MEMORANDUM

To: Board of Governors
From: Denis Cossette, CA, Interim Vice-President, Resources
Date: May 28, 2012
Subject: Budget 2012-2013

INTRODUCTION

The Budget 2012-2013 presents revenues and expenses for the following University of Ottawa funds:

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

The University is submitting a balanced budget for 2012-2013. This first budget of Destination 2020 strategic plan addresses the initial elements required for this long-term plan, while taking into consideration the uncertain economic times that is the current reality of Ontario universities. This budget also highlights the short and medium-term financial issues facing the University.

DESTINATION 2020 STRATEGIC PLAN

With more than 40,000 students (a 21.1% increase in registrations since 2005-2006), the University sits in the enviable position of being among the top 15 Canadian universities in terms of teaching and research. In addition to creating 60 new programs over the past seven years, the University holds 73 Canadian Research Chairs, which will bring richness to our research endeavours. These facts bear witness to the strong growth the University has enjoyed during the first 10 years of this millennium. The second decade, although likely to be just as dynamic, will unfold in a climate of scarce resources, which will require fiscal discipline in order for the University to reach its objectives.
The University submitted Destination 2020 to the Board of Governors in June 2011. An extensive consultation process involving students, professors, administrative staff, alumni and friends, the Board of Governors and the broader community has helped us produce an ambitious and innovative plan to guide our institution over the next decade. The University is looking at freeing up $4M to finance initiatives supporting the four strategic goals of Destination 2020: a rich and expiring student experience, research excellence, francophonie and bilingualism and developing leaders through internationalization.

CHALLENGES AND INVESTMENTS IN 2012-2013

The rigorous 2012-2013 budget-planning exercise was completed during a time when we have limited resources at our disposal. The challenge stems in part from the special $7.9M payment the University has to make to the pension plan to cover an actuarial deficit of $59M. The University plans to cushion the impact of the special payment in 2012-2013 by using $2M from the reserve set aside for the pension plan. Created in 2007 during the pension contribution holiday required by law, the $18M reserve is designed in part to relieve some of the pressure caused by the need for special contributions to the pension plan.

The cost of benefits (including the pension plan) in the operating budget has increased by $4.3M (5.4%), in relation to the last fiscal year (from $79.6M to $83.9M). This increase is one of the greatest contained in the budget, which requires the University to allocate an increasing greater portion of its budget to this item.

On another front, the government subsidy linked to enrolment growth grew by 1.5% over 2011-2012, while student enrolment has grown an average of 7.7% over the past five years. This translates into a drop in revenue of about $13.9M in 2012-2013. This moderate increase in the number of students led to the Board of Governors’ decision to limit enrolment growth to 500 new students per year.

The University is also proposing allocating $12M from the reserves set aside to finance expenditures forecasted by faculties and services in 2012-2013.

Together, these measures have allowed the University to provide an envelope of $4M for the following areas related to the four strategic goals of Destination 2020:

1. Improving the student experience: $2.6M
2. Research excellence: $0.4M
3. Francophonie and bilingualism: $0.6M
4. Internationalization: $0.4M

The University continues to invest heavily in its financial aid and awards envelopes, with a 9% increase in the 2012-2013 operating budget, allowing the University to remain among Canada’s leaders in scholarships and financial aid.

ACHIEVEMENTS OF THE LAST DECADE AND CHALLENGES IN THE COMING YEARS

Our achievements

During the 2000s, the University of Ottawa took its place among the leading Canadian universities in terms of teaching and research. The tremendous growth we experienced was possible because of the University’s effective and careful financial planning. In terms of long-term viability, approach allowed the University to remain financially stable. Some of the main elements of this careful financial management include:

- Maintained net assets (assets less liabilities) at between 50% and 53% of our total assets;
- Generated surplus of $483M between 2002 and 2011, which allowed us to invest more than $420M in capital, and in particular for the Guindon campus; construction of the Biosciences complex, the SITE building, the Desmarais and Social Sciences buildings, the Hyman Soloway and 90 University
residences; as well as the acquisition of the Lees and Alta Vista sites. These investments would not have been possible without this surplus;

- Since 2005-2006, the University’s administration costs in proportion to the overall expenditures have not only remained below the average administration costs of Ontario’s universities but also dropped significantly during this period. These costs came in at 18.2% in 2005-2006 (provincial average 19.8%) and dropped further to 15.9% in 2010-2011 (provincial average 18.8%), representing a 12.6% drop (provincial average: 5.1%) during this period.

Appendix 6 contains more information.

Our challenges

Canadian universities are facing major deficits in their budgets. The fiscal prudence shown by the University must continue to serve as a model for the next 10 years.

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

1. The University must find a way to support implementation of the four strategic goals of Destination 2020, while at the same time maintaining its financial health. Additional resources will be required to finance these strategic initiatives (see Appendix 1).

2. The significant pension plan deficit also needs to be addressed. As mentioned earlier, the University must make a special $7.9M payment annually to the pension plan to cover the actuarial deficit of $59M revealed in the actuarial valuation of January 1, 2010. The University is now revising its actuarial assumptions for the next valuation, which is slated for January 1, 2013. It is very likely that some of the assumptions may have to be revised negatively, and this could ultimately require special annual payments of more than $30M a year beginning in the 2014-2015 fiscal year. Of course, special payments of this magnitude will have a major impact on the University’s operating budget and on its ability to maintain financial viability over the long term. Hence the urgency to modify the current retirement plan and balance employee-employer contributions through collective bargaining with unions. At present, the University covers almost 70% of its defined benefit pension plan, service costs while employee contributions cover the other 30%. Over 12% of payroll costs are attributed to normal pension service costs, and this figure could actually exceed the 16% mark. It is critical that the University and the employee unions agree on a course that will ensure the pension plan remains viable, keeping in mind the Government of Ontario’s has made its intentions clear on employer-employee cost sharing and governance models.

3. Universities in Ontario are also wrestling with a shortage of space for teaching and research. The most recent Report on Inventory of Physical Facilities of Ontario Universities (2007-2008) shows that the space available in the provinces universities stands at 76.5% of what’s actually needed for programs and services. The University of Ottawa ratio of 68.5% is the seventh-lowest in Ontario. Our deferred maintenance charges are still hovering above $170M. Further investments to expand and modernize physical facilities are therefore needed. A loan of up to $100M was expected in order to fund the next five-year capital plan (2012-2017), which would result in interest payments of $6M annually, in addition to $2M in additional costs for maintaining the new buildings. The financial pressures related to the pension plan reduce our borrowing capacity, which remains at $80M until the pension plan matters are resolved.

4. Currently, the legislative framework governing the management of tuition fees does not extend beyond 2012-2013. In fact, the province’s budget statement on March 27, 2012, estimates 60,000 more students will enter Ontario’s postsecondary education system up until 2017-2018, 41,000 of whom will flow into universities. Yet, the province’s budget is vague about the funding of operating and capital costs needed to support the projected growth. What’s more, we will have to wait to find out about government regulations on the management of tuition fees beyond 2012-2013. That means the University will have to quickly adjust to a new legislative context in the months to come in order to maintain its financial viability in the coming years.
5. Finally, the University must identify other sources of revenue in order to meet the rising costs over the next 10 years. More than 90% of our revenue comes from operating and research grants and tuition. The University is, therefore, in large part dependent on these sources of income, and we must find other sources of revenue to offset the risk of caps on funding and tuition fees.

BUDGET ASSUMPTIONS

Management used the following assumptions to develop the 2012-2013 budget:

1. Undergraduate enrolment of 35,141 students and graduate enrolment of 6,199 students, compared to 34,665 and 6,004, respectively, in 2011-2012. These numbers represent an increase of 671 students (1.6%), while the average growth over the past five years has been 3.7%. This decrease reflects the decision of the Board of Governors to achieve moderate growth of 500 new students per year. This growth also takes into account the conditions announced in the March 27, 2012 provincial budget;

2. An increase of $3.6M in MTCU accessibility grants tied to student growth;

3. Allocation of $6.3M from the Canadian government for indirect research costs, compared to $6.2M in 2011-2012;

4. Overall tuition fee increase of 4.3% (within the 5%), 30% of which is reserved for financial aid and bursaries, compared to the 10% required by the provincial government;

5. Operating fund investment income of $13.4M, compared to $18M in 2011-2012. This decrease reflects reduced market yields;

6. An investment of more than $5.3M 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 announcements in the March 27, 2012, Ontario budget;

8. A $23.5M allocation for deferred maintenance and renovations, compared to $26.2M in 2011-2012 and $30.5M in 2010-2011. As a result of the capital reserve fund being exhausted, as forecast in the Five-Year Capital Investment Plan, a total of $15.2M from the University’s operating budget will be used for this allocation;

9. No new debt is expected to be incurred in 2012-2013. However, there are plans to borrow funds in 2013-2014: $10.4M to build the Centre for Advanced Photonics and Environmental Analysis (CAPEA) and $20M ($40M in 2014-2015) to finance the Five-Year Capital Investment Plan (2012-2017), for a maximum of $80M;

10. An increase of $1.7M (5.3%) in the cost of energy and utilities, due mainly to the opening of the social sciences building in September 2012. The increase would be in the area of 2% without this building.

A number of other assumptions related to the amortization of capital assets, replacing computer equipment and other revenues and expenses were used to develop the 2012-2013 budget.
University overall (Table A)
Revenue projections for each fund:

<table>
<thead>
<tr>
<th>Fund</th>
<th>2012-2013</th>
<th>2011-2012</th>
<th>Incr. (Decr.)</th>
<th>Incr. (Decr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>$702,032</td>
<td>$669,862</td>
<td>$32,170</td>
<td>4.8%</td>
</tr>
<tr>
<td>Ancillary services</td>
<td>$33,933</td>
<td>$33,778</td>
<td>$155</td>
<td>0.5%</td>
</tr>
<tr>
<td>Trust and research funds*</td>
<td>$172,516</td>
<td>$178,085</td>
<td>($5,569)</td>
<td>(3.1%)</td>
</tr>
<tr>
<td>Capital</td>
<td>$10,087</td>
<td>$53,945</td>
<td>($43,858)</td>
<td>(81.3%)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$918,568</strong></td>
<td><strong>$935,670</strong></td>
<td><strong>($17,102)</strong></td>
<td><strong>(1.8%)</strong></td>
</tr>
</tbody>
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*Excludes an estimated amount of $135M for affiliated research institutes.

Appendices 5.4 and 5.5 compare the University of Ottawa’s revenues by major sources with those of peer universities.

For the University as a whole, the 2012-2013 budget projects revenues of $918.6M, compared to $935.7M in 2011-2012, broken down as follows:

1. An operating fund of $702M, representing an increase of $32.2M (4.8%), due primarily to an increase in tuition fees and grants. The increase in grant revenue is due to enrolment growth ($2M) and targeted grants, such as remuneration for Faculty of Medicine interns and residents — PAIRO ($8.4M);

2. Revenue from ancillary services remains stable at $33.9M (see Table C-1);

3. Research and trust fund revenues of $172.5M, a decrease of $5.5M over the last fiscal year, due mainly to a decrease in funding from the Canada Foundation for Innovation (see Table D-1);

4. The capital fund decreased $43.9M as a result of the Knowledge Infrastructure Program drawing to a close.

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

**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 in April to increase fees by 4.3% for the 2012-2013 academic year, which is below the 5% cap set by the Government of Ontario. We expect enrolment to increase by 476 students at the undergraduate level and by 195 students at the graduate level, in keeping with the enrolment growth strategy presented to the Board of Governors.

The proportion of revenue from tuition fees, at 41.4%, remains stable.

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

**Staff salaries**
The Association of Professors – University of Ottawa (APUO) collective agreement expired on April 30, 2011, and the support staff collective agreement (FEESO) expired April 30, 2012. The IT staff collective agreement (PIPSC) for the period May 1, 2011, to April 30, 2014, was ratified on May 1, 2012. The agreement provides for a 1.5% financial increase for 2012-2013. The CUPE collective agreements covering
salaries of students and the association of part-time professors (APTPUO) for the period September 1, 2010, to August 31, 2013, provides for a 2% increase in 2012-2013. Non-unionized employees received an increase in keeping with Bill 55, which received first reading on March 27, 2012.

**Pension-related expenses**
As mentioned, the budget includes a special annual contribution of $7.9M.

**Scholarships, bursaries and financial aid**
The 2012-2012 budget provides for an increase of $5.3M (9%) in scholarships, bursaries, financial aid, and work-study programs. In 2011-2012, 10,708 of our students received financial aid, with an average of $1,820 per student. Also, 10,492 University of Ottawa students received $91.7M in OSAP loans in 2011-2012, and 3,718 out-of-province students received $26.6M from their respective provincial governments. In 2011, the OSAP loan repayment default rate for uOttawa students was 3.7% (3.9% in 2010), well below the 25% limit that triggers financial penalties to be imposed on postsecondary institutions by the Ontario government (Appendix 5.3).

In order to fund the Ontario government’s new 30% off Ontario Tuition Grant program, which reduces tuition by $1,600 per year of study per eligible student, the Ministry is redirecting a total of $4.4M from some of its other provincial programs for 2012-2013. Of this amount, $492,000 should be covered by the University’s financial aid budget.

Since 2008-2009, student financial aid has increased by $22.5M (54%). 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 will cost $9.4M in 2011-2013.

**KEY HIGHLIGHTS – ANCILLARY SERVICES (Tables C-1 to C-4)**
The University offers the following ancillary services:

1. Housing Service
2. University Centre / Community Life
3. Parking and Sustainable Transportation
4. Food Services
5. Conventions and Reservations

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

By the Ontario government’s definition, Sports Services is not an ancillary service. However, its financial structure lends itself to that of an ancillary service and is, therefore, discussed in this section.

**Housing**
The University currently houses 3,008 students in residences, which helps facilitate recruitment, student retention and fostering a sense of community on campus. Occupancy rates reached 99% in 2011-2012. Table C-2 compares 2012-2013 rental rates with 2012-2011 rates, showing increases varying from 2.5% to 3.5%.

Major maintenance work and upgrades are slated for some residences during the summer of 2012 to keep the facilities in good condition. In order for the University to be able to offer quality housing to its students, Housing Service completes ongoing maintenance work on the residences.
University Centre / Community Life

The University Centre has been undergoing extensive renovations since 2006-2007. However, it is becoming increasingly clear that the University 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, to introduce modern food-prep processes, and to improve the food choices available for students.

The University, together with its student associations, is also working on expansion projects to provide services and spaces that will better meet our students’ needs.

Parking and Sustainable Transportation

Table C-3 presents details on parking service operations. Since September 2010, the universal student bus pass (U-Pass) has been available to full-time students as a pilot project, at a cost of $145 a session (from September to April). Despite the fact that the cost of the pass rose from $145 to $180 per session beginning in September 2012, undergraduate and graduate students voted to renew the program long term. The program has resulted in a drop in requests for parking spots by students of 9% over 2009-2010.

From 2011-2012 to 2012-2013, the number of available parking spots decreased from 3,590 to 3,109 due to the closure of three parking lots, two at the main campus and one at Lees. The University must continue with indoor and outdoor parking lot improvements and renovations, which will be financed through surpluses built up over the past years.

Sports Services

Sports Services is key in helping the University create not only a sense of belonging for its students but also ties to the community. The participation rate among students 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 the demand for services by students has led to a drop in revenues from external sources. Nonetheless, Sports Services has been able to maintain a balanced budget; table C-4 provides additional details.

The 2012-2013 academic year will see a new outdoor sports field at Lees, which will be functional by September 2012. Covered with a dome during the winter months, this field will allow the University to improve its offering of intramural sports programs for students and the community at large. The $7.9M project is fully self-funded, thanks to a surplus generated by Sports Services and a partnership with the City of Ottawa.

Food Services

University of Ottawa’s Food Services oversees all food service operations on campus. Food Services works closely with all our food service providers to offer high-quality food products and services to the entire University community. Of significant note, there has been a substantial increase (17%) in the customer satisfaction rate over the past two years.

Two major initiatives will provide the direction for Food Services in 2012-2013: launching tenders for food service contracts and building a point of sale location for Première Moisson products in the new Faculty of Social Sciences building.

Food Services will contribute to the expansion of Café Écolo in Lamoureux Hall with the addition of an outside patio, expected to be built during the summer of 2012.

In 2011-2012, Food Services recorded a surplus, which 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 to better meet the needs of students and other members of the University community.
Conventions and Reservations

Conventions and Reservations is responsible for planning and coordination events on campus for internal and external customers. The service works with a number of partners both on and off campus.

The service, which forecasts a deficit for 2012-2013, has developed an action plan to balance its budget and improve customer service.

**KEY HIGHLIGHTS – RESEARCH AND TRUST FUND (Tables D-1 to D-4)**

Projections for research revenues and expenses are based on multi-year grants, contracts already awarded and on possible new contracts and 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 show the impact of research on operating and capital fund budgets. The physical, human and financial resources that support research are, for the most part, 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, 64 Canada Research Chairs have been recruited in the following strategic research development areas:

- Canada and the World: 14
- Cybersociety: 12
- Health: 23
- Molecular and environmental science: 15

**Total**: 64

Table D-1 presents an analysis of actual and projected research revenues. The table indicates the value of awards received by the University for the last four years and the projected awards for 2012-2013. As noted, research awards fluctuate from year to year according to economic conditions, decisions announced on major research and infrastructure funding programs and new government priorities. For 2012-2013, we expect the context surrounding research funding, particularly from federal and provincial sources, to be very competitive with the potential sources remaining quite limited. Both levels of government are, however, putting an emphasis on research partnerships, including those involving private sector partners. Our activities in this area will intensify over the next year. The impact on the budget will be minimal this year but more substantial in years to come. As a result, we expect a certain amount of stability for research financing for 2012-2013.

For financial planning and reporting purposes, 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 and expense projections.

**KEY HIGHLIGHTS – CAPITAL FUND (Tables E-1 to E-7)**

Capital funding sources are as follows:

1. Ontario government capital grants for infrastructure renewal and construction;
2. Federal government capital grants, through the Canada Foundation for Innovation, for construction and facility renewal, as well as equipment grants (CIHR, NSERC and SSHRC);
3. Other sources, including transfers from the University's operating budget, loans and fundraising.

To ensure that the University's debt and liabilities are well 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 interest-coverage ratios, unrestricted liquidity-to-debt ratios and debt-to-FTE ratios.

With this policy in mind, each year the Board’s Finance and Treasury Committee reviews the University’s assets-and-debt portfolio, as well as its capital expenditure plans, including the financial requirements to move forward with the Five-Year Facilities Expansion and Renewal Plan. To fund its 2012-2012 capital projects, the University will rely both on the capital reserves set aside for this purpose and on government grants. With this approach, we will be able to comply with Policy 114 with respect to the three regulatory ratios.

The University has reviewed its capital investment ability in order to take into account its future financial strength, influenced in particular by the anticipated deficits in the pension plan. As a result, the University has reduced the maximum amount of an authorized loan from $100M to $80M.

The figures for capital projects include the $55M approved by the Board of Governors (CAPEA Project) for the faculties of science and engineering.

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