

Report of the Finance Committee

GD20-28

Board of Governors Meeting of December 10, 2020

Secretariat

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The following items arise from a meeting of the Finance Committee on November 19, 2020. They are presented to the Board of Governors for its consideration.

I. FOR ACTION BY THE BOARD OF GOVERNORS**1. FY2021 Final McGill University Budget** [F20-14]

The Committee received and subsequently recommended for approval to the Board of Governors, the final budget for fiscal year 2020-2021. At its meeting in April 2020, the Board approved proceeding with the adoption of a provisional budget with the understanding that a final budget plan for FY2021 would be presented to the Committee in November 2020 and to the Board in December 2020. This decision was made in light of the extraordinary circumstances resulting from the COVID-19 pandemic and more notably the particular uncertainties with respect to FY2021 revenues, which are heavily dependent on student enrolments.

The Committee was informed that as of Fall 2020, the impact on primary revenues for FY2021, which are driven by student enrolments, were lower than projected in the provisional FY21 budget. The impact on projected sales of goods and services, which are heavily dependent on student presence on campus, was significant.

Following discussion, the Committee recommended, by resolution, to the Board of Governors, the approval of the FY2021 Final Budget with an anticipated unrestricted funds deficit of \$13.1M, as detailed in Appendix A.

Be it resolved that the Board of Governors, on the recommendation of the Finance Committee, approve the proposed FY2021 Final Budget, as presented in Appendix A.

A presentation summarizing the highlights of the budget is attached as Appendix A.

II. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

1. Update on Financing Plan for Deferred Maintenance and IT Initiatives [F20-07]

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 September 30, 2020, a total of \$103.5M of the \$190M allocation was spent on the listed capital projects and a total of \$78.1M of the \$210M allocation was spent on the listed IT initiatives and projects.

2. Outstanding Capital Borrowings at April 30, 2020 [F20-08]

The Finance Committee received a report on outstanding capital borrowings at April 30, 2020. It was informed that the short-term borrowings included amounts due from the province totaling \$188.8 million (2019: \$152.8 million) at April 30, 2020. It was also informed that a maximum of \$135.0 million is expected from the province to partially offset the \$188.8 million short-term borrowing due at April 30, 2021.

3. Update on New Vic Project [F20-10]

Further to a request made at its meeting in November 2019, the Committee received an update on the New Vic Project. It was informed that the *Dossier d'opportunité* (DO) was submitted to the Société québécoise des infrastructures (SQI) and the Ministère de l'Enseignement supérieur (MES) and that the University expected that the *Conseil des ministres* would approve it by December 2020. It would then move to the next stage, involving the development of the project's *Dossier d'affaires* which would need to be approved by the Board of Governors.

4. Update on Property Acquisition

The Committee received an update on the property acquisition discussed at the Board of Governors meeting of October 3, 2019. It was noted that the University was continuing to discuss the file with the provincial government; however, in light of the COVID-19 pandemic and market uncertainty, government approval of the acquisition was still delayed.

5. Progress Report on Treasury Matters [F20-09]

The Committee received a progress report on treasury matters relating to the University's borrowing, investing and hedging activities for the period ended October 31, 2020 for information.

6. Biannual Report on the Status of the Financial Plan of the McGill University Master Plan

6.1 Implementation of the Master Plan: Executive Summary [F20-11]

On May 23, 2019, the Board of Governors endorsed the first phase of the financial plan with the understanding that, among other activities, the Finance Committee would review, on a semi-annual basis, the status of the five-year plan. At its meeting on November 19, 2020, the Finance Committee received the first Biannual report on the status of the Financial Plan of the McGill University Master Plan, including an executive summary on the implementation.

The Executive Summary will be presented to the Board on December 10, under a joint report of the Finance and Building and Property Committee.

6.2 Financial Considerations for the McGill University Campus Master Plan and all Deferred Maintenance Projects [F20-12]

The Committee also received and reviewed key considerations of the Financial Plan in support of the Master Plan.

7. FY2022 Budget Planning Report I [F20-15]

The first of three presentations regarding the budget planning exercise for FY2022 was provided to the Finance Committee.

The Presentation in support of the budget planning exercise is attached as Appendix B and outlines the major considerations shaping the budget for the upcoming fiscal year.

8. Report on Quarterly Financial Results for Fiscal Period Ended October 31, 2020 [F20-13]

The Committee received a report on the quarterly financial results for the period ended on October 31, 2020.

9. 2020 University Advancement Annual Report [F20-16]

The Committee received the 2019-2020 University Advancement (UA) Annual Report as well as a presentation with an overview of key objectives priorities for the year ahead.

END
December 2020

FY2021 Updates and Final Budget

Presentation for the Board of Governors on December 10, 2020

Christopher Manfredi, Provost and Vice-Principal (Academic)



Executive Summary

- ▶ The extraordinary circumstances resulting from the COVID-19 pandemic led to the approval by the Board of Governors of a provisional budget plan on 23 April 2020.
- ▶ We monitored revenue and expense activity throughout the summer months, and continuously discussed revised expectations with academic, administrative, and central units.
- ▶ As of Fall 2020, our primary revenues for FY2021, which are heavily dependent on student enrolments, have not been severely impacted, except for self-funded programs. However, projected sales of goods and services are down considerably.
- ▶ This FY2021 final budget is being presented to the Finance Committee of the Board of Governors for review and approval with an anticipated unrestricted funds deficit of \$13.1M.

FY2021 Updates (for information)

Implementing the provisional budget

- ▶ In planning for FY2021, we provided units with their base budgets allocations (unchanged) based on past agreements (unchanged), and institutional imperatives (unavoidable cost increases).
- ▶ New financial requests were not to be considered until we had a clearer understanding of residual spending capacity.
- ▶ COVID eliminated the residual spending capacity (and more), along with the possibility of considering new financial requests.
- ▶ Given that no financial requests were approved in advance, we did not have to stop the initiatives mid-stream.
- ▶ Considering the current situation, only critical financial requests are being authorized, either to maintain essential activities or to adapt to the evolving sanitary measures, including remote teaching.

Fall 2020: Student Enrolment

► Overall, Fall 2020 enrolment (headcounts) is comparable to Fall 2019.

	Fall 2019 Enrolment (Headcounts - Oct 15 census)	Fall 2020 Enrolment (Headcounts - Oct 15 census)	% Variance
Undergraduate			
Bachelors	23,098	23,918	3.6%
First Professional	1,587	1,614	1.7%
Undergraduate - Certificate/Diploma	1,110	1,185	6.8%
Undergraduate Exchange/QIUT/Special/Visiting	1,683	767	-54.4%
Graduate			
Masters Qualifying	133	99	-25.6%
Masters - Non-Thesis	2,690	2,518	-6.4%
Masters - Thesis	2,334	2,424	3.9%
PhD	3,637	3,804	4.6%
Graduate Certificate/Diploma	1,144	1,157	1.1%
Graduate Exchange/QIUT/Special/Visiting	263	263	0.0%
Residents and Fellows	1,247	1,349	8.2%
Postdoctoral	738	638	-13.6%
Grand Total	39,664	39,736	0.2%

Fall 2020: Student Enrolment (cont'd)

- ▶ As at the October 15 census, total enrolment for Fall 2020 (39,736) is comparable to Fall 2019 (39,664).
 - ▶ Enrolment in Bachelor's programs and graduate research programs is up year-over-year.
 - ▶ As may be expected in the current context, decreases are observed in our exchange, inter-university transfer, special, and visiting populations.
 - ▶ Master's Non-Thesis enrolment, particularly in self-funded programs, has declined.
- ▶ New admit objectives are being met
 - ▶ Bachelor's: 6,835 new registrations for the fall term, +565 (+9%) above objectives.
 - ▶ Graduate: On track to meet FY2021 objectives for research programs, with summer and fall new registrations and winter confirmations (i.e., accepted offers) ahead of pace compared to last year.
- ▶ Bachelor's students registered for a slightly higher course load this fall compared to last year.
- ▶ Degree-seeking students at all levels were surveyed in the summer about their academic and student life needs for the fall term. A follow-up survey of all students to check in on their experiences thus far was administered in October. Results will be used to continue and adapt supports and services to keep students engaged and help mitigate potential retention concerns.

Fall 2020: Student Enrolment (cont'd)

- ▶ International student enrolment has held steady.
 - ▶ As at the October 15 census, total international enrolment for Fall 2020 (12,108 student) is down 4% compared to Fall 2019 (12,610 students).
 - ▶ However, this drop is largely due (understandably) to a loss of exchange/special/visiting international students (down 659 students in Fall 2020 compared to Fall 2019). Excluding this population, **international enrolment in Fall 2020 is up 1% year over year.**
- ▶ Among our international students, the subset which are deregulated fee-paying has remained stable year-over-year.
 - ▶ Although the number of returning deregulated students increased, the University experienced a decrease in newly admitted deregulated students in Fall 2020
 - ▶ The smaller incoming cohort of deregulated students poses a challenge to achieving desired deregulated enrolment levels in subsequent years.
 - ▶ Proactive recruitment efforts and yield initiatives will need to be prioritized for the upcoming 2021-2022 admissions cycle.

Sales of Goods and Services

- ▶ In addition to tuition, fees, and Quebec government funding, revenues from Sales of Goods and Services are also heavily enrolment dependent.
- ▶ Revenues that necessitate the physical presence of students (as well as faculty and staff) on campus have been most severely impacted by the pandemic (e.g., residences, food services, Le James Bookstore, parking, Faculty Club).
- ▶ Although affected units have been able to reduce many direct expenses, some fixed and contractual commitments are more difficult to shed.

Update on some FY2021 Key expense reduction measures

- ▶ *“Establish a \$20M contingency to brace against as yet unknown enrolment decline and/or extraordinary costs associated with alternate program delivery”*
 - ▶ The overall loss in University revenues exceeds the \$20M contingency, as reflected in the final budget.
- ▶ *“Achieve approximately \$2M in additional non-salary expenditure reductions – to be determined and managed by local leadership (e.g., Deans and VPs)”*
 - ▶ As demonstrated later in this presentation, the changes in non-salary expenditures from the provisional budget to the final budget are extremely significant. Some of the main reasons are noted below:
 - ▶ Non-salary expenditure reductions managed by local leadership emanating from each unit’s unrestricted budget allocation.
 - ▶ Natural cost reductions (such as travel and meals) have not been replaced with spending in other categories.
 - ▶ Revenue generating units that were asked to mirror sales of goods and services reductions with cost reductions have done so largely by decreasing non-salary expenses across the board. Some savings, like the reduction in cost of goods sold, are directly related to the decrease in sales, while others are not.

Update on some FY2021 Key expense reduction measures (cont'd)

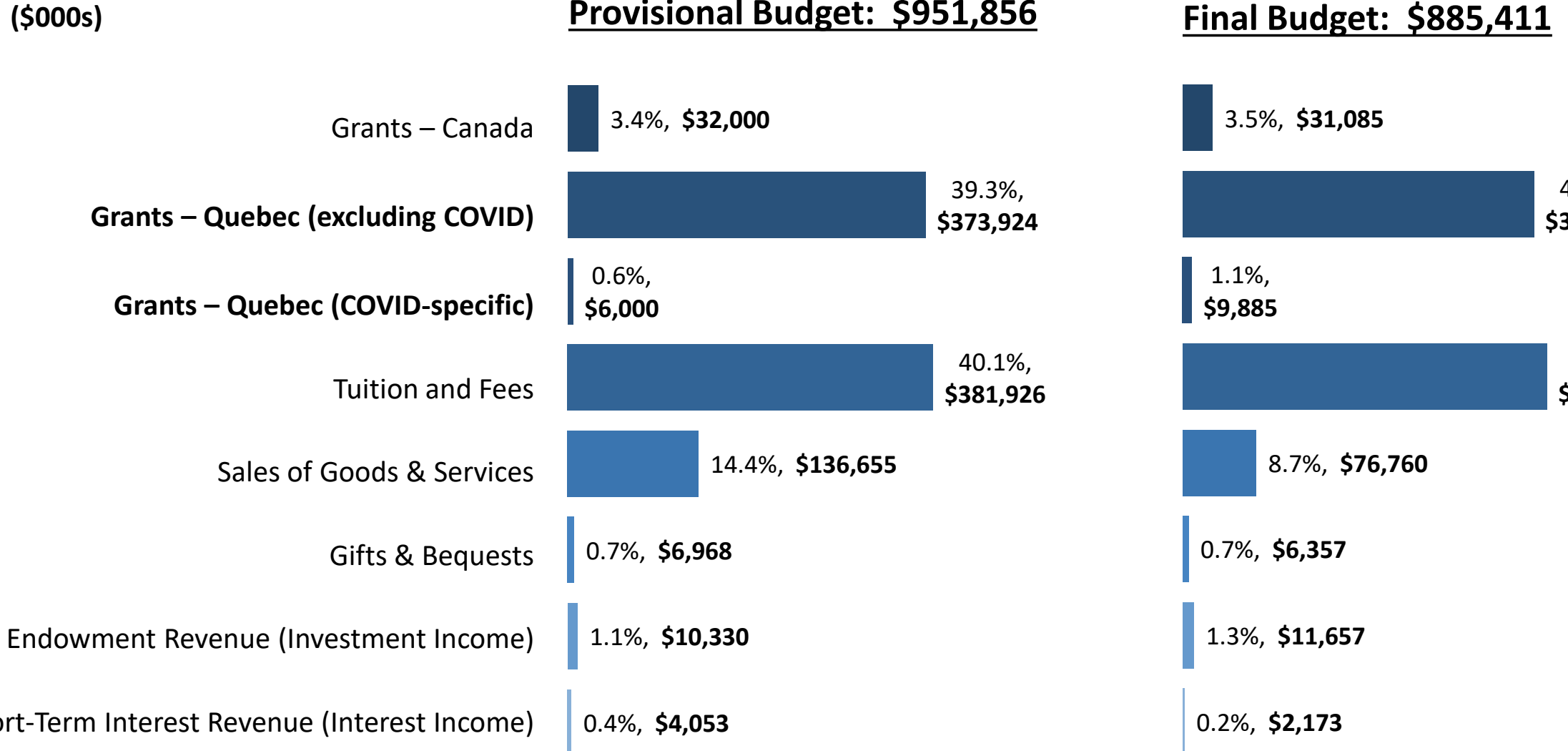
- ▶ *“Reduction of FY2021 sinking fund payment from \$11.5M to \$8.5M”*
 - ▶ The full \$11.5M sinking fund payment planned for FY2021 was paid in advance in FY2020.

- ▶ *“Suspend administrative and support staff hiring until further notice”*
 - ▶ There have been fewer than modeled departures, thus reducing the anticipated savings.
 - ▶ Some critical replacements have been approved.
 - ▶ Some incremental COVID-related expenses are appearing in this category.

- ▶ *“[TBC] Defer June 2020 merit increases for all non-unionized academic and administrative and support staff (including University executives) until December 2020; across-the board economic increases to be implemented 1 June as planned”*
 - ▶ June 1 economic increases executed as planned, except for University executives.
 - ▶ Merit increase are expected to be paid, as planned, in December, with no retroactive payment. One-time savings in excess of \$4M.

FY2021 Final Budget (for decision)

FY2021 Budgeted Revenues



FY2021 Tuition and Fees

- ▶ Tuition and fee estimates for the final FY2021 budget were estimated as follows:
 - ▶ Central tuition revenues for the final FY2021 budget were modeled based on Summer 2020 and Fall 2020 actuals, captured at the October 15 census.
 - ▶ Central fee revenues were modeled based on actual fees received through September 30, combined with historical revenue patterns for the past four years, customized for each individual fee.
 - ▶ The projected self-financed tuition and fee revenues for the final FY2021 budget were estimated by individual revenue-generating units based on the knowledge of their own operations.
- ▶ Total tuition and fees are projected to be \$1.4M lower than the level presented in the provisional budget.
 - ▶ Since the assessment rate vs. the collection rate may vary compared to years when most students are physically present in Montreal, we reduced projected revenues by \$3M to account for this risk.
- ▶ Enrolment retention remains a top priority.

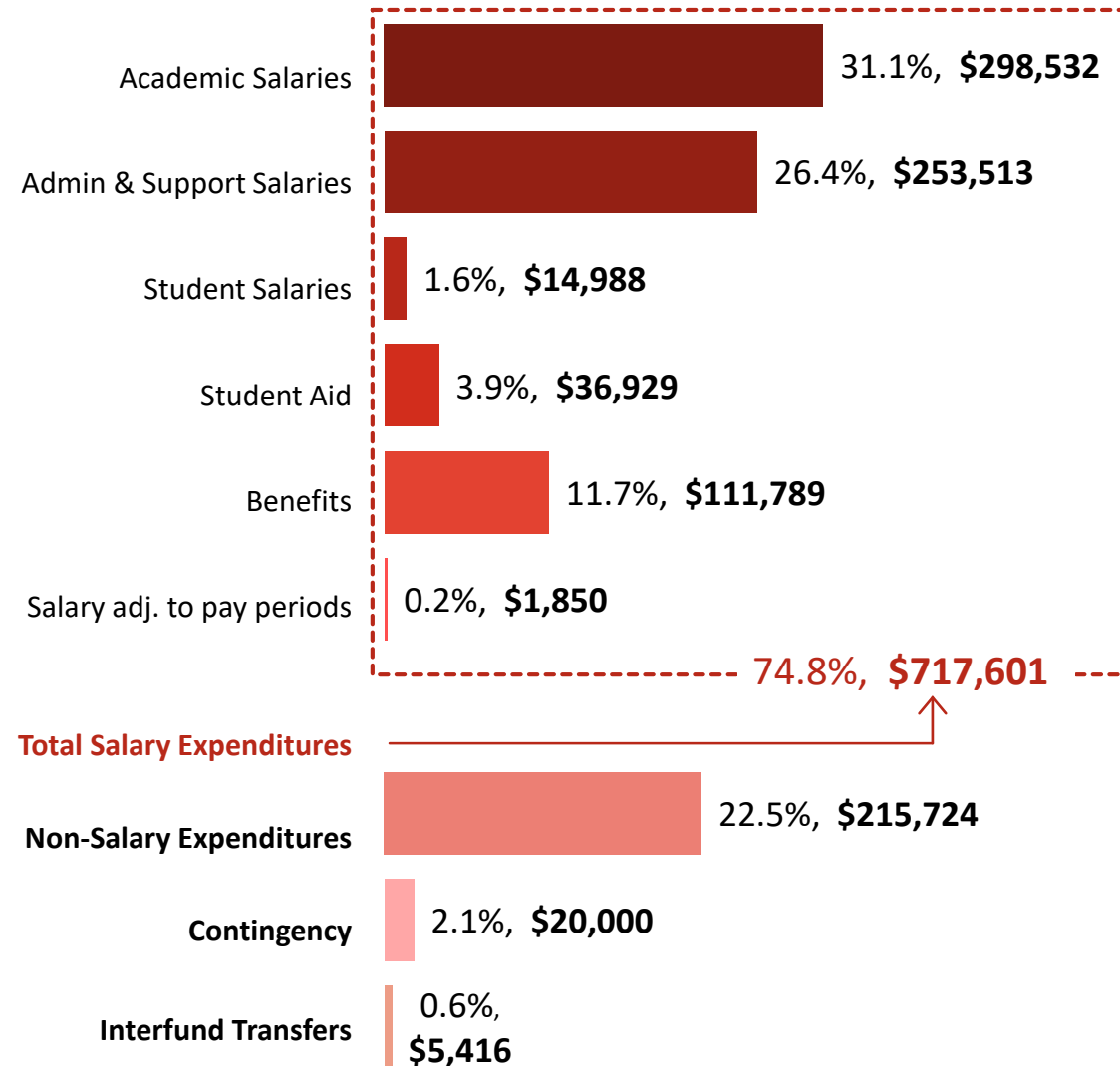
2020-2021 Enrolment Considerations

- ▶ Summer 2020 enrolment was higher compared to last year (+5%), with students also registered, on average, for more credit hours than in a typical summer term.
- ▶ As mentioned earlier, Fall 2020 is largely stable compared to Fall 2019.
- ▶ Tuition revenues are projected under the assumptions that there will be a similar flow-through of activity from fall to winter compared to last year for returning students, and that there will be a similar amount of new intake in the winter term.
 - ▶ Master's Thesis and PhD programs typically have a sizable winter intake of new students. Confirmations (i.e., accepted offers) for Winter 2021 are tracking higher compared to last year at a similar point in time, signaling strong intentions from this population.
- ▶ Risks and uncertainties:
 - ▶ It is not yet known how the recent announcement of remote delivery paired with provincial and federal COVID-19 measures may impact winter term activity.
 - ▶ In order to ensure graduating students can meet their program requirements in a timely fashion, the delivery of critical experiential in-person components (laboratories, clinical activities, etc.) needs to remain a top priority for winter term planning.

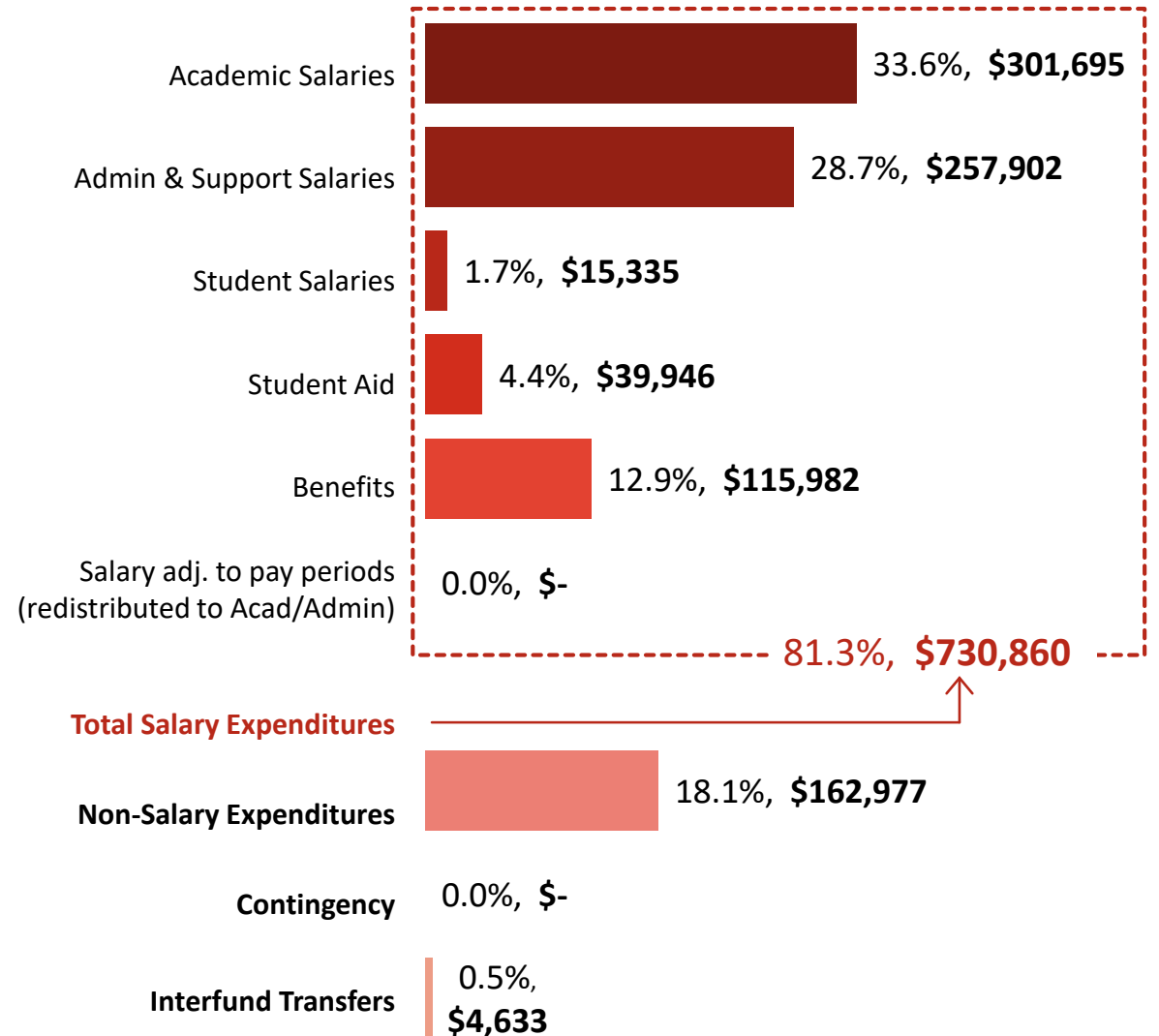
FY2021 Budgeted Expenses

(\$000s)

Provisional Budget: \$958,740



Final Budget: \$898,469

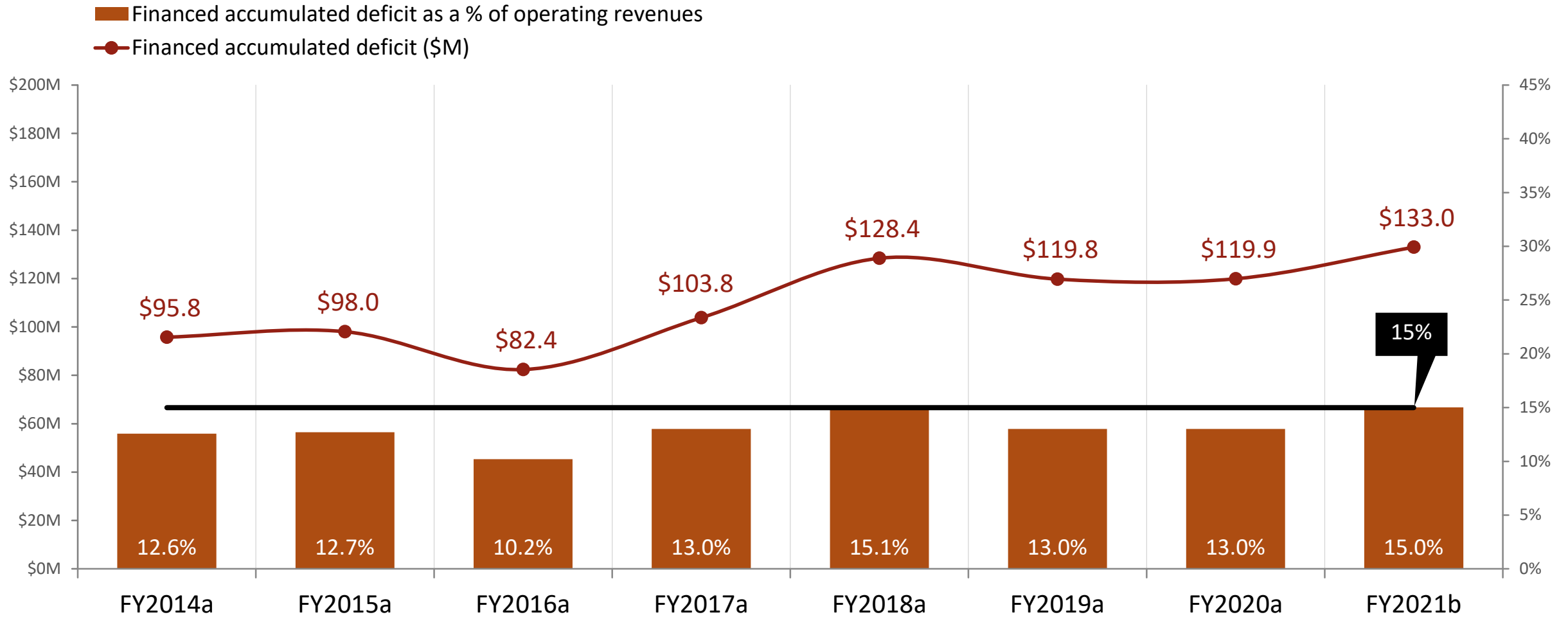


Revenue and Expense Summary

(\$000)

	FY2019 Actuals	FY2020 Budget	FY2020 Actuals	FY2021 Provisional Budget	FY2021 Final Budget
Total revenues	920,750	920,002	922,085	951,856	885,411
Total expenses	912,088	928,670	922,240	958,740	898,469
Annual financed surplus / (deficit)	8,662	(8,668)	(155)	(6,884)	(13,058)
Financed accumulated deficit	119,777		119,932		132,990
Financed accumulated deficit/Revenues (%)	13.0%		13.0%		15.0%

Operating Fund: Financed Accumulated Deficit



a = actual; b = budget;

Uncertainties and Risks for FY2021 and Beyond

▶ External:

- ▶ COVID-19 (and associated sanitary measures)
- ▶ Stability of government commitments
- ▶ Willingness of students to participate in prolonged remote delivery
- ▶ 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
- ▶ Unfunded mandates
- ▶ Indirect costs of research funding
- ▶ Canadian dollar exchange rate
- ▶ Interest rates

Uncertainties and Risks for FY2021 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

Discussion

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



FY2022 Budget: Planning Report I

Presentation for the Finance Committee on November 19, 2020

Christopher Manfredi, Provost and Vice-Principal (Academic)



Executive Summary

- ▶ Looking ahead to FY2022, there is continued COVID-driven uncertainty impacting all our major revenue sources – Quebec government funding; tuition and fees; sales of goods and service – all of which may be in flux.
- ▶ Expense reduction measures and contingency plans will need to be adjusted accordingly.

FY2022 Planning

- ▶ Enrolment Planning meetings with Faculties, late Fall 2020
- ▶ Academic Review and Renewal Planning, Winter 2021
- ▶ Financial review of Faculties and units, Winter 2021
- ▶ Non-compressible budgets (CPDO, FMAS, ITS, SLL)
- ▶ Other incremental budget allocations
- ▶ Review projected revenues and expenses from the sales of goods and services and fees
- ▶ Monitor the impacts of COVID-19 : costs and expense reduction measures, if warranted

FY2022 Government funding outlook

Grants - Canada

- ▶ Canada Research Continuity Emergency Fund program may or may not be extended.

Grants – Quebec

- ▶ Expect enrolment-driven grants to return to being based on actual enrolments in 2021-2022.
 - ▶ The Ministry has indicated that 2020-2021 enrolments would be excluded from future funding calculations, which in certain conditions would consider a rolling average of recent years.
- ▶ This assumption is contingent on the Ministry's capacity to maintain their pre-COVID financial commitments to Universities.
- ▶ Orientations should be communicated by late spring 2022, after the modeling of our FY2022 budget.

FY2022 Sales of Goods and Services and Enrolment-driven fees

- ▶ The physical presence of faculty, staff and students is critical for many of the self-financing units to earn sales of goods and services revenues.
- ▶ Sanitary measures also impact the collection of fees from students for certain services (e.g. Athletics).
- ▶ Revenue expectations have been tempered for FY2021, but FY2022 amounts could also be impacted.

FY2022 Salary and Non-Salary Expenses

- ▶ Will need to provide for a required sinking fund payment.
- ▶ In FY2021, expense reduction measures were put into place in an attempt to mirror overall revenue losses, to the extent possible.
- ▶ Revenue losses were expected to be felt in the short- to medium-term.
- ▶ If the longer-term outlook becomes bleaker, then expense reduction measures will have to be revisited and/or bolstered, including measures to reduce the University's overall salary mass.
- ▶ Conversely, if the longer-term outlook is more positive, the relaxing of expense reduction measures will need to be approached cautiously and methodically.

FY2022 : Review financial considerations and targets

- ▶ Financed accumulated deficit/Revenues (%): maintain at or below 15%.
- ▶ Debt service costs as a percentage of revenue, including building acquisitions never exceeds 5%.
- ▶ Sinking fund payments outlook: no change at \$17M per year.
- ▶ Pension plan payments outlook. Current valuation as per December 2019 for a maximum of 3 years.
- ▶ Commitment to return to a balanced budget by Fiscal Year 2024 (originally FY2022).

FY2022: Uncertainties and Risks

While the risks mentioned for FY2021 are inherently present as we move towards FY2022, the ones with the greatest potential impact include:

- ▶ COVID-19
- ▶ Stability of government commitments
- ▶ Global political landscape and its effect on international student mobility
- ▶ Effective management of activities expected to be self-financing
- ▶ Effect of market volatility on pension fund and University obligations
- ▶ Expense reduction measures
- ▶ Balancing remote vs. in-person delivery

Discussion

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

