UNIVERSITY OF GUELPH

OMAFRA Agreement - 2008/2009 Preliminary Budget

For Presentation to the Board of Governors

June 5, 2008

A. The OMAFRA Agreement: Background

Background: Since its formation in 1964, the University of Guelph has had an agreement (the Agreement) with the Ontario Ministry of Agriculture Food and Rural Affairs (OMAFRA) to provide research, diploma education and services to the agri-food sector in the province of Ontario. In 2006/2007, this Agreement, which is unique in the Ontario university system provided $85.3 million consisting of $54.9 million in OMAFRA payments and $30.4 million in diploma fees and revenues from the sale of goods and services. This revenue constitutes 15% of total University revenues and funds 94 faculty FTEs (Full Time Equivalents), and 475 regular full-time staff FTEs 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 $6.5 million in 2006/2007. In addition to research and teaching on the Guelph campus, under the Agreement the University operates programs and delivers services at a number of facilities (not owned by the University) across Ontario including:

- 3 regional campuses of the University of Guelph 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 including three major research stations located near Guelph at Arkell and Elora .

On April 1, 2006 ownership of all provincially-owned assets associated with the Agreement (land and buildings) were transferred to the Agricultural Research Institute of Ontario (ARIO)[1]. The transfer also included full[2] responsibility for the operations and maintenance of these lands and buildings (buildings associated with 14 agricultural stations and the 3 college locations as well as 6,600 acres of land) to the University. Accompanying this added responsibility was $4.3 million in new annual operating funding transferred under the Agreement. In addition, the costs of major capital projects at these facilities are funded through separate funds held by ARIO. Priorities for capital projects are set as part of a joint (OMAFRA, ARIO and University) planning process. Key considerations are health and safety, energy efficiencies and program effectiveness. The 2006/2007 fiscal year was the first full year for the implementation of these responsibilities.

Agreement funds are transferred to University college/departments as specific program allocations approved jointly by the University and OMAFRA. All revenues received are restricted under the terms of the Agreement and are reported separately within the University's OMAFRA Agreement Operating Budget. 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 OMAFRA Agreement budget is presented to the University's Board of Governors after details on the overall level of provincial support and program priorities are reviewed and key budget assumptions are confirmed with OMAFRA.

The current Agreement formally expired at March 31, 2008 and was replaced with a 10 year renewal which included increased funding and revised program structures. This Agreement which became effective April 1, 2008, is described in the following section.

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[1] ARIO is an operational services agency reporting the Minister of OMAFRA. It is provincially incorporated under the ARIO Act (1962).

[2] Prior to this transfer, responsibility for the operations and maintenance of the properties was split between the province, through Ontario Realty Corporation ($4.3M) and the University, under the Agreement ($2.7M). The transfer (and amended Agreement) reflects the consolidation of these responsibilities. The transfer was formally completed in March of 2007.

B: Agreement Renewal

B.1 Budget Timing and Content:

On April 1, 2008 a new 10 year Agreement was executed between the University of Guelph and OMAFRA. Given the timing and significant scope of the changes included in the new Agreement in terms of both funding and program structure, this presentation will not, at this time, include the normal level of detail especially on allocations by expense type (personnel, operating etc.) or unit (college or division). There is a joint (University and OMAFRA) process underway which will conclude with the allocation of new funding to University units under the programs specified in the new Agreement. When complete, the impact on both the OMAFRA Agreement Budget and the MTCU Operating Budget will be reported to the Board of Governors.

B.2 Highlights of the New Agreement:

Many components of the previous Agreement remain unchanged. These include key program structures such as research, laboratory services (now divided into the AFL – Agri-food Laboratory and the AHL – Animal Health Laboratory) and the Veterinary Clinical Education Program (VCEP). In addition the basic governance and operational structures are essentially unchanged although specific elements of reporting and accountability have been revised to emphasize program outcomes (both short-term and strategic).

There are however two key changes that affect the financial implications of the new Agreement relative to the University. These include:

1. The transfer of the entire education program out of the contract to MTCU (Ministry of Training Colleges and Universities). Most of the impact of this action occurs in the regional campuses (there is a small diploma program operationed on the University of Guelph main campus) where historically OMAFRA has supported both the formal diploma teaching as well as a variety of continuing education and certificate training programs. This transfer was initiated to consolidate education under MTCU and focus the Agreement on core objectives related to agri-food, environmental sustainability, and animal and human health. The transfer will also encourage more strategic enrolment planning at the regional campuses consistent with MTCU funding and policy guidelines.

   The transition to the new funding model is not yet complete although MTCU has accepted the transfer (along with $4.5 million in funding from OMAFRA) in principle. Discussions are almost complete with MTCU that cover operational details (e.g., enrolment reporting, accountability). It is planned to move this funding and related expenses currently recorded under the "old" OMAFRA budget to a separate series of accounts within the University's MTCU Operating Budget. Execution of the transfer on the University's accounts is well underway and we expect no loss of reporting or expenditure control during this time. The detailed account structure (fee revenues[3] and base expenses) will parallel the current OMAFRA Agreement (at the current locations) greatly facilitating the transfer of budget and accountabilities. When complete, the impact on both the new Agreement budget and the MTCU Operating Budget will be reported to the Board of Governors.

[3] 2008/2009 tuition and other fees for the regional campuses and diploma students were approved by the Board of Governors at is April 16, 2008 meeting.)

2. The level of funding under the new Agreement especially for the first five years has increased significantly. In broad terms, new funding has been allocated both to enhance existing program capacities (which over many years of fixed levels of funding have been eroded due to general cost increases) and to create new initiatives in each of the major program areas.

"Q4" funding refers to a major one-time allocation, received from OMAFRA by the University in April 2008 of $56.0 million. Under the new Agreement, these funds (along with allocated investment income) will provide estimated funding of $12.5 million in each of the next five years at which time the $56 million will have been fully consumed. (It is expected that prior to the end of the five year period, discussions will occur with OMAFRA as to the adjustments in the form of a reduction in services or replacement funding that will be necessary when this funding ends.)

The following table reconciles the old funding base with the distribution of new funding.

Reconcilation of Provincial Funding: Old Agreement versus New Agreement	*(A)* **Existing Program Revenue**	*(B)* **Program Transfers**	*(C)* **New Program Revenue**	*(D)* **Preliminary Budget**	*(E)* **Total FTE's**
2007/2008 Base Budget	54,800			54,800	568.9
Education Programs		(4,500)		(4,500)	(78.2)
Revised Opening 2008/2009 Base				50,300	490.7
Agreement Base Increase			8,800	8,800	
New Agreement Net Base Budget				59,100	
Annual Q4 Initiatives (5 Years)			11,200	11,200	
Q4 Interest Income (5 Years)			1,300	1,300	
Total New Agreement Budget				71,600	
Annual Minor Capital Projects (Preliminary)	4,500			4,500	
Total Provincial Support 2008/2009	59,300	(4,500)	21,300	76,100	

In summary, funding under the new Agreement will increase by $16.8 million ($76.1 million less the $59.3 million). In addition the University will receive $4.5 million for the transfer responsibilities under the "old' education program. In effect the total increase, over the five year period will equal $21.3 million (about a 36% increase). Distribution of this net increase by major program is shown on Table A Page 7.

Within this new Agreement, most core operational expenses (commitments) of the old Agreement remain in place. The following section describes the 2008/2009 OMAFRA Agreement budget assumptions (at this point in time) including the estimated increases required for salaries and benefits charged to the Agreement budget and the impact of new funding in the context of both current capacities and new programming.

C. Major Budget Assumptions for fiscal 2008/2009:

Fiscal objectives have been put in place over the past several years which require major units/programs/locations to find resources within their “envelopes” of provincial support to cover all annual costs increases including salaries and benefit increases. Major efforts have been made at creating revenue as the main source to cover these expense increases however if sufficient revenues are not found, cost reallocations within the total funds available are required. The major “envelopes” have normally been defined around “programs” (e.g., research, laboratory services and VCEP). Within these large components were certain sub-divisions e.g., regional campuses and research stations. This practice will continue under the new Agreement procedures.

C.1 Salary and Benefit Cost Increases (incremental costs):

The Agreement budget is responsible for covering cost increases for employee (faculty and staff) salaries and benefits directly charged to Agreement programs. It is estimated that the costs of salary and benefit increases for faculty and staff directly charged to the Agreement will be **$1.300 million** in the 2008/2009 fiscal year. The assumptions used in this estimate are consistent with the assumptions used in all of the University’s general budget planning and contain provisions for increases for all University employee groups charged to the Agreement.

In addition to staff charged directly, under the previous Agreement financial support toward the costs of 82 FTE’s [full-time equivalents] of faculty effort was received by the University as an annual fixed (i.e., no change to fund salary or benefit cost increases), contribution of $7.915 million consisting of $6.515M for 70 FTE’s of research faculty and $1.4M for 12 FTE’s of faculty support in VCEP. Under the new Agreement these funds have been increased by $3.400 million and $0.500 million respectively. These increases will assist in fully funding these faculty FTE’s which have been essentially discounted over the years of fixed funding.

In meeting their budget targets, units have been encouraged first to raise revenues or cost recoveries from external research, service fees or other sources such as facilities cost recoveries. Also, units are expected to build on their research and services infrastructure capacities to generate additional revenues to support operations. In addition to new revenues, a key solution for meeting the challenge of cost-increases involves the cost-recovery of OMAFRA-funded research infrastructure costs from all users (non-OMAFRA research programs).

For the 2008/2009 cost increases, units are preparing plans to absorb these costs within their existing OMAFRA budget. While a portion of the new Agreement funding will assist in funding these cost increases, external revenue increases and operating expenditure reductions will also be part of the solution. It is not expected, at this time, that there will be any reductions in faculty or staff complement in fiscal 2008/2009 as a result these plans however this will not be confirmed until implementation of these plans is completed over the course of the next several months. Units are responsible for targets presented in Table B.

C.2 Allocation of New Funding:

Table B (page 8) shows both the previous Agreement budget base by major unit (starting point for the 2008/2009 budget process), the impact of the transfer of the education program and the allocations of salary and benefits increases. In addition, the current allocation (to the major programs) of new funding (as much as is complete at this time) is shown. ‘Unallocated New

Revenue" lines contain funds not yet transferred to units. Over the course of the summer these allocations will be determined and factored into a budget update that will be presented to the Board of Governors for approval.

Table A: Summary of Budget Allocations of Provincial Funding by Program
Table A summarizes allocations by both current and proposed new programs for the 2008/2009 Agreement Budget. Of the $21.3 million in new incremental funding $10.1 million (47%) will be allocated to existing programs to stabilize their current capacities and the remaining $11.2 million will be allocated for program enhancements including several new initiatives established in the new Agreement[4].

Table B: OMAFRA Agreement Preliminary Budget, By Unit and Major Expense Category
Table B shows the 2008/2009 OMAFRA Opening Base Budget by major revenue and expense category plus budget assumptions for program transfers, salary and benefit inflation costs and targets, new program revenues and minor capital expenses by organizational group.

Table C: OMAFRA Agreement 2007/2008 Forecast of Results, by Unit
Table C presents the 2007/2008 forecast actual results compared to budget by unit, with projected carry forwards for operations.

** It should be noted that this 2008/2009 Preliminary Budget does not include departmental carry-forward funds[5] of the previous fiscal year, 2007/2008. (Any funds remaining for carry-forward purposes in fiscal 2007/2008 will be determined when year end accounting procedures have been completed.)*

[4] For example the KTT (Knowledge Translation and Transfer) program is aimed at the improved dissemination of the results of research and other Agreement activities to internal and external stakeholders. Other new funding will be allocated for expanded activities and initiatives that are currently being defined primarily in the context of existing programs.

[5] 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 budget determines the total approved expenses/revenue limits for units, however, it is normal to expect departments to under spend in any year.

University of Guelph
OMAFRA Agreement – 2008/2009 Preliminary Budget
In Thousands of Dollars

2008/2009 Budget
Budget Targets by Program
Table A

Summary of Budget Targets by Program - Net Expenses

Current Programs	2007/2008 Base	Less Transfer to MTCU	Opening 2008/2009 Base	New Program Revenue: Existing Programs	New Program Revenue: Programs Enhancements	New Program Revenue: Total	Minor Capital Projects	Total Agreement
Research & Education Program Base	28,100	(4,315)	23,785	200	5,700	5,900		29,685
Research Faculty Salaries	6,515		6,515	3,400		3,400		9,915
Lab Services - AHL	5,000		5,000	1,100	1,500	2,600		7,600
Lab Services - AFL	4,000		4,000	1,200		1,200		5,200
VCEP	4,700		4,700	500	1,000	1,500		6,200
Service Costs	6,485	(185)	6,300	3,700	1,000	4,700		11,000
Minor Capital Projects							4,500	4,500
New Programs								
KTT - Knowledge Translation & Transfer			-		1,000	1,000		1,000
Graduate Enhancement Program			-		1,000	1,000		1,000
Total OMAFRA Agreement	54,800	(4,500)	50,300	10,100	11,200	21,300	4,500	76,100

2008/2009 Budget
By Unit & Major Expense Category
Table B

University of Guelph
OMAFRA Agreement – 2008/2009 Preliminary Budget
In Thousands of Dollars

	Opening Base Budget							2008/2009 Preliminary Revisions					Total	
	(A) Total Personnel	*(B)* Faculty Pool Costs	*(C)* Operating	*(D)* Dept Cost Recovery	*(E) = (A)+(B)+(C)+(D)* Total Expenses	*(F)* Revenues	*(G) = (E)-(F)* Opening 08/09 Base Budget	*(H)* Transfer of Education Programs	*(I-1)* Salary & Benefit Inflation	*(I-2)* Unit Re-allocations for Inflation	*(J)* New Program Revenue	*(K)* 2008/2009 Minor Capital Projects	*(L) =(G)+(H)+(I)+(J)+(K)* Preliminary Annual Budget	Notes
<u>Institutional Revenues</u>														
Provincial Funding						(54,800)	(54,800)	4,500			(21,300)	(4,500)	(76,100)	#1
Total Institutional Revenues						**(54,800)**	**(54,800)**	**4,500**			**(21,300)**	**(4,500)**	**(76,100)**	
<u>Institutional Expenses</u>														
<u>Teaching Units</u>														
College of Biological Sciences	50	316	455		821		821						821	
College of Social & Appl. Human Sciences	24	155	240		419		419						419	
College of Management and Economics	1				1		1						1	
OAC Guelph	3,255	4,636	3,311	(237)	10,965	(197)	10,768	(294)	128	(128)			10,474	
Alfred Campus	2,540		1,353	(120)	3,773	(1,449)	2,324	(1,483)	45	(45)		350	1,191	
Kemptville Campus	5,711		4,750	(239)	10,222	(5,101)	5,121	(1,252)	119	(119)		1,050	4,919	
Ridgetown Campus	6,436		3,632	(375)	9,693	(4,465)	5,228	(1,286)	145	(145)		700	4,642	
Total: Ontario Agricultural College	17,942	4,636	13,046	(971)	34,653	(11,212)	23,441	(4,315)	437	(437)	0	2,100	21,226	#2
Ontario Veterinary College - VCEP	2,233	1,400	1,067		4,700		4,700		67	(67)	1,500		6,200	
Ontario Veterinary College - Research	500	1,257	261		2,018		2,018		23	(23)			2,018	
College of Physical & Eng. Sciences	82	151	171		404		404		4	(4)			404	
Total Teaching Units	**20,832**	**7,915**	**15,240**	**(971)**	**43,016**	**(11,212)**	**31,804**	**(4,315)**	**531**	**(531)**	**1,500**	**2,100**	**31,089**	
<u>Other Programs and Services</u>														
Guelph Research Station Operations	4,760		3,561	(126)	8,195	(1,612)	6,583		194	(194)		2,400	8,983	
Exigency & LRF			450	(100)	350	(650)	(300)						(300)	#3
Program Support Accounts	191		1,037		1,228		1,228		5	(5)			1,228	#4
Lab Services Division	14,683		8,722	(2,039)	21,366	(12,366)	9,000		570	(570)	3,800		12,800	
Central Support Costs			6,485		6,485		6,485	(185)			4,700		11,000	#5
Total Other Programs & Services	**19,634**	**0**	**20,255**	**(2,265)**	**37,624**	**(14,628)**	**22,996**	**(185)**	**769**	**(769)**	**8,500**	**2,400**	**33,711**	
Unallocated New Revenue											7,900		7,900	#6
New Revenue for Research Faculty											3,400		3,400	#7
Total Agreement Expenses	**40,466**	**7,915**	**35,495**	**(3,236)**	**80,640**	**(25,840)**	**54,800**	**(4,500)**	**1,300**	**(1,300)**	**21,300**	**4,500**	**76,100**	
Net Agreement Budget	**40,466**	**7,915**	**35,495**	**(3,236)**	**80,640**	**(80,640)**	**0**	**0**	**1,300**	**(1,300)**	**0**	**0**	**0**	

Notes for Table B

The following numbered notes provide specific details on the more significant components of the amounts on Table B.

Notes:

1. See Table A for details on the Total Provincial Funding within the Agreement for 2008/2009.

2. Ontario Agricultural College (OAC) includes the regional campus locations in Alfred, Kemptville and Ridgetown.

3. The budget for Exigency and the Livestock Research Fund (LRF) includes \$0.200 million and \$0.100 million revenue targets for annual contributions to balancing the Agreement budget.

4. The Program Support Accounts are centrally administered allotments for specific research infrastructure including a capital equipment budget allocated to Plant Ag growth room renovations, discretionary accounts managed by the Research Program Directors and the funds held centrally to manage the responsibilities for facilities and maintenance.

5. Central Support Costs are the transfers to the MTCU budget in support of infrastructure provided to the OMAFRA agreement. For 2008/2009, \$11.0 has been allocated for support of campus infrastructure.

6. Of the \$21.3 million in new revenue in the 2008/2009 Agreement budget, \$7.9 million is targeted to specific programs but remains unallocated in the preliminary budget pending completion of award processes and detailed budget planning.

7. Of the \$21.3 million in new revenue in the 2008/2009 Agreement budget, \$3.4 million is targeted for increasing the contribution to faculty salary and benefit costs but has not been allocated to units at this time.

Column Definitions:

Column B: Faculty Pool Costs are fixed transfers to the MTCU budget in support of faculty effort on research projects (70 FTE's) and VCEP (12 FTE's). An additional 12 FTE's of faculty positions are recorded and funded as direct costs of the program. These faculty positions are located in the regional campuses at Ridgetown (6), Kemptville (4) and Alfred (2).

Column D: Dept Cost Recovery are non-cash transfers based on inter-departmental services provided for laboratory and other services.

Column F: Revenues within units are external cash charges for services provided by agreement locations primarily through either the sale of goods and services to third parties and diploma and continuing education enrolments that will subsequently be transferred to the new MTCU Education program (see Column H).

Column G: Base Budget is the opening net budget by Unit, before the preliminary revisions to estimates and assumptions as a result of the new Agreement being implemented for the 2008/2009 fiscal year.

Column H: In the new Agreement, the Education programs will be transferred to an MTCU supported program. Column H contains preliminary estimates of the net costs by location that will be included in the new program including approximately 78 FTE's of regular full time Faculty and Staff.

Columns I-1, I-2: Estimated increased costs by location for salary and benefit increases as a result of the existing agreements in place for Faculty, P&M and CARG employees plus estimates for those groups without agreements for 2008/2009 (USW and Exempt) are included in column I-1. Column I-2 contains the target reductions for salary and benefit inflation as units will be absorbing theses costs within their OMAFRA net budgets.

Column K: Minor Capital Projects represent the proposed allocation of additional funds from ARIO in support of minor capital investments and high priority repairs to equipment and facilities at the provincially owned locations that are managed by the University under the OMAFRA agreement. Individual projects are proposed and approved by consensus of the University, OMAFRA and ARIO annually.

Column K: Preliminary Annual Budget is the total of departmental expenses less departmental cost recoveries and revenues for each major unit, including target reallocation amounts that at this time have not been specifically resolved within the Agreement base budget. The net budget is the total allocation amount with which budget managers are controlled and measured at the end of each fiscal year. These unit targets do not include the new revenues that remain unallocated in the Preliminary budget (see note #6 & 7 above). Any surplus or deficit at year-end within policy limits is credited to or charged against the unit as a "Carry forward" in the following year's budget.

University of Guelph
OMAFRA Agreement – 2008/2009 Preliminary Budget
In Thousands of Dollars

2007/2008
Forecast Net Expenses* by Unit
Table C

	07/08 Net Budget	07/08 Net Forecast	Surplus (Deficit)	Notes
Provincial Agreement Revenue	54,800	54,800	0	#1
Institutional Net Expenses				
College of Biological Sciences	1,077	890	187	
College of Social and Applied Human Sciences	491	408	83	
College of Management and Economics	1	1	0	
OAC Guelph	11,649	10,846	803	
Alfred Campus	1,802	2,012	(210)	#2
Kemptville Campus	4,840	5,289	(449)	#3
Ridgetown Campus	6,590	5,399	1,191	
Total: Ontario Agricultural College	24,881	23,546	1,335	
Ontario Veterinary College	6,928	6,868	60	
College of Physical and Engineering Sciences	505	372	133	
Total Teaching Units	33,883	32,085	1,798	
Guelph Research Station Operations	5,621	6,491	(870)	#4
Lab Services Division	9,998	9,478	520	
Research Program Support	1,294	745	549	#5
LRF & Exigency Fund	(300)	(313)	13	
Central Support Costs	6,485	6,485	0	
Total OMAF Agreement Operations	56,981	54,971	2,010	
Annual Income(Expense)	(2,181)	(171)		
add: Carryforward from Prior Year for Operations	2,181	2,181		
Agreement Funds Unspent	0	2,010		#6
less: Carryforward to Following Year for Operations		(2,010)		
Net OMAFRA Agreement	0	0		

*** Net Expenses:** Unit results are shown net of college/division revenues and recoveries (ie Tuition, Produce Sales, Lab Fees)

Notes for Table C

The following numbered notes provide specific details on the more significant components of the amounts on Table C.

1. For 2007/2008 the Agreement Revenue of $54.8 million remained unchanged from 2006/2007. An additional $4.3 million ($2.9 million in 2006/2007) in Minor Capital/Repair funds provided for jointly approved projects. These revenues were recorded in the locations/units of the approved projects.

2. Alfred campus of the Ontario Agricultural College has experienced a structural budget problem over the last several years. The Facilities Operations and Maintenance program assisted with facility operational and utility costs shortfalls from prior years. The 2007/2008 forecast reflects an approximate 2/3 reduction to the accumulated deficit that peaked at $0.750 million at the end of the 2005/2006 fiscal year. This is in accordance with an approved repayment plan that will reduce the deficit to zero by the end 2008/2009.

3. Kemptville's year-end forecast is a net deficit of $0.449 million. OAC management is working on a plan to repay this deficit and balance the annual budget. The plan has not been approved by the acting OAC Dean at this time.

4. Guelph Research Station Operations have a forecast accumulated deficit of -$0.870 million (-$1.441 million in 2006/2007). With the repayment of prior year's transition costs completed at the end of 2006/2007, there were unallocated funds from the sale of livestock, interest earned on Agreement cash-flow and other central savings totaling $0.490 million was transferred to the RSO budget as one-time deficit relief at the end of 2007/2008. Efforts continue to be made to reduce the remaining deficit.

5. The Research Program Support Accounts are centrally administered allotments for support of specific research infrastructure such as the $0.072 million capital equipment budget allocated annually to Plant Ag growth room renovations and currently there are $0.500 million in research program support funds and discretionary accounts managed by the Research Program Directors. In addition, there are centrally managed support funds for the Facilities Operations and Maintenance program.

6. The total $2.01 million in funds projected to be available at the end of 2007/2008 will be carried forward to 2008/2009 for operations. Included in this net result is an accumulated net deficit of $0.290 million will be transferred to the new MTCU Education programs at Guelph, Alfred, Kemptville and Ridgetown campus locations.