UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 147 OF THE BUSINESS BOARD

February 27, 2006

To the Governing Council,
University of Toronto.

Your Board reports that it met on Monday, February 27, 2006 at 5:00 p.m. in the Council Chamber, Simcoe Hall, with the following members present:

Mr. Richard Nunn (In the Chair)
Mr. John F. (Jack) Petch, Vice-Chair of the Governing Council
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Angela Hildyard, Vice-President, Human Resources and Equity
Mr. Donald A. Burwash
Mr. Brian Davis
Ms Mary Anne Elliott
Ms Susan Eng
Mr. Ran Goel
Professor Glen A. Jones
Ms Paulette L. Kennedy
Mr. Geoffrey Matus
Ms Kim McLean
Mr. Roger P. Parkinson
The Honourable David R. Peterson
Mr. Timothy Reid
Professor Arthur S. Ripstein
Ms B. Elizabeth Vosburgh

Professor Vivek Goel, Vice-President and Provost
Ms Rivi Frankle, Interim Vice-President, and Chief Advancement Officer
Mr. John Bisanti, Chief Capital Projects Officer
Ms Sheila Brown, Chief Financial Officer
Ms Christina Sass-Kortsak, Assistant Vice-President, Human Resources
Mr. Ron Swail, Assistant Vice-President, Facilities and Services
Professor Safwat Zaky, Vice-Provost, Planning and Budget

Secretariat:

Mr. Neil Dobbs
Mr. Henry Mulhall

Regrets:

Mr. Husain Aboghodieh
Ms Dominique Barker
Dr. Alice Dong
Dr. Gerald Halbert
Mr. Gerald A. Lokash
Mr. George E. Myhal
Ms Jacqueline C. Orange
Ms Marvi H. Ricker
Mr. Robert S. Weiss

In Attendance:

Mr. Chris Caners, Sustainability Office
Professor John Coleman, Vice-Principal, Research and Graduate Studies, University of Toronto at Scarborough

In Attendance (Cont'd)

Mr. Bruce Dodds, Director of Utilities and Building Operations, Facilities and Services Department
Mr. Ray D'Souza, Chief Administrative Officer, University of Toronto at Mississauga
Ms Mary Jane Dundas, Special Assistant to the Vice-President, Human Resources and Equity
Professor Jonathan L. Freedman, Acting Vice-Principal (Academic) and Dean, University of Toronto at Scarborough
Mr. Farouk Kothdiwala, Project Manager, Facilities and Service Department
Dr. Jeanne Li, Special Assistant to the Vice-President, Business Affairs
Mr. Steve Moate, Senior Legal Counsel
Ms Mary Ann Ross, Director, Labour Relations
Professor Beth Savan, Director, Sustainability Office
Mr. Demetrios Voudouris, Manager, Accounting Services

ITEM 2 CONTAINS A CONCURRENCE WITH A RECOMMENDATION OF THE ACADEMIC BOARD TO THE GOVERNING COUNCIL FOR APPROVAL.

ALL OTHER ITEMS ARE REPORTED FOR INFORMATION.

1. Report of the Previous Meeting

Report 146 (January 16, 2006) was approved.

2. University of Toronto Schools: Affiliation Agreement

Professor Hildyard said that, following two years of negotiations, she was very pleased to bring to the Board a proposed long-term agreement with the University of Toronto Schools (U.T.S.) The new agreement followed on from an interim agreement implemented in January 2004, which had set out expectations for the long-term agreement and established a time-line for its achievement. The interim agreement was based on the assumption that there would be value in the establishment of a long-term relationship, in which U.T.S. would become financially self-sufficient. Key issues to be addressed were the ability of U.T.S. to maintain accessibility for its students, and the ability of the University to start the Schools off as an independent institution with a real likelihood of success.

Professor Hildyard commented on the issues that had arisen during negotiations. U.T.S. had recognized that it would have to, in order to become self-sufficient, raise its tuition fees substantially. While that was not as much a problem for new students who would apply in full knowledge of the higher fees, it would be problematic for existing students and their parents, who would find that tuition fees would have to increase from about $12,000 per year to $19,000 or $20,000 per year. U.T.S. had to determine generally how it could increase fees while maintaining accessibility. The University had reviewed the U.T.S. financial information, and recognized that there was a cash-flow problem. U.T.S. would not be able to borrow commercially to finance its transition to a higher fee future because it had no assets to pledge

2. University of Toronto Schools: Affiliation Agreement (Cont'd)

against any loan. It occupied a part of a University-owned building. Moreover, as U.T.S. raised its fees, the parents would need to be confident that the Schools had a secure location in which to operate. That would require that the University provide U.T.S. with a long-term lease or license for its current premises.

Professor Hildyard stressed that the University's key need in the agreement was to ensure that U.T.S. could become successfully self-sufficient. The proposed agreement would achieve that need. Professor Hildyard summarized the major elements in the agreement, as set out in the term sheet that was before the Board. The term of the agreement was to be fifteen years to 2021. If there were to be a decision not to renew the proposed agreement, it would have to be made by the end of 2014 so that all current students would have the opportunity to complete their studies. There was, at the present time, no substantial academic link between the University and U.T.S. Such links had existed in the past, and a Joint Academic Affiliation Activities Committee would be struck to explore possible academic and program linkages. U.T.S. would be permitted during the term of the agreement to continue to use the name "University of Toronto" as a part of its name. The University had forwarded to the Ministry of Training Colleges and Universities a request for approval concerning continued use of the name by U.T.S. The University would transfer ownership of all of the Schools' assets to U.T.S., primarily its endowment funds and certain capital funds raised by the Schools. U.T.S. would be expected to honour donors' conditions, and the transfer would require the permission of the courts. If U.T.S. were to cease operations or if it were to engage in activities that were inconsistent with its current letters patent and by-law, ownership of the assets would revert to the University. U.T.S would be permitted to engage in its own advancement activities, without any of the University's requirements for donor clearance (intended to avoid duplicate approaches to individual donors by the University and U.T.S.) Ms Frankle and the staff in the University's advancement operation were assisting U.T.S. in strengthening its advancement activities.

Professor Hildyard said that most employees were teachers who were members of the Ontario Secondary School Teachers Federation and covered by the Federation's agreement with U.T.S. Most other employees were also employees of U.T.S. and covered by a collective agreement between U.T.S and the United Steelworkers of America. A few employees had been hired as University employees, and they would be transferred to U.T.S. in accordance with the sale-of-business provisions of the Ontario Labour Relations Act and in consultation with the Steelworkers' union. Finally, four employees who were formerly members of the University of Toronto staff would be transferred but would continue their membership in the University's pension plan and certain benefit plans.

With respect to premises, Professor Hildyard said that the University would license to U.T.S. the space it currently occupied at a fee of $615,000 per year, a market-based amount with a reasonable discount. The University would also continue to make available the Robert Street playing field (a mixed-user facility) with U.T.S. retaining its current level of access. Should the University decide to use the Robert Street facility for other purposes, it would be able to do so on reasonable notice, with the provision that it seek reasonable alternative playing fields elsewhere

2. University of Toronto Schools: Affiliation Agreement (Cont'd)

for U.T.S. U.T.S. would continue to use the University's cleaning and maintenance services, but it would begin to pay for those services at a reasonable rate and would also begin to pay its share of utilities costs.

Professor Hildyard said that the proposed agreement provided for a University subsidy of $6-million to be paid at the rate of $1.5-million per year over four years to assist U.T.S. with meeting its new obligation to pay rent on its premises and to pay its other operating costs. After about six years, the University would, through its receipt of rent and its savings on U.T.S. operating costs, recover the full amount of the subsidy. The problem was that, even with the $6-million subsidy, U.T.S. could not be expected realistically to break even in its early years of operation. Because of the time lag in its increasing its tuition-fee and other revenue, it would have a cash-flow problem in the initial years. To address that problem, the University would provide U.T.S. with a line of credit of up to $4-million at the prime lending rate plus one half of one percent. The proposed agreement required that U.T.S. pay off its borrowing under the line of credit by no later than June 30, 2016. Professor Hildyard was confident that the subsidy plus the line of credit would enable U.T.S. to become financially viable.

Professor Hildyard said that both the University and U.T.S. had a strong interest in redeveloping 371 Bloor Street West. The building on that site was currently shared by U.T.S. and University users including the Ontario Institute for Studies in Education of the University of Toronto (OISE/U.T.) and the Department of Sociology. The proposed agreement therefore foresaw the possibility of a joint redevelopment of the site. Any proposal for a capital project would require the usual approval by the University's Governing Council. The agreement contained no commitment to proceed with or to fund such a project. If, however, a joint redevelopment was to proceed, U.T.S. would receive rights, such as a condominium-like ownership or a long-term lease, to secure its investment in the property. If U.T.S. and the University were not able to arrive at a proposal for a joint redevelopment of the site, then U.T.S. would have the right to put forward a proposal to redevelop the site on its own. While the University would not be obliged to accept the proposal, it would be required to consider it in good faith. It there were to be no proposal for redevelopment of the site, the University would have the right to reconsider the length of the license for U.T.S.'s use of the site beyond the initial date of 2021. There might be various outcomes in that event. If the University saw no opportunity to redevelop the property for its own use, it could extend the license for U.T.S. There would, however, be no obligation to do so.

Professor Hildyard noted that the University would retain responsibility for certain limited transitional costs. For example, a number of U.T.S. teachers, who had commenced their employment before UT.S. had been established as a separate corporation, had been members of the University of Toronto Faculty Association. To honour "grandparenting" agreements, the University would continue to pay the costs of their research and study leaves and of any early retirements.

2. University of Toronto Schools: Affiliation Agreement (Cont'd)

Professor Hildyard described the provisions for the possible termination of the proposed agreement. If the parties were not to renew the agreement, or if U.T.S. should default on its loan, the University would have no obligation to U.T.S. students. Under the current interim agreement, the University had responsibility to ensure that current U.T.S. students were not disadvantaged. That responsibility would not be continued under the proposed agreement.

Finally, Professor Hildyard reported that the University would no longer appoint two directors to the U.T.S. Board. With U.T.S. ceasing to be a University ancillary operation, such appointments would no longer be appropriate. The University would retain only observer status.

Among the matters that arose in discussion were the following.

(a) Cost to the University of the agreement. In response to a question, Ms Riggall said that the cost to the University of the agreement would be greatest in its first year, when the subsidy and the cost of the line of credit would most exceed the recovery for rent and reimbursement of operating costs. The amount would then decline until the rent payment and the saving on providing operating costs would eventually be sufficient to offset the subsidy. Ms Riggall outlined the year-by-year outcome of the financial plan. Professor Goel stressed that the University was currently providing an indirect subsidy to U.T.S. That amount had been significant since the withdrawal of Ontario Government funding for U.T.S. over ten years ago. The University's indirect subsidy had taken the form of the provision of serviced facilities and other central services. Two members commented that it was entirely appropriate to end the subsidization of a private high school. Another member expressed concern that the proposed agreement would for a few years inappropriately continue an indirect public subsidy (provided through the University) for a private high school.

(b) Viability of U.T.S. In response to a question, Ms Riggall and Professor Goel said that U.T.S. would have to increase its tuition fees to generate sufficient revenue to pay its costs. However, the projected level of fees would still be less than that of other private schools. In response to further questions, Ms Riggall said that the financial plan called for a 6% fee increase for current students and the initiation of significantly higher fees for students first entering U.T.S. The University had assessed the U.T.S. business plan, had assessed the risk with respect to its achievement, including the demographic basis for its enrolment projections, and the University was satisfied that the plan could be achieved. Should U.T.S. fail financially, the University would take over the operation and bring it to a close. Should that take place, the University would take over U.T.S. assets, primarily some of its endowment funds, subject to court approval. It had no significant physical assets.

(c) Future relationship between the University and U.T.S. In response to a member's question, Professor Goel said that the proposed agreement contemplated the development of a relationship between the University and U.T.S. somewhere between complete separation and affiliation – something comparable to the relationship between the University and its teaching

2. University of Toronto Schools: Affiliation Agreement (Cont'd)

hospitals. There could be academic value to some level of affiliation. The Joint Academic Affiliation Activities Committee was planned to find ways of realizing that academic value. It would, indeed, be important for that Committee to succeed in order to buttress U.T.S. efforts to recruit an outstanding Principal.

(d) Redevelopment of 371 Bloor Street West. A member expressed concern that any joint redevelopment of 371 Bloor Street West, with a substantial part of the redevelopment designed for use as a high school, would tend to lock the University into a continuing relationship with U.T.S. Professor Goel replied that 371 Bloor Street West was a prime location with institutional/commercial zoning. Making the best possible use of the site, which could include a multi-story building, would be beyond the University's capacity, acting on its own. A joint development with U.T.S. and possibly others, including potentially commercial users, would provide the basis of using the site to its full potential. OISE/U.T. was very interested in developing the site for its Additional Qualifications Program for the continuing education of teachers. Any redevelopment would also have to consider the needs of the Department of Sociology, which now occupied space in the building.

(e) Line of credit. A member asked whether the University's provision of a line of credit would be subject to any safeguards such as revenue milestones to be achieved by U.T.S. He was concerned that in the absence of safeguards, the University would not only find itself at risk with respect to recovery of the loaned amount, but it would also be placed in the position of facing requests for further subsidies or a further extension of credit. Ms Riggall replied that the proposed agreement contemplated no revenue milestones, but it did include a maximum on the amount that could be drawn down in any one year. That amount was the minimum required for U.T.S. to maintain operations in the early years of the agreement, according to its financial plan. The projection for repayment was also based on the U.T.S. financial plan. A member asked whether the University could prevent draw-downs of the line of credit if it were to become concerned about U.T.S.'s financial situation. Ms Riggall replied that the agreement contained no provision to prevent draw-downs, other than the limit on the amount available each year.

(f) U.T.S. accountability to the University. A member asked whether the Board of U.T.S. was in any way accountable to the University. Ms Riggall replied in the negative. U.T.S. would be an independent corporation. Its sole financial accountability to the University would be that to its lender. U.T.S. would provide the Vice-President, Business Affairs with annual audited financial statements as well as unaudited quarterly statements.

(g) License for the use of 371 Bloor Street West. In response to questions, Ms Riggall said that the University would carry out the regular maintenance and repair of the building. There was not a high level of deferred maintenance. U.T.S. would pay the cost of routine maintenance. The University, as landlord, would be responsible for any major maintenance. The rent paid by U.T.S. was a base amount, not escalated for inflation. It was based on a study of Toronto District School Board rents reduced by a 10% discount. The arrangement did not represent a subsidy; the

2. University of Toronto Schools: Affiliation Agreement (Cont'd)

current building would not be of use to other potential tenants. Moreover, U.T.S. would pay the market rate for utilities and cleaning.

(h) Use of the "University of Toronto" name. Invited to respond to a member's question, Mr. Moate said that U.T.S. was licensed to use the University's name for the duration of the agreement to 2021. In 2014, the parties would assess the academic merits of continuing the agreement. The agreement contemplated the possibility of the extension of the relationship at that time. If, however, it was decided in 2014 not to extend the agreement, then in 2021, U.T.S. would have to adopt a new name not including "University of Toronto." A member expressed concern at the University's apparent inability to require that U.T.S. discontinue its use of its name in the event of a problem before the conclusion of the proposed agreement. Professor Goel replied that, while the University did have protection in event of exceptional circumstances, the University of Toronto name was U.T.S.'s key asset. If the Schools did not have use of the name, then the University would not be looking at affiliation but at complete separation.

In the course of discussion, a number of members congratulated Professor Hildyard, Ms Riggall and their colleagues on the proposed agreement. The Chair thanked Professor Hildyard and Ms Riggall for bringing the long negotiation to a successful conclusion.

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

(a) With respect to the financial, property and human-resource arrangements,

YOUR BOARD CONCURS

With the prospective recommendation of the Academic Board

THAT the Vice-President, Human Resources and Equity be given authority to execute an Affiliation Agreement between the Governing Council of the University of Toronto and the University of Toronto Schools, for the period July 1, 2006 to June 30, 2021, that is essentially in accordance with the principles and terms outlined in the Term Sheet (a copy of which is attached to Professor Hildyard's memorandum to the Business Board as Appendix 1);

(b) YOUR BOARD APPROVED

THAT, upon execution of an Affiliation Agreement between the Governing Council of the University of Toronto and the University of Toronto Schools for the period July 1, 2006 to June 30, 2021 (as above), the University of Toronto Schools cease to be designated as an ancillary operation of the University of Toronto.

3. University of Toronto Innovations Foundation: Restructuring

Ms Riggall said that the proposal before the Board had been developed by the Board of the Innovations Foundation working with staff in the Office of the Vice-President, Research and Associate Provost and others in the administration. Professor Ronald D. Venter, who had served as interim Executive Director of the Foundation for seven months, had played a key role in developing the proposal, and a summary paper prepared by Professor Venter and endorsed by the Foundation's Board had been distributed to the Board. It was proposed that the Foundation make a distinct strategic shift from the sole objective of earning a profit. That objective had not been achieved and had represented a diversion from efforts to achieve the University's core mission. The Foundation would shift to the primary goal of achieving the transfer of knowledge developed at the University. The Foundation would no longer invest in start-up companies to develop faculty members' inventions; the Foundation and the University lacked the capital to continue such investments. Rather, the Foundation would concentrate on developing a culture of disclosure of inventions among the University's faculty, would assess intellectual property for its commercial potential, would assist in obtaining patent protection for appropriate intellectual property, and would provide information and advice to begin the process of commercializing of that patented intellectual property. The best way for the Foundation to achieve that new direction, which had been recommended by the Manley Report, was to bring it back into the University in the portfolio of the Vice-President, Research and Associate Provost. The Foundation's staff would continue their work within the University, focusing more on establishing connections with the faculty members who were creating intellectual property. The Board of the Foundation, which had been forced to devote too much of its attention to corporate and financial matters, would be replaced with two advisory operating committees. One would consist of Deans and leading scientists and would assist in the Foundation's efforts to establish closer connections with the research community in order to promote invention disclosures. A second advisory operating committee would consist of business people, who would focus on providing strategic advice on the marketability and the marketing of particular intellectual properties.

Among the matters that arose in discussion were the following.

(a) Interaction with the MaRS Centre. In response to a question, Ms Riggall said that the proposal would not affect the relationship between the Foundation and the MaRS Centre. The Foundation would continue to be a tenant in the Centre and to work with various other groups housed there. Professor Goel added that a significant reason for the proposal was the availability of other organizations in the MaRS Centre to do commercialization work. That would allow the newly constituted Foundation to concentrate on work with faculty and graduate students to encourage disclosure of inventions and to determine whether they were ready for commercialization.

(b) Financial consequences of the proposal. A member observed that the Foundation's cumulative loss of $11-million had already been written off on the University's financial statements. The operating budget would have to absorb the loss, offset over time by royalty revenue and earnings from the sale of shares of start-up companies held by the Foundation.

3. University of Toronto Innovations Foundation: Restructuring (Cont'd)

The member asked whether there would be future investments in University intellectual property and any significant risk of further losses. Ms Riggall replied that the University would make no further investments in companies developing inventions. The University might take back equity in start-up companies in lieu of royalties for University-owned inventions, but it would not make investments in those companies. The operations of the new Innovations unit within the University would be limited to those funded by the operating budget.

(c) Employees. In response to a member's question, Ms Riggall said that all Innovations Foundation employees would be offered University staff positions carrying out the same functions they currently performed at the Foundation. There would be changes to the proportion of time and effort to be spent on aspects of their positions to reflect the new unit's emphasis on meeting scientists and other scholars, encouraging disclosures, etc.

(d) Relationships with faculty who develop intellectual property. A member requested clarification of the ownership of inventions developed by University of Toronto faculty and about the objectives of the University's practices with respect to ownership and development of intellectual property. Was a part of the objective in the Innovations Foundation and its successor to retain very good faculty members who originated intellectual property who might otherwise leave the University to profit from their innovations? Professor Goel replied that the University's Inventions Policy gave ownership of intellectual property to faculty members. Many chose to assign their rights to their intellectual property to the University. The share of any royalty and other revenues to the inventor and the University would differ depending on ownership of the rights. A part of the University's mission was to ensure the application of ideas for the good of society. The University wished, therefore, to ensure that its practical scholarship was applied. Therefore, the University's policies, established in its agreement with the Faculty Association, allowed faculty members to spend a certain proportion of their time on outside activities. The policies of conflict of interest and conflict of commitment provided limits with respect to outside activities. If faculty members wished to spend a greater proportion of their time on the commercial development of their intellectual property, they could take a leave of absence to do so. In recent years, no member of the faculty had developed so profitable an intellectual property (a Gatorade, for example) that the faculty member had left the University permanently. Faculty members did move among institutions and in and out of the private sector, depending on very specific circumstances, and the attractiveness of moves varied considerably among departments and disciplines.

(e) Advisory committees. In response to questions, Ms Riggall said that the current Board of the Innovations Foundation, during the transition period, included only two members from outside of the University community. The new Business Advisory Committee would consist largely of such individuals. The committees would be advisory only, with the University's administration being ultimately accountable for decisions.

(f) Attainability of the new goals of the Foundation. A member, while stating his support for the proposal, expressed concern that the new arrangement would not succeed. Would the

3. University of Toronto Innovations Foundation: Restructuring (Cont'd)

University be able to recruit a new Assistant Vice-President / Executive Director who would have the ability to establish connections with venture capitalists and investment bankers who would be able to commercialize University inventions? Ms Riggall replied that the focus of the Foundation's activities would, in the new arrangement, be at an earlier stage of the technology-transfer process: encouraging disclosures, protecting inventions and getting the intellectual property out to others who could make the investments needed to make use of the intellectual property. The University of Toronto had been identifying only about 200 disclosures of intellectual property per year – too few for a University of this size. Ms Riggall noted that the dual title of Assistant Vice-President and Executive Director of the Innovations Foundation would be used only while the Foundation continued its corporate existence. Thereafter, the individual would have only the single title of Assistant Vice-President.

The member remained concerned that the proposed new arrangement, while representing an improvement, would not succeed in its objectives. Another member observed that, while the change was appropriate and an improvement, technology-transfer was an area where theory tended always to be better than outcome. It was very difficult to succeed in entrepreneurial activity in an institutional setting. It was simply not possible to take the risks necessary for success in this area. The University should, however, try the new approach and review the outcome in two or three years' time.

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

YOUR BOARD APPROVED

Subject to arrangements being made for the operations of the Innovations Foundation to be brought into the general operations of the University, including securing the necessary operating budget support, initially and essentially in accordance with the Innovations Foundation's Board Resolution dated January 18, 2005,

(a) THAT the University of Toronto Innovations Foundation cease, for purposes of University policy, to be designated as an incorporated ancillary operation of the University; and

(b) THAT the appropriate Vice-President, as so designated by the President, be authorized to approve and execute any agreements required to arrange for the operations of the Innovations Foundation to be brought into the general operations of the University, including, without limitation, the transfer to the University of the staff, licenses and other rights, assets and liabilities of the Foundation.

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

Ms Riggall said that the proposal to increase the size of the Board of the University of Toronto Asset Management Corporation had arisen from the opportunity to add an excellent new director with a proven record of success in the investment business. In response to questions, Ms Riggall said that appointees to the Board were nominated and approved by the Executive Committee of the University's Governing Council. The decision to increase the size of the Board, following a previous reduction, was also beneficial because it would provide a good range of advice and would assist in ensuring quorum for Board and committee meetings that sometimes had to be called on very short notice.

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

YOUR BOARD APPROVED

THAT the following prospective amendment of By-Law Number 1 of the University of Toronto Asset Management Corporation be approved:

THAT the first sentence of clause 3 of By-Law Number 1 be amended to read as follows:

The number of directors of the Corporation is hereby increased from twelve to thirteen (including three ex officio directors as hereinafter provided), and the affairs of the Corporation shall hereafter be managed by a board of thirteen directors, each of whom at the time of his or her election or within ten days thereafter and throughout his or her term of office shall be a voting member of the Corporation.

5. Capital Projects Report

Professor Goel recalled that the Capital Projects Report was presented at each meeting that would receive proposals for capital projects. The report included all projects that were underway as well as those that were being planned. The borrowing requirement for approved projects was $693.38-million, leaving a remaining debt capacity of $67.22-million to be allocated to projects, including some that would come before the Board at the current meeting. Professor Goel was working with the Vice-President, Business Affairs and with the Chief Financial Officer on the possibility of revising the debt capacity. There were three reasons for the review. First, the maximum capacity was defined as 40% of the University's net assets averaged over five years, and the net asset amount had increased. Second, some approved projects had been partially contingent on external funding, with borrowing used only in the interim. Some of that external funding might be realized. Third, a review would be necessary to accommodate the Province of Ontario's plan to supply future capital funding in the form of a stream of payments to service debt rather than in the form of grants.

6. Capital Projects: Infrastructure – Planning for Renewal

Mr. Swail said that his presentation on planning for infrastructure renewal was intended to provide members of the Board with an overview of the University's utilities infrastructure and to provide context for the next two projects on the agenda. The central infrastructure included: steam-heating systems, chillers for cooling, electrical power systems, roads and walkways, tunnels, sewers, storm-water management systems, and voice and data networks. The current report would focus on the utilities infrastructure: heating, cooling and electrical-power systems.

Mr. Swail reported that officers from the three campuses had in 2005 begun regular meetings to discuss a number of problems concerning the utilities infrastructure. Those problems included: capacity problems arising from the substantial number of new buildings being constructed on all campuses; significant deferred maintenance on key equipment, which was causing increasing failures; very large increases in the price of natural gas and electricity over the past few years, requiring effort to improve the efficiency of the systems; and new regulations that had resulted in increased expense. The University had also received offers from companies to purchase the University's infrastructure, to manage it or to partner with the University. The University had four options: continuing in-house operation, sale of the systems to third-party operators, outsourcing management, and establishing a single unincorporated business ancillary to manage the operations. To evaluate the options, the University required: an assessment of the state of its plan and equipment; a report on priorities for upgrades, replacements and repairs; costed plans for projects to meet the immediate needs arising from the University's growth; and a long-term financial plan. To meet immediate needs, consultants had been hired to produce comprehensive action plans for work at the University of Toronto at Mississauga (U.T.M) and at the University of Toronto at Scarborough (U.T.S.C.) For long-term strategic advice, the University had engaged the consultants Sebesta Blomberg to assess the current operations, to define deferred maintenance and renewal needs, and to develop effective and financially viable strategies.

Mr. Swail described the utilities infrastructure at the St. George Campus. Most of the buildings on the campus were heated through the central steam plant, which was efficient, was in reasonably good condition, and provided adequate capacity to meet immediate needs. The campus was powered largely through a University-owned high-voltage distribution system. Because of capacity issues, new buildings and some other buildings on the periphery of the campus had been connected directly to the Toronto Hydro electricity supply. About half of the buildings on the St. George Campus were cooled through three chiller plants, with other buildings cooled through stand-alone chillers. Many of the chillers were well past their useful life and were not energy efficient. It was the chiller equipment that was most in need of significant renewal at the St. George Campus. Finally, a cogeneration system produced approximately 12% of the electricity needs of the campus. In the short term, there was need to renew the cooling equipment and to conserve energy. The next item on the agenda was a proposal to replace eighteen chillers that were beyond their useful lives, contained environmentally unfriendly chlorofluorocarbons and were energy inefficient. The three largest buildings on the campus also contained 70,000 energy-inefficient lamps that should be replaced with modern energy-efficient lamps and ballasts. The combined project would cost

6. Capital Projects: Infrastructure – Planning for Renewal (Cont'd)

approximately $17-million and it would reduce electricity costs by approximately $1-million per year. Over the next thirty years, there would be need for a capital infusion of approximately $150-million to keep the utilities infrastructure on the St. George Campus in good repair.

Mr. Swail described the utilities infrastructure at U.T.M. Buildings were heated through a steam plant and stand-alone units. The electrical supply system was currently at capacity; it had no redundancy and could not accommodate planned growth. The campus did have some micro-turbines that met a small proportion of its electrical needs. Cooling was achieved through both a central chiller plant and stand-alone units, but the main chiller was past its useful life and would have to be replaced. U.T.M. would require a major upgrade to its electrical supply system to provide some redundancy for current buildings and to supply new buildings. It would also require upgrades to its steam system and replacement of a large chiller. In addition to dealing with the needs of its utilities infrastructure, U.T.M. had inadequate sewer capacity and would require storm-water management upgrades before it could proceed with future development plans. It would also have to upgrade its roads and sidewalks. U.T.M. had a $16-million infrastructure master plan to be implemented over eight years, beginning with an upgrade to its electrical supply and distribution system and the chiller replacement.

Mr. Swail recalled that U.T.S.C. had in 2003 developed a comprehensive multi-year plan to upgrade its facilities infrastructure. All U.T.S.C. buildings were heated through a central steam plant. The central chiller served almost all buildings. Improvements to the cooling tower had been completed in 2005, and a new chiller would be installed in 2006. A campus-wide power upgrade was part of the master plan, and high-voltage power feeds had been upgraded in 2004. Many of the infrastructure issues at Scarborough had, therefore, already been addressed, with over $10.7-million having been invested to date. Phase 5 of the infrastructure-upgrade program would come before the Board later on the agenda; it included an emergency-generator upgrade and replacement of a P.C.B. transformer. There were, however, other issues at U.T.S.C. including a potentially serious structural problem, with a concrete structural study currently underway. Improvements were also required to the elevators, voice and data infrastructure and the storm and sanitary sewer systems.

Mr. Swail concluded that the utilities infrastructure was critical to the University's mission, and it required careful planning to prevent major breakdowns and to facilitate growth. A significant deferred-maintenance backlog within the utilities systems would require significant investments. A long-term strategic plan was clearly required to fund upgrades and to facilitate future growth. The administration would evaluate the consultants' report on long-term needs and would evaluate strategies on how best to manage and finance the systems. It would review the possibility of establishing a utilities ancillary for all three campuses, and it would review possible partnerships. The administration would then update the campus infrastructure master plan.

7. Capital Project: Energy Efficiency Project: St. George Campus Lighting Retrofit and Chiller Replacement

Ms Riggall said that combining the lighting retrofit and chiller replacement projects would enable the University to take advantage of both government grants and an interest-free loan from the City of Toronto's Better Building Partnership. The replacement of chillers using chlorofluorocarbon refrigerants would, moreover, be required by law by 2007. The lighting retrofit, in particular, would generate substantial operating savings with the cost of the retrofit being paid back in four years. The recent Government of Ontario announcement, which would keep electricity prices below projected market prices, would mean that the payback on the proposed capital project would not be as good as originally projected, but the electricity savings would still be substantial and it would be very worthwhile to proceed.

Two members commended the proposal, the University's environmental and financial initiative, the extensive participation of faculty members and students in the work of the Sustainability Office, and the excellent work of the Facilities and Services Department. The initiative was an entirely appropriate one for a major university, and the University should make widely known initiatives such as this and others to be pursued in the forthcoming infrastructure master plan. Ms Riggall also commended the work of the Sustainability Office and she indicated that the University would make its accomplishments known as it moved forward to achieve energy conservation and reduction of greenhouse gas emissions. In response to a question, Ms Riggall said that she anticipated that the infrastructure master plan would come forward in the fall of 2006, after the evaluation of the consultants' report and the consideration of options.

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the project,

(a) THAT the Vice-President, Business Affairs be authorized to execute the Lighting Retrofit and Chiller Replacement Project, encompassing a renewal of the cooling infrastructure and a major retrofit of lighting on the St. George Campus, at a cost not to exceed $19.887-million, using the following sources of funds:

NRCan grant	$ 0.250-million
Toronto Hydro grant	0.680-million
Facilities Renewal funds	2.000-million
Interest-free loan from the City of Toronto Better Buildings Partnership to be repaid by the operating budget from energy savings	2.740-million
Debt financing to be repaid by the operating budget from energy savings	14.200-million

7. Capital Project: Energy Efficiency Project: St. George Campus Lighting Retrofit and Chiller Replacement (Cont'd)

(b) THAT the Vice-President, Business Affairs be authorized to arrange such interim and long-term financing as required, from either internal or external sources.

(c) THAT the authorized external borrowing be increased by $2.74-million to reflect the amount of the interest-free loan from the City of Toronto Better Buildings Partnership for the St. George Campus Lighting Retrofit and Chiller Replacement project. (With this addition, approved borrowing would remain within the maximum external borrowing capacity defined within the Borrowing Strategy as approved by the Governing Council on June 24, 2004).

8. Capital Project: University of Toronto at Scarborough: Electrical and Mechanical Infrastructure Upgrades, Phase 5 – Replacement of Boiler Controls, Generator and PCB Transformers

Ms Riggall said that the proposal represented a further step in the implementation of U.T.S.C.'s comprehensive multi-year plan to upgrade its utilities infrastructure. Projects at the early stages had been smaller ones approved by the Accommodations and Facilities Directorate. The full plan had then been approved by the Governing Council, and this project represented the current step towards implementation.

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the project,

THAT the Vice-President, Business Affairs be authorized to execute University of Toronto at Scarborough (UTSC) Electrical and Mechanical Upgrade Project, Phase 5, encompassing the replacement of boiler controls, a generator and PCB transformers, at a cost not to exceed $4.530-million, using the following sources of funds:

Funding for the new UTSC Science Building provided by the UTSC operating budget	$ 3.785-million
Enrolment Growth Fund	.320-million
Deferred Maintenance Funds	.425-million

9. Capital Project: University of Toronto at Scarborough - New Science Building

The Chair noted that the proposed new Science Building at U.T.S.C. would be considered for approval in principle by the Planning and Budget Committee on March 7. The administration had kindly accepted the suggestion to bring the proposal for execution of the project to the Business Board at this meeting in order to relieve the pressure on the Board's agenda on March 27, which was anticipated to be a long one.

Ms Riggall recalled that the Board had previously approved the expenditure of $3-million for the completion of design work. The current proposal was to approve the execution of the project at a cost of $33.089-million. The need for the building had been widely recognized.

A member expressed his continued concern about the use of operating funds for capital projects, particularly in cases such as this when the full cost of a facility would be borne by the operating fund, precluding the use of the monies for operating purposes. While the use of operating funds could be justified for the construction of infrastructure facilities when the cost would be recouped by operating savings, he was concerned about proposals such as the one now before the Board, where there would be no cost-recovery. Professor Goel replied that the Province was not currently supplying capital funds except in special cases such as the SuperBuild Fund, which had provided partial funding for facilities for the double cohort, or other special funding for facilities to accommodate graduate expansion. Even in those cases, full funding was not provided, and the University had to use the Provincial funding to leverage fundraising efforts and had to borrow to cover a part of the cost. In this case, U.T.S.C. had ambitious plans to expand its enrolment in science, and it clearly required the proposed new facility to accommodate the increased number of students and the faculty who would teach them. Having that additional space would enable U.T.S.C. to enroll more students and to generate additional revenue, some of which would be used to pay for the new facilities. The member urged that the Board be provided with a comprehensive capital budget for the entire University so that (among other things) it could understand how operating and other funds were allocated to cover the cost of capital projects.

9. Capital Project: University of Toronto at Scarborough - New Science Building (Cont'd)

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the project,

THAT the Vice-President, Business Affairs be authorized:

(a) to execute the University of Toronto at Scarborough (UTSC) New Science Building Project, at a cost not to exceed $33.089-million, using the following sources of funds:

2004-05 cash allocation from the UTSC operating budget	$ 3.000-million
Further cash allocation from the UTSC operating budget	10.089-million
Debt financing to be repaid by the UTSC operating budget	20.000-million

and

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

10. Capital Project: University of Toronto at Scarborough - East Arrival Court

Invited to present the proposal, Ms McLean said that the proposed project was a small one but one that would be very important to U.T.S.C. With the extensive new building program and the enrolment expansion, there was a need for a second drop-off point. At the present time, the absence of such a facility was causing long back-ups of traffic on Military Trail, causing annoyance to the campus's neighbours. The proposal was to construct a very attractive drive-in lane combined with environmental initiatives, in particular a bioswail, which would enhance the environmental performance of the Campus and improve storm-water management in the Highland Creek Valley watershed. While one cost of the proposal would be a small reduction in the number of parking spaces, that loss was necessary to allow for the construction of the entranceway made necessary by the extensive building on the campus over the past five years.

10. Capital Project: University of Toronto at Scarborough - East Arrival Court (Cont'd)

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

YOUR BOARD APPROVED

Subject to Governing Council approval of the project,

THAT the Vice-President, Business Affairs be authorized

(a) to execute the University of Toronto at Scarborough (UTSC) East Arrival Court Project, at a cost not to exceed $3,112,642, using the following sources of funds:

Cash allocation from carry-forward Funds in the UTSC operating budget	$ 232,763
Capital investment by the UTSC ancillary operations budget	249,961
Debt financing to be provided by the UTSC operating budget and repaid by the UTSC ancillary operations budget	2,629,918

and

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

11. Capital Project Closure Report

Ms Riggall reported that the books had been closed on a further three capital projects. First, the parking garage under the Centre for Culture, Communications and Information Technology at U.T.M. had been approved at a cost of $12.89-million and completed for $12.54-million. Second, the enclosure of a part of the patio area at Sidney Smith Hall to provide additional student space had been approved at a cost of $3.3-million. While the approved cost had been increased to $3.72-million, the project had been completed for $3.2-million. The Davenport wing of the Lash Miller Chemical Laboratories, which consisted of several different renovation projects, had been approved at a cost of $12.3-million. Additional donations and other funding had been made available, allowing a substantial expansion of the scope of the project to a cost of $24.55-million. The various projects were completed at a total cost of $24.4-million.

12. Enrolment Report, 2005-06

The Chair said that the Enrolment Report was intended as background to the Board's consideration of the tuition fee schedule. Again, because the next agenda was likely to be crowded, Professor Zaky had kindly agreed to bring the Enrolment Report forward at this time. The Report was intended to enable the Business Board to deal with the question: was there risk that the proposed level of tuition fees would have a negative effect on enrolment – i.e. that the University would be pricing itself out of the market? While enrolment planning was the responsibility of the Planning and Budget Committee, the effect of tuition fees on enrolment, and therefore on revenue, was a Business Board responsibility.

Professor Zaky recalled that in previous years, the administration had prepared two enrolment reports: one reporting on the current year's enrolment and a second dealing with projected enrolment levels in the forthcoming year. Those two reports had been combined into the single report now before the Board. For 2005-06, overall enrolment, in terms of full-time-equivalent students, had increased by 4% over the previous year to nearly 61,000. There had also been a 15.4% increase in international students at the undergraduate level and a 2% increase at the graduate level. International students now formed 9.5% of total enrolment, the highest level at the University of Toronto since 1978-79. For 2006-07, the University planned a further increase of just under 400 full-time-equivalent undergraduate students and just over 900 full-time-equivalent graduate students – a projected growth intended to restore the University's undergraduate/ graduate student balance to a level comparable to peer institutions. Professor Zaky concluded that the key conclusion from the point of view of the Business Board was that the University's enrolment continued to grow and to be above target in 2005-06, as it had been for the past several years.

The following matters arose in discussion.

(a) Quality of enrolment and accessibility. A member observed that it was clear that the University was continuing to attract a strong enrolment and that it was not pricing itself out of the market. However, the report did not answer two other questions. Was the University attracting high-quality students in comparison to other institutions? And was the University failing to attract any good students who were deterred by the cost of tuition fees? Could it be that students were attending the University of Toronto only because they lacked other options? Professor Goel and Professor Zaky replied that the University of Toronto was exceeding its enrolment targets at a time when several other universities in the Ontario system were failing to meet their targets. Average entering grades were high and were stable; the small change over the previous year was an improvement. The data on yield rates also showed a very good outcome. With respect to accessibility, the Board would at its next meeting receive the Report on the Vice-Provost, Students on student financial support, which would show that the University's financial support programs were keeping the University accessible to students from low-income families.

(b) Standardized admission tests. A member asked how the standardized admission test scores (such as the Scholastic Aptitude Test or S.A.T. scores) for the University's first-year students compared with those entering other institutions across North America. Professor Goel

12. Enrolment Report, 2005-06 (Cont'd)

replied that standardized admission tests were not commonly used for admission to undergraduate programs in Canada. That being the case, it would be very difficult for one institution such as the University of Toronto to require them when others did not. In addition, the S.A.T. tests included many items that were culturally specific; they were intended for American students. The member commented that it would be possible to have the tests adapted for Canadian students. Professor Goel replied that the University was looking at broadening its assessment of applicants for first-year Arts and Science programs beyond secondary-school grades, something that was desirable because of variability in grading among schools. It was possible that standardized tests might be included. Professor Zaky added that the University was also considering the review of portfolios submitted by applicants that could include information about non-academic accomplishments. Evaluating such portfolios was, however, very labour-intensive.

(c) International student enrolment. A member asked why the enrolment of international students at the University had been so variable. Professor Zaky replied that the recent increases had likely been the outcome of international political factors, with students from some parts of the world finding the U.S.A. to be less accessible and less welcoming, as well as the outcome of increased recruiting efforts by the University of Toronto. It was clear that tuition fees had not been a factor, with applications increasing at the same time as increases in the fees charged to international students.

13. Canadian Nuclear Safety Commission - Report on Audit

The Chair recalled that Professor Hildyard had, at the previous meeting, given a brief oral report on the audit of the University by the Canadian Nuclear Safety Commission. Professor Hildyard referred members to her written report, which outlined concerns expressed by the auditors about compliance and security matters with respect to the University's radiation-protection program. Professor Hildyard was working with the Vice-President, Research, his Research Advisory Board and the Director of the University's Radiation Protection Program on the University response. Several of the auditors' recommendations were of real concern to the University, and compliance would have a substantial impact on the operation of laboratories and the training of students. The University's response might include confirmation of compliance with recommendations but also statements of the view that compliance would be inappropriate. Professor Hildyard undertook to provide the Board with a full briefing on the response. In answer to a member's question, Professor Hildyard stated that there was absolutely no cause for concern about safety.

14. Reports of the Administrative Assessors

(a) University Credit Rating

Ms Riggall reported that Moody's Investors Service had upgraded the University's credit rating to Aa1 with a stable outlook from Aa1 with a negative outlook. An interesting aspect of

14. Reports of the Administrative Assessors (Cont'd)

(a) University Credit Rating (Cont'd)

the rating report was the listing of factors that could cause the rating to increase or decline, including some that were outside of the University's control such as uncertainty about the Province's tuition fee policy after the current year. The rating was a very good one, with the University's financial position continuing to be highly regarded. The rating had taken into account the University's plan to issue a further $75-million debenture to fund capital projects. Ms Brown added that the University's credit was rated by two other agencies, which had assigned an AA rating, which was in their schemes one level lower. Those ratings were the same as that assigned to the Province of Ontario.

(b) University of Toronto Press

Ms Riggall reported that the University of Toronto Press had decided to sell its printing division. The division's equipment was very old and in need of replacement with more modern machinery. Neither the Press nor the University could afford to make the multi-million-dollar investment. While the division would make a very valuable addition to a large-scale printing business, it was a relatively small operation that would no longer have the economies of scale to compete profitably on its own in a very competitive industry. The remaining divisions of the Press, including the UTPrint digital printing operation, would continue their operations. Mr. Parkinson, in his role as Chair of the Press Board, was invited to respond to questions. The financial outcome of the sale would depend on the price received and on the buyer's willingness to employ the current staff of the printing division. The Press had, after a loss in 2003-04, returned to profitability in 2004-05. While the absence of net earnings from the printing division would be a matter of concern, the need to invest so heavily in new machinery for a relatively small operation would impede the likelihood of future profitability in any event.

(c) University Investments: Social and Political Aspects

Ms Riggall recalled that members of the Board, in an off-line discussion session, had had a very good discussion of the paper prepared by Mr. Goel and colleagues in the Faulty of Law on socially responsible investing. Ms Riggall continued her work on formulating a response to the paper. As part of her consideration of the matter, she had referred the paper to scholars in the Rotman School of Management for advice on the financial consequences of implementing the proposal. In the meanwhile, the University of Toronto Asset Management Corporation (UTAM) was working on a revision to its website to provide more specific information about its investment program. Ms Riggall would continue her work on the matter. A member urged that the advice from the Rotman School be distributed to the Board. Another member urged that, whatever Ms Riggall's eventual response, the University arrange to appoint to the UTAM Board a director with expertise in socially responsible investing.

15. Date of Next Meeting

The Chair reminded members of the off-line information session on the budget and tuition fees to be held on Wednesday, March 22 at 12:00 noon.

The Chair also reminded members that the next regular meeting was scheduled for Monday**,** March 27, 2006 at 5:00 p.m. It was anticipated that the agenda would be heavy, including tuition fees, the Budget Report for 2006-07 and the annual report of the University of Toronto Asset Management Corporation for 2005. The Chair therefore asked members to set aside some extra time that evening.

THE BOARD MOVED INTO CLOSED SESSION

16. Report on Gifts and Pledges over $250,000, November 1, 2005 to January 31, 2006

The Board received, for information, the Report on Gifts and Pledges over $250,000 for the period November 1, 2005 to January 31, 2006.

THE BOARD MOVED IN CAMERA

On motion duly made and seconded, it was RESOLVED

> THAT pursuant to section 33(i) of By-Law Number 2, the Board continue its meeting *in camera* , with Ms Mary Jane Dundas and Ms Mary Ann Ross invited to remain in attendance to assist the Board in its deliberations.

17. Canadian Union of Public Employees, Local 1230 (Part-Time) [Representing part-time and casual library workers] – Aspects of Collective Agreement

In the course of the consideration of this item, the Chair reminded members of the conflict-of-interest limitation on voting, moving motions, and seconding motions. Section 27(d) of By-Law Number 2 prohibited moving, seconding, or voting on motions related to compensation by any employee of the University, or any immediate family member of an employee, except for the President and the Vice-Presidents (who were excluded from this prohibition).

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

YOUR BOARD APPROVED

(a) THAT the Special Early Retirement Window for CUPE 1230 Part-Time be extended to December 31, 2006;

17. Canadian Union of Public Employees, Local 1230 (Part-Time) [Representing part-time and casual library workers] – Aspects of Collective Agreement (Cont'd)

(b) THAT effective January 1, 2006, the lower deck accrual rate for CUPE 1230 Part-Time be increased from 1.5% to 1.6%;

(c) THAT effective January 1, 2006, the employee contribution rate for CUPE 1230 Part-Time be increased from 4.5% to 5.0%; and

(d) THAT authority be delegated to the Administration to take the steps necessary to implement the pension arrangements resulting from the motion above.

18. Canadian Union of Public Employees, Local 3902 (Unit 1) [Representing teaching assistants] – Aspects of Collective Agreement

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

YOUR BOARD APPROVED

(a) THAT a Health Care Spending Account be created in September 2006 for all employees with a minimum appointment of 50 hours;

(b) THAT effective September 1, 2006, the cap will be $150.00 per employee, partner and dependent child provided the partner and dependent children are not covered by other benefit plans;

(c) THAT effective September 1, 2007, the cap will be increased to $300.00 per employee, partner and dependent child provided the partner and dependent children are not covered by other benefit plans; and

(d) THAT authority be delegated to the Administration to take the steps necessary to implement the benefit arrangement resulting from the motion above.

19. National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW – Canada), Local 2003 [Representing operating engineers]– Aspects of Collective Agreement

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

YOUR BOARD APPROVED

(a) THAT Effective January 1, 2006, the lower deck accrual rate for CAW – Canada Local 2003 be increased from 1.5% to 1.6%;

(b) THAT Effective January 1, 2006, the employee contribution rate for CAW – Canada Local 2003 be increased from 4.5% to 5.0%; and

(c) THAT authority be delegated to the Administration to take the steps necessary to implement the pension arrangements resulting from the motion above.

In the course of discussion, a member requested that the administration provide, in connection with proposals for approval of salary and benefit matters, a confidential five-year summary of the percent increase in total salary and benefits to all groups. The report would be comparable to the Capital Project Reports, which provided context for the approval of individual capital projects. The member was concerned that individual agreements would be approved without knowing the budgetary consequences overall. Professor Hildyard took the suggestion under advisement.

In the course of discussion, Professor Hildyard paid tribute to the work of Ms Mary Anne Ross, Director of Labour Relations, for her outstanding work in bringing sometimes difficult negotiations to a successful conclusion.

THE BOARD RETURNED TO OPEN SESSION.

The meeting adjourned at 7:15 p.m.

Secretary

Chair

March 23, 2006

35911