UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 129 OF THE BUSINESS BOARD

November 10, 2003

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, November 10, 2003 at 5:00 p.m. in the Lakeview Room, 89 Chestnut Street, 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
Mr. Felix P. Chee, Vice-President, Business Affairs and Chief Financial Officer
Professor Angela Hildyard, Vice-President, Human Resources
Ms. Dominique Barker
Mr. Donald A. Burwash
Mr. Bruce G. Cameron
Dr. Claude S. Davis
Dr. Alice Dong
Ms. Mary Anne Elliott
Ms. Susan Eng
Dr. Paul V. Godfrey
Ms. Françoise Dulcinea E. Ko
Ms. Karen Lewis
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 M. Scace
Mr. Amir Shalaby
Mr. Robert S. Weiss

Prof. John R. G. Challis, Vice-President, Research and Associate Provost
Dr. Jon Dellandrea, Vice-President and Chief Advancement Officer
Professor Shirley Neuman, Vice-President and Provost
Mr. John Bisanti, Chief Capital Projects Officer
Ms. Sheila Brown, Acting Chief Financial Officer
Mr. Louis R. Charpentier, Secretary of the Governing Council
Prof. Vivek Goel, Deputy Provost and Assistant Provost, Faculty
Ms. Catherine J. Riggall, Assistant Vice-President, Facilities and Services
Ms. Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Professor Ronald D. Venter, Vice-Provost, Space and Facilities Planning
Professor Safwat Zaky, Vice-Provost, Planning and Budget

Secretariat:

Mr. Neil Dobbs
Mrs. Beverley Stefureak

Regrets:

Professor Jake J. Thiessen

In Attendance:

Professor W. Raymond Cummins, Member of Governing Council
Ms. Susan Bloch-Nevitte, Director of Public Affairs and Director of Advancement Communications
Mr. Mark L. Britt, Director, Internal Audit Department
Ms. Rivi Frankle, Assistant Vice-President, Alumni and Development
Professor K. Wayne Hindmarsh, Dean, Leslie Dan Faculty of Pharmacy
Mr. Hal Koblin, Special Adviser to the Vice-President and Chief Advancement Officer

In Attendance: (cont'd)

Professor George Luste, President, University of Toronto Faculty Association
Mr. Steve Moate, Senior Employment Relations Legal Counsel
Professor Mariel O'Neill-Karch, Principal, Woodsworth College
Ms. Rosie Parnass, Quality of Work Life Advisor and Special Assistant to the Vice-President, Office of the Vice-President, Human Resources and Equity
Mr. Allan Shapira, Hewitt Associates
Mr. Adam L. Slater, Project Manager, University of Toronto Schools Restructuring Project

ALL ITEMS ARE REPORTED TO THE GOVERNING COUNCIL FOR INFORMATION.

1. Report of the Previous Meeting

Report Number 128 of September 29, 2003 was approved.

2. Business Arising from the Report of the Previous Meeting

There were no items of business arising.

A member asked if information would be provided on how the University of Toronto rated against other institutions within its comparative pool on the matter of deferred maintenance. The Provost replied that the Council of Ontario Universities would be releasing its next report in early January and the University would be able to determine then how it compared to other Ontario universities. In response to a follow-up question about whether this factor would be integrated into the next set of comparators in which the University of Toronto was compared to similar American institutions, Mr. Chee said that it would be.

With the permission of the Board, items 7, 8 and 9(b) were moved to the beginning of the meeting.

7. Pension Plans: Annual Financial Report

The Chair of the Audit Committee reported that, at its meeting of October 29th, the Committee had reviewed the annual financial report on the University's main pension plan, the pension plan for employees of the Ontario Institute for Studies in Education (OISE/UT) at the time of its merger with the University (both of which were registered), and the Supplemental Retirement Arrangement (SRA). That report included, for the two registered plans, the audited financial statements and a summary of the actuarial reports. The actuary, the Acting Chief Financial Officer, and the external auditors had been present at the meeting. Mr. Myhal reported that, as at the July 1 valuation date, both of the University's registered pension plans remained in an actuarial surplus. However, the main plan was still in a significant market deficit of over $200-million. The good news was that with the continuing improvement in the stock markets the market deficit continued to decline.

Mr. Myhal continued, reporting that the SRA, as of July 1, had an accrued liability of if $108.6-million. Shortly after that plan was established in 1996, the University had begun building up a special fund to match the liability under the SRA. The assets in the SRA fund as of June 30, 2003 were $91.2-million, leaving a shortfall of $17.4-million. The Government of Canada's

7. Pension Plans: Annual Financial Report (cont'd)

increase in the maximum pension, announced in its February budget, had reduced the liability of the SRA by $37.5-million, while concurrently increasing the liability of the registered plan by the same amount.

Mr. Myhal reported that the performance of the pension fund relative to other funds had improved and investment returns had exceeded those of the median fund for the past two quarters. The Pension Fund Investment Policy was being revised, and a new policy would be brought to the Board in January, making clear the responsibility of the University of Toronto Asset Management Corporation for asset mix, to the degree that this responsibility could be delegated under the Ontario Pension Benefits Act. Mr. Chee had advised that a pension plan funding strategy was being developed and would be coming forward in the near future. The Audit Committee would be keeping a close eye on this matter to ensure that the University's stewardship of the pension plans remained solid.

On motion duly moved and seconded,

YOUR BOARD APPROVED

(a) THE audited financial statements of the University of Toronto Pension Plan, June 30th, 2003, a copy of which is included in Appendix "B" to Report Number 70 of the Audit Committee; and

(b) THE audited financial statements of the University of Toronto (OISE) Pension Plan, June 30th, 2003, a copy of which is included in Appendix "B" to Report Number 70 of the Audit Committee.

8. University of Toronto Press Inc. – Annual Report and Financial Statements, 2002-03 (Consent Agenda Item)

Mr. Myhal reported that the Audit Committee had reviewed the annual report and financial statements of the University of Toronto Press.

On motion duly moved and seconded,

YOUR BOARD APPROVED

THAT the annual report and financial statements of the University of Toronto Press for the year ended April 30th, 2003, a copy of which is attached to Report Number 70 of the Audit Committee as Appendix "A", be accepted.

9(b) Report Number 70 of the Audit Committee – October 29, 2003.

This was a consent item for information and there were no questions.

3. Financial Situation of the University: Background Briefing: Part I – Performance Indicators

Mr. Chee presented the second of a series of briefings on the University's overall financial situation. His PowerPoint presentation (attached hereto as Appendix "A") outlined the financial statement components and concepts, components of the current financial situation, and key drivers of financial health and performance. As well, he informed the Board of the topics for remaining presentations.

The Chair commended Mr. Chee and Ms. Brown on the precision and excellence of the presentation. Recognizing that the limited time within a meeting precluded the interactive strategic discussion that some members would like, Mr. Chee had offered to do information sessions on any of the topics on which members would like to be informed in more depth. The Chair asked members who wished to take advantage of that offer to inform her, the Vice-Chair, or the Secretary.

Several members indicated that they had found the presentation to be very helpful. There was a brief discussion about the effect that increased enrolment had on both expenses and revenues. The former, though rising steadily, did not seem to be volume driven; the latter seemed to increase only marginally with significant enrolment increase. Mr. Chee responded that some of the increased expenses over the past several years had been related to preparing for the double cohort and, going forward, these expenses would flatten out. With respect to revenue, Mr. Chee said that the classic business response when marginal revenue was not acceptable was to look for significant cutbacks. At the University, this was not a realistic approach. An appropriate solution would be to successfully address the fiscal challenge while continuing to advance the University's mission as a public university. Professor Neuman agreed, noting that the effects of increased enrolment on revenue and expenses were localized and variable, depending on a number of factors. The University's current system of cross-divisional subsidies was designed to correct inequities in those areas where the basic income unit (BIU) of funding was inappropriately low but where it made academic sense to accept increased numbers of students.

4. University of Toronto Schools: Arrangements for Incorporation as an Ancillary Operation

The Chair informed members that the relationship between the University and the University of Toronto Schools and budget questions relating thereto would be the subject of a recommendation under consideration by the Academic Board. The role of the Business Board was to satisfy itself that the arrangements for incorporation were appropriate. As part of this responsibility, the board should take into account the financial viability of the interim arrangement based on the financial information summary.

Professor Goel was invited to present this item. He reviewed the highlights of his memorandum of October 29, 2003, the Financial Information Summary and By-Law Number 1 (all attached hereto as Appendix "B"). This proposal was coming forward as part of restructuring the governance at the University of Toronto Schools (UTS). The intent of this initiative was to change the reporting relationship of the Principal, who would now report to an independent board rather than to the Dean of the Ontario Institute for Studies in Education (OISE/UT). There had been a demand for several years for increased accountability at the local level and a need for an empowered board at that level to make strategic decisions. Independent of the restructuring, the Provost had indicated that the School must move to a self-financing model as is the case for all programs which do not have public funding. As part of restructuring and coming to an agreement on how the status of the School would change, an interim agreement had been negotiated to allow two years in which more in depth

4. University of Toronto Schools: Arrangements for Incorporation as an Ancillary Operation (cont'd)

discussion and negotiation could take place. In addition to providing the time necessary to work out the details of continuing association, there would now be an independent board to make the decisions necessary for the School to maintain financial stability. As well, OISE now had a new Dean and she would be engaged in the current round of academic planning which would include a review of the academic association between UTS and OISE/UT.

Professor Goel reviewed the history of the School and events in the Province that had left the School in the position of being unable to meet external accountability requirements, to generate reports on its own performance or to properly follow government expectations. It was no longer a major part of the old Faculty of Education and, as a unit within the larger OISE/UT, it did not have the governance structure of an independent school. Under Dean Fullan's leadership, extensive consultation and a working group review were undertaken which had culminated in the proposal to create a separate entity within the University of Toronto. Professor Goel noted that By-Law Number 1 gave assurance that the University's interests would be protected by naming two Governing Council representatives to the new Board, by providing that all members of the new Board would require Governing Council approval and that annual plans and financial statements would be brought to Governing Council.

Professor Goel highlighted the details of the School's funding over the past decade or more, noting that, following the loss of its Provincial grant, 85% of the School's revenue had been from tuition fees. The School had paid for no indirect costs, like space and cleaning costs, for many years. In the current fiscal environment, the central indirect subsidy could no longer continue and the administration had made the decision that, whether independent or remaining with the status quo, the School must become self-sustaining. To meet the challenge, UTS could look to a variety of measures including increased revenue from tuition fees. Governance restructuring would help to provide the level of local autonomy necessary to achieve fiscal independence.

Members had concerns about the continuing relationship with respect to the University's fiscal responsibility and its financial control during the period of the interim agreement. Professor Goel confirmed that the fiscal responsibility would continue but was confident that the provisions in By-Law Number 1 ensured that the University retained the necessary control to safeguard its interests. In addition to representation on the interim board, the requirement that Governing Council approve all members of the interim board, and receipt of the annual report and financial statements, the UTS could not borrow money without the approval of the University's President or designate.

A member saw the financial control as important but wondered what restraints there would be on the new board to make decisions that protected the interests of the University. In particular, recalling that the University had approved significant upgrades in the property, what would happen to that investment if the School were to walk away from the property? Professor Goel stressed that decisions, for example, about the location of the School, would need to be made by the new Board. However wherever those decisions affected the University's interests, for example with respect to the cost of upgrades, these would be matters for negotiation during the interim period and approval of such agreements by Governing Council. He saw a trade-off. In return for continued operations in the interim, there would need to be a clear commitment from the new board that subsidies would come to an end.

4. University of Toronto Schools: Arrangements for Incorporation as an Ancillary Operation (cont'd)

In response to a question as to who would make decisions on behalf of the UTS if Governing Council were not to approve the agreement, Professor Goel stated that the decision-making would continue to rest with the Governing Council.

A member expressed the thought that the University should have the right to terminate the agreement at any time, with the expectation that it would be reimbursed in full for the property and costs, as well as that the right to use the University's name would be withdrawn. Professor Goel responded that it was probably not possible, in any event, for the University to terminate its association with UTS prior to June 2006. This would be unreasonable for the students of the School and would be damaging to the University.

A member noted that UTS had provided significant intangible value to the University in terms of reputational enhancement, entrenchment of values, and the research partnership with OISE. Was it appropriate that the School be required to become self-sustaining in what, in effect, was a short period of time? Professor Neuman responded that UTS had been in a reduced research partnership with the University for some years. Because of changing demographics, the School's population was no longer representative of the community and, therefore, not necessarily conducive to today's research needs. During this interim period, it was feasible that areas of research cooperation with divisions of the University might be identified. If it were the case that UTS were to engage in academic partnerships that advance the University's mission, continued funding could be proportionately negotiated.

A member agreed with the sentiment that consideration should be given to what, in the member's view, had been and continued to be significant intangible value to the University with respect to its association with the UTS. In addition, the member noted that the School would be soon without a Principal and expressed the hope that the two years for negotiation of an affiliation agreement would commence when an incoming Principal assumed the post.

Professor Goel commented that, of course, the interim period could be extended by mutual agreement if that were seen to be fair. With respect to the requirement to be self-sustaining in two years, he believed that this was reasonable given that it was what was expected of all University programs without public support.

Though not concerned generally about the interim agreement, a member asked for clarification of Article 13.03. Did this mean that the University was obligated to find alternative space for UTS in the event that it could not work its way to self-sufficiency in the current location? Professor Goel explained that the section was meant to ensure stability so that students currently in progress would be able to complete their programs in the event that a permanent affiliation could not be reached. The new board would be governed by the interim agreement. The objective was for the UTS to be self-financing and self-governing by the end of the interim period.

There was discussion and questions from several members regarding the degree of financial risk to the University during the interim period and regarding UTS willingness to increase its tuition fees. Professor Goel indicated that the risk during this period would be the same as it currently was and, again, that he felt confident with the degree of University control during the interim period. Further, the new board was committed to not running a deficit, leaving it with the choice of either cutting expenses or raising revenue. With an interim board, debate on the latter, which would include the

4. University of Toronto Schools: Arrangements for Incorporation as an Ancillary Operation (cont'd)

question of any increases in tuition fees, appropriately would take place at the local level and not at the Governing Council.

Continuing discussion revealed a strong lingering concern among a number of members with respect to the degree of control left to the Governing Council during the period of the interim agreement. Professor Goel noted that Article 12.01 of the Interim Affiliation, Services and Premises Agreement required the UTS to prepare and deliver to the Governing Council the annual financial reports. The language in this section could be changed so as to require that these reports would come forward for Governing Council approval. There was general agreement among members that this important change would address the uneasiness on the part of a number of them. With respect to the ownership of assets, Professor Goel indicated that this was a matter for continuing negotiations and it would be addressed when the final agreement came forward for approval. Finally, Professor Goel repeated that, although the members of the new board were nominated from a number of constituencies, final approval of each was the responsibility of Governing Council. Presumably, if the Governing Council were concerned about a nomination, it could refer the matter back.

Professor Goel undertook to have the language of Article 12 of the Interim Affiliation, Services and Premises Agreement Between the Governing Council of the University of Toronto and University of Toronto Schools amended to require that no later than 90 days following the end of each of UTS's fiscal years, financial reports including: (1) the audited Statement of Operations Income and Expense operating results statement for the most recently completed fiscal year and (2) the budget/forecast for the current and first succeeding fiscal years would be presented to the Governing Council of the University of Toronto for approval. It was left to the Office of the Governing Council to recommend the appropriate level of consideration and approval. Members agreed that approval of the recommendation before the Board was subject to Professor Goel's undertaking.

Finally, Professor Goel confirmed that if either party were to breach the Interim Agreement it would cease to be in effect.

On motion duly moved and seconded,

YOUR BOARD APPROVED

Subject to Governing Council approval in principle of the disestablishment of the University of Toronto Schools as an organizational unit of the Ontario Institute for Studies in Education in the University of Toronto (OISE/UT), and its new status as a separate legal entity within the University community,

THE proposed arrangements for incorporation of the University of Toronto Schools as an incorporated ancillary operation of the University, substantially in accordance with the proposed application for incorporation as an Ontario corporation without share capital and the proposed By-Law Number 1, and commencing its operations substantially in accordance with the "Financial Information Summary, October 2003", on behalf of the University of Toronto.

5(a) Vice-President and Chief Advancement Officer: Annual Report, 2002-03

Dr. Dellandrea updated the Board on the Campaign using a PowerPoint presentation (attached hereto as Appendix "C"). The University was well on its way to meeting the $1 billion milestone, having raised $993 million to date.

A member, on behalf of the Board, offered congratulations to Dr. Dellandrea and his team for the manner in which this tremendously successful campaign had transformed the climate and spirit of fund-raising in Toronto and in Canada. Both the manner with which fund-raisers more confidently approached their task and the openness with which donors now received them spoke to the change that had occurred.

A member asked if, within the next year, an analysis could be done correlating student involvement in campus activities with response to fund-raising approaches when they were alumni. The purpose of the question was to determine how (or if) student experience factored into level of giving. Ms. Frankle replied that the Department of Alumni and Development was already looking into this correlation and was in the process of collecting the relevant student experience data. She hoped to have some information in this regard for the Board by next year.

5(b) Public Affairs Report

Ms. Bloch-Nevitte gave her report on public affairs activities over the past year with the help of a PowerPoint presentation (attached hereto as Appendix "D"). The University of Toronto continued to receive considerably more media attention than any other of the G-10 universities.

6(a) Capital Projects Update

With the assistance of a PowerPoint presentation (attached hereto as Appendix "E"), Mr. Bisanti updated the members on the Capital Plan, pointing out, in particular, key changes from the update on September 29, 2003.

6(b) Capital Project: Leslie L. Dan Pharmacy Building

Mr. Bisanti used PowerPoint to speak to the highlights, expansion and required changes to the project, and funding outlined in his memorandum of October 30, 2003, proposing execution of the Leslie L. Dan Pharmacy project.

A member requested clarification on the source of funding for the shortfall of $12 million. Mr. Bisanti replied that makeup of the shortfall was intended to come from fund-raising and enrolment expansion. He noted that it was not unusual that construction of major buildings proceeded before all funding was in hand. Dean Hindmarsh was invited to comment and indicated that there were a number of proposals under consideration and conversations were underway with a number of pharmaceutical companies. He did not foresee a problem securing the funds for this project. Mr. Chee added that, in fact, this shortfall already had been factored into the capital plan. When the Board had approved the proposal to borrow $200 million last June, this project had been among those for which the borrowing package had been approved.

There was some discussion about how close the tenders had been. Mr. Bisanti indicated that the tender prices had been very competitive in a busy tender period and that the low bidder had been slightly below budget. He recalled that tenders for the Centre for Cellular and Biomolecular

REPORT NUMBER 129 OF THE BUSINESS BOARD – November 10, 2003

6(b) Capital Project: Leslie L. Dan Pharmacy Building (cont'd)

Research (CCBR) had been better, but that project had gone to tender in a period of reduced construction activity in the city and, in his view, timing had been more conducive to low tendering. A member asked if the University's practice of openness with respect to documentation on capital project estimates might be a factor leading to higher bids. Mr. Bisanti did not believe that it was, since projects were tendered in phases for which cost estimates were not evident in the documentation presented to governance.

On motion duly moved and seconded,

YOUR BOARD APPROVED

THAT the Vice-President, Business Affairs be authorized:

(i) to execute the proposed Leslie L. Dan Pharmacy project at the cost not to exceed $75,000,000 with funding as follows:

a.	SuperBuild	=	$28.8 M
b.	SuperBuild Interest	=	$ 5.0 M
c.	Leslie L. Dan Contribution	=	$13.0 M
d.	Shoppers Drug Mart	=	$ 2.0 M
e.	Apotex Contribution	=	$ 5.0 M
f.	Ontario Pharmacists Association Contribution	=	$ 2.0 M
g.	Green Shield Canada Contribution	=	$ 0.1 M
h.	Vernon Chiles Contribution	=	$ 0.025 M
i.	UIIF	=	$ 7.2 M
Sub-Totals		=	**$63.125 Million**
Fundraising		=	**$11.875 Million**
TOTAL PROJECT COST		=	**$75.0 Million**

(ii) to arrange such interim and long-term financing as required.

6(c) Capital Project: Woodsworth College Residence: Basement Facilities

Mr. Bisanti used PowerPoint to speak to the highlights and funding arrangements for execution of the Woodsworth College Residence, Basement Facilities project, outlined in his memorandum of October 30, 2003.

On motion duly moved and seconded,

YOUR BOARD APPROVED

THAT the Vice-President – Business Affairs be authorized:

(i) to execute the proposed outfitting of classrooms, A/V storage facility, Computer Room, Writing Centre, Commerce Career and Student Aid Centre within the defined shelled

6(c) Capital Project: Woodsworth College Residence: Basement Facilities(cont'd)

space of the Woodsworth College Residence, plus the re-establishment of the Computer Room within Rotman, at a cost not to exceed $3,696,433 with the funding sources as follows:

	Contribution 1=2+3	**FUNDING SOURCES** **Cash** 2	**Mortgage** 3	**Shelled-in (Funding Previously Approved)** 4	**Outfitting** (For Approval) 5
Commerce	**$1,693,219**	$244,400	$1,448,819	$398,843	**$1,294,376**
UofT Library	**$1,894,768**	0	$1,894,768	$875,756	**$1,019,000**
University Support	**$1,683,000**	$1,683,000	0	$1,683,000	**0**
Faculty of Arts & Science	**$711,468**	$381,000	$330,468	0	**$711,468**
Rotman School of Management	**$752,589**	0	$752,589	$181,000	**$571,589**
PriceWaterhouse Coopers	**$100,000**	$100,000	0	0	**$100,000**
Woodsworth College	**Providing Space**	-	-	-	**-**
TOTAL	**$ 6,835,044**	**$2,408,400**	**$4,426,644**	**$3,138,599**	**$3,696,433**

(ii) to arrange such interim and long term financing as required.

9(a) Deferred Maintenance: Annual Report

This was a consent item for information. There were no questions.

10. Reports of the Administrative Assessors

The administrative assessors had no reports to be given in open session.

11. Date of Next Meeting

The Chair reminded members that the Board's next regular meeting was scheduled for Monday, January 19, 2004 at 5:00 p.m. in the Council Chamber, Simcoe Hall.

12. Other Business

There were no items of other business.

REPORT NUMBER 129 OF THE BUSINESS BOARD – November 10, 2003

The Board moved into CLOSED SESSION.

13. Closed Session Reports

Professor Hildyard reported on the status of negotiations with the Faculty Association.

The Board moved into OPEN SESSION.

The meeting adjourned at 7:30 p.m.

Recording Secretary	Chair

November 24, 2003