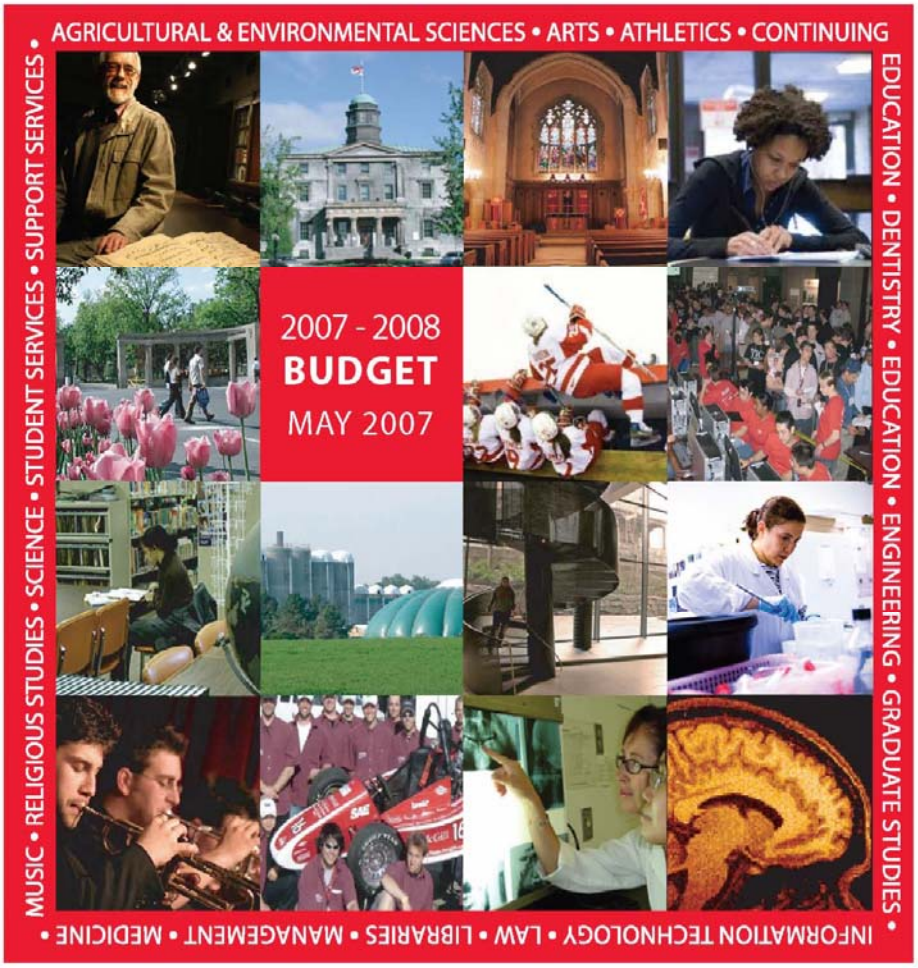
McGill



McGill University, Montreal, Quebec H3A 2T5, Canada www.mcgill.ca

Approved by the Board of Governors, McGill University
22 May 2007

McGill University
Budget Report
Fiscal year ending 31 May 2008

Table of contents

Heather Munroe-Blum, O.C., Ph.D., F.R.S.C.

Principal and Vice-Chancellor
Professor of Epidemiology and Biostatistics
McGill University
James Administration Building
845 Sherbrooke Street West
Montreal, QC, Canada H3A 2T5

Principale et vice-chancelière
Professeure d'épidémiologie et biostatistique
Université McGill
Pavillon James de l'administration
845, rue Sherbrooke Ouest
Montréal (Québec) Canada H3A 2T5

May 16th, 2007

Dear Colleagues,

I am pleased to present to you McGill University's Budget Report for fiscal year 2007-08. Over the past two years, the budget and resource allocation processes at McGill have undergone a fundamental change. They are now fully aligned with the academic priorities of the institution and developed into a multi-year framework in which resources are allocated in a balanced way to the University's highest priorities.

Starting with fiscal year 2003-2004 we saw the beginnings of these changes. Early on in this administration, we undertook to develop a comprehensive strategic academic plan for McGill, which would be complemented by a multi-year resource planning and budget model the following year; we initiated as well a Campuses Master Planning Process; and we established the Principal's Task Force on Student Life and Learning focused on ways to enhance students' experience and education at McGill. The over-arching goal of these three parallel initiatives was to enable the University to strengthen its identified priorities in research and teaching and enhance its services to students within a budget model that emphasized up-front and timely investment and responsible oversight and management of the University's scarce resources.

This past year has seen dramatic progress on many fronts, both in the formal presentation and implementation of our key strategic initiatives (White Paper, Master Plan and the Principal's Task Force on Student Life and Learning) and in the final redesign – indeed transformation – of the budget and resource allocation process in a way that fully supports these identified priorities and goals of the University.

Over the past academic year, the Provost's strategic academic goals for the University, articulated in the White Paper "Strengths and Aspirations", were presented both to Senate and the Board of Governors. The Principal's Task Force on Student Life and Learning was received and endorsed as well by both governing bodies. And finally, the principles of the McGill Master Plan have been widely discussed and roundly embraced.

…/2

These achievements are in large measure due to the exceptional efforts of the Provost and his team, as responsibility for the budget and resource allocations were transferred to that Office. The responsibility for budget preparation and presentation now is more appropriately aligned with the Provost's work in strategic academic planning and management – and closely aligns the budgets of the Faculties and administrative units with the goals and objectives of the University. Our goals are to ensure a high level of accountability among all units of the university, while advancing the achievement of excellence in support of our academic mission.

The budget strategy has been one that promotes and enhances the thriving intellectual environment at McGill, recognizing that our most valuable assets are the people who work and study here. We have thus made a decision to invest significantly in the renewal of our faculty who are at the core of the university's mission of excellence in teaching and research. Over the past seven years, the University has hired 700 superbly qualified new faculty, notwithstanding considerable competition from Canadian, US and international peers. This highly effective faculty renewal program has been a key factor in the University's drive for excellence in research and teaching. While the benefits to the University of this revitalization are substantial, the additional salary costs have in the short term negatively affected the University's bottom line, as the departure of retiring professors has come at a slower pace than anticipated. Over the next few years, the faculty recruitment program will achieve steady state, with new hires specifically tied to planned departures.

While revenues have increased overall, their growth – particularly in relation to tuition and government funding – has lagged behind our growth in expenditures. The University has thus financed some of these important investments in new faculty and in other student services by incurring planned operating deficits in the transitional period of this new budget model. For 2007/08, we have forecasted a deficit of $15 million, with an operating debt expected by May 2008 of approximately $74 million. Our target is to achieve a balanced budget within the four fiscal years following 2008. Additionally, we have committed to include in next year's budget – and in our compacts with Faculties and administrative units – a specific plan to repay the operating debt.

On the government front, we will continue to enhance our financial partnerships at both the Provincial and Federal levels. Provincially, we look forward to bringing an end to the McGill adjustment with expected additional revenue of $3 million in the 2007/08 fiscal period. We are heartened as well by recent changes to tuition policy and the end of the freeze. An early priority will be to pursue responsibly the re-regulation of tuition for international undergraduate students, coupled with additional commitments to need-based student support. This is the tuition model that has been widely adopted by peer universities across Canada. Federally, and with industry, we will advocate strongly for full funding of the indirect costs of research, or "accountable research cost recovery". The current level of 21% falls far short of the true costs that are incurred in supporting research at our institution, and much less than the level of indirect research support recognized by the Province.

…/3

As we enter this next budget year, we remain committed to enhancing academic quality and impact as well as accessibility, and we will press hard to make significant gains in our funding situation vis-à-vis Canadian and international public peers. We will achieve these goals in the context of a disciplined and well-managed strategic budget model which ensures responsiveness to the external environment and accountability to our stakeholders.

The refinement of the budgeting process will continue, with a goal next year of identifying the specific financial commitments we are making to each of our academic priorities. In addition, we will bring more rigour to the process of monitoring our progress in reaching our academic goals and in recalibrating our assumptions and actions as necessary. This will be done against specific performance indicators and on a regular timeline.

We will benchmark our performance and our processes against the highest standards internationally. Simply put, the allocation of our resources will be informed by carefully articulated academic goals and priorities – which will stand up to the best in the world. In staying this course over the next several years, we will continue to advance the excellence and impact of our teaching, scholarship and research at McGill and the quality of student life and learning.

I am deeply grateful to the Board of Governors for their tireless work on behalf of McGill and for their unwavering support of our mission of excellence. And finally, I offer my thanks to others at McGill – faculty, staff, students, deans, members of the executive and alumni – whose work will endure as a shining legacy for McGill students and researchers fifty years from now.

With all good wishes,

Sincerely,

Professor Heather Munroe-Blum

Executive Summary

The budget for FY 2007-2008 was prepared by the Office of the Provost with technical support from units reporting to the Vice-Principal (Administration and Finance), especially the Executive Director of Financial Services. This budget marks the first time that the Chief Academic Officer of the University has performed this task; it is based on three years of work to ensure that McGill has a strong alignment between its clearly stated academic priorities and the allocation of resources. The budget for FY 2007-2008 must contend with a public policy for Quebec universities that not only under-funds the entire network, but which poses special difficulties for McGill.

The new VP(A&F) will work closely with the Provost regarding financial and investment oversight considerations and key performance indicators. In addition we will be refining our financial and budget statements. As we move forward, this will allow the members of the Board and its committees to provide appropriate governance oversight, advice and feedback, consonant with their roles and responsibilities.

Three questions guided the preparation of the budget for FY 2007-2008: How do the allocations help us to achieve our top academic objectives? Do the allocations provide a clear and accountable picture of how goals will be realised? Do we have in place metrics to monitor performance and make adjustments as necessary given changing circumstances? Based on a series of assumptions relative to our revenue sources and taking into consideration already existing commitments, allocations were made to support the following activities: (a) academic renewal, (b) student life and learning, (c) graduate student funding, (d) the Master Plan, (e) comprehensive campaign, (f) sustainability, (g) staff development, and (h) effective organisational practices.

McGill's budget consists of four funds: Operating (primarily the grant from the MELS, tuition and fees, overhead on research grants, investment and endowment income, and annual gifts), Restricted (primarily research-related funds from Canadian, Quebec, and international sources), Plant (capital projects and assets, including those funded by Quebec capital grants, donations, and other sources), and Endowment (endowed gifts, grants, and bequests). The proposed budget for FY 2008 calls for a deficit on the operating fund of approximately $15.4M on a total of $557.7M. Within the multi-year framework we expect to be able to provide a balanced budget by FY 2012. The Restricted fund envelope, which generates direct funding for Canada Research Chairs based on competitively awarded grants and contracts, is expected to increase to $354.7M, not including such funds held by McGill professors at hospital research institutes. Capital funds to be spent during FY 2008 will amount to $48.8M (including a capital grant from Quebec of only $14.0M on assets insured for over $2.5B). The endowment fund is expected to increase by $30.0M.

1. Resource allocation and budget process

Beginning with **FY**[1]2004-2005, McGill's senior administration embarked on a redesign of the University's budgeting process by introducing two fundamental changes. First, in order to better support the efforts to plan strategically, a new comprehensive system of allocations that explicitly aligned resources and academic priorities was developed. This change required Faculties to stipulate annual operational **compacts** or agreements that indicated how their annual **budgets** would achieve strategic goals and objectives. Second, with encouragement from the Deans and with the approval of the Board of Governors, the budgeting and **resource allocation** processes were moved from a single year exercise to a multi-year cycle.

Initially the compacts with the Faculties were guided by an already ongoing program of "**academic renewal**". That program, started in FY 2000-2001, was ambitious and was based on a set of assumptions emanating from the **performance contracts** signed with the *Ministère de l'Éducation, du Loisir et du Sport* (MELS). In FY 2006-2007, however, the situation changed dramatically. Internally, there were three important shifts. The Provost's strategic goals, objectives, and plans were formalised and presented to Senate and the Board in a White Paper call to action entitled "Strengths and Ambitions". Second, the Principal's Task Force on Student Life and Learning and a preliminary administrative response to its recommendations were received and discussed. Finally, the principles for McGill's Master Plan for the development of our campuses were finalised. Externally, there was widespread acceptance of the fact that Quebec's universities were extremely under-funded, and that McGill was especially hampered by the lack of sufficient **resources**.

As a consequence of these changes, and recognising that the academic priorities must be the main drivers of resource allocations at McGill, the Principal, in a major readjustment of duties among senior administrators, transferred responsibility for budget and other resource allocations to the Office of the Provost. In FY 2006-2007, the Provost and the VP (Administration and Finance) jointly developed and presented the University's budget to Senate and Board. For FY 2007-2008, the entire responsibility for budget preparation and presentation was shifted to the Provost with substantial technical support still being provided by the area of the VP (A&F).

In preparing McGill University's budget for FY 2007-2008, it also became apparent that we would have to reconceptualise the presentation of the budget report as well. The redesigned presentation style is meant to accomplish three objectives simultaneously: alignment, transparency, and accountability. The questions that guided the redesign were:

- How do the proposed resource allocations help us to achieve our top academic objectives as outlined in the White Paper, the Principal's Task Force on Student Life and Learning, and the Master Plan principles?
- Do the categories into which funds are to be transferred accurately, openly, and unambiguously provide our community and our publics with a clear picture of how we will realise our goals?
- Are there appropriate **metrics** to allow us to measure and monitor performance and assess if allocations been made in accordance with our goals and objectives? Can we make the appropriate adjustments as unanticipated situations arise to which we must respond?

These questions can be answered with the budget data in the following pages. In addition, this document will illustrate the ways in which the administration of McGill University will ensure the continued alignment of resources to priorities, the simplification and clarification of our budget categories, and the tools we will use to measure success in achieving our top academic goals while remaining fiscally responsible and living within our means.

[1] Note: Items in bold are defined in the Glossary of Terms on page 28.

Components of McGill University's budget

The University's budget is comprised of four funds: operating, restricted, capital, and endowment. The first two funds deal with all of those activities that are normally associated with the University's core teaching and research activities. The primary difference between these two funds is that **revenues** received with a specific restriction on the use of funds (e.g., research **grants**) must be recorded in the **restricted fund**. Of course, the associated **expenditures** must also be similarly recorded to facilitate tracking and reporting. The **capital fund** records all revenues that are specifically earmarked for the acquisition, construction or renovation of capital **assets**. Any purchase of assets that is charged to either the operating or restricted funds must be included in the capital fund if the assets have a useful life of greater than one year. The **endowment fund** consists of all **gifts**, donations, and **bequests** including those for Chairs, financial aid, and other specific purposes; the University expects a reasonable rate of return from the investments of these resources. For purposes of the budget, earned income from the endowment is distributed, again in specifically designated ways.

Our practice is to start the budgeting process by estimating total revenues and projecting "confirmed" **expenses**. Drawing on the ebb and flow of these revenues and expenses, we then create a "priority pool" that represents the amount that will be made available for allocation. Taking into consideration the multi-year planning documents, prior annual operating compacts, and outstanding requirements based on previous experiences, formal requests from Faculties and administrative units are evaluated. The criteria used in prioritising these requests for support are based on University priorities, goals, and objectives as outlined in the White Paper, the Principal's Task force on Student Life and Learning, and the Master Plan.

While the broad strokes of the proposed budget for the next **fiscal year** is presented twice to Senate and is discussed by the Finance and Executive Committees of the Board, the details are developed with the individual Faculties and units. For the Faculties, Deans' proposals are considered by the Provost. The compact documents are prepared for discussion and iteration with the Deans. For the administrative units, the recommendations are made jointly to both the Principal and Provost for deliberation and iteration with the Vice-Principals. Once decisions are made, the budget proposal is finalised and the multi-year plan is updated to reflect the new resource allocations. The budget proposal is formally presented to the Finance Committee of the Board of Governors, and if accepted, the Chair of the Finance Committee brings the budget forward for discussion and approval by the full Board. Once the budget is confirmed by the Board, compacts are sent to the Deans and the Vice-Principals prior to 1 June, the official starting date of the new fiscal year.

2. Overall resource allocation and budget strategy

One of the main objectives of the new overall budget strategy is to respect the short to medium term financial plan while attending to the achievement of our academic priorities. For academic units, the planning process translates into quality-driven and accountability-based operational compacts that reflect achievable annual objectives based on the multi-year objectives and goals. In this regard, McGill continues to focus on attracting, retaining and seeing to completion the highest calibre undergraduate, professional and graduate students who are drawn to us for the quality of our excellent teaching and research programs, led by our world-renowned faculty. In the compacts, each Dean is expected to address the academic issues that affect the delivery of educational programs and the conduct of research activities. Indeed, it is the strong link between our teaching and research that characterises the quality of the educational experiences McGill provides for our students.

The new budget strategy is designed to promote and enhance the thriving intellectual environment at McGill University. However, we do so in the full recognition that people are our most valuable asset, be they students, professors, or support staff. Consequently, the provision of world-class programs of

teaching and research must take place in healthy, safe, and secure physical surroundings. In addition, we are striving to adhere to generally accepted principles of "**sustainability**"; indeed, one of our goals is to become a leader in this area.

In a University setting, changes in student enrolments and renewal of **tenure** track academic staff are at the centre of the key assumptions that drive our estimates of available financial resources. In this regard, and in line with strategic goals and objectives, we track, examine, predict, and monitor several key elements. Student enrolment has a major impact on our two largest sources of revenue, the **MELS grant**, and tuition and fee revenues. In addition, student enrolment clearly has an impact on space planning and renovation which subsequently has a direct effect on capital spending, as the creation of new space or the modernisation, renovation, and/or transformation of existing space requires funding. Salaries and benefits, especially of the tenured or tenure-track academic staff, represent the single largest expense category for McGill's Faculties. Indeed, overall, compensation is the single largest expense category in our core teaching and research activities and in our administrative units.

3. Creation of the FY 2007-2008 budget and update of multi-year plan

Our multi-year resource allocation and budget framework incorporates the goals, objectives, priorities, and strategies that have been articulated in the White Paper. There is an explicit recognition that most spending on priorities can not be limited to a one-year period. Rather, they most often legitimately extend over several years. In addition, it is only by monitoring the annual **investments** made over a number of years that we will be able to assess whether the desired benefits have actually been achieved. One example of this was the decision to hire a substantial number of new academics prior to increasing student enrolment targets. By so doing, we ensured that McGill would have an appropriate number of academics in core areas to guarantee quality programs so that we could then increase the number of undergraduates in the targeted areas and raise the overall number of graduate students across the University. These increases should, in turn, boost our overall research performance, on both inputs and outputs, contribute to the overall learning experience of our students at all levels, and lay the foundation for an increase in McGill's funding from MELS.

As will be demonstrated below, the focus on quality, excellence, and accessibility in our multi-year plan has come at a considerable cost. Thus, with this first budget being prepared by the academic leadership of the University, we must now engage in a significant exercise of re-allocation within already existing permanent budgets to allow us to shift funds from some activities that no longer add value to our objectives into areas that better reflect our priorities. Another issue that we address in the budget for FY 2007-2008 is a re-examination of the assumptions we have employed in the presentation of previous budgets. Of particular concern in this regard is a consistent over-estimation of the number of retirements, particularly among academics, that in light of our continued aggressive recruitment now has McGill carrying a professorial complement that is in excess of our capacity. The Office of the Provost will be working with Deans, Chairs, and Directors in FY 2007-2008 to design a thoughtful and orderly set of processes and procedures to help decrease our overall compensation costs by realigning our complement numbers to our financial "**carrying capacity**".

4. Summary of outlook and commentary

McGill operates in a Quebec context that has created and perpetuates a university system that is under-funded. Within the Quebec system, McGill is especially disadvantaged insofar as even amounts that are calculated based on the government's own formulae are not transferred in a fair and equitable way to us. Notwithstanding these constraints, the McGill administration fully intends to move our economic and fiscal outlook from a **deficit** situation to a steady-state balanced budget over the next five years. In order to do so, however, we must base our forecasts on official data that are not

always consistent or coherent. On the one hand, according to MELS, Quebec's total enrolment picture for the entire provincial university network is expected to decrease after having shown modest growth over the last several years. On the other hand, according to a recent AUCC report dealing with the rest of Canada, the expectation is for an increase in enrolments. Insofar as McGill now has about half of its enrolled students from jurisdictions outside of Quebec, we are projecting slight or no changes in our overall ability to attract, enrol, and retain undergraduate students, modest increases in specifically targeted programs at that level, and substantial improvements in the number of students enrolled in our research graduate programs and professional education programs. These assumptions have been coupled with the Quebec government's policy on tuition, namely to increase it by $100/year over the next five years as announced during the March 2007 elections.

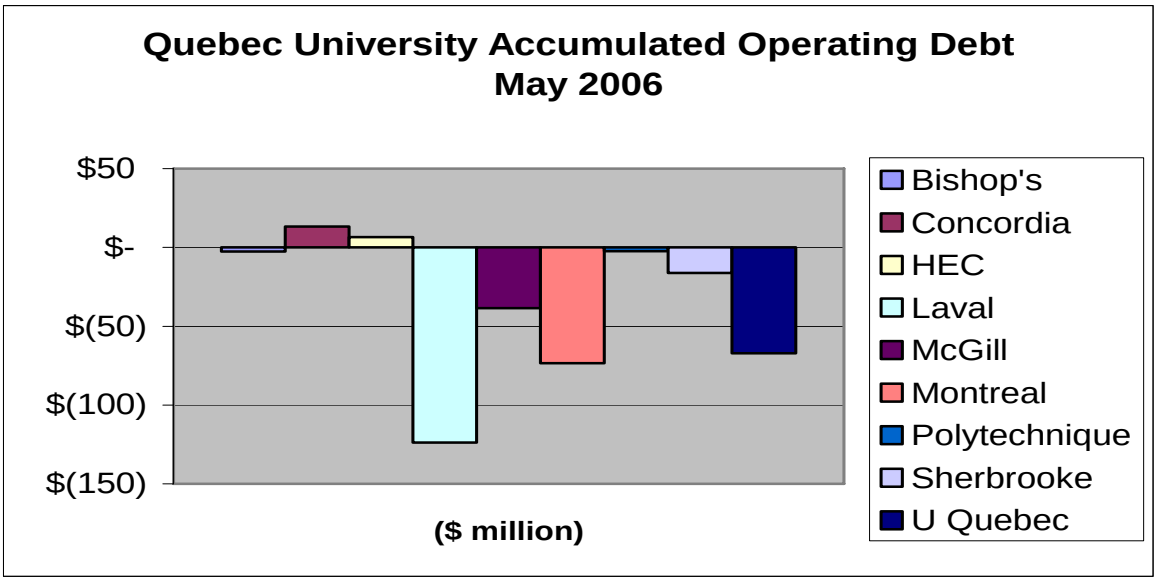
Of course, in order to be able to secure serious incremental improvements to our medium to long-term financial position, McGill, and indeed the entire university network in this province, must be allowed to test the market by permitting the increase of tuition fees to Canadian competitive levels, while guaranteeing that approximately 30% of all such increases in tuition will be re-invested in need-based student financial aid. The corollary assumption here is that such a liberalisation or **re-regulation** of tuition increases would only have a significant impact if the government did not use tuition increases to displace its current levels of investment. It is painfully obvious that while we must constantly work to respect available resources, on a sustained basis these revenues only can only meet a limited proportion of our priorities. We have to control expenditures without diminishing the quality of our educational and research programs as well as to working to diversify and increase revenues from alternative sources.

Our target is to have a balanced budget within the four fiscal years following 2008. This is necessary for two fundamental reasons. First, it is a requirement imposed by MELS to secure the last instalment of our annual operating grant. Second, when we moved to multi-year budgets and were granted permission to run annual deficits and therefore to increase our **accumulated operating debt**, the administration of the University committed to the Board of Governors of McGill that we would correct the annual deficits and work to repay the accumulated operating debt. This will occur as anticipated departures materialise, as new growth in the tenure-track academic complement is tightly linked to the departures, as new revenues provide relief to the bottom line, and as new public policy re-regulates our fiscal constraints.

It must be noted that even though our accumulated operating debt will continue to increase over the next five years, it will remain "in line" with those of the other research-intensive Quebec universities. Indeed, the estimated shortfall for Quebec's universities was estimated by CREPUQ (2003 report) to be approximately $375M annually. To this, we must add that McGill alone has a recognised **deferred maintenance backlog** of over $180M and that addressing even a part of that amount requires bank lending that puts additional pressure on **operating funds** to service the capital and interest.

At this point, some illustrations are in order. The average tuition at McGill's non-Quebec Canadian peer institutions is now approximately $4,500. Compare that to Quebec's $1,768, the amount expected only at the end of FY 2007-2008. For McGill, this represents as much as a $55M per annum shortfall in net revenues. Now, even at those levels our total operating revenue per student would still only be on the order of $23,000, far below the CAD $45,000 per student at comparable publicly funded comprehensive research intensive medical doctoral universities in the United States such as the University of Michigan (Ann Arbor), the University of North Carolina (Chapel Hill), the University of California (Los Angeles), or the University of Virginia (Charlottesville).

The shortfall in revenues from other sources combined with an absence of significant government reinvestment has led to all of the major research universities having accumulated operating debts as shown in the graph below. McGill's accumulated operating debt represents 17.9% of our current MELS grant; the average debt ratio over the entire Quebec system stands at 17.2%.



In FY 2005-2006, the University incurred a $13.4M deficit, excluding over $3.0M in one-time expenditures. Our current estimate for FY 2006-2007 is that the deficit will be approximately $11.4M, excluding one-time write-down time costs of approximately $6.0M. Based on the best available data regarding the way in which the Province of Quebec will handle transfers to universities and allow for increases in tuition fees, the projection for FY 2007-2008 is that McGill's operating budget will be in deficit by slightly more than $15.0M. Even though we have carved out for ourselves a distinctive niche as a high-quality, **publicly-funded**, research-intensive, and student-centred university, McGill must operate in an environment where higher education expenditures per student are relatively low; in short, the entire Quebec network of universities is under-funded, and McGill faces specific disadvantages within that context. Indeed, extremely low tuition fees represent the single largest gap in comparison to our peer institutions in the rest of Canada and internationally.

The fact of the matter is that our relatively newly approved multi-year approach to budgeting that includes annual operating deficits was designed and implemented in order to allow us to maintain a balance between severe under-funding and allocating the resources necessary to build and sustain excellence. McGill's senior administration continues to work with politicians and ministry officials to offer solutions and craft public policies that will allow for diversification and enlargement of the revenue stream upon which we can draw. A fundamental pillar of that public policy effort is an insistence that any future tuition increases must not result in a displacement of government **contributions** to funding universities: both sources of revenue are required to sustain excellent quality, to allow for balanced annual budgets, and to develop a plan for elimination of the accumulated operating debt.

Under the assumptions for revenues and expenditures presented in this budget, McGill's overall accumulated operating debt will be approximately $74.0M by 31 May 2008. The key determinants of this projection, all of which must be monitored carefully, are:

- MELS operating grants
- tuition fee increases
- stabilisation of the tenure-track academic complement
- retirements realised

In the budget presented herein, there is the potential for a slightly lower deficit if our major revenue sources are subject to a greater level of provincial reinvestment and/or if there is a greater than anticipated increase in tuition. Obviously, the projected deficit will be lower if we can reduce expenses beyond the reallocations that are being proposed.

There is no expectation that the capital grant that McGill will receive from MELS will be greater than the approximately $14M that has characterised our recent history. We have built into the budget plan for FY 2007-2008, a "temporary" increase of $6M in McGill's share of the deferred maintenance grant. However, in order to qualify for this money, we will have to borrow money to match it dollar for dollar as a minimum. In fact, our budget proposal calls for borrowing an additional $10M for **campus renewal loans**, which includes deferred maintenance as well as cleaning, greening, capital start-up grants for renovating research laboratory space, and for initiatives outlined in the principles document of our recently commissioned Master Plan.

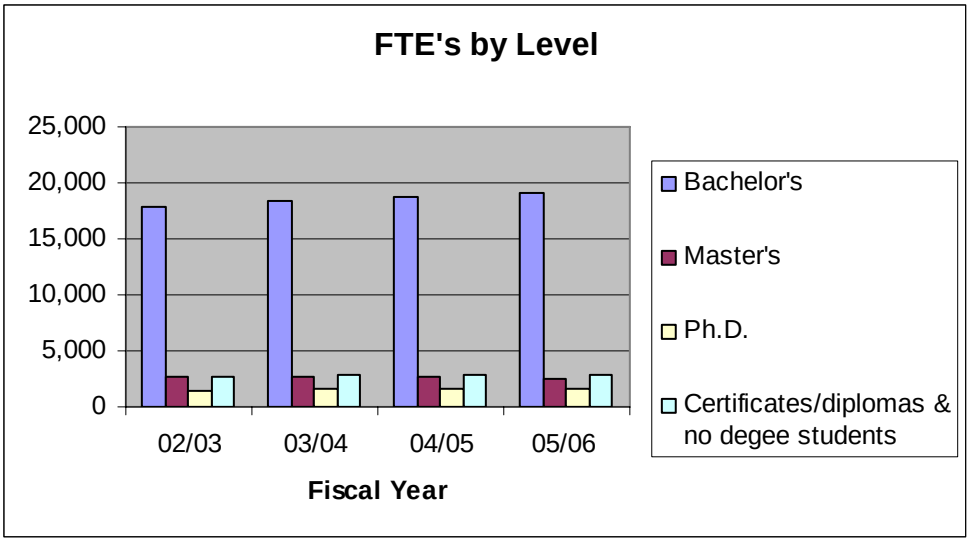
Since the inception of this funding envelope by MELS, McGill has borrowed a total of $60M in campus renewal loans. Nonetheless, this has allow us to make only modest progress in eradicating the more than $180M that still remains in our estimate for deferred maintenance projects. Of course, insofar as we are borrowing money to achieve these goals, the operating and capital funds must be tapped for over $2.4M in capital and interest charges, thus contributing to the budgeted deficit. By the end of FY 2006-2007, the overall accumulated debt level will reflect the result of total borrowing of approximately $58M.

It is, of course, impossible to continue to deficit finance the academic programs of teaching and research at McGill. The administration is bound by an obligation to the Board, to the community, and to the public to be held accountable for the way in which we finance and budget the University. As a consequence, and in the context of our five-year multi-year financial plan, starting in FY 2008-2009 and continuing thereafter, we will incorporate assumptions and build into our compacts with Faculties and administrative units plans on how to repay the accumulated operating debt. It will have to be a plan that spans the medium into the longer term. The investments that we have made in the name of quality have been largely supported by increasing McGill's accumulated operating debt; this will be repaid in a responsible and timely manner. The dual motors of this repayment plan will include the generation of new revenues and the containment of costs. Nonetheless, unless we are willing to see McGill's distinctive advantage, renowned international reputation, and cutting edge research and educational programs slip, we must find new ways to remain competitive with our Canadian, American, and international peers.

5. Key drivers affecting resource allocation and spending

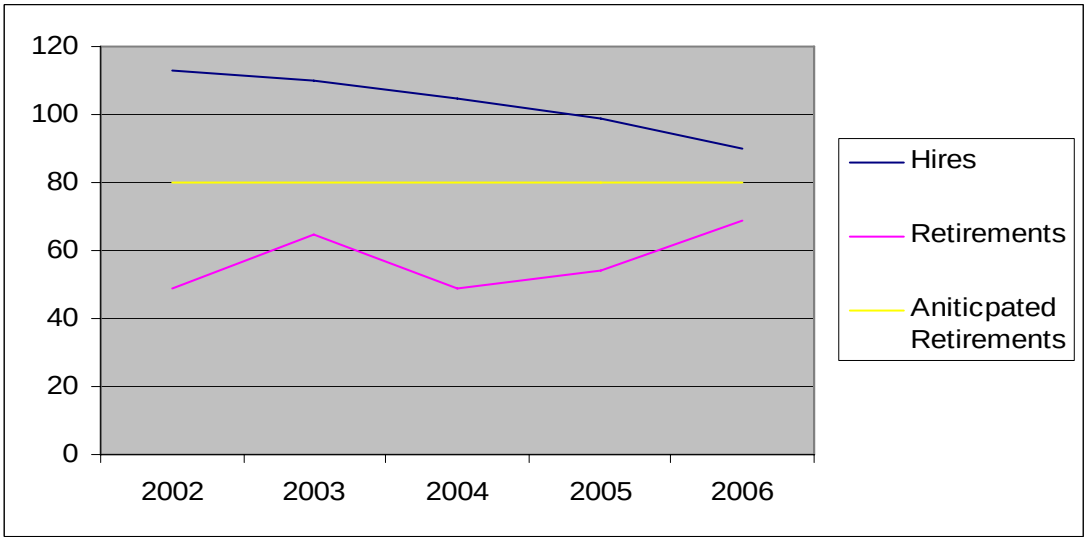
A sound resource allocation framework is built on key drivers. In our current environment, such key drivers include student enrolment projections (at all levels – undergraduate, masters, doctoral, and post-doctoral) and salary mass (with its most significant component being the costs associated with tenure-track academic staff complements in the Faculties). Student enrolment determines the major portion of our largest revenue source, i.e., the MELS operating and capital grants. Each full-time equivalent student is weighted based on an assigned cost-factor for the discipline of study and the educational "cycle" or level in which the student is registered. The second largest revenue source is the tuition paid by these same students, but as noted above at levels that are far below the tuition fees paid by students in other jurisdictions in Canada and even farther below the levels at comparable institutions in the United States.

As shown in the chart below, the number of undergraduate students over the last five years has increased modestly, but in line with the targets established in the University's strategic plan.

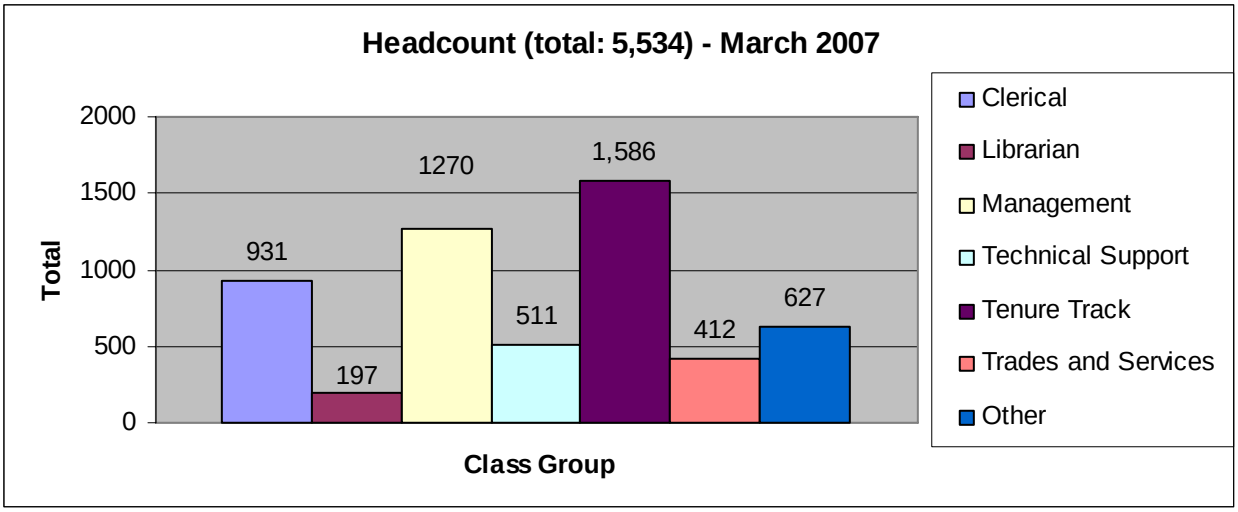


As noted above, the second major driver is by academic salaries and associated benefits, which together account for more than 75% of McGill's total operating expenses. Since FY 1999-2000, when McGill embarked on a very aggressive program of academic staff renewal, we have hired slightly more than 700 new tenure track academics. Over that same time period, academic staff departures from the tenure track ranks has been less than 500. The result has been additional, and to some extent unanticipated pressure on our operating resources. With the advent of the strategic paper and the compact process for Faculties, we are better able to forecast appropriate academic complement numbers for each Faculty, to monitor and adjust them based on discussions with Deans, and to fine-tune the mechanisms that are in play.

The following chart outlines the overall growth to approximately 1,600 academics over the last five years. The important point here is that the trend lines are in the proper direction and are converging toward the original projections. Unfortunately, we now have to live with the inertia build into the system thanks to the significant early bulge.



Of course, it is not only faculty who are employed at McGill, so another major source of expenditure is the number of individuals in administrative and support positions, non-tenure-track academic appointments, teaching support staff, and trades and services. The following graph gives information on all the various permanent staff types as of March 2007.



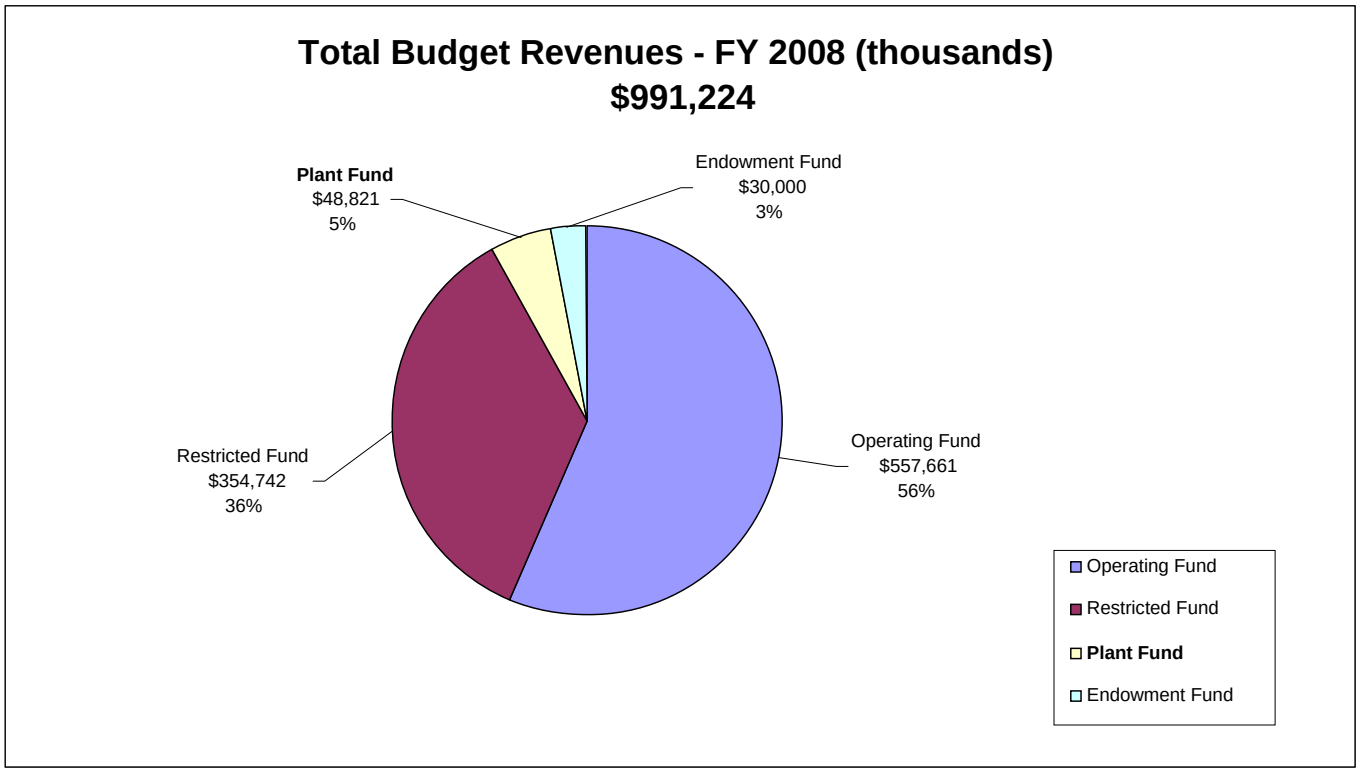
For all other revenues and expenses, such as the sale of goods and services, interest income, non-salary expenditures, and the like, a combination of experience and new information is used to estimate the potential impact on our budget allocations and the **balance sheet**. Clearly, the available data from our own recent experiences, the new information from Ministry sources, and careful modelling based on assumptions leads to the specification of a series of scenarios, and ultimately to the preparation for presentation to the Board of the budget proposal and report.

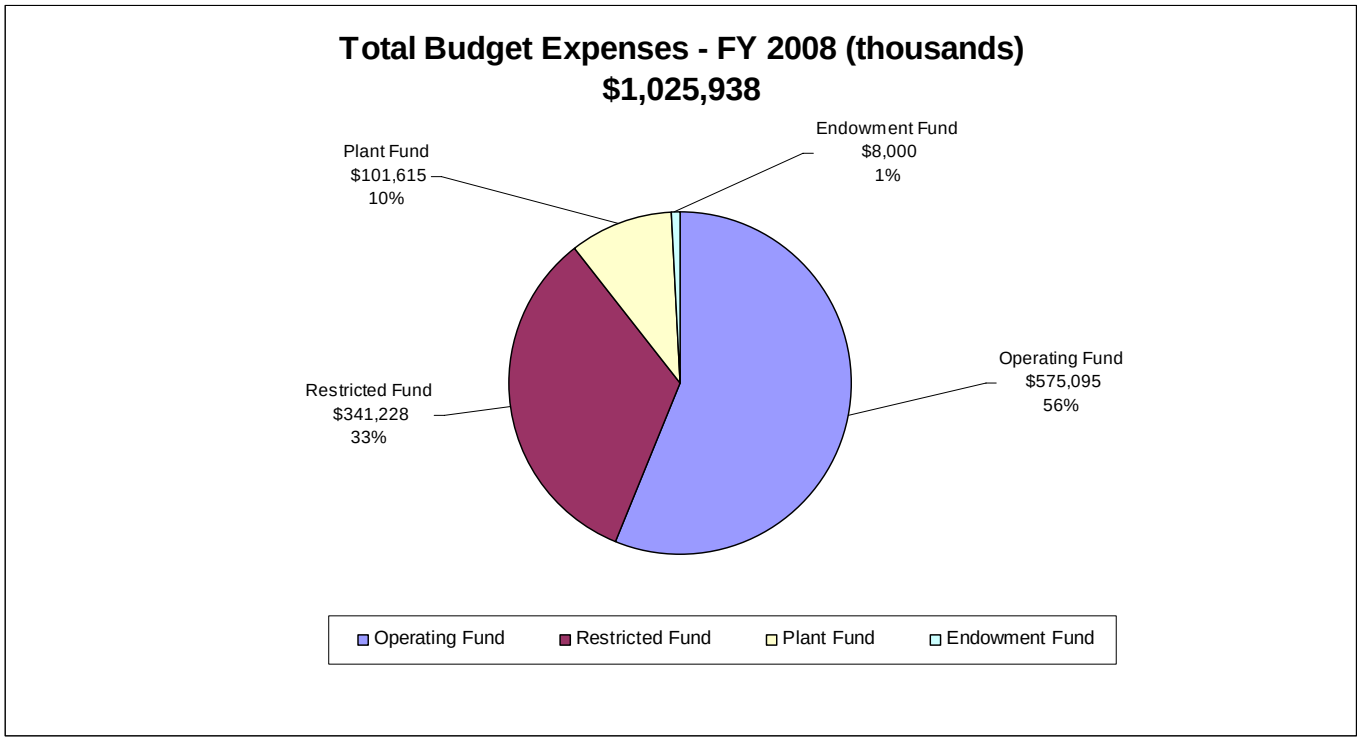
Not all of the relevant and critical information is, or can be, known in time for inclusion in the production of McGill's budget. For example, we must estimate the number of academics to whom we have offered new positions that will actually arrive on our campuses, and the same is true of the number of students who will register and the grant and tuition revenues that they will generate. In addition, the amount of our MELS grant is contingent on the Ministry actually providing their budget orientations or rules. Frankly, in most years these rules are not known until after the start of the new fiscal year, forcing us to estimate the value of the various grant components. For some categories of employees, salary and benefit increases are subject to annual negotiation, again leading to the need to estimate. For example, in the case of benefits, the University has experienced an increase in medical, dental and pension contributions over the last five years. As a consequence, while we can reasonably predict the direction, upwards, we can not be very precise about how much those annual increases will be (we operate within a range). In an internationally competitive labour market for academic talent, we are compelled to offer adjustments to salaries in order to retain our best professors who are often recruited by other research-universities. Without a "**retention envelope**" McGill would quickly loose its competitive edge. Significant assumptions must also be made with respect to other expenses. As an illustration, utilities are based on market commodity prices, but these have fluctuated over the last few years, making reasonable predictions, even with regard to direction, difficult.

The MELS operating grant and tuition and fees account for over 80% of the total operating revenues of McGill University. Other operating sources of revenues include the sale of goods, a grant from the Federal government to cover the "**indirect costs of research**" based on recognised sponsored research grants to our professors, the contribution from the endowment fund, undesignated donations, investment income, as well as a residual category of "other" sources of revenues.

Research funds represent the largest source of restricted funds, but the latter also includes investment income, restricted donations, and other government grants for either restricted purposes or capital projects.

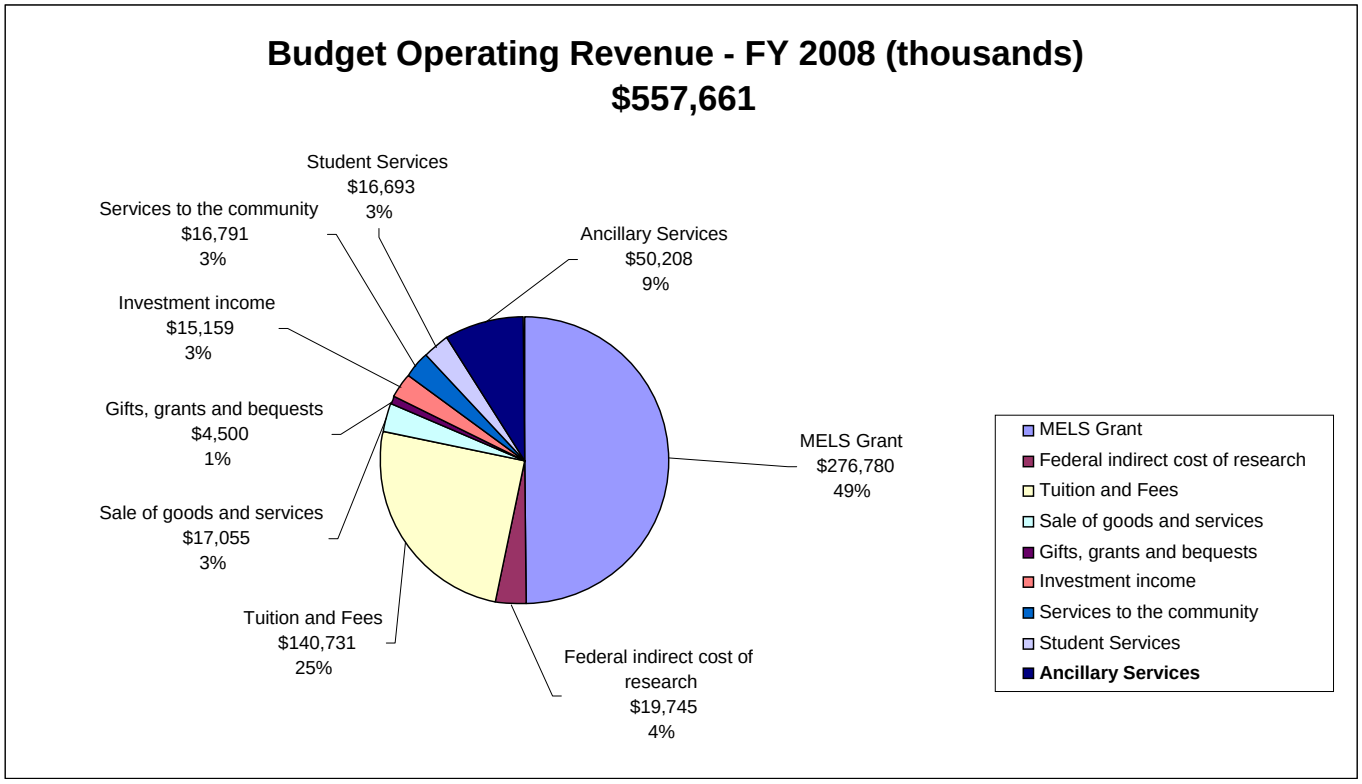
The following charts outline the total budget revenues and expenses for FY 2007-2008:

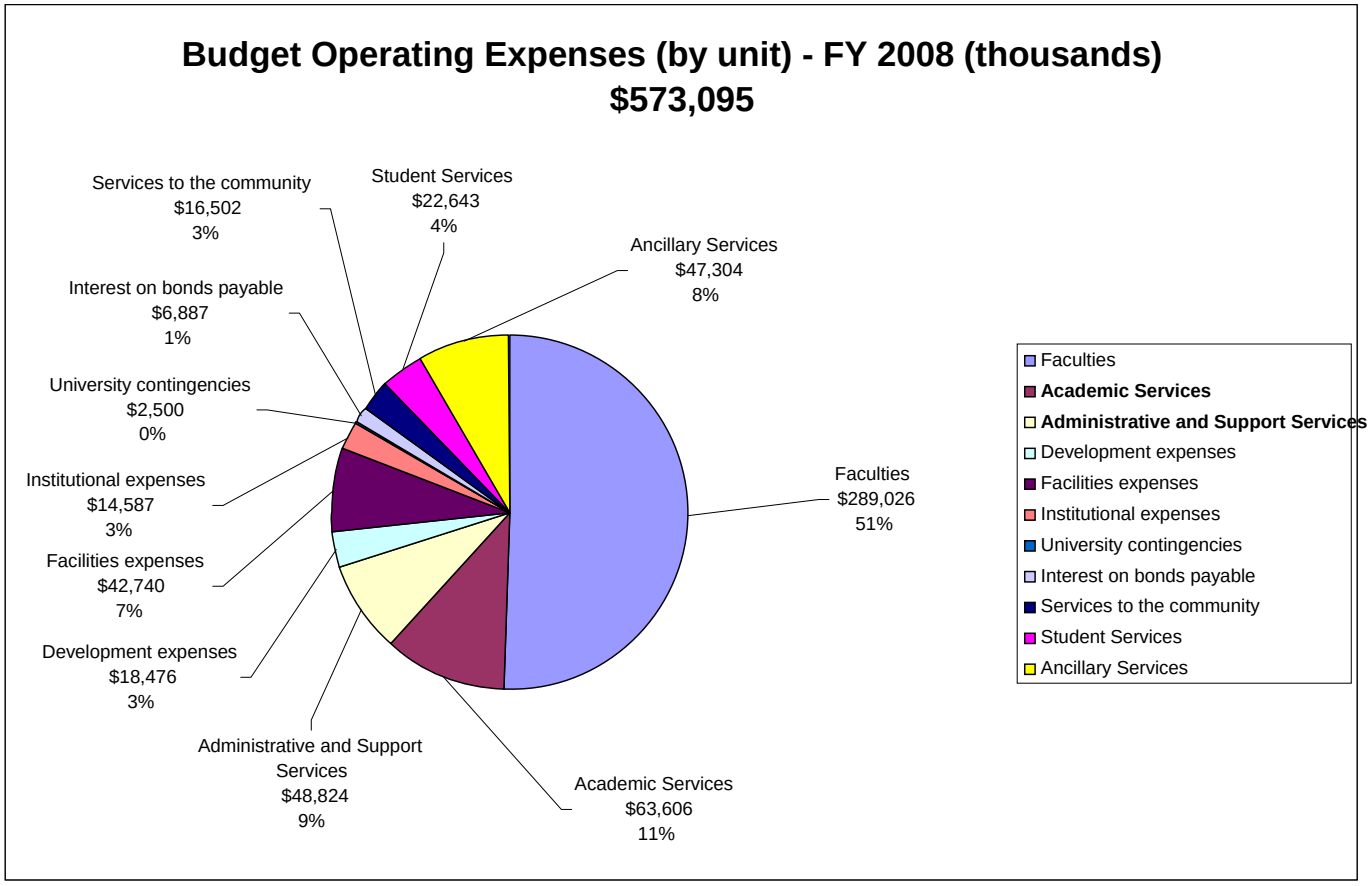




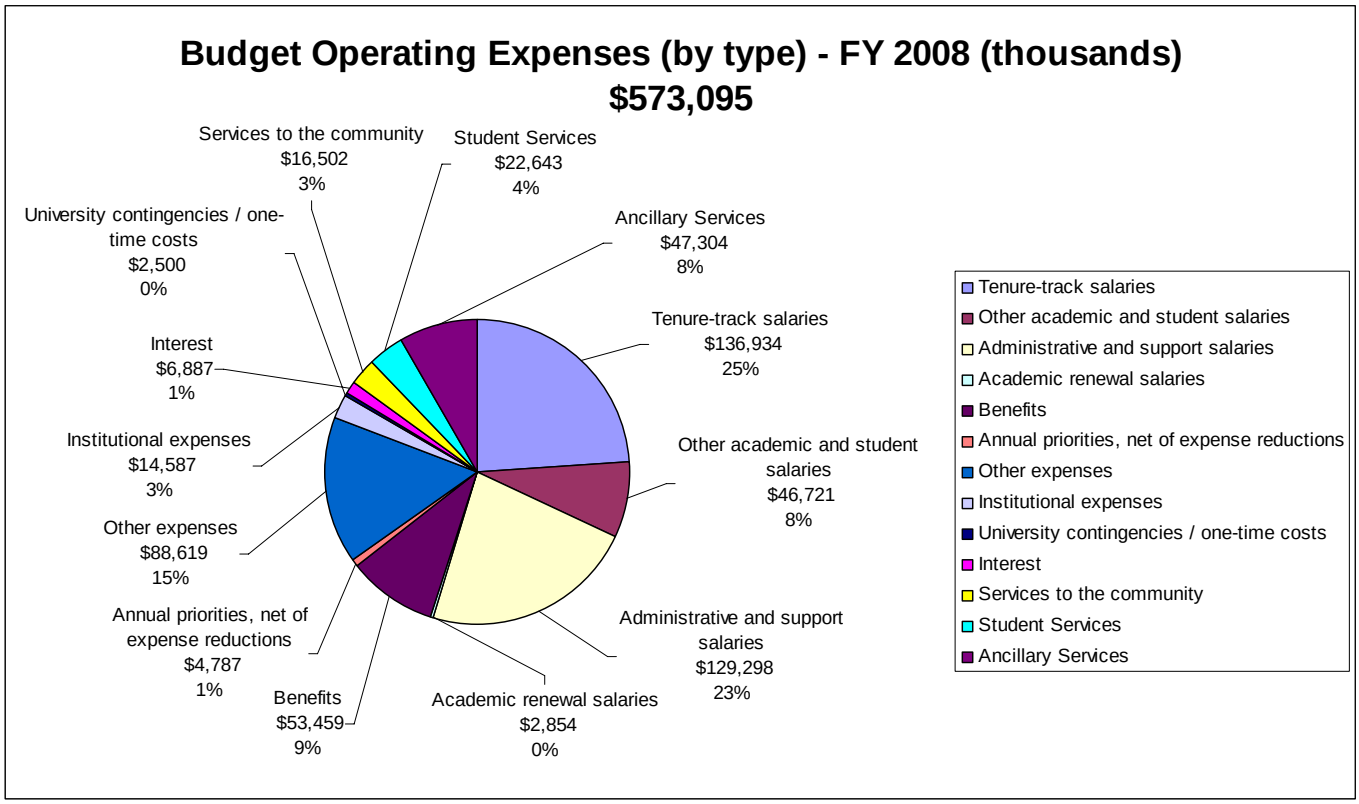
Within the Operating Fund, the locus of expenditures is in the Faculties and the largest component of those expenditures is in the form of salaries, expenses in support of research, and for other educational activities.

The following charts highlight the various operating revenue and expense segments by the originating units and the expense type for the fiscal year 2008 budget.





The breakdown of expenses by units (as per the above chart) is also characterized by the following expense types:



The research activities of our professors generate additional income to support the direct expenses incurred in the production of new knowledge. In addition to the operating expenses for running and equipping modern laboratories and/or for research infrastructures and services, an important part of research grants is used to support the education and training of graduate students and post-doctoral fellows. In 2002, the Federal government recognized that research activity also resulted in an increased level of indirect costs which required funding. These costs are incurred for common resources and activities that can not be attributed specifically to a particular project or activity, and it is difficult to assess precisely which users should pay what share.

In FY 2004, the Federal government formally created an “Indirect cost of research grant program” intended to cover some of these costs. Unfortunately, while they recognised the principle, their level of funding indirect costs falls short of the real indirect costs of conducting research on campuses such as McGill’s. In the past few years, we have transferred 25% of these revenues (net of amounts owed to the teaching hospitals) directly to the Faculties in proportion to their research grant performance. The remainder of the grant is used for institutional expenses such as utilities, building operations, library investments, the optical backbone IT network, and other truly “indirect” costs relative to conducting research.

Over the course of the last four years, McGill’s senior administrators have been making the case that even publicly-funded universities must diversify their revenue sources and increase the flow of their revenue streams. Indeed, it is imperative that they do so and that public policies provide incentives to that end. Along these lines, McGill has invested in operations that bring in philanthropic and foundation monies. As we look to the future, McGill will embark on a major **comprehensive campaign**. That campaign and the revenues that we anticipate as a benefit from it will provide much needed additional resources, both in the short term to be spent directly and in the longer term by increasing our endowment fund.

McGill’s overall **actual** level of annual revenues derived from donations is approximately $55.0M and we anticipate that it will reach $56.7M by the end of FY 2006-2007. We are optimistic that over the next few years, that level of giving will grow to at least $100.0M annually, creating a new steady state for the medium term.

The following table highlights our current targets with respect to gifts.

Annual Fund-Raising
($ thousands)

	FY05	FY06	FY07	FY08	FY09	FY10	FY11
	ACTUALS		ESTIMATE	PROJECTIONS			
Annual Fund	$ 7,975	$ 8,175	$ 8,000	$ 9,000	$ 11,000	$ 13,000	$ 15,000
Planned Gifts	$ 7,459	$ 5,977	$ 7,000	$ 8,000	$ 8,000	$ 9,000	$ 9,000
Major Gifts	$ 40,251	$ 58,745	$ 74,159	$ 80,000	$ 82,000	$ 84,000	$ 86,000
	$ 55,685	**$ 72,897**	**$ 89,159**	**$ 97,000**	**$ 101,000**	**$ 106,000**	**$ 110,000**

6. Alignment of resources with priorities

Included in the budget for FY 2006-2007 were several initiatives that were explicitly designed to achieve some of the objectives that could roughly be defined as strategic. These activities covered a wide range of activities that were initiated, led, and supported by both the central administration and the Deans and Directors, and all of them involved the extensive participation of stakeholders. The proposed budget for FY 2007-2008 is explicitly guided by the strategic priorities outlined in the Provost's White Paper. This means that there is a much tighter linking between academic priorities and the proposed budget allocations. In addition, based on the "complementarity" between the directions suggested in that strategic document and the preliminary administrative response to the Principal's Task Force on Student Life and Learning, we have identified a series of initiatives, both for Faculties and for administrative units, to receive targeted funds with clear objectives. Further, in the budget for FY 2007-2008, the University has laid the foundation for the comprehensive campaign itself to be firmly based on McGill's strategic directions. Finally, the principles underlying the emerging Master Plan for our campuses provide a framework for how we will develop the spaces within which we can realise these ambitions.

Taken together, all of the strategic planning documents have allowed us to specify our priorities and to target initiatives in each of the following areas of activity.

a. academic renewal
b. student life and learning
c. graduate student funding
d. master plan
e. comprehensive campaign
f. sustainability
g. staff development
h. effective organisational practices

The proposed allocation of resources contained in the budget for FY2007-2008 directly reflects the commitment of McGill's senior administration to support strategic priorities in order to ensure that the University achieves the goals and objectives that will allow us to remain internationally competitive. Indeed, with this budget we clearly set an expectation that all requests for additional funding, be they from Faculties reporting to Deans or from administrative units reporting to the Provost or other Vice-Principals, must be in line with the priorities and be designed specifically to move us along toward their realisation. Our strategic plan is and must be flexible, so as our priorities evolve in the short to medium term we will adjust the annual budgets and the multi-year plan to reflect those changes, but always guided by a firm commitment to bring our expenditures in line with available revenue potential. While we must do so over the entire cycle of our multi-year plan, we are making every reasonable effort to meet the challenge of keeping priority spending balanced with the available resources for each fiscal year as well. Further, as noted above, we will keep the accumulated operating debt within acceptable parameters and bring forward a fully developed plan for its **amortisation** starting with FY 2008-2009.

7. Community input

As with all great research universities in Canada and the United States, McGill's teaching and research functions are best served in the context of collegial discussion and iteration of plans and priorities with the community. During the preparation of the budget for FY 2007-2008, preliminary versions of the priorities and the initiatives to realise them were presented to Deans, to several Faculty councils, to the Provost's academic planning group, to the Principal and Vice-Principals, and twice to Senate. In addition, the Finance Committee and the Executive Committee of the Board of Governors were briefed on these developments. In order to meet the expectations of our national and international academic and scholarly communities as well as that of the places where we live and work, we must continue to engage in dialogue as their input may affect facets of our operations.

8. Significant actions and programs

a. Academic renewal

Since the inception of an ambitious academic renewal program in 2000, McGill has recruited to our campuses and affiliated hospitals just over 700 new tenure-track academics. At the same time, and to some extent counter-current to the experiences of some of our Canadian peers, we have begun to reduce the complement of non-tenure staff; we have done so in order to meet the objective of having more of our classes at the undergraduate level taught by tenure track staff. As part of this program, the University has funded the incidental and one-time-only costs relative to the recruitment and "start-up" for each new arrival, dealing with both operating and capital expenditures.

As noted above, it is not sufficient just to recruit new academics to McGill. In order to remain competitive, we must also retain those scholars, researchers, and teachers in whom we have invested and upon whom we depend for sustaining and enhancing McGill's international reputation as a leading publicly-funded, research-intensive, and student-centred university. In a "heated" competitive environment, we must be proactive, and not just reactive, in ensuring that our top researchers and scholars stay at McGill. As part of our initiatives in this area, we have introduced an internal research Chairs program (James McGill Professor and William Dawson Scholar awards), equivalent to the Canada Research Chairs Program. These programs are continued in the proposed budget for FY 2007-2008.

By 2010-2011, we project that half of McGill's tenure track faculty will have been at this University for less than a decade. Clearly, this number of new academic hires is impressive, matched in Canada only by the performance of universities that are much larger than McGill, meaning our rate of academic renewal is considerably higher. In order to face the challenge of balancing the age-distribution and the experience of our new hires, we recruited across all the academic ranks. Consequently, the average age of our professoriate in the past seven years has decreased by only 0.5 years. This relatively slight reduction in age is somewhat influenced by the approximately 100 faculty members who are over 65 years of age and still on the payroll. Even as we move to a steady state of new hiring at substantially lower numbers than 100 per year, we will continue to recruit across the ranks in order to avoid potential problems by having too few senior scholars or units with only junior faculty.

b. Student life and learning

Based on the mandate given to him by the Provost and on the evidence compiled by the Principal's Task Force on Student Life and Learning, the Deputy Provost (Student Life and Learning) has begun to reorient McGill's overall approach to "student-centredness". Several key areas have emerged as clear targets for enhancing the student experience at McGill. Rather than simply increase funding for ongoing efforts, during FY 2007-2008, we will examine the way in which we deliver and organise the advising, mentoring, and supervising functions for undergraduate and graduate students. A principal aim in these re-analyses will be to discover how and why our students are or perceive they are hampered by McGill's "red tape and bureaucracy" in their interactions with the University offices. Funding and space are two other issues that have an impact on student life and learning at McGill and will also be explored in depth during the coming academic year. As a matter of public record, this administration has committed to allocating 30% of any realised tuition increases to student support in order to help ensure that financial exigencies will not exclude qualified students from attending McGill. The "**Entrance Bursary Program**", established in 2006, was a first step toward achieving this objective; it will be continued in FY 2007-2008. We also propose to improve our information systems and technology infrastructure to facilitate effective data-gathering, reporting, and analysis. The final

priority area for FY 2007-2008 will be to move McGill along the path to more fully integrated and professional set of academic and support services.

c. Graduate student funding

In the selection process for new academic appointments at McGill, a significant criterion is an assessment of the ability of their research activities to generate competitively awarded research grants and contracts. As principal investigators, researchers often employ graduate students as assistants. This allows graduate students the opportunity to work directly in carrying out projects, to help develop new research ideas, and to participate in the publications that disseminate the products of scholarly and scientific research. Such active involvement by graduate students is generally credited with enhancing overall research outcomes and preparing the next generation of scholars and researchers. The competition for graduate students is fierce. Most Canadian universities outside Quebec guarantee funding to each incoming master's or doctoral student. In order to compete effectively for talented graduate students, starting with FY 2007-2008, McGill has created a new financial incentive program, the McGill International Doctoral Awards (MIDAs). While it is currently aimed specifically at attracting international doctoral students, the longer-term view is to expand this type of incentive program to all doctoral students. Since the first compacts with the Faculties were agreed to in FY 2004-2005, we have already invested over $2M in operating funds for graduate student financing. With the MIDAs program we will be adding an additional $1.5M. The plan is to increase this amount by as much as possible for the next five years.

d. Master Plan

McGill's current set of capital assets and the space they provide are constantly in demand, but they do not always serve current needs well and are rarely suitable for future expansion of activities. Over the last two years, the University embarked on an institution-wide "master planning exercise". The results are being finalised in the form of a set of guiding principles. This planning exercise and the principles that emerged from it are meant to provide direction to McGill's administration and governance bodies regarding new real estate development, space redeployment, and other similar initiatives for the next several decades. All of the capital budget projects that are proposed for FY 2007-2008 follow the planning and design principles that were elaborated in the Master Plan exercise. They include:

- dynamic intellectual community
- strategic growth
- campus identities
- research, teaching and learning
- service area priorities
- historic buildings and landscapes
- facilities and infrastructure
- campus accessibility
- landscape design

e. Comprehensive campaign

The comprehensive campaign is expected to increase substantially the amount of money coming from philanthropic donations. While no value has yet been set for a "campaign target", the budget for FY 2007-2008 has increased the allocation to the area of the Vice-Principal (Development, Alumni, and University Relations) with an expectation that McGill will raise its annual income from these sources to over $100M per year. The investments made in the various development operations over the last few years should make it possible to achieve an ambitious campaign target and to solidify an

organisation capable of generating that new level of annual giving. The broad targets that have been established for the campaign were all created on the basis of deep consultations and are consistent with University and Faculty objectives. We plan to generate future revenues to support the following areas:

- educational and research program support
- faculty requirements
- endowed chairs
- graduate student support
- undergraduate student aid
- building projects
- equipment
- general university needs

f. Sustainability

While all of the recent construction projects on the McGill campuses have met or exceeded environmental standards, we are most proud of the fact that one of the new pavilions in the life sciences complex will be our first building with a “green roof”. Indeed, McGill operates in a manner that reflects our deep respect for and is sensitive to concerns about the need for “sustainability”. As a result, during the course of various planning exercises, we have established as a priority a forum for reviewing how we can address environmental issues in the short term so as to lay the foundation for a sustainable longer-term. The Rethink McGill (http://home.mcgill.ca/rethink/rethink/) initiative is the leading example of our activities in this area; it groups environmental activities under a single umbrella organisation and it provides co-ordination and leadership in moving McGill to environmentally sound policies and sustainable growth and development.

g. Staff development

Our excellence in teaching and research could not have been attained nor can it be sustained without the ongoing professionalism, dedication and excellence of our administrative and support staff. In order to ensure that staff members are well-prepared and are able to support the high-quality educational and research programs that we offer at McGill University, and indeed to help us to improve in our performance, staff development will be a crucial element. Staff must have the tools and the opportunities to grow professionally and contribute optimally to the achievement of McGill’s mission. Consequently, additional resources are being dedicated to our Human Resources Department to address these issues.

h. Effective organisational practices

In conjunction with staff development efforts, McGill must continue to seek new ways to increase the efficiency with which it delivers its processes and procedures while respecting the need for an effective system of internal controls. Over the last few years, we have designed and presented day-long symposia entitled “Spotlight on Service”, we have re-organised several administrative and support units, and we have continued to challenge processes in order to increase operational effectiveness and overall efficiencies. Not only must we conceptualise and articulate all policies clearly, but we must also work diligently to implement them. Finally, once in place, we have to carefully examine and re-examine them to make optimal use of available resources and to avoid redundancies. A major component in the planning exercise that fed into the proposed budget for FY 2007-2008 was the requirement that each Faculty and major administrative unit had to reallocate a significant portion of its existing permanent budget from areas of lesser importance to areas that clearly support the strategic direction of the University.

9. Significant assumptions

The preparation of a budget requires establishing a significant set of assumptions. For FY 2007-2008 and beyond, the revenue and expenditure assumptions are based on the best available information we have from a variety of sources. Obviously, we have tried to present these assumptions in a manner that is consistent with the way in which prior years' annual budgets have been presented. As with prior years, at the time of writing this report and presenting the Budget for approval to the Board of Governors, certain key revenue elements, such as the size of the MELS grant, and some key expenditure categories, such as the total cost of compensation for both academic and support staff, have yet to be announced and/or determined.

Below are listed the main assumptions used to prepare the FY 2007-2008 budget and where appropriate for the entire multi-year cycle.

a. Student enrolment

Assumption: There will be little growth in the next five years. The Quebec MELS grant and tuition revenues are based on the projections below

	2007/08	2008/09	2009/10	2010/11	2011/12
Undergraduate	1.9%	1.4%	1.1%	1.1%	1.1%
Masters	-2.4%	-1.2%	0.2%	0.0%	0.0%
Doctoral	-0.2%	-0.8%	-0.5%	0.0%	0.0%

b. MELS operating grant

Assumption: MELS will not make any significant changes to its announced directions.

- Assumes overall MELS reinvestment of $90.0M in FY08 – distribution as per latest proposals from MELS
- "**McGill adjustment**" accelerated repayment assumed to be an additional $3.0M in FY 2007-2008, effectively eliminating the adjustment
- Additional reinvestment of $60.0M assumed in each of 2008-2009 to 2011-2012

Note that the end of the annual McGill adjustment does not address the issue of the accumulated debt of approximately $80M which accrued over the years it was in force.

c. Federal indirect costs of research

Assumption: Our relative success rate for competitive research will increase.

- Reinvestment for FY 2006-2007 included
- Increase in overall envelope of $40M per year assumed for FY 2007-2008 to FY 2010-2011

Note that majority of our research funding comes from the federal tri-council agencies and, at 21%, they do not provide a reasonable level of support for indirect costs. If the federal government funded indirect costs at the more accurate level that Quebec does of 50% to 65%, the increase in revenues would be significant.

d. Tuition and other student charges

Assumption: Modest increases in tuition.

- Annual fee increases
  - Out-of province supplement 8%
  - International supplement 4%
  - International undergraduate fees 8% (20% to student aid; net increase = 6.4%)

e. Salary and benefits increases

Assumption: Our salaries will increase as follows.

- Academic salaries5.8% total
- Non-academic salaries 2.5% total

f. Academic renewal

Assumption: Academic renewal will enter a steady state mode.

- Net TT complements growth will cost $2.8M in salaries in FY 2008; this will decrease to $.9M in FY 2009 and will actually result in recoveries in future years due to negative growth
- Academic renewal costs (mostly one-time) will average approximately $5.4M over 5 years (includes start-ups, recruitment, etc.)

g. Other revenues and expenses

Assumption: steady state for items under our control; educated guess for others.

- Estimated using permanent FY 2006-2007 budgets +/- estimated changes due to economic and/or market conditions, as applicable
- Self-financing activities assumed at steady state – no significant increases in contributions and no draw downs of carry forward balances assumed

h. Priority items and expense reallocations

Assumption: Priorities will drive our allocations and our re-allocations.

- Total priority envelope of $13.0M available for all requests. Targeted expense reallocations / reductions of $9.0M are required
- Total envelope will be reduced if expense reallocations/reductions targets are not met
- Significant priority envelope includes an additional $1M per year for three years to the permanent budget of the libraries
- The priority envelope also includes support for graduate student funding which has been ratcheted up to $1.5M this year and this level of funding will continue in future years
- Additional expense re-allocations are going to be necessary in order to meet other future priorities

10. Capital and infrastructure

McGill's overall capital spending is determined primarily by the amount of a grant received from Quebec's Ministry of Education, Leisure, and Sports. In some but not all years, the general capital grant amount may be supplemented by specific grants received from other government sources (such as the Canadian Foundation for Innovation – CFI), donations, or special "envelopes" of MELS itself or other government branches. Because the size of the capital grant is so small in relation to the overall asset holdings of the University, McGill has had to borrow in order to meet requirements for renovations and in order to make a dent in an incredibly large deferred maintenance problem. Over the last seven years, we have taken loans totalling $60.0M to address the cleaning and greening of the campus and to attend to the more serious items on the deferred maintenance backlog. Each $10.0M of such loans requires, approximately and at our current borrowing rate, an annual payback of $1.0M (capital and interest) over a 15 year period.

The annual capital grant from Quebec is approximately $14.0M and is used primarily to fund capital projects related to new academic hires and for other renovation projects, including classroom and teaching laboratory renovations. However, as time progresses, we must use a significant portion of the capital grant itself to repay the capital portion of the campus renewal loans mentioned above.

During the last two years, the University has used approximately $6.0M of the campus renewal loans to match a special deferred maintenance grant awarded by the Province. The FY 2007-2008 year will

be the last of the three year special MELS deferred maintenance grants, and we intend to borrow an additional $10.0M in order to match the approximately $6.0M available from the Province. Even with these investments, we estimate that our deferred maintenance backlog will be at least $185.0M, and probably higher.

Significant projects are underway that directly support McGill's overall strategic goals and objectives. These include the Francesco Bellini Life Sciences Building and the Cancer Research Pavilion, both of which are funded by specific Quebec grants to match Canadian Foundation for Innovation (CFI) grants, and private gifts. The McGill Brain Imaging Research centre project, supporting continued excellence in brain imaging research, is also funded by CFI and private donations.

As noted above, the completion of the Master Plan exercise will provide additional guidance regarding future construction, acquisition, and disposal of properties on and around both campuses and at other sites that offer the opportunity to meet our goals and objectives.

11. Approval process

The preparation of the Annual Budget, and of the multi-year plan, is the result of and reflects the various consultations that have taken place with stakeholders, including the Finance Committee of the Board of Governors, the Executive Committee of the Board, Senate, Deans, and other specific constituents as appropriate.

In accordance with McGill's Statutes and consonant with our governance practices and terms of reference, this draft Annual Budget for FY 2007-2008 was presented first to the Finance Committee which then recommended to the Executive Committee that it be brought for approval to the full Board of Governors. In the course of consultations, the concerns and assumptions that were used to build this budget were presented twice to Senate for feedback.

12. Multi-year budget plan

The following table is a summary of the relevant income sources and expenditure items for the operating fund for FY 2006-2007. As mentioned above, the expectation for the current year is that we will end up with a lower operating fund deficit than that which was approved by the Board last year. However, due to the fact that certain one-time costs are expected to increase, the bottom-line for the final results, once we close the books in June, will be approximately the same as originally budgeted. For FY 2007-2008, in order to meet obligations and objectives, we must budget a deficit of approximately $15.0M. For subsequent years, we plan to produce budgets with smaller deficits with the goal of achieving a balanced budget by the end of FY 2011-2012. At that time, and unless there is a significant change in the funding environment for McGill, the overall accumulated debt will be between $90.0M and $96.0M. In order to respect those targets, however, we will have to continue to curb growth in overall expenditures and use re-allocations in order to fund priorities. Any additional increases in tuition or changes in reinvestments made directly by the Province will, of course, have a significant positive impact on the projections.

It is painfully obvious that the under-funding of Quebec's universities is creating annual shortfalls almost everywhere in the system or "réseau". One reason for the under-funding is that MELS must use a large portion of its annual resources to cover their own borrowing costs, most often done in the name of the universities. We are working on ways to address the issue of accumulated operating debt repayment, and we will report to the Board regarding several models next year. Our assumption is that lower accumulated operating debt will translate into lower borrowing costs, which in turn will put less pressure on our operating funds.

We believe that the tuition fees for international undergraduate students must be deregulated. This would produce a significant increase in revenues. Under such a regime, each university would be free to collect and to keep the tuition fees from these international undergraduate students, but the government would not provide any additional funding for them. This model is found everywhere in Canada outside of Quebec and may become a reality here in the not so distant future.

Five-year financial outlook ($ 000)	Actual 05-06	Forecast 06-07	Budget 07-08	Outlook 08-09	09-10	10-11	11-12
Revenues							
MELS - operating grant	250,344	268,508	276,780	277,052	290,397	303,290	312,671
Federal indirect costs of research grant	15,394	17,315	19,745	22,175	24,605	27,035	27,035
Tuition and student charges	124,575	131,312	140,731	150,437	160,603	171,425	182,966
Sale of goods and services	12,988	14,142	11,121	11,330	11,545	11,764	11,987
Gifts and bequests	3,807	4,500	4,500	4,500	4,500	4,500	4,500
Short-term investment income	6,916	7,325	5,608	6,264	6,784	6,412	6,986
Endowment investment income	9,124	8,890	9,551	10,268	11,068	11,758	12,493
Total operating revenues:	423,148	451,992	468,035	482,026	509,502	536,183	558,638
Expenses							
Faculties (Including academic renewal)	252,216	268,233	284,763	293,764	305,705	320,498	333,789
Academic services	52,407	60,748	63,606	65,783	67,999	70,256	71,056
Support services							
- Administrative units	46,319	49,224	50,824	51,521	53,161	54,835	56,049
- Interest and other financial expenses	8,897	7,293	6,887	8,706	10,092	10,313	11,182
- Facilties	46,067	46,693	42,740	43,239	43,748	44,271	44,806
- DAUR	15,592	16,134	18,476	18,765	19,061	19,364	19,673
Institutional expenses	14,057	16,053	14,587	10,547	10,655	10,754	10,984
Student assistance	3,259	4,349	5,675	7,777	9,887	12,006	12,635
One-time costs, including capital and amortizations	0	6,000	0	0	0	0	0
Contingency	0	0	2,500	3,000	3,000	3,000	3,000
Total operating expenses:	438,814	474,727	490,058	503,102	523,309	545,296	563,175
Operating surplus (deficit) before self-financing activities:	(15,666)	(22,736)	(22,023)	(21,076)	(13,807)	(9,113)	(4,537)
Self-financing activities							
Revenues							
Teaching, Research and Support	1,884	5,817	5,934	6,053	6,174	6,297	6,423
Services to the community	18,276	17,107	16,791	17,061	17,402	17,750	18,105
Student Services	15,410	15,639	16,693	17,495	18,340	19,230	20,167
Ancillary services	50,042	49,936	50,208	51,212	52,236	53,281	54,347
	85,612	88,499	89,626	91,820	94,152	96,558	99,042
Expenses							
Teaching, Research and Support	5,023	4,178	4,263	4,348	4,435	4,524	4,614
Services to the community	17,500	16,669	16,502	16,832	17,168	17,512	17,862
Student Services	15,055	16,128	16,968	17,489	18,335	19,209	20,110
Ancillary services	46,395	48,200	47,304	48,541	49,512	50,502	51,512
	83,973	85,175	85,037	87,210	89,451	91,746	94,099
Net contribution from self-financing activities:	1,639	3,323	4,589	4,611	4,701	4,811	4,943
Inter-fund transfers							
Interfund transfers -operations	(3,497)	2,000	2,000	2,000	2,000	2,000	2,000
- endowments	879	0	0	0	0	0	0
Total inter-fund transfers:	(2,618)	2,000	2,000	2,000	2,000	2,000	2,000
Decrease (Increase) in accumulated deficit :	(16,645)	(17,412)	(15,434)	(14,466)	(7,106)	(2,302)	2,406
Deficit, beginning of year	(24,730)	(41,375)	(58,787)	(74,221)	(88,687)	(95,792)	(98,094)
Deficit, end of year	(41,375)	(58,787)	(74,221)	(88,687)	(95,792)	(98,094)	(95,688)

The following table is a summary of the proposed capital allocations for the fiscal years 2007 to 2012. The actual expenditure in any of these years will vary depending on the completion of the actual construction project. Accordingly, in order to allow for a maximum efficiency in spending and planning for the work, we plan for amounts in excess of the total grants.

Capital Budget Framework
Fiscal years ending May 31 st
(in $ 000)

	2007	2008	2009	2010	2011	2012
1 PROPOSED CAPITAL BUDGET ALLOCATIONS						
a. FACULTY COMPACT ALLOCATIONS	**6,151**	**5,836**	**5,851**	**3,201**	**1,151**	**1,151**
i. Capital alterations, including Gault, Arboretum	**651**	**651**	**651**	**651**	**651**	**651**
ii. Capital Start up costs	**4,000**	**3,000**	**2,000**	**1,250**	**500**	**500**
Compact allocations		4,000	3,000	1,750	500	500
Paid by Campus Renewal envelope		(1,000)	(1,000)	(500)		
iii. Faculty priority themes already committed	**1,500**	**1,160**	**2,200**	**1,300**		
Arts relocations		1,000	1,000			
Law relocations			1,200			
Education relocations				1,300		
Medicine Coachhouse		160				
Management - basement		-				
iv. Faculty Priority Themes Priority		**1,025**	**1,000**			
Agriculture: CINE offices, labs		75				
Agriculture: Small Animal Research		200				
Dentistry: Accredit complian MGH Labs			70			
Engineering: Undergrad teaching labs; grad students		250				
Science: UG labs		500	500			
Unassigned Faculty priorities			430			
b NON FACULTY BASE ALLOCATIONS	**817**	**817**	**817**	**817**	**817**	**817**
c CAMPUS FACILITIES	**2,335**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**
d INSTITUTIONAL PRIORITIES	**2,250**	**6,050**	**900**	**1,750**	**1,750**	**1,750**
Paybacks:						
Seagrams and Banner		2,000				
Property Acquisition (Capital portion only)						
Peel 3471		600				
Diocesan College		900				
680 Sherbrooke (potential)						
Institutional Priorities						
Durocher renovations	1,500	800				
James Admin Space Re-allocations	750	500	500			
Conversion 3610 MacTavish; Kinesiology space		1,000				
McLennan Library Reno. Ph.2				1,000	1,000	1,000
Master Plan Priorities						
Disabled Access		250	400	500	500	500
Landscaping/ Circulation Projects				250	250	250
e REPAYMENT OF CAMPUS RENEWAL LOAN	**4,399**	**5,099**	**5,799**	**6,499**	**6,499**	**6,499**
f CONTINGENCIES	**500**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
TOTAL ALLOCATIONS	**16,452**	**20,802**	**16,367**	**15,267**	**13,217**	**13,217**
MELS CAPITAL BUDGET	**13,825**	**13,825**	**13,825**	**13,825**	**15,000**	**15,000**
Under (Over) allocation	**(2,627)**	**(6,977)**	**(2,542)**	**(1,442)**	**1,783**	**1,783**
Cumulative - under (over) allocation	**(2,627)**	**(9,604)**	**(12,146)**	**(13,588)**	**(11,805)**	**(10,022)**

Capital Budget Framework
Fiscal years ending May 31 st
(in $ 000)

	2007	2008	2009	2010	2011	2012
2 PROPOSED CAMPUS RENEWAL ALLOCATIONS						
University Deferred Maintenance Projects Backlog	14,000	11,500	7,000	6,500		
Prior year amounts available		750	2,000	2,000		
Capital start-ups portion of deferred maintenance		1,000	1,000	500		
Special Program Allocations:						
Classroom improvements	1,000	1,000		1,000		
Faculty Priority Renewals						
Arts relocations		500				
Law relocations (elevators, ventilation)		750				
Education relocations		500				
TOTAL	**15,000**	**16,000**	**10,000**	**10,000**	**-**	**-**
SOURCES OF FUNDS (estimate)	**15,000**	**16,000**	**10,000**	**10,000**	**-**	**-**
Loan #	#5	#6	#7	#8		
Amount of Loan	10,000	10,000	10,000	10,000		
MELS Rattrapage Grant	5,000	6,000	-	-		

13. Ongoing financial management issues

The senior administration of McGill University is committed to responsible financial management combined with an uncompromising support for quality and excellence in our educational and research programs. In addition to working in public policy areas to effect systemic changes in the larger funding context, we are taking active measures on areas under our direct control. Our financial management approach is to diversify and optimise revenue sources and contain costs by achieving efficiency in operations. Thus, while we do not think it is in McGill's best interests to grow the undergraduate student population across the board, within the current revenue structure we have targeted specific areas of potential enrolment growth in order to increase the government grant and tuition revenues.

In order to continue to have a meaningful program of academic renewal, we must focus our attention on achieving timely, optimal, and dignified retirements. These will help to reduce the pressure on salary mass, especially for our tenure-track professoriate. We must also strive to manage effectively the teaching loads and course offerings of our professors so that we can more effectively re-deploy teaching resources. We are also moving from a focus on admissions to a focus on enrolment management to allow us to achieve targeted enrolment growth at the undergraduate level in areas where quality will not be adversely affected. In the current competitive climate, graduate enrolment growth will continue to be sensitive to our ability to offer an appropriate level of aid, but we must increase significantly the number of graduate students in our research programs.

Efforts to improve our support from the philanthropic community should result in significant returns in the areas of direct and endowed gifts. Investments relating to endowments will continue to strive for maximum annual returns in order to generate maximum income for operations.

We continue to strive to maximise the amount of overhead recovered from research contracts and activities in order to cover the real indirect costs of research. Our current and past investment in research infrastructure is expected to increase the research dollar input, which must continue to generate maximum amount of overhead.

McGill must be extremely diligent in the procurement of goods and services. New tools are being introduced, such as ***e-Procurement***, that will help us reduce the overall purchasing effort, thus saving time and increasing productivity, while at the same time allowing for the efficient purchase of commodity items, thus reducing costs and saving money. In addition, we will continue to challenge "how we do business" in our back-office areas, including reviewing the need for separate admission processes at both the Faculty and institutional levels.

14. Overall budgeted financial position – sources and uses

The following table highlights the total combined revenue and expenses budgeted for the year ending 31 May 2008. Overall, the total revenues are budgeted to be approximately $987.0M while expenses are budgeted to be approximately $1,021.0M (including $72.0M of non-cash amortisation of capital assets).

(in $ 000)

	Budget 2007-2008				
	Operating Fund	*Restricted Fund*	*Plant Fund*	*Endowment Fund*	***Total***
Revenue [(i)]	**$**	**$**	**$**	**$**	**$**
Government of Quebec					
Grant	276,780	7,750	18,825		**303,355**
Interest on bonds			20,390		**20,390**
Federal indirect cost of research	19,745				**19,745**
Tuition and student charges	140,731				**140,731**
Sale of goods and services	11,121		150		**11,271**
Gifts, grants and bequests	4,500	12,000	6,000	30,000	**52,500**
Short-term investment income	5,608				**5,608**
Endowment investment income	9,551	13,915	3,456		**26,921**
	468,035	**33,665**	**48,821**	**30,000**	**580,521**
Services to the community	22,725	17,923			**40,648**
Student Services					
Fees and other	14,589				**14,589**
MELS grant	1,794				**1,794**
Investment income		13,127			**13,127**
Donations	310	19,500			**19,810**
	16,693	32,627			**49,320**
Ancillary Services	50,208	200			**50,408**
Research					
Net investment income		8,327			**8,327**
Government grants					
Federal		109,000			**109,000**
Provincial		37,000			**37,000**
United States		7,000			**7,000**
Donations and grants from other sources		109,000			**109,000**
		270,327			**270,327**
Total Revenue [(ii)]	**557,661**	**354,742**	**48,821**	**30,000**	**991,224**

(in $ 000)

Budget 2007-2008

	Operating Fund $	*Restricted Fund* $	*Plant Fund* $	*Endowment Fund* $	***Total*** $
Total Revenue (from previous page)	**557,661**	**354,742**	**48,821**	**30,000**	**991,224**
Expenses [i]					
Faculties	284,763	14,000			**298,763**
Academic Services	63,606	6,500			**70,106**
Administrative and Support Services	50,824	1,200			**52,024**
Development expenses	18,476				**18,476**
Facilities expenses	42,740				**42,740**
Institutional expenses	14,587				**14,587**
University contingencies / one-time costs	2,500				**2,500**
Amortization and disposals of capital assets			70,000		**70,000**
Expensed capital assets			2,000		**2,000**
Interest	6,887		29,615		**36,502**
Management expenses				8,000	**8,000**
	484,383	21,700	101,615	8,000	**615,698**
Services to the community	20,765	17,583			**38,348**
Student Services	22,643	31,745			**54,388**
Ancillary Services	47,304	200			**47,504**
Research		270,000			**270,000**
Total Expenses	**575,095**	**341,228**	**101,615**	**8,000**	**1,025,938**
Net Change in Fund Balance for the Year	**(17,434)**	**13,514**	**(52,794)**	**22,000**	**(34,714)**
Fund balance (deficit), beginning of year	(58,787)	461,301	383,019	812,830	**1,598,363**
Interfund Transfer	2,000			(2,000)	**0**
Capital expenditures financed by other funds			75,000		**75,000**
Fund balance (deficit), end of year	(74,221)	474,815	405,225	832,830	**1,638,649**

Note:

[i] *For purposes of presentation, amounts included in the restricted, plant, and endowment funds have been estimated using information at this time, as no formal budget is prepared.*

15. Finance Summary – operating fund core activities (excludes self-funded activities)

The following depicts the total operating budget expenditures for FY 2007-2008, by type of expense.

($ 000)	Faculties	Academic Services	Administrative support	Facilities	DAUR	Total
	Budget 2007-2008					
Salaries						
Tenure-track	132,399	3,796	739	-	-	**136,934**
Other academic	40,875	2,232	3,614	-	-	**46,721**
Administrative and support	43,090	28,704	29,899	17,315	10,290	**129,298**
Academic renewal	2,854					**2,854**
Benefits	35,528	6,370	6,317	3,531	1,713	**53,459**
Annual priorities (reductions)	5,531	(80)	1,307	(1,695)	(276)	**4,787**
Other expenses	26,749	22,584	8,948	23,589	6,749	**88,619**
	287,026	63,606	50,824	42,740	18,476	**462,672**

16. Conclusion

The distinctive advantage that McGill University has in the world of publicly-funded, research-intensive, student-centred universities consists of four elements: the international character of our students and professors; the tight integration between the research in which our professors are engaged and the educational programs that are offered to our students; the deep cross-fertilisation that occurs in our highly interdisciplinary research and educational programs; and, an amazing capacity to be innovative in the design of our curricula and the nature of the questions we pursue. Excellence, then, is the lifeline of this University and in that regard we are firing on all pistons and the proposed budget will not let us stall out.

However, the painful fact is that we will be very hard pressed to arrive at, and even more hard pressed to sustain, economic equilibrium in harmony with our commitment to quality and accessibility. This is especially true if the current under-funding is not remedied and if the significant shortfall in tuition is not corrected by significant and quick public policy changes regarding higher education in Quebec. As an institution, McGill is willing to live within its means, including the repayment of our accumulated operating debt, however working with government, students, alumni, friends, and other economic actors, we must be allowed to acquire appropriate resources. We want to be allowed to fulfil this University's mission.

In this report, we have described how our limited resources will be allocated to support most effectively our teaching, learning, and research activities while permitting the University to contribute to our communities and to act as a responsible citizen. We are convinced that this principles-based approach will allow us to balance the need for restraint with the pursuit of excellence. The budget for FY 2007-2008 was designed to ensure that McGill will continue to be a very high-quality, publicly-funded, research-intensive, student-centred university.

Professor Anthony C. Masi
Provost
16 May 2007

Glossary of Terms

Academic Renewal: An active University-wide tenure-track academic recruitment program, designed to support teaching, research and scholarship through the building of new research directions, new creative collaborations, and novel and innovative teaching programs and methods.

Academic Services: Administrative services at the institutional level and within individual Faculties that assist meeting the teaching and/or research needs of the University.

Accumulated Operating Debt: The total debt (i.e., the sum of the operating deficits) incurred to support the accumulated spending that is in excess of revenues.

Actual: Real revenues, salaries, expenditures, or transfers that have been posted to a fund.

Administrative and Support Services: All institutional administration, including such services as physical plant.

Amortisation: The accounting of a purchased asset, which represents a non-cash expense over a period of time. Also, for those units required to repay internal loans, it represents the systematic repayment of the debt over the agreed upon period.

Ancillary Services: Resources devoted to the activities and jobs that complement the range of services offered by the University; examples include food services, residences, and printing.

Asset: A tangible or intangible item of positive value to the University. Some examples are: cash, government receivables, a building, or a piece of equipment.

Balance Sheet: A report of financial position at a specific point in time outlining the Institution's assets, liabilities, and fund balances available for future purposes.

Bequest: A gift given to the university at the time of a person's death as set forth in the individual's last will and testament. Bequests can have a variety of forms including, but not limited to: cash, marketable securities, tangible fixed assets, and consumable commodities. Bequests are classified according to the absence or presence of donor stipulations as unrestricted, temporarily restricted, or permanently restricted.

Budget: An organisational plan stated in monetary terms; functions as a tool to measure revenue levels and expenditures against expectations.

Campus Renewal Loans: Loans that the University has obtained from financial institutions in order to fund deferred maintenance projects requiring immediate attention.

Capital Fund: Holds all the assets acquired by the University and any debt incurred to acquire such assets.

Carrying Capacity: The institution's ability to absorb interest charges on annual bank loans. These loans arise as a result of accumulated deficits or delays in receiving funding for capital projects.

Compact: An annual agreement between the Provost and the Dean of a Faculty regarding academic objectives, resource allocations, intended results for specific projects, and other desired outcomes, as deemed appropriate by both parties. Financial commitments for future allocations are to be based on

faculty performance on identified metrics in relation to objectives and benchmarked against peer institutions.

Comprehensive Campaign: An intensive set of operations or actions undertaken by the University to increase the amount of money coming from philanthropic donations to support academic priorities, goals, and objectives.

Contribution: Gifts, grants, bequests and any similar transfer of resources (both monetary and in-kind).

Deferred Maintenance Backlog: The amount of renovation and upgrade required for the University's physical infrastructure. The repairs are serious and urgent in nature as preventive maintenance was not performed in prior years. Examples include: upgrading ventilation systems, roof replacements, and building or wall replacements.

Deficit: Also known as overdraft; the amount by which an account's expenses and transfers out exceed revenues and transfers in, resulting in a balance of less than $0.

E-Procurement: An online purchasing system which allows users to draw on various supplier catalogues that house the total inventory of goods and/or services offered by the respective suppliers.

Entrance Bursary Program: An award for students entering McGill that is granted on the basis of academic standing, community service, and demonstrated financial need.

Endowment Fund: This Fund, consisting of all gifts, donations, and bequests including those for Chairs, financial aid, and other specific purposes, is invested to earn a reasonable rate of return over time, while attempting to protect the purchasing power of the original gift. Earned income from the endowment is distributed according to University policy in effect and spent in specifically designated ways, as required by the donor.

Expenditure: The amount spent for goods delivered or services rendered, whether paid or accrued, including expenses, debt service, and capital outlays.

Expense: Charges incurred, whether paid or accrued, for operation, maintenance, interest, and other charges that are presumed to benefit the current fiscal period.

FY (Fiscal Year): Twelve consecutive months used as an accounting period. The university fiscal year is June 1 through May 31, as is the fiscal year for provincial appropriations.

Fund Balance: The difference between assets and liabilities in a fund; also defined as the cumulative results of a fund.

Gift: A resource provided by a donor who enters into the transaction voluntarily and receives nothing other than a token of appreciation in exchange for the resource he/she is providing. Contributions can have a variety of forms including, but not limited to: cash, marketable securities, tangible fixed assets, and consumable commodities. Gifts are classified according to the absence or presence of donor stipulations as unrestricted, temporarily restricted, or permanently restricted.

Grant: A monetary award, allowance or subsidy.

Indirect Costs of research: Also known as overhead. These costs are incurred for common resources and activities that cannot be attributed to a particular project or activity, making it difficult to assess

precisely which users should pay what share of the cost. Costs include items such as utilities and other plant costs, and certain general expenses that are to some degree attributable to sponsored programs.

Interfund Transfers: The reassignment of payments amongst funds. Interfund transfers are subject to certain restrictions and reporting requirements imposed by internal policies and procedures, Generally Accepted Accounting Principles (GAAP), and other prescribed sources as they apply.

Investment: Refers to an exchange of cash for a less liquid asset that is expected to increase in value beyond the initial purchase price. Investment vehicles include corporate stocks and bonds, government bonds and real estate.

McGill Adjustment: The shortfall between the amount due to McGill according to the Quebec government grant formula *(see MELS Grant)* and the actual amount awarded annually.

MELS grant: The grant from the Québec *Ministère de l'Éducation, du Loisir et du Sport*. It provides substantial per student subsidies adjusted according to a weighting process designed to address cost discrepancies depending on discipline and level of study.

Metrics: Specific indicators which help measure the quantity and quality of the University's performance in a given area.

Operating Fund: Revenue primarily from grants, tuition and fees, overhead on research grants, investment and endowment income, and annual gifts. The revenue is pooled and then allocated to units concerned with fundamental and on-going operations, dealing primarily with those activities normally associated with the University's core teaching and research. The operating fund is unrestricted and there are no external constraints as to how these funds are spent as long as the University policies and procedures are respected.

Performance Contracts: The agreements entered into between the Québec Ministère de l'Éducation in 2001. These contracts were in effect during the 3 year period of reinvestment (FY2001 to FY2003).

Plant Fund: Capital projects and assets; including those funds from Quebec capital grants, donations, and other sources.

Publicly-funded: An educational institution for which the majority of its operating funds are from the government or a government-owned agency or unit.

Re-regulation: 1) Tuition adjustments that are pre-planned and approved by provincial government and the Board of Governors. 2) An adjustment of the annual grant that provides funding for students otherwise reported by the Institution to be self-funded. Self-funded students are charged tuition fees as set by the University, which are retained by the University – no government funding is received for these students.

Resources: Assets available (actual and anticipated) for University operations; includes people, equipment, and facilities.

Resource Allocation: The process of allocating resources to units in order for them to achieve their assigned activities, absorb operating and/or facilities costs in order to achieve goals for the future.

Restricted Fund: Any fund with stipulations imposed by a sponsor or donor external to the University. A particular project or activity is specified in writing by the donor. Refers primarily to research-related funds from Canadian, Quebec, and international sources.

Retention Envelope: An allocation of financial resources, part of the annual academic salary policy, designed to increase the salary of professors recruited by other institutions.

Revenue: Income generated by the supply of goods or services by the University unit to an external customer. Some examples are: tuition and fee revenue, sales of goods and services to external entities, and earnings on investments.

Sustainability: The definition retained is from the Bruntland Report: sustainable development “meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Tenure: An appointment for an unlimited term which carries with it the right not to be dismissed except for cause; tenure can only be acquired by grant under University regulations.