



<b>SUBJECT</b>	<b>TREK ENDOWMENT ALLOCATION TO UBC OKANAGAN</b>
<b>MEETING DATE</b>	<b>SEPTEMBER 12, 2019</b>

Forwarded on the Recommendation of the President

**APPROVED FOR  
SUBMISSION**

  
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 Santa J. Ono, President and Vice-Chancellor

<b>DECISION REQUESTED</b>	<b>IT IS HEREBY REQUESTED that <i>the Committees recommend that the Board of Governors approve a \$4 million flat spend allocation from the TREK endowment to UBC Okanagan, adjusted for inflation in subsequent years, to support initiatives identified in this report and in alignment with UBC Okanagan 2040 Outlook.</i></b>
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<b>Report Date</b>	August 15, 2019
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**Presented By** Deborah Buszard, Deputy Vice-Chancellor and Principal, UBC Okanagan  
 Peter Smailes, Vice-President Finance & Operations  
 Yale Loh, Treasurer

**EXECUTIVE SUMMARY**

At the June 2019 Board of Governors’ meeting, a review of the Trek-related spending policy was presented illustrating an opportunity to unlock value with the Trek related assets while improving intergenerational equity. This follows upon presentations and discussions at the January 2019 and March 2019 Financial Strategy Working Group meetings to introduce the concept together with reviewing additional sensitivity analysis to demonstrate the stability of the proposed strategy and mitigation for adverse market conditions. The review recommends converting the current spending policy for the Trek Endowment from a 4% spend rate to a flat real spend, along with endowing the rental revenues instead of spending the revenues annually as received. The flat real spend establishes an annual spending allowance in real dollar terms that remains constant across future years versus a more volatile set percentage of the underlying assets which varies with the market value. After considering the options, the Financial Strategy Working Group recommended a flat real spend of \$52m in FY2020 dollars be adopted. This is an increase of \$19m from the actual \$32m spent from the Trek in FY2019.

It was determined at the June 2019 Board meeting that a decision to adopt the real spend strategy would be held pending until appropriate uses of the funds could be identified. At this point potential investments for the \$4 million real spend being allocated to UBC Okanagan (UBCO) as part of the Trek spending policy revision recommendation have been identified. These investments have been developed in coordination with the key priority to better support students as detailed in the UBC Okanagan 2040 Outlook, presented and endorsed by the Board at the April 2019 meeting.

The 2018-2019 Report on Student Financial Support and the 2018 Vancouver-Okanagan Campus Funding Comparison show a shortfall of \$2,042 per Okanagan student receiving financial support. The immediate allocation of the \$4m will substantially reduce the intercampus student funding differential. UBC Okanagan is proposing to allocate the \$4m to support UBCO students in the short term as follows:

- |   |          |
|---|----------|
| 1. Increase needs-based student financial aid for undergraduate students: | \$1.5m   |
| 2. Indigenous student career readiness program (five-year pilot):         | \$570k   |
| 3. Indigenous graduate student pathways (three-year pilot):               | \$750k   |
| 4. Annual funding to support research graduate students and trainees:     | \$1.5-2m |

In the long term, UBC Okanagan is also proposing to use the notional \$100m Trek Endowment allocation to generate matching endowment donations to support undergraduate awards, graduate scholarships and endowments supporting experiential learning and indigenous initiatives

## STRATEGIC CORE AREAS SUPPORTED

People and Places     Research Excellence     Transformative Learning     Local / Global Engagement

### DESCRIPTION & RATIONALE

At the June 2019 Board of Governors' meeting, a review of the Trek related spending policy was presented illustrating an opportunity to unlock value with the Trek related assets while improving intergenerational equity. This follows upon presentations and discussions at the January 2019 and March 2019 Finance Strategy Working Group meetings to introduce the concept together with reviewing additional sensitivity analysis to demonstrate the stability of the proposed strategy and mitigation for adverse market conditions. The review recommends converting the current spending policy for the Trek Endowment from a 4% spend rate to a flat real spend, along with endowing the rental revenues instead of spending the revenues annually as received. The flat real spend establishes an annual spending allowance in real dollar terms that remains constant across future years versus a more volatile set percentage of the underlying assets which varies with the market value.

The practical impact of the flat real spend is a higher absolute spend compared to the approximate \$31m<sup>1</sup> funding under the current policy for FY2019 and projected \$33m<sup>2</sup> for FY2020. Analysis demonstrated that a maximum available spend is \$70m under the proposed strategy but after reviewing the scenario analysis and risk mitigation strategy, the Finance Strategy Working Group recommended a flat real spend of \$52m annually<sup>3</sup>. This is an increase of \$19m from the actual \$31m spent from the Trek Endowment in FY2019.

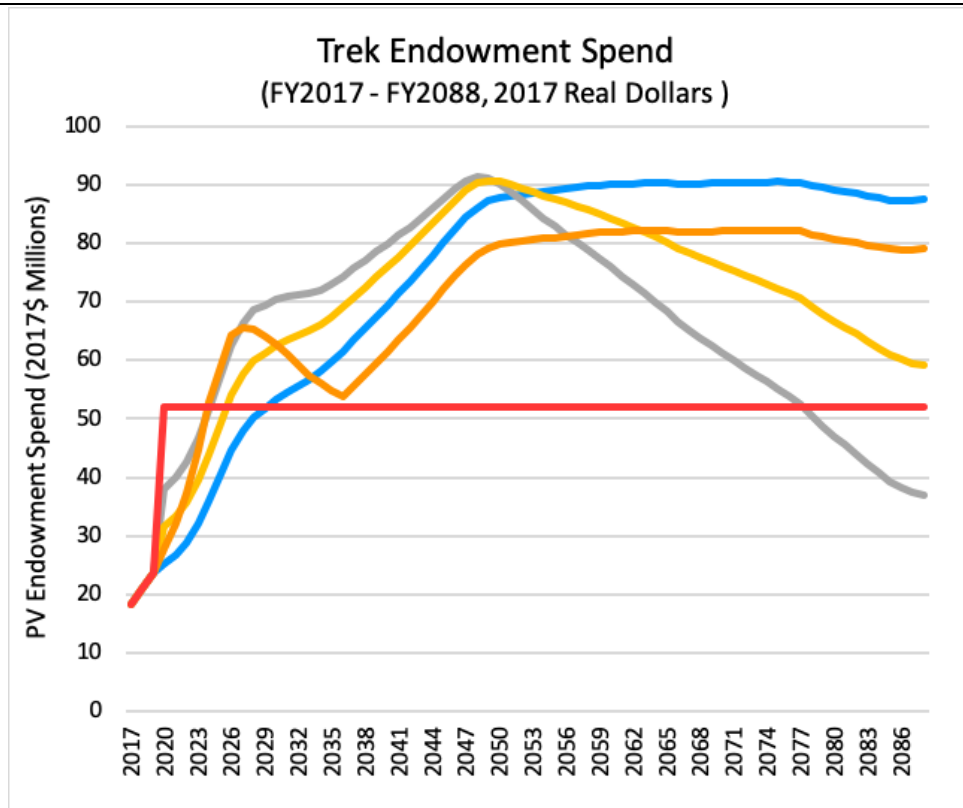
The higher flat real spend is a result of smoothing the volatility of certain cashflows, particularly the debt service payments, over the life of the rental assets, adjusting for the implied inflation protection of the underlying market leasehold and rental assets, and addressing underspending for the current generation based on the percentage of market value formula being used.

While the market value of the underlying assets in the Trek Endowment have not changed, it should not be construed that the real flat spend methodology represents a higher ongoing percentage spend rate relative to the historical 4% spend rate. As the chart below shows, while a flat real spend results in higher absolute dollar value for FY2020, a 5% spend rate would result in higher real annual dollar spend by FY2026 and peak near FY2050 before declining. Based on the chart below, the flat spend of \$52m should be increased at some point over the next five years. The flat real spend is the best balance between the competing goals of a sustainable annual spend, a stable annual spend and intergenerational equity.

<sup>1</sup> Trek endowment \$21.6m (4% spend rate) plus rental revenues of \$8.8m

<sup>2</sup> Trek endowment \$23.7m (4% spend rate) plus rental revenues of \$9.5m

<sup>3</sup> \$52 million in FY2020 growing at assumed inflation of 2% each successive year



Scen. 1: Current Policy    Scen 2: 5% Spend    Scen 3: 6% Spend    Scen 4: Strategic Spend    Scen 5: Flat Real Spend

It was determined at the June 2019 Board meeting that a decision to adopt the real spend strategy would be held pending until appropriate uses of the funds could be identified. At this point potential investments for the \$4m real spend<sup>4</sup> being allocated to UBC Okanagan (UBCO) as part of the Trek spending policy revision recommendation have been identified. These investments have been developed in coordination with the key priority to better support students as detailed in the UBC Okanagan 2040 Outlook, presented and endorsed by the Board at the April 2019 meeting.

The proposal to provide a \$4m flat real spend to UBCO while retaining the existing 4% of market value spend rate methodology is an interim step until appropriate uses of the remaining additional spend can be fully developed and the strategy for the flat real spend can be fully implemented. It should be noted that the underlying assumptions used to project the annual Trek Endowment Spend were conservative by nature. This conservatism is demonstrated by the actual spend allocation for FY2019 and forecasted allocation for FY2020 compared to the projections shown in the graph above. As the application of flat real spend strategy is confirmed over time, it is expected that opportunities to increase the flat real spend will occur. Correspondingly, it is expected that additional initiatives on both the Vancouver and Okanagan campuses could be supported at that time.

The UBC 2018-2019 Annual Student Financial Support Report and the 2018 Vancouver-Okanagan Campus Funding Comparison show significant differences in funding available per student between the campuses, with an average difference of \$2,042 per Okanagan student receiving financial support<sup>5</sup>.

<sup>4</sup> \$4m in FY2020 dollars increasing by 2% per annum as an inflation adjustment

<sup>5</sup> During FY2019, total financial assistance of \$279.9 million was received by 24,040 UBCV students (average \$11,642 per UBCV student) compared to \$46.1 million received at UBCO by 4,797 students (average \$9,600 per UBCO student)

The immediate allocation of \$4m will substantially reduce the intercampus student funding differential. Over time, matching funding and other philanthropy will amplify this impact.

As such, it is recommended that UBC make \$4m in real spend available from the TREK Endowment to the Okanagan campus with the funds being directed immediately towards supporting students and research trainees as described below and the notional capital to be used to launch a matching endowment fund building campaign to support UBC Okanagan students in perpetuity. The intention is that the annual income from the fund be available to deploy in Fall 2019 for a variety of student support initiatives and that over time, the amount available will grow through regular endowment payout growth and matching donations.

*Proposed immediate investments in student support from real spend:*

The proposed allocation of the \$4m real spend allocation from the TREK endowment is:

1) Increase needs-based student financial aid for undergraduate students: \$1.5m

To ensure access for undergraduate students, UBCO must close the gap in need-based financial aid. As per the report “NEEDS BASED STUDENT FINANCIAL AID (SFA) AT UBC” prepared in September 2018, UBCO’s deficit in meeting Policy 72 commitments is more than \$1m per annum.

2) Indigenous student career readiness program (5 year pilot): \$570k

There is an urgent need for programming and services for First Nation, Metis and Inuit students to enhance access to career related learning, training and employment opportunities. Aboriginal Programs and Services will work with a variety of partners to develop a suite of services to provide career-readiness supports.

3) Indigenous graduate student pathways (three-year pilot): \$750k

A significant barrier to Indigenous student success is transition to graduate studies. The lack of Indigenous students choosing to pursue Masters, PhDs and post-doctoral studies is an obstacle to UBC increasing the representation of Indigenous people as faculty and staff members. UBCO will establish a transition support program for qualified Indigenous students to facilitate successful transition to graduate studies. It will focus on a summer intensive program to prepare prospective students for graduate studies, and offer financial support.

4) Annual funding to support research graduate students and trainees: \$1.5-2m

Currently, the differential funding per research graduate student between UBC Vancouver (UBCV) and UBCO is \$6,629 per student (i.e. \$18,686-\$11,857) or \$5.3m per annum in aggregate. UBCO will provide a portion of the needed support but additional investments are required to increase overall funding for the approximately 800 thesis students and postdoctoral research trainees currently at UBCO.

*Long term plans for notional \$100m Trek Endowment allocation*

Development and Alumni Engagement are currently working on the strategy to attract matching funds for the endowment. The initial plan is to make generating matching endowment donations our highest fundraising priority. A possible distribution of the future fund is as follows:

- Undergraduate awards \$60k - \$1m.
- Competitive, named scholarships for graduate students \$100k - \$2m
- Endowments supporting experiential learning and indigenous initiatives as described above \$100k - \$2m.

**BENEFITS** Supporting UBCO students in the short term and generating matching endowment donations to support undergraduate awards, graduate scholarships and endowments supporting experiential learning and indigenous initiatives in the long term through new Trek Endowment spending policy that unlocks value while improving intergenerational equity.

Learning, Research,  
Financial,  
Sustainability &  
Reputational

The change in spending policy for the Trek-related assets increases the spending available to support the highest priority strategic initiatives proposed by UBCO, the UBC Provost Office and VP, Research and Innovation Office. In addition, intergenerational equity improves with the change to a Flat Rate Spend for the Trek Endowment as oppose to the current policy.

**RISKS** The annual spend under the Flat Real Spend policy is heavily dependent on future land lease revenue. If future development is delayed or re-allocated for other purposes, the forecasted spending may not materialize. To mitigate this risk, a regular review will be performed to ensure that spending is sustainable and in addition, a spending amount below the maximum sustainable spend is currently being proposed to serve as a buffer. Also, a more conservative approach to distributing rental revenue for spending acts as balance to the less conservative approach for the Trek Endowment. Further only a portion of the total available spend under the Flat Real Spend policy is being released at this time.

Financial,  
Operational &  
Reputational

**COSTS** Additional work is required to finalize the costs associated with advancing other strategic initiatives. Costs associated with changing the spending policy of the Trek Endowment and Trek Rental Income are minimal and will be absorbed by existing budgets.

Capital & Lifecycle  
Operating

**FINANCIAL** With the proposed changes to the spending policy of the Trek Endowment and Trek Rental Income, the overall spend will increase and additional funding will be available for University strategic initiatives. The increase in spending is caused by the policy change to the Trek Endowment from a 4% spend rate to a Flat Real Spend plus endowing the rental revenues as opposed to spending as received.

Funding Sources,  
Impact on Liquidity

**CONSULTATION** UBC Okanagan  
Relevant Units, UBC Provost Office  
Internal & External VP Research and Innovation Office  
Constituencies Development and Alumni Engagement Office  
VP Finance and Operations  
MMK Consulting  
UBC Properties Trust  
UBC Campus Community and Planning  
Prager & Co and Mandl & Co

**Previous Report Date** June 13, 2019