Revised 2011/2012 MTCU Operating Budget

Prepared for the Finance Committee of the Board of Governors

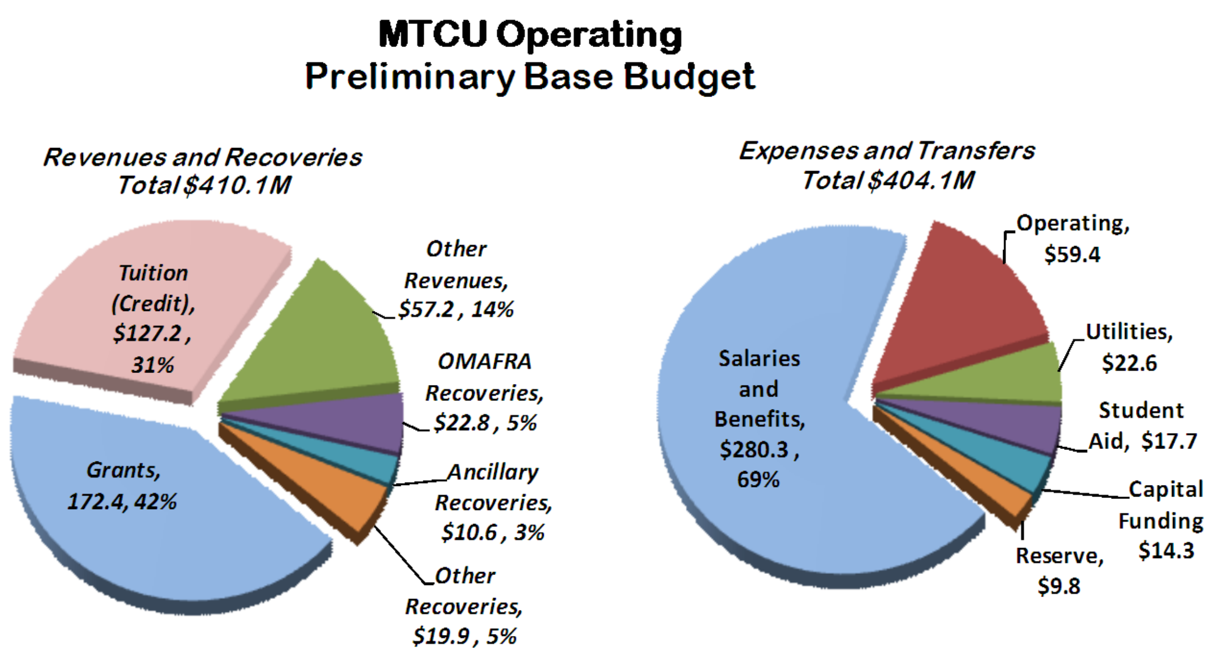
February 27, 2012

Including update to revised enrolment (fall 2011)

I. Introduction:

On April 20, 2011, the Board of Governors approved the University of Guelph's Integrated Plan including the MTCU Preliminary Operating Budget for fiscal 2011/2012. The full Preliminary MTCU 2011/2012 Operating Budget is available[1] at: Preliminary Budget Website.

The MTCU Operating budget, which funds the University's core teaching and research support activities, depends on variety of revenues (earned from external sources) and cost recoveries, (transfers from other University funds), in order to support expenses mainly in the form of salaries and benefits. (Refer to the charts below.)



Provincial grants and tuition together comprise over 70% of the University's revenues. The remaining 30% is composed of a large number of different sources of revenue including student service fees, non-credit course fees and cost recoveries from research and ancillary services. For budget assumption purposes, these revenues/recoveries are divided between:

- **Institutional:** These are revenues and recoveries available to fund University-wide expenses such as salary and benefit increases, most scholarships and bursaries, and key infrastructure costs such as plant utilities, capital debt servicing and central IT support. Major sources of this revenue include provincial operating grants, tuition (degree

[1] http://www.uoguelph.ca/finance/sites/uoguelph.ca.finance/files/2011-2012%20Integrated%20Plan%20and%20Preliminary%20MTCU%20Operating%20Budget.pdf

credit[2]) and research indirect cost recoveries and ancillary cost recoveries in support of institutional and physical plant support services provided from the MTCU Operating budget.

- D**epartmental:** Revenues earned from the delivery of specific unit goods/services or designated for specific purposes (and in some cases contractually restricted). These do not directly constitute an immediate source of funding for institutional cost commitments and operationally are credited to the unit providing the goods or services. These units are accountable for achieving any revenue targets and for controlling all costs for delivering the services. In practice these revenues form an integral part of unit budgets including sources of funds to meet their multi-year budget targets. Major examples of these revenues include veterinary hospital revenues and student service and athletic fees.

As in any budgeting process, estimates are made for major revenue and expenses components. The description of the 2011/ 2012 approved budget in April as "Preliminary" reflects both the degree of the uncertainty in making key estimates and the University's practice of formally revising the budget during the course of the fiscal year if there are significant changes in assumptions. Any formal revisions are normally those impacting major institutional accounts such as provincial grants and tuition revenues.

Over the course of fiscal 2011/2012 the University received confirmation of significant grant changes and continued to experience demand for certain of its academic programs reflected in increased enrolment relative to initial budget assumptions. The following presentation records the impact of this new information on provincial operating grants and enrolment estimates. The incremental changes do not constitute a completely new budget presentation by organizational unit and the revisions deal with <u>major institutional level accounts</u>. There are no major changes expected to organizational units (colleges/ division) budgets as a result of these proposed revisions and all other major components of the budget are expected to be consistent with initial budget assumptions.

II. Major Revenue Budget Changes;

Enrolment - Degree-Credit Update:

In the Preliminary MTCU Operating Budget, undergraduate enrolment changes were set at the prior year's year's overall level (including a few programs targeted for growth such as

[2] The University offers a variety of different degrees and diplomas. "Degree -credit", in the budget context, refers to those fees charged for University undergraduate programs (e.g., BA and BSc.) and graduate (e.g., MA and PHD). Total tuition revenues in these programs are about <u>$127 million</u> annually all of which is regarded as institutional revenue. In addition, other tuition generating programs include the diploma program (agriculture) and a number of continuing educations offered on the University's main Guelph campus and the regional campuses of the OAC (Ontario Agricultural College). Total budget revenues in these programs are about <u>$17 million</u> all of which remains with the department delivering the program.

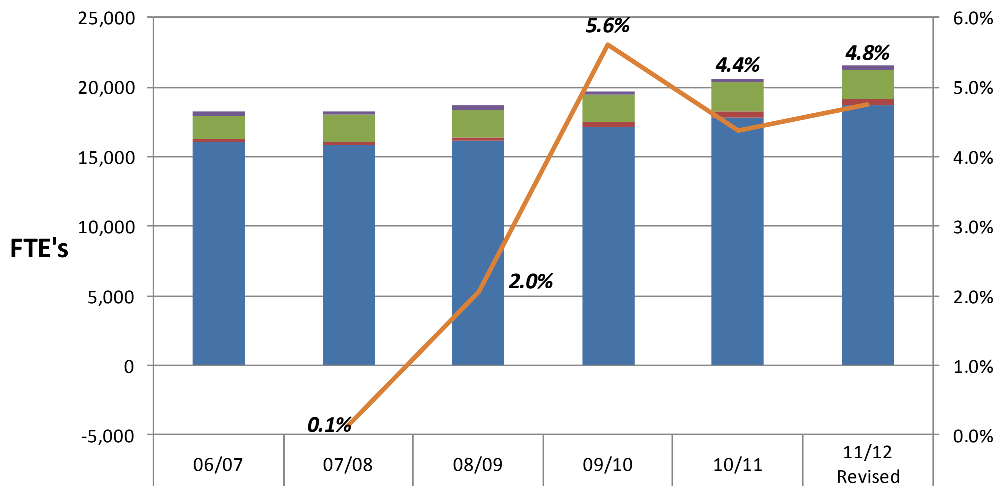
Engineering). Actual Fall 2011 enrolments show a significant increase in University enrolments particularly at the undergraduate level. Chart B shows this growth as a continuation of a trend in recent years that has added to both enrolment revenues but also provincial Accessibility grants (referred to in the following section “Provincial Operating Grants”.)

Total Degree Program Enrolment *

ex GH and Ag. Diploma

Total Growth of ~18% Over 4 Years

Chart B



	06/07	07/08	08/09	09/10	10/11	11/12 Revised
Grad - Int.	315	283	270	245	260	288
Grad - Dom.	1,631	1,917	1,985	2,023	2,096	2,171
Undergrad - Int.	293	269	287	330	354	417
Undergrad	16,021	15,817	16,119	17,111	17,861	18,674
Total	18,259	18,286	18,660	19,710	20,571	21,549
Annual % Change		0.1%	2.0%	5.6%	4.4%	4.8%

* Note: For MTCU reporting, 1 Grad FTE = 1 semester 's enrolment. Above , the fall semester grad enrolments are reported.

Factors contributing to this enrolment growth include the continued demand for University of Guelph programs by first year students (reflected in higher semester 1 “in take” levels) and a “retention” level in upper level enrolments higher than initially estimated. Higher retention can mean fewer students are leaving their programs prior to completion or more students are entering at intermediate/senior program levels. As a result of these combined factors, the 2011/2012 tuition budget is <u>being increased by $4.9 million</u> (3.8%).

In terms of numbers of students the revenue reflects an increase of approximately 700 undergraduates, relative to budget assumptions. This increase in enrolments does have cost implications; however with the exception of additional funds for student assistance, for fiscal 2011/2012, the University is planning to manage growth within current budget expenses allocations.

In addition, at this time this new level of enrolment will be set as the University’s new on-going enrolment target for future planning purposes. This is a critical decision as it is now planned to recognize this increase in tuition revenue as base funding[3]. Refer to Section III on budget expense allocations for assumptions of where this increased revenue will be allocated in fiscal 2011/2012.

Provincial Operating Grants:

Provincial grants contribute 42% of MTCU Operating Budget revenue. This funding arrives in the form of roughly 15 to 20 specific grants (also known as funding "envelopes") which have various allocation mechanisms. Many of these funding envelopes are targeted to specific Ministry goals (e.g., undergraduate and graduate enrolment growth, quality enhancements) and some are specifically precluded from being used to cover general University operating costs. The largest single envelope is referred to as the "Basic" grant. Other prominent envelopes include "Accessibility "grants which record funding received for changes in both undergraduate and graduate enrolments relative to prior years.

Estimating and realizing provincial funding for universities in Ontario in any year is a continuous process evidenced by announcements and revisions to funding that have occurred during each of the past several years. Furthermore, it often takes weeks/months to determine the impact of provincial budgets or economic statements on both the post-secondary system and the University of Guelph. Consistent with the University's practice, the Preliminary MTCU Operating Budget reflects "best estimates" available at the time, knowing that should any major changes, particularly in base funding, be confirmed subsequent to approval, they will be factored in as budget revisions during the course of the fiscal year. As a consequence of these uncertainties the University, takes a conservative position when making initial assumptions. In recent years the prudence of this approach has been further reinforced by the challenges of increasing pension contributions and the four-year Multi-Year Plan (2008/2009- 2011/2012)[4] to eliminate the University's structural deficit.

Chart A on the following page shows the major changes in grant assumptions relative to the Preliminary MTCU Operating Budget approved on April 20, 2011. It shows a net increase of $7.4 million relative to the Preliminary Budget assumptions. While the primary contributor to this increase was the increase in undergraduate enrolment, two major provincial confirmations in enrolment-based funding contributed were critical to the total overall budgetary impact:

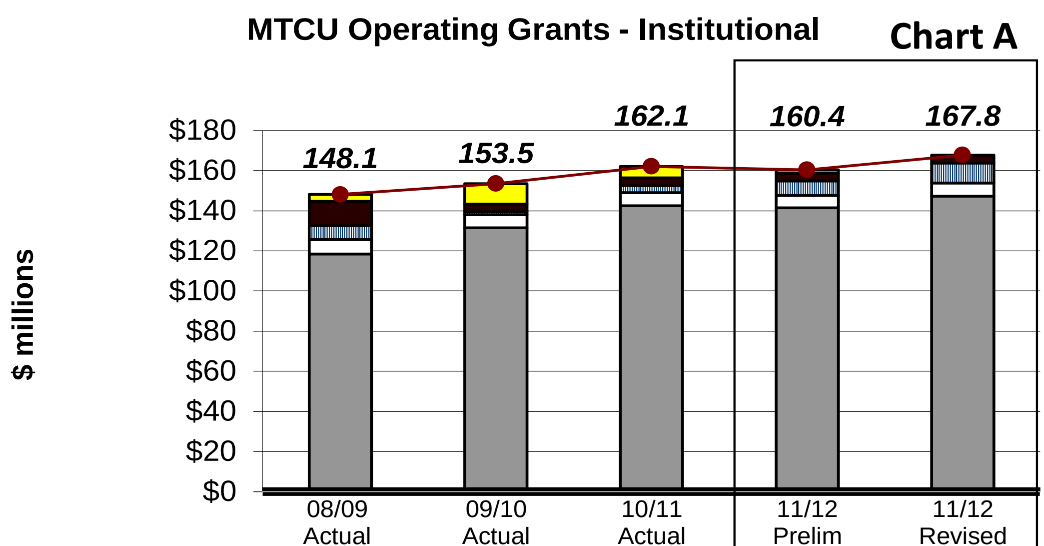
1. In the summer of 2011 confirmation was received that undergraduate Accessibility grants, previously considered one-time segregated funding were "rolled into" the Basic

[3] The University manages its budgets using key distinctions between "base" funding/expenses and "one-time" funding/expenses. Base budgets are composed of transactions that are considered to reoccur each year unless action is taken to remove them. One-time transactions, in contrast, occur only once unless re-confirmed. The University's base budgets (revenues/recoveries less expenses) form its net structural financial position. When base expenses exceed base revenues the resulting structural deficit is addressed as a key risk control activity in all University budgeting/planning objectives. The University currently has no structural deficit.

[4] Refer to the 2011/2012 Integrated Plan Preliminary Budget document for more information of the Multi-Year Plan.

grant. This was a significant change to recent past practices where any increases in undergraduate enrolments were received not only at "discounted" levels (provincial funding at less than the full-cost grant[5] level) but also on a continuing one-time basis. This practice by the province increased the uncertainty of funding both in terms of total revenue but also the reliability of funding from one year to the next. The provincial action to not only fully fund growth but added that funding to annual base commitments. This action helps stabilize a major component of the grant and enhances the structural budget position of the University.

2. In addition further base funding was allocated for projected 2011/2012 enrolment growth in the Accessibility grant. Undergraduate growth for up to an including fiscal 2011/2012 is now fully funded consistent with provincial funding formulas.



	08/09 Actual	09/10 Actual	10/11 Actual	11/12 Prelim	11/12 Revised
One-Time	3.4	10.1	5.7	1.7	
Other	12.2	3.8	3.9	3.8	4.0
Accessiblity	6.9	1.6	3.5	7.3	10.0
"Quality"	7.2	6.6	6.6	6.1	6.6
Basic	118.4	131.4	142.4	141.5	147.2
Total Institutional	148.1	153.5	162.1	160.4	167.8

[5] Full- cost grant" funding refers to the commitment by the Province to fund new student enrolments at a level reflecting the provincial grant income per student in accordance with the established funding formula. A full-cost grant level is on average approximately $6,800 per undergraduate student and between $12,000 (masters) and $27,000 (PhD) per graduate student in the Ontario university system. Discounting refers to a less than full-grant provided for student increases. It usually occurs when total actual demand for programs in the university system exceeds Ministry estimates. Because the fixed dollars provided in annual Ministry budgets for growth in any year are spread over more students, allocated per-student income is lower than the formula.

The recognition of previous growth funding in the Basic grant and converting the Accessibility grant to annual (base) funding is very important. First the increase in revenues now can form part of the University's base funding support. This can provide significant flexibility and stability for both multi-year planning and resource allocation to areas identified as high priority under the University's Integrated Plan. Clearly the major risk is our ability to hold enrolments at least at these levels without significant offsetting increases in our base costs. To date the University has managed to maintain/control costs in response to the most recent enrolment increases (while also meeting its targets under the Multi-Year Plan.)

III. Major Expense Changes:

Contingency Planning:

In meeting its overall financial objectives including the Multi-Year Plan reductions, deficit repayments and pension funding obligations, the University, has taken all opportunities to increase University contingencies funds. An additional and competing priority has been to provide for increased costs associated with retaining enrolments, preserving program quality and meeting any government required spending obligations associated with increased enrolments.

With the additional institutional revenue projected for 2011/2012 (relative to the initial budget assumptions), the University will take the opportunity to conserve as much of these revenues as possible for two key purposes:

1. Continue to increase funds for future post-employment costs including pension contributions. Under current temporary solvency relief legislation, the University's cash pension contributions are stable until August 1, 2014. At that time there is expected to be a major increase in pension funding requirements. This increase is the result of continued challenging financial market conditions (low asset returns and interest rates) and the costs inherent in defined benefits programs. Irrespective of the potential of further solvency relief and changes to plan designs (some of which have already been achieved), the expectation is that in 2014 annual pension contributions requirements, including those for going concern costs, will increase beyond what is currently provided in the University's budget.

2. The University has just completed its first Multi-Year Plan that removed (reallocated) $46.2 million of units funding over four years. In planning for the next Multi-Year Plan (2012/2013+), the fundamental challenges of provincial funding limitations (and expectations for change) and increased costs for compensation, capital borrowing, and critical core infrastructure, clearly indicate the continuing need both to reallocate costs within our programs and to provide for investments to protect quality, implement new curriculum innovation and support efficiencies.

With these issues in mind, the immediate proposal is not to fully allocate these new revenues in 2011/2012 but to conserve as much liquidity as possible, while meeting our overall fiscal targets, in anticipation of further challenges in 2012/2013 and beyond. The one incremental expenditure requirement will be for costs associated with student aid and recruitment.

Student Assistance:

The MTCU Operating budget currently supports about 60% of total payment to students for both scholarships and needs-based awards (the balance being funded from external annual contributions or endowments recorded in other Funds). With both provincially-mandated student aid requirements and the increased competitions for students, particularly those recruited from high schools, additional funding is required for these purposes;

- Under the current provincial (MTCU) tuition framework, universities are required to contribute 10% of additional revenue from tuition fee increases to bursaries and other student financial assistance programs that provide financial aid to student most in need. This requirement is cumulative and now equals about $7 million of the total allocation for student assistance in the MTCU operating budget. The University is required to report on these funds annually to MTCU and is subject to audit. With the increase in numbers of students this requirement automatically increases. Consequently, $0.200 million is being allocated for this purpose.

- The University offers a general award to undergraduate students with higher marks than average, upon entering our program. This is an important recruitment tool and is offered by most of our major competitors. With the increase in undergraduates additional funding of $0.400 million will be added to this year’s budget to cover these costs.

IV. Summary of Major Budget Changes:

Table A (Incremental Changes), on the following page summarizes the major changes proposed for the 2011/2012 MTCU Operating Budget. Overall $12.275 million in new base funding has been recognized, with $11.675 million being allocated to the University’s Contingency account and $0.600 million being added to student assistance accounts.

Table A: Incremental Changes

MAJOR REVISIONS TO THE MTCU 2011/2012 OPERATING BUDGET *December 2011* TABLE A

Item #	Category	Preliminary Budget			Revisions			Revised Budget		
		Base	One-Time	Total	Base	One-Time	Total	Base	One-Time	Total
	Revenues and Recoveries									
1	MTCU Basic Grant	141.450		141.450	5.750	-	5.750	147.200		147.200
2	MTCU Undergrad Accessibility	2.600	1.700	4.300	2.800	(1.700)	1.100	5.400		5.400
3	MTCU Graduate Accessibility	4.750		4.750	(0.150)	-	(0.150)	4.600		4.600
4	MTCU Quality Grants	6.100		6.100	0.500	-	0.500	6.600		6.600
5	Oher Institutional MTCU Grants	3.780		3.780	0.170		0.170	3.950		3.950
	Total Institutional MTCU Grants	158.680	1.700	160.380	9.070	(1.700)	7.370	167.750	-	167.750
6	Other MTCU Grants	12.009		12.009			-	12.009		12.009
	Total MTCU Grants	170.689	1.700	172.389	9.070	(1.700)	7.370	179.759	-	179.759
7	MTCU Degree - Credit Tuition	127.195		127.195	4.905	-	4.905	132.100		132.100
8	Other Non-Credit Tuition	17.227		17.227			-	17.227		17.227
	Total Tuition (Credit and Non-Credit)	144.422		144.422	4.905	-	4.905	149.327		149.327
	Total Funds Available				**13.975**	**(1.700)**	**12.275**			
	Expenses and Commitments									
	Scholarships and Bursaries									
9	Student Aid - Undergrad Entrance Awards	4.000	-	4.000	0.400	-	0.400	4.400		4.400
10	Student Aid - Tuition Set Aside	7.700	-	7.700	0.200	-	0.200	7.900	-	7.900
	Total Scholarships and Bursaries				0.600	-	0.600			
	Other									
11	Contingency	9.800	(8.890)	0.910	13.375	(1.700)	11.675	23.175	(10.590)	12.585
	Total Funds Allocated				**13.975**	**(1.700)**	**12.275**			
	Net MTCU Budget Revisions				-	-	-			

Table B on the following page shows the total MTCU Operating Budget, with proposed major revisions. The University remains on track to meets its approved overall budget targets including the scheduled repayment of $6.0 million towards the accumulated (Board approved) one-time costs of implementing its first Multi-Year Plan (2008/2009 to 2001/2012).

Table B: Revised MTCU Operating Budget

December 31, 2011
(in thousands of dollars)

TABLE B

	Pre-revised Budget	Adjustments	Revised Budget	Note #
Revenue				
MTCU Grants	172,389	7,370	179,759	
Tuition (Credit and Non-Credit)	144,422	4,905	149,327	
Sales of Goods and Services	26,685		26,685	
Investment Income	891		891	
Other Revenue	16,081		16,081	
Total Revenue	360,468	12,275	372,743	
Institutional Revenues and Recoveries				
OMAFRA Indirect - Research	20,245		20,245	
Fed/Prov Research Support	6,270		6,270	
Indirect Revenue on Grants and Contracts	3,768		3,768	
Total Research Revenue & Recoveries	30,283	-	30,283	
OMAFRA Indirect - Non-Research	2,570		2,570	
Ancillary Services Recovery	10,635		10,635	
Guelph Humber Prog. Revenue & Mgmt Fee	9,805		9,805	
Total Other Institutional Recoveries	23,010	-	23,010	
Total Revenues and Recoveries	413,761	12,275	426,036	
Expenses				
Salaries	223,303		223,303	
Benefits	57,004		57,004	
Operating	70,209		70,209	
Utilities	22,560		22,560	
Scholarships and Bursaries	17,640	600	18,240	
Other Institutional Transfers	21,265		21,265	
University Contingency - General	910	11,675	12,585	
Unallocated Multi Year Plan Target	(5,130)		(5,130)	
Budget Carryforwards for Contingency (MYP)	51,100		51,100	#1
Budget Carryforwards for Dept Operations	37,640		37,640	#1
Total Expenses	496,501	12,275	508,776	
Revenue Less Expenses	(82,740)	-	(82,740)	
Add: Funds Available From Prior Year	88,740		88,740	
Net Increase (Decrease) in Net Assets	6,000	-	6,000	#2
Opening Accumulated Deficit	(47,100)		(47,100)	
Ending Accumulated Deficit	(41,100)		(41,100)	#2

Note #1 Unspent funds ("Carryforward Funds") from the prior year are allocated departmental one-time expenses or held centrally for the one-time costs or contingencies. While showing as expenses, they are completely offset by funds generated from prior years' activities and represent no net increase in spending. Historically these funds are never wholly spent and a portion accumulate into the following year.

Note #2 The Deficit is the remaining accumulated costs of restructuring being repaid at the annual rate of $6.0 million per year. The Ending Accumulated Deficit is with the Board Approved limit for 2011/2012 of $41.7 million.