

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 133 OF THE BUSINESS BOARD

April 14, 2004

To the Governing Council,
University of Toronto

Your Board reports that it met on Wednesday, April 14, 2004 at 5:00 pm 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
Ms Dominique Barker
Mr. Donald Burwash
Mr. Bruce G. Cameron
Dr. Alice Dong
Ms Mary Anne Elliott
Ms Susan Eng
Ms Françoise Dulcinea E. Ko
Mr. Gerald A. Lokash
Ms Kim McLean
Mr. George E. Myhal
Dr. John P. Nestor
Mr. Richard Nunn
Mr. Roger P. Parkinson
Mr. Timothy Reid
Professor Arthur S. Ripstein
Mrs. Susan Scafe
Mr. Amir Shalaby

Professor Jake J. Thiessen
Mr. John Bisanti, Chief Capital Projects
Officer
Ms Sheila Brown, Acting Chief Financial
Officer
Mr. Louis R. Charpentier, Secretary of the
Governing Council
Ms Rivi Frankle, Assistant Vice-President,
Alumni and Development
Professor Vivek Goel, Interim Vice-
President and Provost
Ms Christina Sass-Kortsak, Assistant Vice-
President, Human Resources
Professor Kwong-loi Shum, Vice-President
and Principal, University of Toronto at
Scarborough
Professor Ronald D. Venter, Vice-Provost,
Space and Facilities Planning
Professor Safwat Zaky, Vice-Provost,
Planning and Budget

Secretariat:

Mr. Neil Dobbs
Ms Susan Girard

Regrets:

Dr. Claude S. Davis
Dr. Paul V. Godfrey

Ms Karen Lewis
Mr. Robert S. Weiss

In Attendance:

Ms Grace Angelotti, Business Analyst, Real Estate Operations
Mr. Donald Beaton, Director of Real Estate Operations
Mr. Evan Cauble-Johnson, student, Faculty of Arts and Science
Ms Julie Chen Wing, student, Leslie Dan Faculty of Pharmacy
Mr. Andrew Drummond, Assistant Secretary of the Governing Council
Professor David Farrar, Vice-Provost, Students

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Dr. Beata FitzPatrick, Director, Office of the President and Assistant Vice-President
 Ms Kelly Holloway, Vice-President, Graduate Students' Union
 Ms Anne Lewis, Manager, Student Accounts, Financial Services Office
 Professor George Luste, President, University of Toronto Faculty Association
 Mr. Ashley Morton, President, Students' Administrative Council
 Mr. Joseph Mulongo, graduate student, Ontario Institute for Studies in Education in the
 University of Toronto
 Ms Rosie Parnass, Quality of Work Life Advisor and Special Assistant to the Vice-President,
 Office of the Vice-President, Human Resources and Equity
 Ms Carole Ramm, Graduate Students' Union
 Ms Marny Scully, Director, Enrolment Planning and Statistics
 Ms Karel Swift, University Registrar
 Professor Tas Venetsanopoulos, Dean, Faculty of Applied Science and Engineering

ITEMS 3 AND 4 REPORT CONCURRENCES OF THE BUSINESS BOARD WITH RECOMMENDATIONS OF THE ACADEMIC BOARD.

ITEMS 5 AND 6 CONTAIN RECOMMENDATIONS TO GOVERNING COUNCIL FOR APPROVAL.

ALL OTHER ITEMS ARE REPORTED FOR INFORMATION.

1. Report of the Previous Meeting

Report Number 132 (March 1, 2004) was approved.

2. Long-Range Budget Framework, Guidelines and Projections, 2004-05 – 2009-10

The Chair said that Professor Goel would provide the Board with a single presentation dealing with (a) the Long-Range Budget Framework, Guidelines and Projections, 2004-05 – 2009-10, and (b) the Budget Report for 2004-05, the first year of the new budget planning period. She stressed that approval of the Budget Framework and the Budget Report would not amount to approval of the tuition fees assumed in those documents. Tuition fees would be discussed separately, later on the agenda. Should the Board or the Governing Council not approve the proposed tuition-fee schedules, then the administration would have to make budget adjustments, either by reducing expenditures or by finding other sources of revenue in 2004-05 or thereafter.

The Chair pointed out that the Academic Board was responsible for making the recommendation to the Governing Council for the approval of both budget documents. The Academic Board was responsible for the determination of priorities and the allocation of funds. The Business Board was asked to concur with the Academic Board's recommendation. The Business Board's focus was on matters of financial responsibility. Was it responsible and prudent to accept the planned deficits in the early years of the plan in the expectation that – by the end of the plan – the University would reduce the cumulative debt to the policy limit of 1.5% and bring the annual budget back into balance? Were the assumptions underlying the budget framework reasonable? Was the level of risk prudent?

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2. Long-Range Budget Framework, Guidelines and Projections, 2004-05 – 2009-10 (Cont'd)

Professor Goel presented the proposed Long-Range Budget Framework and Budget Report. He noted that in recent years, the Board had received an update of the long-range budget projection along with the Budget Report. Because 2004-05 would mark the beginning of a new long-range planning period, the Long-Range Budget Framework and the Budget Report came forward as separate motions. Among the highlights of Professor Goel's presentation were the following points:

- **Budget policy.** The University's fiscal policy, approved by the Governing Council in 1977, required that the cumulative surplus or deficit at the end of any year not exceed 1.5% of gross operating revenue. As Ms Brown had noted in her presentation (see item 6), at one time gross operating revenue had represented an amount very close to the total of the University's revenues. Since that time, revenue from other sources such as endowments, research grants, and ancillary operations had come to from a much larger proportion of revenue.
- **Budget guidelines.** Under the long-term budget planning system, in operation over the previous fifteen years, the Governing Council had permitted a larger budget deficit in any year so long as by the end of the planning period the cumulative deficit was no greater than 1.5% of revenue and the annual budget was

in balance. The University had implemented several successful plans, always meeting the policy requirement at their end. The long-range planning process had served the University very well, enabling it to weather such financial shocks as the 30% reduction in Government operating funding under the then-Provincial-Government's "Common Sense Revolution" program. The long-range budget planning process had also forced the University to think carefully about its budget-planning assumptions and about risk. Professor Goel displayed a graph showing the annual and cumulative deficits from 1998 to 2003. The cumulative deficit had exceeded the 1.5% limit in the fourth and fifth years of this period, but, by the application of cost-containment measures, it had been reduced to the 1.5% limit in the sixth year of the plan.

- **Assumptions: general.** The assumptions were prudent ones, representing a "base case," based not on advocacy objectives but rather on present circumstances and known Government policies. In the previous plans, some of the assumptions had not been realized, leading to the later need for larger budget-containment measures.
- **Assumptions: revenue - enrolment.** The revenue assumption was based on the current enrolment plans, involving some reduction in undergraduate enrolment (when the double cohort had passed through the system) and a modest increase in graduate intake to maintain an appropriate balance of undergraduate and graduate students.
- **Assumptions: revenue – Ontario government operating grants.** It was assumed that the Government would continue to provide full funding for the increased undergraduate

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2. Long-Range Budget Framework, Guidelines and Projections, 2004-05 – 2009-10 (Cont'd)

enrolment associated with the double cohort. It was also assumed that the Ontario Quality Assurance Fund, associated with the double cohort, would continue for three more years until 2006-07. After 2006-07, it was assumed that operating funding would increase by two percent per year – the assumed rate of inflation. It was assumed in the budget plan that the Government of Ontario would provide funding to replace some of the revenue lost because of the tuition-fee freeze – an amount equal to 2% of tuition-fee revenue. A recent Government announcement had confirmed that revenue source at 1.4% of tuition-fee revenue for programs with regulated fees and 5.6% of tuition-fee revenue for non-regulated-fee programs. The funding at 1.4% of tuition fee revenue for programs with regulated fees met the budget assumption because it was net of the 30% set-aside for financial aid. Finally, it was assumed that the cap on the number of funded graduate students would remain in place. Professor Goel stressed that this assumption was a reflection of current Government policy and very much contrary to the position the University was strongly advocating. There would be a clear need for additional places in graduate and professional programs as members of the double cohort moved past the undergraduate level.

Professor Goel also stressed that these assumptions were necessarily very conservative. The Ontario Government's announcement of the two-year tuition-fee freeze and replacement funding had included an announcement of a review of funding arrangements for post-secondary education, the outcome of which was uncertain.

- **Assumptions: revenue – tuition fees.** The two-year tuition-fee freeze was included in the budget assumptions. It was assumed that fees would be increased by two percent per year for all regulated-fee programs after that. It was assumed that during the freeze period, the Government would allow the flow-through of recent tuition-fee increases. For example, students moving from the first to the second year of certain programs such as commerce and computer science would be required to pay the higher fees previously approved for the second year of those programs. The budget model also included the outcome of the proposal, to come before the Board later in the meeting, for an increase in fees for international students.
- **Assumptions: other revenue sources.** It was assumed that the Canada Research Chairs program would be renewed by the Government of Canada after its expiry in 2007-08 and that that federal and Ontario governments would continue to provide support for the indirect costs of research. Investment income would be reduced by the effect of the amortization over three years of the investment loss in the Expendable Funds Investment Pool.
- **Assumptions: expenditures.** Compensation arrangements were in place for most employee groups for 2004-05. It was assumed that salaries and benefits would increase

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by two percent per year after that. The budget plan also assumed a small increase in the cost of benefits to 20.75% of salaries, reflecting, among other things, the increase in the cost of employer pension-plan contributions. The Enrolment Growth Fund would pay out more, reflecting the increased revenues from operating grants and tuition fees arising from increased enrolment, in order to enable the divisions to offer their programs to their larger numbers of students. The University would continue to set aside 30% of the proceeds of tuition-fee increases for domestic students to provide added student financial aid.

- **Six-year projection in the absence of adjustments.** Revenue was projected to increase from the 2003-04 year to the 2009-10 year - the final year of the planning period – by over one quarter of a billion dollars. However, expenditures were projected to increase by an even larger amount of \$347-million. In the absence of adjustment, the budget would move from balance to a deficit of \$96-million per year. The accumulated deficit would increase from \$25-million to \$384-million.
- **Expense reduction.** The outcome was the need for base-budget expense reduction. It was planned to implement reductions of two percent in each of 2004-05 and 2005-06, five percent in 2006-07, two percent in each of 2007-08 and 2008-09, and three percent in 2009-10. It was proposed to defer the largest reduction to the middle year of the plan for several reasons. It would allow time for the divisions to plan in a manner compatible with the academic planning process currently in progress. The plan would guard against a runaway accumulated deficit, while not imposing too high a reduction in one year. The plan would also allow for smaller reductions if new sources of revenue were to be realized in later years. That in turn would prevent the elimination of essential things that would then only have to be restored later – a costly process.

The implementation of the series of annual base-budget reductions would not, however, be sufficient to bring the cumulative deficit to the policy limit of 1.5% of revenue. It would therefore also be necessary to require a number of one-time-only reductions.

- **Reasons for the deficit notwithstanding increased revenue.** With the University completing the 2003-04 year with a balanced budget and with revenue projected to increase by \$251-million over the next six years, it was appropriate to explain the reasons for the projected deficit that would occur in the absence of corrective action. One key reason was that the University would, over the six-year planning period, face \$104.4-million in new expenses and items that would increase by more than the rate of inflation. It would have to spend \$26.5-million to amortize the deficit in the pension plan. It would have to spend an additional \$48-million to cover the cost of increase in employee benefits, reflecting the increased size of the faculty and staff, the increased amount of their earnings and the aging of the faculty. That amount was only a projection of the incremental cash cost and did not account for the projected cost of employee future benefits earned in the next six years by current employees, as recorded (according

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to accounting requirements) in the financial statements. There would be a \$4-million increase in the cost of servicing capital debt. There would be a \$14.6-million increase in student aid. Finally, an additional \$11.3-million would be spent on maintenance of buildings to prevent a further deterioration in their condition and a further exacerbation of the problem of deferred maintenance.

In addition to the \$104.4 million of additional expenses or expense increases above the rate of inflation, the plan set aside: \$30-million for academic initiatives under the *Stepping UP* planning process; \$50.9-million to cover the direct cost of enrolment growth; and \$123.4-million to cover the cost of inflation projected at two percent per year over six years. The total of those items was a \$308.7-million increase in expenses.

- **Long-term advocacy goals.** The University would continue its strong advocacy for action by the Ontario government to increase post-secondary education funding per student to at least the national average. Over the years 1994-95 to 2001-02, the average funding per student provided by the other nine provinces had increased slightly, while that provided by the Government of Ontario had declined, widening the funding gap. If that advocacy proved successful, the value of the basic income unit of funding would increase by 36%. The outcome of that would be the elimination of the projected cumulative deficit by the 2010 end of the budget planning period, even without the projected cost-containment measures.
- **Proposed operating budget for 2004-05: revenues, expenditures and deficit.** The proposed budget for 2004-05, the first year of the budget-planning period, projected total revenue of \$1,082.6-million for the operating fund, which did not include the revenue projected in the other funds (including such things as donations, research grants and contracts, and the revenues of the ancillary operations). That was an increase of \$105.1-million over the previous year, reflecting primarily the increased income associated with the double-cohort enrolment. However, expenditures were budgeted to increase even more, by \$129.4-million, to \$1,106.9 million, also because of the costs associated with the higher enrolment. The outcome was a budgeted deficit on the year's operations of \$24.3-million (compared to a break-even budget for 2003-04). The University would enter the 2004-05 year with an accumulated operating deficit of \$14.3-million and end the year with an accumulated deficit of \$38.6-million.
- **Proposed operating budget for 2004-05: revenues.** The largest elements in the increased revenue were \$71.5-million in additional operating grants and \$40.9-million in additional tuition-fee revenue arising from the projected enrolment increase. Those increases would be offset by a \$6.1-million reduction in investment income arising from the need to amortize earlier investment losses, which was being done over three years.

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- **Proposed operating budget for 2004-05: expenditures.** Primarily because of the increased number of students, total academic expenditures would increase by \$106.3-million, the cost of academic services by \$3.9-million, and the cost of administrative services by \$8-million. An additional \$8-million was budgeted for building and grounds maintenance and services to prevent further deterioration. Expense reductions from the amounts budgeted in previous years would amount to \$10.5-million.

Professor Goel concluded that the proposed budget was a prudent one. The projections of expense were realistic, and there were no unduly optimistic assumptions concerning revenue. He was asking that the Governing Council approve a budget with a two percent budget reduction for 2004-05, delaying larger reductions until later in the planning period. This would allow the administration to pursue new sources of revenue which, it was hoped, would enable positive changes in the assumptions for the later years. Professor Goel recognized that the outcome in the early years of the plan would be a cumulative deficit well above the usual policy limit of 1.5% of revenue. The University would, however, continue its advocacy aimed at achieving the increased revenue that would bring about a positive change in the budget plan.

Professor Goel observed that the proposed budget would leave the University with real challenges. While long-range budgeting had served the University well in supporting its plans, it also made it more aware of the very considerable gaps in its funding. The University was challenged to focus on generating the revenues necessary to meet its needs and aspirations. The University would have to be selective in choosing its priorities and would have to aim its development and advocacy efforts at achieving support for those priorities. The University would have to seek out efficiencies. A great deal had been achieved already, and more would be achieved in the future. For example, the implementation of an electronic procurement system might well achieve savings sufficient to compensate for one year's base-budget reduction. In facing these challenges, it was important to remember that the University had faced similar challenges many times in the previous century, and it had overcome them and gone on to new heights.

The Chair noted that the Board traditionally requested the President's assessment of the financial prudence of the budget proposals and of the major elements of risk in them.

The President congratulated Ms Brown on her presentation on operating fund planning, budgeting and accounting (see item 6) and congratulated Professor Goel on his presentation of the budget proposals. He observed he would have preferred to see a more salubrious situation than one in which the long-term budget framework projected base-budget reductions of about 17% over six years. The President regarded the budget projections as "realistically pessimistic," and he anticipated that the outcome would be better than the projections. The proposal to schedule two percent reductions in each of 2004-05 and 2005-06 and to postpone a larger 5% reduction to 2006-07 was intended to provide the opportunity to achieve new sources of revenue and new efficiencies to mitigate the need for so large a reduction later on. While there were

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uncertainties and elements of risk in the budget-plan assumptions, the President thought it more likely that changes would be to the upside. The budget framework assumed that the Government of Ontario would continue to provide funding from the Quality Assurance Fund to 2006 and would follow that with two percent funding increases to match inflation thereafter. The Provincial budget was expected in about three weeks' time and might provide further information. Ontario government had not since 1990-91 provided grant increases to recognize cost increases arising from inflation. While it was true that the Government faced its own deficit, other jurisdictions with larger deficits had recognized that their university systems represented the future of their jurisdictions and had provided the funding necessary to support those systems. The Government of Ontario would have to decide over the next six years whether it wanted to have a first-rate system of post-secondary education. It would not and could not have such a system if real funding continued to be reduced by the failure to increase funding to compensate for inflation.

The President reported that he had earlier in the day met with a very senior Ontario government official to discuss funding for additional graduate students, something that would be essential to the achievement of the long-term plan. It was clear that there was recognition of the need for such funding not only for operating purposes but for facilities. Both would be required to give the same opportunities to double-cohort students when they reach the stage of graduate studies as are available to the current generation of students.

With respect to the Province's freeze on tuition fees, the President reported that the Province would provide some replacement funding, amounting to 1.4% of tuition fee revenue for students in fee-regulated programs and 5.6% of such revenue from students in other programs, to which the freeze also applied. The outcome would be less than the foregone revenue but still \$3.7-million more than assumed in the budget report. This represented a success for the University's strong advocacy efforts. The problem remained, however, that about \$4.5-million of foregone revenue that would have been devoted to student financial support had not been made up. That was highly unfortunate.

The President said that the long-term projection of a two percent increase in the Provincial operating grant after the expiry of the Quality Assurance Fund was a very conservative one. That was likely to be a reduction in real funding after taking inflation into account. It was reasonable to hope and expect that the Province (a) would recognize that the universities' expenditures had to increase with inflation, and (b) would make provision in its funding.

The President was optimistic concerning Government of Canada support. If the federal government could be persuaded to increase its indirect-cost reimbursement rate from 20%, the outcome would be very helpful. For example, a 10% increase from 20% to 22% would be very welcome. Such an increase remained a main focus of advocacy efforts.

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The President anticipated that the University's investment returns would be much improved with the University's having adopted new investments policies and with Mr. Felix Chee serving as President and C.E.O. of the University of Toronto Asset Management Corporation. For 2003, the returns of both the endowment and pension funds had moved from the bottom quartile of comparable funds to the top quartile or (in the case of the pension fund) very near the top quartile.

The President stressed that the University's financial challenges would not be eliminated by improved investment returns on the endowment fund. Similarly, the University could not count on continued increases in tuition fees to solve those problems in a public university. Rather, it must maintain its advocacy efforts to ensure that public funding was increased to an adequate level. The President believed that the University's advocacy team, led by Professor Tuohy, Professor Challis and himself, was a strong one. The University's case was a good one. In addition to the issues already noted, the University had urgent need to advocate funding to deal with its deferred maintenance problem. It needed not only new buildings but maintenance and improvement to current buildings. There was reason to believe that government was recognizing the need, for example, for up-to-date laboratories.

The President stressed that the University would also have to vigorously pursue private funding. It had completed successfully its \$1-billion campaign. The President was very grateful to benefactors in the community for their support, and he anticipated further successes. The second Ontario Student Opportunity Trust Fund program, whereby the Government of Ontario and the University would match donations to endowments for bursaries to needy students, might well go some considerable way to mitigating the effect of tuition-fee increases.

The President referred to the transformation of the Mississauga and Scarborough Campuses, with new buildings, enrolment growth and the development of graduate programs. He was confident that the University would make real gains.

Among the matters that arose in discussion were the following:

(a) Tuition-fee policy. A member asked about the University's philosophy concerning tuition fees. What percent of the University's costs should be supported by tuition fees and what percent by other sources of revenue? At one time, tuition fees represented about 29% of the University's revenues. Had that proportion remained the same or changed? Professor Goel replied that students should, through their tuition fees, pay a fair share of the costs of their education, but the University's success should not depend predominantly on tuition fees. Therefore the University was making every effort: to advocate improved funding from the Province and research-infrastructure funding from the Government of Canada; to raise funds for its endowment; and to seek out other sources of revenue such as in-service professional and executive programs. The President observed that many students came from families that could well afford to pay tuition fees, and it was reasonable in a public institution to expect that they

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would pay one third of the costs of their education with two thirds coming from government. The proportion was 35% in Canada at one time, and the proportion was 45% in private universities in the U.S. While students might now pay fees amounting to approximately one third of the University's costs, this did not take into account the requirement that the University set aside 30% of the proceeds of tuition-fee increases for student aid. Therefore, students who could afford to do so now paid, in effect, about one quarter of the cost of their education and supplied a further amount of money that was used to assist needy students – a very worthwhile thing to do. A member observed that while it might be possible to compare the proportion of costs paid from tuition fees and from other sources in Canada and in the U.S., the fact was that the dollar amounts were far greater in the U.S.

(b) Policy limiting the cumulative deficit to 1.5% of revenue. A member asked the basis for the 1977 policy limiting the cumulative surplus or deficit in the operating fund to 1.5% of revenue. Would it not be more appropriate for the policy to require that the budget break even? Professor Goel and Ms Brown replied that historically, the 1.5% was intended primarily to provide a margin for error, with variances taking place during the year making it difficult to bring expenditures exactly into line with revenues. 1.5% of so large a budget would amount to little more than rounding error. When the policy was established in 1977, the University did not have in place a system for long-term budgeting. With such a system, it was appropriate to have a more sophisticated policy for regulating the cumulative deficit. Indeed, the very effect of the proposed Long-Range Budget Framework now before the Board was to permit cumulative deficits larger than 1.5% of revenues in some years of the planning period, provided that the cumulative deficit was reduced to 1.5% and the annual budget brought into balance by the end of the planning period. The need for a more sophisticated policy was reinforced by the fact that the operating fund now represented a smaller proportion of the University's total revenue and expenditure. The member maintained that that notwithstanding, it would still be appropriate for the objective to be a break-even budget with no cumulative deficit.

(c) Budget plan assumption concerning enrolment growth. A member questioned the assumption that enrolment would continue at its increased level after the double cohort had passed through the system. Professor Goel replied that the University did project a slight reduction in enrolment after the double cohort, but it did not project a return to the previous level. The demand for places by the double cohort would continue for about six years and then be continued by the children of the baby-boom generation, the so-called echo generation, and by increased participation rates. The effect of the double cohort was simply to move forward in time the need for additional places that would have been caused by those factors. The University would, of course, have to continue its advocacy efforts to ensure that the funding provided for the double cohort remained in place for the echo generation. The advantage it would enjoy was that many of the additional facilities would already be in place. The University would also have to continue its advocacy to ensure funding for additional graduate and professional-school students arising from both sources.

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(d) Enrolment policy. A member asked whether, in the event the Province did not increase per-student funding at a rate equal to or greater than inflation, the University would not be better off if it were to reduce its enrolment. Professor Goel replied that had the University not increased its enrolment over the past two years, it would have been decidedly worse off. While not receiving any inflationary increase in per-student funding, it would also have been unable to participate in the various new funding envelopes and would have therefore been deprived of funding in an amount of about \$100-million per year. It would at the same time still have faced the increased costs brought about by salary increases and inflation in the price of goods and services. There were, of course, other dimensions associated with the increased enrolment and inadequately increased funding such as increased class size and reductions in service levels. Professor Goel cited the experience at another major Ontario university that chose not to increase its enrolment; that university had faced much larger percentage budget reductions than did the University of Toronto.

(e) Advocacy for a student loan plan with income-contingent repayment. Noting the failure of the Province to provide adequate funding, a member asked why the University did not work actively to promote higher tuition fees combined with a student loan arrangement with repayment contingent on post-graduation income. Such a scheme would have the added benefit of avoiding a steering effect on graduates into the high paying jobs they would need to repay their student loans. Graduates who wished to take up community service positions would be able to do so freely knowing that they would have lower rates of repayment on their student loans. Professor Goel acknowledged the need to be creative in examining various alternatives. He had indeed had discussions with the Dean of one of the professional faculties about the option the member had suggested. Moving forward with advocacy of such a scheme would, however, require a great deal of consultation and collaboration with students, with the Governing Council and with government at both levels. The President noted that such a scheme was in fact in place in Australia. In that jurisdiction, all student support was based on the scheme, with no grant assistance being made available to students from low-income families. That contrasted with the experience at the University of Toronto, which provided \$40-million of need-based assistance annually. Graduates in Australia from all income backgrounds were left with very large debt loads. And, the system had been much less successful than the University of Toronto in achieving accessibility.

On the recommendation of the Interim Vice-President and Provost,

YOUR BOARD CONCURS

with the recommendation of the Academic Board

THAT the Long-Range Budget Framework, Guidelines and Projections, 2004-05 to 2009-10, pages 1 to 11 inclusive, dated March 2, 2004, a copy of which is attached to Report Number 127 of the Academic Board as Appendix "B", be approved.

REPORT NUMBER 133 OF THE BUSINESS BOARD – April 14, 2004**3. Budget Report, 2004-05**

The Chair invited any further discussion on questions relating specifically to the Budget Report for 2004-05.

Funding pressure: Universities and health care. A member stated his view that funding for Ontario universities was unlikely to improve unless the Government of Ontario was able to bring under control its problem of securing long-term, sustained funding for health care. He suggested that the University make use of its research resources in such areas as medicine, economics, political science and law to help the Government find a way to deal with that problem.

Professor Goel agreed that research at the University could play an important role. Indeed, there would be substantial synergies assisting just such work among the planned occupants of the new facility at 155 College Street: the Faculty of Nursing; the Department of Public Health Sciences; the Department of Health Policy, Management and Evaluation; and the Department of Family and Community Medicine. The University's scholars, working with their partners in the health care sector, had a unique opportunity to play a leading role in such research, and were working through proposals of interest for both the federal and provincial levels of government. There was reason to believe that such initiatives would be welcomed. The Ontario Minister of Health and Long-Term Care, the Honourable George Smitherman, had stated that his priorities included dealing with public-health challenges, primary-care reform, and improved accountability in health management. Professor Goel noted that from a long-term perspective, education was one of the most important determinants of the cost of health care, with better educated people tending to enjoy better health and to need less health care.

The Vice-Chair, from his perspective as chair of the board of a major Toronto hospital, assured the member that every effort was being made in work with both levels of government to secure sustainable, long-term funding for health care, and those efforts appeared to be meeting with considerable success.

On the recommendation of the Interim Vice-President and Provost,

YOUR BOARD CONCURS

With the recommendation of the Academic Board

THAT the Budget Report for 2004-05, dated March 16, 2004, a copy of which is attached to Report Number 127 of the Academic Board as Appendix "C", be approved.

REPORT NUMBER 133 OF THE BUSINESS BOARD – April 14, 2004**4. Tuition Fees for Publicly Funded Programs, 2004-05****(a) Proposal**

Professor Goel drew members' attention to the two reports that were on the agenda as important background information to the consideration of the proposed tuition-fee schedule. The Enrolment Report was intended to enable the Board to satisfy itself that the level of tuition fees was not having a negative impact on enrolment – that the University was not “pricing itself out of the market.” The Enrolment Report demonstrated that enrolment for 2003-04 was strong and well over the budgeted level for the year. The Report on Student Financial Support was provided in the light of the key role played by student aid in the tuition fee policy, which called for fees for all students to be set at a level that would maintain high program quality and called for accessibility for needy students to be maintained by student aid programs. The Report on Student Financial Support for 2002-03 demonstrated that the financial support for students had continued to grow - from \$1.5-million in 1992-93 to \$40.4-million in 2002-03. Financial support for students in doctoral-stream graduate programs (excluding support from the affiliated hospitals) had grown to \$126.5-million in 2002-03. That amount included \$71.2-million of awards as well as stipends for teaching and research assistance. The report also demonstrated that accessibility to students from low-income families and visible-minority students had been stable or had improved.

Professor Goel said that because the Government of Ontario had frozen fees for Canadian students (citizens and permanent residents), the key issue was the proposal to increase fees for international students. International students continued to be a very important element of the student body at the University, currently making up about eight percent of the student population. The plan to increase tuition fees for those students in no way represented a reduction in the University's stress on the value of international students, who came from a wide range of countries. Until 2001, the differential between tuition fees for international and domestic students was small compared with other institutions. A new approach had been developed about three years ago whereby tuition fees from international students were expected to provide the same revenue as that provided by a combination of tuition fees and government operating grants for domestic students. (Operating grants were not provided for international students.) The problem was that the University was under-funded by some 36%, and the current formula for determining fees for international students therefore replicated that situation of under-funding with respect to those students. The administration therefore proposed to increase fees for international students over two years to the level that would generate the same revenue as that for domestic students from a combination of their tuition fees and operating grant, if that grant were at the national average for Canada. The incremental revenue would help to provide a sustainable level of funding for the University's programs. In addition, a substantial portion of that incremental revenue would be used to improve efforts to recruit the very best international students and to provide financial support to those international students who required it.

Professor Goel illustrated the effect of the proposal for two programs. For international students in Arts and Science programs, the current tuition fee was approximately \$10,700, which was less than the \$12,000 combination of domestic tuition fee plus grant per student.

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It was proposed to increase that fee over two years to \$16,000, which would be somewhat above the estimated combined domestic tuition fee plus national-average grant per student, which would be \$14,900. For students in Applied Science and Engineering, the current fee was about \$14,800, a close approximation of the combination of the domestic-student tuition fee plus actual grant per student. For 2005-06, that fee would be increased to \$18,000, very close to the domestic student tuition fee plus estimated national-average grant per student.

Professor Goel referred members to Appendix “B” to his memorandum to the Board, which contained the proposed, increased fees for new international students beginning their programs in 2004-05. Those fees would represent a five percent increase from the current year’s fee. The proposed 2004-05 fees were for approval. The Appendix also provided the increased fees currently planned for 2005-06, which were presented for information only. Those fees would represent full implementation of the proposal to make international student fees approximately equal to domestic student fees plus the national-average grant per student. After students had entered their programs, they would have the same fee-level commitment as domestic students, that is that their fee over the normal course of their program would not increase by more than five percent per year.

Professor Goel reported that the proposal would generate an estimated \$1.9-million in additional revenue in 2004-05. Then, by 2009-10, when the proposed increases were fully implemented and applied to students in all years of their programs, it was projected that the increased fees would generate \$14.9-million of additional revenue each year. Those estimates represented a base case, assuming that the current number of international students was maintained. It was hoped, however, that aggressive recruitment would lead to an increased number.

Professor Goel displayed graphs comparing the University’s non-resident tuition fees with those charged by the other nine research-intensive universities in Canada. Current fees for Arts and Science students were below the average and those for Applied Science and Engineering about average. The proposed increases would leave this University’s non-resident fees comparable to some other Canadian universities and well below those charged by U.S. universities. Professor Goel displayed other graphs indicating that the previous round of tuition-fee increases for international students had been accompanied by growth in the enrolment of such students. The University of Alberta and the University of British Columbia both had had the same experience. Professor Goel was confident of a similar outcome at the University of Toronto, with additional resources being used not only to improve the University’s programs but also to enhance recruitment and financial aid for international students. Achieving the objective of attracting top international students was an essential step towards achieving the University’s goal of counting among the best public teaching and research universities internationally.

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Invited to address the Board, Ms Holloway said that the Graduate Students' Union believed strongly that the best way to ensure accessible, quality education was to freeze and reduce tuition fees. Students were greatly disappointed to learn that the Government of Ontario's tuition-fee freeze excluded international students – a possibility that was not suggested when students were campaigning during the recent Ontario election. The proposed fee increase sent a highly negative message to students from around the world who were considering post-secondary education in Ontario. International students brought not only cultural and intellectual diversity to university campuses, they also brought considerable benefit to the Canadian economy, amounting to an estimated \$2.7-million in 1996, resulting in 21,000 new jobs (according to a study completed by the Department of Foreign Affairs and International Trade). A brief prepared in 2001 by the Association of Universities and Colleges of Canada concluded that Canada was falling behind in its ability to attract international students, and the growing gap between their fees and those charged to domestic students was making it increasingly difficult for international students to study in Ontario. Ms Holloway urged the University of Toronto to show leadership by freezing tuition-fees for all students, recognizing the financial burdens endured by international students, the excellent contributions they made to the University, and their right to accessible education.

Ms Chen Wing described the extraordinary sacrifices made by her parents to enable her to study in Canada. International students were not permitted to work their way through their programs because they were not allowed to take jobs off-campus, unless Human Resources Development Canada was satisfied that no Canadian could be found to do the particular job. International students were ineligible for student loans and for most grants and bursaries. Nor was Ms Chen Wing eligible for loans or student assistance programs from her own country. Her on-campus job did not generate sufficient income to enable her to pay her tuition fees and living expenses. Her tuition fees, as an international student, were already much higher than those for domestic students. The University's accessibility policy, guaranteeing that no student would be unable to enter or complete a program for financial reasons, was not applicable to international students. In those circumstances, Ms Chen Wing urged that a student support system be put into place before any increase in tuition fees for international students.

Mr. Cauble-Johnson said that he had transferred from a university in the United States midwest to study at the University of Toronto because he wished to study in a larger, more diverse community and because he was attracted by the University of Toronto's reputation for high academic standards. The University was currently accessible, with its fees for international students far lower than those in U.S. states neighbouring his own. Students in the U.S. had no choice but to go deeply into debt to attend a well respected university in that country. Many simply chose to forego the opportunity to attend a well respected institution and stayed at home for purely financial reasons. Loans were not free and eventually exerted a drastic effect on graduates, preventing them from following their dreams upon graduation. Mr. Cauble-Johnson

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urged the University of Toronto not to take the U.S. path, but rather to keep the University accessible to international students by extending to those students the Government decision to freeze fees for domestic students.

Mr. Mulongo said that even the proposed first step – a five percent tuition fee increase – would make life very much more difficult for international students. They had to face the very high cost of living in Toronto. Students who had children had to pay fees for their children to attend public schools. Mr. Mulongo suggested that the University would be better off to freeze tuition fees for international students and to increase its revenue by attracting more such students with its lower fees.

(c) Discussion

Among the matters that arose in discussion were the following.

(i) Policy on tuition fees for international students. A member asked whether there was a policy concerning the extent to which tuition fees should cover the cost of international students' education? Was it based on a proportion of costs for domestic students? Professor Goel replied that a major aim was to avoid cross subsidization of international students from fees paid by, and grants supplied for, domestic students.

Professor Goel stressed that the fee increase was proposed for students in undergraduate and primary professional programs. Tuition fees for doctoral-stream graduate students were not to be based upon the principle of requiring international students to pay fees equal to those of domestic students plus the government grant in support of domestic students. That would require a fee not of \$12,000, as proposed for 2005-06, but rather of \$40,000. Moreover, financial aid packages for doctoral-stream students would remain in place for international students and cover their fees and an allowance for other costs.

(ii) Financial aid for international students. A member observed that obtaining financial aid was problematic for international students. They did not qualify for Canadian government aid programs and donors tended to focus on aid for domestic students. Did the University make efforts to obtain financial assistance from other sources including international development agencies such as the Canadian International Development Agency (CIDA)?

Professor Goel replied that a part of the proposal now before the Board included a set-aside of a part of the proceeds of the tuition-fee increase for financial aid for needy international students. Some international students did come from wealthy families, and the same policy would apply to international students as to domestic students – that all students would pay appropriate fees and that a part of the fee increase from all students would be set aside to assist those students who could not afford to pay their fees and indeed their other costs.

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Professor Goel noted that the University had been enjoying considerable success in Hong Kong and Singapore in its efforts to raise funds to aid students from those areas in attending the University of Toronto. In response to a member's request, Ms Frankle agreed to prepare, for the June meeting, a report on efforts to raise funds for financial support for international students studying at the University of Toronto. The member asked that the report relate the amounts of funds raised to the size of the proposed fee increases.

Professor Goel reported that the Association of Universities and Colleges of Canada (A.U.C.C.) had recently made it a top priority to advocate assistance for international graduate students. Fellowship support was also provided by such agencies as the World Bank and various foundations. The Canada Research Chairs were now able to use their funding to offer employment opportunities to international students.

Invited to comment, Professor Farrar said that it was a condition of international students' entry to Canada that they demonstrate their ability to pay their tuition fees and to meet their other costs during their first year. If a student's circumstances changed, the University would consider the matter. While there was no formal policy, the University would make every effort to find support for students who were relatively close to completion of their programs. Support was less likely to be found for students in their first years of study.

In response to a question about the set-aside of a portion of the proceeds of fee increases for student aid, Professor Goel noted that the decision to limit the increase to five percent for 2004-05 was intended in part to allow time for dialogue and for the design of financial aid programs. Those programs would be different in each Faculty, with the students in each having different needs. When the tuition-fee proposal came forward in a year's time, it would contain information on the new efforts to recruit international students, on the outcome of advocacy efforts, and on the design of the financial aid programs for international students.

In response to a member's question, Professor Goel said that the new financial aid program being developed for international students would be available not only to the new students required to pay the higher fees but to all international students.

(iii) Implementation of tuition fee increases for international students: proposal to await financial aid programs' being put into place. A member recognized that while some international students could well afford to pay higher fees, others could not. While international students were not eligible for the accessibility guarantee contained in the Policy on Student Financial Support, the University was advocating assistance for international students. The member proposed that implementation of the proposed increases await the outcome of those advocacy efforts and the development of a policy on financial aid for international students.

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Professor Goel replied that one of the reasons for limiting the proposed tuition fee increases for 2004-05 to five percent was to allow time to develop financial aid programs. While the administration would not propose any further delay at this time, he assured the member that a financial aid program for international students was a major objective.

(iv) Implementation of tuition fee increases for international students: general. In response to a member's question, Professor Goel said that the proposed 2005-06 tuition fee increases for international students would apply only to new students. The fee-level commitment, limiting fee increases for in-course students to no more than five percent per year, would continue to apply to international students during the normal course of their programs.

(v) Fee increases for international students for 2005-06. A member referred to the tuition fee increases shown in the third column of fees contained in Appendix "B" to Professor Goel's memorandum. He asked the range of percent increases for 2005-06.

Professor Goel replied that only the fees for 2004-05 were before the Board for its recommendation to the Governing Council. The Business Board terms of reference required annual approval of tuition fees. Therefore the fees for 2005-06 would come before the Board for action in one year's time. The proposals, as currently envisioned, would involve a wide range of further increases from as little as 5% to as much as the 20% range, the 30% range or even more for some programs. The larger potential increases reflected the low value of operating grants in some programs. With respect to the relationship to other institutions, Professor Goel said that he anticipated that they too would raise fees for 2004-05, meaning that the University of Toronto's fees would not be out of line. He anticipated that the fees would be in the upper third or quarter of those in other Canadian research-intensive universities. He noted that all other provinces had higher funding and many had higher tuition fees.

(vi) Tuition fees for domestic students in professional programs. A member observed that he was pleased that there would be no further fee increases for domestic students entering professional programs for the next two years. This would allow time to evolve student aid programs and to assess the effect of fee increases on accessibility. The member's only regret was that that sensible course of action had had to be imposed externally.

On the recommendation of the Interim Vice-President and Provost,

YOUR BOARD RECOMMENDS

THAT the proposed tuition-fee schedules for publicly funded programs for 2004-05, which are Appendices "A" and "B" to Professor Goel's March 30, 2004 memorandum to the Business Board, a copy of which is attached hereto as Attachment 1, be approved.

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5. Tuition Fee Schedule for Self-Funded Programs

In response to a member's question, Professor Goel said that the Government tuition-fee freeze did not extend to the self-funded programs because the Government did not support, or regulate fees for, those programs, which had to recover at least their own direct costs.

On the recommendation of the Interim Vice-President and Provost,

YOUR BOARD RECOMMENDS

THAT the proposed tuition-fee schedule for self-funded programs for 2004-05, which is Table 1 to Professor Goel's March 30, 2004 memorandum to the Business Board, a copy of which is attached hereto as Attachment 2, be approved.

6. Financial Situation of the University: Background Briefing: Operating Planning, Budgeting and Accounting

The Chair recalled that the series of briefings was intended to keep the Board focused on the major, long-range, strategic issues affecting the University's overall financial situation.

Ms Brown presented the briefing.

- **The operating fund** was the general fund for the University's operations. The primary sources of revenue for the fund were government operating grants and tuition fees. The fund was used to pay salaries and benefits and the general costs of operating the University. It included everything but: research grants, donations, capital construction projects and acquisitions, other capital assets, and the ancillary operations. The long-range budget plan being considered by the Board at this meeting was the plan for the operating fund, and the policy limiting the cumulative deficit to 1.5% of operating revenues at the end of any budget planning period was also applicable only to the operating fund.

The operating fund accounted for approximately two thirds of the University's revenues and expenditures. Ten years ago, the operating fund would have represented a much larger proportion of total revenue and expense.

- **Statement of operations.** For 2002-03, operating revenues were \$864.1-million and operating expenses were \$907.8-million, leading to a net loss or annual deficit, before transfers, of \$43.7-million. Transfers of \$28.2-million into the operating fund reduced the deficit on 2002-03 operations to \$15.5-million. (Those transfers would be explained later.)
- **Balance sheet: capital section.** Capital was classified on the balance sheet into four categories: the endowment, equity in capital assets, committed capital and unrestricted

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6. Financial Situation of the University: Background Briefing: Operating Planning, Budgeting and Accounting (Cont'd)

capital (deficit). The capital recorded on the University's financial statements resided in the University's four funds: the ancillary operations fund, the capital fund and the restricted funds as well as the operating fund. That capital consisted largely of the endowment funds, the equity in capital assets, and committed capital such as year-end carry-forwards of unused appropriations in the various academic divisions and other budget units. The capital balances in the ancillary operations fund, the capital fund and the restricted funds were positive, but the University's total capital was reduced by the negative balance in the operating fund consisting of: (a) the \$33.6-million accumulated operating deficit, as well as (b) negative committed capital of \$74.2-million. By far the largest part of the negative committed capital was the University's liability for employee future benefits (other than pension benefits and long-term disability benefits) which were not funded but which the University would deal with on a pay-as-you-go basis. It was only the \$33.6-million accumulated operating deficit, classified as negative "unrestricted capital," that was controlled by the Governing Council policy of a maximum deficit of 1.5% of operating revenue at the end of a six-year planning period.

- **The operating fund deficit.** The operating fund deficit had been \$18.1-million at the beginning of the 2002-03 year. The net loss on the year's operations was \$43.7-million, increasing that deficit. There were also transfers of \$11.4-million from the operating fund to the endowment and to restricted funds, representing such things as departmental transfers to the endowment funds to support endowed chairs. The outcome was an increase in the committed capital in the restricted funds but also an increase in the operating fund deficit. Similarly, there were transfers of \$33.1-million from the operating fund to the capital fund, representing the purchase of equipment, increasing the equity in capital assets but also the operating fund deficit. However, there were also transfers into the operating fund unrestricted capital category from committed capital amounting to \$72.7-million (primarily to deal with the liability for employee future deficits). The overall outcome was an increase in the operating fund deficit from \$18.1-million to \$33.6-million by the end of the year.
- **Trends: balance sheet.** Ms Brown displayed a graph showing the operating fund's assets, liabilities and capital from 1998 to 2003, with a projection to 2004. That graph showed declining capital and, beginning in 2002, negative capital in the operating fund. The operating fund's negative "unrestricted" capital was the cumulative deficit. The negative committed capital included investment losses and the accounting for the liability for employee future benefits which, together, more than offset the divisional carry-forwards.
- **Operating fund revenues and expenses.** Ms Brown also displayed a graph showing the operating fund's revenues, expenses and net income/loss from 1998 to 2003, with a projection to 2004. In the first four years, operating revenues had exceeded expenses, but that had reversed itself in 2002, largely as a result of the new accounting rule requiring the recording of a liability for employee future benefits.

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6. **Financial Situation of the University: Background Briefing: Operating Planning, Budgeting and Accounting (Cont'd)**

- **Operating fund surplus / deficit: the impact of transfers.** While expenses' exceeding revenue had caused a net loss in the operating fund since 2002, the gap had been reduced by transfers to the operating fund's unrestricted capital from other capital accounts, primarily from operating fund committed capital – mostly because of the liability for employee future benefits.
- **Overall net loss.** For all of the University's funds combined (operating, capital, restricted and ancillary operations), the income statement for 2002-03 recorded revenues of \$1,248.3-million and expenses of \$1,412.7-million for a net loss of \$164.4-million. That loss was made up of the following components:

Investment loss on internally restricted endowments	\$30.7-million
Investment loss on expendable funds	24.9-million
Pension and other employee future benefits expense	69.7-million
Operating fund deficit	15.5-million
Other elements (to be explained at a later briefing)	24.9-million

Those losses were offset by a net gain in the ancillary operations fund of \$1.3-million.

- **Key issues.** Ms Brown outlined three issues arising from her review of the operating fund. The first was investment volatility and losses. That issue had been addressed though the less aggressive investment strategy adopted in April 2003.

The second issue concerned pensions and other employee future benefits. The issue concerning the pension plan had been addressed through the pension strategy approved by the Board in January 2004. That strategy called for additional employer pension-plan contributions. Long-term disability benefits were funded. An actuarial projection of the cost of the benefits was completed and a fund set aside and invested to deal with that projected cost. Other employee future benefits, primarily medical insurance benefits for active staff and retirees, were not funded. Generally accepted accounting principles had, since 2001, required that employers account for employees' future benefits in the accounting period in which those costs were incurred. Implementation of that rule required that employers account not only for the liability incurred in the accounting period but also the accumulated liability that had built up before implementation of the new rule. The University had decided to record the impact of the accounting change over the estimated average remaining service life of current employees, which was fourteen years, beginning with its financial statements for 2000-01. Therefore, the amount of that liability would grow substantially over the next several years.

The third issue was the operating fund deficit. The operating budget for 2003-04, the final year of the long-term budget planning period, was a balanced one, and the current projection was that the operating fund would generate a small surplus for the year.

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6. Financial Situation of the University: Background Briefing: Operating Planning, Budgeting and Accounting (Cont'd)

Nonetheless, expenses for subsequent years were projected to grow more quickly than revenue, and cost-containment measures had been built into the next long-range budget plan for 2004-10. Deficits were planned for the early years of the plan, followed by planned surpluses in the later years so that the University would finish the planning period with a balanced budget and a cumulative operating fund deficit (unrestricted capital) under 1.5% of operating revenue.

- **Operating fund planning and budgeting** began with academic planning. The Governing Council had approved the planning framework, entitled *Stepping UP*, and academic plans within that framework were being developed by the divisions and departments.

The academic plan was the basis for the six-year budget plan, which reflected the priorities in the academic plan. The long-range budget plan did not include accounting entries such as the recording of the liability for pension and other employee future benefits. It included the cash contributions to the pension plan.

Annual budgets, including updated budget projections for the remainder of the planning period, were presented annually for Governing Council approval. Annual budgets, like the long-range budget plan, were cash-based. They included the annual allocations to the academic divisions and other budget units. A significant budgeting principle was the year-end carry-forward by each budget unit of appropriations unspent from the previous year. That formed a part of the committed capital on the financial statements. Budgets and budget reductions included base-budget amounts that continued (perhaps with adjustments) from year to year, and one-time-only funding and budget reductions.

- **Operating fund financial statements compared to the operating budget.** The financial statements were cost-based, whereas the operating budget was cash-based. Specific comparisons included the following.
 - Capital expenditures were transferred to the capital fund. Cash outlays were budgeted. Depreciation was not.
 - Operating fund support for capital expenditures was budgeted as a cash outlay.
 - Pension costs were included in the financial statements. Pension contributions were included in the operating budget.
 - Fringe-benefit costs were included in the financial statements. Fringe-benefit contributions were included in the operating budget.
 - Employee future benefits costs were included in the financial statements. The cost of employee future benefits was not included in the operating budget. Fringe-benefit premium contributions were included in the operating budget.
 - Receipts and expenses for the Canada Research Chairs program were not included in the operating fund financial statements but rather in the restricted funds. They were included in the operating fund budget.

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Ms Brown noted that the Supplementary Financial Report, which was issued annually along with the financial statements, provided a reconciliation of the budget and the financial statements.

Ms Brown concluded that looking at each of the four funds demonstrated the complexity of the relations among them, including numerous transfers. She noted that it was important that the Board remain focused on the big issues, and she hoped that her briefings would help members to see the overall picture more clearly.

Among the matters that arose in questions and discussion were the following.

(a) Control measures and the cash basis of the operating budget. A member observed that a key financial control was the policy requiring that the cumulative deficit not exceed 1.5% of operating revenue, at least at the end of any budget-planning period. How was the cash basis of the budget reconciled with the need to limit the cumulative deficit when cost-based liabilities were ignored? In particular, the cost of employee future benefits would come due for payment, even though no provision was being made for it in the budget.

Ms Brown replied that about \$55-million of the \$74.2-million negative committed capital in the operating fund, as recorded in the financial statements for 2002-03, was attributable to employee future benefits. That liability would grow as the employees earned future benefits and as the University recorded portions of the liability in place at the time of the change in the accounting rules. The reason for the negative committed capital was that the University was not establishing a fund, comparable to the pension fund, for medical insurance plans for retirees. Rather, the budget each year included the cash cost of premiums for the medical insurance plans for both current employees and retirees. The insurance plans were self-funded, and the cost was based on claims and administrative costs. Because the University was a going concern and expected to be in operation indefinitely, it was able to handle those benefits on a pay-as-you-go basis.

Professor Goel added that the accounting requirement was designed for private-sector employers to ensure that they had the money set aside to pay employee future benefits in the event they went out of business. The University did not have this as an immediate risk and should therefore not feel obliged to set aside the full amount for this purpose.

With respect to the policy limiting the cumulative deficit to 1.5% of operating revenue, Professor Goel said that there was need for a review. While it probably made sense to have some limit, it was unclear that 1.5% of operating revenue was the correct one. When the policy had been established, operating revenue formed most of the University's overall revenue. The sources of revenue at this time, however, were much more diversified. The Chair observed that the issue was a very significant one.

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(b) Risk analysis. A member observed that it would be valuable to have a comprehensive risk analysis in connection with the consideration of future budgets. Some companies had an audit and risk-management committee to monitor risk exposures.

Ms Riggall replied that the administration did prepare an annual, comprehensive risk assessment, which was presented to the Audit Committee. The next risk assessment – the third – was schedule for presentation to the Audit Committee on May 19, 2004. Ms Brown added that the planned background briefing entitled “tying it all together,” would provide an opportunity for the Board to consider financial risks.

7. Employment Equity: Annual Report, 2003

Professor Hildyard reported that the Federal Contractors Program was currently reviewing the University’s data to ensure compliance with the Employment Equity Act. The Business Board’s focus was on employment equity for the administrative staff; the Academic Board, in its review of this report, would focus on the academic staff. The following were the highlights of Professor Hildyard’s presentation:

- With respect to the faculty, women, visible minorities and aboriginal peoples were represented close to the level in external availability data; the representation of persons with a disability was lower than the external availability data.
- Representation of women faculty had shown a gradual increase over the past eight years in the humanities, social sciences and life sciences and were stable in the physical sciences. There had been a gradual increase over the same time period in the number of women faculty in positions of leadership.
- Representation of visibility minorities faculty had shown slow growth over the past eight years, with higher growth in the sciences. Growth in positions of leadership had been slow.
- Representation of aboriginal people among the faculty had been low, but that reflected the external availability data. The data showed no representation of aboriginal faculty in positions of leadership.
- Representation of persons with a disability among tenure-stream faculty and in positions of leadership had declined over the past eight years. A number of such people had taken early retirements and people with disabilities had not been represented to the same extent in new appointments.
- Librarians included a high representation of women and visible minorities, and lower representation than external data of aboriginal peoples and persons with a disability.

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- Research associates had a high representation of visible minorities and a lower representation than external data in the other three categories.
- In the non-unionized staff, women, aboriginal peoples and visible minorities were well represented although women tended to be in the traditionally female-dominated job categories. The number of women in senior management was lower than availability data, although women were well represented among middle managers. There were no aboriginal peoples or persons with a disability in senior non-academic management positions.
- Among staff represented by the United Steelworkers of America (USWA), which included the large majority of the administrative staff, women were well represented but again concentrated in some traditional job categories. Visible minorities, aboriginal peoples and persons with a disability were also well represented. Women in this group had received a high number of promotions.
- Among other unionized staff (which included caretakers, police officers, skilled tradespersons and many others) women were hired at a lower rate than current representation and they were in traditionally female dominated categories. Visible minorities were hired at a higher rate than current representation. Promotions in both categories were at or above representation in workforce. Aboriginal people and people with a disability were reasonably represented, but they had received fewer promotions proportionately.

Professor Hildyard then reviewed the recommendations for administrative staff in 2004:

- to continue to make equity and diversity integral to University practices throughout the institution (equity and diversity were very much front and centre in the *Stepping UP* academic plan);
- to continue and to enhance training and mentoring programs for staff;
- to enhance community relations, in particular with agencies that could assist the University in recruiting qualified members of visible minorities, aboriginal people, and people with a disability;
- to focus on outreach, job shadowing and mentoring programs;
- to focus on initiatives already identified in the Ontarians with a Disability Act accessibility plan and to re-survey all employees (it was expected that the new data would show more people with disabilities among current employees, as many people acquired disabilities over time; with this information new programs could be put into place to assist such individuals);

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- to strengthen relationships with First Nations House, the aboriginal elders and relevant community agencies and to develop mentoring programs, all intended to demonstrate that the University was an attractive employer for aboriginal people; and
- to focus on broadening career opportunities for women and visible minorities, with the aim of encouraging more promotions among such people and more entry into non-traditional positions.

A member noted that the comparison of the University's data appeared to be made against external availability data. She asked whether the University should consider adopting firm benchmarks that could perhaps be better than the external data by a given percentage. Both Professor Hildyard and Professor Goel responded. A key means of improving the results would be to increase the pool from which employees were drawn. The faculty should be drawn from an international pool. Current benchmarks were set on available data. If the employee pools were broader and better data gathered, new benchmarks could be set. At present, the University was meeting the legal requirements for equity. Governing Council could review its current policy and the question of establishing targets or quotas could be a matter for debate.

8. Job Evaluation Program and Compensation Policy for Professional and Managerial Staff

Professor Hildyard said that the Professional/Managers (P/M) group consisted of about 640 non-union staff, many of whom were highly skilled professionals, including the most senior non-academic managers. Whereas academic administrators held their positions for a limited term, senior managers were long-term employees with significant expertise and institutional experience that provided continuity through changing academic leadership.

Ms Sass-Kortsak presented the proposed, revised policy.

- The areas of expertise of the P/M group included finance, planning, facilities management, human resources, administrative support, student services, information technology, public relations and business management.
- The job-evaluation and compensation system currently in place for this group was significantly out of date. There was need for a new pay program that would provide internal equity, promote retention and recruitment of excellent staff, and ensure accountability in pay practices by linking them to performance.
- The process had begun with the development of a new, gender-neutral job-evaluation system. It had been drafted with the support of experts in the field taking into account factors which were important to the administrative function of the University including the provision of functional advice, student well being, accountability for complex resources, and technical and professional knowledge.

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- Pay levels were tied to the value of those strategically selected factors.
- The redesigned pay program now included nine pay levels. There had previously been fifteen levels, which had been reduced to five, resulting in wide bands that were very difficult to administer.
- For the top three levels, which would include the most senior administrative staff, annual salary increases would be based on performance only; previously there had been an across-the-board element in annual salary increases. There would be a rigorous performance-review program to ensure accountability. The salary range would be open to allow for continued salary progression, although central approval would be required for salaries above a notional maximum.
- For levels one to six, including junior to mid-level staff, salary increases would include an across-the-board component combined with a component based on a merit assessment.
- For all levels, merit increases would depend on position within the salary range.
- There had also been changes to the performance-management program. This was expected to increase objectivity, accountability and effectiveness with respect to performance expectations and assessment. Performance would be measured in relation to the accomplishment of predetermined objectives and the extent to which defined competencies were demonstrated. Those defined competencies included such things as sensitivity to diversity, contributions to staff development, and leadership. Training would be provided to improve the abilities of both leaders and staff to set performance expectations, to support improvement and career development, and to evaluate performance.
- Other forms of recognition were critical to acknowledge superior performance and special contributions. Forms of recognition included both cash and non-cash mechanisms tailored to the individual such as lump-sum payments or opportunities and funding to take up educational opportunities. Lump-sum payments above a specified amount would require central review to ensure accountability.
- A formal incentive bonus program was to be developed in the coming year to be applicable to appropriate positions within this group. The bonus would be tied to predetermined goals and milestones with rigorous evaluation. Such a program would involve lower base pay with the opportunity to earn increased total compensation if objectives were met.

A member asked whether there was market-based research to support the salary levels. Ms Sass-Kortsak replied that the salary levels had been based on current levels at the University.

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Market surveys had been completed in establishing those salary ranges and further surveys would be completed in the coming year. Ms Sass-Kortsak thought that salaries for this group were well placed in relation to the market.

The Chair reported that the Senior Salary Committee of the Governing Council had reviewed the proposed policy and had concluded that it represented a major step forward.

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

YOUR BOARD APPROVED

The proposed revised Compensation Policy for Managerial and Professional Staff, except for senior advancement staff, item 3.01.06(a) in the *Policies for Professionals/Managers*, a copy of which is attached hereto as Attachment 3, replacing that section of the policy approved by the Business Board on May 7, 2001.

9. Investments: University of Toronto Asset Management Corporation: Annual Report, 2003

The Chair proposed that because of Mr. Chee's absence from the city, this item be deferred until the next meeting.

10. Administrative User Fees and Fines, 2004-05

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

YOUR BOARD APPROVED

1. That the Rotman School of Management Admission Deferral fee be added to the Administrative User Fee Schedule.
2. That the Woodsworth College International Summer Program to Brno, Central Europe (placement fee and course fee) be added to the Administrative User Fee Schedule.
3. That the Woodsworth College International Summer Program to Tell El-Masha'la, Egypt (placement fee and course fee) be added to the Administrative User Fee Schedule.
4. That the Faculty of Applied Science and Engineering application fee be added to the Administrative User Fee Schedule.
5. That the Commerce Program application fee be added to the Administrative User Fee Schedule.

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10. Administrative User Fees and Fines, 2004-05 (Cont'd)

6. That the Rotman School of Management Omnium Global Executive MBA program application fee be added to the Administrative User Fee Schedule.
7. That the UTSC Computer Science Year 1 entry (2-placement students only) and Year 2 entry (2-placement students only) co-op program fee be removed from the Administrative User Fee Schedule.
8. That the UTSC Physical Sciences Year 1 entry (2-placement students only) and Year 2 entry (2-placement students only) co-op program fee be removed from the Administrative User Fee Schedule.
9. That the UTSC Health Informatics Year 1 entry and Year 2 entry co-op program fee be removed from the Administrative User Fee Schedule.
10. That the Woodsworth College International Summer Program to Herstmonceux Castle, England (placement fee and course fee) be removed from the Administrative User Fee Schedule.

11. Ancillary Operations: Real Estate – 2003-04 Operating Results and 2004-05 Budget

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

YOUR BOARD APPROVED

The operating budget for the Real Estate Ancillary for 2004-05, as contained in the fifth column of the Five-Year Operating Plan, attached to Ms Riggall's memorandum of March 30, 2004.

12. Cost-Recovery Ancillary Fees, 2004-05

The Board received, for information, the Report on Cost-Recovery Ancillary Fees for 2004-05.

13. Capital Projects Report

The Board received, for information, the Capital Projects Report as at March, 31, 2004.

14. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Monday, May 3, 2004 commencing at 5:00 p.m. in the Council Chamber.

THE BOARD MOVED *IN CAMERA*.

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15. Striking Committee, 2004: Appointment

On motion duly moved and seconded,

YOUR BOARD APPROVED

THAT the following be appointed to the Business Board
Striking Committee to recommend appointments for 2004-05:

Ms Jacqueline C. Orange (Chair)

Mr. John F. (Jack) Petch (Lieutenant-Governor-in-Council
appointee; Vice-Chair)

Ms Françoise D. E. Ko (student)

Ms Karen Lewis (administrative staff)

Mr. Timothy Reid (alumnus)

Professor Arthur S. Ripstein (teaching staff)

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:45 p.m.

Secretary

Chair

April 26, 2004