McGILL UNIVERSITY **SENATE**

Memorandum

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TO: Senate

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

SUBJECT: University Budget (2025-2026)

DATE: April 16, 2025

DOCUMENT #: D24-75

ACTION REQUIRED: ☒ INFORMATION ☐ APPROVAL/DECISION

ISSUE

The McGill Fiscal Year 2025-2026 (FY2026) Budget Planning Report III is presented to Senate for information.

BACKGROUND & RATIONALE

For the fiscal year ending on April 30, 2025 (FY2025), $35M of in-year expense reduction measures have progressed well. Based on January 31, 2025 actuals and commitments, historical trends, input from units, and current assumptions, the FY2025 forecast suggests a $4.1M deficit, with no remaining contingency.

At the February 7, 2025, Town Hall, McGill announced the launch of the Horizon McGill institutional transformation project aimed at correcting an unsustainable budget trajectory. Phase 1: a $45M budget correction to balance McGill's FY2026 budget. Phase 2: over 2-5 years, optimize administrative services, review the management and delivery of academic programs, as well as strategic enrolment and research, to reinvest operating margins into teaching and research.

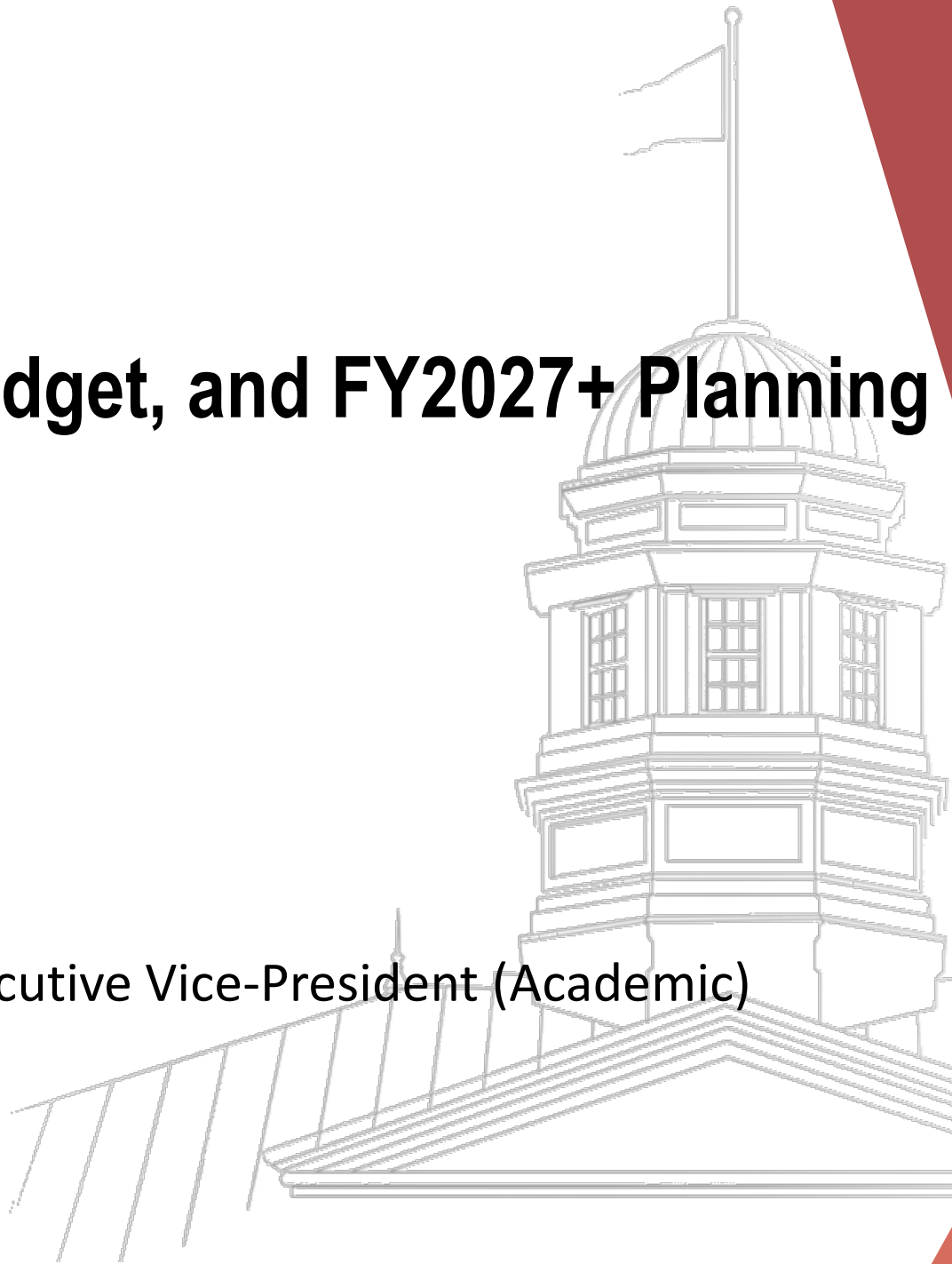
Based on plans developed by Faculties and Units, a $45M budget correction is achievable. Hence, for FY2026, a balanced budget, which includes a $10M contingency, is being presented to the Finance and Infrastructure Committee for review and recommendation for approval by the Board of Governors at its meeting of April 24, 2025.

	For FY2027+, expense projections are still growing at a higher rate than revenues, exacerbated by new cuts from the Québec Government. Updated budget projections suggest that the University's operating deficit would reach $30M in FY2027 and $73M in FY2028. Additional revenue generating initiatives and expense reduction measures will need to be strategic and recurrent. This will require difficult choices from leaders across the University.
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 III is focused on maintaining institutional stability.
IMPACT OF DECISION AND NEXT STEPS	The FY2026 Budget will be presented to the Board of Governors for consideration at its meeting of April 24, 2025.
MOTION OR RESOLUTION FOR APPROVAL	*n/a*
APPENDICES	Appendix A: University Budget (2025-2026) presentation deck

Budget Report III:
FY2025 Update, FY2026 Budget, and FY2027+ Planning

Presentation to Senate
April 16, 2025

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



McGill

Executive Summary

- For the fiscal year ending on April 30, 2025 (FY2025), $35M of in-year expense reduction measures have progressed well. Based on January 31, 2025 actuals and commitments, historical trends, input from units, and current assumptions, the FY2025 forecast suggests a $4.1M deficit, with no remaining contingency.
- At the February 7 Town Hall, McGill announced the launch of the Horizon McGill institutional transformation project aimed at correcting an unsustainable budget trajectory. Phase 1: a $45M budget correction to balance McGill's FY2026 budget. Phase 2: over 2-5 years, optimize administrative services, review the management and delivery of academic programs, as well as strategic enrolment and research, to reinvest operating margins into teaching and research.
- Based on plans developed by Faculties and Units, a $45M budget correction is achievable. Hence, for FY2026, a balanced budget, which includes a $10M contingency, is being presented to the Finance and Infrastructure Committee for review and recommendation for approval by the Board of Governors at its 24 April 2025 meeting.
- For FY2027+, expense projections are still growing at a higher rate than revenues, exacerbated by new cuts from the Québec Government. Updated budget projections suggest that the University's operating deficit would reach $30M in FY2027 and $73M in FY2028. Additional revenue generating initiatives and expense reduction measures will need to be strategic and recurrent. This will require difficult choices from leaders across the University.
- These projections exclude additional potential revenue losses due to declined enrolment as a result of the French proficiency requirements, restrictions in student immigration policies, increased pressure on the operating budget following reduced capital funding, and potential additional changes to funding policies.

1. Fiscal Year 2024-2025 Update

(for information)

McGill

1.1. FY2025 Forecast: Revenues and Expenses

($000)

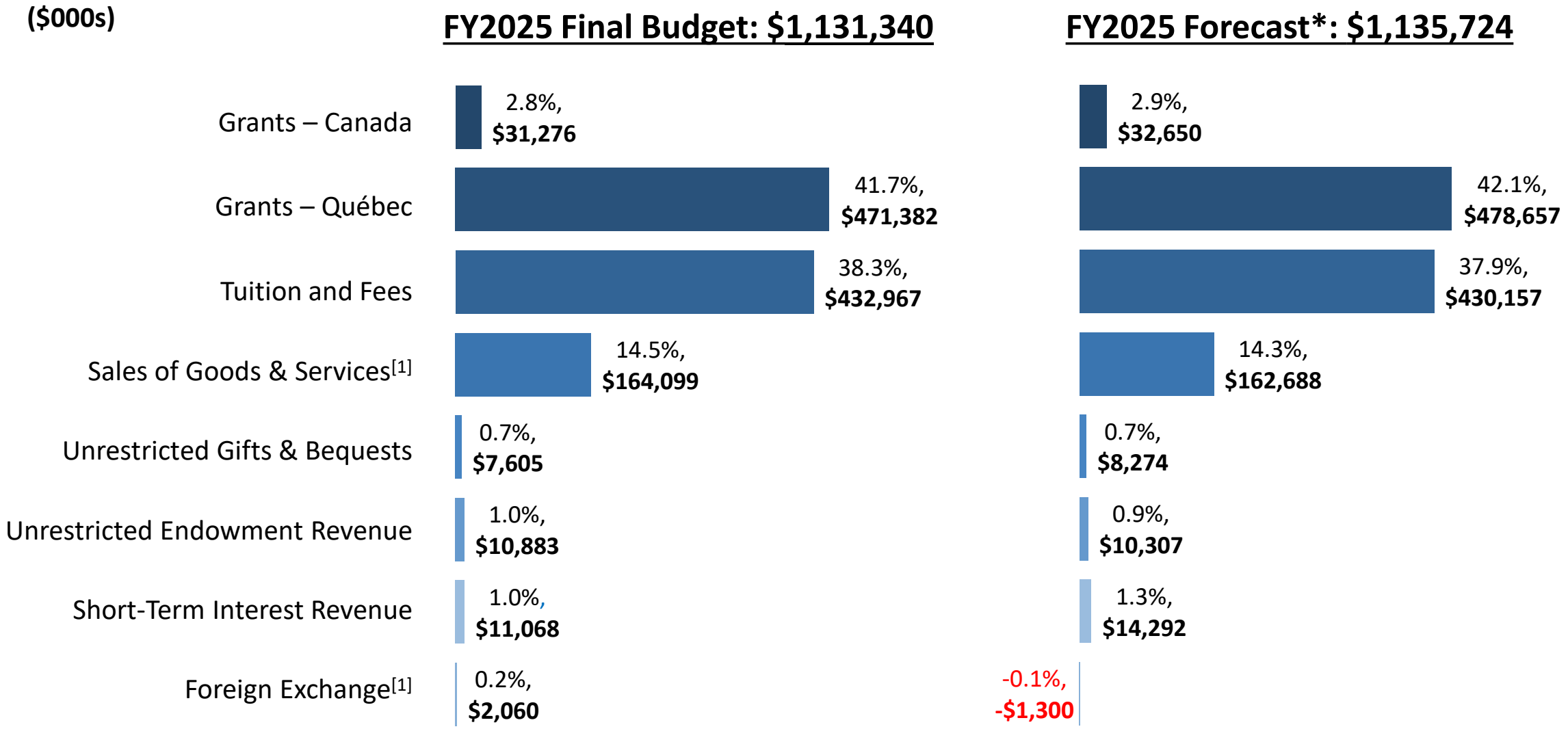
	FY2022 Actuals	FY2023 Actuals	FY2024 Actuals	FY2025 Final Budget	FY2025 Forecast*
Total revenues	978,172	1,025,899	1,098,168	1,131,340	1,135,724
Total expenses	976,822	1,025,507	1,097,584	1,146,313	1,139,859
Annual surplus / (deficit)	1,350	392	584	(14,974)	(4,135)

Excluding year-end GAAP adjustments

*As per January 31, 2025 actuals and commitments, trend forecasts, input from units, and current assumptions

1.2. FY2025 Forecast: Revenues vs. Final Budget

($000s)

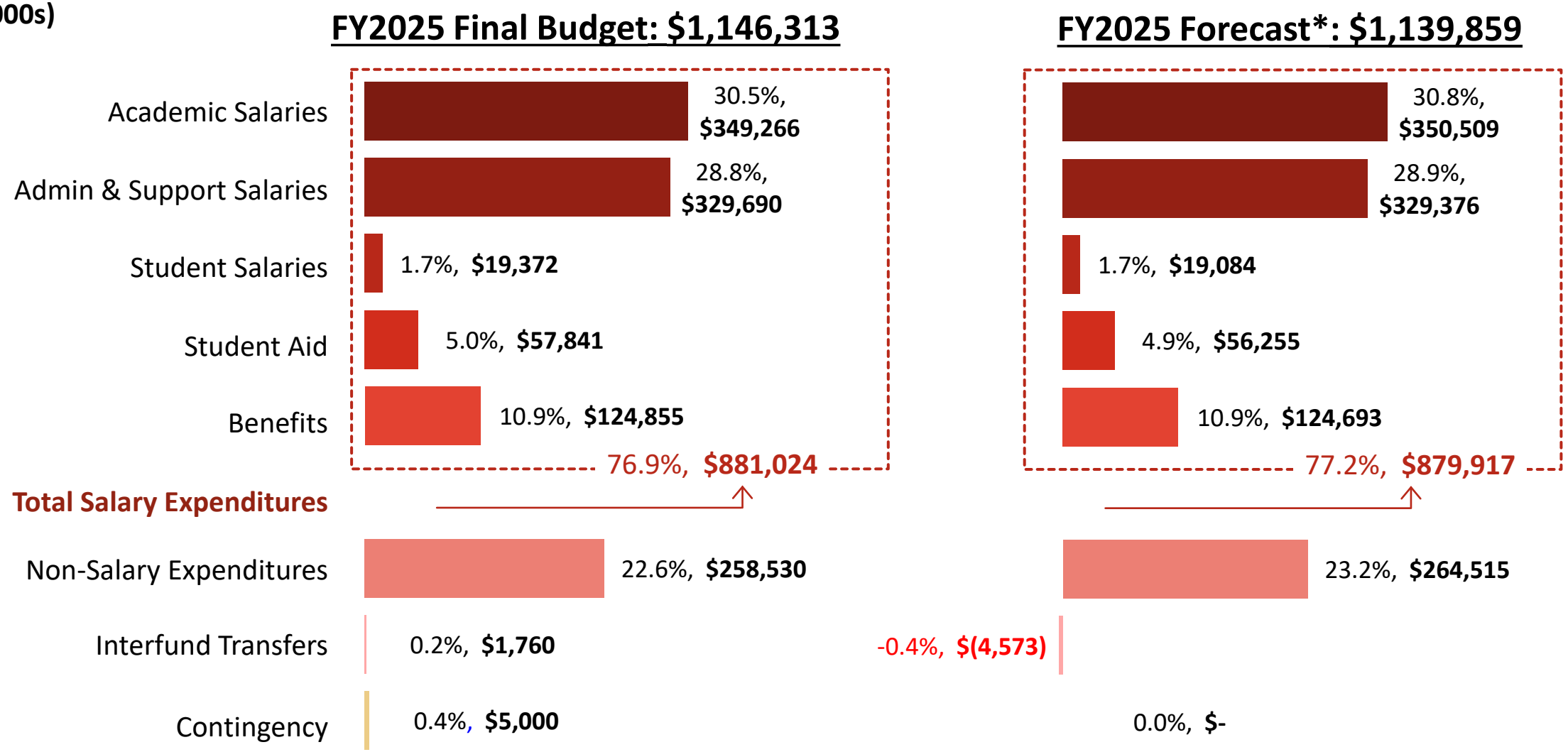


[1} Foreign exchange revenue has been isolated from Sales of Goods and Services revenue.

*As per January 31, 2025 actuals, trend forecasts, input from units, and current assumptions

1.3. FY2025 Forecast: Expenses vs. Final Budget

($000s)



*As per January 31, 2025 actuals and commitments, trend forecasts, input from units, and current assumptions

1.4. FY2025 Forecast: Non-Salary Expenditures vs. Final Budget

($000s)	FY2025 Final Budget: $258,530	FY2025 Forecast: $264,515	Variance: $5,985
Building and Occupancy Costs (excluding sinking fund payment)	61,573	59,593	(1,979)
Materials, Supplies & Publications	41,848	45,223	3,375
Contract Services	36,092	37,131	1,038
Hardware and Software Maintenance	25,489	27,658	2,169
Energy	22,220	21,569	(651)
Cost of Goods Sold & Services Rendered	11,602	9,804	(1,798)
Professional Fees	14,318	15,765	1,447
Contribution to Partner Institutions	10,054	10,230	175
Capital Purchases	7,000	5,678	(1,322)
Bank Charges	1,820	1,670	(150)
Sinking Fund Payment	10,000	10,000	0
Other (e.g., travel, tuition costs, events, catering, photocopying)	16,512	20,194	3,682

1.5. FY2025 Forecast: Variance Analysis vs. Final Budget

Revenues : Overall +$4.4M (0.4%). Main variations:

Grants – Quebec	+$7.3M	Higher enrolment-driven revenues, lower recoveries and higher Quebec Government salary policy payments than anticipated
Tuition and Fees	-$2.8M	Central tuition and fee expectations are down marginally
Sales of Goods and Services	-$1.4M	Reduced expectations in Food and Dining Services
Short-term Interest Revenues	+$3.2M	Lower interest rates more than offset by larger bank balances
Foreign Exchange	-$3.4M	Unexpected downwards pressure on CAD, resulting in an expected loss on USD funded purchases

Expenses : Overall -$6.5M (-0.6%). Main variations:

Materials, Supplies & Public.	+$3.4M	Cost expectations are up in Faculty of Medicine & Health Sci, Libraries, and Facilities Management
Hardware / Software Maint.	+$2.2M	Increased cost expectations, particularly Information Tech. Services, Teaching & Learning Services
Other Non-Salary Expenses	+3.7M	Anticipated write-off of amounts advanced for a joint venture with Queen's University (MQUP), and one-time absorption of accumulated costs for which no other funding source is available.
Inter-Fund Transfers	-$6.3M	Multiple units are using other funding sources to help alleviate pressure on the unrestricted fund
Contingency	-$5.0M	No remaining contingency

2. Fiscal Year 2025-2026 Budget

(for recommendation to the BOG)

McGill

2.1. FY2026: Québec Government Policy Changes (announced in 2024-2025)

- **French Proficiency Requirements**
  - English-language universities will be required to have **80% of their undergraduate students from outside Québec reach a level 5 (intermediate) proficiency in French** by the time they graduate, starting with students beginning their studies in Fall 2025.
  - It has been specified that if McGill and Concordia do not achieve the 80% requirement, they will incur financial penalties, but such penalties have yet to be defined. Bishop's is exempt.
  - Importantly, **this is an institutional requirement. French proficiency will not be required for students to graduate.**
  - Our FY2026+ baseline revenue projections assume no specific decline resulting from these requirements.

- **Graduation Financial Incentives in Priority Fields Set by the Québec Government**
  - The Government's priority fields are guided by workforce shortage areas in strategic sectors of the economy (engineering and information technology) and in essential public services (health and social services, education). Energy transition has been added to the priority fields in 2024-2025.
  - Allocations are paid two years following graduation. These revenues are considered in projections since April 2024.
    - For FY2026, $6,750 (1st and 2nd cycle), $7,500 (3rd cycle) per 2022-2023 graduate. Total ~$11M for McGill.
    - For FY2027, $9,000 (1st and 2nd cycle), $10,000 (3rd cycle) per 2023-2024 graduate. Total ~$14M for McGill.

2.2. FY2026: Québec Government Policy Changes (new announcements)

Immigration Policies

- Adopted in December 2024, **Bill 74 provides additional flexibility to the Québec Government to set parameters for international students** which may include requirements such as the number of *Certificat d'acceptation du Québec (CAQ)* per institution, and possible criteria such as knowledge of the French language, region, cycle and discipline of study.
- For the Fall 2025 admission cycle, universities were awarded the same number of CAQs as for Fall 2024. Issuance of CAQs is one of many steps in the admission process leading to the registration of students.
- Considering increasing challenges to attract students to Canada (and Québec), for the **FY2026 Budget, revenue projections assume another decline of 10% of the international (non-exempt) undergraduate population**, as seen in the past 3 years.
- Considering public statements made by the Québec Government, there are reasons to worry about the immigration parameters that will be decided for the Fall 2026 admission cycle.

Indexation of Regulated Tuition Rates and Fees

- In March 2025, the *Ministère de l'Enseignement supérieur* (MES) announced a **2% indexation rate for regulated tuition and fees** which essentially applies to all students, except those enrolled in a self-funded program (e.g., MBA, MMA, MMF, MPP). For international (non-exempt) students enrolled in a first cycle and master's non-thesis programs, tuition is set by the institution above a regulated minimum.
- Although the Québec Government has tabled in 2023 Bill 1 that caps the indexation of government tariffs for residents at 3%, they reverted to a past methodology because 2023 inflation rates have returned below 3%.
- The financial impact to McGill for a 2% indexation rate (compared to the previous assumption of 3%), is $4.5M.

2.3. FY2026: Québec Government Policy Changes (new announcements cont'd)

Capital Funding Caps

- In December 2024, the MES has communicated that annual spending caps on capital funding *(niveau d'investissement)* for the next 3 years will be reduced by about 30% of previously anticipated capital spending levels.
- This situation has rendered it necessary for the University to completely revisit its infrastructure spending plan, prioritizing urgent projects related to Health and Safety concerns, compliance issues, as well as to potential major disruptions to the delivery of our academic mission.
- The operating budget may need to increase its contributions to support critical infrastructure projects in the coming years.
- On a positive note, the MES recently announced that spending caps would be slightly increased for the next three years. Details are expected in May. Because of this recent announcement, no specific provision has been included in the budget for FY2026.

Changes to assumptions for Québec Government funding, announced on March 27, 2025

- For FY2026, a **0% salary policy indexation will be applied**, representing a significant drop from their 2.6% previous announcement and our 2% assumption. Considering a 1% indexation for the non-salary components, **a 0.3% overall FY2026 grant indexation is assumed**, representing a recurring $11.6M loss of anticipated revenue. Details will follow in May.
- For FY2027, an overall **0.3 % reduction of grant funding to the university sector is expected**. Considering prior assumptions, the estimated additional recurring loss in revenues for McGill is in the order of $10M.
- Effective FY2027, the probable end of the Operation main d'oeuvre program. This would translate into an additional recurrent loss of a $12M in revenues dedicated to supporting engineering and computer sciences disciplines.

2.4. FY2026 Budget: Assumptions

- For FY2026, based on realistic plans submitted by Faculties and Units, we are confident that $45M in budget measures will be achieved. Details of the $45M budget plan and updated multi-year projections are provided later.
- For FY2026, our budgeted revenue projections assume that overall enrolment levels will be comparable to previous years, with the assumption of a 10% decline of the international (non-exempt) first cycle student population.
- Revenues would be negatively impacted in the event of declined enrolment and/or reduced proportion of international (non-exempt) students, as presented in scenarios further.
- The FY2026 Budget incorporates provisions related to external pressures (e.g., decline in international fee-paying students, 0% salary policy) and strategic investments required for future revenue-generating initiatives (e.g., McGill Global, new enrolment markets, marketing).
- Overall, we are proposing a FY2026 balanced budget, including a $10M contingency in light of many risks.
- In order to balance the budget for FY2027+, additional revenue generating initiatives and expense reduction measures will need to be strategic and recurrent. This will require leadership and tough choices from all University leaders.
- Essential transformation of the institution will be supported by the Horizon McGill initiative: https://www.mcgill.ca/horizon-mcgill-program/

2.5. FY2026 Budget: Revenues and Expenses

($000)

	FY2022 Actuals	FY2023 Actuals	FY2024 Actuals	FY2025 Forecast*	FY2026 Budget
Total revenues	978,172	1,025,899	1,098,168	1,135,724	1,134,687
Total expenses	976,822	1,025,507	1,097,584	1,139,859	1,134,220
Annual surplus / (deficit)	1,350	392	584	(4,135)	467

Excluding year-end GAAP adjustments
*As per January 31, 2025 actuals and commitments, trend forecasts, input from units, and current assumptions

2.6. FY2026 Budget: Plan to Reach a $45M Target

All Categories: Units increasing revenues / reducing expenses in an effort to meet budget measures.

Increasing Revenues: +5M. Main variations:

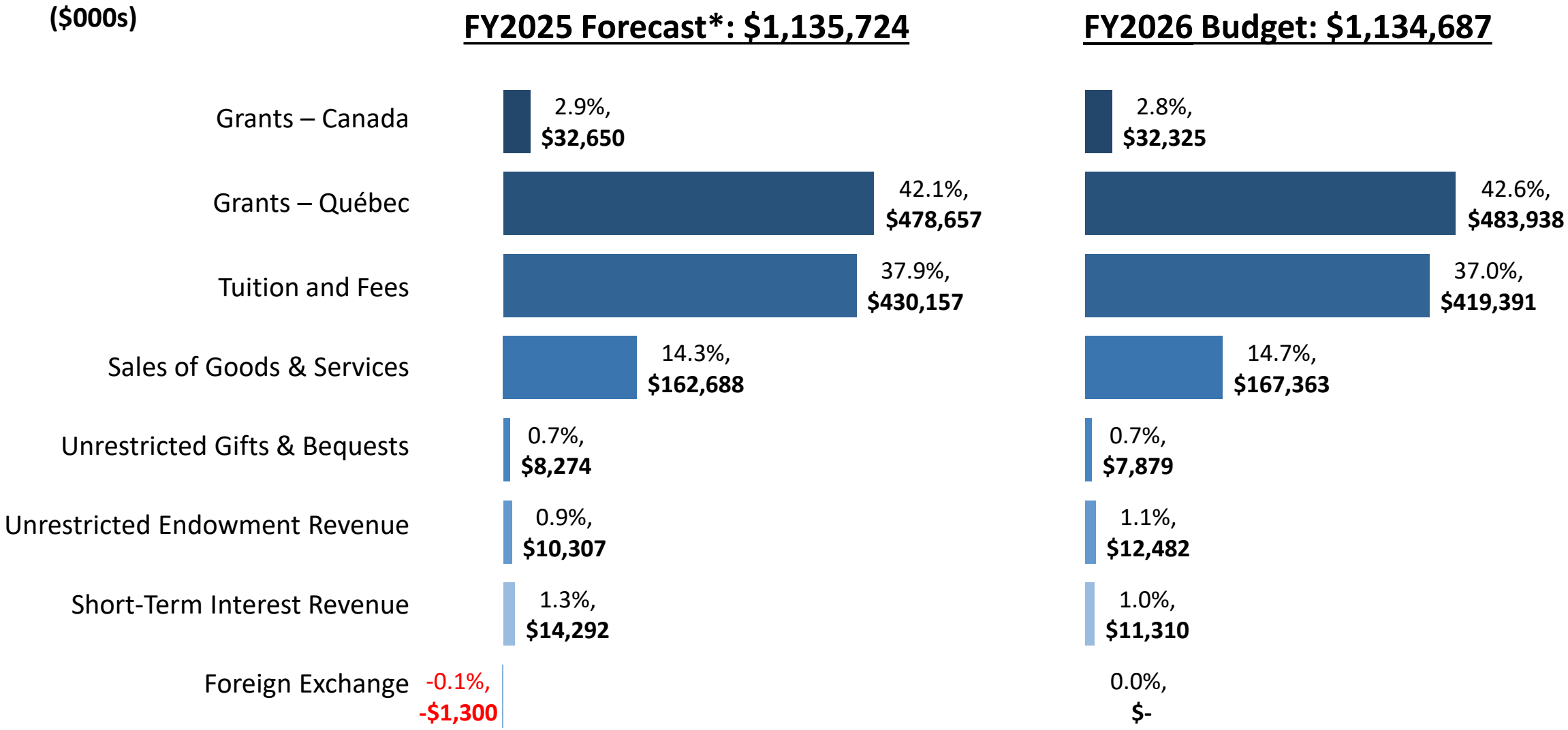
Tuition and Fees	+$0.9M	Increased net revenue from international delivery of self-funding programs (MBA and MMF), and increased tuition for Canadian non-resident of Québec students in professional programs.
Sales of Goods and Services	+$2.4M	Offsetting part of Convocation cost by selling tickets, adding fees for student health services, adjusting fees for Athletics and Recreation to align more closely with current market
Unrestricted Endowment Revenue	+$2.0M	Increasing McGill Investment Pool overhead rate by 0.1%, aligned with market

Reducing Expenses: -$40M. Main variations:

Academic salaries	-$10.1M	Largely driven by academic staff retirements
Admin & support salaries	-$10.6M	Attrition, reduced hours and targeted measures
Student Aid	-$0.9M	Reducing the number of awards paid from the operating fund
Non-salary	-$10.2M	Contract services, professional fees, building & occupancy fees, and delayed capital projects
Use of other fund types	-$7.9M	Mainly philanthropy, but also capital funds for IT projects

2.7. FY2026 Budget: Revenues

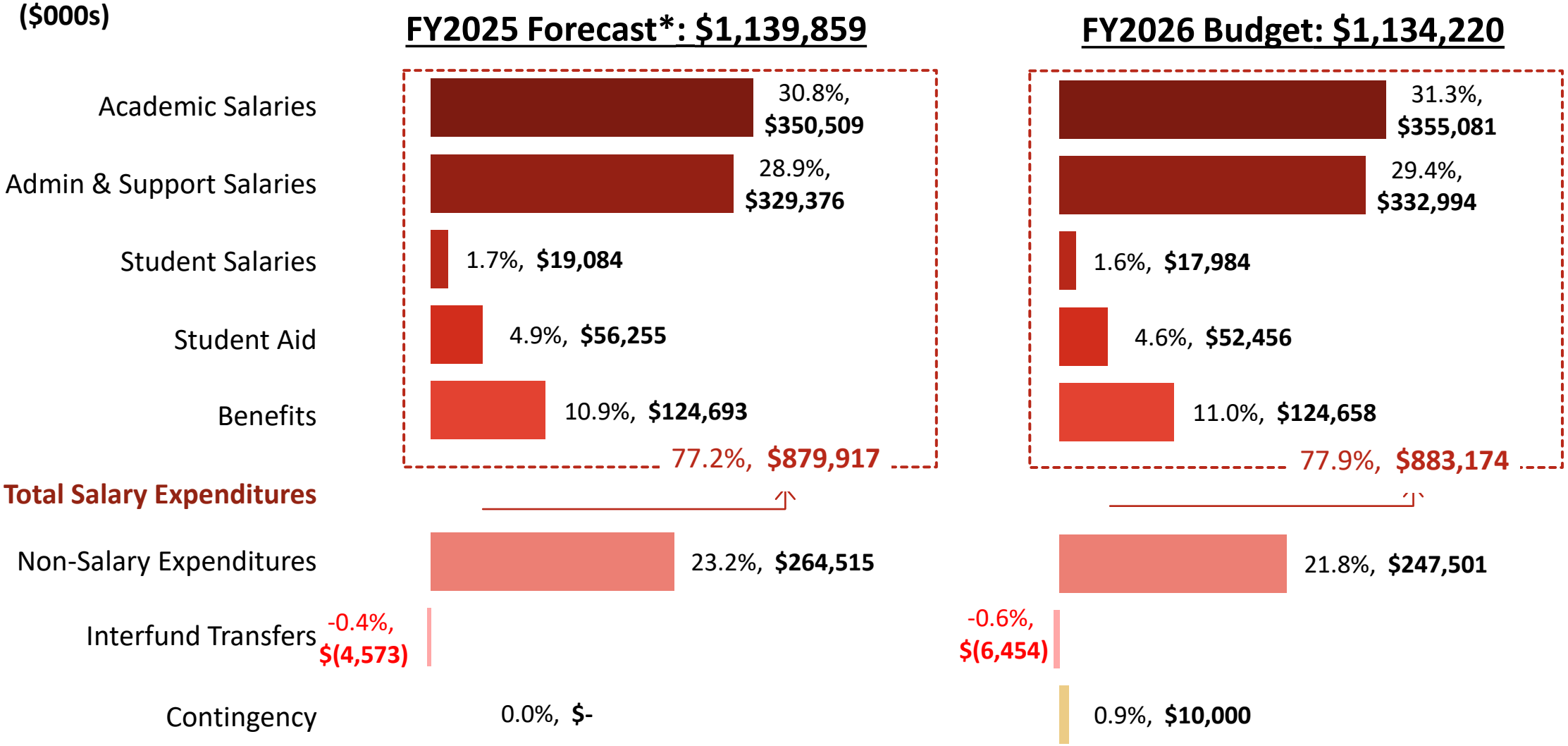
($000s)



*As per January 31, 2025 actuals, trend forecasts, input from units, and current assumptions

2.8. FY2026 Budget: Expenses

($000s)



*As per January 31, 2025 actuals and commitments, trend forecasts, input from units, and current assumptions

2.9. FY2026 Budget: Non-Salary Expenditures

($000s)	FY2025 Forecast: $264,515	FY2026 Budget: $247,501	Variance: ($17,014)
Building and Occupancy Costs (excluding sinking fund payment)	59,593	52,309	(7,284)
Materials, Supplies & Publications	45,223	44,581	(642)
Contract Services	37,131	36,045	(1,086)
Hardware and Software Maintenance	27,658	28,786	1,129
Energy	21,569	22,445	876
Professional Fees	15,765	14,010	(1,756)
Contribution to Partner Institutions	10,230	10,275	45
Cost of Goods Sold & Services Rendered	9,804	8,706	(1,098)
Capital Purchases	5,678	4,504	(1,175)
Bank Charges	1,670	1,500	(169)
Sinking Fund Payment	10,000	11,500	1,500
Other (e.g., travel, tuition costs, events, catering, photocopying)	20,194	12,839	(7,354)

2.10. Sinking Fund Payments through FY2029

- McGill is required to contribute annually to a sinking fund using operating (unrestricted fund) revenues.
- The sinking fund will eventually be used to repay each debt at its maturity (until FY2067).
- Expected payments for FY2026+ have been revised as per actual cumulative contributions, interest rates, amounts and timing for the issuance of new debt for the remaining tranche of the DM and IT Bond ($90M) and New Vic ($250M).
- Any additional debt issuance will be conditional to maintaining a balanced budget.

($000s) A: actuals, F: forecast

Fiscal Year	**Contributions** (Annual)	**Contributions** (Cumulative)	**Comments**
FY2024 - A	12,000	**119,000**	
FY2025 - F	10,000	**129,000**	Any excess operating surplus will be applied to FY2026 thereon required contributions.
FY2026 - F	11,500	**140,500**	
FY2027 - F	15,000	**155,500**	Planned issuance of a $90M 40-year bond. Potential issuance of a $100M 30-year bond
FY2028 – F	15,000	**170,500**	Potential issuance of a $150M 40-year bond
FY2029 - F	15,000	**185,500**	

2.11. FY2026 Budget vs. FY2025 Forecast Variance Analysis

Revenues: Overall -$1.0M (-0.1%). Main variations:

Grants – Quebec	+$5.3M	Progressive re-regulation of international students (2nd of 4 cohorts) and graduation incentive, largely offset by 0% salary policy indexation
Tuition and Fees	-$10.8M	Anticipated decline of 10% of international (non-exempt) students
Short-term Interest Rates	-$3.0M	Lower interest rates expected in FY2026
Unrestricted Endowment Revenue	+$2.0M	Increasing McGill Investment Pool overhead rate by 0.1%, aligned with market

Expenses: Overall -$5.6M (-0.5%). Main variations:

Academic salaries	+$4.6M	Salary indexation expected to be partially offset by workforce reduction
Admin & support salaries	+$3.6M	Salary indexation expected to be partially offset by workforce reduction
Student Aid	-$3.8M	Reduction in the number of awards paid by the unrestricted fund
Professional fees	-$1.8M	Expenses in FY2025 not happening again in FY2026
Building & Occupancy Costs	-$7.3M	Expenses in FY2025 not happening again in FY2026
Other Non-Salary Expenses	-$7.4M	Expenses in FY2025 not happening again in FY2026
Contingency	+$10.0M	Provision in light of many uncertainties and risks

2.12. Baseline Budget Projections and Corrections for FY2027 and FY2028

- For FY2026, a recurring budget correction of $45M will be implemented based on Faculties and Unit plans.
- Updated budget projections suggest that the University's operating deficit would reach $30M in FY2027 and $73M in FY2028. Additional revenue generating initiatives and expense reduction measures will need to be strategic and recurrent. This will require institutional transformation and difficult choices from leaders across the University.
- Baseline budget projections for FY2026+ assume an annual decline of 10% of the international (non-exempt) undergraduate population, as seen in the past 3 years. Revenues will be negatively impacted in the event of declined overall enrolment and/or reduced proportion of international students.

('000s)

	FY2025	FY2026		FY2027		FY2028	
Total Revenue (% Y/Y)	**1,135,724**	**1,134,687**	**(0.1%)**	**1,144,134**	**0.8%**	**1,133,922**	**(0.9%)**
Salary	879,917	883,174	**0.4%**	910,485	**3.1%**	937,778	**3.0%**
Non-Salary	259,942	241,047	**(7.3%)**	253,760	**5.3%**	259,191	**2.1%**
Contingency	0	10,000		10,000	**0.0%**	10,000	**0.0%**
Total Expenses	**1,139,859**	**1,134,220**	**(0.5%)**	**1,174,245**	**3.5%**	**1,206,969**	**2.8%**
Baseline Surplus / (Deficit)	**(4,135)**	**467**		**(30,111)**		**(73,047)**	
Phase II - Institutional Transformation (FY2027)				**30,000**		**30,000**	
Phase II - Institutional Transformation (FY2028)						**45,000**	
Corrected Surplus / (Deficit)	**(4,135)**	**467**		**(111)**		**1,953**	

2.13. Scenarios for International (non-exempt) First Cycle Students

- FY2026 budgeted revenue projections assume that overall enrolment levels will be comparable to previous years, with the assumption of a 10% decline of the previously deregulated fee-paying international (non-exempt) first cycle student population.
- Should McGill yield fewer international students than expected, the net loss in revenue ranges from $1.7M to $7.0M in FY2026.

($000s)

Over/Under Budget	FY2026 Previously Deregulated (FTE)	Reregulated Revenue (over/under achieving budget assumptions)	Regulated Revenue (offset with Quebec fee-paying to stabilize FTE)	Net Revenue Impact
+5.0%	3,543	$5,535	-$2,058	$3,477
+2.5%	3,450	$2,768	-$1,029	$1,739
Budget	3,357	–	–	–
-2.5%	3,264	-$2,768	$1,029	-$1,739
-5.0%	3,171	-$5,535	$2,058	-$3,477
-7.5%	3,079	-$8,303	$3,087	-$5,216
-10.0%	2,986	-$11,071	$4,116	-$6,955

2.14. Uncertainties and Risks

- **External:**
  - Stability of government commitments (e.g., funding and immigration policies)
  - Global political landscape and its effect on international student mobility
  - Effect of market volatility on pension fund and the University’s endowment fund
  - Canadian dollar exchange rate
  - Interest rates
  - Inflation

2.15. Uncertainties and Risks (cont'd)

- **McGill-controlled:**
  - Success of the University in deploying its enrolment plan
  - Expense control measures
  - Stability of activities expected to be self-financing
  - Effectiveness of position budgeting and control
  - Management of carry forward balance spend down
  - Cost of space for teaching, research and services (e.g., new leases, leasehold improvements, swing space for renovations)
  - Limited borrowing capacity for infrastructure and IT capital projects
  - 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)

Discussion

- Questions
- Comments
- Concerns
- Suggestions

McGill