Planning and Budgeting

2019-20 and Beyond

Town Hall Meetings
October 24 and November 12, 2018

External Context
Before the June 2018 Provincial Election

• $300B+ Provincial Debt
• New University Funding System started in 2017-18
  – Enrolment Corridor (for domestic enrolments)
  – Grants Frozen at 2016-17 Levels
  – No Funding for Domestic UG Enrolment Growth
• Tuition Framework ends with 2018-19
  – Provided for 3% overall increase in Domestic Tuition
  – International Tuition is not controlled by Government

After the Election

• New Government in Place
  – E&Y line-by-line review of Provincial Budget
    • $338B Provincial Debt with ~$13B Annual Interest Payment
  – Reviewing options to balance the provincial budget
    • Looking for “Efficiencies”
• New University Funding System Continues ??
  – No funding for domestic enrolment growth
• No word on Tuition Framework
Internal Parameters

Western’s Planning Parameters

• 2018-19 is Final Year of Current 4-Year Cycle
• Enrolment Plan
  – Undergraduate: First-Year Class growing to ~5,300
    • International intake growing to 800
  – Graduate: Faculty Plans to be updated
• Tuition Rates
  – Domestic: Assume 3% Overall Increase
  – Undergrad Int’l: still moving towards Ontario-U15 levels
Western: Total Constituent FTE Enrolment
(Full-Time plus Part-time FTEs)

Average Entering Grade of Full-Time First-Year Students from Ontario High Schools
Western University Funding: A Summary (2017-18)
Where the Money Comes From and Where It Goes 2017-18

Operating 53.3%  
Capital 7.7%  
Research 14.3%  
Ancillary & Other Restricted Funds 24.7%

Total = $1.44 Billion

Where the Operating Fund Money Comes From

Money comes from:
- Government Grants
- Student Tuition
- Research Overheads
- Royalties and Licenses
- Ancillary Units – for space and admin support

Pays for:
- Teaching and Indirect Costs of Research
- Services and Infrastructure
- Administrative Support
- Student Financial Aid

Operating Fund does not pay for:
- Housing
- Ancillary Services
  - Food Services
  - Research park
- Direct Costs of Research
  - Equipment, Staffing

2017-18

Government Grants 37.8%
Tuition Revenue 49.9%
Other Revenue 12.2%

Total = $769.5 Million
Where the Operating Fund Money Goes

66.7 cents of each dollar goes to the Faculties
- Salaries and Benefits (Faculty, Staff, GTAs)
- Instructional Equipment
- Academic Counseling
- Graduate Student Funding

14.6 cents of each dollar goes to Support Services
- Libraries, Central I.T, Students Services, Planning
- Finance, H.R, Physical Plant, Police
- Research Western, Presidents Office
- Fundraising and Communication Activities

14.3 cents of each dollar goes to Univ-Wide Expenditures
- Utilities
- Library Acquisitions
- Transfers to Capital
- I.T Infrastructure

4.4 cents of each dollar goes to Centrally Funded Student Aid
- Undergraduate Scholarships
- Needs-based Student Support

High-Level Operating Budget Simulations

(presented in last year’s Town Halls)
Distribution of 2017-18 Operating Revenues
(Total = $769.5M)

- 37.8% Tuition
- 49.9% All Other
- 12.2% Govt Grants

Revenues Looking Forward

- ~ 50% of Operating Revenues coming from tuition
- Therefore, annual increase of 3% in tuition equates to 1.5% increase in total operating revenue
- For planning, we assume annual revenue increases of 1.5% for the next 4 years
  - Even though current tuition framework ends in 2018-19
History of Operating Revenue and Expenditures ($M)

Operating Revenues:
Annual % change -- 2000-01 to 2018-19p
Operating Budget Forecast:

**Simulations** Based on Current Internal Assumptions and Known External Factors

4-Year Forecast of Revenue and Expenditures ($M)

- Operating Revenue Increase at 1.5% / year
- Expenditures Increase at 3.0% / year
- Expenditures Increase at 3.5% / year
- Expenditures Increase at 4.0% / year

Structural Deficits ranging from $52M to $88M
Let’s be optimistic and assume revenue growth of 2% per year

4-Year Forecast of Revenue and Expenditures ($M)

Structural Deficits ranging from $35M to $71M
We Need to be Pro-Active with Revenue Generation

Even with our Best Efforts . .
Our Operating Revenue Growth will be “Much More Constrained”

What are the Available Choices?

Options for Growing Revenues

– Keep Growing Enrolments
  • Tuition only for Domestic Growth
– High Tuition Professional and Non-Credit Programs/Courses
– On-Line Courses/Programs
– Fundraising – especially “Growing our Endowments”
– Ancillary Services
What are the Available Choices?

**Controlling Expenditures**
- Look at Achieving Efficiencies in our Academic Activities and Service Delivery
- Reduce Funding for University-wide Needs/Priorities. Possible examples include:
  - Research Support, Internationalization aspirations
  - Deferred Maintenance Transfer (to Capital)
  - Library Acquisitions
  - Student Aid
  - IT Infrastructure

Considerations Related to Further Enrolment Growth
Further Enrolment Growth: Issues and Considerations

• Protecting our Brand – "Best Student Experience"
• Strategic Plan Priorities
  – Attract the Brightest
  – Achieve Highest Retention and Graduation Rates
  – Increase UG Int’l Enrolment to 15% and Out-of-Province to 10% of UG Student Body
  – Graduate Enrolment to be 20% of Total Student Body
• International UG Growth
  – Diversify home country & program destinations
• Other Service/Infrastructure/Cost Considerations
The Next Planning Cycle

The Next Cycle – starting with 2019-20

• Planning for a 2-Year Cycle (instead of 4)
  – External Uncertainties – Grant, Tuition
  – Senior Leadership Transition
    • New Provost in place; New President in July 2019

• Current Budget Model Continues
  – IBA, Revenue Sharing (modest), APF/SUPF (if/as affordable)

• Units asked to Model additional Scenario with 1.5% reduction in each of two years
  – As a prudent / pro-active approach
The Next 2-Year Cycle – A Transitionary Period

• We plan to use the upcoming 2-Year Period to Transition to a more Modest Revenue Growth Period
• Various One-Time Operating Funds and Other Non-Operating Funds will be part of our transition planning strategy
  – University Operating Reserve ($81M one-time)
  – Unit Carryforwards ($186M one-time)
  – Endowments ($746M fund – providing ~$30M per year in steady-state)

Planning Process Timeline

• Guidelines issued late September 2018
• Planning Meetings: mid-November to mid-December
• Provost’s Recommendations – late January / Early February
  – Faculties and Support Units
• University Budget Development – February/March
• Budget Review by Senate/Board Committees and Senate – early April 2019
• Budget Approval by Board – April 25, 2019
Western’s 2017-18 Financial Statements
### 2017-18 Financial Statements: Net Assets

- **Net Assets = $1.6 Billion**
  - Assets (major elements include cash, investments, capital assets) netted against Liabilities

- **Assets include:**
  - $1.3B in Long-term Investments (including $746M in Endowments)
  - $0.6B in Short-term Investments
  - $1.3B in Capital Assets

- **Liabilities include:**
  - $495M in Employee Future Benefits
  - $374M in Total Debt
  - $490M in Deferred Capital Contributions

### 2017-18 Financial Statements: Overall “Excess of Revenue over Expense”

- **Excess of Revenue over Expense = $132 Million**
  - Includes all sources: Operating, Ancillary, Research, Capital, Investments, Donations, controlled entities

- **Revenues = $1.254B; Expenses = $1.122B**

- **Major Items in $132M “Surplus”**
  - Investment Returns $79M
  - Increase in Carryforwards $19M
  - Increase in Operating Reserve $14M
  - Ancillaries & Other Companies $9M
  - Reduction in EFB Expense $7M
Investments

Investments
(at April 30, 2018)

• Two broad categories in Operating & Endowment Portfolio:
  Endowed Funds $  746M
  Non-Endowed Funds $  579M
  Total L/T Investments $1,325M

• Two broad categories in Short-term Investments:
  Liquid Assets $  404M
  Debenture proceeds (temp) $  190M
  Total S/T Investments $  594M

• Endowed Funds: 4% payout annually
• Non-Endowed Funds: Limited to support one-time initiatives on approval of Board
### Non-Endowed Funds
(at April 30, 2018)

- **Composition:**
  - Underlying Obligations: $300M
  - Underlying Market Gains: $279M (unrealized)
  - Total: $579M

### University Debt

- **At April 30, 2018:**
  - Debenture A (due May 2047): $189M
  - Debenture B (due Dec 2057): $99M
  - Mortgages: $7M
  - Bank Borrowings (due Oct 2026): $79M
  - Total: $374M
Investments and the Equity Markets

• Based on the performance of the Equity Markets, our Investments have done well in recent years

• However, a downturn in the Equity Markets could have an immediate and substantial negative impact on our Investments

• Recall the Global Equity Meltdown of 2008 . . . .

Non-Endowed Funds:
Annual Calendar Year Returns (%)

-20% -15% -10% -5% 0% 5% 10% 15% 20%
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Summary

• Moving into a more constrained revenue growth period
• Need to pursue revenue generation initiatives – in the context of our “Best Student Experience” objective
• The upcoming 2-year cycle will be a transitional period – as we look at both the revenue and expense components of our Operating Budget

End