Report of the Finance Committee

GD15-48

Board of Governors meeting of April 21, 2016

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The following items arise from the Finance Committee meeting of April 19, 2016. They are presented to the Board of Governors for its consideration.

I. FOR APPROVAL BY THE BOARD OF GOVERNORS

1. Proposed McGill University Budget 2016-17

Following the Committee's review of budget planning reports at its December and February meetings, members received a presentation in support of the proposed 2016-17 budget.

Members were informed that the provincial budget released March 17, 2016 would stabilize University funding and that no further cuts are anticipated over the next three years. Nevertheless, McGill will continue to engage in the cost saving measures which allowed the University to weather the government cuts of recent years. Salary commitments and deferred maintenance remain the top funding priorities. Key challenges identified include accumulated financed deficit, deferred maintenance and other potential capital projects, and management of the pension plan.

In summary, the proposed budget projects revenues of $795.6M and expenditures of $798.2M, resulting in an estimated deficit of $2.7M.

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 2016-17 McGill University Budget.*

2. Maximum Borrowing Resolution for Fiscal Year 2017

The *Ministère de l'Éducation et de l'Enseignement supérieur* (MEES) requires annual borrowing authorization limits to be confirmed annually. The Finance Committee, on the recommendation of the Vice-Principal (Administration and Finance) recommended that the University's maximum borrowing amount 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 fiscal year ending April 30, 2017.*

II. 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. The proceeds of $160M from the issuance of the first tranche of bonds have been received and the net proceeds have been invested in short-term instruments. The first project to be charged to these funds will be a new Human Resources Information System, R2R (Recruitment to Retirement), and the call for tenders has been posted. The remaining bonds will be issued in two tranches in January 2018 and 2019, respectively.

2. Quarterly Financial Results for Period Ended January 31, 2016

The Committee received an update on Quarterly Financial Results for Period Ended January 31, 2016. The report included an Executive Summary, which highlighted the University's Balance Sheet activities and included operational highlights outlining the salient features of overall revenues and expenses for the period ended January 31, 2016, and variance report to budget.

3. Annual Report on the McGill University Pension Plan

The Committee received a report on the McGill University Pension Plan for the period ended December 31, 2015. Despite the strong returns of pension plan assets in 2015, pension liabilities are anticipated to increase compared to the 2012 valuation exercise. Results of the 2015 actuarial valuation exercise are expected to be known in May.

Members were informed that thanks to lobbying efforts with the government, in partnership with the University of Sherbrooke, hybrid pension plans such as the McGill University Pension Plan have been exempted from provincial legislation targeting university defined benefit pension plans.

4. Annual Report from General Counsel

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

5. Finance Committee Meeting Dates 2016-17

The Committee received its meeting dates for the 2016-17 governance year.

END REPORT
April 2016

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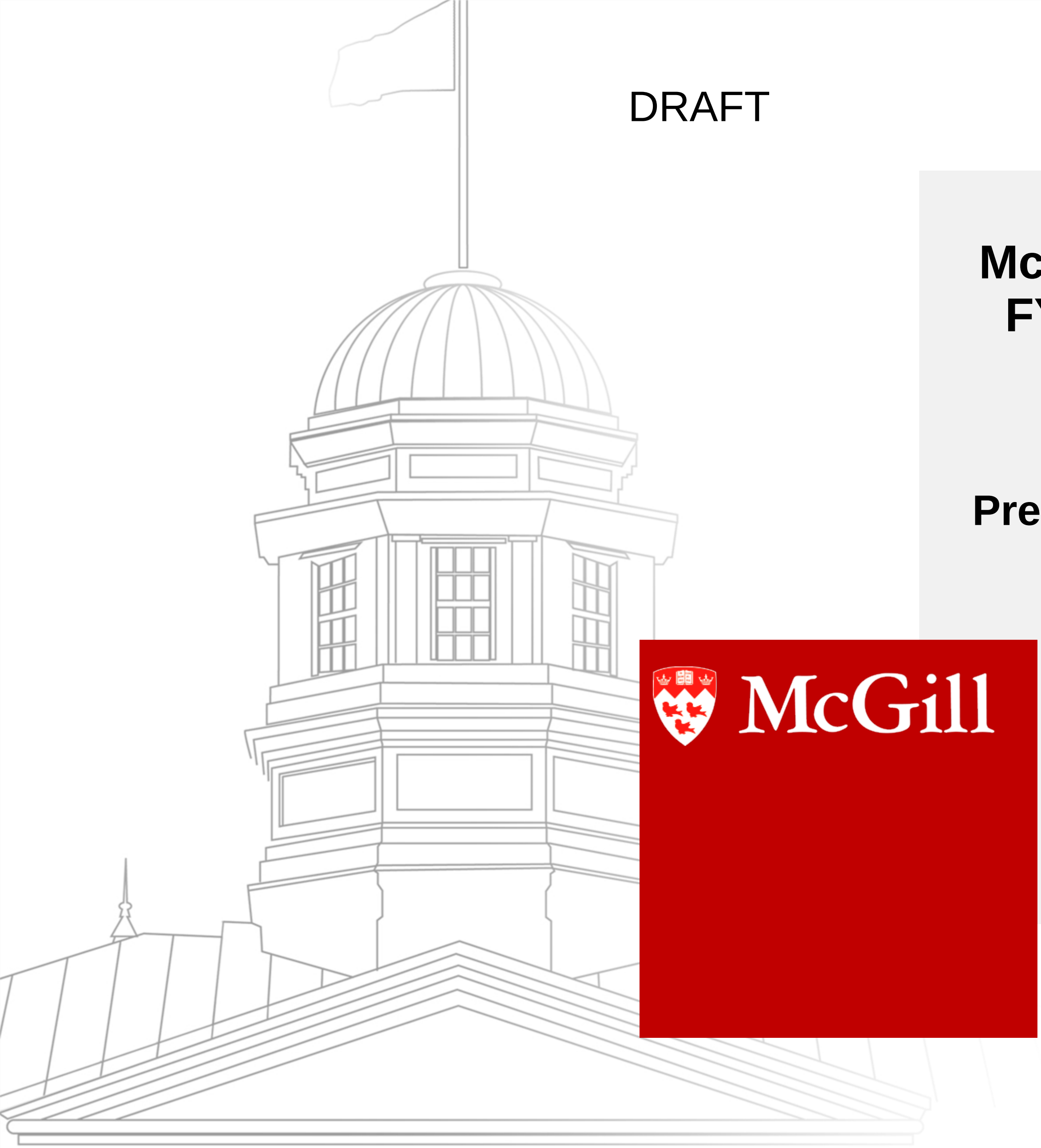

McGill University Budget FY2017: Summary and Highlights

Presentation to the Board of Governors

McGill

21 April 2016

Prof. Christopher Manfredi
Provost and VP (Academic)

Draft

Forecast for FY2016

Summary of variances against original forecast	
1. Annual financed operating deficit forecast for the FY2016 (FY2016 Budget Book: April 2015)	($4.7M)
Anticipated major operating budget variances for FY2016	
2. Sale of land (Redpath)	$20.6M
3. Increased Sale of Goods and Services	$8.5M
4. Higher than anticipated Qc grant	$4.1M
5. Foreign Exchange Gain	$1.5M
6. Increased deficits and reduction / spend-down of carry-forwards	($8.6M)
7. Additional net allocations / expenses since start of FY2016	($7.2M)
8. Pay Equity	($7.0M)
9. Increased Deferred Maintenance related costs	($6.4M)
10. Lower than anticipated tuition	($5.3M)
11. Updated annual financed operating deficit FY2016 projection	($4.5M)

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Looking ahead FY2017 – FY2021: Revenues

1. End of MEES cuts
   a) Minor targeted education reinvestments signaled in Provincial Budget
2. Little progress on the MEES Funding Workgroups (stemming from Tremblay-Roy recommendations)
   a) Indexation in tuition fees for FY17 inline with cost of living
   b) Commitment by MEES to review non-Quebec tuition model in the coming year
3. Little growth forecast in enrolment targets
   a) Provincial gov't forecasts decrease in university Quebec student enrolment for the next 5 years
4. Significant investments planned for capital renovations by both provincial and federal governments
   a) Should see significant impact on capital budget (perhaps as much as $150M for McGill)
   b) Will have cumulative impact over current gov't grant and deferred maintenance bond

FY2017:
budget implementation and proposal

1. **sustain academic quality** as reflected in the investments made over past years
2. continue to invest in **top priorities** of the University
3. retain and recruit **academic talent**
4. sustain and **enhance research quality** and quantity
5. increase **recruitment and enrolment of high quality** undergraduate and research graduate students where capacity exists
6. to achieve these objectives: **FY2017 budget deficit = ($2.7M)**

FY2017 and beyond: two significant expense pressures

1. salary commitments
   a) maintain agreements and contracts – next several years yet to be finalized
   b) For TT staff: catch-up to reach median of U15 compensation levels
   c) FY2017 cost: $21.4M, including benefits
2. deferred maintenance
   a) Bond issue for $160M in FY2016
   b) Additional borrowing (up to $400 million total) to be repaid over the course of a period not to exceed 40 years, in support of capital expenditures
   c) expected annual capital and interest costs: **$27M starting in FY2021**
   d) developing an implementation plan for aligning DM projects and academic space needs

FY2017 and beyond:
continuation of FY2016 budget measures plan

1. reductions in selected non-salary expenses; across all units: FY2017 = $4.0M
2. reductions in administrative staff expenses:
   a) salary savings in FY2017: $4.7M
   b) managed within each unit
   c) small central provision included for staffing priorities
3. increased overhead charges on self-funded operating revenues:
   a) Up to 4% from 3%: $1.1M in savings
4. use of carry-forward balances on <u>all</u> operating funds requires provostial approval
5. relaxation of original measures starting in FY18 (conditional on positive forecasts)

Uncertainties

1. labour-related costs that could exceed forecasts
   a) pay equity
   b) pension shortfall
   c) collective bargaining settlements
2. changes to provincial funding formula (unclear of effect on McGill)
3. possible increases in interest rates to be paid on debt
4. fluctuations in currency exchange rates
5. faster than expected spend down of current operating carry-forwards

FY2017 and beyond:
refining processes in search of efficiencies

1. Some proposed budget measures will be transitional as we develop:
    a) benchmarking administrative costs
    b) review of current administrative work processes

2. Better monitoring of carry-forwards
    a) Review of related policies may be needed
    b) Current balances at approximately $100M

Operating Budget: past, present and future outlook ($'M)

a = actual, b = budget, f = forecast, p = projection

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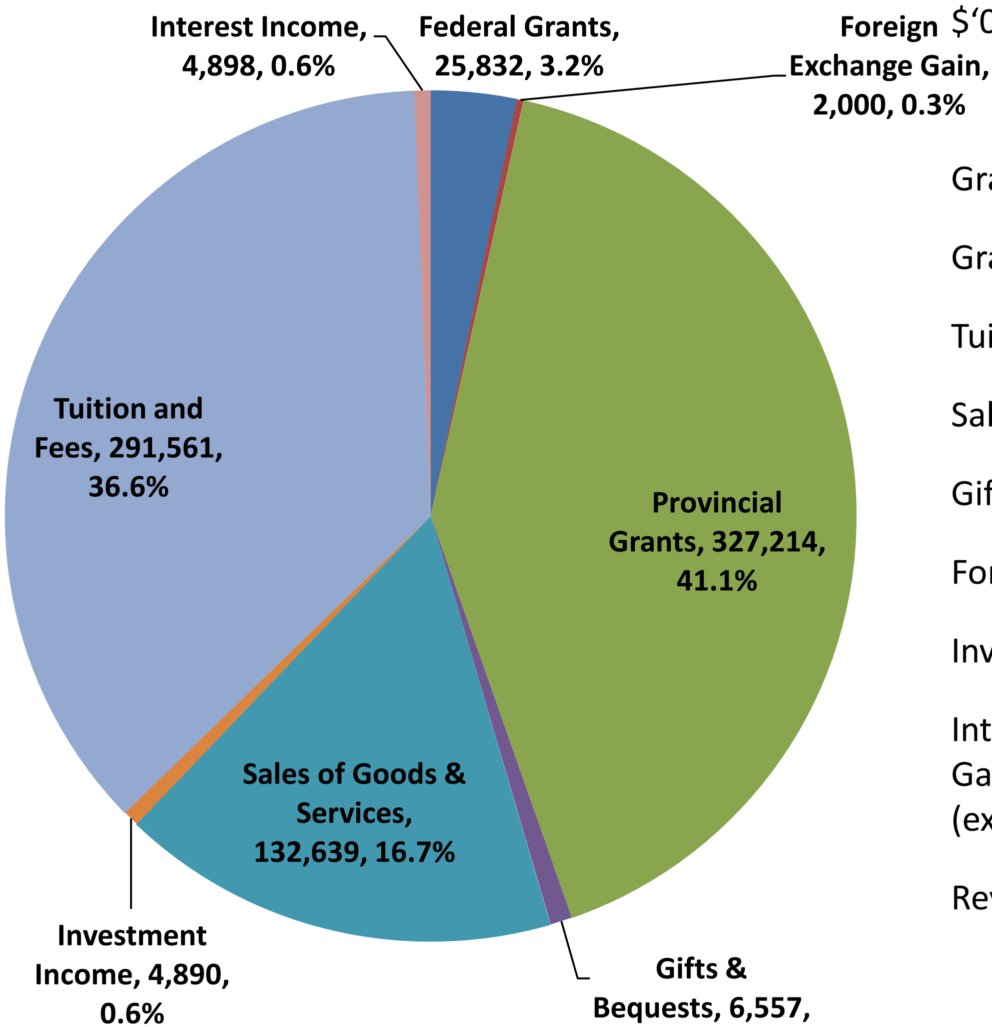
5-year outlook (April 2015)	FY14a	FY15f	FY16b	FY17p	FY18p	FY19p	FY20p	
Total Revenues	759.9	773.7	764.2	782.1	805.6	824.3	849.1	
Total expenses (1)	755.6	769.4	768.9	788.0	805.5	836.9	854.7	
Annual financed surplus (deficit)	4.3	4.3	(4.7)	(5.9)	0.1	(12.6)	(5.6)	
Financed accumulated deficit	(95.8)	(91.5)	(96.3)	(102.2)	(102.0)	(114.6)	(120.3)	
5-year outlook (March 2016)	**FY14a**	**FY15a**	**FY16f**	**FY17b**	**FY18p**	**FY19p**	**FY20p**	**FY21p**
Total revenues		771.4	794.5	795.6	810.4	828.9	845.3	859.5
Total expenses (1)		773.7	799.0	798.2	814.7	827.7	843.9	860.5
Annual financed surplus (deficit)		(2.3)	(4.5)	(2.7)	(4.3)	1.2	1.5	(1.0)
Financed accumulated deficit	(98.5)	(100.8)	(105.3)	(108.0)	(112.2)	(111.0)	(109.6)	(110.6)
Fin accum. deficit / revenues %	12.96%	13.07%	13.26%	13.57%	13.85%	13.40%	12.96%	12.86%

(1) excluding "GAAP" adjustments

FY2017:
operating revenue = $795.6M

in $000s



$'000

	Forecast FY2016	Budget FY2017	% change
Grants - Canada	25,832	25,832	0.0%
Grants - Quebec	327,348	327,214	0.0%
Tuition and Fees	275,302	291,561	5.9%
Sales of Goods & Services	130,044	132,639	2.0%
Gifts & Bequests	6,466	6,557	1.4%
Foreign Exchange Gain	1,500	2,000	33.3%
Investment Income	4,746	4,890	3.0%
Interest Income	2,595	4,898	88.7%
Gain on Sale of Land (extraordinary item)	20,638	0	-100.0%
Revenues Total	**794,471**	**795,590**	**0.1%**

FY2017-FY2021 key revenue assumptions: student enrolment

modest growth in enrolment, capacity permitting

	Level	FY2016	FY2017	FY2021	1-yr Growth FY17-FY16	5-yr Growth FY21-FY16
total FTEs	1st cycle	23,659.9	23,670.8	23,679.2	0.0%	0.1%
	2nd cycle	3,841.5	3,835.7	3,842.4	-0.2%	0.0%
	3rd Cycle	1,942.4	1,963.1	2,126.6	1.1%	9.5%
	Med Residents	2,008.1	2,096.6	2,150.0	4.4%	7.1%
	Total	**31,451.9**	**31,566.2**	**31,798.2**	**0.4%**	**1.1%**
total weighted student units (WSUs)*		**85,362.0**	**85,592.4**	**87,144.0**	**0.3%**	**2.1%**

*WSUs = FTEs weighted by discipline and level

FY2017-FY2021 key revenue assumptions: MEES operating grant

1. assumptions:
   a) no additional cuts
   b) modest grant indexation (FY2017-FY2021: 1.1%, 1.2%, 1.4%, 1.6%, 1.8%)

2. increases in regulated Quebec tuition and FIOS
   a) FY2017-FY2021: 1.5%, 1.5%, 2.0%, 2.5%, 2.5%)

3. increases in de-regulated international student tuition
   a) FY2017: 4.0%; FY2018 to FY2021: 3.0%

FY2017 key revenue assumptions: regulated tuition

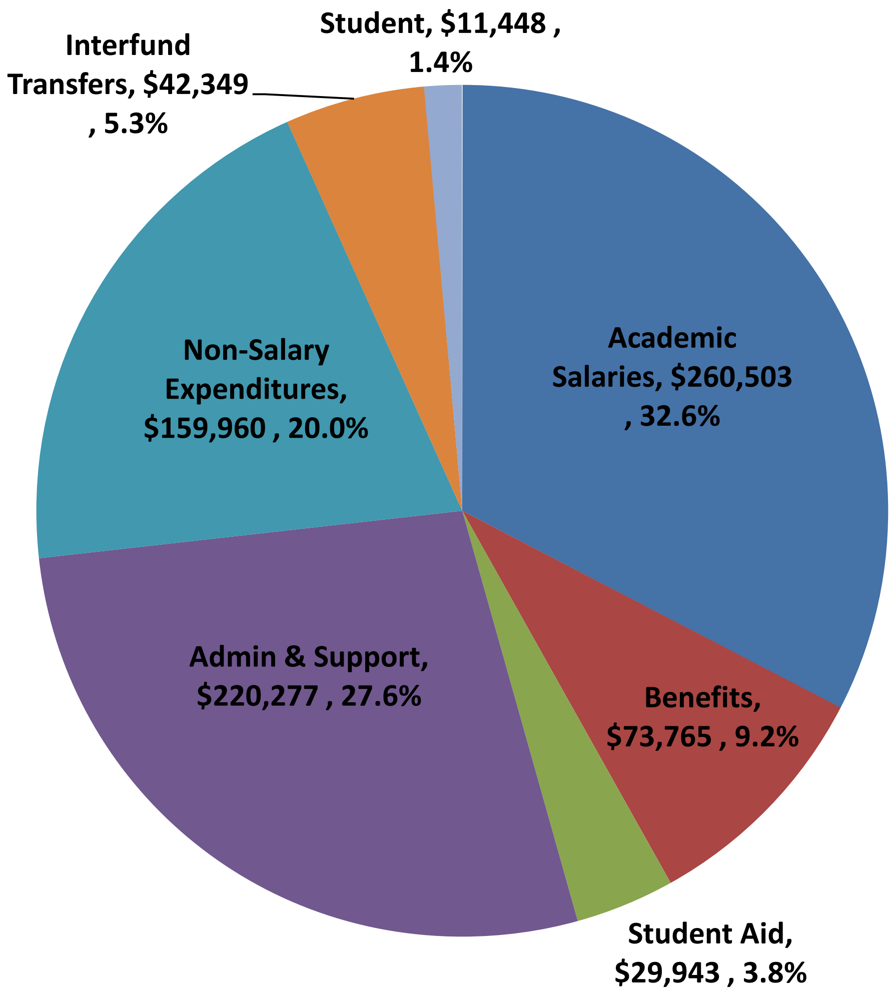
1. increase in basic tuition revenues (net of student aid) = approx. $0.8M
   a) FY2017 increase = 1.5% or $34/FTE ($24/FTE net)
   b) assumptions for subsequent years:
      - FY2018 = 1.5% increase
      - FY2019 = 2% increase; FY2020 and FY2021= 2.5% increase
2. tuition supplements
   a) Increase in out-of-province tuition supplements, including undergrad students from France = approx. $5M
      - FY2017 = 3.43%
      - FY2018 – FY2021 = 3% per year
   b) Increase in international supplements = approx. $1.8M
      - FY2017 = 1.5%
      - FY2018 - FY2021 = 2.67% annual increases (gov’t commitment to review model)

FY2017 key revenue assumptions: de-regulated tuition

1. increase in international tuition for undergraduates in de-regulated disciplines (Engineering, Law, Management, Science) = approx. $5.0M
   a) FY2017, starting in Fall 2016 = 4.0% increase
   b) FY2018 through FY2021 = 3.0% annual increases
2. tuition fees remain constant for an entering cohort's normal duration of the program of study (estimated indexation is included)
3. increases may need adjustments for FY2018 through FY2021
   a) ability to maintain market shares (applications, selectivity, and yields)
   b) fluctuations in currency exchange rates must be taken into consideration

FY2017:
operating expenses = $798.2M

in $'000



Expenses ($'000)	Forecast FY2016	Budget FY2017	% change
Academic Salaries	$247,544	$260,503	5.2%
Admin & Support	$218,946	$220,277	0.6%
Student	$11,236	$11,448	1.9%
Student Aid	$29,618	$29,943	1.1%
Benefits	$74,575	$73,765	-1.1%
Total Salary Expenditures	$581,919	$595,936	2.4%
Non-Salary Expenditures	$164,866	$159,960	-3.0%
Interfund Transfers	$52,200	$42,349	-18.9%
Total	$798,985	$798,245	-0.1%

Significant one-time and on-going expenses

1. McGill University Pension Plan (MUPP) deficit repayment plan
   a) **$15.0M per year** over entire period FY2017 to FY2021
   b) required cash contributions to cover: past service, current service, and solvency contributions
   c) Revaluation due at the end of 2016 calendar year

2. **pay equity** issues
   a) $2M budgeted for FY2017 but no further significant payments expected in FY2018 and beyond

3. operating fund requirements for **deferred maintenance** of facilities and information technology infrastructure~~s~~
   a) time-sequenced borrowing of $400M by issuance of bonds
   b) amount to be distributed between building renovations and IT projects
   c) maximum 40-year impact on operating budget

Deferred Maintenance Plan ($'M)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
TOTAL OUTFLOW	($9.10)	($4.20)	($13.74)	($14.92)	($20.34)	($26.95)
Payment in capital	0	0	0	0	($6.07)	($12.17)
Interest payment	0	($6.36)	($6.36)	($11.33)	($14.86)	($14.86)
Rate lock	($8.00)	0	($7.30)	($3.70)	0	0
Interest earned	0	$2.16	$0.59	$0.68	$0.59	$0.08
Expenses	($1.10)	0	($0.67)	($0.57)	0	0
Assumptions:						
Issuance #2	Jan 2018	130 M for 20Y		at: 3.82%		
Issuance #3	Jan 2019	110 M for 10Y		at: 3.21%		
Interest rate on Amortization fund :1.5%						

FY2017: MEES capital fund

1. McGill's annual capital budget for FY2014-19 (*Plan Quinquennal d'investissement* – PQI), confirmed in November 2015 = $46.0M, **($2.2M** less than for FY2013-18)
2. FY2017 budget likely to differ significantly from this level with announcement of significant reinvestments in both provincial and federal 2016 budgets
   a) Few details provided at this point in time
3. PQI table below excludes special capital grants that may be received by the University for specific projects (e.g. Wilson Hall, MacDonald-Stewart Library, RVH study, etc.):

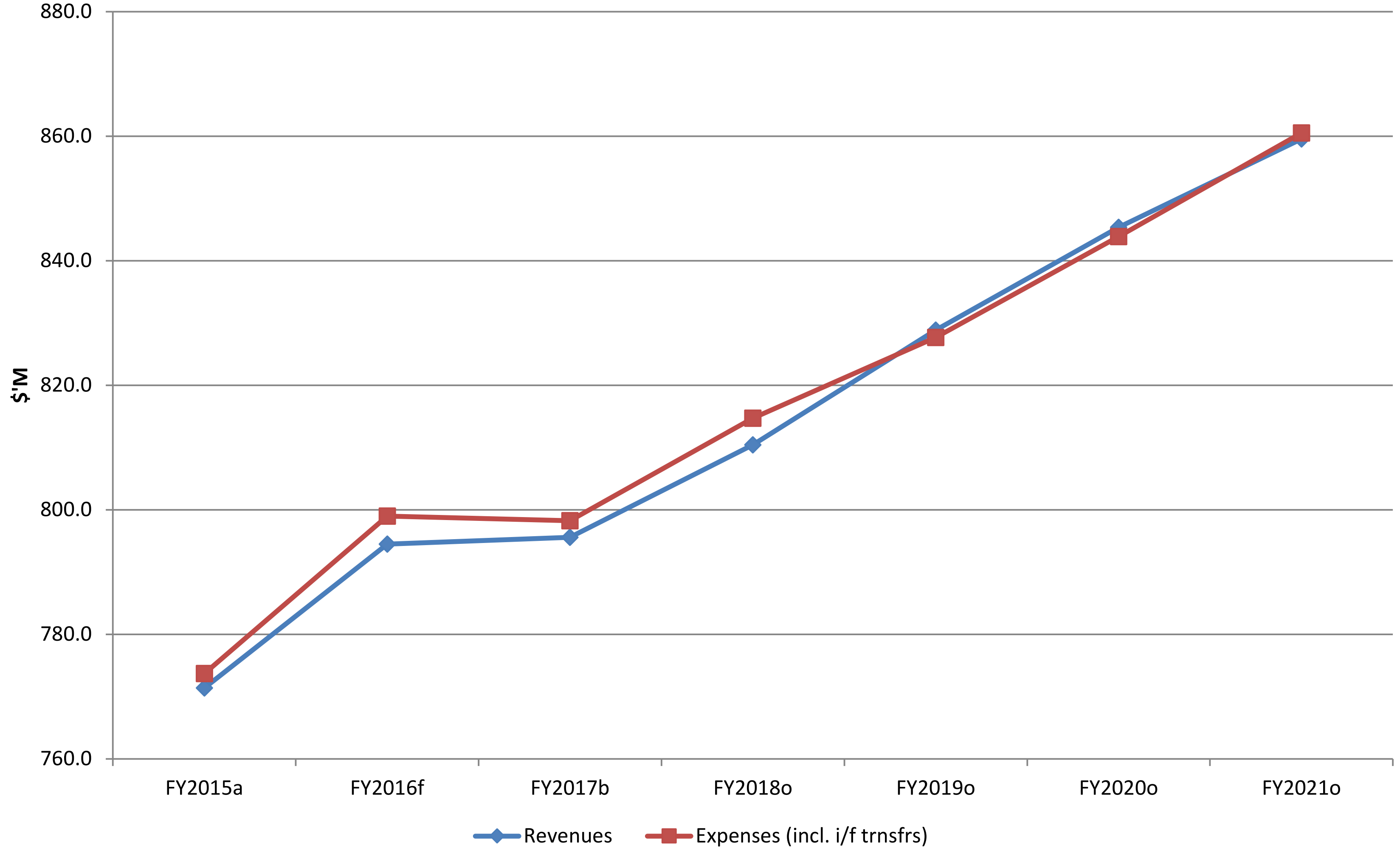
Capital Budget expected from MEES	**PQI 2013 Budget**	**PQI 2014 Budget**
renovations	$ 12.6 M	$ 11.8 M
renovations (corrections)	$ 3.8 M	$ 3.6 M
redesign of existing space (réaménagement)	$ 3.2 M	$ 3.1 M
deferred maintenance (current program)	$ 10.9 M	$ 10.5 M
deferred maintenance (new program)	$ 15.8 M	$ 15.1 M
IT development fund	$ 1.9 M	$ 1.9 M
TOTAL (excluding new initiatives)	**$ 48.2 M**	**$ 46.0 M**

FY2017:
Restricted and Endowment funds

1. restricted fund
   a) primarily composed of research grants and other “constrained” revenues
   b) anticipated revenues = $371.5M, 2.5% increase over FY2016

2. endowment fund
   a) market value as of 31 March 2016: $1.42B
   b) decreased by approximately 0.6% (first 11 months of FY2016)
   c) philanthropic cash revenues and pledges
      - FY2016 forecast = $90M – $110M
      - FY2017 budgeted within a corridor of between $95M to $115M
      - FY2017 through FY2021, modest percentage increases ramping up for McGill’s Bicentennial

Projected operating revenue and expenditures through FY2021



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

Operating fund: financed accumulated deficit ($'M)

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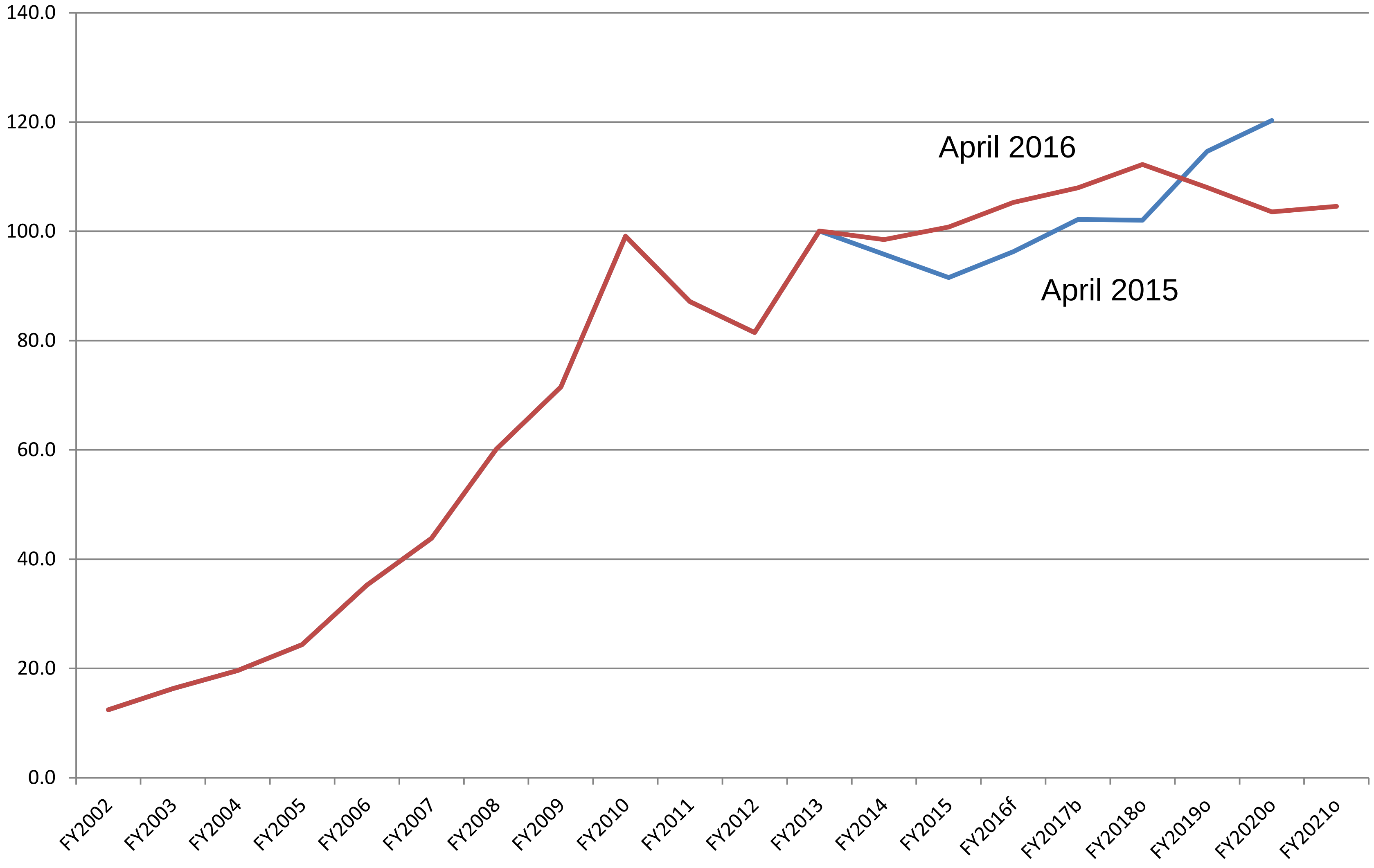
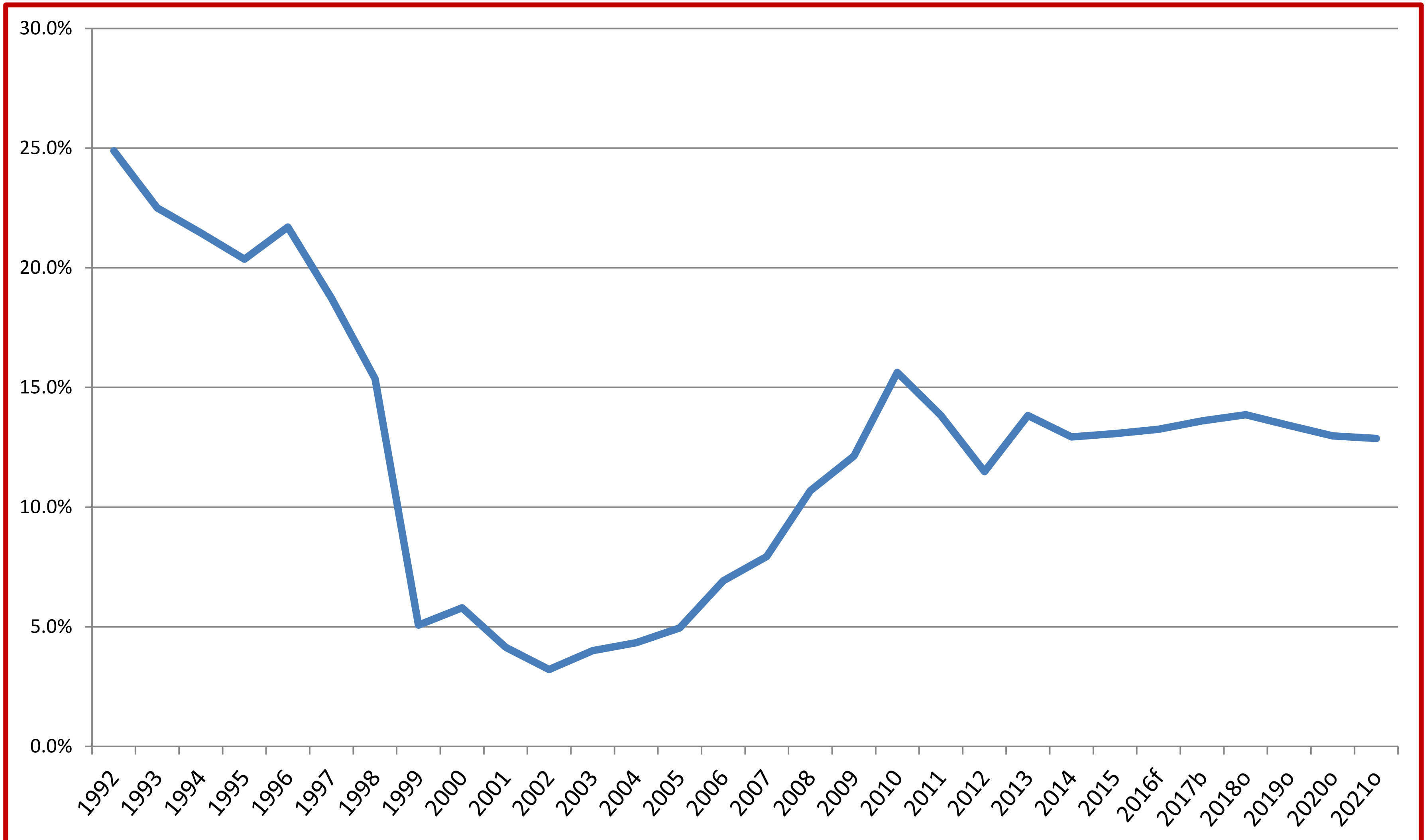


Total financed accumulated deficit as a percent of operating revenues



Discussion

Questions

Comments

Concerns

Suggestions