Report of the Finance Committee

GD17-40

Board of Governors Meeting of February 15, 2018

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The following items arise from the Finance Committee meeting of February 8, 2018. They are presented to the Board of Governors for its information.

I. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

1. Update on Financing Plan for Deferred Maintenance and IT Initiatives [F17-11]

Further to the Board's approval of a $400 million financing plan to support investment in the University's accumulated deferred maintenance and information technology needs, the Finance Committee was informed that as at December 31, 2017, $121.2M had been committed to approved capital projects, out of $300M allocated to meet the University's most pressing deferred maintenance needs. The Finance Committee was also informed that as at December 31, 2017, $84M had been committed to approved IT-related projects, out of $100M allocated to meet the University's most pressing information technology needs.

2. Evolution of Operating Net Assets: Quebec Universities [F17-12]

The Finance Committee received a report on how McGill compares to other Quebec universities in terms of GAAP deficit and other indicators in the budget. The Committee was presented with the Operating Net Assets on a GAAP basis and adjusted for purposes of calculating the *subvention conditionnelle* by the government. The presentation included the forecasted results for the year ending April 30, 2018.

3. Financial Instruments: Derivatives for Covering Interest Rate Risk from the $400 Million Borrowing Information [F17-13]

The Committee received an update on the implementation and operation of derivative instruments used for hedging the unwanted risks associated with the borrowing plan for the deferred maintenance and information technology initiative. The Committee was informed of the potential usage of provincial bond forward to lock the Quebec spread in addition to federal bond rates.

4. Financial Scenarios in Support of Royal Victoria Hospital Initiative [F17-14]

The Committee was presented with various financial scenarios in support of the Royal Victoria Hospital project, further to the strategic working sessions held with the Building and Property Committee (BPC) to consider this initiative. In approving a list of conditions to form part of the negotiation mandate with the government, the Executive Committee requested that it be subject to a financing plan in support of the initiative. The Committee will consider financial plans in a special meeting, on February 23, 2018.

5. Budget Implementation 2017-18 Year-to-Date [F17-15]
Report on Quarterly Financial Results for Fiscal Period Ended October 31, 2017

The Committee received a quarterly report on the financial results for the period ended on October 31, 2017, including financial variance reports.

6. Budget Planning 2018-19 Report II [F17-16]

The Committee received the second of three presentations concerning the FY2019 University budget. The Presentation in support of the budget planning exercise is attached as Appendix A

7. Annual Report on External Borrowing [F17-10]

The Committee received a report on outstanding capital borrowings for the year ending January 31, 2018. The maximum amount borrowed during the 12-month period ended January 31, 2018 was $144 million in June 2017. There were no borrowings during January 2018, a first occurrence of such in the past five years.

END
February 2018

Budget Planning II

FY2018 Forecast and Outlook for FY2019-FY2023

Presentation to Board of Governors on February 15, 2018
DRAFT | **CONFIDENTIAL**

Prof. Christopher Manfredi, Provost and Vice-Principal (Academic)

McGill

Safe Harbour Statement

- This presentation represents the status of our revenue and expense modeling as of January 30, 2018.
- At this early point, the revenue and expense estimates are becoming more precise.

Looking ahead FY2019-FY2023

- McGill has reached a watershed moment in its budgeting
  - We are on the cusp of major change in how the province finances universities.
  - We are on the verge of undertaking an unprecedented capital renewal of our campus.
  - McGill has had to file a *Plan de redressement* with the government and has to demonstrate a return to balanced budget over the next few years.

- Meeting these challenges presents major challenges to our operating budget

Initial forecast for FY2018 ($M)

Anticipated major operating budget variances for FY2018 ($M)	
Annual financed operating deficit FY2018 Nov. budget update	**($9.9M)**
Higher than anticipated tuition	$13.2M
Higher than anticipated sales of goods and services	$10.2M
Higher than anticipated Federal grants	$2.7M
Higher than anticipated building & occupancy costs	($15.4M)
Higher than anticipated support staff salaries & payments	($10.3M)
Higher than anticipated contract services	($6.0M)
Higher than anticipated professional fees	($4.6M)
Net variations in all other revenue and expense categories	*$5.9M*
Annual financed operating deficit FY2018 forecast	**($14.2M)**

Forecasting Method

- To forecast for the current year, we started by looking at actual expenses and commitments for each of 38 revenue and expense categories.
- We plotted the activity in each revenue and expense category monthly for the 12 months in each of FY2015, FY2016, and FY2017, as well as the first nine months of FY2018.
- We then used the three prior year results, and current year activities to date, to forecast the anticipated activity for February, March, and April 2018 in each one of the 38 revenue and expense categories.

Looking ahead FY2019-FY2023: Revenues

- McGill is continuously refining its revenue estimate for its largest revenue category. The amount that we receive from the ministry on a monthly basis is based on historical expectations, and does not match the amount being generated by our current student cohort. Our forecast reflects the latter, even though these corrections will only appear in the government grant two years from now.

- McGill will need to change the way it looks at spending in order to meet strategic challenges.
  - Are our budget rules maximizing our ability as an institution to meet our challenges?
  - Are we effectively using our revenues in such a way that allows us to meet our challenges?
  - Are we taking advantage of changes in personnel or structures to re-examine the way we do things? To find better ways?
  - Is incremental revenue being shared in as efficient a way as possible with our academic units?

Timeline for FY2018 Revenue (FTE-driven) Projections

		FY2018 Revenue Model Inputs						
		McGill-controlled			Ministry-controlled			
		Bachelors Enrolment	**Deregulated Enrolment**	**Graduate New Registrations**	**QC (basic) Tuition Rate**	**ROC and Int'l Supplement Rate**	**Support Grant ($ per FTE)**	**Teaching Grant ($ per WFTE)**
Nov/Dec 2016	Enrolment plans for BY18 prepared following ES/Dean GPS meetings with Deans	targets	targets	targets	assumption	assumption	assumption	assumption
Jan 31, 2017 (FY17 Q3)	FY17 tuition collection estimates stabilize (Required input for FY18 tuition projections)	targets	targets	targets	assumption	assumption	assumption	assumption
Apr 6, 2017	*VRAAF: Taux de croissance du revenu disponible par habitant updated*	targets	targets	targets	preliminary	assumption	assumption	assumption
FY2018 Budget Finalized								
May 8, 2017	*Indexation des droits de scolarité des étudiants étrangers et canadiens non-résidents du Québec pour l'année universitaire 2017-2018*	targets	targets	targets	confirmed	confirmed	assumption	assumption
May 19, 2017	*Orientations Budgétaires*	targets	targets	targets	confirmed	confirmed	confirmed	confirmed
Oct 15, 2017	Fall census enrolment date	Enrolment actuals (FTEs estimated)	Enrolment actuals (FTEs estimated)	New registration actuals (winter new registrations & FTEs estimated)	confirmed	confirmed	confirmed	confirmed
Oct 31, 2017 (FY18 Q2)	FY18 tuition collection estimates (high-level)							
Jan 31, 2018 (FY18 Q3)	FY18 tuition collection estimates stabilize; preliminary FY18 FTE data available	Preliminary FTEs available			confirmed	confirmed	confirmed	confirmed
Apr 30, 2018 (FY18 Q4)	FY18 tuition collection actuals; FY18 FTE data stabilizes	FTEs stabilize (Ministry submissions for winter 2018 not yet final)			confirmed	confirmed	confirmed	confirmed

= Inputs which may change (preliminary, estimates, etc.)   = Inputs which are confirmed and unlikely to change

Forecasting year-end revenues

- The ***Timeline for FY2018 Revenue (FTE-driven) Projections*** provides an in-depth look at the process we follow for forecasting our two main revenue streams – grant revenue and tuition & fees.

- For most other revenue streams (i.e., sales of goods and services, or gifts and bequests), we used year-to-date activity through January 30, 2018, and looked at historical activity for February through April in each of FY2015, FY2016, and FY2017 to help estimate the likely results for the last three months of FY2018.

- In the case of endowment revenue, amounts received in the operating fund in February, March and April should mirror those received in January.

Timeline for FY2018 Revenue (non-FTE-driven) and Expense Forecast

	FY2018 Forecast Model Inputs		
	Finance	Banner (APB)	FBM/BPX (Units)
Self service on-demand	Variance reports with prorated budgets		
Jan, 2018		Initial forecast: examine year-to-date revenues and expenses, and use historical patterns and updated assumptions to prepare annual forecast	
Jan 30, 2018	**Budget Presentation II to P7**		
Jan 31, 2018 (Q3 end, available Feb 8, 2018)			Populate FBM/BPX templates
Feb 2, 2018	**Budget Presentation II to Finance Committee**		
Feb 19, 2018			FBM/BPX validation begins (unit forecasts)
Mar 12, 2018			FBM/BPX validation ends
Mar 16, 2018			FBM/BPX lockdown (Comparison of Unit Forecasts with Initial Forecast)
Mar 29, 2018	**Budget Presentation III to P7**		
Apr 4, 2018	**Budget Presentation III to Finance Committee (Final Forecast)**		

APB = Analysis, Planning and Budget; **FBM =** Financial Budget Model; **BPX** = Budget Planning Exercise

Looking ahead FY2019-FY2023: Expenses

- Invest in top priorities
  - Principal’s priorities
  - Provost’s strategic academic plan elements
  - Recommendations from Provost’s Task Force on Indigenous Studies and Indigenous Education
- Review all other potential investments, including academic hiring
- Consider salary mass control options for administrative and support staff
- Review overhead rates
- Review carry-forward rules

Forecasting year-end expenses

- Some expense line items are relatively easy for forecast from one year to the next. For example, we forecast *Tenure Track Salaries* using the actual expenses as of the current date, and the commitments to the end of April, and we then factor in a slight adjustment based on historical patterns. The forecast is easier to pinpoint because few tenure track faculty arrive and depart mid-year.

- *Support Staff Salaries and Payments* are also relatively predictable, although the overall cost increases consistently throughout the year due to the use of casual employees and overtime. As with the revenue streams, we used year-to-date activity through January 30, 2018, and looked at historical activity for February through April in each of FY2015, FY2016, and FY2017 to help estimate the likely results for the last three months of FY2018.

Forecasting year-end expenses *(cont'd)*

- In the case of non-salary items, one of the major challenges in forecasting effectively is the inclusion of multi-year commitments on financial reports that relate to the current year's expenses. Many of these commitments relate to future years, and will ultimately not be paid in FY2018, but cloud the picture in the meantime.

- Finally, transfers of expenses into or out of the operating fund vary considerably from one year to the next, and are difficult to predict. Often times, these are high dollar value transactions that may impact the overall picture dramatically. In addition, they often occur near the end of the fiscal year.

- We will work with all units through the **FBM** (Financial Budget Model)/**BPX** (Budget Planning Exercise) to ensure the maximum possible accuracy for each of these revenue and expense forecasts.

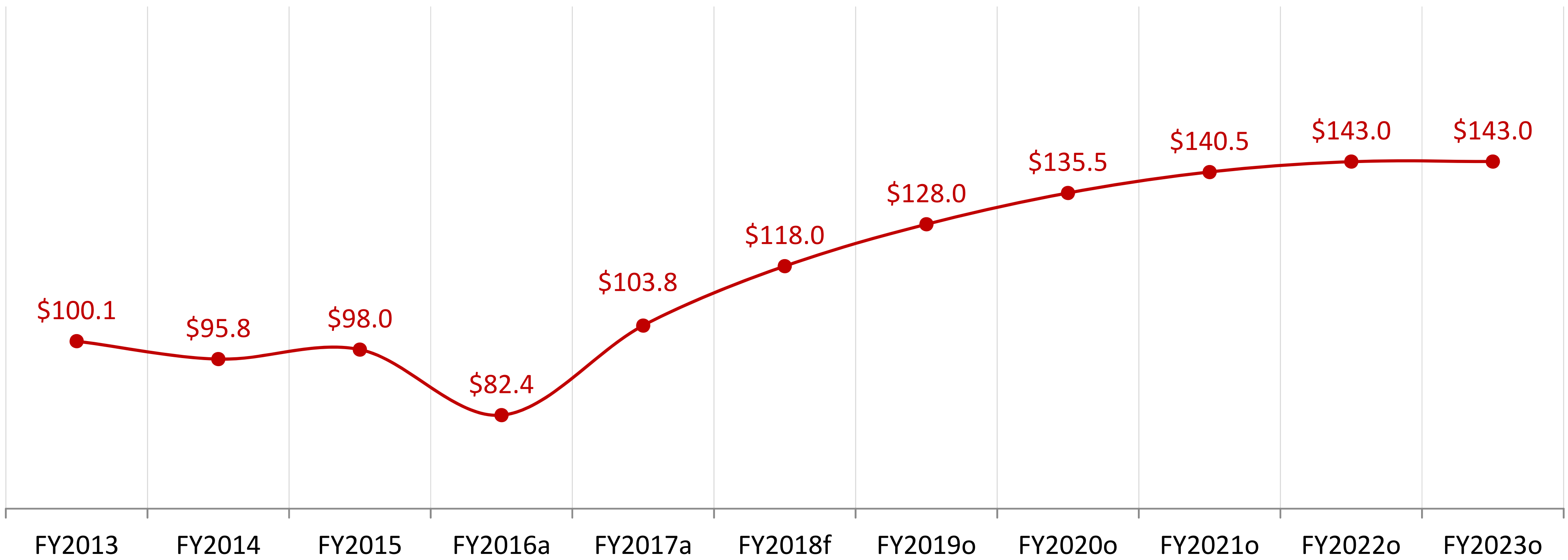
Operating Budget: Past, present and future outlook (Preliminary - $000s)

5-year outlook	*FY2018(b)* *(from budget book)*	*FY2018(f)*	*FY2019(o)*	*FY2020(o)*	*FY2021(o)*	*FY2022(o)*	*FY2023(o)*
Total revenues	815,031	836,765	844,389	865,478	885,300	904,369	919,288
Total expenses [1]	(824,960)	(850,972)	(854,389)	(872,978)	(890,300)	(906,869)	(919,288)
Annual financed surplus (deficit)	(9,929)	(14,207)	(10,000)	(7,500)	(5,000)	(2,500)	0
Financed accumulated deficit		(118,007)[2]	(128,007)	(135,507)	(140,507)	(143,007)	(143,007)
Financed accumulated deficit/Revenues (%)		14.10%	15.16%	15.66%	15.87%	15.81%	15.56%

b = budget; **f** = forecast; **o** = outlook

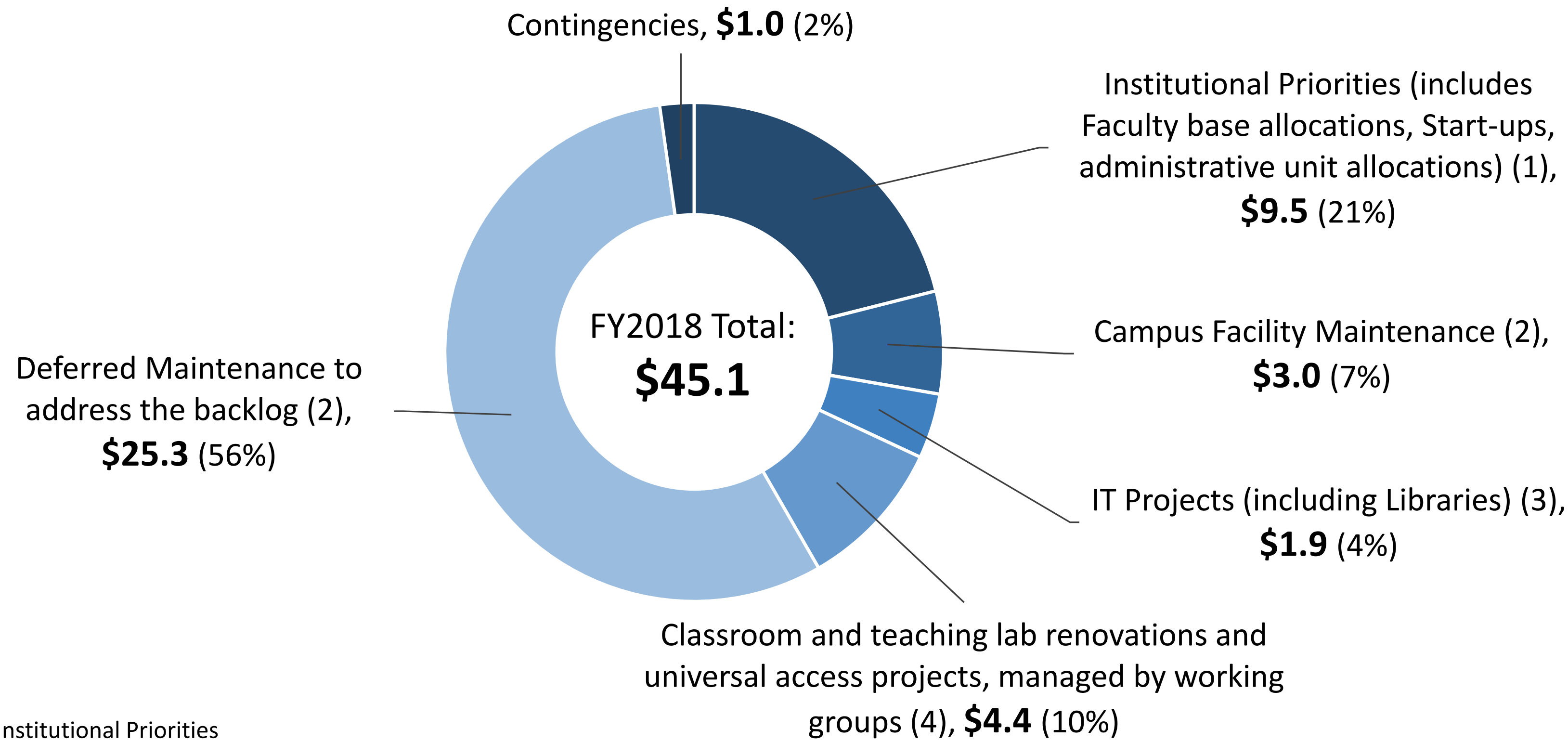
[1] Excluding year-end actuarial adjustments and related accruals
[2] FY2017 ending financed accumulated deficit = $103,800

Operating Fund: Financed accumulated deficit ($M)



a = actual; **f** = forecast; **o** = outlook

Projected McGill capital allocations from the capital budget FY2018 ($M)



(1) Portfolio: Institutional Priorities
(2) Portfolio: Physical Infrastructure
(3) Portfolio: IT Infrastructure
(4) Portfolio: Student Life and Learning

Master Plan – Operating costs analysis

McGill Current gsm (gross square meters) – All campuses	Dry	Wet	Lease	Other	Total
Recognized	10,569	116,829	907	484,695	613,000
Not recognized			26,093	210,907[(1)]	237,000
Inventory	**10,569**	**116,829**	**27,000**	**695,602**	**850,000**

[(1)] Residences, Athletics, indoor parking, etc.

Current Operating Costs ($M)			
MEES Grants	Teaching space	$38.3	
	Research space	$19.6	
	Lease grant	$0.4	
McGill	Teaching & Research space	$26.1	**$36.5**[(2)]
	Leases	$10.4	
	Total Operating Costs	**$94.8**	

[(2)] McGill assumes **38.5%** of the total costs

Costs per gsm ($/gsm or $/sq.ft.)

$$\frac{\$94.8M}{850{,}000\ \text{gsm}} = \$115.5/\text{gsm}$$

(or $10.73/sq.ft)

Impact of Capital Investments on University Funds ($M)

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
[C=A+B] **Net cash flow for McGill Operating Fund**	-	-	($11.50)	($23.00)	($23.00)	($23.00)
[A] Capital Payment	-	-	($0.72)	($8.61)	($8.61)	($8.61)
[B] Interest payment	-	-	($10.78)	($14.39)	($14.39)	($14.39)
[D] Rate lock (M to M)	($1.20)	-	-	-	-	-
[E] Interest earned	$1.43	$0.51	$0.97	$4.68	$6.65	$6.07
[F] Expenses	-	($0.67)	($0.57)	-	-	-

Assumptions:

1. Assume realistic scenario
2. Assume the sell of residences in 2021 for $175M
3. Assume investment return of 2.5% reinvested in the amortization fund
4. Assume payment of interest in 2018 and 2019 from bond proceeds
5. McGill injection used to pay interest + finance the amortization Fund

Discussion

- Questions
- Comments
- Concerns
- Suggestions