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<b>SUBJECT</b>	Trek Endowment Flat Spend FY2024
<b>SUBMITTED TO</b>	Finance Committee
<b>MEETING DATE</b>	November 17, 2022
<b>SESSION</b>	Recommended session criteria from Board Meetings Policy: OPEN
<b>REQUEST</b>	<p>APPROVAL REQUESTED</p> <p>IT IS HEREBY RESOLVED that the Finance Committee recommends that the Board of Governors approve retention of the Trek Endowment Flat Real Spend of \$51.2 million for FY2024, increasing at 2% annually.</p>
<b>LEAD EXECUTIVE</b>	Yale Loh, Interim Vice-President Finance
<b>SUPPORTED BY</b>	<p>Doug Cheung, Director, Treasury</p> <p>Sarah Goold, Manager, Financial Planning &amp; Analysis</p> <p>Raffaella Mendel, Senior Analyst, Financial Planning &amp; Analysis</p>

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**PRIOR SUBMISSIONS**

The subject matter of this submission was most recently considered by the Finance Committee in June 2021 (CLOSED).

**EXECUTIVE SUMMARY**

In June 2021, the Board of Governors approved a change of the spending policy for the Trek Endowment from an annual 4.0% spend rate to a Flat Real Spend Policy, together with the formation of a new Rental Income Endowment. Included in the Flat Real Spend Policy was a commitment to review the modelling and spend amount annually to ensure that assumptions incorporated into the modelling continue to be reasonable, the flat spend amount is sustainable, and the Trek Endowment is not at risk. A flat real spend is a fixed absolute dollar amount that grows with inflation and does not change with a change in the underlying market value of the Trek Endowment. The approved flat real spend was \$49.2 million for FY2022, with a 2% inflation increase annually. In addition, approval was granted for the formation of the Rental Income Endowment with a 5% spend rate in order to begin endowment of commercial and residential rental distributions from UBC Properties Trust.

The administration believes it is prudent to keep it at the original approved rate due to the recent market downturn and the foreseeable market volatility ahead. In addition, keeping the flat spend at \$51.2 million in FY2024 allows for greater flexibility for flat spend increases in the future and translates to a more robust endowment balance.

**Trek Endowment Allocation**

The allocation of annual flat spend continues to follow the same guiding principles as originally set out:

- 1) Campus wide initiatives such as the Integrated Renewal Program (IRP) will have priority on Trek Endowment spend before allocations between campuses are made
- 2) Trek revenues generated prior to the amalgamation of UBCO and UBCV in 2006 will be attributed back to UBCV
- 3) Remaining spend amounts will be allocated based on student population equating to an 85% / 15% split between UBCV / UBCO

Flat Spend Policy (in \$millions)	FY2022 (Actuals)	FY2023 (Forecasted)	FY2024 (Forecasted)
UBC Vancouver <sup>1</sup>	32.0	32.9	33.7
UBC Okanagan	5.2	5.3	5.5
Integrated Renewal Program	12.0	12.0	12.0
<b>Total Funding</b>	<b>49.2</b>	<b>50.2</b>	<b>51.2</b>

<sup>1</sup> Includes pre-2006 TREK Revenues of ~\$2.8m

The real flat spend policy will continue to be reviewed on an annual basis to ensure that the intended objectives are being met, the flat spend amount is sustainable, and the Trek Endowment is not at risk.

## PRESENTATIONS

1. Trek Endowment Flat Spend Update

# TREK ENDOWMENT FLAT SPEND UPDATE

November 17, 2022

Yale Loh, Interim Vice-President Finance



## OVERVIEW – REAL FLAT SPEND POLICY

- Real Flat Spend Policy was approved in June 2021 providing annual flat spend of \$49.2m increasing at a 2.0% inflation rate annually
- A real flat spend is a fixed absolute dollar amount that grows with inflation but does not change with the underlying market value of the Trek Endowment
- Presenting annual review of flat spend to ensure flat spend amount is sustainable, Trek Endowment is not at risk of depletion, and objectives of the program are being met
  - Update the maximum flat spend amount based on latest financial assumptions
  - Provide update to sensitivity analysis and downside scenarios
- Flat spend projected to increase to \$51.2m in line with original Trek endowment flat spend policy for FY2024, reflecting 2.0% increase from \$50.2m in FY2023
- Recommending Board of Governor approval to maintain flat real spend of \$51.2m for FY2024, increasing by 2% annually



# TREK ENDOWMENT FUNDING ALLOCATION



In notional \$ millions	FY2022 Actuals	FY2023 Forecast	FY2024 Forecast <sup>1</sup>
<b>Funding by Campus</b>			
UBC Vancouver <sup>2</sup>	32.0	32.9	33.7
UBC Okanagan	5.2	5.3	5.5
Integrated Renewal Program	12.0	12.0	12.0
<b>Total Funding</b>	<b>49.2</b>	<b>50.2</b>	<b>51.2</b>
<b>Budgeted Allocations</b>			
On-going debt services	14.4	14.4	14.4
Earmarked for President's Academic Excellence Initiative <sup>3</sup>	12.0	12.2	12.5
Integrated Renewal Program	12.0	12.0	12.0
Medicine Faculty Renewal	6.7	6.9	7.1
UBCO Student Financial Support	4.1	4.2	4.2
Pharmaceutical Sciences Building - Debt relief	0.5	0.5	0.5
Rent Geared to Income Program	0.5	0.8	1.2
<b>Total Budgeted Allocations</b>	<b>50.2</b>	<b>51.1</b>	<b>51.9</b>

- Funding shortfall will be covered by reserve carry-forward of \$2.5m
- Requested budgeted increases were made under assumption that Flat Spend would increase in FY2024. Reserve carry forward should be sufficient to cover unfunded amounts.

<sup>1</sup> FY24 forecast is subject to budget approval

<sup>2</sup> Includes pre-2006 TREK Revenues of ~\$2.8m

<sup>3</sup> Allocated as part of initial flat spend with funding requirements currently under review



## SUMMARY AND RECOMMENDATION

- Flat real spend policy continues to meet the core objectives initially set out:
  - Improving intergenerational equity through equitable annual spend and endowment balance
  - Avoiding reduction in annual total spend year-over-year
  - Maintaining adequate and equitable balance in the Trek and Rental Endowment over time
- Flat spend policy will be reviewed annually to ensure intended objectives continues to be met and flat spend amount is sustainable.
- Recommending Board of Governor approval to maintain the real flat spend amount at \$51.2m for FY2024, increasing by 2.0% annually