McGill

Report of the Finance Committee

GD16-45

Board of Governors Meeting of April 27, 2017

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The following items arise from the Finance Committee meeting of April 25, 2017. They are presented to the Board of Governors for its consideration.

I. FOR APPROVAL BY THE BOARD OF GOVERNORS

1. Proposed McGill University Budget 2017-18

Following the Committee's review of budget planning reports at its November and February meetings, members received a presentation in support of the proposed 2017-18 University budget. Members were informed that the government budget release and surplus accumulated in 2016 will allow to invest in strategic priorities such as Faculty-led initiatives and Student Life and Learning. Nevertheless, McGill will continue to engage in cost saving measures which will allow the University to weather the government cuts in recent years. Salary commitments and deferred maintenance remain the top funding priorities. Challenges identified include accumulated financed deficit, deferred maintenance and management of the pension plan.

In summary, the proposed budget projects an estimated deficit of $9.9M.

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 2017-18 McGill University Budget, as described in Appendix A.*

2. Maximum Borrowing Resolution for May 1, 2017 to May 31, 2018

The *Ministère de l'Éducation et de l'Enseignement supérieur* (MEES) requires annual borrowing authorization limits to be confirmed by the University. 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. Given that MEE's borrowing authorization period does not currently align with the University's fiscal year, it is proposed that the Board's approval be aligned with MEE's borrowing authorization period. A thirteen-month period at this time would regularize this situation.

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 thirteen-month period from May 1, 2017 to May 31, 2018.

II. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

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

The Committee received a report showing the projects to be funded with the proceeds of the bond and the funding from other sources, including the Post-Secondary Institutions Strategic Investments Fund (“SIF”). Members were apprised of how each project will be funded and received information about the estimated cash flow over a five-year period for these projects.

2. Budget Implementation 2016-17 Year-to-Date

The Committee received a quarterly report on the financial results for the period ended on January 31, 2017. The report included an Executive Summary, with operational highlights, outlining the salient features of overall revenues and expenses for the period ended January 2017.

3. Annual Report on the McGill University Pension Plan to December 31, 2016

The Committee received the annual report on the McGill University Pension Plan for the fiscal year ended December 31, 2016, as approved by the Pension Administration Committee. The Committee was apprised of the pension plan fund performance and the actuarial valuation of the Pension Plan completed as of December 31, 2015. The valuation confirmed a funding deficiency of $78, 007,000, which has an impact on the University’s operating budget. Members were apprised that following the 2015 valuation exercise, the 2.2% cost sharing initiative introduced under amendment #24, which had been approved by the Board in 2011, will continue. Further measures may be required to achieve stability and predictability in funding requirements.

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

The committee received the Finance Committee meeting dates for the 2017-18 governance year.

END

GD16-45 Appendix A

McGill University Budget FY2018: Summary and Highlights

Presentation to the Board of Governors
DRAFT

Prof. Christopher Manfredi,
Provost and VP (Academic)

27 April 2017

McGill

Forecast for FY2017: Major variances against budget

Anticipated major operating budget variances for FY2017

Annual financed operating deficit FY2017 budget		**($2.7M)**
Higher than anticipated federal grants	**$3.0M** ↑ Revenues	
Higher than anticipated tuition & fees	**$3.5M** ↑ Revenues	
Additional in-year allocations	**($6.0M)** ↑ Expenses	
Decreased sales of goods and services	**($0.9M)** ↓ Revenues	
Annual financed operating deficit FY2017 projection		**($2.0M)**

Looking ahead FY2018 – FY2022: Revenues

1. Significant reinvestment in higher education announced in the 2018 Quebec Economic Plan
2. Ministère de l’éducation et de l’enseignement supérieur (MEES) funding workgroup (stemming from Tremblay-Roy recommendations) scheduled to complete its work by fall 2017
3. Indexation in tuition fees for FY2018 in line with the most recent measure of disposable income per capita
4. Enrolment forecast is for slight increase at the undergraduate level and stable at the graduate
5. Significant capital investments may require funds beyond that provided by current government grant and deferred maintenance bond

FY2018: Budget implementation and proposal

1 Principal's priorities

2 Provost's strategic academic plan objectives

- Be open to the world
- Expand diversity
- Lead innovation
- Connect across disciplines and sectors
- Connect with our communities

FY2018: Strategic priorities (highlights)

1 $4M in recurring funding for Faculty-led initiatives for FY18, including:

- $1.5M to fund 35 new administrative and support positions within the Faculties (5 new student advising positions)
- $400K in Faculty-based research support
- $385K to support summer studies, on-line course development, co-op programs

2 $1.2M in one-time and recurring funding for initiatives in Indigenous Studies and Education

3 $1.9M for Student Life and Learning

- $685K to restore funding cut in 2013-14
- $500K in additional financial support for international deregulated students
- $175K in additional support to Dean of Students and Office of Sexual Violence, Response, Support and Education

4 $560K to GPS for additional grad student funding and doctoral student recruitment

FY2018 and beyond: Expense pressures

1 Salary commitments

- Maintain agreements and contracts
- For tenure track staff: continue progress toward the median of U15 compensation levels
- FY2018 cost: **$16.3M,** including benefits

2 Government infrastructure investment

- Strategic Investment Fund: **$65M** with **April 2018 deadline**

3 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: **$22.1M in FY2020; $27M starting in FY2021**

4 Regular maintenance to mitigate future deferred maintenance risks

FY2018 and beyond: Continual re-evaluation of FY2016 budget measures plan

1 Reductions in selected non-salary expenses across all units: FY2018 = $2.0M

2 Reductions in administrative staff expenses:

- Relaxing of budget measure reduces originally planned $3.0M in annual contributions for FY2018 by 50% to $1.5M
- Managed within each unit
- Small central provision included for staffing priorities

3 Increased overhead charges on self-funded operating revenues:

- Up from 4% to 5%: $1.0M in additional contributions

4 Use of carry-forward balances on operating funds requires Provostial approval

FY2018 and beyond: Uncertainties

1. Labour-related costs that could exceed forecasts
   - Pay equity
   - Pension shortfall
   - Collective bargaining settlements
2. Changes to provincial funding formula (unclear of effect on McGill)
3. Infrastructure regular and deferred maintenance
4. Fluctuations in currency exchange rates; possible interest rate increases
5. Spend down of carry forwards and ability to spend endowment payout due to restrictions on use (e.g., research chairs, donor requirements)

FY2018 and beyond: Refining processes in search of efficiencies

1. Benchmarking administrative costs
2. A review of current administrative work processes

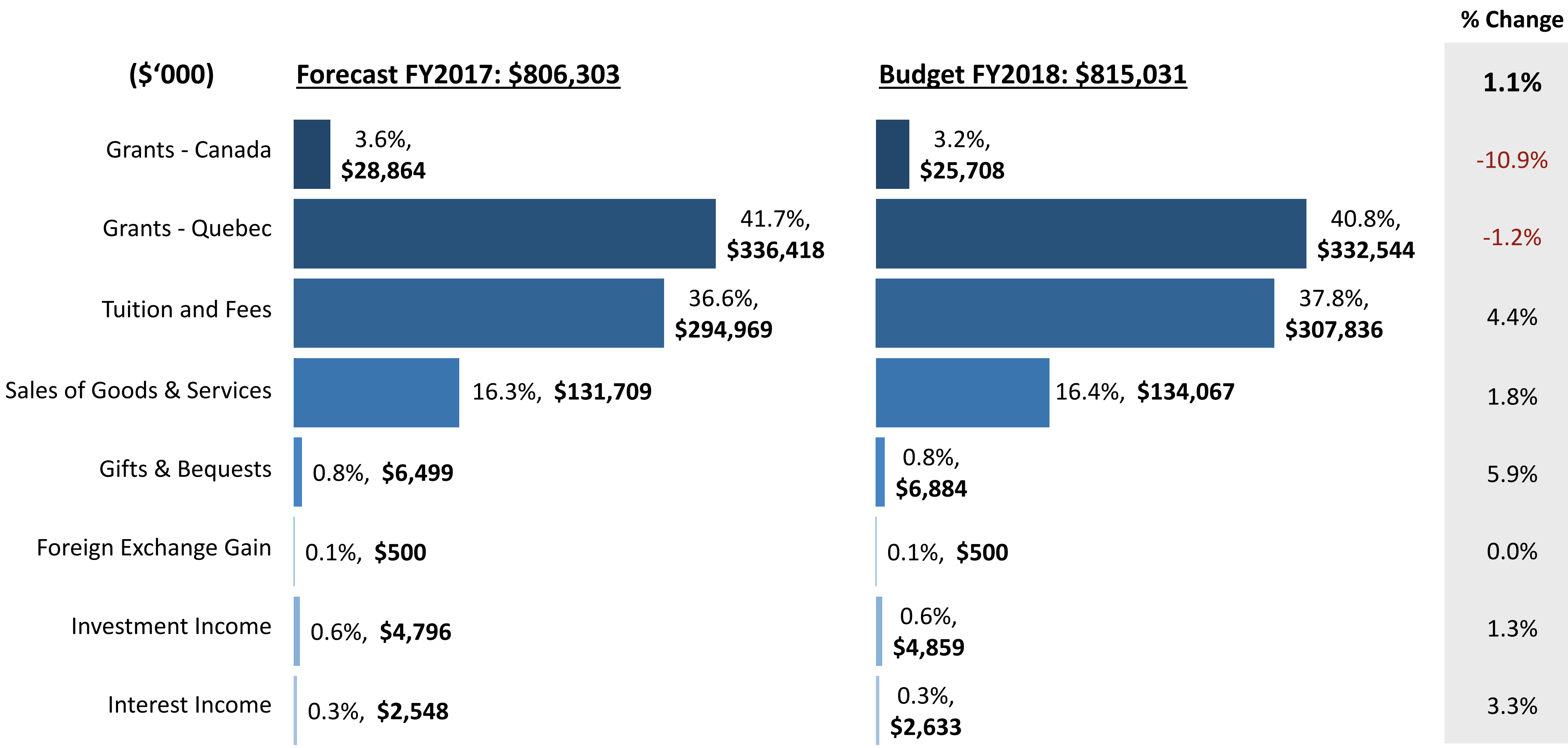
Operating Budget: Past, present and future outlook ($M)

5-year outlook	FY 2017(b)	FY2017(f)	FY 2018(b)	FY 2019(p)	FY 2020(p)	FY 2021(p)	FY 2022(p)
Total revenues	$795.6	$806.3	$815.0	$838.8	$865.1	$895.7	$913.9
Total expenses[1]	$798.2	$808.3	$825.0	$844.0	$874.8	$896.7	$910.8
Annual financed surplus (deficit)	($2.7)	($2.0)	($9.9)	($5.1)	($9.7)	($1.0)	$3.1
Financed accumulated deficit	($108.0)	($84.4)	($94.3)	($99.5)	($109.2)	($110.2)	($107.1)
Financed accumulated deficit/ Revenues %	13.57%	10.47%	11.57%	11.86%	12.62%	12.30%	11.72%

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

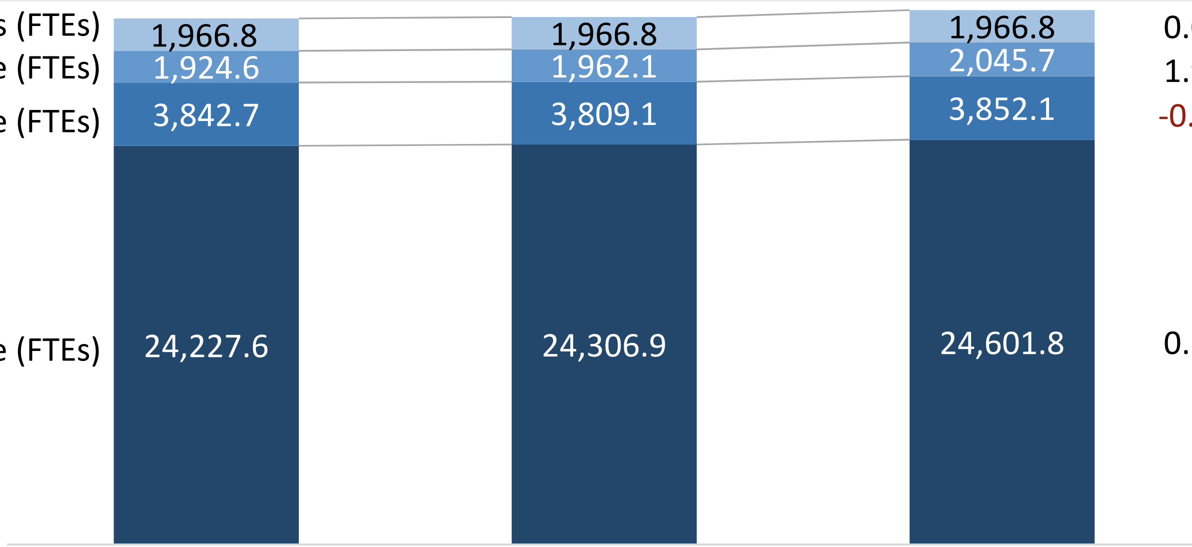
[1] Excluding GAAP adjustments

FY2018: Operating revenue = $815.0M



FY2018-FY2022 Key revenue assumptions: Student enrolment

- Modest growth in enrolment, capacity permitting



	FY 2017(p)	FY 2018(e)	FY 2022(e)	1-yr Growth (FY18-FY17)	5-yr Growth (FY22-FY17)
Total FTEs	**31,961.7**	**32,045.0**	**32,466.5**	**0.3%**	**1.6%**
Med Residents (FTEs)	1,966.8	1,966.8	1,966.8	0.0%	0.0%
3rd Cycle (FTEs)	1,924.6	1,962.1	2,045.7	1.9%	6.3%
2nd Cycle (FTEs)	3,842.7	3,809.1	3,852.1	-0.9%	0.2%
1st Cycle (FTEs)	24,227.6	24,306.9	24,601.8	0.3%	1.5%
Total weighted FTEs*	**85,653.7**	**85,901.9**	**87,333.6**	**0.3%**	**2.0%**

*WFTEs = FTEs weighted by discipline and level

p = projected; **e** = estimate

FY2018-FY2022 Key revenue assumptions: MEES operating grant

1 Assumptions

- Reinvestment flows through the normalized grant envelopes
- No additional cuts
- Modest grant indexation (FY2018 to FY2022: 1.2%, 1.4%, 1.6%, 1.8%, 2.0%)

2 Estimated increases in regulated Quebec tuition and ancillary fees

- FY2018 to FY2022: 2.7%, 2.2%, 2.5%, 2.5%, 2.5%

3 Increases in de-regulated international student tuition

- FY2018: 3.0%
- FY2019 to FY2022: 3.0%

FY2018 Key revenue assumptions: Regulated tuition

1 Increase in basic tuition revenues (net of student aid) = approximately $1.4M

- FY2018 increase = 2.7% or $63/FTE ($44/FTE net)
- Assumptions for subsequent years:
  - FY2019 = 2.2% increase
  - FY2020 to FY2022 = 2.5% increase

2 Tuition supplements

- Increase in out-of-province tuition supplements, including undergrad students from France = approximately $3M
  - FY2018 = 3.0%
  - FY2019 to FY2022 = 3.0% per year
- Increase in international supplements = approximately $1.4M
  - FY2018 = 2.67%
  - FY2019 to FY2022 = 2.67% annual increases (government commitment to review model)

FY2018 Key revenue assumptions: De-regulated tuition

1 Increase in international tuition for undergraduates in de-regulated disciplines (Engineering, Law, Management, Science) = approximately $3.8M in FY2018

- FY2018, starting in Fall 2017 = 3.0% increase
- FY2019 to FY2022 = 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 FY2019 to FY2022

- Ability to maintain market shares (applications, selectivity, and yields)
- Fluctuations in currency exchange rates must be taken into consideration

FY2018: Operating expenses = $825.0M

($'000)	Forecast FY2017: **$808,340**	Budget FY2018: **$824,960**	% Change **2.1%**
Academic Salaries	32.4%, **$261,996**	32.8%, **$270,202**	3.1%
Admin & Support Salaries	25.7%, **$207,447**	26.2%, **$216,265**	4.3%
Student Salaries	1.5%, **$11,841**	1.5%, **$12,119**	2.3%
Student Aid	3.7%, **$30,125**	3.8%, **$31,562**	4.8%
Benefits	12.9%, **$103,914**	11.4%, **$94,177**	-9.4%
Salary adj. to pay periods	0.0%, **$-**	0.2%, **$1,718**	n/a
Total Salary Expenditures	76.1%, **$615,323**	75.9%, **$626,043**	**1.7%**
Non-Salary Expenditures	18.4%, **$148,930**	18.7%, **$154,295**	3.6%
Interfund Transfers	5.5%, **$44,087**	5.4%, **$44,622**	1.2%

Significant one-time and on-going expenses

1 McGill University **Pension Plan** (MUPP) deficit repayment plan

- **$12.9M** per year
- Required cash contributions to cover: past service, current service, and solvency contributions
- Revaluation due at the end of 2018 calendar year

2 **Pay equity**

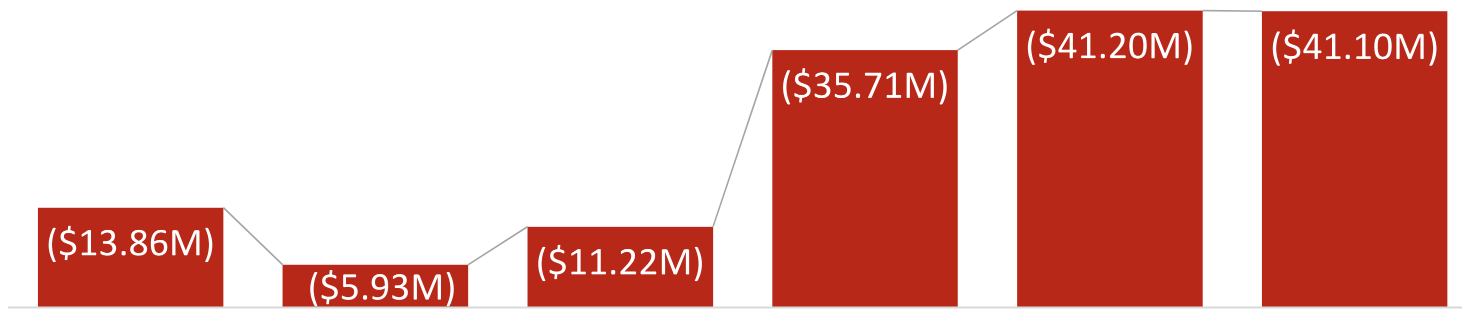
- $10M budgeted over the next five years

3 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

Deferred maintenance plan ($M)

Total Outflow



	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Capital Payment[1]	-	-	-	($22.1)	($27.00)	($27.00)
Interest payment[2]	($6.36)	($6.36)	($11.33)	($14.20)	($14.20)	($14.20)
Rate lock (M to M)[2][3]	($8.80)	-	-	-	-	-
Interest earned[2]	$1.30	$1.10	$0.68	$0.59	-	$0.10
Expenses[2][4]	-	($0.67)	($0.57)	-	-	-

[1] Operating fund
[2] Plant fund
[3] FY2017 is realized to December 31, 2016; Unrealized gain at Jan 31, 2017 of $7.4M
[4] Expenses consist of syndication, legal and rating agency fees associated with planned issuance

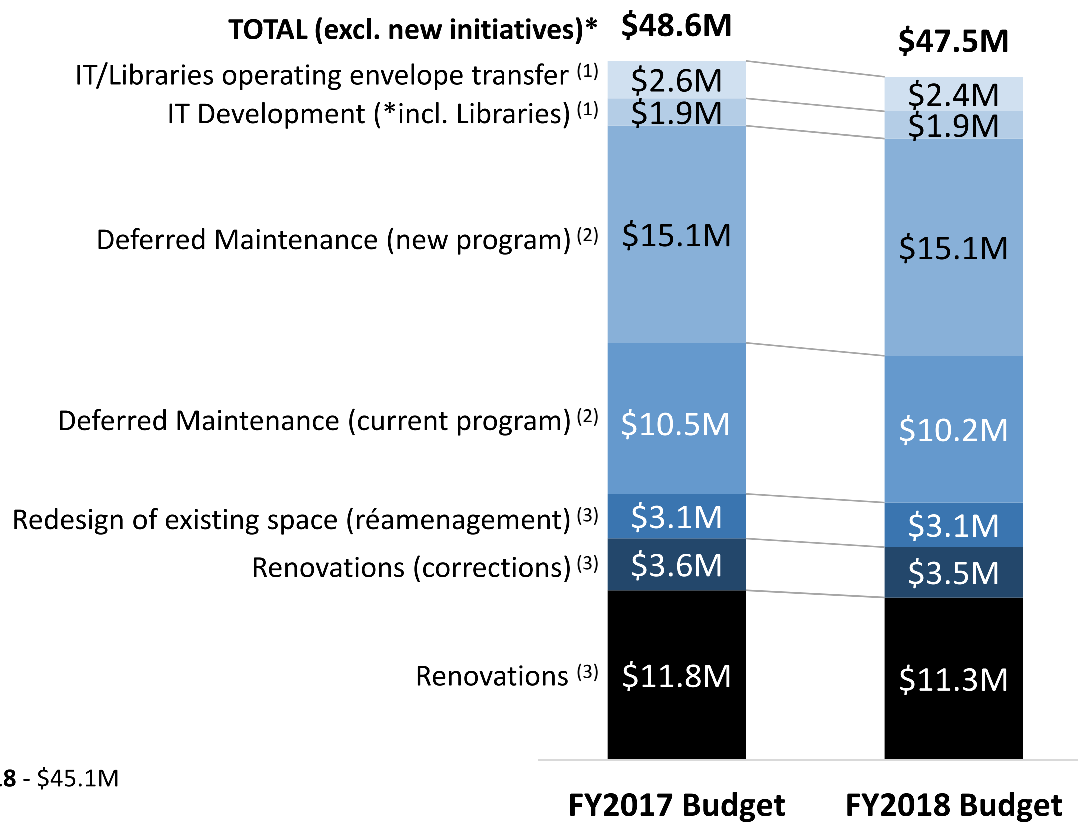
Assumptions:
Interest rate on Amortization fund: 1.5%

FY2018: MEES capital fund

1. 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)

2. 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.)

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 2017(e)	FY 2018(e)	FY 2019(e)	FY 2020(e)	FY 2021(e)	FY 2022(e)	Sum of Total Project Costs (FY17 - FY22)
$300M Bond DM [1]	$15,999	$84,755	$141,143	$78,080	$29,104	$8,043	$357,124
$100M Bond IT [2]	$9,998	$32,053	$44,641	$21,335	$6,659	-	$114,686
SIF	$1,281	$18,061	$25,552	$16,332	$1,876	-	$63,101
Deferred Maintenance	$14,507	$25,351	$28,948	$13,166	$8,352	$1,000	$91,324
Special Grant (e.g., CERC applications)	$1,140	$3,033	$8,815	$16,600	$16,364	-	$45,952
Operating Fund	$8,694	$15,858	$2,869	$319	-	-	$27,739
Other	$9,672	$7,782	$3,297	$278	-	-	$21,029
MEES Capital Allocation	$1,306	$9,301	$7,424	$222	-	-	$18,253
Internal Loan (largely residences)	$2,660	$8,472	$137	-	-	-	$11,270
Unknown at present	$146	$8,538	$1,628	-	-	-	$10,312
Subtotal [3]	**$65,403**	**$213,204**	**$264,454**	**$146,332**	**$62,355**	**$9,043**	**$760,791**
% of Total [3]	***93.91%***	***93.45%***	***99.96%***	***100.00%***	***100.00%***	***100.00%***	***97.53%***

[1] Includes $75M for the Strathcona, Anatomy, and Dentistry project that has not yet been accepted by the MEES and for which other sources of funding will be required

[2] Includes $15M, partially resulting from change in chargeback model to units

[3] Funding sources with total project costs FY2017-22 totalling less than $10M are not shown

e = estimate

FY2018: Restricted and endowment funds

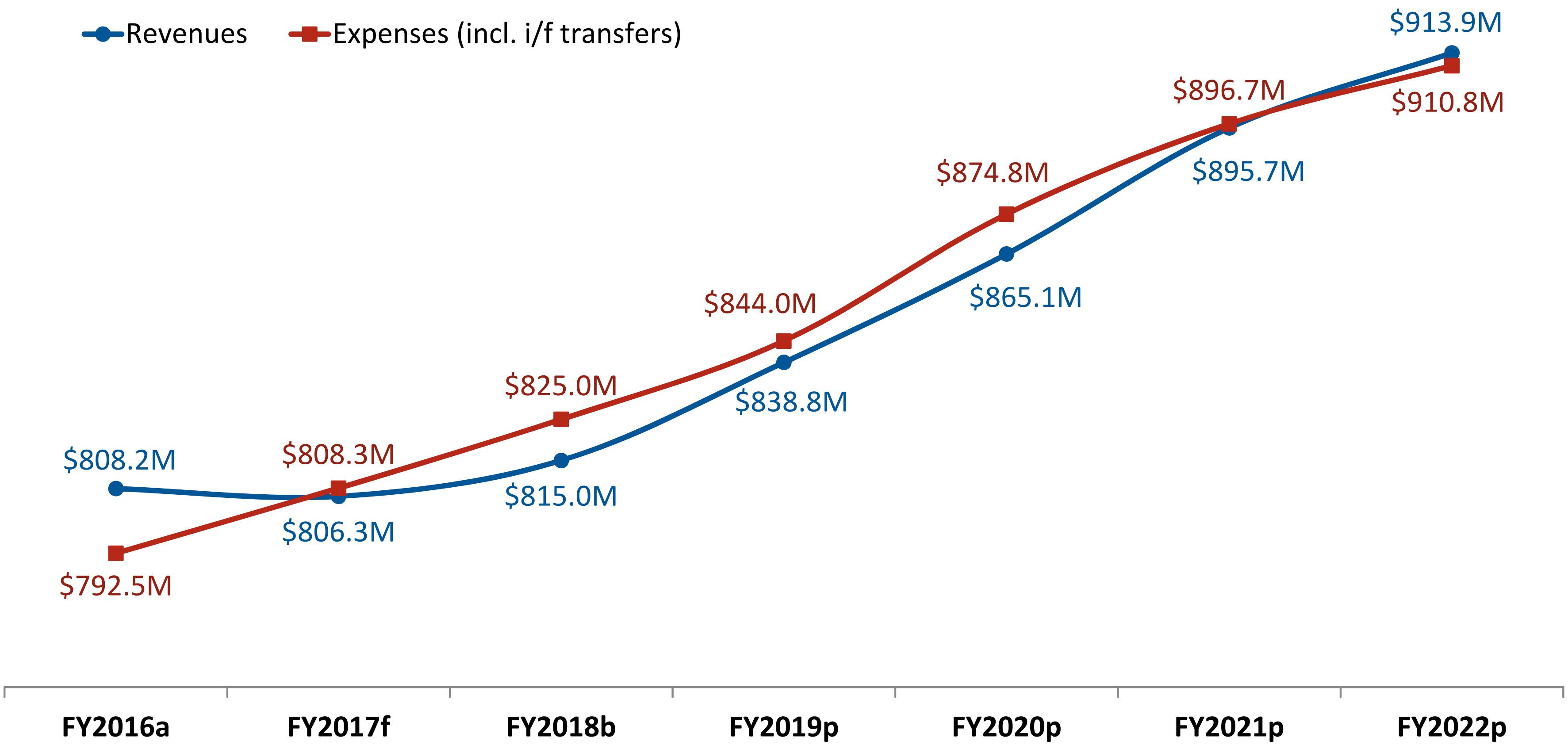
1 Restricted Fund

- Primarily composed of research grants and other special purpose revenues
- Anticipated revenues = $371.2M, 8% increase over FY2017

2 Endowment Fund

- Market value as of March 31, 2017: $1.583B
- Increased by approximately 7.2% (first 11 months of FY2017)
- Philanthropic cash revenues and pledges
  - FY2017 forecast = $105M to $115M
  - FY2018 budgeted within a corridor of between $105M to $125M
  - FY2018 through FY2022, modest percentage increases ramping up for McGill's 200th anniversary

Projected operating revenue and expenditures through FY2022



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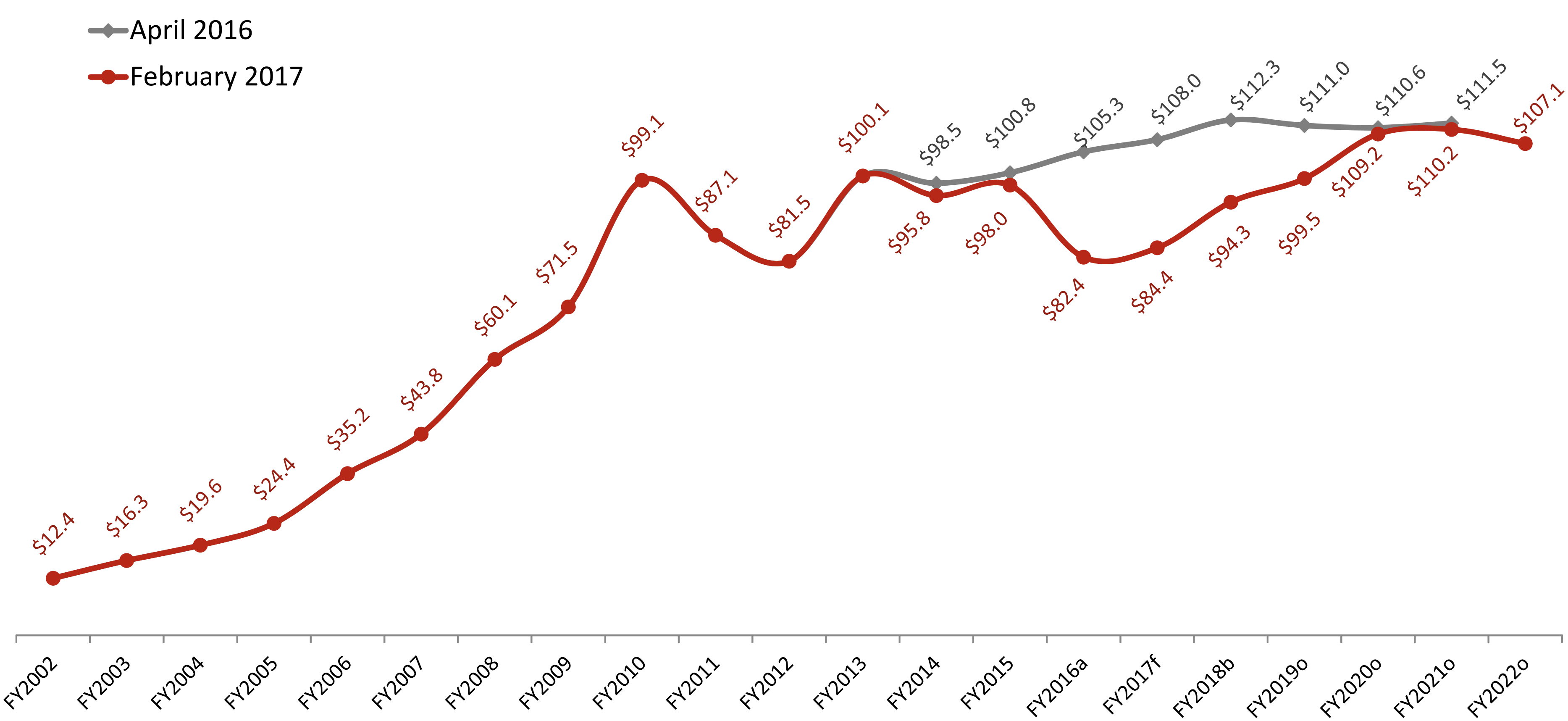
Operating fund: Financed accumulated deficit ($M)



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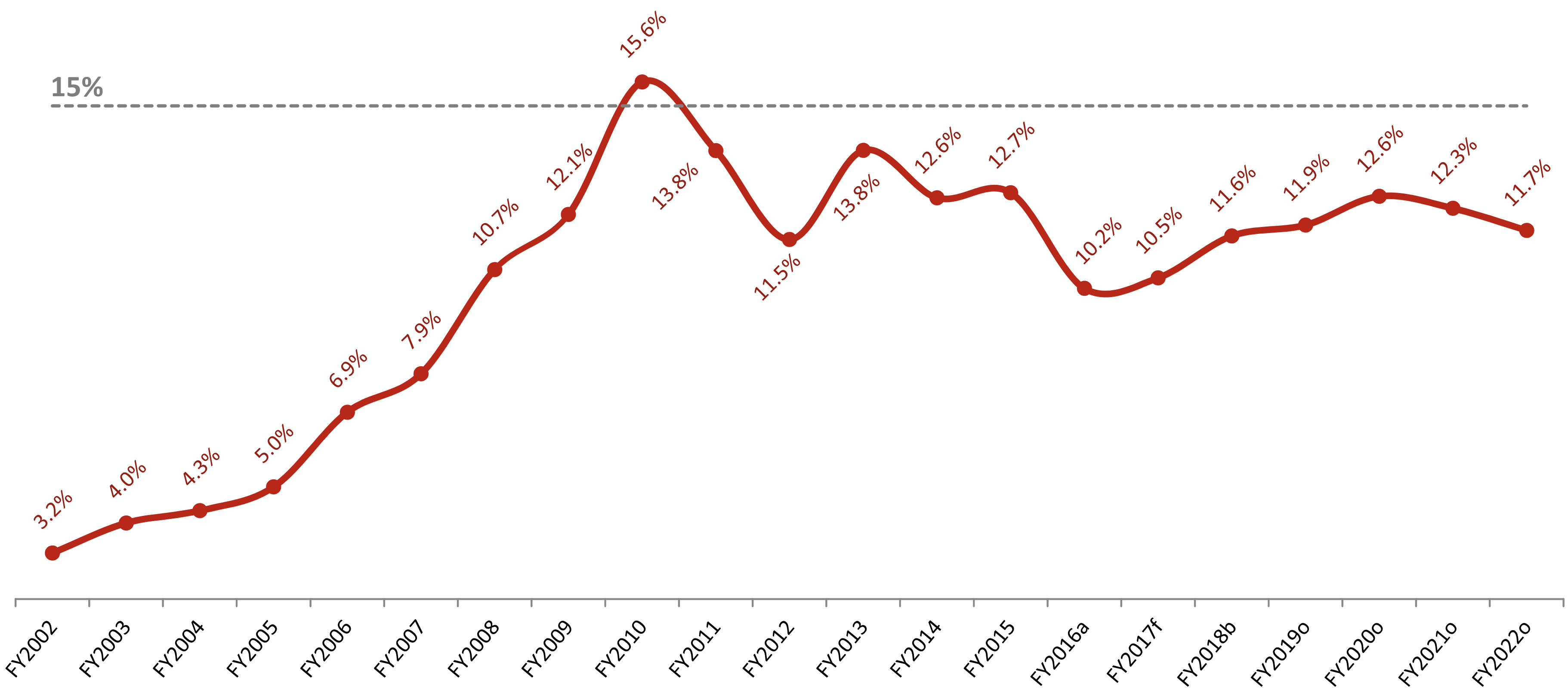
Total financed accumulated deficit as a % of operating revenues



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Discussion

- Questions
- Comments
- Concerns
- Suggestions