

Secretariat

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The following items arise from a meeting of the Finance Committee on November 20, 2018. They are presented to the Board of Governors for information.

I. FOR THE INFORMATION OF THE BOARD OF GOVERNORS**1. Update on Financing Plan for Deferred Maintenance and IT Initiatives [F18-03]**

In 2015, the Board of Governors approved for the University to borrow or issue debt up to \$400 million, from which approximately \$300 million would be allocated to fund construction and renovation projects and \$100 million would be allocated to fund Information Technology (IT) projects. Pursuant to this, the Finance Committee was informed that as of August 2018, the approved budget for projects to be funded by the \$300 million bond-allocation for construction and renovation projects is \$192,411,584. As of October 2018, the approved budget for IT projects to be funded from the bond issue is \$101,498,091.

2. Update on the Royal Victoria Hospital Redevelopment Project [F18-04]

The Committee received an update on developments concerning the Royal Victoria Hospital (RVH) Redevelopment Project since the previous meeting of the Finance Committee in April 2018.

Milestones discussed in the update included the May 2018 approval in principle by the Board of Governors to proceed with the planning and design phase of the project on the understanding that the Government of Quebec would make a \$37 million contribution to this phase.

In June 2018, the Government announced and confirmed this contribution, and in October 2018, the Executive Committee of the Board of Governors, approved the \$37 million *Convention d'aide financière* (funding agreement) and authorized the Vice-Principal (Administration and Finance) to sign it, and any related documents, including the *protocole d'entente* (Memorandum of Understanding).

With respect to the project timeline, the Committee was informed that the *Société québécoise des infrastructures* (SQI) was expected to deliver a Master Plan for the RVH site by December 2019.

3. Outstanding Capital Borrowings at April 30, 2018 [F18-01]

The Committee received a report on outstanding capital borrowings. As of April 30, 2018, the short-term borrowings include amounts due from the Government of Quebec, totaling \$80.5 million.

4. Matters Related to Short-Term and Long-Term Borrowing [F18-05]

The Committee received an update on matters related to short-term and long-term borrowing, including expectations for the next bond issuance. With respect to short-term borrowing, the Committee was informed that thanks to favourable projected cash flows it was unlikely that the University will exceed its short-term borrowing limit of \$160M for the 2019 fiscal year (FY 2019). By the end of FY 2019, it is estimated that the borrowed amount will go down to \$75M.

Regarding long-term borrowing, the Committee was reminded of the uncertainty related to the amount, and timing of debt refinancing to be received from *Financement Québec*. Short-term borrowings would likely be necessary as bridge financing to cover the period from May to December. As a result, long term refinancing would most likely exceed the authorized borrowing limit of \$300M during fiscal year 2020. If this will be the case, Board approval will be sought.

With respect to the next issuance of debt from the bond, the Committee was informed that the University would likely be going to market in the late spring or early summer of 2019.

5. Budget Implementation 2018-19 Year-to-Date [F18-06]

The Committee received a report on the implementation of the 2018-2019 budget. Members were informed that actual revenues were higher than forecasted revenues by \$8.5M. This was due to the Government grant being higher than forecast by \$1.8 million, and from higher revenues resulting from favourable interest rates, higher than anticipated investment income and foreign exchange. Furthermore, the Committee was informed that the University was operating with a budgetary surplus for FY2018. This was due in large part to actual expenses being lower by \$15.7M compared to forecasted amounts.

6. Budget Planning 2019-20 Report I [F18-07]

The Committee received an overview of the budget planning exercise for FY2020. The Presentation in support of the budget planning exercise is attached as Appendix A.

7. Central Budget Process: Update and Heat Map Analysis [F18-08]

Pursuant to an Internal Audit report on the Central Budget Process, the Committee received a progress report on implementation of the report's recommendations. The Internal Audit report contained 27 recommendations in specific areas of the Central Budget Process including roles and responsibilities, budget processes, controls, and Information Technology (IT) tools. Of these recommendations, 14 were complete with 13 in progress. Implementation of these recommendations has been a valuable exercise involving collaboration with multiple units across the University. This item will be included in all Finance Committee meetings moving forward for monitoring purposes.

8. University Advancement Annual Report (2017-18) [F18-09]

The Committee received the 2017-2018 University Advancement (UA) Annual Report as well as a presentation on preparations for McGill's upcoming Bicentennial Campaign. Performance in 2017-2018 was strong, particularly with respect to gifts from individuals.

9. Finance Committee Orientation Package 2018-19 [F18-02]

The Committee received its 2018-2019 Orientation Package, which contained updated reference materials for the Committee's information.

END
December 2018

McGill FY2020 Budget Cycle Budget Planning I

McGill University Budget FY2019: November Update

Presentation to Board of Governors for the December 13th, 2018 Meeting

Christopher Manfredi, Provost and Vice-Principal (Academic)



General Observations

FY2019 Budget November Update: Sources of Variance

▶ **Anticipated Variance in Unrestricted Revenues:**

▶ **New Provincial Funding Policy:**

- ▶ Exact impact still unclear
- ▶ *Subvention de fonctionnement* in the *Règles budgétaires* higher than budgeted, but includes reallocated envelopes

▶ **Enrolment**

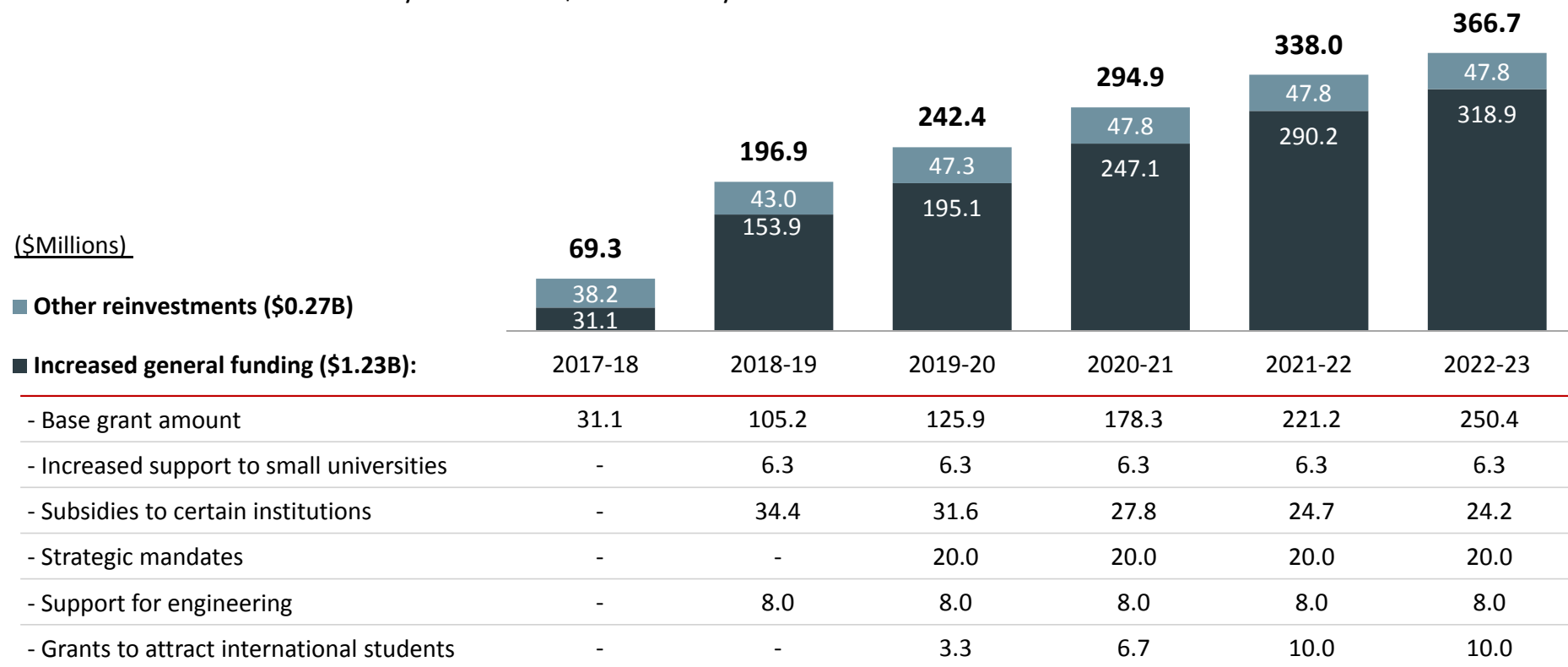
- ▶ Undergraduate fall 2018 enrolment (headcount) surpassed target by 187 (0.8%)
 - ▶ Enrolment for deregulated programs was 248 over target (11.0%)
 - ▶ Enrolment for regulated programs was 61 below target (0.2%)
- ▶ Graduate annual new registrations estimated at 105 over target (3.5%)
- ▶ Will result in higher than budgeted tuition and fees

▶ **Sales of Goods and Services**

- ▶ Anticipated increase based on trends and unit expectations to date

FY2019 Budget November Update: Distribution of government reinvestment

► Reinvestment in the university network of \$1.5B over 6 years



FY2019 Budget November Update: Ministry estimate of impact over five years

<u>\$ Millions</u>	2016-17 operating grant	<u>Estimated annual impact of revised funding policy and reinvestment (\$1.23B)</u>						2022-23 estimated operating grant ⁽¹⁾	Increase over 2016-17
		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23		
Bishop's	24.9	0.3	1.5	2.3	3.0	3.8	4.5	29.4	18.1%
Concordia	245	3.2	15.4	21.7	24.6	26.5	29.5	274.5	12.0%
Laval	430.3	4.7	22.9	27.0	35.8	42.7	47.1	477.4	10.9%
McGill	326.2	4.6	15.6	18.7	21.8	26.4	30.5	356.7	9.4%
Montréal	507.5	5.6	31.0	39.6	51.9	61.1	66.5	574.0	13.1%
HEC Montréal	77.7	0.8	3.3	4.5	6.6	8.3	9.1	86.8	11.7%
Polytechnique	93.9	1.0	4.2	5.1	7.0	7.4	7.4	101.3	7.9%
Sherbrooke	264	2.8	11.4	13.9	17.1	21.1	23.7	287.7	9.0%
Université du Québec	853.9	8.1	48.6	62.3	79.3	92.9	100.6	954.5	11.8%
Total for the university network	2,823.4	31.1	153.9	195.1	247.1	290.2	318.9	3,142.3	11.3%

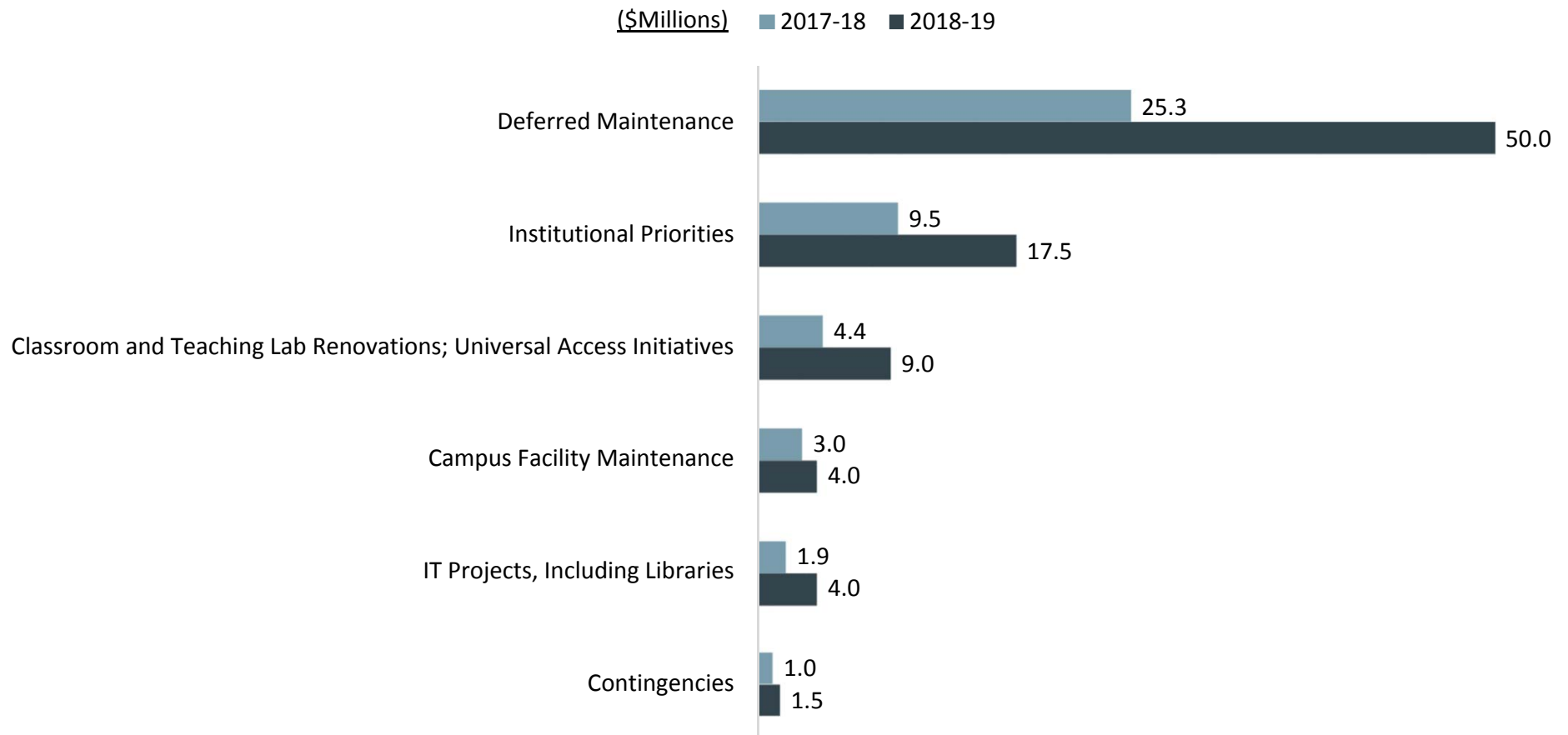
(1) Holding enrolment constant at 2016-17 levels

FY2019 Budget November Update: Sources of Variance (cont'd)

▶ **Variance in Expenses (compared to approved budget):**

- ▶ Tenure-Track Salary Expenditures (initial budget is 100% of salary; leaves/departures reduce the overall cost)
- ▶ Increased Other Academic Salaries & Payments (offsets, in part, Tenure-Track savings above)
- ▶ Increased Support Staff Salaries and Payments
- ▶ Increased Materials, Supplies and Publications
- ▶ Increased Contract Services
- ▶ Decreased Other Non-Salary Expenses (funds are often set aside here, but spent in the other categories noted above)

FY2019 Budget November Update: New capital allocation



Revenue:
Estimate constraints and
revenue drivers

Timeline for Analysis, Planning, and Budget (APB) FY2019 Revenue Projections

FY2019 Revenue Model Inputs									
		McGill-controlled			Ministry-controlled				
		Bachelors Enrolment	Deregulated Enrolment	Graduate New Registrations	QC (basic) Tuition Rate	ROC and Int'l Supplement Rate	Support Grant (\$ per FTE)	Teaching Grant (\$ per WFTE)	CAFF Weights for Teaching Grant
Nov/Dec 2017	Enrolment plans for BY19 prepared following ES/Dean GPS meetings with Deans	targets	targets	targets	assumption	assumption	assumption	assumption	validation with Ministry
Jan 31, 2018 (FY18 Q3)	FY18 tuition collection estimates stabilize (Required input for FY19 tuition projections)	targets	targets	targets	assumption	assumption	assumption	assumption	validation with Ministry
February 2018	Institut de la Statistique du Québec and Statistics Canada	targets	targets	targets	assumption	assumption	assumption	assumption	validation with Ministry
March 15, 2018	<i>Indexation des droits de scolarité des étudiants étrangers et canadiens non-résidents du Québec pour l'année universitaire 2018-2019</i>	targets	targets	targets	confirmed	confirmed	assumption	assumption	validation with Ministry
FY2019 Budget Finalized									
May 25, 2018	<i>Orientations Budgétaires</i>	targets	targets	targets	confirmed	confirmed	confirmed	confirmed	confirmed
July 2018	<i>Règles Budgétaires</i>	targets	targets	targets	confirmed	confirmed	confirmed	confirmed	confirmed
Oct 15, 2018	Fall census enrolment date	Enrolment actuals (FTEs estimated)	Enrolment actuals (FTEs estimated)	New registration actuals (winter new registrations & FTEs estimated)	confirmed	confirmed	confirmed	confirmed	confirmed
Oct 31, 2018 (FY19 Q2)	FY19 tuition collection estimates (high-level)	Preliminary FTEs available			confirmed	confirmed	confirmed	confirmed	confirmed
Jan 31, 2019 (FY19 Q3)	FY19 tuition collection estimates stabilize; preliminary FY19 FTE data available.	FTEs stabilize (Ministry submissions for winter 2019 not yet final)			confirmed	confirmed	confirmed	confirmed	confirmed
Apr 30, 2019 (FY19 Q4)	FY19 tuition collection actuals; FY19 FTE data stabilizes.				confirmed	confirmed	confirmed	confirmed	confirmed

FY2019 Revenue Lever: Overall enrolment & enrolment mix

Bachelors Enrolment (Headcounts)

	FY2019			Variance
	(Fall 2018)	Targets ⁽¹⁾	Actuals	
Regulated programs		22,195	22,134	-61
Deregulated programs ⁽²⁾		2,248	2,496	248
Total Bachelors Enrolment		24,443	24,630	187

Graduate New Registrations (Headcounts - Annualized)

	FY2019			Variance
	(Fiscal Year)	Targets	Actuals (p)	
Total Masters		2,304	2,414	110
Masters Non-Thesis (excl. Management)		1,313	1,375	62
Masters Thesis		991	1,039	48
Doctoral		753	748	-5
Total Graduate New Admits		3,057	3,162	105

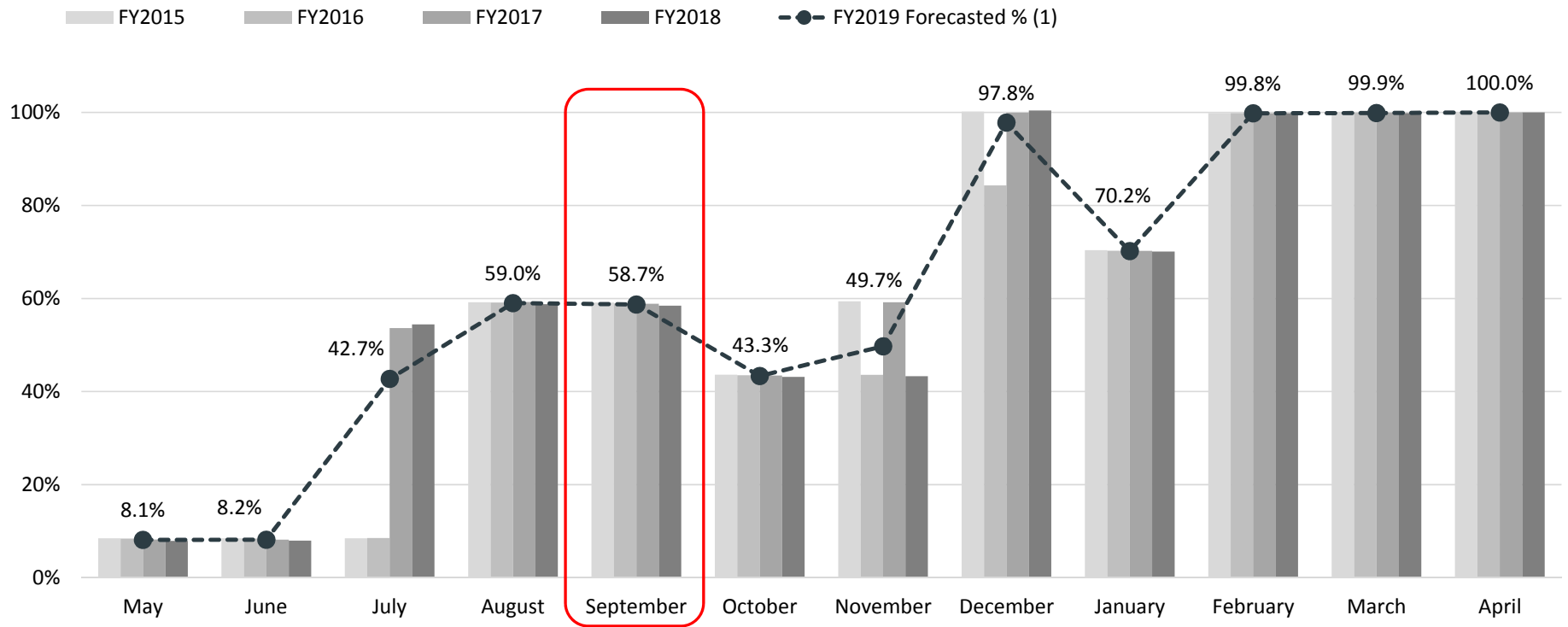
⁽¹⁾ Regulated targets are derived from overall targets minus deregulated targets

⁽²⁾ Deregulated enrolment actuals are an estimate based on students enrolled in deregulated programs, paying international fees, and who are not Canadian citizens, Permanent Residents, or French citizens. Newly admitted students have until the end of the first term to provide proof of citizenship/residency, and thus the number of those considered to be deregulated may decrease slightly from what is shown here.

(p) projected: FY2019 new registrations to graduate programs are projected based on the sum of Summer/Fall 2018 new registrations as at October 15 census and Winter 2019 confirmations as at October 25.

APB Interim Trend Forecast: Revenue example with QC tuition (QC resident) fees

Period \$ as a % of Year-End \$



(1) Forecasted percentage is calculated by taking a weighted average of FY2015 to FY2018 percentages, with more recent years weighted more heavily (FY2015: 10%, FY2016: 15%, FY2017: 30%, FY2018: 45%)

Expenses: Forecast method and drivers

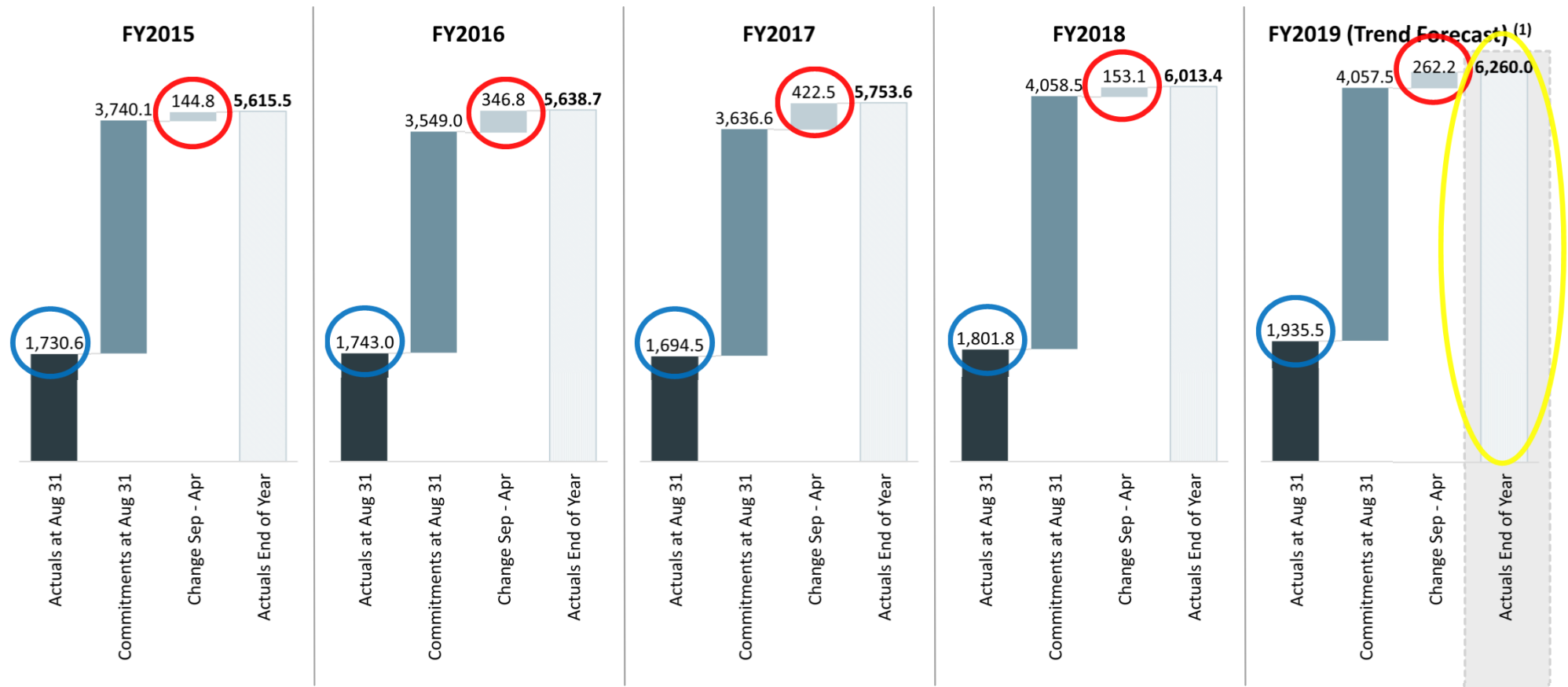
FY2019 APB Trend Forecast for Expense Items

- ▶ Major revenue items are received in a very small number of central funds, but expenses mostly occur at the unit level.
- ▶ The *APB Trend Forecast* was developed this year to provide units with a monthly forecast.
- ▶ Units review the trend forecast for each of approximately 30 expense categories, adjust as necessary, and provide explanations.
- ▶ The *APB Trend Forecast* has become a vehicle for expense control discussions.
- ▶ Some expense categories are more predictable and some less.
- ▶ Next slide: example of **Support Staff Salaries and Payments** in one area (more predictable).

APB Trend Forecast: Support Staff Salaries and Payments (in one area)

(\$Thousands)

Forecast based on August 31 results

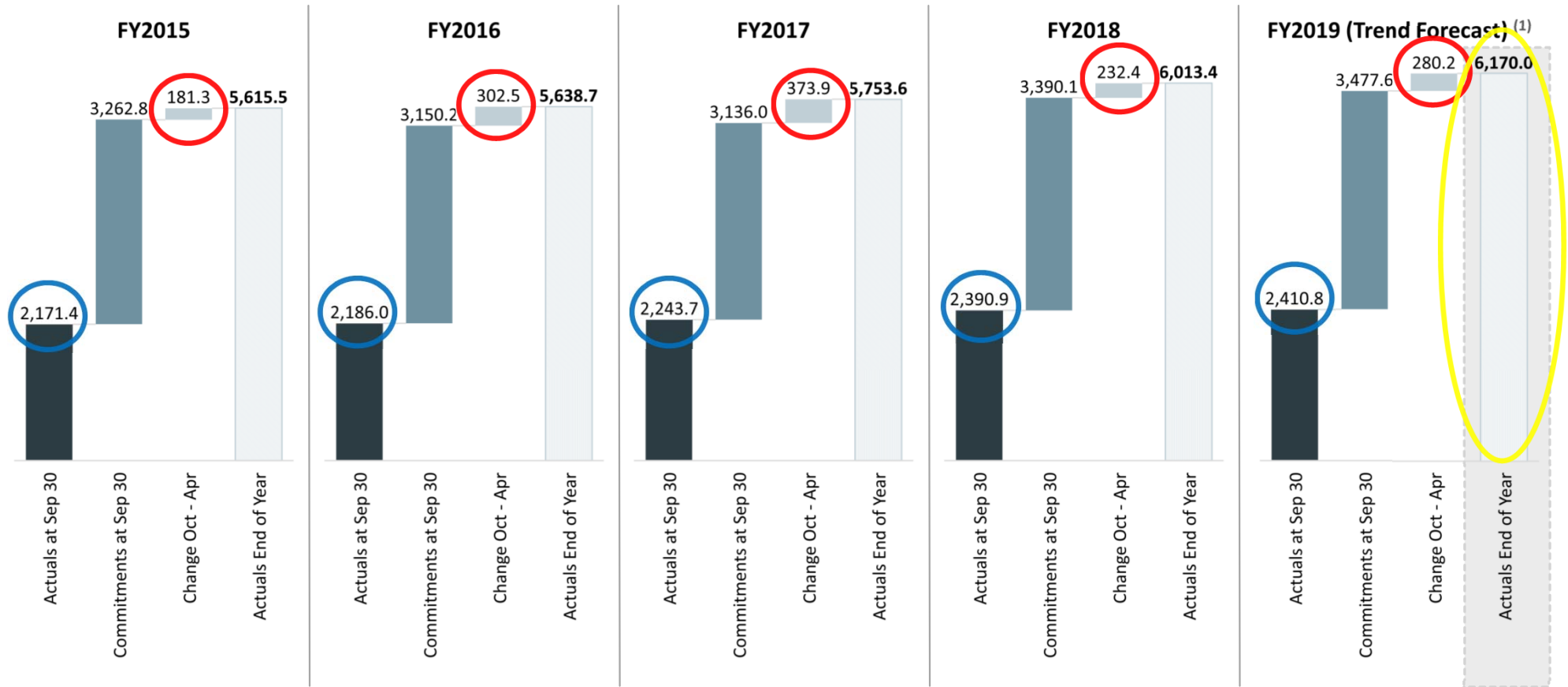


(1) Forecasted change for FY2019 from August 31 actuals to end of year is calculated based on prior year change as follows: FY2015 x 10%, FY2016 x 15%, FY2017 x 30%, FY2018 x 45%. Note that FY2019 year end forecast amount is rounded to the nearest 10,000.

APB Trend Forecast: Support Staff Salaries and Payments (in one area) - (cont'd)

(\$Thousands)

Forecast based on September 30 results

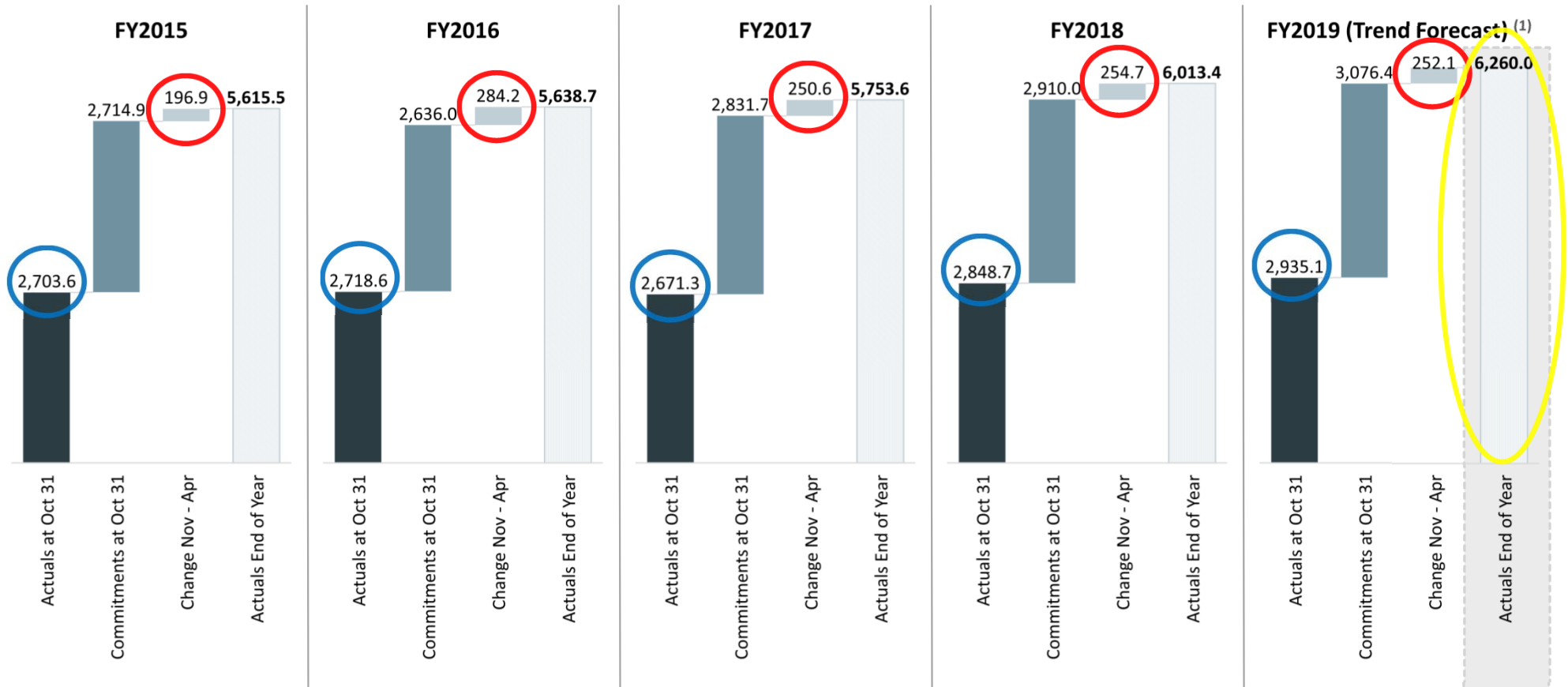


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APB Trend Forecast: Support Staff Salaries and Payments (in one area) - (cont'd)

(\$Thousands)

Forecast based on October 31 results



(1) Forecasted change for FY2019 from October 31 actuals to end of year is calculated based on prior year change as follows: FY2015 x 10%, FY2016 x 15%, FY2017 x 30%, FY2018 x 45%. Note that FY2019 year end forecast amount is rounded to the nearest 10,000.

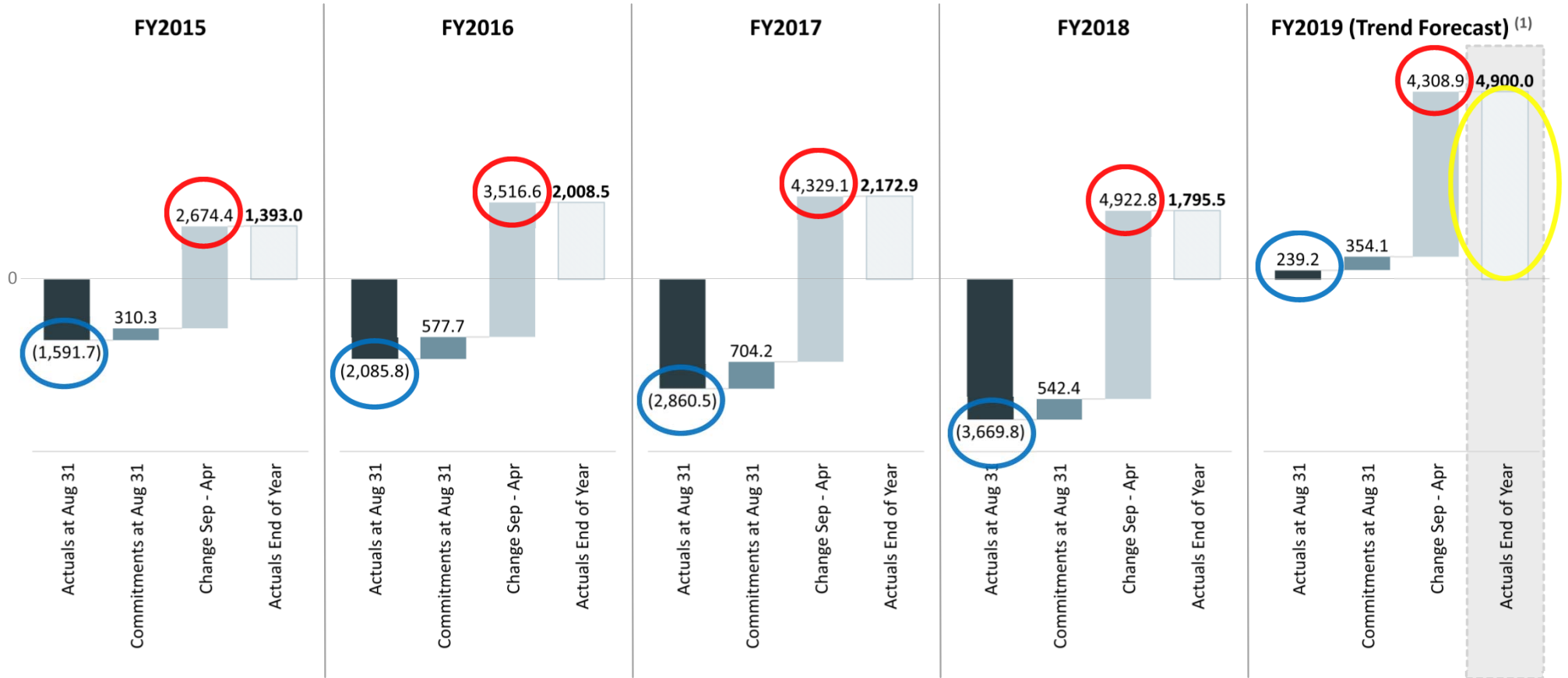
FY2019 APB Trend Forecast for Expense Items

- ▶ Some expense items are less predictable.
- ▶ Where there is no discernable pattern of activity, the *ongoing* input from the individual units is critical.
- ▶ One of the issues that hampers the non-salary forecasting is related to multi-year purchase orders.
 - ▶ Contrary to the more predictable salary expense categories, where total expenses plus commitments in the financial system (Banner) are very accurate for the current fiscal year, the “commitments” for non-salary expense categories often span multiple years.
 - ▶ In the case of a \$5M contract, for example, it may be just a small fraction might that relates to the current fiscal year.
 - ▶ In terms of forecasting expenditures for the end of the current fiscal year, these commitments, which may or may not be multi-year, cloud the picture and serve as a hindrance.
- ▶ Next slide: example of **Building & Occupancy Costs** in one area.

APB Trend Forecast: Building and Occupancy Costs (in one area)

(\$Thousands)

Forecast based on August 31 results

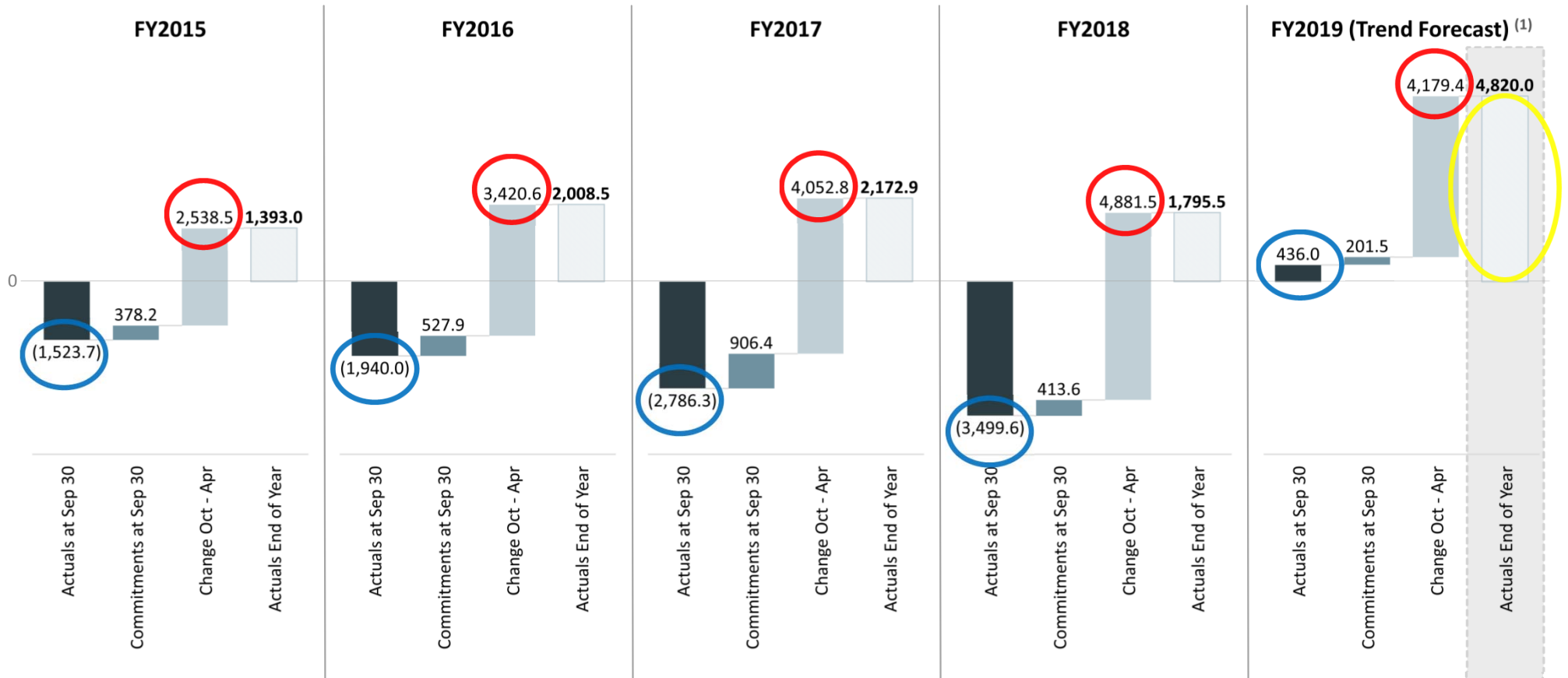


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APB Trend Forecast: Building and Occupancy Costs (in one area) - (cont'd)

(\$Thousands)

Forecast based on September 30 results

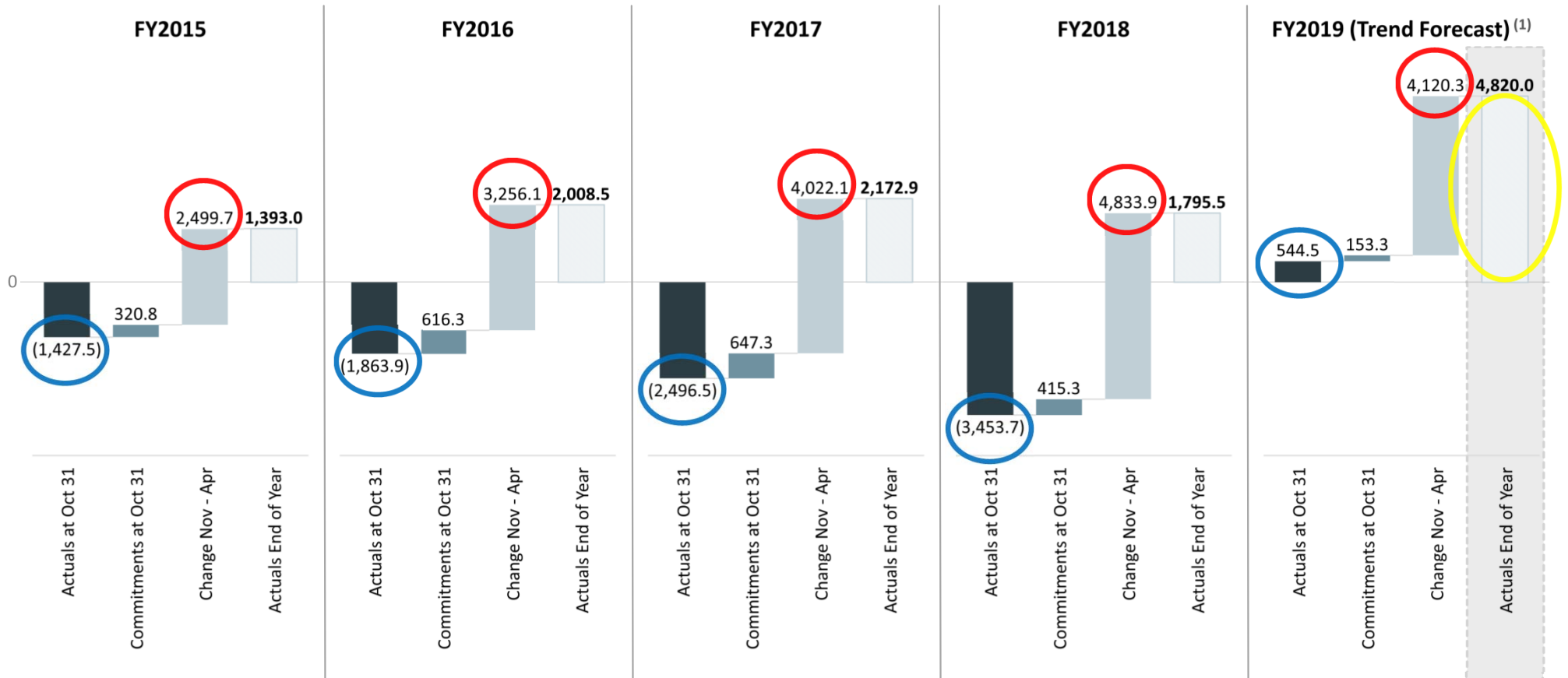


(1) Forecasted change for FY2019 from September 30 actuals to end of year is calculated based on prior year change as follows: FY2015 x 10%, FY2016 x 15%, FY2017 x 30%, FY2018 x 45%. Note that FY2019 year end forecast amount is rounded to the nearest 10,000.

APB Trend Forecast: Building and Occupancy Costs (in one area) - (cont'd)

(\$Thousands)

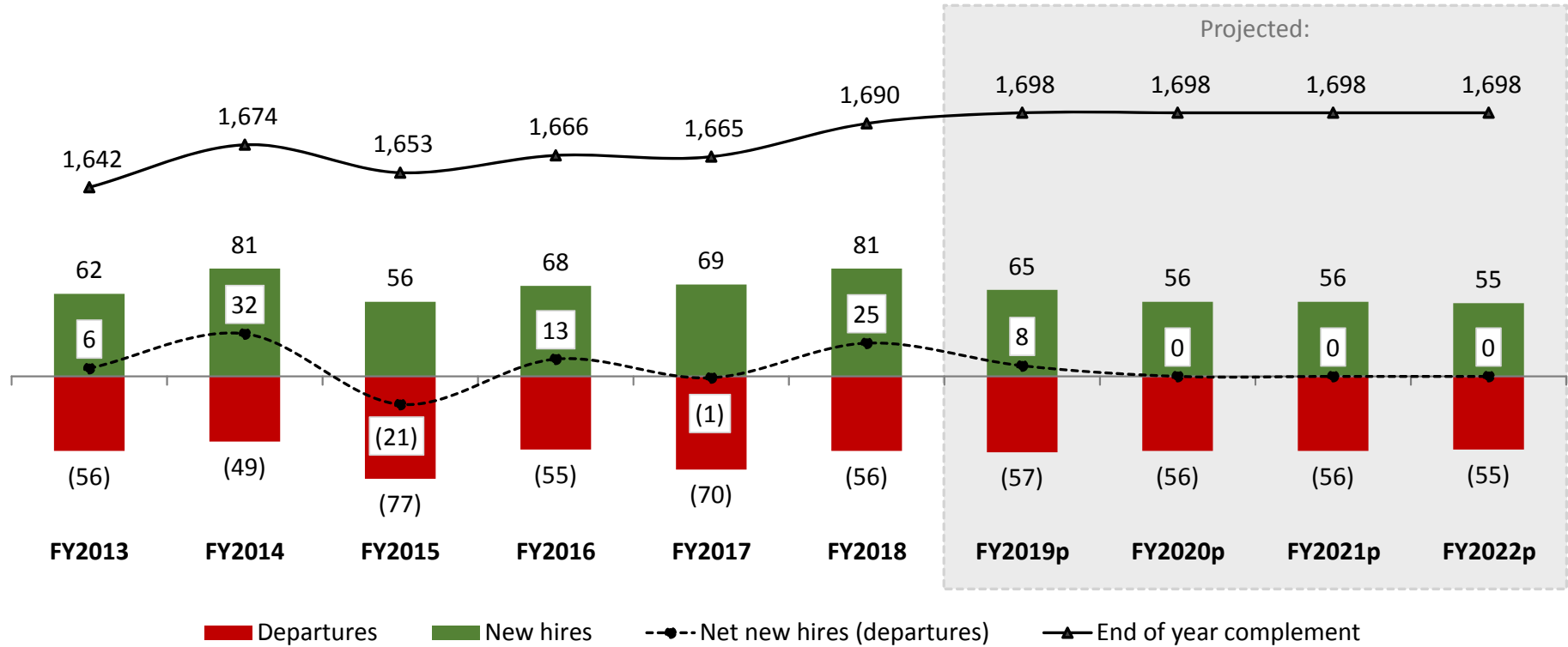
Forecast based on October 31 results



(1) Forecasted change for FY2019 from October 31 actuals to end of year is calculated based on prior year change as follows: FY2015 x 10%, FY2016 x 15%, FY2017 x 30%, FY2018 x 45%. Note that FY2019 year end forecast amount is rounded to the nearest 10,000.

Expense Lever: Academic Staff (and Benefits)

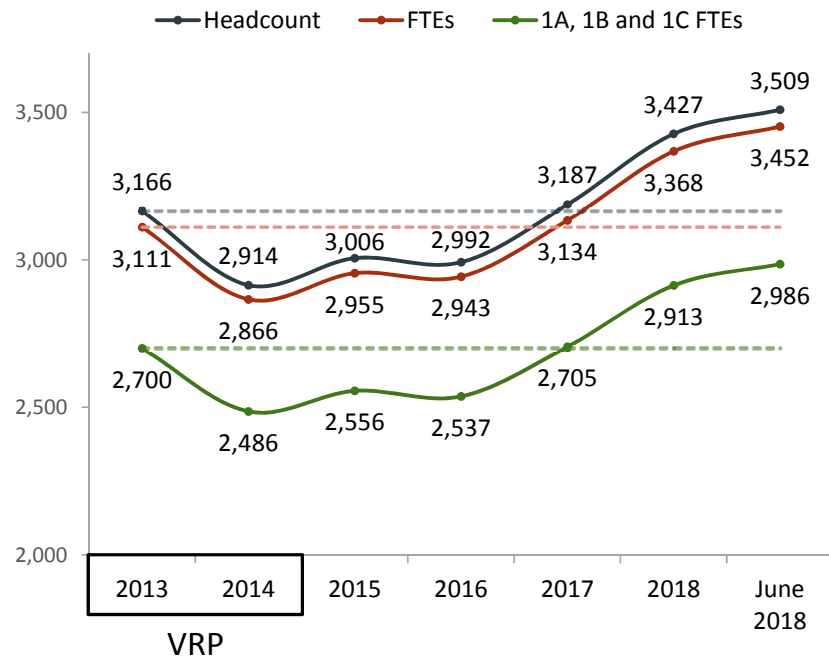
Tenured and Tenure-Track Faculty: Net new hires (departures) and end-of-year complement



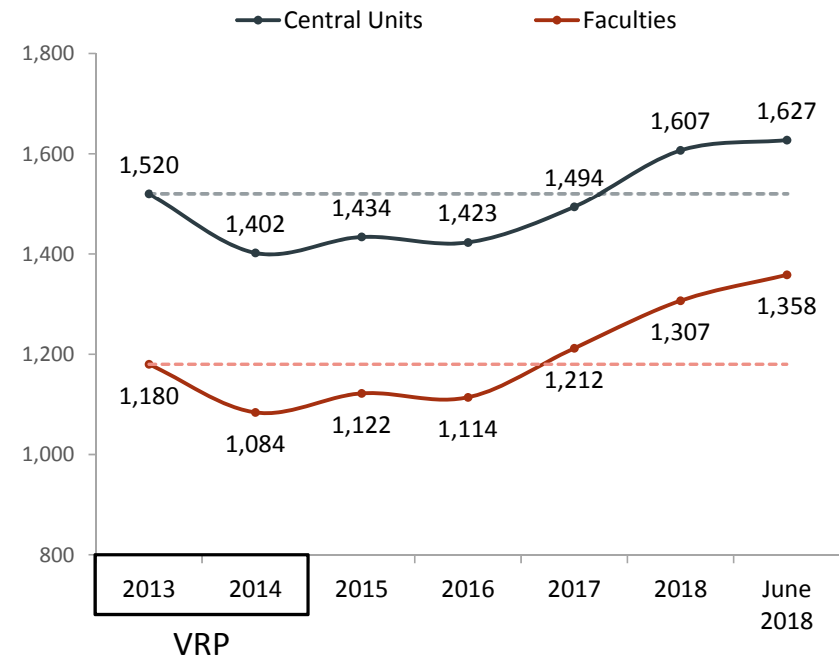
p=projected
 Note: Excludes librarians

Expense Lever: Administrative and Support Staff (and Benefits)

Administrative and Support Staff



**Administrative and Support Staff
(1A, 1B and 1C FTEs)**



VRP: Voluntary retirement program in 2013/2014; dotted lines represent pre-VRP staffing levels
 Note: Headcount and FTE numbers are January 31st snapshots from respective years

Uncertainties and Risks

Uncertainties and Risks for FY2019 and onwards: McGill-controlled

▶ **McGill-controlled:**

- ▶ Managing to overall, as well as newly self-financed, enrolment targets
- ▶ Graduate enrolment increases in keeping with our mission as a research university
- ▶ R2R and administrative and support staff position control
- ▶ Bicentennial campaign impact on operating budget
- ▶ Bond payback planning
- ▶ New building projects and their impact on the unrestricted budget
- ▶ New space and its impact on the unrestricted budget
- ▶ New program development coherence and accountability
- ▶ Incremental allocations

Uncertainties and Risks for FY2019 and onwards: Developing position control

▶ **In progress**

- ▶ Working with HR
- ▶ Monthly progress reported to Budget Working Group

▶ **Each permanent position will need to have a permanent budget**

- ▶ Any excess or shortfall will be isolated in a contingency account within each unit, making it easier to identify the funds available for proposed new hires

▶ **New positions will be reviewed for funding prior to posting**

- ▶ Does the unit have a permanent salary contingency amount sufficient to cover the salary for this position?
- ▶ Was this area balanced (or in a surplus position) in the last fiscal year?
- ▶ Is the area forecasting a surplus in the current year sufficient to cover the additional cost?

Uncertainties and Risks for FY2019 and onwards: Ministry-controlled and Macro

▶ **Ministry-controlled:**

- ▶ Stability of government commitments; self-financing of first-cycle and second-cycle non-research international students to begin in fall 2019
 - ▶ No indication from the Ministry about how this element of the new funding policy will be implemented
 - ▶ Possible impacts of this element of the new funding policy on our capital grant
- ▶ New building projects
- ▶ Unfunded mandates (e.g., deferred maintenance audits mandated by the Ministry)

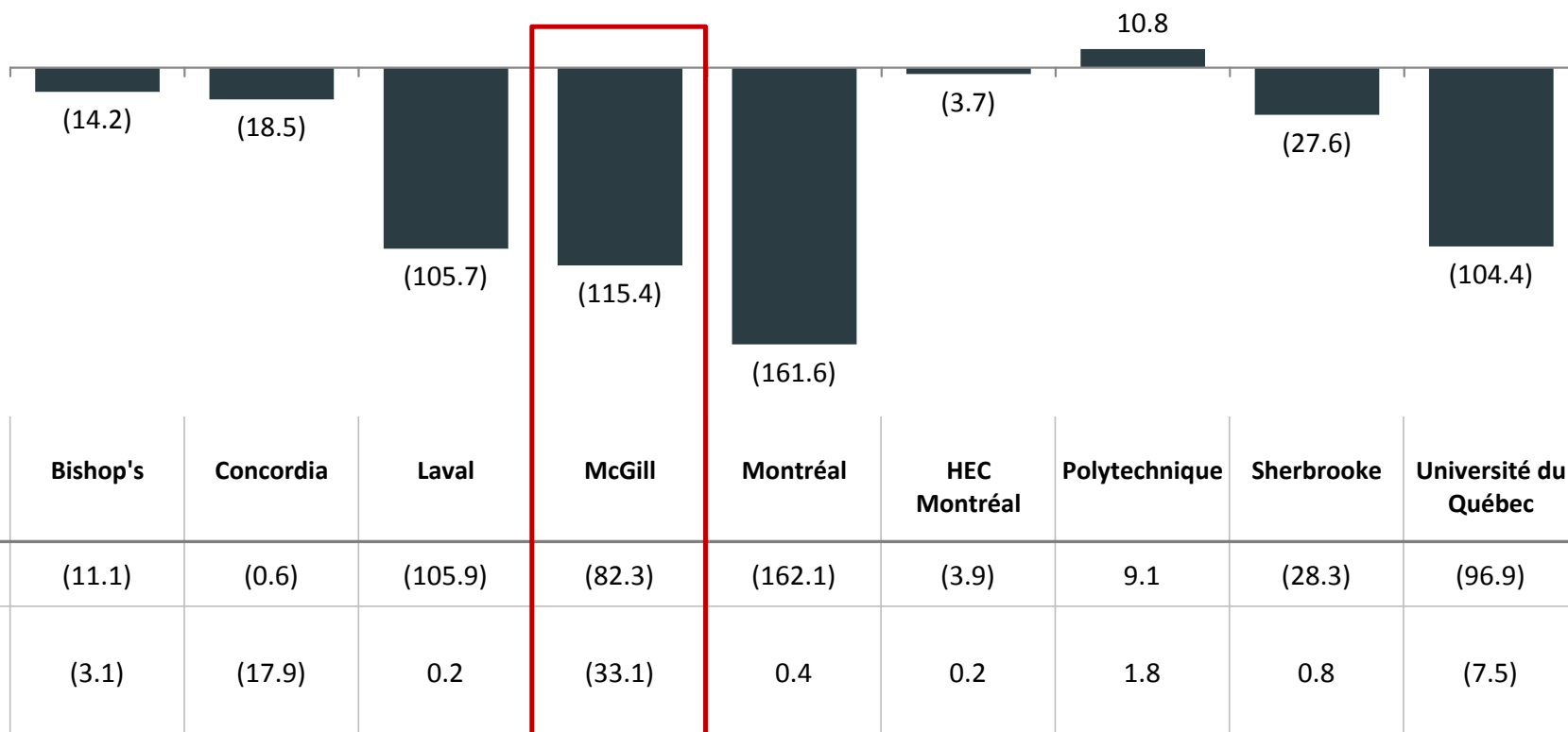
▶ **Macro:**

- ▶ Canadian dollar exchange rate
- ▶ Interest rates
- ▶ Global political landscape and its effect on international student mobility

Accumulated unrestricted surplus (deficit) of QC universities (\$M) for FY2017

(\$Millions)

[C] = [A] + [B]
Closing balance



(1) Excluding certain GAAP adjustments; this figure corresponds to the closing figure in the previous year's exercise.

(2) Corresponds to the results found in SIFU Appendix 19

? Questions

? Comments

