



SUBJECT	Trek Endowment Fund – Flat Spend FY2026
SUBMITTED TO	Finance Committee
MEETING DATE	November 20, 2024
SESSION CLASSIFICATION	Recommended session criteria from Board Meetings Policy: OPEN
REQUEST	APPROVAL REQUESTED IT IS HEREBY RESOLVED that the Finance Committee recommends that the Board of Governors approve retention of the Trek Endowment Flat Real Spend of \$60.0 million for FY2026, increasing at 2% annually.
LEAD EXECUTIVE	Frank Laezza, Vice-President Finance & Operations
SUPPORTED BY	Yale Loh, Treasurer Doug Cheung, Director, Treasury Raffaella Mendel, Senior Financial Analyst, Financial Planning & Analysis

PRIOR SUBMISSIONS

The subject matter of this submission was previously considered at the [December 2023](#) meeting of the Board of Governors.

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.

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 2.0% annual increases based on the long-term Bank of Canada inflation target. Subsequent approvals were granted in April and December 2023 to increase the flat real spend by \$3.0 million and \$3.5 million, respectively, with the approved FY2025 flat real spend value increasing to \$58.8 million. Based on this year’s review and analysis, it is recommended that a flat real spend of \$60.0 million be approved for FY2026, reflecting a 2.0% annual inflation increase from the FY2025 amount.

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. The flat real spend is a result of market investment returns for funds within the Trek Portfolio combined with interest income from student housing and faculty loans. 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 of \$60.4 million will just exceed the annual Trek flat real spend of \$60.0 million in FY2026. 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)	FY2023 (Actuals) ²	FY2024 (Actuals) ²	FY2025 (Forecasted)	FY2026 (Forecasted)
Trek Flat Spend Funding	50.2	54.2	58.8	60.0
UBC Vancouver ¹	37.3	40.2	40.8	42.1
UBC Okanagan	5.8	5.9	6.0	6.4
IRP	12.0	12.0	12.0	12.0
Total Spend	55.1	58.1	58.8	60.4

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

² Trek Real Spend not fully drawn upon in FY2023 and FY2024 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 on 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 Portfolio Flat Spend Allocation Update

TREK PORTFOLIO FLAT SPEND ALLOCATION UPDATE



November 20, 2024

FRANK LAEZZA, VICE PRESIDENT, FINANCE & OPERATIONS
YALE LOH, TREASURER

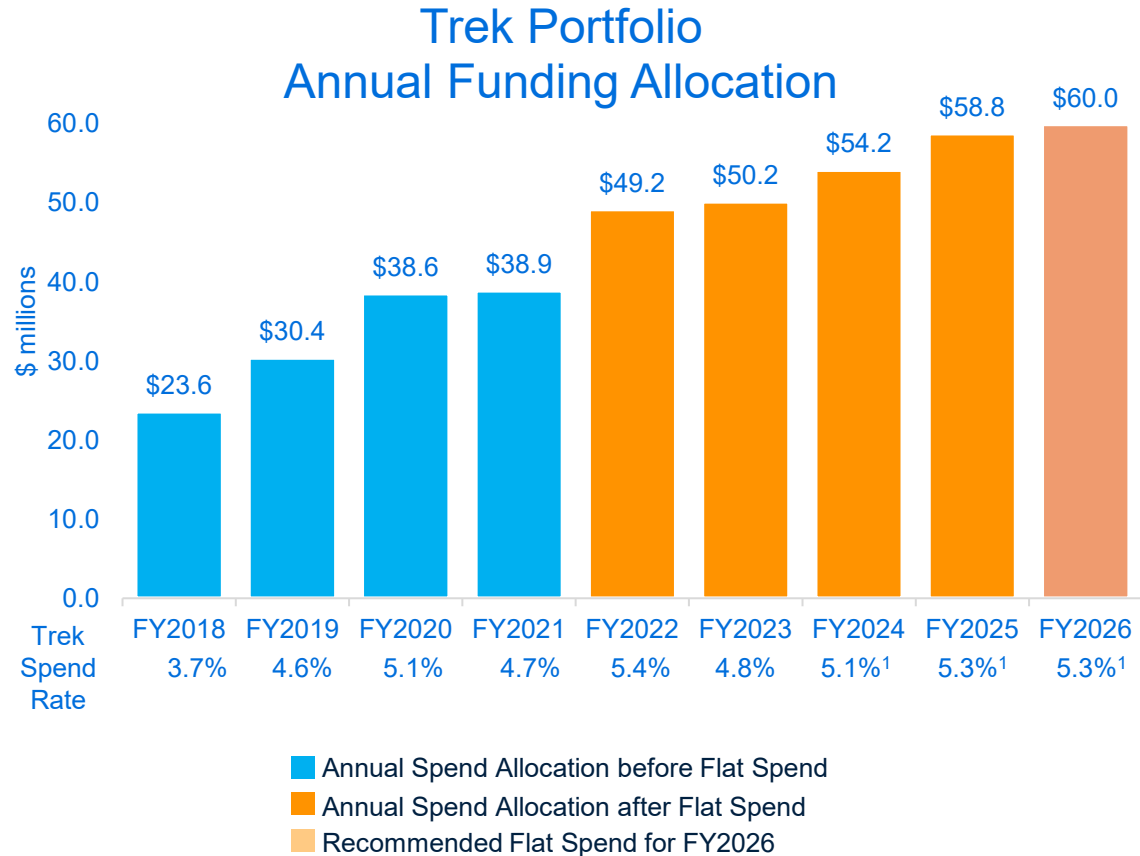
OVERVIEW – ANNUAL FLAT SPEND ALLOCATION UPDATE

- 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:
 - Updated the maximum flat spend analysis for the latest financial assumptions
 - Updated the sensitivity analysis and downside scenarios
- Funding from flat real spend can be used broadly on projects and initiatives that support the academic of The University, which include education, research, student financial aid, construction and maintenance of facilities, and debt service among expenses as determined by the President and Executive
- Recommending approval for real flat spend allocation of \$60.0m for FY2026, representing a 2% increase to the \$58.8m for FY2025 as in accordance with the Real Flat Spend Policy approved in June 2021



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, allows for higher spend rate relative to underlying endowment market value, and creates certainty over annual allocation in real dollar terms



Notes: ¹ 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 Actuals	FY2025 Actuals	FY2026 Forecast	End Date
Funding Allocations by Program						
On-going debt service	14.4	14.4	14.4	14.4	14.7	Various
President's Academic Excellence Initiative ¹	12.0	15.6	15.9	16.2	16.5	Ongoing
Integrated Renewal Program	12.0	12.0	12.0	12.0	12.0	2030
Medicine Faculty Renewal	6.7	6.8	6.8	6.8	7.4	Ongoing
UBCO Student Financial Support ²	4.1	5.2	5.3	5.4	5.5	Ongoing
Rent Geared to Income Program	0.5	0.6	0.5	0.8	1.2	Ongoing
Pharmaceutical Sciences Building - Debt relief	0.5	0.5	0.5	0.5	0.5	2040
Central Contingency ²	0.0	0.0	2.6	2.6	2.6	Ongoing
Updated Total Funding Allocations	50.2	55.1	58.1	58.8	60.4	

Notes: ¹ 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

² Increase of \$2.6m additional funding in FY2024 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 June 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 \$60.0m for FY2026**, reflecting 2.0% inflation increase from \$58.8m in FY2025
- The Flat spend policy will continue to be reviewed annually to ensure intended objectives continues to be met and flat spend amount is sustainable





THE UNIVERSITY OF BRITISH COLUMBIA

VP Finance & Operations