



SUBJECT	Trek Endowment Fund – Flat Spend FY2025
SUBMITTED TO	Finance Committee
MEETING DATE	November 20, 2023
SESSION CLASSIFICATION	Recommended session criteria from Board Meetings Policy: OPEN
REQUEST	<p>APPROVAL REQUESTED</p> <p>IT IS HEREBY RESOLVED that the Finance Committee recommends that the Board of Governors approve:</p> <ul style="list-style-type: none"> <i>i.</i> an increase of the Trek Portfolio Flat Spend to \$58.8 million for fiscal 2025, increasing at 2.0% annually; and, <i>ii.</i> the release of the funding ringfenced for the PAEI of \$12 million annually starting in FY2022 and an incremental \$3.5 million annually in accordance with the funding plan approved in February 2020 and April 2021.
LEAD EXECUTIVE	Frank Laezza, Vice-President Finance & Operations
SUPPORTED BY	<p>Yale Loh, Treasurer</p> <p>Sarah Goold, Interim Director, Treasury</p> <p>Raffaella Mendel, Manager, Financial Planning & Analysis</p>

PRIOR SUBMISSIONS

The subject matter of this submission was most recently considered by the Finance Committee on April 12, 2023 ([OPEN](#)) – Approval of \$3 million Trek Portfolio Flat Spend Increase.

EXECUTIVE SUMMARY

In June 2021, the Board of Governors approved a change to the spending policy for the Trek Portfolio (also known as 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. This submission provides a summary of the annual review in accordance with the Flat Real Spend Policy to ensure that assumptions incorporated into the financial model continue to be reasonable, and the flat spend amount and Trek Portfolio are sustainable in the long term. Based on the review and analysis, it is recommended that a flat real spend of \$58.8 million, growing at 2.0% annually, be approved for FY2025, reflecting a \$3.5 million increase on top of the 2% annual inflation increase on the approved FY2024 flat real spend value of \$54.2 million. It is also recommended that the \$12 million currently ringfenced within the Trek Flat Spend for the President’s Academic Excellence Initiative (“PAEI”) be approved for release such that a total of \$16.3 million (\$12 million at 2.0% annual inflation growth since FY2022 plus the new allocation of \$3.5 million growing at 2.0%) will be available for FY2025. The PAEI funding is accordance with the funding plan approved by the Board of Governors at the February 2020 and April 2021 meetings.

A flat real spend is a fixed absolute dollar amount that grows with inflation and unlike traditional endowments, does not vary with changes in the underlying market value of the endowment. At inception, the flat real spend was established at \$49.2 million with 2% annual increases based on the long-term Bank of Canada inflation target. In addition, approval was granted for the formation of the Trek Rental Income Endowment with a 5% spend rate in order to begin the endowment of commercial and residential rental distributions from UBC Properties Trust.



The flat real spend is a result of interest income from student housing and faculty loans combined with market investment returns for other funds within the Trek Portfolio. The Trek Portfolio encompasses all of the strata land revenue distributions (plus the Trek Rental Income Endowment) resulting from land development on the UBC Vancouver campus. Funding from the Trek Endowment can be used to advance the mission of the university, which broadly can include funding for education, research, student financial aid, construction and maintenance of facilities, provision of equipment and supplies, and debt service among other expenses. The intention is for the flat real spend to fund projects and initiatives for a finite period of time as directed by the President.

Trek Endowment Allocation

Analysis shows that the overall annual approved budgeted allocations exceeded the annual Trek flat real spend in FY2022-FY2024 and will also modestly exceed again in FY2025. However, annual approved budget allocations are expected to taper off over time, providing the opportunity for those dollars to be reallocated to other strategic initiatives.

Flat Spend Policy (in \$millions)	FY2022 (Actuals)	FY2023 (Actuals) ²	FY2024 (Forecasted)	FY2025 (Forecasted)
Trek Flat Spend Funding	49.2	50.2	54.2	58.8
UBC Vancouver ¹	33.5	37.6	40.5	41.2
UBC Okanagan	4.7	5.8	5.9	6.0
IRP	12.0	12.0	12.0	12.0
Total Spend	50.2	55.4	58.4	59.2

¹ Includes pre-2006 TREK Revenues of ~\$2.8m

² Trek Real Spend not fully drawn upon in FY2023 due to a delay in PAEI spending.

At inception, the allocation of annual flat spend followed a series of guiding principles:

- 1) Campus wide initiatives such as the Integrated Renewal Program (IRP) had 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 were to be attributed back to UBCV
- 3) Remaining spend amounts were allocated based on student population equating to an 85% / 15% split between UBCV / UBCO

As the needs of both campuses are better understood, the allocation has shifted to follow strategic priority of the broader university in accordance with the different stages of evolution of each campus. The President will continue to direct the allocation of the flat real spend, while the Board of Governors will continue to approve any increase in the overall flat real spend amount.

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 that the Trek Endowment is not at risk.

PRESENTATIONS

1. Trek Endowment Flat Spend Policy Update

TREK PORTFOLIO FLAT SPEND UPDATE

November 20, 2023

Frank Laezza, Vice-President Finance & Operations
Yale Loh, Treasurer



OVERVIEW – ANNUAL FLAT SPEND UPDATE

- An annual review of the Trek flat real spend is required to ensure flat spend is sustainable and the Trek Portfolio is not at risk of depletion.
- The analysis as part of the annual review has:
 - Updated the maximum flat spend analysis for the latest financial assumptions
 - Updated the sensitivity analysis and downside scenarios to ensure spend is sustainable
- **The real flat spend is recommended to increase to \$58.8m representing:**
 - **An increase of \$3.5 million additional funding for the President’s Academic Excellence Initiative (“PAEI”) in accordance with the funding plan approved by the Board of Governors at the February 2020 and April 2021 meetings plus;**
 - **The annual 2% inflation adjustment to the FY2024 flat real spend amount of \$54.2 million**
- **It is also recommended that the funding ringfenced for the PAEI of \$12 million starting in FY2022 and growing at 2.0% annually be released. Starting in FY2025, a total of \$16.3 million, growing at 2.0%, will be directed towards the PAEI initiative**



BACKGROUND – TREK PORTFOLIO FLAT SPEND

- **Trek Portfolio** (also known as Trek Endowment) is a result of land lease and rental property revenue.
- **Real Flat Spend** is the annual spend from the Trek Portfolio – structured as a fixed absolute dollar amount that grows at the long-term inflation rate but does not change with the underlying market value of the Trek Portfolio.
- Prior to the approval of the Flat Spend, annual spend allocation was a combination of traditional spend rate as a percentage of portfolio market value and rental portfolio income.
- Given inherent inflation protection in underlying land lease and rental income together with land lease renewal every 99 years, the Flat Spend framework is sustainable and provides improved intergenerational equity and certainty over annual allocation in real dollar terms.
- **Real Flat Spend Policy** was initially approved by Board of Governors in June 2021 at \$49.2m increasing annually at 2.0%. Flat Spend increased to \$54.2m for FY2024 and is recommended to increase to \$58.8m in FY2025.



¹ Increase of \$3m additional funding in FY2024 approved by Board of Governors in April 2023

FUNDING ALLOCATION UNDER FLAT SPEND POLICY



In notional \$ millions	FY2022 Actuals	FY2023 Actuals	FY2024 Forecast	FY2025 Forecast	End Date
Total Funding from Trek Portfolio	50.2	55.4	58.4	58.8	
Funding Allocations by Program					
On-going debt service	14.4	14.4	14.4	14.4	Various
President's Academic Excellence Initiative ³	12.0	15.6	16.0	16.3	Ongoing
Integrated Renewal Program	12.0	12.0	12.0	12.0	2030
Medicine Faculty Renewal	6.7	6.8	6.8	7.0	2023
UBCO Student Financial Support ⁴	4.1	5.2	5.2	5.3	Ongoing
Privacy & Information Security Management ⁴	0.0	0.0	2.0	2.0	Ongoing
Rent Geared to Income Program	0.5	0.8	0.9	1.1	Ongoing
Pharmaceutical Sciences Building - Debt relief	0.5	0.5	0.5	0.5	2040
Indigenous Support ⁴	0.0	0.0	0.5	0.5	Ongoing
Total Funding Allocations⁵	50.2	55.4	58.4	59.2	

¹ Includes pre-2006 TREK Revenues of ~\$2.8m

² Includes IRP Debt service of \$12m

³ Funding ringfenced for President's Academic Excellence Initiative recommended for release in accordance with funding plan approved by Board of Governors at February 2020 and April 2021 meetings

⁴ Increase of \$3m additional funding in FY24 approved by Board of Governors in April 2023

⁵ Reserves were used to offset funding shortfall in FY22-23

SUMMARY AND RECOMMENDATION



- Trek Flat spend policy continues to meet the core objectives initially set out in 2021, including;
 - 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 Portfolio over time
- It is recommended that the real flat spend be increased to \$58.8m representing:
 - An increase of \$3.5 million additional funding for PAEI in accordance with the funding plans approved by the Board of Governors at the February 2020 and April 2021 meetings plus;
 - The annual 2% inflation adjustment to the FY2024 flat real spend amount of \$54.2 million
 - It is also recommended that the \$12.0 million ringfenced in FY2022 for PAEI growing at 2.0% annually be released
- The Flat spend policy will continue to be reviewed annually to ensure intended objectives continues to be met and flat spend amount is sustainable.