TO: Senate
FROM: Professor Anthony C. Masi, Provost
SUBJECT: McGill University Budget FY2016
DATE: 22 April 2015
DOCUMENT #: D14-49
ACTION REQUIRED: ☒ INFORMATION ☐ APPROVAL/DECISION

ISSUE: This presentation provides a comprehensive overview of the key elements and assumptions shaping the McGill University Budget for FY2016. 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: This presentation was endorsed by the Finance Committee on 21 April. The Budget Book along with this presentation will go to the Board of Governors on 28 April 2015 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
- Office of the Budget
- Finance Committee of the Board of Governors

NEXT STEPS: After the proposed budget is approved by the Board of Governors on 28 April 2015, 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 FY2016 Presentation
McGill University Budget FY2016: Summary and Highlights

Prof. Anthony C. Masi
Provost
McGill University

Presentation to Senate

22 April 2015
Overview

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3b. Context: MESRS Tremblay-Roy workgroups
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Overview

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8e. FY2016: Significant expenses
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10. FY2016: Restricted and endowment funds
11. FY2016: Projected operating revenue and expenditures
12. Total financed accumulated deficit projection (year-end) to FY 2020
13. FY2016: Budget implementation and proposal
   Discussion
### 1a. Updated forecast for FY2015: better than originally projected

<table>
<thead>
<tr>
<th>Summary of variances against original forecast</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. annual financed operating surplus/(deficit) forecast for the FY2015 (FY2015 Budget Book: April 2014)</td>
<td>($7.0M)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Anticipated operating budget variances for FY2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2. reduction in MESRS revenues</td>
<td>($20.0M)</td>
</tr>
<tr>
<td>3. 2013-14 “Recomptage” allocation (March 2015)</td>
<td>$12.2M</td>
</tr>
<tr>
<td>4. other MESRS variations</td>
<td>($5.5M)</td>
</tr>
<tr>
<td>5. higher than expected self-funded tuition revenues</td>
<td>$11.6M</td>
</tr>
<tr>
<td>6. higher sales of goods and services</td>
<td>$3.6M</td>
</tr>
<tr>
<td>7. higher investment and interest Income</td>
<td>$2.5M</td>
</tr>
<tr>
<td>8. higher energy costs</td>
<td>($3.0M)</td>
</tr>
<tr>
<td>9. increases in other non-salary expenditures</td>
<td>($7.5M)</td>
</tr>
<tr>
<td>10. accrual of remaining FY2010 pay equity expenses in FY2014</td>
<td>$6.4M</td>
</tr>
<tr>
<td>11. unspent “special projects&quot; reserve</td>
<td>$9.0M</td>
</tr>
<tr>
<td>12. other variances</td>
<td>$2.0M</td>
</tr>
<tr>
<td>13. updated annual financed operating surplus/(deficit) FY2015 projection</td>
<td>$4.3M</td>
</tr>
</tbody>
</table>
1b. Fiscal management and GAAP accounting

- McGill Budget Book (BB) and the University’s Financial Statements (FS) treat GAAP “paper adjustments” differently

- the following are excluded from the BB, but included in the FS
  - unrealized gains/(losses)
  - book to market adjustments
  - 3 GAAP adjustments: pension fund valuation, vacation accrual, post-retirement benefits

- the trend-line for financed operating surplus/(deficits) as per the BB allows for an accurate assessment of “managerial performance”

- the FS figures provide a precise picture of “assets and liabilities”, including those that cannot be directly allocated
### 1c. An illustration: reconciling FS and BB figures for FY2014

<table>
<thead>
<tr>
<th>$’000</th>
<th>FS</th>
<th>BB</th>
</tr>
</thead>
<tbody>
<tr>
<td>total revenues (FS)</td>
<td>766,383</td>
<td>766,383</td>
</tr>
<tr>
<td>less unrealized gains (losses)</td>
<td>6,462</td>
<td></td>
</tr>
<tr>
<td>budgeted revenues</td>
<td></td>
<td>759,921</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>total expenses &amp; inter-fund transfers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>expenses (FS)</td>
<td>687,584</td>
</tr>
<tr>
<td>plus Inter-fund transfers (FS)</td>
<td>63,054</td>
</tr>
<tr>
<td>less book-to-market adjustments</td>
<td></td>
</tr>
<tr>
<td>less GAAP expenses (surpluses)</td>
<td>(11,400)</td>
</tr>
<tr>
<td>budgeted expenses</td>
<td></td>
</tr>
<tr>
<td>Surplus (Deficit)</td>
<td>15,745</td>
</tr>
</tbody>
</table>
2. FY2016: Commitment to strategic priorities

- 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
3a. Context: constrained resources

- FY2014: higher than expected provincial deficit lead to jettisoning of MESRS “reinvestments” that were planned for FY2015 through FY2019
  - impact on McGill: ($19M) becomes “permanent”
- FY2015: mid-year cuts to MESRS operating grant
  - impact on McGill: ($20M)
- FY2016: recent Quebec budget reduction announcement
  - impact on McGill estimated at ($11M)
- FY2017: potential reinvestment and possible tuition flexibility
  - depends on the analysis and recommendations of Tremblay-Roy workgroup (in progress, due Fall 2015)
3b. Context: continuation of successful practices

a) McGill’s previous budgets have “predicted” cuts and have been prepared accordingly

b) need to show restraint to solidify McGill’s (relatively) sound base

c) anticipatory, planning for reality, operating with resilience

d) able to navigate in troubled waters, avoiding last minute course corrections or a re-design of the submitted and approved budget

e) prolonged austerity measures will not lead to successful future for McGill and its community
3c. Context:
MESRS Tremblay-Roy workgroups (McGill reps)

| Comité directeur sur la grille de pondération (Provost Anthony C. Masi) |
| Comité directeur sur les ajustements pour établissements de plus petite taille (no McGill representative) |
| Comité directeur sur la tarification des étudiants non québécois (Principal Suzanne Fortier) |
| Comité directeur sur les subventions spécifiques et mesures prioritaires (Provost Anthony C. Masi) |
| Comité directeur sur la reddition de comptes (VP-CER Olivier Marcil) |
Draft

3d. Context:
FY 2015 measures to mitigate cuts in MESRS grant

1. freeze on new searches for “external” hires for administrative and support staff positions effective 27 October 2014
2. perform mandatory secondary HR review of all requests for job re-classifications
3. postpone all non-essential equipment and furniture purchases from all operating funds
4. limit travel and hospitality spending on all 1As to 1Fs funds to the minimum essential
5. stop all in-year allocations except for mission-critical urgencies
6. above actions were extended in January for the remainder of the FY2015 year and form the basis for FY2016-FY2020 budget measures
Draft

4a. FY2016 and beyond: funding two priorities, not retreating from others

1. salary commitments
   - maintain agreements and contracts
   - catch-up to reach median of U15 compensation levels
   - **FY2016 cost:** $22M, including benefits

2. deferred maintenance
   - obligation to address most urgent needs
   - BOG approval to borrow or issue debt up to $400 million to be repaid over the course of a period not to exceed 40 years, in support of capital expenditures
   - financial instrument being finalized
   - expected annual capital and interest costs: **FY2016 = $2.7M growing to $23.0M in FY2019**
   - developing an implementation plan for aligning DM projects and academic space needs
4b. FY2016 and beyond: continuation (and more) of FY2015 measures

- cuts based on FY2014 expenditures in selected accounts; equivalent to 2% to 3% cut across all units (give % average for Total (University), Faculties and admin units): **cuts in FY2016 = $6M**

- hiring freeze of administrative staff, with recuperation of salaries: **salary savings in FY2016 = $2.5M**

- increased overhead charges on self-funded operating revenues: **additional recoveries in FY2016 = $4.75M**

- use of carry-forward balances on all operating funds to require provostial approval
Draft

4c. FY2016 and beyond: refining processes to avoid crises

• proposed budget measures will be transitional as we develop:
  – administrative staff complements
  – benchmarking administrative costs
  – review of current administrative work processes
5. Risk factors

• possible reductions in government allocations in FY2017

• labour-related costs that could exceed forecasts
  – pay equity
  – pension shortfall
  – collective bargaining settlements

• changes to funding formula (may also be positive for McGill)

• possible increases in interest rates to be paid on debt

• fluctuations in currency exchange rates

• accounting procedures for deferred maintenance borrowing: operating expenses vs. capital

• position control process implementation
6a. Operating budget outlook:
5-year outlook to FY2020 - as of April 2015

<table>
<thead>
<tr>
<th>in millions</th>
<th>FY2014a</th>
<th>FY2015f</th>
<th>FY2016b</th>
<th>FY2017o</th>
<th>FY2018o</th>
<th>FY2019o</th>
<th>FY2020o</th>
</tr>
</thead>
<tbody>
<tr>
<td>total revenue</td>
<td>759.9</td>
<td>773.7</td>
<td>764.2</td>
<td>782.1</td>
<td>805.6</td>
<td>824.3</td>
<td>849.1</td>
</tr>
<tr>
<td>total expenses (incl. i/f transfers)</td>
<td>755.6</td>
<td>769.4</td>
<td>768.9</td>
<td>788.0</td>
<td>805.5</td>
<td>836.9</td>
<td>854.7</td>
</tr>
<tr>
<td>annual surplus/(deficit)</td>
<td>4.3</td>
<td>4.3</td>
<td>(4.7)</td>
<td>(5.9)</td>
<td>0.1</td>
<td>(12.6)</td>
<td>(5.6)</td>
</tr>
<tr>
<td>financed accumulated deficit</td>
<td>(95.8)</td>
<td>(91.5)</td>
<td>(96.3)</td>
<td>(102.2)</td>
<td>(102.0)</td>
<td>(114.6)</td>
<td>(120.3)</td>
</tr>
<tr>
<td>GAAP accumulated deficit</td>
<td>(271.8)</td>
<td>(267.5)</td>
<td>(272.3)</td>
<td>(278.2)</td>
<td>(278.0)</td>
<td>(290.6)</td>
<td>(296.3)</td>
</tr>
</tbody>
</table>

a=actual; f=forecast; b=budget; o=outlook
6b. GAAP Accumulated Deficit of Universities in QC ($M) for FY2014

<table>
<thead>
<tr>
<th>University</th>
<th>Accumulated Deficit ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bishop's</td>
<td>($36)</td>
</tr>
<tr>
<td>Concordia</td>
<td>($170)</td>
</tr>
<tr>
<td>Laval</td>
<td>($272)</td>
</tr>
<tr>
<td>McGill</td>
<td>($411)</td>
</tr>
<tr>
<td>Montreal</td>
<td>($471)</td>
</tr>
<tr>
<td>HEC Montreal</td>
<td>($83)</td>
</tr>
<tr>
<td>Polytechnique</td>
<td>($223)</td>
</tr>
<tr>
<td>Sherbrooke</td>
<td></td>
</tr>
<tr>
<td>Universite du Quebec</td>
<td>($1,218)</td>
</tr>
</tbody>
</table>
6c. GAAP Accumulated Deficit of Universities in QC ($M) for FY2012 to FY2014

5 universities forwarded FY2015 MESRS grants to FY2014: Concordia($13.2M); Laval ($15M); Montreal ($22.3M); Sherbrooke($7.5M); UQ($6.4M)
6d. GAAP Accumulated Surplus (Deficit) of Universities in QC for FY2014 as a % of normalized MESRS grant

- Bishop's: -121.8%
- Concordia: -147.4%
- Laval: -160.0%
- McGill: -140.0%
- Montreal: -120.0%
- HEC Montreal: -100.0%
- Polytechnique: -80.0%
- Sherbrooke: -60.0%
- Universite du Quebec: -40.0%
- Accumulated Surplus (Deficit) of Universities in QC for FY2014 as a % of normalized MESRS grant.
7a. FY2016:
operating revenue = $764.2M
# 7b. FY2016-FY2020 key revenue assumptions: student enrolment

**modest growth in enrolment, capacity permitting**

<table>
<thead>
<tr>
<th>Level</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2020</th>
<th>1-yr Growth FY16-FY15</th>
<th>5-yr Growth FY20-FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st cycle</td>
<td>23,715.0</td>
<td>23,907.3</td>
<td>24,006.8</td>
<td>0.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2nd cycle</td>
<td>3,635.3</td>
<td>3,811.2</td>
<td>4,028.5</td>
<td>4.8%</td>
<td>10.8%</td>
</tr>
<tr>
<td>3rd Cycle</td>
<td>2,004.6</td>
<td>2,020.9</td>
<td>2,173.5</td>
<td>0.8%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Med Residents</td>
<td>2,069.1</td>
<td>2,150.0</td>
<td>2,150.0</td>
<td>3.9%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Total</td>
<td>31,424.0</td>
<td>31,889.4</td>
<td>32,358.7</td>
<td>1.5%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

| total weighted student units (WSUs)* | 85,375.7 | 86,368.8 | 89,058.7 | 1.2% | 4.3% |

*WSUs = FTEs weighted by discipline and level
7c. FY2016-FY2020 key revenue assumptions: MESRS operating grant

- grant cuts in FY2016 estimated to be $11M for McGill

- additional assumptions:
  - no additional cuts in subsequent years
  - modest grant indexation (FY2016, 0.2%; FY2017 to FY2020, 2.0%)

- increases in regulated Quebec tuition and FIOS
  - FY2016, 0.9%; FY2017, 1.5%; FY2018 to FY2020, 2.0%

- increases in de-regulated international student tuition
  - FY2016, 5.0%; FY2017, 4.0%; FY2018 to FY2020, 3.0%
7d. FY2016 key revenue assumptions:
Tri-Agency grants and indirect costs of research

<table>
<thead>
<tr>
<th>Year</th>
<th>TRI (three year average of eligible amount)</th>
<th>IC Allocation</th>
<th>Ratio of Allocation to Eligible Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2007</td>
<td>105.6</td>
<td>23.9</td>
<td>22.6%</td>
</tr>
<tr>
<td>FY2008</td>
<td>113.1</td>
<td>24.8</td>
<td>21.9%</td>
</tr>
<tr>
<td>FY2009</td>
<td>117.6</td>
<td>25.3</td>
<td>21.5%</td>
</tr>
<tr>
<td>FY2010</td>
<td>123.1</td>
<td>24.3</td>
<td>19.8%</td>
</tr>
<tr>
<td>FY2011</td>
<td>129.2</td>
<td>24.4</td>
<td>18.9%</td>
</tr>
<tr>
<td>FY2012</td>
<td>135.5</td>
<td>24.8</td>
<td>18.3%</td>
</tr>
<tr>
<td>FY2013</td>
<td>138.4</td>
<td>24.9</td>
<td>18.0%</td>
</tr>
<tr>
<td>FY2014</td>
<td>138.8</td>
<td>24.8</td>
<td>17.9%</td>
</tr>
<tr>
<td>FY2015</td>
<td>140.9</td>
<td>24.8</td>
<td>17.6%</td>
</tr>
<tr>
<td>FY2016</td>
<td>142.6</td>
<td>25.8</td>
<td>18.1%</td>
</tr>
</tbody>
</table>
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7e. FY2016 key revenue assumptions: regulated tuition

- increase in basic tuition revenues = approx. $1.4M
  - Fall 2015 announced increase = 0.9% or $20/FTE ($15/FTE net)
  - assumptions for subsequent years:
    - FY2017 = 1.5% increase
    - FY2018 through FY2020 = 2% annual increases
  - out-of-province tuition supplements, including students from France:
    - FY2016 = 9.6%
    - FY2017 through FY2020 = 3% annual increases
  - FY2016 through FY2020 international supplements = 2.5% annual increases
7f. FY2016 key revenue assumptions: 
de-regulated tuition

- increase in international tuition for undergraduates in de-regulated disciplines (Engineering, Law, Management, Science) = approx. $4.6M
  - FY2016, starting in Fall 2015 = 5.0% increase
  - FY2017 = 4.0% increase
  - FY2018 through FY2020 = 3.0% annual increases
- tuition fees remain constant for an entering cohort’s normal duration of the program of study (estimated indexation is included)
- increases may need adjustments for FY2017 through FY2020
  - ability to maintain market shares (applications, selectivity, and yields)
  - fluctuations in currency exchange rates must be taken into consideration
8a. FY2016: 
operating expenses = $768.9M

Expenses ($'000) | Forecast  | Budget  | FY2016 % change
-----------------|-----------|---------|------------------
Academic Salaries | $225,831  | $240,228| 6.4%             
Admin & Support   | $201,530  | $208,171| 3.3%             
Student           | $11,201   | $12,696 | 13.3%            
Student Aid       | $28,911   | $29,690 | 2.7%             
Benefits          | $87,523   | $89,018 | 1.7%             
Total Salary Expenditures | $554,996  | $579,803| 4.5%             
Non-Salary Expenditures | $161,275  | $145,497| -9.8%            
Interfund Transfers | $53,148   | $43,594 | -18.0%           
Total             | $769,419  | $768,894| -0.1%            

in $’000

Interfund Transfers, $43,594, 6%
Non-Salary Expenditures, $145,497, 19%
Academic Salaries, $240,228, 31%
Benefits, $89,018, 11%
Admin & Support, $208,171, 27%
Student Aid, $29,690, 4%
8b. FY2016 key expense assumptions: academic renewal FY2001 – FY2020o

Bars represent change in staff counts; line represents actual staff counts
8c. FY2016 key expense assumptions: administrative and support staff at year-ends

Bars represent change in staff counts; line represents actual staff counts
f = forecast for FY2015 and b= budgeted for FY2016 o = outlook
8d. FY2016 key expense assumptions: student assistance from operating fund

- bursaries and graduate student funding increase with tuition fee increases
- commitment: 30% of net new tuition will be matched for student aid
- FY2016 and onward: contribution to include gifts, donations, bequests

\begin{center}
\begin{table}
\begin{tabular}{|c|c|c|c|c|c|c|c|c|c|c|c|c|c|c|c|}
\hline
\hline
\textbf{Student Aid} & 4.2 & 7.2 & 13.0 & 16.7 & 18.5 & 22.7 & 25.6 & 26.1 & 27.7 & 28.4 & 29.5 & 30.5 & 31.2 & 31.9 \\
\hline
\end{tabular}
\end{table}
\end{center}

\text{f= forecast; b= budget; o=outlook}

Percentage figures on horizontal axis indicate student aid (bursaries and graduate student funding) share of total operating revenue
8e. Significant one-time and on-going expenses

- McGill University Pension Plan (MUPP) deficit repayment plan
  - $15.0M per year over entire period FY2016 to FY2020
  - required cash contributions to cover: past service, current service, and solvency contributions
- pay equity issues
  - 2015 exercise in course, amounts still to be determined
- 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
  - interest and capital payments for first 5 years:

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$2.7M</td>
<td>$5.6M</td>
<td>$9.0M</td>
<td>$23.0M</td>
<td>$23.0M</td>
</tr>
</tbody>
</table>
9. FY2016: MESRS capital fund

- McGill’s capital budget for FY2013, confirmed in November 2014 = $48.0M, ($1.4M less than for FY2012)
- FY2016 budget not likely to differ significantly from this level
- “IT and Libraries” envelope of $2.6M expected to move from operating fund to capital fund
- excluding special capital grants that may be received by the University for specific projects (ex. Wilson Hall renovations):

<table>
<thead>
<tr>
<th>FY2016 McGill Capital Budget expected from MESRS</th>
<th>FY2015 Budget</th>
<th>FY2016 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>renovations</td>
<td>$ 12.5 M</td>
<td>$ 12.6 M</td>
</tr>
<tr>
<td>renovations (corrections)</td>
<td>$ 3.8 M</td>
<td>$ 3.8 M</td>
</tr>
<tr>
<td>redesign of existing space (réaménagement)</td>
<td>$ 3.1 M</td>
<td>$ 3.2 M</td>
</tr>
<tr>
<td>deferred maintenance (current program)</td>
<td>$ 10.9 M</td>
<td>$ 10.9 M</td>
</tr>
<tr>
<td>deferred maintenance (new program)</td>
<td>$ 17.2 M</td>
<td>$ 15.8 M</td>
</tr>
<tr>
<td>IT development fund</td>
<td>$ 1.9 M</td>
<td>$ 4.5 M</td>
</tr>
<tr>
<td><strong>TOTAL (excluding new initiatives)</strong></td>
<td><strong>$ 49.4 M</strong></td>
<td><strong>$ 50.8 M</strong></td>
</tr>
</tbody>
</table>
9b. Plan for use of the $400M DM borrowing

- capital = $300M
- IT infrastructures = $100M
- to be supplemented with fund-raising, research grants, and possible other government funding
- efficiency gains and operating efficiencies wherever possible
10. FY2016: restricted and endowment funds

- **restricted fund**
  - primarily composed of research grants and other “constrained” revenues
  - anticipated revenues = $352.2M, 3.0% increase over FY2015
- **endowment fund**
  - market value as of 31 March 2015: $1.45B
  - increased by approximately 13.3% (first 11 months of FY2015)
  - philanthropic cash revenues
    - FY2015 forecast = $75M
    - FY2016 budgeted within a corridor of between $65M to $75M
    - FY2017 through FY2020, modest percentage increases
11. Projected operating revenue and expenditures through FY2020

Revenues vs. Expenses (incl. i/f transfrs)

- a = actual
- f = forecast
- b = budget
- o = outlook
12. Total financed accumulated deficit projection (year-end)
13. FY2016: budget implementation and proposal

- **sustain academic 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 **recruitment and enrolment of high quality** undergraduate and research graduate students where capacity exists
- to achieve these objectives: **FY2016 budget deficit = ($4.7M)**
Discussion

Questions
Comments
Concerns
Suggestions