McGILL UNIVERSITY **SENATE**

Memorandum

Office of the Provost
845 Sherbrooke Street West, Room 504,
Montreal, QC
Tel: 514.398.1438 | Fax: 514.398.4768

TO:	Senate
FROM:	Professor Anthony C. Masi, Provost
SUBJECT:	Budget Planning FY2016: Report II
DATE:	February 18, 2015
DOCUMENT #:	D14-39
ACTION REQUIRED:	☒ INFORMATION ☐ APPROVAL/DECISION
ISSUE:	This presentation provides an overview of the considerations shaping the FY2016 McGill University Budget, including an update and elaboration on key revenue and expense assumptions and other significant developments affecting the current 5-year planning cycle in the context of McGill's strategic academic plan.
BACKGROUND & RATIONALE:	This report is presented for Senate's information. It is the second of three presentations made to Senate on the McGill University budget for FY2016. The first presentation was delivered on 3 December 2014, and the final recommendation for the proposed budget for FY2016 will come to Senate in April.
MOTION OR RESOLUTION FOR APPROVAL:	N/A
PRIOR CONSULTATION:	McGill's Senior Administration Finance Committee of the Board of Governors
NEXT STEPS:	The key messages identified in this presentation will frame the development of the FY2016 McGill University Budget Book, which will be brought to Finance Committee and Senate in mid-April before being presented to the Board of Governors for final approval.
APPENDICES:	Appendix A: Budget Planning for 2015-2016 PowerPoint Presentation

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Budget Planning II

FY2016 Budget and Outlook for FY2017-FY2020

Presentation to Senate

18 February 2015

Prof. Anthony C. Masi
Provost

McGill

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1. McGill's strategic priorities: main drivers of resource allocations

1. advancing McGill's academic success, profile, and reputation for excellence, nationally and internationally

2. maintaining a student-centred focus that will enhance educational, research and extra-curricular life and learning for students at all levels

3. responsible management of resources for maximum support of educational programs, research activities, and community engagement

   a) multi-year, multi-fund basis

   b) need to respond to reductions in provincial funding: representation and adaptation

   c) targeted spending/cost reductions: not likely to have long lasting impact on our academic mission

   d) diversifying and optimising revenue sources

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2a. Budget planning objectives: fostering quality and excellence in teaching, research, and service

a) support both compensation of professors and academic renewal plans

b) prioritize resource allocations to support services directly responsive to the needs of McGill's academic mission

c) review policies, processes and practices (informed by "analytics") in order to seek improvements and greater transparency and accountability

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2b. Budget planning objectives: balancing revenues and expenses: measures for the foreseeable future

a) measures taken in FY2014 (e.g., VRP) are now mitigating the cuts imposed by the provincial government

b) further measures announced in October 2014 (and reiterated in January 2015) to restrain in-year spending to preserve good performance for FY2015 and prepare for measures for FY2016

c) further budget reduction will exacerbate the University's chronic underfunding

d) bringing the annual cash deficit to zero virtually impossible under current circumstances

2c. Budget planning objectives: continuation of previously successful practices

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a) McGill’s previous budgets have “predicted” cuts and have been prepared accordingly

b) anticipatory, planning for reality, operating with resilience

c) able to navigate in troubled waters, avoiding last minute course corrections or a re-design of the submitted and approved budget

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2d. Budget planning objectives: targeted new initiatives linked to priorities

a) innovation requires seed funding for experimentation

b) Faculties as well as large Administrative and Support Units need funding for new initiatives and to pursue opportunities

c) provision has to be made to encourage activities in line with McGill's core values and principles that are aligned with:

- the Principal's Five Priorities
- CFREF and other research funding prospects
- exploring educational activities that have revenue generating potential

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3. Updated forecast for FY2015: slightly better position than original projection

Summary of variances against original forecast	
1. annual financed operating deficit forecast for the FY2015 (FY2015 Budget Book: April 2014)	($7.0M)
Anticipated operating budget variances for FY2015	
2. reduction in MESRS revenues	($20.0M)
3. reduction in tuition and fees	($3.0M)
4. accrual of FY2015 pay equity expenses in FY2014	$6.3M
5. unspent special projects reserve	$9.0M
6. unspent mid-year contingency envelope	$3.0M
7. reduction in cost of borrowing	$2.0M
8. impact of restrictive measures for FY2015	TBD, but moving in the anticipated direction
9. updated annual financed operating deficit FY2015 projection	tracking; possibility of ***slight decrease*** from originally forecast deficit

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4. Responding to the MESRS FY2015 mid-year cuts: restrictive measures announced in October 2014

1. freeze on new searches for "external" hires for administrative and support staff positions
2. requirement for secondary review of all requests for job re-classifications
3. postpone all non-essential equipment and furniture purchases from all operating funds
4. limit travel and hospitality spending on all 1As to 1Fs funds to the minimum essential
5. stop all in-year allocations except for mission-critical urgencies
6. ***above actions to continue for the remainder of the FY2015 year (and beyond)***

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5a. Looking ahead FY2016 – FY2020: Revenues

1. difficult to plan ahead, given economic uncertainty and reductions in allocations:
   a) Quebec provincial budget expected March 2015, “Orientations Budgétaires” in May 2015, but McGill’s fiscal year starts on 1 May
   b) Government and Ministry indicate additional cuts for FY2016: McGill’s share = $6M(?)
2. implications of Tremblay-Roy recommendations (Chantier sur le financement):
   a) changes in tuition models for out-of-province and international students
   b) re-evaluation of the teaching grant formula via new disciplinary relative weights
   c) reduced number of special envelopes
   d) workgroups being set up, with the intent of implementing a new funding formula in FY2017
   e) possible impact: government grant reduction, increased flexibility for universities and less forfaitaire redistribution

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5b. Looking ahead FY2016 – FY2020: Expenses

1. previous "hard choices" have provided a more solid platform for McGill and differentiate us from most other Quebec universities in dealing with the reductions
2. respect salary policy commitments for FY2016
3. address deferred maintenance issues (space, equipment, and information technology) with an aggressive capital financial plan
4. slow-down, but not cessation, of academic renewal priority and related tenure-track complement objectives
5. continuation across all Faculties and Administrative Units of a "spirit of constrained expenditures"
6. attrition and non-replacements to reduce administrative and support staff headcounts and salary mass, similar to measures already in place for academic staff

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5c. Looking ahead FY2016 – FY2020: Financed operating deficits

1. difficult to pay down the deficit in times of reduced revenue streams:
   a) low interest rates work in our favor, FOR NOW
   b) could become a dangerous trap in the longer term
2. other universities are in a similar or worse predicament
   a) Quebec network trying to re-negotiate conditions relative to the release of “conditional grants” at year-end
3. assuming that the proposed DM financial instrument will be a “capital borrowing” and in the plant fund
   a) it will generate an annual expense of $11.5M on the operating budget
   b) there will be no immediate “hit” to the operating budget bottom line
   c) ***target FY2016 financed operating annual deficit: $14M***

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6. FY2016 Budget Measures: approximately $16M cost savings or internal charges

1. **overall cut of between 2% to 3%, varying by unit**
2. maintain administrative and support staff hiring freeze currently in effect since October 2014
3. recuperate centrally salaries of positions vacated
4. suspend overtime payments except for essentials
5. redesign job re-classifications policy and practices immediately
6. place limits on spend-down of carry-forwards
7. increase donations for bursaries to meet University’s commitments on 30% on net new tuition dollars
8. budget cuts for units calculated on actual FY2014 expenditures on selected accounts that fall outside core academic activities

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7. FY2017-FY2020: Budget Measures

1. not expecting further MESRS revenue cuts beyond FY2016: the limits of cost cutting measures?
2. low probability of significant additional government revenues in coming years; units will be asked to model similar, but lower cuts for subsequent years

Anticipated Impact of Budget Measures ($M)

	FY2016	FY2017	FY2018	FY2019	FY2020
incremental annual cut	(16)	(12)	(6)	0	0
total cumulative cut (over FY2015 baseline)	(16)	(28)	(34)	(34)	(34)

3. need to build spending margins in order to fund new initiatives

8. Operating Budget: past, present and future outlook ($'M):

a = actual, b = budget, f = forecast, p = projection

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5-year outlook (April 2014)	FY13a	FY14f	FY15b	FY16p	FY17p	FY18p	FY19p	
total revenues (net of reserves)	723.6	732.4	768.8	802.1	836.6	861.3	885.1.0	
total expenses (1)	737.0	742.8	766.8	793.5	825.0	844.3	866.5	
unallocated special projects			9.0	9.6	5.8	10.5	24.1	
annual financed surplus (deficit)	(13.4)	(10.4)	(7.0)	(1.0)	5.2	6.5	(5.5)	
Conditional MESRST grant			2.5	4.2	5.9	6.2	6.5	
GAAP accumulated deficit	(287.6)	(298.0)	(302.5)	(299.3)	(288.2)	(275.5)	(274.5)	
financed accumulated deficit	(110.7)	(121.1)	(125.6)	(122.4)	(111.3)	(98.6)	(97.6)	
5-year outlook (Feb 2015)	**FY13a**	**FY14a**	**FY15f**	**FY16b**	**FY17p**	**FY18p**	**FY19p**	**FY20p**
total revenues		766.4	758.8	766.1	790.2	813.3	831.7	855.5
total expenses (1)		762.1	765.1	780.2	800.5	816.8	833.6	855.8
annual financed surplus (deficit)		4.3	(6.3)	(14.1)	(10.4)	(3.4)	(2.0)	(0.4)
GAAP accumulated deficit(2)	(287.5)	(271.8)	(278.1)	(292.2)	(302.6)	(306.0)	(308.0)	(308.3)
financed accumulated deficit	(100.1)*	(95.8)	(102.1)	(116.2)	(126.6)	(130.0)	(132.0)	(132.4)
fin accum. def / revenues %	13.8%	12.5%	13.5%	15.2%	16.0%	16.0%	15.9%	15.5%

(1) excluding "GAAP" adjustments
(2) not including any future changes from the 3 adjustments: pension plan adjustments expected
* restatement of financed accumulated deficit

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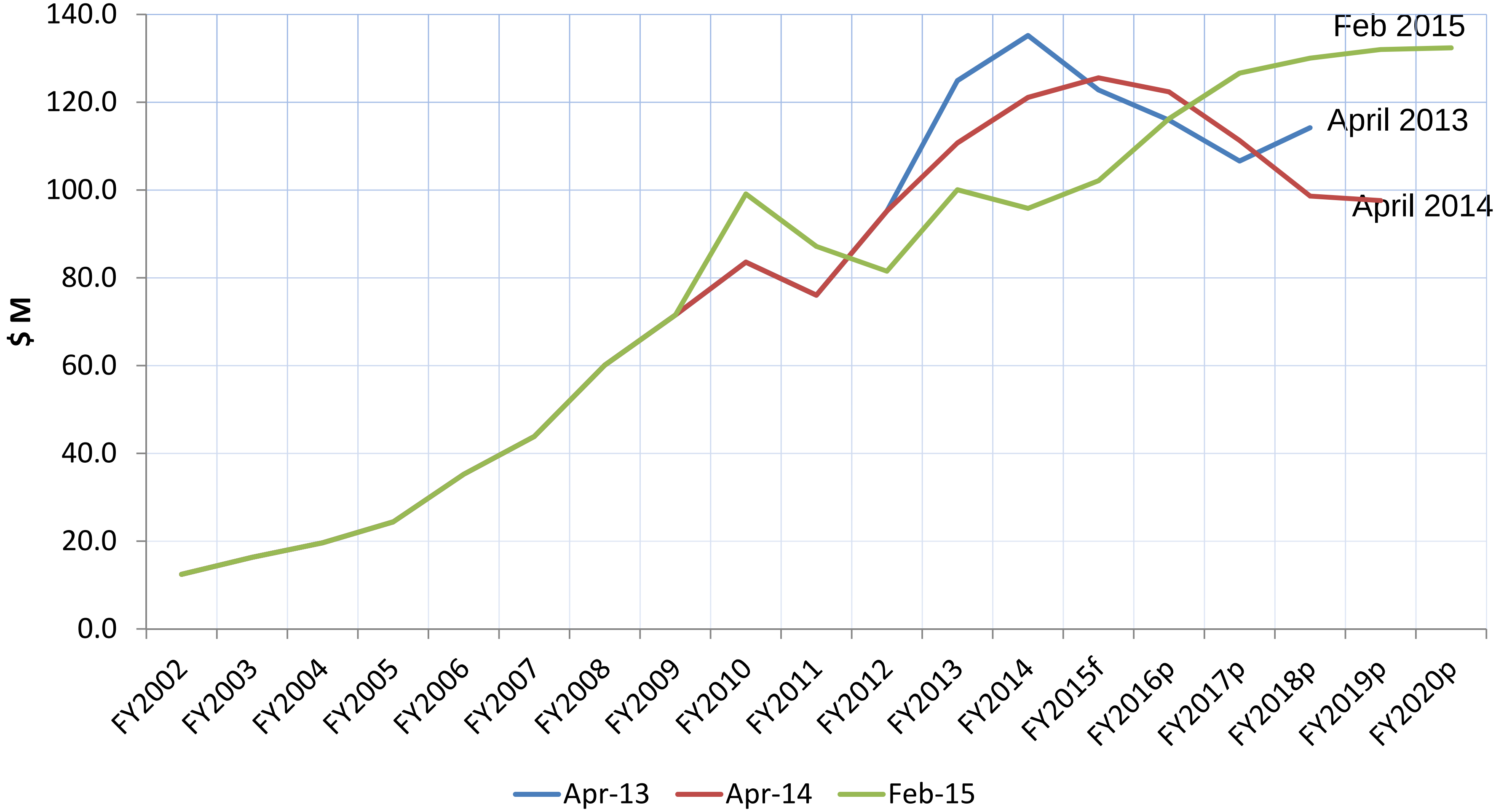
9. Operating fund: financed accumulated deficit



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10a. FY2016 McGill budget model assumptions: tuition-related revenue

1. **regulated tuition and fees:**
   a) $15/year net tuition (+0.9%) increase over approximately 30,200 full-time equivalent (FTE) students = ~$450K in incremental revenue
   b) (e.g. gross tuition to grow to $2,293/FTE/year in FY2016 vs. Canadian average of approximately $7,000/FTE/year)

2. **de-regulated international undergraduate students in 4 Faculties (Management, Law, Engineering, Science):**
   a) 5% increase over approximately 1,600 FTE students = $2.5M in incremental revenue
   b) each cohort has a fixed tuition guarantee for 4 years
   c) *unclear how Province will move forward with de-regulation of all disciplines in the future except that it will change!*

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10b. FY2016 McGill budget model assumptions: overall (regulated and de-regulated) enrolment growth

	Level	FY 2015(p)	FY 2016(e)	FY 2020(e)	1-yr Growth	Cumul. 5-yr Growth
full-time equivalent students (FTEs)	bachelor's level	23,965.7	23,907.3	24,006.8	(0.2%)	0.2%
	master's level	3,629.9	3,811.2	4,028.5	5.0%	11.0%
	doctoral	2,037.9	2,020.9	2,173.5	(0.8%)	6.7%
	medical residents	2,069.1	2,150.0	2,150.0	3.9%	3.9%
	total	**31,702.6**	**31,889.4**	**32,358.7**	0.6%	2.1%

Deregulated students as a % of total students: FY2015: 4.9%; FY2020: 5.4%

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10c. FY2016 McGill budget model assumptions: increases in enrolment driven revenues

targets / projections	FY2016	Cumul. FY2016-20
teaching grant growth	$3.0M (1.0%)	$36.3M (12.6%)
de-regulated tuition growth (net of student aid)	$4.6M[1] (9.5%)	$18.6M (38.8%)
support grant growth	$0.3M (0.6%)	$5.5M (10.5%)
regulated tuition growth (net of supplements and student aid)	$0.7M[2] (1.2%)	$5.4M (9.1%)
"frais institutionnels obligatoires" (FIOs) growth	$0.8M (2.9%)	$3.7M (13.2%)

[1] $2.5M due to tuition increases and $2.1M due to enrolment increases
[2] $450K due to tuition increases and $250K due to enrolment increases

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10d. FY2016 McGill budget model assumptions: increases in other major revenue sources

targets / projections	FY2016	Cumul. FY2016-20
facilities and buildings	$0.0M (0.0%)	$30.3M (79.1%)
provincial indirect costs of research	$0.0M (0.0%)	-$15.9M (-100%)
sales of goods and services	$2.5M (2.8%)	$12.0M (10.7%)
MESRS recoveries (increases in supplements and student aid contributions deducted from grant)	-$3.4M (4.1%)	-$17.8M (-21.9%)

10e. FY2016-20 McGill budget model assumptions: student to tenure-track ratios

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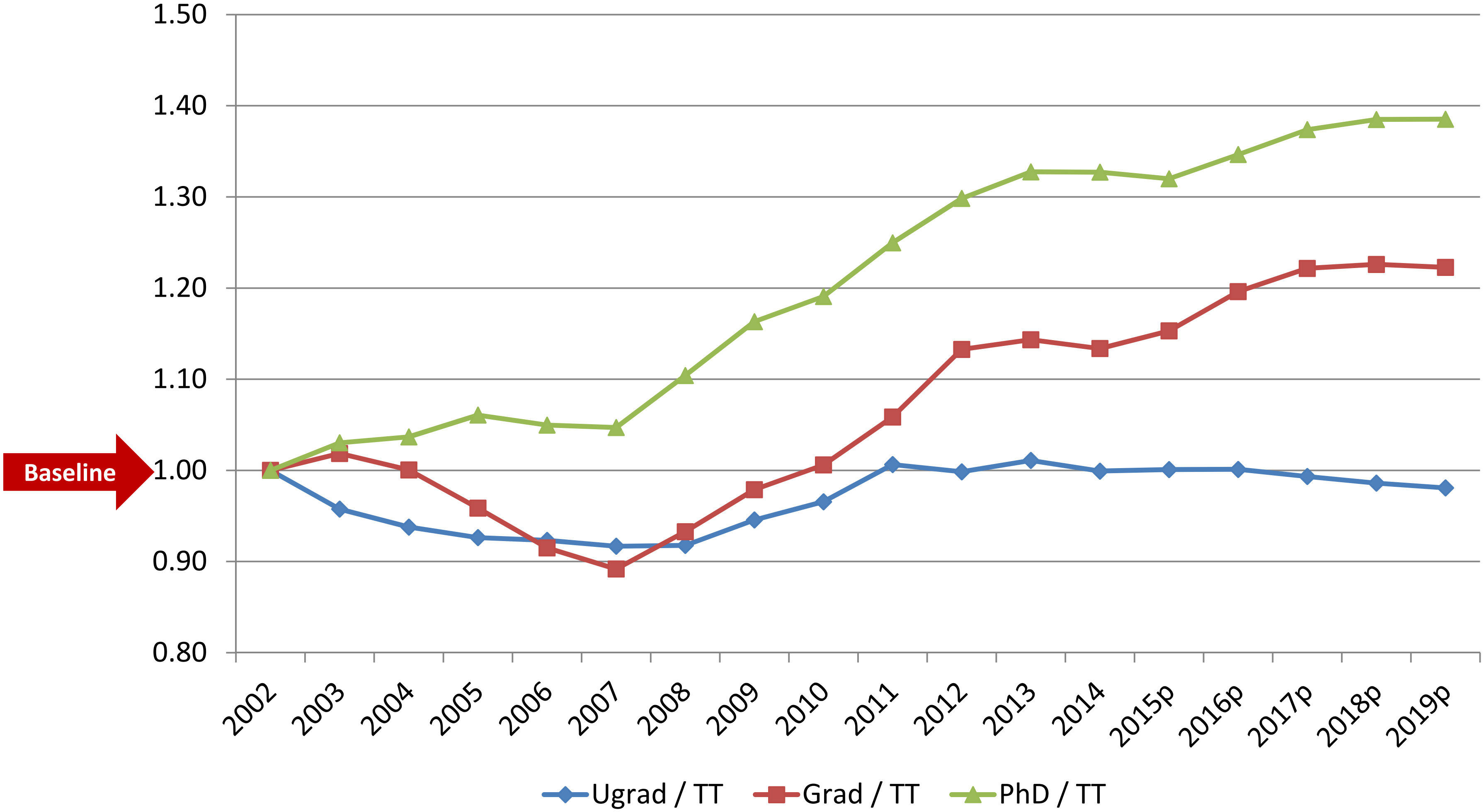
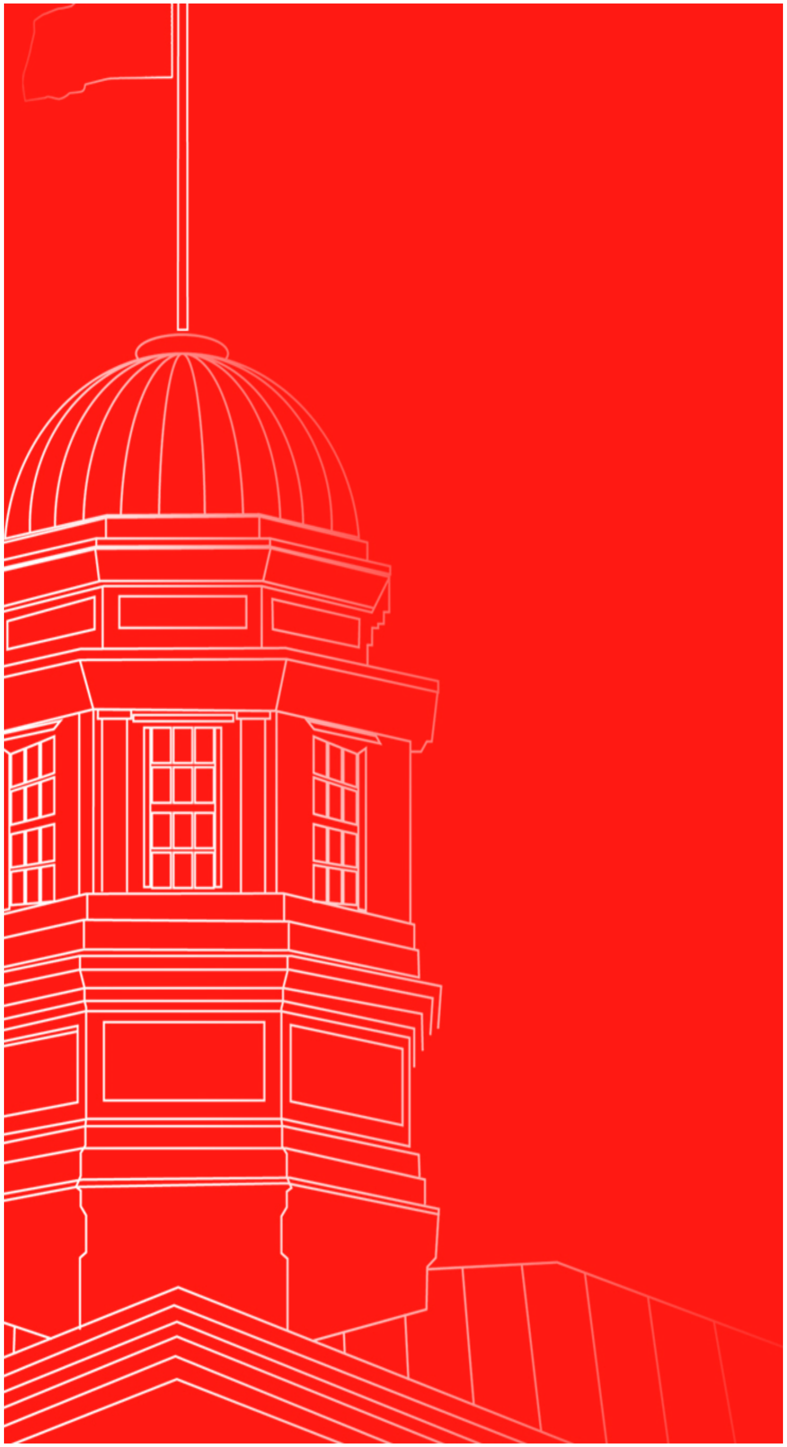


2002 baseline: UG / TT = 13.4; Grad / TT = 3.7; PhD / TT = 1.6
2019 forecast: UG/ TT = 13.1; Grad / TT = 4.6; PhD / TT = 2.2



Discussion

Comments?

Questions?

Concerns?

Suggestions?