

Report of the Finance Committee

GD20-54

Board of Governors Meeting of April 22, 2021, 2021

Secretariat

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The following items arise from a meeting of the Finance Committee on April 15, 2021. They are presented to the Board of Governors for its information.

I. FOR ACTION BY THE BOARD OF GOVERNORS**1. FY2022 Budget Planning Report III [F20-26]**

The Committee received the last in a series of three budget communications to the University community outlining major considerations shaping the budget for the coming fiscal year starting May 1, 2021.

The Committee was informed that for the fiscal year ending on April 30, 2021 (FY2021), the extraordinary circumstances resulting from the COVID-19 pandemic led to the approval by the Board of Governors of a provisional budget plan in April, followed by a final budget in December 2020, with an anticipated deficit of \$13.1M. Based on January 31, 2021 actuals, on financial information collected from units at the end of February, and on historical trends, the University is forecasting a FY2021 deficit estimated at \$6.3M. The Committee was advised that for FY2022, there would be continued COVID-driven uncertainty impacting all of the University's primary revenue sources: Quebec government funding, tuition and fees, and sales of goods and services.

The Committee was then presented with the proposed budget for FY2022 with an anticipated unrestricted fund deficit of \$9.8M which it subsequently approved and recommended for approval by the Board of Governors.

Be it resolved that the Board of Governors, on the recommendation of the Finance Committee, approve the proposed FY2022 Budget, as described in Appendix A.

The FY2022 Budget Planning Report III is attached as Appendix A to this report.

2. Maximum Borrowing Resolution for June 1, 2021 to May 31, 2022 [F20-23]

The *Ministère de l'Enseignement supérieur* (MES) requires annual borrowing authorization limits to be confirmed by the University. In accordance with its terms of reference, the Committee reviewed the extent and methods of external borrowing for both operating and capital needs.

The Committee recommends that the Board approve an annual short-term borrowing limit of \$400 million from June 1, 2021 to May 31, 2022.

Be it resolved that the Board of Governors, on the recommendation of the Finance Committee, approve a maximum borrowing of up to \$400 million, for the twelve month period from June 1, 2021 to May 31, 2022.

Be it further resolved that Board of Governors authorize the Vice-Principal (Administration and Finance) or the Associate Vice-Principal, Financial Services or the Chief Investment Officer and Treasurer to sign contracts, documents, or any instruments pertaining to these borrowings.

3. Short-Term Line of Credit with Financement-Québec

The Committee reviewed and subsequently recommended for approval by the Board of Governors, a request for a short-term line of credit with Financement-Québec at a cost of Canadian Dollar Offered Rate (CDOR) plus 10bps. The borrowing rate offered by Financement-Québec is lower than most of the University's current bank lines and will be used to bridge major capital projects that will be financed by Financement-Québec long-term financing. The Financement-Québec short-term facility will be subject to McGill's short-term borrowing limit currently at a maximum of \$400M, as approved by the Board in April 2020. A short-term borrowing limit of \$400M for Fiscal Year 2022 is also being presented for consideration and approval by the Board.

The *Ministère de l'Enseignement supérieur* requires that the Board of Governors approve the resolution presented in Appendix B as a condition to establish a short-term line of credit facility with *Financement-Québec*.

II. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

1. Biannual Report on McGill University's Master Plan [F20-28]

On May 23, 2019, the Board of Governors approved the McGill University Master Plan and endorsed the first phase of the financial plan in support of the Plan with the understanding that, among other things, the Committee would review, on a semi-annual basis, the status of the five-year financial plan.

The Committee received the second semi-annual report for Fiscal Year 2021 on the status of the Financial Considerations for the McGill University Master Plan for information.

2. Update on Financing Plan for Deferred Maintenance and IT Initiatives [F20-22]

Further to the Board of Governors' 2015 approval of a \$400 million financing plan to support investment in the University's accumulated deferred maintenance and information technology (IT) needs, the Committee was informed that as at February 28, 2021, a total

of \$105.1M of the \$190M allocation was spent on the listed capital projects and a total of \$86.6M of the \$210M allocation was spent on the listed IT initiatives and projects.

3. Financial Controls to Prevent University Insolvency [F20-29]

The Committee received a presentation providing a general overview of the various financial controls in place to prevent insolvency at McGill University.

4. Report on the Funding of the Genome and Innovation Centre [F20-24]

The Committee was provided an update on the Genomics Funding Proposal. In March of 2010, the Executive Committee approved, on the recommendation of the Finance Committee, the Genomics Funding Proposal, a global venture of \$73M. In November 2010, the Faculty of Medicine was authorized to open a \$50M line of credit to purchase sequencers. The Committee was informed that the outstanding balance of the line of credit remained at \$6.2M. It is anticipated that a proposal to address the outstanding balance will be presented to the Finance Committee in the context of the next report, planned for 2022.

5. Update on New Vic Project

The Committee received a brief update on the New Vic Project. It was informed that a decision from the provincial government concerning the Project's *Dossier d'opportunité* (DO) had not been confirmed as part of the provincial budget that was announced on March 25, 2021, but that a decision was expected to be made in the coming weeks.

6. Treasury Report [F20-24]

The Committee received a report on treasury matters relating to the University's borrowing, investing and hedging activities for the period ended February 28, 2021 for information.

7. Annual Report from General Counsel

The Committee received an annual report from the University's General Counsel. The report provided a summary of ongoing claims against the University along with the estimated real risk associated with the claims. Overall, it was reported that the estimated real risk for the University was relatively low.

8. Report on Quarterly Financial Results for Fiscal Period Ended January 31, 2021 [F20-21]

The Committee received a report on the quarterly financial results for the period ended on January 31, 2021.

9. Annual Report on McGill University Pension Plan [F20-25]

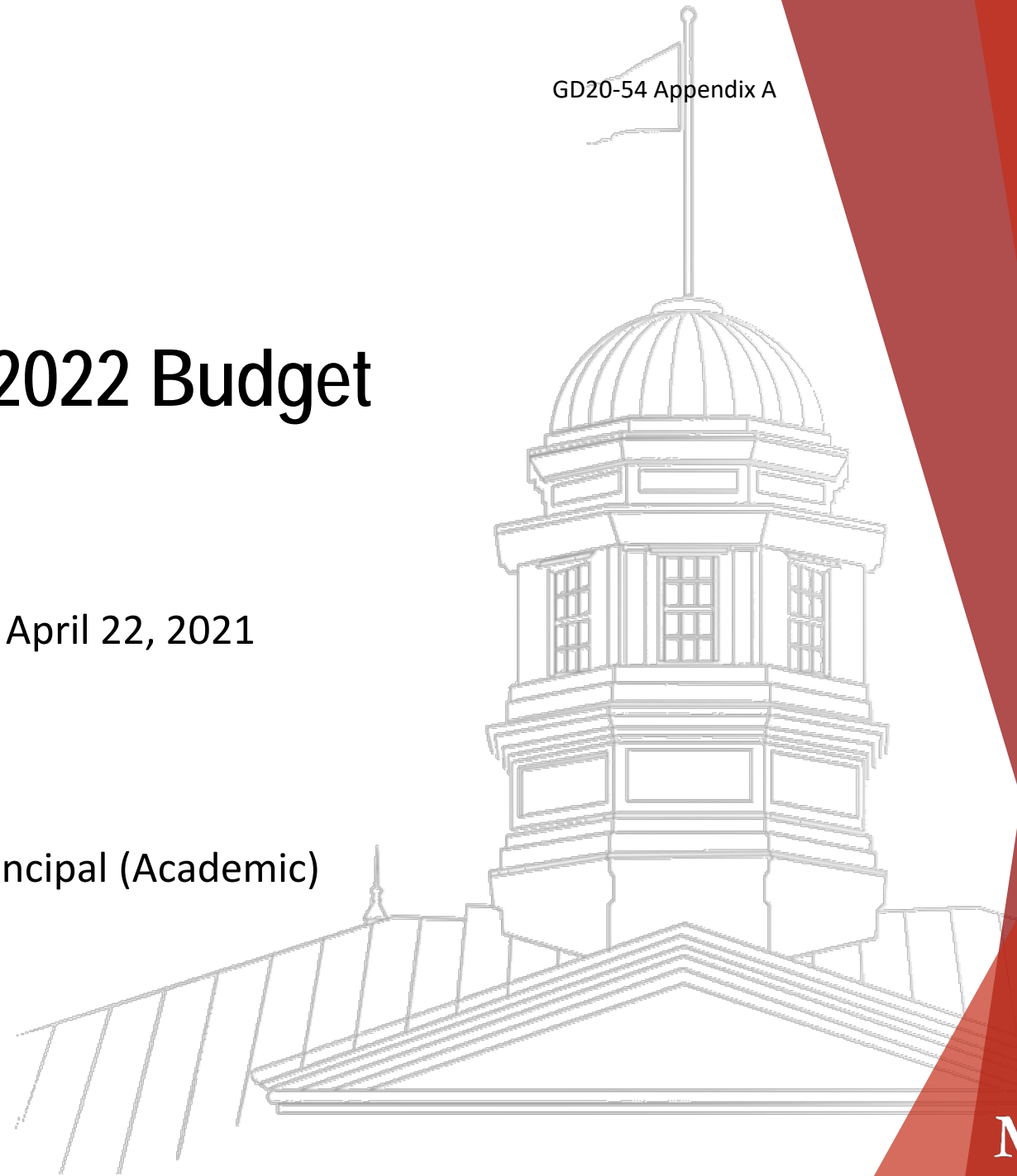
The Committee received, for information, the annual report on the McGill University Pension Plan for the fiscal year ended December 31, 2020, as approved by the Pension Administration Committee.

END
April 2021

Budget Planning Report III : FY2021 Forecast and FY2022 Budget

Presentation to the Board of Governors on April 22, 2021

Christopher Manfredi, Provost and Vice-Principal (Academic)



Executive Summary

- ▶ For the fiscal year ending on April 30, 2021 (FY2021), the extraordinary circumstances resulting from the COVID-19 pandemic led to the approval by the Board of Governors of a provisional budget plan in April, followed by a final budget in December, with an anticipated deficit of \$13.1M.
- ▶ Based on January 31, 2021 actuals and commitments, on financial information collected from units at the end of February, and on historical trends, we are forecasting a FY2021 deficit estimated at \$6.3M.
- ▶ Looking ahead to FY2022, there is continued COVID-driven uncertainty impacting all our primary revenue sources: Quebec government funding, tuition and fees, and sales of goods and services.
- ▶ To deal with the many unknowns, we have established assumptions for the main revenue sources and expenses using three scenarios. We have also included a \$15M contingency.
- ▶ This FY2022 budget is being presented to the Finance Committee of the Board of Governors for review and approval with an anticipated unrestricted fund deficit of \$9.8M.

FY2021 Forecast (for information)

FY2021 Forecast Highlights

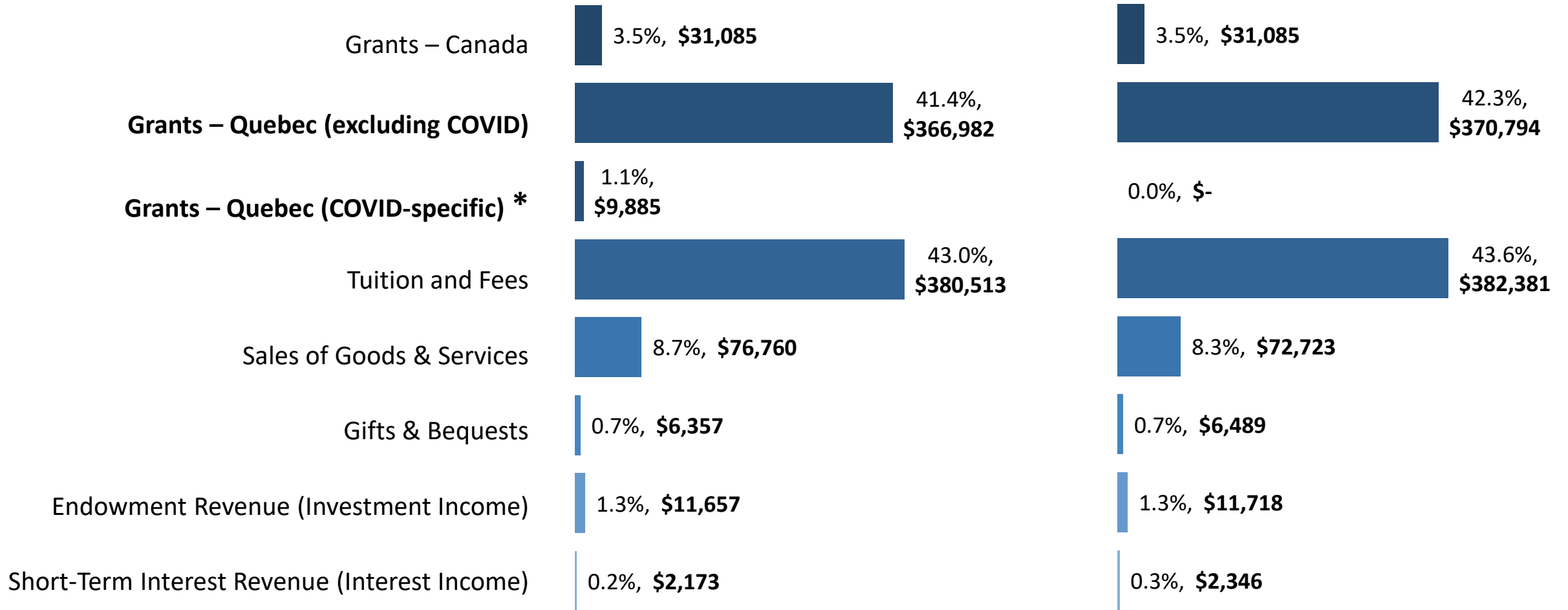
- ▶ Overall, 2020-21 enrolment was comparable to 2019-20, except for a reduction in self-funded programs.
- ▶ Enrolment-driven Quebec Government grants were based on 2018-19 numbers.
- ▶ Compared to pre-COVID levels, revenue expectations are down by more than \$70M due in large part to reductions in the sales of goods and services which are dependent on activities on campus (e.g., residences, food services, athletics, parking, etc.)
- ▶ Compared to pre-COVID levels, expense expectations are also down by more than \$70M (e.g., cost of goods sold, travel, events, catering, photocopying, etc.)
- ▶ Including a \$20M contingency in the provisional budget and implementing cost reduction and cost control measures have contributed to contain the deficit during these uncertain times.
- ▶ Considering the current forecast, the University will make a one-time payment to faculty and staff whose merit/performance-based salary increases were deferred from June 1, 2020 to December 6, 2020 due to COVID-related uncertainties. The total cost is estimated at \$5M.

FY2021 Revenues: Forecast vs. Final Budget

(\$000s)

Final Budget: \$885,411

Forecast: \$877,535



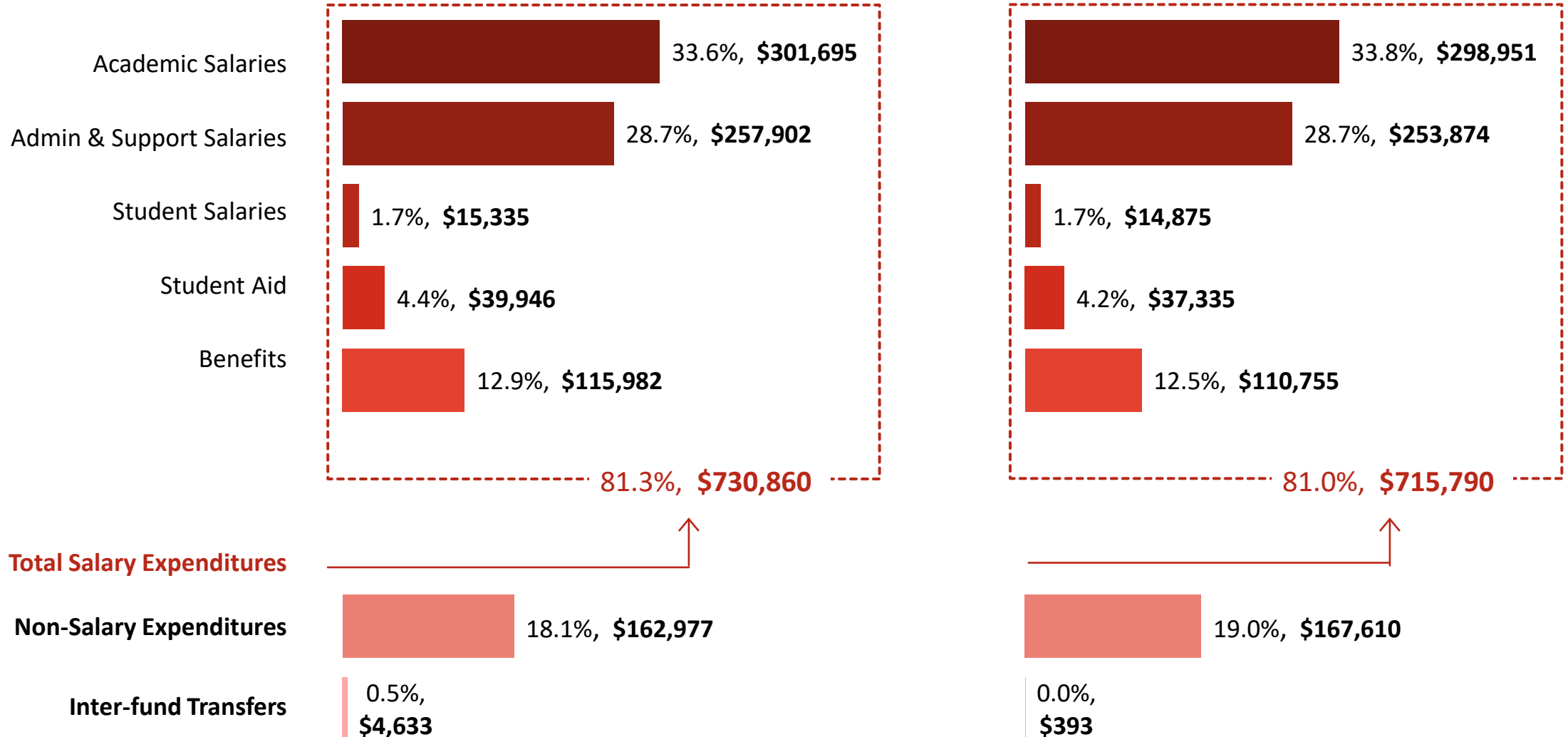
* Reclassified from the unrestricted to the restricted fund as per MES directives.

FY2021 Expenses: Forecast vs. Final Budget

(\$000s)

Final Budget: \$898,469

Forecast: \$883,794



FY2021 Forecast vs. Final Budget Variance Analysis

▶ Revenues

- ▶ COVID-specific grants have been reclassified from the unrestricted fund to the restricted fund as per MES directives.
- ▶ Inversely, *Campus médical outaouais* grants have been reclassified from the restricted fund to the unrestricted fund.
- ▶ Tuition and fee revenues are better than expected. In particular, student application fee revenues are up 25%.
- ▶ Sales of goods and services, which are largely driven by on-campus activity, continue to be depressed.

▶ Expenses

- ▶ With the reclassification of COVID-specific grants from the unrestricted fund to the restricted fund, the associated matching expenses are also being moved from the unrestricted fund to the restricted fund. These are in the form of academic salaries, non-academic salaries, student aid, and non-salary expenses such as hardware and software costs. As a result, the forecasted expenses in these categories are lower than originally anticipated.
- ▶ Benefits costs have decreased due to a change in methodology of crystalizing defined benefit pension costs as approved by Retraite Québec.
- ▶ To be confirmed based on the actual FY2021 financial results, we may proceed with a \$5M advanced payment towards the sinking fund obligations for FY2022.

FY2022 Budget (for decision)

FY2022 Enrolment Assumptions

- ▶ Enrolment assumptions for FY2022 center on sustainable stability going forward and a return to pre-pandemic levels for certain affected activities, such as bilateral exchanges.

		Fall 2020 Enrolment (Headcounts - Oct 15 census)	FY2022 Enrolment Assumptions
Under-graduate	Bachelors	23,918	↓ Slight decrease in overall enrolment (including deregulated) ↓ Lower planned intake of new regulated students (overachieved objectives in Fall 2020) ↑ Higher planned intake of new deregulated students (underachieved objectives in Fall 2020)
	First Professional	1,614	
	Undergraduate - Certificate/Diploma	1,185	~ Assuming steady-state
	Undergraduate Exchange/QIUT/Special/Visiting	767	↑ Expecting student activity to return to pre-pandemic levels (exchanges to resume, etc.)
Graduate	Masters Qualifying	99	~ Assuming steady-state
	Masters - Non-Thesis	2,518	↑ Higher planned intake of new students (underachieved objectives in FY2021)
	Masters - Thesis	2,424	↓ Lower planned intake of new students (overachieved objectives in FY2021)
	PhD	3,804	↓ Slightly lower planned intake of new students (overachieved objectives in FY2021)
	Graduate Certificate/Diploma	1,157	~ Assuming steady-state
	Graduate Exchange/QIUT/Special/Visiting	263	↑ Expecting student activity to return to pre-pandemic levels (exchanges to resume, etc.)
Residents and Fellows	1,349	~ Assuming steady-state	
Postdoctoral	638	<i>No assumptions are made for postdoctoral (do not generate tuition or grant revenue)</i>	
Grand Total	39,736		

FY2022 Enrolment Assumptions: FTEs and Weighted FTEs

- Overall, FTEs are projected to decrease by 2% in FY2022 as we return to stability. The major driver of this decrease is our Bachelors population (1st cycle) where we saw higher average course loads in FY2021 compared to pre-pandemic; student behaviour is expected to return to normal in FY2022.

	FY2021(p)	FY2022(e)	% Change
Total (Regulated + Deregulated) FTEs	33,715.6	33,061.2	-1.9%
Med Residents FTEs	1,923.8	1,923.8	0.0%
3 rd Cycle FTEs	2,342.6	2,390.3	2.0%
2 nd Cycle FTEs	4,096.6	4,097.3	0.0%
1 st Cycle FTEs	25,352.6	24,649.9	-2.8%
Total (Regulated + Deregulated) weighted FTEs⁽¹⁾	103,305.8	102,947.3	-0.3%
Deregulated FTEs	6,269.2	5,942.9	-5.2%
Regulated FTEs	27,446.3	27,118.3	-1.2%

(1) WFTEs = FTEs weighted by discipline and level, using the CAFF weighting grid

p = projected; e = estimate

FY2022 Enrolment Considerations

- ▶ The number of Fall 2021 applicants to Bachelors programs has far exceeded previous years:
 - ▶ Quebec CEGEPs +31% Y/Y
 - ▶ Ontario high schools +37% Y/Y
 - ▶ Other Canadian high schools +15% Y/Y
 - ▶ U.S. high schools +40% Y/Y
 - ▶ Overseas high schools +19% Y/Y
- ▶ There is reason to believe that students applying to more universities on average this year are driving these application trends. This will make yielding our desired new intake much more competitive and unpredictable.
- ▶ All applicant pools appear to be sufficiently strong enough to maintain, or increase, admission cut-offs for undergraduate programs, even where we may need to increase offers of admission to achieve our objectives.
- ▶ Proactive engagement with new and returning students throughout the spring and summer months should remain a priority as planning towards 2021-22 in-person teaching evolves.

FY2022 Revenues: Major Budget Assumptions and Scenarios

(\$000s)

Selected revenue sources	FY2020 Actuals	FY2021 Forecast	FY2022 Scenarios			FY2022 Budget
			Pessimistic	Realistic	Optimistic	
Grants - Quebec	378,863	370,794	372,542	373,943	381,314	381,314
Tuition and Fees	365,332	382,381	392,624	395,831	398,301	398,301
Sales of Goods and Services	125,211	72,723	92,648	102,611	114,173	114,173
Total	869,406	825,898	857,814	872,385	893,788	893,788

- ▶ For Quebec grants, as well as Tuition and Fees, optimistic scenarios represent pre-COVID indexation assumptions.
- ▶ For Sales of Goods and Services, FY2020 actuals were partially affected by COVID. The FY2022 optimistic scenario expectations represent approximately 75% of pre-COVID revenue levels.

FY2022 Expenses: Major Budget Assumptions and Scenarios

(\$000s)

Selected expense categories	FY2020 Actuals	FY2021 Forecast	FY2022 Scenarios			FY2022 Budget
			Low	Realistic	High	
Pension Solvency Contributions	17,178	17,542	10,820	14,380	17,542	14,380
Cost of Goods Sold & Services Rendered	15,315	9,470	9,470	11,815	14,160	14,160
Travel Expenses	9,835	1,004	1,004	4,938	7,380	4,938
Receptions/Special Events	5,674	100	100	2,840	4,260	2,840
Total	48,002	28,116	21,394	33,973	43,342	36,318

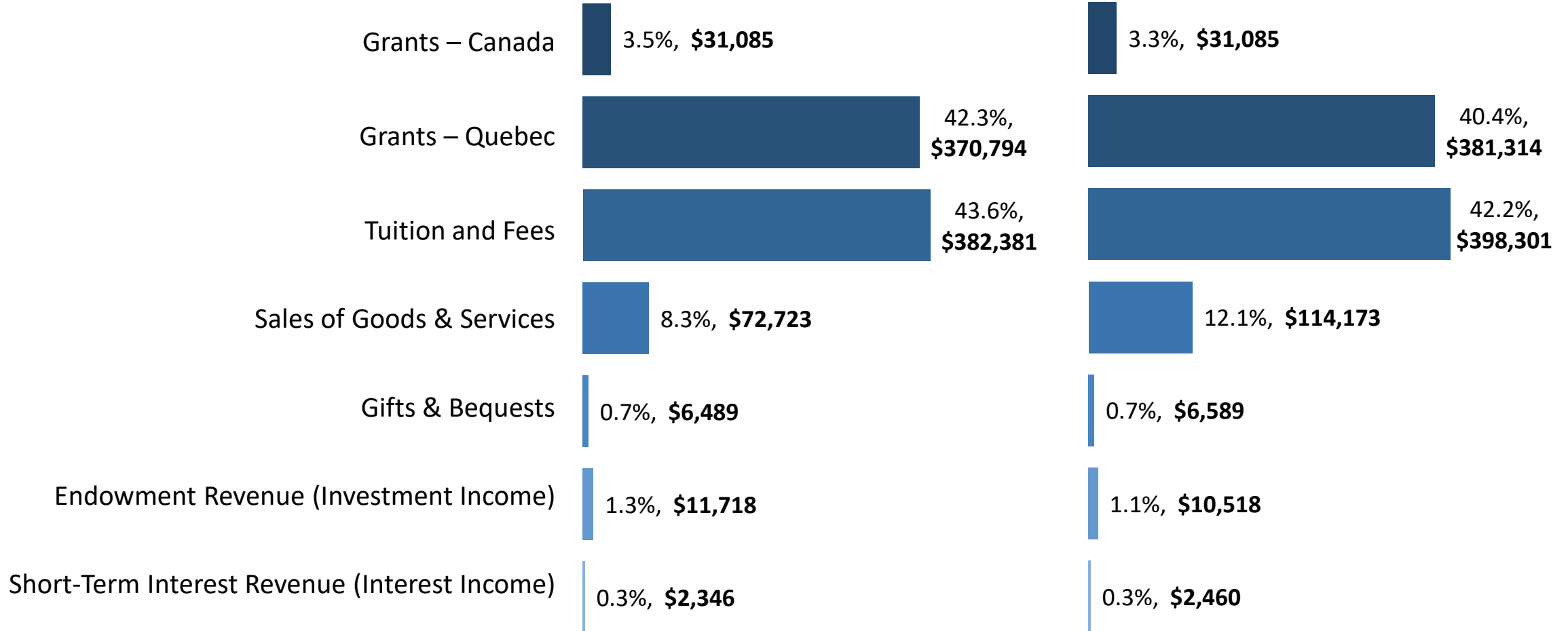
- ▶ Pension Solvency Contributions are based on payment schedules as determined with the University's actuaries.
- ▶ For Cost of Goods Sold and Services Rendered, FY2020 actuals were partially affected by COVID. The FY2022 optimistic scenario expectations represent approximately 75% of pre-COVID expense levels.
- ▶ For Travel expenses, budgeted costs are based on an expected return to 50% of pre-COVID activity.

FY2022 Budgeted Revenues

(\$000s)

Forecast: \$877,535

FY2022 Budget: \$944,439

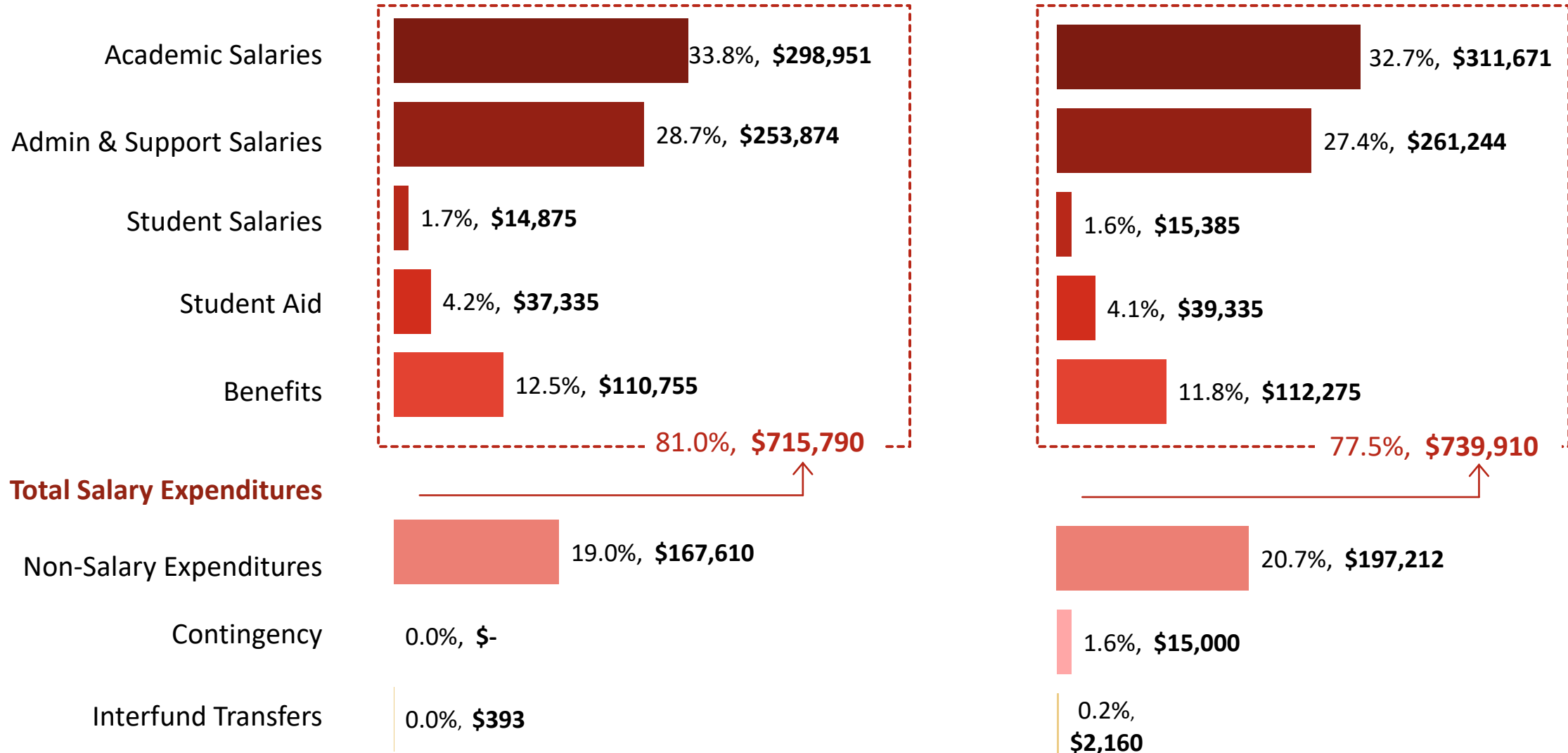


FY2022 Budgeted Expenses

(\$000s)

FY2021 Forecast: \$883,794

FY2022 Budget: \$954,282



FY2022 Budget Risk Mitigation Measures

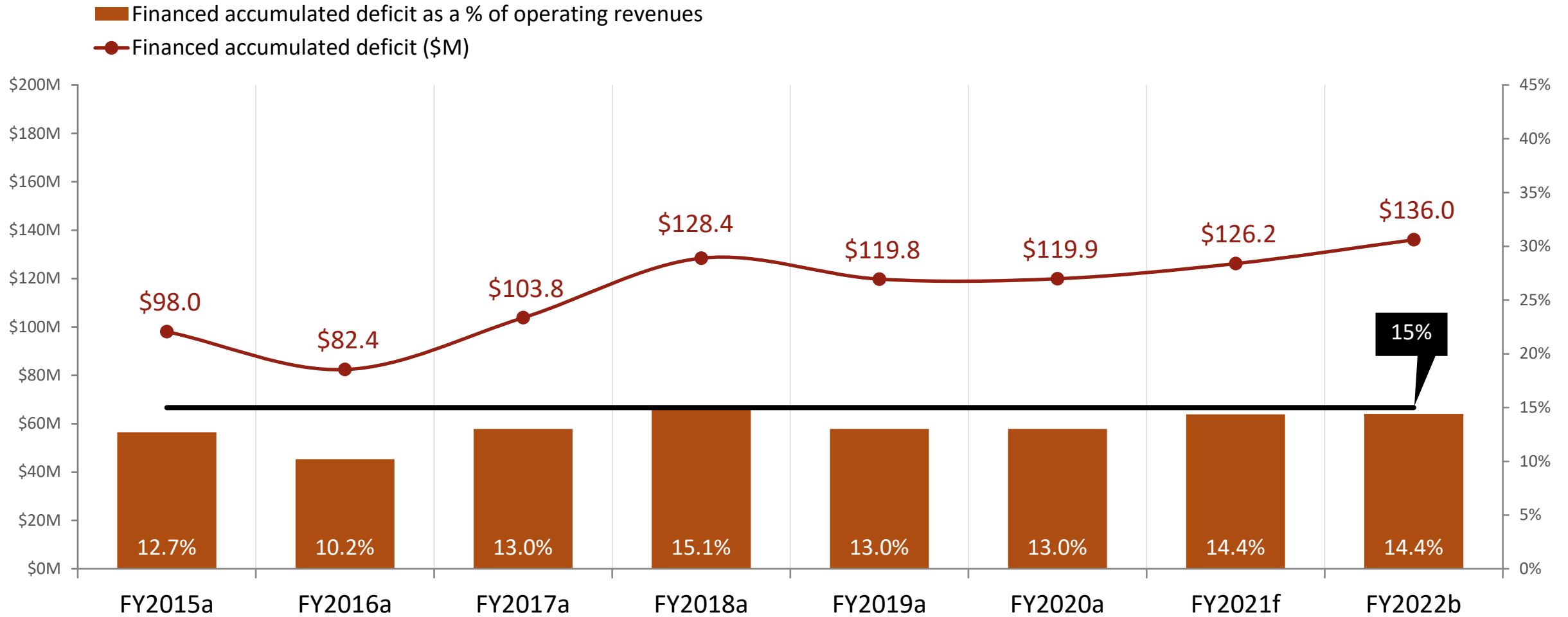
- ▶ To contain expenses, we will:
 - ▶ Continue to monitor revenue and expense expectations monthly in collaboration with units.
 - ▶ Hire tenure-track academic staff within complement.
 - ▶ Maintain a hiring control process for administrative and support staff.
 - ▶ Restrict in-year new allocations to mission-critical activities, core operations, and contractual obligations.
 - ▶ Continue to limit the ability of units to spend-down individual budget carry-forward fund balances.

Revenue and Expense Summary

(\$000)

	FY2019 Actuals	FY2020 Actuals	FY2021 Forecast	FY2022 Budget
Total revenues	920,750	922,085	877,535	944,439
Total expenses	912,088	922,240	883,794	954,282
Annual financed surplus / (deficit)	8,662	(155)	(6,259)	(9,843)
Financed accumulated deficit	119,777	119,932	126,191	136,034
Financed accumulated deficit/Revenues (%)	13.0%	13.0%	14.4%	14.4%

Operating Fund: Financed Accumulated Deficit



a = actual; **b** = budget; **f** = forecast

Uncertainties and Risks for FY2022 and Beyond

▶ External:

- ▶ COVID-19 (and associated sanitary measures)
- ▶ Stability of government commitments
- ▶ Impact on philanthropic revenues and the University's endowment fund
- ▶ Effect of market volatility on pension fund and University obligations
- ▶ Global political landscape and its effect on international student mobility
- ▶ Indirect costs of research funding
- ▶ Canadian dollar exchange rate
- ▶ Interest rates

Uncertainties and Risks for FY2022 and Beyond (continued)

▶ **McGill-controlled:**

- ▶ Mitigation of the impacts of COVID-19
- ▶ Balancing remote vs. in-person delivery
- ▶ Effective management of activities expected to be self-financing
- ▶ Expense reduction measures
- ▶ Workday integration issues (impacting salary expense forecasts)
- ▶ Success of the University in deploying its enrolment plan
- ▶ Application of optimal pricing strategy for deregulated students
- ▶ New program development coherence and accountability
- ▶ Management of spending down carry forward balances
- ▶ Position budgeting and control
- ▶ Unrestricted budget use for capital expenditures
- ▶ Space considerations (e.g., flexible work arrangements, classrooms, swing space for renovations)

Discussion

- ❓ Questions
- ❓ Comments
- ❓ Concerns
- ❓ Suggestions



MISE EN PLACE D'UNE MARGE DE CRÉDIT AUPRÈS DE FINANCEMENT-QUÉBEC

Extrait du procès-verbal d'une assemblée régulière du Conseil d'administration de l'Institution Royale pour l'Avancement des Sciences / Université McGill dûment convoquée et tenue à Montréal, Québec le 22 avril 2021 à compter de 16 heures et à laquelle il y avait quorum.

Résolution no : _____

ATTENDU QUE, conformément à l'article 78 de la Loi sur l'administration financière (RLRQ, chapitre A-6.001), l'Institution Royale pour l'Avancement des Sciences / Université McGill (l'« Université ») souhaite mettre en place un régime d'emprunts lui permettant d'emprunter par marge de crédit auprès de Financement-Québec (le « Prêteur »), dont le montant ne peut excéder en aucun moment le montant total autorisé de temps à autre par la ministre de l'Enseignement supérieur (la « Ministre »);

ATTENDU QUE les emprunts à contracter en vertu de ce régime d'emprunts devront être effectués uniquement pour financer des projets d'immobilisations pour lesquels une subvention de la Ministre sera accordée, lorsque ces emprunts seront convertis en emprunt à long terme;

ATTENDU QU'il est opportun d'autoriser cette marge de crédit et d'approuver les conditions et modalités des emprunts à contracter en vertu de celle-ci;

ATTENDU QUE, conformément à l'article 83 de la Loi sur l'administration financière, l'Université souhaite prévoir, dans le cadre de ce régime d'emprunts, que le pouvoir d'emprunter et celui d'en approuver les conditions et les modalités soient exercés par au moins deux de ses dirigeants;

ATTENDU QUE, conformément à la Loi sur l'administration financière, la Ministre a autorisé l'Université à conclure les emprunts prévus à ce régime d'emprunts;

IL EST EN CONSÉQUENCE RÉSOLU :

1. QUE l'Université soit autorisée à instituer un régime d'emprunts lui permettant d'emprunter par marge de crédit auprès du Prêteur, et à cet effet, à conclure une convention de marge de crédit, le tout aux conditions suivantes :
 - a) le taux d'intérêt payable sur les emprunts sera établi selon les critères déterminés par le gouvernement en vertu du décret numéro 430-2018 du 28 mars 2018, tel que ce décret peut être modifié ou remplacé de temps à autre;
 - b) le montant du solde des emprunts par marge de crédit ne devra, en aucun temps, excéder le montant autorisé de temps à autre par la Ministre, incluant les emprunts contractés auprès d'une institution financière;
 - c) les emprunts seront effectués uniquement pour financer des projets d'immobilisation pour lesquels une subvention de la ministre de l'Enseignement supérieur sera accordée, lorsque ces emprunts seront convertis en emprunt à long terme.
2. QU'aux fins de déterminer le montant des emprunts auquel réfère le paragraphe 1b), il ne soit tenu compte que du solde des emprunts en cours et non encore remboursé, incluant les emprunts contractés auprès d'une institution financière;
3. Que chaque emprunt ainsi que chaque remboursement de capital ou d'intérêt sur la marge de crédit soit constaté par la remise d'une confirmation de transaction au

Prêteur;

4. QUE la principale et vice-chancelière, le vice-principal exécutif et vice-principal aux études, le vice-principal, administration et finances, la vice-principale associée, services financiers, ou la secrétaire-générale de l'Université pourvu qu'ils soient deux agissant conjointement, soit autorisé, pour et au nom de l'Université, à signer la convention de marge de crédit et toute confirmation de transaction aux fins de constater chaque emprunt contracté ou tout remboursement d'emprunt sur cette marge, à y consentir à tout ajout ou modification non substantiellement incompatible avec les dispositions des présentes et à poser tous les actes ainsi qu'à signer tous les documents nécessaires ou utiles pour donner plein effet au présent régime d'emprunts.

ADOPTÉE

Copie conforme le

Montréal, le 22 avril 2021

Edyta Rogowska
La secrétaire général