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OFFICE OF PLANNING AND BUDGET

TO: Business Board

SPONSOR: Shirley Neuman, Vice-President and Provost
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DATE: March 20th 2003 for April 7th 2003

AGENDA ITEM: 4

ITEM IDENTIFICATION:

Budget Report 2003/04.

JURISDICTIONAL INFORMATION:

The Business Board considers the University's annual operating budget for fiscal responsibility and, if satisfied, concurs with the Academic Board's recommendation that the Budget Report be approved.

PREVIOUS ACTION TAKEN:

The Budget Report 2003-04 was discussed by the Planning and Budget Committee on March 26th and recommended to the Academic Board for approval.

HIGHLIGHTS:

The Budget Report serves two purposes. First it updates, utilizing the most current information available, the assumptions in the *Long Range Budget Guidelines and Projections, 1998-2004*. Second, it presents for approval the budget for each division including those budgets determined pursuant to Contractual Obligations and Policy Commitments. It also indicates the funding available in the Operating Budget Special Funds. The budget for 2003-04 ensures that the University will exit the current six-year planning period in compliance with the budget guidelines: that is to say, the annual budget will be in balance by 2003-04 and the accumulated deficit will be within policy limits.

Projected revenues for 2003-04 have increased by \$9.3 million in 2003-04 over that previously forecast in the 2002-03 Budget Report, while expenditure requirements have grown by \$27.7 million, increasing the annual shortfall from \$3.8 million to \$22.2 million. If left uncorrected, this would result in an accumulated deficit of \$44.1 million

as of April 30th, 2004. Eliminating this shortfall and containing the accumulated deficit to within policy limits requires a base budget reduction of 4.45% (\$22.2M) and an OTO clawback of 1.46% (\$7.3M) in 2003-04. The principal components contributing to the increased shortfall are;

- not realizing the assumption of a 1% inflation increase in government operating grant funding in 2002-03 and removing the 2% assumption for 2003-04 (\$9.6M),
- not realizing the assumption that funding for the indirect cost of Federal research would increase from the current 20% to a level of 30% (\$7.6M),
- a reduction of \$2.4M in the base investment revenue projected from the Expendable Funds Investment Pool (EFIP) and an increase of \$4.4M in the amortization costs of previous investment losses.

The effect of these revised, more conservative revenue assumptions is to produce a budget which is fiscally prudent given the current economic situation.

A comprehensive Capital Budget is established which encompasses academic, non-academic and endowed capital infrastructure. It includes construction for academic and administrative divisions, residences, parking garages, student activities and the matching funds that are such an important part of growing our endowment capital infrastructure. Given the existence of a finite institutional borrowing capacity, the Capital Budget will enable decisions on appropriate levels of debt financing for individual capital projects to be informed by the total capital institutional debt. The Capital Budget includes capital projects currently approved by Governance and, in particular all that will require capital funding in 2003-04. It identifies the funding sources for debt service costs, one of which is the operating budget.

Other initiatives signaled in this report include;

- A fund of \$2.5M has been created to assist Divisions to adjust to a lower payout from endowment funds.
- An allocation of \$1.25M will be used to assist a limited number of divisions who are in transition in 2003-04. The provision of this funding to divisions will be dependent on attainment of performance objectives developed by agreement with the Provost.

RECOMMENDATION:

That the Business Board concur with the Academic Board's recommendation that the attached *Budget Report for 2003-04* be approved.