UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 200 OF THE BUSINESS BOARD

November 5, 2012

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, November 5, 2012 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. W. John Switzer (In the Chair)
Professor Scott Mabury, Vice-President, University Operations
Professor Angela Hildyard, Vice-President, Human Resources & Equity
Ms. Alexis Archbold
Mr. Andrew Arifuzzaman
Ms. Celina Rayonne Caesar-Chavannes
Mr. Jeff Collins
Mr. Ian Freedman
Mr. Arthur Hinmaa
Ms. Zabeen Hirji
Ms. Paulette Kennedy
Mr. Gary P. Mooney
Ms. Catherine Riddell
Mr. Peter Robinson
Mr. Chris Thatcher
Ms B. Elizabeth Vosburgh
Ms. Nana Zhou
Ms Judith Wolfson, Vice-President, University Relations
Ms Sheila Brown, Chief Financial Officer
Mr. Paul Donoghue, Chief Administrative Officer, University of Toronto Mississauga
Ms. Sally Garner
Professor Cheryl Misak, Vice-President and Provost
Ms Gail Milgrom, Acting Assistant Vice-President, Campus and Facilities Planning
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Mr. Ron Swail, Assistant Vice-President, Facilities and Services

Ms. Sheree Drummond, Secretary

Regrets:

Ms. Shirley Hoy (Vice-Chair)
The Honourable Michael H. Wilson
Professor C. David Naylor
Ms. Judy Goldring
Professor Edith Hillan
Mr. Richard B. Nunn
Mr. David Palmer
Professor Michael R. Marrus
Professor Andrea Sass-Kortsak
Mr. Howard Shearer
Ms. Penny F. Somerville
Ms. Anne MacDonald
Mr. W. Keith Thomas
Professor Steven J. Thorpe
Ms Rita Tsang

In Attendance:

Mr. Tad Brown, Senior Legal Counsel, Office of the Vice-President, Advancement and Office of the Vice-President, University Operations
Mr. Pierre Piché, Controller and Director, Financial Services

Ms. Archana Sridhar, Assistant Provost
Professor Paul Young, Vice-President, Research and Innovation

1. Debt Strategy

The Chair noted that the main theme of the meeting was the debt strategy. He reminded members that at the request of David Wilson, now former chair of the Business Board, a Debt Strategy Working Group had been formed. The Working Group's membership was comprised of Jeff Collins, Penny Somerville, David Wilson, Scott Mabury and Sheila Brown as well as the Chair. He noted that the strategy being proposed was a flexed version of the original and that it had the full support of the Working Group.

The Chair invited Ms. Sheila Brown to introduce the proposed debt strategy. Ms. Brown began by thanking Mr. Pierre Piché, Controller and Director, Financial Services and Ms. Helen Choy, Manager, Accounting Services, for the months of effort and analysis that went into the preparation of the strategy. Ms. Brown also thanked the members of the Working Group for reviewing the proposals that were put together and noted that their contributions had considerably enhanced the strategy that was being brought forward. She noted that two separate paths of analysis were undertaken. One involved conducting financial analysis to assess what would be a reasonable and prudent approach to setting the debt policy limits and the other was an examination of what the needs were. She emphasized the importance of the fact that the financial analysis was done in the absence of the needs.

In her presentation[1], Ms. Brown addressed the following:

- Identification of the issues: Limitations of internal and external debt policy; impact of investment return volatility; impact of new accounting rules on net assets and consequently on the external debt policy limit.
- Proposed solution: Establish a single debt policy limit, encompassing both external and internal debt, taking into account the University's appetite for debt as well as financial parameters.
- Key Financial parameters: (1.) Debt affordability – debt burden ratio selected was interest plus principal repayment divided by total expenditures. The upper threshold for this ratio cited by guidance for U.S. universities is 7%. A 5% debt burden ratio was selected as a key determinant of the debt policy limit. (2.) Debt capacity is the amount that can be borrowed based on funds on hand that could be used to repay the debt at the balance sheet date. The viability ratio (expendable resources divided by debt) was selected to measure debt capacity. Based on guidance for U.S. universities this ratio can be set at less than 1.0 and 0.8 was selected to be considered when determining the annual debt policy limit.
- Debt policy limit: Using the 5% debt burden ratio, the debt policy limit for 2012-13, calculated at April 30, 2012, is $1.33 billion, $233 million higher than the current strategy.

[1] http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=9132

- Additional ratio: Based on feedback from the Debt Strategy Working Group an additional ratio, principal plus interest plus pension payments under the pension contribution strategy divided by total expenditures, was added to enable the Board to monitor the debt strategy and the pension contribution strategy combined.

In the discussion that followed members expressed their support for the debt strategy and highlighted the Boards enhanced ability to monitor borrowing at all times.

The Chair then invited Professor Scott Mabury to speak to the capacity of the Operating Budget to carry additional debt. Professor Mabury noted that there were strong connections between his portfolio and the academic divisions and as such there was a solid awareness of the capital needs of divisions as well as their ability to cover the principal and interest of these needs.

In his presentation[2], Professor Mabury addressed the following:

- Key assumptions: Revenue growth is projected at approximately $100 million per annum to 2017-18 and projected incremental committed expenses over this same period of approximately $75 million resulting in a projected incremental annual base surplus of approximately $20 - $30 million.
- Divisional reserves: As of April 30, 2012 balances of $416 million. While many funds are earmarked for future projects a portion of reserves is held for contingency and could be redirected. In 2008 when the endowment payout was cancelled divisional reserves went up $12 million. This is indicative of a level of flexibility.
- Capital Project Planning: Two major changes. (1.) 'Build to budget' approach. (2.) Borrowing should not cover the full cost of a capital project. Need to be clear about funding sources available including divisional reserves (cash) and central reserves (cash). There needs to be a strong financial commitment from the division itself. Current Faculty of Law project an example of this approach whereby the building plan was adjusted from $80 million to $54 million with only $3.5 million expected in borrowing.

The Chair remarked that the Faculty of Law building project was an example of how we could see the revised debt strategy playing out and noted that it showed that demands on the University's borrowing capacity could be managed effectively.

A member asked for clarification on how capital projects are weighed against other demands for funds, for example spending in the classroom. Professor Misak responded that these decisions are made in the Vice-President and Provost's Office with the involvement of Professor Mabury as well as the respective Dean and his/her senior people as part of the annual academic budget review process. Projects cannot proceed without the approval of the Vice-President and Provost and the Vice-President, University Operations.

A member asked how this fiscally responsible approach to financing capital projects could be embedded in the University. Professor Mabury replied that in the midst of a campaign this approach was becoming infectious as divisions saw that they can be more successful raising

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[2] http://www.governingcouncil.utoronto.ca/AssetFactory.aspx?did=9133

money when they can demonstrate that they are making a contribution themselves. He also noted that with the change in the University's budget model there has been a change in culture in that divisions do not want to build anything that they cannot afford.

A member asked what kind of reporting there would be to the Board. Professor Mabury replied that it would continue to be the case that every capital project (over a certain threshold) would come forward to the Board and that there would be a status report on capital projects at every Board meeting. Ms. Brown also noted that there would be regular status reports as well as an annual debt strategy review.

After discussion, and on motion duly made, seconded and carried,

YOUR BOARD APPROVED

THAT the Business Board approve the Debt Strategy, as outlined in 'University of Toronto: Debt Strategy, 2012 (Attachment 1) replacing the Borrowing Strategy outlined in the June 8, 2004 memorandum, 'Borrowing Strategy' (Attachment 2), as approved by the Business Board on June 17, 2004.

2. Credit Ratings

The Chair noted that the 'Moody's Investor Services – University of Toronto Credit Rating' was included as part of the agenda and is provided for information to the Board. He also noted that the 'Dominion Bond Rating Service (DBRS) Credit Rating' was posted to Boardbooks after the agenda was already distributed and asked if members would agree to add it to the agenda as item 2a. Members agreed.

Ms. Brown indicated that the Reports provided members with a good sense of the rating agencies' views and was pleased that both confirmed the University's current ratings.

3. Health and Safety Policy

The Chair noted that the terms of reference specify that Governing Council approval is required for health and safety policies. In this case, however, because there is no request for a new policy but only continuation of the existing policy, approval by the Business Board is deemed sufficient. He noted that annual approval is required to satisfy an external requirement.

Professor Hildyard indicated that there was no change in the Policy from the previous year.

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

THAT the on-going application of the University of Toronto Health and Safety Policy, a copy of which is attached to Professor Hildyard's Memorandum to the Business Board dated October 24, 2012, be confirmed.

Professor Hildyard also brought members attention to a memo that was included with the meeting materials entitled 'Framework for Monitoring Compliance with EHS Policies and Regulations'. The memo provided information in response to a member's question at the previous meeting on the issue of health and safety as related to the activities of students in the field.

4. Application of Inventions Revenue to an Endowed Chair in Diabetes Research

The Chair invited Professor Paul Young to introduce the item. Professor Young advised members that this item was coming forward as required by the *Inventions Policy* whereby the distribution of certain revenue received on account of the commercialization of inventions is subject to review by the Business Board. The inventions in question are in relation to the diabetes research of Professor Daniel Drucker (individually, a "Drucker Invention" and collectively, the "Drucker Portfolio"). The Faculty of Medicine would like to facilitate additional research through the establishment of an endowment fund in support of a Chair in Diabetes Research. Professor Young noted that the revenues are an indicator of the success of the inventions.

Professor Mabury noted that the term 'University Fund' has a specific meaning at the University of Toronto as part of the budget model so he proposed, and members agreed, that lower case letters be used in the motion so as not to create any confusion between the endowment fund in question, the university fund, and the University Fund.

On motion duly made, seconded and carried,

YOUR BOARD APPROVED

THAT, University Revenue from the Drucker Portfolio be directed in support of the university fund on the following terms:

1. Beginning on July 1, 2008 and continuing until University Revenue directed to the university fund totals $1,500,000:

   (a) until University Revenue from a Drucker Invention reaches $1 million, the Faculty of Medicine will direct its divisional and departmental shares of such University Revenue from that Invention to the university fund, with the remainder of University Revenue from that invention distributed as prescribed by the Inventions Policy; and,

(b) once University Revenue from a Drucker Invention exceeds $1,000,000, all University Revenue from that invention shall be directed to the university fund.

When University Revenue directed to the university fund totals $1,500,000, distribution of University Revenue shall be determined in accordance with the Inventions Policy.

2. Payments of University Revenue will continue to be made to the attention of the Intellectual Property Officer, Office of the Vice-President, Research to facilitate the attribution of University Revenue to each Drucker Invention and to ensure the orderly distribution of funds.

3. The university fund shall be managed with the intent that its real capital value will be maintained in perpetuity in accordance with the Policy on Endowed Chairs, Professorships, Lectureships and Programs, the Long Term Capital Appreciation Pool Policy and the Policy for the Preservation of Capital of Endowment Funds.

4. The annual income from the university fund, less the portion added to the capital base as protection against inflation, will be made available to support diabetes research.

OPEN SESSION CONSENT AGENDA

On a motion duly moved, seconded, and carried

YOUR BOARD APPROVED

THAT the consent agenda be adopted.

5. Reports of the Administrative Assessors

Professor Mabury advised the Board that the University's Budget Model had been nominated for an IPAC/Deloitte Public Sector Leadership Award. He expressed his thanks to Sally Garner, (Executive Director, Planning & Budget), Trevor Rodgers (Senior Manager, Academic Planning Analysis & IT Initiatives), and Catherine Gagne (Senior Manager, Budget Administration and Institutional Planning) for their involvement in the process, including making the presentation to the Selection Committee.

6. **Report of the Previous Meeting -** Report Number 199 (September 24, 2012)

7. Business Arising from the Report of the Previous Meeting

8. Report Number 104 of the Audit Committee – October 10, 2012

9. Capital Projects Report to October 31, 2012

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CLOSING ADMINISTRATIVE ITEMS

10. Date of Next Meeting

The Chair reminded members that the Board's next regular meeting is scheduled for Monday, December 17, 2012 at 5:00 p.m.

11. Other Business

No other business was raised.

CLOSED SESSION CONSENT AGENDA

THE BOARD MOVED INTO CLOSED SESSION

On a motion duly moved, seconded, and carried

YOUR BOARD APPROVED

THAT the closed consent agenda be adopted.

12. Quarterly Report on Gifts and Pledges over $250,000, August 1 – October 31, 2012

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 6:33 p.m.

Secretary	Chair

November 21, 2012