McGILL UNIVERSITY **BOARD OF GOVERNORS**

Report of the Finance Committee

GD15-39

Board of Governors meeting of February 11, 2016

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The following items arise from the Finance Committee meeting of February 8, 2016. They are presented to the Board of Governors for its consideration.

I. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

1. Update on Financing Plan for Deferred Maintenance and IT Initiatives

The Committee received an update on the Financing Plan for Deferred Maintenance and IT initiatives. Members were informed that following "road shows" in Montreal and Toronto, a deal was closed on January 26, 2016 to issue $160M in debentures with a maturity date of 40 years, with an interest rate set at 3.975% per annum. The bonds were issued to sixteen investors. The Committee also learned that in light of higher than anticipated demand, it was decided that the University could issue more than the planned $100M in bonds in the first tranche. As a result, only $240M remains to be issued, which may only require two more tranches of offerings instead of the original plan to issue four tranches in in total.

2. Budget Implementation 2015-16 Year-to-Date: Preliminary Report on Quarterly Financial Statements [F15-09]

The Committee received an update on the implementation of the 2015-16 budget. Members were informed that for the second quarter ended October 31, 2015, McGill had a deficit of $6.5 million versus a budgeted annual deficit of $4.7 million. Members learned that the Quebec government applied the budget cuts for the University Reseau's operating grant in November 2015 and that McGill's share amounted to $11.2M. The Committee was also informed that, following issuance of the bonds in support of deferred maintenance, Moody's and S&P reaffirmed the credit rating as Aa2 and AA- stable respectively.

2. Budget Planning 2016-17 Report II [F15-10]

The Committee received the second of three presentations concerning the FY2017 University budget. Members were informed that the University is now projecting a possible deficit of $10.2M compared to budgeted $4.7M for FY2016. Members received an advance look at forecasts for FY2017 where, notably, further MEESR cuts are expected but not confirmed. The presentation in support of the budget planning exercise is attached as Appendix A.

4. Annual Report on External Borrowing [F15-11]

The Committee received a report on outstanding capital borrowings for the year ending January 31, 2016. Members were informed that there were no significant changes to available credit facilities or lenders. The maximum amount borrowed during the 12 month period ending January 31, 2016 was $175M while the minimum amount borrowed in January 2016 was $58M.

5. Terms of Reference for Finance Committee [F15-12]

The Committee reviewed proposed changes to the Finance Committee Terms of Reference following as part of the triennial review of Board Committee terms of reference presently underway. The Finance Committee approved to recommend revisions, which will be presented for consideration to the Nominating, Governance and Ethics Committee, and subsequently to the Board of Governors for approval.

END REPORT
February 2016

Budget Planning II

FY2017 Budget and Outlook for FY2018-FY2021

Presentation to the Board of Governors

11 February 2016

Prof. Christopher Manfredi
Provost and VP (Academic)

Draft

1. Forecast for FY2016: possible deficit of $10.2M compared to budgeted $4.7M

Summary of variances against original budget	
Annual financed operating deficit budget for the FY2016 (FY2016 Budget Book: April 2015)	**($4.7M)**
Anticipated major operating budget variances for FY2016	
Gain from sale of land (Redpath)	**$20.6M**
Increased sale of goods and services	**$8.5M**
Foreign exchange gain	**$4.0M**
Reduced interest and bank charges	**$2.0M**
Added allocations / expenses reported since start of FY2016	**($8.2M)**
Deferred maintenance charges – (incl. bond forwards)	**($8.2M)**
Pay equity	**($7.0M)**
Lower than budgeted QC grant	**($5.5M)**
Lower than budgeted tuition revenues	**($3.2M)**
Additional pension plan contributions	**($2.6M)**
Reduction / Spend-down of carry-forwards	**TBD (est'd at approx. $6.0M)**
Updated annual financed operating deficit FY2016 projection	**($10.2M)**

2a. Looking ahead FY2017 – FY2021: Revenues

1. Potential for yet another MEESR cut in FY2017: estimated at $2M-$4M (no details yet available)

2. MEESR Funding Workgroups (stemming from Tremblay-Roy recommendations) have been largely inactive
   a) No clear signal of government reinvestment
   b) Some indication that changes in international and non-QC tuition policies may be possible (may result in increased revenues)

3. Enrolment strategy
   a) Limited overall enrolment growth; some recalibration of enrolment mix
   b) Recent decline in Canadian dollar has made international tuition more affordable – some indication that international applications have increased

2b. Looking ahead FY2017 – FY2021: Expenses

1. Need to continue investing in top priorities
2. Salary Policy commitments beyond FY2017 yet to be finalized for some employee groups
3. Higher costs than originally planned for deferred maintenance borrowing
4. Slow-down of academic renewal priority and related tenure-track complement objectives
5. No added cuts beyond those planned in FY2016 Budget Book (continuation across all Faculties and Administrative Units of cuts over next 5 years)
6. Management of faculty carry-forwards:
   a) Represents an additional liability of approximately $100M on the operating funds
   b) Revision of carry-forward policy under consideration

3a. Operating Budget: past, present and future outlook (preliminary draft) – Scenario 1 - $4M MEESR cut

5-year outlook (April 2015)	FY14a	FY15f	FY16b	FY17p	FY18p	FY19p	FY20p	
Total Revenues	759.9	773.7	764.2	782.1	805.6	824.3	849.1	
Total expenses (1)	755.6	769.4	768.9	788.0	805.5	836.9	854.7	
Annual financed surplus (deficit)	4.3	4.3	(4.7)	(5.9)	0.1	(12.6)	(5.6)	
Financed accumulated deficit	(95.8)	(91.5)	(96.3)	(102.2)	(102.0)	(114.6)	(120.3)	
5-year outlook (Jan 2016)	**FY14a**	**FY15a**	**FY16f**	**FY17b**	**FY18p**	**FY19p**	**FY20p**	**FY21p**
Total revenues		771.4	788.9	777.3	791.2	808.8	825.9	842.5
Total expenses (1)		773.7	799.0	787.7	797.0	815.9	822.9	836.9
Annual financed surplus (deficit)		(2.3)	(10.2)	(10.4)	(5.8)	(7.2)	2.9	5.7
Financed accumulated deficit	(95.8)	(98.1)	(108.2)	(118.6)	(124.5)	(131.6)	(128.7)	(123.0)
Fin accum. deficit / revenues %	12.61%	12.71%	13.72%	15.26%	15.73%	16.27%	15.58%	14.60%

(1) excluding "GAAP" adjustments

$M

3b. Operating Budget: past, present and future outlook (preliminary draft) – Scenario 2 - $2M MEESR cut

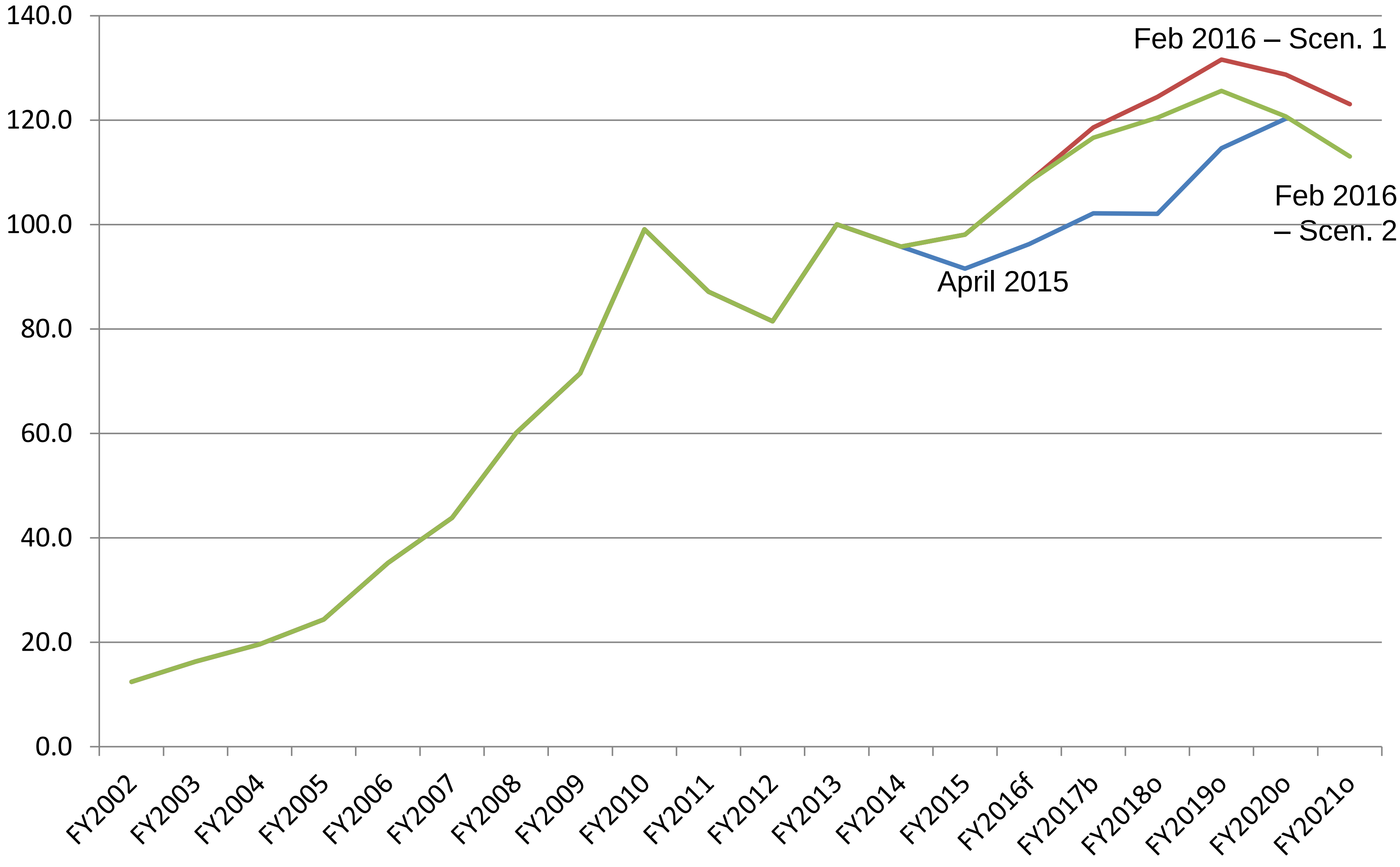
5-year outlook (April 2015)	FY14a	FY15f	FY16b	FY17p	FY18p	FY19p	FY20p	
Total Revenues	759.9	773.7	764.2	782.1	805.6	824.3	849.1	
Total expenses (1)	755.6	769.4	768.9	788.0	805.5	836.9	854.7	
Annual financed surplus (deficit)	4.3	4.3	(4.7)	(5.9)	0.1	(12.6)	(5.6)	
Financed accumulated deficit	(95.8)	(91.5)	(96.3)	(102.2)	(102.0)	(114.6)	(120.3)	
5-year outlook (Jan 2016)	**FY14a**	**FY15a**	**FY16f**	**FY17b**	**FY18p**	**FY19p**	**FY20p**	**FY21p**
Total revenues		771.4	788.9	779.3	793.2	810.8	827.9	844.5
Total expenses (1)		773.7	799.0	787.7	797.0	815.9	822.9	836.9
Annual financed surplus (deficit)		(2.3)	(10.2)	(8.4)	(3.8)	(5.2)	4.9	7.7
Financed accumulated deficit	(95.8)	(98.1)	(108.2)	(116.6)	(120.5)	(125.6)	(120.7)	(113.0)
Fin accum. deficit / revenues %	12.61%	12.71%	13.72%	14.96%	15.19%	15.49%	14.58%	13.39%

(1) excluding "GAAP" adjustments

$M

Draft

4. Operating fund: financed accumulated deficit



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5a. FY2017 McGill budget model assumptions: increases in enrolment driven revenues

targets / projections	FY2017	Cumul. FY2017-21
teaching grant growth	$3.2M (1.1%)	$25.7M (9.0%)
de-regulated tuition growth (net of student aid)	$5.0M (9.6%)	$15.8M (30.3%)
support grant growth	$0.7M (1.4%)	$4.2M (8.2%)
regulated tuition growth (net of supplements and student aid)	$0.8M (1.4%)	$5.3M (8.9%)
“frais institutionnels obligatoires” (FIOs) growth	$0.4M (1.5%)	$2.5M (8.9%)

5b. FY2016 McGill budget model assumptions: increases in other major revenue sources

targets / projections	FY2017	Cumul. FY2017-21
facilities and buildings	$9.5M (20.3%)	$14.2M (30.2%)
provincial indirect costs of research*	-$8.0M (-100%)	-$8.0M (-100%)
sales of goods and services	$2.6M (2%)	$13.5M (10.4%)
MEESR recoveries (increases in supplements and student aid contributions deducted from grant)	-$3.0M (3.1%)	-$15.0M (13.5%)

* The decline in indirect support is largely offset by increased support of infrastructure

Discussion