
PRIOR CONSULTATION	Finance and Infrastructure Committee of the Board of Governors
SUSTAINABILITY CONSIDERATIONS	Sustainability remains an institutional priority and is a factor in budget development. The FY2026 Budget Planning Report I is focused on maintaining institutional stability.
IMPACT OF DECISION AND NEXT STEPS	FY2026 Budget Planning Report I will be presented to the Board of Governors on December 12, 2024.
MOTION OR RESOLUTION FOR APPROVAL	N/A
APPENDICES	Appendix A: “FY2026 Budget Planning Report I” presentation deck

Budget Report I: FY2025 Final Budget and FY2026+ Planning

Presentation to Senate
December 4, 2024

Christopher Manfredi, Provost and Executive Vice-President (Academic)



Executive Summary

- ▶ For the fiscal year ending on April 30, 2025 (FY2025), the Board of Governors approved a provisional budget plan at its April meeting with a \$12M deficit, including a \$10M contingency.
- ▶ Although the implementation of \$35M in budget measures is progressing well, unforeseen events and associated expenses bring us to recommend a Final FY2025 Budget with a \$15M deficit, including a \$5M contingency.
- ▶ Updated budget projections that incorporate changes to the funding policy and current assumptions for the growth of expenses suggest that the University's annual operating deficit would reach \$44M in FY2026, increasing to \$75M by FY2028.
- ▶ These projections exclude additional potential revenue losses due to declined enrolment as a result of the French proficiency requirements and restrictions in student immigration policies.
- ▶ Major revenue-generating and expense reduction initiatives, as well as critical transformational changes are being planned and will be implemented to correct this unsustainable trajectory.
- ▶ In light of the very high level of uncertainty and risk, we are recommending for FY2026 a \$45M budget correction. Areas of growth of revenues and reduction in expenses are presented and will be refined before finalizing the FY2026 Budget.

1. Fiscal Year 2024-2025 Final Budget

(for recommendation to the BOG)

1.1. Summary of Changes to the Québec Government Funding Policy

- ▶ Major **changes to guiding principles** (e.g., creation of a fixed grant, reduction of the activity-driven component).
- ▶ Tuition has increased from \$9K to \$12K per year for newly enrolled **Canadian Non-resident of Québec (CNRQ)** students in undergraduate and professional master's programs enrolled in English-language universities. Universities offering programs in English can charge tuition above \$12K and retain the difference.
- ▶ **Re-regulation of tuition for international** students. Claw back of the difference between grants and the forfaitaire per newly enrolled international students in undergraduate and professional master's programs.
- ▶ Effective Fall 2025, English-language universities will be required to have **80%** of their newly enrolled undergraduate students from outside Québec reach a level 5 (intermediate) proficiency in French by the time they graduate. Monitoring, measures and financial penalty are yet to be defined.

1.2. Implemented Mitigation Measures

- ▶ The immediate objectives for FY2025 are to reduce budget allocations and tightly control expenses, where possible, while actively working on strategic revenue growth and expense reduction initiatives, as well as on institutional improvements for increased effectiveness of administrative processes.
- ▶ Maximize undergraduate and graduate enrolment Levels.
- ▶ Offset tuition increases for CNRQ students by the launch of the Canada Award.
 - ▶ \$3,000 award to offset tuition increases for Canadian undergraduate students from outside Québec in most disciplines. Approximately 80% of new Canadian students from outside Québec coming to McGill are eligible.
- ▶ Recalibration of centrally allocated budgets to save \$27M through the reduction of compressible expenses.
- ▶ For administrative and support staff, an ambitious target of replacing one out of two departures would save \$10M. A reduction in the tenure stream complement is also ongoing.
- ▶ Delay infrastructure projects, including Fiat Lux, and the issuance of any new debt other than the remaining tranche of the DM and IT Bond (\$90M) and New Vic (\$250M).
- ▶ Overall, between April 30, 2024 and September 30, 2024, unrestricted (1A budget) spending capacity across all faculties and administrative units decreased by \$32M (3.7%), from \$884M to \$852M.

1.3. Additional Budget Correction Measures for FY2025

▶ “Normal” Changes in Expectations

- ▶ History suggests that units will underestimate their revenues and overestimate their expenses.
- ▶ We have been working with units regularly to reduce the gap between their forecasts and actual results.
- ▶ We will ask units to revisit forecasts monthly, particularly where revenue forecasts are significantly **lower**, and/or expense forecasts are significantly **higher** than trend expectations.
- ▶ We expect that the normal revisions will reduce part of the \$15M deficit in the FY2025 final budget.

▶ Managing towards realigned budgets

- ▶ One of the underlying principles of the realignment of centrally allocated budgets (1A) was to acknowledge the FY2024 activity level across the University, and then ask units to scale down using the same “rules of engagement”.
- ▶ Based on input received in October, 15 units are currently forecasting a 1A surplus or a balanced budget, while 25 units are currently forecasting a 1A deficit.
- ▶ We will continue to work closely with all units. In particular, we will pay particular attention to units that are currently forecasting a 1A deficit.

▶ Consequences of an unrestricted deficit

- ▶ Failure to achieve a balanced budget in FY2025 would trigger the need for the University to submit to the MES a viable recovery plan to reduce its deficit moving forward. This could impact the ability to issue any new debt.

1.3. FY2025: Fall 2024 Student Enrolment

► Over 80% of operating revenues are driven by student enrolment.

	Fall 2023 Enrolment (Headcounts - Oct 15 census)	Fall 2024 Enrolment (Headcounts - Oct 15 census)	% Variance	
Undergraduate	Bachelors	23,487	24,086	2.6%
	First Professional (BCLJD, DMD, MDCM)	1,683	1,742	3.5%
	Undergraduate - Certificate/Diploma	1,025	976	-4.8%
	Undergraduate Exchange/QIUT/Special/Visiting	1,001	933	-6.8%
Graduate	Masters Qualifying	94	91	-3.2%
	Masters - Non-Thesis	2,398	2,481	3.5%
	Masters - Thesis	2,498	2,369	-5.2%
	PhD	4,177	4,206	0.7%
	Graduate Certificate/Diploma	759	759	0.0%
	Graduate Exchange/QIUT/Special/Visiting	221	166	-24.9%
Residents and Fellows	1,461	1,498	2.5%	
Postdoctoral	576	613	6.4%	
Grand Total	39,380	39,920	1.4%	

1.4. FY2025 Final Budget

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	FY2022 Actuals	FY2023 Actuals	FY2024 Actuals	FY2025 Provisional Budget	FY2025 Final Budget*
Total revenues	978,172	1,025,899	1,098,168	1,118,505	1,131,340
Total expenses	976,822	1,025,507	1,097,584	1,130,610	1,146,313
Annual surplus / (deficit)	1,350	392	584	(12,105)	(14,974)

Excluding year-end GAAP adjustments

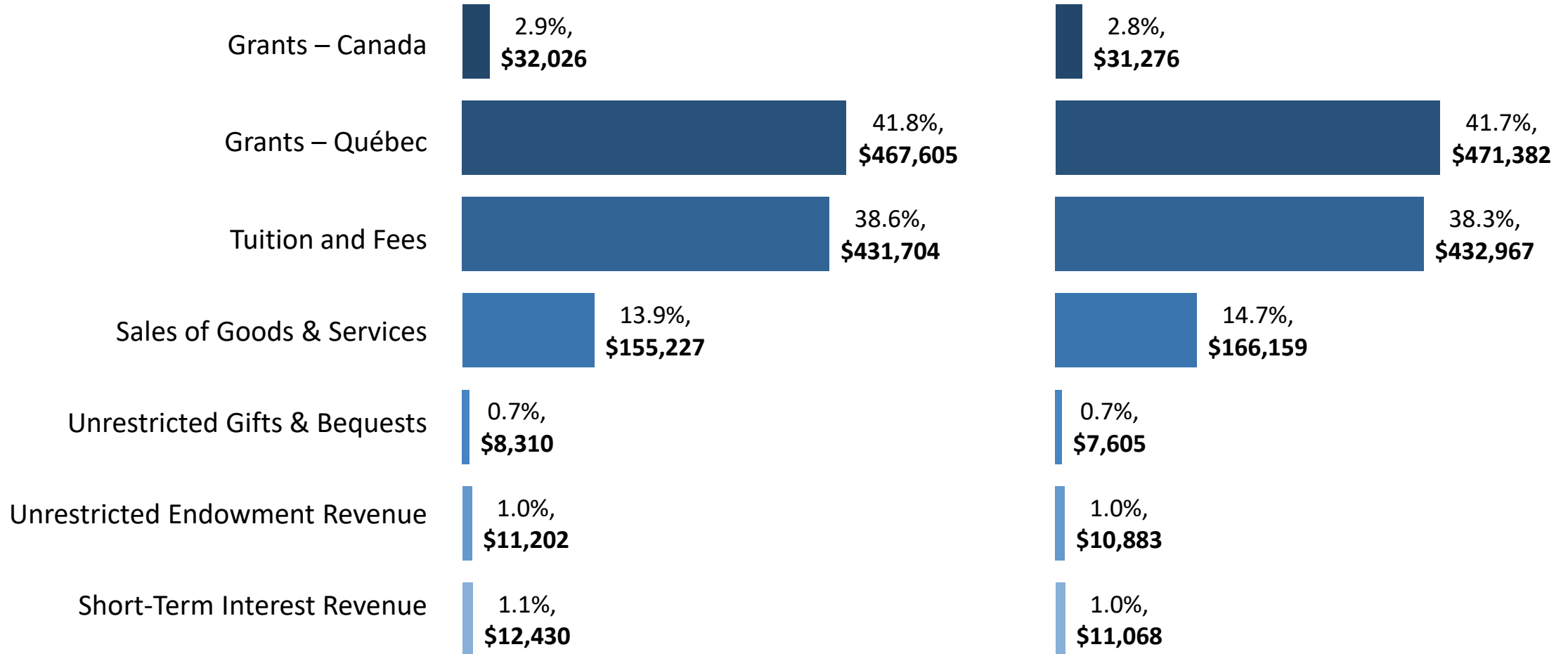
*As per September 30 actuals and commitments, trend forecasts, and input from units

1.5. FY2025 Final Budget: Revenues

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FY2025 Provisional Budget: \$1,118,505

FY2025 Final Budget*: \$1,131,340



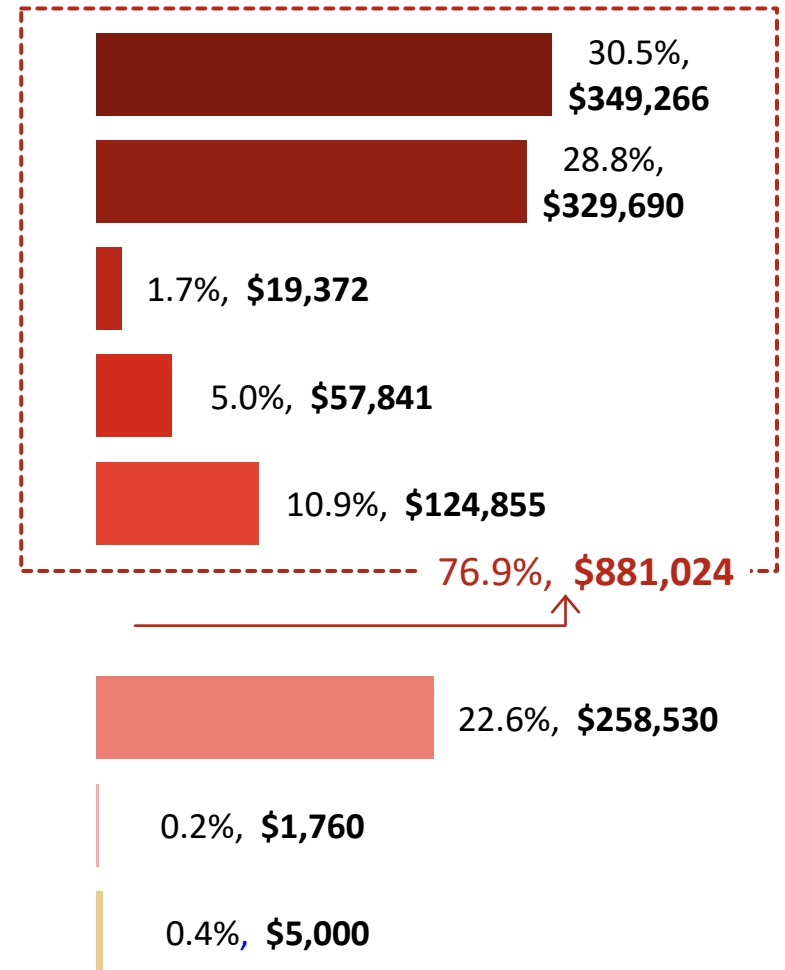
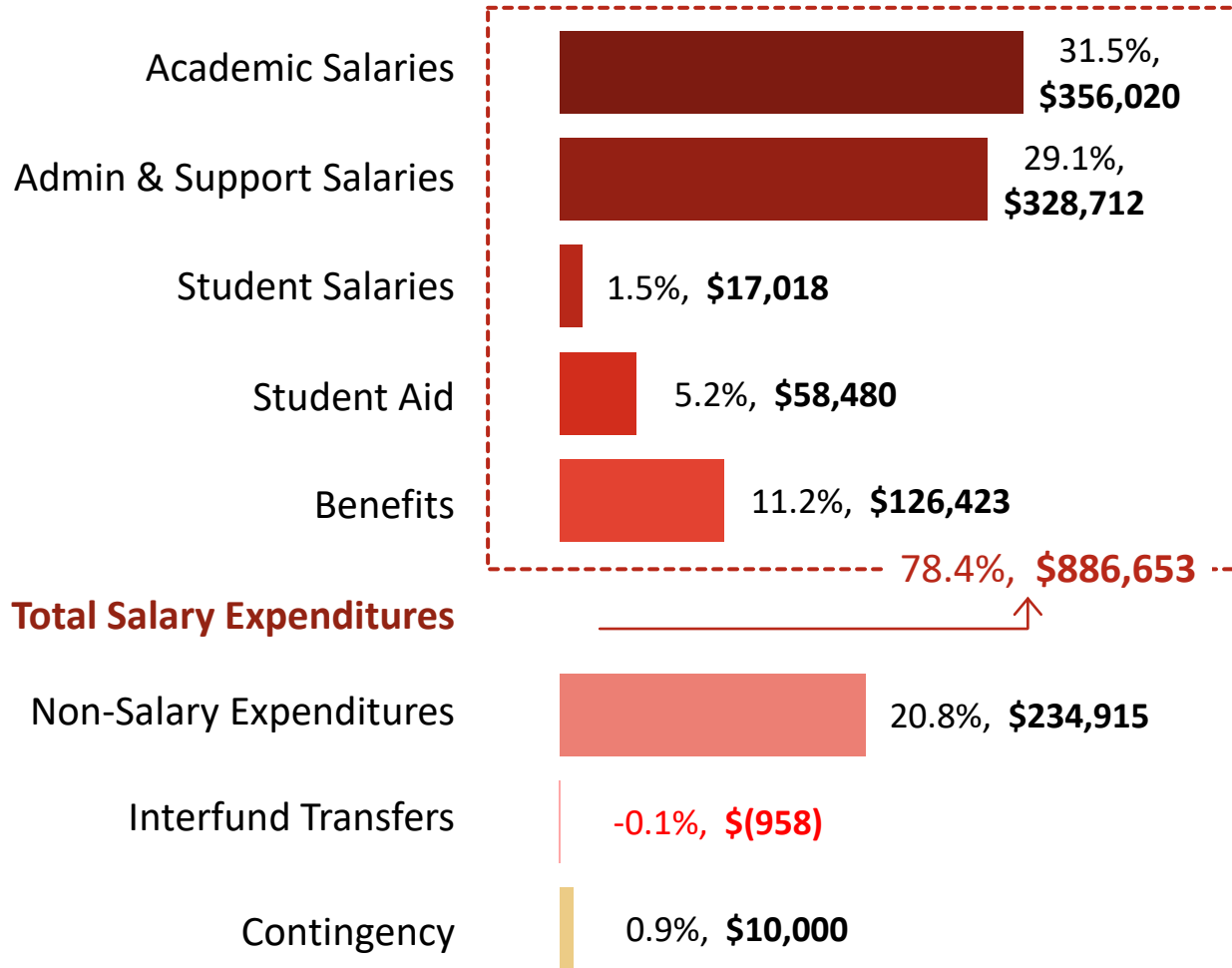
*As per September 30, 2024 actuals, trend forecasts, and input from units

1.6. FY2025 Final Budget: Expenses

(\$000s)

FY2025 Provisional Budget: \$1,130,610

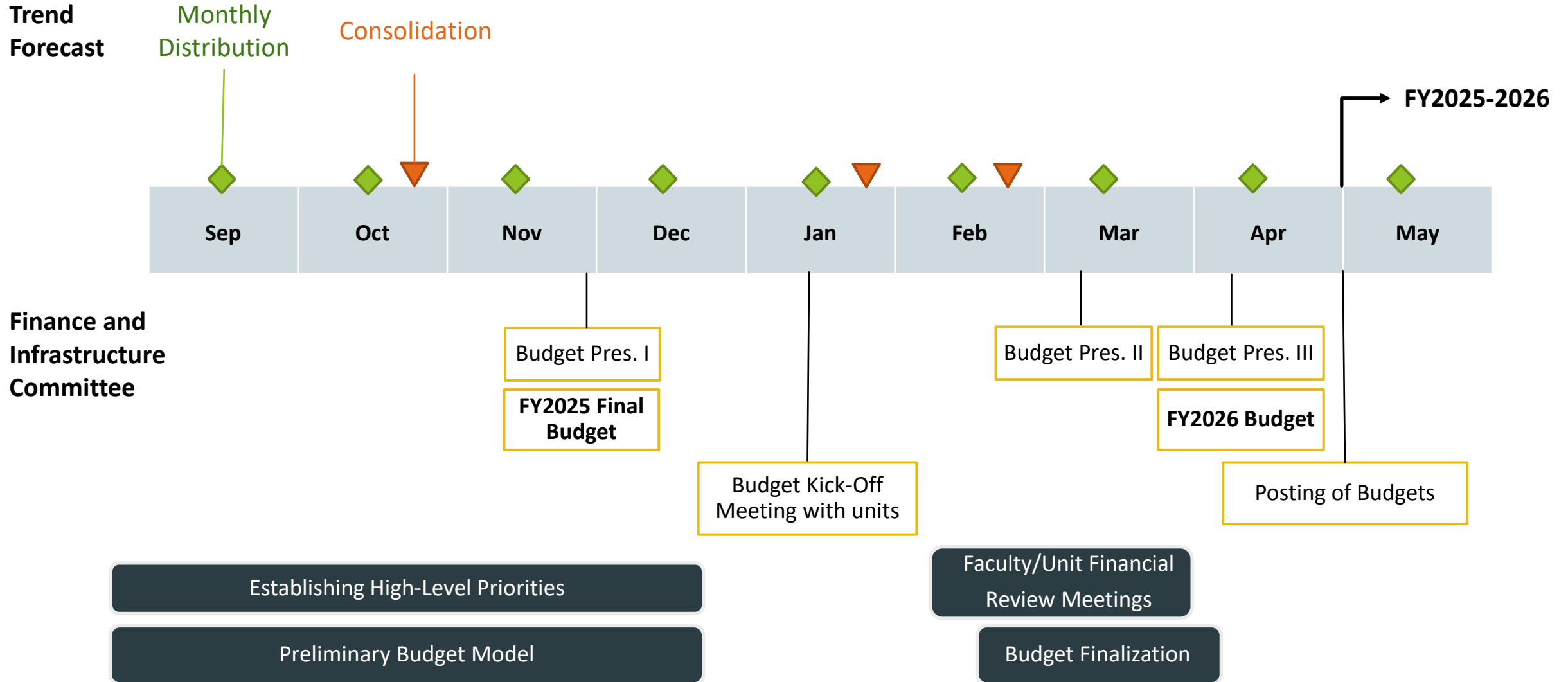
FY2025 Final Budget*: \$1,146,313



*As per September 30, 2024 actuals and commitments, trend forecasts, and input from units

2. Fiscal Year 2025-2026+ Budget Planning (for information)

2.1. Summary of the FY2026 Budget Cycle



2.2. Baseline Revenue Projections for FY2026 to FY2028

- ▶ Baseline revenue projections assume that we will maintain our current enrolment levels and distribution among the different student populations.
- ▶ Globally, revenues are projected to **increase by 1.8% to 2.1% per year** during FY2026 to FY2028.

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	FY2025	FY2026	FY2027	FY2028	FY2025 to FY2028	
Grants - Quebec	471,382	481,832	487,384	492,987	21,605	4.6%
Tuition & Fees	432,967	445,956	459,335	473,115	40,148	9.3%
Sales of Goods & Services	166,159	171,143	176,277	181,565	15,406	9.3%
Grants - Canada	31,276	31,276	31,276	31,276	0	0.0%
Short Term Interest Revenue	11,068	5,000	2,500	2,500	-8,568	-77.4%
Unrestricted Endowment Revenue	10,883	8,500	8,500	8,500	-2,383	-21.9%
Unrestricted Gifts & Bequests	7,605	8,100	8,100	8,100	495	6.5%
Total	1,131,340	1,151,807	1,173,372	1,198,043	66,703	5.9%
Y/Y (%)		1.8%	1.9%	2.1%		

2.3. Current Expense Projections and Correction for FY2026 to FY2028

- ▶ Following \$35M in FY2025 budget measures, as previously modelled, current expense projections exceed revenues.
- ▶ Salary expenses are anticipated to increase globally by **3.3%** per year during the FY2026 to FY2028 period.
- ▶ Non-salary expenses are projected to increase by **5.8%**, **3.0%** and **2.6%** for FY2026, FY2027 and FY2028, respectively.
- ▶ Effective FY2026, we are recommending a **\$45M budget correction**.
- ▶ Transformational changes are being planned and will be implemented to correct this unsustainable trajectory.

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	FY2025	FY2026		FY2027		FY2028	
Total Revenue (% Y/Y)	1,131,340	1,151,807	1.8%	1,173,372	1.9%	1,198,043	2.1%
Salary	881,024	910,323	3.3%	940,663	3.3%	971,537	3.3%
Non-Salary	260,289	275,386	5.8%	283,641	3.0%	291,057	2.6%
Contingency	5,000	10,000	100.0%	10,000	0.0%	10,000	0.0%
Total Expenses	1,146,313	1,195,709	4.3%	1,234,304	3.2%	1,272,594	3.1%
Baseline Surplus / (Deficit)	(14,974)	(43,902)		(60,932)		(74,551)	
Correction of \$45M		45,000		45,000		45,000	
Corrected Surplus / (Deficit)	(14,974)	1,098		(15,932)		(29,551)	

2.4. Possible Revenue-Generating Activities

Recurring

- ▶ Strategic enrolment growth
 - ▶ In person, Montréal and Outaouais campuses
 - ▶ In person, international locations
 - ▶ Online and remote delivery of existing and new programs
 - ▶ Development of new self-funded programs

- ▶ Increase tuition for certain disciplines for CNRQ and internationals, based on market studies and benchmarks

One-time

- ▶ Government funding and additional donations for major capital projects

- ▶ Sale of properties

2.5. Possible Expense Reduction Measures

- ▶ Reduce leased spaces; some leases maturing in 2024 will not be renewed
- ▶ Suspension and re-evaluation of some major infrastructure projects
- ▶ Delay the issuance of new debt and associated initiatives
- ▶ Strict restrictions and planning for the hiring of administrative and academic staff
- ▶ Optimize the academic complement
- ▶ Reduce the growth rate of salary expenses (number of positions, while maintaining competitive salary policy)
- ▶ Institutional efficiencies of administrative processes and structures
- ▶ Optimize the scope of Montreal campus operations to align with a potential enrolment decline
- ▶ Transfer of admissible expenses from operating to philanthropic funds (one-time or recurring)

2.6. Additional Challenges and Risks for FY2026+

- ▶ Geopolitical tensions and immigration policies. Moratory on immigration programs. Risks that reduced caps, redistribution, and language requirement for international study permits imposed by the provincial and federal governments would lead to reduced international enrolment. Precise modalities to follow.
- ▶ Spending caps on the use of MES capital funds, with potential impacts on the operating budget for contractual obligations and sunk costs. Direct use of operating funds for critical projects.
- ▶ Limited borrowing capacity for infrastructure and IT capital projects.
- ▶ McGill salary policy projections and commitments exceeds Québec grant indexations and tuition increases.
- ▶ Upcoming changes to the weighting of teaching disciplines (and possibly cycles).
- ▶ Need to build financial capacity for investment in institutional efficiency and efficacy initiatives, as well as revenue-generating initiatives (e.g., developing new enrolment markets).

2.7. FY2026 Budget Planning

- ▶ **Enrolment targets**, meetings to be held with Faculties in December/January. Revenue modeling in February.
- ▶ **Non-compressible budgets**, information to be assessed in November/December.
- ▶ **Academic review and renewal planning**, in December/January
- ▶ **Other incremental budget requests**, in February
- ▶ **Financial review of Faculties and units**, in February
- ▶ **Final decisions on budget measures effective in FY2026**, in February.
- ▶ **Finalization of the FY2026 budget using scenarios to deal with the many unknowns**, in March

Discussion

- ❓ Questions
- ❓ Comments
- ❓ Concerns
- ❓ Suggestions

