

# “SURPLUSES”, NET ASSETS AND THE BUDGET

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Feb 4, 2016

SBAC

# The Questions...

- What are surpluses – how they happen?
  - In context of a not-for profit
- How are they generated?
  - Funds sources
- How long has the University experienced surpluses
  - Not always the case and why
- Where do they go?
  - Reserves and Carry Forwards
- What are/will they be used for?
  - Central-based
  - Unit Based
  - Post-employment

# Budgeting...and Actuals

- It is very rare to actually “balance the budget”
  - Unforeseen events
  - Aggressive or conservative assumptions
  - Unit “behavior”
- Given a “balanced” budget target
  - Variances will generate surpluses or deficits
  - More revenues and/or underspending = surplus
  - Less Revenues and/or overspending = deficit
- Not confirmed until after the year ends
  - Audited Actual results;
    - revenues less expenses
  - E.g., MYP “targets” reduce spending **budgets**
  - Not an actual pot of money

# U of G History

- **To 2008 running deficits or very small surpluses**
  - Slow enrolment growth cycle
  - Cost increases – compensation
  - Pension contributions and expenses
- **Major Swings in Enrolment Growth**
  - Demand and “double cohort”
  - Provincial funding (new programs, new priorities)
- **Major challenges**
  - Financial Crisis of 2008 (world)
  - Plan for Pension Contributions (solvency)
  - Provincial funding frozen – except for growth
  - Compensation and other cost increase @3-4% p.a.

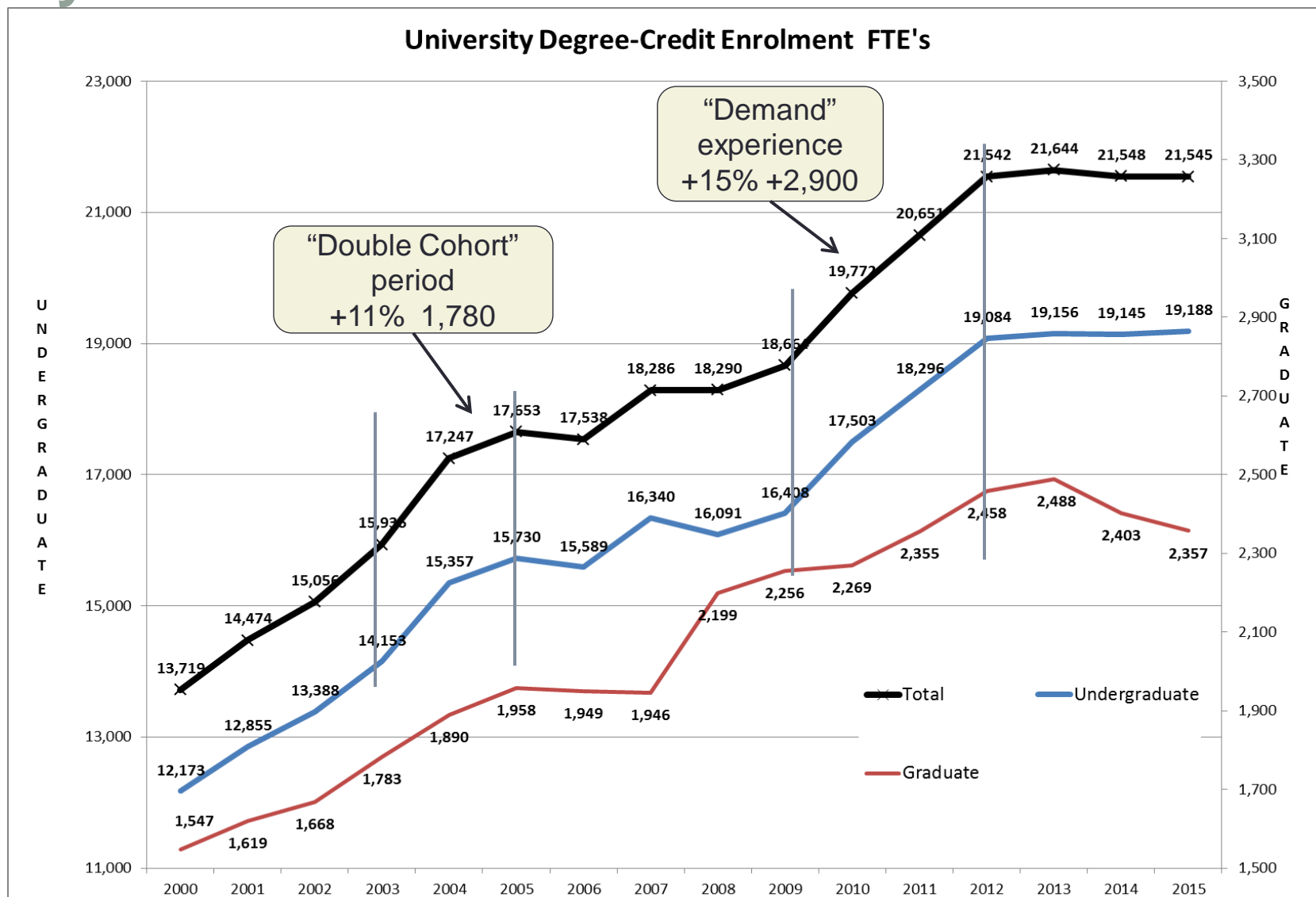
# Needed a Plan...

- **Cost cost increases**
  - Compensation
  - Technology
  - \$330 Deferred Maintenance
- **Pension Deficits**
  - Impending fiscal crisis \$344 M - \$540 M
  - Continuing cost increases (mortality and expected returns)
- **Need to invest where we can**
  - New programs
  - Provincial graduate priority
  - Initiatives “activity –based” funding
- **Increase “cushion” (reserves)**
  - Absorb negative events
  - Repay the deficits we have
  - No more deficits

# Two Options

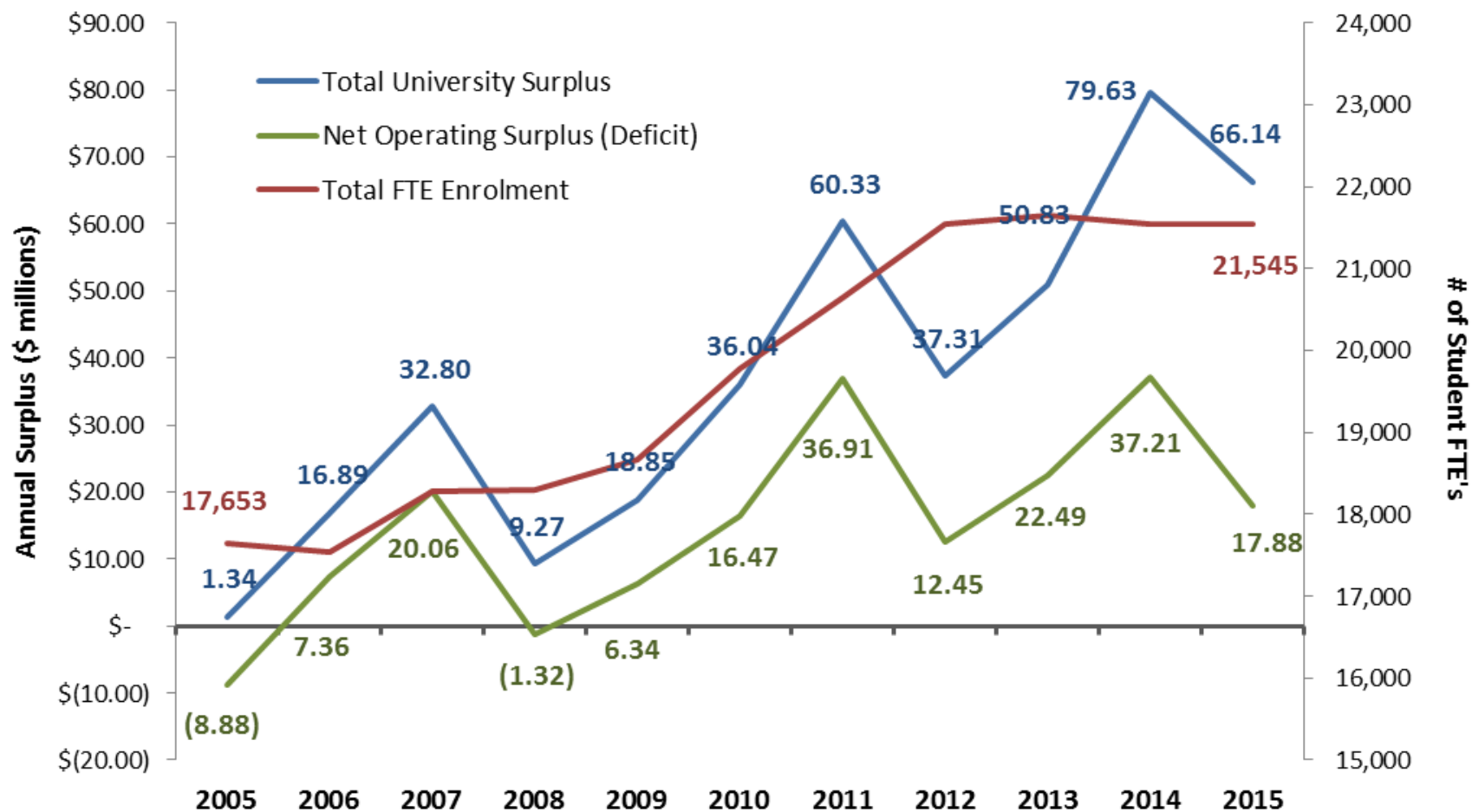
1. **Grow Revenue faster than expense**
    - Increase enrolment
    - Hope it is funded by the province
    - PROBLEM; higher risk and do not know until well into a year
  2. **Keep Expense increases less than Revenue increases**
    - MYP Savings Targets
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- **Decided to try both**
    - Increase growth in targeted areas
      - E.g., engineering
    - Backstop with MYP Targets reductions
      - MYP2 started at \$32 M in 2013 (currently \$17.6 M)
      - Due to NET revenue increases

# Cycles of Increases in FTE's



# Correlation of Surplus to Revenue Growth

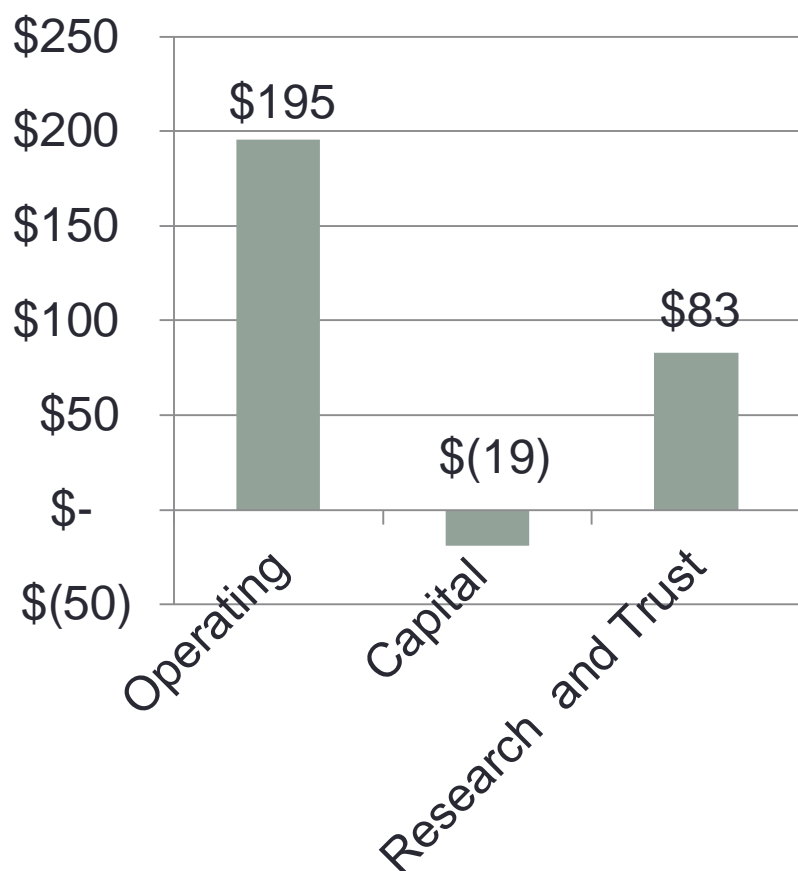
## University of Guelph Annual Results





# Internally Restricted Net Assets

Where are the Surpluses Held

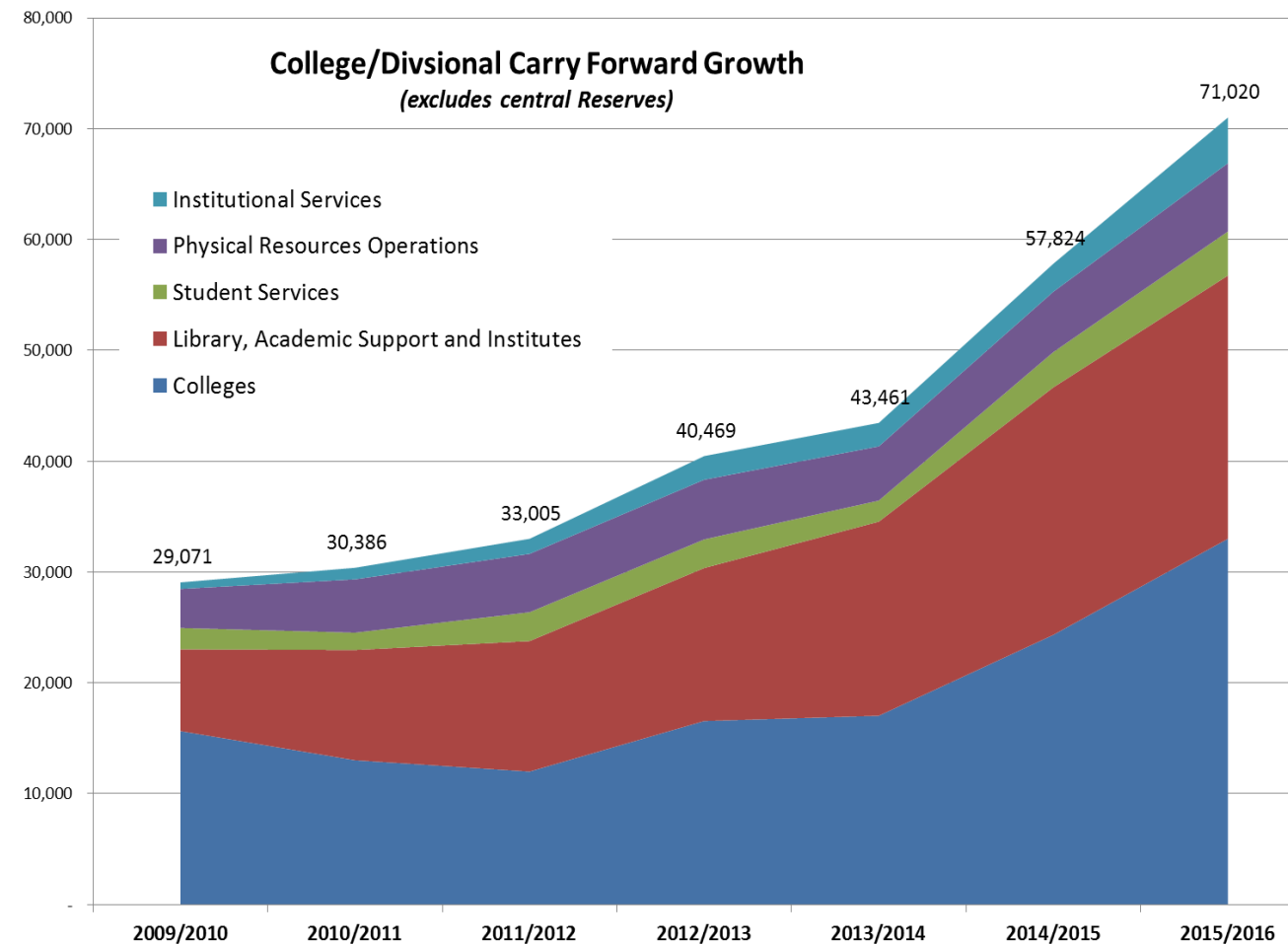


- \$260 M at April 2015
- Net Surpluses all end up in Net Assets
- Tracked by “restriction” and fund
- Major share in Operating
  - Allocated for specific purposes

# As well as New Revenues

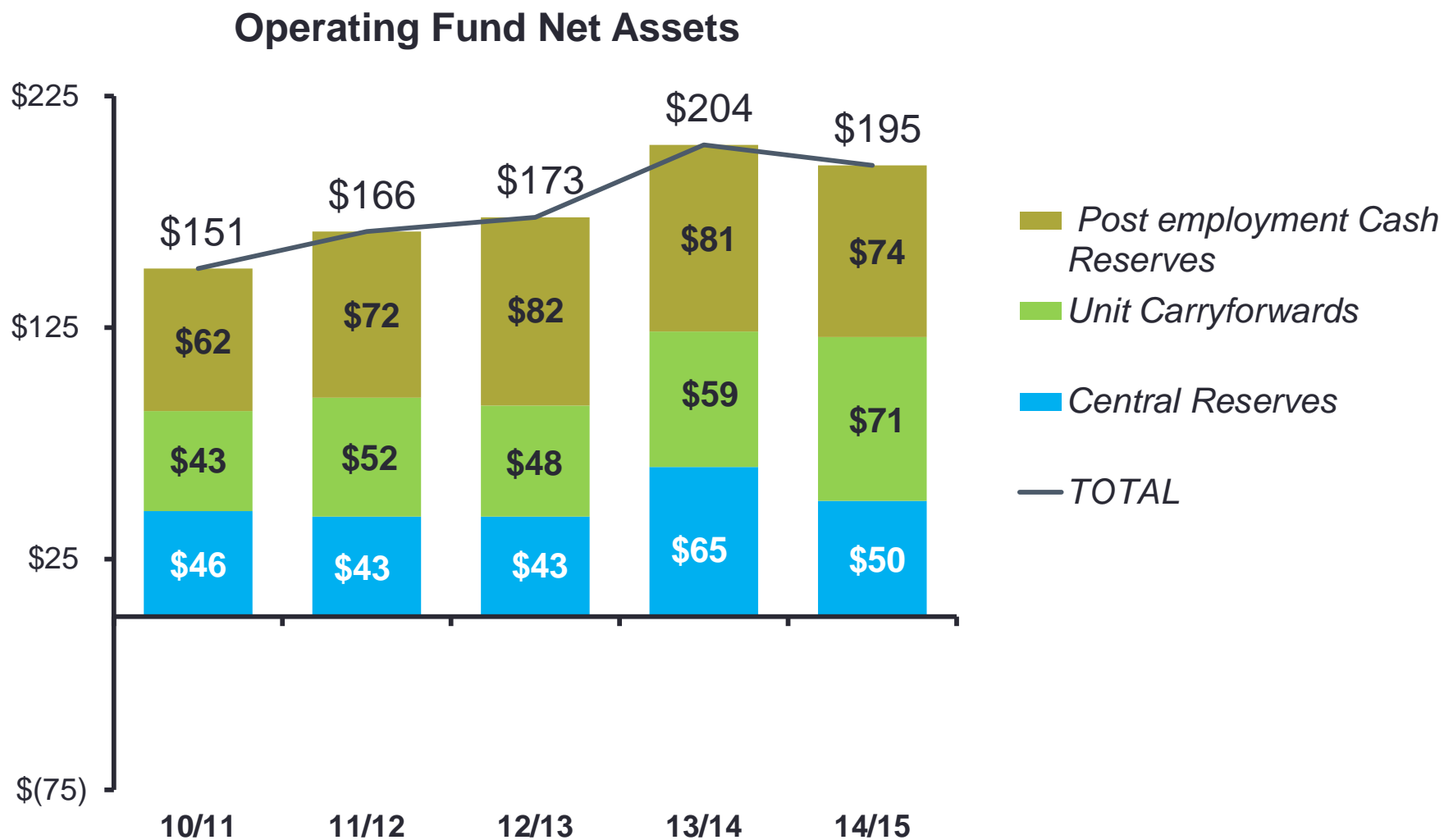
## Unit Underspending creates surpluses

- We do not want the “use it or lose it...” behavior
- So units can retain their “savings” (surpluses)
- It worked!
- Now a new policy restricting amounts



# Operating Fund Net Assets

“Internally Restricted”



# Context for Net Assets

- **New provincial requirements**
  - “financial health” metrics
  - No deficits
  - Adequate resources and contingencies
- **Greater uncertainty**
  - No news on permanent pension solvency relief
  - Deferred maintenance bill grows – increasing risk of “failures”
  - Provincial funding; formula deficit reduction
- **We have debt (loans/mortgages)**
  - Lenders want to know we have reserves
- **We have deficits;**
  - One of \$42 M we just paid off last year
  - Post-employment deficit (not paid for)

# Operating Fund Net Assets

Deficits and and internally restricted

Operating Fund Net Assets \$millions

