

UNIVERSITY OF GUELPH

OMAF Agreement - 2003/2004 Budget

Presented to the Board of Governors

May 21, 2003

A. The OMAF Agreement: Background

Since its formation in 1964, the University of Guelph has had an agreement (the Agreement) with the Ontario Ministry of Agriculture and Food (OMAF) to provide agricultural-related research and diploma education services in the province of Ontario. This Agreement, which is unique in the Ontario university system, forms a significant component (17% or approximately \$70 million) of total University revenues and funds approximately 100 faculty FTE's (Full Time Equivalents), and 470 staff FTE's working at a variety of locations across Ontario. The Agreement also provides operating, equipment and infrastructure costs including University main campus infrastructure costs of approximately \$6.6 million. Significant provincially-owned facilities operated by the University under the Agreement include: 3 campuses of the Ontario Agricultural College at Alfred and Kemptville located near Ottawa and Ridgetown in south-western Ontario, a major laboratory testing facility located in Guelph and agricultural research stations located across Ontario. The Agreement also provides funding for both provincial agricultural diploma education which includes 1,000 students enrolled in the Associate Diploma in Agriculture program and the Veterinary Clinical Education Program (VCEP) which supports the clinical education of veterinary students. The OMAF/U of G Agreement was renewed for another five-year term in May 2002.

Total 2002/2003 OMAF revenues which are forecast to increase to \$72.3 million (\$70.6 million in fiscal 2002) are derived from three major sources: \$50.5 million in OMAF funding, \$2.8 million in diploma tuition and \$19.0 million in departmental revenues. Departmental revenues are earned from operations of programs under the Agreement and include the sale of goods and services such as laboratory services, continuing education and the sale of farm products. Revenues received are restricted under the terms of the Agreement and are reported separately within the University's Operating Budget. Agreement funds are managed by University college/departments as specific program allocations approved jointly by the University and OMAF. Any unspent funds or deficits in a fiscal year are restricted within the Agreement and are carried forward in total to the next fiscal year. Each year, the OMAF budget is presented to the Board after details on the overall level of provincial support and program priorities are confirmed.

B. 2003/2004 Budget Context:

The 2003/2004 OMAF budget reflects the continuation of the major strategic planning effort started in fiscal 2002/2003. Foremost in this strategic planning was the recognition of the need for sustainable programs, with increased revenues, innovation, technology transfer and commercialization. Important to the successful outcome of this planning is a major restructuring in the method of resource allocation from a location or geographical-based focus to one that encompasses all functions at a total Agreement level. Significant opportunities provided by the Agreement will allow for the creation of competitive cost-recovery models based on the sale of services and the use of the Agreement's substantial research and teaching infrastructure.

As a result of this extensive planning, OMAF and the University have agreed to focus on five priority areas of research: improved production agriculture and market diversification in the plant and animal areas; the life sciences, including biotechnology; food and food system safety; the environment; and rural policy and development.

Four principles guided the implementation of the strategic plan:

1. Minimizing duplication of programs and infrastructure and the need to control costs,
2. Investing in programs that are of the highest priority, and
3. Creating centres of excellence at locations throughout the province.
4. Increased empowerment of local units particularly with respect to the raising of new revenues sources to support Agreement infrastructure.

Implementation of specific program plans started in fiscal 2002/2003 with a comprehensive re-allocation of resources to address a \$6.181 million structural deficit in the OMAF budget created from a combination of both a provincial funding reduction in fiscal 1999 and the impact of general inflationary increases on major expenditure categories. Details of this reallocation were presented in the 2002/2003 OMAF budget approved by the Board of Governors on December 5, 2002. During the course of 2002/2003 these targeted reductions were implemented and the total fiscal position is expected to be on budget and in accordance with the restructuring plan, at the end of the fiscal year.

C. Major Budget Assumptions for fiscal 2003/2004:

Cost Increases:

A key change in the method for allocation of Agreement resources will be implemented in 2003/2004. In the past, the responsibility for re-allocating resources necessary to provide for inflationary cost increases was managed centrally. In fiscal 2003/2004 the units in each of the major locations (refer to Chart A) will be responsible for identifying sufficient resources (revenues/cost savings) to cover all cost increases within their budget. Units will be expected to build on their research and teaching infrastructure capacities to generate additional revenues to support operations. It is estimated that the costs of salary and benefit increases for the faculty and staff supported by the OMAF Agreement will be \$1.39 million in the 2003/2004 fiscal year.

Covering the Cost Increases:

This budget contains plans submitted by each major location to absorb those costs within their current allocation under the OMAF Agreement. In those plans units have been encouraged to raise funds from external research, increased enrolments or other revenues. With this objective, units have targeted \$0.759 million in new revenues or about 55% of the total funds required, for fiscal 2003/2004. Additional funds have been identified from a variety of smaller cost saving initiatives including holding budgeted positions vacant. There are no expected transition costs associated with implementing these savings.

Transition Costs:

Given the size and complexity of the 2002/2003 restructuring, \$3.4 million in one-time transition costs were incurred of which \$0.900 million were covered from additional one-time revenues and savings in that year leaving a net cost of \$2.5 million at the end of fiscal 2002/2003. Revenues were generated from the net proceeds of livestock sales and interest earned on Agreement advances. All amounts are consistent with the restructuring plan presented in the 2002/2003 approved budget.

An additional \$0.5 million has been estimated in the 2003/2004 budget for continuing costs incurred during the completion of the 2002/2003 budget restructuring. These are primarily targeted to salary and benefits incurred while staffing solutions are put in place. Transition costs are mainly incurred due to timing: Because the timing of the implementation of reductions, the full impact of savings will not be realized until part way through the fiscal year (e.g., budgets for vacant positions are removed part way through the year.) In addition, Transition costs are incurred for the costs of moving or closing/relocating facilities or activities and the costs of employee terminations/retirements/relocations.

\$0.750 million in new revenues in 2003/2004 earned from the net proceeds of livestock sales, interest earned on advances and external cost-recoveries charged for the use of Agreement infrastructure (e.g., research stations facilities) will be contributed to the repayment of transition costs. Total net transition cost remaining at the end of fiscal 2003/2004 are therefore projected to be \$2.250 million (\$2.500 million in net accumulated costs from fiscal 2002/2003 plus \$0.500 million in additional 2003/2004 costs less \$0.750 million in 2003/2004 repayments from revenues). It is proposed to repay the accumulated transition costs as quickly as possible however no later than the end of fiscal 2006 (maximum of four years). Repayments will be found within the Agreement from annual savings or net revenues.

D. Summary of 2003/2004 OMAF Budget Solutions:

The summary of the major changes to the net position of the Agreement Budget are presented in the table below. The end result is \$0.250 million net revenues projected for the 2003/2004 fiscal year to reduce the net accumulated Transition Costs to \$2.250 million.

		\$ millions
D.1	Opening Base Deficit: In fiscal 2002/2003, major restructuring of the Agreement budget eliminated a budgetary structural deficit of \$6.181 million. (Note: “structural” in this context refers to the reliance of one-time or annual fiscal solutions to balance the budget.) This restructuring was planned and implemented as part of the 2002/2003 fiscal year. Residual transition costs will be required to complete the implementation of this restructuring in fiscal 2003/2004 (see D.3).	0
D.2	Salary and Benefit Cost Increases: Cost increases of \$1.390 million are estimated for the 2003/2004 fiscal year for faculty/staff charged to the Agreement.	(1.390)
D.3	Estimated 2003/2004 Transition Costs: The costs of completing the major restructuring of the Agreement in which \$6.181 million in costs have been re-allocated are expected to total \$3.9 million - \$3.4 million of these costs were incurred in fiscal 2002/2003. The balance of \$0.500 million will be incurred in 2003/2004. These costs are all one-time and will be covered over several years from Agreement revenues.	(0.500)
D.4	Increased Unit Budget Revenues : These are increases in revenues earned from a variety of functional areas for services such as laboratory testing and education and research contract services.	0.759
D.5	Cost Savings: Expenses have been decreased across many units in order to free up funds to provide for expected cost increases (refer to D.2). Savings will be realized in both personnel and operating categories. Although some salary and benefit savings are included in these savings, there are no planned involuntary staff reductions involved in these savings.	0.631
D.6	Increased revenues for repayment of Transition Costs: These are specific revenues identified from centrally managed accounts earned from interest on the Agreement cash flow and the sale of certain livestock.	0.750
D.7	Net Annual Budget Surplus (Deficit): This is the budgeted annual net income of the Agreement assuming all units spend exactly their net budget allotments however it is normal to expect departments to under-spend in any year. Any funds remaining for carry-forward purposes in fiscal 2003/2004 will be determined at the end of the fiscal year in April 2004.	0.250
D.8	LESS: Opening Net Accumulated Transition Costs (from fiscal 2002/2003)	(2.500)
	EQUALS: Ending Net Accumulated Transition Costs It is proposed to repay the accumulated transition costs as quickly as possible from annual savings or net revenues no later than the end of fiscal 2006 (maximum of four years).	(2.250)

F. 2003/2004 OMAF Budget - Description of Charts and Tables:

Chart A: OMAF Agreement: Total Expense* Budget by Location

Chart A compares the OMAF expense budget by major location incorporating the budget assumptions as presented.

Chart B: OMAF Agreement: Diploma Program Enrolments by Location

Chart B compares the OMAF diploma student enrolment by location over a time series 2000/2001 actual to 2003/2004 Budget.

Chart C: OMAF Agreement: Revenue by Major Category 2000/2001 to 2003/2004

Chart C compares the OMAF revenues in each major category over a four year period including the 2003/2004 budget.

Chart D: OMAF Agreement: Expenses by Major Category 2000/2001 to 2003/2004

Chart D compares the OMAF expense budget by major category incorporating the budget assumptions as presented.

Table A: OMAF Budget, By Unit and Major Expense category

Table A shows the 2003/2004 OMAF Budget incorporating all budget assumptions, by major category of expense and organizational group

Table B: OMAF Budget, By Type - for the Years 2001/2002 to 2003/2004

Table B presents the 2000/2001, 2001/2002 actual results, 2002/2003 forecast results by revenue and expense type compared with the 2003/2004 budget, using the assumptions contained in the narrative.

** It should be noted that the 2003/2004 Budget includes forecasted departmental carry-forward funds remaining at the end of the previous fiscal year, 2002/2003. (Carry-forwards are departmental unspent funds or net revenues over annual budget targets remaining at fiscal year end committed for open purchases orders, capital equipment, multi-year projects or helping meet future years' departmental budget targets.). The 2003/2004 Budget determines the total approved expenses/revenue limits for units however it is normal to expect departments to under spend in any year. Any funds remaining for carry-forward purposes in fiscal 2003/2004 will be determined at the end of the fiscal year in April 2004*

Chart A: OMAF Agreement: Total 2003/2004 Expense Budget by Location: Total \$73.9 Million

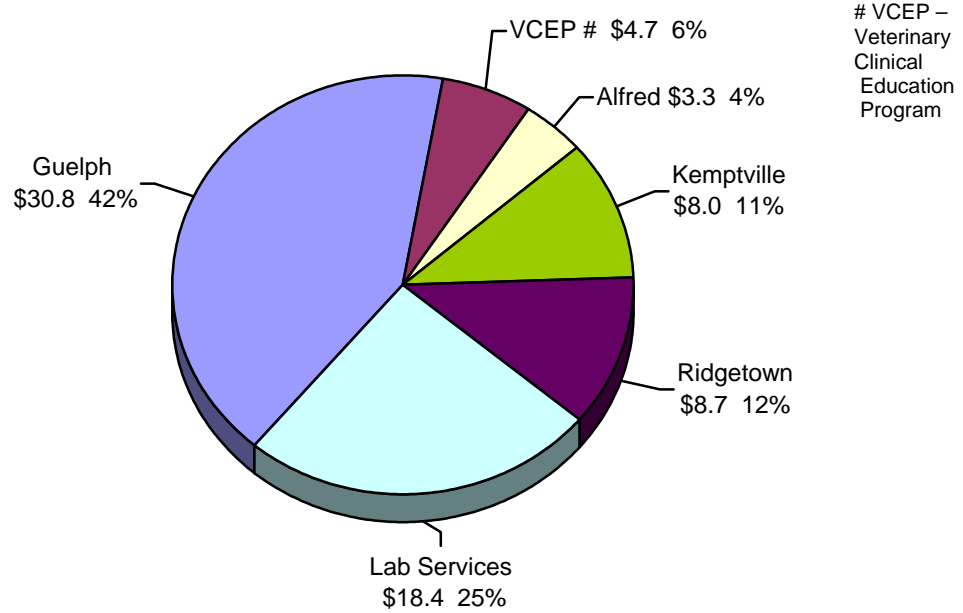
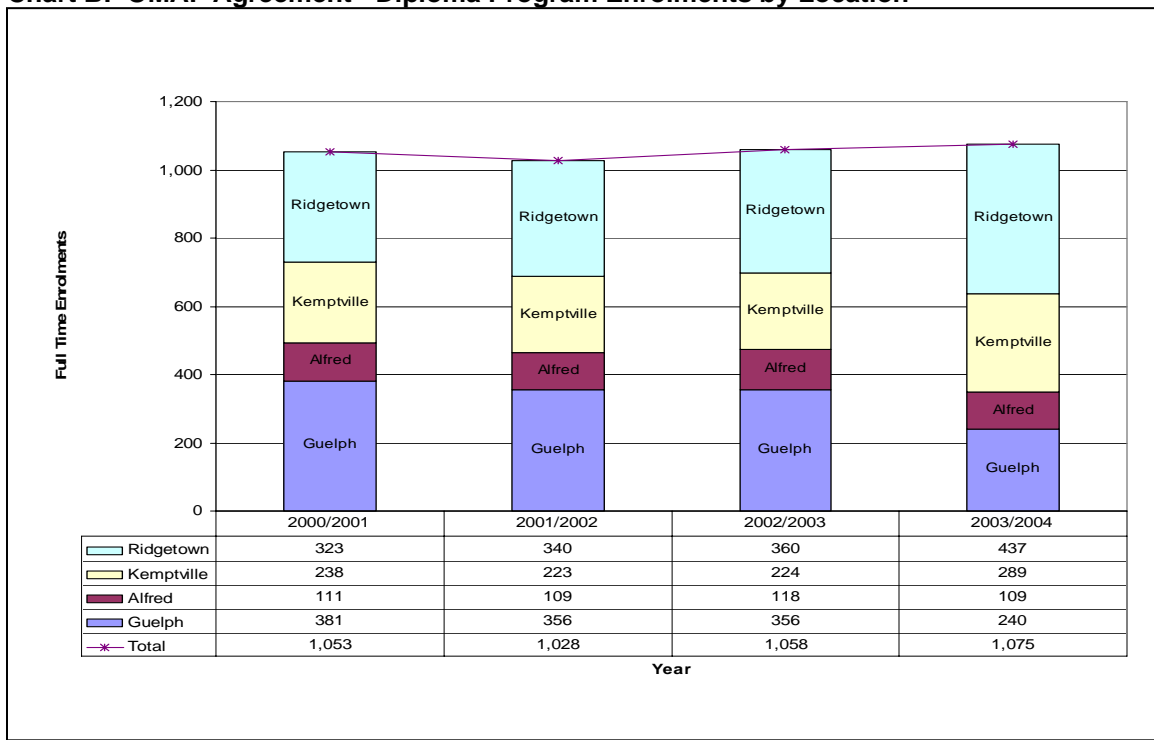


Chart B: OMAF Agreement - Diploma Program Enrolments by Location



Note: With the exception of a program in turf management which has a total projected enrolment of 60 students, all diploma programs at the Guelph campus will be phased out by the end of fiscal 2004/2005. Enrolments are projected to increase in the colleges at Kemptville and Ridgetown. (September 2002 was the year of the last intake for most diploma programs on the Guelph campus.)

Chart C: OMAF Agreement: Revenue by Major Category 2000/2001 to 2003/2004

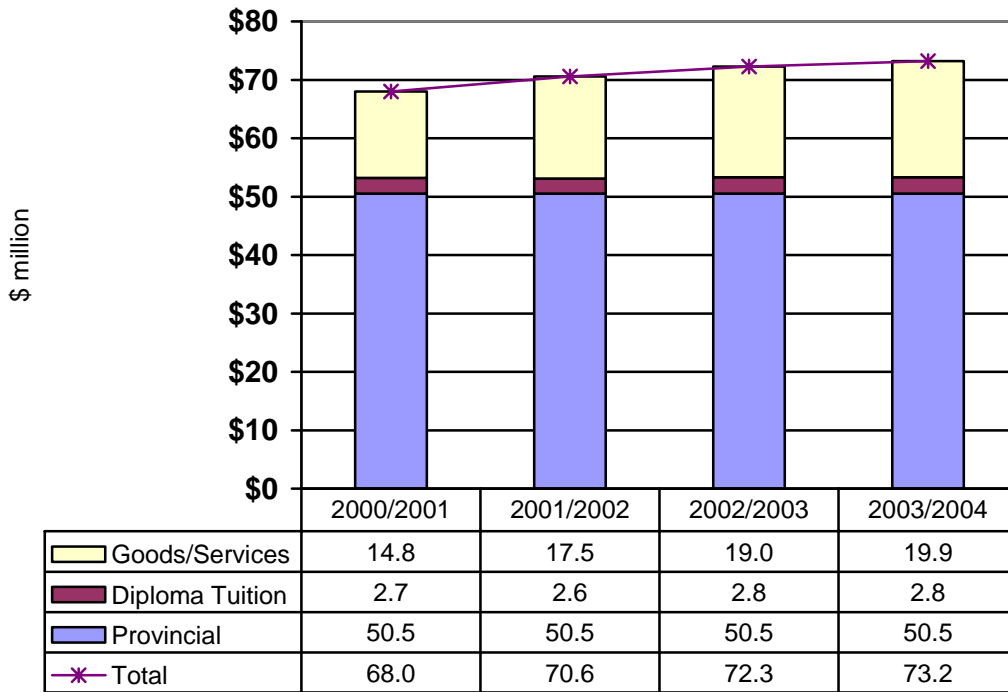
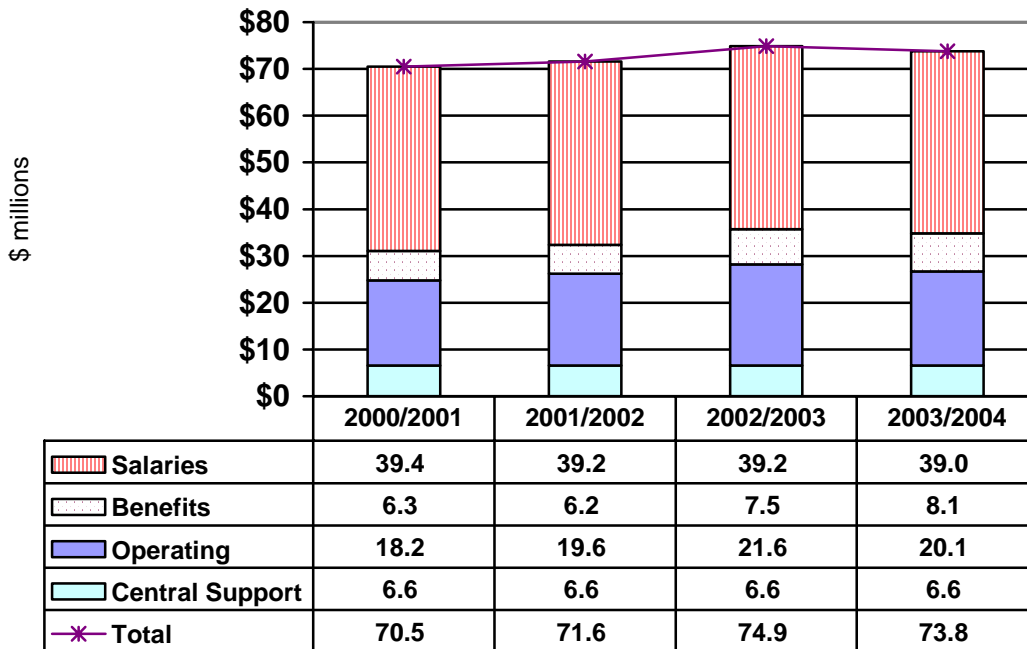


Chart D: OMAF Agreement: Expenses by Major Category 2000/2001 to 2003/2004



**University of Guelph
2003/2004 OMAF Budget
By Unit and Major Expense Category**

Table A
(in \$ Thousands)

	(A) Total Salaries	(B) Total Benefits	(C) = (A)+(B) Total Personnel	(D) Operating	(E) Dept Cost Recovery	(F) = (C)+(D)+(E) Total Expenses	(G) Revenues	(H) = (F)+(G) Net Annual Budget
<u>Institutional Revenues</u>								
Provincial Funding							50,500	50,500
Total Institutional Revenues							50,500	50,500
<u>Institutional Expenses</u>								
<u>Teaching Units</u>								
College of Arts	25	2	27	7		34		34
College of Biological Sciences	164	28	192	193		385		385
College of Social and Applied Human Sciences	99	16	115	110		225		225
Ontario Agricultural College #1	21,533	4,412	25,945	8,979	(177)	34,747	#2 (11,129)	23,618
Ontario Veterinary College - VCEP	2,892	607	3,499	1,187		4,686		4,686
Ontario Veterinary College - Other	1,927	366	2,293	251		2,544		2,544
College of Physical and Engineering Sciences	346	66	412	44		456		456
Total Teaching Units	26,986	5,497	32,483	10,771	(177)	43,077	(11,129)	31,948
<u>Academic Services</u>								
Guelph Research Stations & Services	2,704	563	3,267	2,540		5,807	(1,769)	4,038
Lab Services Division	9,375	2,039	11,414	8,176	(1,211)	18,379	(9,043)	9,336
Central Support Costs	0	0	0	6,600		6,600		6,600
Total Academic Services	12,079	2,602	14,681	17,316	(1,211)	30,786	(10,812)	19,974
Total Expenses	39,065	8,099	47,164	28,087	(1,388)	73,863	(21,941)	51,922
OMAF Deficit Repayment						0	(750)	(750)
Total Expenses	39,065	8,099	47,164	28,087	(1,388)	73,863	(22,691)	51,172
Carryforward from Prior Years				(922)		(922)		(922)
Net Annual Budget	39,065	8,099	47,164	27,165	(1,388)	72,941	(73,191)	#3 250

Notes:

- #1 Ontario Agriculture College includes major college and research locations in Alfred, Kemptville and Ridgetown.
- #2 OAC Revenue includes Guelph campus (\$1,021), Alfred (\$1,409), Kemptville (\$4,258) and Ridgetown (\$4,441); estimates for major categories include Diploma Enrolments (\$2,822), Continuing Education (\$4,985) and Sales of Goods and Services (\$3,322).
- #3 The \$0.25 million is the net annual budget representing the \$0.75 million deficit repayment less \$0.5 million in 2003/2004 Transition Costs.

Definitions:

- Dept Cost Recovery" are non-cash transfers based on inter-departmental services provided for laboratory and other services.
- "Revenues" in department revenues are external cash charges for services provided through either the sale of goods and services to third parties; contracted services; or diploma and continuing education enrolments.
- "Central Support Costs" are the transfers to the MTCU budget in support of infrastructure provided to the OMAF agreement.
- "Carryforward from Prior Years" are funds generated by cost savings or net revenues in a fiscal year allocated for spending in the following fiscal year.
- Net Annual Budget" is the total of departmental expenses less departmental cost recoveries and revenues for each major unit. Net budget is the total allocation amount with which budget managers are controlled and measured at the end of each fiscal year. Any surplus or deficit at year-end within policy limits is credited to or charged against the unit as a "Carryforward" in the following year's budget.

University of Guelph
2003/2004 OMAF Budget - Gross Expenses
(in \$ Thousands)

By Type
Table B

	<u>2000/2001</u>		<u>2001/2002</u>		<u>2002/2003</u>		<u>2003/2004</u>		Notes
	<u>Actual</u>	% Chg	<u>Actual</u>	% Chg	<u>Forecast</u>	% Chg	<u>Budget</u>	% Chg	
Provincial Funding	50,500	-6.5%	50,500	0.0%	50,500	0.0%	50,500	0.0%	#1
Diploma Tuition Fees	2,684	9.9%	2,631	-2.0%	2,796	6.3%	2,822	0.9%	
Sales of Goods and Services	14,858	12.5%	17,471	17.6%	19,002	8.8%	19,869	4.6%	#2
Total OMAFRA Revenue	<u>68,042</u>	-2.3%	<u>70,602</u>	3.8%	<u>72,298</u>	2.4%	<u>73,191</u>	1.2%	
<u>Expenses</u>									
Established Faculty	7,800	0.9%	7,875	1.0%	8,088	2.7%	7,913	-2.2%	#3
Other Established Staff	22,699	5.0%	22,395	-1.3%	21,750	-2.9%	22,403	3.0%	
Total Established Staff	<u>30,499</u>	3.9%	<u>30,270</u>	-0.8%	<u>29,838</u>	-1.4%	<u>30,316</u>	1.6%	
Total Temporary Staff	8,890	9.7%	8,966	0.9%	9,317	3.9%	8,749	-6.1%	
Benefits	7,750	6.0%	7,795	0.6%	7,993	2.5%	8,099	1.3%	
Total Personnel	<u>47,139</u>	5.3%	<u>47,031</u>	-0.2%	<u>47,148</u>	0.2%	<u>47,164</u>	0.0%	
Net Operating Costs	18,725	13.4%	21,313	13.8%	21,612	1.4%	20,099	-7.0%	
Gross Direct Expenses	<u>65,864</u>	7.5%	<u>68,344</u>	3.8%	<u>68,760</u>	0.6%	<u>67,263</u>	-2.2%	
Central Support Costs	6,600	-6.5%	6,600	0.0%	6,600	0.0%	6,600	0.0%	
Pension & One Time Savings	(1,970)		(3,270)		(500)		0	-100.0%	#4
Total Expenses	<u>70,494</u>	5.8%	<u>71,674</u>	1.7%	<u>74,860</u>	4.4%	<u>73,863</u>	-1.3%	
Annual Net Income(Expense)	(2,452)		(1,072)		(2,562)		(672)		
add: Carryforward from Prior Year	4,508		2,056		984		922		#5
OMAF Funds Unspent	2,056		984		(1,578)		250		
less: Carryforward to Following Year	2,056		984		922				
less: Prior Year Net Transition Costs							(2,500)		#6
Net Income(Expense)	<u>0</u>		<u>0</u>		<u>(2,500)</u>		<u>(2,250)</u>		

University of Guelph
2003/2004 OMAF Budget - Gross Expenses
(in \$ Thousands)

Notes for Table B

Notes

- #1 On April 1, 2000, OMAF reduced the annual funding by \$3.5 million or 6.5%. For 2003/2004, the agreement revenue remains fixed at the annual amount of \$50.5 million.
- #2 Significant goods and services revenue growth has been recorded including approximately \$4.0 million in fees in the Labs Services Division since 2000/2001. This includes a large contract related to the Plum Pox virus program.
- #3 The Faculty Salary budget supported by the OMAF agreement is reduced in 2003/2004. This represents approximately 2.5 FTE's of faculty time related to the Diploma Programs taught at Guelph in Agriculture and Horticulture. These program are being phased at Guelph out over two years, replaced by increased enrolments at the Ridgetown, Kemptville and Alfred.
- #4 Pension and One-time Savings includes Pension Contribution savings which ended in 2002/2003 due the University's decision to resume contributions. Other savings included other infrastructure support funds and non-recurring royalty revenues.
- #5 Unusually high unspent funds from 2000/2001 were the result of the Lab Services Division accumulating savings as part of an approved equipment replacement program to assist its capital needs. Unspent funds in 2001/2002 and 2002/2003 were reduced by units as a result of overall spending constraints required to meet budget targets. The 2003/2004 departmental carryforwards (not including the costs incurred for net transition expenses) are expected to remain similar to the prior two years.
- #6 Prior Year Net Transition Costs of \$2.5 million were incurred during a \$6.181 million (approx. 8.5% of total costs) budget restructuring initiative in 2002/2003. These costs will be covered from future year's revenues and savings.