



<b>SUBJECT</b>	Trek Endowment Fund – Flat Spend FY2025
<b>SUBMITTED TO</b>	Board of Governors
<b>MEETING DATE</b>	December 5, 2023
<b>SESSION</b>	Recommended session criteria from Board Meetings Policy: OPEN
<b>REQUEST</b>	<p>APPROVAL REQUESTED</p> <p>Whereas:</p> <ul style="list-style-type: none"> <li><i>i.</i> The Board of Governors annually approves the level of the flat rate spend from Trek for the upcoming budget year; and</li> <li><i>ii.</i> In February 2020 and April 2021, The Board of Governors approved establishment of the President’s Academic Excellence Initiative (“PAEI”) and a funding plan starting at \$15M and increasing annually by a 2% inflation adjustment; and</li> <li><i>iii.</i> During the COVID19 pandemic the PAEI spending was put on hold, and PAEI funding was reduced to \$12M per year and held in reserves (“ringfenced” for future PAEI spending); and,</li> <li><i>iv.</i> The Administration is seeking approval to restore the original budgetary funding and to restart hiring under the approved PAEI program commencing in FY2025;</li> </ul> <p>Therefore, it is hereby resolved that the Board of Governors approves:</p> <ul style="list-style-type: none"> <li><i>i.</i> An increase of the Trek Portfolio Flat Spend to \$58.8 million for fiscal 2025 and increasing at 2.0% annually thereafter, comprised of the annual 2.0% inflation adjustment over the FY2024 flat real spend amount of \$54.2 million plus an increase of \$3.5 million additional annual funding allocated to the President’s Academic Excellence Initiative (“PAEI”); and</li> <li><i>ii.</i> The release of the annual PAEI Trek funding allocation, subject to UBC’s overall annual budget approval process beginning in FY2025.</li> </ul>
<b>LEAD EXECUTIVE</b>	Frank Laezza, Vice-President Finance & Operations
<b>SUPPORTED BY</b>	Yale Loh, Treasurer Sarah Goold, Interim Director, Treasury Raffaella Mendel, Manager, Financial Planning & Analysis

### 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.

The \$3.5 million together with the \$12 million annual spend (both growing at 2.0%) currently ringfenced within the Trek Flat Spend represents the full funding allocation plan for the President's Academic Excellence Initiative ("PAEI") approved by the Board of Governors at the February 2020 and April 2021 meetings.

Lastly, it is recommended that \$12 million of the Trek funding allocated to PAEI be released annually to fund budgeted expenditures starting in FY2025. The administration will seek release of the remaining allocated funds when those funds are required as part of the over PAEI program, likely in FY2027 or FY2028. All budgeted expenditures will be approved through UBC's overall budget approval process.

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) <sup>2</sup>	FY2024 (Forecasted)	FY2025 (Forecasted)
<b>Trek Flat Spend Funding</b>	<b>49.2</b>	<b>50.2</b>	<b>54.2</b>	<b>58.8</b>
UBC Vancouver <sup>1</sup>	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
<b>Total Spend</b>	<b>50.2</b>	<b>55.4</b>	<b>58.4</b>	<b>59.2</b>

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

<sup>2</sup> 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.

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## PRESENTATIONS

1. Trek Endowment Flat Spend Policy Update

# TREK PORTFOLIO FLAT SPEND ALLOCATION UPDATE

December 5, 2023

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



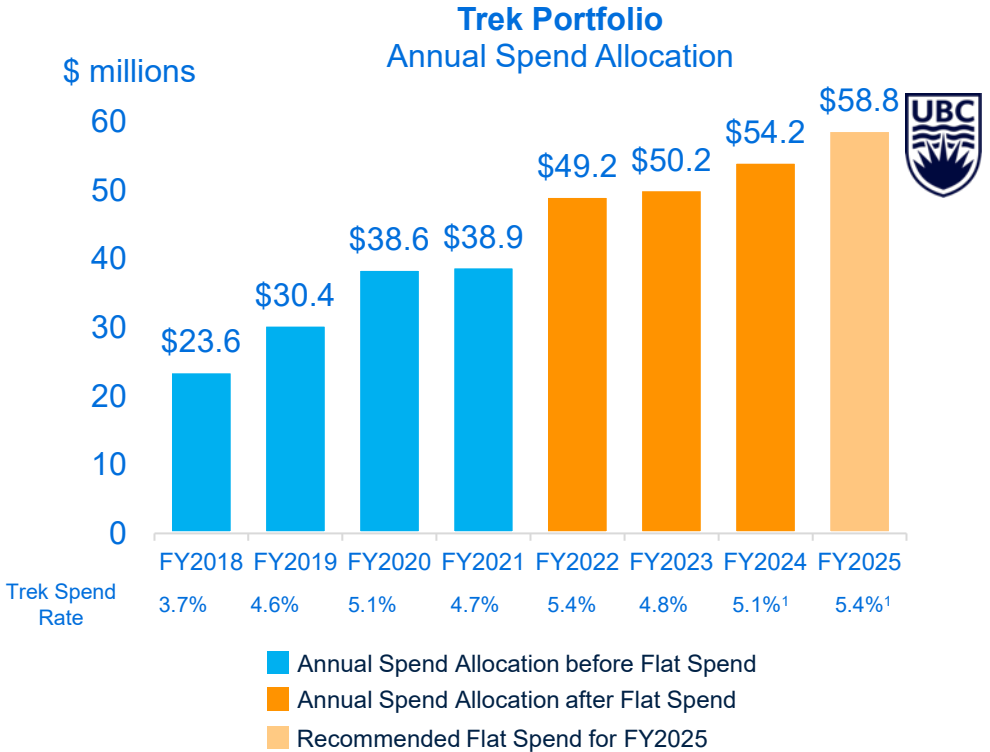
# OVERVIEW – ANNUAL FLAT SPEND ALLOCATION UPDATE

- An annual review of the Trek flat real spend allocation is required to ensure flat spend is sustainable and the Trek Portfolio is not at risk of depletion
- As part of the annual review we have:
  - Updated the maximum flat spend analysis for the latest financial assumptions
  - Updated the sensitivity analysis and downside scenarios to ensure spend is sustainable
- Seeking to increase real flat spend allocation to \$58.8m
  - *The annual 2% inflation adjustment to the FY2024 flat real spend amount of \$54.2 million plus an increase of \$3.5 million additional allocation 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*
  - *Full PAEI Trek funding allocation plan will be \$16.5m growing at 2.0% going forward, with \$12m will be released for spend annually starting in FY2025.*
- *All PAEI annual expenditures will be subject to UBC's overall annual budget approval process*



# BACKGROUND – TREK PORTFOLIO FLAT SPEND ALLOCATION

- Prior to approval of the Trek Flat Spend, annual spend allocation was a combination of traditional spend rate as 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 underlying capital to increase annual funding available
- Real Flat Spend framework improves intergenerational equity and creates certainty over annual allocation in real dollar terms



Notes: <sup>1</sup> Spend rate calculated on prior year March 31 balance. See appendix for continuity schedule of growth in flat spend along with calculation of annual Trek Spend Rate

# FUNDING ALLOCATION UNDER FLAT SPEND POLICY



In notional \$ millions	FY2022 Actuals	FY2023 Actuals	FY2024 Forecast	FY2025 Forecast	End Date
<b>Funding Allocations by Program</b>					
On-going debt service	14.4	14.4	14.4	14.4	Various
President's Academic Excellence Initiative <sup>1</sup>	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	Ongoing
UBCO Student Financial Support <sup>2</sup>	4.1	5.2	5.2	5.3	Ongoing
Privacy & Information Security Management <sup>2</sup>	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 <sup>2</sup>	0.0	0.0	0.5	0.5	Ongoing
<b>Updated Total Funding Allocations</b>	<b>50.2</b>	<b>55.4</b>	<b>58.4</b>	<b>59.2</b>	

Notes: <sup>1</sup> 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

<sup>2</sup> Increase of \$3m additional funding in FY24 approved by Board of Governors in April 2023



## 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 Board of Governors approve a real flat spend of \$58.8m for FY2025, growing at 2.0% annually, representing:**
  - *The annual 2% inflation adjustment to the FY2024 flat real spend amount of \$54.2 million*
  - *An increase of \$3.5 million additional funding for PAEI over the \$12.0 million ringfenced growing at 2.0% starting in FY2022 in accordance with the funding plans approved by the Board of Governors at the February 2020 and April 2021 meetings plus;*
  - *\$12m annually of the PAEI Trek funding plan be released for spend. All PAEI annual expenditures will be subject to UBC's overall annual budget approval process*
- The Flat spend policy will continue to be reviewed annually to ensure intended objectives continues to be met and flat spend amount is sustainable