UNIVERSITY OF GUELPH

Revised 2010/2011 MTCU Operating Budget

Prepared for the Finance Committee of the Board of Governors

December 1, 2010

Including update to the Multi-Year Plan, pension contributions and revised enrolment (fall 2010)

A. Introduction:

On April 14, 2010 the Board of Governors approved the 2010/2011 Integrated Plan and Preliminary MTCU Budget which contained a number of significant assumptions. The following is a presentation of the financial impact of significant changes to budget allocations relative to our Preliminary Budget assumptions. All other major elements of the budget are expected to be consistent with initial budget assumptions.

When the University prepares its MTCU Operating Budget, it is necessary to make assumptions concerning components of both revenues and expenses. The major variables (uncertainties), historically have been provincial operating grants and to some extent the actual enrolments realized after the fall count date. As a consequence of these uncertainties the University has taken a conservative position when making initial assumptions. In recent years this prudent approach has been further reinforced due to the challenges of pension contribution requirements and the imperative to meet the Multi-Year Plan reduction target ($46.2 million over four years).

B. Summary of Major Revenue Allocation Changes:

The following presentation is organized around the impact of the new information on the major revenue and expenditure components of the MTCU Operating Budget. It does not constitute a complete new budget presentation by organizational unit as the changes deal mainly with institutional level revenues, expenses and overall net surplus/deficit position. There are no major changes expected to organizational units (colleges/ division) targets as a result of these proposed revisions.

B.1 Provincial Operating Grants:

Provincial grants contribute approximately 50% of MTCU Operating Budget revenue. This funding comes from 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 funds received for changes to enrolments relative to prior years.

Preliminary Assumptions:

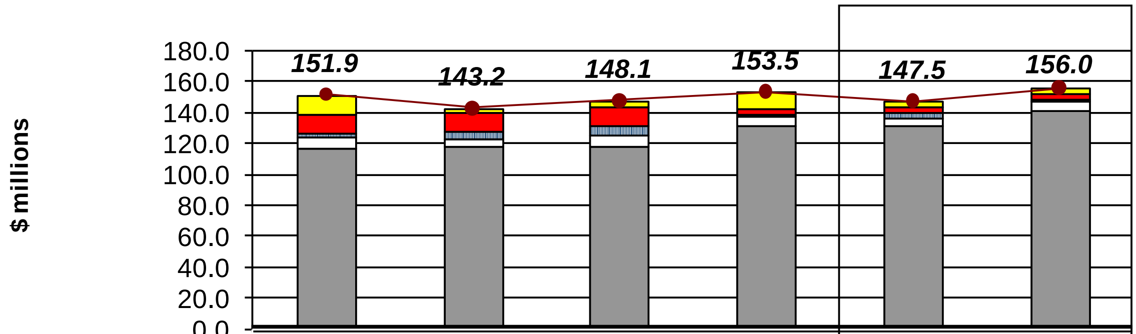
Basic and Accessibility Grants: Over the course of late spring and the summer it was confirmed by the province, that funding for the undergraduate enrolment growth for the period 2004 to 2009 would be rolled into the University’s Basic Grant as base funding at an undiscounted level. (There is no confirmed approach for 2010 growth and beyond although there have been preliminary indications this trend would hold.) This was a significant change to recent past practices where any increases in undergraduate enrolments were funded on a continuing one-time basis and usually discounted to less than full rate per student. This funding normally was placed in the “Accessibility” envelope. Undergraduate growth to the end of fiscal 2009/2010 is now fully funded in the base consistent with the long term provincial funding formula. In terms of "envelopes", these funds were "rolled into" the MTCU Basic Grant for 2010/2011. Because of the continued growth in undergraduate enrolments at the University of Guelph over that period, a net increase of $7.450 million in base funding was received relative to initial budget assumptions. This consists of an increase of $10.050 million in the Basic grant offset by a reduction in the Undergraduate Accessibility envelope of $2.600. (This reduction is effectively a transfer of funds from past growth from one envelope to another).

Quality Grants: It is estimated the the University's share of a grant targeted to sustain the quality of programs in the system will increase as a result of the increase in enrolments. The increase of $1.3 million will be considered a base increase. (At this time it is estimated that this level of funding will only be maintained if the University can sustain its share of undergraduate enrolment. There is always a risk given that the total system allocation is fixed that if other universities grow relatively more quickly this share could be eroded.)

Summary of Changes: The following chart shows the major changes in grant assumptions relative to the Preliminary MTCU Operating Budget approved on April 14, 2010.
It shows a net increase of $8.5 million.

This consists of an $8.8 million increase in base funding offset by a small reduction in one-time funding of $0.300 million related to current estimates of fiscal 2010/2011 undergraduate growth and the University's share of funding for that growth. (Refer to section on Tuition and Enrolment.) The remaining component of the base Accessibility grant is now for graduate growth. At this time there are no other major changes to initial assumptions. It is important to note that there is still no general increase in basic grant recognizing the general cost increases (e.g., CPI) and if the University enrolment had not increased, there would have been little (if any) change to our total provincial support. This is demonstrated in the chart where current provincial operating grant support is not substantially larger than it was in 2006/2007.

MTCU Operating Grants - History and 2010/2011 Budget



	06/07 Actual	07/08 Actual	08/09 Actual	09/10 Actual	10/11 Prelim Budget	10/11 Revised Budget
One-Time	12.7	2.9	3.4	10.1	3.3	3.0
Other	11.9	12.0	12.2	3.8	3.8	3.8
Accessiblity	2.8	5.1	6.9	1.6	4.2	1.6
"Quality"	7.5	5.0	7.2	6.6	4.8	6.1
Basic	117.0	118.2	118.4	131.4	131.4	141.5
Total Institutional	151.9	143.2	148.1	153.5	147.5	156.0

B.2 Tuition and Enrolment:

The Preliminary MTCU Operating Budget assumed that undergraduate enrolment except for a limited number of targeted growth programs (e.g., Engineering) would be held to the prior year's level i.e., there would be no substantial growth. However, actual enrolments (Fall 2010) show that there was an increase in enrolment particularly in undergraduates at the upper years, relative to budget assumptions. "Normal" experience would expect to see some attrition in numbers as students work their way through to graduation. Recently, however, the University has experienced much lower attrition rates at the more senior semester levels. This may indicate both greater retention of existing enrolments and more returning or transferring students increasing total enrolments over expected levels. Also reflected in the initial budget assumptions was a level of discounting based on the concerns that recent growth in enrolment (past two years) could not be sustained given demographic projections, a potential return to "normal" attrition rates and an apparent lack of provincial support for this level of funding. These levels of enrolments were simply not factored into the long term (base) budget assumptions.

As a result of these combined factors, the 2010/2011 tuition budget is <u>being increased by $7.9 million</u> (7.2%). In terms of numbers of students this reflects an increase of approximately 800 undergraduates, relative to budget assumptions. The total undergraduate population of the University is now just over 18,000. With this increase, it is necessary to set aside additional funds for expense increases e.g., the amount set aside for student assistance (refer to section C on increased expenses.)

While the current position is to recognize this as a base or long term increase (i.e., we can sustain these enrolment levels), caution must be maintained given the sensitivity of revenues to enrolment changes (e.g., 200 students equals approximately $1 million in operating income)

B.3 Other Revenue Adjustments:

In the Preliminary MTCU Operating Budget, a one-time reduction in OMAFRA indirect costs funding was provided for based on indications from OMAFRA that a potential reduction in that budget could be implemented in 2010/2011. This was not the case and the provision has been removed in this budget. The result is a one-time increase of $0.400 million in indirect costs.

B.4 "Carry Forward" Funds from 2009/2010

Major adjustments to the MTCU Operating Budget normally include the impact of prior years' results which has unspent funds being "carried forward" into the following year for potential disbursement. Unit budgets are adjusted under the application of the University's "Carry Forward" policy reflecting positive carry forwards, subject to limits and justifications, and any deficits. The sources of unit carry forwards are variances of unit budget-to-actual results. In addition, Institutional Carryforwards may be created from positive variances related to institutional accounts (e.g., grants, tuition revenues, central utility accounts or contingency funds). Under this practice, a total of $48.325 million (compared to $48.436 million last year) was carried forward into the 2010/2011 MTCU budget from 2009/2010. Of this amount, $15.065 was realized as Institutional Carryfowards which will be primarily allocated to Multi-Year Plan restructuring costs ($12.100 million - refer to section C.2) and the University Contingency Account ($2.665 million - refer to section C.4) as part of a Revised MTCU Operating Budget. It is important to note that carry forward funds are one-time only and while they provide flexibility in any fiscal year they do not address longer term structural challenges.

C: Summary of Major Expense Allocation Changes:

The summary of total incremental funds available (Section B above) is $31.815 million of which $15.165 million are one-time adjustments earned mainly from carry forwards funds. The following section is the proposed allocation of these funds. The approach has been to first ensure that the University meets its overall financial objectives including the Multi-Year Plan reductions, deficit repayments and pension funding obligations. An additional priority is to provide for any increased costs associated with retaining enrolments, preserve program quality and meet any government required obligations associated with increased enrolments. Finally the objective is not to fully allocate these funds in 2010/2011 but to conserve as much liquidity as possible, while meeting our overall targets, in anticipation of further challenges in 2011/2012 and beyond, including pension contribution requirements.

C.1 Integrated Planning:

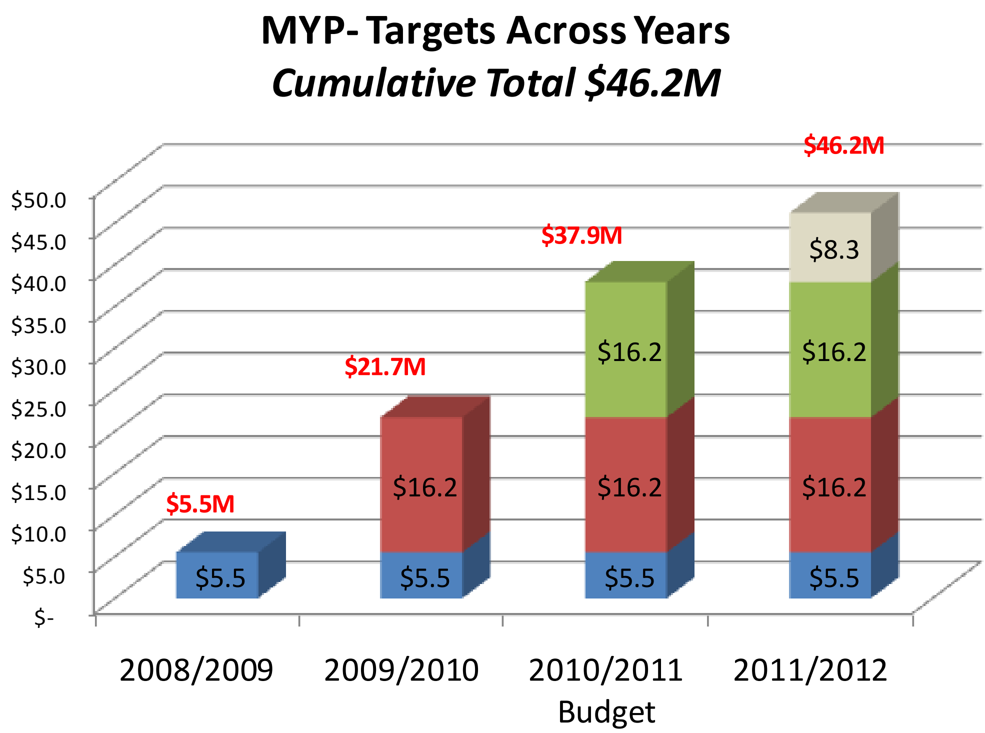
A number of investments are proposed under this general category:

1. Priority Investment Fund: At the initiation of the Integrated Planning process in 2007, a major component was the creation of a Priorities Investment Fund (PIF). The purpose of this fund was to provide "seed" funding for initiatives proposed by units in support of their priority initiatives indentified and approved in their units plans. The initial PIF ($2.6 million) was fully disbursed in 2009 and has not been reinstated given the fiscal challenges of the Multi-Year Plan. It is proposed to begin the process to reconstitute the PIF with a <u>$0.500 million base allocation</u> from incremental revenues recognized as part of this budget update. It is not expected that these funds will be disbursed (in the base) in 2010/2011 but will be accumulated to build the PIF to a level where, if the financial condition permits, the process to make substantial allocations from this fund can begin again.
2. Teaching Support: Associated with the increase in enrolments are costs necessary to fund undergraduate and undergraduate resource allocation commitments in certain units. These investments are targeted for direct teaching support costs and are only allocated to units if certain targets and performance criteria are met. Criteria consist of both numbers of students and the need to maintain program quality in the context of maintaining increased enrolments. It is proposed to allocate a <u>total of $1.050 million</u> for use of the Provost to address this requirement. Any unspent funds will be held and incorporated into 2011/2012 Integrated Planning resource requirements.
3. Student Aid: Since 1998 the province has had a general requirement to set aside a certain portion of tuition fee increases for needs-based student aid. This requirement is cumulative and now equals about $6 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. Because of increase enrolments, it is estimated that an <u>additional $0.800 million</u> in funding will be required to meets this obligation in 2010/2011.

C.2 Multi-Year Plan:

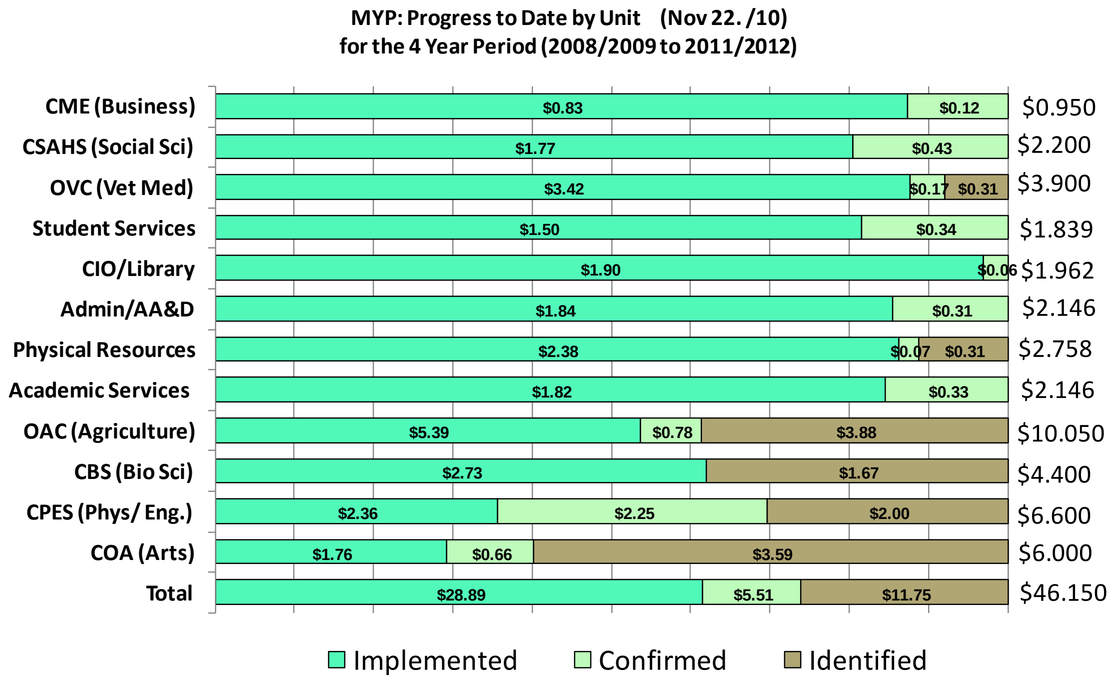
Multi-Year Plan four-year budget targets have been assigned to all major units comprising the MTCU Operating Budget including colleges, academic and administrative support units. A total of $46.2 million was assigned as the total four year (2008/2009 to 2011/2012) reduction target.

The following chart indicates the cumulative institutional total of these targets that must be achieved through either cost reductions or net revenue increases.



The chart on the following page shows the current status of this plan to November 2010. In summary a total of $ 34.5 million or 75% of the total plan has been implemented or "confirmed" (savings/revenues will be realized over the course of the plan from actions already taken).

The remaining component "identified" $11.8 million are savings/revenues targeted without actions having been taken/confirmed at this time. This consists mainly of occupied faculty positions that will be eliminated once they are vacated.



Further analysis of the major components of the savings/revenues is presented in the table below. It indicates that consistent with the focus of the plan, major savings were to be realized from academic units and faculty positions (note, the 143 positions is about 17% of the pre-reduction complement). It also indicates that 80% of the "identified" category consists of faculty positions. Efforts have been made and will continue to encourage voluntary departures to meet these targets.

Plan Solutions	Faculty		Staff		Operating	Revenue	Total	%
	#	$	#	$				
Implemented & Confirmed	**80**	**$13.6**	**122**	**$8.7**	**$9.2**	**$2.9**	**$34.4**	*74%*
Identified	**63**	**$9.6**	**7**	**$0.4**	**$1.8**		**$11.8**	*26%*
Total	**143**	**$23.2**	**129**	**$9.1**	**$11.0**	**$2.9**	**$46.2**	
% of Target		*50%*		*20%*	*24%*	*6%*		*100%*

Timing Costs: The nature (current contractual requirements) of faculty appointments means it is difficult for the University to determine the precise timing of departures (and therefore savings). The latest information indicates that certain colleges will not be in a position to meet their reduction targets within the prescribed period. This does not mean that the assigned targets will be changed; colleges and all units will be held to their targets. However the timing of when the savings will be made is uncertain. In order to ensure that the University will meet the Multi-Year Plan deficit target (approved by the Board), it is planned to allocate $4.0 million in base funding and $0.400 million in one-time funding to cover the shortfall due to the timing of these savings. In effect, the funds will bridge target shortfalls on a one-time basis until structural or base savings (i.e., the elimination of positions) can be realized. During this period, any units which cannot meet their scheduled target dates will have any hiring proposals suspended until their current targets have been met.

Restructuring Costs: When the Multi-Year Plan initially was approved, the University asked for and received approval from the Board of Governors to incur a one-time deficit not to exceed $20 million for the costs of restructuring units in order to meet their savings targets. While we still have not used this entire allocation ($4.0 million was remaining at the start of the fiscal year and as at August $2.7 million of this was remaining), it is anticipated that additional funds may be required to meet the overall targets. An additional provision of $12.100 million (one-time) has been allocated from University carryfoward funds to provide for this contingency. When actual departures and their costs are confirmed, the Board will be updated on the use of these funds.

C. 3 Pension Contributions:

The University is the sponsor of three defined benefit pension plans. Due to provincially-legislated funding requirements for all defined benefit plans in Ontario, the University of Guelph is required to make cash contributions to its pension plans based on “valuations” of the financial status of the plans that are taken a minimum of every three years. The valuation determines whether the plans have surplus or deficits at the point in time of the valuation. Solvency[1] deficits are normally required to be funded over a period not to exceed five years. Because these assumptions are based upon financial market conditions at the time of the valuation, results are very volatile, exposing the University to major changes (and therefore risk) in cash requirements particularly in times of difficult market conditions. The level of required contribution is particularly sensitive to long-term bond rates which are used to determine the current value of future pension liabilities. The last valuation was performed on August 1, 2007 – the next required valuation date is therefore August 1, 2010.

Recognizing that the current financial climate will seriously impair many organizations with defined benefit pension plans, in March 2009 the province introduced temporary solvency relief measures that would defer the payment of required contributions to some extent. Specifically the “amortization “ period or the time period over which a sponsor has to fund any deficits may be extend from five years to ten, unless more than 1/3 of plan members do not consent. As a result of continued efforts by universities in Ontario through COU (Council of Ontario Universities), in August 2010 the province announced a further temporary solvency

[1] There are several measurements required at the time on any valuation. The two main ones are “going concern” which assumes a long term perspective of the life of the plans and “solvency” which assumes a wind-up to the plans at the valuation date. Under solvency rules it is required that the plan sponsor fund any deficit calculated as the difference between plan assets and “wind-up “pension liabilities. It, in effect, assumes the University is closing and funds need to be found to meet all future accumulated pension obligations at the date of the valuation. The solvency test is much more volatile and is the test that presents the main financial risk to the University.

relief option specifically for universities. While the legislative regulations to enable this option have not been released, preliminary information indicates that it will consist of a two-stage approach.

1. Stage 1 requires eligible (plans with funded ratios of less than 90%), university sponsors to file a plan with the province (Ministry of Finance) that would "….sufficiently enhance the long-term sustainability…." of pension plans. While the required plan components are not yet specified or confirmed, it is expected that any plan would be need to show increased contributions (employer/employee), and/or reduced benefits (and therefore lower liabilities). Plans are to be filed by January 2011. If our plan is approved the University would have access to a three-year window to implement its plan, at the end of which time, we would be eligible for Stage 2 relief. During this three-year window, it is currently indicated (not confirmed) that minimum contributions would be held to going concern obligations plus interest on the solvency deficit.
2. Stage 2 relief would consist of a 10-year amortization period for solvency contribution funding (currently it is 5 years). Access to the 10-year amortization period would be contingent on "success" in meeting the objectives of the plan filed under Stage 1.

It is very important to note that because the regulations have not been release; the exact details on the nature of the plan requirements, metrics for success in meeting the plan and details on Stage 1 funding relief are yet to be confirmed. At this time it is estimated that regulations will not be available until January 2010.

The University, with the assistance of it actuaries, has recently completed a preliminary valuation as at August 1, 2010 (presented to the Pensions Committee of the Board of Governors on November 23, 2010). While precise contribution requirements under the special solvency relief option for universities are not available, estimates have been prepared based on the best information provided by provincial authorities to date.

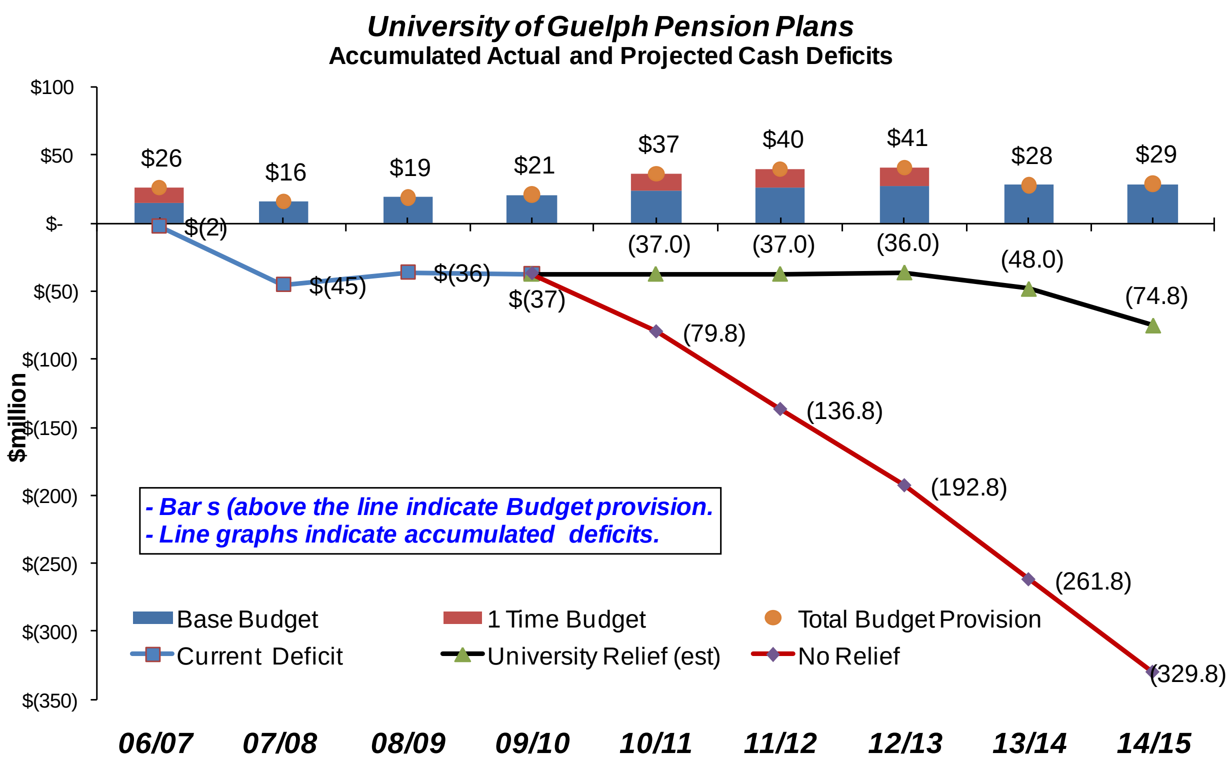
Total annual contributions for the three year period (starting August 1, 2010) range from $97 million to $40 million. The current base budget allocation for pension contributions is $22 million. In addition, as part of its multi-year planning for pensions, the University has created a $40 million one-time reserve designated to fund pension contributions.

The Chart on the following page shows the projected impact of these contribution options and funding over a five year fiscal (May 1 to April 30) period starting in 2010/2012. Key assumptions/results in this presentation are:

- The "No Relief" line shows the impact of contributions under current (no relief) legislation. Total annual contributions of $97 million.
- Under the "University Relief" line, it is assumed the University will receive a temporary 3 year window during which contributions of going concern requirements plus interest on the solvency deficit will be required. Total annual contributions of $40 million. In addition at the end of the 3 year period a 10 year solvency

amortization period would be granted.

- The $40 million in reserves would be consumed (until exhausted) over the three year period necessary to hold the current deficit ($37 million) constant
- It is assumed (for the purposes of this chart), that there is no change over the period, in the current level of solvency deficit. During this period it is expected that the University would be required to prepared formal valuations and given potential market changes over time, these valuations could result in significant solvency deficit changes (increase or decrease). However, at this time it is NOT known what implications to funding these interim results will have on contribution requirements (awaiting the "relief" regulations).



In terms of financial impact on the University, the 'University Relief" option is clearly much more sustainable in the short term. In the years beyond the 3 year relief "window" it is very difficult to determine the impact of both market changes and changes to the plan design (funding or benefit structures) on the University's contribution requirements. However it can be expected that if there is no material change to either (markets or plan design), then the trend line on the pension will worsen once again. In the interim the University will continue to increase its base commitment to pension contribution funding and review opportunities to reserve additional one-time funding to provide for future requirement and/or eliminate the current pension contribution deficit.

Toward this effort the University, as part of this update is proposing to allocate <u>$2 million in</u>

base funding for pension contribution funding to $24 million. This will more closely match our going concern costs requirements (of $26 million) and accelerate base allocations over prior estimates.

C. 4 Contingency:

Over the past several years the University has made efforts to maximize budget flexibility by increasing its contingency funds (uncommitted) when opportunities arise. These opportunities are to some extent generated through conservative budget assumptions and provincial one-time year-end funding transfers.

The priority for allocation of any contingency funds include; meeting the University's overall Board approved budget targets such as those of the multi-year plan, providing funding for pension solvency contributions and to manage the risks associated with the uncertainties of future budget year assumptions (enrolment, provincial funding.)

After having provided for estimated requirements of both Integrated Planning and the Multi-year Plan in 2010/2011, the University proposes to allocate all remaining incremental funding to the University Contingency account. This will increase this fund to an estimated $12.465 million ($9.800 million base and $2.665 one-time). During 2010/2011, the priority will be to reserve as many of these funds as possible. The first call will be to meet 2011/2012 budget objectives (significant uncertainty remains) and if possible enhance the pension contribution reserve.

D: Summary

The table on the following page is a summary of incremental changes to the 2010/2011 MTCU Preliminary Operating Budget. It shows that grants, enrolment and carry forward funds provide an additional $31.815 million 52% of which ($12.100 one-time and $4.000 base) will be allocated to complete the Multi-Year Plan reduction targets. A further 7% or $2.350 million will be used to address Integrated Planning priorities and the remained (41% or $12.965 million) will be allocated for either pension contributions or contingency funds.

Table A: Summary of Budget Revisions by Category (Base Budget, One Time Budget, Total Budget)

Item #	Category	Preliminary Budget			Revision			Revised Budget		
		Base	One-Time	Total	Base	One-Time	Total	Base	One-Time	Total
	Revenues and Recoveries									
1	MTCU Basic Grant	131.400	-	131.400	10.050	-	10.050	141.450	-	141.450
2	MTCU Undergrad Accessibility	2.600	3.300	5.900	(2.600)	(0.300)	(2.900)	-	3.000	3.000
3	MTCU Quality grant	4.800		4.800	1.300	-	1.300	6.100	-	6.100
4	Tuition Revenue (Credit)	109.800	-	109.800	7.900	-	7.900	117.700	-	117.700
5	OMAFRA Research Indirect Recoveries	10.330	(0.400)	9.930	-	0.400	0.400	10.330	-	10.330
	Total Revenues and Recoveries				16.650	0.100	16.750			
	Carryforwards									
6	Institutional Carryforwards	-	-	-	-	15.065	15.065	-	15.065	15.065
	Total Funds Available				**16.650**	**15.165**	**31.815**			
	Expenses and Commitments									
	Integrated Planning									
7	Priority Investment Fund	-	-	-	0.500	-	0.500	0.500	-	0.500
8	Teaching Support	2.595	-	2.595	1.050	-	1.050	3.645	-	3.645
9	Student Aid	6.000	-	6.000	0.800	-	0.800	6.800	-	6.800
	Total Integrated Planning				2.350	-	2.350			
	Multi Year Plan									
10	Multi Year Plan - Timing	-	3.000	3.000	4.000	0.400	4.400	4.000	3.400	7.400
11	Restructuring Costs	-	4.000	4.000	-	12.100	12.100	-	16.100	16.100
	Total Multi Year Plan				4.000	12.500	16.500			
	Other									
12	Pension	22.000	-	22.000	2.000	-	2.000	24.000	-	24.000
13	Contingency	1.500	-	1.500	8.300	2.665	10.965	9.800	2.665	12.465
	Total Funds Allocated				**16.650**	**15.165**	**31.815**			
	Net MTCU Budget Revisions				-	-	-			