

# Budget Planning Update

Report from Vice President Finance & Administration

Senate Meeting  
June 16, 2016

# Outline

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# Context for Budget Planning

- In Fall 2014, the University confirmed its Transition Plan to the new SHARP (Shared Accountability Resource Plan) Model effective fiscal 2017-18.
- The presentation format for the SHARP Budget Model will be considerably different under SHARP and will provide an increased level of detail
- For illustrative purposes, the numbers for 2017-18 and 2018-19 are being provided to demonstrate the impacts of budget assumptions for that fiscal year. Approval will not be requested at this time for these years
- Recent decision of the new Markham Campus has not been incorporated into the 2016 Budget Plan. Budget Plan impacts are anticipated to occur beyond the current June 2016 budget planning horizon.

# Context for Budget Planning

- The typical approach to update the Budget Plan would be to amend the Approved Budget Plan (June 2015) for significant changes and extend for one additional year
- A key assumption underlying the Budget Plan is the enrolment plan. The projected enrolment plan that was reflected in the multi-year Budget Plan approved in 2015 remains appropriate, and no changes are required at this time
- The projections for the 2018-19 fiscal year (based on the current incremental budget model) include total tuition fee revenue increases of \$10M and total compensation increases of \$10M – resulting in “neutral” impact on the in year bottom line position
- Many cost pressures that have been identified to date this year have been addressed through the Academic Strategic Investment Contingency Fund - resulting in reduced pressures on the overall institutional budget plan
- As a result, there are relatively few changes to the proposed budget plan that is being brought forward to the Board meeting in June
- The University will prepare in the Fall of 2016 a multi-year SHARP Budget Plan covering the period 2017-18 to 2019-20, to illustrate the new format

# 2015-2018 Budget Plan - Approved June 2015

<u>(\$ Millions)</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
Revenue	753.8	778.5	789.7
Expense	781.7	793.2	797.8
Annual Surplus/(Deficit)	(27.8)	(14.6)	(8.1)
Carryforward Surplus/(Deficit)	(18.2)	(46.0)	(60.6)
Cumulative Surplus/(Deficit)	(46.0)	(60.6)	(68.7)
Budget Cut	3.0%	2.5%	TBD

# Highlights of Ontario Provincial Budget 2016

- No new announcements concerning operating funding
- No new announcements concerning capital investments
  - *Confirmation of Markham Campus Project (no details)*
  - *Reference to infrastructure (transit) investments supportive of Markham Campus and importance of economic development*
- No announcements of funding reduction for the PS sector
- Increased **net** funding of \$21.2 M to fund enrolment growth
  - *No indication of rebasing of grants for universities funded beyond current enrolment level, but university funding review may bring changes*

# Highlights of Ontario Provincial Budget 2016

- Fundamental restructuring of Student Financial Assistance to begin in 2017-18
  - Consolidation of all Student Financial Assistance
  - Cancellation of Ontario Tuition Tax credits
  - Net Tuition billing
- *Will alter the perception of the proportion of revenue coming from government versus student*
- References to the Funding Formula Review with no further details

# Highlights of Ontario Provincial Budget 2016

## More Detailed

- Next round of SMAs will address graduate expansion in 2017-18 and future years
- 2<sup>nd</sup> Targeted call for Major Capacity Expansion specific to Peel and Halton Regions
- No further details about the timing of the increases to the Facilities Renewal Funding



# Highlights of Ontario Provincial Budget 2016

## More Detailed

- No comments on potential engagement with federal government in infrastructure funding (SIF) – subsequent response by Province to federal infrastructure program was to confirm no new Provincial funding so support SIF projects
- No details on Francophone funding announced last year of \$5.5M
- Efficiency Targets (Policy Lever) Reductions now permanent in Base Grant
- Continuation of International Student Recovery Tax

# Highlights of Ontario Provincial Budget 2016

## Cap and Trade

- Proposed legislation to reduce Greenhouse Gas Emissions
- Preliminary estimates suggest that universities will experience significant increases in energy costs
- Government officials confirmed they may develop measures to mitigate adverse impacts to universities by receiving allowances and not have caps lowered over the first four years of implementation

# Highlights of Ontario Provincial Budget 2016

## Ontario Retirement Pension Plan

- Implementation delayed one year to January 2018
- Discussion to develop option with Canada Pension Plan
- Defined contribution(DC) pension plans considered comparable
- No exemption noted for student's earnings

# Highlights of Ontario Provincial Budget 2016

## Solvency Relief

- In Fall Economic statement government indicated looking at solutions/relief for private sector plans
- Government has initiated a review of the current solvency funding framework
- David Marshall, former CEO of WSIB appointed lead

# Government Funding Formula Changes and Future Tuition Framework

## Funding Formula Consultation Report

- In December the Government released the results of its consultation on the Funding Formula
- No specific recommendations were made
- Identified a Road Map for change

Current	Transition	Future
<ul style="list-style-type: none"> <li>• Limited ability to identify and improve student outcomes and skills</li> <li>• Fragmented data</li> <li>• "One-size-fits-all" approach with enrolment growth as main revenue source</li> <li>• Institution-specific, programmatic focus</li> <li>• Funding methodology poorly understood with unexplainable historical factors</li> </ul>	<ul style="list-style-type: none"> <li>• Student and outcomes lens applied to funding</li> <li>• Learning outcomes measured and made available</li> <li>• Validated, standardized and readily accessible data</li> <li>• Ministry stewardship of funding relationship with universities well-defined</li> <li>• Progress on sustainability</li> <li>• Rational, defensible and transparent funding methodology</li> </ul>	<ul style="list-style-type: none"> <li>• Continuous improvement in student learning and system outcomes</li> <li>• Strengthened funding levers help Strategic Mandate Agreements drive specialization</li> <li>• Broad student success measures offset enrolment-driven allocations</li> <li>• Student, economic and social development supported in a productive and sustainable manner</li> </ul>

## Future Tuition Framework

- The current tuition framework expires in 2016-17
- The Government will be under pressure from students on future fee increase
- COU is currently modelling recommendations for a future tuition fee framework

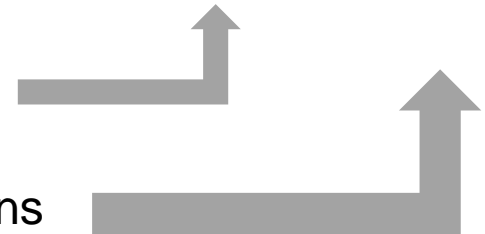
# Divisional Carryforward Positions - 2015-16 Budget vs. Actual Results

Division	Opening Cumulative Position
President's	1.25
VP Advancement	1.51
<b>VP Academic</b>	
Faculties & Libraries	(70.73)
VPA&P	31.07
Vice Provost Students	7.32
<b>VP Academic Total</b>	<b>(32.34)</b>
<b>VP Finance &amp; Administration</b>	<b>9.24</b>
<b>VP Research</b>	<b>2.29</b>
<b>Total All Divisions</b>	<b>(18.05)</b>

Approved Budget In-year Surplus (Deficit)	Actual In-Year Surplus (Deficit)	Variance to Approved Budget Surplus (Deficit)	Actual Ending Cumulative Position
(0.43)	0.52	0.95	1.77
(2.64)	0.20	2.84	1.71
(18.88)	(8.05)	10.83	(78.78)
(2.32)	3.65	5.97	34.72
(0.55)	(0.30)	0.25	7.02
(21.75)	(4.70)	17.05	(37.04)
(3.51)	2.74	6.25	11.98
(1.00)	0.08	1.08	2.37
(29.33)	(1.16)	28.17	(19.21)

2015/16 Year End Results Positive to Last Year's Plan

.... But a Significant Deficit Remains



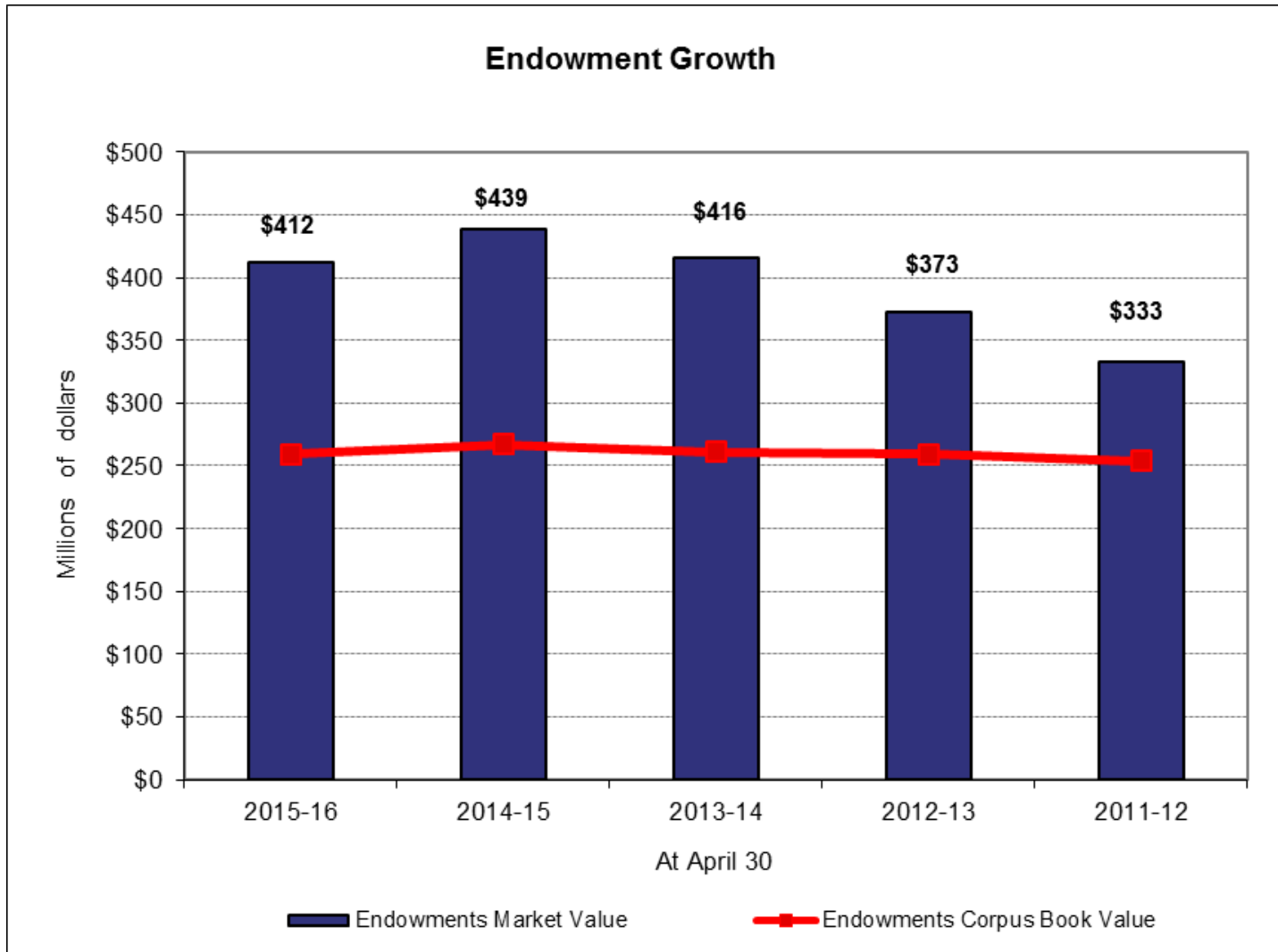
# Capital Markets Update – Endowment and Pension

Endowment Performance		
	Calendar Year 2015 12 months to December 31, 2015	Fiscal YTD 2015-16 12 months to April 30, 2016
<b>Endowment Fund Rate of Return</b>	<b>4.98%</b>	<b>-3.70%</b>
Policy Benchmark	<u>7.11%</u>	<u>-2.63%</u>
Value Added	<u>-2.13%</u>	<u>-1.07%</u>

Pension Fund Performance	
	<u>2015 Calendar Year</u>
Total Fund	9.5%
Plan Text Requirement	6.0%

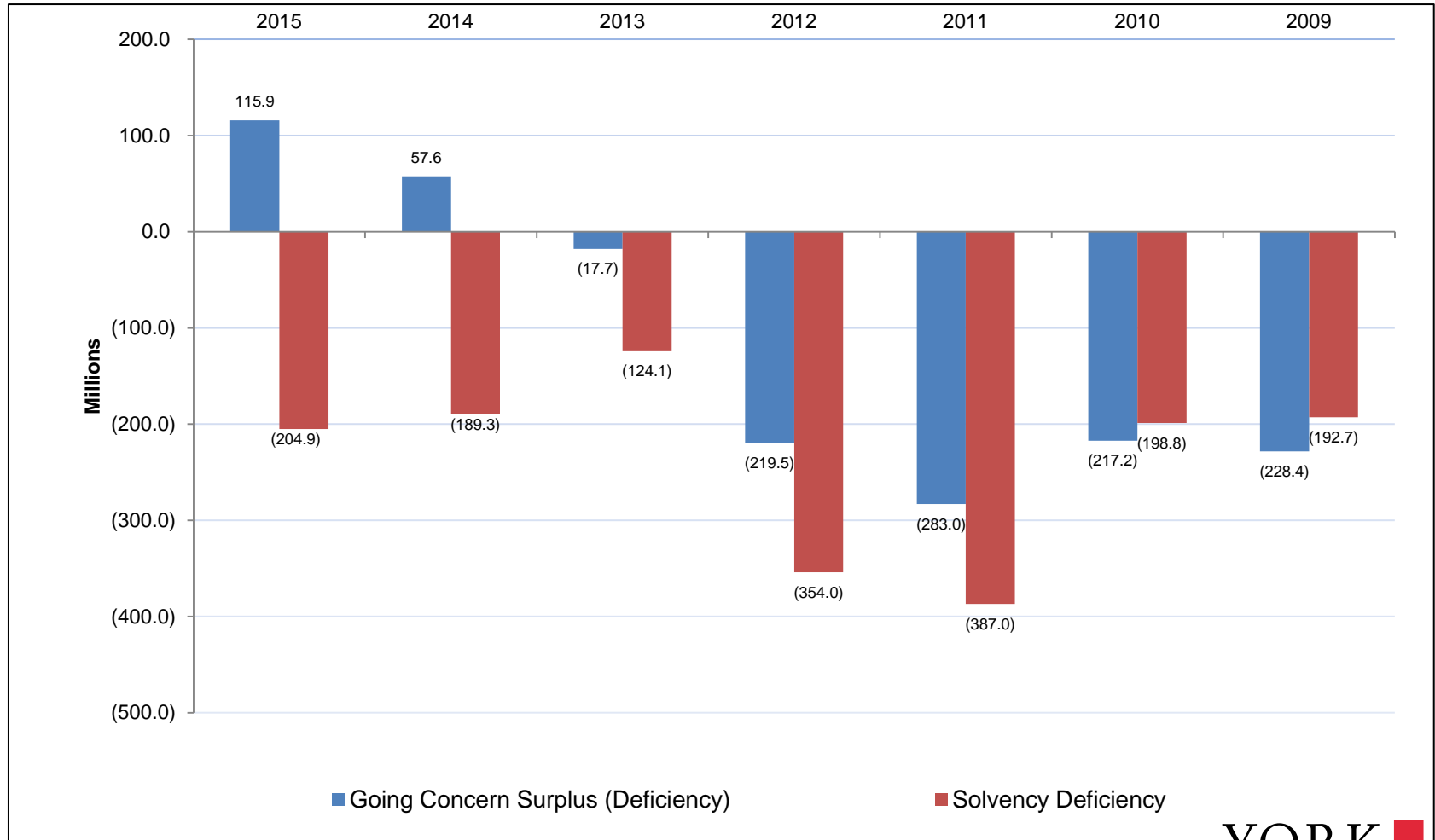
# Endowment Update

## Year End (Fiscal) Results as of April 30





# Pension Plan Update - Valuation Results as of December 31



Dec/2015 Pension Fund Value - \$2.16B

# Budget Outlook – Summary of Changes

- **Revenue outlook changes to the 2015 Plan:**
  - Enrolment plan tabled in 2015 for 2016-17 and 2017-18 reaffirmed
  - Enrolment plan for 2018-19 (proposed budget) maintains undergraduate enrollment relatively flat to the 2017-18 results
  - Tuition fee revenue fee increases for the 2018-19 year are estimated at \$10 M
- **Expense outlook changes to the 2015 plan:**
  - Most cost pressures identified this year are currently being funded through the Academic Strategic Investment Contingency Fund
  - The projected compensation costs for 2018-19 are estimated at \$10 million
  - A \$100 M bond was issued in May 2016 to finance capital priorities and take advantage of the federal Strategic Investment Fund for universities and colleges. Annual interest cost will be \$3.6 M
  - Two budget reductions implemented for 2016/17 onwards include:
    - Annual allocation to help reduce longstanding PTR deficit - \$2.5 M
    - Capital renovation repayment (post Superbuild Projects) - \$1.5 M
  - Divisional deficit projections updated to reflect most recent results

# 2016-2019 Budget Plan - Proposed June 2016

## OPERATING BUDGET PLAN SUMMARY

2016-17 to 2018-19

(\$ millions)

	<u>Illustrative</u>		
	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
<b><u>Revenue</u></b>			
<b>Total Operating Revenue per June 2015 Plan</b>	<b>778.5</b>	<b>789.7</b>	<b>789.7</b>
Tuition Fee Increases - 2018/19	in plan	in plan	10.0
<b>Total Operating Revenue - June 2016 Plan</b>	<b>778.5</b>	<b>789.7</b>	<b>799.7</b>
<b><u>Expenses</u></b>			
<b>Total Operating Expenses per June 2015 Plan</b>	<b>780.8</b>	<b>786.0</b>	<b>786.0</b>
Compensation/Benefits Escalation - 2018/19	in plan	in plan	10.0
Interest on May 2016 Bond Issue	3.6	3.6	3.6
<b>Existing Base Budget Allocation Reductions:</b>			
Progress Through the Ranks Deficit Repayment	(2.5)	(2.5)	(2.5)
Capital "Ripple Program" Deficit Repayment	(1.5)	(1.5)	(1.5)
<b>Divisional Expenditures in excess of annual allocation</b>	20.6	18.8	(0.0)
<b>Total Operating Expenses per June 2016 Plan</b>	<b>801.0</b>	<b>804.4</b>	<b>795.5</b>
<b>Net Annual Surplus/Deficit</b>	(22.4)	(14.7)	4.1
<b>Prior Year Carryforward Balances</b>	(19.2)	(41.6)	(56.3)
<b>Ending Cumulative Balance (including Divisional Deficit postions)</b>	<b>(41.6)</b>	<b>(56.3)</b>	<b>(52.2)</b>
<b>Budget Cuts as per Plan</b>	<b>2.50%</b>	<b>TBD</b>	<b>TBD</b>

# 2016-2019 Budget Plan - Proposed June 2016

**OPERATING BUDGET PLAN SUMMARY**  
**2016-17 to 2018-19**  
(\$ millions)

	<u>Illustrative</u>		
	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
<b>Revenue</b>	<b>778.5</b>	<b>789.7</b>	<b>799.7</b>
<b>Expenses</b>	<b>801.0</b>	<b>804.4</b>	<b>795.5</b>
<b>Annual Surplus/Deficit</b>	(22.4)	(14.7)	4.1
<b>Carryforward Surplus/(Deficit) Balances</b>	<u>(19.2)</u>	<u>(41.6)</u>	<u>(56.3)</u>
<b>Cumulative Balance (including Divisional Deficit postions)</b>	<u><u>(41.6)</u></u>	<u><u>(56.3)</u></u>	<u><u>(52.2)</u></u>
<b>Budget Cuts as per Plan</b>	<b>2.50%</b>	<b>TBD</b>	<b>TBD</b>

# Budget Outlook – Risk of Grant Rebasing

## Risk of Government Grant Rebasing

- The Provincial Government Base funds the University on its domestic undergraduate enrolments at the level of its enrolments achieved in 2010-11 through its Operating Grant
- This was close to York's highest level of Domestic enrolments. Since that time and projected into the near future York is not expected to attain these enrolment levels and currently receives grant funding through its Base Grant for enrolment levels higher than its actual enrolment
- There is no clear indication at this time that the Government will rebase York's Operating Grant to reflect the lower enrolment levels. The risk however exists, but it is anticipated that should the Government make a decision to do so it will consult with the University and provide at least one year's notice
- Recent information from the Ministry suggests that changes to the Funding Formula review will not be implemented in 2016-17 fiscal year

# Budget Outlook – Risk of Grant Rebasing

## Risk of Government Grant Rebasing cont'd...

- There are a few Ontario Universities who have been in similar situations in recent years and the Government has not chosen to rebase their Operating Grant.
- York has been in a similar situation with its Graduate enrolments for the last five years and the Government has not chosen to rebase the Graduate grant.
- The draft budget plans have assumed that the University will not experience any reduction in its Base Operating Grant.
- The total Undergraduate grant at risk should the Ministry rebase is dependent upon actual enrolment. The grant received in excess of enrolments for undergraduates is about \$11 million for 2015/16.
- The University is currently receiving about \$4M in grant funding for Graduate students that could also be at risk of rebasing.

# Key Budget Planning Assumptions and Risks

- Achieving the Enrolment Plan
- Tuition Fee Framework beyond 2017
- Divisional Deficit Positions
- Impact of IIRP on Divisional/Faculty Budget Management
- Government Grant Rebasing Risk (Undergraduate and Graduate)
- Provincial Government University Funding Formula Review

# Appendix



# Academic Strategic Investment Contingency Fund

- In the 2014 Approved Budget Plan the University created an Academic Strategic Investment Contingency Fund from the net savings created from lower Required Special Pension Contributions. These savings were realized as a result of higher employee contributions, matched by the employer, strong investment performance in recent years, and Stage II solvency relief approved by the Government, which deferred solvency contributions for a total of four years.
- The attached schedule outlines the commitments against this fund and the value of uncommitted funds that are available to assist in managing a number of institutional risks including:
  - The potential rebase of the MTCU Operating Grant as a result of declining domestic enrolments
  - The potential Solvency Special Payments that may be required in 2018
  - The changing demographic in domestic enrolments over the next 3-5 years

# Academic Strategic Investment Contingency Fund

ACADEMIC STRATEGIC INVESTMENT/CONTINGENCY FUND						
2014-15 to 2017-18						
(in \$millions)						
	2014-15	2015-16	2016-17	2017-18	2018-19	Total
<b>Contributions</b>						
Budget Plan 2014	18.30	11.00	8.40	8.40	8.40	
Fiscal 2015 OPEB Adjustment	4.81					
Budget Plan 2015		6.00	6.00	6.00	6.00	
PRASE			1.00	1.00	1.00	
Institutional Restructuring Fund		3.00				
Capital Reserves		2.00				
<b>Total Contributions</b>	<b>23.11</b>	<b>22.00</b>	<b>15.40</b>	<b>15.40</b>	<b>15.40</b>	<b>91.31</b>
<b>Commitments</b>						
<b>Faculties</b>						
SHARP Implementation		8.60	16.40			
Lassonde	0.46	0.46	0.40			
Education		0.70				
Schulich		0.75	0.75			
AMPD			0.50			
Science			0.20	0.20	0.20	
CUPE Conversion		0.27	0.27	0.27		
<b>Total Faculties</b>	<b>0.46</b>	<b>10.78</b>	<b>18.52</b>	<b>0.47</b>	<b>0.20</b>	<b>30.43</b>
<b>Academic Support</b>						
YU Start		0.50	0.50			
Strategic Enrolment Response	0.80	1.00	0.40	0.40		
Student Aid/Scholarship		1.00	1.00	1.20		
Student Life Awards		0.60	1.70			
University Translator			0.11			
Library - Collections		0.50	0.80			
- Operating		0.70	0.70			
<b>Total Academic Support</b>	<b>0.80</b>	<b>4.30</b>	<b>5.21</b>	<b>1.60</b>	<b>0.00</b>	<b>11.91</b>
<b>Institutional Other</b>						
York in York Region	1.00					
Markham Campus - planning and space		0.60	1.40	1.40	1.40	
CFI Grant Support			1.16			
Copyright Clearance		0.30	0.30			
Presidential Search		0.05	0.25			
Refugee Funding Program		0.03	0.17			
Brand Campaign		0.50				
<b>Total Institutional</b>	<b>1.00</b>	<b>1.48</b>	<b>3.28</b>	<b>1.40</b>	<b>1.40</b>	<b>8.56</b>
<b>Total Commitments</b>	<b>2.26</b>	<b>16.56</b>	<b>27.01</b>	<b>3.47</b>	<b>1.60</b>	<b>50.90</b>
Net In-Year Commitments	20.85	5.44	-11.61	11.93	13.80	
<b>Cumulative Ending Balance</b>	<b>20.85</b>	<b>26.29</b>	<b>14.68</b>	<b>26.61</b>	<b>40.41</b>	<b>40.41</b>