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# Memorandum

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**TO:** Senate

**FROM:** Prof. Anthony C. Masi, Provost

**SUBJECT:** Budget Planning 2014-2015: Report II

**DATE:** February 19, 2014

**DOCUMENT #:** D13-46

**ACTION REQUIRED:**  INFORMATION  APPROVAL/DECISION

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**ISSUE:** This presentation provides an overview of the considerations shaping the FY2015 McGill University Budget, including an update and elaboration on key revenue and expense assumptions and other significant developments affecting the current 5-year planning cycle in the context of McGill's strategic academic plan.

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**BACKGROUND & RATIONALE:** This report is the second of three presentations made to Senate on the McGill University budget for FY2015. The first presentation was delivered on December 4, 2013, and the final recommendation for the proposed budget for FY2015 will be presented to Senate in April.

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**MOTION OR RESOLUTION FOR APPROVAL:** N/A

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**PRIOR CONSULTATION:** McGill Senior Administration  
Finance Committee of the Board of Governors

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**NEXT STEPS:** The key messages identified in this presentation will frame the development of the FY2015 McGill University Budget Book, which will be brought to Finance Committee and Senate in mid-April before being presented to the Board of Governors on 29 April for final approval.

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**APPENDICES:** Appendix A: Budget Planning for 2014-2015 Powerpoint Presentation

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# **Budget Planning II**

## **FY2015 Budget and Outlook for FY2016-FY2019**

### **Presentation to Senate**

19 February 2014

Prof. Anthony C. Masi  
Provost



**McGill**

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# 1. ASAP 2012 strategic priorities

- four **strategic priorities** have been identified to guide us forward in the next five years
- all our actions should ensure:
  1. advance McGill's academic and research excellence, as one of the world's leading research-intensive universities
  2. achieve a sustained focus on student-centeredness by enhancing educational, research, and extracurricular life and learning experiences
  3. raise further McGill's external visibility, success and reputation
  4. effectively manage financial, capital & human resources on a multi-year basis

## 2. Related budget planning objectives

- 1. quality and excellence in teaching, research, and service**
  - a) attention to both compensation and academic renewal
  - b) support services responsive to the needs of McGill's academic mission
  - c) "analytics", detailed Key Performance Indicators (KPIs) that inform decisions and improve transparency and accountability
- 2. balancing revenues and expenses: not out of the woods**
  - a) maintain the budgetary gains from the Voluntary Retirement Program (VRP) along with cost-saving measures and process reviews
  - b) pay back at least deficit growth from 2012-2013 within the next 5 years: minimum: \$24.4M; aim: \$28.4M
  - c) increase and diversify the sources of funding, reduce dependency on Quebec government operating grant
- 3. targeted special projects linked to ASAP 2012 priorities**

### 3. Updated forecast for FY2014: tracking to original deficit

<b>Summary of variances against original forecast</b>	
1. originally forecast FY2014 Operating fund	(\$10.4M)
<b>Anticipated operating budget variances for FY2014</b>	
2. additional revenues	\$10.6M
3. additional VRP costs	(\$9.2M)
4. unit deficits and central contributions to budget cuts	(\$4.0M)
5. contribution to serials cost indexation (Libraries)	(\$0.5M)
6. decrease in pension shortfall payout	\$1.0M
7. interest expense savings (net)	\$2.5M
<b>8. updated budget FY2014 projection (preliminary Q3)</b>	
	(\$10.0M)

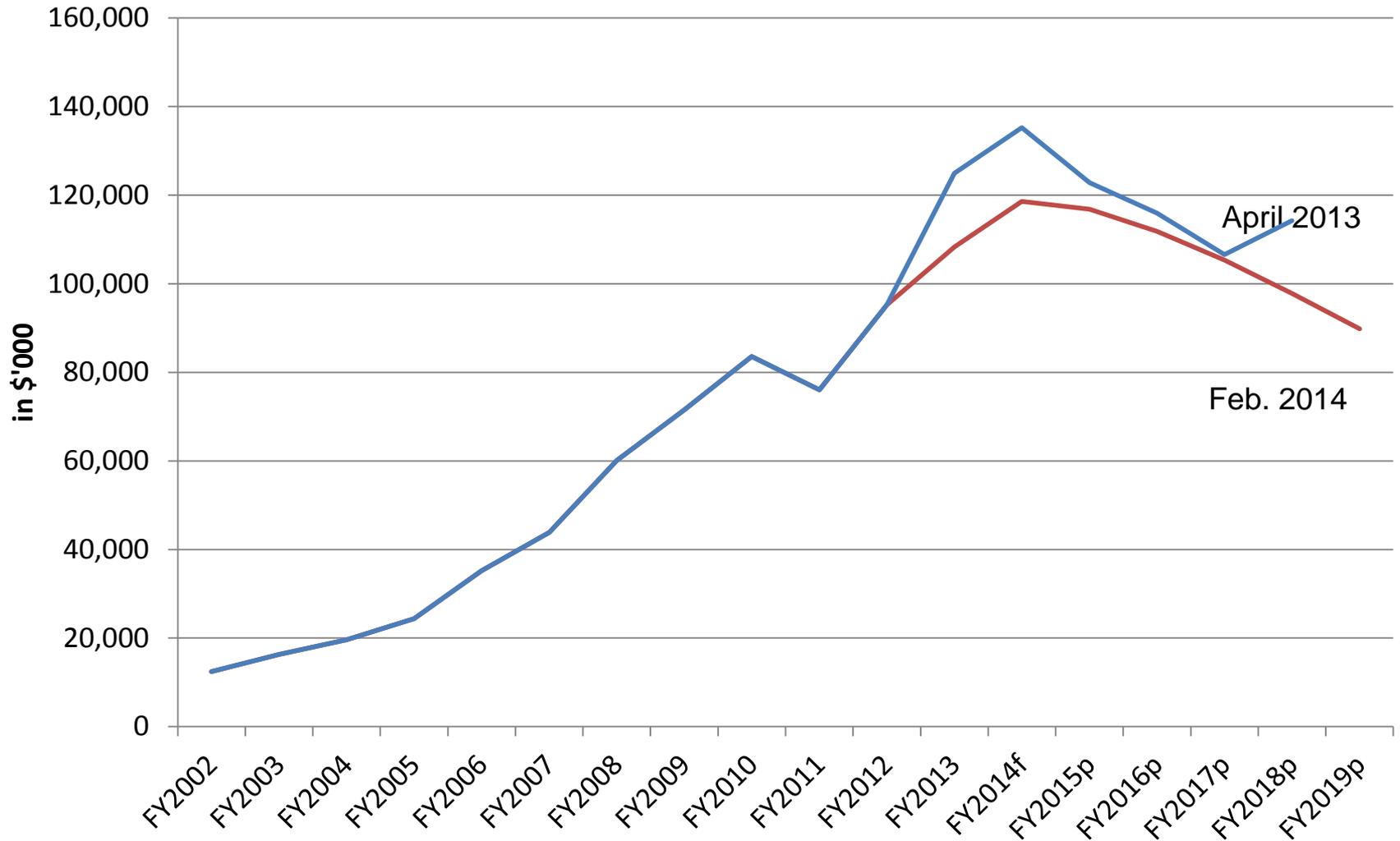
## 4. Looking ahead: FY2015 – FY2019

- **Revenues:**
  - Quebec “re-investment” for universities over 5 years: \$1.8B, McGill’s share estimated at 14.3% of envelope = \$250M (unrestricted) over 5 years; \$27.1M in FY2015
  - 2% indexation of envelopes for FY2015 = estimated \$6.8M increment for McGill
  - assuming 1.5% indexation beyond FY2015 (continuation of envelope remains unknown making projections unreliable) = estimated at \$5M per year for McGill
- **Expenses:**
  - salary policy catch-up, predominantly but not exclusively, academic (\$287M over 5 years; \$17.2M just in FY2015)
  - provisions to address major lingering issues: pension liability, pay equity, capital investments for information technology, deferred maintenance, and new spaces (including feasibility studies) over the next 5 years
- **Goals:**
  - end annual operating deficits, breakeven to include the pay down one-fifth of “additional” accumulated deficit, roughly \$5M - \$6M per year through FY2019

**5. Operating Budget: past, present and future outlook (\$'M):**  
**a = actual, b = budget, f = forecast, p = projection**  
**(as of February 2014)**

<b>5-year outlook (April 2013)</b>								
	<b>FY12a</b>	<b>FY13f</b>	<b>FY14b</b>	<b>FY15p</b>	<b>FY16p</b>	<b>FY17p</b>	<b>FY18p</b>	
total Revenues (net of reserves)	710.0	716.4	721.4	775.0	798.6	819.8	832.5	
built-in revenue reserves				7.2	11.3	15.6	16.4	
total expenses	709.1	746.1	731.7	762.6	791.7	810.5	840.1	
annual surplus (deficit)	0.9	(29.7)	(10.3)	12.4	6.9	9.3	(7.6)	
GAAP accumulated deficit	(274.5)	(304.2)	(314.5)	(302.1)	(295.2)	(285.9)	(293.5)	
financed accumulated deficit	(95.2)	(124.9)	(135.2)	(122.8)	(115.9)	(106.6)	(114.2)	
<b>5-year outlook (February 2014)</b>								
		<b>FY13a</b>	<b>FY14f</b>	<b>FY15b</b>	<b>FY16p</b>	<b>FY17p</b>	<b>FY18p</b>	<b>FY19p</b>
total revenues		723.6	732.0	765.9	804.2	841.1	869.1	894.0
total expenses		736.7	742.0	764.4	793.6	825.4	846.1	867.2
unallocated special projects				0.0	5.6	9.2	15.5	18.8
annual surplus (deficit)		(13.1)	(10.0)	1.5	5.0	6.5	7.5	8.0
GAAP accumulated deficit		(287.6)	(297.6)	(296.1)	(291.1)	(284.6)	(277.1)	(269.1)
financed accumulated deficit		(108.3)	(118.3)	(116.8)	(111.8)	(105.3)	(97.8)	(89.8)

## 6. Operating fund: financed accumulated deficit



## 7. Government “re-investment”

Details of provincial government reinvestment yet to be determined:

- “Hausse de financement de base” (\$405M): details to follow April recommendations from the *Chantier* on re-investment
- “Réinvestissement stratégique” (\$1.4B):
  - details not known beyond FY2015: but we have to project a 5-year budget outlook
  - some envelopes are of restricted nature: revenues linked to direct expenditures
  - allocation tied to “conventions”: loosely defined performance contracts

## 8. Quebec's "Réinvestissement Stratégique" (\$M): known details

	FY15			
	Réseau	McGill share	Restricted Unrestricted	Notes
hausse de financement de base	48.5	6.8	???	parameters yet to be determined
qualité de l'enseignement	59.1	9.3	unrestricted	based on proportion of teaching and support grants
étudiants en situation de handicap	7.5	1.2	unrestricted	based on students reported as handicapped and total students
soutien à la recherche	9.0	2.0	unrestricted	operating space maintenance
gestion financière et gouvernance	2.0	0.1	unrestricted	flat amount per university
philanthropie	30.0	5.1	unrestricted	"Placements Universités"
résorption du déficit accumulé	20.0	2.5	unrestricted	pro-rata of operating grant (less amounts managed as fiduciary)
1.3 1st nations	0.3		restricted	project based: total envelope: \$1.1M
2.1 universités + les régions	5.0		restricted	project based
2.2 universités + CEGEPs	7.4		restricted	project based: total envelope: \$15M
2.3 projets pilotes	0.2		restricted	for UQ
	189.0	27.1		McGill's percentage share: 14.3%

## 9. FY2015 McGill budget model assumptions: tuition-related revenue

- **tuition and fees:**
  - \$37/year net tuition (+2.2%) increase over approximately 31,700 full-time equivalent students = ~\$1M in incremental revenue
  - McGill commitment: 30% net new tuition to student aid (approx. \$0.3M, which includes both deregulated international and non-Quebec tuition)
  - (e.g. gross tuition to grow to \$2,273/FTE/year in FY2015 vs. Canadian average of approximately \$6,500/FTE/year)
- **complete deregulation of international students in 4 Faculties (Management, Law, Engineering, Science):**
  - \$2.5M in FY2015
  - 6% increases per year being planned over next 5 years
  - fixed tuition per cohort offered
  - unclear how Province will move forward with deregulation in the future

## 10a. FY2015 McGill budget model assumptions: overall enrolment growth

	Level	FY2014	FY2015	FY2019	1-yr Growth	5-yr Growth
full-time equivalent students (FTEs)	bachelor's level	23,764.6	23,893.6	24,524.9	0.5%	3.2%
	Master's level	3,758.9	3,771.5	4,187.7	0.3%	11.4%
	doctoral	2,007.1	1,894.0	2,281.5	-5.6%	13.7%
	medical residents	1,987.6	2,150.0	2,150.0	8.2%	8.2%
	total	<b>31,518.2</b>	<b>31,709.1</b>	<b>33,144.1</b>	<b>0.6%</b>	<b>5.2%</b>
weighted student units (WSUs)	bachelor's level	42,938.4	43,440.0	44,826.4	1.2%	4.4%
	master's level	17,373.3	17,405.1	19,142.6	0.2%	10.2%
	doctoral	17,872.6	16,174.1	19,784.9	-9.5%	10.7%
	medical residents	6,677.5	7,224.0	7,224.0	8.2%	8.2%
	total	<b>84,861.8</b>	<b>84,243.2</b>	<b>90,977.9</b>	<b>-0.1%</b>	<b>7.2%</b>

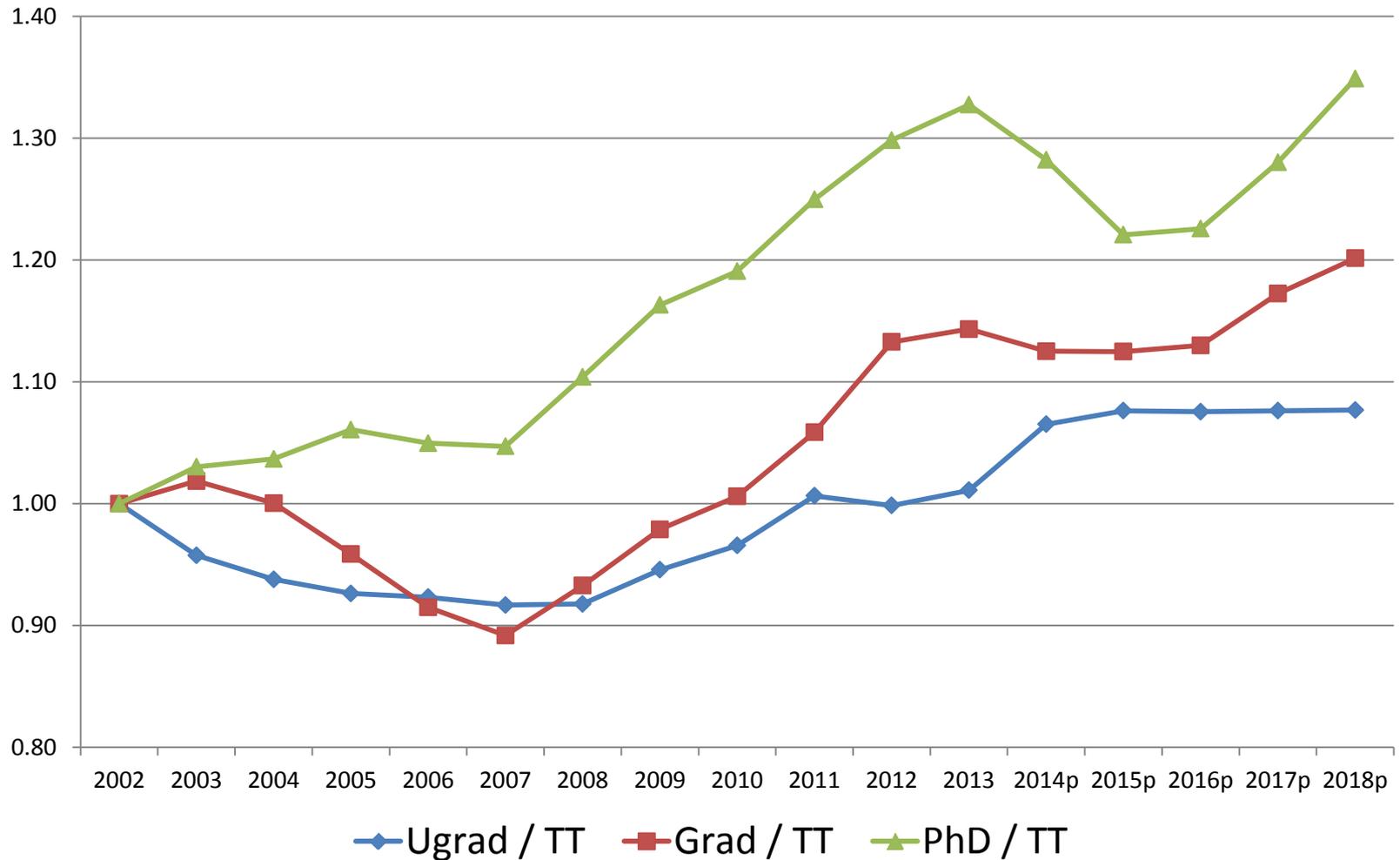
## 10b. FY2015 McGill budget model assumptions: growth in deregulated international student population (FTEs)

Degree	FY2014	FY2015	FY 2019	1-yr Growth	5-yr Growth
B.Eng. (bio-resource)	23.0	31.3	39.3	35.9%	70.8%
B.Eng.	566.6	653.8	809.0	15.4%	42.8%
B.Software Eng.	29.7	33.9	31.0	14.2%	4.4%
BCL/LLB	8.5	7.8	8.7	-8.2%	1.9%
B.Com.	321.3	348.8	419.8	8.6%	30.7%
B.Sc.	462.8	539.0	669.3	16.5%	44.6%
Continuing Studies (certificates)	4.2	4.5	4.5	7.1%	7.1%
<b>grand total</b>	<b>1,416.1</b>	<b>1,619.1</b>	<b>1,981.6</b>	<b>14.3%</b>	<b>39.9%</b>

## 10c. FY2015 McGill budget model assumptions: enrolment driven revenues

targets / projections	FY2015	FY2015-19
teaching grant growth	\$4.0M (1.3%)	\$36.5M (11.9%)
support grant growth	\$1.35M (2.5%)	\$6.2M (11.9%)
regulated tuition (net of supplements and student aid)	\$1M (1.7%)	\$8M (13.6%)
deregulated tuition growth	\$9.5M (23.1%)	\$36.4M (89.2%)
“frais institutionnels obligatoires” (FIOs) growth	\$0.7M (2.7%)	\$4.6M (16.8%)
end of transitional deregulation (1 year only)	\$2.5M	
elimination of compensation for tuition freeze envelope (1 year only)	(\$8.8M)	

# 10d. FY2015-19 McGill budget model assumptions: student to tenure-track ratios



# 11. Revenue forecasts (FY2015 – FY2019): non-grant and non-enrolment forecasts

non-grant and non-enrolment forecasts contributions to operating bottom-line are forecast to be minimal:

- sales of goods and services: no new activity with significant central contribution foreseen in next 5 years
- philanthropy: growth prospects constrained, DAR not projecting major increases over next 5 years
- endowment returns: assuming fixed payout of 4.25%
- capital allocations: nothing new on the horizon
- research activity:
  - growth limited by space constraints and granting agency envelopes
  - minimal growth forecast for contract research
- alternative sources of revenue growth: from past experience, not a panacea.

# 12. Planned “special projects” over next 5 years: linked to ASAP 2012

- **Priority 1: academic and research excellence**
  - possible development of a public policy school
  - academic CV project
  - research proximity support to principal investigators
- **Priority 2: sustained focus on student centeredness**
  - office of copyright compliance
  - pilot projects for improving student experience on campus
- **Priority 3: raise McGill’s external visibility, success and reputation**
  - co-editor of *American Journal of Comparative Law*
  - distance learning in Faculty of Music
  - additional communications positions: federal, Toronto, Montreal
  - additional DAR positions
  - enhance McGill’s external partnerships
- **Priority 4: effectively manage financial, capital & human resources**
  - administrative and support staff retention envelope
  - facilities staff for planning and project management



# Discussion

Comments?

Questions?

Concerns?

Suggestions?