



TO: **Business Board**

SPONSOR: Cheryl Misak, Vice-President and Provost

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DATE: For meeting on March 23, 2009

AGENDA ITEM: **4**

## ITEM IDENTIFICATION

- **Budget Report 2009-10**

## JURISDICTIONAL INFORMATION

The annual Budget Report is considered by the Business Board for concurrence with the recommendation to the Academic Board that the Budget Report be approved. As outlined in the terms of reference, concurrence would indicate that the Business Board is satisfied that the proposed budget is financially responsible.

## OTHER ACTION TAKEN

Budget Report approved by Planning & Budget Committee on February 25, 2009 and will be presented to Academic Board on March 26, 2009.

## HIGHLIGHTS

This year, the University finds itself in the midst of a very serious economic recession. Economic forecasts suggest that these conditions may persist for several years, introducing a high degree of uncertainty in the projections presented in this report, and requiring careful controls on spending and contingency planning.

The highest impact of the economic slow-down is on endowment and investment revenues. At the time of preparation of this report, the loss, at least on paper, in the University's Long Term Capital Appreciation Pool (LTCAP) is estimated to be on the order of 30%. As a result, no endowment payout is anticipated in 2008-09, representing a revenue loss of about \$62M. The corresponding drop in revenue in the University's operating budget is about \$46M, which is the portion of the endowment payout that flows through the operating budget to support endowed chairs and student awards. Part of this loss will impact the current fiscal year and the remainder will affect revenues in 2009-10. In addition, investment income in 2009-10 from the Expendable Funds Investment Pool (EFIP) is projected to be about \$13M lower than anticipated in last year's budget guidelines.

Revenue projections, excluding divisional income, show no increase in the University's operating revenue in 2009-10. Increases in operating grant and tuition income, which accrue from enrolment increases and a modest increase in tuition fees, are completely offset by the loss in endowment and investment income. At the same time, increases in the costs of utilities and other services continue. As a result, it has been necessary to implement significant cost containment measures in all divisions that provide university-wide services and to use, or where possible redirect, any available carryforward or reserve funds to minimize the impact of these measures on the institution and the students.

According to the provisions of the new budget model, revenues and the costs of university-wide services are attributed to the academic divisions. When costs increase faster than revenues, the academic divisions must implement cost containment in their internal budget plans. A large portion of the growth in revenue during the present planning cycle is derived from graduate enrolment. These revenues have considerable associated costs, particularly for graduate student support. This is in addition to the need to offset the loss in endowment and investments income. Repayment of the accumulated deficit will cost an additional \$11.2M. Coming after several years of expense reductions, budget pressures in 2009-10 are very significant.

Despite the loss of endowment revenue, the University remains committed to maintaining approximately the same level of student aid as in the past few years. A total of \$85M has been allocated to student aid from the operating budget. In addition, an estimated \$4M will be set aside from carryforward funds and new expendable donations to ensure all student aid need is met. It is projected that the endowment payout will resume in outer years and student aid will continue to be fully funded.

To ensure that the University can continue to meet contractual obligations and its accessibility guarantees, the proposed budget includes a planned deficit of \$45M, to be repaid over a five-year period. A new budgetary mechanism has been devised to allow deficit spending only in those divisions where it is necessary to do so. Divisions not significantly affected by the downturn in the economy or with sufficient carryforward funds will continue to plan on the basis of a balanced budget. This process is intended to ensure that the level of the budget deficit will be only as high as absolutely necessary. It is also consistent with the philosophy of the new budget model, which gives academic divisions a considerable degree of budgetary control and independence.

Even if divisions make full use of the proposed \$45M deficit financing, it is estimated that a minimum of \$10M of additional internal cost reductions will be necessary.

## **FINANCIAL AND/OR PLANNING IMPLICATIONS**

Total revenue is projected to increase from \$1,416M in 2008-09 to \$1,438M in 2009-10. Most of this increase is in divisional revenues generated from various services, which are offset by related expenses. After accounting for funds that flow to other institutions, the net increase of revenue available to support university wide services and the academic division is only \$0.5M. Increases in compensation costs, graduate student support and capital debt-service support in the academic divisions are estimated to be about \$41M in 2009-10, based on the budget assumptions and the available enrolment and capital project plans. In addition, it is estimated that academic divisions will need to allocate about \$20M from their operating budgets to cover the endowment shortfall. This leaves an overall shortfall in the academic divisions of \$54.8M, against which up to \$45M in deficit financing may be applied. Thus, the minimum amount of cost containment that academic divisions will need to implement is \$9.7M. A cost containment of \$4.5M will be applied to the administrative divisions.

Following the payments made in 2008-09, the historical accumulated deficit is projected to drop to \$43.9M by the end of the 2009 fiscal year. Repayment will continue at the rate of \$11.2M in each of the next three years, with a final payment of \$10.3M in 2012-13. It is proposed that the new deficit of \$45M be repaid with equal installments over five years.

## **RECOMMENDATION**

The Business Board concurs with the prospective recommendation of the Academic Board

THAT the 2009-10 Budget be approved, and

THAT the Long Range Budget Guidelines for 2009-2014 and the Planning Assumptions for 2009-2014 be approved in principle.