 1, 2003 to June 30, 2003.

7. Other Reports for Information

(a) Environmental Protection Policy: Annual Report on Implementation

Professor Venter's report of March 25, 2003 was received for information.

7. Other Reports for Information (Cont'd)

(b) Report on Gifts and Pledges over $250,000, November 1, 2002 to January 31, 2003

The report of the Vice-President and Chief Advancement Officer, dated February 21, 2003, was received for information.

(c) Cost-Recovery Ancillary Fees, 2003-04

The report of Professor McCammond, dated March 21, 2003, was received for information.

8. Reports of the Administrative Assessors

There were no oral reports from the administrative assessors.

9. Date of Next Meeting - Monday, May 5, 2003

The Chair reminded members that the next regular meeting of the Business Board was scheduled for Monday, May 5, 2003 commencing one hour early at 4:00 p.m.

10. Other Business

There was no other business.

ON MOTION DULY MOVED AND SECONDED, THE BOARD MOVED *IN CAMERA.*

12. Striking Committee, 2003: Appointment

On motion duly moved and seconded,

YOUR BOARD APPROVED

THAT the following be appointed to the Striking Committee to recommend appointments for 2003-04:

Mr. Amir Shalaby, (Chair)
Ms. Jacqueline Orange (alumna, Vice-Chair)
Mr. Mark Braun (student)
Mr. Brian Davis (administrative staff)
Dr. Claude Davis (Lieutenant-Governor-in-Council appointee)
Professor Sherwin Desser (teaching staff)

ON MOTION DULY MOVED AND SECONDED, THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:15 p.m.

Recording Secretary   Chair

April 23, 2003

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