
Memorandum

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TO: Senate

FROM: Professor Anthony C. Masi, Provost

SUBJECT: McGill University Budget FY2015

DATE: 23 April 2014

DOCUMENT #: D13-57

ACTION REQUIRED: INFORMATION APPROVAL/DECISION

ISSUE: This presentation provides a comprehensive overview of the key elements and assumptions shaping the McGill University Budget for FY2015. It provides an advance look at what will be the core components of the Budget Book which will be made public after approval by the Board of Governors.

BACKGROUND & RATIONALE: The Budget Book and this accompanying presentation were presented for endorsement to the Finance Committee earlier today and will go to the Board of Governors on 29 April 2014 for approval.

MOTION OR RESOLUTION FOR APPROVAL: This budget report is provided in accordance with the terms of reference of Senate.

PRIOR CONSULTATION:

- Deans and senior administrators at McGill,
- Financial officers, and
- Office of the Budget.

NEXT STEPS: After the proposed budget is approved by the Board of Governors on 29 April 2014, the Budget Book will be posted to the Provost Office website, making it available to the McGill community and public stakeholders.

APPENDICES: Appendix A: McGill University Budget FY2015 Presentation



McGill

McGill University Budget FY2015— Summary and Highlights

Prof. Anthony C. Masi
Provost
McGill University

Draft Presentation

April 2014

Overview

1. FY2014 forecast
2. Context of continued uncertainty
3. Risk factors
4. Operating budget outlook
5. Strategic priorities
6. FY2015: budget objectives
7. FY2015: operating revenue and key assumptions
8. FY2015: operating expenses and key assumptions
9. FY2015: capital fund
10. FY2015: other funds
11. FY2015: budget implementation and proposal

1. FY2014 forecast: tracking to proposed target deficit

Summary of variances against original forecast	
1. Original proposal in FY2014 Budget Book: operating fund	(\$10.3M)
Anticipated operating budget variances for FY2014	
2. Positive variance	\$14.0M
3. Negative variance	(\$14.1M)
4. Updated surplus (deficit) forecast for FY2014	(\$10.4M)

2a. Context of continued uncertainty: on-going challenges for McGill

- preserve savings from the implementation of expense reductions in FY2014 to sustain long term objectives
 - VRP, belt-tightening, foregone salary increases, shared services, local measures (expense reductions of over \$40.0M)
- Quebec commitment to “re-invest” is more like a simple “re-instatement” of the permanent FY2013 and FY2014 cuts (minus \$19.3M)
- re-investment agreement is for FY2015 only
 - “conventions” not signed (potential McGill envelope: \$20.3M)
 - silence from MESRST on “hausse de financement de base” envelope: (McGill portion = \$6.3M, now at risk)

2b. Context of continued uncertainty: aims in preparing the budget for FY2015

- commitment to reduce accumulated deficit
 - MESRST constraint: pay down growth in the accumulated deficit from FY2013 and FY2014 over the next five fiscal years (approximately \$24.5M)
 - portion of proposed re-investment linked to betterment of financial results (\$2.5M at risk)
- “set-aside” (contingency) expense category needed in budget to mitigate potential decrease in revenues if re-investments do not materialize
 - “unallocated special projects” must equal in value of these unknowns
- FY2016 to FY2019 projections include 2.0% annual budget cuts
 - redistributive cuts to be allocated to strategic priorities

3. Risk factors

- Will the election results or economic conditions modify the commitments made by the Marois government?
- Will the MESRST grant change significantly as a result of recommendations stemming from the *Chantier sur le Financement*?
- Will the enrolment growth targets be realized, particularly de-regulated international students?
- Will the tuition policy related to international students change (e.g. further deregulation, changes in the tuition supplement exemption policy)?
- Will interest rates remain low?
- Will the Canadian dollar stabilize at current levels around USD\$0.90?
- What is the best strategy to tackle the deferred maintenance and IT backlogs?

4. Operating budget outlook through FY2019

5 Year Outlook - as of April 2014							
in millions							
	----- Outlook -----						
	<u>FY13a</u>	<u>FY14f</u>	<u>FY15b</u>	<u>FY16o</u>	<u>FY17o</u>	<u>FY18o</u>	<u>FY19o</u>
Revenues	742.7	751.6	763.9	786.9	808.3	829.6	849.4
Announced cuts by Qc	(19.1)	(19.2)	(19.2)	(19.2)	(19.2)	(19.2)	(19.2)
Expected Reinvestments			24.0	34.4	46.8	50.9	55.0
Total Revenue	723.6	732.4	768.8	802.1	836.0	861.3	885.1
Expenses (excl. special projects)	737.0	742.8	766.8	793.5	825.0	844.3	866.5
Unallocated Special Projects	0.0	0.0	9.0	9.6	5.8	10.5	24.1
Total Expenses	737.0	742.8	775.8	803.1	830.8	854.8	890.6
Annual Surplus (Deficit)	(13.4)	(10.4)	(7.0)	(1.0)	5.2	6.5	(5.5)
Conditional "équilibre budgétaire"							
MESRST grant			2.5	4.2	5.9	6.2	6.5
GAAP Accumulated Deficit	(287.6)	(298.0)	(302.5)	(299.3)	(288.2)	(275.5)	(274.5)
Financed Accumulated Deficit	(110.7)	(121.1)	(125.6)	(122.4)	(111.3)	(98.6)	(97.6)

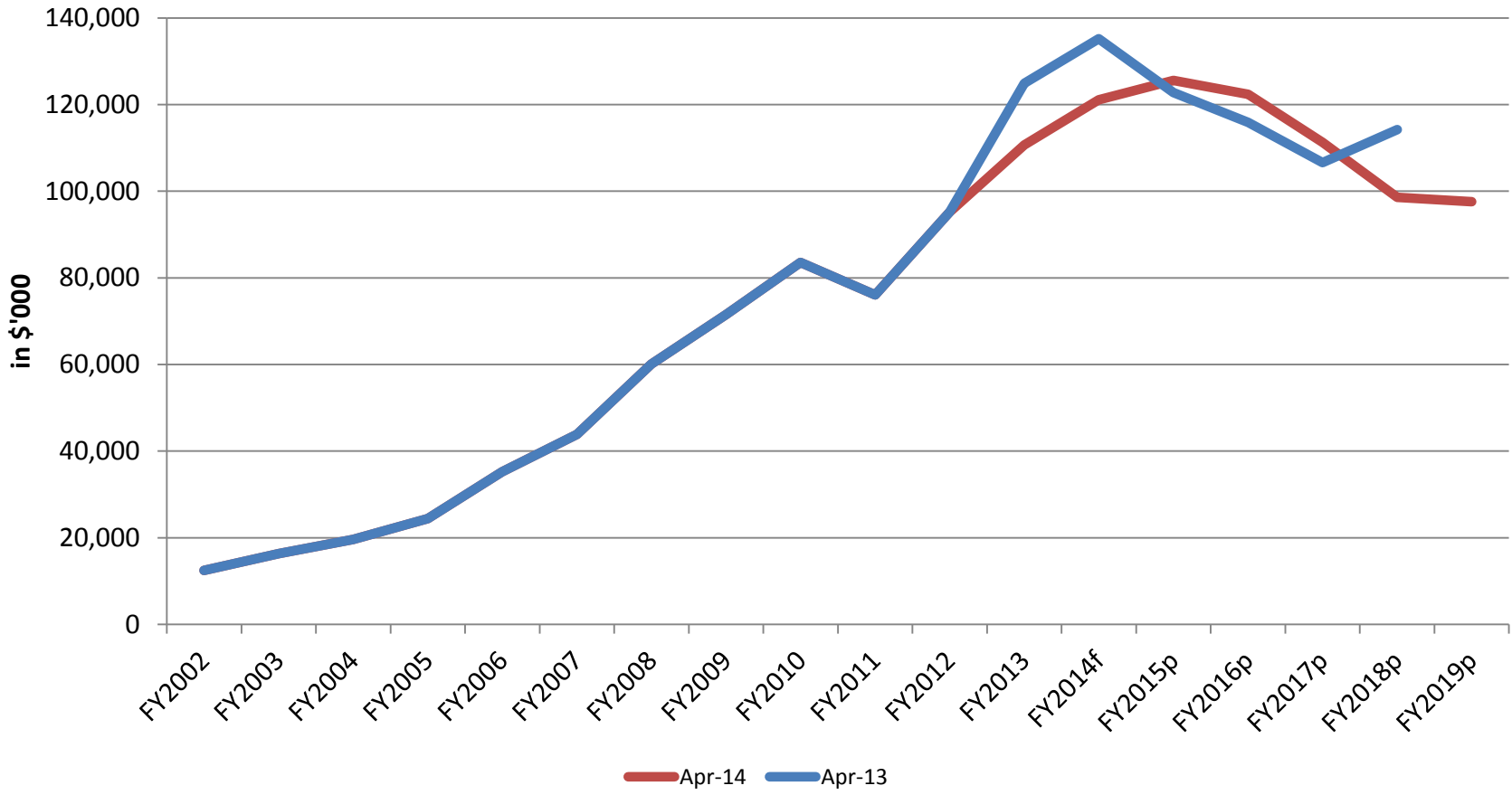
5. Strategic priorities: drivers for allocations

- advance McGill's record of excellence in teaching, research and knowledge dissemination and exchange
- sustain our focus on enhancing quality and innovation of our students' life and learning experiences, inside and outside the classroom
- continue to strengthen McGill's role, reputation and success as a partner in Montreal, Quebec, Canada and globally

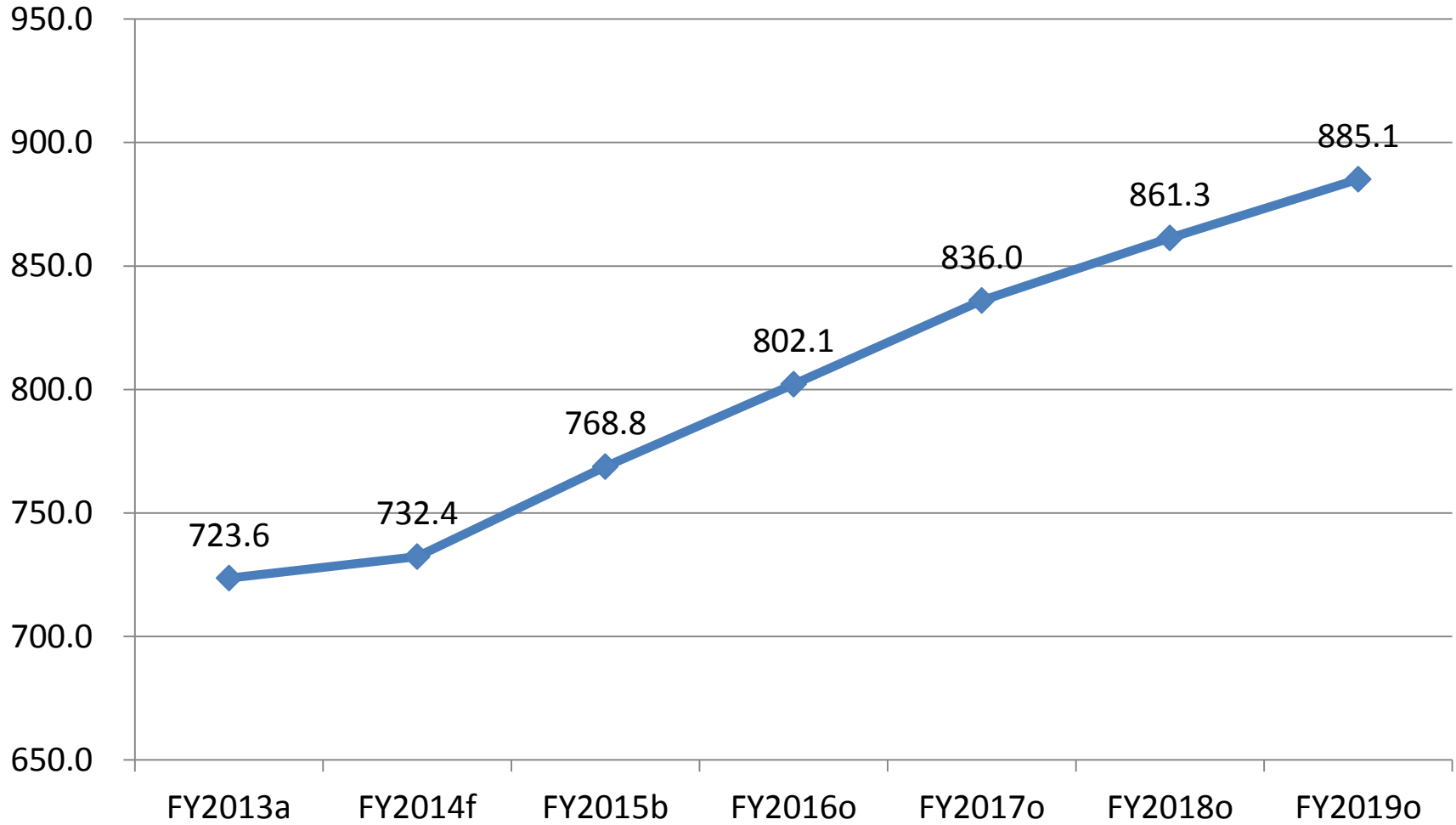
6a. FY2015 operating budget: objectives

- **meet strategic objectives, operate within available means**
 - retain academic talent
 - continue professorial recruitment (slower pace, near replacement ratio)
 - enhance research quality, productivity, and quantity
 - strategic enrolment plan: driver of recruitment and enrolment of undergraduate and graduate students
 - responding to the Principal's widely promulgated "Proposed Vision and Priorities" expression of McGill's strategic priorities
 - respond to the goals and objectives of the Faculties and Administrative Units
- **trajectory**
 - FY2015: proposed \$7.0 million deficit
 - FY2016: start of deficit repayment plan, based on projected surpluses

6b. Total financed accumulated deficit: original 2013 and revised 2014 projections



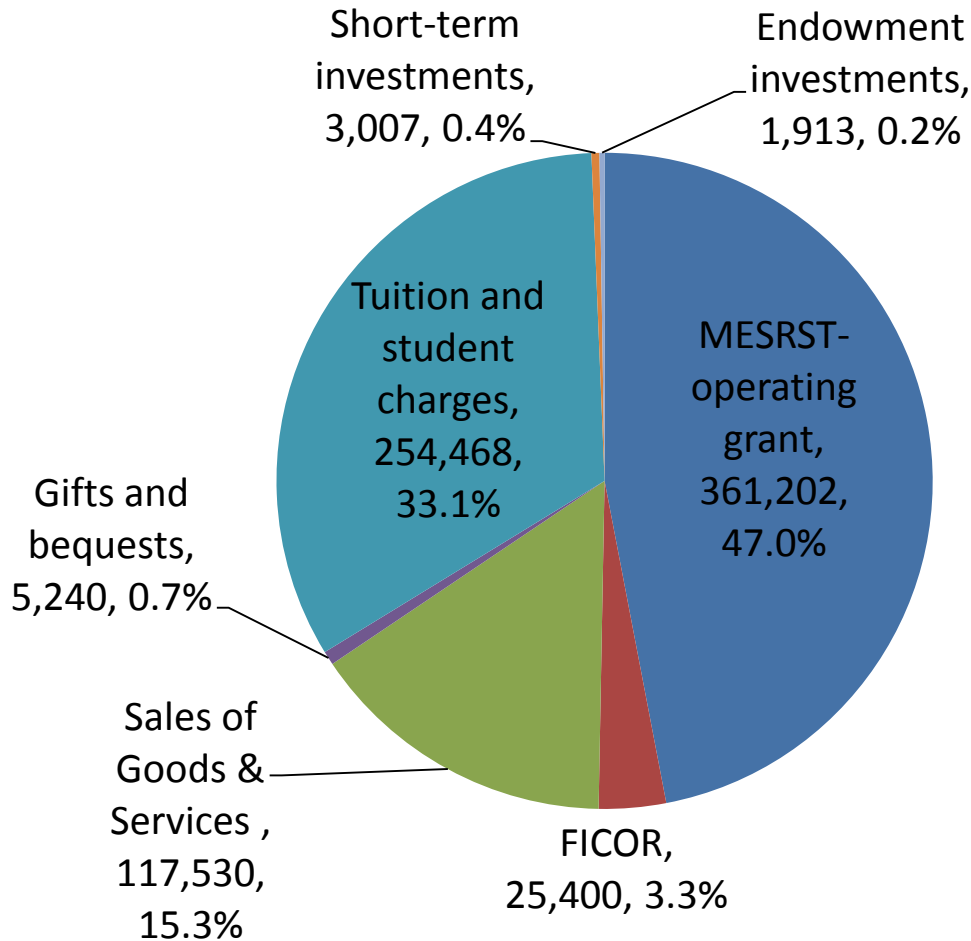
6c. Historical and projected operating revenue



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

7a. FY2015 operating revenue: \$768.8M

in \$000s



	Forecast 2013-14	Budget 2014-15	% Change
Canada (FICOR)	24,851	25,400	2.2%
Quebec	346,771	361,202	4.2%
Tuition & Fees	238,924	254,468	6.5%
Sales of Goods & Services	111,873	117,530	5.1%
Gifts & Bequests	4,680	5,240	12.0%
Short-term investment income	3,455	3,007	-13.0%
Endowment investment income	1,844	1,913	3.7%
Total Revenue	732,398	768,760	5.0%

7b. FY2015 – FY2019 key revenue assumptions: enrolments

Positive: modest growth in enrolment

	Level	FY2014	FY2015	FY2019	1-yr Growth	5-yr Growth
Total FTEs	1st cycle	23,669.7	24,006.6	24,553.2	1.4%	3.7%
	2nd cycle	3,778.0	3,777.1	4,160.4	0.0%	10.1%
	3rd Cycle	2,007.1	2,018.5	2,403.9	0.6%	19.8%
	Medical Residents	2,075.0	2,150.0	2,150.0	3.6%	3.6%
	Total	31,529.8	31,952.3	33,267.4	1.3%	5.5%
Total WSUs	1st cycle	42,770.3	43,464.3	44,599.8	1.6%	4.3%
	2nd cycle	17,482.5	17,096.1	18,561.8	-2.2%	6.2%
	3rd Cycle	17,872.6	18,019.7	21,683.1	0.8%	21.3%
	Medical Residents	6,972.0	7,224.0	7,224.0	3.6%	3.6%
	Total	85,097.4	85,804.1	92,068.7	0.8%	8.2%

7c. FY2015 – FY2019 key revenue assumptions: MESRST operating grant

Positive: indexation

- regulated Quebec tuition and FIOS
 - FY2015 increase by 2.2%; projected 2.0% increases FY2016 to FY2019
- de-regulated tuition increases
 - FY2015: 6.0%; FY2016 and FY2017: 5.0%; FY2018 and FY2019: 4.0%
- MESRST grant indexation
 - FY2015: 2.0%; FY2016 to FY2019: 1.5%
- funding enrolment increases
 - FY2015 at 100%; FY2016 to FY2019 only at 50%

7d. FY2015 – FY2019 key revenue assumptions: provincial and federal ICRs

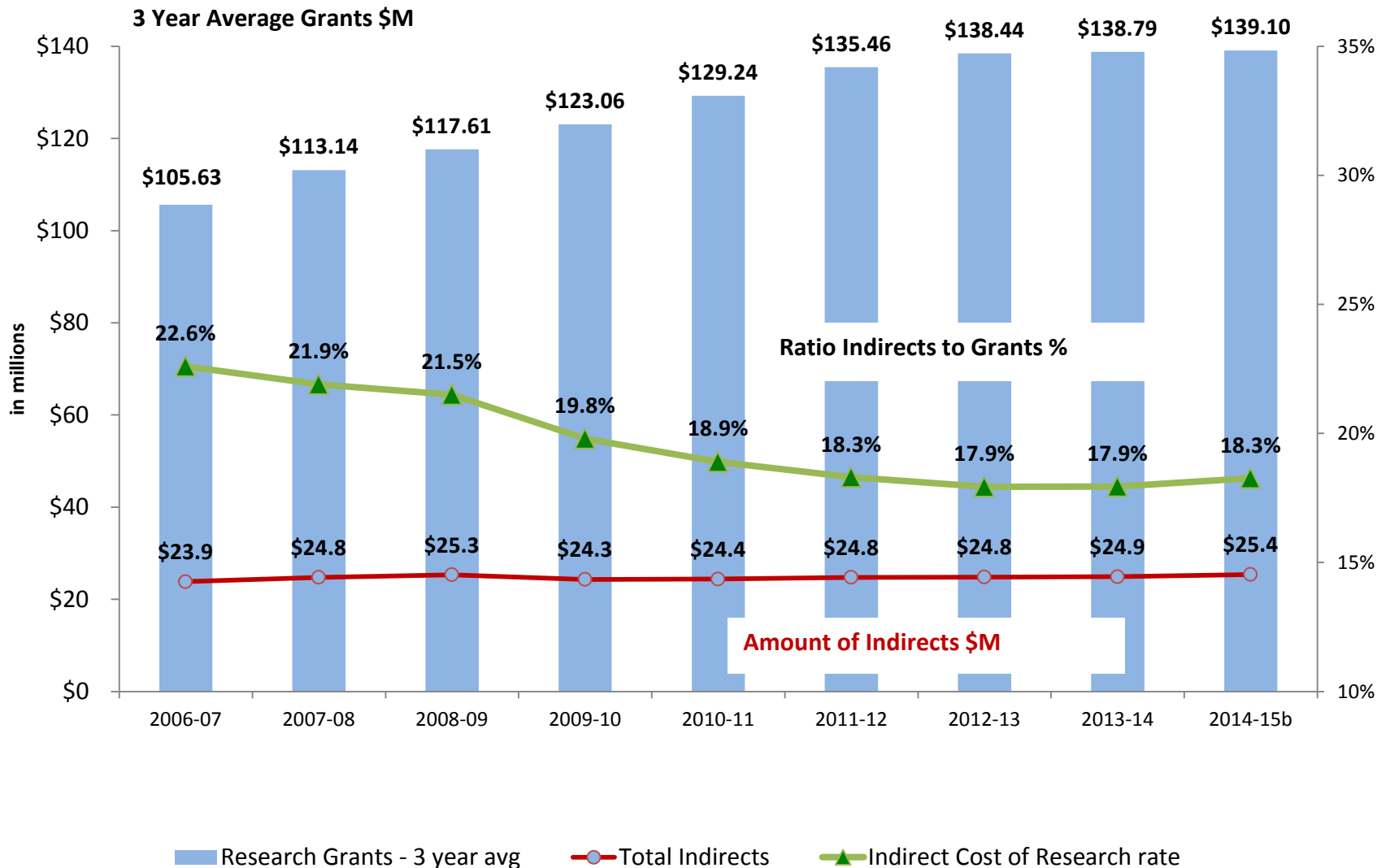
Positive:

- modest increases in indirect costs of research at federal and provincial level
- increase at federal level will only partially compensate for decrease in ICR rates over the years

Negative:

- announced re-investment little more than reinstatement of earlier cuts for FY2015
- re-calculation exercise likely to be undertaken and affect outer year projections

7e. FY2015 key revenue assumptions: Tri-council grants and indirect costs of recoveries

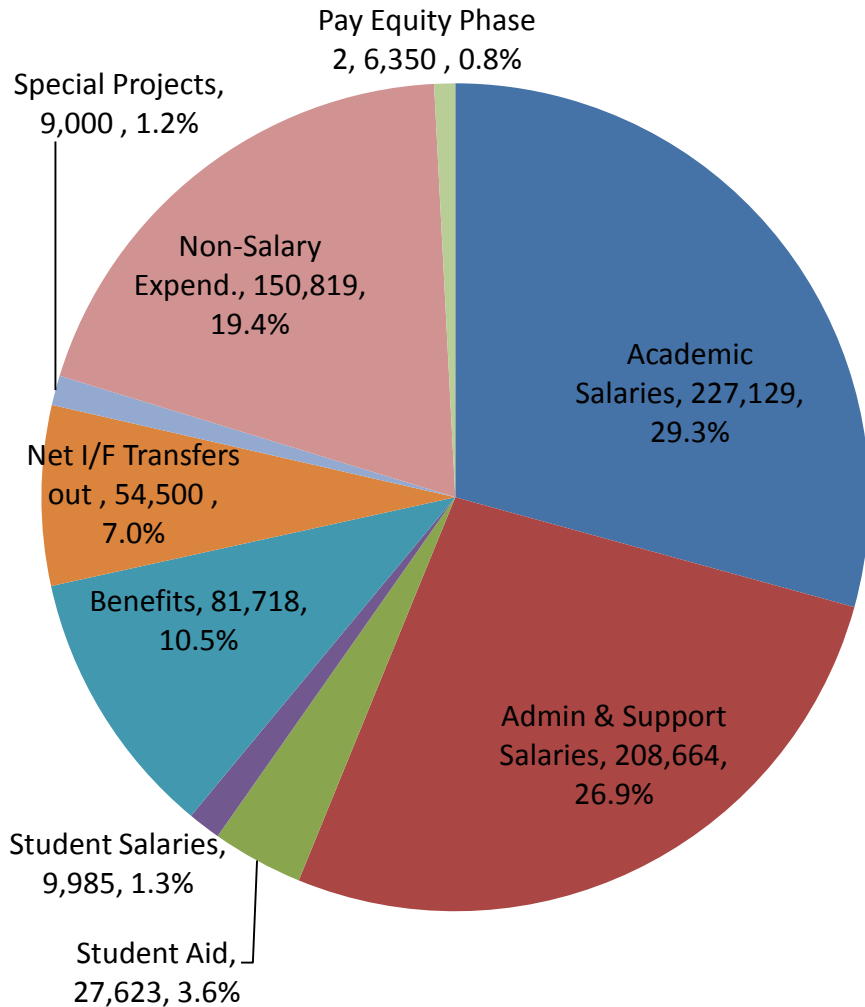


7f. FY2015 key revenue assumptions: tuition

- basic tuition fees: approximately \$7.0M increase
 - starting in Fall 2014: 2.2% increase: \$49/FTE (\$36.75 net)
 - assumption: 2.0% annual increases for each of the subsequent 4 years
 - out-of-province tuition supplements: 8.8%
 - international supplements: will increase by 2.7%
- undergraduate international de-regulated disciplines (Engineering, Law, Management, Science): \$8.6M increase
 - guaranteed rate of tuition at constant piece for full four-years of regular programs
 - ability to maintain market shares: applications, selectivity, and yields

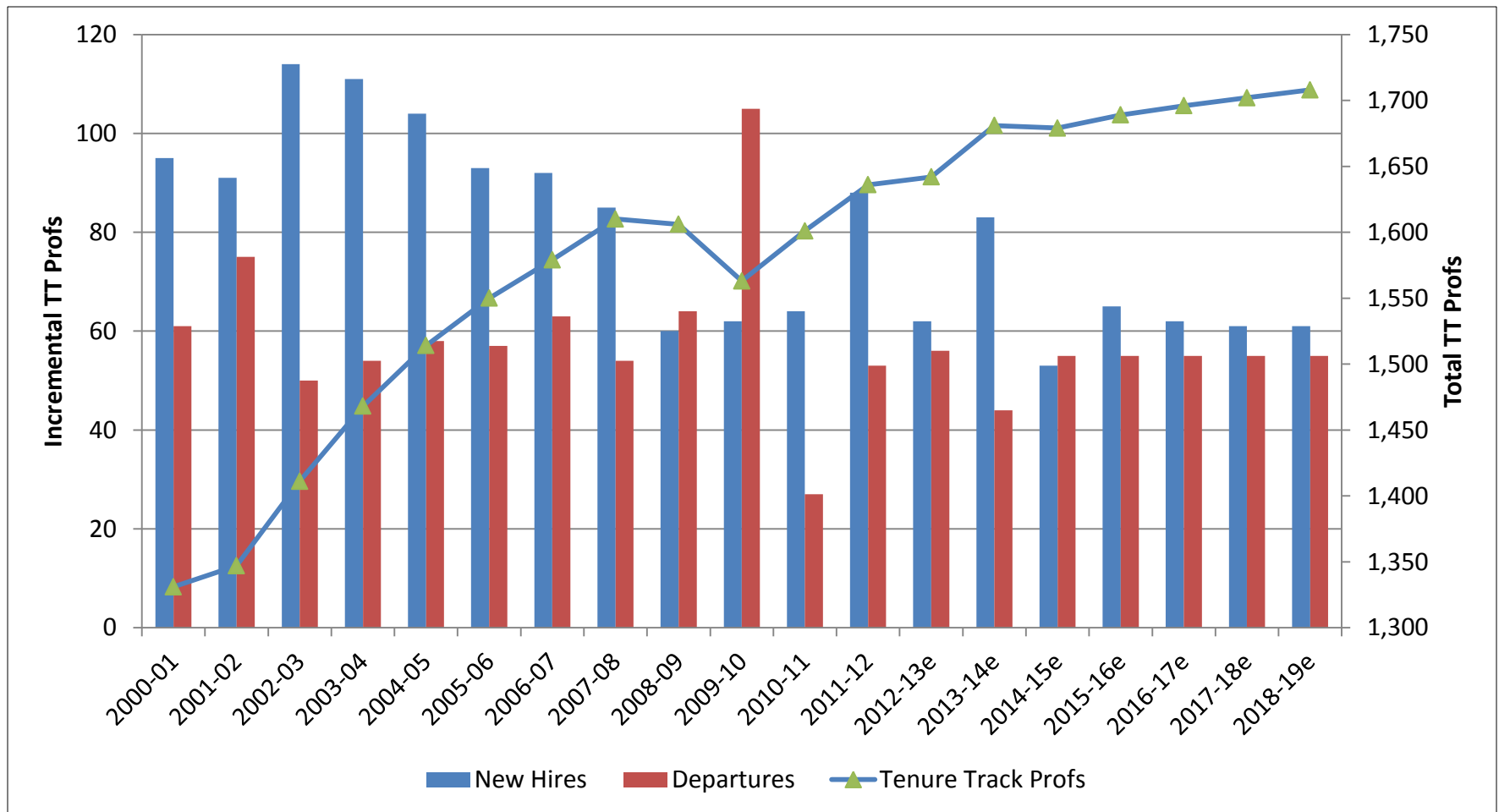
8a. FY2015 operating expenses: \$773.8M

millions of \$

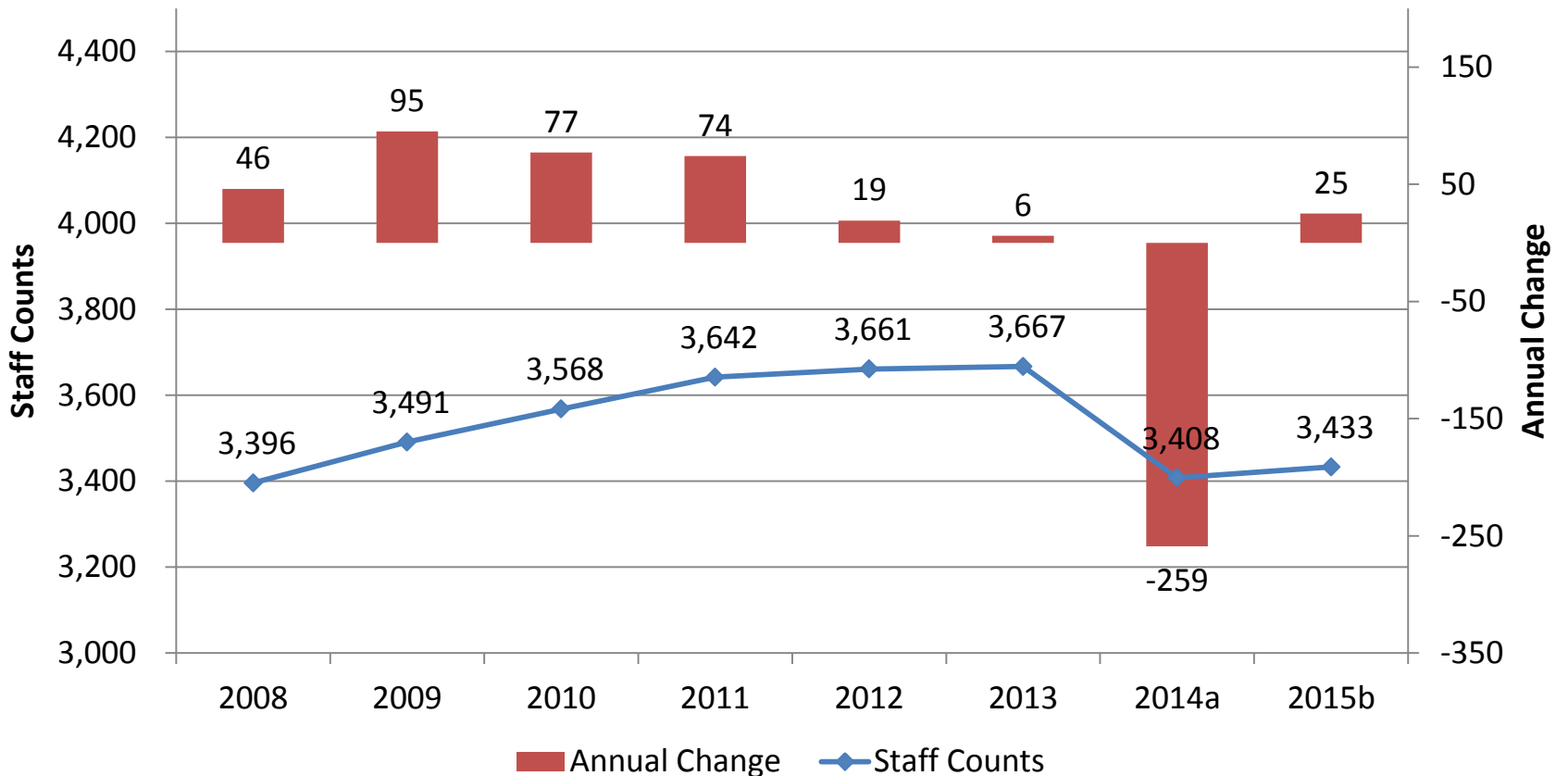


	Forecast	Budget	%
	2013-14	2014-15	Change
<u>Salaries:</u>			
Academic	217,630	227,129	4.36%
Admin & Support	207,414	208,665	0.60%
Student	8,340	9,985	19.72%
Student Aid	26,261	27,623	5.19%
Benefits	88,164	81,718	-7.31%
Total Salary	547,809	555,119	1.33%
Total Non-Salary	146,329	150,819	3.07%
Pay Equity Phase 2	1,950	6,350	
Special Projects Reserve		9,000	
Inter-fund transfers	46,700	54,500	16.70%
Total Expenses	742,788	775,788	4.44%

8b. FY2015 key expense assumptions: Academic renewal FY2001 – FY2019e



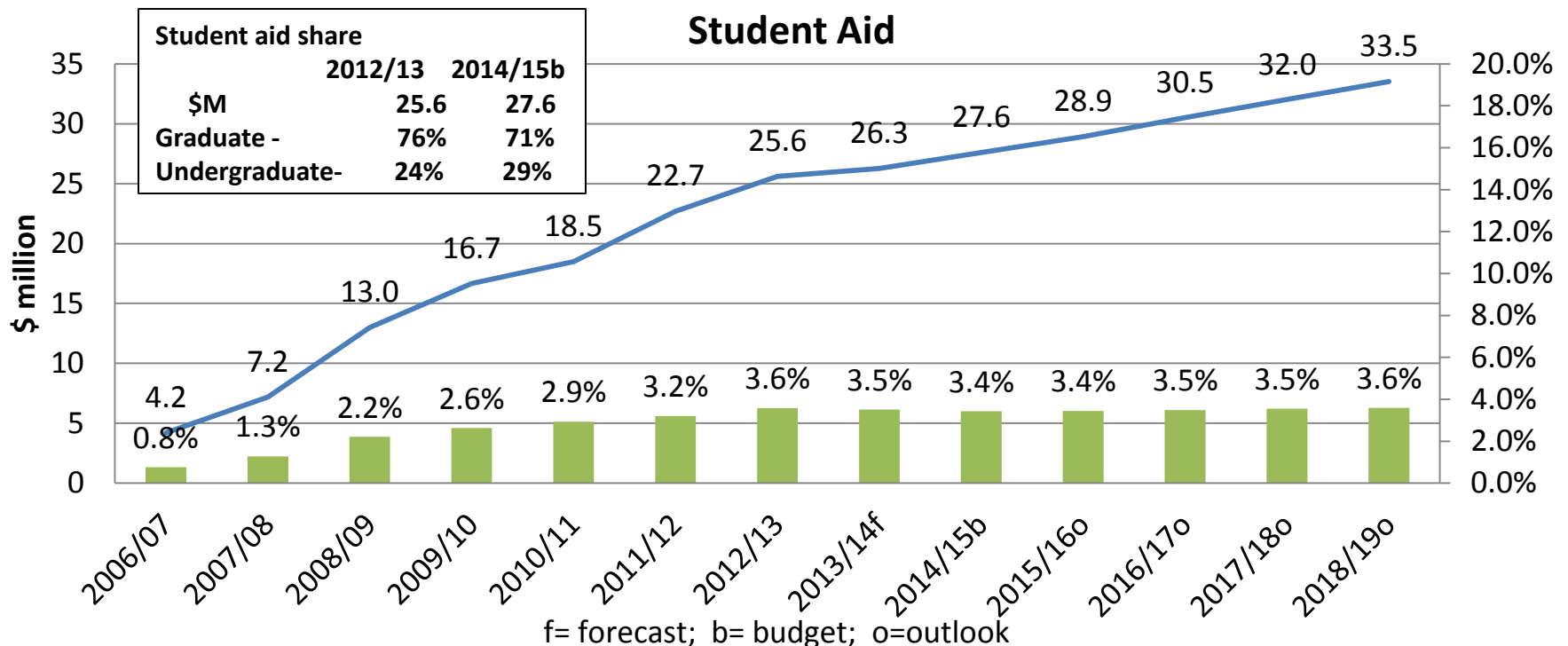
8c. FY2015 key expense assumptions: administrative and support staff at year-ends



Bars represent change in staff counts; line represents actual staff counts
a = actual for 2014 and b= forecast for 2015

8d. FY2015 key expense assumptions: student assistance from operating fund

- bursaries and graduate student funding: increase as tuition fees rise
- \$1.2 M incremental contribution (30% of net new tuition): primary driver = international deregulated tuition increases



Percentage figures on horizontal axis indicate student aid (bursaries and graduate student funding) share of total operating revenue

8e. Significant one-time and ongoing expenses

- McGill University Pension Plan (MUPP) shortfall
 - \$15.0M per year over entire period FY2015 to FY2019
- pay equity agreements covering 5-year periods starting in FY2001
 - approximately \$21.0M already paid
 - further adjustments for 2005-2010 period being calculated
 - 2010 exercise still in planning phase
 - on-going annual salary costs starting in FY2015 (less than \$1.5M)
- deferred maintenance with operating fund implications
 - buildings and properties: estimated at close to \$800M
 - information technologies (hardware and software): TBD, likely close to \$200M

9. FY2015: capital fund

- in 2013 MESRST confirmed McGill's capital budget for FY2012, FY2013, and FY2014
- FY2015 budget not likely to differ significantly from previous years
- excluding special capital grants that may be received by the University

FY2015 McGill Capital Budget expected from MESRST	Budget
renovations	\$ 12.5 M
renovations (corrections)	\$ 3.8 M
redesign of existing space (réaménagement)	\$ 3.1 M
deferred maintenance (current program)	\$ 10.9 M
deferred maintenance (new program)	\$ 17.2 M
IT development fund	\$ 1.9 M
TOTAL (excluding new initiatives)	\$ 49.4 M

10. FY2015 Other Funds: restricted and endowment

- restricted fund
 - primarily composed of research grants and other “constrained” revenues
 - revenues budgeted at \$369.7M
- endowment fund
 - market value as of 31 March 2014: \$1.27B
 - increased by approximately 12.2%
 - philanthropic cash revenues
 - FY2014 forecast at \$80M
 - FY2015 budgeted at \$70M

11. FY2015: budget implementation and proposal

- **sustain quality** as reflected in the investments made over past years
- continue to invest in **top priorities** of the University
- retain and recruit **academic talent**
- sustain and **enhance research quality** and quantity
- increase **targeted recruitment** and enrolment of undergraduate and research graduate students
- to achieve these objectives: **(\$7.0M) deficit for FY2015 budget**



McGill University Budget
FY 2015

Draft

Discussion

Questions

Comments

Concerns

Suggestions