UTS

UNIVERSITY OF TORONTO SCHOOLS

A Tradition of Excellence in Education

FINANCIAL INFORMATION SUMMARY
OCTOBER 2003

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INTRODUCTION

Note

This document was created by the UTS interim board of directors established by the Dean of OISE/UT in 2001. The proposed change in UTS governance would see it removed as a unit of OISE/UT and re-constituted as a separate legal entity affiliated with and part of the University of Toronto community. If the proposal is approved by Governing Council, a new *empowered* board of directors would be established to govern all of UTS' affairs. As the current interim board has no authority to bind the proposed *empowered* board, this document merely presents the current financial state of UTS together with the long-range funding plan developed in 2001. It will be up to the sole discretion of the new board to set the financial course for the new legal entity within the financial constraints dictated by the University's need for UTS to become self-sufficient, and while preserving the accessibility principle specified in the objects of the new entity.

Background

The School

UTS was created in 1910, shortly after the establishment of the Faculty of Education of the University of Toronto. The School was identified, from the start, as a "practice school", connected with the academic education of teachers at the Faculty of Education. It also had an important role in curriculum development and research at the Faculty. In 1920 the Faculty of Education was designated the Ontario College of Education (for many years the sole institution in the Province for the preparation and certification of secondary school teachers). In 1966 the OCE was designated the College of Education, University of Toronto, and in 1972 was designated as the Faculty of Education, University of Toronto. UTS was identified as part of OISE/UT when the Faculty of Education and the Ontario Institute for Studies in Education merged in 1996 to form OISE/UT.

Since the withdrawal of provincial funding in 1994, UTS has moved towards a more self-supporting model, with financial stability and accessibility taking on greatly increased significance. Tuition fees now play a much more significant role in meeting operating expenses. The capital facilities, however, have continued to be provided by the University. The pressing need for a new or renewed physical plant has highlighted the importance of clearer plans and structures for financial support and stability, as well as for longer-term strategic policy formulation.

The Governance Restructuring Proposal

A recommendation by the UTS interim board of directors to give the School its own separate legal status was presented to the Dean of OISE/UT and to other University officials in the Fall of 2001. The Dean accepted the interim board's recommendations and directed the interim board, with support from the Office of the Provost, to bring forward for consideration by all UTS stakeholders, a constitutional proposal with a view to continuing the School as a new legal entity in affiliation with the University.

Interim Affiliation, Services & Premises Agreement

The proposal includes an agreement to be entered into between the "new UTS" and the University which would set out the description of the fiscal and administrative relationship between the University and UTS for the period from January 1, 2004 through April 30, 2006 and to describe the areas of the relationship which must be negotiated between the University and the new board of UTS for a longer term agreement.

FINANCES

Current Funding Arrangements (All figures are rounded approximates)

For the 2002/3 school year, the School incurred *direct* expenses of $7 million. Operating revenue totaled $6.94 million, including a direct grant from OISE/UT of $216,000, and a special one-time donation of $200,000 from a UTS alumnus. This left the School with an operating deficit of $89,000. The total accumulated deficit as of the end of the 2002/3 fiscal year was approximately $155,000.

For the 2003/4, operating revenue is estimated to be $7.17 million with operating expenses of $7.34 million, resulting in a deficit of $170,000.

While the University has 'covered' the accumulated deficits, the University (and the interim board) expects these amount to be repaid in the next few years.

Until now, UTS' reported operating expenses never included expenses that the University incurred in the direct operation of the School. These expenses include clearly identifiable items such as the cost of operating the space at 371 Bloor St. and extend to other direct administrative overhead items such as human resources and financial services, to central University administrative overhead costs.

Separate from the governance change proposal, UTS and OISE/UT received a mandate from the University Provost in early 2003 to review the *true* costs of running UTS, including amounts the University and OISE/UT incur that have not previously been billed to UTS. This review was ordered under the University-wide cost-cutting mandate. Part of the Provost's mandate to OISE/UT and UTS included a call to justify such non-billed expenditures with an examination of UTS' role *as a secondary school* in advancing the University's mission of post-secondary educational and research excellence.

While such review is ongoing, it has become apparent that the level of the University's subsidization is significant. The University has made it clear that its support of the School must be commensurate with UTS' contribution to the University's mission.

New Funding Arrangements

Interim Affiliation, Services and Premises Agreement

The governance change proposal includes the entering into of an interim affiliation, services and premises agreement between the University and UTS. The decision to have an interim agreement rather than a long-term agreement was based primarily on the fact that an empowered board of directors won't be in place until after the proposal is approved by Governing Council.

As noted in the Introduction, the agreement would set out the description of the fiscal and administrative relationship between the University and UTS for the period from January 1, 2004 through April 30, 2006 and describe the areas of the relationship which must be negotiated between the University and the new board of UTS for a longer-term agreement.

During the 28-month interim period, it is proposed that the University continue to accord substantially the same administrative support that it has traditionally provided. However, the University has made it clear to all UTS stakeholders that the current level subsidization will not remain after the interim period.

The "Principle of Funding" after the interim period is that UTS must become "self-funding", relying on revenue it generates (including fees it may receive from the University in consideration of UTS' contribution to the University's mission). UTS will no longer look to the University for the coverage of deficits and other operating subsidies.

After the interim period, UTS will begin to reimburse the University for expenses it incurs on behalf of UTS. It is assumed that the first and largest single area to be shifted to UTS will be the actual costs of operating and maintaining the building. UTS will also either pay for or take-over certain administrative services provided by the University, including payroll, human resources, financial services, etc.

Current Financial Projection

Tuition Fees

Currently, almost 90% of UTS' operating revenue comes from tuition fees. UTS' tuition fees are currently about $8,000 less per year than the "top" independent schools in the GTA.

A long-range plan was developed by UTS in 2001, prior to the recent mandate from the Provost to start covering more of the actual costs of operating the School. Obviously, this plan must change to gain more revenue to offset the increased costs. However, it is the interim board's hope that fee increases will be kept at a reasonable amount so as to maintain accessibility, as required by the objects of the new corporation.

Other Sources of Revenue

In addition to tuition fees, the School has received a direct grant from OISE/UT of $216,000. The proposed interim affiliation, services and premises agreement will protect this payment for two additional fiscal years.

Other current sources of revenue include fees from entrance examinations and income from endowments. In total, non-tuition revenue accounts for less than 15% of total operating revenue.

It is hoped and expected that UTS' new governance structure will allow it to pursue other streams of possible revenue, such as the offering of Summer programs and other fee-based programs and services. The local governance will permit decisions to be considered and more readily implemented by those at the School.

One further source of revenue after the end of the interim period (April 20, 2006) will be in the form of support provided by the University in direct proportion to the value UTS adds to the University. As stated above, this valuation will take place during the 28-month interim period. While UTS will likely be billed for much of the currently un-billed amounts incurred by the University on UTS' behalf, some of these 'increased expenses' may be off-set payments or other forms of support provided by the University to UTS as payment for UTS' contributions to the accomplishment of the University's general mission.

Other Fees

Students are currently billed for two amounts in addition to tuition. One is an "activities fee". This fee is currently set at $175 per student per year.

The other amount paid by students is referred to as the "Capital Fund Levy". In 2001, a Capital Improvement Project was tentatively approved by the University's administration. The plan called for substantial fundraising by the School. Although it was and is expected that the School's alumni would contribute the bulk of the required funds, parents were also included in the fundraising plan. Thus, a certain amount of the billed tuition has been set aside in a capital improvements fund. Currently, this levy is set at $750 per student per year. The 2001 long-range plan called for this levy to increase to $1,125 in the 2004/5 academic year.

Tuition Fees* v. Operating Costs

The student population for 2003/4 is 614, 10 less than expected and budgeted. All of the other years presented in the table below assume a student population of 624.

Operating Cash Flow	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Net Operating Income	$ 8,168,461	$ 8,370,403	$ 9,120,110	$ 8,677,696	$ 8,908,598
Net Operating Expenses	8,438,699	8,778,335	9,455,193	9,648,360	9,822,486
Operating Surplus/Loss	**$ (270,238)**	**$ (407,932)**	**$ (335,083)**	**$ (970,664)**	**$ (913,888)**
Accumulated Deficit	$ (424,950)	$ (832,882)	$ (1,167,965)	$ (2,138,629)	$ (3,052,517)

Tuition v. Expenses Per Student	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Tuition fee	**$ 9,740**	**$ 9,986**	**$ 11,127**	**$ 12,327**	**$ 12,922**
Operating expenses	$ 13,744	$ 14,068	$ 15,153	$ 15,462	$ 15,741
Actual operating loss	$ (440)	$ (654)	$ (537)	$ (1,556)	$ (1,465)
Loss if no UT subsidization	**$ (4,004)**	**$ (4,082)**	**$ (4,026)**	**$ (3,135)**	**$ (2,819)**
Accumulated Deficit	$ (692)	$ (1,335)	$ (1,872)	$ (3,427)	$ (4,892)

* Operating income for 2006/7 and 2007/08 includes support from the University.

** Operating expenses in 2006/7 and 2007/8 increase by an estimate of the direct and indirect overhead expenses incurred by the University in the support of UTS' operations. (Approximately 12.6% of total expenses.)

*** Fees as budgeted in the 2001 Long-Range Plan. Does not include student activity fees of $175 p.a. and capital fund levy of $750 per student in 2003/04 and $1125 per student p.a. thereafter.

Balancing the Budget

The new board of UTS will be faced with the difficult task of balancing a budget that has depended heavily on the University for financial support. As in any organization, there are two main ways to balance a budget: reduce expenses and/or increase revenue. The extent to which, if at all, expenses can be lowered needs to be examined. However, in any case, it is clear that such expenses will increase after the Interim Period as the level of financial assistance from the University will surely be significantly reduced.

On the revenue side, the board will be challenged to increase income without driving away deserving students. However, tuition must clearly increase more than previously planned to offset the projected operating deficits. How much tuition will be increased is up to the new board. The Interim Board has reviewed several options for the 2004/5 school year and presents them below, without making a recommendation as to which is most desirable. The various alternatives are based changes to the previously mentioned Capital Fund Levy, which was budgeted in 2001 at $1,125 per student for the next 5 years. (see "Other Fees" above). With any of these alternatives, the new board will faced with the decision of improving the current financial state at the expense of the Capital Improvement Plan budget.

(Each alternative assumes 624 students.)

Alternatives	**Operating Funds**	**New Capital Fund Levy**	**Capital Fund Shortfall** (plan= $780k)	**Planned Charges per Student**	**Revised Charges per Student**	**% Increase from 2003/4**
Keep $750 of the levy and move the planned increase of $375 to regular tuition fees	+$234,000	$468,000	($234,000)	$10,111	$10,111	7%
Keep $750 of the levy, increase overall charges to $12,000	+$1,412,736	$468,000	($234,000)	$10,111	$12,000	12.5%
Reduce levy to $500, reallocate $625 to regular tuition fees	+$390,000	$312,000	($390,000)	$10,111	$10,111	7%
Reduce levy to $500, increase overall charges to $12,000	+$1,568,736	$312,000	($390,000)	$10,111	$12,000	12.5%
Reduce levy to $125, reallocate $1000 to regular tuition fees	+$624,000	$78,000	($624,000)	$10,111	$10,111	7%
Reduce levy to $125, increase overall charges to $12,000	+$1,802,736	$78,000	($624,000)	$10,111	$12,000	12.5%
Eliminate levy, reallocate $1125 to regular tuition fees	+$702,000	Nil	($702,000)	$10,111	$10,111	7%
Eliminate levy, increase total charges to $12,000	+$1,880,736	Nil	($702,000)	$10,111	$12,000	12.5%

Summary

UTS clearly faces an immediately challenging road to financial stability. With the University's mandate that UTS become self-sustaining, everyone in the UTS community will have to "pitch-in" to improve its financial picture. Parents and alumni alike must share in this burden. It is the Interim Board's hope that while the parents' endure tuition increases, our alumni will step-up and increase their already generous giving to the bursary and capital campaigns. In this way, the two biggest stakeholders of UTS will work together to ensure a lasting and vibrant future of our highly valued and respected School.

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