Understanding Western’s Budget Model, Investments, and Debt

Western Leaders’ Forum
November 26, 2015
Table Introductions

Please state:

- Your name and role
- One recent success in your department or faculty
Welcome New Attendees!
Western’s United Way Campaign

Dr. Margaret Steele, Vice Dean, Schulich School of Medicine and Dentistry
Western’s United Way Campaign

Video – “Leadership”
Western’s United Way Campaign
Understanding Western’s Budget Model, Investments, and Debt
Western’s Approach to Planning and Budgeting

Background/Context and Outcomes

Leaders Forum
November 26, 2015
History . . . . Background/Context

• Back in the mid-1990’s . . . . . At Western . . . .
• Declining Student Quality and Demand . . . . Party School Image
  – Average Entering Grade below Ontario Average
  – Low Undergraduate Student Retention and Graduation Rates
• Government Funding Cutbacks
  – Social Contract
  – Common Sense Revolution (CSR)
  – Discounted Funding for Growth (if any)
• New President (in 1994) was faced with an accumulated deficit
• No relationship between Enrolments/Teaching Levels and Faculty Budgets
  – Budgets changes were “across the board” – on a historical base budget
History . . . . Background/Context

• After dealing with the large cuts from the CSR . . . . But still in a period of constrained resources . . . .
  – Tuition Controls and No Inflationary Funding from Governments

• A New Approach to Planning and Budgeting was Implemented
  – with the following objectives:
    – Improving Student Quality became Priority #1
      • Enrolment planning was based on student quality and demand
      • Year 1 intake was constrained to 4,000 – with a common entrance standard approach (3,725 target in 1995-96 and 1996-97)
      • Increased Central University Recruitment Efforts
      • Scholarship Guarantee, Housing Guarantee, First-Year Course Guarantee
History . . . . Background/Context

• A New Approach to Planning and Budgeting . . . . . . .
  – Faculty Budgets should have some relationship to Enrolments/Teaching
    • Enrolment Contingent Funding (ECF) Introduced
  – Need to Budget for “Inflationary Costs”
    • The “Initial Budget Adjustment (IBA)” was Introduced
    • Note: Today, the IBA does not cover Salary Increases
  – Retain Central Funds to Pursue Strategic Priorities
    • The “University Priorities Investment Fund” (UPIF) was Created

• This Budget/Planning Framework – based on “Academic Priorities” – has been in place since 1997
  – i.e. IBA, Central Funding for Salary Increases, Enrolment Growth Funding, and Selective Investments in University Priorities
Average Entering Grade of Full-Time First-Year Students from Ontario High Schools
2013-14 Average Entering Grade
U15 Universities: Undergraduate Student Graduation Rates
2007-08 Entering Cohort -- Six Years After Entry

Western

<table>
<thead>
<tr>
<th>University</th>
<th>Graduation Rate</th>
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<tbody>
<tr>
<td>Western</td>
<td>86.0%</td>
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<tr>
<td></td>
<td>82.2%</td>
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<td></td>
<td>81.3%</td>
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<td>68.4%</td>
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<td>64.5%</td>
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<td>51.1%</td>
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</table>
Instructional & Research Expenditures as a % of Total Operating Expenditures

Ontario Universities -- 2013-14 (Source: COFO Reports)
Ontario U15 Universities
Full-Time Student to Full-Time Faculty Ratio

Western 2012-13 | Western 2013-14 | Western 2014-15
---|---|---
28.9 | 28.9 | 29.6
27.0 | 27.1 | 28.2
27.0 | 27.3 | 27.8
26.5 | 25.7 | 26.3
26.2 | 26.2 | 26.0
20.9 | 21.1 | 21.7

Western
Operating Revenue and Faculty Budgets
Indexed to 1998-99
History . . . . From 2000 to 2014

- Western experienced substantial growth in the period between 2000 and 2014

- Enrolment Growth
  - Undergraduate and Graduate
  - Domestic and International
  - Large part of the undergraduate growth was due to increased retention rates and students pursuing 4-year degrees instead of 3-year degrees

- Substantial Growth in Operating Revenue
  - Government Investments – “Reaching Higher” and “Putting Students First”
  - Enrolment Growth
  - International Undergraduate Enrolment Tuition
Western: Total Constituent FTE Enrolment
(Full-Time plus Part-time FTEs)
Today . . . . . And Looking Forward

- We’re moving into a Period of Constrained Revenues and Continued Increases in Cost Pressures
- Enrolments Reaching Steady-State
- Government Grant Reductions
  - Funding Formula Review Underway
- Tuition (currently) Capped at 3% Overall
- Costs Continue to Increase
  - Employee Salaries
  - Student Aid
  - Non-Salary Items: Utilities, IT Infrastructure, Deferred Maintenance, Library Acquisitions
The Initial Budget Adjustment (IBA)
Why have the IBA?

• Government does not provide grant increases to cover inflationary costs
  – Inflationary Costs (including salaries) continue to increase

• At the outset – “during difficult times” – the IBA was intended to cover inflationary costs and provide a modest fund to support university priorities
  – At Western, annual salary increases are funded centrally

• “In good times”, the IBA covers a portion of the salary increase costs
# Changes in Faculty Budgets

8-Year Period: 2007-08 to 2014-15

<table>
<thead>
<tr>
<th>Field</th>
<th>Net Impact of IBA &amp; Salary Increases</th>
<th>Net Impact of All Puts &amp; Takes *</th>
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<tbody>
<tr>
<td>Arts &amp; Humanities</td>
<td>3,578,918</td>
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<td>Education</td>
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<td>Music</td>
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<td>Social Science</td>
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<td>14,987,756</td>
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<td>Total</td>
<td>21,604,132</td>
<td>75,718,147</td>
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</table>

* Takes = IBA, Additional Cuts, and Turnover Recovery. Puts = APF, Revenue Sharing, and Other Base Investments
Table Dialogue

1. What information was new to you? What became clearer?

2. What questions or comments do you have?
Large Group Dialogue

1. What information was new to you? What became clearer?

2. What questions or comments do you have?
A Primer on Western’s Investments and Debt
Investments

Two broad categories:

- Endowed funds: $554M
- Non-endowed funds: $466M

Total investments Sept. 30, 2015: $1,020M
Cash/liquid assets to pay bills: $379M

Endowed funds: 4% payout annually
Non-endowed funds: limited to support one-time initiatives on approval of Board
Endowed Funds

Endowed for a specific cause  $530M

Endowed to a Faculty/unit:

- Ivey Business School  $8.0
- Medicine & Dentistry  $4.0
- General  $3.0
- All other  $9.0  $ 24M

Total endowed funds  $554M
Non-Endowed Funds

Composition:

- Underlying obligations: $267M
- Underlying market gains: $199M
- Total September 30, 2015: $466M
Debt

At April 30, 2015:

- Debenture due May 24, 2047 $189M
- Mortgages $9M
- Bank borrowings due Oct. 2026 $100M

Total $298M

Projected to increase to $330M based on current capital commitments
A Bit of History

• 2008: Global equity meltdown
• Planned draw from non-endowed reserves:
  
  08-09   $18.55M
  09-10   $11.35M
  10-11   $16.35M
  Total   $46.25M

  All had to be reversed. Decision taken mid-year in a budget cycle.
Non-endowed Funds

Composition February, 2009:

Underlying obligations  $263M
Amount “under water”  $(7M)
Total non-endowed investments  $256M
University slammed over stock-market losses

Officials defend investing strategy after University of Western Ontario suffered $50M loss last year
Market Returns

At June 30, 2015 looking back over 20 years:

- Annualized returns: 8.2%
- Annualized CPI: 1.9%
- Real return: 6.3%
Withstanding a Black Swan Event

• What is a black swan event?
• Annual stress test of our portfolio
• Last done for balances at April 30, 2014
• Considers the availability of short term assets, likelihood of government funding cuts, as well as draws on underlying obligations
Stress Testing Conclusions

• Result: shortfall of $26.7M cash and underlying market gains reduced to $53.9M

• Non-endowed portfolio can sustain a worst-case scenario when invested alongside the endowed portfolio as long as:
  – Sufficient short term assets are on hand
  – We maintain a sufficient reserve in assets to obligations; and
  – We manage draws on the non-endowed returns
Table Dialogue

1. What stood out to you in this segment?

2. What questions or comments do you have regarding Western’s investments and debt?

3. What suggestions do you have to better communicate Western’s budget and financial information to the Western community?
Large Group Dialogue

• What questions or comments do you have regarding Western’s finances?

• What suggestions do you have to better communicate Western’s budget and financial information?
Dr. Amit Chakma, President and Vice-Chancellor
Next Leaders’ Forum:
February 10, 2016
Thank you Table Facilitators!
Your Feedback Please

This afternoon, we will send a link to:

• a pdf of today’s slides
• an on-line evaluation