University of Ottawa
Operating Fund
Highlights
2017–2018 Budget

For fiscal 2017–2018, the University is tabling a budgeted deficit of $4.6 million for the operating fund. This deficit is calculated on a modified cash basis, which differs from accrual accounting. On an accrual basis, this deficit will be adjusted for capitalization and amortization of tangible assets as well as the change in employee future benefits estimates. These are non-cash items and are not available to fund operational expenses of the University.

Revenue

Operating fund revenues come from two main sources, provincial operating grants and tuition fees, which account for close to 95% of the University’s revenue. Changes to the Ontario government’s funding formula for variation in enrolment beyond the pre-determined corridor, together with the expected drop in the number of students put pressure on the financial health of the University.

See table B4 for operating grant details and table B3 for revenue trends by funding source.

Grants

Since 2013-2014, grants account for less than 50% of the total revenue within the operating fund. This trend continues in 2017-2018, with grant revenue expected to account for 45.4% of the total operating fund revenues.

The Ontario government is implementing a new regulatory framework for provincial grants. This new provincial funding formula is tied to the renewal of the University’s strategic mandate agreement. Like all 45 colleges and universities in the province that receive provincial funding, the University of Ottawa is in the process of renegotiating the 2017-2020 agreement with the government of Ontario.

Each agreement will focus on three funding components:

1. An envelope based on a specific level of eligible enrolments;

2. A differentiation envelope based on performance results in each of the areas of strengths agreed upon by the University and the Ministry; and

3. Specific grants to meet government and system-wide priorities, such as financing initiatives aimed at improving access to education for Aboriginal and francophone students and those with disabilities.
The government’s priorities and objectives focus on the following themes:

- Student experience
- Innovation in the teaching and learning experience
- Access and equity
- Excellence in research and research impact
- Innovation, economic development and community engagement

In the coming year, the University’s funding from the Ministry of Advanced Education and Skills Development will not increase or decrease compared to 2016-2017. It will also remain unchanged until 2019-2020 with the caveat that the rolling enrolment average (maximum five year rolling average) remains within 3% of the pre-determined corridor. In the years that follow, funding may decrease if the objectives of the agreement are not met.

The International student recovery and the financing of enrolment in the collaborative nursing program continue to fluctuate each year due to enrolment numbers.

The Ministry has not yet communicated all the details of the new funding formula. The various elements for funding are presented based on the three new subgroups with the understanding that a portion of the enrolment-based funding will be transferred to the differentiation envelope, the impact of which is still not known.

**Tuition fees**

Tuition fees respect the government of Ontario’s regulatory framework for Canadian students. The overall increase of tuition fees is 3%. There will be no increase in tuition fees in 2017-2018 for students in doctoral or research-based master’s programs.

It should be noted that the increase in revenue from tuition fees comes mostly from the increase in the number of international students; the proportion of revenue from international students is projected to be 24% in 2016-2017 and 27% in 2017-2018 (23% in 2015-2016). The University is recommending an increase in international student tuition fees and in tuition fees for unregulated programs to reflect current market conditions. Tuition fees from international students make up 14% of the University’s operating fund revenue. The Ontario government does not provide any grants for international students.

**Enrolments**

The University expects a drop in the number of Canadian students in the coming years. This is a new situation for the University, which, until 2014, had seen substantial and continued growth in its numbers of student and associated funding since the late 1990s. A decline in the number of students aged 18 to 20 years in Ontario and in Canada results in increased competition among institutions.

For fiscal year 2017–2018, enrolments for Canadian and international students are estimated at 35,326 for the undergraduate level (2016-2017 – 35,403) and 6,426 for the graduate level
(2016-2017 – 6,392), for a total of 41,752 (2016-2017 – 41,795). The drop of 43 students in 2017-2018 is made up of an increase of 276 international students and a decrease of 319 Canadian students.

In 2011, the Board of Governors made the decision to maintain moderate growth in enrolment numbers. While the number of students reflects in part a more stringent selection process, it is mainly the result of a trend towards fewer Canadian students, which is partially offset by an increase in the number of international students.

**Investment income**

The University’s investment income is based on the rate of return disclosed in its investment policy. The long-term investment returns are currently estimated at 6.5%, which translates into $22 million in investment income.

In light of the uncertainty surrounding the financial markets, the University uses an investment stabilization reserve as protection against potential fluctuations in income. Investment earnings exceeding the projected target will be used to increase the stabilization reserve. The University uses this reserve in the event of lower-than-projected investment income. This reserve was $8.8 million as of April 30, 2016. In 2015–2016, the University used approximately $23 million (or 73%) of this reserve to offset the impact of market fluctuations and maintain the University’s regular activities. We expect to partially replenish this reserve thanks to strong investment performance in 2016–2017.

**Expenses**

The University’s main expense categories are salaries and benefits (72%), purchases of goods and services (10.2%) and financial aid and scholarships (8.3%).

To enable the University to continue to strive for a balanced budget and to support its strategic priorities, measures to reduce expenditures of faculties and services by approximately $22 million were implemented, which represents 3.1% of their budget. These measures include:

- Streamlining of processes and structures, which we will continue to analyze within the current context.
- Review of discretionary budget items, specifically consultants, professional fees and travel expenses.
- Inclusion in faculty and service budgets of non-recurring expenses in the amount of $12.4 million for retirement allowances, start-up funding for research labs and other expenditures.
Over the past five years, operating fund expenditures have grown at a rate higher than that of revenues. Of course, this trend that cannot continue and remains one of the greatest challenges the University must face, one that it will continue to respond to in a disciplined and deliberate manner.

The gap between expenditures and government funding and tuition fee revenues continues to widen. The use of net assets by faculties and services (internally restricted and unrestricted) as well as investment income will allow the University to keep the deficit below the $5 million mark. The budget provides for the use of $15.8 million of net assets (internally restricted and unrestricted). This year, the budget anticipates to curb total spending growth.

**Salaries and benefits**

Salaries and benefits will account for 72% of the University's operating expenses in 2017-2018, compared to 70% in 2016-2017 and 67% in 2007-2008, primarily due to the increase in the number of professors, increases in compensation as well as an increase in benefit- and pension-related costs.

The University has seen its research activities increased through the addition of 69 new strategic positions for professors, of which 55 have been filled and 14 are in the process of being filled. This investment represents an annual increase in payroll-related expenses of more than $12.0 million.

Compensation

Salary increases are consistent with current collective agreements and those approved by the Executive Committee of the Board of Governors.

The current collective agreement for the Association of Professors (APUO) runs until April 30, 2018, and provides for a salary increase of 1.7% and a progress-through-the-ranks increase on May 1, 2017. The current collective agreement for support staff (OSSTF) expires on April 30, 2019, and provides for a 1.9% economic increase and step increase on May 1, 2017. Salary adjustments for regular non-unionized staff in a confidential or management position belonging to the Non-Union Employee Association (NUEA) provide for a 1.9% economic increase and a progress-through-the-ranks increase on May 1, 2017. These employee groups will also receive an increase of 0.8% on January 1, 2018.

The collective agreements for operating engineers (772A) and trades, grounds and transportation employees (772B) expire on June 30, 2021, and June 30, 2019, respectively. They both provide for an economic increase of 1.9% on May 1, 2017, and 0.8% on January 1, 2018. The collective agreement for unionized student staff with teaching or research functions (CUPE 2626) was recently ratified and runs until August 31, 2019.

The collective agreement for IT professionals (PIPSC) expired on April 30, 2017, and the APTPUO collective agreement expired on August 31, 2016.

Pension plan

The pension plan represents a total cost for the University of $46 million, or 14% of the eligible salaries, including special payments in the amount of $8.6 million. In 2017, the current service cost of the plan is 19.4%, of which 42% is contributed by the employees.

The pension plan faces a number of challenges related to market volatility, regular and significant increases in pension costs and the uncertainty of the plan valuation on a solvency basis. Changes to the Canada Pension Plan (CPP) will also have an impact on the overall costs the University pays for benefits beginning in 2019.

Other benefits

Benefits for employees include long-term disability as well as drug and dental insurance. These benefits represent approximately $18 million of total benefit costs, or 5.2% of total payroll costs. These expenses remain at 2016-2017 levels and are based on the University’s experience, use of services by employees and contributions by staff members in some employee groups.
Scholarships and financial aid

The government of Ontario has made major changes to its OSAP program to provide a greater number of students in Ontario with access to postsecondary studies. Here are some of the impacts of these changes:

- **Increased grant funding**: The Ministry estimates that 85% of students will receive more of their OSAP funding as grants. This will promote access to postsecondary education, while minimizing student indebtedness.

- **Free tuition**: The Ministry expects that more than 210,000 students will benefit from the changes aimed at providing free tuition for the 2017-2018 academic year. This number represents almost half of the 445,000 OSAP and Ontario Tuition Grant program (OTG) requests received in 2016-2017.

- **Increased student income ceiling**: OSAP now allows students to earn more income (up to $5,600 per term) before the level of funding they will receive is impacted. This will allow for students to obtain more funds.

- **Exclusion of federal funding**: Some funding from federal sources, such as sport-related and First Nations funding and funding under the CPP disability benefit program, will no longer be included in OSAP calculations, increasing the maximum amounts students are eligible for under OSAP.

For more information, please visit the [2016 Ontario budget](#) site.

A total of 13,406 of students received $134 million in OSAP loans in 2016-2017, including $15.4 million from the OTG program (8,493 students). The OSAP loan repayment default rate for uOttawa students was 5.9% in 2016, well below the 24% limit at which the government of Ontario imposes a financial penalty on the postsecondary institution.

The University is concerned with students in financial need and remains committed to helping these students. As a result, in 2017-2018, the University will invest more than $100 million in scholarships and financial aid for its students.

A total of $67.5 million will come from the operating fund. The University maintains its support in the form of financial aid.

In addition, the University of Ottawa will continue maintaining and improving some of the programs aimed at supporting certain groups of students:

- An increase of $300,000 for the emergency financial aid fund to assist students facing exceptional situations;

- Maintain bursary program for Aboriginal, first-generation and Crown Ward students; and
- Maintain the work-study program, which makes it possible for students to earn money and provides the additional benefit of gaining work experience on campus.

The OSAP funding available to students and the University’s scholarship and financial aid program complement one another, and, combined, they make postsecondary education more accessible while recognizing academic excellence.

The University’s generous scholarship program rewards academic excellence. The total scholarship and financial aid budget has grown from $59.5 million in 2009-2010 to $100.5 million in 2017-2018 (including scholarships from research funds and donor gifts), representing an increase of 68.9%. This growth ties-in directly with the University’s commitment to support academic excellence of students, both at the time of admission and throughout their studies. As in 2016-2017, more donor funds will go towards providing students with financial support. This approach is consistent with the University’s Defy the Conventional fundraising campaign, which focuses on four main themes, including harnessing the potential of the next generation by offering students more scholarships. From a budgeting perspective, these gifts fall under trust funds as a result of the external restrictions associated with them.

During the 2016-2017 fiscal year, a total of $4.7 million in scholarships and financial aid was awarded to 1,329 international students, in line with Destination 2020’s goal of offering competitive financial support to help recruit high-calibre international students.

For the 2017-2018 fiscal year, financial aid will remain at levels similar to 2016-2017, with a total investment of approximately $101 million.

**Debt servicing**

During 2016-2017, the University issued long-term debt of $200 million, bearing interest at 3.256%, to finance major capital projects in the University’s Campus Capital Plan, including the STEM Complex (Sciences, Technologies, Engineering, Mathematics) and the Learning Centre. This debt is in addition to the $150 million debt issued a few years ago. The total of the obligations issued on the market is now $350 million.

The interest expenses on the debt is estimated at $14.1 million for the fiscal year 2017-2018.

**Net assets**

In accordance with its budget policies, the University uses net assets to fund non-recurrent expenditures. The 2017-2018 budget anticipates that faculties and services will be required to use internally restricted net assets in the amount of $15.8 million.

The deficits of some faculties and services have increased in the last several years. As at April 30, 2017, the University lent approximately $19 million of its net assets (unrestricted and internally restricted) to fund these deficits. For fiscal 2017-2018, a total of $27 million will be borrowed by the faculties and services.
The University must maintain its net assets, the debt to net worth ratio and the debt service ratio at a certain level to maintain its credit rating.

**Dedicated funding envelope**

A dedicated funding envelope was created in 2017 to help faculties and services introduce initiatives that would create significant academic or administrative benefits, including developing new revenue streams, while still supporting *Destination 2020* goals. This one-time funding will help provide additional resources to academic or administrative units that would otherwise be unable to undertake such innovative projects. For fiscal 2017-2018, this envelope will be used to introduce changes at the Faculty of Arts and to maintain the Library’s collection of essential journals. The residual amount of $0.8 million remains to be allocated in the 2017-2018 budget.

**Procurement – Goods and services**

Goods and services include Facilities expenditures (including property taxes, maintenance, purchases, rentals and leases), utilities, investment management fees and contracted services. These expenditures are estimated at $83.6 million, a decrease of $12.2 million compared to 2016-2017, as a result of the completion of the SIS implementation in the fall of 2016.

This category does not include professional fees such as legal, actuary or accounting expenses.

**Other**

The University is budgeting $25.2 million in maintenance costs and costs associated with space optimization and infrastructure upgrades (including research space and labs; excluding major projects) in 2017-2018.

In the fall of 2016, the University chose to voluntarily opt into Ontario’s cap and trade program, designed to help fight climate change and reward businesses that reduce their greenhouse gas emissions. The University’s continued efforts in recent years put the institution in a favourable position in terms of greenhouse gas emissions. The University must remain diligent and proactive to continue reducing emissions to avoid significant negative financial impacts associated with exceeding emission limits. There are no anticipated financial impacts for 2017-2018.