



# McGill

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2008 - 2009  
**BUDGET**  
MAY 2008



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May 13<sup>th</sup>, 2008

Dear Colleagues,

I am pleased to present to you the McGill University *Budget 2008-2009*. As in previous years, this budget aims to align our financial resources to best support excellence in the achievement of McGill's academic priorities, while aiming to reduce our budgetary deficit with the objective of operating on a balanced budget by 2011.

While the present document is primarily concerned with our operating budget, we have also made considerable progress on the other components of McGill University's comprehensive financial framework, including capital budgets, endowments, and research funding. We are more able now than at any time in the recent past to support our academic priorities with a growing revenue stream. There is still much road to travel, but we are on the right path.

This past year, we committed to making progress in four important strategic planning and priority areas: (1) the transformation of the strategic goals and objectives outlined in the Provost's academic planning report, *Strengths and Ambitions*, into a plan of action; (2) the implementation of the *Administrative Response to the Final Report of the Principal's Task Force on Student Life and Learning*; (3) the adoption, and initial steps in acting on, the principles that will guide the University's *Master Plan* for our campuses and our physical footprint; and, (4) the launch and first phase of the roll-out of Campaign McGill – History in the Making, the most ambitious fund-raising effort of any Canadian university to date. I am pleased to report that we have seen dynamic progress in each of these key areas.

The overarching goal of our academic plans is to achieve and maintain the highest quality academic programs by international standards, and to support our people, all consistent with our noble mission. Framed with a focus on academic excellence and impact, one of the main directions in our strategic plan is to reinforce distinctive interdisciplinary research themes that span traditional departmental and faculty boundaries, and to link these closely to enhanced educational programs, especially but not exclusively at the graduate level. Several academic working groups have been established to support the advancement of outstanding interdisciplinary research and education. Significant proposals in support of the objectives outlined in the strategic plan have emerged and will be supported in the *Budget 2008-2009*. As interdisciplinary work must be built on high-quality and strong disciplinary foundations, active academic renewal has continued across all of McGill University's Faculties.



In close consultation with other members of the senior administration, including the Deans, the Provost and the Deputy Provost prepared a two-part response to the *Final Report of the Principal's Task Force on Student Life and Learning*. The preliminary response was submitted to the community in the winter term of 2007, and a final, more detailed response was delivered in early December 2007. The final Administrative Response addressed, among other things, processes and timelines for implementation of the recommendations of the Principal's Task Force, the costs associated with implementation, and mechanisms for evaluating the University's progress.

Our goal is clear: to provide students with the support and opportunities they need to achieve their full potential while at McGill, and to ensure that all members of the community contribute to the achievement of this goal. Several initiatives within faculties and other support services will receive new resources in FY2009, or will see an infusion of resources based on a reallocation exercise that has been required of all units this year. Progress, in the form of a *Report Card*, will be submitted annually to the Senate and the Board of Governors, the University's governing bodies.

While financial leadership and technical support on budget-related financial and accounting matters come from the Office of the Vice-Principal (Administration and Finance), FY 2009 will mark the second year in which the Office of the Provost has had full responsibility for managing the budget and for resource allocations. McGill University's new integrated planning process emphasizes transparency, predictability, accountability, and effectiveness.

McGill's most valuable assets are the people who work and study here. We have designed a budget strategy that recognizes the central importance of our people, and aims to promote and enhance a thriving intellectual environment. Academic renewal, and the significant investment required to recruit, develop, and retain outstanding faculty members, who are at the core of the university's mission of excellence in teaching and research, remains one of our highest priorities. Since its initiation in FY2001, McGill's aggressive academic renewal program for tenure-track academics has led to approximately 800 superbly qualified new faculty members coming to McGill's campuses and affiliated teaching hospitals. They represent the key factor in the University's drive for excellence in research and teaching. The benefits to the University of this revitalization have been substantial, but additional salary costs have had a negative impact on the bottom line in the short term. In addition to growing competitive pressure on salaries, one reason for this impact is that retirements of members of the academic staff have come at a slower pace than anticipated.

This past year the management of the faculty complement has improved, with new recruitments directly tied to actual, rather than anticipated, retirements. It is, however, very clear that in order to remain internationally competitive, McGill must continue to attract and retain top academic talent to the University and to our broader academic health network.

Current spending projections indicate that we will close FY2008 with a deficit of \$16.9M, above the \$15.4M forecast and approved by the Board of Governors. This variance is due in part to unanticipated and one-time-only expenses, including an additional \$1.2M for energy costs and \$1.8M more than allocated for faculty operations, which offset increases on the revenue side. For FY2009, we propose to reduce the deficit to \$10M, moving us closer to balancing our operating budget by the end of FY2011.

Given the current Quebec context of under-funding in comparison to peers in Canada, we have no choice but to find additional efficiencies in the delivery of administrative and academic programs, and in the provision of services, through a deliberate and targeted reduction in expenses within faculties and administrative and support units, if we are to achieve a balanced budget within this timeframe. Not only will these planned and managed reductions contribute to our ability to meet the deficit target, they will enable the support of a priorities pool informed by the University's strategic plan. We will continue to advance initiatives reflecting academic excellence, consistent with the strategic plan and priorities, the *Administrative Response to the Principal's Task Force on Student Life and Learning*, and the principles identified in the University's *Master Plan* for the physical development of our campuses, while supporting those initiatives that will contribute to the success of Campaign McGill and our government advocacy efforts.

A major new initiative is the enhancement of graduate student funding to attract and retain the best among an already impressive group of applicants and registrants. We continue to advocate with all levels of government for a public policy framework for post-secondary education that will see increased levels of tuition, and a re-regulation of fees for international undergraduate students, both coupled with additional commitments to needs-based student support. This tuition model has been widely adopted by peer universities across Canada.

Federally, and with industry, we will press strongly for full funding of the costs of research, or accountable research cost recovery. At approximately 22% of indirect costs, McGill's current level of recovery in relation to federally-supported research falls far short of the true costs incurred in supporting research at our institution, and is much lower than the level of support for full research costs recognized by Quebec.

I am happy to report some positive results of our efforts to enhance funding from both Québec and the federal government. Following tabling of the latest budget in Quebec's National Assembly, we are engaged in discussions with the *Ministère de l'Éducation, du Loisir et du Sport* (MELS) to determine a mechanism for the distribution among the entire system of universities of an additional \$53M per year for the next five years. Though we will not be in a position to incorporate our portion of this newly announced tranche of funding into our permanent expense budget until the government confirms its intention to make these amounts recurring, we are working to align the uses for which the new money currently available is earmarked with our priority needs. While \$16M of the social transfer from Ottawa was allocated to McGill, \$10M had already been included in our preliminary budget forecasts for FY2009. We will soon know how much, if any, of our portion of the additional \$53M allocated to universities in the latest Quebec budget can be used to reduce further any proposed deficit for FY2009, and how much might be used to support our priorities.

This budget for FY2009 is prudent, but will nonetheless allow us to continue building academic excellence and impact, and supporting our academic priorities in a financially responsible way. Over the course of the coming year, we will further advance the execution of the range of strategic planning initiatives, including the development of our academic plans, the implementation of the recommendations of the *Principal's Task Force on Student Life and Learning*, the next steps under our *Master Plan*, and complete the successful roll-out of Campaign McGill.

I am deeply grateful to the Provost, our team of colleagues and to the Board of Governors for their superb and tireless work on behalf of McGill and for their unwavering support of our mission of excellence. Finally, I offer my thanks to all at McGill – faculty, staff, students, deans, members of the executive team, alumni and members of our governing bodies – whose hard work and high standards ensure McGill University's continuing legacy as a site of excellence, innovation and success in teaching and research.

Sincerely,

A handwritten signature in black ink, appearing to read 'H. Blum', with a stylized, flowing script.

Professor Heather Munroe-Blum

## Table of contents

Introductory letter from the Principal	
Executive Summary .....	iii
1. Resource allocation and budget process .....	1
Components of McGill's budget .....	1
The process.....	1
2. Resource allocation and budget strategy.....	2
3. Design of the FY2009 budget and update of multi-year plan.....	2
4. Operating Revenues: Principles, assumptions and distribution .....	6
a. Student enrolments and the MELS operating grant .....	6
b. Tuition and other student charges .....	7
c. Research revenues .....	8
d. Development and alumni relations.....	9
e. Ancillary revenues.....	10
5. Operating Expenditures: Principles, assumptions and distribution .....	10
Alignment of resources to University priorities .....	11
a. Graduate student enhancement funds.....	11
b. Enhance learning .....	12
c. Retain high-calibre academic staff .....	13
d. Ensuring efficient administrative support .....	14
e. Maintain and upgrade facilities and campus infrastructures .....	15
6. Capital Fund .....	16
7. Restricted Fund .....	18
8. Endowment Fund .....	20
9. Conclusion .....	20
Glossary of Terms .....	22

We would like to thank Professor William Watson, Chair of the Department of Economics, for reviewing and editing this document.

## Index of Figures

<i>Figure 1: Accumulated Operating Deficits of Quebec Universities (Actual - May 2007)</i> .....	2
<i>Figure 2: Budget Operating Revenue - FY2009 (thousands) \$592,125</i> .....	6
<i>Figure 3: Provincial Granting Agencies (FY2006 - FY2007) and</i>	
<i>Figure 4: Tri-Council Total Amount of Funding (FY2006 - FY 2007)</i> .....	9
<i>Figure 5: Budget Operating Expenses (by unit) - FY2009 (thousands) \$602,228</i> .....	10
<i>Figure 6: Summary of Core Spending</i> .....	11
<i>Figure 7: Academic Renewal (FY2000 - FY 2012)</i> .....	13
<i>Figure 8: Tenure-Track Staff (FY2003 - FY2012)</i> .....	13
<i>Figure 9: Administrative &amp; Support Staff (by type)</i> .....	15
<i>Figure 10: Total Budget Expenses - FY2009 (thousands) \$1,029,988</i> .....	20
<i>Figure 11: Total Budget Revenue - FY2009 (thousands) \$1,036,776</i> .....	21

## Index of Tables

<i>Table 1: Multi-Year Operating Budget</i> .....	4
<i>Table 2: Projected changes in total enrolments (%)</i> .....	7
<i>Table 3: MELS “forfaitaires” increases</i> .....	8
<i>Table 4: Capital Budget</i> .....	18
<i>Table 5: Research Revenues</i> .....	19

## **Executive Summary**

McGill University has made considerable progress since the early part of this decade, and as we move forward we must ensure that our budget consolidates and builds on these efforts. The most important investment in our future has been an aggressive academic renewal plan, allowing the University to recruit, develop, and retain a remarkable number of new tenure-track academics. While the impetus for this recruitment came from 2001-2003 Quebec government reinvestment based on performance contracts with universities, McGill has also benefited from a sizeable number of Canada Research Chairs (CRC) funded by the federal government, increased endowments for named chairs, and by dedicating operating funds to renewal. These influxes of new academic talent have revitalized McGill's integrated teaching and research programs and increased our ability to generate outside revenues. The proposed budget for fiscal year 2008-2009 (FY2009) aims to sustain these investments in the University's human and physical infrastructure. A key element is to focus additional resources on steadily increasing the number and quality of our graduate students. Within the constraints imposed by the financial realities of the Quebec funding model, we must invest in financial support packages for graduate education to a level comparable to our peer institutions in North America.

Continued investments in our professors, academic support personnel, and in our graduate students will enable McGill University to increase research productivity and, owing to our emphasis on research intensity and a renewed commitment to a student-centred culture, to enhance the overall teaching and learning experience of undergraduate students in our academic and professional programs. The proposed budget, however, is designed to keep a responsible balance between the cost of these investments and the available resources. In obtaining approval for multi-year financial plans, the administration indicated that expenditures would exceed revenues in the short to medium term, but we would achieve a balanced budget over the longer term. For the most part, these deficits were forecast, approved, and not exceeded. Shortfalls in excess of projections have been the result of unrealised retirement expectations, underfunding in the Quebec education system, and of one-time-only expenses that could not be put off. We remain convinced that we will be able to honour our commitment to both McGill University's Board of Governors and to the Ministère d'Éducation, Loisirs, et Sport (MELS) that we will operate with a balanced budget by FY2011.

McGill's projected deficit of \$16.9M for FY2008 will exceed the proposed and budgeted deficit of \$15.4M due primarily to one-time-only costs. Nonetheless, reinvestments on the part of both the Federal and Provincial governments, in addition, to some significant reductions in permanent expenses, will allow us to reduce our planned budget deficit in FY2009 to \$10M. This downward trend will lead us to a balanced position by FY2011, as noted above. While, as one would expect, we have increased support staff and services as a function of academic hires, it will be increasingly difficult to retain top academic talent and highly qualified personnel in support roles without substantial, and highly anticipated, new reinvestments by the Province, re-regulation and liberation of tuition fees, and developing new revenue sources. The Province has announced \$25M per year for the next 5 years to be dedicated to reducing deferred maintenance backlogs. Although this level of investment is significant compared to the prior years, it will still not allow us to fully address McGill University's deferred maintenance project list. In



the medium to long term, we must continue to find ways to allocate a portion of our overall revenues to this cause, including some contribution from the operating fund.

The development of our budget process depends in part on the senior administrative team, including Deans, working in concert to develop and lobby for public policy changes. One such area of strategic importance to McGill is to encourage the Federal government to increase its contribution to cover the institutional (or indirect) cost of research (ICR) by the federal government. The current level of funding by Ottawa for ICR is only slightly above half of the estimated minimum, approximately 20% as compared to required 40%. Given McGill's investments in academic staff and graduate students, we expect research output to increase above current levels in absolute terms and for the budget for FY09 we have counted on our relative share of the Tri-Council funding agencies grants also to go up. We further anticipate renewed success in the upcoming Canadian Foundation for Innovation (CFI) Round 6 competition, as well as that for the special Research Hospital Fund for the MUHC that is so vital to building and sustaining McGill's Academic Health Network. This will put pressure on the required funding of ICR that will necessarily be incurred. Some of our additional expenses, therefore, are in anticipation of a significant federal reinvestment in ICR.

Three principles, outlined in previous budget proposals, continued to guide budget preparation for FY2009:

- 1) allocations must help us to achieve our top academic objectives;
- 2) allocations must provide a clear and accountable picture of how goals will be realised;
- 3) metrics must be in place 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 account already existing commitments, allocations were made to support the following activities:

- (a) academic renewal
- (b) graduate student funding
- (c) student life and learning
- (d) the Master Plan
- (e) Campaign McGill
- (f) sustainability and environmental responsibility
- (g) staff development
- (h) effective organisational practices.

McGill's overall budget framework 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 the Operating fund for FY2009, which is the primary focus of this report, calls for a deficit of approximately \$10M on total operating revenues expected to be \$604M. It must be remembered that some of the other funds provide resources that alleviate pressure on the Operating fund: Canada Research Chairs salaries, for example, reside in the Restricted fund, some Plant or capital funds are used to help set up new professors, and the Endowment fund distributes restricted income which is used to pay academic salaries, student assistance and other costs that might otherwise have to be incurred by the Operating fund.

## 1. Resource allocation and budget process

As in previous years, McGill University's budgeting and **resource allocation**<sup>1</sup> operate within the framework of a multi-year cycle that respects its strategic goals and plans, which have been formalised and presented to Senate and the Board in three documents: a white paper call to action entitled *Strengths and Ambitions*, the final report of the *Principal's Task Force on Student Life and Learning* (together with the administrative response), and the *Master Plan* establishing principles for the development of our campuses.

The University's **Budget** tries to accomplish three objectives simultaneously: align resources with priorities, provide transparency for decision-makers and others, and enable accountability both within and outside the University. It also illustrates the ways in which McGill will ensure that resources continue to be aligned with priorities, will simplify and clarify its budget categories, and will measure success in achieving academic goals, all while remaining fiscally responsible and moving to a balanced budget over the next three years.

### *Components of McGill's budget*

As noted above, the University's budget is comprised of four funds: **operating**, **restricted**, **capital**, and **endowment**. The first two funds deal with all of those activities normally associated with the University's core teaching and research activities. The primary difference between them is that received with specific restrictions on their use (e.g., research **grants**) must be recorded in the restricted fund. Of course, the associated **expenditures** must also be recorded separately to facilitate tracking and reporting. The capital fund records all **revenues** from sources other than operating or restricted funds that are specifically earmarked for the acquisition, construction or renovation of capital **assets**. The 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 named chairs, financial aid, and other specific purposes for which the capital has been endowed.

### *The process*

For **FY2009**, budgeting began by estimating total revenues and projecting confirmed **expenses**, including a priority pool representing amounts available for reallocation.

A "broad-strokes" picture of the University's budget planning considerations was presented to the University Senate twice in 2007-2008, and the budget was discussed with the Board of Governors, both at the Finance Committee and before the full Board. The budget is developed with individual Faculties in the form of agreements or "compacts." Budget recommendations for administrative units are made jointly to the Principal and Provost for deliberation and are then iterated 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 then formally presented to the Finance Committee of the Board of Governors for discussion and recommendation for approval by the whole Board. Once the Board approves the budget, confirmed compacts are sent to the Deans and the Vice-Principals. This normally occurs prior to 1 June, the official starting date of the new fiscal year.

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<sup>1</sup> Note: items in bold are defined in the Glossary of Terms on page 22.

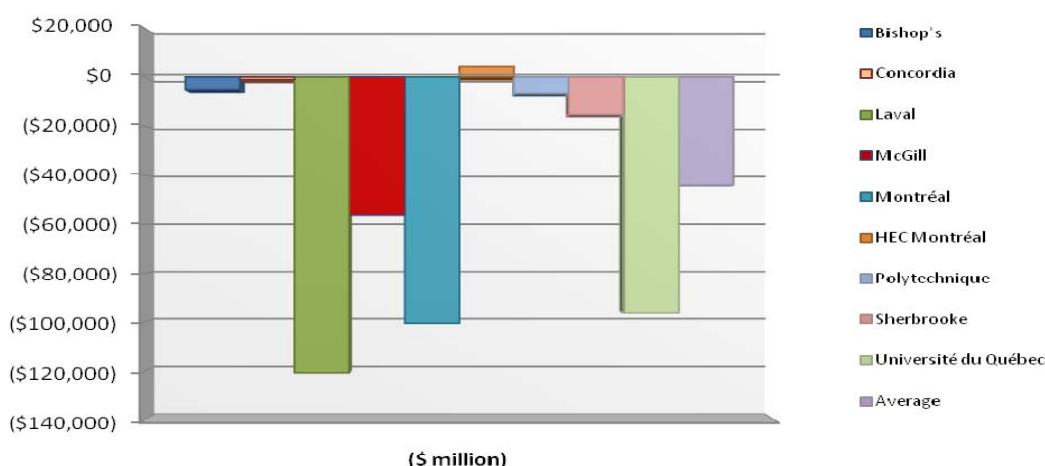
## 2. Resource allocation and budget strategy

The budget strategy embodied in this document 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 aiming toward multi-year goals. McGill continues to focus on attracting, retaining and eventually graduating the highest calibre undergraduate, professional and graduate students. 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. The University's most valuable assets are the people who work and study here. In a very real sense, they are the University. Our budget strategy recognises the importance of people and is designed to promote and enhance a thriving intellectual environment. 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** and environmental responsibility, to incorporate these principles into our approaches to teaching, research and administration and to become a leader in this area.

## 3. Design of the FY2009 budget and update of multi-year plan

The goals of quality, excellence, and accessibility that figure so prominently in our multi-year plan do not come cheap. Moreover, the current fiscal context requires finding even greater efficiencies in the delivery of academic programs and the provision of services. McGill operates within the context of a relatively underfunded Quebec system of universities. A shortfall of revenues, combined with insufficient government reinvestment, has resulted in accumulated operating debts at all of the major research universities in Quebec, as illustrated in *Figure 1* below.

**Figure 1: Accumulated Operating Deficits of Quebec Universities (Actual - May 2007)**



McGill's **accumulated operating debt** at May 2007 represented 17.9% of our current MELS (Ministère de l'Éducation, du Loisir et du Sport) grant. The average debt ratio over the entire

Quebec system stands at 17.2%. It is reduced somewhat by those universities that are not research intensive or do not have medical faculties. While our accumulated operating debt is expected to continue to increase for the next two years, it will remain in line with those of the other research-intensive Quebec universities. Of course, given our research performance and our level of philanthropic support, our overall deficit and debt situations are much healthier than that of other universities in the Quebec system.

McGill cannot continue to deficit-finance its teaching and research activities. The University's administration is bound by an obligation to the Board of Governors, to the McGill community, and to the public to be held accountable for the way in which we finance and operate the University. We intend over the next two years to move our economic and fiscal outlook from a **deficit** to a sustainably balanced budget. In order to achieve such sustainability, starting in FY2009 and continuing thereafter, we plan to build into longer-term compacts with Faculties ways and means for repaying the accumulated operating deficit. This is both a requirement imposed by MELS to secure the last instalment of our annual operating grant in December 2007 and a commitment made to the Board of Governors. These plans will naturally have to be reassessed in light of the funding situation of all universities in the Quebec system.

Strategies have been put into place to facilitate the repayment of the accumulated deficit, including:

- developing additional revenues via enhanced recruitment of undergraduate students in targeted programs and graduate students especially in research programs
- **re-regulation** of public policy related to fiscal constraints, including major reinvestments by the provincial government to address system underfunding
- working for a public policy framework for post-secondary education that increases tuition and re-regulates fees for international undergraduate students
- linking replacements to **actual**, and not anticipated retirements
- reducing expenses within the Faculties and the administrative and support units in a careful and targeted way
- re-allocating significant permanent budget to advance initiatives consistent with and informed by the strategic plan and priorities.

Balancing the budget is an important priority and we will achieve it. But in order to ensure that McGill continues to be a leading research university and one of Canada's and the world's most highly regarded institutions of higher learning, we must also continue to support the following on-going commitments:

- **academic renewal**, encompassing aggressive recruitment, start-up support, and retention
- improved funding packages for graduate students
- implementation of key recommendations of the *Principal's Task Force on Student Life and Learning*, as indicated in the final administrative response
- financial requirements to redress part of the shortfall from the last round of CFI competitions for new research infrastructure
- important priorities that must be addressed to fulfil contractual and other collegial obligations.

The multi-year plan for the operating fund is shown in *Table 1* on page 4.

**Table 1: Multi-Year Operating Budget**

\$ (000)	Actual 2006-07	Forecast 2007-08	Budget 2008-09	Outlook			
	2009-10	2010-11	2011-12	2012-13			
<b><u>Revenues</u></b>							
MELS - operating grant	267,021	275,611	292,317	306,776	319,215	333,451	342,864
Federal indirect costs of research grant	18,271	19,137	22,443	24,716	27,097	28,226	29,355
Tuition and student charges	132,624	141,795	151,320	159,022	166,179	172,487	179,267
Sale of goods and services	16,440	14,611	11,927	12,166	12,409	12,657	12,910
Gifts and bequests	4,747	4,500	4,500	4,000	4,000	4,000	4,000
Short-term investment income	8,825	7,079	5,616	4,944	6,503	6,433	6,886
Endowment investment income	10,836	9,387	9,762	10,670	11,468	12,311	13,202
<b>Total operating revenues:</b>	<b>458,764</b>	<b>472,120</b>	<b>497,886</b>	<b>522,293</b>	<b>546,870</b>	<b>569,565</b>	<b>588,484</b>
<b><u>Expenses</u></b>							
Faculties (Including academic renewal)	268,984	285,471	297,434	308,467	319,047	334,381	348,026
Academic services	61,363	62,862	62,255	64,113	64,988	65,883	67,796
Support services							
- Administrative units	48,002	55,227	53,675	55,059	56,460	58,880	61,316
- Interest and other financial expenses	9,481	6,857	3,604	3,640	5,645	6,084	5,036
- Facilities	48,521	46,352	48,429	49,344	50,267	51,199	52,140
- DAUR	16,252	15,614	15,352	15,558	15,768	15,982	16,200
Institutional expenses	11,438	14,825	15,307	15,292	15,545	15,726	15,910
Student assistance	4,103	6,065	10,772	15,272	19,772	19,772	19,772
Contingency		0	3,000	3,000	3,000	3,000	3,000
<b>Total operating expenses:</b>	<b>468,144</b>	<b>493,273</b>	<b>509,828</b>	<b>529,744</b>	<b>550,492</b>	<b>570,907</b>	<b>589,197</b>
<b>Operating surplus (deficit) before self-financing activities:</b>	<b>(9,380)</b>	<b>(21,152)</b>	<b>(11,942)</b>	<b>(7,452)</b>	<b>(3,622)</b>	<b>(1,342)</b>	<b>(713)</b>
<b><u>Self-financing activities</u></b>							
<b><u>Revenues</u></b>							
Teaching, Research and Support	2,190	5,534	3,700	3,774	3,849	3,926	4,005
Services to the community	18,986	17,533	17,212	17,555	17,905	18,262	18,627
Student Services	16,806	17,850	19,544	20,469	21,443	22,470	23,551
Ancillary services	48,399	50,299	53,783	54,859	55,956	57,075	58,216
	86,381	91,216	94,239	96,657	99,154	101,734	104,399
<b><u>Expenses</u></b>							
Teaching, Research and Support	5,685	5,463	4,080	4,162	4,245	4,330	4,416
Services to the community	17,699	17,730	16,979	17,152	17,329	17,509	17,509
Student Services	16,789	17,702	20,193	20,605	21,577	22,581	23,619
Ancillary services	45,245	48,090	51,148	52,171	53,214	54,279	55,364
	85,418	88,985	92,400	94,089	96,365	98,698	100,909
<b>Net contribution from self-financing activities:</b>	<b>963</b>	<b>2,232</b>	<b>1,839</b>	<b>2,567</b>	<b>2,789</b>	<b>3,035</b>	<b>3,491</b>
Unrealized gains (losses) on marketable securities	7,426						
<b><u>Inter-fund transfers</u></b>							
Unrealized gains (losses) on marketable securities	(7,426)						
Self-financing activities	5,004	0	0	0	0	0	0
Operations	(15,179)	0	0	0	0	0	0
Endowments	2,000	2,000	0	0	0	0	0
<b>Total inter-fund transfers:</b>	<b>(15,601)</b>	<b>2,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Decrease (Increase) in accumulated deficit :</b>	<b>(16,592)</b>	<b>(16,921)</b>	<b>(10,103)</b>	<b>(4,884)</b>	<b>(832)</b>	<b>1,693</b>	<b>2,778</b>
Deficit, beginning of year	(41,375)	(57,966)	(74,887)	(84,990)	(89,874)	(90,707)	(89,014)
Deficit, end of year	(57,967)	(74,887)	(84,990)	(89,874)	(90,707)	(89,014)	(86,236)

In FY2007, McGill incurred a \$16.6M deficit. Our current estimate for FY2008 is that the deficit will be approximately \$16.9M, which is above the budgeted \$15.4M deficit. In part, this variance is due to unanticipated one-time-only expenses, including an additional \$1.2M for energy costs and \$1.8M for faculty operations, which together more than offset unanticipated increases on the revenue side.

Based on the best available data regarding how the Province of Quebec will handle transfers to universities and allow for increases in tuition fees, the projection for FY2009 is that our proposed operating budget will reduce the deficit, thus moving the University closer to balancing its operating budget by the end of FY2011.

McGill's senior administration continues to work with all levels of government to 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 a firm commitment 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 and advance excellence, to allow for balanced annual budgets, and to gradually reduce universities' accumulated operating debts. McGill remains committed to the principle that in order not to adversely affect accessibility, tuition increases will be accompanied by increases in student financial aid.

Under the assumptions for revenues and expenditures presented in this budget, McGill's overall accumulated operating debt is forecast to be approximately \$71M by 31 May 2009. The key determinants of this projection, all of which will be monitored carefully, are:

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

The MELS FY2009 budget envelope includes an additional \$112M to Quebec universities in federal social transfers. Of this, approximately \$73.5M is to be directed to teaching activities by way of an increase in the per student unit amount. McGill's operating revenues should benefit by about \$10.2M. Additional sums will also be allocated from the remaining \$38.5M though details on the exact distribution are still pending. It is expected that most of this amount will be targeted to specific activities, such as hiring of tenure-track academics in Engineering and Management, increased student mobility, teacher training initiatives, and programs that enhance the preparation and training of immigrant/foreign trained professionals.

The MELS recently announced a further injection of \$53Million per year for the next five years for the entire Quebec university system. Because discussions with the Province regarding distribution of this additional funding are still at a relatively preliminary stage, we have not incorporated any of this funding into our permanent expense budget and will not do so unless the government confirms its intention to make these amounts recurrent. There does appear to be some significant ear-marking for the use of this new money so we do not know how much of it, if any, can be used to reduce the proposed FY2009 deficit.

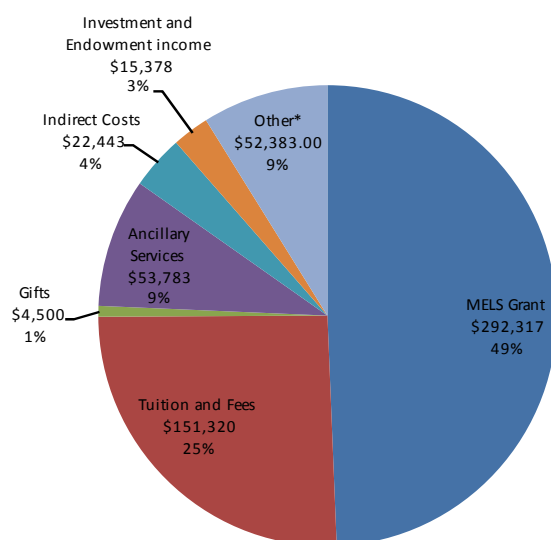
All budgets and the resource allocations they effect are based on key assumptions regarding the political, institutional and financial context in which they will be implemented. The following sections present the key principles and significant assumptions underlying operating revenues and expenditures in FY2009.



#### 4. Operating Revenues: Principles, assumptions and distribution

In our current environment, as *Figure 2* shows, our key revenue sources are; the MELS operating grant (49%); tuition and fees (25%); the sale of ancillary services (9%); federal and provincial grants covering the indirect costs of research (4%); investment and endowment income (3%); gifts (1%) and “Other” (9%), which includes sales of goods and services, self-funded activities, services to the community, and some student services. For FY2009 these provide projected total revenue of \$592.1 million, an increase of 5.1% compared to the forecast for FY2008.

**Figure 2: Budget Operating Revenue - FY2009 (thousands) \$592,125**



\* Other includes: Sales of goods and services, self-funded activities, services to the community, student services.

##### a. *Student enrolments and the MELS operating grant*

The MELS operating grant and tuition and fees account for almost 75% of our total operating revenues. For the purposes of the FY2009 budget exercise, we assume the “grille de pondération” (the cost-factor weighted grid, based on student enrolments in programs) remains unchanged and that no additional reinvestment is forthcoming from the province in FY2010 and beyond.

As of October 2007, 56.1% of our undergraduate students originated from Quebec, 27.1% from other parts of Canada and 17.1% from outside Canada. Over the next five years we project no change in our overall ability to attract, enrol, and retain undergraduate students and we plan for a moderate 2-3% rise in total enrolment over the next three years to FY2012. These increases will be targeted to specific programs as determined by their capacity for growth.

Contrary to our projection of slight and targeted increases in undergraduate numbers, but consistent with our strategic plan, we anticipate substantial increases in enrolment in our graduate

research programs. Recruitment initiatives to help bring this about were put in place during FY2008 and will be followed up in the coming years. The table highlights the expected changes:

**Table 2: Projected changes in total enrolments (%)**

		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Undergraduate		1.8	1	.75	.5	.5
Graduate	Masters	2	2.5	2.5	2	2
	PhD	5	4	4	3	3

More specifically, we are projecting increases of 4 to 5% in Master's enrolments and 5 to 10% in PhD enrolment over the next two years.

**b. Tuition and other student charges**

To secure our medium to long-term financial position, McGill and the entire Quebec university network must be allowed to re-regulate tuition fees and reverse the trend of declining accessibility and quality in the province's post-secondary education system. McGill is committed to re-invest 30% of the resulting new net revenues in need-based student aid.

Average tuition at McGill's non-Quebec Canadian peer institutions has now reached approximately \$4,500. In comparison, the Quebec average tuition expected at the end of FY2008 is estimated at \$1,768 per student FTE. Assuming that there would be no claw-back of support for the Province if tuition were to increase to the average Canadian level, for McGill, this represents as much as a \$55M shortfall in net revenues each and every year as compared to our Canadian peer institutions.

Even if we were able to operate at levels comparable to our Canadian peers, our total operating revenue per student would still only reach \$28,000, far below the CAD \$65,000 per student FTE 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).

Our operating assumption is that the net revenue from basic tuition fees will increase by \$75 per year to FY2012. (The reason it does not increase by the full \$100/yr the government is allowing is that \$25/year of total billing will be directed at student aid). This assumes further, of course, as noted above that the government does not use tuition increases to displace its current levels of investment.

Because a revision of government policy regarding re-regulation of international fees is still underway, we assume international undergraduate fees remain constant. Consistent with MELS' announced policies regarding MELS **forfaitaires** (see Table 3). We are working under the assumption that there will be increases ranging from 6% - 8% each year over the next three years on the international supplement. The impact on McGill tuition is yet to be finalised as a result of government policies to be announced over the summer.

**Table 3: MELS “forfaitaires” increases**

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Out-of province supplement	8%	8%	8%	8%	8%
International supplement	6%	7%	8%	5%	5%

McGill currently operates with the principle that 30% of any total net increase in fees is redirected to student support.

c. **Research revenues**

Research funds are 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 research activities of our professors generate additional income to support the direct operating expenses incurred in the production of new knowledge. One of the most significant contributions to McGill’s academic renewal envelope comes from the Canada Research Chair program which now provides approximately 160 tenure-track professorial positions at McGill.

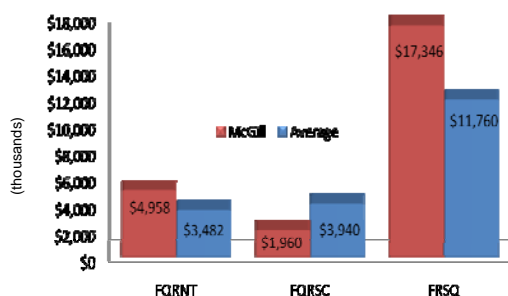
Both the federal and provincial governments recognize the need to support the hidden or "indirect" costs of administering and managing top-notch research activities that cannot always be directly attributed to a specific research project, such as maintaining and heating buildings and providing a large array of services. Research contracts and grants generally involve some compensation to the University for the increased operating costs it incurs in conjunction with research.

The MELS compensates the University in the amount of 50-65%, depending on the type of research conducted, of total research revenues from grants paid by its accredited agencies: Fonds de recherche en santé du Québec (FRSQ), Fonds québécois de la recherche sur la nature et les technologies (FQRNT) and Fonds québécois de la société et la culture (FQRSC). This funding is paid via the **MELS grant** and included in the operating budgets of the University.

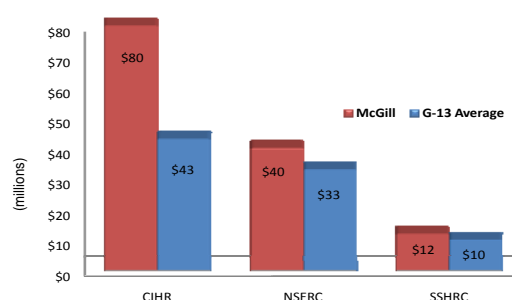
The federal government also provides support for the indirect costs of the research its agencies fund. The support we receive runs to about 22% of the funds we receive in Tri-Council grants. (The three granting agencies known as the Tri-Council are the Canadian Institutes of Health Research (CIHR), the Natural Sciences and Engineering Research Council (NSERC), and the Social Sciences and Humanities Research Council (SSHRC).) McGill shares this income with the faculties that generate it, with 25% going to the faculty and 75% being retained to absorb institutional costs. Unfortunately, the current rate of 22% does not cover the full costs incurred supporting research at our institution. We will continue to urge the federal government to provide full funding of the indirect costs of research.

For budget purposes, we are assuming that although the total federal envelope available for indirect cost support is only expected to increase by \$15 million annually McGill's share will increase to 9% in FY2009 (vs. 8% in FY2008) with an additional 0.5% increase in each of fiscal years FY2010 and FY2011. We are assuming that the investments made in recent years to attract high-quality researchers to McGill will result in greater grant success, which in turn will generate more indirect support for research.

**Figure 3: Provincial Granting Agencies (FY2006 - FY2007)**



**Figure 4: Tri-Council Total Amount of Funding (FY2006 - FY 2007)**



Room to increase our Canadian government research funding does exist. *Figure 3* and *Figure 4* show that in some areas McGill's funding is less than the average of the G-13 Universities. Accordingly, the Office of the Vice-Principal, Research and International Relations is working closely with the Provost and the Deans of the Faculties to identify ways to strengthen our grant submissions in order to improve success rates and increase the proportion of funding secured by McGill.

#### d. *Development and alumni relations*

The comprehensive fundraising campaign launched in October 2007 is expected to generate \$750M, with an ongoing goal of \$100M minimum in annual giving thereafter. After extensive consultations within the University it was decided new funds will support the following academic priorities:

- graduate fellowships
- undergraduate aid and scholarships
- undergraduate student counselling and life experience
- chairs and professorships
- academic and research infrastructure
- program support
- Montreal Neurological Institute
- emerging priorities.

We assume that as the McGill Campaign continues, funding from endowed gifts will expand at the rate of 7 to 15% per year. The exact breakdown of endowed gifts depends on the type of gifts

received in any one year, (i.e., whether they are direct-funded or endowed). We expect the endowment to grow primarily from gifts relating to fellowships, scholarships, chairs and professorships, and some research related projects.

In addition to the growth in endowment capital, we expect an increase in investment income of 2% in FY2009 and 3% from FY2010 through FY2013.

#### e. *Ancillary revenues*

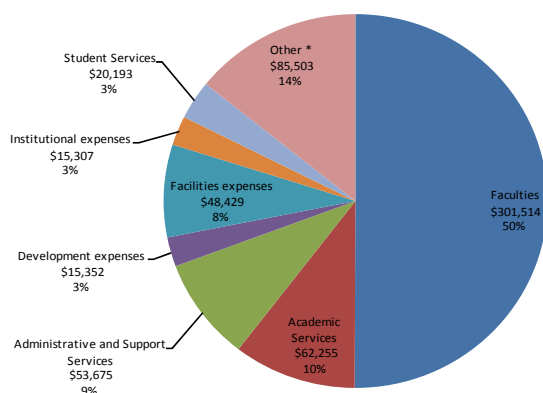
The University continues to count on funds being contributed to the operating budget from ancillary operations (other than residences) and that there are other revenues generated to make similar contributions. The other self-funded units, such as those under the Student Services umbrella and those providing community services are expected to be in a balanced position and therefore to make no net contribution to the budget.

Our operating assumption is that an overall 2% increase of both ancillary and student revenues will be used offset increases in associated expenses. The self-funded units are expected to continue investing in academic activities and reducing prior year **fund balances**.

## 5. Operating Expenditures: Principles, assumptions and distribution

The planned distribution of operating revenues to various units is illustrated by the *Figure 5*. Most operating expenses are for the compensation of existing staff and new hires, including the incidental costs of investing in the new hires, such as recruitment costs and operating support costs.

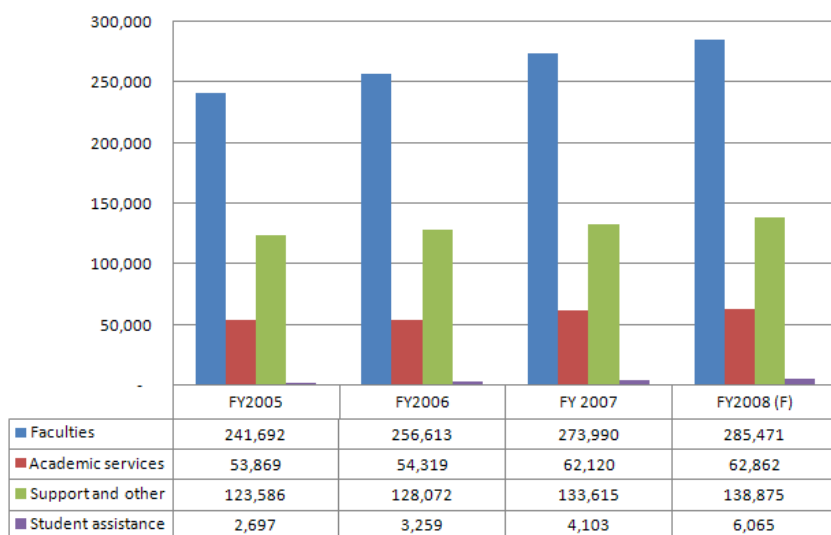
**Figure 5: Budget Operating Expenses (by unit) - FY2009 (thousands) \$602,228**



\* Other includes: Financial expenses, university contingency, ancillary service, service to the community, student assistance.

Overall, FY2009 operating expenses are budgeted to increase by 3.4%, with the largest portion of the reinvestment being made in the various faculties. In contrast, there is no significant change in the administrative or academic services as can be seen in *Figure 6*. Over the last four years, operating expenses directly incurred by faculties have risen from \$241.7 to \$285.5M (18%), reflecting the consistent investment in renewal. They are budgeted to increase to \$ 297.4M in FY2009.

**Figure 6: Summary of Core Spending**



In order to manage the deficit, we must impose some spending restraints even as our revenues continue to grow. The FY2009 budget includes a 3% reduction in expenses to both academic and non-academic units operating budgets. These cuts will allow us to meet our target of a \$10M deficit and to simultaneously to create a priorities fund for allocation to selected initiatives that are in line with the strategic priorities.

### ***Alignment of resources to University priorities***

The FY2009 budget is in keeping with the following strategic goals:

- facilitate recruitment of research graduate students
- continue to enhance the student learning environment
- retain high-calibre full-time academic staff members
- ensuring efficient administrative support
- upgrade and maintain facilities and campus infrastructures.

#### ***a. Graduate student enhancement funds***

As outlined in the white paper “McGill University Strengths and Aspirations”, the University will continue to enhance graduate enrolment through various initiatives. The competition for graduate students is fierce. Achieving the goals of increasing quality graduate student enrolment involves several objectives for FY2009:



- making graduate student support packages more competitive
- providing adequate space for increased graduate student research, scholarship, and teaching
- assuring adequate professorial numbers for increased graduate student supervision
- enforcing times to completion commensurate within disciplinary norms

During the last year, the University provided roughly \$1.5M in new funding for McGill International Doctoral Awards to ensure that all international doctoral students whose fees are not already being paid directly by an external government agency or corporate sponsor pay the same tuition as Canadian and Quebec doctoral students. Existing endowed awards, and the new McGill Principal's Graduate Fellowships produce an additional \$5.3M to help the Faculties attract and keep the very best research Master's and Doctoral students, both domestic and international. Beyond that we have budgeted an additional \$4.5 million to the Faculties through the Graduate Enrolment and Recruitment Initiative (GERI), which will provide more financial support for graduate students in the form of the new Provost's Graduate Fellowships, which are specifically targeted for 2008-2009 recruitment.

Our **operating assumption** is that the frontloaded investments of funds to facilitate graduate recruitment will result in an increase in the MELS grant for graduate students. Future revenue increases resulting from increases in graduate enrolment will be dedicated to specific priorities.

#### b. *Enhance learning*

McGill prides itself in being a student-centred institution. Initiatives to enhance the student's learning environment are never-ending. As a matter of public record, this administration has committed to the **"Entrance Bursary Program"**, established in 2006. It was a first step toward achieving this objective; it will again be continued in FY2009.

In order to enhance the institutional learning environment, we are continuing to improve our information systems and technology infrastructure to facilitate effective data-gathering, reporting, and analyses. The final priority area for FY2009 will be to move McGill along the path to a more fully integrated and professional set of academic and support services.

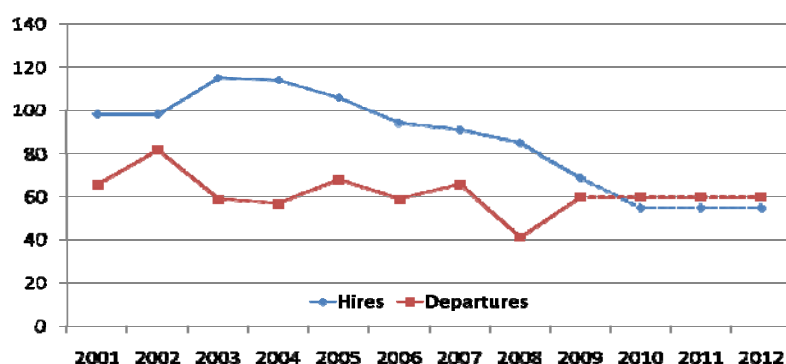
Beginning in FY2004, the University established the investment in its libraries as a high priority, one it has continued annually in order to enhance the quality and availability of library resources and services to all users. Over the last four years the increased expenditure of \$1M per annum has resulted in an expansion of physical collections to over 6 million items. Additional investments resulted in the growth of e-journals to 38,000 uniquely held titles. In the case of 8,300 titles complete holdings are available online from the first volume onwards. In addition facilities in the Macdonald Campus Library, the Education Library and Curriculum Resources Centre, the Schulich Library of Science and Engineering and the Humanities and Social Sciences Library have been refurbished, resulting in growth in visitation rates of over 3.5 million per year as students vote with their feet to demonstrate their satisfaction with the refreshed spaces. More recently, the Cyberthèque, (in the Redpath Library building) has been constructed as a leading-edge study and learning facility equipped with computers and individual and group study areas. Extended opening hours have been implemented in all branch libraries, with 24-hour opening in the Humanities and Social Sciences Library at examination time. The FY2009 budget will continue to provide additional support (\$1 million) to the libraries as they expand their crucial role in the life of the University.

c. ***Retain high-calibre academic staff***

Academic salaries and associated benefits are by far the biggest component of McGill's expenditures accounting for more than 75% of our operating expenses.

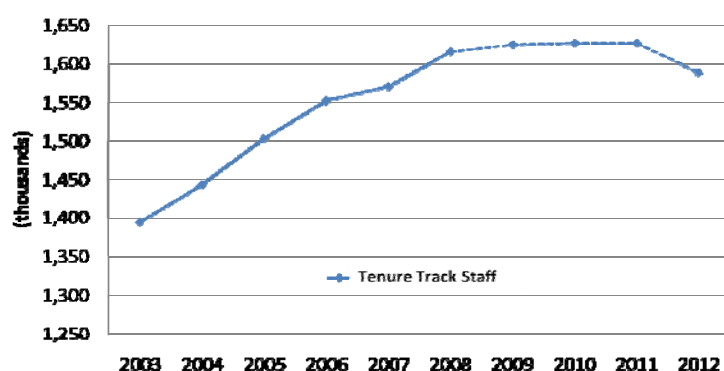
Academic renewal is a crucial exercise that shapes and re-defines academic units as departing academic staff members are replaced by new professors who contribute to leading-edge disciplinary scholarship. However, as *Figure 7* highlights, between FY2009 to FY 2012, academic renewal must be in line with retirements.

***Figure 7: Academic Renewal (FY2000 - FY 2012)***



Over the last seven years McGill has welcomed some 800 new tenure-track academic staff, resulting in a major renewal of the academic staff. Approximately half of McGill's tenure track faculty have been at this University for less than a decade. *Figure 8* outline the overall growth to approximately 1,600 academics over the last five years.

***Figure 8: Tenure-Track Staff (FY2003 - FY2012)***



Our operating assumptions with respect to academic renewal are that net new hires are likely to surpass target because of a lower than expected rate of departures. Currently, the number of departures is approximately 60 per year. The University funds the incidental and one-time-only

costs associated with recruitment and “start-up” for each new arrival, dealing with both operating and capital expenditures. For FY2009, these one-time only costs of academic renewal are included in the total envelope budget of \$6 M.

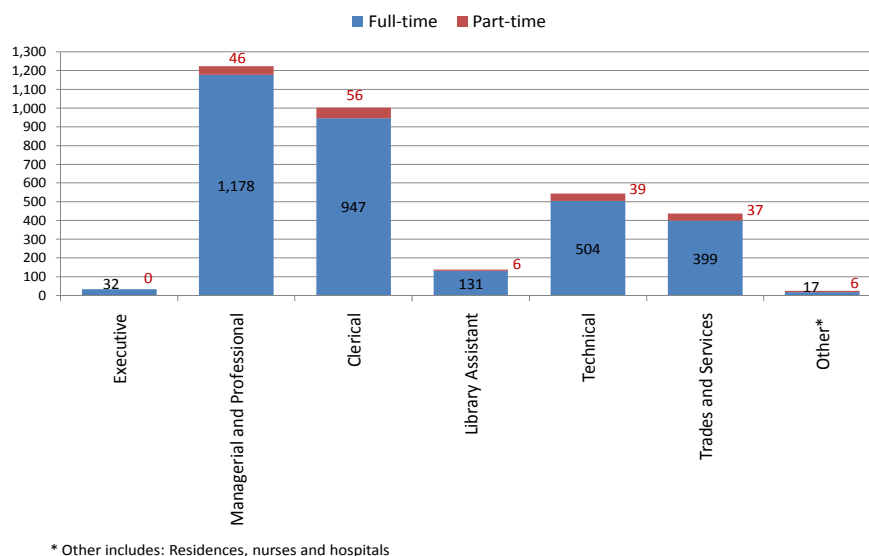
In order to remain internationally competitive, McGill must continue to attract and top academic talent. We must also retain those scholars, researchers, and teachers in whom we have invested so heavily and upon whom we depend for sustaining and enhancing McGill’s international reputation as a leading publicly-funded, research-intensive, and student-centred university. At the present time, approximately 150 of the nearly 800 academic staff members hired at McGill since FY2000 are currently supported by Canada Research Chairs (CRC). This federal program contributes \$200,000 for each senior Tier I research Chair and \$100,000 for each junior or Tier I research Chair. We anticipated that in FY2009, 10 newly recruited academic staff members will be nominated to vacant Canada Research Chairs and that all 163 CRCs (71 Tier I and 92 Tier II) will be filled by December 2011. As part of our effort to retain our leading academics we have introduced an internal “Research Chairs” program (James McGill Professor and William Dawson Scholar awards), which are equivalent to the Canada Research Chairs Program. We will continue these programs for FY2009.

In order to respond to the pressures of 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. A “**retention envelope**” is therefore an important mechanism.

d. ***Ensuring efficient administrative support***

Administrative and support positions, non-tenure-track academic appointments, teaching support staff, and trades and services all play a vital role supporting the mission of the University.

McGill can only remain competitive and continue to achieve its academic goals and objectives by ensuring the non-academic staff are provided with the tools and support required to be successful. The significant contributions of these employees are recognized through on-going professional development programs, internal training and development courses. We also intend to continue the Financial Specialists program, which has as its prime objective to bring financial specialists to work directly with researchers in the faculties. Our current administrative and support staff includes approximately 3,176 individuals and is distributed as shown in *Figure 9*.

**Figure 9: Administrative & Support Staff (by type)**

For some categories of employees, salary and benefit increases are subject to annual negotiation, again leading to the need to estimate their budget expenses. 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 cannot be very precise about how much those annual increases will be (we operate within a range). 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.

e. ***Maintain and upgrade facilities and campus infrastructures***

Academic and research excellence cannot flourish without adequate physical resources. Unfortunately, the lack of resources in the Quebec “réseau” has resulted in a sacrifice to the level of investments the university has made over the last 5 years. Nevertheless, 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 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. 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 to its governance bodies regarding new real estate development, space redeployment, and other similar initiatives for the next several decades. The **operating assumptions** are that building operating costs will increase (at a minimum) at the same rate as the MELS building operating grant (2%) and that building costs for research installations will be provided through Faculty or University portion of indirect cost of research.

This is the case in FY2009, as the Francesco Bellini Life Sciences Building and the Cancer Research Pavilion will both start incurring operating costs for which appropriate funding must be sought.

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.

## 6. Capital Fund

The capital fund is intended on highlighting the capital grants and gifts received from donors, for the purposes of adding new buildings or renovating existing space.

The total annual capital grant from Quebec for 2008-09 is expected to be approximately \$47.3M, including \$ 28.5M for deferred maintenance, approximately \$ 3.4M for IT infrastructure, and \$15.4M to be used primarily to fund capital projects related to new academic hires, Faculty major renovation projects, renovation projects for classrooms/teaching labs, institutional capital priority renovations and deferred maintenance projects. The specific allocations are expected to be as follows:

Envelop for developing existing space	\$ 3.0 M
Envelop for renovating existing space	\$ 12.4 M
Deferred Maintenance (current program)	\$ 10.0 M
Deferred Maintenance (new program )	\$ 15.0 M (estimated)
New Envelop Corrections for renovations	\$ 3.5 M
IT Capital and Equipment	<u>\$ 1.5 M</u>
Subtotal ('Maintien des actifs')	\$ 45.4 M
IT Systems	\$ 1.9 M
TOTAL	<u>\$ 47.3 M</u>

MELS anticipate that this funding level will continue for the next five years, and that the envelopes for **deferred maintenance** will continue for 15 years. It is expected that MELS will confirm later this month the final amount due to McGill for the Deferred Maintenance (new program), and also that the Deferred Maintenance (current program) will no longer require matching funds. Furthermore, the \$3.5 M allocation denoted as New Envelop Corrections for renovations is a new program to address funding shortfalls in the past that have resulted in deferred maintenance. At present, we do not know for how long this additional funding will be available. We have built these new MELS policies into the budget plan for FY2009.

Since the inception of the current deferred maintenance funding program by MELS, McGill has borrowed a total of \$60M in **campus renewal loans** to address the cleaning and greening of the campus and to attend to the more serious items on the deferred maintenance backlog. Each \$10M of such loans requires an annual capital payback of approximately \$0.7M over a 15 year period. This has allowed us to make only modest progress in addressing the more than \$647M in work that remains in our deferred maintenance inventory (Note: our annual deferred maintenance backlog grows at the rate of over \$30M per year.) In addition, this borrowing is pressuring operating resources, as the annual interest charge on this borrowing is approximately \$1.5M, thus contributing to the budgeted deficit. The MELS Deferred Maintenance New Program will allow us to discontinue the need to borrow, at least in the short term. We will have to reassess the progress and status of the backlog over the next 3 years.

Excluded from the above total are supplemental specific capital grants as follows:

- new construction/initiatives,
- capital grants received from CFI, and Quebec's matching contribution, donations,
- capital research grants from the Quebec research agency FQRNT

For new construction and capital initiatives, McGill has submitted projects for 2008-09 as part of the annual *Plan Quinquennal* submission. We do not expect to receive comment from MELS until the summer.

The CFI funds are allocated via the CFI funding program on a project by project basis. For 2008-2009, the university allocated \$49.3M in capital allocations, including for Deferred Maintenance (DM) projects, as follows:

Faculty Compact Allocations	\$	2.5 M
Non Faculty Base Allocations	\$	0.9 M
Campus Facility Maintenance	\$	3.0 M
Institutional Priorities	\$	7.5 M
DM to address the backlog	\$	25.0 M
DM within academic projects	\$	3.5 M
Capital Repayment of DM Loans	\$	5.8 M
Contingencies	\$	<u>1.0 M</u>
TOTAL	\$	49.3 M

It is noted that while the allocations are \$2 million greater than expenditures for the year, due to the cash flow nature of capital projects, the actual funds expended during the year will be within the funds available.

Within the Faculty Compact Allocations, an allocation is calculated for capital start ups for new recruits, which contribute to the research lab renovation development of these new recruits. These are calculated and adjusted based on the expected academic renewal. An analysis of expenditures of the 2007-08 capital allocations indicates that there is at least a 9-12 month delay in faculties expending these amounts, largely due to the long CFI approval process, and/or the long process in defining the needs of the new staff and undertaking the work. Consequently for FY 2009, the amounts will be calculated in the usual way, but the allocation will only be made available to the Faculties on June 1, 2009.



Within the FY2009 allocations are the completion of the renovation programs for the Faculties of Law and Education, a continuation of the classroom upgrade program, and a new multi- year program to upgrade and improve the Universities teaching labs.

The *Table 4* highlights, the Capital Budget Framework for FY 2008-2009 and also the anticipated allocations for the following two years.

**Table 4: Capital Budget**

Capital Budget - SUMMARY	Fiscal Year ending May 31				
<u>CAPITAL BUDGET ALLOCATIONS</u>	<u>2007</u> (\$ 000)	<u>2008</u> (\$ 000)	<u>2009</u> (\$ 000)	<u>2010</u> (\$ 000)	<u>2011</u> (\$ 000)
FACULTY COMPACT ALLOCATIONS	\$5,501	\$8,095	\$2,571	\$5,540	\$5,018
NON FACULTY BASE ALLOCATIONS	\$955	\$880	\$930	\$930	\$930
CAMPUS FACILITIES	\$2,000	\$2,000	\$3,000	\$3,000	\$3,000
INSTITUTIONAL PRIORITIES	\$2,073	\$6,650	\$7,500	\$6,500	\$6,500
REPAYMENT OF CAMPUS RENEWAL LOAN	\$4,399	\$5,099	\$5,799	\$5,799	\$5,799
CONTINGENCIES	\$0	\$1,000	\$1,000	\$1,000	\$1,000
<b>TOTAL (Proposed Capital Budget Allocations)</b>	<b>\$14,928</b>	<b>\$23,724</b>	<b>\$20,800</b>	<b>\$22,769</b>	<b>\$22,247</b>
<b>TOTAL (Proposed Capital Budget MELS Revenues)</b>	<b>\$14,855</b>	<b>\$15,328</b>	<b>\$18,594</b>	<b>\$18,594</b>	<b>\$18,594</b>
ALLOCATION EXCESS	(\$73)	(\$8,396)	(\$2,206)	(\$4,175)	(\$3,653)
ACCUMULATED ALLOCATION EXCESS	(\$73)	(\$8,469)	(\$10,675)	(\$14,850)	(\$18,503)
<u>CAMPUS RENEWAL ALLOCATIONS</u>	<u>2007</u> (\$ 000)	<u>2008</u> (\$ 000)	<u>2009</u> (\$ 000)	<u>2010</u> (\$ 000)	<u>2011</u> (\$ 000)
University Deferred Maintenance Projects Backlog	\$16,800	\$20,644	\$25,000	\$25,000	\$25,000
<b>TOTAL (Proposed Campus Renewal Allocations)</b>	<b>\$17,800</b>	<b>\$23,504</b>	<b>\$28,504</b>	<b>\$28,504</b>	<b>\$28,504</b>
<b>TOTAL (Proposed Campus Renewal Revenues)</b>	<b>\$17,800</b>	<b>\$23,504</b>	<b>\$28,504</b>	<b>\$28,504</b>	<b>\$28,504</b>

## 7. Restricted Fund

The restricted fund is primarily composed of research and other restricted revenues, received in the form of donations or other revenues which are to be spent in accordance with the wishes of the donors. With respect to research revenues (excluding those of our teaching hospitals) our multi-year plan incorporates the expectations in *Table 5*.

**Table 5: Research Revenues**

**Summary of Research Revenues**  
**FY 2008 to FY 2013**  
**(\$ 000)**

	<i>Forecast</i>		<i>Projection</i>		
	2008		2009	2010	2011
<b>Federal</b>					
NSERC	\$ 38,522	\$	38,908	\$ 39,297	\$ 39,690
CIHR	\$ 54,519	\$	55,064	\$ 55,615	\$ 56,171
Canadian Foundation for Innovation (CFI)	\$ 20,650	\$	12,600	\$ 90,200	\$ 35,700
Canada Research Chairs	\$ 18,701	\$	19,501	\$ 19,701	\$ 19,701
SSHRC	\$ 8,279	\$	8,362	\$ 8,445	\$ 8,530
National Cancer Institute	\$ 5,562	\$	5,590	\$ 5,618	\$ 5,646
Other agencies	\$ 6,032	\$	6,092	\$ 6,153	\$ 6,215
Total federal government:	\$ 152,266	\$	146,117	\$ 225,029	\$ 171,653
<b>Provincial</b>					
MSSS (incl. research hospital fund in FY10)	\$ 1,128	\$	570	\$ 80,570	\$ 3,630
FRSQ	\$ 9,207	\$	9,299	\$ 9,392	\$ 9,486
FQRNT	\$ 8,015	\$	8,095	\$ 8,176	\$ 8,257
MELS - CFI and other	\$ 13,869	\$	4,180	\$ 4,180	\$ 26,620
Valorisation Recherche Québec	\$ 32	\$	-	\$ -	\$ -
Genome Quebec	\$ 3,591	\$	3,627	\$ 3,663	\$ 3,700
Other agencies	\$ 3,093	\$	3,124	\$ 3,155	\$ 3,187
Total provincial government :	\$ 38,934	\$	28,895	\$ 109,136	\$ 54,880
<b>US Governments</b>					
	\$ 6,438	\$	6,438	\$ 6,438	\$ 6,438
<b>Other Sources</b>					
Canadian corporations	\$ 9,216	\$	9,308	\$ 9,401	\$ 9,495
Canadian foundations and associations	\$ 15,448	\$	15,603	\$ 15,759	\$ 15,916
US corporations	\$ 2,143	\$	2,164	\$ 2,186	\$ 2,208
US foundations and associations	\$ 4,327	\$	4,370	\$ 4,414	\$ 4,458
Other various sources	\$ 5,105	\$	5,156	\$ 5,208	\$ 5,260
Total other sources:	\$ 36,239	\$	36,602	\$ 36,968	\$ 37,337
<b>Total research revenue:</b>	<b>\$ 233,877</b>	<b>\$</b>	<b>218,051</b>	<b>\$ 377,571</b>	<b>\$ 270,308</b>

Overall, the level of grant income is expected to increase for the basic research council grants, this as a result of additional funds and an increase in our share of the total amounts available. With respect to infrastructure grants from CFI, these amounts are expected to fluctuate between FY2010 and FY2012. Beyond FY2012, it is difficult to ascertain if any funds will still be available for distribution. We also expect a positive impact in FY2010 (\$ 80M) from the hospital research fund.

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 cannot be attributed specifically to a particular project or activity, and it is difficult to assess precisely

which users should pay what share. In FY2004, the Federal government formally created an “Indirect cost of research grant program” based on recognised sponsored research grants to our professors intended to cover some of these costs. Unfortunately, this 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 tri-council 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.

## 8. Endowment Fund

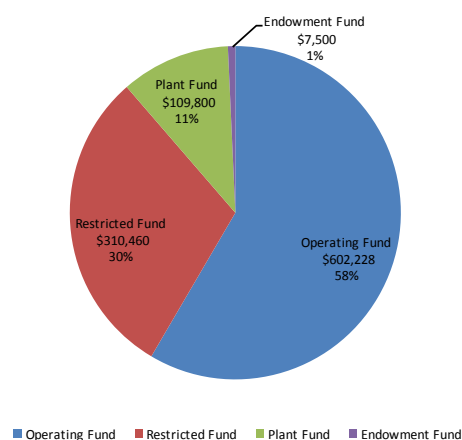
McGill’s overall actual level of annual revenues derived from donations is expected to be approximately \$ 97M and \$ 100M budgeted for FY2009. We anticipate that on a going forward basis, the \$ 100M annual inflow will be achieved. Overall, the campaign target is for \$ 750M, with a large portion of this revenue directed at the endowment fund. In FY2008, we have forecasted approximately \$ 44M in endowed gifts; \$ 49M in FY2009.

The total investment in Development and Alumni Relations (DAR) activities is expected to be \$15M, with no subsidization from the endowment fund. This investment is considered sufficient to meet the annual \$ 100M gifts and donation objective over the next few years.

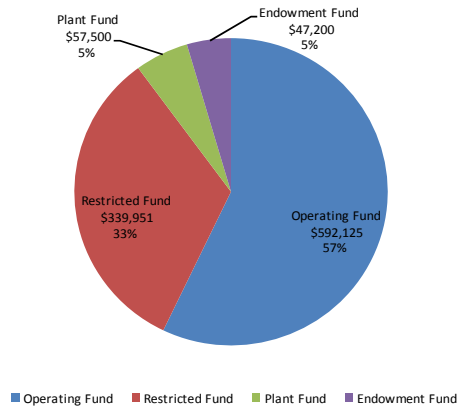
## 9. Conclusion

The overall expense budget of the University for FY2009 is highlighted in *Figure 10*. These total expenses are to be supported by various revenue budgets derived from several funding sources, as highlighted by *Figure 11*.

**Figure 10: Total Budget Expenses - FY2009 (thousands) \$1,029,988**



**Figure 11: Total Budget Revenue - FY2009 (thousands) \$1,036,776**



While the budget proposed for FY2009 requires some sacrifices, it has been designed to fully reflect the overall continuing positive trend in the amounts available for expenditure that has characterised McGill's financial situation since FY2001. This budget builds on past investments and continues to lay the groundwork for future successes. The annual operating deficit will be reduced, but we will continue to show progress in academic renewal and faculty research, graduate student numbers, funding, and quality, enhanced learning experiences for undergraduates, and increased commitment to sustainability and to the professional development of our staff. It will be challenging, but the McGill community is up to the task.

## 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.

**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.

**Campaign McGill:** 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.

**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.

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

**Deferred Maintenance:** 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.

**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.

**Fiscal Year (FY):** 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.

**Forfaitaires:** Represents the supplement charged above the basic tuition amount to both out of province Canadian and International students. These amounts are dictated by MELS annually and collected from student tuitions, but are essentially remitted to back to the Province and not retained by the Universities.

**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 Cost 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.

**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.

**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.

**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.

**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 distribution resources to units in order for them to achieve their designated 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.