

Budget for 2003-04 and Budget Information for 1998-99 to 2003-04

Business Board, April 7, 2003



Budget Context

- **End of 6 year planning period; requirement that accumulative deficit be no more than \$14.7M and operating budget balanced.**
- **Accumulative deficit of \$20.3M projected in 02-03 Budget Report for end of 02-03, adjusted to \$22.4M with actual year end result for 01-02.**
- **Deficit for 02-03 is currently projected at \$34.1M a further increase of \$11.7M.**

Budget Context

Unrealised Revenue in 02-03

- 1% Inflation adjustment on operating grant funding, \$3.2M.
- Reduced investment return on EFIP, \$3.1M after amortization.
- Research Performance Fund and ORDCF overhead, \$5M

Increased Expense in 02-03

- ? Utility Costs, \$1.4M.
- ? Asbestos removal, \$0.8M.

Budget Context

Revised Revenue and Expense assumptions for 03-04

- Amortization of investment losses, \$4.4M increase.
- Resumed contributions to pension plan and reduction in redirection of pension contribution savings, \$18.8M.
- Elimination of inflation adjustment of 2% on government operating grant, \$6.4M.
- Elimination of increase from 20% to 30% in indirect costs of Federal research, \$6.2M.

Major Revenue Assumptions

- **Zero increase in grants for general inflationary purposes in 2003-04.**
- **Tuition fee revenue from the majority of students capped at 2% increase by MTCU.**
- **Investment revenue reduced by a further \$2.4 million and past losses amortized over 5 years.**
- **Full average funding for enrollment growth in undergraduate programs.**
- **MTCU imposed cap on graduate enrollment growth funding.**

Major Revenue Assumptions

- **Additional \$17.1 million in grant/fee revenue over previously budgeted.**
- **Indirect cost recovery of Federally funded research projected at \$15.8 million.**
- **Endowment pay-out reduced to 4.2% of November 02 market value, (from \$9.10 to \$6.60 per unit).**
- **\$2.5 million provision to assist in transition to lower pay-out.**

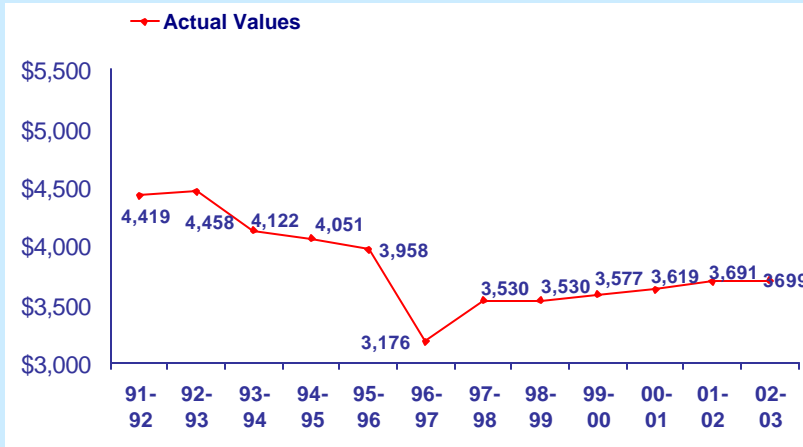
Proposed Operating Budget for 2003-04

INCOME (\$millions)	02-03	03-04	Change
Provincial Operating Grants	391.2	412.9	21.7
Tuition Fees	272.6	320.2	47.6
Endowment Income	34.6	28.7	(5.9)
Canada Research Chairs	21.0	29.3	8.3
Overhead on Federal Research	14.6	15.8	1.2
Stewardship & Investment Management Fees	7.3	7.6	0.3
Investment Income	13.7	11.3	(2.4)
Other Income	22.7	27.4	4.7
Divisional Income	109.6	124.4	14.8
TOTAL INCOME	887.3	977.6	90.3

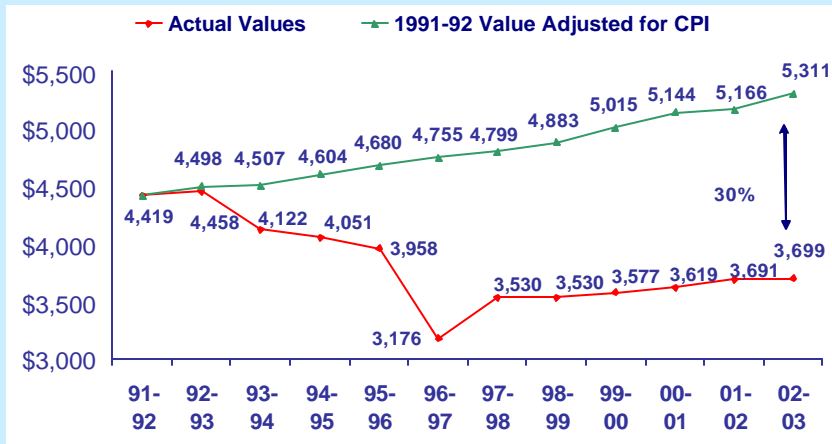
Projection of Operating Revenue

	98-99	99-00	00-01	01-02	02-03	03-04
Provincial Operating Grants	336.2	346.2	363.2	373.8	391.2	412.9
Tuition Fees	177.5	205.3	218.8	237.5	272.6	320.2
Total Other Sources	136.6	156.0	170.9	201.4	223.5	244.5
Total Operating Revenue	650.3	707.5	752.9	812.7	887.3	977.6
Total Enrolment (U/G and Grad FTE)	42,241	43,400	43,813	45,887	49,607	52,301

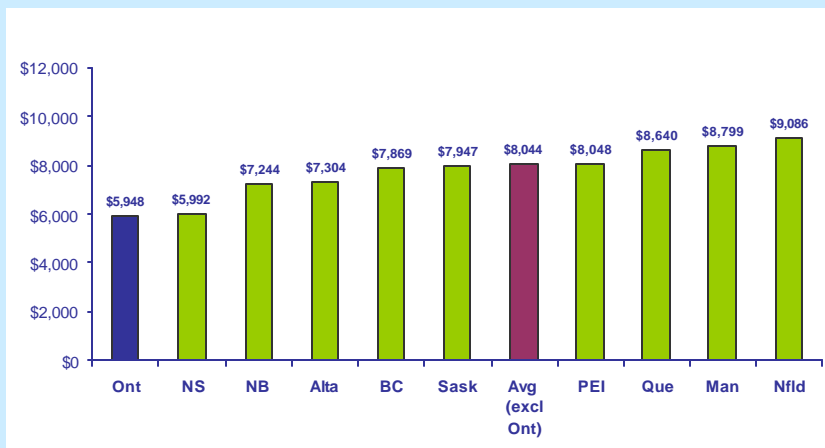
Basic Operating Grants Per BIU (Excluding Targeted Envelopes)



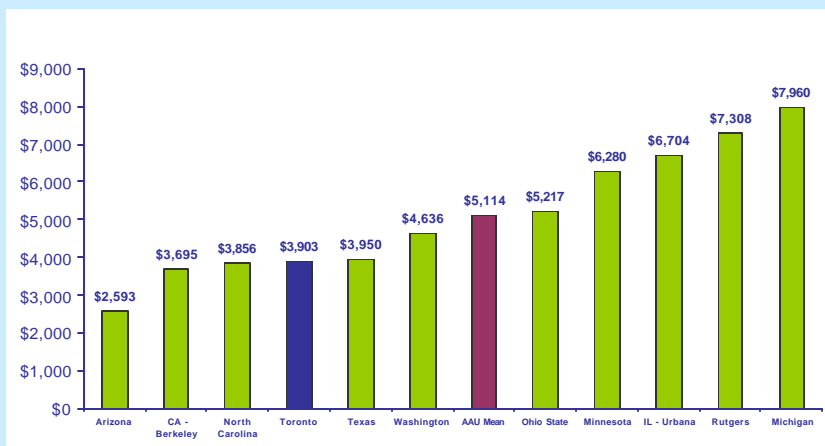
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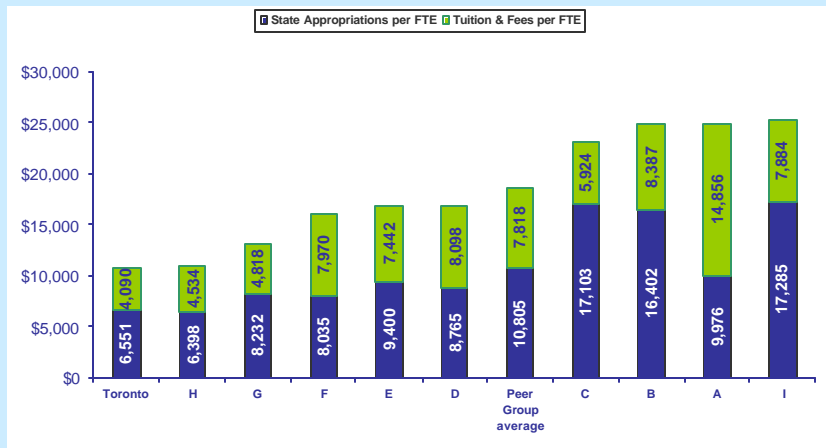
Provincial University Operating Grants Per FTE Student, 2001-02



Undergraduate Arts & Science Tuition and Fees, 2002-03 U of T vs. AAU Peer Institutions



State Appropriations Plus Fees per FTE Student, 2001-02 U of T vs. AAU Peer Institutions (US Funds)



AAU Peers include the following: Arizona, UC Berkeley, Michigan, Minnesota, North Carolina, Ohio State, Rutgers, Texas and Washington.

Major Cost Drivers

- **Library acquisitions fund requires \$4.5 million contingency to compensate for weak Canadian dollar.**
- **Compensation increase costs assumed to be 3%.**
- **Resumption of current service payments to the regular pension plan.**
- **Amortization of investment losses over 5 years.**

Major Cost Drivers

Capital Budget

- Capital Budget evolves from the University Infrastructure Investment Fund (UIIF).
- Encompasses all approved academic, non-academic and endowed capital infrastructure.
- Debt service charge to the operating budget is \$11.7 million in 2003-04, subsumes \$8.9 million of annual principal and interest charges on borrowing to fund the UIIF and the University's contribution to MARS.

Major Cost Drivers

Graduate Student Aid Increases

	<u>\$ Millions</u>
2000-01	2.8
2001-02	2.2
2002-03	5.1
2003-04	<u>2.8</u>
	<u>\$12.8</u>

Guaranteed funding packages for doctoral stream students will be fully implemented by September 2003.

Proposed Operating Budget for 2003-04

EXPENSE (\$millions)	02-03	03-04	Change
Total Academic Expense	570.2	626.7	56.5
Academic Services	60.7	62.1	1.3
Administration	63.0	65.9	2.9
Student Assistance	84.3	89.7	5.5
Campus & Student Services	14.9	16.2	1.3
Maintenance and Services	38.1	38.6	0.5
Utilities	35.9	36.3	0.4
General University Expense	37.2	42.1	4.9
TOTAL EXPENSE	904.3	977.6	73.3

Projected Operating Budget, 1998-99 to 2003-04

	98-99	99-00	00-01	01-02	02-03	03-04
Projected Expenditure	682.5	725.1	758.7	823.2	917.9	999.8
Budget Reduction	(16.9)	(16.9)	(0.4)	(0.0)	(13.6)	(22.2)
Expenditure Budget after Reduction	665.6	708.2	758.3	823.2	904.3	977.6
Operating Revenue	650.2	707.5	752.9	812.7	887.3	977.6
Preliminary Surplus/(Deficit)	(\$15.4)	(\$0.8)	(\$5.4)	(\$10.4)	(\$17.0)	\$0.0

Long Range Budget Projection

	98-99	99-00	00-01	01-02	02-03	03-04
Operating Deficit	(15.1)	(0.8)	(5.4)	(10.4)	(17.0)	0.0
Pension Contribution Savings		16.8	17.7	18.6	19.8	21.2
Transitional Funds		(2.5)	(3.6)	(1.8)		
Graduate Aid				(3.0)		
Pension service cost						(18.8)
Redirected pension savings						19.7
Investment Losses				(9.0)	(7.2)	(10.0)
UIIF		(14.3)	(14.1)	(14.8)		
OTO Deficit Control	2.2	1.2	2.4	13.5		7.3
Surplus/(Deficit)	(12.9)	0.4	(3.0)	(6.9)	(4.4)	19.4

Long Range Budget Projection

	98-99	99-00	00-01	01-02	02-03	03-04
Surplus/(Deficit)	(12.9)	0.4	(3.0)	(6.9)	(4.4)	19.4
Adjustment of Budget to Forecast Actual	5.2	0.7	(2.4)	(0.4)	(11.6)	
Deficit, Start of Yr.	1.4	(6.3)	(5.3)	(10.7)	(18.1)	(34.0)
Deficit, End of Yr.	(6.3)	(5.3)	(10.7)	(18.1)	(34.0)	(14.6)
Maximum Deficit Permissible	(9.4)	(10.1)	(11.3)	(12.2)	(13.3)	(14.7)

Summary: Fiscal Prudence

- **Lower risk on investment revenue projections**
- **Assume no inflation increase on government operating grants and reduced investment revenue.**
- **Expenditures are realistically but conservatively projected.**
- **Balanced budget in 2003-04.**
- **Accumulated deficit to be contained within policy limits.**

Net Changes to Divisional Budgets

- **Enrollment growth funding.**
- **Continued growth in Canada Research Chairs program.**
- **25% share of Federal indirect cost recovery grants.**
- **\$1.25 million of transitional funding to assist divisions achieve budget reductions**
- **4.45% reduction necessary to fund cost increases.**
- **1.46% OTO reduction to bring accumulative deficit in line; will only be applied if initiatives to increase revenue are not successful.**

Net Increase to Divisional Budgets

Compensation Increases	17.4
Enrolment Growth Fund	33.5
Graduate Student Aid	2.8
Canada Research Chairs	7.5
Academic & Admin Priority Funds	8.2
Overhead from Federal Grants	0.3
Rotman School RCM & OISE/UT	5.7
Total Increase to Divisional Budgets	\$75.4
Less: Reallocation Reduction	(6.6)
New Base Reduction	(22.2)
New OTO Reduction	(7.3)
Net Increase to Divisional Budgets	\$39.3

Financial Challenges Beyond 2003-04

- Pension Plan contributions.
- Deferred Maintenance, the *Crumbling Foundations*.
- Funding for Initiatives from the new Academic Planning Process.
- Capital and Operating costs of new space.

Pension Plan Expenditures

- Pension Plan projected to be in actuarial deficit by July 2004.
- Need to resume full payment of current service costs in 2004-05, (100% of the current service costs of the SRA and 75% of the current service costs of the registered pension plan were protected in the base operating budget).
- This will require an increase of \$9.4M over 2003-04.
- Special payments, mandated by Government, are triggered by the deficit.

Deferred Maintenance

- Report to Business Board identifies \$276M of deferred maintenance.
- Facilities Condition Index at U of T worse than the Canadian average and much worse than US universities.
- \$9M in base funding required to *hold the line* on deferred maintenance and to improve routine maintenance operations.

Increased Revenue Announcements in the Provincial Budget

- **Quality Assurance Funds, \$75M in 2003-04 rising to \$200M in 2006-07.**
- **Phase 2 of Ontario Student Opportunities Trust Fund (OSOTF), \$400M over the next decade.**
- **\$14M to help students with learning disabilities.**

Quality Assurance Funds

If U of T receives a pro-rata share, this would mean,

- **\$15M in 2003-04 (3.6% increase); the OTO budget cut of 1.46% can probably be eliminated even if the Indirect Cost of Federal Research funding is delivered on a slip year basis.**
- **An average annual increase in base operating grant funding for the years 2004-05 to 2006-07 of \$8.3M (1.7% increase, or less than projected inflation)**