

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

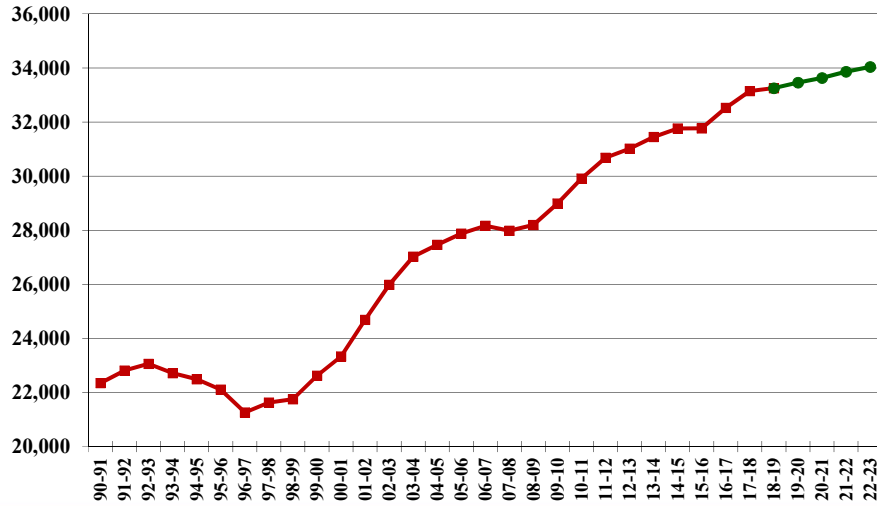
- **New Government in Place**
 - E&Y line-by-line review of Provincial Budget
 - \$338B Provincial Debt with ~\$13B Annual Interest Payment
 - Reviewing options to balance the provincial budget
 - Looking for “Efficiencies”
- New University Funding System Continues ??
 - No funding for domestic enrolment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

Internal Parameters

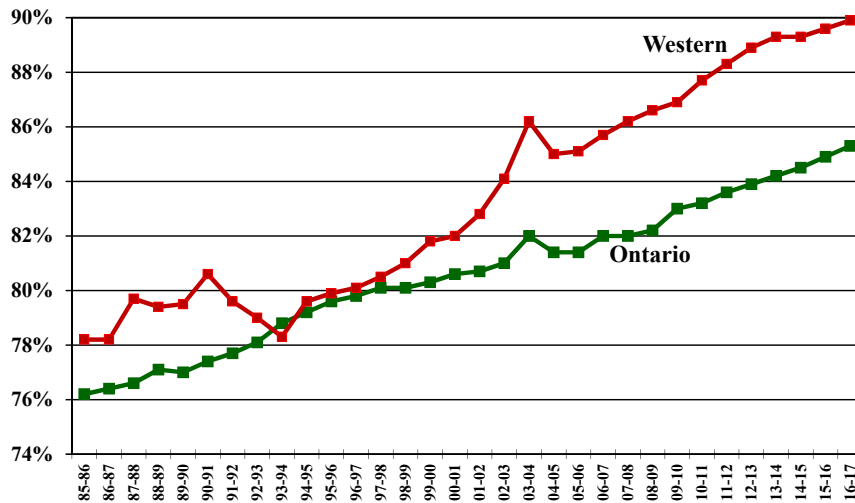
Western's Planning Parameters

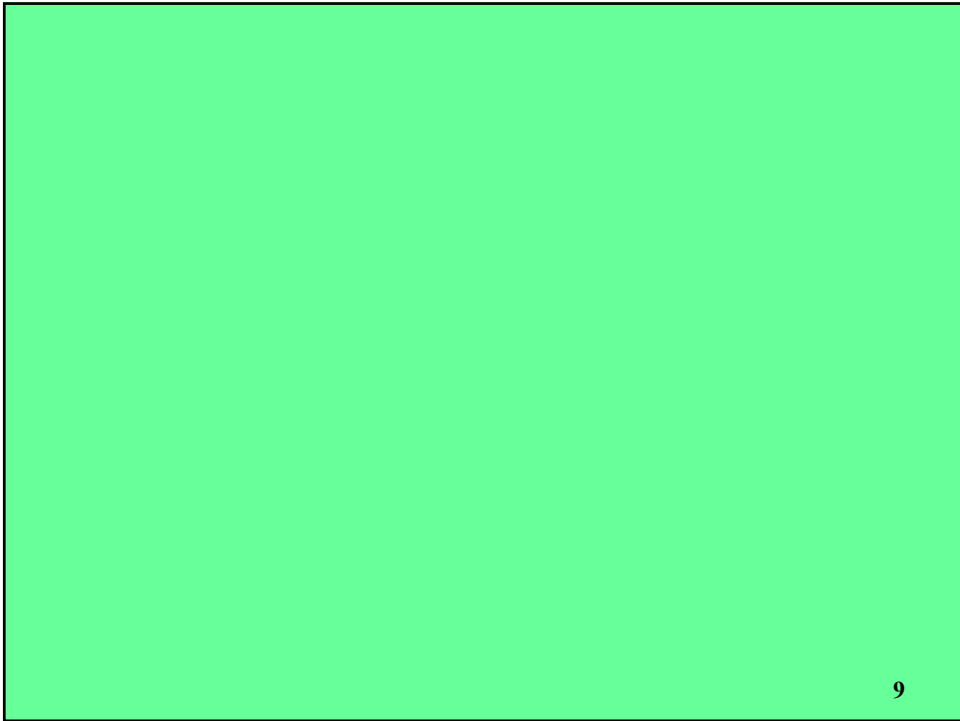
- 2018-19 is Final Year of Current 4-Year Cycle
- Enrolment Plan
 - Undergraduate: First-Year Class growing to ~5,300
 - International intake growing to 800
 - Graduate: Faculty Plans to be updated
- Tuition Rates
 - Domestic: Assume 3% Overall Increase
 - Undergrad Int'l: still moving towards Ontario-U15 levels

Western: Total Constituent FTE Enrolment (Full-Time plus Part-time FTEs)



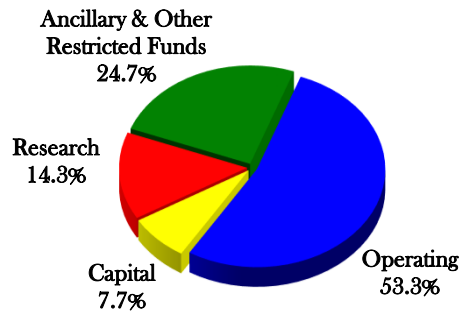
Average Entering Grade of Full-Time First-Year Students from Ontario High Schools





Western University Funding: A Summary (2017-18)

Where the Money Comes From and Where It Goes 2017-18



Total = \$1.44 Billion



Western University Funding: A Summary

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

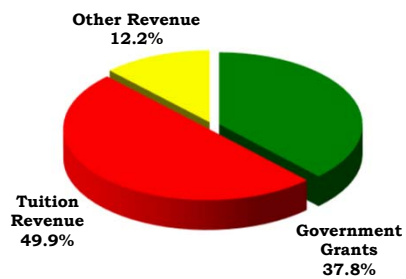
Pays for:

- 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



Total = \$769.5 Million



Western University Funding: A Summary

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

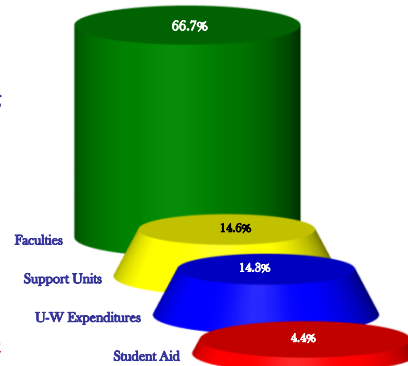
14.3 cents of each dollar goes to Univ-Wide Expenditures

- 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

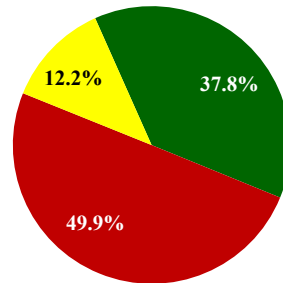
2017-18



High-Level Operating Budget Simulations

(presented in last year's Town Halls)

Distribution of 2017-18 Operating Revenues (Total = \$769.5M)

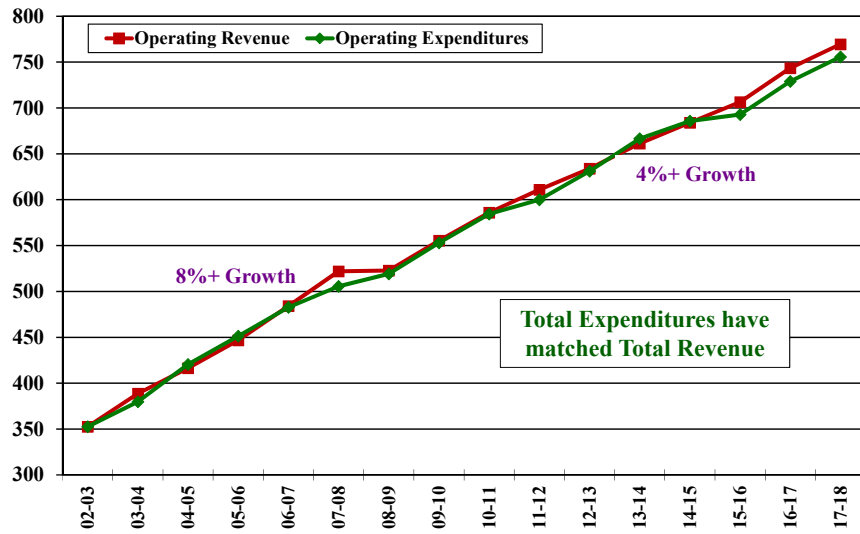


■ Govt Grants ■ Tuition ■ All Other

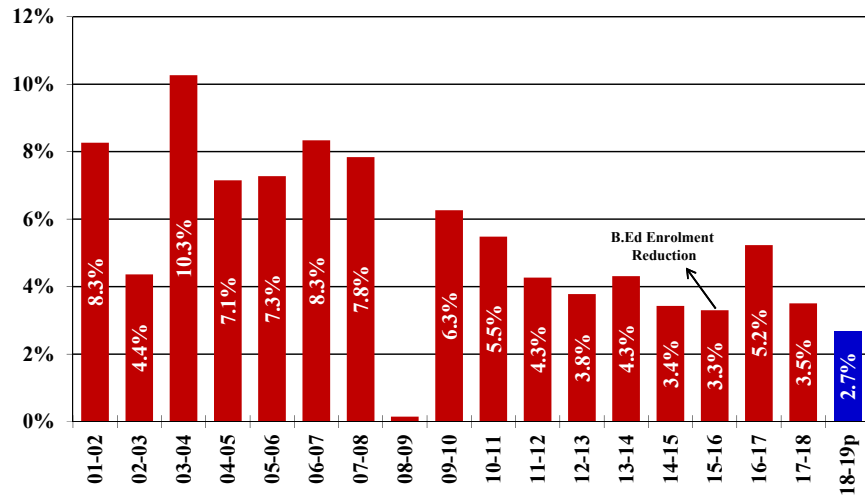
Revenues Looking Forward

- ~ 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)



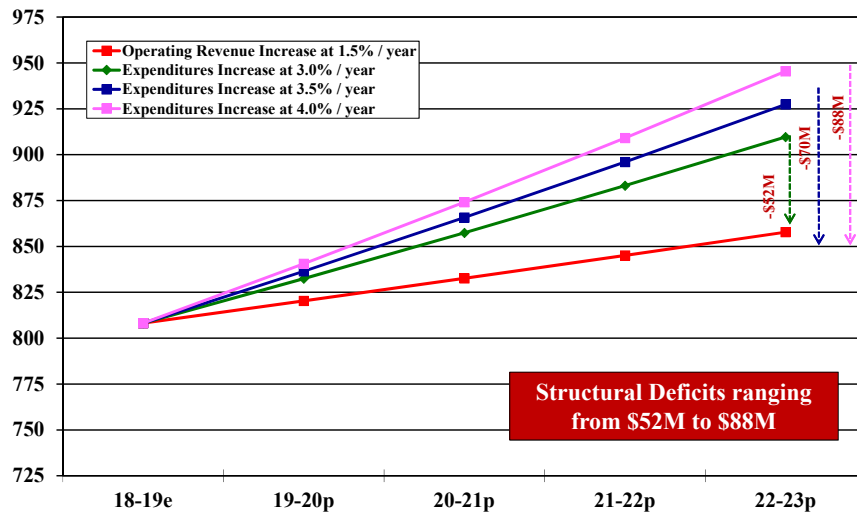
Operating Revenues: Annual % change -- 2000-01 to 2018-19p



Operating Budget Forecast:

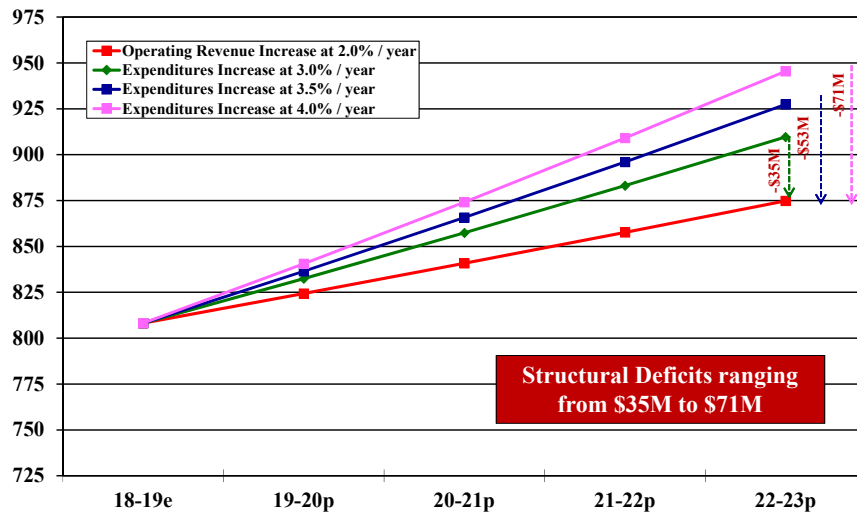
Simulations Based on Current Internal Assumptions and Known External Factors

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



Let's be optimistic and assume revenue growth of 2% per year

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



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

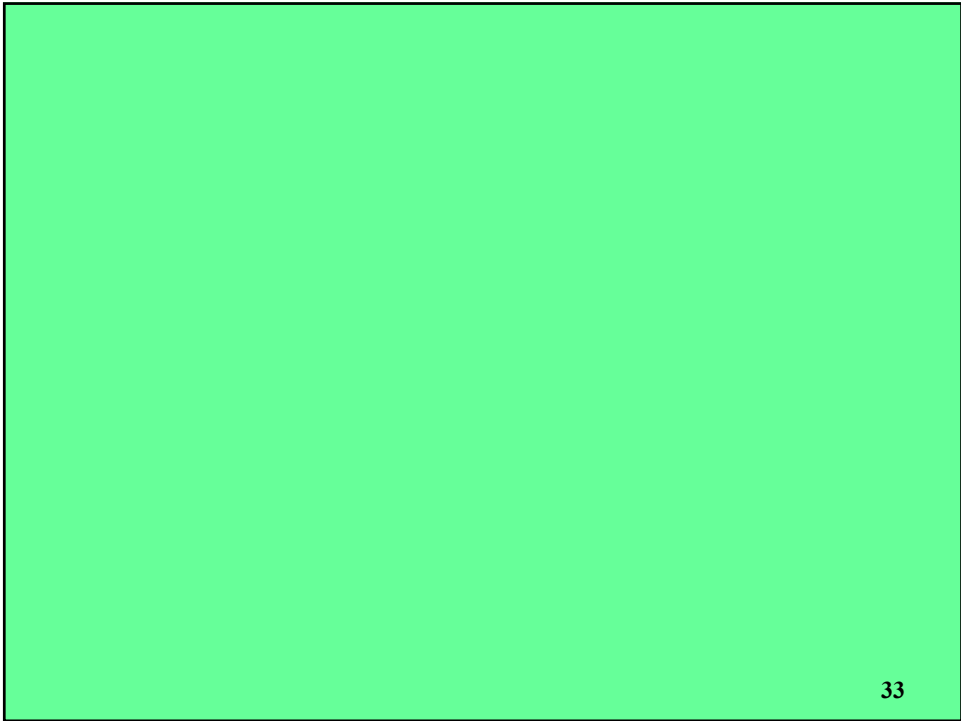
- Planning for a 2-Year Cycle (instead of 4)
 - External Uncertainties – Grant, Tuition
 - Senior Leadership Transition
 - New Provost in place; New President in July 2019
- Current Budget Model Continues
 - IBA, Revenue Sharing (modest) , APF/SUPF (if/as affordable)
- Units asked to Model additional Scenario with 1.5% reduction in each of two years
 - As a prudent / pro-active approach

The Next 2-Year Cycle – A Transitional 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

Western 

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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	<u>\$ 579M</u>
Total L/T Investments	\$1,325M

- Two broad categories in Short-term Investments:

Liquid Assets	\$ 404M
Debenture proceeds (temp)	<u>\$ 190M</u>
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	<u>\$279M</u>	(unrealized)
Total	\$579M	

University Debt

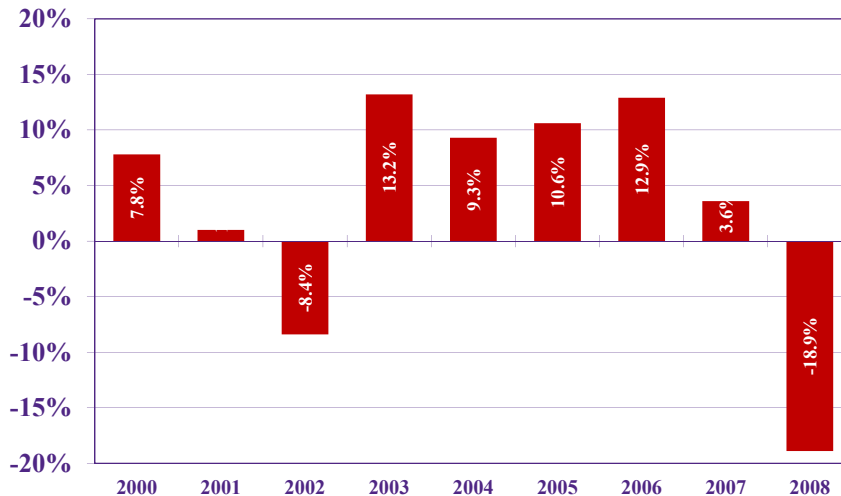
- At April 30, 2018:

Debenture A (due May 2047)	\$189M
Debenture B (due Dec 2057)	\$ 99M
Mortgages	\$ 7M
Bank Borrowings (due Oct 2026)	<u>\$ 79M</u>
Total	\$374M

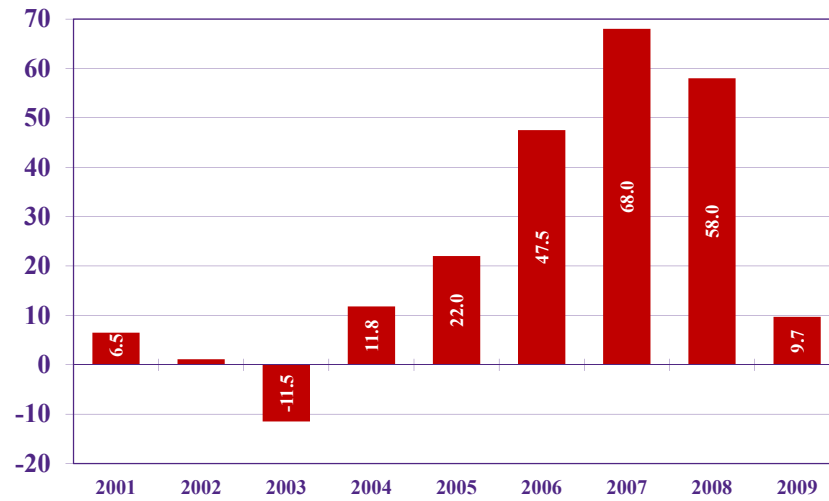
Investments and the Equity Markets

- 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 (%)



Non-Endowed Funds: Undistributed Investment Returns Account(\$M)



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