MEMORANDUM

To: Board of Governors

From: Victor Simon, Vice-President, Resources

Date: May 30, 2011

Subject: Budget 2011-12

INTRODUCTION

Budget 2011-12 presents revenues and expenses for the following University of Ottawa funds:

1. Operating
2. Ancillary Enterprises
3. Research and Trust
4. Capital

Budget 2010-11 was designed with a focus on the University’s resource optimization efforts and on the generation of $23.1M in savings to balance the budget.

The same context serves as the backdrop for Budget 2011-12, which is once again balanced. Drafted just as the 2020 strategic plan is set to be approved, Budget 2011-12 reflects significant economic uncertainty and provides only modest investments in key areas of the student experience. The budget also supports the financial health of the University over the short to medium term.

2020 STRATEGIC PLANNING

Since the approval of the University’s last strategic plan, Vision 2010, by the Board of Governors in October 2005, the student population has increased from 31,500 to over 40,000 today, including a 39% increase in graduate student enrolment. Over the same period, the University created more than 60 new programs along with 269 new faculty positions and 233 support staff positions. It also staffed 57 Canada Research Chairs, which further enrich its research mission.
The University will be submitting its next strategic plan, Vision 2020, to the Board of Governors this coming June. An extensive consultation process involving students, professors, administrative staff, alumni, friends and the broader community has shaped a strategic plan to guide our institution over the next decade. It is noted that Budget 2011-12 does not contain any funding for Vision 2020 initiatives.

CHALLENGES AND INVESTMENTS IN 2011-12

The Budget 2011-12 planning exercise proved difficult given the University’s limited resources. The challenge stems in part from the special $6.4M annual payment the University has to make to the pension plan to cover an actuarial deficit of $59M. If the entire set of variables remains constant, these special payments will need to continue for the next 14 years. The University plans to cushion the impact of the special payment in 2011-12 by using $3.1M from the reserve set aside for the pension plan. This $15M reserve was funded by the employer portion of the 2007 pension contribution holiday and is designed to relieve financial pressure caused by funding liabilities of the pension plan.

The cost of benefits (including the pension plan) in the operating budget has increased by $12.4M or 18% in relation to the last fiscal year (from $67.2M to $79.6M), the highest of all expenditure increases. As a result, the University has to allocate a larger proportion of its budget to this item.

On another front, after increasing by an average of 3.1% over the past three years, the government subsidy linked to student enrolment growth will increase by 1.9% in relation to 2010-11; that leads to a $2.8M drop in revenue for 2011-12. The moderating increase in student numbers reflects an institutional strategic direction to focus on the quality of the university experience.

Budget 2011-12 also proposes a $5.4M allocation from the faculty and service reserves to fund one-time initiatives.

Together, these measures provide a modest $2.5M envelope for the following:

1. Support for research and graduate studies: $0.9M
2. Faculty hiring and classroom support: $0.9M
3. Student services: $0.7M.

Budget 2011-12 continues to invest heavily in financial aid and scholarship programs with a 4.6% increase over last year, in order to maintain the University’s position among Canada’s leading institutions in this area.

Finally, in keeping with the budget announcement made on March 29th this year, 10% of the budgets from the Offices of the President and the Vice-Presidents will be reallocated to front-line services. The initiative will be implemented following the publication of the Ontario government’s new regulations in this matter.

CHALLENGES OVER THE COMING YEARS

Universities across Canada are facing significant financial challenges; prudence and restraint have served the University well over the recent past.

The coming years will provide a daunting challenge for the University, most notably in four areas:

1. Given current financial constraints, the University must find ways of offering an enriching student experience and providing research excellence while maintaining financial sustainability. Additional resources will also be required to finance strategic initiatives put forth in the upcoming Vision 2020.

2. A significant pension plan deficit also needs to be addressed. As mentioned earlier, if the entire set of variables remains constant, the University will have to make a special $6.4M payment to the pension plan for the next 14 years to cover the actuarial deficit of $59M shown in the actuarial valuation as of January 1, 2010. The University, in conjunction with its actuary, are reviewing its actuarial assumptions for the next valuation, which is slated for January 1, 2013. Some of the assumptions may actually have to be revised and, based on current projections, could ultimately result in special annual payments of $16M a
year as of 2013-14. Of course, special payments of this magnitude will have a major impact on the University’s operating budget and on its ability to maintain the pension plan’s financial viability over the long term, hence the urgency of modifying the current plan and of balancing employee/employer contributions through collective bargaining with staff unions. At present, the University covers almost 70% of its defined-benefit pension plan service costs while employee contributions cover 30%. Over 12% of payroll costs are attributed to normal pension service costs, and this figure could actually exceed the 14% mark; in contrast, most Ontario universities contribute roughly 9% on average. It is critical that the University and the employee unions agree on a course that will ensure the viability of the pension plan.

3. Universities in Ontario are also wrestling with a shortage of space for learning and research. The most recent Report on Inventory of Physical Facilities of Ontario Universities (2007-08) shows that the space available in Ontario universities stands at 76% of what’s actually needed for programs and services. The University of Ottawa ratio of 68.5% is the sixth-lowest in Ontario, and our deferred maintenance charges are still hovering above $156M. Further investments to expand and modernize physical facilities are therefore needed, and the University hopes to receive capital funding for this purpose under the Province’s 10-year, $60-billion infrastructure plan. Without such external funding, the institution would have to borrow as much as $100M to finance its upcoming five-year capital investment plan (2012-2017); the loan would entail as much as $6M in annual interest charges, to which $2M in new building-maintenance costs would have to be added. The University’s operating fund has limited capacity to absorb this additional expense given that the capital reserve funds created by the University to finance construction and renovation will have decreased significantly when the 2007-2012 five-year plan comes to an end.

4. Finally, the legislative framework governing the management of tuition fees ends in F2011-12. The Province’s budget statement on March 29, 2011 estimates that 60,000 more students will enter the postsecondary education system, 41,000 of whom will flow into universities. Yet, the provincial budget is silent on capital funding needed to support the projected growth in student enrolment. A new government elected this fall may also have different financial objectives and policy imperatives. It is in this context that the University may need to review its multi-year planning assumptions over the next few months to address any forecasted structural deficits.

BUDGET ASSUMPTIONS

Management used the following assumptions to develop Budget 2011-12:

1. Undergraduate enrolment of 34,446 students and graduate enrolment of 5,940 students, compared with 33,894 and 5,649 respectively in 2010-11

2. An $11M MTCU allocation from the Reaching Higher Quality Enhancement and Access envelope, up from $10.6M in 2010-11

3. Renewal of the 6.2 M$ allocation from the Canadian government for indirect research costs

4. Operating fund investment income of $18.0M, up from $16.4M in 2010-11

5. An overall increase of 4.3% in tuition fees (less than the 5% cap), 30% of which is set aside for financial aid compared with the 10% minimum mandated by the provincial government

6. An investment of more than $2.6M to provide further support for scholarships, financial aid, assistantships and work-study programs, as well as other services that directly impact the quality of the student experience

7. Salary cost increases consistent with current collective agreements and salary freezes for non-union employees, as announced in the March 25, 2010 Ontario budget

8. A $26.2M allocation for deferred maintenance and renovations, compared with $30.5M in 2010-11 of which $14.2M will be funded from the University’s Operating Budget compared with a total of $7.2M in 2010-11 due to the lack of funds in the University’s Capital reserves

9. Interest and capital repayment on bond issues and other debts of $13.7M
10. Energy and utility cost increases of $1.5M (6% increase over 2010-11).

A number of other assumptions covering the amortization of capital assets, the renewal of computing equipment and other revenues and expenses also appear later in Budget 2011-12.

FUND-BY-FUND ANALYSIS OF BUDGET 2011-12

Total University enterprise (Table A)

Revenue projections for each fund appear below:

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>2011-12</th>
<th>2010-11</th>
<th>Incr. (Decr.)</th>
<th>Incr. (Decr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td>$669,862</td>
<td>$630,621</td>
<td>$39,241</td>
<td>6.2%</td>
</tr>
<tr>
<td>Ancillary enterprises</td>
<td>$33,778</td>
<td>$32,806</td>
<td>$972</td>
<td>3.0%</td>
</tr>
<tr>
<td>Research grants and contracts*</td>
<td>$178,085</td>
<td>$185,166</td>
<td>($7,093)</td>
<td>(3.8%)</td>
</tr>
<tr>
<td>Capital</td>
<td>$53,945</td>
<td>$53,803</td>
<td>$142</td>
<td>0.3%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$935,670</td>
<td>$902,396</td>
<td>$33,274</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

* Excludes an estimated amount of $141M for affiliated hospital research institutes ($115M in 2010-11).

Appendices 6.1 and 6.2 compare the University of Ottawa’s revenues by major sources to those of peer universities.

For the Total University Enterprise, Budget 2011-12 projects revenues of $935.7M, compared with $902.4M in 2010-11, broken down as follows:

1. An operating fund of $669.9M, representing an increase of $39.2M or 6.2% due primarily to tuition fee and government funding increases. The grant increase stems mainly from enrolment growth ($5.9M) and from larger targeted grants, for instance Faculty of Medicine intern and resident salaries—PAIRO ($4.8M).

2. Ancillary operations revenues of $33.8 M, an increase of 0.9M$ due to inflation-related price increases.

3. Research and trust fund revenues of $178.1M, that is, $7.1M less than in 2010-11 (see Table D-1). The most significant variations are as follows: a decrease of $1M in the CFI grant and of $4M in the Ontario grant for major research infrastructure projects, and a $0.6M increase in Canada Research Chair awards.

4. Because of losses incurred in 2008-09, the University and its faculties invested $1M to bolster endowed chairs and financial aid programs normally supported by the endowment fund. For 2011-12, the endowment fund will again be healthy enough to contribute $5M in support of research chairs, scholarships and financial aid.

5. The capital fund stands at $53.9M and includes a grant from the Knowledge Infrastructure Plan. Capital construction expenditures are listed in Table E-1.

KEY HIGHLIGHTS - OPERATING FUND (Tables B-1 to B-11)

OPERATING REVENUES

Operating revenues come from two major sources, provincial operating grants and tuition fees. Table B-2 presents operating grant details, and Table B-8 sets out revenue trends by funding source for the last five years. Tuition fees reflect the Board of Governors’ decision last November to increase these by 4.3% for the
2011-12 academic year which is below the 5% cap set by the government of Ontario. We expect enrolment to increase by 552 students at the undergraduate level and by 291 students at the graduate level, in keeping with the moderate enrolment growth strategy presented to the Board of Governors.

OPERATING EXPENSES

Salaries and benefits, scholarships and financial aid, supplies, facility operating costs and debt financing are the University's primary expense classes.

Compensation

The APUO (professors), PIPS (information technology staff), APTPUO (part-time professors) collective agreements expired in 2010-11. The estimated salary cost increases are included in Budget 2011-12. The CUPE collective agreement covering the September 1, 2010 to August 31, 2013 period was ratified in March 2011 and provides student salary increases of 1.5% in 2011-12 and of 5% over this three year period. The OSSTF collective agreement for the support staff, covering the May 1, 2007 to April 30, 2012 period, provides for an economic (cost-of-living) increase of 2.2% in 2011-12. Non-union employees were awarded progress-through-the-rank (PTR) increases effective May 1, 2011, to comply with Schedule 25 of the Compensation Restraint Act (Bill 16) announced in the 2010-11 provincial budget.

Pension expense

As mentioned above, the budget includes a special annual contribution of $6.4 million over the next 14 years.

Scholarships, bursaries and financial aid

Budget 2011-12 provides for an increase of $2.6M (4.6%) in scholarships, bursaries, financial aid, assistantships and work study programs. In addition, uOttawa students received approximately $87.1M in OSAP loans in 2010-11 and about $26.2M in other government loans. The debt default rate for uOttawa students stands at 4.3% on OSAP loans in 2009 (5.4% in 2008), well below the 25% limit that triggers the payment of financial penalties by Ontario postsecondary institutions (Appendix 5.2).

Since 2007-08, uOttawa’s investment in student financial aid has increased by $18.6M (46%). This significant growth ties in directly with the University’s commitment to academic excellence and financial support for students in need.

Debt financing

The interest and capital on the $150M bond issue and on other debts will cost $9.4M in 2011-12.

KEY HIGHLIGHTS - ANCILLARY ENTERPRISES (Tables C-1 to C-4)

The University offers the following ancillary services:

1. Housing
2. University Centre / Community Life
3. Parking
4. Food Services

These services play a critical role in the quality of student life on campus.

Sports Services is not, by Ontario government definition, an ancillary enterprise. However, its financial structure lends itself to that of an ancillary enterprise and is therefore discussed in this section.
Housing

The University can now accommodate 3,008 students in residence, which eases recruitment and student retention and fosters a sense of community on campus. Occupancy rates reached 99% in 2010-11. Table C-2, which presents rental rates for 2011-12 compared with 2010-11, shows an increase of between 2.5% and 3.5%.

Major maintenance and upgrades are scheduled for certain residences in the summer of 2011 to keep these facilities in optimal condition.

University Centre / Community Life

Since 2005, the University Centre’s governance model has included representatives from both student associations and the University administration.

The University Centre has been undergoing extensive renovations since 2006-07. However, it is becoming increasingly clear that the Centre, built in 1973, no longer meets the needs of our current student population. With capital financing from both the University and Chartwells, the University's main food services partner, the cafeteria and food-prep areas have been retrofitted and modernized over the past two years to bring them up to current building code standards and to introduce modern food-preparation processes.

The University, together with its student associations, is also designing expansion projects to provide more services and more space to meet student needs.

Parking and Sustainable Transportation

Table C-3 presents details on parking service operations. Since September 2010, the universal student bus pass (U-Pass) program has been available to full-time students for $145 a session (from September through April). The impact of the program has been such that student requests for parking spots dropped by 9% in comparison with 2009-10. In 2008, a survey revealed that 84% of our students used public transit. Another survey will take place in 2011 to determine how the U-Pass has affected transportation choices.

Between 2006-07 and 2010-11, the number of parking spaces on campus has gone from 2,535 to 3,590. The University must continue to move forward with improvement and renovation projects, which will be financed through surpluses built up over several years. University management is also looking at long-term financing solutions to maintain the quality of its parking infrastructure.

Sports Services

Sports Services is a key component in helping the University create not only a sense of belonging for its students, but also ties to the community. Although Sports Services has not added any new facilities, the student participation rate continues to rise. Students pay an ancillary fee to use the facilities, whereas the local community is charged on a pay-per-use basis. The significant increase in student users has led to a drop in revenues from external sources. Still, Sports Services has been able to maintain a balanced budget thanks to the reserve set aside in recent years. Table C-4 provides additional details on Sports Services.

Food Services

Food Services oversee all University of Ottawa food service operations. The sector works closely with all food-service providers to offer high-quality food products and services to the entire University community. In fiscal 2010-11, sales jumped by 15%, as did client satisfaction with an impressive 15% improvement in satisfaction ratings.

Several initiatives with positive results among students in 2010 will be launched campus-wide in 2011. Major renovations are also slated for the SITE food court to improve service offerings in the south end of the campus.

In 2010-11, Food Services recorded a surplus that was added to the capital reserve fund. The fund will be used in part to finance renovations and initiatives designed to provide services and facilities that better meet the food-service needs of students and the entire University community.
KEY HIGHLIGHTS - RESEARCH AND TRUST FUND (Tables D-1 to D-4)

Projections for research revenues and expenses are based on multi-year grants, on contracts already awarded and on possible new contracts/awards. As a result, this item is difficult to budget, but experience and close relationships with granting agencies allow for reasonably accurate assumptions and estimates.

Tables D-1 and D-2 indicate the extent to which research impacts operating and capital funds. Physical, human and financial resources in support of research are, to a significant degree, built into the University’s operating budget. As a result, a material decrease in grants and awards would cause indirect-cost funding to dip and thus shrink the University's financial base.

The University of Ottawa has a total of 73 Canada Research Chairs; this figure is based on the institution’s success rate in obtaining SSHRC, NSERC and CIHR grants. To date, the University has recruited 57 Canada Research Chairs for the following Strategic Areas of Development in Research:

<table>
<thead>
<tr>
<th>Area</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>11</td>
</tr>
<tr>
<td>Cybersociety</td>
<td>10</td>
</tr>
<tr>
<td>Health</td>
<td>18</td>
</tr>
<tr>
<td>Molecular science</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>57</strong></td>
</tr>
</tbody>
</table>

An analysis of actual and projected research and trust-fund revenues is provided in Table D-1, which indicates both the value of awards received by the University for the last four years and the projected awards for 2011-12. As noted, research awards fluctuate year to year according to economic conditions, announcements of major research and infrastructure funding programs, emerging government priorities, etc. For financial planning and reporting, revenues generally correspond to expenditures because revenues are recognized only when expenditures are incurred. The University uses deferred revenues to account for the difference between award projections and revenue/expense projections.

KEY HIGHLIGHTS - CAPITAL FUND (Tables E-1 to E-8)

Capital funding sources are as follows:

1. Provincial capital grants for infrastructure renewal and construction.

2. Federal capital grants through the Canada Foundation for Innovation and the Knowledge Infrastructure Program for construction and facility renewal, as well as equipment grants from CIHR, NSERC and SSHRC.

3. Other sources, including loans, fundraising and transfers from the University’s operating budget.

To ensure that the University’s debt and liabilities are properly managed, the Board approved Policy 114 in May 2007 to frame the University's capital financing and debt management. The Policy establishes a comprehensive and complementary administrative structure for both assets and liabilities that includes monitoring three policy ratios: interest-coverage, unrestricted liquidity-to-debt and debt-to-FTE.

With Policy 114 in mind, each year, the Treasury Committee of the Board reviews the University’s assets-and-debt portfolio, as well as its capital plans, including the financial requirements to move forward with the Five-Year Facilities Expansion and Renewal Plan. To fund its 2011-12 capital projects, the University will rely both on the capital reserves set aside for this purpose and on capital grants. With this approach, we will be able to comply with the three regulatory ratios defined in Policy 114. However, the University will have to review its future capital investment capacity once government grant conditions and the framework for tuition-fee management have been determined, most likely after the provincial elections in October 2011.

The figures for capital projects include the $36M approved by the Board of Governors in February 2011 for the Faculty of Science construction project.

Capital projects under construction, under consideration or in planning are listed in tables E-1, E-2, E-4 and E-5.