McGill

McGILL UNIVERSITY **SENATE**

Memorandum

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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 Commmitte 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

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D14-49 Appendix A

McGill University Budget FY2016: Summary and Highlights

Prof. Anthony C. Masi
Provost
McGill University

Presentation to Senate

22 April 2015

Overview

1. Updated forecast for FY2015: Better than originally projected
2. FY2016 Commitment to strategic priorities

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3b. Context: MESRS Tremblay-Roy workgroups

3c. Context: FY2015 Measures to deal with cuts

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

4b. FY2016 and beyond: continuation of FY2015 measures

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

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6a. Operating budget outlook: a glance forward to FY2020

6b. GAAP Accumulated Deficit of Universities in QC ($M) for FY2014

6c. GAAP Accumulated Deficit of Universities in QC ($M) for FY2012 to FY2014

6d. GAAP Accumulated Surplus (Deficit) of Universities in QC for FY2014 as a % of normalized MESRS grant

7a. FY2016: operating revenues = $764.2M

7b. FY2016-FY2020 key revenue assumptions: student enrolments

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Overview

7d. FY2016 key revenue assumptions: Tri-council grants and indirect costs of research
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8c. FY2016 key expense assumptions: Administrative and support staff at year-end
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8e. FY2016: Significant expenses
9. FY2016: MESRS capital fund
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

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1a. Updated forecast for FY2015: better than originally projected

Summary of variances against original forecast	
1. annual financed operating surplus/(deficit) forecast for the FY2015 (FY2015 Budget Book: April 2014)	($7.0M)
Anticipated operating budget variances for FY2015	
2. reduction in MESRS revenues	($20.0M)
3. 2013-14 “Recomptage” allocation (March 2015)	$12.2M
4. other MESRS variations	($5.5M)
5. higher than expected self-funded tuition revenues	$11.6M
6. higher sales of goods and services	$3.6M
7. higher investment and interest Income	$2.5M
8. higher energy costs	($3.0M)
9. increases in other non-salary expenditures	($7.5M)
10. accrual of remaining FY2010 pay equity expenses in FY2014	$6.4M
11. unspent “special projects" reserve	$9.0M
12. other variances	$2.0M
13. updated annual financed operating surplus/(deficit) FY2015 projection	$4.3M

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

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1c. An illustration: reconciling FS and BB figures for FY2014

$'000		***FS***	***BB***
total revenues (FS)		766,383	766,383
	less unrealized gains (losses)		6,462
budgeted revenues			759,921
total expenses & inter-fund transfers			
	expenses (FS)	687,584	687,584
	plus Inter-fund transfers (FS)	63,054	63,054
	less book-to-market adjustments		6,462
	less GAAP expenses (surpluses)		(11,400)
budgeted expenses			755,576
	Surplus (Deficit)	15,745	4,345

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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)

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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

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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)

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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 1A~~s~~ to 1F~~s~~ 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*

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 <u>all</u> operating funds to require provostial approval

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**

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6a. Operating budget outlook: 5-year outlook to FY2020 - as of April 2015

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

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

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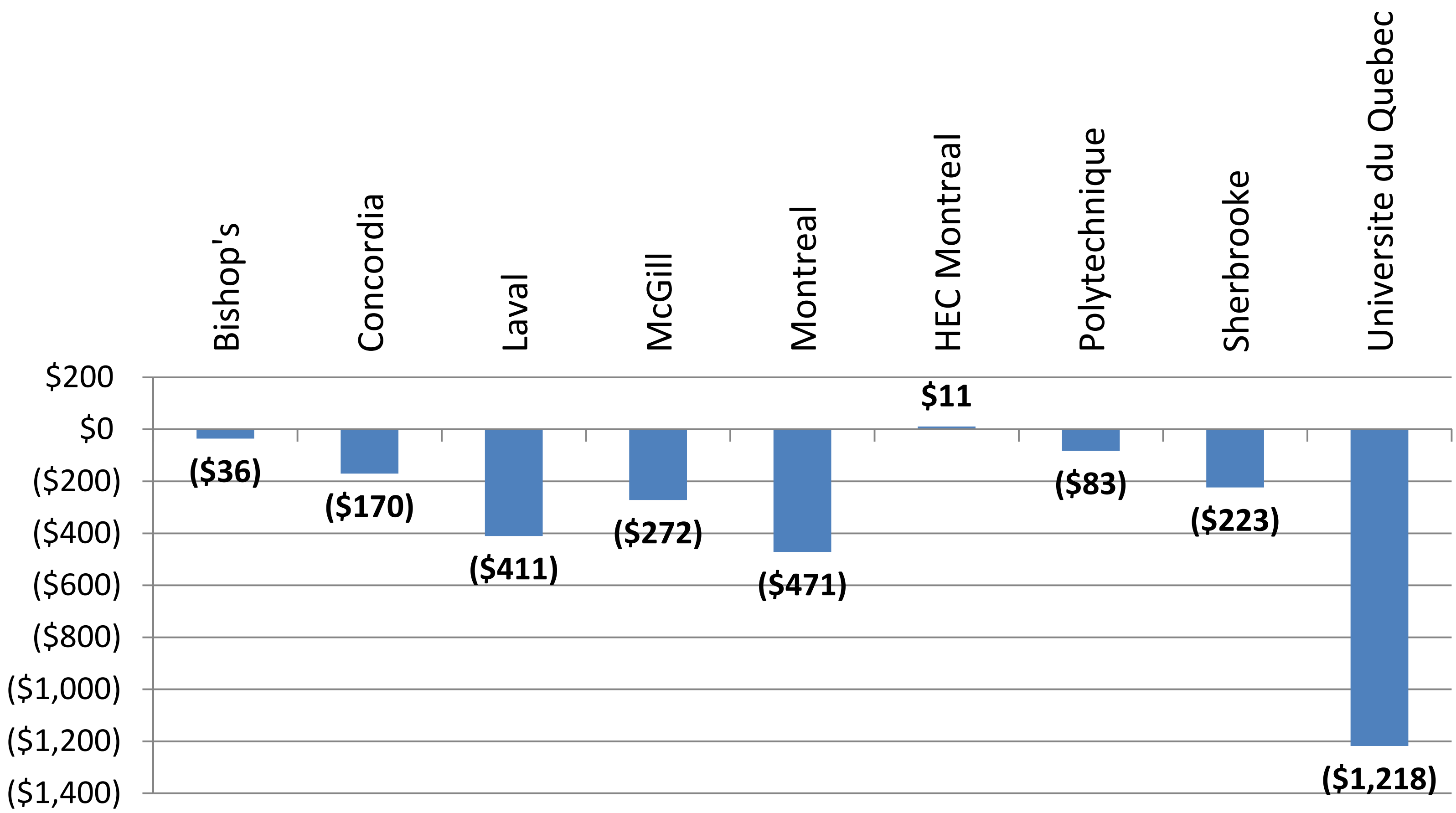
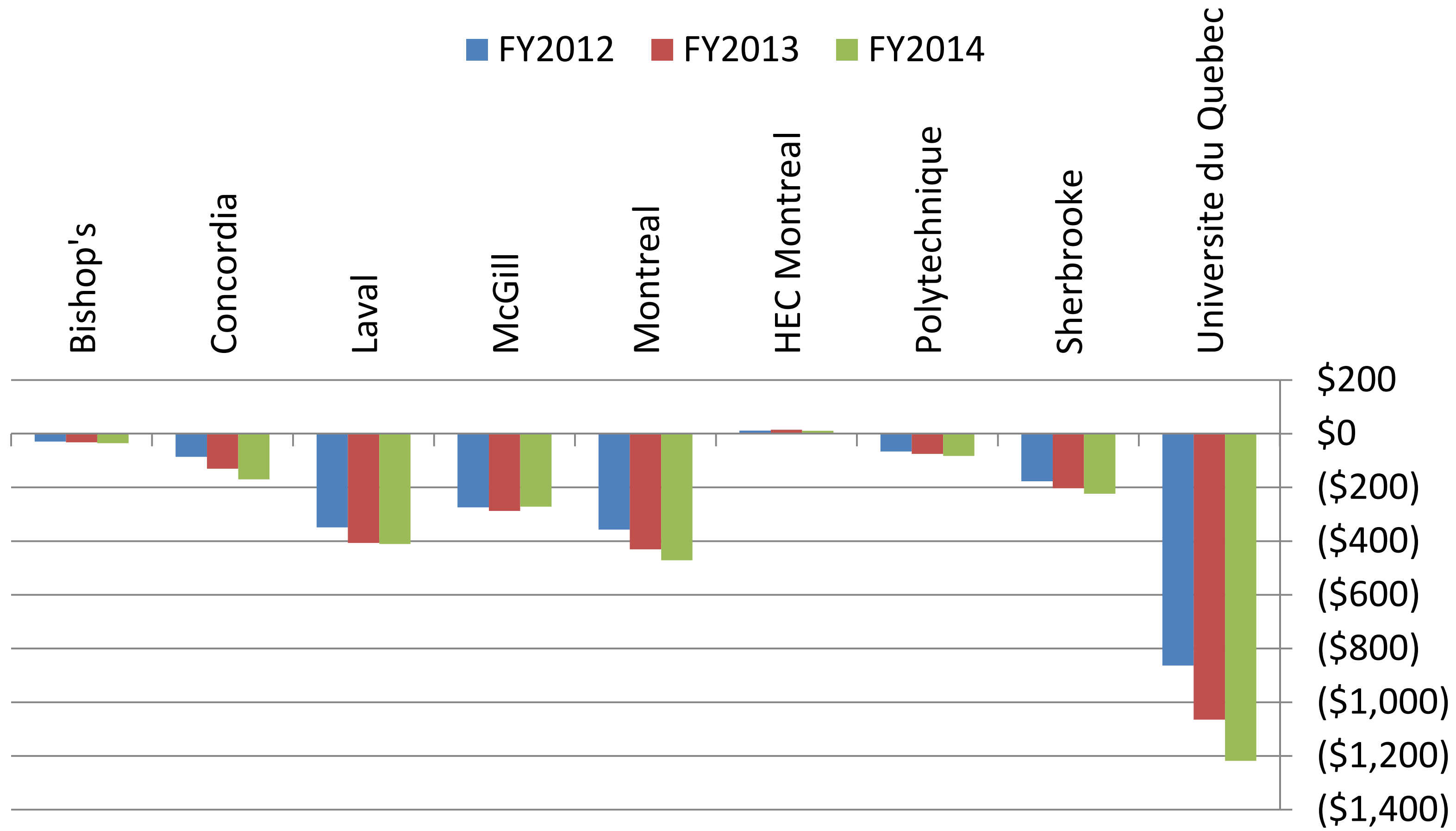
6b. GAAP Accumulated Deficit of Universities in QC ($M) for FY2014



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)

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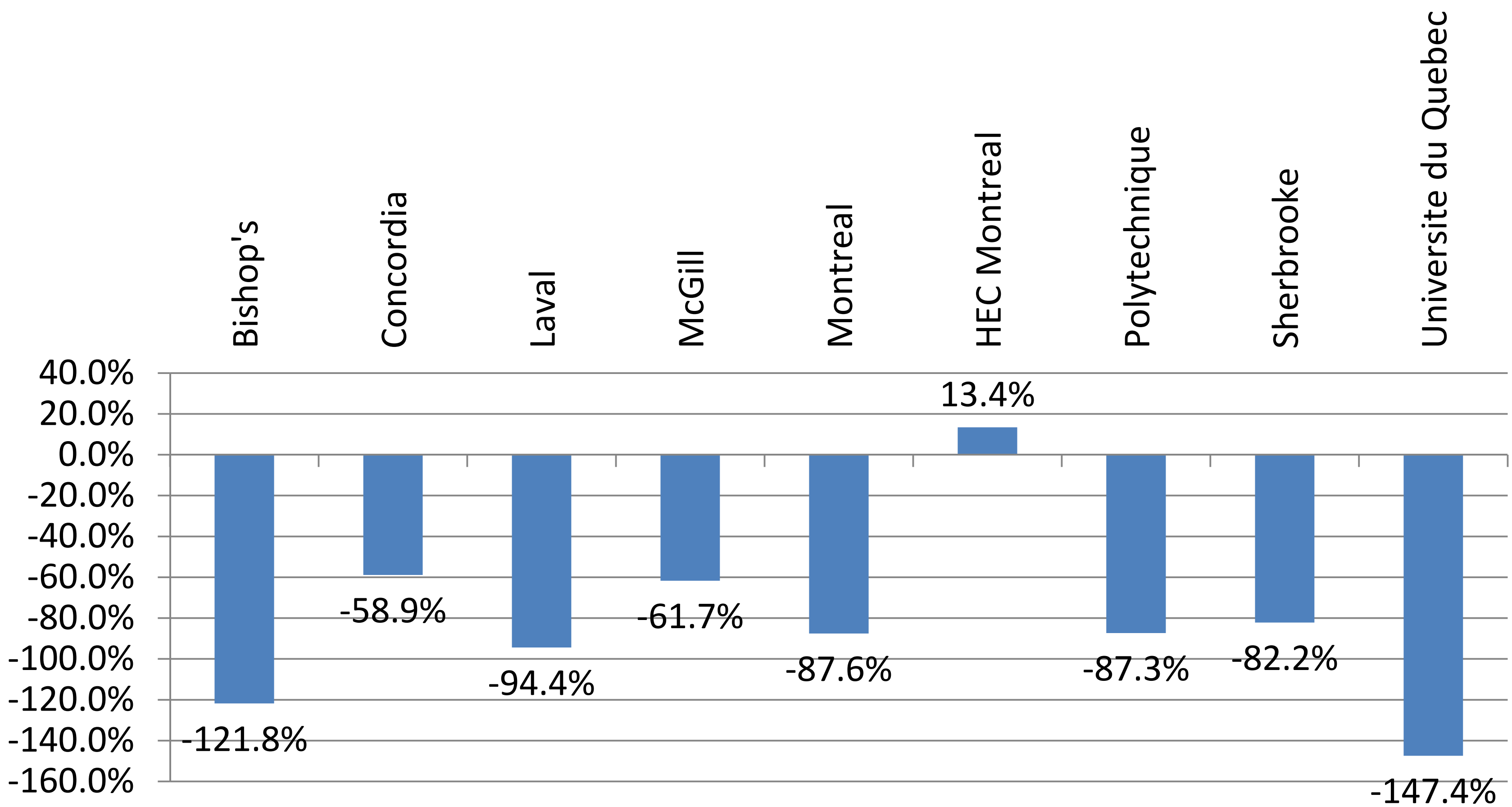
6d. GAAP Accumulated Surplus (Deficit) of Universities in QC for FY2014 as a % of normalized MESRS grant



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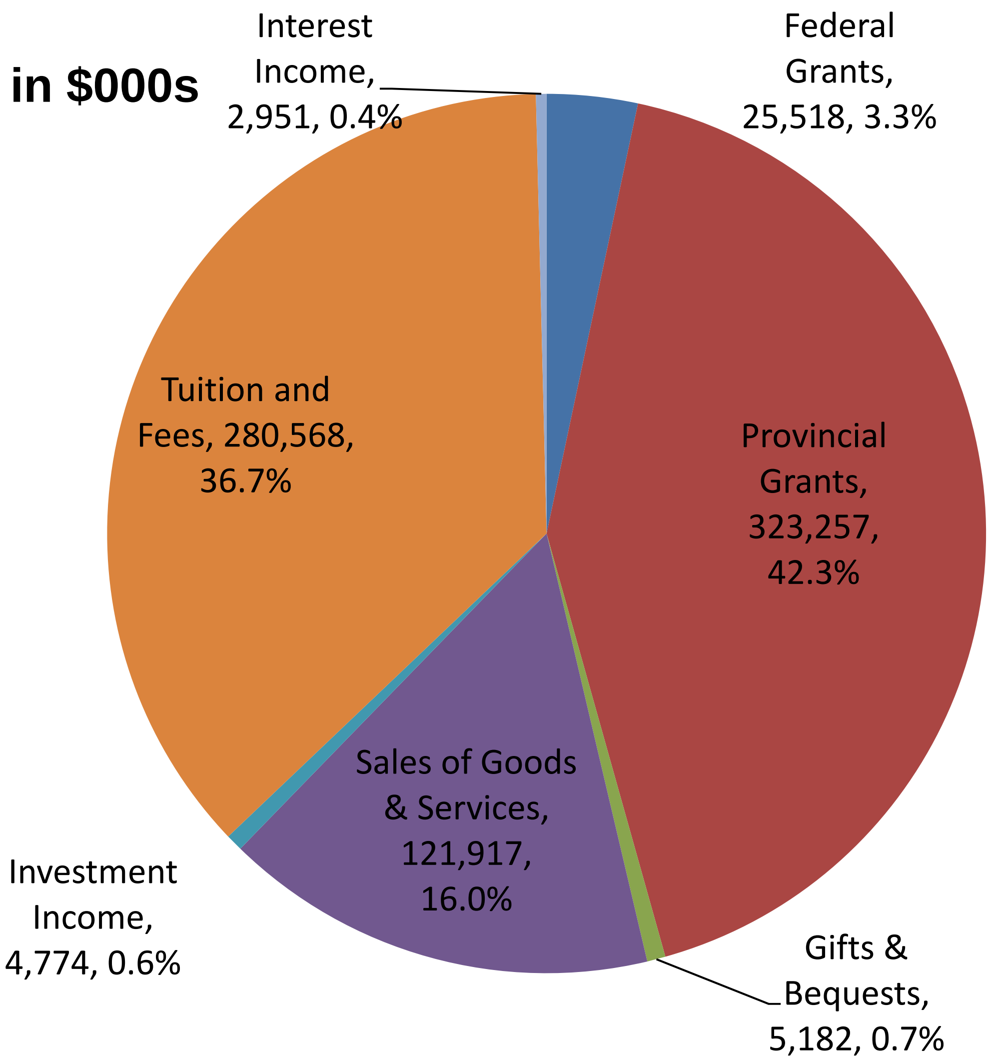
7a. FY2016: operating revenue = $764.2M

in $000s



$'M

	Forecast FY2015	Budget FY2016	% change
Grants - Canada	25.8	25.5	-1.1%
Grants - Quebec	348.0	323.3	-7.1%
Tuition and Fees	266.0	280.6	5.5%
Sales of Goods & Services	121.2	121.5	0.3%
Gifts & Bequests	5.4	5.6	3.3%
Investment Income	4.5	4.8	6.7%
Interest Income	2.8	3.0	3.8%
Revenues Total	773.7	764.2	-1.2%

7b. FY2016-FY2020 key revenue assumptions: student enrolment

modest growth in enrolment, capacity permitting

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

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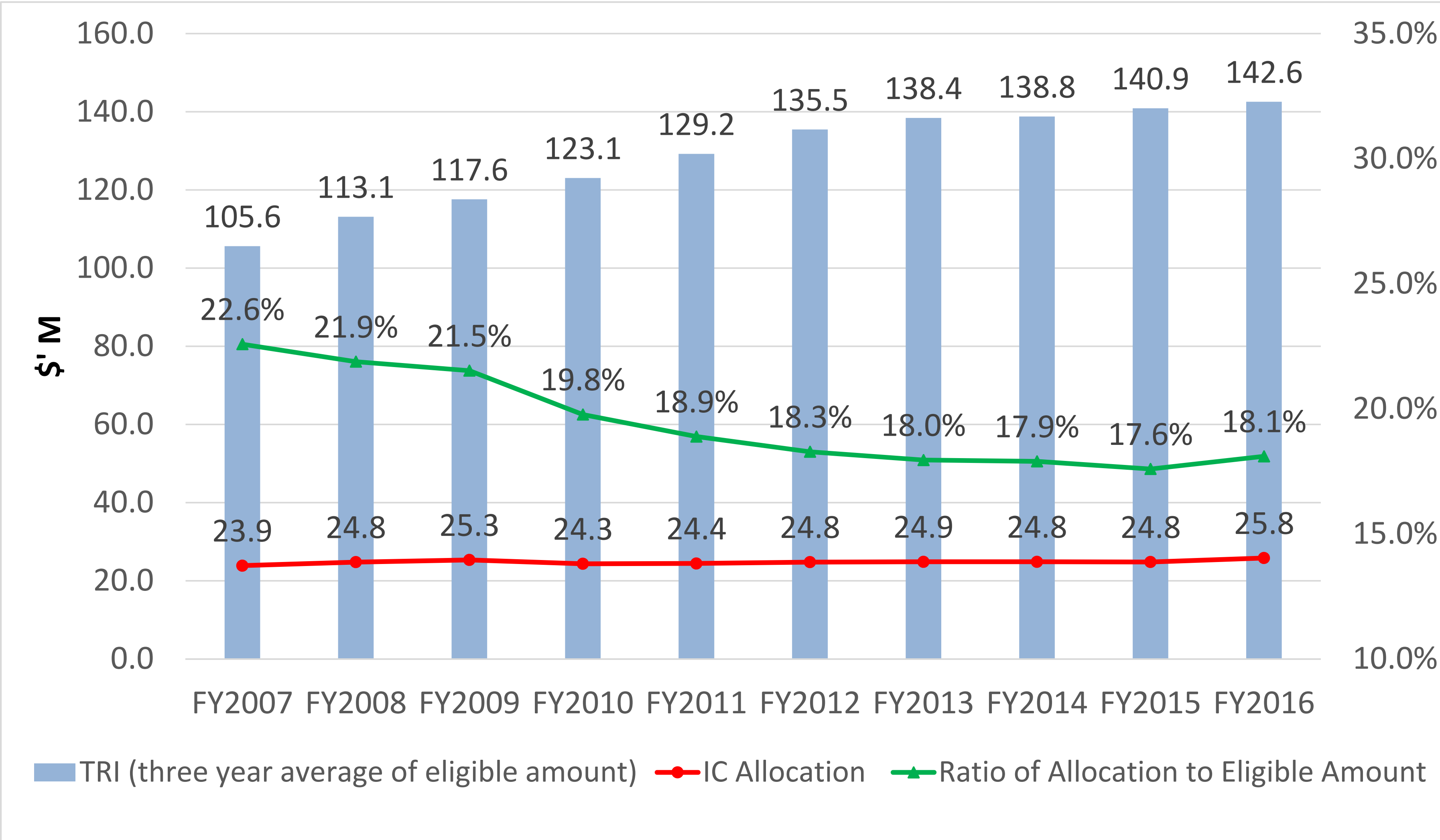
7d. FY2016 key revenue assumptions: Tri-Agency grants and indirect costs of research



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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

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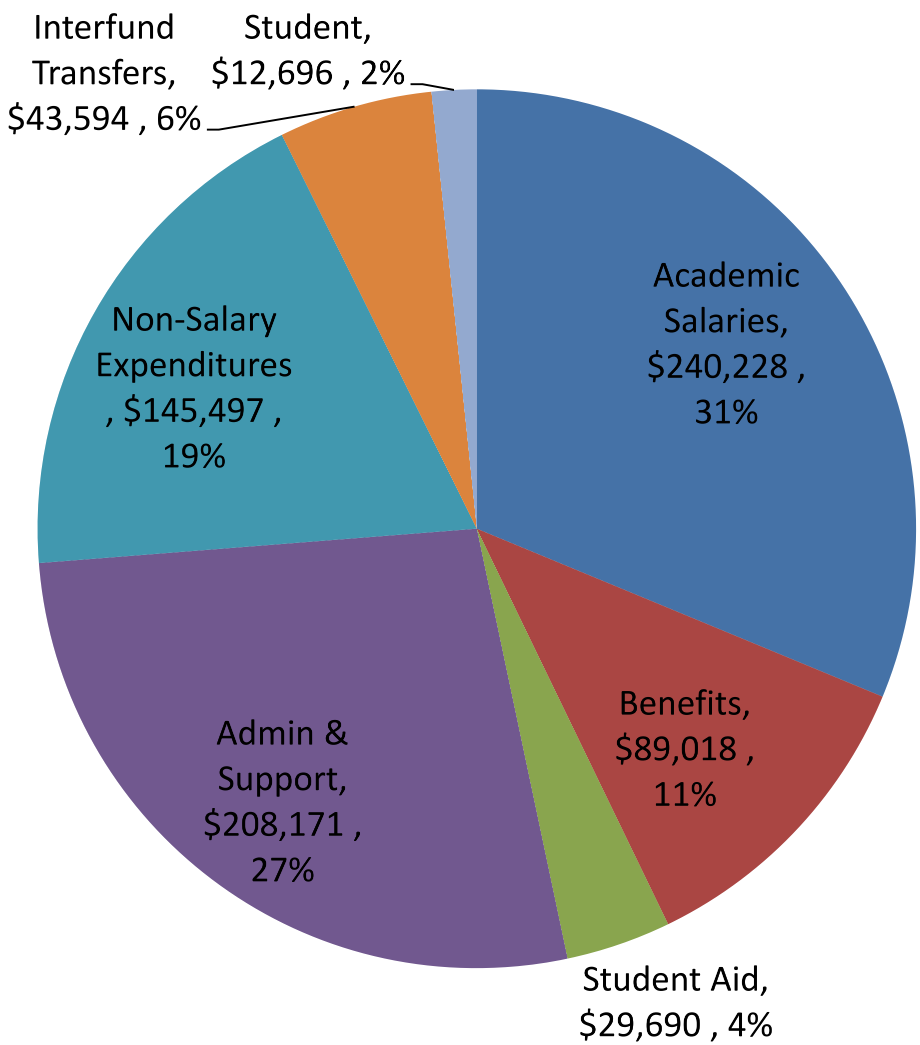
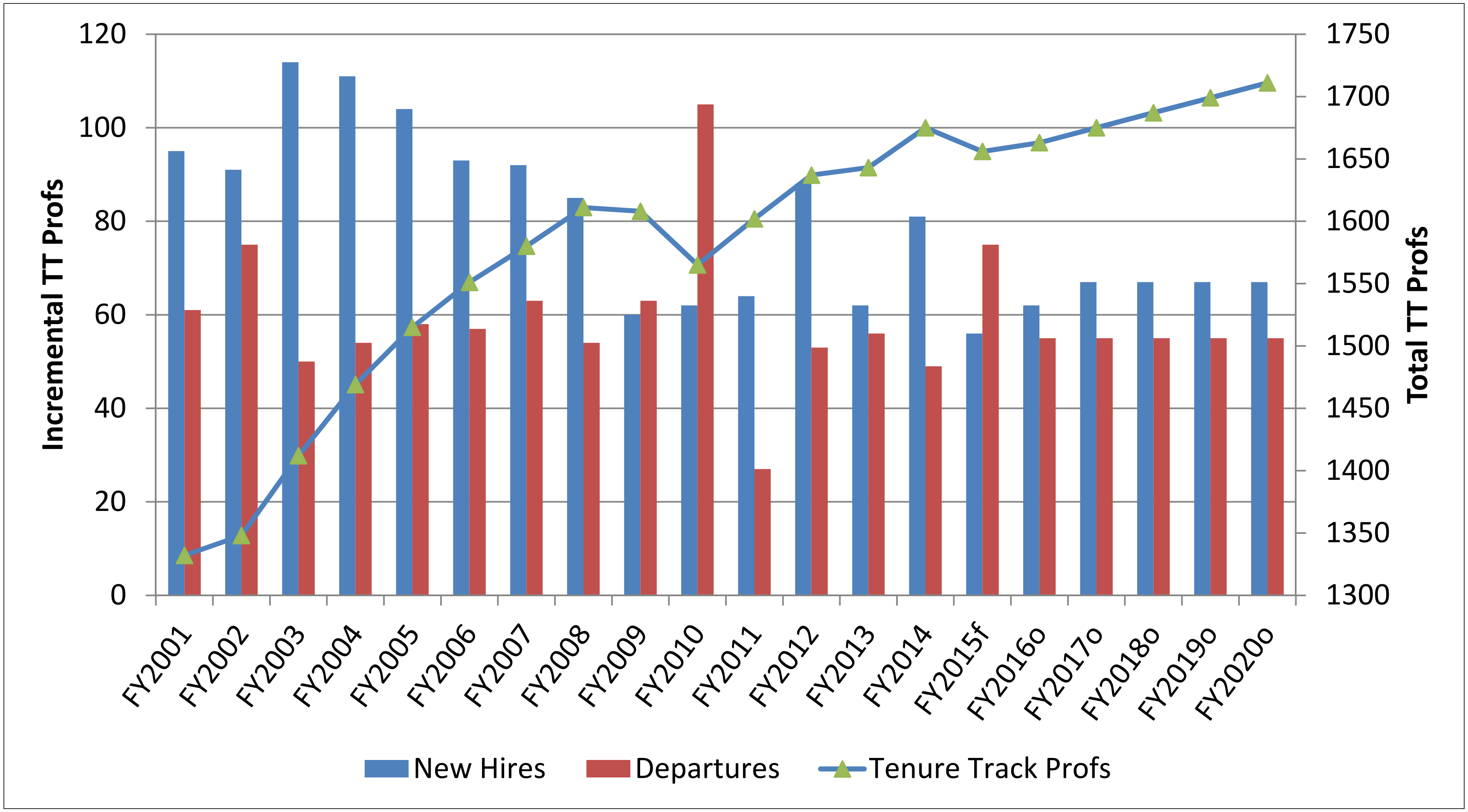
8a. FY2016: operating expenses = $768.9M

in $’000



Expenses ($'000)	Forecast FY2015	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%**

8b. FY2016 key expense assumptions: academic renewal FY2001 – FY2020o



Bars represent change in staff counts; line represents actual staff counts

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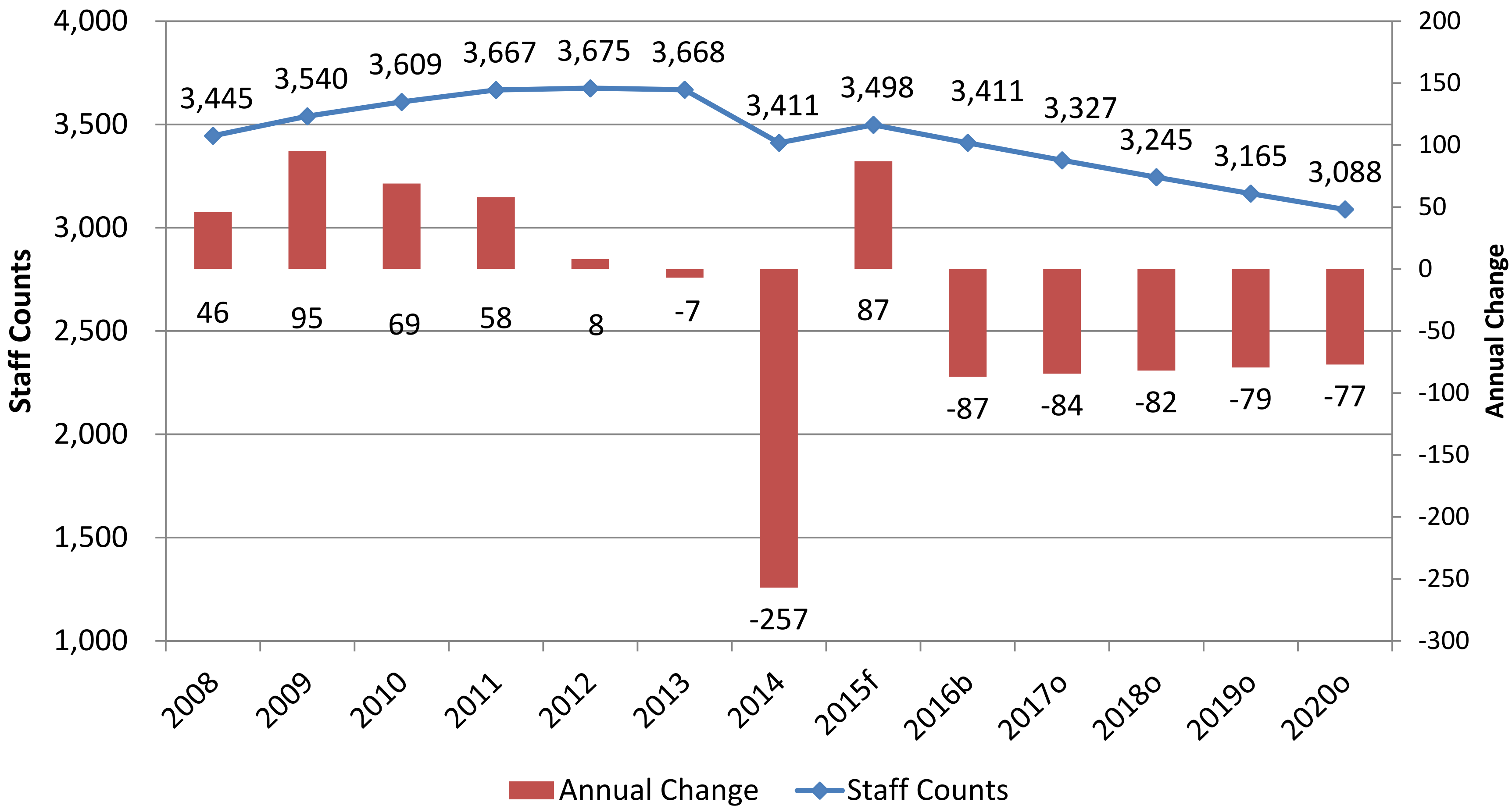
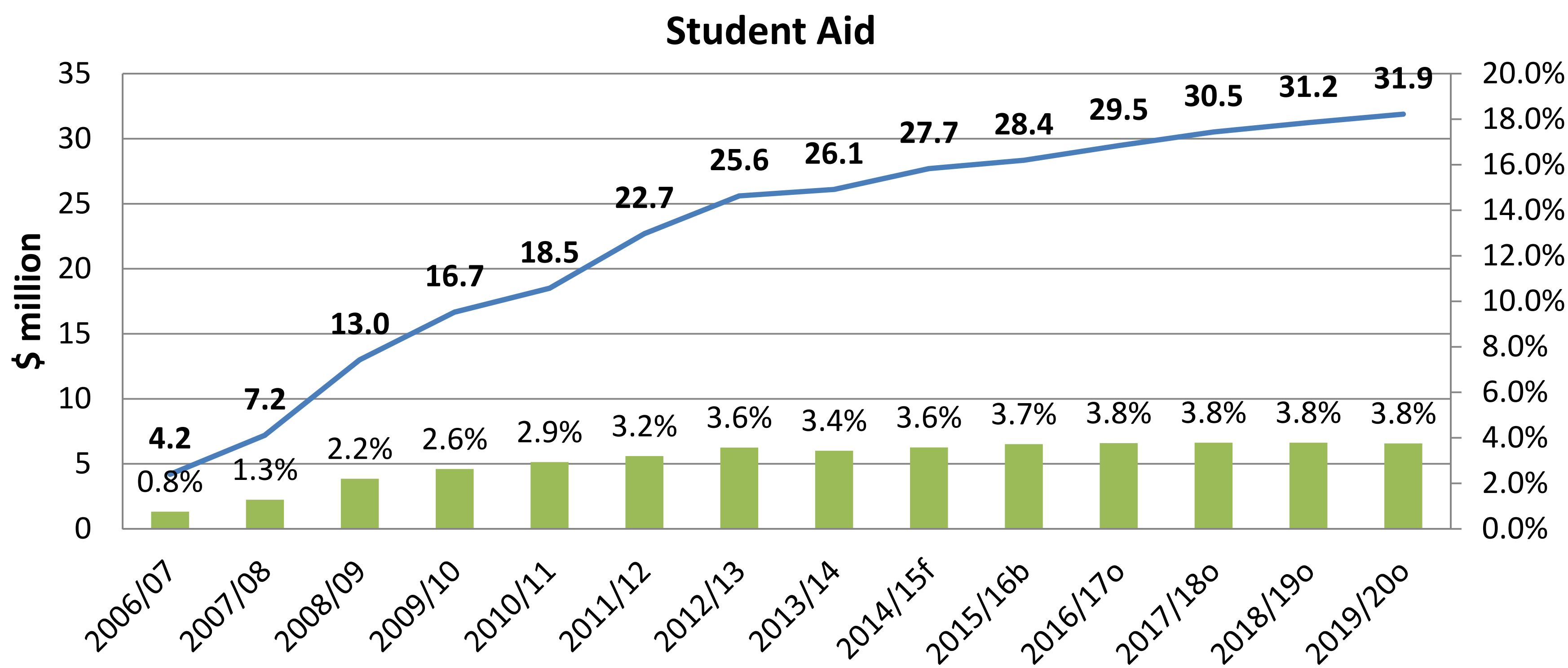
8c. FY2016 key expense assumptions: administrative and support staff at year-ends



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



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 infrastructure~~s~~
  - 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:

FY2016	FY2017	FY2018	FY2019	FY2020
$2.7M	$5.6M	$9.0M	$23.0M	$23.0M

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):

FY2016 McGill Capital Budget expected from MESRS	**FY2015 Budget**	**FY2016 Budget**
renovations	$ 12.5 M	$ 12.6 M
renovations (corrections)	$ 3.8 M	$ 3.8 M
redesign of existing space (réaménagement)	$ 3.1 M	$ 3.2 M
deferred maintenance (current program)	$ 10.9 M	$ 10.9 M
deferred maintenance (new program)	$ 17.2 M	$ 15.8 M
IT development fund	$ 1.9 M	$ 4.5 M
TOTAL (excluding new initiatives)	**$ 49.4 M**	**$ 50.8 M**

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

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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

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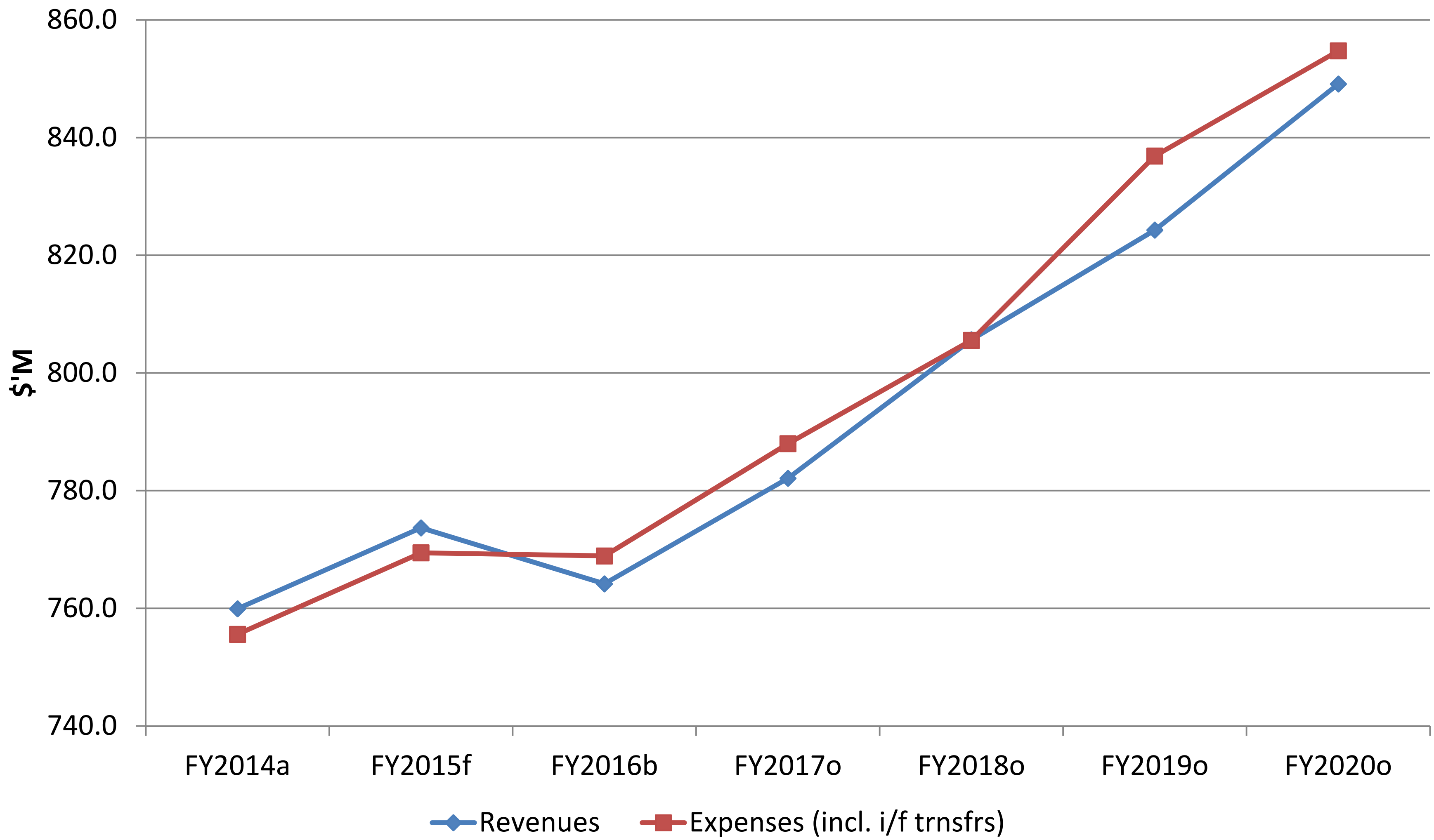
11. Projected operating revenue and expenditures through FY2020



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

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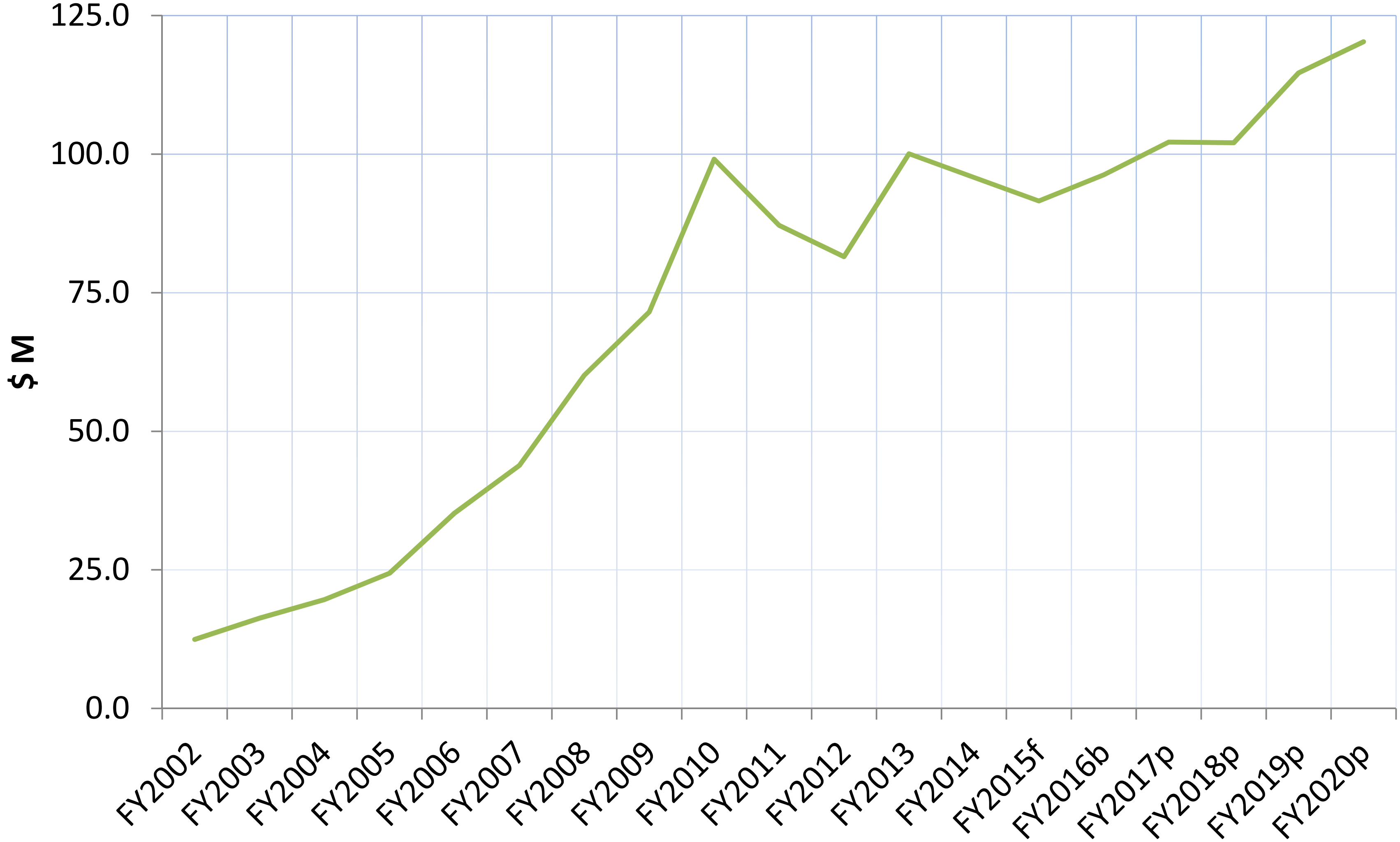
12. Total financed accumulated deficit projection (year-end)



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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)**

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Discussion

Questions

Comments

Concerns

Suggestions