



Memorandum

Office of the Provost
845 Sherbrooke Street West, Room 504, Montreal
Montreal, QC
Tel: 514.398.1438 | Fax: 514.398.4768

TO: Senate

FROM: Prof. Anthony C. Masi, Provost

SUBJECT: Budget Planning 2013-2014: Report II

DATE: 19 February 2013

DOCUMENT #: D12-42

ACTION REQUIRED: INFORMATION APPROVAL/DECISION

ISSUE: This presentation provides an overview of the considerations shaping the FY2014 McGill University Budget, including an update and elaboration on key revenue and expense assumptions and other significant developments affecting the current 5-year planning cycle in the context of McGill's strategic academic plan.

BACKGROUND & RATIONALE: This report is provided in accordance with the terms of reference of Senate.

It is the second of three presentations made to Senate on the McGill University budget for FY2014. The first presentation was delivered on December 5, 2012, and the final recommendation for the proposed budget for FY2014 will come to Senate in April.

MOTION OR RESOLUTION FOR APPROVAL: N/A

PRIOR CONSULTATION: Senior administrators at McGill
Town Hall meetings
Finance Committee of the Board of Governors

NEXT STEPS: The key messages identified in this presentation will frame the development of the FY2014 McGill University Budget Book, which will be brought to Finance Committee and Senate in mid-April before being presented to the Board of Governors on 26 April for final approval.

APPENDICES:



Budget Planning for FY2014

Presentation to Senate

Prof Anthony C. Masi, Provost

19 February 2013



McGill

Table of Contents

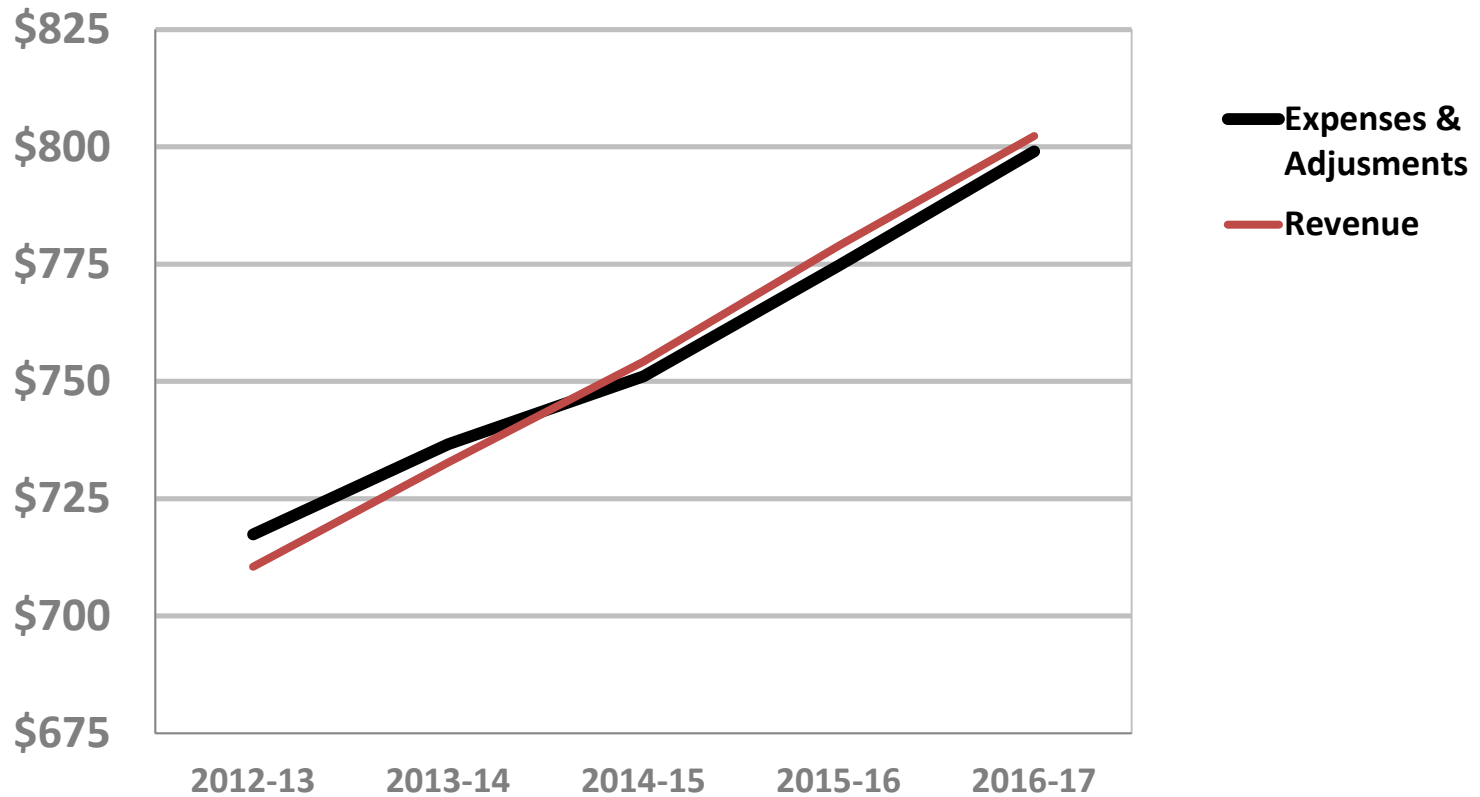
1. Context of political decisions
2. Four-year plan prior to cuts
3. Gap analysis - annual underfunding
4. Background – past years' reductions
5. Historical accumulated deficit
6. Current / ongoing pressures
7. Potential avenues for meeting cuts
8. FY2014 Preliminary expense assumptions
9. FY2014 Other preliminary assumptions
10. Discussion and feedback

1. Context of political decisions

- What we currently know:
 - tuition frozen at FY2012 levels, \$19M cut in provincial grant funding imposed for FY2013 and FY2014
 - threat of withholding “subvention conditionnelle” (\$32M) if \$19M cut is not achieved **by the end of FY2014**
- What we don't know:
 - promise to increase grant by 8.5% in FY2015 and by 4.6% in FY2016 – is this bankable?
 - indexation of Ministry grant for FY2014
- Implications
 - Deficit for FY2013 will be substantially larger than budgeted
 - previously approved multiyear budget plan must be drastically altered

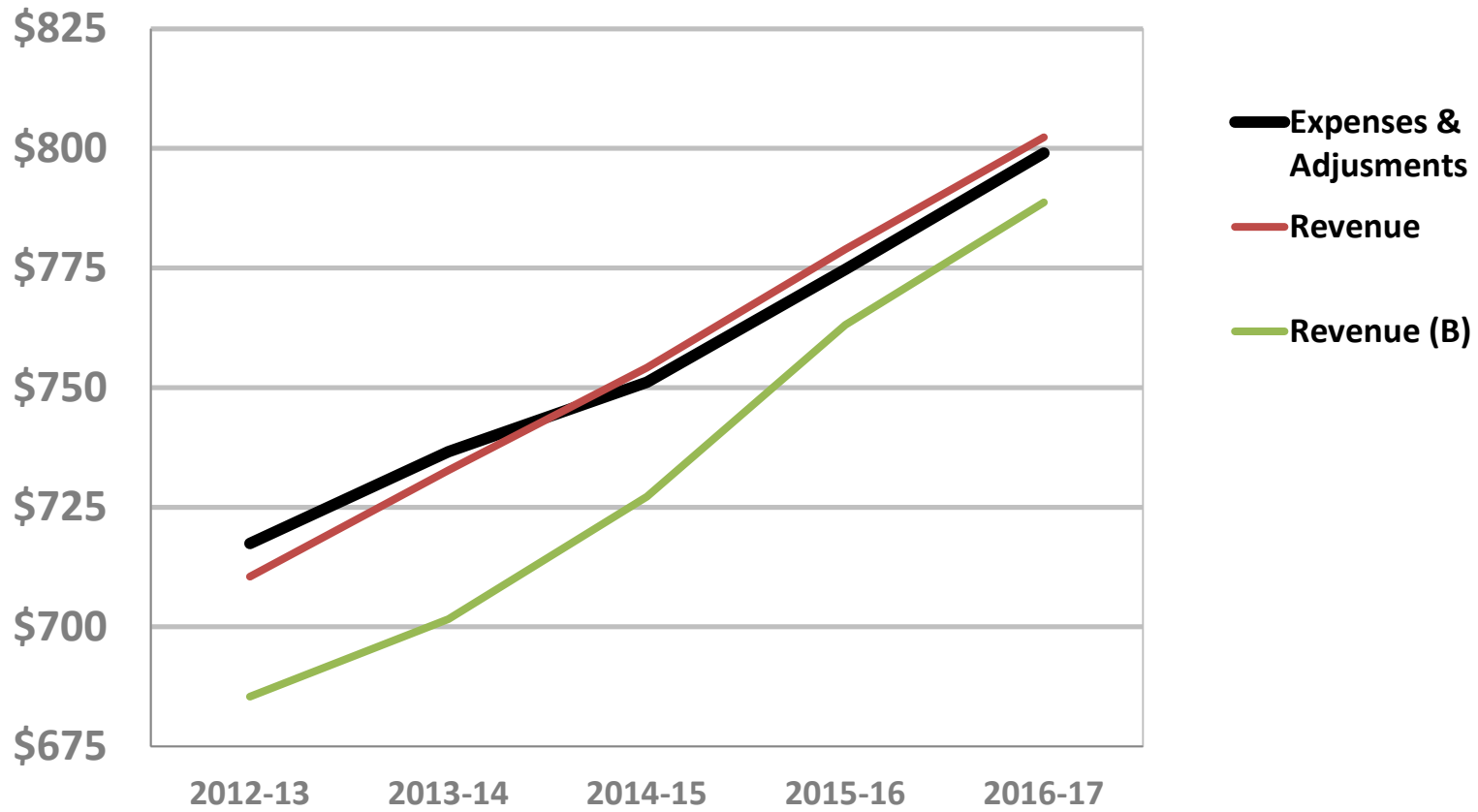
1a: BEFORE – operating revenues vs. expenses

5 Year Outlook



1b: AFTER – a substantial gap between revenue and expenses

5 Year Outlook



2. Preliminary four-year plan with cuts, no measures

Projected Financial Position (\$ Millions) for FY2013 through FY2016 (based on FY2013 Budget)				
	FY2013 (F)	FY2014 (B)	FY2015 (P)	FY2016 (P)
Original Budget (Including \$325 tuition)	(\$7.00)	(\$3.90)	\$3.00	\$4.20
Loss from rescinded tuition increase	(\$6.00)	(\$12.00)	(\$18.00)	(\$24.00)
Compensation from QC – increase to grant	\$0.00	\$0.00	\$10.10	\$27.30
Other impacts	(\$3.00)	\$2.90	(\$4.00)	(\$5.00)
Pension liability increase		(\$8.00)	(\$8.00)	(\$8.00)
Pension solvency (92%, 86%, 74%)	TBD	TBD	TBD	TBD
Revised operating deficit	(\$12.00)	(\$21.00)	(\$16.90)	(\$5.50)
Announced provincial cuts (-\$19M)	(\$19.00)	(\$19.00)	\$0.00	\$0.00
Pay Equity	\$1.70	\$1.70	\$1.70	\$1.70
Reinvestments/Priorities/Regulatory increases	\$0.00	(\$5.00)	(\$5.00)	(\$5.00)
Revised forecast	(\$33.30)	(\$43.30)	(\$20.20)	(\$8.80)
GAAP Accumulated Deficit	(\$307.8M)	(\$351.1M)	(\$371.2M)	(\$379.9M)
Pre-GAAP Accumulated Deficit	(\$128.5M)	(\$171.8M)	(\$192.0M)	(\$200.8M)

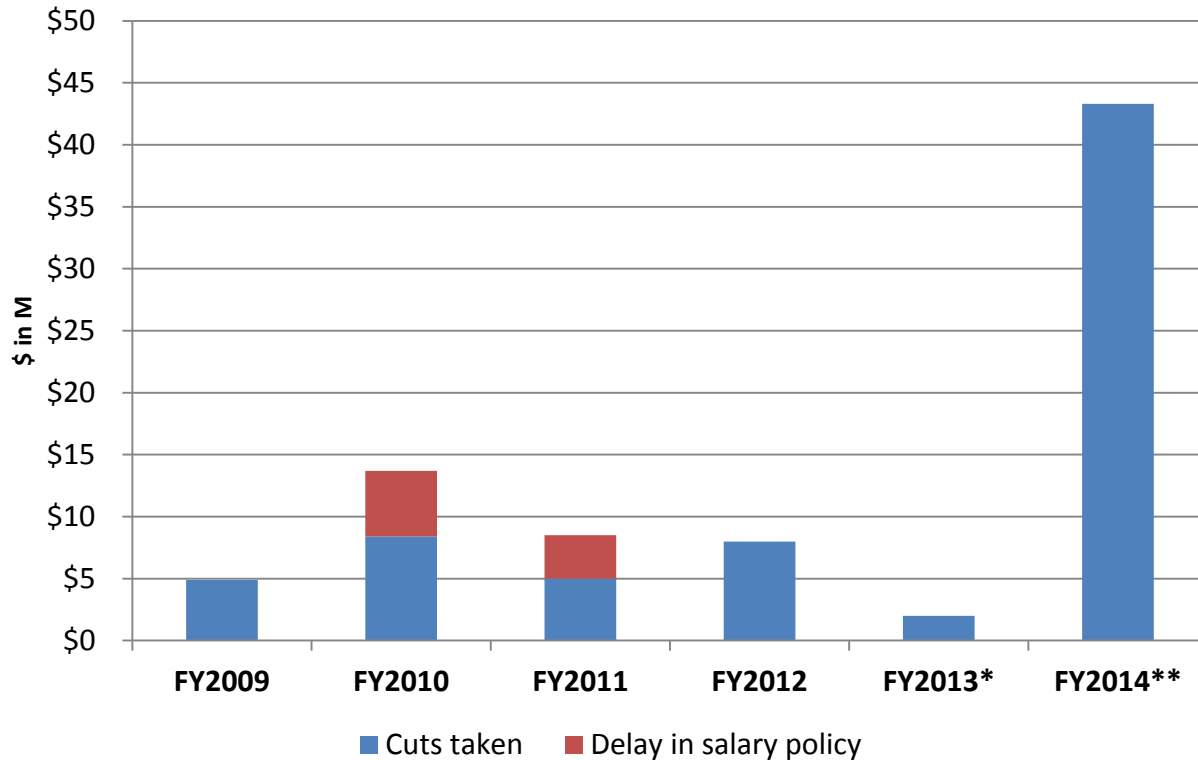
3. Gap Analysis - annual underfunding (examples)

<u>Strategic Objective</u>	<u>KPI</u>	<u>Peer / Best in Class</u>	<u>Financial GAP (\$M)</u>
Average TT salary within top 5 of U15 (excluding GFTU's, Sr Admin and stipend)	Total salary per TT; a) Full prof; b) Assoc prof; c) Asst prof	a) U of T b) U of T c) Queens	a) \$5.4 b) \$7.2 c) \$2.7
Deferred maintenance deficit (teaching & research space) amongst best in U15 (see 3 different measures)	a. FCI ratio	U of T	\$ 47.2
	b. Basic space costs	n/a	\$ 22.0
	c. 2% of NBV	n/a	\$ 16.2
Deferred maintenance deficit (self-funded buildings) amongst best in U15	FCI ratio	U of T	\$ 13.4
Fully fund pension plan, according to Plan objectives & design	Actuarial Going concern deficiency	n/a	\$ 26.0
IT spending to support teaching & research	Avg. IT spend per student FTEs	Alberta	\$ 34.3
Operating support per FTE amongst top in U15.	Operating type revenues per FTEs	Alberta	\$ 267.9*

* Data provided by Planning and Institutional Analysis, January 2013

4a. Past years' reductions: \$37.1 million

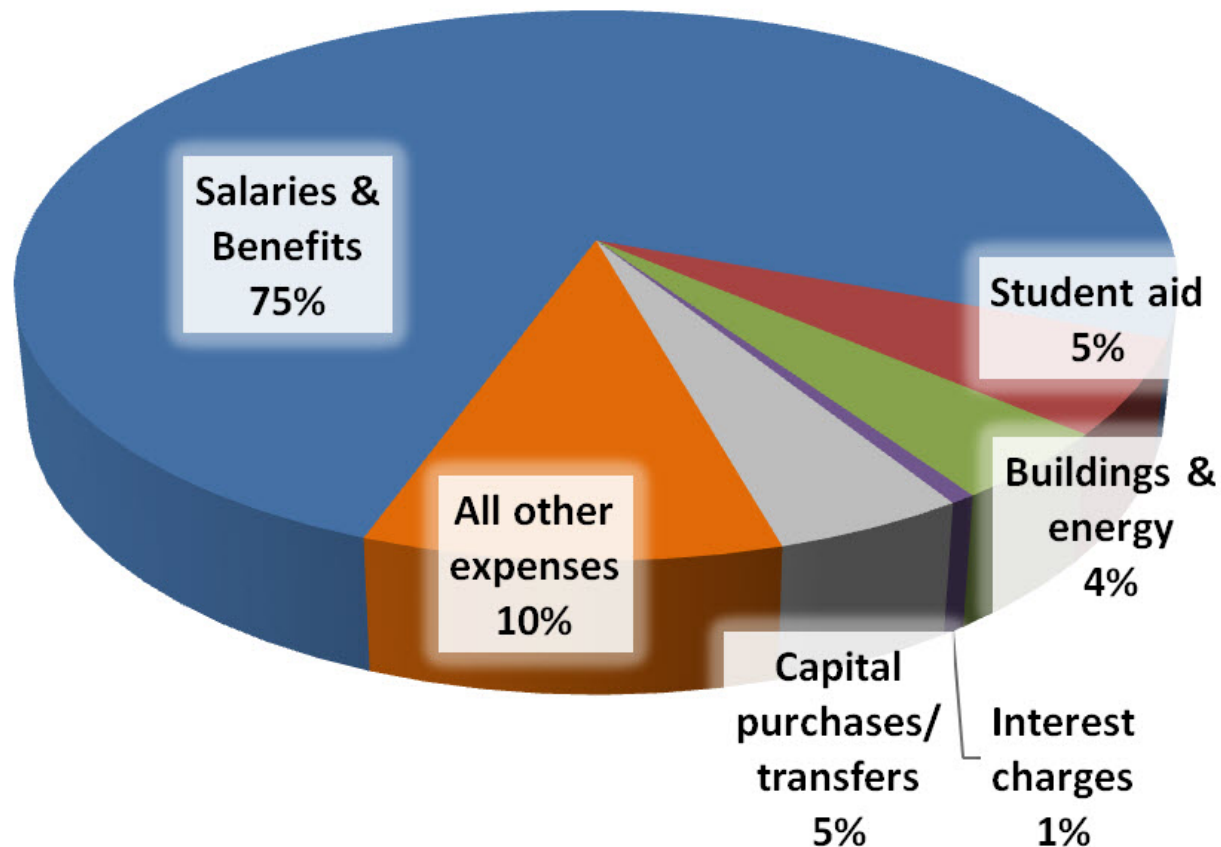
- Operating budget cuts over last 5 years vs. FY14 required



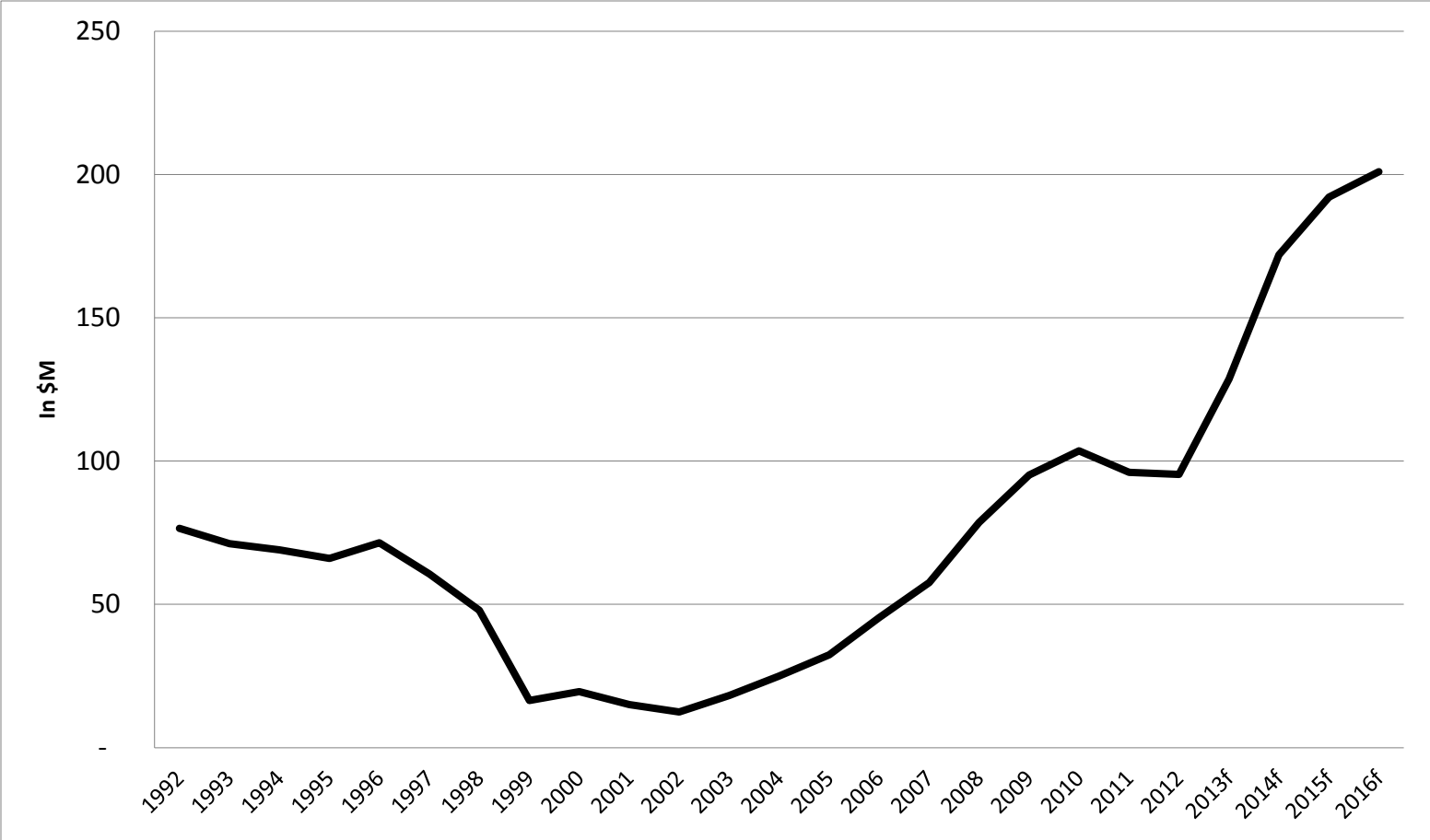
* Workforce planning (2 for 1 replacement program in lieu of direct budget cut)

** Would require \$43M in cuts in FY2014 to breakeven

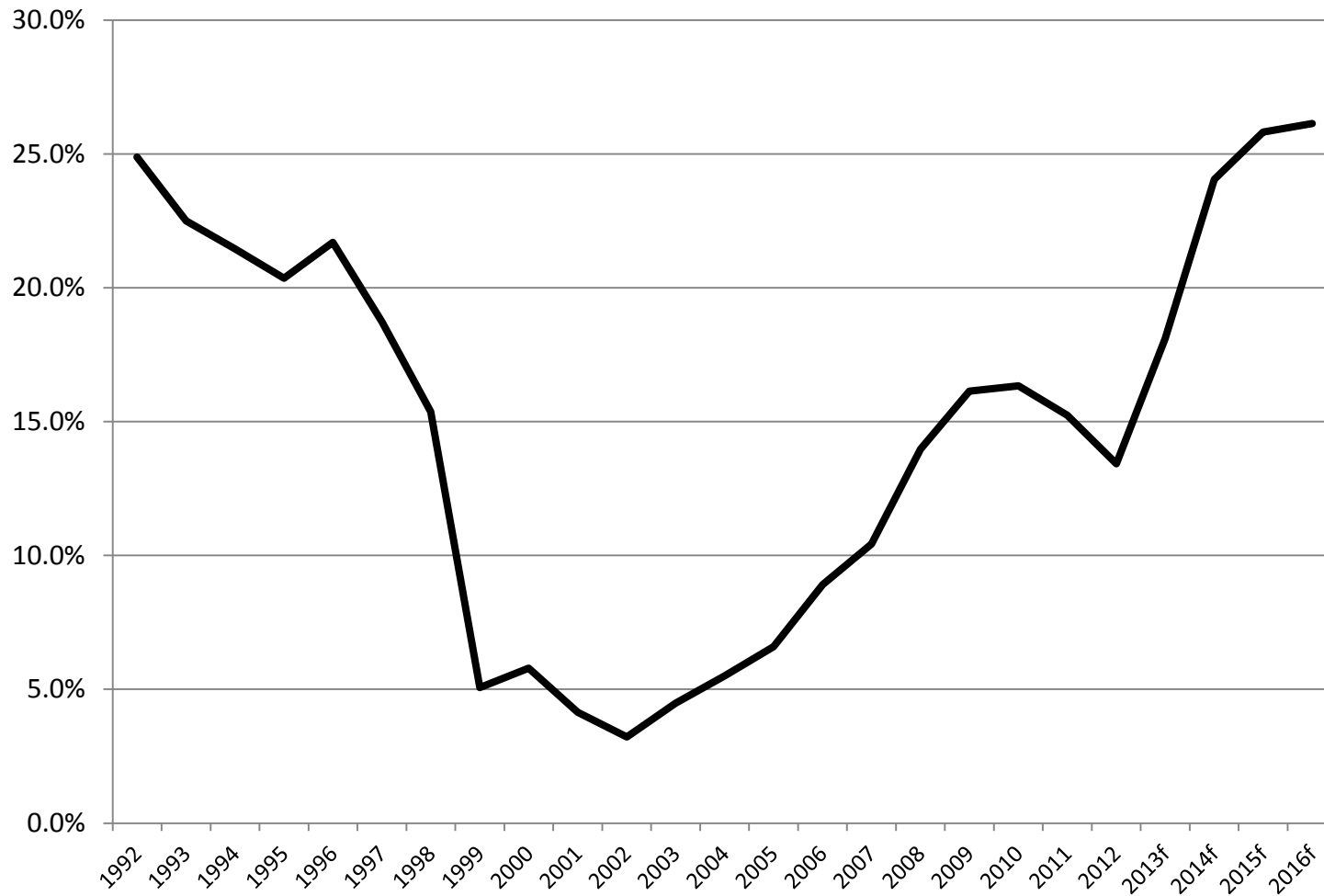
4b: Core Operating Expenses in FY2012, \$590M (without self-financed units)



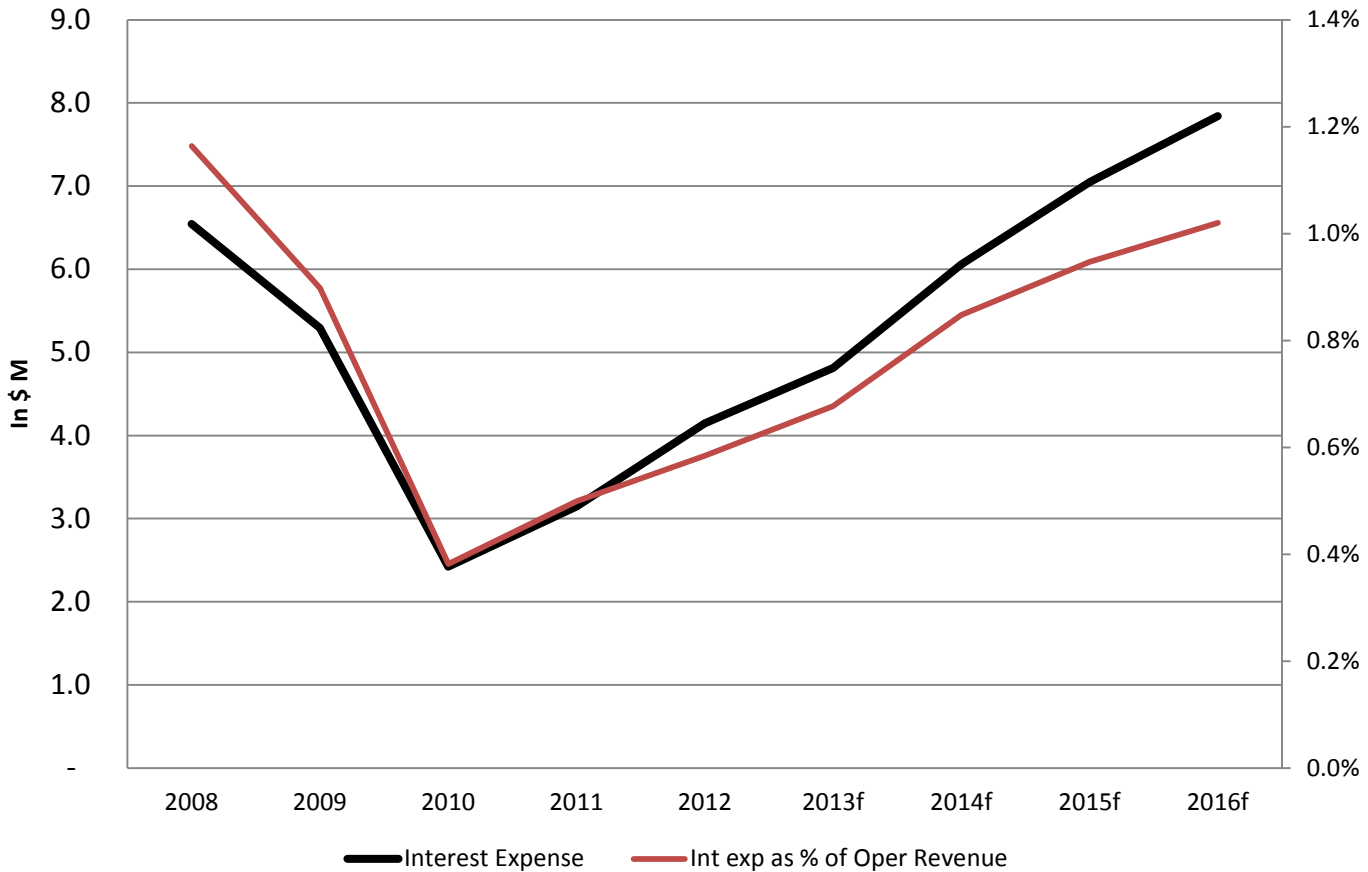
5a. Historical “pre-GAAP” accumulated deficit



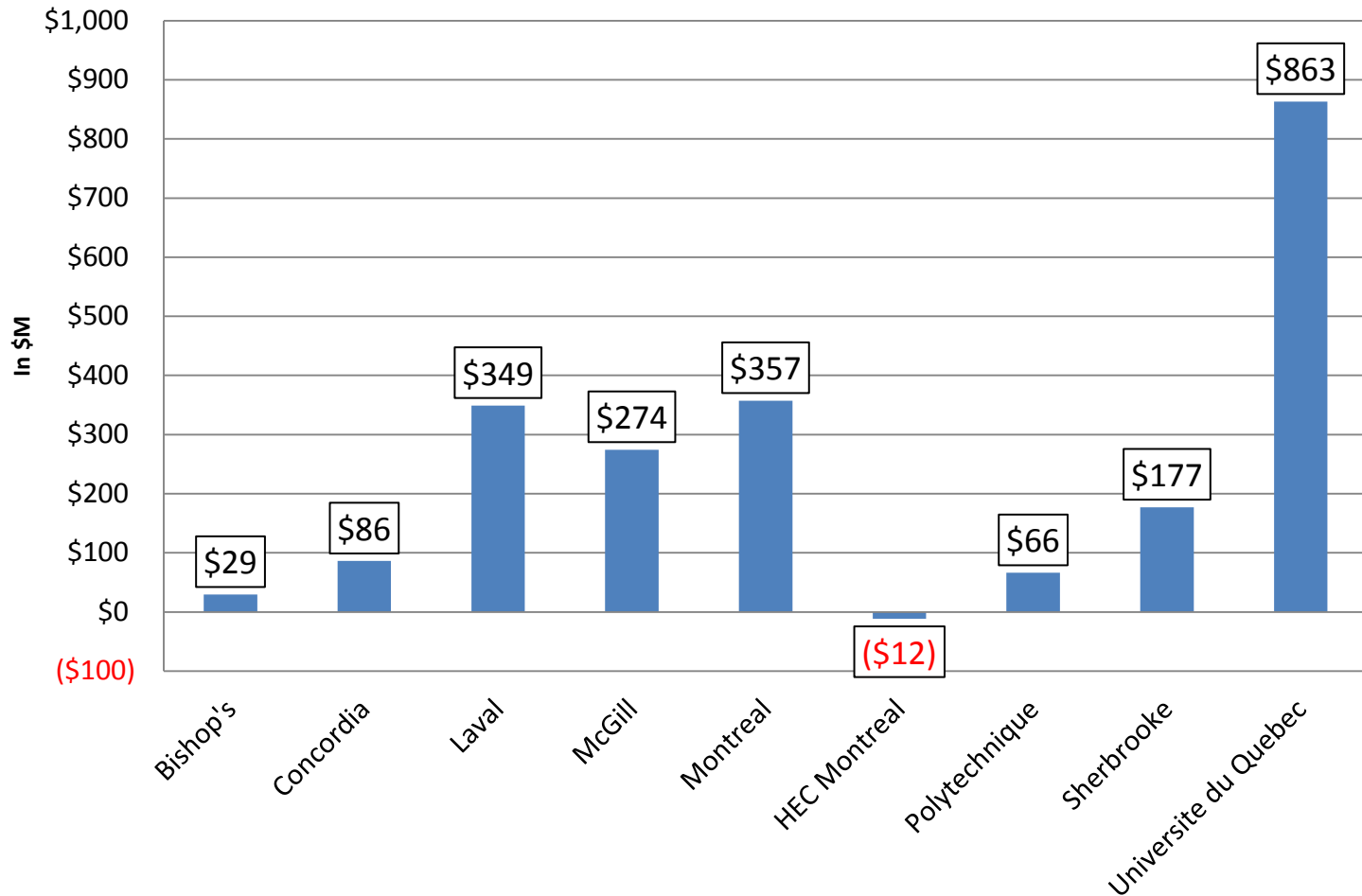
5b. “Pre-GAAP” accumulated deficit as a % of Operating Revenue



5c. Interest expense from Operations



5d. QC Universities' GAAP Accumulated Deficit FY2012



6a. Current / on-going pressures

- **wage pressures**
 - academic salaries vs. competitors
 - pay equity
- **benefit pressures**
 - pension plan liabilities
 - post-retirement liabilities
- **one-time-only and ongoing costs**
 - commitment to provide matching funds for major external research grants (CFI-VII, CERCs), office/lab space rentals
- **deferred maintenance**

6b. To the extent possible, sustaining quality with severe resource constraints

- obstacles, barriers, and means of dealing with a **period of sudden financial compression**
- **trade-offs** to limit the impact on quality and access
- reduce on-going **liabilities and carrying costs**
- **efficiencies** and productivity gains
- **internal obstacles** to achieving targeted performance enhancements
- **consequences** of accumulated operating deficit, capital debts, and the requirement to repay them
- augmenting and diversifying **revenue streams**

7. Potential avenues for meeting cuts

- targeted cuts
- headcount reductions (including one-time only incentives costs): should be accompanied by ATB hiring freeze
- reduced salary increases and reductions
- new revenues, including increased enrolments above those already planned
- across the board cuts

*→ How do we address these
Government-imposed cuts of \$19.1
million to our operating budgets,
for both this fiscal year AND next?*

Options?

- *What are the implications of a simple, deep, across-the-board rollback for all units?*
- *How can our strategic planning and multiyear budget exercises be used to protect our core mission and longer term objectives as we face this immediate crisis?*

Options?

→ *Are there one-time-only expenses that can be avoided or delayed to ease the burden? What are the consequences of doing so?*

→ *Are there unavoidable one-time-only expenses that will actually make it worse?*

8. FY2014: Preliminary expense assumptions

- some investments in **strategic priorities**: education, research, service consistent with McGill's mission, alternative funding
- unavoidable **relocation of academic units**
- required renovations to existing **teaching and research labs**
- **committed salary** adjustments, with trade-offs
- **deferred maintenance** – fresh analysis and prioritization process
- **pension liabilities** – short and longer term issues
- **IT investments** in hardware, software, and custom systems
- one time only **investments in future savings** and revenue-generating areas

9. FY2014: Other preliminary assumptions

Revenues sources and/or savings:

- **SRI projects** savings and revenues, finance-budget integration
- **workforce planning initiative** – units will need help to manage cuts
 - university will streamline processes, improve procedures, and develop new redeployment mechanisms

Additional expense pressures:

- **matching funds** for research initiatives
- **advising**, mentoring, diversity
- general upgrading of **IT infrastructures**
- **physical planning** for potential new, and badly needed spaces
- **research, education, and service to community**

10a. Stay connected

- Leave your comments on “the Red Blog”:
<http://blogs.mcgill.ca/red/>
- Suggestions via [*budgetcuts@mcgill.ca*](mailto:budgetcuts@mcgill.ca)
- talk to your Chair, Dean or Unit Head



Budget Planning for FY2014

10b. Discussion and Feedback

Questions?

Comments?

Concerns?

Suggestions?