



AGENDA ITEM: Operating Budget and Financial Plans for Research and Special, Trust and Endowment and Capital Funds – 2010-2011

RECOMMENDED RESOLUTION:

That the Board of Governors approve:

- a tuition fee increase on all programs of 5%;
- the operating budget based on total revenue and expenditures of \$514,325,370; and
- financial plans for Research and Special, Trust and Endowment and the Capital Budget for the year ending March 31, 2011 as set out in Attachment 6 .

Action Requested: Approval Discussion/Advice Information

CONTEXT AND BACKGROUND:

At the April, 2010 meeting of the Board of Governors, a document entitled **2010-2011 Strategic Resource Planning and Budget Framework** was presented to establish a context for the presentation of a budget proposal to the Board of Governors. An explanation of the Restricted Fund Accounting Method, the method the University of Manitoba uses to account for its revenues and expenditures in accordance with Generally Accepted Accounting Principles (GAAP), also was provided. The funds are grouped into the following categories:

- General Funds which include General Operating, Specific Provisions and Expenses Funded from Future Revenues: and
- Restricted Funds which include Capital Asset, Research and Special, Staff Benefits and Trust and Endowment.

This document presents for approval by the Board of Governors the University of Manitoba's Operating Budget, and financial plans for the Research and Special, Trust and Endowment and Capital Funds for fiscal year 2010-11. In past years, only the operating budget has been presented to the Board of Governors for approval. This is the first year that an aggregate plan for all funds has been presented.

I. General Funds

1. General Operating Fund

The General Operating Fund is the largest of the funds which supports the academic mission, non-sponsored research and the administration of the University. General operating revenue sources include the Provincial operating grant, tuition and related fees, federal government grants, net investment income, miscellaneous income, sales of goods and services to external parties and income from ancillary enterprises.

Definitions

“Baseline” operating budgets refer to on-going budget allocations from all sources i.e. the base on which additional allocations are provided or reductions are taken.

“Budget only” refers to one-time budget allocations for 2010-2011 only. Budget only funds are not intended to fund on-going commitments such as continuing salaries.

“Basic Budget” refers to the net baseline amount on which reduction percentages, where applicable, are based, i.e., gross baseline net of sales and service revenue, other offsetting income (provincial/federal/other contract revenue, operating grants from foundations etc.), targeted tuition revenue (lab fees, surcharges, field trips etc), ACCESS program funding, indirect cost of research allocations, trust and endowment transfers, etc.

“President’s Budget Advisory Committee” refers to a committee whose composition, as currently structured, was approved by the Board of Governors. It has the following members:

- President, Chair;
- four Vice-Presidents or designates, Academic and Administrative Vice-Presidents to act as Vice-Chair as required;
- six faculty members from the Senate Planning and Priorities Committee, including the Chair;
- two support staff members;
- Chair of the Board of Governor’s Finance, Administration and Human Resources Committee;
- President of UMSU or designate;
- President of the Graduate Students’ Association or designate;
- Assessor from the University of Manitoba Faculty Association;
- University Budget Officer – Resource Person; and
- Vice-Provost (Academic Planning and Programs) – Resource Person

The responsibilities of the Budget Advisory Committee are:

- To make recommendations to the President on the priorities for allocation of funds to meet the University's strategic objectives; and
- To review the annual operating budget that is recommended to the Board of Governors.

Budget Process

The annual budget process begins in the summer with the development of the Operating Estimates to the Province. The Estimates submission, requesting a 12.9% increase to the operating grant (\$36.4 Million) to maintain 2009-10 levels of programs and services was approved by the Board of Governors on September 29, 2009. The Operating Estimates were also presented to COPSE by the President, Vice-President (Administration) and Chair of the Board of Governors in September, 2009.

In late fall, all faculties, schools and administrative units were asked to develop strategic resource plans using a prescribed template format.

The President, Vice-Presidents, University Secretary and Senior President's Office Staff met in February, 2010 with Deans and Directors of academic units and Heads of colleges as well as individually with direct reports to review and discuss their strategic resource plans.

The President, Vice-Presidents, University Secretary and Senior President's Office Staff subsequently met with the President's Budget Advisory Committee on three occasions to discuss the budget and to solicit input and advice.

Funding Announcement

On March 23, 2010 the Province announced the operating grant and tuition fee increases for the University of Manitoba. **See Attachment 1.** The base operating grant and Access grants will be increased by 2%. In addition, continued targeted funding to support the Faculty of Medicine expansion and for the International Educated Engineer Program (IEEQ) was confirmed. Furthermore, the Province advised that general tuition fees could increase up to 5%. The Province also advised that proposals to increase fees in professional programs would be considered as has been done in previous years, subject to addressing six pre-established criteria, including consultation with students.

Resource Requirements

A 2% increase in the base operating grant plus a 5% tuition fee increase was a higher level than had been anticipated. As already noted, a base grant increase of \$36.4 million or 12.9% had been identified in the response to COPSE for an estimate of what

would be required to sustain 2009-10 programming and service levels. Included in the \$36.4 million were inflationary increases in utilities, insurance, library acquisitions, and supplies and expenses, previously negotiated and estimated salary and benefit increases and mandatory pension payments to address the going concern pension deficit. These estimates were prepared in the summer of 2009 using the best information available at the time.

Once funding increases were announced in March, 2010, projections of revenue and expenses were refined to reflect:

- increased tuition revenue arising from increased enrolment;
- a more up to date estimate of projected salary and benefit costs, including increased costs related to LTD premiums;
- a more up to date estimate of the mandatory pension payment reflecting investment performance in 2009; and
- more current information on projected inflationary increases in utilities, insurance and library acquisitions. Inflationary increases on all other supplies and expenses were removed from the projections.

In addition, salary turnover savings (from the academic position management process) and any realized ROSE savings were incorporated into the projections.

The revised financial requirements for 2010-2011 are presented in **Attachment 2** and point to a shortfall in baseline funding of \$6,210,088, before any allocations to units.

Assumptions for Budget Recommendations

In preparing the 2010-2011 operating budget recommendation, the following assumptions were made:

- The University of Manitoba will develop a balanced budget;
- Undergraduate and graduate tuition fees will increase by 5%;
- Special fee increases for some professional programs will be developed and forwarded to COPSE and the Board of Governors for approval. However, this budget proposal does not presuppose any approval of professional program fees. Further, the majority of incremental revenue from any tuition fee increase that is approved will be allocated back to the faculty generating the fees; and
- Most of the potential benefits of the ROSE and OARS Projects will not be realized until later in 2010-11 and beyond.

Budget Recommendation Principles for Baseline Allocations

In determining baseline allocations to units, the following principles were considered:

- Support would be provided in alignment with the following four priorities identified in the Strategic Planning Framework:
 - Academic Enhancement;
 - Delivering an exceptional student experience;
 - Advancing Aboriginal Education; and
 - Prevailing as an Outstanding Employer;
- Funding would be provided to units experiencing significant increases in enrolment;
- Incentives would be made available for revenue generating opportunities; in particular recruitment and support of international students;
- Inflationary increases to library acquisitions would be funded; and
- Allocations needed to reflect the fact that historical budgets have created less flexibility for some units to absorb reductions.

Budget Recommendation

In order to create a reallocation pool to provide baseline funding in accordance with the criteria identified above, a baseline reduction of 3.25% was applied to units' basic budgets (net of any income target).

The net result of the baseline reductions and add-backs is detailed columns 3 and 4 of **Attachment 3**.

Attachment 3 also includes two columns concerning budget-only allocations. Column 5, totaling \$187,000, relates to commitments made in prior years that will run out in 2010-2011. Column 6, totaling \$4,115,000 is intended to help units transition to a reduced baseline and to support one-time costs. In order to provide this one time funding, it is recommended that the University draw down on its provisions as detailed below:

2. Specific Provisions

The Specific Provisions Fund records appropriations to provide future funding for the replacement, improvement or emergency maintenance of capital assets, unit carry-over, a fiscal stabilization provision to offset potential spending in excess of future budget and other matters. The Specific Provisions totaled \$78 Million at March 31, 2009, the largest of which is the carryover provision at \$45.1 million.

As most of the provisions funds are earmarked for specific purposes, it is recommended that budget-only funding totaling \$4.1 million be identified by drawing down on the following two provisions funds:

Pension Provision \$2.5 million – reallocation of the pension provision is appropriate since baseline funds will be set up for the purpose of mandatory annual pension payments.

Fiscal Stabilization Fund - \$1.6 million – this would reduce this fund from \$4.8 million (1% of the operating budget) to \$3.2 million (approximately .6% of the operating budget). Careful monitoring of expenditures will be required in 2010-11 to ensure the university does not run a deficit. Efforts will be made in future years to replenish the fund from year end surpluses.

At the end of 2009-2010, an assessment of the level of funding in the various provisions was made based on current circumstances and to address pressure points identified by Deans and Directors. For example, funds have been shifted to cover fundraising shortfalls for various capital projects. The preliminary estimate for the 2010/11 Specific Provisions is \$83.2M taking into consideration the transfer of \$4.115M to operating in support of one-time allocations and transfers to the Capital Fund to cover fund-raising shortfalls.

Attachment 4 details the projected general operating revenues for 2010-2011 from various sources.

Attachment 5 is a summary of the total 2010-2011 Recommended Operating Baseline and Fiscal Budget with comparisons to 2009-2010.

II. Restricted Funds

1. Research and Special Funds – 2010-2011 Financial Plan

The Research and Special Fund consists of contributions specifically restricted for research or other special activities. Research and Special Funds include external grants and contracts from a variety of federal and provincial granting agencies, industry and non-governmental organizations provided specifically for research, research infrastructure and special activities. Funds are held in trust by the University until they are spent by our researchers, in accordance with the conditions stipulated in the governing contracts and agreements.

Expenditures have not been shown since they vary depending upon the type of research and duration of the project. The funds received in any given year for research may not all be spent in the year received, therefore, any unspent research funds as at March 31 are carried over to the following year.

The following table details the 2008-2009 actual, 2009-2010 (preliminary) and 2010-2011 projected revenues for the Research and Special Fund including sources of those revenues.

Table 1 Research Revenues Projected in 2010-2011 Compared to Previous Years (\$000)

	Actual 2008/09 \$	Preliminary 2009/10 \$	Plan 2010/11 \$
Sponsored or Assisted Research			
Tri-Council	47,617	50,086	52,600
Other Canada Government	13,748	9,512	10,000
Manitoba Government	14,426	16,620	17,500
United States*	31,113	14,809	15,500
Foundations, Associations and Other	25,881	24,105	25,300
	132,785	115,132	120,900
Special Funds			
Other Canada Government	678	3,353	3,500
Manitoba Government	3,200	10,458	11,000
Foundations, Association and Other	8,662	7,343	7,700
	12,540	21,154	22,200
Total Research	145,325	136,286	143,100

*Includes funding from the Bill and Melinda Gates Foundation and USAID

2. Capital Asset Fund – 2010-2011 Financial Plan

The Capital Asset Fund consists of restricted contributions from external parties for the purpose of acquiring capital assets and/or making debt repayments. The expenditures related to the construction of buildings or purchase of equipment are not recorded as an expense but are recorded as an asset on the University's balance sheet. Therefore, the Capital Fund will typically report a surplus unless current year amortization and interest/expense exceeds current year contributions.

Sources of capital funds include:

- Provincial allocations (primarily for deferred maintenance/infrastructure renewal) – see Attachment 1
- Donations through Development and Advancement Services
- Indirect Cost of Research Funds
- Operating funds (expenditure is reported as an interfund transfer to the Capital Fund)

- Canada Foundation for Innovation (CFI) funds and Provincial matching funding
- Federal and Provincial Government programs eg. RINC, MRIF, etc.
- Provincial Government allocations for major capital projects (eg. Domino)
- Debt financing

Projected capital fund sources and expenditures in 2010-2011 are detailed in the following table compared to prior year 2009-2010. Specific projects and contracts in excess of \$1 million are subject to Board of Governors approval.

TABLE 2 2010-2011 Capital Sources and Expenditure Budget

	Preliminary <u>09/10</u> \$	Projections <u>10/11</u> \$
<u>Capital Sources</u>		
Critical Deferred Maintenance (Province)	8,277,386	21,101,437
COPSE Capital Grant	2,975,000	3,007,900
COPSE Miscellaneous Capital	3,020,000	3,020,000
COPSE Science Lab & Security Funding	1,490,000	416,857
COPSE Domino Funding	2,020,000	15,559,034
Manitoba Research Innovation Fund	600,000	600,000
Interfund from Operating	22,055,000	21,225,000
Interfund from Research	5,000,000	5,725,000
Interfund from Trust (includes donations for capital)	2,495,000	11,103,509
Federal KIP program	4,463,500	21,081,627
WED	3,465,000	1,119,457
CFI (match for HPCC Westgrid)	868,086	600,000
Indirect Cost of Research (ICR)	1,200,000	1,200,000
Capital Debt	4,883,000	8,305,678
Residence LTD (Prom Note-Prov of MB)		13,000,000
Municipal Rural Infrastructure Fund (MRIF)	157,000	
Provisions	1,000,000	
Internal Loan		335,000
Other (Sale of SPDC building to Cangene)	52,500	1,547,500
Total	64,021,472	128,947,997

<u>Capital Expenditures</u>	<u>09/10</u> <u>(Preliminary)</u> \$	<u>10/11 Plan</u> \$
Miscellaneous Capital	3,020,000	3,020,000
Capital Infrastructure	13,442,386	25,467,344
Cabling	900,000	1,000,000
Teaching & Technology	850,000	563,000
Indirect Costs of Research Funding	1,200,000	1,200,000
Curry Place Phase IV	1,315,000	75,000
High Performance Computing West Grid	2,293,086	170,000
Downtown Asper Executive Program	20,000	1,424,768
Pembina Hall Residence	2,000,000	21,000,000
Art Research and Technology (ART) Lab	1,700,000	15,300,000
Tache Hall Redevelopment	500,000	2,900,000
Biological Science Bldg (Pharmacy)	1,300,000	11,962,353
Russell Building - Bsmt floor slab/library renos	20,000	659,034
Regenerative Medicine Laboratory	1,250,000	3,789,000
Buller Building Science Labs and Infrastructure Renovation	200,000	4,548,900
Neil John Maclean Health Sciences Library	200,000	2,540,000
Smartpark Phase Two, Lake	2,086,000	464,000
Eureka Technology Incubator	105,000	3,095,000
CFI Funded Projects	1,200,000	1,200,000
Aboriginal House	225,000	429,000
Apotex Centre	669,000	263,000
Welcome Centre	1,466,000	57,000
Glenlea Farm Education Centre (const)	1,200,000	1,361,549
Active Living Centre	430,000	0
Security Upgrades (Tunnel Cameras/Wallace)	130,000	32,400
Frank Kennedy RINC Projects	300,000	426,649
Research Capital	5,000,000	5,000,000
Operating Capital	20,000,000	20,000,000
Internally Funded Projects	1,000,000	1,000,000
	64,021,472	128,947,997

3. Trust and Endowment – 2010-2011 Financial Plan

The Trust Fund records donations which may be used in their entirety, whereas the Endowment Fund records donations with the stipulation that the funds be used in perpetuity for the purpose designated by the donor.

The revenues of the Trust and Endowment Funds include the net investment income, earned by the investments of the UIT and Specific Trusts plus an estimate of the new donations received.

The expenses are transfers of allocations to the various units in accordance with the spending policy approved by the Board of Governors and as required by the units, plus awards paid directly to students.

Table 3 below includes projected revenues and expenditures in 2010-2011 compared with preliminary results to March 31, 2010.

Table 3 University of Manitoba Forecasted Revenues and Expenses Trust and Endowment Funds 2010-2011

	Trust and Endowment \$	Total \$	2009-10 Total \$
Revenue			
Donations	23,000,000	23,000,000	15,600,000
Investment Income	23,400,000	23,400,000	49,000,000
Other	1,400,000	1,400,000	1,400,000
Total	47,800,000	47,800,000	66,000,000
Expenses			
Student Awards	12,500,000	12,500,000	12,100,000
Investment Management	1,900,000	1,900,000	1,500,000
Internal Allocation	1,317,000	1,317,000	1,400,000
Total Expenses	15,717,000	15,717,000	15,000,000
Transfers Out		9,500,000	3,000,000
Total Net		22,583,000	48,000,000

SUMMARY

Attachment 6 is a high level Summary of the 2010-2011 Operating Budget plus financial plans for all other funds. The 2010-2011 budgets are compared with the 2009-2010 preliminary year end results at March 31, 2010. Throughout the 2010-2011 fiscal year, the Board of Governors will receive quarterly reports on each fund comparing actual for each quarter with prior year actual and projected full year results.

IMPLICATIONS:

The shortfall in funding for 2010-2011 needed to balance the budget has resulted in most units having to take a baseline budget reduction which will be difficult to achieve, particularly on the heels of a 1% reduction last year. Furthermore, the majority of units' budgets are dedicated to salaries and benefits and tenured staff in the case of academic units. Although this budget proposal has attempted to provide some baseline funding back to those units experiencing enrolment increases or with historically tight budgets and also has provided funding to support income generating opportunities, priorities in the Strategic Planning Framework and inflationary increases on library acquisitions, it is anticipated that it will be necessary for many units to eliminate positions to achieve these reductions. To mitigate the impact and to try to provide time to transition to a reduced baseline budget, one-time funds have been drawn down from two provisions accounts. Although one-time funds may mitigate the impact in the short term, units will be required to realign their ongoing commitments during the 2010-2011 fiscal year in order to meet this overall baseline reduction.

Although a number of criteria were considered in making these recommendations, as indicated previously there is a lack of good comparative data for assessing the relative budgets of the various units. It is hoped that in the current year, progress can be made in collecting comparative data from our sister institutions. Furthermore, a working group is in the process of developing a set of indicators that can be used to assess performance and progress in achieving the priorities identified in the Strategic Planning Framework. In future years it is hoped that the availability of better comparative data as well as indicators will assist us in making more informed decisions regarding the relative needs of the various units.

ALTERNATIVES:

Once the overall shortfall was determined, several alternatives were considered to strike the budget. First, consideration was given to doing an across the board (uniform) cut to all units with no reallocation of funds. Although this approach would minimize the magnitude of the budget reduction, it was not recommended since this approach does not recognize that units have differing needs nor would it allow for even minimal investments in new priorities. The second approach was to make a deeper budget reduction to cover the shortfall of funds but also provide a pool of funds for reallocation. This was the preferred approach and both a 3% and 3.25% cut were considered. It was determined that in order to address the needs of some units, a 3.25% budget reduction was preferred. Finally, it was also decided to reduce the baseline funding of Extended Education by \$500,000. This was discussed with the dean and she was advised that the long term strategy was to make Extended Education fully self supporting. However, to provide some protection to the unit in the event of a year in which revenues decreased dramatically, a provision account in the amount of \$500,000 will be established for Extended Education.

CONSULTATION:

Meetings were held with all Deans, Directors and Heads of Colleges and Administrative units regarding budget requirements and to assess their ability to respond to a budget reduction of up to 5%. Three meetings were held with the President's Budget Advisory Committee to receive advice on the approach to addressing the budget shortfall in 2010-2011. Several meetings were held with all members of the President's Executive Team and Senior Administrative staff in the President's Office.



UNIVERSITY
OF MANITOBA

Board of Governors Submission

Routing to the Board of Governors:

<u>Reviewed</u>	<u>Recommended</u>	<u>By</u>	<u>Date</u>
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Submission prepared by: Joanne Dyer, University Budget Officer and Executive Assistant to the Vice-President (Administration)

Submission approved by: Deborah McCallum, Vice-President (Administration)

Appendices

Attachment 1 – March 23, 2010 letter from COPSE re the operating grant increase

Attachment 2 – Revised Summary of Financial Requirements for 2010/11.

Attachment 3 – 2010/11 Operating Budget Recommendations

Attachment 4 – 2010/11 Projected Operating Revenues

Attachment 5 – 2010/11 Operating Budget

Attachment 6 – Summary of the 2010/11 Budget Plans for all Funds