



Memorandum

Office of the Provost and VP (Academic)
Room 504, James Administration Bldg.
Tel: 514-398-4177 | Fax: 514-398-4768

TO: Senate

FROM: Professor Christopher P. Manfredi, Provost and Vice-Principal (Academic)

SUBJECT: Presentation on the McGill University Budget 2019-2020

DATE: April 17, 2019

DOCUMENT #: D18-57

ACTION REQUIRED: INFORMATION APPROVAL/DECISION

ISSUE	A presentation on the final draft FY2020 University Budget is delivered for Senate’s information.
BACKGROUND & RATIONALE	Annual presentations are made to University governance bodies on the University budget. This advance look at the FY2020 budget of the Unrestricted Fund is presented to the members of Senate for their information.
PRIOR CONSULTATION	Finance Committee of the Board of Governors Senior Administrators
SUSTAINABILITY CONSIDERATIONS	The FY2020 Budget plan continues McGill’s support of sustainability research and practice on campus with a focus on maintaining financial sustainability.
IMPACT OF DECISION AND NEXT STEPS	The key messages and highlights identified in this presentation will frame the McGill University FY2020 Budget Book. The Proposed McGill University Budget FY2020 will be delivered to the Board of Governors on April 25, 2019 for approval.
MOTION OR RESOLUTION FOR APPROVAL	This item is presented for information.
APPENDICES	Appendix A: FY2020 University Budget; draft presentation to Senate

Budget Planning III

McGill University Budget FY2020: Summary and Highlights















Presentation to Senate on April 17, 2019

Christopher Manfredi, Provost and Vice-Principal (Academic)



FY2019 Forecast

FY2019 Year-End Forecast – Unrestricted Funds (\$M)

Anticipated major budget variances for FY2019 (\$M)		
FY2019 budgeted deficit	(\$15.4M)	
Lower than budgeted other non-salary expenses		 \$25.4M
Higher than budgeted tuition & fees		 \$17.9M
Higher than budgeted Provincial grants		 \$9.2M
Higher than budgeted sales of goods & services		 \$7.7M
Lower than budgeted benefits expenses		 \$5.4M
Higher than budgeted endowment revenue (investment income)		 \$4.3M
Higher than budgeted Support Staff and Academic salaries & payments	(\$3.9M)	
Higher than budgeted materials, supplies, and publications	(\$5.2M)	
Higher than budgeted contract services	(\$6.1M)	
Higher than budgeted building & occupancy costs	(\$11.6M)	
Higher than budgeted Inter-Fund transfers	(\$18.9M)	
Variations in all other revenue and expense categories	(\$9.3M)	
FY2019 forecast	(\$0.6M)	

FY2019 Year-End Estimates vs. Budget FY2019: Revenues

- ▶ FY2019 budget was built estimating revenues under the government's former funding policy.
- ▶ FY2019 year-end provincial grants and tuition and fees revenues are estimated using what is currently known about the government's new funding policy, outlines of which were published in July 2018 with ongoing discussions about key changes.
 - ▶ Significant one-time structural increase of operating grant in FY2019 due to implementation of a new funding grid and government grant structure.
 - ▶ Temporary grants: \$4.2M for smoothing enrolment; \$2.1M for supporting engineering.
- ▶ Sales of goods and services are forecasted at \$7.7M above budget, but only about \$2M above FY2018 totals.

Side by Side Comparison of Provincial Unrestricted Revenues (\$000)

Category	Budget FY2019	Year-End Estimate FY2019	Difference
Teaching Grant	301,652	333,624	31,972
Support Grant	55,047	65,575	10,528
Facilities and Buildings	58,968	61,777	2,809
Specific Grants	14,659	2,429	(12,230)
Enrolment Smoothing (new)	-	4,186	4,186
General Fixed Costs	2,432	2,809	377
Other grants (central)	7,105	(1,000)	(8,105)
Other grants (units)		2,261	2,261
Recoveries	(107,029)	(111,571)	(4,542)
<i>Loi 100 - Productivity Cuts</i>	(3,899)	-	3,899
FY06 Reinvestment	8,349	-	(8,349)
FY18 Additional Reinvestment	6,211	-	(6,211)
FY19 Additional Reinvestment	7,350	-	(7,350)
Total	350,845	360,090	9,245

FY2019 Year-End Estimates vs. Budget FY2019: Revenues (cont'd)

- ▶ FY2019 Budget based on admission and enrolment targets.
 - ▶ Fall 2018 enrolment of deregulated international students surpassed the target by 190 (Fall 2018 enrolment target of 2,248 versus actuals of 2,438).
 - ▶ FY2019 Master's and PhD new registrations surpassed the target by 196 (FY2019 admissions target of 3,057 versus actuals of 3,253).
 - ▶ Positive impact on tuition, provincial grants (only for FY2019 when it comes to deregulated students), institutional fees and sales of goods and services revenues.

FY2019 Year-End Estimates vs. Budget FY2019: Expenses

- ▶ Since FY2016, budgets have been built with the assumption that units would meet their mandated cuts and salary mass reductions (\$15.0M). Units have been allowed to spread out their reductions over time. This flexibility has led to expenditures that exceed our budget.
- ▶ FY2019 year-end estimates for self-funded operating funds (non-1A funds) were originally less optimistic than budgeted, but are now more in line with past results. In particular, results and/or expectations improved in Q4 for three units.

Looking Ahead: FY2020 – FY2024

FY2020: Budget Implementation and Proposal

- ▶ **Principal's priorities**
- ▶ **Provost's strategic academic plan objectives**
 - ▶ Be open to the world
 - ▶ Expand diversity
 - ▶ Lead innovation
 - ▶ Connect across disciplines and sectors
 - ▶ Connect with our communities

FY2020: Strategic Priorities – Highlights

- ▶ Over \$1.5M in one-time and recurring funding for initiatives in Indigenous Studies and Education
 - ▶ Indigenous Achievement Award (\$5,000 renewable admissions award given to one to three incoming Indigenous students every year).
 - ▶ Six new faculty positions under recruitment for FY2020 focusing on Indigenous health, education, language and governance.

- ▶ The Rossy Student Wellness Hub
 - ▶ New service-delivery model that integrates physical and mental healthcare and ensures that students have access to the right care at the right time.
 - ▶ \$13.5M initiative funded by the Rossy Family Foundation (\$4.9M) and McGill (\$8.6M).
 - ▶ Annual \$1.7M commitment by McGill thereafter.

FY2020: Strategic Priorities – Highlights (Cont'd)

- ▶ The Campus Médical Outaouais
 - ▶ McGill will provide the MDCM program in French in Outaouais to a number of their students.
 - ▶ Construction and hiring of educational leadership and administrative staff in progress.
 - ▶ First cohort of students to be admitted in Fall 2020.

- ▶ Student Aid
 - ▶ \$34.2M in Unrestricted Funds anticipated for student aid in FY2020.
 - ▶ Continuous efforts to seek external funding for our students.

- ▶ Graduate and Postdoctoral studies
 - ▶ Over \$1M for additional graduate student funding and doctoral student recruitment.

FY2020 and Beyond: Revenues

- ▶ McGill expects to maintain the enrolment goals set out in the Strategic Academic Plan:
 - ▶ Maintain undergraduate enrolment and increase graduate enrolment.
 - ▶ Maintain share of international students within undergraduate enrolment between 25%-30%.
- ▶ In FY2020, first-cycle and non-research second cycle international students will be deregulated:
 - ▶ Elimination of teaching, support, and building and grounds grants for deregulated students.
 - ▶ Tuition fees to offset the loss of these grants over time as we continue to adjust tuition rates for deregulated students in line with the market—a slight decrease in total revenue derived from these students expected in FY2020, with gradual increases afterward.
 - ▶ Temporary transition grant to new funding policy: \$2.1M in FY2020 and \$1.1M in FY2021.
 - ▶ Tuition elasticity study by major disciplines recently completed and under analysis.

FY2020 and Beyond: Expense Pressures

- ▶ Salary commitments
 - ▶ Maintain agreements and contracts
 - ▶ FY2020 salary policy estimate: **\$15.0M**, including benefits

- ▶ 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 impact on the Unrestricted Fund: **\$11.5M** in FY2020; **\$23M/year** starting in FY2021.

- ▶ Regular maintenance to mitigate future deferred maintenance risks within budget.

FY2020 and Beyond: Expense Pressures (Cont'd)

- ▶ Working to reduce internal decisions impacting the Unrestricted Fund that are made outside the Agreement process that are nonetheless binding on the institution.

- ▶ Working to reduce authorization to carry forward surpluses in individual funds:
 - ▶ Some areas manage individual unrestricted funds for which they are authorized to retain unspent balances at the end of each fiscal year.
 - ▶ Operationally, this means that the “exceptional” fund managers have the authorization to overspend in a future year because they underspent in a past year.
 - ▶ The combined fund balances are growing, creating a future liability for the Unrestricted Fund that is not accounted for in the annual budget.

FY2020 and Beyond: Revenue Risks/Unknowns

- ▶ Success of the University in deploying its enrolment plan for Fall 2019.
- ▶ Success of the University in developing an optimal pricing strategy for tuition fees for deregulated students by program and in delivering on this strategy.
- ▶ A baseline expectation for self-financing operations, and an appropriate review mechanism if not achieved.

FY2020 and Beyond: Cost Risks/Unknowns

- ▶ Success of efforts to identify causes of increased hiring, appropriate planning to reach desired staffing levels, and application/monitoring of targeted staffing levels.
- ▶ Unprecedented capital projects, including IT investments, either in progress or in planning.
 - ▶ Estimates of total capital project costs - including cost of staff time providing significant support to capital projects and funded from operating funds.
 - ▶ Ensuring that service levels for University operations in affected units are commensurate with the salary costs that are retained in the Unrestricted Fund.
- ▶ Increases in interest rates in past two years impacts borrowing costs.
- ▶ Fluctuations in currency exchange rates; additional interest rate increases .
- ▶ Inability to spend endowment payout due to restrictions on use (e.g., research chairs, donor requirements).

Operating Budget: Past, Present and Future Outlook (\$000s)

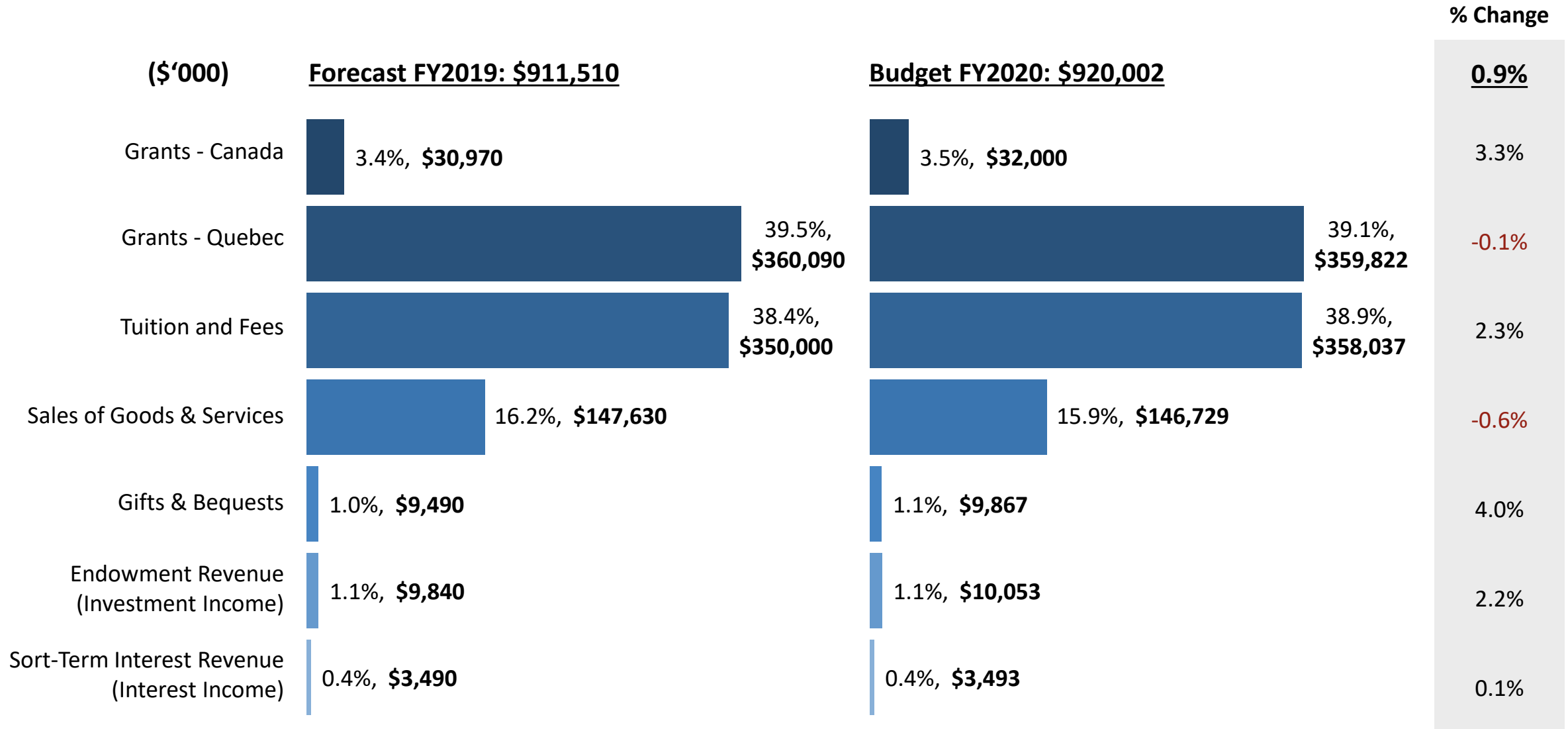
5-year outlook	<i>FY2019</i> <i>(from Budget Book)</i>	<i>FY2019(f)</i>	<i>FY2020(b)</i>	<i>FY2021(o)</i>	<i>FY2022(o)</i>	<i>FY2023(o)</i>	<i>FY2024(o)</i>
Total revenues	870,863	911,510	920,002	923,887	945,023	969,275	995,983
Total expenses ⁽¹⁾	886,305	912,060	928,670	934,876	958,526	974,526	994,226
Annual financed surplus (deficit)	(15,442)	(550)	(8,668)	(10,989)	(13,503)	(5,251)	1,757
Financed accumulated deficit ⁽²⁾		(128,989)	(137,657)	(148,645)	(162,148)	(167,399)	(165,642)
Financed accumulated deficit/Revenues (%)		14.15%	14.96%	16.09%	17.16%	17.27%	16.63%

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

⁽¹⁾ Excluding year-end actuarial adjustments and related accrual

⁽²⁾ FY2018 ending financed accumulated deficit = \$128,439

FY2020: Operating Revenue = \$920.0M



FY2020 Key Revenue Assumptions: Student Enrolment

- ▶ Growth in PhD enrolment; slight decrease in undergraduate enrolment.

			% Change
Total FTEs	32,154.92	31,807.53	-1.1%
Med Residents (FTEs) ⁽¹⁾	1,884.2	1,757.7	-6.7%
3 rd Cycle (FTEs)	2,181.0	2,286.4	4.8%
2 nd Cycle (FTEs)	4,038.7	4,009.5	-0.7%
1 st Cycle (FTEs)	24,051.0	23,753.9	-1.2%
	FY 2019(p)	FY 2020(e)	
Total weighted FTEs ⁽²⁾	99,313.7	99,383.5	0.1%

(1) Decline in medical residents category due to approximately 100 medical fellows (headcount) being reclassified as Postdocs as of FY2020

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

p = projected; e = estimate

FY2020-FY2024 Key Revenue Assumptions: MEES Operating Grant

- ▶ Assumptions
 - ▶ Modest grant indexation (FY2020 to FY2024 – Support grant: 1% per year; Teaching grant: 1.2% per year)

- ▶ Estimated increases in regulated Quebec base tuition
 - ▶ FY2020 to FY2024: **3.6%, 2.9%, 2.0%, 2.0%, 2.0%**

FY2020 Key Revenue Assumptions: Regulated Tuition

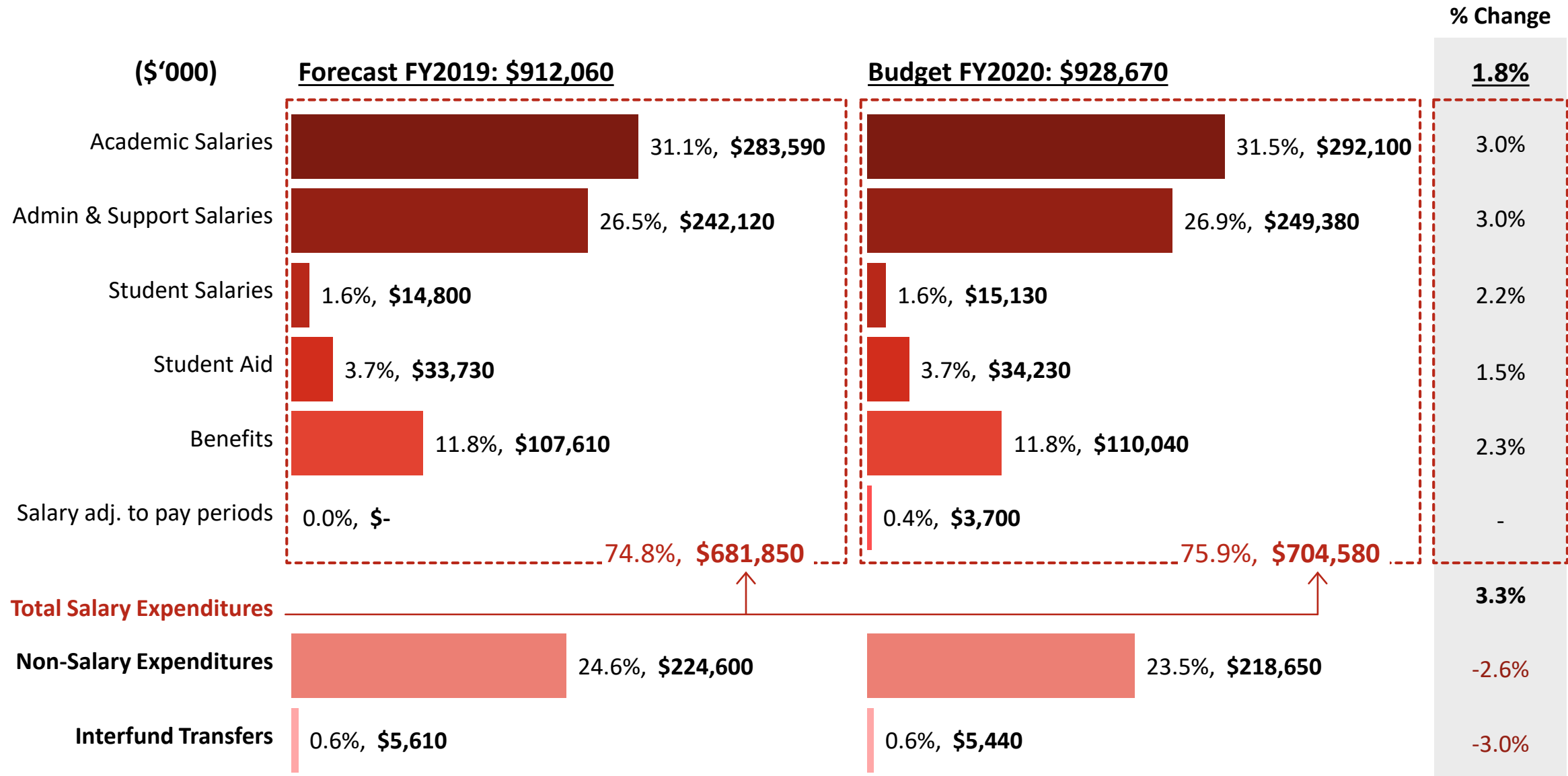
- ▶ Basic tuition revenues (net of student aid) = approximately **\$6.2M lower** due to fewer students paying regulated tuition.
 - ▶ FY2020 increase in base tuition rate = 3.6% or \$88.40/FTE (\$76.58/FTE net)
 - ▶ Assumptions for subsequent years:
 - ▶ FY2021: 2.9% increase
 - ▶ FY2022 to FY2024: 2.0% per year increase
- ▶ Provincial tuition supplement recovery amount
 - ▶ International supplements = approximately **\$40.9M less** to be recovered by the government in FY2020, due to fewer international students paying regulated tuition.

FY2020 Key Revenue Assumptions: Deregulated Tuition

- ▶ Increase in deregulated tuition fees for first and second cycle international students in non-research programs:
 - ▶ FY2020: 7.7% for incoming cohorts
 - ▶ FY2021 to FY2024 increases for incoming cohorts will be adjusted accordingly in order to bring tuition rates in line with our peer institutions.

- ▶ Annual increases for returning students:
 - ▶ For those admitted before Fall 2019 in previously deregulated programs, tuition fees will remain constant for the normal duration of the program of study.
 - ▶ For all first- or second-cycle international students admitted to non-research programs in Fall 2019 or later, annual increases will be modest.

FY2020: Operating Expenses = \$928.7M



Significant One-Time and Ongoing Expenses

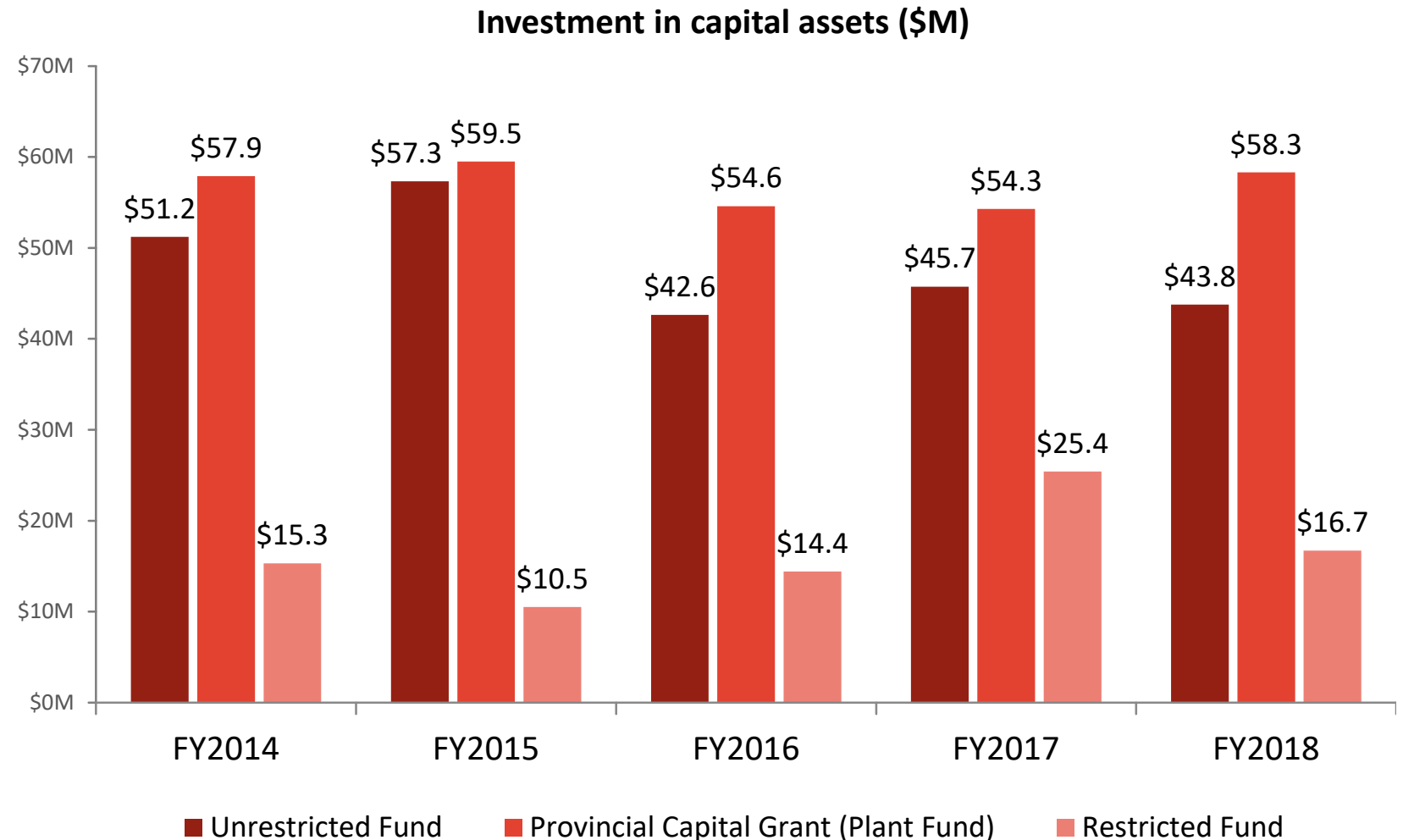
- ▶ Operating fund requirements for **deferred maintenance** of facilities and information technology infrastructures
 - ▶ Time-sequenced borrowing of \$400M by issuance of bonds
 - ▶ Amount to be distributed between building renovations and IT projects
 - ▶ Maximum 40-year impact on operating budget

- ▶ Impact of future building projects on operating funds (constructions and maintenance costs)
 - ▶ Current Master Plan initiatives:
 - ▶ Royal Victoria Hospital
 - ▶ Powell Building
 - ▶ Fiat Lux (McLennan-Redpath Library)
 - ▶ 680/688 Sherbrooke St. West conversion
 - ▶ Wilson Hall
 - ▶ Neuro Strategic Facility Plan (Montreal Neurological Institute and Hospital)

Unrestricted Revenue Fund Capital Assets

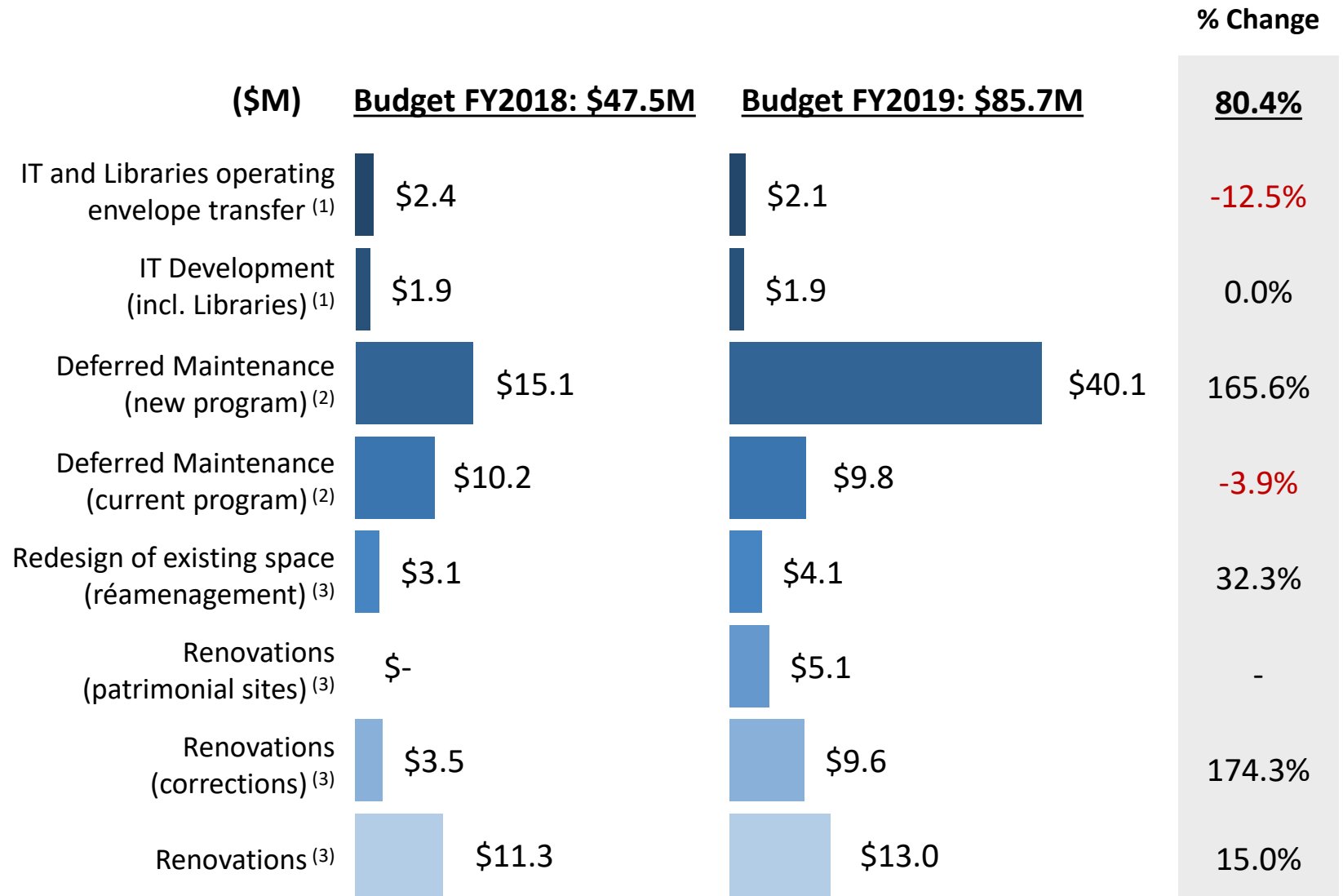
These figures do not include:

- ▶ Goods and services that do not meet government or internal capitalization requirements.
- ▶ Cost of time of administrative and support staff supporting capital projects that is not recorded by project managers (e.g. most likely on IT projects – time of staff with business expertise outside ITS writing needs assessment, designing specs, performing testing and validation of new IT systems).



FY2020: MEES Capital Fund

- ▶ MEES confirmed McGill’s annual capital budget for FY2019 would be based on a different distribution formula that takes into account the age of the university’s infrastructure.
- ▶ 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.)



⁽¹⁾ Portfolios: IT Infrastructure & Institutional Priorities

⁽²⁾ Portfolio: Physical Infrastructure

⁽³⁾ Portfolios: Institutional Priorities & Student Life and Learning

FY2020: Restricted and Endowment Funds

▶ **Restricted Fund**

- ▶ Primarily composed of research grants and other special purpose revenues
- ▶ Anticipated revenues = \$415M, up from \$403M forecasted for FY2019

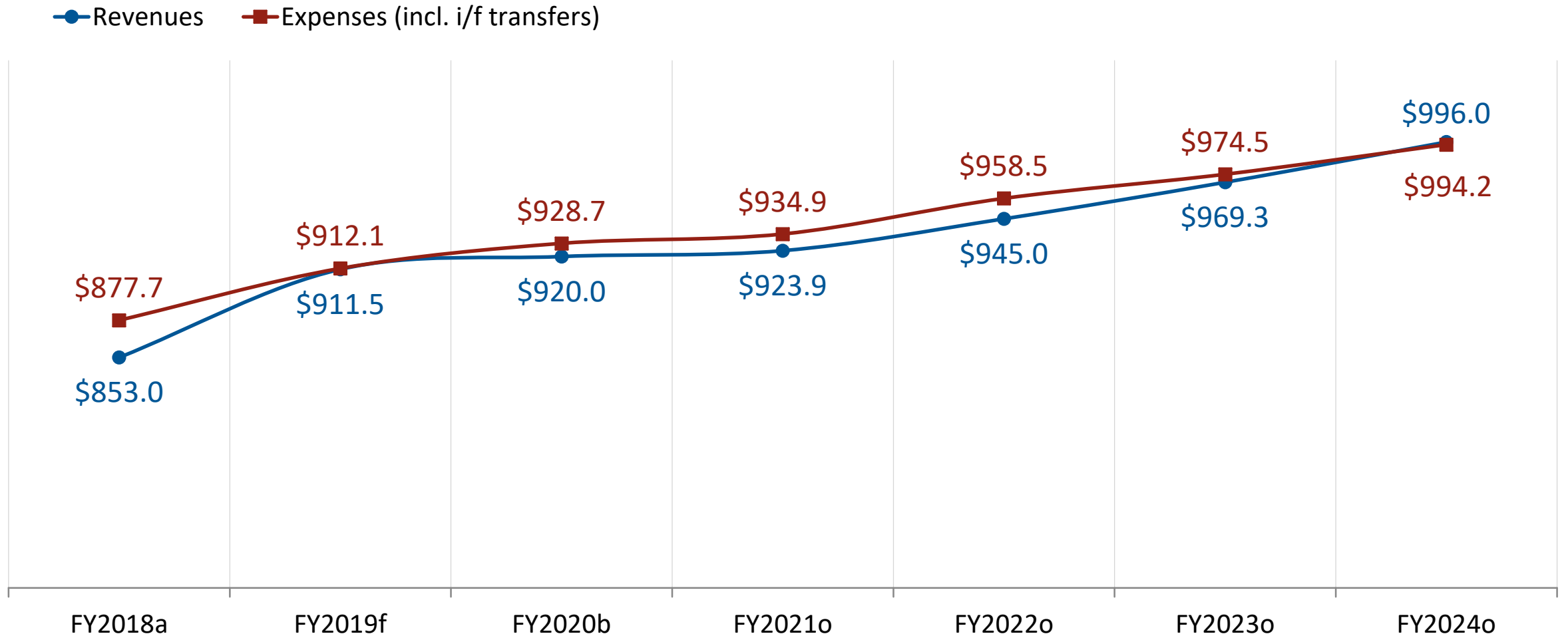
▶ **Endowment Fund**

- ▶ Market value as of February 28, 2019: \$1.649B (vs. \$1.634B as of February 28, 2018)
- ▶ Increased by approximately 1.5% (first 10 months of FY2019)
- ▶ Higher interfund transfers to other funds expected in FY2019 vs. FY2018

▶ **Philanthropic cash revenues and pledges**

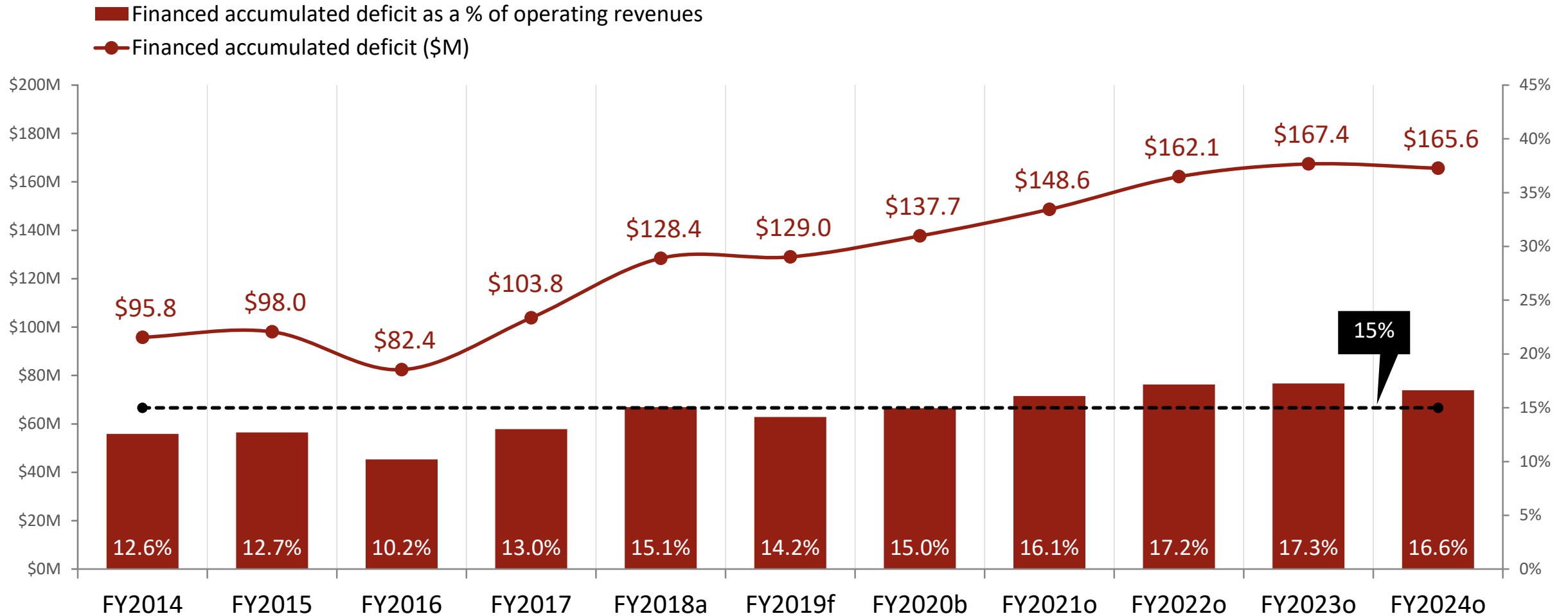
- ▶ FY2019 forecast = \$115M to \$135M
- ▶ FY2020 budgeted within a corridor of between \$125M to \$145M

Projected Operating Revenue and Expenditure Through FY2024 (\$M)



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

Operating Fund: Financed Accumulated Deficit



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

A Final Note

- ▶ This financial outlook informs our understanding of the resources the University has to achieve its academic mission in FY2020 and onward.
- ▶ The effectiveness of available resources in achieving the University's academic mission also depends on current internal policies (i.e., both their design and application) and on non-financial drivers.
- ▶ The University is developing Business Intelligence that enables the ability to link University resource use with achievement of the academic mission of the University:
 - ▶ Data production
 - ▶ Data governance
- ▶ The University must ensure that its staff has the required financial skills to process budget transactions correctly, technical skills to use detailed data beyond pre-formatted reports, information management skills, and ability to transfer institutional memory or know where to obtain it.

Discussion

- ❓ Questions
- ❓ Comments
- ❓ Concerns
- ❓ Suggestions

