“SURPLUSES”, NET ASSETS AND THE BUDGET

Feb 4, 2016
SBAC
The Questions…

• What are surpluses – how they happen?
  • In context of a not-for profit

• How are they generated?
  • Funds sources

• How long has the University experienced surpluses
  • Not always the case and why

• Where do they go?
  • Reserves and Carry Forwards

• What are/will they be used for?
  • Central-based
  • Unit Based
  • Post-employment
Budgeting…and Actuals

- It is very rare to actually “balance the budget”
  - Unforeseen events
  - Aggressive or conservative assumptions
  - Unit “behavior”

- Given a “balanced” budget target
  - Variances will generate surpluses or deficits
  - More revenues and/or underspending = surplus
  - Less Revenues and/or overspending = deficit

- Not confirmed until after the year ends
  - Audited Actual results;
    - revenues less expenses
  - E.g., MYP “targets” reduce spending budgets
  - Not an actual pot of money
U of G History

• To 2008 running deficits or very small surpluses
  • Slow enrolment growth cycle
  • Cost increases – compensation
  • Pension contributions and expenses

• Major Swings in Enrolment Growth
  • Demand and “double cohort”
  • Provincial funding (new programs, new priorities)

• Major challenges
  • Financial Crisis of 2008 (world)
  • Plan for Pension Contributions (solvency)
  • Provincial funding frozen – except for growth
  • Compensation and other cost increase @3-4% p.a.
Needed a Plan…

- Cost cost increases
  - Compensation
  - Technology
  - $330 Deferred Maintenance

- Pension Deficits
  - Impending fiscal crisis $344 M - $540 M
  - Continuing cost increases (mortality and expected returns)

- Need to invest where we can
  - New programs
  - Provincial graduate priority
  - Initiatives “activity –based” funding

- Increase “cushion” (reserves)
  - Absorb negative events
  - Repay the deficits we have
  - No more deficits
Two Options

1. Grow Revenue faster than expense
   • Increase enrolment
   • Hope it is funded by the province
   • PROBLEM; higher risk and do not know until well into a year

2. Keep Expense increases less than Revenue increases
   • MYP Savings Targets

   • Decided to try both
     • Increase growth in targeted areas
       • E.g., engineering
     • Backstop with MYP Targets reductions
       • MYP2 started at $32 M in 2013 (currently $17.6 M)
       • Due to NET revenue increases
Cycles of Increases in FTE’s

University Degree-Credit Enrolment  FTE’s

“Demand” experience +15% +2,900

“Double Cohort” period +11% 1,780
Correlation of Surplus to Revenue Growth

University of Guelph Annual Results

- Total University Surplus
- Net Operating Surplus (Deficit)
- Total FTE Enrolment
Internally Restricted Net Assets
Where are the Surpluses Held

- $260 M at April 2015
- Net Surpluses all end up in Net Assets
- Tracked by “restriction” and fund
- Major share in Operating
  - Allocated for specific purposes
As well as New Revenues
Unit Underspending creates surpluses

• We do not want the “use it or lose it…” behavior
• So units can retain their “savings” (surpluses)
• It worked!
• Now a new policy restricting amounts
Context for Net Assets

- **New provincial requirements**
  - “financial health” metrics
  - No deficits
  - Adequate resources and contingencies

- **Greater uncertainty**
  - No news on permanent pension solvency relief
  - Deferred maintenance bill grows – increasing risk of “failures”
  - Provincial funding; formula deficit reduction

- **We have debt (loans/mortgages)**
  - Lenders want to know we have reserves

- **We have deficits;**
  - One of $42 M we just paid off last year
  - Post-employment deficit (not paid for)