

Secretariat

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The following items arise from a meeting of the Finance Committee on April 11, 2018. They are presented to the Board of Governors for its consideration.

I. FOR APPROVAL BY THE BOARD OF GOVERNORS**1. Proposed McGill University Budget 2018-19** [F17-25]

Following the Committee's review of budget planning reports at its November and February meetings, members received a presentation in support of the proposed 2018-19 University budget. Members were informed that variances totaling -\$14.2M against the FY2018 budget bring the initial budgeted operating deficit of \$9.9M to a forecasted deficit of \$24.1M. It was noted that revenue forecasting methods were improved and work to improve expense forecasting methods is ongoing. Members were also informed of measures that would be put in place to control expenses, including implementing a 'three for five' replacement rate for administrative and support staff in certain units and reducing the planned growth in academic renewal.

A PowerPoint slide pack summarizing the highlights of the budget is attached as Appendix A.

Be it resolved that the Board of Governors, on the recommendation of the Finance Committee, approve the proposed 2018-2019 McGill University Budget, as described in Appendix A.

2. Maximum Borrowing Resolution for Fiscal Year 2019 [F17-26]

The *Ministère de l'Éducation et de l'Enseignement supérieur* (MEES) requires annual borrowing authorization limits to be confirmed by the University. The Committee, on the recommendation of the Vice-Principal (Administration and Finance) recommended that the University's maximum external short-term borrowing limits for the period from June 1, 2018 to May 31, 2019 remain at \$300 million.

Be it resolved that the Board of Governors, on the recommendation of the Finance Committee, approve a maximum borrowing of up to \$300 million, for the twelve-month period from June 1, 2018 to May 31, 2019.

II. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

1. Update on Financing Plan for Deferred Maintenance and IT Initiatives [F17-23]

The Committee received a report indicating the projects to be funded with the proceeds of the bond. Members were apprised of how each project will be funded and received information about the estimated cash flow over a five-year period for those projects. It was noted that as at March 13, 2018, \$127,887,189 has been committed to approved capital projects out of the \$300M allocated to meet the University's most pressing deferred maintenance needs. It was also noted that as at February 28, 2018, \$84,438,482 had been committed to approved IT-related projects out of the \$100M allocated to meet the University's most pressing IT needs.

2. Budget Implementation 2017-18 Year-to-Date [F17-24] Report on Quarterly Financial Results for Fiscal Period Ended January 31, 2018

The Committee received a quarterly report on the financial results for the period ended on January 31, 2018. The report included an Executive Summary, with operational highlights, outlining the salient features of overall revenues and expenses for the period ended January 31, 2018.

3. Annual Report Concerning Genomics Funding Project [F17-27]

The Committee received a report from the Faculty of Medicine concerning the funding of the Genome and Innovation Centre (the "Genome Centre"). This report is presented to the Finance Committee every 15 months further to the Board's approval of the Genomics Funding Proposal in 2010. The Committee was informed of progress made in repaying the line of credit that had been established in support of acquiring new talent and equipment for the Genome Centre. More specifically, members were informed that, as of April 2018, the outstanding balance of the line of credit is \$6.2M.

4. Annual Report on the McGill University Pension Plan [F17-28]

The Committee received the annual report on the McGill University Pension Plan for the fiscal year ended December 31, 2017, as approved by the Pension Administration Committee. Members were apprised of the pension plan fund performance and were reminded that the actuarial valuation of the Pension Plan completed as of December 31, 2015, revealed a going concern deficit of \$78M and the degree of solvency of the Pension Plan as at December 31, 2016 was 81%. It was noted that the next valuation exercise must be performed as at December 2018 at the latest. The report, which has also been presented to the Human Resources Committee, is available at:

<http://www.mcgill.ca/hr/pensions/mupp/invest/reports>

5. Annual Report from General Counsel

In accordance with the terms of reference of the Committee, members received an annual report on current claims against the University. Overall, it was noted that the University risk exposure is not significant.

6. Update on the Royal Victoria Hospital Redevelopment Project

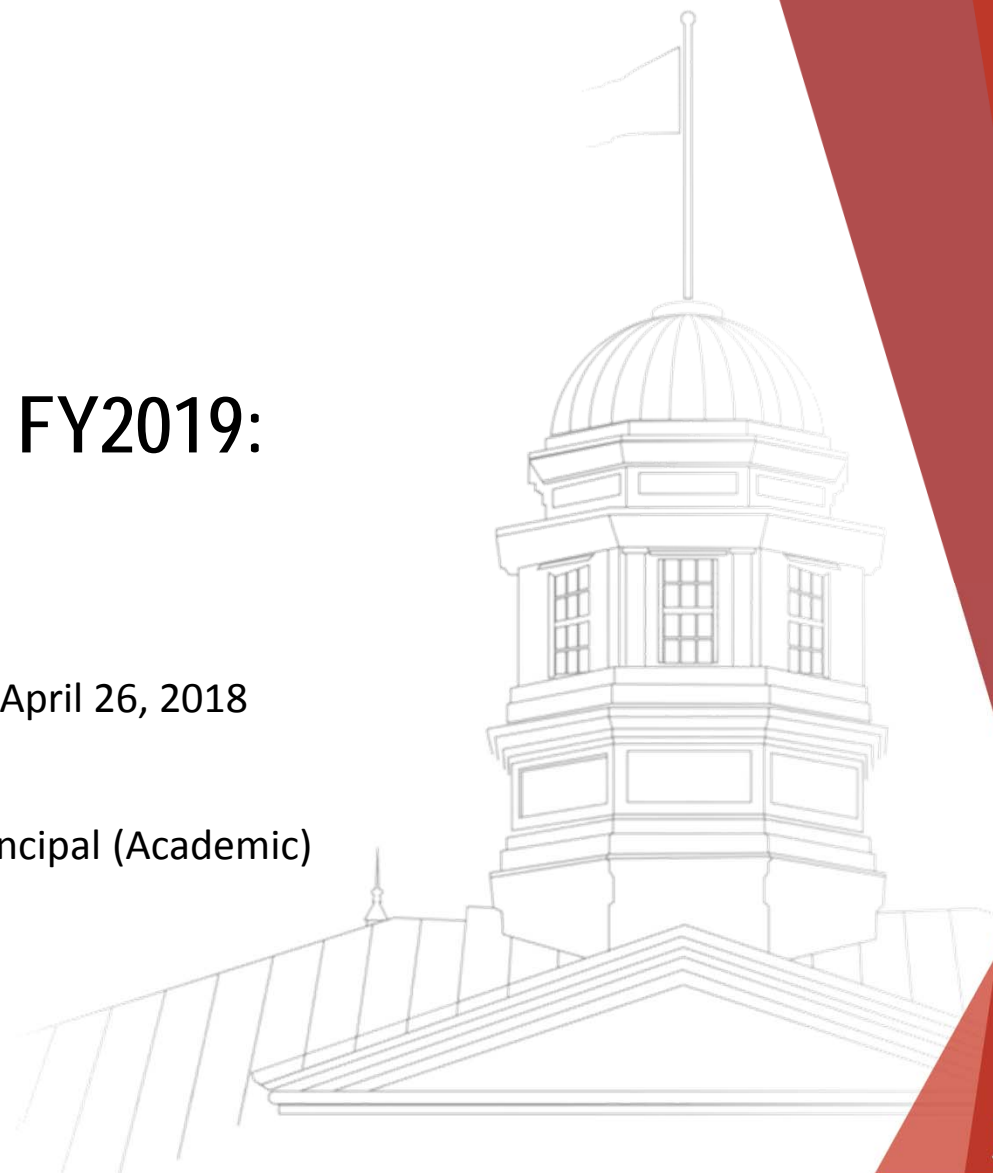
The Committee received an update on the Royal Victoria Hospital redevelopment project. It was noted that at a meeting on March 16 with the Deputy Minister of Education and Assistant Deputy Minister of Education, McGill was informed that a decision by the *Conseil des Ministres* regarding the *dossier d'opportunité* was not expected for at least nine months. The University later requested a strong signal from the government of its commitment to the project before the Board of Governors meeting taking place on May 24, 2018. As a result, the Ministry of Education is drafting a document asking the *Conseil des Ministres* for a decree to proceed to the *dossier d'affaires* even though the *dossier d'opportunité* is not yet approved. This would be an exceptional measure that would allow the University to receive funding from the government in order to continue working on the RVH project.

Budget Planning III

McGill University Budget FY2019: Summary and Highlights














Presentation to the Board of Governors on April 26, 2018

Christopher Manfredi, Provost and Vice-Principal (Academic)



FY2018 forecast (\$M)

- ▶ Variances totaling -\$14.2M against the FY2018 budget bring the initial budgeted operating deficit of \$9.9M to a forecasted deficit of \$24.1M.

Anticipated major operating budget variances for FY2018 (\$M)	
Annual financed operating deficit FY2018 budget	(\$9.9M) 
Higher than anticipated tuition & fees	 \$11.4M
Higher than anticipated sales of goods and services	 \$10.0M
Higher than anticipated Quebec grants	 \$3.4M
Higher than anticipated Federal grants	 \$2.7M
Higher than anticipated support staff salaries & payments	(\$10.8M) 
Higher than anticipated building & occupancy costs	(\$9.6M) 
Higher than anticipated contract services	(\$7.3M) 
Higher than anticipated materials, supplies and publications costs	(\$7.1M) 
Higher than anticipated other academic salaries & payments (non-Tenure-Track)	(\$4.5M) 
Higher than anticipated professional fees	(\$4.1M) 
<i>Net variations in all other revenue and expense categories</i>	 \$1.8M
Annual financed operating deficit FY2018 forecast	(\$24.1M) 

Looking ahead FY2019 – FY2023: Revenues

- ▶ Québec announced an additional investment in higher education in the Québec Economic Plan (March 2018)
- ▶ Reinvestments announced in both last year's and this year's economic plan are conservatively built into our revenue projections
- ▶ Indexation in regulated tuition fees for FY2019 in line with the most recent measure of disposable income per capita
- ▶ Enrolment forecast is for a slight increase at both the undergraduate and graduate levels
- ▶ The Federal budget announced significant funding for research, while the Québec Economic Plan (March 2018) announced modest additions to significant investments in the Fonds made last year

McGill Revenue Generation Initiatives

- ▶ Continued advocacy with the Quebec government about advantages of universities retaining the forfaitaire on Canadian non-Quebec resident and international students that they currently recover
- ▶ Continued evaluation of new and revised programs to take into account the attractiveness and relevance of our offerings
- ▶ Online program committee working to create five new online programs, as indicated in the Strategic Academic Plan
- ▶ Ensuring that self-financing is considered in the development of all new graduate short programs
- ▶ Considering revenue generation that could accrue from implementation of the Campus Master Plan

FY2019: Budget implementation and proposal

- ▶ **Principal's priorities**

- ▶ **Provost's strategic academic plan objectives**
 - ▶ Be open to the world
 - ▶ Expand diversity
 - ▶ Lead innovation
 - ▶ Connect across disciplines and sectors
 - ▶ Connect with our communities

FY2019: Strategic priorities – highlights

- ▶ Over \$1.4M in one-time and recurring funding for initiatives in Indigenous Studies and Education
- ▶ Faculties
 - ▶ Maintain appropriate levels of administrative and support staff to support the academic mission
 - ▶ \$520K in enrolment-driven allocations
- ▶ \$500K to the Faculty of Medicine for Montreal Neurological Institute (MNI) operating support
- ▶ \$100K towards the Distinguished James McGill Professor award
- ▶ \$1.25M for the Library collections budget

FY2019: Strategic priorities – highlights (Cont'd)

- ▶ Student Life and Learning
 - ▶ \$8.7M over 7 years to implement the Student Mental Health Action Plan
 - ▶ Overhead on Student Service Fee and Athletics and Recreation Fee:
 - ▶ Reduction in FY2019 amounting to \$450K
 - ▶ Elimination in FY2020 amounting to \$900K
 - ▶ \$721K for *Insertion Professionnelle* substitution, which aids with the transition from university to the work place
 - ▶ \$500K in additional student financial aid
- ▶ Graduate and Postdoctoral studies
 - ▶ \$400K for additional graduate student funding
 - ▶ \$200K for doctoral student recruitment

FY2019 and beyond: Expense pressures

- ▶ Salary commitments
 - ▶ Maintain agreements and contracts
 - ▶ For tenure track staff: when calculating the mean salary at McGill as a percentage of median compensation at other U15 universities, target is to reach or surpass FY2011 levels (target currently being met for all ranks)
 - ▶ FY2019 cost: **\$12.2M**, including benefits

- ▶ Deferred maintenance
 - ▶ Bond issue for **\$160M** in FY2016. Additional borrowing (up to \$400M total) in support of capital expenditures to be repaid upon maturity
 - ▶ Expected annual capital and interest costs: **\$11.5M in FY2020; \$23M starting in FY2021**

- ▶ Regular maintenance to mitigate future deferred maintenance risks within budget

FY2019 and beyond: Continual re-evaluation of required budget measures plan

- ▶ Administrative and support staff budget measure from FY2016 has not achieved the projected result of a reduction in salary mass. Staff levels are back to where they were prior to the Voluntary Retirement Program (VRP), as the salary mass continues to grow.
 - ▶ For staff paid from operating funds (1A), we currently replace each FTE (full-time equivalent) that departs with 1.7 FTEs, and every salary mass dollar with \$1.40
 - ▶ For staff paid from self-financing funds (1B & 1C), we currently replace each FTE that departs with 3.1 FTEs, and every salary mass dollar with \$2.80
 - ▶ Staff replacement rates are similar between Faculties and administrative units, however salary mass replacement rates are higher for the former
 - ▶ Implementation of 'three for five' replacement in administrative units is expected to reduce salary mass by \$2.6M over the next two years

FY2019 and beyond: Continual re-evaluation of required budget measures plan (Cont'd)

- ▶ Academic renewal reallocation
 - ▶ A reduction in the planned growth in Academic Renewal over FY2019 to FY2023 achieved through implementing an annual University-wide cap of 55 new licenses (spousal hires and replacement of pre-tenure departures notwithstanding)

- ▶ Increased overhead charges on self-funded operating revenues (1B-1F funds), which can be accommodated given significant accumulated surpluses in these funds
 - ▶ Up from 5% to 7.5%: \$3.0M in additional contributions

- ▶ Use of reserve funds on operating funds requires Provostial approval

FY2019 and beyond: Uncertainties

- ▶ Labour-related costs that could exceed forecasts
 - ▶ Pay equity
 - ▶ Collective bargaining
- ▶ Changes to provincial funding policy
- ▶ Fluctuations in currency exchange rates; additional interest rate increases
- ▶ Inability to spend endowment payout due to restrictions on use (e.g., research chairs, donor requirements)

FY2019 and beyond: Refining processes in search of efficiencies

- ▶ Deep dive into Facilities Management and Ancillary Services (FMAS)
- ▶ Pension deficit continues to decline in a time of interest rate increases
- ▶ New policies to be developed
 - ▶ Administrative and Support Staffing Policy
 - ▶ Data Governance Policy
 - ▶ Overhead Policy

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

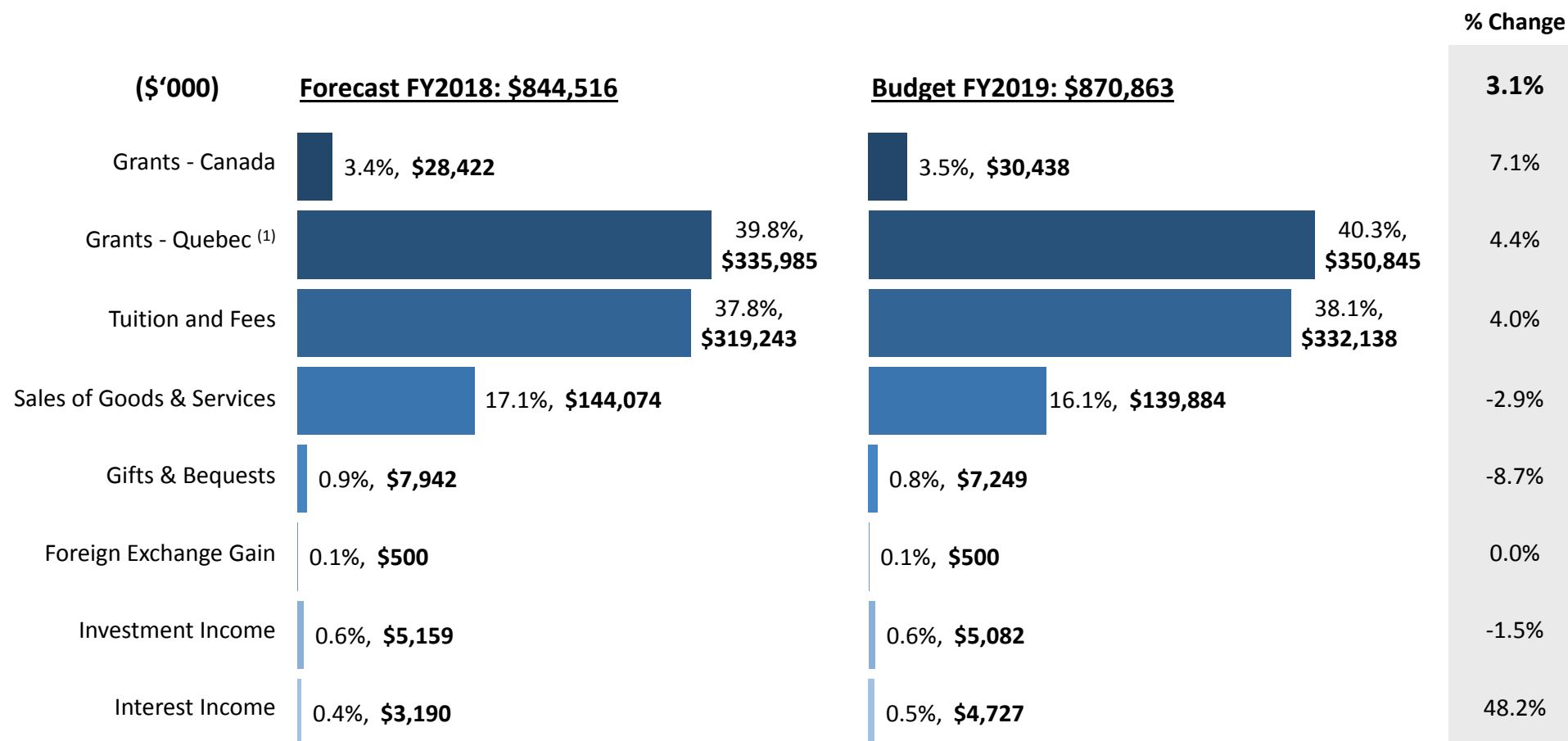
5-year outlook	<i>FY2018(b)</i> <i>(from budget book)</i>	<i>FY2018(f)</i>	<i>FY2019(b)</i>	<i>FY2020(o)</i>	<i>FY2021(o)</i>	<i>FY2022(o)</i>	<i>FY2023(o)</i>
Total revenues	815,031	844,516	870,863	898,264	925,834	938,506	955,642
Total expenses ⁽¹⁾	824,960	868,617	886,305	906,513	931,370	938,818	951,920
Annual financed surplus (deficit)	(9,929)	(24,101)	(15,442)	(8,249)	(5,536)	(312)	3,722
Financed accumulated deficit ⁽²⁾		(127,901)	(143,343)	(151,592)	(157,128)	(157,439)	(153,717)
Financed accumulated deficit/Revenues (%)		15.14%	16.46%	16.88%	16.97%	16.78%	16.09%

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

⁽¹⁾ Excluding year-end actuarial adjustments and related accrual

⁽²⁾ FY2017 ending financed accumulated deficit = \$103,800

FY2019: Operating revenue = \$870.9M



⁽¹⁾ FY2019: Includes a 2018-2019 Provincial Budget additional investment amount of \$7.35M

FY2019 Key revenue assumptions: Student enrolment

- ▶ Modest growth in enrolment, capacity permitting

			1-yr Growth
Total FTEs	31,962.9	32,137.9	0.5%
Med Residents (FTEs)	1,929.5	1,929.5	0.0%
3 rd Cycle (FTEs)	2,060.6	2,169.6	5.3%
2 nd Cycle (FTEs)	3,866.5	3,819.6	-1.2%
1 st Cycle (FTEs)	24,106.3	24,219.2	0.5%
	FY 2018(p)	FY 2019(e)	
Total weighted FTEs*	86,392.2	87,118.4	0.8%

*WFTEs = FTEs weighted by discipline and level

p = projected; e = estimate

FY2019-FY2023 Key revenue assumptions: MEES operating grant

- ▶ Assumptions
 - ▶ Québec Economic Plan (March 2017) reinvestment flows through the normalized grant envelopes
 - ▶ Modest grant indexation (FY2019 to FY2023 – Support grant: 1% per year; Teaching grant: 1.2% per year)

- ▶ Estimated increases in regulated Quebec base tuition
 - ▶ FY2019 to FY2023: 2.7%, 2.8%, 2.0%, 2.0%, 2.0%

- ▶ Increases in deregulated international student tuition:
 - ▶ FY2019 to FY2021: 7.7% increase per year for incoming cohorts

FY2019 Key revenue assumptions: Regulated tuition

- ▶ Increase in basic tuition revenues (net of student aid) = approximately \$2.0M
 - ▶ FY2019 increase = 2.7% or \$64.50/FTE (\$56/FTE net)
 - ▶ Assumptions for subsequent years:
 - ▶ FY2020: 2.8% increase
 - ▶ FY2021 to FY2023: 2.0% per year increase

- ▶ Provincial tuition supplement recovery amount
 - ▶ Increase in out-of-province and international supplements = approximately \$5.1M in FY2019 to be recovered by the government

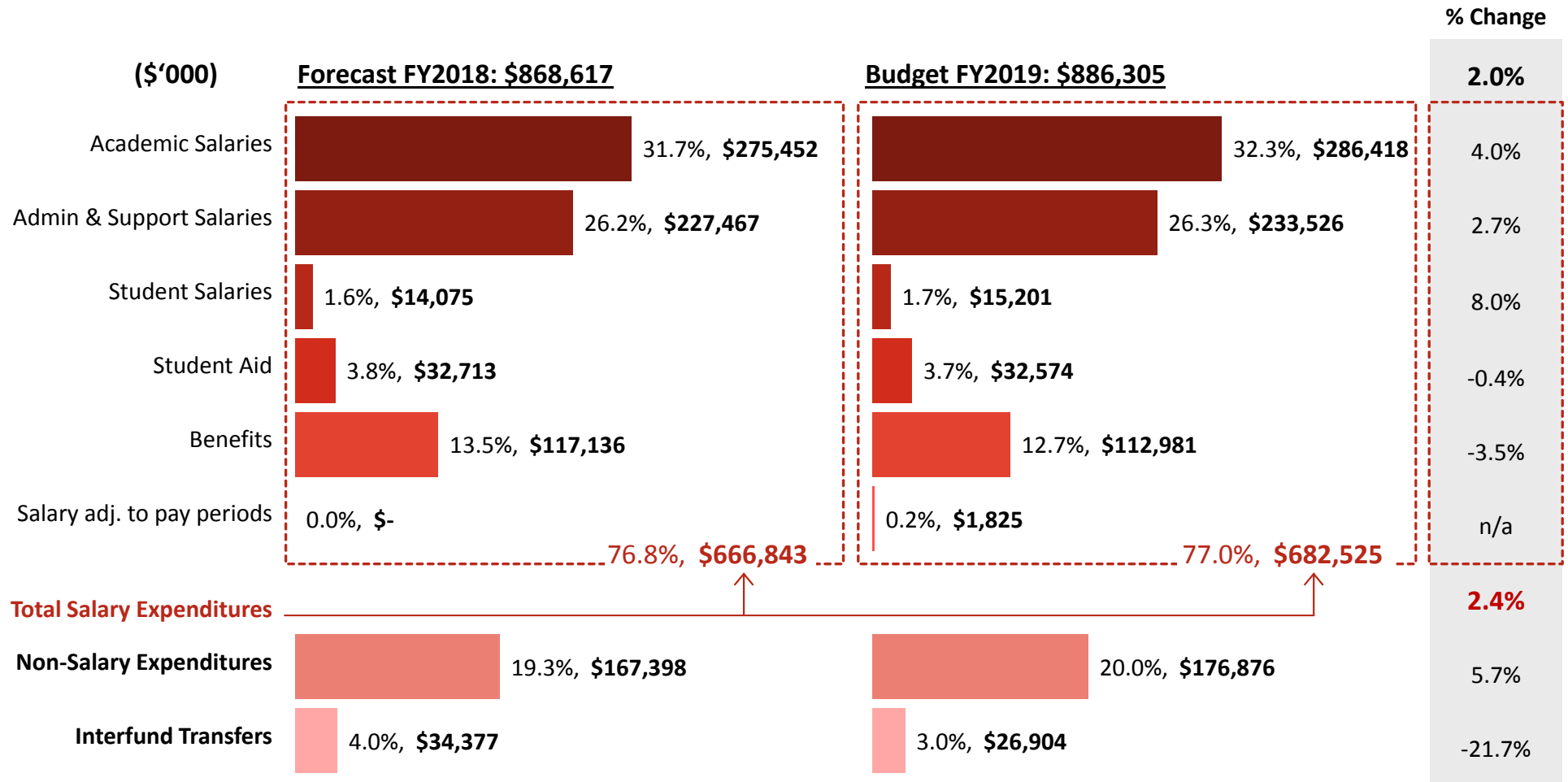
FY2019 Key revenue assumptions: Deregulated tuition

- ▶ Increase in international tuition for undergraduate students in deregulated disciplines (Engineering, Law, Management, Science) = approximately \$6.1M in FY2019
 - ▶ FY2019, starting in Fall 2018 = 7.7% increase
 - ▶ FY2020 to FY2021: 7.7% increase per year

- ▶ Tuition fees remain constant for an entering cohort's normal duration of the program of study (estimated indexation is included)

- ▶ Increases will be kept at a minimum of 7.7% per year for three years, possibly adjusted upward as the market and economic indicators demand; they will be re-evaluated for FY2022 based on:
 - ▶ Ability to maintain market shares (applications, selectivity, and yields)
 - ▶ Fluctuations in currency exchange rates

FY2019: Operating expenses = \$886.3M



Significant one-time and on-going expenses

- ▶ McGill University **Pension Plan** (MUPP) deficit repayment plan
 - ▶ \$12.9M in FY2018; earlier revaluation expected to bring FY2019 payment to \$8.6M
 - ▶ Required cash contributions to cover: past service, current service, and solvency contributions
 - ▶ Revaluation due at the end of 2018 calendar year

- ▶ **Pay equity**
 - ▶ University will continue to accrue amounts to cover pay equity settlement and regular maintenance

- ▶ Operating fund requirements for **deferred maintenance** of facilities and information technology infrastructures
 - ▶ Time-sequenced borrowing of \$400M by issuance of bonds
 - ▶ Amount to be distributed between building renovations and IT projects
 - ▶ Maximum 40-year impact on operating budget

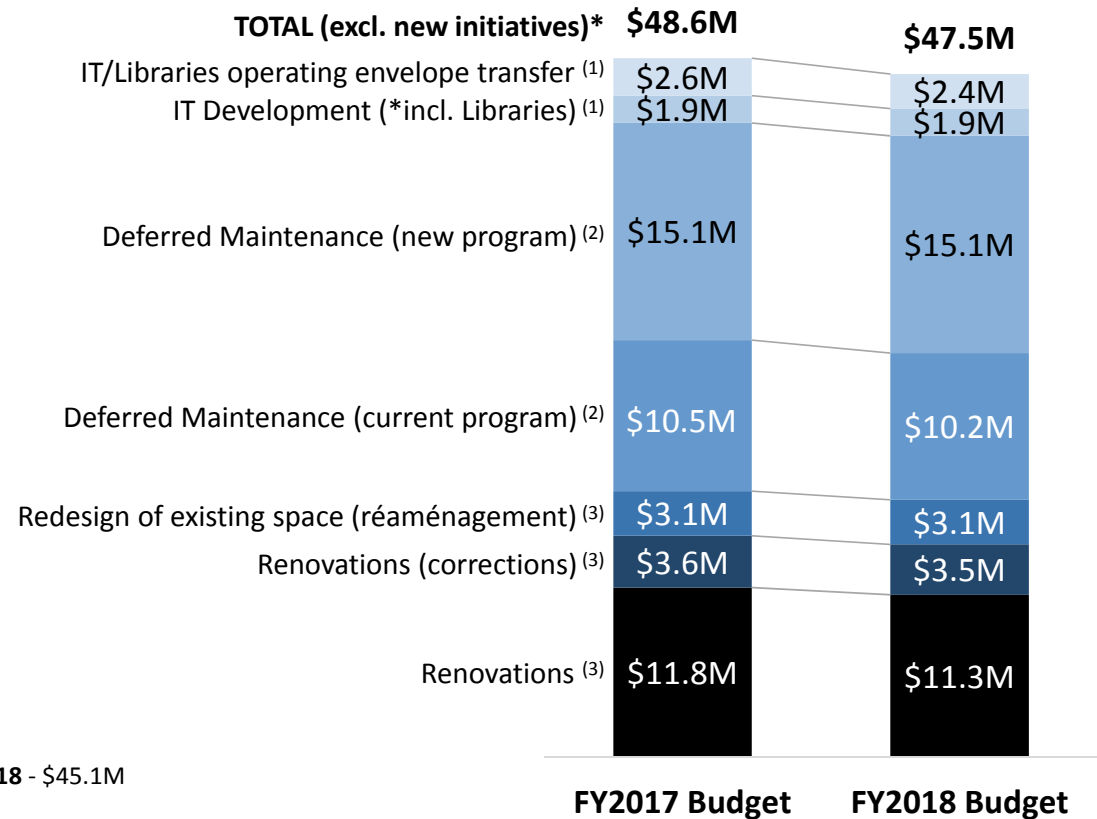
Impact of Capital Investments on University Funds (\$M)

	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)	-	-	-

FY2018: MEES capital fund

- ▶ MEES confirmed McGill’s annual capital budget for FY2016 in May of 2016. The FY2018 capital budget is not expected to vary significantly = \$45.1M, (\$0.9M less than for FY2017)
- ▶ Chart on the right excludes special capital grants that may be received by the University for specific projects (e.g., Wilson Hall, MacDonald-Stewart Library, RVH study, etc.)
- ▶ Figures presented do not include the reinvestment announced in this year’s budget

Capital Budget expected from MEES



*Total (excl. new initiatives & IT/Libraries transfer): **FY2017** - \$46.0M; **FY2018** - \$45.1M

⁽¹⁾ Portfolios: IT Infrastructure & Institutional Priorities

⁽²⁾ Portfolio: Physical Infrastructure

⁽³⁾ Portfolios: Institutional Priorities & Student Life and Learning

Capital budget (\$'000)

Funding Source	FY 2018(e)	FY 2019(e)	FY 2020(e)	FY 2021(e)	FY 2022(e)	FY 2023(e)	Sum of Total Project Costs (FY18 - FY23)
\$300M Debt - Construction	\$52,935	\$101,405	\$50,800	\$32,525	\$8,878	-	\$246,543
\$100M Debt - IT	\$28,115	\$33,827	\$17,566	\$4,615	-	-	\$84,123
Ministry of Education (MEES) - Capital Budget ⁽¹⁾	\$35,136	\$52,259	\$57,462	\$53,630	\$42,493	\$47,384	\$288,363
Strategic Investment Fund	\$13,225	\$31,618	\$13,578	\$1,006	-	-	\$59,426
Other Special Grants	\$1,104	\$9,065	\$27,730	\$28,354	-	-	\$66,252
Research Funds	\$7,258	\$2,720	-	-	-	-	\$9,978
Operating Funds	\$9,867	\$2,196	\$455	-	-	-	\$12,517
Donations	\$2,492	\$2,099	\$3,033	-	-	-	\$7,624
Internal Loans	\$11,508	\$8,253	\$1,400	-	-	-	\$21,162
Other Internal Funds	\$7,538	\$4,353	\$1,069	-	-	-	\$12,960
<i>Unknown at present</i> ⁽²⁾	\$2,445	\$12,617	\$14,000	\$12,147	\$16,000	\$15,750	\$72,959
Placeholder for Research Portfolio ⁽³⁾	-	-	\$119,971	\$273,155	\$131,822	\$19,280	\$544,228
Total anticipated cash-flow	\$171,623	\$260,412	\$307,064	\$405,432	\$199,193	\$82,414	\$1,426,138

e = estimate

⁽¹⁾ Includes Deferred Maintenance portion

⁽²⁾ Excludes placeholder for research portfolio

⁽³⁾ Placeholder for projects that will occur if special research funding is obtained (CFI, PSRV2, CERC, etc.)

FY2019: Restricted and endowment funds

▶ **Restricted Fund**

- ▶ Primarily composed of research grants and other special purpose revenues
- ▶ Anticipated revenues = \$373M, 12.4% decrease over FY2018 due to uneven, cyclical allocation of Canada Foundation for Innovation (CFI) funding

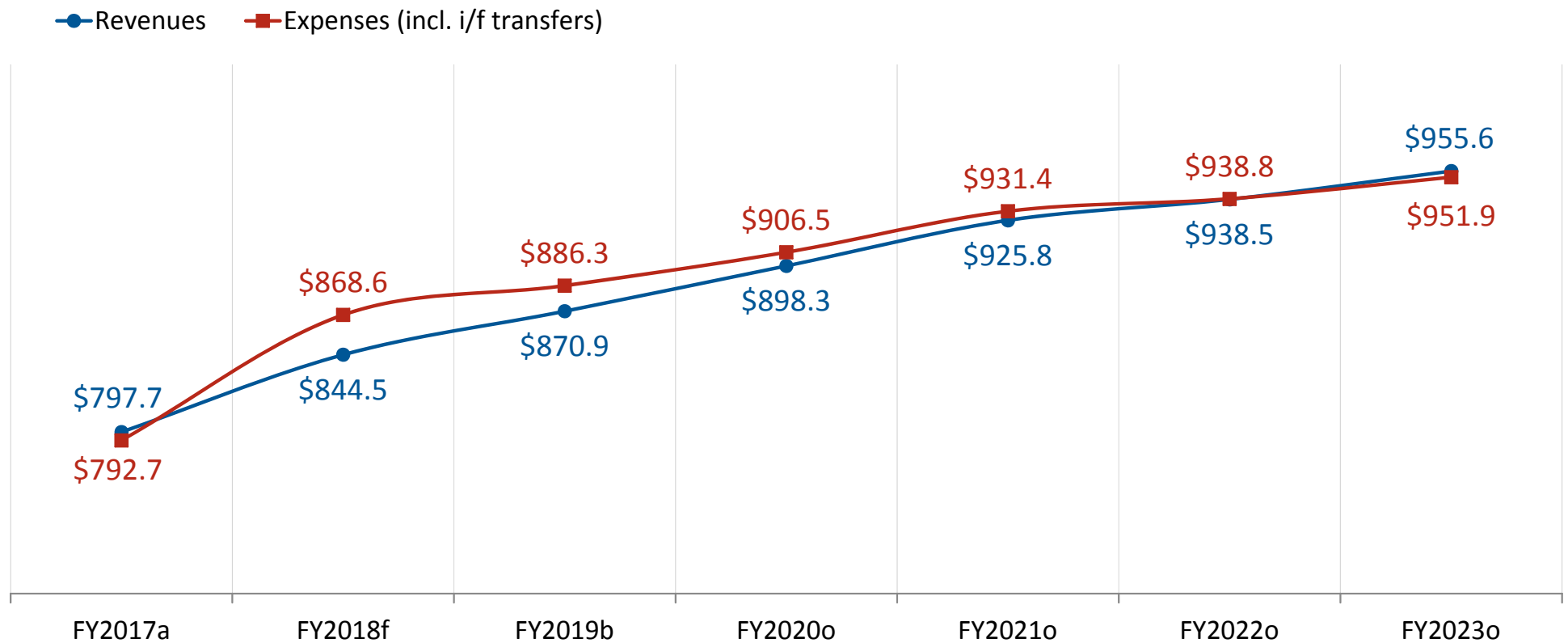
▶ **Endowment Fund**

- ▶ Market value as of February 28, 2018: \$1.634B
- ▶ Increased by approximately 2.2% (first 10 months of FY2018)

▶ **Philanthropic cash revenues and pledges**

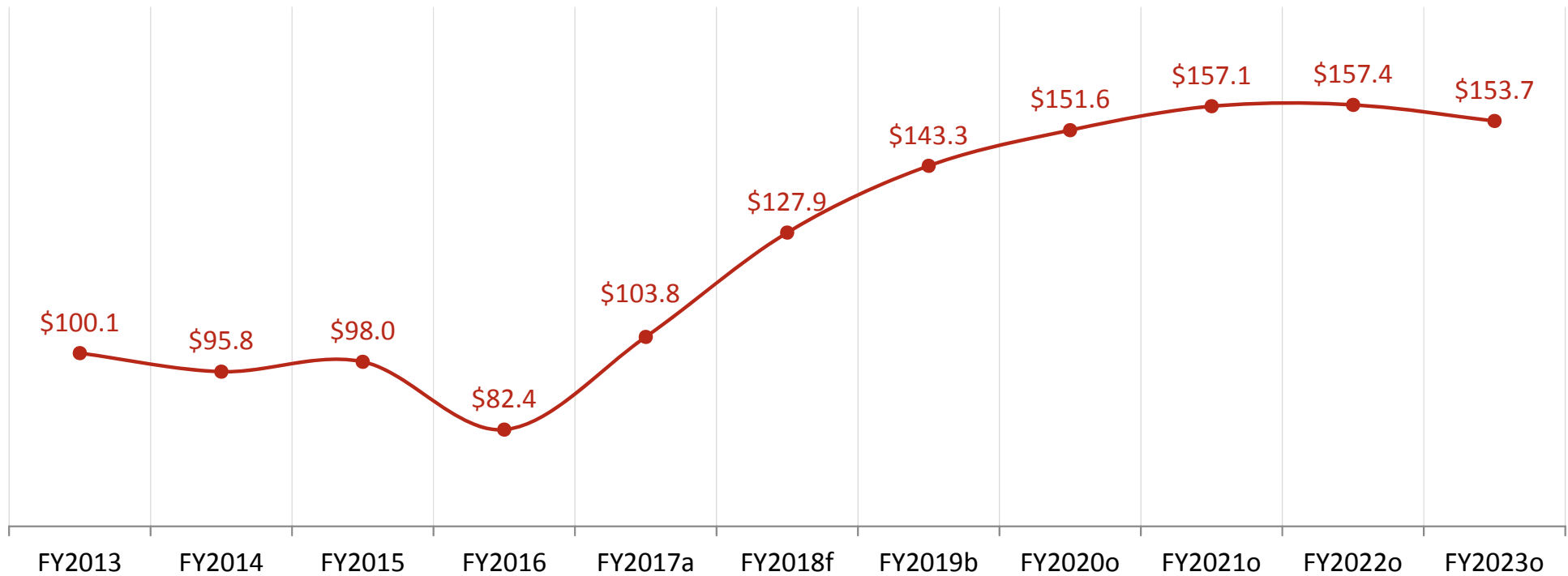
- ▶ FY2018 forecast = \$105M to \$125M
- ▶ FY2019 budgeted within a corridor of between \$115M to \$135M
- ▶ Thereafter, University Advancement is aiming to increase results by 5.5% annually throughout the Bicentennial Campaign

Projected operating revenue and expenditure through FY2023 (\$M)



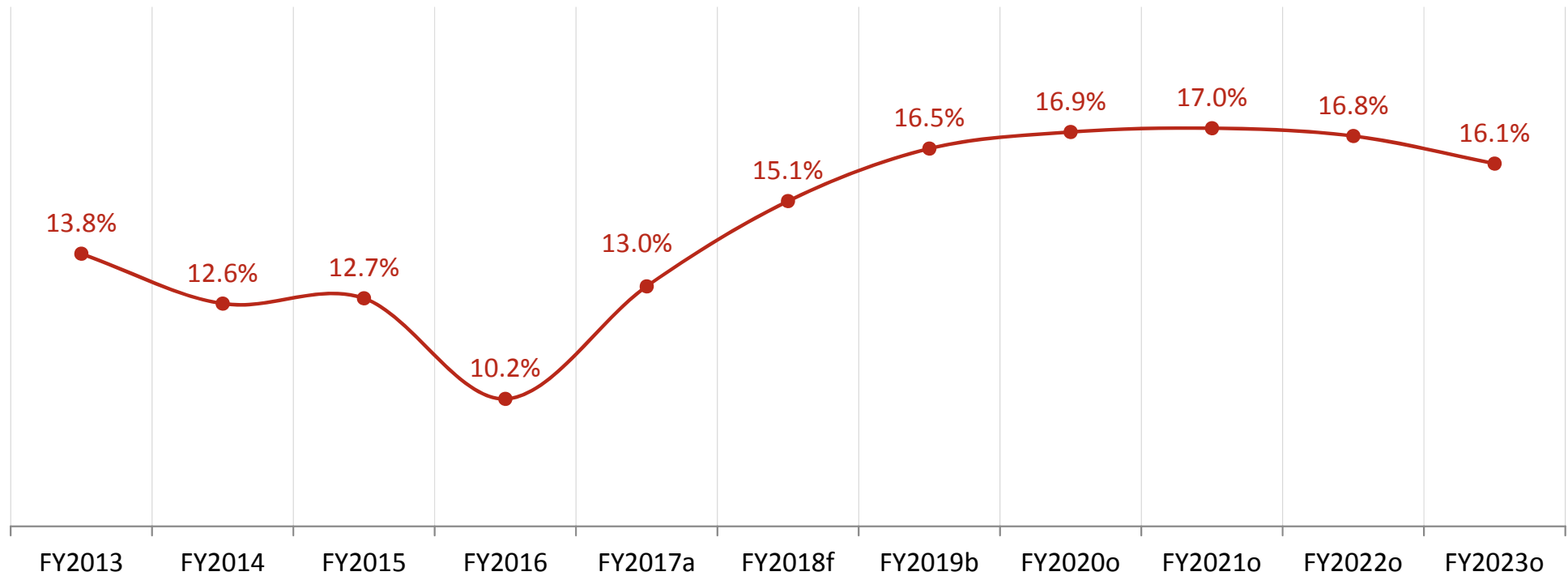
a = actual; f = forecast b = budget; o = outlook

Operating Fund: Financed accumulated deficit (\$M)



a = actual; f = forecast b = budget; o = outlook

Total financed accumulated deficit as a % of operating revenues



a = actual; f = forecast b = budget; o = outlook