



The following Motions and Documents were considered by the Board Finance and Property Committee during the Open Session of its March 25, 2020 meeting:

Agenda Title: **Revised University of Alberta 2020-21 Budget**

APPROVED MOTION 1: THAT the Board Finance and Property Committee rescind the following motion, originally approved at its meeting on February 27, 2020:

THAT the Board Finance and Property Committee, on the recommendation of the General Faculties Council Academic Planning Committee, recommend that the Board of Governors approve the 2020-21 Consolidated Budget as set forth in Attachment 1 [of the original meeting material]

APPROVED MOTION 2: THAT the Board Finance and Property Committee, on the recommendation of the General Faculties Council Academic Planning Committee, recommend that the Board of Governors approve the revised 2020-21 Consolidated Budget as set forth in Attachment 1 [of this document].

Final Recommended Item: 4.

**Governance Executive Summary
Action Item**

Agenda Title	Revised University of Alberta 2020-2021 Budget
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Motion I

<p>THAT the Board Finance and Property Committee rescind the following motion, originally approved at its meeting on February 27, 2020: <i>THAT the Board Finance and Property Committee, on the recommendation of the General Faculties Council Academic Planning Committee, recommend that the Board of Governors approve the 2020-21 Consolidated Budget as set forth in Attachment 1 [of the original meeting material].</i></p>

Motion II

<p>THAT the Board Finance and Property Committee, on the recommendation of General Faculties Council Academic Planning Committee, recommend that the Board of Governors approve the revised 2020-21 consolidated budget as set forth in Attachment 1 [of this document].</p>
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Item

Action Requested	<input type="checkbox"/> Approval <input checked="" type="checkbox"/> Recommendation
Proposed by	Gitta Kulczycki, Vice-President (Finance and Administration) Steven Dew, Provost and Vice-President (Academic) Andrew Sharman, Vice-President (Facilities and Operations)
Presenter(s)	Gitta Kulczycki, Vice-President (Finance and Administration) Steven Dew, Provost and Vice-President (Academic) Andrew Sharman, Vice-President (Facilities and Operations)

Details

Responsibility	Vice-President (Finance and Administration) Provost and Vice-President (Academic)
The Purpose of the Proposal is <i>(please be specific)</i>	To propose an updated University of Alberta 2020-21 Budget, for recommendation to the Board of Governors.
Executive Summary <i>(outline the specific item – and remember your audience)</i>	<p>On February 27, 2020, the same day that BFPC recommended the University of Alberta 2020-21 Budget for approval by the Board of Governors, the Government of Alberta tabled its 2020 budget. This budget focused again on expenditure reduction with an overall cut to the Campus Alberta Grant of 4.4%. The cut was applied differentially, with the University of Alberta shouldering a 10.7% cut (\$65.9M), which was significantly larger than the 5% reduction built into our assumptions. Therefore, the budget* had to be adjusted, and a new version is presented to you today.</p> <p>This is a challenging time for the University of Alberta as we respond to a much lower level of government support, while we continue to live in a time of unprecedented change and uncertainty.</p> <p>The COVID-19 pandemic and its impact on the Alberta and global economy has the potential to change our planning parameters and assumptions for future years significantly over the coming weeks and months. The budget for 2020-21 has been developed with reasonable assumptions and, if approved, we will move forward both on a note of caution and prudence and with a commitment to continued innovation and quality.</p>

Item No. 4

Supplementary Notes and context	<p>*The Board Finance and Property Committee previously approved / recommended a series of other motions related to the budget at their February 27, 2020 meeting, as follows:</p> <p><u>Approved by BFPC with delegated authority of the Board of Governors</u></p> <ul style="list-style-type: none"> • mandatory non-instructional fees • meal plan rates • increases of 5% to residence rates <p><u>Recommended to the Board of Governors (to be considered on March 26, 2020)</u></p> <ul style="list-style-type: none"> • Tuition and Student Financial Aid • Residence Rates for new lease terms and renewals <p>None of these are under consideration at the March 25, 2020 BFPC meeting.</p>
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Engagement and Routing (Include meeting dates)

<p>Consultation and Stakeholder Participation (parties who have seen the proposal and in what capacity)</p> <p><For information on the protocol see the Governance Resources section Student Participation Protocol></p>	<p><u><i>Those who are actively participating:</i></u></p> <ul style="list-style-type: none"> • Provost and Vice-President (Academic) • Vice-President (Finance & Administration) • Vice-President (Facilities & Operations) <p><u><i>Those who have been consulted:</i></u></p> <ul style="list-style-type: none"> • President's Executive Committee - Strategic • Resource Planning <p><u><i>Those who have been informed:</i></u></p> <ul style="list-style-type: none"> •
Approval Route (Governance) (including meeting dates)	<p>Academic Planning Committee – March 18, 2020 Board Finance and Property Committee (recommendation) – March 25, 2020 Board of Governors (approval) – March 26, 2020</p>

Strategic Alignment

Alignment with <i>For the Public Good</i>	<p>Sustain our people, our work, and the environment by attracting and stewarding the resources we need to deliver excellence to the benefit of all Albertans.</p> <p>OBJECTIVE: Secure and steward financial resources to sustain, enhance, promote, and facilitate the university's core mission and strategic goals.</p> <p>i. Strategy: Seek and secure resources needed to achieve and support our strategic goals.</p> <p>ii. Strategy: Ensure a sustainable budget model to preserve and enhance our core mission and reputation for excellence in teaching, learning, research, and community engagement.</p>							
Alignment with Institutional Risk Indicator	<p>Please note below the specific institutional risk(s) this proposal is addressing.</p> <table border="0" style="width: 100%;"> <tr> <td><input type="checkbox"/> Enrolment Management</td> <td><input type="checkbox"/> Relationship with Stakeholders</td> </tr> <tr> <td><input type="checkbox"/> Faculty and Staff</td> <td><input type="checkbox"/> Reputation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Funding and Resource Management</td> <td><input type="checkbox"/> Research Enterprise</td> </tr> </table>		<input type="checkbox"/> Enrolment Management	<input type="checkbox"/> Relationship with Stakeholders	<input type="checkbox"/> Faculty and Staff	<input type="checkbox"/> Reputation	<input checked="" type="checkbox"/> Funding and Resource Management	<input type="checkbox"/> Research Enterprise
<input type="checkbox"/> Enrolment Management	<input type="checkbox"/> Relationship with Stakeholders							
<input type="checkbox"/> Faculty and Staff	<input type="checkbox"/> Reputation							
<input checked="" type="checkbox"/> Funding and Resource Management	<input type="checkbox"/> Research Enterprise							

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	<input type="checkbox"/> IT Services, Software and Hardware <input type="checkbox"/> Leadership and Change <input type="checkbox"/> Physical Infrastructure	<input type="checkbox"/> Safety <input type="checkbox"/> Student Success
Legislative Compliance and jurisdiction	<i>Post-Secondary Learning Act</i> APC Terms of Reference BFPC Terms of Reference	

1. University of Alberta 2020-21 Budget (26 pages)
2. **REVISED** University of Alberta 2020-21 Budget Presentation (30 pages)

Prepared by: Giovana Bianchi, Senior Administrative Officer, Finance and Administration
(giovana.bianchi@ualberta.ca)

University of Alberta

2020-21 Budget



March 16, 2020

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1. Introduction

The University of Alberta's 2020-21 budget has been developed during a time of unprecedented change and uncertainty. The emergence of the COVID-19 pandemic is rapidly triggering a global economic downturn. Alberta is not immune from this; oil prices are dropping to levels not seen in years. Even before these recent developments, the province has been in the process of implementing significant fiscal restraint as it deals with the impact of ongoing deficits and increasing debt levels.

On October 24, 2019, the Government of Alberta tabled its 2019 budget. The budget indicated that the provincial government is now moving to a new model for funding post-secondary institutions based on recommendations from the Blue Ribbon Panel on Alberta's finances. The changes announced in the budget included:

- Reductions to the Campus Alberta Grant (average of 5.1% cut across the sector with differential cuts to institutions in 2019-20, based on government's assessment of institutions' ability to manage in-year reductions).
- The development of a new performance-based funding formula (to be implemented effective April 1, 2020).
- Permitted domestic tuition increases of up to an average of 7% in each of the next three years (starting in 2020-21).

The impact of the October budget to the University of Alberta was an in-year funding cut of 6.9% (\$44.4M), and the complete elimination of Infrastructure Maintenance Program funding (IMP) for 2020-21, a \$34.9M reduction.

On February 27, 2020, the Government of Alberta tabled its 2020 budget. This budget again focused on expenditure reduction with an overall cut to the Campus Alberta Grant of 4.4%. The cut was applied differentially with the University of Alberta shouldering a 10.7% cut (\$65.9M). The university's IMP grant was restored to its previous level of \$34.9M.

As the Government signaled in the October budget, work to implement the performance-based funding model is currently underway. Fifteen percent of the university's Campus Alberta grant in 2020-21 is at risk, relative to our performance on four metrics. The first year of the model sees the inclusion of a consolidated total expenditure target, an administrative expense ratio target, enrolment targets (domestic, international and indigenous students), and expectations regarding non-Alberta government research revenues. Failure to reach the targets within stipulated tolerances will result in a loss of funding, to be applied in the 2021-22 year. These metrics form part of an Investment Management Agreement to be signed between Alberta Advanced Education and each post-secondary institution. The plan is that each of these agreements will be finalized and signed by March 31; however, the emergence of COVID-19 in Alberta and all of the ensuing disruptions may yet cause that timeframe to change.

Future years will see the addition of more metrics, with more funding at risk. The amount will increase to 25% of the Campus Alberta Grant at risk for 2021-22 and to 40% at risk for 2022-23 and onwards.

The 2020-21 fiscal year will also mark the first phase of implementation of the University of Alberta's new budget model. This model will:

- Bring transparency to the allocation of resources
- Help us to align spending with strategic academic priorities
- Create a culture of long-term academic planning
- Encourage better decision making

The budget model is activity-based. Faculty revenues depend on teaching and research activities, the university's two core mandates, rather than on the historical allocation of resources. The model includes the allocation of space and classroom costs to faculties which serves to align costs where space usage decisions are made, and should promote the more efficient use of space. The university is taking a 3-year phased approach to full implementation, with 2020-21 being the first year of that transition. Various elements will be implemented over this time frame to ensure successful integration of the model.

2. Consolidated Budget

The consolidated budget for the upcoming year, as well as projections for the following two years, are presented below and include all university activities.

(\$000's)	2018-19	2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (including deferrals)						
Government of Alberta grants	946,643	983,086	883,029	827,563	787,128	758,980
Federal and other government grants	209,900	196,265	204,808	208,037	210,169	212,335
Student tuition and fees	353,280	359,053	364,799	395,417	424,614	455,013
Sales of services and products	214,434	215,928	213,047	216,284	224,311	230,359
Donations and other grants	146,752	138,061	132,079	133,676	135,100	136,546
Investment income	94,489	84,682	82,823	90,519	86,555	87,967
Total revenue	1,965,498	1,977,075	1,880,585	1,871,496	1,867,877	1,881,200
Expense						
Salaries	942,685	976,351	933,592	916,911	895,941	899,992
Employee benefits	184,786	199,075	207,875	198,992	199,196	203,380
Materials, supplies and services	276,808	298,588	285,888	288,450	289,820	291,538
Scholarships and bursaries	125,476	130,124	129,455	134,735	141,551	146,358
Maintenance and repairs	93,620	107,061	107,001	95,881	102,875	96,961
Utilities	46,829	50,174	48,903	51,671	52,078	53,189
Amortization of tangible capital assets	172,006	177,953	184,557	183,871	186,198	188,693
Total expense	1,842,210	1,939,326	1,897,271	1,870,511	1,867,659	1,880,111
Annual operating surplus (deficit)	123,288	37,749	(16,686)	985	218	1,089
Impact of Future Benefit Liability	(19,424)	(26,233)	2,211	924	(1,756)	(1,879)
Annual operating surplus (deficit)	103,864	11,516	(14,475)	1,909	(1,538)	(790)

The 2019-20 Forecast is based upon figures and analysis completed in early February. Since that time, and particularly in March 2020 markets have and continue to experience significant headwinds associated with the COVID-19 pandemic and expectations of global economic impacts. As such, investment income may differ from the forecast number.

Government requires that the university has a balanced budget on a consolidated basis for the next year (in this case 2020-21). This requirement is found in legislation. (Post-Secondary Learning Act, Subsection 78(4): The board of a public post-secondary institution shall not submit a budget in which consolidated operating expense exceeds consolidated operating revenue unless the board has the written approval of the Minister to do so.)

In addition to the consolidated budget above, which will appear in the institution's audited financial statements, Public Sector Accounting Standards (PSAS) also require a budget for the Statement of Change in Net Financial Assets. This budget is derived from the figures included in the consolidated budget and represents the budgeted change in the institution's financial assets (including endowments) less financial liabilities:

(\$000's)	2018-19	2019-20	2020-21
	Actual	Forecast	Budget
Annual surplus	198,751	(16,686)	985
Acquisition of tangible capital assets	(124,342)	(161,059)	(225,201)
Amortization of tangible capital assets	172,006	184,557	183,871
Loss on disposal of tangible capital assets	275	-	-
	47,939	23,498	(41,330)
Change in prepaid expenses	(137)	(170)	(166)
Change in spent deferred capital contribution:	(53,054)	(51,688)	4,550
Change in remeasurement gains and losses	(25,058)	6,812	58,788
Increase (decrease) in net financial assets	168,441	(38,234)	22,827
Net financial assets, beginning of year	1,166,052	1,334,493	1,296,259
Net financial assets, end of year	1,334,493	1,296,259	1,319,086

The consolidated budget for the institution includes the Operating, Ancillary, Research, Capital and Special Purpose funds.

- **Operating** relates to the funds within the university's budget that represent the general operations of the institution. The revenue sources support the core teaching activities and the indirect costs of research. The university's budget process focuses on the allocation of these funds.
- **Ancillary** relates to cost recovery operations within the University of Alberta. These units are expected to be stand-alone enterprises that are funded by their own revenues. Major operations include residence and hospitality services, parking services and utilities.
- **Research** includes the annual spending allocation for research-related endowments and other research funding used in the direct pursuit of research endeavours. These are generally subject to restrictions and can only be used for the purposes for which the funds were provided.
- **Capital** includes both restricted and unrestricted funding used for major capital projects and large deferred maintenance projects.
- **Special Purpose** relates primarily to the Academic Medicine and Health Services Program (AMHSP), and the annual spending allocation for undergraduate student awards and non research-related endowment funds held by the university.

One other comment to note about the university's budget. There is a line towards the bottom of the numbers presented above called: Impact of Future Benefit Liability. This represents a change in the benefit liability for the university's employee pension plans. It is removed from the overall financial picture as these amounts represent the change in the pension obligations and are not funds available to be used for any other purpose. The amount is projected (by the plan actuaries) to be nominal for 2020-21, in previous years it has been significant (for example, this amount in the budget for 2019-20 was \$26.2M).

Following is the 2020-21 consolidated budget segregated into the various funds identified above.

(\$000's)	Ancillary				Special Purpose	Total
	Operating	Operations	Research	Capital		
Revenue (including deferrals)						
Government of Alberta grants	568,703	-	80,960	100,302	77,598	827,563
Federal and other government grants	21,159	-	167,609	19,269	-	208,037
Student tuition and fees	395,417	-	-	-	-	395,417
Sales of services and products	103,944	94,944	17,271	-	125	216,284
Donations and other grants	10,622	-	93,312	27,182	2,560	133,676
Investment income	20,000	1,276	48,279	-	20,964	90,519
Total revenue	1,119,845	96,220	407,431	146,753	101,247	1,871,496
Expense						
Salaries	681,341	21,106	163,588	-	50,876	916,911
Employee benefits	152,464	5,127	27,472	-	13,929	198,992
Materials, supplies and services	103,454	25,869	131,409	6,871	20,847	288,450
Scholarships and bursaries	45,977	1	76,940	-	11,817	134,735
Maintenance and repairs	30,812	25,377	4,398	35,176	118	95,881
Utilities	45,221	6,090	360	-	-	51,671
Amortization of tangible capital assets	53,435	15,742	-	114,694	-	183,871
Total expense	1,112,704	99,312	404,167	156,741	97,587	1,870,511
Annual operating surplus (deficit)	7,141	(3,092)	3,264	(9,988)	3,660	985
Impact of Future Benefit Liability	924	-	-	-	-	924
Annual operating surplus (deficit)	8,065	(3,092)	3,264	(9,988)	3,660	1,909

An overview for each individual fund follows, including the key assumptions used in the development of the budget and the projections for the following two years.

2.1. Operating Budget

2019-20 Forecast

The 2019-20 operating budget was originally developed with the assumption that provincial government funding would remain the same as the previous year.

The October 2019 provincial budget outlined in-year reductions of \$79.3M as the result of a 6.9% cut to the Campus Alberta Grant (\$44.4M) and the elimination of all Infrastructure Maintenance Program funding (\$34.9M). The Campus Alberta Grant cuts were applied differentially across the sector with reductions ranging from 0% to 7.9%. Infrastructure Maintenance Program funding was eliminated across all post-secondary institutions for 2019-20.

As is the university's practice, the budget for 2019-20 was not reopened subsequent to its approval by our board in March of 2019. Rather, the reductions were dealt with in year on a one-time basis, through the following actions:

- Cancelled as possible all maintenance and infrastructure projects and absorbed a portion of the cut centrally through a number of measures, for a total of \$34.2M.
- The remaining shortfall of \$45.1M was addressed by implementing a one-time in-year cut of 4.7% to the faculties, and an average in-year cut to the academic support units of 8% (applied differentially).

Regrettably, as 70% of our operating expenditures relate to people, we have experienced a number of job losses from retirements, attrition and layoffs. Since the 2019-20 provincial budget was tabled in October through to year end March 31, 2020 we estimate a total loss of 400 jobs. Because faculties and academic support units had been anticipating funding reductions, almost half of these job losses were accommodated through reduced hiring. However, some layoffs could not be avoided.

The base reductions from 2019-20 are being addressed in the 2020-21 budget. In addition, the budget for the 2020-21 fiscal year reflects that the university's Campus Alberta Grant has been cut by a further 10.7% (\$65.9M). There were two components to the 10.7% reduction: the Campus Alberta Grant was cut by 8.9% (\$53.3M); in addition, the Government eliminated the funding for Targeted Enrolment Expansion (\$12.6M) while maintaining the university's requirement to keep those enrolments.

This brings the total ongoing cut to the Campus Alberta Grant to \$110.3M (\$44.4M + \$65.9M) to be addressed in the 2020-21 budget. The approach is as follows:

- \$65.6M is applied differentially to the faculties (based upon the new budget model results) offset by additional tuition revenues of \$21.1M that now flow directly to faculties. This brings the net reduction to the faculties to \$44.5M or 8.3%
- The academic support unit budgets are being cut on a differential basis by a total of \$34.2M, or 12.8%.
- The remaining \$10.5M will be addressed by an adjustment to investment income supporting the operating budget (discussed in the Investment Income section 2.1.1.4) and the use of other internal one-time sources.

As noted in the commentary in Section 2 Consolidated Budget, we have a legislative requirement to balance our consolidated budget. The magnitude of the cut applied to the University of Alberta's grant will entail a number of changes including substantial restructuring. Restructuring costs fit within the requirement to balance the budget; therefore the restructuring has to be somewhat deeper in order to recoup the restructuring costs and still balance the budget. This means that the full savings associated with restructuring may not be achieved until the following year (in our case 2021-22). For now, we have assumed those savings will be required to meet upcoming Campus Alberta Grant cuts. For the following two fiscal years, our projections have been prepared with a planning parameter that the Campus Alberta Grant will be cut by an additional 8% in 2021-22 and 5% in 2022-23. As we have limited

insight on the performance measures and how they may be applied to the University of Alberta, we have assumed no additional change in the Campus Alberta Grants, beyond the decreases noted here.

In addition to all of the uncertainties already noted, the Government is considering requests from the post-secondary institutions (including the University of Alberta) to allow us to deficit finance restructuring costs. If approved, this will mitigate job losses. For now, the budget has been prepared following the legislative requirement to balance revenues and expenditures.

Aligning university operations with a much lower level of government funding will not be easy. What measures and strategies are being pursued?

- The implementation of the new budget model briefly described in the introduction section creates positive incentives for supporting our teaching and research mandates.
- We are imposing a hiring freeze.
- We are reducing staffing in administrative functions.
- Travel expenditures are being curtailed, being mindful that a bulk of these expenditures are related to our research mandate, student recruitment, and increasing philanthropic donations.
- Hosting expenditures are being curtailed.
- We are revisiting service agreements with contractors, pushing for savings and reduced costs.
- We are reducing caretaking costs, moving to lower minimum required standards.
- We are deferring energy management program investments at least for 2020-21.
- We are looking to consolidate one or more library locations.
- We are deferring some capital projects funded from operating sources, at least for 2020-21.
- We are pursuing a strategy of reducing our leased space and repatriating groups/units back to university owned buildings. While this has short-term costs in terms of aligning campus space to accommodate those groups/units, this will yield longer term savings.
- We will be using information from the first set of data from our participation in an international administrative benchmarking program to improve efficiency and effectiveness in administrative processes.
- We are using a data-driven approach to look at metrics in our classrooms and realign program and section offerings where it makes sense to do so.
- We are looking at what revenue levers are available to us, including tuition increases and philanthropic efforts.

Operating Revenues

2.1.1.1. Government of Alberta Grants

As noted in the introduction, the institution was allocated a 10.7% grant cut in 2020-21 which amounts to \$65.9M.

2.1.1.2. Federal and Other Government Grants

The largest component of this category relates to the Federal Research Support Fund provided to the institution in order to support research grants provided by the Tri-Council agencies. The amount budgeted for the 2020-21 fiscal year is consistent with the amount forecast for 2019-20 at \$18M.

2.1.1.3. Student Tuition and Fees

The 2020-21 budget marks a change in the approach to student tuition rates. The domestic tuition freeze that had been in place since 2015 has been lifted by the government effective with the entering class of September 2020. Institutions are permitted to increase domestic tuition by an average of 7% across all programs for the next three years. Also, in response to the government's Bill 19, the University of Alberta has implemented a program-based tuition model for new incoming international students effective with the entering class of September 2020. This latter change will provide greater cost certainty for their duration of study. Government guidelines also require that international tuition rates are set at cost-recovery, at minimum.

The budget incorporates enrolment remaining at the same level as for 2019-20. Student numbers for 2019-20 are 32,424 and 8,225 for undergraduate and graduate students respectively (headcount basis). This is the highest enrolment ever experienced at the University of Alberta. The budget incorporates holding that level of enrolment for 2020-21, as well as in the two subsequent years. While the institution does see increased enrolment as a potential opportunity, it still approaches the budget with caution recognizing the current year represents record enrolment levels. The COVID-19 pandemic presents significant risk in international enrolments.

Further details on the tuition increases are presented below for both undergraduate and graduate students for the 2020-21 fiscal year.

Undergraduate

Tuition for both incoming and continuing domestic students reflects a 7% increase with a 15% offset of the increase to be dedicated to student financial support.

For new undergraduate international students, they will be provided a fixed annual tuition fee based on assumption of a full course load for their four-year (three-year in the case of the School of Business) academic career. These students are permitted five years (four years in the case of Business as it is a three-year program) to take the courses without the payment of additional tuition. This tuition methodology was developed in response to the government's Bill 19 requiring us to provide international

students with more certainty in the cost of their education. These rates are increased by 3% for the incoming students in the 2021-22 fiscal year.

Existing undergraduate international students are excluded from the program based tuition model. For these students, the tuition increase is 4% for all years shown.

The current financial support set aside for both incoming and continuing international students will remain at 7.55% of international student tuition. This model has been in place since the inception of international tuition differentials at the institution.

Graduate

Tuition for incoming domestic graduate (thesis-based) students reflects a 7% increase with a 15% offset of the increase to be dedicated to student financial support.

Tuition for continuing domestic graduate (thesis-based) students reflects a 7% increase with a built in rebate to reduce the overall increase to 2.67% (representing the overall increase in university specific cost drivers). This rebate would be in place for the next four years. The overall net increase in the 2021-22 and the 2022-23 fiscal years is estimated at 3%.

Tuition for both incoming and continuing domestic graduate (course-based) students reflects a 7% increase with a 15% offset of the increase to be dedicated to student financial support.

Tuition for continuing international graduate (thesis-based) students reflects a 7% increase with a built in rebate to reduce the overall increase to 2.67% (as described above). The overall net increase in the 2021-22 and the 2022-23 fiscal years is estimated at 3%.

Tuition for continuing international graduate (course-based) students reflects a 4% increase for the 2020-21 fiscal year.

For new international graduate students, they will be provided a fixed annual tuition fee for 4 (masters) and 6 (PhD) years in order to finish their program. This tuition methodology was developed in response to the government's Bill 19 requiring us to provide international students with more certainty in the cost of their education.

The current financial support offset for both incoming and continuing international students will remain at the current level of 7.55% of international student tuition. This model has been in place since the inception of international tuition differentials at the institution.

Mandatory Non-Instructional Fees

Mandatory non-instructional fees have also been frozen since 2015 and as a result will be increased by 2.67% (representing the overall increase in university-specific cost drivers) for the 2020-21 fiscal year.

2.1.1.4. Investment Income

Given the budgetary challenge of responding to the rapid reduction in government funding, we have necessarily changed our approach to budgeting investment income. We had been pursuing a strategy of reducing the reliance of the operating budget on non-endowed investment income. There is sound rationale for doing so: recent market volatility is testament to the fact that it is risky to rely on market returns to fund base operating expenditures.

However, we also need to support the university's operations as much as possible in the face of the combined Campus Alberta Grant cut of \$110.3M announced in the October 2019 and February 2020 budgets.

For 2020-21, the budget for investment income to support operational expenditures has been increased to \$20 million, \$5 million more than the budgeted amount set for 2019-20. To the extent there are revenues realized in excess of this higher amount, this differential will be set aside to fund the required 17% reserve calculated on the underlying obligation (investment cost) of the funds invested to allow for market fluctuations. Any reserve we had will have been significantly reduced as a result of the March 2020 market downturns. The 17% reserve is required as the cash flow the university invests to generate these earnings is otherwise owed to faculties, units and researchers.

The investment income projections in each of the following two years has been set at \$15 million. This is somewhat higher than previous plans. These figures will be revisited as the next budget is prepared.

This altered approach will delay the introduction of the strategic initiatives fund by some years. The need for such a fund has never been greater: it would provide a source for important initiatives, for example, the need to provide matching contributions for some federal research grant opportunities.

2.1.1.5. All Other Sources of Revenues

These revenue streams are budgeted with an increase comparable to Alberta CPI for the year. These funds flow directly to the faculty or unit from which they are generated, and as a result, have no impact on the amount of budget allocation that is distributed by the university.

2.1.1. Operating Expenditures

Unless otherwise stated, operating expenditures are expected to grow by 1.90% in the 2020-21 fiscal year, representing the estimated Alberta CPI.

2.1.3.1. Compensation

Salaries are expected to decrease year over year due to two significant factors:

- Merit is expected to increase salaries for existing staff
- This is more than offset by the impact of staffing reductions required to manage the grant reductions.

Benefit costs are expected to increase at a rate of 2.6%, more than offset by the impact of reduced staffing levels.

We anticipate 635 job losses in 2020-21 (this is in addition to the 400 job losses in 2019-20). This number is predicated on the requirement that the university must balance its budget. A request has been made of the Minister to allow restructuring costs to be considered separate from the balanced budget requirement. If this request is allowed, the job loss figure would be reduced to 370 positions instead of 635, a difference of 265 jobs.

What does this mean? In an average year, approximately 150 staff and faculty retire from the University of Alberta. Given our budget reductions, the intent would be to collapse these positions wherever possible. This can't always happen: the university employs many people with highly specialized skills. For purposes of estimating job losses, we have assumed approximately half of these people must be replaced. What about other attrition? Given the tight economic environment in Edmonton, we expect voluntary attrition to be minimal. Regrettably this leaves many job losses to be realized through displacements.

2.1.3.2. Institutional Budget Priorities

The following budgetary pressures were accommodated within our budget planning for 2020-21.

- Increase in utilities cost of approximately \$2.4M

- Faculty secondment model \$2.4M. The model does not represent an increase in costs and will be used solely to compensate faculties when faculty members assume central academic roles.
- Student support in the form of scholarships and bursaries will increase in order to assist domestic and international students with the increasing tuition levels. A portion of the increased tuition revenues will be set aside to support this financial aid.

2.1.2. Overall Budget Planning Assumptions

The above discussion provides insights into the assumptions and planning parameters used to develop the operating budget for next fiscal year. The table below provides a summary of these, along with the similar figures used for the next two years.

Revenue	2020-21	2021-22	2022-23
Operating Grant	-10.7%	-8%	-5%
Domestic Tuition	7%	7%	7%
Financial aid (holdback of increased domestic tuition dollars)	15%	15%	15%
International Tuition (Existing students)	4%	4%	4%
International Tuition (Program Based)	Custom	Custom	Custom
Financial aid (holdback of international total tuition to be used for student support)	7.55%	7.55%	7.55%
Mandatory Non- Instructional Fees	2.67%	2.67%	2.67%
Investment Income	\$20 million	\$15 million	\$15 million

Custom – international program-based tuition rates vary across programs

Expenditures	2020-21	2021-22	2022-23
ATB (NASA & AASUA)	TBN	TBN	TBN
Merit (NASA & AASUA - based on one-step merit)	1.58%	1.58%	1.58%
ATB (graduate students and post-doctoral fellows)	TBN	TBN	TBN
Employee Benefits	Custom	Custom	Custom
Other Costs	1.90%	1.90%	2.00%

ATB - Across the board salary increase

TBN - To be negotiated

Custom - benefits amounts are calculated using a combination of staff headcounts, staff salaries and benefit costs / rates particular to each employee group

Another key consideration in developing the institutional budget is the underlying sensitivities concerning major revenue sources and expenditure types. The following represent the key sensitivities.

Sensitivity	Amount
Operating Grant (1% change)	\$5.5M
Domestic Tuition (1% change)	\$1.6M
International Tuition (1% change to existing students)	\$0.8M
Undergraduate student (1% change in enrolment)	\$2.6M
Mandatory Non-Instructional Fees (1% change)	\$0.3M
ATB (1% for NASA and AASUA)	\$6.4M
Merit (annual impact)	\$7.4M

Employee Benefits (1% increase in staff headcount)	\$1.7M
Employee Benefits (1% increase in salary of current staff)	\$0.8M

The table below provides an overall outline of the following in relation to the operating budget:

- Actual results for the year ending March 31, 2019
- Budget and forecast for the year ending March 31, 2020
- Budget for the year ending March 31, 2021
- Projections for the years ending March 31, 2022 and March 31, 2023

(\$000's)	2018-19		2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Projection	Projection	
Revenue (including deferrals)							
Government of Alberta grants	679,812	679,517	634,969	568,703	524,789	499,538	
Federal and other government grants	19,504	20,157	20,764	21,159	21,561	21,992	
Student tuition and fees	353,280	359,053	364,799	395,417	424,614	455,013	
Sales of services and products	104,724	106,676	102,006	103,944	105,919	108,038	
Donations and other grants	10,334	10,759	10,424	10,622	10,824	11,041	
Investment income	36,878	15,000	15,000	20,000	15,000	15,000	
Total revenue	1,204,532	1,191,162	1,147,962	1,119,845	1,102,707	1,110,622	
Expense							
Salaries	701,822	720,496	700,709	681,341	659,745	663,627	
Employee benefits	139,944	151,718	162,236	152,464	152,376	156,377	
Materials, supplies and services	101,352	113,883	109,715	103,454	103,441	103,571	
Scholarships and bursaries	38,462	40,248	42,608	45,977	50,907	53,777	
Maintenance and repairs	34,667	37,186	32,769	30,812	35,796	35,837	
Utilities	40,957	42,792	41,966	45,221	45,955	46,945	
Amortization of tangible capital assets	39,607	51,008	53,048	53,435	54,490	55,725	
Total expense	1,096,811	1,157,331	1,143,051	1,112,704	1,102,710	1,115,859	
Annual operating surplus (deficit)	107,721	33,831	4,911	7,141	(3)	(5,237)	
Impact of Future Benefit Liability	(19,424)	(26,233)	2,211	924	(1,756)	(1,879)	
Annual operating surplus (deficit)	88,297	7,598	7,122	8,065	(1,759)	(7,116)	

2.2. Ancillary Operations

Ancillary operations at the University of Alberta are comprised of the following:

- Residence and dining services provided on three of our five campuses
- Parking operations
- The University Bookstore
- Commercial property and real estate
- The university-owned District Energy System (serves the U of A [North Campus], Alberta Health Services, the Government of Alberta, and other proximate customers)
- ONEcard office

As noted earlier in the document, ancillary operations are stand-alone enterprises funded by self-generated revenues, meaning each is required to cover operating costs as well as establish appropriate and adequate operating and capital reserves. To the extent debt financing may be utilized for capital enhancements or to address deferred maintenance, revenues must also cover the cost of repayment together with the applicable interest.

The following guiding principles govern how residence and dining services are offered:

- Quality housing and good nutrition are critical to student academic and experiential success.
- Residence and dining services must operate on a financially sustainable basis having due regard for operating costs, addressing deferred maintenance, as well as maintaining operating and capital reserves. No profit is sought, but no loss is acceptable either.
- All funds received from students for shelter and food stay within the residence and dining system.
- No student tuition or government base, capital, or maintenance funding is available for investment in residences or dining operations.
- Residences will be operated as a system.
- Student input is highly valued. Students will assist in shaping the development of residence and dining plans and priorities to sustain and improve the residence and food system.

Specifically in the residence system, for many years, efforts were made to keep student costs as low as possible, which was reflected in the rates charged to students living in residences. Unfortunately, the resulting revenues were not sufficient to cover the system's operating costs while still allowing for adequate investments in maintenance and renewal activities. As a result, the residence system has accumulated a significant deferred maintenance liability (approximately \$86.5 million). Additionally, insufficient operating and capital reserves have necessitated that new residence construction and major refurbishments be mostly debt-financed.

Despite the financial challenges present in our residence and dining operations, we continue to invest in infrastructure to ensure our residences and food service outlets meet the needs of our students, faculty, staff, and visitors. We have had to defer an annual investment in HUB residences of \$2.0M for 2020-21 given the magnitude of the university's grant cut and the requirement that we balance the budget. The following projects are in varying states of progress to, above all, improve our students' experience.

	2019-20 Forecast	2020-21 Budget	2021-22 Projection	2022-23 Projection
Central Academic Building (Dining services)	4,370	-	-	-
Lister Complex	11,863	32,225	27,063	13,349
HUB Residences	2,288	-	2,000	2,000

As mentioned above, many projects, some dating back years, have been debt-financed because insufficient capital reserves were in place to allow acquisitions, new construction, or renovations to proceed otherwise. As of September 2019, the residence system is carrying \$226.2 million in mortgage debt with terms extending to 2049. Residence rental rates must be sufficient to also repay this mortgage debt over time.

Significant efforts are underway to reduce costs across the residence system and strategically shed residence inventory that is incapable of meeting today’s students’ expectations. While the numbers look unfavourable for the near term, the trajectory is positive.

For the 2020-21 academic year, increased revenues for ancillary operations are driven predominantly by the following rate increases:

- A proposed 5% increase in all residence rates. This is the second of three years of 5% increases originally presented in 2018.
- New rates assessed for substantially renewed suites in Mackenzie Hall.
- A proposed 2.9% increase in meal plan rates.
- A 1.9% increase in monthly parking rates.

The overall increase in ancillary expenditures relate to a number of factors including the following:

- Increased debt principal and interest expense resulting from the Lister Tower renewal project.
- Increased costs associated with implementing improved Wi-Fi in all residences.
- Increased maintenance in renewing parking facilities (e.g. resurfacing).

(\$000's)	2018-19	2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (including deferrals)						
Government of Alberta grants	-	-	-	-	-	-
Federal and other government grants	-	-	-	-	-	-
Student tuition and fees	-	-	-	-	-	-
Sales of services and products	91,476	94,838	93,646	94,944	100,996	104,925
Donations and other grants	10	-	-	-	-	-
Investment income	14	-	1,529	1,276	512	24
Total revenue	91,500	94,838	95,175	96,220	101,508	104,949
Expense						
Salaries	20,610	20,063	20,397	21,106	21,683	21,801
Employee benefits	4,503	4,352	4,778	5,127	5,415	5,594
Materials, supplies and services	29,190	23,470	23,216	25,869	27,128	27,355
Scholarships and bursaries	-	-	-	1	1	1
Maintenance and repairs	21,726	24,999	23,615	25,377	26,441	26,714
Utilities	5,525	6,956	6,583	6,090	5,755	5,869
Amortization of tangible capital assets	20,829	10,534	15,516	15,742	15,722	15,702
Total expense	102,383	90,374	94,105	99,312	102,145	103,036
Annual operating surplus (deficit)	(10,883)	4,464	1,070	(3,092)	(637)	1,913

2.3. Research

Research revenues at the University of Alberta come from five major sources:

- Government of Alberta grants from a number of Ministries
- Federal government grants including those provided by the Tri-Council Agencies
- Fee-for-service research activities for outside entities
- Donations and nongovernmental grants
- The endowment spending allocation resulting from research-related endowments

Research productivity is expected to remain strong and the budgeted research revenues are expected to remain fairly stable in the upcoming year. The full impact of the Government of Alberta spending cuts to Ministries supporting research grants is not yet known and therefore this represents an area of risk to the budget. Funding to both Economic Development and Alberta Innovates have been significantly reduced over the past two years. Given the project based and restricted nature of this funding, coupled with changes to Alberta Innovates, it is difficult to predict the full impact to the University of Alberta's future research funding.

(\$000's)	2018-19	2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (including deferrals)						
Government of Alberta grants	108,137	120,996	83,670	80,960	81,692	82,426
Federal and other government grants	172,154	155,969	164,557	167,609	169,122	170,642
Student tuition and fees	-	-	-	-	-	-
Sales of services and products	17,271	14,181	17,271	17,271	17,271	17,271
Donations and other grants	96,281	86,791	91,705	93,312	94,108	94,908
Investment income	38,746	48,952	46,227	48,279	49,531	50,853
Total revenue	432,589	426,889	403,430	407,431	411,724	416,100
Expense						
Salaries	163,588	183,216	163,588	163,588	163,588	163,588
Employee benefits	27,472	28,621	27,472	27,472	27,472	27,472
Materials, supplies and services	126,554	136,403	128,958	131,409	134,037	136,718
Scholarships and bursaries	74,098	79,412	75,506	76,940	78,479	80,049
Maintenance and repairs	4,235	4,159	4,315	4,398	4,486	4,575
Utilities	347	426	354	360	368	375
Amortization of tangible capital assets	-	-	-	-	-	-
Total expense	396,294	432,237	400,193	404,167	408,430	412,777
Annual operating surplus (deficit)	36,295	(5,348)	3,237	3,264	3,294	3,323

2.4. Capital

2.4.1. Capital Investments

While there are capital items purchased or funded with operating and other funds (such as learning materials, IT equipment, and certain renovation projects), the capital budget also incorporates building construction projects and larger scale renewal and maintenance projects.

Throughout this section, it is important to note that the capital plan and the resulting capital budget are developed as 'point-in-time' items. Due to the unpredictable nature with which, for example, government grants, government approval, and philanthropic gifts materialize, capital projects may be added or the scope changed throughout the year. All material changes, regardless of when they occur, remain subject to the institution's normal governance and approval processes.

The capital budget included within the University of Alberta consolidated budget is subject to complex financial accounting requirements. The figures throughout the capital budget have been translated for the purposes of being presented within the institution's audited financial statements.

2.4.2. Capital Plan Development

The University develops an annual capital plan and, further, identifies its capital requirements in a submission to the Government of Alberta through the Building and Land Inventory System (BLIMS).

Recent submissions, the latest submitted in August 2019, included a number of priorities with a particular focus on the renewal and refurbishment of existing buildings. The following capital budget is reflective of the information contained within the capital plan and that which was provided within the BLIMS submission.

2.4.3. Capital Budget

(\$000's)	2018-19		2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Budget	Projection	Projection
Revenue (including deferrals)							
Government of Alberta grants	87,738	111,122	88,432	100,302	100,302	103,291	99,910
Federal and other government grants	18,242	20,139	19,487	19,269	19,269	19,486	19,701
Student tuition and fees	-	-	-	-	-	-	-
Sales of services and products	-	-	-	-	-	-	-
Donations and other grants	26,664	26,208	27,502	27,182	27,182	27,489	27,792
Investment income	1,078	-	-	-	-	-	-
Total revenue	133,722	157,469	135,421	146,753	146,753	150,266	147,403
Expense							
Salaries	-	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-	-
Materials, supplies and services	3,361	3,609	2,909	6,871	6,871	4,250	2,808
Scholarships and bursaries	-	-	-	-	-	-	-
Maintenance and repairs	32,897	40,618	46,174	35,176	35,176	36,034	29,716
Utilities	-	-	-	-	-	-	-
Amortization of tangible capital assets	111,570	116,411	115,993	114,694	114,694	115,986	117,266
Total expense	147,828	160,638	165,076	156,741	156,741	156,270	149,790
Annual operating surplus (deficit)	(14,106)	(3,169)	(29,655)	(9,988)	(9,988)	(6,004)	(2,387)

The deficit in 2019-20 is directly related to two key factors:

- The in-year elimination of the \$34.9 million Infrastructure Maintenance Program (IMP) grant. This reduction was partially mitigated by cancelling a number of projects, which limited the overall exposure to the institution to approximately \$20M. This was largely funded by utilizing \$15 million from the existing investment reserve.
- The remaining gap pertains to projects funded by faculties on a planned basis using their carry forwards from prior years.

In order to achieve a balanced budget for 2020-21, a number of operating-funded capital projects that had been planned for 2020-21 have necessarily been deferred to 2021-22.

Due to the nature of Public Sector Accounting Standards that govern our audited financial statements, we have the added complexity of revenue deferrals. In essence, a large portion of the revenue in the capital fund cannot be recognized until the underlying expenses (predominantly amortization of tangible

capital assets) have been incurred. In order to remove this impact, the following three tables provide a view of the capital budget for next year on a “near cash” basis.

Capital Budget: Revenue – Government of Alberta grants provide targeted funding for multi-year capital projects. The Infrastructure Maintenance Program returned to 2018-19 levels in 2020-21 (at \$34.9M). This is welcome given our significant accrued deferred maintenance.

On the assumption that the Infrastructure Maintenance Program funding is restored, following table provides an outline of Government of Alberta revenues on a cash basis:

Capital Budget: Revenue				
(\$000's)	2019-20	2020-21	2021-22	2022-23
	Forecast	Budget	Projection	Projection
Provincial Government Grants				
Infrastructure Maintenance Program	-	34,914	34,914	34,914
Dentistry/Pharmacy Renewal	48,000	49,000	44,000	56,000
UA District Energy System	9,100	4,900	1,900	-
Subtotal	57,100	88,814	80,814	90,914
Other Projects	35	-	-	-
Total revenue	57,135	88,814	80,814	90,914

Capital Budget: Maintenance and Repairs - These are expenditures related to addressing major maintenance and renewal projects and/or deferred maintenance across campus. These costs are expensed as they do not extend the useful life of the building.

The following table outlines maintenance and repair projects planned within the capital fund.

Capital Budget: Maintenance and Repairs

(\$000's)

Project	2019-20	2020-21	2021-22	2022-23
	Forecast	Budget	Projection	Projection
Chemistry West - L1 & L2 Renewal	5,237	5,860	-	-
CAB Renewal	4,370	-	-	-
Van Vliet Mens Locker Room Renewal	3,700	55	-	-
Van Vliet Womens Locker Room Renewal	2,794	45	-	-
HUB Mall Renewal	2,288	-	2,000	2,000
Integrated Asset Management Strategy Projects ¹	1,400	3,700	557	-
Subtotal	19,789	9,660	2,557	2,000
Other Renovations	15,923	8,899	6,211	450
Infrastructure Maintenance Program (Maintenance)	10,462	16,617	27,266	27,266
Total maintenance and repairs	46,174	35,176	36,034	29,716

1. External lease terminations and densification projects across campus

Capital Budget: Tangible Capital Acquisitions – Major renewal projects often involving both repairs and maintenance in addition to capital additions and/or overall building improvements. The following capital projects represent capital additions to buildings as defined by accounting standards. In this case, the expenditures do not appear on the statement of operations; rather they are captured as investments in tangible capital assets on the university's statement of financial position.

Capital Budget: Tangible Capital Acquisitions

(\$000's)

	2019-20	2020-21	2021-22	2022-23
Project	Forecast	Budget	Projection	Projection
Dentistry/Pharmacy Renewal	16,000	65,000	75,000	65,000
Lister Centre Classic Towers (Mackenzie, Henday, Kelsey)	11,863	32,225	27,063	13,349
Chemistry Electrical Vault Replacement	5,800	4,425	-	-
Van Vliet Electrical Vault Infrastructure	5,700	420	-	-
District Energy System	3,000	7,436	2,336	4,336
CAB Air Handling Unit	3,143	-	-	-
Morrison Structures Lab Renewal	1,500	10,500	2,116	-
BARB Mechanical Ventilation & Exhaust Renewal	500	2,582	-	-
Energy Management Upgrades (Envision)	1,702	2,007	3,346	-
Subtotal	49,208	124,595	109,861	82,685
Other Capital Projects	11,396	5,659	1,507	-
Infrastructure Maintenance Program (Capital)	5,111	4,661	7,648	7,648
Total tangible capital acquisitions	65,715	134,915	119,016	90,333

Tangible Capital Acquisitions

Operating

(\$000's)

	2019-20	2020-21	2021-22	2022-23
Project	Forecast	Budget	Projection	Projection
NREF Renewal and Renovation	12,391	8,019	200	-
RE Phillips Renovation ¹	2,000	4,000	346	-
South Campus Utility Infrastructure Upgrades	3,780	97	-	-
Other Capital Projects	344	-	-	-
Total operating tangible capital acquisitions	18,515	12,116	546	-
Total tangible capital acquisitions	84,230	147,031	119,562	90,333

1. 1/3 maintenance and 2/3 capital

2.4.4. Deferred Maintenance

Excellence in teaching and research needs to be supported by well-functioning labs, classrooms, and other building infrastructure. Unfortunately, government grants alone have been insufficient in addressing the necessary maintenance activities across our campuses, which has resulted in a substantial deferred maintenance liability. As of December 31, 2019, the deferred maintenance liability stands at \$306 million, with a five-year projected aggregate liability of \$865 million.

Need that exceeds available resources requires diligent adherence to a system of prioritizing projects. Relying on Government of Alberta parameters, the priorities are:

- **High – Life, Health, and Safety:** Elements presenting a potential for imminent risk to the life, health, and/or safety of facility occupants and users. They may include structural and support failure, major building system failures, or requirements under a multitude of Codes.
- **Medium – Immediate Needs:** Elements demanding attention to prevent them escalating to Priority One, which will lead to serious or prolonged deterioration of a facility or its systems thereby affecting the operability of a facility or its systems.
- **Low – General Need:** Elements that are non-urgent and which can be planned for over a period of time without undue risk to the facility occupants or facility operability.

Current and projected funding levels require investments in addressing deferred maintenance at the University of Alberta to be limited almost exclusively to those deemed “high” priority.

2.5.Special Purpose

There are no expected significant changes impacting these funds over the next three years. Overall revenues and expenses are expected to remain relatively stable.

(\$000's)	2018-19		2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Budget	Projection	Projection
Revenue (including deferrals)							
Government of Alberta grants	70,956	71,451	75,958	77,598	77,598	77,356	77,106
Federal and other government grants	-	-	-	-	-	-	-
Student tuition and fees	-	-	-	-	-	-	-
Sales of services and products	963	233	124	125	125	125	125
Donations and other grants	13,463	14,303	2,448	2,560	2,560	2,679	2,805
Investment income	17,773	20,730	20,067	20,964	20,964	21,512	22,090
Total revenue	103,155	106,717	98,597	101,247	101,247	101,672	102,126
Expense							
Salaries	56,665	52,576	48,898	50,876	50,876	50,925	50,976
Employee benefits	12,867	14,384	13,389	13,929	13,929	13,933	13,937
Materials, supplies and services	16,351	21,223	21,090	20,847	20,847	20,964	21,086
Scholarships and bursaries	12,916	10,464	11,341	11,817	11,817	12,164	12,531
Maintenance and repairs	95	99	128	118	118	118	119
Utilities	-	-	-	-	-	-	-
Amortization of tangible capital assets	-	-	-	-	-	-	-
Total expense	98,894	98,746	94,846	97,587	97,587	98,104	98,649
Annual operating surplus (deficit)	4,261	7,971	3,751	3,660	3,660	3,568	3,477

3. Concluding Comments

This is a challenging time for the University of Alberta as we respond to a much lower level of government support. Many within our community have provided many suggestions for cost-savings since last October. We have been able to pursue a number of them, and continue to look at further

opportunities. People in departments, faculties, and units across the institution have been making thoughtful considered plans and decisions on how we can make adjustments, and yet maintain our support for our core teaching and research mandates. Thank you to everyone in our community for what you do every day.

We continue to live in a time of unprecedented change and uncertainty. The COVID-19 pandemic has the potential to change our planning parameters and assumptions significantly over the coming weeks and months. This budget has been developed with reasonable assumptions and we will proceed forward both on a note of caution and prudence and with a commitment to continued innovation and quality.

University of Alberta 2020-21 Budget

Board Finance and Property Committee
March 25, 2020



Approval pathway for *revised* 2020-2021 Budget

- **March 18** General Faculties Council Academic Planning Committee (APC)
 - *To recommend Board of Governors approval*

- **March 25** Board Finance and Property Committee (BFPC)
 - *To recommend Board of Governors approval*

- **March 26** Board of Governors meeting
 - *To approve*

Tuition and Student Financial Aid Proposal:

THAT the Board Finance and Property Committee recommend that the Board of Governors approve the Tuition Proposal for Fall 2020 as outlined in the [relevant table in the document distributed for February 27, 2020]

Mandatory Non-Instructional Fees Proposal:

THAT the Board Finance and Property Committee, acting with delegated authority of the Board of Governors, approve the 2.67% overall increase of mandatory non-instructional fees for 2020-21, with the increase applied differentially to individual fees [as outlined in the relevant table in the Motions and Final Document Summary for February 26, 2020]

Meal Plans:

THAT the Board Finance and Property Committee, acting with delegated authority of the Board of Governors, approve an increase of 2.9% to all meal plan rates for the 2020-21 academic year.

Residences:

- 1 - THAT the Board Finance and Property Committee, acting with delegated authority of the Board of Governors, approve an increase of 5.0% to the rates charged for the residences listed under item 7di of the material shared for the Feb 27 meeting.
- 2 - THAT the Board Finance and Property Committee recommend that the Board of Governors approve new rates for residences transitioning from 11-month leases to 8-month leases, as listed under item 7dii of the material shared for the Feb 27 meeting.
- 3 - THAT the Board Finance and Property Committee recommend that the Board of Governors:
 - a) approve new rates for residences having undergone major renewal, as listed under item 7diii of the material shared for the Feb 27 meeting.
 - b) authorize the Vice-President (Facilities and Operations) to apply the MacKenzie Hall residence rates (inclusive of any future approved increases) to Henday Hall and Kelsey Hall once they return to service as fully renewed residences.

Revised 2020-21 Budget:

Motion I:

THAT the Board Finance and Property Committee rescind the following motion, originally approved at its meeting on February 27, 2020:

THAT the Board Finance and Property Committee, on the recommendation of the General Faculties Council Academic Planning Committee, recommend that the Board of Governors approve the 2020-21 Consolidated Budget as set forth in Attachment 1 [of the original meeting material].

Motion II:

THAT the Board Finance and Property Committee, on the recommendation of General Faculties Council Academic Planning Committee, recommend that the Board of Governors approve the revised 2020-21 consolidated budget as set forth in Attachment 1 [of the associated Governance Executive Summary (GES)].

Provincial funding

Starting point 2018-19:

Campus Alberta Grant	\$646,652,549
Targeted enrolment expansion grant	<u>12,590,000</u>
Total	\$659,242,549
<i>Less:</i>	
October 2019 cut	\$ 44,420,368
February 2020 cut	53,307,552
Elimination of enrolment expansion grant	<u>12,590,000</u>
Total cut	\$110,317,920
Now left with	\$548,924,629
Cut as a %	16.73%

Capital:

Dentistry/Pharmacy Functional Renewal of Building \$49.0M

District energy system \$ 4.9M

Infrastructure Maintenance Program (IMP) \$34.9M

Budget presented to APC on February 26 incorporated:

October 2019 grant cut	\$44.4M
5% additional grant cut	<u>\$30.1M</u>
Total grant cut	\$74.5M
Actual cut	\$110.3M
Differential	\$35.8M

- **Operating:** represents the institution's general operations. The budget process focuses on the allocation of these funds
- **Ancillary:** stand-alone enterprises funded by their own revenues
- **Research:** subject to external restrictions, and can only be used for the purposes for which the funds were provided
- **Capital:** includes both restricted and unrestricted funding used for major capital/deferred maintenance projects
- **Special Purpose:** primarily related to the Academic Medicine and Health Sciences program, and annual endowment spending allocations from non-research related endowments

2020-21 Consolidated Budget (by fund) after

(\$000's)	Ancillary				Special	Total
	Operating	Operations	Research	Capital	Purpose	
Revenue (including deferrals)						
Government of Alberta grants	568,703	-	80,960	100,302	77,598	827,563
Federal and other government grants	21,159	-	167,609	19,269	-	208,037
Student tuition and fees	395,417	-	-	-	-	395,417
Sales of services and products	103,944	94,944	17,271	-	125	216,284
Donations and other grants	10,622	-	93,312	27,182	2,560	133,676
Investment income	15,000	1,276	48,279	-	20,964	85,519
Total revenue	1,114,845	96,220	407,431	146,753	101,247	1,866,496
Expense						
Salaries	694,040	21,221	163,588	-	50,876	929,725
Employee benefits	160,464	5,156	27,472	-	13,929	207,021
Materials, supplies and services	103,454	26,060	131,409	9,096	20,847	290,866
Scholarships and bursaries	45,977	1	76,940	-	11,817	134,735
Maintenance and repairs	30,812	26,542	4,398	41,797	118	103,667
Utilities	45,221	6,090	360	-	-	51,671
Amortization of tangible capital assets	53,435	15,742	-	114,694	-	183,871
Total expense	1,133,403	100,812	404,167	165,587	97,587	1,901,556
Annual operating surplus (deficit)	(18,558)	(4,592)	3,264	(18,834)	3,660	(35,060)
Impact of Future Benefit Liability	924	-	-	-	-	924
Annual operating surplus (deficit)	(17,634)	(4,592)	3,264	(18,834)	3,660	(34,136)

University of Alberta Budget Overview of changes since Feb 26

2020-21 Consolidated Budget (by fund) (Updated)

(\$000's)	Ancillary				Special	Total
	Operating	Operations	Research	Capital	Purpose	
Revenue (including deferrals)						
Government of Alberta grants	568,703	-	80,960	100,302	77,598	827,563
Federal and other government grants	21,159	-	167,609	19,269	-	208,037
Student tuition and fees	395,417	-	-	-	-	395,417
Sales of services and products	103,944	94,944	17,271	-	125	216,284
Donations and other grants	10,622	-	93,312	27,182	2,560	133,676
Investment income	20,000	1,276	48,279	-	20,964	90,519
Total revenue	1,119,845	96,220	407,431	146,753	101,247	1,871,496
Expense						
Salaries	681,341	21,106	163,588	-	50,876	916,911
Employee benefits	152,464	5,127	27,472	-	13,929	198,992
Materials, supplies and services	103,454	25,869	131,409	6,871	20,847	288,450
Scholarships and bursaries	45,977	1	76,940	-	11,817	134,735
Maintenance and repairs	30,812	25,377	4,398	35,176	118	95,881
Utilities	45,221	6,090	360	-	-	51,671
Amortization of tangible capital assets	53,435	15,742	-	114,694	-	183,871
Total expense	1,112,704	99,312	404,167	156,741	97,587	1,870,511
Annual operating surplus (deficit)	7,141	(3,092)	3,264	(9,988)	3,660	985
Impact of Future Benefit Liability	924	-	-	-	-	924
Annual operating surplus (deficit)	8,065	(3,092)	3,264	(9,988)	3,660	1,909

- Starting with 4 metrics in 20-21; others phased in over following 2 years
- 15% at risk in 20-21; adjustments to be made in 21-22:
 - Total expenditures – weight 40%
 - Administrative expense ratio – weight 10%
 - Enrolment domestic – weight 25%
 - Enrolment Indigenous – weight 10%
 - Enrolment international – weight 5%
 - Sponsored research revenue (non-Alberta) – weight 10%
- Weights, targets and tolerances have variable negotiability

2020-21 Operating Budget (Updated)

(\$000's)	2018-19		2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Budget	Projection	Projection
Revenue (including deferrals)							
Government of Alberta grants	679,812	679,517	634,969		568,703	524,789	499,538
Federal and other government grants	19,504	20,157	20,764		21,159	21,561	21,992
Student tuition and fees	353,280	359,053	364,799		395,417	424,614	455,013
Sales of services and products	104,724	106,676	102,006		103,944	105,919	108,038
Donations and other grants	10,334	10,759	10,424		10,622	10,824	11,041
Investment income	36,878	15,000	15,000		20,000	15,000	15,000
Total revenue	1,204,532	1,191,162	1,147,962		1,119,845	1,102,707	1,110,622
Expense							
Salaries	701,822	720,496	700,709		681,341	659,745	663,627
Employee benefits	139,944	151,718	162,236		152,464	152,376	156,377
Materials, supplies and services	101,352	113,883	109,715		103,454	103,441	103,571
Scholarships and bursaries	38,462	40,248	42,608		45,977	50,907	53,777
Maintenance and repairs	34,667	37,186	32,769		30,812	35,796	35,837
Utilities	40,957	42,792	41,966		45,221	45,955	46,945
Amortization of tangible capital assets	39,607	51,008	53,048		53,435	54,490	55,725
Total expense	1,096,811	1,157,331	1,143,051		1,112,704	1,102,710	1,115,859
Annual operating surplus (deficit)	107,721	33,831	4,911		7,141	(3)	(5,237)
Impact of Future Benefit Liability	(19,424)	(26,233)	2,211		924	(1,756)	(1,879)
Annual operating surplus (deficit)	88,297	7,598	7,122		8,065	(1,759)	(7,116)

Operating Budget Assumptions

2020-21	2021-22	2022-23
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Revenue :

	2020-21	2021-22	2022-23
Campus Alberta Grant	-10.7%	-8.0%	-5.0%
Domestic Tuition	7%	7%	7%
Domestic Tuition (holdback of increase to be used for student support)	15%	15%	15%
International Tuition (Existing students)	4%	4%	4%
International Tuition (Program Based)	Custom	Custom	Custom
International Tuition (holdback of total tuition to be used for student support)	7.55%	7.55%	7.55%
Mandatory Non-Instructional Fees	2.67%	2.67%	2.67%
Investment Income	\$20 million	\$15 million	\$15 million

2020-21	2021-22	2022-23
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Expenditures:

	2020-21	2021-22	2022-23
ATB (NASA & AASUA)	TBN	TBN	TBN
Merit (NASA & AASUA) (based on one-step merit)	TBN	TBN	TBN
ATB (Graduate students and post-doctoral fellows)	TBN	TBN	TBN
Employee Benefits	Custom	Custom	Custom
Other Costs	1.90%	1.90%	2.00%

- For the 20-21 budget, overall the faculties were allocated \$65.6M of the operating grant cut.
- This was offset by additional revenues of \$21.1M distributed through new budget model.
- This resulted in an overall cut of \$44.5M being allocated to the faculties using the new budget model (3 year transition).
- This equates to -8.3%, on average, across the faculties.
- Range of cuts is from -0.96% to -15.54% among the faculties.

- Average cut for 20-21 was -12.8% Differential determination of cuts based upon:
 - Minimizing impact to teaching and research
 - What the unit needs to achieve in supporting the university's key priorities
 - Impact to university operations and service
 - The unit's ability to achieve cost savings
 - Level of carry forwards available to the units

- Hiring freeze
- Reductions in administrative staff
- Restriction of travel and hosting costs
- Vacate leased space
- Re-examine supplier contracts for savings
- Reduce cleaning to minimum required standards
- Defer energy management program investments for 20-21
- Libraries to close one or more locations
- Academic efficiencies (cut low enrolment programs)

- Major administrative process restructuring – accelerating the Service Excellence Transformation initiative
- Major academic restructuring
- What can help us in the near term and longer term?
 - seeking exclusion of severance costs from the requirement for a balanced budget

(\$000's)	2018-19	2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (including deferrals)						
Government of Alberta grants	-	-	-	-	-	-
Federal and other government grants	-	-	-	-	-	-
Student tuition and fees	-	-	-	-	-	-
Sales of services and products	91,476	94,838	93,646	94,944	100,996	104,925
Donations and other grants	10	-	-	-	-	-
Investment income	14	-	1,529	1,276	512	24
Total revenue	91,500	94,838	95,175	96,220	101,508	104,949
Expense						
Salaries	20,610	20,063	20,397	21,106	21,683	21,801
Employee benefits	4,503	4,352	4,778	5,127	5,415	5,594
Materials, supplies and services	29,190	23,470	23,216	25,869	27,128	27,355
Scholarships and bursaries	-	-	-	1	1	1
Maintenance and repairs	21,726	24,999	23,615	25,377	26,441	26,714
Utilities	5,525	6,956	6,583	6,090	5,755	5,869
Amortization of tangible capital assets	20,829	10,534	15,516	15,742	15,722	15,702
Total expense	102,383	90,374	94,105	99,312	102,145	103,036
Annual operating surplus (deficit)	(10,883)	4,464	1,070	(3,092)	(637)	1,913

2020-21 Research Budget (Unchanged)

(\$000's)	2018-19	2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (including deferrals)						
Government of Alberta grants	108,137	120,996	83,670	80,960	81,692	82,426
Federal and other government grants	172,154	155,969	164,557	167,609	169,122	170,642
Student tuition and fees	-	-	-	-	-	-
Sales of services and products	17,271	14,181	17,271	17,271	17,271	17,271
Donations and other grants	96,281	86,791	91,705	93,312	94,108	94,908
Investment income	38,746	48,952	46,227	48,279	49,531	50,853
Total revenue	432,589	426,889	403,430	407,431	411,724	416,100
Expense						
Salaries	163,588	183,216	163,588	163,588	163,588	163,588
Employee benefits	27,472	28,621	27,472	27,472	27,472	27,472
Materials, supplies and services	126,554	136,403	128,958	131,409	134,037	136,718
Scholarships and bursaries	74,098	79,412	75,506	76,940	78,479	80,049
Maintenance and repairs	4,235	4,159	4,315	4,398	4,486	4,575
Utilities	347	426	354	360	368	375
Amortization of tangible capital assets	-	-	-	-	-	-
Total expense	396,294	432,237	400,193	404,167	408,430	412,777
Annual operating surplus (deficit)	36,295	(5,348)	3,237	3,264	3,294	3,323

Capital Budget: Revenue

(\$000's)	2018-19	2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (including deferrals)						
Government of Alberta grants	87,738	111,122	88,432	100,302	103,291	99,910
Federal and other government grants	18,242	20,139	19,487	19,269	19,486	19,701
Student tuition and fees	-	-	-	-	-	-
Sales of services and products	-	-	-	-	-	-
Donations and other grants	26,664	26,208	27,502	27,182	27,489	27,792
Investment income	1,078	-	-	-	-	-
Total revenue	133,722	157,469	135,421	146,753	150,266	147,403
Expense						
Salaries	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-
Materials, supplies and services	3,361	3,609	2,909	6,871	4,250	2,808
Scholarships and bursaries	-	-	-	-	-	-
Maintenance and repairs	32,897	40,618	46,174	35,176	36,034	29,716
Utilities	-	-	-	-	-	-
Amortization of tangible capital assets	111,570	116,411	115,993	114,694	115,986	117,266
Total expense	147,828	160,638	165,076	156,741	156,270	149,790
Annual operating surplus (deficit)	(14,106)	(3,169)	(29,655)	(9,988)	(6,004)	(2,387)

(\$000's)	2018-19	2019-20		2020-21	2021-22	2022-23
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (including deferrals)						
Government of Alberta grants	70,956	71,451	75,958	77,598	77,356	77,106
Federal and other government grants	-	-	-	-	-	-
Student tuition and fees	-	-	-	-	-	-
Sales of services and products	963	233	124	125	125	125
Donations and other grants	13,463	14,303	2,448	2,560	2,679	2,805
Investment income	17,773	20,730	20,067	20,964	21,512	22,090
Total revenue	103,155	106,717	98,597	101,247	101,672	102,126
Expense						
Salaries	56,665	52,576	48,898	50,876	50,925	50,976
Employee benefits	12,867	14,384	13,389	13,929	13,933	13,937
Materials, supplies and services	16,351	21,223	21,090	20,847	20,964	21,086
Scholarships and bursaries	12,916	10,464	11,341	11,817	12,164	12,531
Maintenance and repairs	95	99	128	118	118	119
Utilities	-	-	-	-	-	-
Amortization of tangible capital assets	-	-	-	-	-	-
Total expense	98,894	98,746	94,846	97,587	98,104	98,649
Annual operating surplus (deficit)	4,261	7,971	3,751	3,660	3,568	3,477

2020-21 Consolidated Budget (by fund) (Updated)

(\$000's)	Ancillary				Special	Total
	Operating	Operations	Research	Capital	Purpose	
Revenue (including deferrals)						
Government of Alberta grants	568,703	-	80,960	100,302	77,598	827,563
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Expense						
Salaries	681,341	21,106	163,588	-	50,876	916,911
Employee benefits	152,464	5,127	27,472	-	13,929	198,992
Materials, supplies and services	103,454	25,869	131,409	6,871	20,847	288,450
Scholarships and bursaries	45,977	1	76,940	-	11,817	134,735
Maintenance and repairs	30,812	25,377	4,398	35,176	118	95,881
Utilities	45,221	6,090	360	-	-	51,671
Amortization of tangible capital assets	53,435	15,742	-	114,694	-	183,871
Total expense	1,112,704	99,312	404,167	156,741	97,587	1,870,511
Annual operating surplus (deficit)	7,141	(3,092)	3,264	(9,988)	3,660	985
Impact of Future Benefit Liability	924	-	-	-	-	924
Annual operating surplus (deficit)	8,065	(3,092)	3,264	(9,988)	3,660	1,909

2019-20 – budget related job losses – preliminary numbers

Retirements net of replacements 70

Attrition 110

Layoffs 220

Total job losses 400

2020-21 – budget related job losses – preliminary numbers

IF SEVERANCE COSTS CANNOT BE DEFICIT FINANCED

Retirements net of replacements	70
Attrition	0
Layoffs required to balance budget	<u>565</u>
Total job losses	635

Differential: 265 jobs could be saved in 2020-21 if severance costs can be deficit financed.

- Worsening economic picture – COVID 19 has triggered an economic downturn. Length? Severity?
- Equity markets trending down and very volatile – impacts endowed and non-endowed funds returns and pension liabilities
- Potential COVID-19 impacts:
 - September 2020 enrolment, especially for international students
 - Ability to maintain teaching and research activities

- Campus Alberta Grant funding – 15% (\$82.3M) at risk related to performance metrics in 2020-21.
- Speed and size of funding cuts results in speed and size of job cuts. Expect fractures in processes and service.
- Ability to maintain research productivity with the reality of fewer people.
- Economic impact to individual members of our university community, our local community, and local partners.

Questions?