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McGILL UNIVERSITY **SENATE**

Memorandum

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TO:	Senate
FROM:	Professor Christopher P. Manfredi, Provost and Vice-Principal (Academic)
SUBJECT:	FY2023 Budget Planning Report II
DATE:	March 23, 2022
DOCUMENT #:	D21-43
ACTION REQUIRED:	☒ INFORMATION ☐ APPROVAL/DECISION

ISSUE	The McGill FY2023 Budget Planning Report II is presented to Senate for information. The report has been presented to the Finance Committee on 7 March 2022 and will be presented to the Board of Governors Executive Committee meeting on 24 March 2022.
BACKGROUND & RATIONALE	For the fiscal year ending on April 30, 2022 (FY2022), the Board of Governors approved an operating (unrestricted fund) budget with an anticipated deficit of $9.8M, including a $15M contingency. Based on December 31, 2021 actuals and commitments, financial information collected from units and historical trends, our updated expectations are that both revenues and expenses will be lower than originally budgeted, with an anticipated deficit of $3.8M, including a $5M contingency. Looking ahead to FY2023, we are planning to present a balanced budget, assuming that there will be continued financial support by the Quebec Government and less uncertainty relating to the COVID pandemic. At this time, we present major assumptions that are being considered to build the FY2023 budget and for the preparation of scenarios for selected revenue and expense categories. These scenarios will be quantified in the upcoming FY2023 Budget Planning Report III to support the proposed FY2023 budget.
PRIOR CONSULTATION	Finance Committee of the Board of Governors
SUSTAINABILITY CONSIDERATIONS	Sustainability remains an institutional priority and is a factor in budget development. The FY2023 Budget Planning Report II is focused on maintaining institutional stability.
IMPACT OF DECISION AND NEXT STEPS	• McGill University Budget ("Budget Planning III") delivered to Finance Committee on 14 April 2022 for approval and recommendation to Board of Governors

	• McGill University Budget ("Budget Planning III") delivered to Senate on 19 April 2022 for information • McGill University Budget ("Budget Planning III") presented to Board of Governors for approval on 21 April 2022 • McGill University Budget Book published and delivered as soon as possible after the approval of the budget.
MOTION OR RESOLUTION FOR APPROVAL	N/A
APPENDICES	Appendix A: "FY2023 Budget Planning Report II" presentation deck

Budget Report II:
FY2021-2022 Update and FY2022-2023 Planning

Presentation to Senate on March 23, 2022

Christopher Manfredi, Provost and Vice-Principal (Academic)

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Executive Summary

- For the fiscal year ending on April 30, 2022 (FY2022), the Board of Governors approved an operating (unrestricted fund) budget with an anticipated deficit of $9.8M, including a $15M contingency.

- Based on December 31, 2021 actuals and commitments, financial information collected from units and historical trends, our updated expectations are that both revenues and expenses will be lower than originally budgeted, with an anticipated deficit of $3.8M, including a $5M contingency.

- Looking ahead to FY2023, we are planning to present a balanced budget, assuming that there will be continued financial support by the Quebec Government and less uncertainty relating to the COVID pandemic.

- At this time, we present major assumptions that are being considered to build the FY2023 budget and for the preparation of scenarios for selected revenue and expense categories. These scenarios will be quantified in the upcoming FY2023 Budget Planning Report III to support the proposed FY2023 budget.

1. Fiscal Year 2021-2022 Update

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1.1. FY2022: Revenue and Expense Update

($000)

	FY2019 Actuals	FY2020 Actuals	FY2021 Actuals	FY2022 Budget	FY2022 Update*
Total revenues	920,750	922,085	898,216	944,439	939,156
Total expenses	912,088	922,240	897,406	954,282	942,949
Annual surplus / (deficit)	8,662	(155)	810	(9,843)	(3,793)
Financed accumulated deficit	119,777	119,932	119,122	128,965	122,915
Financed accumulated deficit/Revenues (%)	13.0%	13.0%	13.3%	13.7%	13.1%

Unrestricted Fund, excluding year-end audit adjustments

*As per December 2021 actuals and commitments, unit inputs, and trend forecasts

1.2. FY2022: Student Enrolment

- As at the October 15 census, total enrolment for Fall 2021 (39,267) is comparable to Fall 2020 (39,736). Enrolment in Bachelor's programs is down slightly year-over-year due to a planned decrease in new students following an over admission last year.

- New admit objectives are being met:

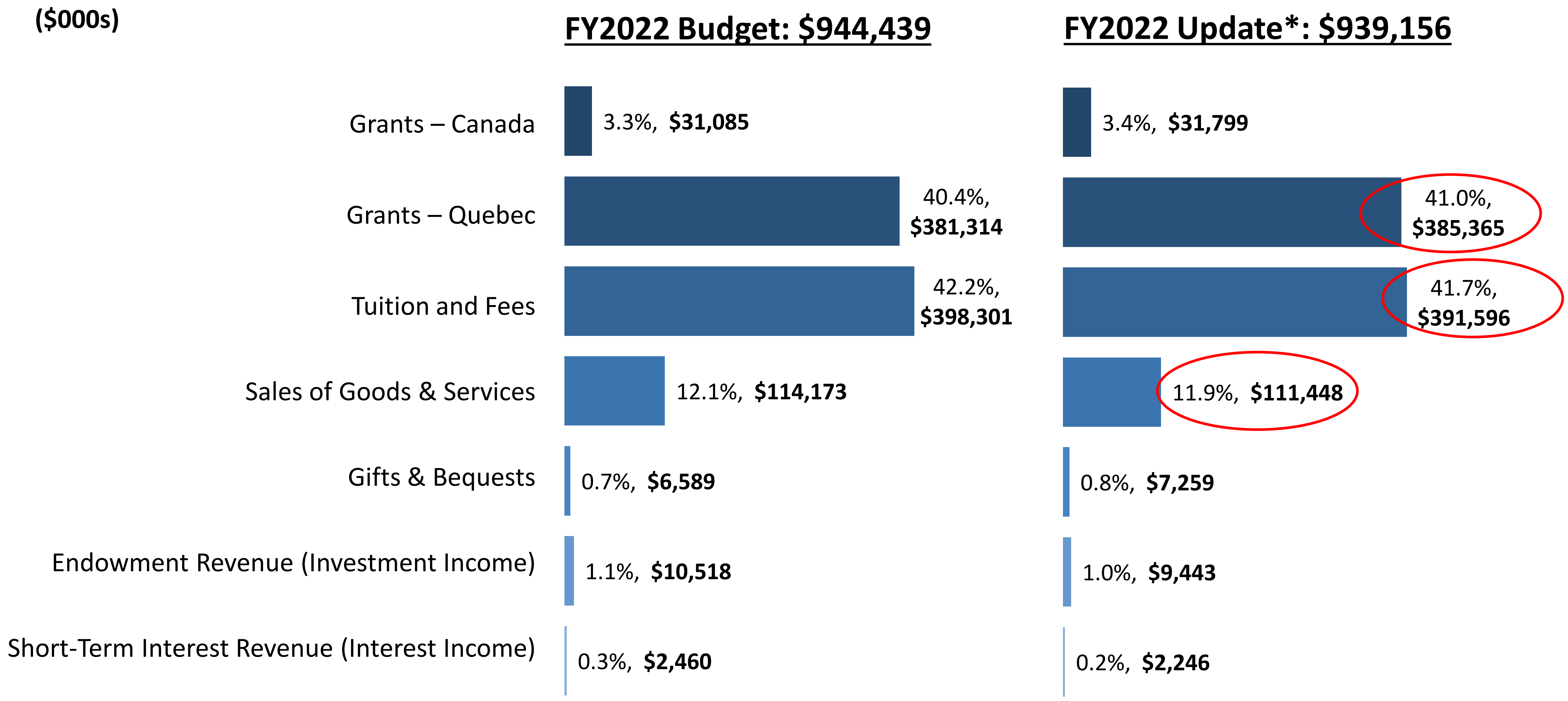
  - Bachelor's: 6,284 new registrations for the Fall term, -37 (-0.6%) below objectives.

  - Graduate research programs: FY2022 objectives were met based on Summer, Fall, and Winter new registrations to-date. Summer and Fall new registrations are as at October 15 census; Winter new registrations are as at January 25.

    - Master's Thesis: 1,120 new registrations, +91 (+8.8%) above objectives;

    - PhD: 810 new registrations, -6 (-0.7%) below objectives.

1.3. FY2022: Unrestricted Revenues Update

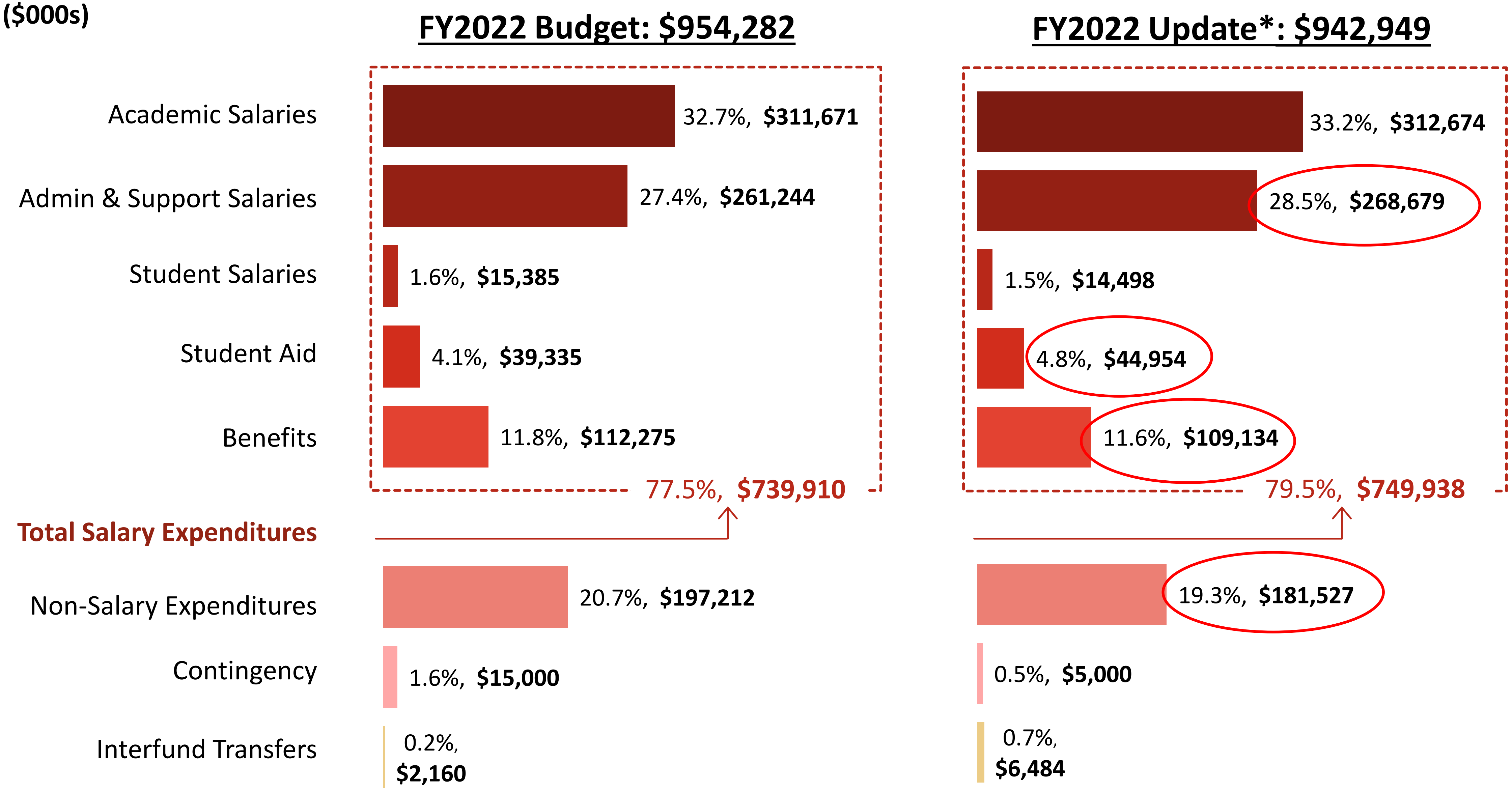


*as per December actuals and commitments, inputs from units, and trend forecasts

1.4. FY2022: Variance analysis - Revenues

- **Grants - Quebec**
  - Provincial funding is either accounted for on the operating (unrestricted fund) budget, the restricted fund or the plant fund, as per directives by the Ministry. For FY2022, the Ministry allocated funding on the operating (unrestricted fund) budget that was previously restricted. The increase in anticipated revenues reflects this reclassification.
  - This reclassification has no impact on the bottom line since corresponding expenses are now also included in the operating (unrestricted fund) budget.
  - Enrolment-driven grants will be positively impacted by the overachievement of targets for graduate students. An updated end-of-year forecast will be modelled mid-February using the actual student population.
- **Tuition and Fees**
  - Deregulated tuition expectations are currently $13.6M lower than budgeted as a result of underachieving targets for new deregulated fee-paying students, mainly from China.
  - The loss in deregulated tuition is partially offset by gains in regulated tuition.
- **Sales of goods and services**
  - Current expectations of $111M are between the "realistic" scenario ($103M) and "optimistic" scenario ($114M) presented in the FY2022 budget. A partial reduction of associated expenses is expected.

1.5. FY2022: Unrestricted Expenses Update



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

1.6. FY2022: Non-Salary Expenditures Update

($000s)	Budget: $197,212	Update: $181,527	Variance: ($15,685)
Building & Occupancy Costs (excluding sinking fund payment)	34,679	34,276	(402)
Materials, Supplies & Publications	34,330	38,003	3,672
Contract Services	28,250	24,476	(3,774)
Energy	18,578	18,431	(146)
Cost of Goods Sold & Services Rendered	14,160	16,666	2,505
Hardware and Software Maintenance	13,886	15,357	1,470
Professional Fees	12,073	12,077	4
Contribution to Partner Institutions	10,488	10,203	(285)
Capital Purchases	8,046	7,999	(47)
Sinking Fund Payment	5,000	-	(5,000)
Interest & Bank Charges	4,987	798	(4,188)
Other (incl. travel, receptions, events, catering, meals, photocopying)	12,736	3,241	(9,495)

1.7. FY2022: Variance analysis - Expenses

- **Admin & Support Salaries**
  - 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.
- **Student Aid**
  - Student aid forecasts are up significantly in several units. In addition, some payments that were originally planned for FY2021 were deferred to FY2022.
  - Excludes Scholarships and Bursaries funded by revenues arising from $235M in dedicated endowments.
- **Benefits**
  - Benefits forecasts are down due to lower-than-anticipated pension solvency costs, post-retirement benefit costs, and higher than anticipated non-insured benefit recovery expectations.

1.8. FY2022: Variance analysis - Expenses (cont’d)

- **Non-Salary expenditures**
  - A rise in the activity of revenue-generating units, which include core research facilities, increases the costs of **materials** and reduces the **net contract services costs** as a result of increased internal sales that is accounted for in this category.
  - Higher **cost of goods sold** forecasts are also outpacing initial expectations due to increased activity.
  - FY2022 budgeted payment of $5M to the **sinking fund** was paid in advance in FY2021.
  - For **interest**, short-term borrow has been extremely low and should remain that way for FY2022.
  - **Other** activities, such as travel, receptions, events, etc. are still depressed.
- **Contingency**
  - COVID-related and unforeseen expenses are included in the budget update, classified by category.
  - Amount of remaining contingency has been pro-rated for the remaining months.

2. Fiscal Year 2022-2023 Budget Planning

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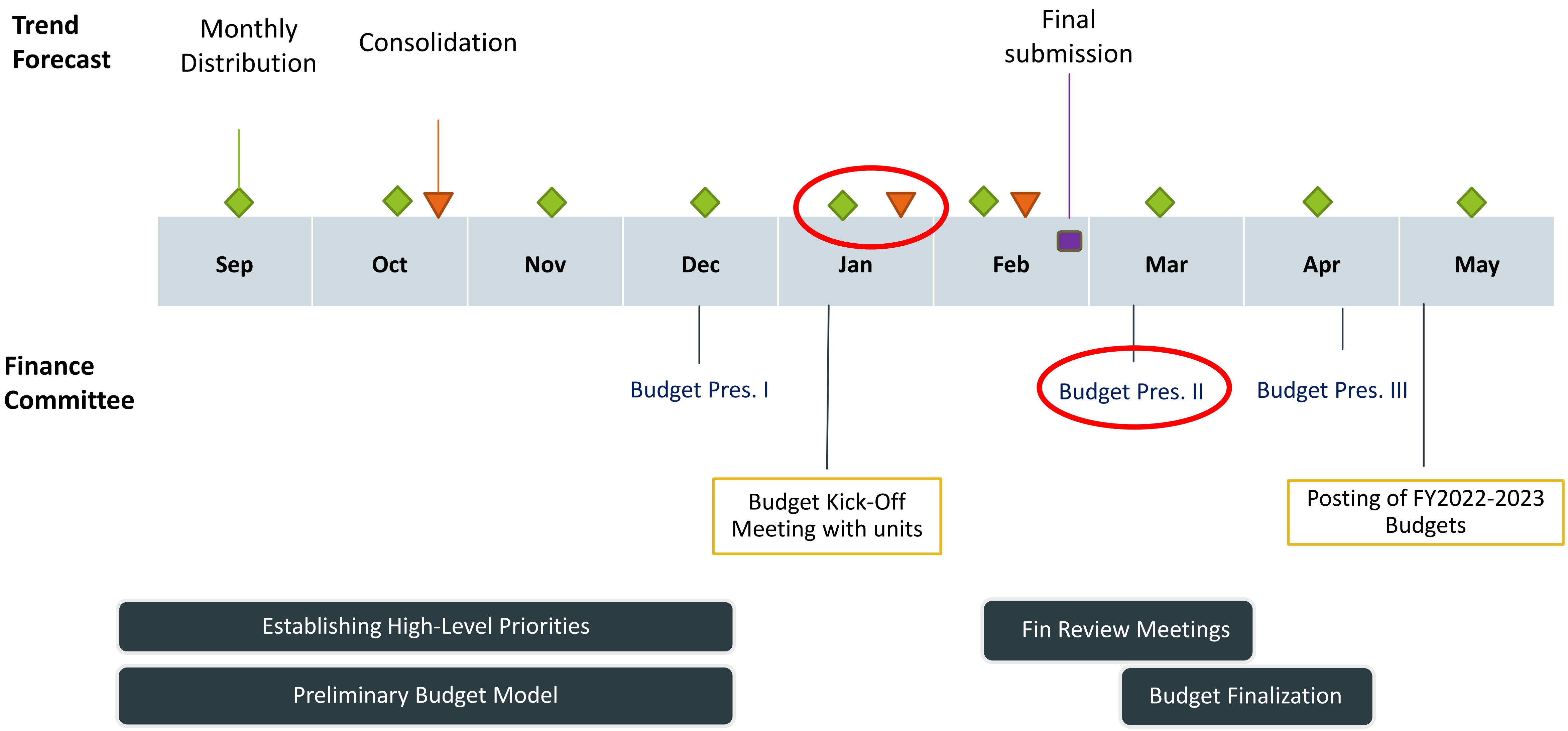
2.1. FY2023: Summary of the Budget Cycle



2.2. FY2023: Bachelor's Admissions & Enrolment Update

- As at January 25, application behavior continues to be volatile, as seen last year.
- The overall number of Fall 2022 applicants to Bachelors programs is comparable to Fall 2021. Last year, applicants increased by more than 25% year-over-year.
  - US and overseas high school applicants are among our highest applicant counts for both pools in the past 10 years.
  - The number of Ontario and other Canadian high school applicants are up significantly. Applicants are tracking up 64% and 22%, respectively, compared to just two years ago.
  - It is still early in the cycle for Quebec CEGEP applicants, who have until March 1 to apply, however the trends are promising thus far.
- In Fall 2021, the number of deregulated students decreased. The number of returning deregulated students decreased due to the graduation of very large deregulated cohorts entering in Fall 2017 and 2018. The University also experienced a decrease in newly admitted deregulated students, which poses a challenge to achieving desired deregulated enrolment levels in subsequent years (FY2023 onwards).

2.3. FY2023: Major Budget Assumptions and Scenario Planning

- In the following slides, we present major assumptions that are being considered to build the budget.
- To help deal with uncertainties, we are preparing 3 scenarios for selected revenue and expense categories. Here, we present initial assumptions and set points.
- These scenarios will be quantified in the April FY2023 Budget Planning Report III presentation.
- Although a realistic scenario will be used to build the budget, pessimistic and optimistic scenarios will quantify the spread of possible results and contribute to setting the amount of the contingency that will be included in the FY2023 Budget.

2.4. FY2023: Grants – Quebec Assumptions

- The Ministry communicates its funding policy in late spring, after the budget is submitted for approval.
- We assume that the Quebec Government will maintain its continued level of financial commitments.
- For FY2023, our budget will consider pre-COVID indexation assumptions of 1% for normed teaching and support grants, which is consistent with FY2022 rates.
- Considering that unrestricted Quebec grants are mainly driven by enrolment levels, in addition to a realistic scenario that will be used to build our budget, we will prepare an optimistic and a pessimistic scenario that will quantify the financial impact of achieving a number of regulated fee-paying students that differs from our modeled expectations.

2.5. FY2023: Regulated Tuition Rate Assumptions

- The Ministry sets regulated tuition rates (Quebec base tuition, Canadian supplement, International regulated supplement) in the Spring, after submitting the budget for approval.

- Regulated tuition rates typically follow the perspective of household disposable income per capita in Quebec. For FY2023, this indicator is at 8.2%, which is more than two-fold the highest indexation of regulated rates seen in the past 5 years. There is hence uncertainty on rates that the Ministry will decide.

- Scenarios for the indexation of the Quebec base tuition rate will consider the following :
  - Pessimistic: the lowest indexation seen in the past 5 years, 2.7%
  - Realistic : current FY2022 indexation rate, 3.9%
  - Optimistic: using current methodology (household disposable income per capita), 8.2%

- The same logic will be applied to the Canadian (2.3%, 3.9% and 8.2%) and International regulated supplement rates (2.7%, 3.9% and 8.2%).

2.6. FY2023: Deregulated Tuition Revenue Considerations

- 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.
  - The University experienced a decrease in newly admitted deregulated students for the second consecutive year, mainly due to the loss of Chinese students.
  - Deregulated tuition expectations are currently $13.6M lower than budgeted as a result of underachieving targets for new deregulated fee-paying students.
  - The smaller deregulated cohort will have a ripple effect on revenue for FY2023 and beyond.
- However, Canada is well-positioned for COVID-recovery, and is rated the top destination for postsecondary education amongst international students[1, 2].
- McGill has an opportunity to capitalize on international student interest in a manner that distinguishes itself from peer institutions <u>and</u> provides a timely recruitment and yield advantage.

[1] Somos, C. (2021, October 14). *Canada top destination for post-secondary education, students say in new survey*. CTV News. https://www.ctvnews.ca/canada/canada-top-destination-for-post-secondary-education-students-say-in-new-survey-1.5621461

[2] September 2021 - End of Summer Workshop. (2021). ISEM Canada. https://isemcanada.ca/workshops/isem-2021-end-of-summer-workshop

2.7. FY2023: Deregulated Tuition Guarantee Model and Assumptions

- Effective Fall 2022, McGill will adopt a tuition guarantee model for deregulated Bachelor's students.
- A tuition guarantee means that a student pays the same tuition rate for the duration of their degree program, compared to the current model where tuition rate increases are determined annually.
- A tuition guarantee is viewed favourably by prospective students and positively influences the decision to attend a university when compared to indexed tuition rates[1].
- To support the access of qualified students with financial needs, 30% of net tuition increases will continue to go directly to student aid.
- In addition to a realistic scenario that will be used to build our budget, we will prepare an optimistic and a pessimistic scenario that will quantify the financial impact of achieving a number of deregulated fee-paying students that differs from our modeled expectations.

[1] CRi Tuition Elasticity Study on Prospective International Undergraduate Students

2.8. FY2023: 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, athletics, 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 $111M (75%) for FY2022.
- Based on previous experience, we assume that if campus activities were to be diminished again due to COVID-related health safety measures, the financial risks would be mitigated by reduced spending across the University.
- Looking ahead, we believe that the maintenance of flexible work arrangements will reduce revenues in certain sectors (e.g., parking and food and dining services). Operations costs will need to be adjusted.
- For FY2023, expectations will be set in the next budget presentation following the consolidation of input from units. At this time, we are anticipating revenues for the SOGS to be at about 90% of the FY2019 peak.
- The FY2023 budget will consider a scenario where no COVID-related health safety measures will be announced. To quantify the possible loss of revenues, we will prepare a pessimistic scenario that will consider a 2-month shut down of on-campus activities and an optimistic scenario where revenues reach pre-COVID levels.

2.9. FY2023: Expense Assumptions (1 of 4)

- **Academic Salaries**
  - Tenure-track salaries is one of the University's most predicable expense categories. An academic renewal plan establishes the University tenure-track complement targets.
  - Other academic salaries (e.g., contract academic staff, course lecturers) represent a smaller share of the budget but are more variable in nature.
  - Financial risks are mitigated by a number of centrally controlled mechanisms.
  - To quantify the financial impact of variability in our budgeted targets, we will prepare a low and high expense scenarios where results would vary by 1%.

2.10. FY2023: Expense Assumptions (2 of 4)

- **Administrative and Support Salaries**
  - During FY2022, 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. Growth of headcounts for FY2023 is anticipated to be limited.
  - 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.
  - Unresolved support staff collective agreements and pay equity assessments provide additional levels of uncertainty, although we review expectations regularly.
  - Financial risks are mitigated by a centrally controlled hiring process for specific groups of employees.
  - To quantify the financial impact of variability in our budgeted targets, we will prepare a low and high expense scenarios where results would vary by 3%.

2.11. FY2023: Expense Assumptions (3 of 4)

- To quantify the financial impact of variability in our budgeted targets, we will prepare low and high expense scenarios for the categories listed below, using the following considerations:
  - **Student Aid:** Contributions have increased sharply in recent years. We will review the timing of payments, and the impact of the new graduate enrolment driven incentive.
  - **Benefits:** Significant annual reductions in **pension solvency contributions** between FY2018 and FY2022 have resulted in an overall stability in benefit costs. We will review an anticipated range for FY2023 that will consider the effect of rising interest rates.
  - **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. **Sinking fund payments** are also charged to this category. Historical trends, unit inputs, and the effect of rising interest rates will be considered.

2.12. FY2023: Expense Assumptions (4 of 4)

- **Interest cost**
  - Interest rates will likely trend upwards, 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 is anticipated to be positive. For FY2024+, the emission of new debt to fund capital projects will likely be at a higher cost, thus increasing the amount of sinking fund payments.

- **Other Non-Salary Expenses**
  - Several cost items are still severely depressed due to COVID. We will examine the associated expectations for FY2023. Examples include **travel**, **printing**, **postage**, **photocopying**, **receptions / special events**, **contract services catering**, **non-travel related meal expenses**, to name a few. We will review the timing of payments.

- **Inflation**
  - Inflationary pressure is of 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.

2.13. Uncertainties and Risks

- **External:**
  - COVID-19 (and associated health safety measures)
  - Stability of government commitments
  - Effect of market volatility on pension fund and the University’s endowment fund
  - Global political landscape and its effect on international student mobility
  - Canadian dollar exchange rate
  - Interest rates
  - Inflation

2.14. Uncertainties and Risks (cont’ d)

- **McGill-controlled:**
  - Success of the University in deploying its enrolment plan
  - Fee levels for deregulated students
  - 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
  - New program development coherence and accountability
  - Management of carry forward balance spend down
  - Position budgeting and control
  - Unrestricted budget use for capital expenditures
  - Space considerations (e.g., flexible work arrangements, classrooms, swing space for renovations)

Discussion

- Questions
- Comments
- Concerns
- Suggestions