McGill

McGILL UNIVERSITY **SENATE**

Memorandum

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TO:	Senate
FROM:	Professor Christopher Manfredi, Provost and Vice-Principal (Academic)
SUBJECT:	Proposed McGill University Budget 2017-2018
DATE:	April 20, 2017
DOCUMENT #:	D16-51
ACTION REQUIRED:	☒ INFORMATION ☐ APPROVAL/DECISION

ISSUE	The Proposed McGill University Budget 2017-2018 is presented for Senate's information and input.
BACKGROUND & RATIONALE	This is the final of three annual presentations that are made to Senate on the McGill University budget. It presents an advance look at forecasts for FY2018.
PRIOR CONSULTATION	Finance Committee of the Board of Governors in February 2017 Senior Administrators
SUSTAINABILITY CONSIDERATIONS	The FY2018 Budget plan includes support of sustainability research and practice on campus.
IMPACT OF DECISION AND NEXT STEPS	The key messages and issues identified in this presentation will frame the McGill University FY2018 Budget Book. The Proposed McGill University Budget 2017-2018 will be delivered to the Finance Committee of the Board of Governors on April 25, 2017, and to the Board of Governors on April 27, 2017, for approval.
MOTION OR RESOLUTION FOR APPROVAL	N/A
APPENDICES	Appendix A: Draft Budget Planning Report III: Proposed McGill University Budget 2017-2018 - powerpoint presentation

D16-51 Appendix A

McGill University Budget FY2018: Summary and Highlights

Presentation to Senate
DRAFT

Prof. Christopher Manfredi,
Provost and VP (Academic)

20 April 2017

McGill

Forecast for FY2017: Major variances against budget

($2.7M)

Anticipated major operating budget variances for FY2017

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

($2.0M)

Annual financed operating deficit
FY2017 budget

Annual financed operating deficit
FY2017 projection

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

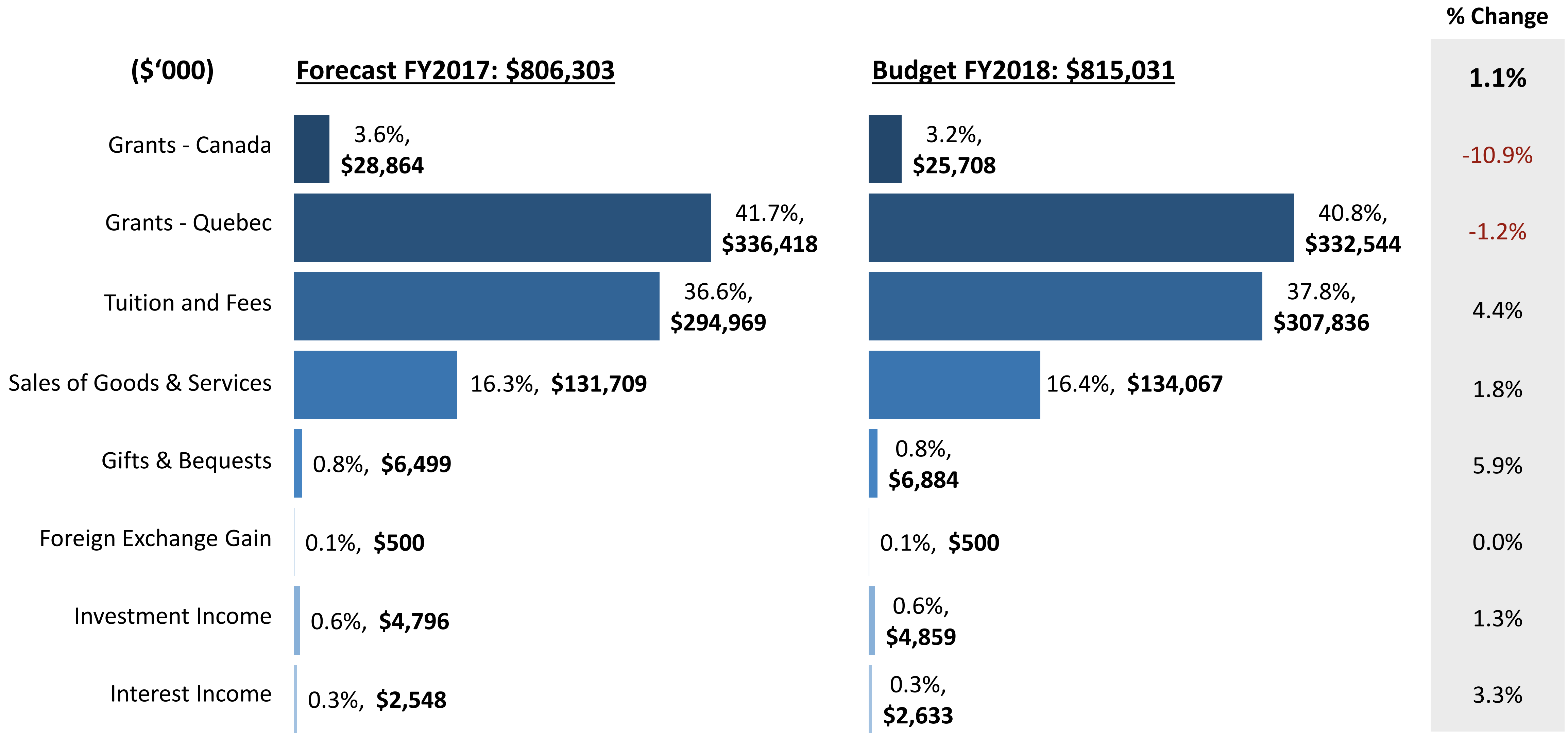
Operating Budget: Past, present and future outlook ($M)

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

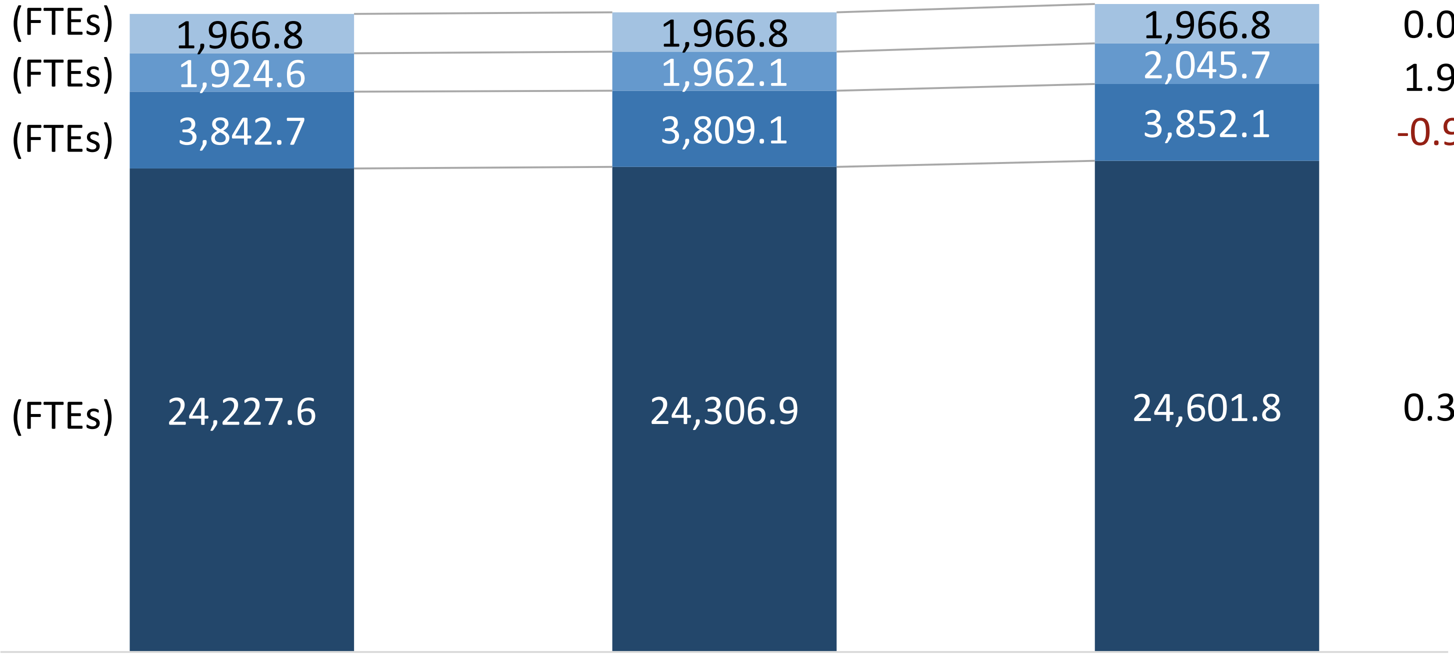
[1] Excluding GAAP adjustments

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

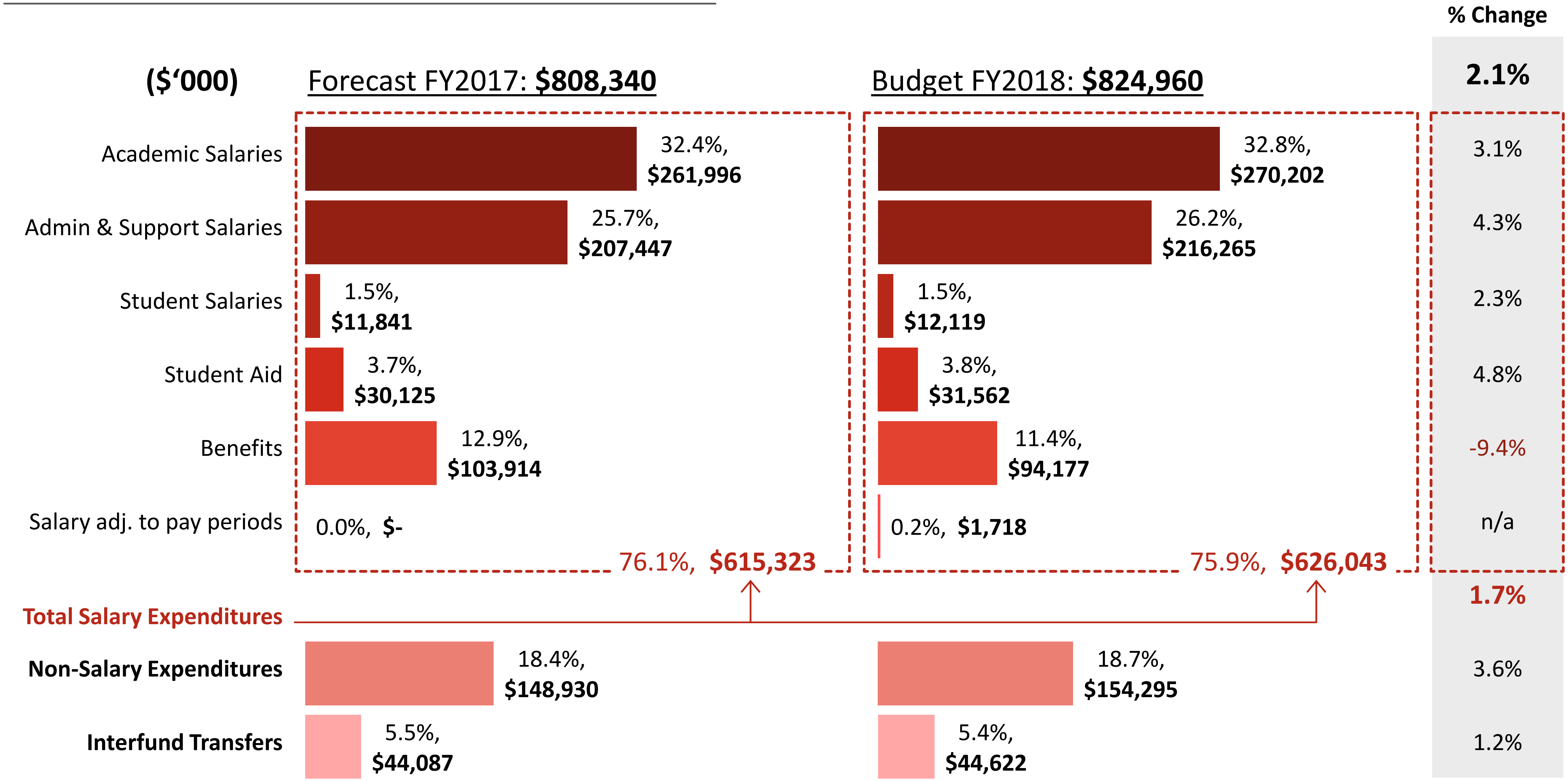
- FY2018, starting in Fall 2017 = 3.0% increase
- FY2019 to FY2022 = 3.0% annual increases

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



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**

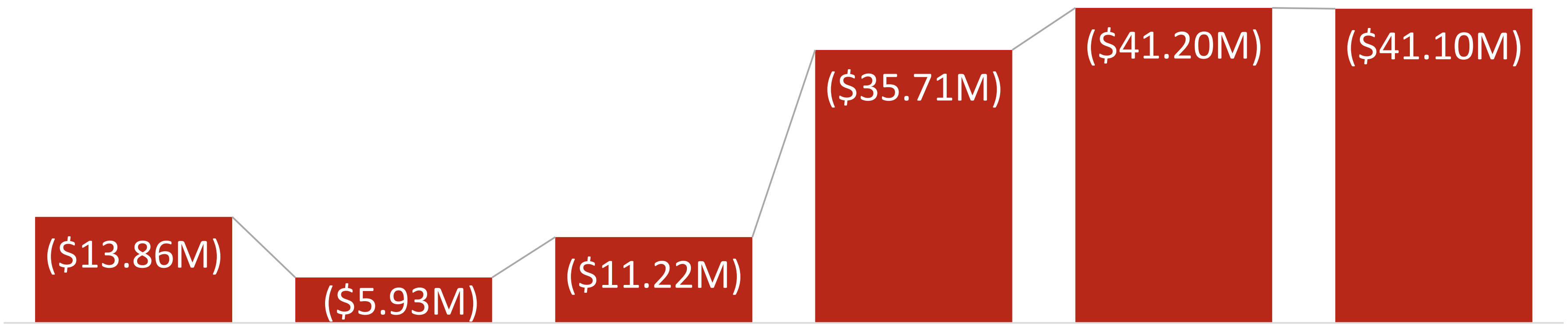
- $10M budgeted over the next five years

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

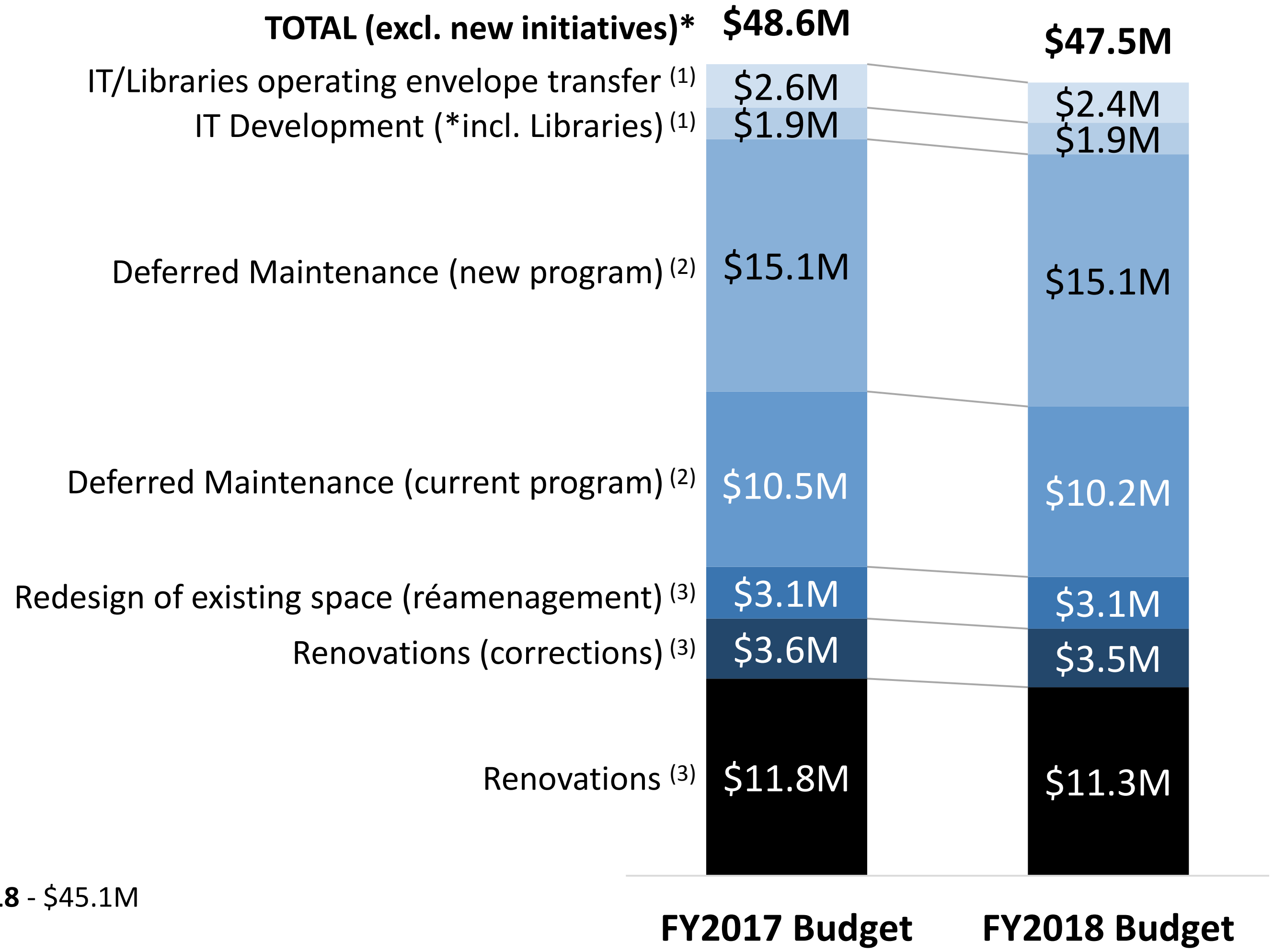
Assumptions:
Interest rate on Amortization fund: 1.5%

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

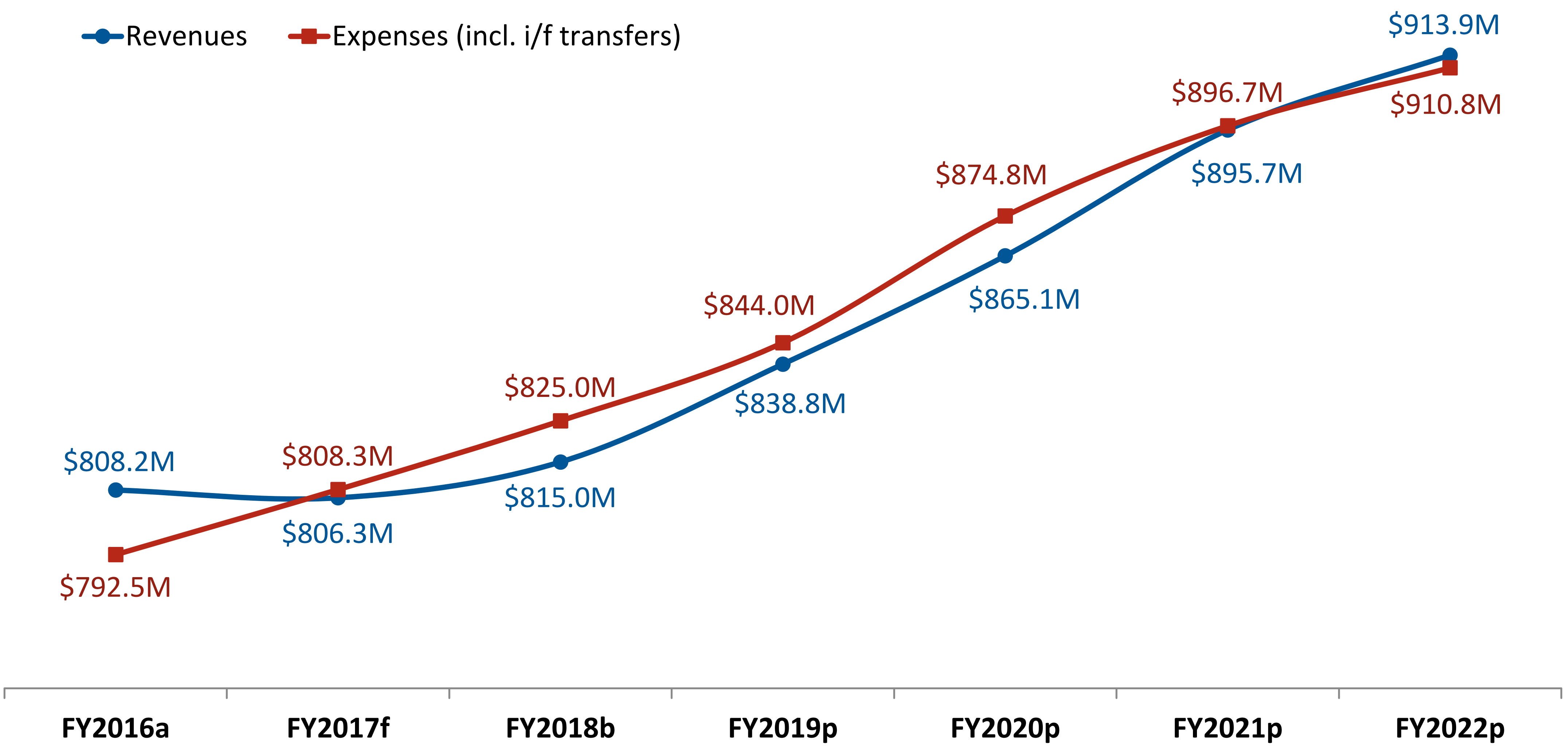
1 Restricted Fund

- 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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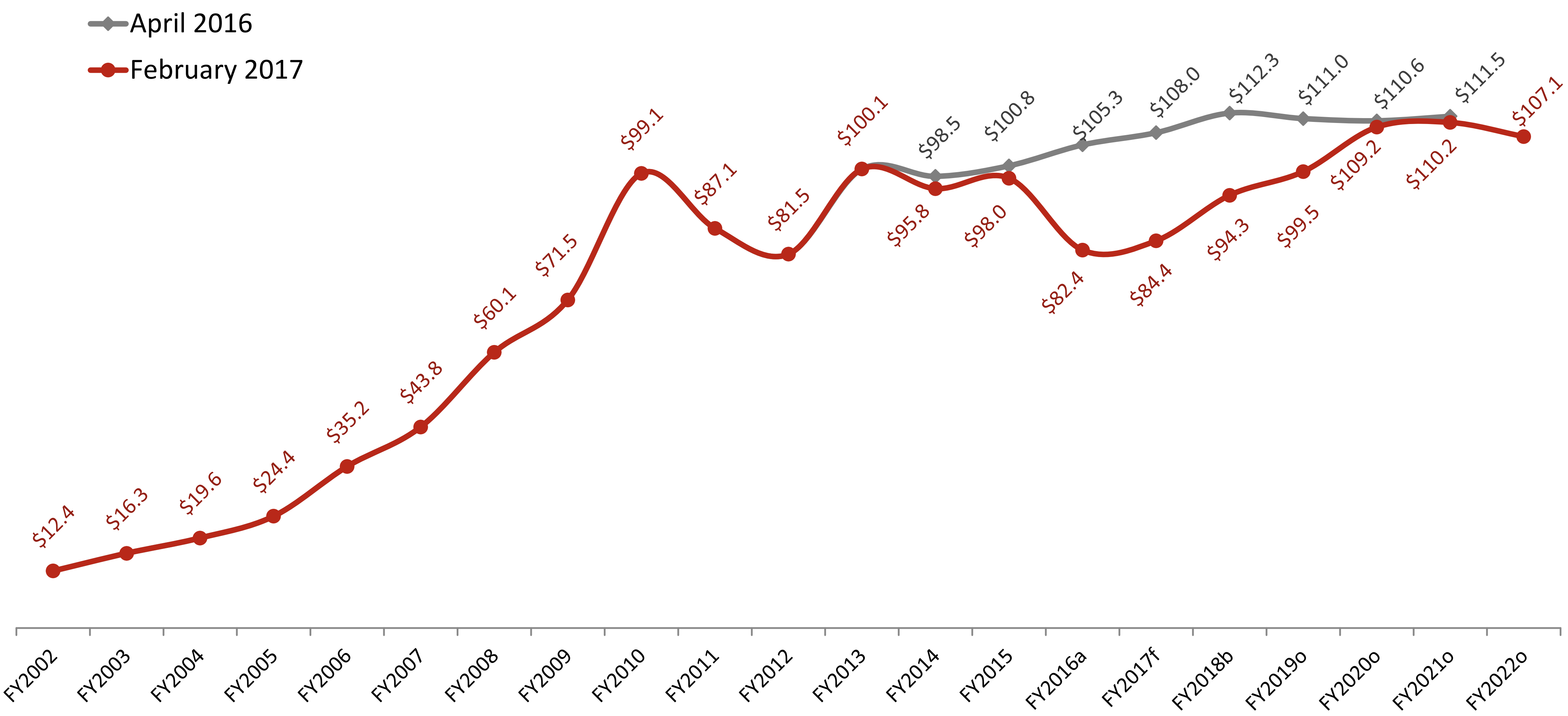
Operating fund: Financed accumulated deficit ($M)



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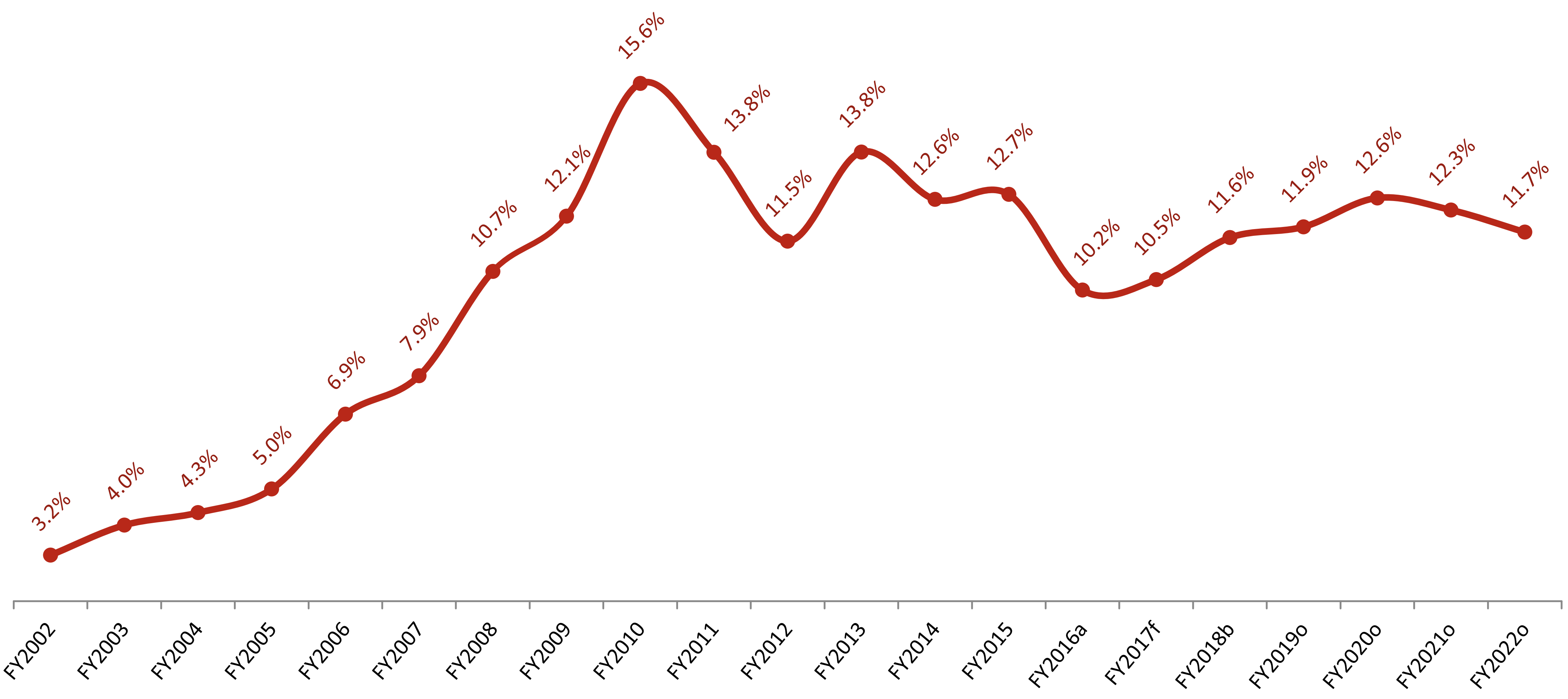
Total financed accumulated deficit as a % of operating revenues



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Discussion

- Questions
- Comments
- Concerns
- Suggestions