UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 135 OF THE BUSINESS BOARD

June 17, 2004

To the Governing Council,
University of Toronto.

Your Board reports that it met on Thursday, June 17, 2004 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Ms Jacqueline C. Orange (In the Chair)
Mr. John F. (Jack) Petch, Vice-Chair
Dr. Thomas H. Simpson, Chair of the Governing Council
Professor Robert J. Birgeneau, President
Ms Catherine J. Riggall, Interim Vice-President - Business Affairs
Professor Angela Hildyard, Vice-President - Human Resources and Equity
Mr. Donald A. Burwash
Mr. Bruce G. Cameron
Dr. Claude S. Davis
Dr. Alice Dong
Ms Mary Anne Elliott
Ms Susan Eng
Ms Françoise Dolcinea E. Ko
Ms Karen Lewis
Mr. Gerald A. Lokash
Ms Kim McLean
Mr. George E. Myhal
Dr. John P. Nestor
Mr. Roger P. Parkinson
Mr. Timothy Reid
Professor Arthur S. Ripstein
Professor Jake J. Thiessen

Dr. Jon S. Dellandrea, Vice-President and Chief Advancement Officer
Professor Vivek Goel, Vice-President and Provost
Professor Ian Orchard, Vice-President and Principal, University of Toronto at Mississauga
Mr. John Bisanti, Chief Capital Projects Officer
Ms Sheila Brown, Acting Chief Financial Officer
Ms Rivi Frankle, Assistant Vice-President, University Advancement
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Professor Ronald D. Venter, Vice-Provost, Space and Facilities Planning

Secretariat:

Mr. Neil Dobbs
Ms Susan Girard

Regrets:

Ms Dominique Barker
Dr. Paul V. Godfrey
Mr. Richard Nunn
Dr. Susan M. Scace
Mr. Amir Shalaby
Mr. Robert S. Weiss

In Attendance:

Professor W. Raymond Cummins, member of the Governing Council and Chair, Academic Board

In Attendance (Cont'd)

Professor Donald N. Dewees, Acting Chair, Department of Economics
Ms Myra Lefkowitz, Manager, Health and Well-Being Programs and Services
Professor George Luste, President, University of Toronto Faculty Association
Mr. Chris McNeill, Director, Office of Environmental Health and Safety
Ms Carole Moore, Chief Librarian
Mr. Mark Overton, Dean of Student Affairs, University of Toronto at Mississauga
Ms Rosie Parnass, Quality of Work Life Advisor and Special Assistant to the Vice-President, Office of the Vice-President - Human Resources and Equity
Mr. Pierre Piché, Acting Controller

ITEMS 2, 3, AND 5 CONTAIN RECOMMENDATIONS TO THE GOVERNING COUNCIL FOR APPROVAL.

1. Report of the Previous Meeting

Report Number 134 (May 3, 2004) was approved.

2. Financial Statements-2003-04

The Chair said that the audited financial statements were before the Board for consideration and recommendation to the Governing Council. The Financial Highlights and the Supplementary Financial Report were for information only. She noted that the Audit Committee had met for three hours the previous afternoon and had reviewed the financial statements in detail.

Mr. Myhal reported that the Audit Committee had reviewed the financial statements over two meetings. On May 19, the Committee had examined the notes, and on the afternoon before this meeting it had considered the full statements. The external auditors had been present at both meetings. The Committee had met privately with the auditors, with no University staff present. The audit report was clean, and the auditors had informed the Committee that they had no substantial concerns. Mr. Myhal was pleased to say that the financial statements looked considerably better than they had one year ago. The cumulative deficit in the operating fund had been reduced from $33.6-million to $10.5-million. That was well under 1.5% of revenue, which was the maximum operating deficit permitted by Governing Council policy at the end of a budget plan. Mr. Myhal drew members' attention to the full package of slides on the financial statements that had been presented to the Audit Committee by Ms Brown the previous afternoon. He commended it to members' attention as an excellent summary of the highlights of the statements – a manifestation of the first-class quality of the information that had been provided to the Board and the Committee over the year.

2. Financial Statements-2003-04 (Cont'd)

Ms Brown summarized the highlights of the statements.

- **Assets** had grown to exceed $3-billion. The assets included $1.8-billion of investments, largely in the endowments, and nearly $1-billion in capital assets, reflecting the University's active construction program.

- **Liabilities** amounted to $1.5-billion. About half of the liabilities were "deferred contributions" and "deferred capital contributions." Those categories were used to record grants to the University for specific purposes (usually research programs or buildings) where the monies had not yet been used, and where the University therefore had an liability until those monies were used or amortized as required. The remaining half of the liabilities were more traditional ones: $415-million of borrowing so far for capital purposes and $215-million for net employee future benefit obligations, including pensions and other benefits.

- **Capital** was now almost $1.5-billion. That was very good news. The University had arrested the decline in its capital and had begun to move total capital in an upward direction. It had now almost reached the same level as 2002. The improvement was the outcome of the past year's good investment performance.

- **Revenues** for the year amounted to nearly $1.6-billion, with over $900-million of that amount from government operating grants and student fees.

- **Expenses** amounted to about $1.5-billion. The largest item of expense was $908-million for salaries and benefits. The University had spent $109-million for student assistance: scholarships, fellowships and bursaries. That amount did not include payments for teaching assistantships and research assistantships, which were included in the salaries and benefits.

- **Net income** for the year was $47-million, up from a loss of $164-million in 2002-03. This improvement was primarily the outcome of good investment performance. The underlying issues, however, remained, with expenses having grown over the past six years at a compound rate of 9.5% and revenues having grown over the period at only 7.9%. The University did, therefore, continue to need the expense reductions planned in the Long-Range Budget Framework.

- **Operating fund**. Operating revenue for the year (setting aside the revenue in the ancillary operations, capital and restricted funds) had been $1,037.4-million, and expenses had been $1,034. 9-million. The outcome was a net income of $2.5-million before inter- fund transfers. After net transfers of $20.6-million into the operating fund, the net income

2. Financial Statements-2003-04 (Cont'd)

for the fund was $23.1-million. That compared to a net income of $19.4-million planned in the operating budget. Results had, therefore, come in ahead of budget. The cumulative operating deficit had been reduced from $33.6-million to $10.5-million, which was (as Mr. Myhal had noted) well within the maximum permitted by Governing Council policy.

Mr. Myhal observed that the Board was considering the financial statements of this very complex institution only 45 days after the end of the fiscal year. The audit of the statements had been very smooth. Both of those facts reflected the excellent work of Ms Brown, Mr. Piché and their team. The Audit Committee took great comfort from the very high quality of the finance staff at the University.

Mr. Myhal noted that the Audit Committee had also the previous day received the Internal Auditor's annual report and had met privately with Mr. Britt. The annual report was an excellent one, and the Audit Committee also took great comfort from the quality of the Internal Audit Department. Its work was essential to carrying out the University's responsibility for the stewardship of public funds, and the Audit Committee was very pleased that the Department had been exempted from the usual budget reduction in 2003-04. The Committee very much hoped that a similar exemption would be provided for 2004-05. With the University's large capital program, that Department would certainly have its work cut out for it.

On the recommendation of the Audit Committee,

YOUR BOARD RECOMMENDS

THAT the University of Toronto audited financial statements for the fiscal year ended April 30, 2004, a copy of which is attached hereto as Appendix "A", be approved.

The Chair added her congratulations to Ms Riggall, Ms Brown, Mr. Piché and Mr. Britt (the Director of Internal Audit), the external auditors, and all of the members of their teams on their prompt preparation of the financial statements. She added her thanks to members of the Audit Committee for their diligent work throughout the year, including their careful review of the financial statements. It gave the Board great comfort to know of the due diligence carried out by that very competent Committee. She noted that the Financial Report and Supplementary Financial Report were, following their endorsement by the Audit Committee the previous evening, public documents.

3. External Auditors: Appointment for 2004-05

Mr. Myhal reported that the external auditors had attended all meetings of the Audit Committee, and the Committee was generally satisfied that they were doing their job well. The University's Purchasing Policy required a review of all consulting relationships approximately

3. External Auditors: Appointment for 2004-05 (Cont'd)

every five years. That review for the external auditors had been conducted over the past year, and management had reported overall satisfaction with audit services. The Audit Committee received an annual report on other assignments carried out for the University by Ernst & Young, and it had concluded that the scope of those other assignments would not impair the firm's objectivity as external auditors. The Audit Committee therefore recommended the re-appointment of Ernst & Young for 2004-05 as external auditors for the University, the pension plans and the Innovations Foundation.

On the recommendation of the Audit Committee,

YOUR BOARD RECOMMENDS

(i) THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto for the fiscal year ending April 30, 2005;

(ii) THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto pension plans for the fiscal year ending June 30, 2005; and

(iii) THAT the members of the University of Toronto Innovations Foundations are requested to re-appoint Ernst & Young as external auditors of the Foundation for the fiscal year ending April 30, 2005 at remuneration to be fixed by the directors of the Foundation.

4. Long-Term Borrowing Pool: Status Report

Ms Brown recalled that the Long-Term Borrowing Pool had been established in 2001 at the time of the first debenture issue. The Pool contained the proceeds of the debenture issues prior to their investment for the approved capital projects and other capital purposes, and it was the destination of the principal and interest payments from all internal borrowers. Borrowers were required to make payments not only to repay principal and interest but also to cover the costs of the Pool, both the costs of the debenture issues and the on-going administrative costs. The two existing debenture issues were both "bullet" issues, with the principal repayable in one lump sum upon maturity. The Pool was a sinking fund, in which that principal would be accumulated. While it was very early, the Pool was where the administration would like it to be in terms of handling the regular interest payments and, in future, accumulating the amount necessary to repay the principal on the debentures.

5. Borrowing Strategy

Ms Riggall presented the proposed Borrowing Strategy.

- **Objective**. The objective of the Strategy was to enable the University to develop the capital infrastructure it required to achieve its goals and to do so in a financially responsible way.

- **Current situation**. The current guideline restricted external debt to one third of capital, where capital was defined as assets minus liabilities. Debt from internal borrowing from the operating funds contained in the Expendable Funds Investment Pool (in effect the University's cash float) was limited to $200-million. For 2003-04, the external borrowing limit was $420-million, based on a year-end 2003 capital of $1,264-million. Current external debt consisted of: the series "A" debenture for $160-million due in July 2031, the series "B" debenture for $200-million due in December 2043, and other loans with balances totaling $55-million due at various times over the next few years. That $420-million of external borrowing, combined with the $200-million of internal borrowing, formed the $620-million borrowing limit which had been frequently cited during recent meetings.

- **Issues**. The borrowing limit had been established on the basis of capital at the end of the 2003 fiscal year, when the University had a historically low capital position. There were still many unmet demands for debt financing (for new construction and renovations), and other projects would be identified. Matching programs would require debt of $25-million, and there was need to make provision for other miscellaneous items that would need financing. In addition, should the proposed development of a new Varsity Stadium proceed, it would use up $30-million of debt capacity.

- **Questions**. A careful review of the pattern of cash flows in the Expendable Funds Investment Pool had shown that $200-million of internal borrowing was a safe amount. More open to question was the limit on the external borrowing that could be taken on. The answer to that question was dependent on the answer to others. Had the University defined capital appropriately? Was a single point in time appropriate for monitoring long-term liabilities that would continue over 25 to 40 years? Was one third of capital the right limit? If not, how much additional debt could be taken on without impacting the University's credit rating? Its ability to service the debt? The University's ability to take on debt without accepting restrictive covenants or pledging specific assets as security? It was important to note that the current $360-million in debenture borrowing was entirely without restrictive covenants and without pledging specific assets as security. Very few organizations were able to borrow with such flexibility, and Ms Riggall congratulated Ms Brown for her negotiation of such excellent terms.

5. Borrowing Strategy (Cont'd)

- **Other questions**. Would additional debt be seen as excessive and impair the University's ability to raise funds? Should the University differentiate between debt serviced from the operating budget and debt serviced by ancillaries and student levies? Were there other forms of debt or financing structures that could meet the University's needs?

- **Analysis**. To answer those questions, Ms Riggall and her colleagues had carried out a great deal of analysis. They had reviewed capital levels from 1998 projected through to 2010, assessing the impact of various smoothing methods, various investment returns on capital and various levels of donations. In projecting investment returns for the endowment funds, they had settled on seven percent per year as a reasonable rate; it was the ten-year average target rate in the University's investment policy. In projecting the level of capital, they had used the operating results contained in the Long-Range Budget Framework. They had reviewed the impact of borrowing within a range and had assessed the cost of debt service in relation to other cost items as a test of reasonableness. They had looked at how current debt had been allocated (ancillaries versus operating). Finally, they had reviewed possible strategies and debt levels with external consultants for input on likely reaction of rating agencies and the buyers of the debentures. The objective was to ensure that they had not been over-optimistic in their own analysis.

- **Recommendations**. As a result of this analysis, Ms Riggall and her colleagues recommended that capital should be redefined to use a running five-year average, instead of a single year's end-point. In years when capital declined, the use of an average would permit borrowing above the limit based on year-end capital, but in years when capital increased, borrowing would be constrained below the limit based on year-end capital. The University should continue with the one-third target limit for external debt, which was a good limit, but should permit a range up to a maximum of 40% as an outside limit, which might be reached in years when the University's capital declined. If capital were to drop so that debt ratio came to exceed the 40% level, there would be no further borrowing until increases in capital or repayment of debt had brought borrowing back to the target level.

  Ms Riggall stressed that debt service capability had to remain a priority decision criterion. It would be essential that repayment sources be clearly identified for any project to be financed with debt, including internal debt. The University should avoid taking on debt that would require covenants or security. That meant maintaining good credit ratings, well in line with the University's peers. The University should use the Moody's Universe as its guideline. It could be a guideline only and not a constraining factor because the data were not sufficiently current. For example, the most current peer data now available were for 2002. In addition, it would be incorrect to follow peers without question; they could be wrong.

5. **Borrowing Strategy** (Cont'd)

Ms Riggall recommended that the University use debenture financing for as long as possible because it was unsecured and lowest cost. Structured debt arrangements for project financing, which could be used to remove debt from the University's balance sheet, would still be treated as debt by the rating agencies and debenture holders, regardless of accounting treatment, and it was generally more expensive.
Ms Riggall continued that the University should distinguish between the debt serviced by ancillaries and that serviced from the operating budget only for setting priorities and assessing risk of repayment. Differentiation was important in setting priorities because debt serviced by the ancillary operations did not have an impact on the operating budget. But, it was essential to recognize that debt was debt in the eye of the lender, and any commitment that depended on the reputation and assets of the University was part of the same limit.

- **Implications of using five-year average capital**. Average capital for the five years ended April 30, 2003 would have been $1,442-million compared to year-end capital of $1,264-million. Average capital for the five years ended 2004 was $1,467-million compared to $1,487-million year-end capital. Anticipated smoothed capital for the five years ending April 30, 2010 was $1,652-million versus projected 2010 year-end capital of $1,768-million. Ms Riggall displayed a graph showing year-end capital and five-year average, smoothed capital for one-year and five-year periods ending April 30, 1998 projected to April 30, 2010. It was clear that smoothing provided a more predictable basis for determining borrowing capacity.

- **Implications of using a borrowing-limit range of 33% to 40%**. Five-year smoothed capital as at April 30, 2004 would enable an external debt range of between $489-million and $587-million. At this time, the administration anticipated that it would recommend an additional debenture of $150-million which would take total external debt to $565-million or 38% of smoothed capital. Going above that amount would leave no flexibility for market declines, budget problems, donation declines or unforeseen problems.

- **Impact on credit rating**. One of the University's current credit ratings had declined slightly over the past three years, but all ratings were still very good. The University's advisors believed that the University could add another $150-million of external debt without a material adverse impact on its credit rating and therefore on its cost of debt. Pro forma benchmarks to the most recent year, 2003, indicated that the University would still be in line with its peer universe and would remain in line even if debt went to 40% of capital.

- **Impact on debt service costs**. Current annual debt service costs for principal and interest amounted to $53.7-million per year, of which $27.7-million was serviced by the ancillary operations and student levies. Adding another $150-million would increase debt service costs by $12.3-million to a total of $66.0-million per year.

5. **Borrowing Strategy** (Cont'd)

- **Conclusion**. Ms Riggall concluded that the University could reasonably take on another $150-million of debt, within the controls described in the proposed Borrowing Strategy.

  Among the matters that arose in discussion were the following.

(a) Borrowing-limit range of 33% to 40%. A member questioned the idea of a borrowing-limit range. Would it not be more appropriate to have only a single target? If it had made sense previously that the target be one third of capital, why did the administration now propose to move to 38% of capital? Might 40% not be too high, even as a maximum? Ms Riggall replied that the University would have preferred to retain the debt limit at 33% of capital, but it recognized a pressing need for financing for additional capital projects. The University was now in a unique position. There had been, until recently, virtually no capital investment since the early 1970s. The University had relied wholly on government grants and donations for new buildings and renovations, and the debt level in 1998 had been nearly zero. A very large demand for new space had been pent up, even before the enrolment growth associated with the double cohort. Using debt to finance capital expansion would mean a new burden, but the need was clearly present and the University's finance group was now more sophisticated and able to manage debt. Ms Riggall did not recommend the use of a single percent of capital as a limit because that would cause problems in the event of a decline in the value of capital following, for example, any investment losses or any operating losses caused by tuition-fee freezes or other factors. With the decline in capital, debt could exceed the fixed limit, and the University would be unable to reduce its debt, in the form of fixed-term debentures, at all quickly.

Ms Riggall reiterated that the purpose of moving to 38% of capital with the possibility of an increase to 40% was to meet demonstrated need. Indeed, there were important needs that could not be met even if debt were increased to 40% of capital. However, the presence of the limit would force careful thinking about setting priorities.

The member was concerned that borrowing at 38% of the University's capital would involve a real risk of running afoul of the 40% limit if the University's capital were to decline. Another member observed that debt as a proportion of capital would decline as the University paid off its older bank loans for residence buildings and accumulated money in the Long-Term Borrowing Pool to repay the debentures upon their maturity. Ms Riggall added that it was also anticipated that the University's capital position would, for other reasons as well, improve over time.

The member asked whether it was planned, as a self-disciplinary measure, to reduce debt back to one third of capital after a given period, for example five years? Ms Riggall replied in the negative; the administration anticipated an on-going need for debt financing.

5. Borrowing Strategy (Cont'd)

(b) Reputational risk. A member referred to the prediction that the proposal would be unlikely to cause a reduction in the University's credit rating and that, if there were such a reduction, it would have little impact on the cost of borrowing. The member was concerned that, while that might be true, there might still be an adverse effect on the University's reputation. Ms Riggall shared the member's concern about reputational risk. She noted, however, that the University's credit rating at this time was very, very high. A small reduction would, therefore, be unlikely to cause significant harm to the University's reputation.

(c) Prudence in using the proceeds. A member urged that the University proceed with great care in allocating monies from the proceeds of new debt to avoid the situation of soon lacking the capacity to deal with emerging or unforeseen needs.

Another member said that he hoped that the administration and the Planning and Budget Committee would give preference in the allocation of the proceeds of the debentures to fiscally responsible purposes, such as (i) the proposal for renovations to the Economics Building that would reduce the backlog of deferred maintenance, or (ii) Ms Riggall's proposal to spend money on infrastructure improvements that would reduce on-going operating costs. Ms Riggall reported that funding from the operating budget for deferred maintenance work had been increased for 2004-05, and she anticipated future increases. The administration was indeed working with the academic divisions to ensure that when capital projects were undertaken, those projects would include features that would reduce deferred maintenance. Ms Riggall continued to support the suggestion that the University should set aside some money for projects that would reduce operating costs.

(d) Lobbying for tax-free status for university debentures. A member observed that U.S. municipalities and universities were able to issue bonds at lower-than-market interest rates because interest from those bonds was tax free according to U.S. law. Had Canadian universities sought to convince the Government of Canada to accord similar treatment to their debt instruments? Ms Brown replied that the associations of Canadian and Ontario university business officers had made such representations, but they had not been met with a promising response. It was noted that at least some lenders – pension funds - would indeed have purchased the University's debentures on a tax-free basis. The President noted that the tax-exempt status accorded to the debt issues of U.S. universities was only one example of the more favourable treatment accorded by the U.S. government to universities. Debt service payments on research buildings in the U.S. were regarded as overhead eligible for reimbursement through research grants.

(e) Internal loans to academic divisions and ancillary operations. In response to a question, Ms Brown said that loans from the Long-Term Borrowing Pool to individual projects were similar to bank loans, with terms of, for example, twenty-five years – some longer and some shorter. The units receiving the loans were required to make blended principal and interest payments so that

5. Borrowing Strategy (Cont'd)

the University could be sure that the money would be available to repay the debentures when they became due. The interest rates for both the debentures themselves and for the internal loans were set for the term of each.

(f) Borrowing for matching funding. In response to a question, the President said that the matching-funding commitments for which money was being borrowed were primarily those undertaken by the previous administration. The only new commitment to match donations was for those by University of Toronto faculty and staff members for student assistance under the second round of the Ontario Student Opportunity Trust Fund program.

(g) Benchmarks for debt as a proportion of capital. In response to a member's questions, Ms Brown said that the Moody's benchmark for debt as a proportion of capital was based on public universities in the United States. There was no Canadian benchmark. Only ten Canadian universities had borrowed significant amounts for capital purposes, and no data had been gathered for those universities.

(h) Cost of borrowing and any effect on academic operations. The Chair asked about the cost of borrowing to the operating budget. Was the cost built into the current budget framework? Would the cost displace any academic needs in the operating budget? Professor Goel replied that while the external lenders did not distinguish the purposes of borrowing, the University in its budget planning did so. About half of the borrowing was to finance ancillary operations, primarily student residences (and previously parking structures); repayment would be made from the revenues of those operations and would not affect the operating budget. The total cost of debt service to the ancillary operations and the operating budget would be $66-million, which represented a small proportion of $1.5-billion financial statements. Professor Goel noted that the current limit of borrowing at 33% of capital was not one that had been long established in the University's history. It had been arrived at only recently and after little discussion. For the University, much of its capital was understated. The book value of buildings was recorded at their cost minus depreciation, and many older buildings were recorded as having little or no value. In addition, the cost of debt service represented a small proportion of the total budget. It was therefore reasonable to make the limit higher than 33%.

(i) Need for further borrowing for capital purposes. Professor Goel referred members to the regular Capital Projects Report. All of the projects in the top section on page 3, the "Future Projects that will require Approval and Funding," met all of the University's criteria. They were consistent with the academic mission of the University and the academic plans of the various divisions. In some cases, the projects were required to meet the University's policy commitments such as that guaranteeing housing to all first-year students. In other cases, priorities would be given to projects required in part to meet external requirements such as occupational health and safety requirements. For every project, the University had considered alternatives, such as leasing space, and building the proposed projects represented the best option. In some cases, projects –

5. Borrowing Strategy (Cont'd)

those for re-development of existing buildings – would contribute to a reduction of deferred maintenance. Two other criteria had been applied. First, in most cases, there was equity being put into the building in the form of grants from SuperBuild or the Canada Foundation for Innovation or from donations. Second, in all cases, the University was confident about its ability to service the planned debt.

Professor Goel pointed out that a number of projects depending on borrowing appeared later on the agenda. Several other projects had been on the list of needed projects for a long time. The administration would return to governance in the fall with an assessment of needs over the next five to ten years. Many projects were contingent on fundraising. Indeed, for some projects for which borrowing capacity had been reserved, it was anticipated that donations would be received, obviating the need for some borrowing and providing a cushion. The assessment in the fall should lead to a long-term capital spending plan much like the long-range budget framework for the operating budget, which would deal with anticipated needs, including those that would remain after the proposed $150-million had been spent.

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

YOUR BOARD RECOMMENDS

1. THAT the borrowing strategy, as described in Ms Riggall's June 8, 2004 memorandum to the Business Board, a copy of which is attached hereto as Appendix "B", be approved.

2. THAT the University be authorized to borrow such amount, not exceeding $150 million, as may be determined by the senior officer of the University responsible for financial matters, as so designated by the President, in addition to the $160 million approved by the Business Board on January 15, 2001 and the $200 million approved by the Governing Council on June 26, 2003;

3. THAT such senior officer responsible for financial matters be authorized 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 and to negotiate, approve and execute and deliver for and on behalf of and in the name of the University, all agreements, documents, certificates and instruments, including without limitation any underwriting or agency agreement and any offering document, and to take all such other actions as such officer may determine to be necessary or desirable to give effect to such financing and offering of

5. Borrowing Strategy (Cont'd)

debt securities, the execution and delivery of any such agreements, documents, certificates or instruments, and the taking of such actions being conclusive evidence of such determination;

4. THAT such senior officer responsible for financial matters is further authorized to authorize any other officer of the University to execute and deliver, for and on behalf of and in the name of the University, such certificates, documents and instruments as may be contemplated by the principal agreements entered into with respect to such debt offering or as may be required in connection with the closing of the offering of debt securities authorized hereby;

5. THAT the borrowed funds be added to the Long-Term Borrowing Pool and invested by University of Toronto Asset Management Corporation until the funds are required for each project;

6. THAT the senior officer of the University responsible for financial matters be authorized to allocate borrowing as internal financing for spending that has been approved by the Business Board or is within the approval authority of the administration;

7. THAT principal and interest repayments related to debenture borrowing be placed in the Long-Term Borrowing Pool, or other sinking fund mechanism, and, together with investment income, be used to pay periodic interest payments to lenders, to pay issue and ongoing administrative costs, with the expectation that the net sum from these additions and draw downs will be sufficient to repay the bullet debentures at maturity; and

8. 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.

The Chair thanked Ms Riggall and her colleagues for the proposal, which had taken many months of hard work to formulate. The Chair anticipated that the Board would revisit the matter from time to time. She observed that the Borrowing Policy was a relatively new one, and the University's capital construction program had been growing rapidly in recent years. She looked forward to receiving a report on the University's debt load relative to capital when the 2003 Moody's data became available.

THE FOLLOWING ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION

6. Business Arising from the Reports of the Previous Meetings

Report 133, Item 4 – Tuition Fee Schedule for Publicly Funded Programs, 2004-05: Report on Fundraising for Financial Support for International Students

The Chair recalled that at the April 14 meeting, during the consideration of the proposal to increase tuition fees for international students, discussion had arisen concerning financial aid for international students. The Office of the Vice-President and Chief Advancement Officer had kindly agreed to prepare, for this meeting, a report on efforts to raise funds for financial support for international students.

Dr. Dellandrea said that his current report was very much an interim one, and he planned to provide a fuller report towards the end of the year. The strategy in seeking funding for international students was to build on the very successful model employed with respect to students from Hong Kong. A University of Toronto Foundation established in Hong Kong focused on recruiting and raising funds for financial aid for exceptional Hong Kong students with financial need. Between twenty and thirty students each year studied at the University of Toronto with full aid for tuition fees, living costs and transportation costs. A similar Foundation would begin operation in Singapore this fall. Members of the Foundation had been assigned to top secondary schools from which the University hoped to recruit students. While a great deal of money was available to excellent undergraduate students in Singapore, it often came tied to a requirement to work for the sponsoring company upon graduation. The University was therefore making every effort (a) to raise money for smaller aid packages for students who would not have post-graduation employment conditions and (b) to raise funds to sponsor graduate students. In the United States, the Associates alumni group had donated one-quarter of a million to match further contributions for student aid. Dr. Dellandrea stressed that fundraising efforts for international students were conducted in cooperation with the Student Recruitment Department and were aimed at both recruiting students and raising funds to aid them. Various international foundations also played a role in the combined efforts, particularly the identification of needy but highly capable students who might otherwise be overlooked. In response to a question, Dr. Goel recalled that he had reported to the April meeting that fellowship support was provided to graduate students from abroad by various foundations and organizations such as the World Bank, and many faculty, including the Canada Research Chairs, were now able to use their research funding to offer employment opportunities to international students.

7. Human Resources: Professionals and Managers - Salary Increase for 2004-05

Professor Hildyard noted that most administrative staff were represented by unions. The exceptions were the group of managerial and professional staff, other staff with access to confidential human-resources information, and English-as-a-second-language instructors. It was proposed that those groups of employees be granted three percent across-the-board salary increases. The managerial and professional staff and the “confidential” staff would also be

7. Human Resources: Professionals and Managers - Salary Increase for 2004-05 (Cont'd)

eligible for awards of merit increases from a pool amounting to 2.5% of their collective salary base. The English-as-a-second-language instructors receive increases along a grid based on years of service. For the most senior levels of the managerial and professional staff, there would be no across-the-board increase, but the staff would be eligible for increases based solely on merit from a pool amounting to 5.5% of their collective salary base. The across-the-board amount was consistent with the increases that had been arrived at in negotiations with other groups, and the amount of the merit pool was consistent with past practice. The proposal did not include improvements to pensions or other benefits.

The Secretary reminded members that section 27(d) of By-Law Number 2 prohibited moving, seconding, or voting on motions related to compensation by any employee of the University or any immediate family member of an employee, except for the President and the Vice-Presidents (who were excluded from that prohibition).

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

YOUR BOARD APPROVED

The salary increases for Professionals and Managers, Confidentials, and English-as-a-Second-Language Instructors, as proposed in Professor Hildyard's June 9, 2004 memorandum to the Business Board.

8. Canadian Auto Workers, Local 2003: Agreement for 2004-06

Professor Hildyard reported that the University had reached agreement with the Canadian Auto Workers, the union now representing the University's operating engineers. The agreement, which had followed very hard bargaining, was a very important one to the University because it was a two-year agreement, in which the second year should set a precedent for negotiations with other unions and groups for which contracts would expire at the end of 2004-05. The contract had provided a wage increase of three percent for 2004-5, consistent with that for other employees, and two percent for 2005-06. It was very important for the University, given its constrained budget, that the size of salary increases for 2004-05 be reduced from the current year's three percent. The monetary amounts were consistent with the University's long-range budget model. The agreement included two special features. First, the operating engineers had been recognized for their long hours of work in very difficult circumstances during the August 2003 electrical blackout, receiving a special recognition payment and an extra day off. Second, in response to the union's concern about job security and contracting out, the University had agreed to a pilot arrangement. The University's operating engineers would be permitted to work overtime on projects provided that their doing so was cost-effective and did not impede their regular work.

9. Health and Safety: Annual Report, 2003

The Chair reminded members that it was very important that the Board give careful attention to this report. University officers and Board members could be held personally liable for any failure to exercise due diligence in ensuring that the University was carrying out its responsibilities under the *Occupational Health and Safety Act*.

Ms Sass-Kortsak said that the report for the current year was a joint submission from the Office of Environmental Health and Safety and the newly established Health and Well-Being Programs and Services department. The new unit was dedicated to preventing workplace accidents, assisting injured staff to return to work, and encouraging a generally healthier and safer workplace. The frequency of accidents at the University had improved slightly and was slightly better than peers, leading to a rebate from the Workplace Safety and Insurance Board for the fifth consecutive year. However, the average absence from work after an accident, at just over fifteen days, was higher than the University would wish it to be. The frequency of accidents among care-taking and grounds staff had increased, and those staff members would be the focus of a pilot project to implement strategies to reduce the incidence of injury and illness. Ms Sass-Kortsak hoped that the numbers would be improved for the next report.

Ms Sass-Kortsak said that asbestos remained a significant focus, with active efforts to implement the recently approved Asbestos Policy. The Facilities and Services Department was heavily engaged in those efforts. They involved training and retraining staff who worked near asbestos and working with external contractors to ensure that they met the requirements set out in the University's policies. The University had received ten Ministry of Labour orders in 2003, and it had complied with all of them fully apart from one which was an on-going order concerning asbestos cleanup.

Among the questions that arose were the following.

(a) Training of members of joint health and safety committees. A member asked about the number of members of the University's 44 joint (worker and management) health and safety committees who had completed the required training courses. She noted that in some workplaces, efforts were being made to train as many members as possible. Ms Sass-Kortsak and Mr. McNeill replied that legislation required at least two fully trained members on each committee. Approximately 135 members of the University had received the required training, and the University certainly did not restrict training to two members per committee. Unfortunately, owing to staff turnover, not all of the committees had two trained members. The University was moving to ensure that all committees would have at least the minimum two members.

(b) Asbestos. A member asked whether the University was undertaking a program of asbestos cleanup beyond that required by Ministry orders. Mr. McNeill replied that the University had completed a survey of asbestos and had prioritized cleanup projects. That cleanup was being carried out above and beyond the requirements of specific Ministry orders.

9. Health and Safety: Annual Report, 2003 (Cont'd)

The Chair asked Professor Hildyard if she was aware of any gaps in the University's due-diligence in carrying out its responsibility for Health and Safety that could place members of the Board in default of their obligations under the *Occupational Health and Safety Act.* Professor Hildyard replied that she was aware of no such gaps.

The Chair observed that the University had made considerable progress in refining its organization, in training and in the structural soundness of its health and safety efforts. She congratulated Professor Hildyard, Ms Sass-Kortsak, Mr. McNeill, Ms Lefkowitz and their colleagues on their work.

10. Capital Projects Report

Professor Venter reported that a total of thirty-nine approved projects, as listed on page 2 of his report, had been completed, were under construction, or were at the tender of pre-tender stage. Page 3 of the report listed further projects: two clean-up projects with funding, five projects that were moving forward with conditions, other projects that were not currently proceeding but needed to be addressed, and still other projects for which full funding would be required in order for them to proceed.

Professor Venter referred to the first page of the report, which showed the uses of the current $620-million of approved borrowing. They included: $465-million for projects on the current capital plan; $98.87-million used to support other requirements; $5.81-million for projects to be funded by the University Infrastructure Investment Fund that were not on the capital plan; $6.61-million to advance funds for projects on the capital plan that would be repaid from the Enrolment Growth Fund; and $44-million ($36.5-million plus $7.5-million) to fulfill existing commitments to match future donations to the endowment.

Professor Venter then explained the changes that had followed the previous reports dated January 31 and April 1, 2004.

- The January 31 report showed a borrowing requirement of $627.8 million.

- A further $1-million had been added to that requirement, raising it to the April 1 report figure of $628.8-million, when the Board had approved the spending of an initial $1-million to begin design and site development work on the Downsview Library Storage Facility.

- Then, the requirement had been reduced by $8.3-million, to the current figure of $620.5-million when it had been decided to defer phase II of the Economics Building.

- Subject to Governing Council approval of the borrowing proposal and the Board's approval of the three projects on the current Board agenda (design and other initial costs

10. Capital Projects Report (Cont'd)

for 155 College Street, the remainder of the cost of the Downsview Library Storage Facility, and the UTM Residence, Phase 8), the borrowing requirement would increase to $653-million.

- That would leave $117-million of unassigned borrowing for other purposes. Planned projects were listed on the third page of the report, under categories 3(a), Clean-up projects with funding; 3(b), priority projects moving forward with conditions; and 3(c), projects on hold that needed to be addressed.

Professor Goel referred to the $276-million of deferred maintenance work required for the St. George Campus. That amount would remain in the report, and the University would begin in 2004-05 to spend approximately $10-million per year to deal with deferred maintenance problems.

The Chair thanked Professor Venter for the report. It helped the Board to view the capital program as a whole and to understand the challenges ahead.

11. Varsity Stadium: Authority to Enter Into a Non-Binding Letter of Intent

Ms Riggall said that a stadium had been located on the Varsity site on Bloor Street West for one hundred years. The objective of the current plan was to restore the Varsity Stadium tradition.

- **Current plan**. The proposed facility would include a 25,000 seat stadium that would include both a playing field and a six-lane track with an eight-lane straightaway. The four primary users would be the University, Soccer Canada, the Toronto Argonaut football team and the Toronto community at large. The Bloor Street frontage would include 30,000 square feet of retail and office space. There would be a pedestrian plaza on the west (Devonshire Place) side of the stadium, and the east side would be integrated with Varsity Arena. The athletics facilities would include space to be used by the University, space to be used the football team, and shared space.

- **Financial considerations**. The estimated cost of the project was $80-million. The Government of Canada and the Government of Ontario had offered to contribute a total of $35-million to support the project, conditional on Canada's being awarded the opportunity to host the men's under-twenty world soccer championships for 2007. The location of that championship would be announced in October, 2004. Benefactors had pledged a total of $15-million to support the project; those donations were tied specifically to the project and would not be forthcoming for other University purposes. The remaining $30-million would be financed by the University, but the Toronto Argonaut football team, which would manage the facility, would be responsible for making the full principal and interest payments.

11. Varsity Stadium: Authority to Enter Into a Non-Binding Letter of Intent (Cont'd)

- **Proposed agreement**. The Argonaut football team would manage and operate the facility, receiving all revenues and paying all expenses, including the University's debt service costs. Ms Riggall and her colleagues had completed a financial analysis, which concluded that the Argonauts' revenues from operating the facility would be twice the amount required to handle the debt service payments. The University would pay rent for the use of the facility amounting to $1.2-million per year, increasing with inflation. That amount would come from the operating budget of the Faculty of Physical Education and Health – an amount comparable to the Faculty's current spending for the purposes that would be served by the proposed stadium. The University would retain ownership of the land and buildings. University approval would be required for namings, leases, advertising, etc., in order to enable it to ensure that the facility retained the look of a university facility. The term of the agreement would be thirty-five years.

- **Other option**. Prior to the current proposal, the University had considered the construction of a 5,000 seat stadium, primarily for its own use, combined with an upgrade to Varsity Arena. The cost of that option would have been $30-million, with the University paying all costs and retaining all revenues. Because there would be no external participation, the cost to the University's operating budget would have been $3-million per year, compared to the $1.2-million cost of the new proposal. The larger and better facility would in fact cost the University much less.

- **Additional details of the current plan**. No parking facilities would be added; there were a substantial number of parking places nearby and there was subway access just across the street. Devonshire Place would be closed, although there would be service access for the facility, Trinity College and Woodsworth College, running north from Hoskin Avenue. Careful attention would be given to urban design considerations including traffic and noise issues. There would be no need to use a part of the site for student residences and daycare facilities, as had previously been contemplated, because those facilities were being provided elsewhere.

Ms Riggall reported that, following the May announcement of conditional government support for the project, discussions had been taking place with Soccer Canada and the Argonaut football team. The Argonauts were eager to proceed expeditiously with the project and were therefore willing, at their own risk, to pay all of the costs of initial work on the project including legal, architectural, and engineering fees as well as the cost of seeking the necessary re-zoning to permit the use of Devonshire Place. Should the project not proceed because Canada does not win the right to host the soccer championships or because the Governing Council does not approve the plan, the University would bear no portion of the sunk costs. If the project does proceed, those costs would become part of the total project cost, funded as described above.

Ms Riggall asked that the Board give her authority to proceed, on behalf of the University, to negotiate and enter into a non-binding letter of intent that would set out the basic points of understanding between the parties and protect the University's interests as the process

11. Varsity Stadium: Authority to Enter Into a Non-Binding Letter of Intent (Cont'd)

went forward. The agreement would include the understanding that the football team would be responsible for all interim expenses if the project were not to go forward. Ms Riggall would lead an implementation team that would: develop the space plan for the project; develop the time usage plan for the facility; conduct consultations with the surrounding community; make the needed arrangements with the City of Toronto; and develop the financial-commitment and legal documentation. Assuming that the project could go forward, a final proposal would be made to the Governing Council. The Planning and Budget Committee and the Academic Board would be asked to recommend approval of the plan in principle, including the use of the site, the general plans, and the funding – the use of borrowing capacity to be guaranteed by the operating fund. The Business Board would be asked to approve the specifics of the business arrangements and the execution of the capital project.

Ms Riggall responded to questions, and the Board engaged in a substantial discussion. Among the matters that arose were the following.

(a) Risk of the arrangement not proceeding. In response to members' questions, Ms Riggall said that should the arrangement not, for any reason, be able to proceed, then the University would have to begin again to consider its options. It was possible that a change in the political complexion of the federal government could endanger the assistance that had been promised by the current Government, but there were various reasons why the project would continue to be an attractive one to support.

(b) Initial costs. A member expressed surprise at the $4-million estimate of initial costs for the project. Mr. Bisanti said that those costs would include architectural design, engineering and other specialized consultants, and the cost of seeking the needed re-zoning to enable construction on a part of Devonshire Place. Time was of the essence, and it would be important that 60% of the preliminary work be completed before the October announcement of the location of the soccer championships. In response to another question, Ms Riggall assured the Board that none of those costs would be paid by the University if the Governing Council should decide in the fall not to proceed with the project. Mr. Bisanti added that all contracts with the architects and consultants were being signed by the football team. The Chair reiterated that, at this time, the only authority being requested was for Ms Riggall to enter into negotiations and complete a non-binding letter of intent.

(c) Terms of the proposed arrangement with the Argonaut football team. A member questioned the financial soundness of the proposed arrangement. While it was true that the football team would assume the risk for initial costs of about $3.5-million, the University would undertake considerable burdens. The University would tie up $30-million of its credit capacity and would, in the event the football team ran into serious financial problems, be required to deal with the debt service. The University would be required to pay a substantial rent, escalating with inflation, notwithstanding the fact that the football team would apparently enjoy revenues at twice the level of its debt service cost. If the deal was of such value to the football team, which would have use of the stadium and office space, income from the retail space, and other revenue,

11. Varsity Stadium: Authority to Enter Into a Non-Binding Letter of Intent (Cont'd)

then the University should not be paying rent. The University was sacrificing the potential revenue from the Bloor Street frontage, which would surely become much more valuable over the course of the proposed arrangement. The member was also concerned that the University would accept a $15-million donation that would serve only to enable a private corporation to earn a substantial profit from University property, while the University itself was required to pay rent for use of the facility. In any contractual arrangement, the parties should share the "co-operative surplus" arising from the arrangement. In this case, the football team appeared to be deriving virtually all of the benefit.

Ms Riggall appreciated some of the points the member had made. She did note, however, that the football team would not only be risking between $3.5 and $4.5-million for start-up costs if the project did not go forward, it would also be assuming all of the risk of the on-going operation of the facility. The University itself would not bear the risk of running a 25,000 seat stadium, and it would eventually enjoy ownership of the stadium without having to pay the capital and debt service costs. Ms Riggall had raised with the football team the inclusion of a clause in the agreement that would see the University have a share in profits from the operation above a stated level. The team had been receptive at least to discussion of the idea.

Professor Goel added that the University's primary risk would arise from any financial failure of the football team. In that case, a substantial amount of equity would have been put into the project and the business structures would have been put into place. Therefore, the University would likely be able to operate the stadium without an unacceptable financial drain on its operating budget, whereas it clearly would be unable to do so were it beginning to construct a stadium *de novo*. The University, if it were required to assume operation of the facility, would be able to derive revenue from renting the facility to Canadian Soccer Association teams and other users. Many previous proposals had been considered, and this proposal appeared to be of greatest benefit to the University. If it were not to proceed, the University would revert back to consideration of a 5,000 seat stadium, but that would require substantially greater resources from the operating budget.

The member understood that the proposal might be the best way of proceeding, but that did not mean that the University should settle for the terms proposed, with the football team enjoying all revenue, including that from such things as the sale of naming rights, while the University would derive no share of the benefit and be required to pay an escalating rent.

Ms Riggall said that she and her team would have to do a great deal more analysis and negotiation, and she would take into account the member's views. Because that work should proceed at once, she urged the Board to support the proposal that she be given authority to negotiate and execute a non-binding letter of intent.

A member said that he would not be concerned that the football team would earn some profit from the stadium; that would be reasonable in light of the fact that the University would have use of a stadium on campus and would eventually own it. But he and another member did agree that the University had very good reason to insist that it receive a share of any profits that might be earned.

11. Varsity Stadium: Authority to Enter Into a Non-Binding Letter of Intent (Cont'd)

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the proposed Borrowing Strategy,

THAT the Vice-President, Business Affairs be authorized to negotiate and enter into a non-binding Letter of Intent that:

(i) describes the basic points of the understanding between the University and the Toronto Argonauts, which will be essentially consistent with Ms Riggall's memorandum to the Business Board of June 3, 2004 on the subject of the Varsity Stadium Project;

(ii) confirms that any interim expenses, incurred to do the preliminary design and related studies and for any rezoning applications and other necessary preliminary work, will be paid by the Toronto Argonauts, on the understanding that these will form part of the project costs if the project is to proceed; and

(iii) includes other terms as may be necessary to protect the interests of the University.

12. Capital Project: 155 College Street - Design Fees

Mr. Bisanti recalled that the Board had approved the purchase of the Toronto Board of Education properties at a cost of $17-million, and the University had assumed their ownership on September 1, 2003. The properties included the office building at 155 College Street as well as three other buildings on McCaul Street: a smaller office building, a warehouse, and a parking structure which had since been closed for reason of safety. It was proposed to accommodate three academic divisions in the renovated 155 McCaul Street: the Faculty of Nursing, the Department of Public Health Sciences, and the Department of Health Policy, Management and Evaluation. Those units were currently dispersed in six different buildings. The building at 155 College Street was currently vacant, with the University's plan to renovate the building stalled pending approval of further borrowing. The total cost of the project was estimated to be $24.1-million. Mr. Bisanti recommend approval at this time of the expenditure of $1.3-million to enable the engagement of architects and consultants to allow planning to proceed to the stage of working drawings. The project would proceed to tender in December, with the completion of construction anticipated for August 2005.

Professor Venter added that the building would accommodate programs that would be of considerable benefit to the Province of Ontario in its efforts to improve health care.

12. Capital Project: 155 College Street - Design Fees (Cont'd)

Vice-President Tuohy would therefore approach the Government to solicit its assistance in completing this project, a request that was reasonable in the light of the University's already having invested $17-million to purchase the properties.

In response to a question about the inclusion of 63 net assignable square metres of space in the building for the Provost's Office, Professor Venter said that this space was intended to be a computer room for mainframe computers that would be used by the occupants of the building and others.

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the project and of the proposed Borrowing Strategy,

THAT the Vice-President, Business Affairs be authorized:

(i) to arrange for design work for the project to renovate 155 College Street at a cost not to exceed $1,300,000 with financing to be repaid from the University of Toronto operating budget, and

(ii) to arrange such interim and long-term financing as required from either internal or external sources.

13. Capital Project: Downsview Library Storage Facility

Mr. Bisanti recalled that the project had been approved in principle by the Governing Council. On March 1, 2004, the Business Board had approved the spending of an initial $1-million to undertake design and site preparation, but it had been necessary to awaited the approval of the borrowing strategy to consider authorizing completion of the project. The site of the Library storage facility was University-owned land in Downsview – the location of the Institute for Aerospace Studies and the University of Toronto Press warehouse and printing facilities. The proposal was to build the first two modules of the five that would eventually be needed.

A member recalled that the limits of the University's insurance policy did not cover the full amount that would be lost in any catastrophic fire at the Robarts Library, and the University could not obtain additional coverage at an acceptable cost because the Library was not protected by a sprinkler system. Would the books stored in the new facility be eligible for adequate insurance coverage? Invited to respond, Ms Moore assured that member that the new facility would be fully insured. In response to another member's question, Mr. Bisanti said that if the project were to threaten to run over the proposed $6-million cost, it would be scaled back so that it could be completed within the approved amount.

13. Capital Project: Downsview Library Storage Facility (Cont'd)

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the proposed Borrowing Strategy,

THAT the Vice-President, Business Affairs be authorized:

(i) to execute the Library Storage Facility Project (Phase I) on the Downsview Campus at a cost not to exceed $6,000,000 with full funding of the cost from the University's operating budget (i.e. the University Infrastructure Investment Fund), and

(ii) to arrange such interim and long-term financing as required from either internal or external sources.

14. Capital Project: University of Toronto at Mississauga Residences, Phase 8

Mr. Bisanti recalled that the Board had in March 2004 approved the expenditure of $300,000 to begin concept design work on the proposed University of Toronto at Mississauga (UTM) Residences, Phase 8 - a step necessary in view of the urgent need to have the residences available to meet strong student demand by September 2006. The proposal was for a 418-bed, dormitory-style residence with semi-private washrooms. The concept drawings had been seen by the Design Review Committee and there might be need for some changes. UTM had prepared a business case, which had been distributed to members. The financial model had been reviewed by the Financial Services Department, which had produced a risk analysis classifying the plan as having moderate risk. The objective was to build a dormitory at a cost of $55,000 per bed, well below the $78,000 per bed spent on the Phase 7 UTM residence. (Mr. Bisanti noted that the $3-million cost of the kitchen and dining facilities included in the project was not counted in the calculation of the cost per bed.) UTM could not afford a more costly residence, and Mr. Bisanti anticipated that it would be possible to achieve the project at the projected cost, given the design being planned. The architects, Moffat Kinoshita, had completed attractive residence projects elsewhere in Ontario within that price range.

Two matters arose in discussion.

(a) Depletion of borrowing capacity. Two members expressed concern that the proposed additional $150-million borrowing capacity was being depleted very quickly. Professor Venter and Mr. Bisanti replied that the proposed project had been on the list of capital projects for some time and that it met all of the University's academic criteria. With UTM able to accommodate only 13% of its students in residence, there was a clear need, with a good stream of revenue

14. Capital Project: University of Toronto at Mississauga Residences, Phase 8 (Cont'd)

provided by residence rents. Professor Venter commented briefly on how the administration would seek to deal with other needs. It would bring a revised capital plan to the Planning and Budget Committee early in the fall. In the meanwhile, there was a clear and present need to proceed expeditiously with the projects now before the Board, including the proposed UTM residence.

(b) Business case: occupancy. A member noted that the financial risk analysis projected 100% occupancy levels during the academic year, with the risk analysis using 98% as the worst case. Was that realistic? What was occupancy likely to be during the summer? Professor Venter replied that, with the addition of 2,000 beds on the St. George campus, there was some concern about the occupancy of residences on that campus, especially at the Chestnut Street Residence. However, the residences on the Mississauga and Scarborough campuses were full. Professor Orchard added that the level of demand at UTM was very strong, with many students commuting from home and up to one third of others forced to rent accommodation off campus. UTM had a very large summer operation and those of its residences that were air conditioned were fully occupied during the summer.

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

YOUR BOARD APPROVED

Subject to Governing Council approval of (i) the Academic Board's recommendation for allocation of funding for the project, and of (ii) the proposed Borrowing Strategy,

THAT the Vice-President, Business Affairs be authorized:

(i) to execute the University of Toronto at Mississauga Residence Phase 8 project at a cost not to exceed $26,215,000, funded by a mortgage loan in the amount of $26,215,000 to be amortized over a period of 25 years with payments from residence revenues and the University of Toronto at Mississauga residence ancillary operation; and

(ii) to arrange such interim and long-term financing as required from either internal or external sources.

15. Capital Project: Economics Building: Phase 1 – Increased Appropriation

Mr. Bisanti recalled that the Governing Council had approved the Economics Building Project, to be completed in two phases, with funding to be provided by an internal loan for $6-million to be repaid by the Faculty of Arts and Science and by a further $8.3-million from fundraising to be completed by that Faculty. Completion of the second phase was contingent on the success of the fundraising. The Business Board had approved proceeding with Phase I of the project at a cost of $6-million. It had since become necessary to modify the phasing of the project and the project itself. Phase I had to be modified to deal with serious deferred maintenance issues in the current building and to incorporate certain facilities originally planned for phase II, given that it become clear that the needed fundraising would take longer than anticipated. Phase II would be reduced, eliminating a planned 75-seat lecture theatre. The current south wing building would not be demolished, as originally planned; rather it would be renovated and some new space would be added to the north and west of the original north wing. The cost of phase I would increase to $7.8-million. The funding would include the originally planned internal loan of $6-million with the addition of a cash contribution of about $1.8-million from the Faculty of Arts and Science. There would, therefore, be no further diminution of the University's borrowing capacity or impact on its central operating budget. There would also be a reduction of the deferred maintenance backlog.

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the proposed Borrowing Strategy,

THAT the Vice-President – Business Affairs be authorized:

(i) to execute the revised Phase 1 of the Department of Economics Building Expansion Project at a cost not to exceed $7,818,132 with the funding sources to be a mortgage to be amortized over a period of 25 years in the amount of $6,000,000 with payments forthcoming from the Faculty of Arts and Science and a cash contribution of $1,818,132 to be made by the Faculty of Arts and Science at project completion; and

(ii) to arrange such interim and long-term financing as required from either internal or external sources.

16. Sunnybrook and Women's College Health Sciences Centre – Revised Master Plan

Professor Venter said that the University owned the land and the original buildings at the Sunnybrook Campus of the Sunnybrook and Women's College Health Sciences Centre and leased those lands to the Health Sciences Centre at a token rent. Those lands had to be used for health care and related purposes or they would revert to the ownership of the City for use as parkland.

16. Sunnybrook and Women's College Health Sciences Centre – Revised Master Plan (Cont'd)

The proposed master plan would set out two distinct regions within the Sunnybrook lands: one specifically for hospital uses and a second where both university and joint university/hospital developments could take place. The University and Sunnybrook-Women's were currently in negotiations aimed at arriving at a new lease for the land. For Sunnybrook-Women's to proceed with its plans in concert with a partner, there was need for the proposed new lease to be approved for a 49-year term rather than the previous 21 years. The proposed lease would require the Business Board's approval, and it might well be brought to the Board at its meeting in early October. However, it might also be necessary to approve the lease earlier, using summer executive authority, with a report for information to the Board in October. That being the case, Professor Venter wished to draw the matter to the Board's attention at this time.

Two questions arose in discussion.

(a) University liability with respect to the planned developments. A member asked whether the University would risk any liability in the event of problems arising out of the developments planned by Sunnybrook-Women's in tandem with external partners. Professor Venter replied that the University's objectives were to ensure through the lease agreement that the planned developments were generally consistent with the University's interests and also that they were at some distance from the University. The agreement would be drafted in such a way as to ensure that the University continued to have no liability with respect to Sunnybrook-Women's.

(b) Forty-nine year lease term. A member asked whether, given the rapid changes in the health care system in Ontario, a 49-year term might be too long. Were there legal implications to offering a lease longer than 21 years? Professor Venter replied that the University had no general concern with the proposed 49-year lease term, and he undertook to seek legal advice about any problem that might arise from extending the term beyond 21 years.

17. Design Review Committee: Annual Report, 2002-03

The Board received the annual report of the Design Review Committee for the period July 1, 2002 to June 30, 2003. Professor Venter offered to provide a presentation of the report at a later meeting, when the Board was not so pressed for time.

The Chair thanked all of the members of the Design Review Committee for their service. The Board could take comfort from the fine work of this Committee, which provided another check and balance in the process of execution of capital projects.

REPORT NUMBER 135 OF THE BUSINESS BOARD - June 17, 2004

18. University of Toronto Asset Management Corporation: By-Law Amendment

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

YOUR BOARD APPROVED

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

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

The number of directors of the Corporation is hereby increased from ten to eleven (including three ex officio directors as hereinafter provided), and the affairs of the Corporation shall hereafter be managed by a board of eleven 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.

19. Investments: Performance Benchmarks – Proposed Revisions to Schedule "C" of the Service Agreement with the University of Toronto Asset Management Corporation

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

YOUR BOARD APPROVED

On behalf of the Governing Council

The proposed revised Schedule "C" to the 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, containing performance benchmarks against market indices and peer universes, target returns for the Expendable Funds Investment Pool and the Foreign Exchange hedge ratios.

20. Administrative User Fees and Fines, 2004-05 – Additions to the Schedule

On the recommendation of the Vice-President and Provost,

YOUR BOARD APPROVED

THAT the proposed application fees for non-Ontario applicants (a) to the Faculty of Applied Science and Engineering and (b) to the Commerce program be added to the Administrative User Fee Schedule.

REPORT NUMBER 135 OF THE BUSINESS BOARD - June 17, 2004

21. Property: Huron-Sussex Demonstration Project

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

YOUR BOARD APPROVED

THAT the Vice-President – Business Affairs be authorized to negotiate and execute a short-term land lease for the demonstration project on a vacant parcel of land in the Huron-Sussex area of the St. George Campus, with terms essentially as outlined in Mr. Bisanti's memorandum of June 11, 2004 to the Business Board.

22. Report Number 72 of the Audit Committee - May 19, 2004

The Board received for information Report Number 72 of the Audit Committee.

23. Risk Management and Insurance: Annual Report, 2003-04

The Board received for information the Annual Report on Risk Management and Insurance, 2003-04.

24. Quarterly Report on Donations of $250,000 or More, February 1 – May 31, 2004

The Board received for information the Quarterly Report on Donations for $250,000 or More, February 1 – May 31, 2004.

25. Date of Next Meeting - Monday, October 4, 2004

The Chair reminded members that the next regular meeting was scheduled for Monday, October 4, 2004.

The Chair recalled the very helpful series of financial background briefings that had been provided by Ms Brown over the course of the year. The Chair was seeking to arrange for an orientation meeting in mid to late September* at which Ms Brown would present a complete briefing, based on the numbers in the 2004 financial statements. She had asked Ms Brown to prepare a notebook containing this information, which would serve as an important reference tool for the Board throughout 2004-05. A member commented that the proposed orientation meeting was a very good idea.

---

* The orientation was subsequently scheduled for Friday, October 1 from 9:00 a.m. to noon.

26. Other Business

(a) Senior Salary Committee Review

The Chair noted that the Senior Salary Committee of the Governing Council reported annually to the Board. That Committee had undertaken a review of the compensation practices for the senior salary group, and it had hoped to be in a position to make recommendations to the Business Board this year. A follow-up to that review was currently underway (including information-gathering), and it would have been premature to bring forward any recommendations at this time. The Committee anticipated that recommendations would be brought forward in the fall.

(b) Chair's Remarks

The Chair thanked all members for their service on the Board over the 2003-04 year. She offered special thanks to those members who were concluding their terms on the Board.

- **Mr. John F. (Jack) Petch** would in 2004-05 serve as Vice-Chair of the Governing Council. While he would no longer be Vice-Chair of the Business Board, he would continue as an *ex officio* member. The Vice-Chair played an very important role behind the scenes – in particular in providing advice both at the agenda planning meetings that preceded Board meetings and in providing advice to the Chair and to the administration privately, and Mr. Petch had played this important role with great distinction.

- **Mr. Bruce Cameron** would also be continuing his service to governance next year in a different venue. He would be on the Academic Board as well as its Agenda Committee and the Planning and Budget Committee.

- **Ms Karen Lewis** has concluded her term of the Governing Council and on the Business Board.

- **Dr. Susan Scace** had also concluded her term on the Governing Council and the Business Board.

- **Mr. Amir Shalaby** had concluded his term on the Governing Council. He had served on the Business Board throughout his nine years on Governing Council, and was the Board's superb Chair from 1999 – 2003.

THE BOARD MOVED INTO CLOSED SESSION.

On motion duly made and seconded, it was RESOLVED

> THAT pursuant to section 33(i) of By-Law Number 2, the Board consider item 13 (Closed Session Reports) in closed session and item 14 (Report of the Striking Committee) *in camera*.

REPORT NUMBER 135 OF THE BUSINESS BOARD - June 17, 2004

27. Closed Session Reports

Ms Sass-Kortsak reported on the status the status of negotiations aimed at a first contract with the union representing the University's child-care workers.

28. Report of the Striking Committee: Co-opted Membership of the Business Board and the Audit Committee for 2004-05

On motion duly made and seconded, it was RESOLVED

(a) THAT Ms Kim McLean be re-appointed to the Business Board for a term from July 1, 2004 to June 30, 2005;

(b) THAT Mr. Richard Nunn be re-appointed to the Business Board for a three-year term from July 1, 2004 to June 30, 2007;

(c) THAT the following be appointed as co-opted members of the Audit Committee for one-year terms from July 1, 2004 to June 30, 2005:

Ms Paulette L. Kennedy
Mr. Paul E. Lindblad
Mr. Gerald A. Lokash
Mr. Richard Nunn
Mr. David Oxtoby
Mr. Roger H. Parkinson
Professor Gordon Richardson
Mr. Christopher Sparks
Mr. Mark Weisdorf; and

(d) THAT Mr. George Myhal be re-appointed Chair of the Audit Committee for a one-year term from July 1, 2004 to June 30, 2005.

The meeting adjourned at 7:45 p.m.

Secretary Chair

July 29, 2004

31155