Report of the Finance Committee

GD22-68

Board of Governors Meeting of April 20, 2023

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The following items arise from the Finance Committee meeting of April 13, 2023. They are presented to the Board of Governors for consideration.

I. FOR APPROVAL BY THE BOARD OF GOVERNORS

1. Proposed McGill University Budget 2023-2024 [F22-36]

The Committee received the last presentation in a series of three budget presentations to the University community outlining major considerations shaping the budget for the fiscal year starting May 1, 2023.

The Committee was informed, based on January 31, 2023 actuals and commitments, financial information collected from units and historic trends, the expectation is that revenues will be higher than budgeted and expenses will be in line with budgeted expectations. The University will aim for a balanced budget for FY2023.

The Committee was presented with the proposed budget for FY2024 for review and recommendation for approval by the Board of Governors. The budget proposal is presented as a balanced budget and includes a $10 million contingency.

Be it resolved that the Board of Governors, on the recommendation of the Finance Committee, approve the proposed FY2024 Budget, as described in Appendix A.

The FY2024 Budget Planning Report III is attached as Appendix A to this report.

2. Maximum Borrowing Resolution for June 1, 2023, to May 31, 2024 [F22-28]

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, 2023 to May 31, 2024.

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, 2023 to May 31, 2024.

Be it further resolved that the 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.

II. FOR THE INFORMATION OF THE EXECUTIVE COMMITTEE OF THE BOARD OF GOVERNORS

1. Biannual Report on the Status of the Financial Plan Of the McGill University's Master Plan

1.1 Implementation of McGill University Master Plan: Executive Summary [F22-34]

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.

The Finance Committee has received several semi-annual reports on the status of the Financial Plan of the McGill University Master Plan since that time, which now include an executive summary on the implementation.

The Executive Summary will be presented to the Board on April 20th, under a joint report of the Finance Committee and Building and Property Committee.

1.2 Financial Considerations for the McGill University Master Plan and all Deferred Maintenance Projects – Semi-Annual Report [F22-35]

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

3. Update on Financial Plan for Deferred Maintenance and IT Initiatives [F22-30]

The Committee received an update on the financial plan for deferred maintenance (DM) project and Information Technology (IT) initiatives. Further to the Board of Governors' 2015 approval of the $400 million financing plan, the Committee was informed that as at February 28, 2023, a total of $114 million of the $260 million DM allocation has been spent on DM projects, and $111 million of the $140 million IT allocation has been spent on IT initiatives.

4. Update on the New Vic Project [F22-33]

The Committee received an update on the New Vic Project in conjunction with a report that an agreement has been reached between the plaintiffs and the University in regard to the interlocutory injunction. The agreement, which must first be ratified by a judge, will allow the University to proceed with construction activities and to initiate fundraising for the New Vic. The Committee discussed next steps and processes for consideration in relation to the agreement, as well as the financial considerations for the New Vic project moving forward.

6. 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 low.

7. Other Updates and Reports

The Committee received the following reports and updates for information:

- Annual Report on the McGill University Pension Plan [F22-29]
- Report on Treasury Matters [F22-31]
- Finance Committee Meeting Dates 2023-24 and 2024-25 [F22-32]
- Update on the Fiat Lux Project

END
April 2023

Budget Report III:
FY2022-2023 Forecast and FY2023-2024 Budget

Presentation to the Board of Governors on April 20, 2023

Christopher Manfredi, Provost and Vice-Principal (Academic)

Executive Summary

- For the fiscal year ending on April 30, 2023 (FY2023), the Board of Governors approved an operating (unrestricted fund) budget with an anticipated deficit of $9.4M, including a $20M contingency.
- Based on January 31, 2023 actuals and commitments, financial information collected from units and historical trends, our updated expectations are that revenues will be higher than budgeted, and expenses will be in line with budgeted expectations. Our forecast suggests that we will end FY2023 with a balanced budget.
- Looking ahead to FY2024, there will be continued financial support by the Quebec Government and we are anticipating that changes in the diversity of international recruitment pools, experienced in recent years, will stabilize.
- Considering our projected revenues, combined to inflationary pressures and costs associated with major capital investments, balancing McGill's operating budget will be challenging in the coming years. A series of budgetary measures will be deployed to contain expenses within available revenues.
- For FY2024, a balanced budget, which includes a $10M contingency, is being presented to the Finance Committee for review and recommendation for approval by the Board of Governors.

1. Fiscal Year 2022-2023 Forecast (for information)

McGill

1.1. FY2023 Revenue and Expense Forecast

($000)

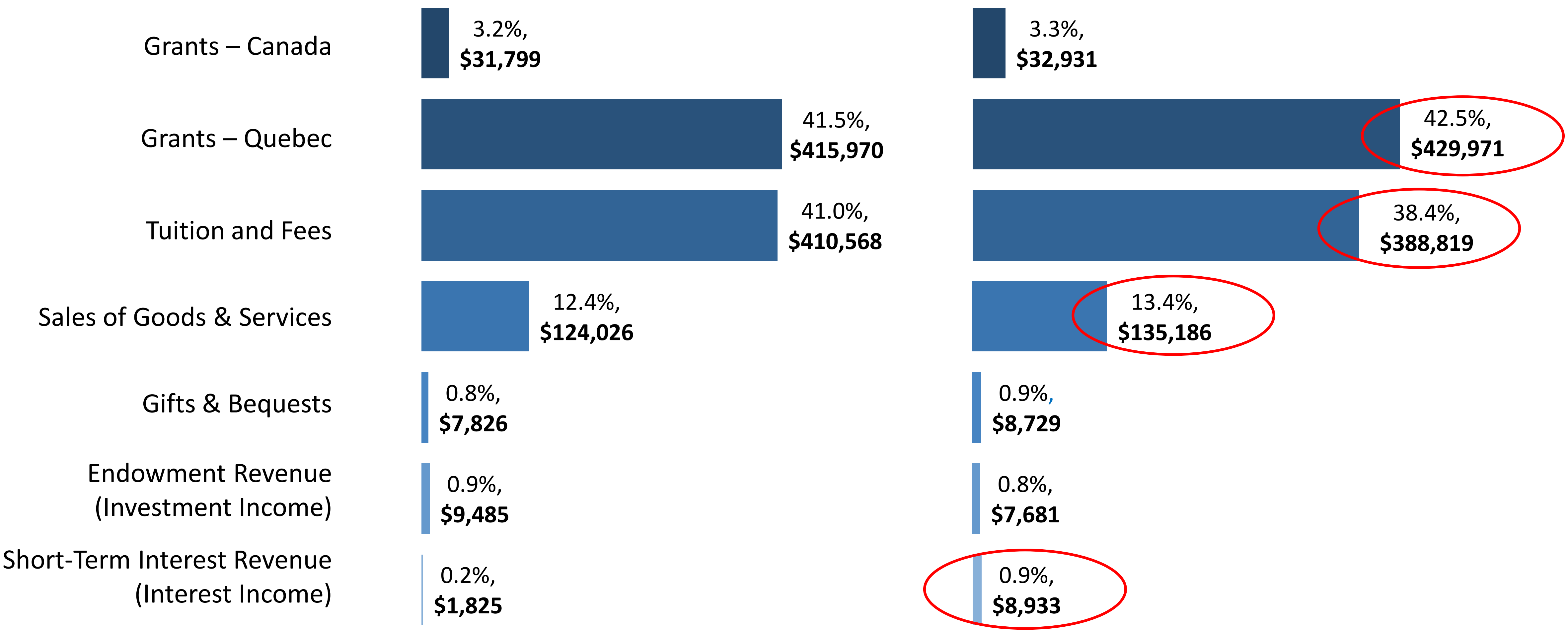
	FY2020 Actuals	FY2021 Actuals	FY2022 Actuals	FY2023 Budget	FY2023 Forecast*
Total revenues	922,085	898,216	978,172	1,001,500	1,012,250
Total expenses	922,240	897,406	976,822	1,010,879	1,011,727
Annual surplus / (deficit)	(155)	810	1,350	(9,379)	523
Financed accumulated deficit	119,932	119,122	117,772	127,145	117,249

Excluding year-end GAAP adjustments
*As per January 31, 2023 actuals and commitments, inputs from units, and trend forecasts

1.2. FY2023 Forecast: Revenues

($000s)

FY2023 Budget: $1,001,500 | **FY2023 Forecast*: $1,012,250**



*as per January 31, 2023 actuals, inputs from units, and trend forecasts

1.3. FY2023 Variance Analysis: Revenues

Grants - Quebec

- Anticipated increase of $14M compared to the budget is due to the reclassification of revenues and associated expenses on the operating (unrestricted fund) budget that were expected to be directed to the restricted fund. The net impact of this reclassification on the bottom line for FY2023 is null.

Tuition and fees

- Tuition and fees revenue expectations are down about $22M compared to the budget. This is largely driven by a reduced number of new international students compared to budgeted targets.
- This loss will impact revenues for the upcoming years (i.e., for the duration of academic programs).

Sales of Goods and Services

- We are anticipating revenues to be $11M higher than budgeted, representing 91% of pre-COVID levels.

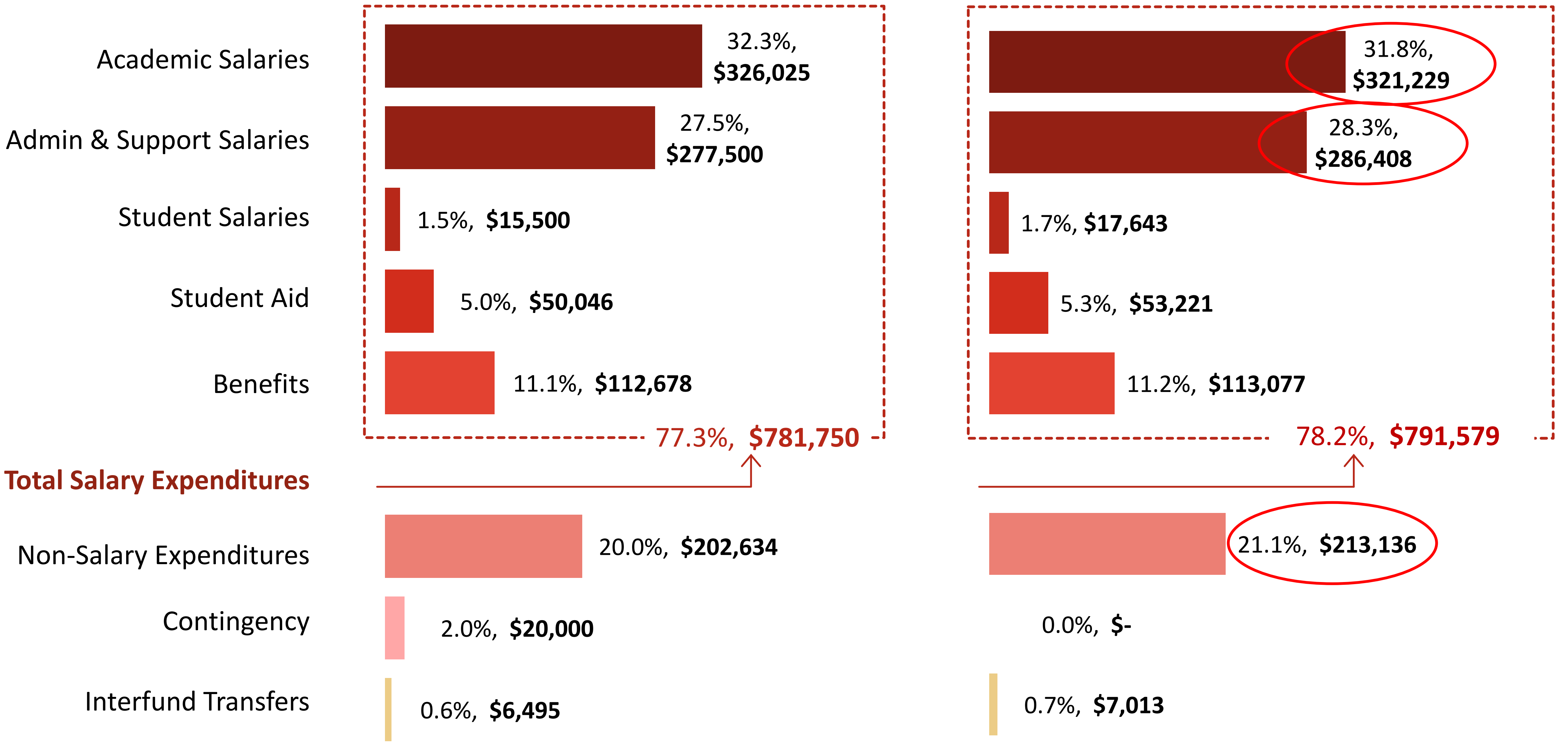
Short-Term Interest Revenue

- Increased expectations of $7M compared to budget due to higher interest rates and cash balances. Higher cash balances are mainly the result of a change in the methodology at the Ministry for claiming funding for infrastructure projects that is done on a monthly basis instead of an annual reimbursement process.

1.4. FY2023 Forecast: Expenses

($000s)

FY2023 Budget: $1,010,879 **FY2023 Forecast*: $1,011,727**



*as per January 31, 2023 actuals and commitments, inputs from units, and trend forecasts

1.5. FY2023 Forecast: Non-Salary Expenses

($000s)	FY2023 Budget: $202,634	FY2023 Forecast*: $213,136	Variance: $10,502
Materials, Supplies & Publications	39,583	39,874	291
Building & Occupancy Costs (excluding sinking fund payment)	38,859	39,354	494
Contract Services	24,002	25,309	1,307
Energy	19,605	19,945	340
Cost of Goods Sold & Services Rendered	18,767	18,924	157
Hardware and Software Maintenance	16,562	17,867	1,305
Professional Fees	12,285	15,024	2,738
Contribution to Partner Institutions	10,366	11,226	860
Capital Purchases	9,175	6,596	(2,579)
Interest & Bank Charges	932	853	(80)
Sinking Fund Payment	-	-	0
Other (incl. travel, receptions, events, catering, meals, photocopying)	12,497	18,164	5,667

*as per January 31, 2023 actuals, inputs from units, and trend forecasts

1.6. FY2023 Variance Analysis: Expenses

Academic Salaries

- The anticipated reduction of $4.8M in expenditures is largely due to the lower-than-anticipated cost of academic renewal (number of tenure-track arrivals vs. departures) in FY2023.

Admin & Support Salaries

- The number of administrative and support staff has increased by 3.7% (n=147) over the last 12 months, as at January 31, 2023, associated with the resumption of on campus activities and successful hiring within the current year.
- The anticipated increase of $8.9M in expenditures compared to budget is largely due to the higher-than-anticipated cost of staff collective agreements.

Non-Salary expenditures

- **Professional Fees:** Increase is related to a Customer Relationship Management system acquisition in UA.
- **Other:** Incremental cost is majoritarily attributable to an increase in bad debts in FY2023.

2. Fiscal Year 2023-2024 Budget
(for decision)

McGill

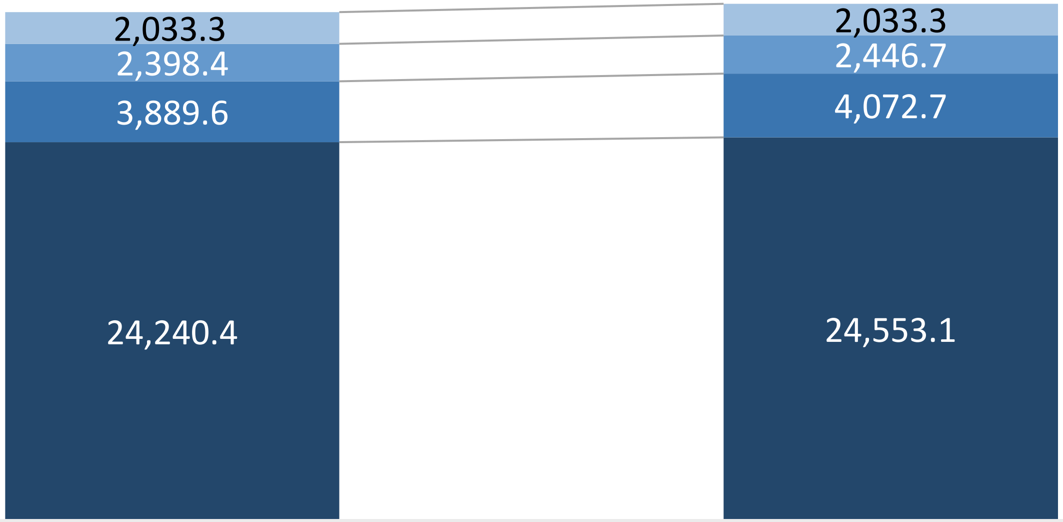
2.1. FY2024 Enrolment Assumptions

- Enrolment assumptions for FY2024 center on sustainability going forward, improving yield from certain parts of the world, and a return to pre-pandemic levels for certain affected activities, such as bilateral exchanges.

		Fall 2022 Enrolment (Headcounts - Oct 15 census)	FY2023-2024 Enrolment Assumptions
Under-graduate	Bachelors	23,140	↑ Slight increase in overall enrolment ↑ Higher planned intake of new regulated students (overachieved objectives in Fall 2022) ↑ Higher planned intake of new deregulated students (underachieved objectives in Fall 2022)
	First Professional (BCL/JD, DMD, MDCM)	1,656	
	Undergraduate - Certificate/Diploma	1,251	~ Steady-state
	Undergraduate Exchange/QIUT/Special/Visiting	1,038	↑ Expecting student activity to return to pre-pandemic levels (exchanges to resume, etc.)
Graduate	Masters Qualifying	111	~ Steady-state
	Masters - Non-Thesis	2,330	↑ Higher planned intake of new students (underachieved objectives in FY2023)
	Masters - Thesis	2,491	↑ Higher planned intake of new students (underachieved objectives in FY2023)
	PhD	4,116	↑ Higher planned intake of new students (underachieved objectives in FY2023)
	Graduate Certificate/Diploma	1,014	~ Steady-state
	Graduate Exchange/QIUT/Special/Visiting	282	↑ Expecting student activity to return to pre-pandemic levels (exchanges to resume, etc.)
Residents and Fellows		1,432	~ Steady-state
Postdoctoral		652	*No assumptions are made for postdoctoral (do not generate tuition or grant revenue)*
Grand Total		**39,513**	

2.2. FY2024 Enrolment Assumptions: FTEs and Weighted FTEs

- Overall, FTEs are projected to increase in FY2024. Although our deregulated population continues to decline, due to lower incoming cohorts at the beginning of the pandemic, more aggressive enrolment assumptions for new students (both at the undergraduate and graduate level) are expected to mitigate the effect on the total population.



	FY2023(p)	FY2024(e)	% Change
Total (Regulated + Deregulated) FTEs	**32,561.7**	**33,105.8**	**1.7%**
Med. Residents FTEs	2,033.3	2,033.3	0.0%
3rd Cycle FTEs	2,398.4	2,446.7	2.0%
2nd Cycle FTEs	3,889.6	4,072.7	4.7%
1st Cycle FTEs	24,240.4	24,553.1	1.3%
Total (Regulated + Deregulated) weighted FTEs (1)	**102,757.4**	**104,893.8**	**2.1%**
Deregulated FTEs	4,926.6	4,864.4	-1.3%
Regulated FTEs	27,635.1	28,241.4	2.2%

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

p = projected; **e** = estimate

2.3. FY2024 Enrolment Considerations

- For Fall 2022, the number of applicants to Bachelors programs far exceeded previous years (+21.1% vs. 2020).
- For Fall 2023, the number of applicants is down slightly (~5% vs. 2022), but still far exceeding prior years.
- Like the previous two years, there is reason to believe that students are applying to more universities on average. This makes yielding our desired new intake much more competitive and unpredictable.
- The *Programme de bourses Perspective Québec*, a program of incentive scholarships for Quebec students in disciplines prioritized by the government, may make our desired new CEGEP intake much more competitive and unpredictable across programs.
- Study Permit delays (Immigration, Refugees and Citizenship Canada) make yielding our desired new intake of international students more unpredictable.
- Proactive engagement with newly admitted students throughout the spring and summer months remains a priority.

2.4. FY2024 Major Budget Assumptions and Scenarios

- To help deal with uncertainties, we prepared scenarios for selected revenue and expense categories.
- To build the budget, we considered a realistic scenario.
- In the following slides, we describe the assumptions that were used to prepare the budget and present quantified scenarios that illustrate a possible spread of actual financial results.
- Considering that the impact of a given event on revenues and expenses is rather complex, we encourage readers to interpret scenarios for selected revenue and expense categories independently.
- During a given fiscal year, we update revenue and expense forecasts on a monthly basis, which serves as an early warning system.
- In the event of negative surprises (e.g., lower anticipated revenues, or unforeseen expenses), we can draw down on the $10M contingency, delay anticipated initiatives, or trigger other expense mitigation measures.

2.5. FY2024 Budget

($000)

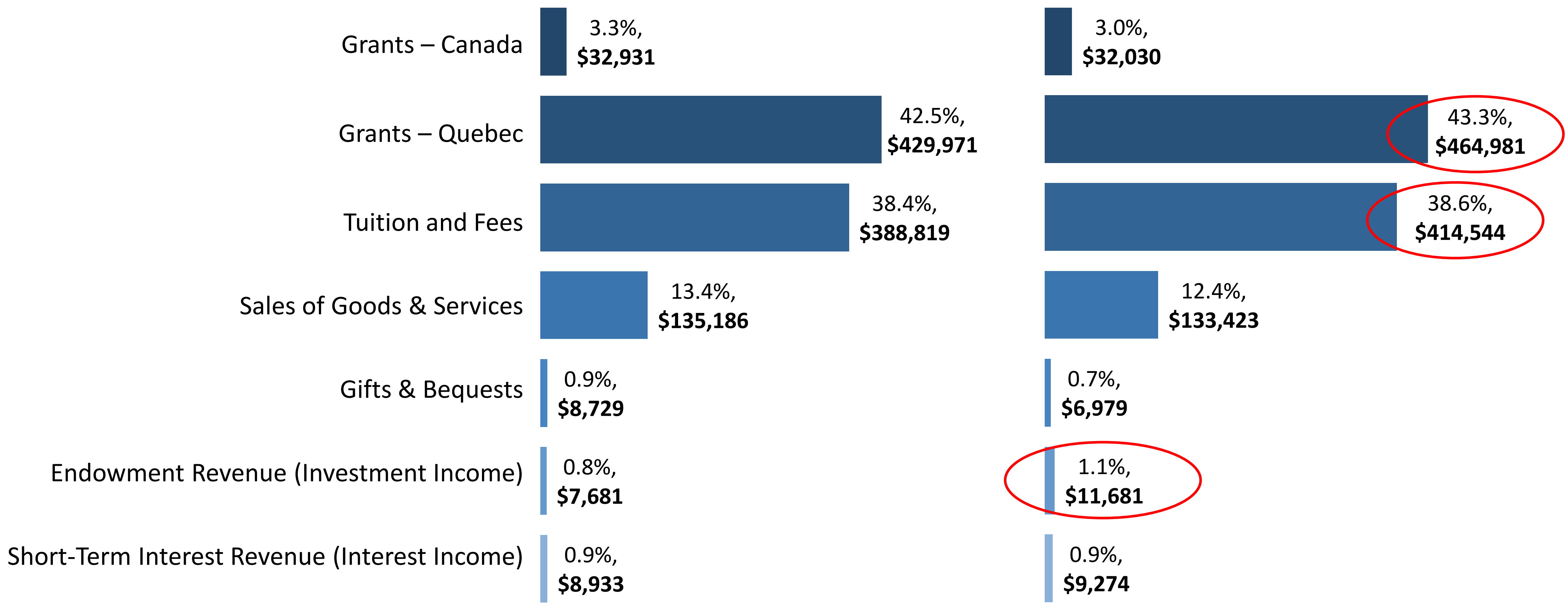
	FY2020 Actuals	FY2021 Actuals	FY2022 Actuals	FY2023 Forecast*	FY2024 Budget
Total revenues	922,085	898,216	978,172	1,012,250	1,072,913
Total expenses	922,240	897,406	976,822	1,011,727	1,072,344
Annual surplus / (deficit)	(155)	810	1,350	523	569
Financed accumulated deficit	119,932	119,122	117,772	117,249	116,680

Excluding year-end GAAP adjustments
*As per January 31, 2023 actuals and commitments, inputs from units, and trend forecasts

2.6. FY2024 Budget: Revenues

($000s)

FY2023 Forecast*: $1,012,250 | **FY2024 Budget: $1,072,913**



*as per January 2023 actuals, inputs from units, and trend forecasts

2.7. FY2024: Grants – Quebec and Regulated Tuition Rates

- On March 22, 2023, the Ministry shared with universities its funding policy for 2023-2024, pending the finalization of the government approval process. The FY2024 operating budget thus considers actual parameters of the provincial funding policy.

- For Quebec **normed grants**, the indexation has been set at 2.3% for teaching and 3.1% for support, excluding a 3% provision for salary policy.

- McGill's share of the building and grounds grant is reduced by $1M due to a change in methodology.

- The indexation of all **regulated tuition rates** (Quebec base tuition, Canadian and International supplement) is set at 3%.
    - In accordance with Bill 1, effective as of January 1, 2023 for a period of four years, the maximum annual indexation rate for public services is capped at 3%. This applies to regulated tuition rates and ancillary fees.
    - It should be noted that the government has included an allocation in the enrolment driven normed grants to compensate for the difference between 3% and an indexation level of 5.3% as calculated based on economic indicators.

2.8. FY2024: Deregulated Tuition Guarantee Model and Assumptions

- Tuition is deregulated for international students in all first-cycle and second-cycle (non-thesis) programs. Some international students (e.g., French citizens) are exempted from paying deregulated tuition.

- Among our international students, the subset which are deregulated fee-paying has declined in the past three years. The smaller than anticipated deregulated fee-paying cohorts will have a ripple effect on revenue for FY2024 and beyond.

- For FY2024, we are assuming a ratio of new deregulated-fee paying students to regulated students comparable to FY2023 results. Impacts of mitigating strategies (e.g., diversification of international markets) will take several admission cycles to generate significant results.

- In addition to a realistic scenario that has been used to build the budget, scenarios shown on the following slide quantify the financial impact of achieving a number of deregulated fee-paying students that differs from modeled expectations. The scenarios consider the net revenue impact of offsetting over/under achievement of deregulated students with regulated students, such that the overall enrolment objectives are always being met.

2.9. FY2024: Scenarios for Deregulated Student Enrolment

	Over/Under achieve Deregulated Assumptions	Fall 2023 Deregulated New Registrations	Deregulated Revenue Impact ($000s) (over/under achieving assumptions)	Regulated Revenue Impact ($000s) (offset to achieve overall enrolment objectives)	Net Revenue Impact ($000s) (overall enrolment objectives are met)
Optimistic	+10%	1,181	$4,539	($1,182)	$3,357
	+5%	1,124	$2,160	($563)	$1,596
	Budgeted	**1,072**	--	--	
	-5%	1,020	($2,160)	$563	($1,596)
	-10%	963	($4,539)	$1,182	($3,357)
Pessimistic	-15%	912	($6,692)	$1,732	($4,960)
	-20%	858	($8,927)	$2,318	($6,609)
	-25%	803	($11,194)	$2,911	($8,282)

- Achieving our budgeted deregulated/regulated mix of undergraduate new registrations has a financial impact in FY2024, and in subsequent years.
- Should McGill continue to yield deregulated students at a lower than anticipated rate, the net loss in revenue ranges from $1.6 to $8.3M in FY2024.

2.10. Requirement for a proportion of Quebec residents

- As of 2019-2020, Quebec students must represent at least a 50% of all students in programs subject to deregulation. As of 2026-2027, the Quebec student requirement will increase to 55%.
- The Ministry has indicated that the methodology for determining the proportion of Quebec students will be based on Full Time Equivalents (FTEs, 1 FTE = 30 credits), not headcounts.
- Universities that fail to meet these targets will have their enrolment-driven normed grants reduced by the gap in percentage to meet either the 50% or 55% requirement, to be recovered by the Ministry two years after the fact.
- McGill will need to implement an appropriate strategy to achieve, and maintain, the 55% Quebec student requirement as of 2026-2027.

2.11. FY2024: Sales of Goods and Services Assumptions

- 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 (e.g., residences, parking, food and dining services, etc.).

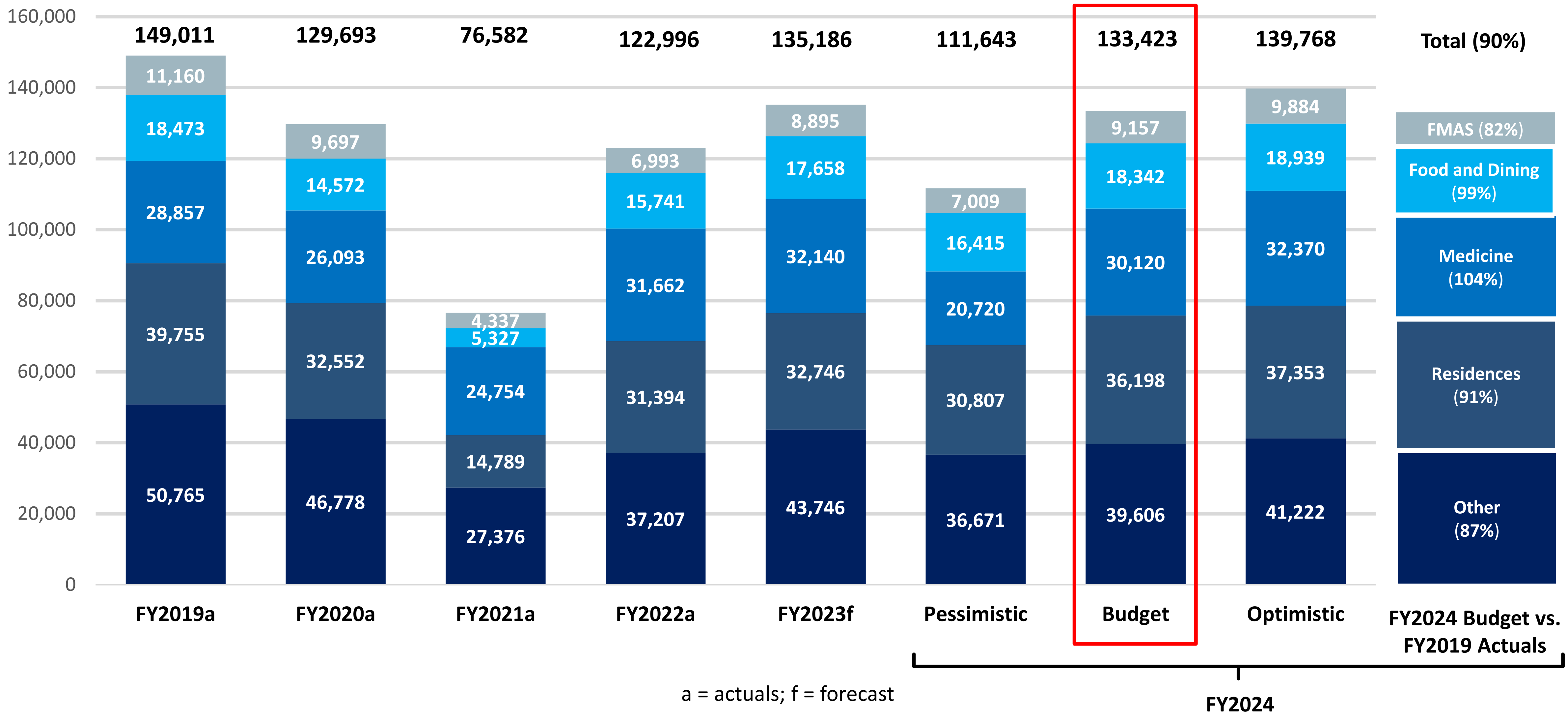
- From a pre-COVID high of $149M in FY2019, the sales of goods and services decreased to $77M (51%) in FY2021 and is currently forecasted at $135M (91%) for FY2023.

- For FY2024, some major revenue-generating units are anticipating increased sales of goods and services revenue. However, this is offset by some one-time amounts received in FY2023 that won't happen again in FY2024, as well as modest declines in revenue expectations in other areas.

- Overall sales of goods and services revenue expectations are down slightly for FY2024. We have built the budget using realistic revenue expectations received from units. We have included these on the following slide, along with their optimistic and pessimistic expectations.

2.12. FY2024 Revenues: Scenarios for the Sales of Goods and Services

($000s)



2.13 Sales of Goods and Services: additional information

- SOGS are collected by all Faculties and by many administrative units.

- Main **academic units**: Medicine and Health Sciences, Desautels Faculty of Management, Dental Medicine and Oral Health Sciences, Science, School of Continuing Studies, Agricultural and Environmental Sciences, Engineering, and Schulich School of Music.

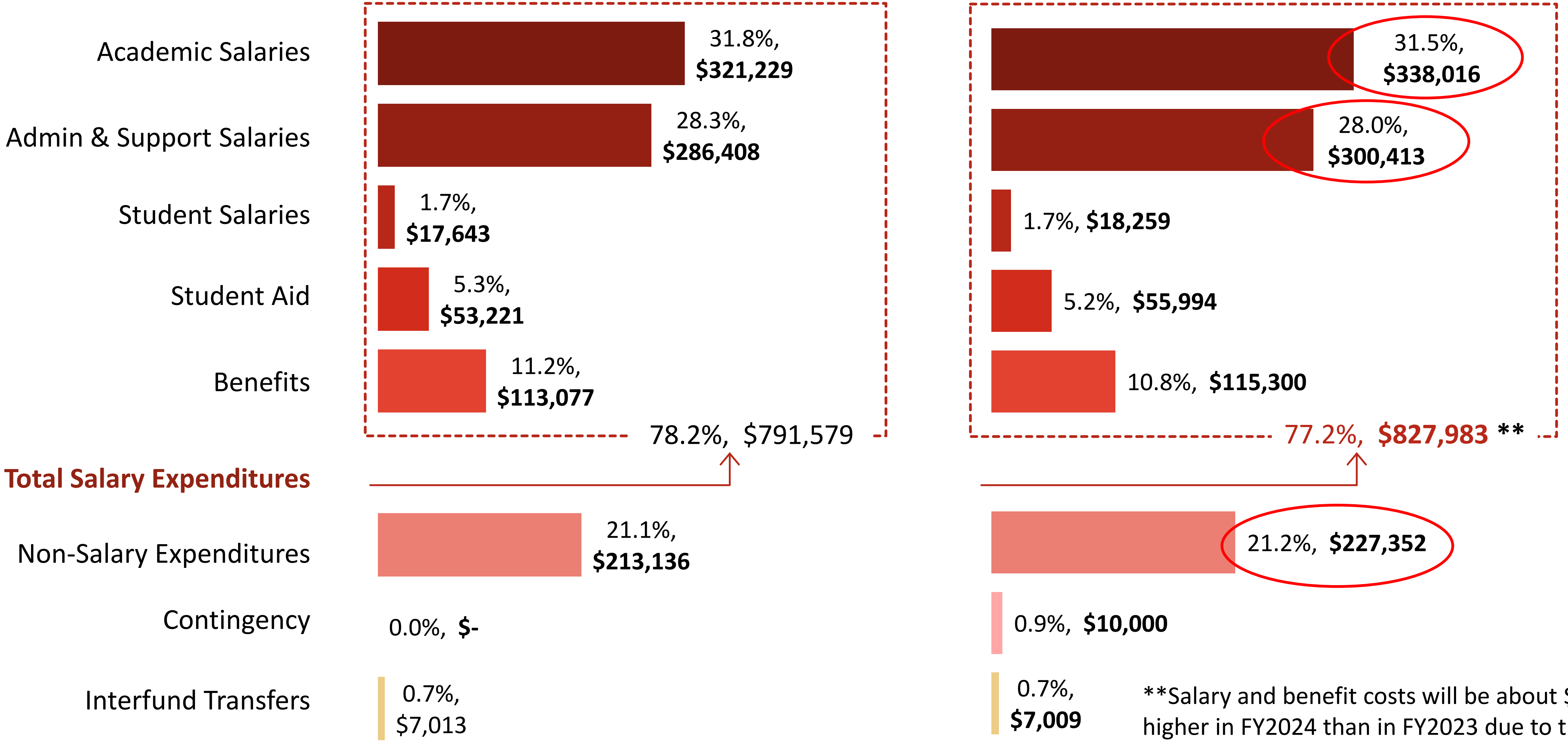
- Main **administrative units**: Student Life & Learning, Facilities Management and Ancillary Services, Research and Innovation, and Administration and Finance.

- Main **categories**: rental revenue, contracts for training international students, food and dining services, registration for non-credit courses, research core facility user fees, Gault Nature reserve, royalties and licensing revenues, parking, registration for events/activities, goods (e.g., computer equipment, farm produce), services (e.g., dental clinic), IT services (e.g., telecom, printing), merchandise, promotional revenues.

2.14. FY2024 Budget: Expenses

($000s)

FY2023 Forecast*: $1,011,727 | **FY2024 Budget: $1,072,344**



**Salary and benefit costs will be about $4M higher in FY2024 than in FY2023 due to the higher number of weekdays (262 vs 260)

*as per January 2023 actuals and commitments, inputs from units, and trend forecasts

2.15. FY2024 Budget: Non-Salary Expenses

($000s)	FY2023 Forecast: $213,136	FY2024 Budget: $227,352	Change: $14,216
Materials, Supplies & Publications	39,874	40,278	404
Building & Occupancy Costs (excluding sinking fund payment)	39,354	46,802	7,448
Contract Services	25,309	26,506	1,197
Energy	19,945	21,277	1,332
Cost of Goods Sold & Services Rendered	18,924	18,914	(10)
Hardware and Software Maintenance	17,867	19,358	1,491
Professional Fees	15,024	11,116	(3,908)
Contribution to Partner Institutions	11,226	11,221	(6)
Capital Purchases	6,596	8,240	1,644
Interest & Bank Charges	853	1,936	1,083
Sinking Fund Payment	-	-	-
Other (incl. travel, receptions, events, catering, meals, photocopying)	18,164	21,706	3,542

2.16. Sinking Fund Payments through FY2028

($000s)

Fiscal Year	**Expected** (Annual)	**Expected** (Cumulative)	**Contributions** (Annual)	**Contributions** (Cumulative)	**Comments**
FY2019	0	**0**	11,500 (a)	**11,500**	
FY2020	11,500	**11,500**	27,000 (a)	**38,500**	
FY2021	20,000	**31,500**	16,000 (a)	**54,500**	
FY2022	17,000	**48,500**	49,000 (a)	**103,500**	
Expected payments for FY2023+ have been revised as per actual cumulative contributions, revised interest rates, amounts and timing for the issuance of new debt.					
FY2023	0	**103,500**	**0 (b)**	**103,500**	Any excess operating surplus in FY2023 will be applied to FY2026 thereon required contributions.
FY2024	0	**103,500**	0 (o)	**103,500**	Planned issuance of $150M 30-year bond
FY2025	0	**103,500**	0 (o)	**103,500**	Planned issuance of $130M 40-year bond
FY2026	27,000	**130,500**	27,000 (o)	**130,500**	Planned issuance of $130M 40-year bond
FY2027	27,000	**157,500**	27,000 (o)	**157,500**	
FY2028	27,000	**184,500**	27,000 (o)	**184,500**	Planned issuance of $130M 40-year bond

(a) actual; (b) budgeted; (o) outlook

2.17. FY2024: Expense Assumptions (1 of 4)

- **Academic Salaries**
  - Tenure-track salaries is one of the University's most predictable expense categories. An academic renewal plan establishes the University tenure-track complement targets.
    - Tenure-track salary costs may vary if the number (or timing) of arrivals and departures differs from the academic renewal plan.
  - Other academic salaries (e.g., contract academic staff, course lecturers) represent a smaller share of the budget but are more variable in nature.
    - The impact of cost variances from the academic renewal plan (either positive or negative) is somewhat offset by variances (either negative or positive) in other academic salaries, reducing the potential variance for academic salaries as a whole.
  - Financial risks are mitigated by a number of centrally controlled mechanisms.

2.18. FY2024: Expense Assumptions (2 of 4)

- **Administrative and Support Salaries**
  - During FY2022 and FY2023, the hiring control measures that were implemented at the onset of COVID were eased, allowing to replace unfilled positions in order to support teaching and research, critical operations, as well as increased on-campus activities.
  - Some support staff salaries and payments are highly predictable, while others are more seasonal in nature, and others are dependent on volume of revenue-generating activities.
  - Financial risks are mitigated by a centrally controlled hiring process for specific groups of employees.
  - Many collective agreements were resolved in FY2023, thus reducing the levels of financial uncertainty.
  - For FY2024, considering our challenging financial outlook and competitive salary policies that have been concluded for the upcoming years, the hiring control measures for administrative and support staff will be reintroduced, in combination with reassessment of priorities.

2.19. FY2024: Expense Assumptions (3 of 4)

- **Student Aid:** Contributions have increased sharply in recent years, which include tuition set-aside funded from deregulated tuition fees and the new graduate enrolment driven incentive (GEDI). Timing of payments have been reviewed to anticipate disbursements per fiscal year.

- **Benefits:** Significant annual reductions in **pension solvency contributions** between FY2018 and FY2022 have resulted in an overall stability in benefit costs. Considering the valuation of the Pension fund at December 31, 2022, the pension solvency contributions will decrease by $4M per year over the next 3 fiscal years.

- **Building & Occupancy Costs:** These are highly variable from year to year. At the unit level, insight into the timing of projects charges is limited. Leases are significant and relatively predictable, but new additions are important. Project management recoveries are considerable, but there is little insight before the end of the year. Insurance related incidents, expenses, and associated reimbursements cause variability across fiscal years. Historical trends, unit inputs, and the effect of rising interest rates have been considered.

- **Professional Fees:** A one-time expense is forecasted in FY2023, so the overall cost for this expense category is expected to decrease in FY2024.

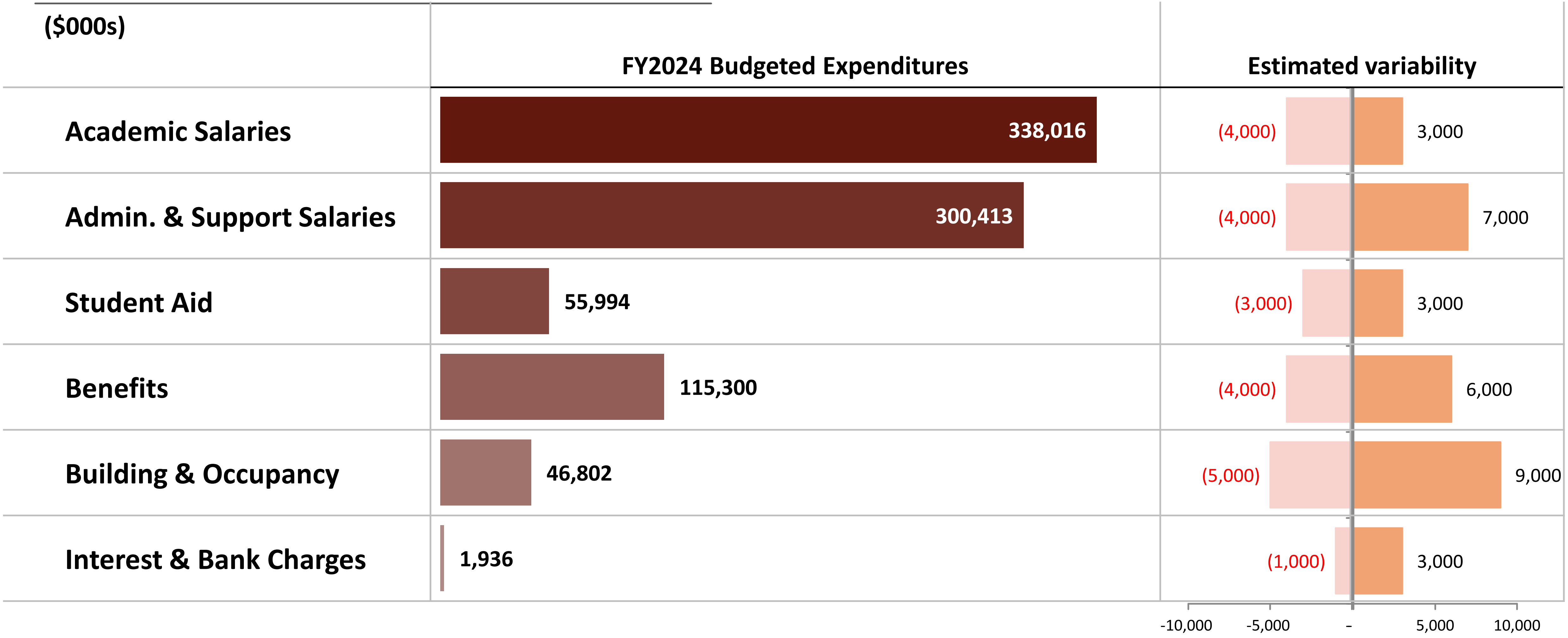
2.20. FY2024: Expense Assumptions (4 of 4)

- **Interest cost**
  - Following a sharp increase during FY2023, interest rates will likely stabilize during FY2024, which will have both positive (e.g., investments, pension solvency contributions) and negative (e.g., cost of debt) impacts on the unrestricted fund. For FY2023, overall, the impact of rising interest rates has been positive.
  - For FY2024+, the issuance of new debt to fund capital projects will be at a higher cost, thus increasing the amount of sinking fund payments planned for FY2026+.

- **Other Non-Salary Expenses**
  - Several cost items were severely depressed during FY2021 and FY2022 due to COVID health safety measures. Examples include **travel**, **printing**, **postage**, **photocopying**, **receptions / special events**, **contract services catering**, **non-travel related meal expenses**, to name a few. For FY2023, these expenses generally rebounded, and most will return to pre-COVID levels in FY2024.

- **Inflation**
  - Inflationary pressure is a concern. Financial risks are mitigated by limiting the spending capacity of units through the allocation of budgets, by centrally monitoring the financial situation monthly, and by the use of a contingency.
  - In the event of unforeseen cost increases for certain activities, decisions will be taken to reduce expenses and/or delay other activities to remain within our financial capacity.

2.21. FY2024 Expenses: Scenarios for Selected Categories



- Estimated variability is based on historical patterns, and assumptions presented in the previous slides.

2.22. FY2024 Budgetary Measures

- To contain expenses within anticipated revenues, a series of budgetary measures will be deployed.
  - Contain hiring of administrative and support staff.
  - Restrict in-year new allocations to mission-critical activities, core operations, contractual obligations, and non-compressible expenses.
  - Continue to limit the ability of units to spend-down individual budget carry-forward fund balances.
  - Request that faculties and administrative units reduce planned spending on the operating budget by 1.5%. We will offer suggestions such as transferring expenses on other fund types (research, capital or philanthropic funds), deferring projects, attrition of staff, and reducing non-salary expenses.

2.23. Uncertainties and Risks

- **External:**
  - Global political landscape and its effect on international student mobility
  - Effect of new government initiatives and updates to the funding formula, such as the willingness to increase student mobility and retention outside Montreal
  - Study permit delays (Immigration, Refugees and Citizenship Canada)
  - Effect of market volatility on pension fund and the University’s endowment fund
  - Canadian dollar exchange rate
  - Interest rates
  - Inflation

2.24. Uncertainties and Risks (cont'd)

- **McGill-controlled:**
  - Success of the University in deploying its enrolment plan
  - Stability of activities expected to be self-financing
  - Expense control measures
  - Management of carry forward balance spend down
  - Effectiveness of position budgeting and control
  - Cost of space for teaching, research and services (e.g., new leases, leasehold improvements, swing space for renovations)

Discussion

- Questions
- Comments
- Concerns
- Suggestions

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