Budget Context for Planning

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Senate Meeting
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Outline

1. Budget Plan 2016 – 2018: Context
2. Update on Key Budget Assumptions
3. Summary of Major Risk Factors
4. SHARP Budget Model Update

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 was not requested in June 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 June 2016 budget planning horizon.

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2015-2018 Budget Plan - Approved June 2015

($ Millions)	2015-16	2016-17	2017-18
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

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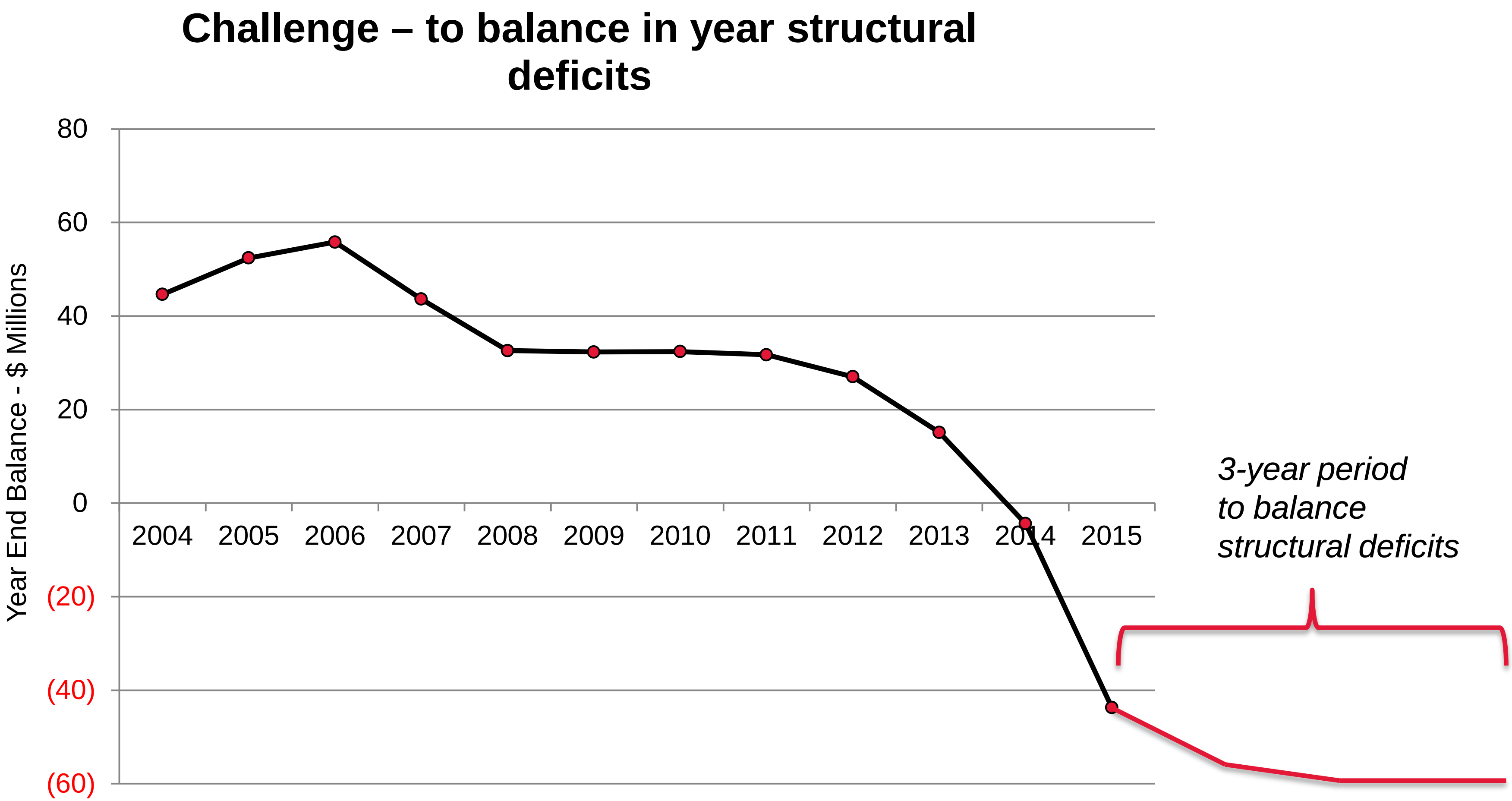
Faculty/Divisional Carryforward Balances – History and 2015 Budget Projection



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

Division	Opening Cumulative Position	Approved Budget In-year Surplus (Deficit)	Actual In-Year Surplus (Deficit)	Variance to Approved Budget Surplus (Deficit)	Actual Ending Cumulative Position
President's	**1.25**	**(0.43)**	**0.52**	**0.95**	**1.77**
VP Advancement	**1.51**	**(2.64)**	**0.20**	**2.84**	**1.71**
VP Academic					
Faculties & Libraries	**(70.73)**	**(18.88)**	**(8.05)**	**10.83**	**(78.78)**
VPA&P	31.07	(2.32)	3.65	**5.97**	**34.72**
Vice Provost Students	7.32	(0.55)	(0.30)	**0.25**	**7.02**
VP Academic Total	**(32.34)**	**(21.75)**	**(4.70)**	**17.05**	**(37.04)**
VP Finance & Administration	**9.24**	**(3.51)**	**2.74**	**6.25**	**11.98**
VP Research	**2.29**	**(1.00)**	**0.08**	**1.08**	**2.37**
Total All Divisions	**(18.05)**	**(29.33)**	**(1.16)**	**28.17**	**(19.21)**

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

…. But a Significant Deficit Remains

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2016-2019 Budget Plan - Approved June 2016

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

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

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Key Budget Assumptions

- Enrolments (covered by Provost/VPA)
- Tuition Fees
- Capital Market Performance
- Operating Grant Funding Formula Review
- Pension Contribution – Special Payments

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Tuition Fees

- The Provincial Government sets tuition fee guidelines that establish parameters for the charging of tuition fees for domestic students.
- The current framework provided a 3% fee increase for all Arts & Science Programs and 5% fee increase for Professional Programs - with an overall cap of 3% for the institution in total.
- The current guidelines covered a four-year period to the end of 2016-17.
- Traditionally the government releases tuition guidelines around the release of the Provincial Budget in the Spring.
- In the March 2016 Provincial Budget the government indicated its intention for the post secondary sector to move to a "Net Tuition" billing approach.

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Tuition Fees cont'd…

- The "Net Tuition" billing project will require the Government to announce its tuition frameworks much earlier, as students will be communicated earlier in the cycle their "Net Bill" (i.e. Tuition less all available government funding being provided to them)
- It was initially anticipated that the new tuition framework was to be released in October 2106. To date the framework has not been released - but is now anticipated before the end of 2016. No significant changes are anticipated.
- The current year multi-year budget cycle has assumed a continuation of the existing framework.

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Capital Market Performance (September 30,2016)

Pension Fund Performance September 2016	
	Calendar YTD 9 months ended September
Nete Rate of Return	6.9%
Benchmark (preliminary)	4.5%
Value Added	2.4%
	-

Endowment Performance to September 2016		
	Fiscal YTD 5 months September	**Calendar YTD 9 months ended September** -
Endowment Fund Rate of Return	**7.09%**	**4.78%**
Policy Benchmark	8.76%	5.89%
Value Added	-1.67%	-1.11%

University Funding Formula Reform - Design

Design work for a new funding formula has begun with three core elements:

- **Enrolment Elements:**
  - Delivered in a corridor
  - Equalization of per-student funding
  - Based on negotiated enrolment numbers

Funding will come from existing BOG, as well as undergraduate access and grad expansion funds.

- **Differentiation / Student Success Elements**
  - Distributed based on outcomes
  - Transitional / balancing elements
  - A portion at risk at maturity

Funding may come from declining enrolment; existing quality and performance funds; research supports; and mission-and institution-related grants and other existing SPGs.

- **Special Purpose Grants**
  - Reflects broad government priorities for all institutions
  - May be restricted in use
  - Reviewing SPGs for ease of reporting, length and simplification

Funding will be remaining SPGs that fit criteria.

University Funding Formula - Transition

The following principles have been established for transition:

- **Principle One**: No redistribution through the transition
- **Principle Two**: However, it is expected that the new model will put some grants at risk **in the future**
- **Principle Three**: Multi-year transition
  - Full transition to a new funding model will occur through second and third round SMA
- **Principle Four**: Options for transition will be explicitly developed through the development process during summer/fall 2016

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Pension Contribution – Special Payments

- York is reaching the end of the current interest-only solvency funding framework in December 2016, after which full solvency deficits would normally be required to be funded over 7 years;
  - York filed a Stage 1 valuation and a Stage 2 valuation and elected interest only solvency funding for a 3 year period based on its 2013 valuation
- Ongoing discussion between the Council of Ontario Universities and the Ministry of Finance have resulted in further relief for pension plans in the broader public sector that have a filing date before December 31, 2018
- Amended Regulation 178/11 was posted in early November that now requires solvency special payments as follows:
  - Excess of: (i) amortization of 25% of solvency deficit over the remaining 7- year period plus interest on the 75% not being amortized, over (ii) going concern special payments

Pension Contribution – Special Payments cont'd..

- Amended Regulation also provides for 3-year period before next required filed valuation (otherwise pension plans with a solvency ratio below 85% have to file annually with FSCO)
- Based on York's valuation of December 31, 2015 the estimated annual special payment would be $10.6 million. The budget impact would be an increase in special payments of $6.6M per year, effective in 2018. York currently has a pension contribution credit of $4M, consequently the impact will be in the fiscal year 2018/19
  - Note: The final December 31, 2016 solvency valuation will depend heavily on Long Term Bond rates at the time of the valuation. Fluctuations in these bond rates create considerable uncertainty in solvency funding.
- The University has maintained a $15.4M base allocation in the Academic/Contingency Fund to provide the base funding for higher solvency payments

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Summary of Major Risk Factors

- The budget planning context remains a challenging one

- Looking ahead, the significant risks/issues to be managed include:
  - Achieving enrolment targets
  - Achieving the budget cuts called for in the institutional plan
  - Addressing structural deficits within specific areas
  - Impact of Government Funding Formula Changes
  - Tuition Fee framework post 2017-18
  - Final December 31, 2016 pension valuation results

Sharp Budget Model Update

- Conceptual Design
- Budget Model – Guiding Principles
- Benefits of SHARP Budget Model
- Shadow Budget Results
- Transition Plan – Framework

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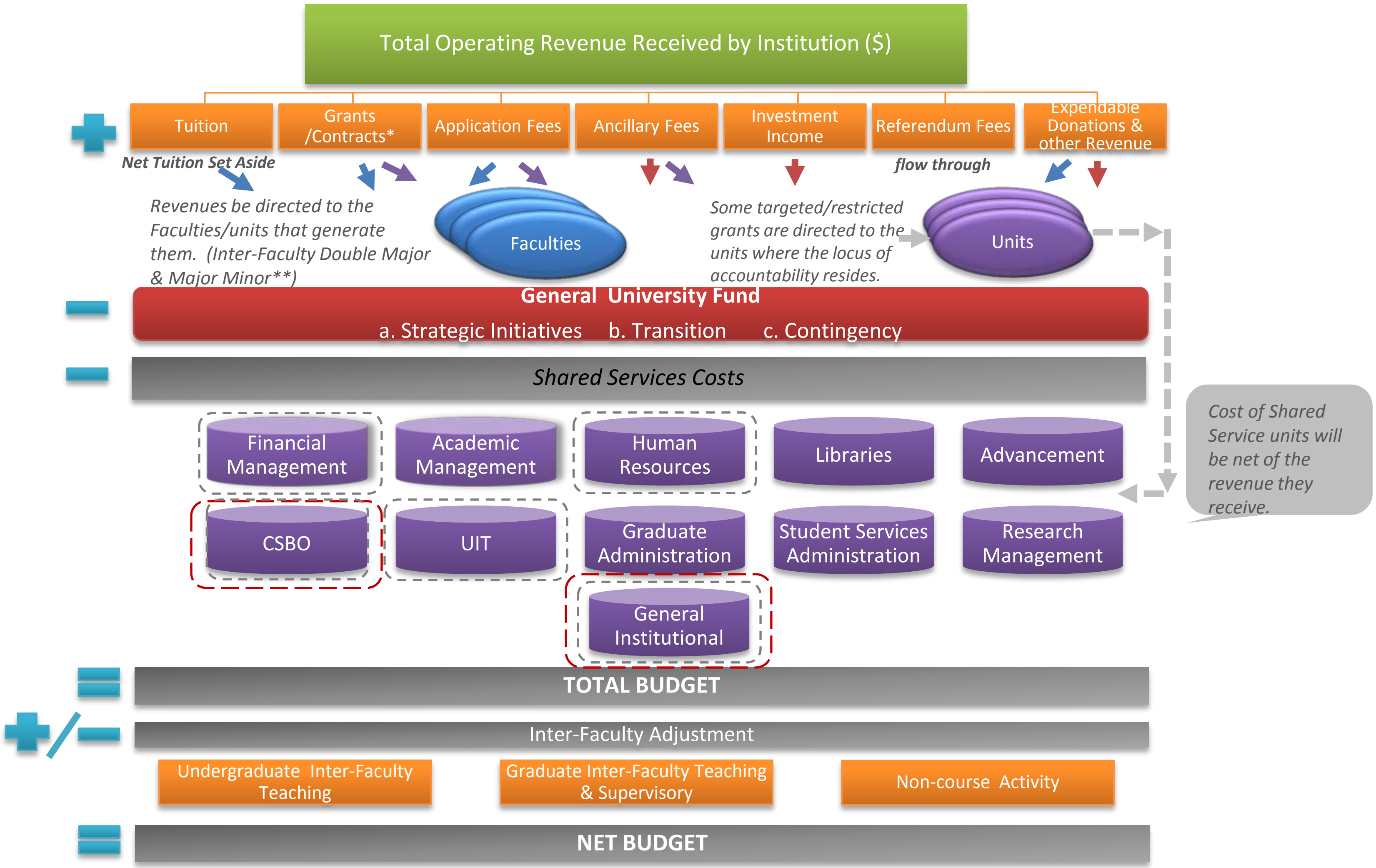
SHARP Budget Model - Conceptual



* Grants /Contracts includes formula funding, target grants, research overhead, accessibility grants, grant in lieu .

** Inter-Faculty tuition and grant revenues for Double Major and Major Minor programs will be allocated to both Faculties.

Shared Service units cost bins attributed to Faculties. Each cost bin has associated sub-bins and drivers. Service level and commitments will be defined through SHARP.

Cost attribution to Faculties and Ancillary units.

Assigned space (CSBO bin), Collective Agreement benefit commit. and Pension & post-retirement benefit costs (GI bin) attributed to Faculties, Ancillary and Shared Service units.

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SHARP Budget Model – Guiding Principles

- Important to note that there is no perfect budget model
- Each budget model is based on assumptions and estimates
- You want to develop a model that:
  - suits the complexity of the institution
  - supports the vision and academic priorities
- The WGBM established principles for developing the new budget model for York
- Resulted in a number of significant benefits

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SHARP Budget Model – Benefits

- SHARP Budget model:

  - Is fully transparent
  - Facilitates greater alignment of resources with priorities
  - Provides faculties with greater control over the revenue they generate
  - Provides faculties with greater control over the costs they incur
  - Creates incentives for faculties to seek out new opportunities for revenue growth and cost control
  - Is based on clear and agreed upon allocation methodologies
  - Provides a predictable and sustainable framework for budget planning
  - Clearly identifies accountability
  - Supports better understanding of budgets
  - Highlights costs of operating and opportunities to improve service

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Shadow Budget Results

- Shadow Results (2013-14)
  - Some Faculties will receive a “Hold Harmless” budget adjustment at the time of implementation
  - Some Faculties will receive “Additional Funding” under the new model
  - One Faculty is in transition to SHARP methodology
- The University Fund is being used to support the Hold Harmless adjustment
- Under the SHARP model, all units across the University will contribute to the General University Fund
- In recognition of past commitments under the incremental model including the recognition that BIU weights do not fully align with costs, the decision was made to use the midpoint for positive adjustments - results in a more manageable percentage contribution to the University Fund for all units

SHARP Implementation Transition Funding ($M)

		(2017/18 onwards)
LAPS		5.5
AMPD		(14.2)
Environ. Studies		(4.2)
Education		(2.9)
Glendon		(4.2)
Schulich		(1.5)
Osgoode		(4.4)
Health		9.2
Science		(9.4)
Lassonde		In Transition
		to SHARP

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Transition Plan – Bridging Framework

- Budget Model Design frozen effective fiscal 2013-14

- Transition Plan:
  - All Faculties, Shared Services Units and Ancillary Units will be required to make contributions to the General University Fund
  - Funds contributed to the General University Fund will be used to fund the Budget Transition as well as institutional initiatives
  - Faculties eligible for "Additional Funding" received phased in incremental funding on an OTO Basis over the past two years
  - Faculty in transition will convert to full SHARP in transition year
  - All other Faculties will receive a "Hold Harmless" adjustment in the year of transition to offset the negative budget impact of the conversion to SHARP (calculated based on 2013-14 fiscal year results)
  - Until 2017-18, all Faculties and Shared Services Units will continue to follow the incremental budget model. The full effect of the new model will be felt going forward from the year of transition (2017-18).

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Implementation Schedule: November 2016 to June 2017

<u>September 2016</u>

- Meetings with Deans to review SHARP model results, identify issues, and confirm readiness for transition to SHARP model

<u>November 2016:</u>

- Budget tools/systems developed and in production
- Budget envelopes for first Multi-year Budget Plan under SHARP - calculated and distributed by end November/earlyDecember
- Detailed Budget Tables and Supported Data provided to Faculties and Shared Service Units
- Formal Budget Training Tool Programs Scheduled

<u>December 2016-January 2017</u>

- Faculties/Shared Services Unit prepared their detailed budgets
- Review of detailed budget plans

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Implementation Schedule: November 2016 to June 2017

February 2017

- VP’s Review and Approve detailed budget plans

March 2017

- Board Budget Documents Drafted

April/May 2017

- Draft Budget presented to Board Finance & Audit Committee

June 2017

- Board Finance & Audit Committee Budget Approval