

BUDGET 2020-2021 (Preliminary)

BUREAU DES GOUVERNEURS / BOARD OF GOVERNORS
May 05, 2020

COMITÉ DES FINANCES ET DE TRÉSORERIE – THE FINANCE AND TREASURY COMMITTEE

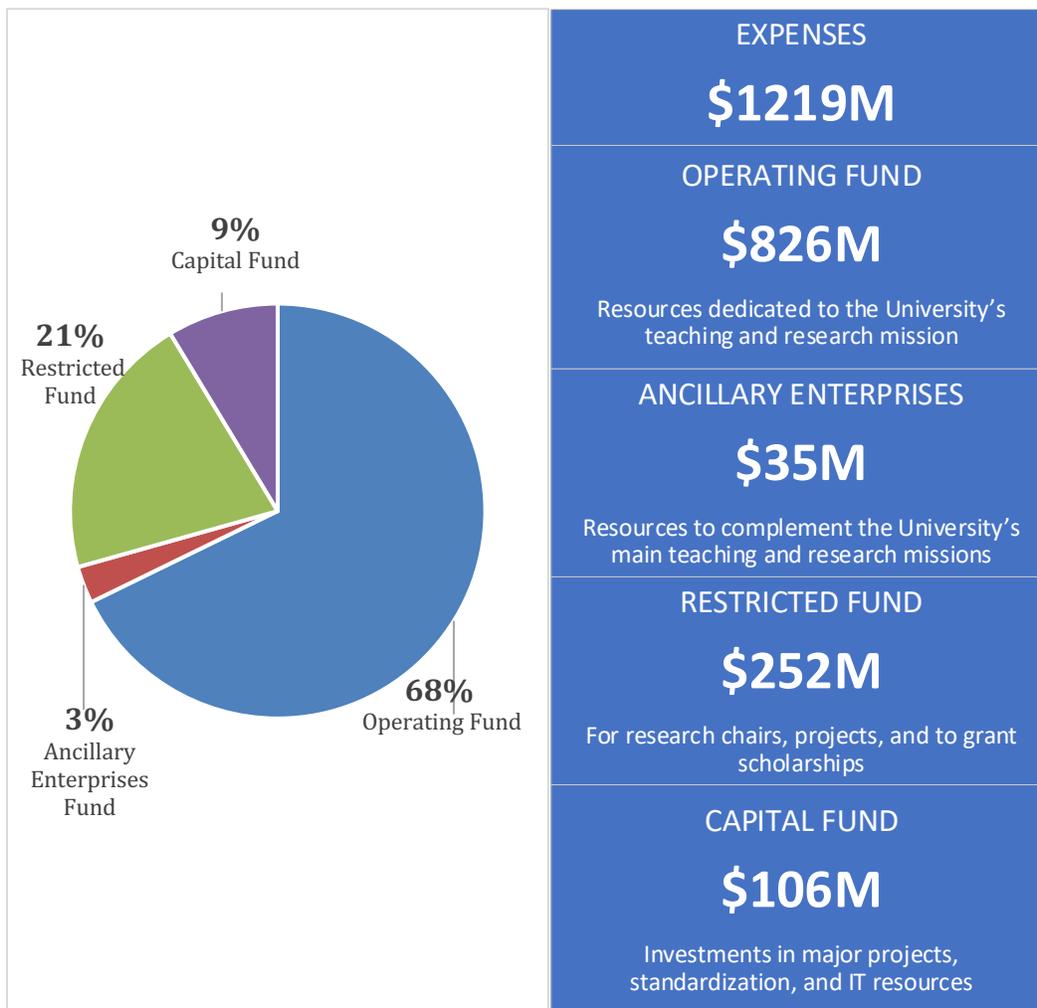
Ressources financières
Financial Resources



uOttawa

PRE-COVID-19 BUDGET

The total budget for the University of Ottawa comprises five funds, each of which is managed according to specific rules. The Operating Fund, Ancillary Enterprises Fund, and Restricted Fund finance teaching and research activities, along with services to the University community. The Capital Fund and the Endowment Fund support teaching and research activities.



Introduction

The COVID-19 global pandemic in mid-March 2020, which was also the tail end of the budget process, resulted in a delay in the current budget process by approximately three weeks. Immediately, management began estimating the financial impact on the 2019-2020 and 2020-2021 fiscal years and began tracking the actual costs. This amount was estimated to be \$12.2M for 2019-2020, including both

incremental expenses and lost revenues, and we do expect slippage into the new fiscal year.

The pre-COVID-19 budget is a base budget that underwent a solid development process and rigorous review by the University's budget committee prior to the pandemic. The most recent version includes post COVID-19 assumptions based on what is known at this time. These assumptions are expected to change, as the current environment is volatile; however, management will periodically restate the assumptions and adjust the reports accordingly. Student enrolment is the largest, single most impactful budgeted revenue item that will undoubtedly challenge the ability to balance the budget in 2020-2021. This is a volatile item in which student enrolment is assumed, the basis of which is further explained on page 9.

Prior to COVID-19, there were already several persistent pressures on the University's financial health. Key factors include ongoing demands for space and buildings, and increased cost of labour. But more impactful yet is the fact that uOttawa is beginning year two of provincially mandated student tuition reductions of 10% in year one and a freeze in year two, which has resulted in a loss of revenue of \$33M for 2019-2020 and \$45M for 2020-2021.

Since the start of the pandemic, many of the University's services have abruptly shifted to distance delivery, including completing the winter term through remote delivery of courses, and professors and staff have been required to work from home. In keeping with new guidelines from provincial and federal public health authorities, students were asked to move out of the residences and distance learning formats were developed to enable students to complete the academic school year. To date, in 2019-2020, uOttawa has incurred \$4.3M in incremental costs and lost revenues, and we expect some additional costs to slip into 2020-2021, which have been budgeted accordingly.

The Strategic Plan, T2030, is supported by the four strategic pillars: Agility, Connection, Impact, and Sustainability. The University of Ottawa will use specific aspects of these four pillars to navigate the current context, placing a strong emphasis on cutting-edge research and academic excellence.

Agility

- Be innovative and comprehensive in our approaches to teaching and learning

- Be responsive and accessible with our program offerings

Connection

- Connect with technology
- Connect with partners to foster community engagement, as well as educational, research, and industrial partnerships with both the public and private sectors
- Connect with alumni, donors, and volunteers

Impact

- Develop high-impact research initiatives at all levels of scale from local to global
- Improve the student experience: promote and strengthen a sense of belonging and of valuable education

Sustainability

- Nurture a sustainable campus culture that promotes overall well-being, embraces diversity and fuels student and employee engagement
- Ensure responsible and sustainable growth of our infrastructure, develop a long-term financial sustainability framework

Consolidated budget

This table shows the consolidated budget for the University, pre- and post- COVID-19. Column C, row 1 shows the results pre-COVID-19 and reports a deficit from operations of \$5.7M and on row 6, a consolidated deficit of \$8.4M before COVID-19 assumptions. Column D shows the financial impact of COVID-19 (\$65.8M), which is described in detail on page 15.

Table A - Budget 2020-2021					
Millions					
Envelope	<i>Revenue minus expenses before interfund transfer</i>	<i>Interfund transfers</i>	<i>2020-2021 Budget Excludes COVID-19</i>	<i>COVID 19 Assumptions (details P12)</i>	<i>2020-2021 Outlook after COVID-19</i>
	A	B	C	D	E
1. Operating Fund	\$ 28.5	(34.2)	\$ (5.7)	\$ (54.8)	\$(60.5)
2. Ancillary Enterprises Fund	11.9	(10.3)	1.6	(\$11.0)	(9.4)
3. Restricted Fund (Research)	(1.0)	2.7	1.7		1.7
4. Restricted Fund (Other)	(1.2)	(1.3)	(2.5)		(2.5)
5. Capital Fund	(46.6)	43.1	(3.5)		(3.5)
6. Total	\$ (8.4)	0	(\$8.4)	(\$65.8)	(\$74.2)
7. Change in net assets			37.3		37.3
8 Employee future benefit			10.4		10.4
9. Excess of revenue over expenses			\$ 39.3	(\$65.8)	(\$26.5)

Operating Fund

Overall, the Operating Fund shows a budgeted deficit, pre-COVID-19, of \$5.7M, which is the budget being submitted for approval. We are also showing a projected impact of COVID-19 as \$54.8M in lost revenues and increased costs. These are soft estimates and will be updated periodically between now and September 2020.

The University of Ottawa is proud to promote bilingualism and support for Francophone communities, all of which comes at an additional financial cost, which is embedded in the 2020-2021 Operating Fund budget.

Provincial operating grants are budgeted to be the same as the previous year at \$320M, which has seen no significant change since 2012-2013. Tuition fees, on the other hand, were cut by 10% beginning in 2019-2020, while in 2020-2021, a tuition freeze has resulted in another \$45M loss in tuition fees relative to December 2018 forecasts. In 2020-2021, the University (pre-COVID-19) had projected an increase in enrolment to a total of 44,058 students. Tuition fees for international students are exempt from the provincial 10% fee reduction, and in 2020-2021, no fee increase will be implemented for for new international undergraduate and graduate. In addition, international tuition costs will be partially offset by a new bursary program and an increase of 0% for incoming international students.

From an expenditure perspective, there is also no significant change with respect to scholarships and student aid budgets. Salaries and benefits have been budgeted to increase between 1% and 2% for 2020-2021, either due to contractual obligations or general increases, depending on union category. These increases are reflected in the budget, the total estimated cost of which is \$11.3M.

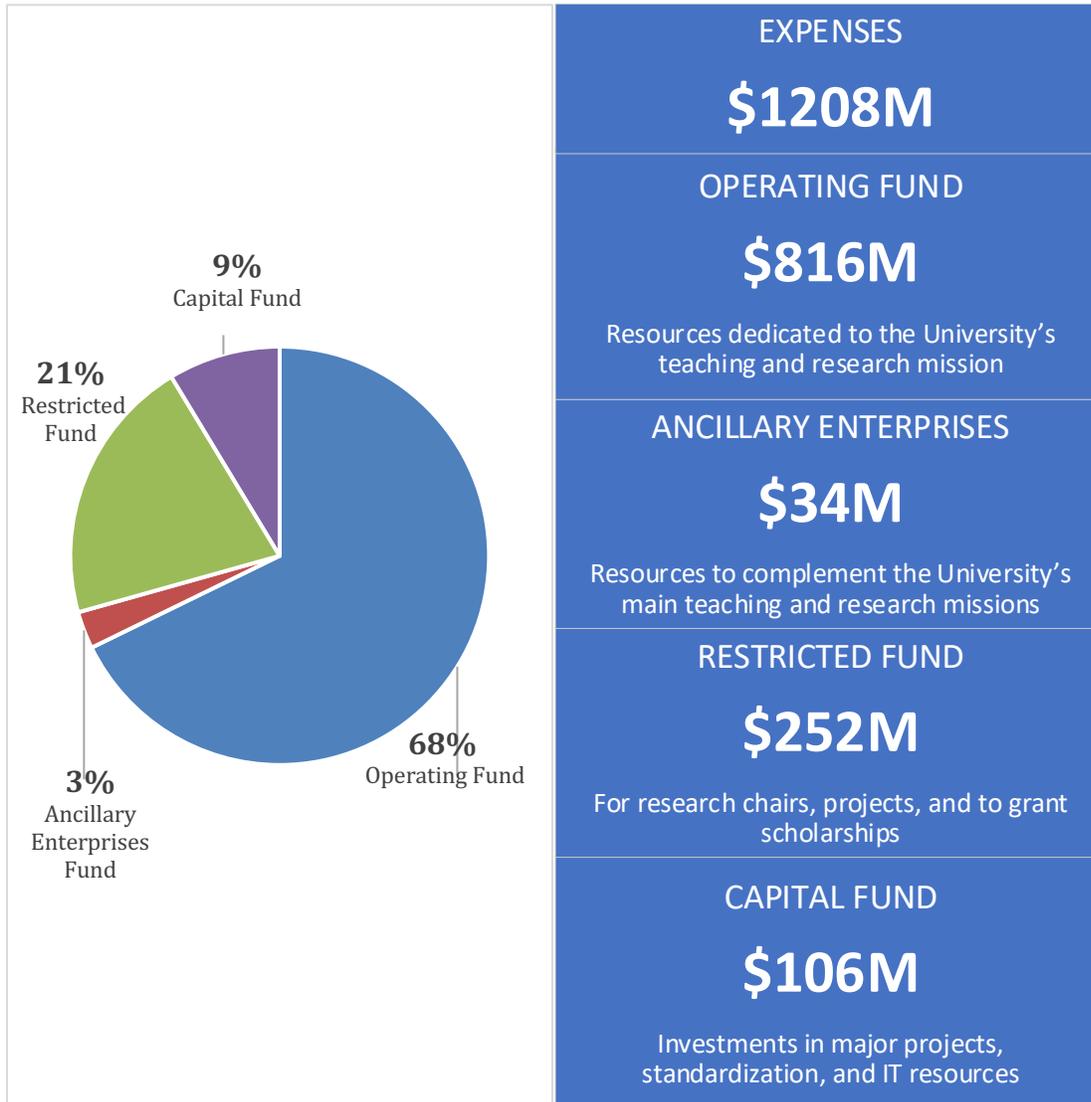
All other budget categories reflect slight increases from the prior year, which reflect the operating needs of the University in 2020-2021.

État sommaire des revenus et dépenses du fonds de fonctionnement 2020-2021 (en milliers de \$)

	Budget 2020-2021 (\$) Après COVID-19	Budget 2020-2021 (\$) Avant COVID-19	Budget 2019-2020 (\$)	Variations Budget 2020-2021 Avant COVID-19 vs après COVID-19	
				(\$)	(%)
REVENUS					
Subventions	321,174	319,590	319,753	1,584	0.50%
Droits de scolarité et autres frais	413,021	479,136	444,707	(66,115)	-13.80%
Revenus de placement	34,347	34,827	21,251	(480)	-1.38%
Ventes de marchandises et services	9,181	9,181	8,995	-	-
Logements étudiants				-	-
Dons	538	538	647	-	-
Autres	11,660	11,660	12,159	-	-
Total des revenus	789,921	854,932	807,512	(65,011)	-7.60%
DÉPENSES					
Salaires	482,206	487,633	467,822	(5,427)	-1.11%
Avantages sociaux	108,831	101,645	99,741	7,186	7.07%
Bourses et aide financière	64,288	71,403	69,126	(7,115)	-9.96%
Acquisitions des bibliothèques	17,413	17,413	16,696	-	-
Coûts des biens et services	32,199	31,272	34,246	927	2.96%
Entretien, réparations et services publics	32,206	32,604	29,447	(398)	-1.22%
Déplacements	3,595	8,987	8,482	(5,392)	-60.00%
Honoraires professionnels et services contractuels	34,049	34,049	31,781	-	-
Intérêts et frais bancaires	24,940	24,940	17,105	-	-
Ententes interinstitutionnelles	1,360	1,360	1,383	-	-
Autres	15,068	15,068	20,815	-	-
Total des dépenses	816,155	826,374	796,644	(10,219)	-1.24%
TRANSFERTS INTERFONDS	34,216	34,216	28,307	-	-
DÉFICIT BUDGÉTAIRE	(60,450)	(5,658)	(17,439)	(54,792)	

TOTAL BUDGET POST-COVID-19

The total budget of the University of Ottawa



COVID-19 Impact on Operating Fund

Potential Scenarios

Tuition revenue accounts for over 50% of total operating fund revenues, but the change from the prior year is difficult to predict due to the uncertain intake of domestic and

international students. The assumptions applied in developing this budget, namely those of scenario #2, as per the table below, are well-aligned with pragmatic forecasts developed with peer institutions.

Scenario #2 reflects a \$54.1M or 11.3% projected loss of tuition revenues.

The post COVID-19 enrolment assumptions, which guide a high proportion of the revenue projections, are informed by the following dependencies:

- Public Health directives on physical gatherings
- Student decisions related to preparedness
- Student decisions related to affordability
- International travel restrictions
- Interprovincial travel restrictions

Based on the above dependencies, the budget assumptions include the following enrolment impacts:

- Domestic intake (-10%)
- International intake (-50%)
- Domestic returning (-5%)
- International returning (-15%)

It is important to note that scenario #1 is \$22M lower, while scenario #3 is \$32M higher than scenario #2. Should either scenario #1 or #3 arise, there would be a material impact on tuition fee income.

Dependencies (L=low, M=medium, H=high)	1	2	3	4
<i>Public Health directives on physical gatherings</i>	L	L	M	H
<i>Student decisions related to preparedness</i>	L	L	M	H
<i>Student decisions related to affordability</i>	L	M	M	H
<i>International travel restrictions</i>	L	M	H	H
<i>Interprovincial travel restrictions</i>	L	L	M	H
TUITION REVENUE IMPACT (\$)	32,000,000	54,156,000	86,410,186	119,266,232

SCENARIOS		1	2	3	4
Enrolment Decrease vs. Plan					
Intake	Domestic	-5%	-10%	-15%	-20%
	International	-30%	-50%	-75%	-100%
Continuing	Domestic	-5%	-5%	-10%	-15%
	International	-5%	-15%	-25%	-35%
TUITION REVENUE IMPACT		32,000,000	54,156,000	86,410,186	119,266,232
ENROLMENT IMPACT (Projected Decrease vs. Plan)					
Intake	Domestic	-429	863	1,303	1,739
	International	-745	1,200	1,728	2,408
Continuing	Domestic	-1165	1,165	2,093	3,033
	International	-206	595	975	1,267

Investment income

The previous budget year included investment income of \$21.2M. Unrealized investment losses are expected to be the greatest in 2019-2020, and will be accounted for accordingly in the annual audited financial statements. The budget for 2020-2021 is \$34.8M before COVID-19, which reflects an increase mainly due to the changes in the portfolio balances (including the recent \$300M bond issuance) and updated investment return forecasts. The investment return budgeted for the Long-Term Portfolio is 6.0%.

Pension expenses

Based on anticipated filing of actuarial valuation as of January 1, 2020

- Last actuarial valuation filing was as of January 1, 2018, with the employer's contribution level set at \$45M at that time
- Annual actuarial valuation updates are made to assess and monitor the situation
- Update for 2020 will be completed in June; projected employer's contribution level in the \$51M-\$53M range
- The budget for 2020-2021 reflects an \$8M budget increase in pension expenses.

An actuarial filing in September 2020 based on a valuation as of January 1, 2020 is considered a voluntary or early filing

- Every three years an actuarial filing is required; currently no later than September 2021 based on a January 1, 2021 valuation
- Filing based on a January 1, 2020 valuation "locks in" the contribution level until the next filing, for which the deadline would move to 2023

Ancillary Enterprises Fund

The budget for ancillary services is based on ancillary activities and initiatives that support the University's objectives while maintaining a sound financial position. These activities play a key role in the student experience and quality of life on campus.

To remain financially viable, ancillary enterprise activities must be self-sustaining, i.e. each service must generate sufficient revenue to cover its operating expenses, as well as the cost of its capital assets and their replacement.

The University offers the following ancillary services:

- Housing
- Food Services
- Parking and Sustainable Transportation
- Library
- University Centre
- Conventions and Reservations
- University of Ottawa Press

Ancillary Enterprises

État sommaire des revenus et dépenses des services auxiliaires 2020-2021 (en milliers de \$)

	Budget	Budget	Budget	Variations Budget 2020-2021	
	2020-2021 (\$) Après COVID-19	2020-2021 (\$) Avant COVID-19	2019-2020 (\$)	Avant COVID-19 vs après COVID-19 (\$)	(%)
REVENUS					
Subventions	410	410	382	-	-
Droits de scolarité et autres frais	353	1,112	1,107	(759)	-68.26%
Revenus de placement	4	4	5	-	-
Ventes de marchandises et services	9,760	13,947	13,763	(4,187)	-30.02%
Logements étudiants	19,244	26,307	25,337	(7,063)	-26.85%
Dons	5	5	5	-	-
Autres	5,262	5,262	4,970	-	-
Total des revenus	35,038	47,047	45,569	(12,009)	-25.53%
DÉPENSES					
Salaires	7,622	8,272	8,783	(650)	-7.86%
Avantages sociaux	1,611	1,709	1,412	(98)	-5.73%
Bourses et aide financière	4	4	7	-	-
Coûts des biens et services	3,357	3,357	7,809	-	-
Entretien, réparations et services publics	15,356	15,356	10,366	-	-
Déplacements	119	297	261	(178)	-59.93%
Honoraires professionnels et services contractuels	965	965	665	-	-
Intérêts et frais bancaires	1,289	1,289	1,404	-	-
Autres	3,887	3,887	3,850	-	-
Total des dépenses	34,210	35,136	34,557	(926)	-2.64%
TRANSFERTS INTERFONDS	10,257	10,257	9,883	-	-
SURPLUS (DÉFICIT) BUDGÉTAIRE	(9,429)	1,654	1,129	(11,083)	

Restricted Funds – Research

In the initial 2020-2021 projections, research revenue was forecasted to be strong (\$136M) as the University began implementation of its strategic plan, Transformation 2030. Particular strengths included Tri-Council funding (\$48M) from NSERC, CIHR, and SSHRC, where performance is solid. As federal funding announced in 2018 continues to roll out, early-career researchers are securing grants, and mid-career and senior researchers are increasingly successful in obtaining large grants. The University continues to recruit stellar candidates for its growing Canada Research Chairs portfolio (89 Chairs), focusing on strategic recruits that support equity, diversity, and inclusion (EDI) targets (\$11M). In addition, new sources of revenue were being actively explored through increased activity with potential partners.

With respect to major infrastructure projects, 2020-2021 is a year between two major competitions from the Canada Foundation for Innovation (CFI) and the Ontario Research Fund – Research Infrastructure (ORF). As such, forecasted revenues are less than would be expected in a year where major projects are awarded. The FY2020-2021 forecast includes provisions for payments made by the CFI and the ORF-Research Infrastructure programs for active projects and those expected to be active during FY 2020-2021 (\$4.33M combined). In addition, the University expects to leverage \$1.76M for the operation and maintenance of its infrastructure portfolio through the CFI Infrastructure Operating Fund. An additional \$979K is expected from various Ontario

Research Fund programs (Research Excellence, Large Scale Applied Research Projects). Finally, an infrastructure contribution contract with the National Research Council of Canada will bring in an additional \$988K.

In light of the COVID-19 pandemic, Tri-Council and CFI revenues will remain solid, but there are projected decreases in revenues from the federal government, private sector, medical research foundations and associations in the order of \$10-12M. These decreased revenues will be offset by decreased expenses.

Restricted Fund – Other

The 2020-2021 budget anticipates research grant and contract revenues to be \$72.1M, which represents 73.4% of the total revenues of the Restricted Fund – Other, compared to \$72.0M (72.0%) in the 2019-2020 budget.

Most investment income arises from an allowable transfer of 3.5% return on investments in endowments, which can be spent. The University protects the future purchasing power of its endowment funds by designating a portion of the annual return they earn.

Accordingly, the University has established a policy of setting the amount of income available for spending at 3.5% of the 12-quarter moving average market value. The purpose of this policy is to allow the University to distribute a consistent amount of income from endowments on an annual basis regardless of the investment income earned in the fiscal year.

The expenditures of the Restricted Fund – Other include salaries, scholarships, and payments for inter-institutional agreements. The expenses incurred under the Restricted Fund – Other are directly related to activities funded by the donor, and do not include any indirect costs.

Capital Fund

The Capital Fund budget for 2020-2021 continues the University's efforts to renew and update infrastructure that is critical to its teaching and research mission.

The projected total funding for capital projects for the coming fiscal year is \$105.6M, before accounting for \$3.9M in mitigation mechanisms. Some of the major projects include the start of construction of a new tower at 200 Lees Avenue and a new tower on the Roger Guindon campus at a total cost of \$48.5M. The total cost of this construction is estimated at \$250M and will be spread out over more than one fiscal year. Concurrently with these major construction projects, the University will begin

refurbishing spaces occupied by Animal Care and Veterinary Service, work which was slated to begin in 2018-2019 but was pushed back to 2020-2021, at an estimated cost of \$10M. The remaining \$47.1M will be spent on the construction and renovation of research spaces that are partially funded by the Canadian Foundation for Innovation (CFI) and for the immediate needs of the University's real property assets.

This infrastructure work will be funded in the following way: \$18.7M in deferred capital contributions; \$4M in anticipated capital grant funding (FRP), \$29.8M in debentures; and \$20M in contributions from the Operating Fund toward the Facilities Renewal and Improvement Program (PAPI). The remaining \$33.1M will be drawn from various capital reserves, including ancillary enterprises and Canadian Foundation for Innovation (CFI) grants. At this time, we do not anticipate changes to this budget due to COVID-19. There may be delays if a second interruption of in-person services occurs in 2020.

(en milliers de dollars)

Projets	Provenance du financement				Total
	Fonctionnement	Services auxiliaires	Restreint - Recherche	Immobilisations	
Projet Top Shelf (200 Lees \$28.5M + RGN Research Tower \$20M)				48,500	48,500
Financement en provenance de:					
Débetures \$29.8M					
Apports reportés en capital \$18.7M					
Projets PAPI (Animalerie \$10M et autres projets \$47M)					
Financement en provenance de:					
Contribution PAPI	20,000				20,000
Enveloppe 3 de certains projets	550				550
Subvention en capital (Facilities Renewal Program)				4,000	4,000
Réserve en capital				1,865	1,865
Réserves en capital des auxiliaires				2,450	2,450
Prêts de la réserve en capital				1,350	1,350
Contribution CFI - externe			6,428		6,428
Contribution CFI - portion uOttawa	4,017				4,017
Financement reporté des années antérieures				16,340	16,340
Total	24,567	0	6,428	74,505	105,550

A review of the PAPI has identified a reduction of \$3.9M due to construction delays, this results in a revised total of \$105.6M less \$3.9M = \$101.7M

Table B – COVID 19 Financial Impact

This table provides details on the projected COVID-19 costs. These are estimates and are subject to change.

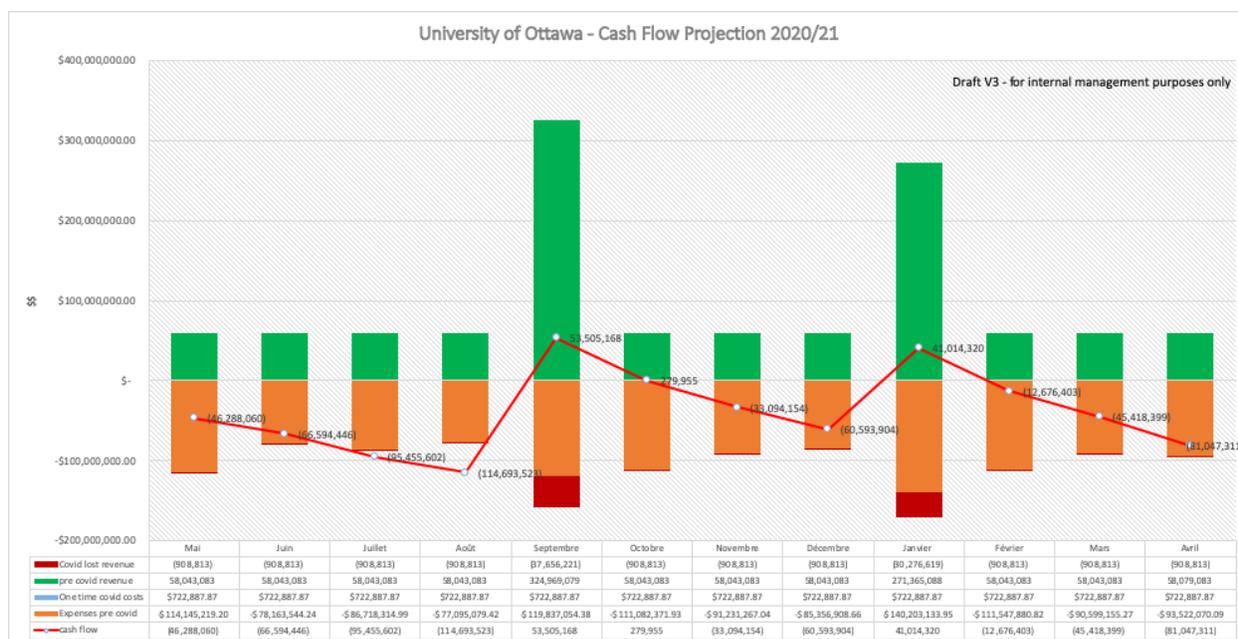
	Total (000's)	Operating Fund	Ancillary Enterprises
Revenue			
Operating grants	1,584	1,584	
Tuition fees & other fees			
Droits scolarité (# d'étudiants)	(54,156)	(54,156)	
Droits scolarité (tarif internationaux)	(5,518)	(5,518)	
Droits administratifs (frais de retard)	(135)	(135)	
Droits accessoires(sports)	(5,353)	(5,353)	
Droits accessoires(COOP & autres)	(953)	(953)	
Droits accessoires(UCU)	(759)		(759)
Investment income			
Droits administratifs intérêts sur comptes étudiants	(480)	(480)	
Sale of goods & services			
Food	(797)		(797)
C&R	(362)		(362)
Parking	(3,028)		(3,028)
Student housing	(7,063)		(7,063)
Total revenue	(77,019)	(65,011)	(12,009)
Expenses			
Salaries & benefits (Hiring freeze)	(7,648)	(6,900)	(748)
Benefits (pension)	8,000	8,000	
Scholarships and financial aid	(7,115)	(7,115)	
Additional budget TLSS	1,586	1,586	
Utilities (campus closed until June 30)	(398)	(398)	
Travel	(5,570)	(5,392)	(178)
Total expenses	(11,144)	(10,219)	(926)
Revenues minus expenditures before interfund transi	(65,875)	(54,792)	(11,083)

Liquidity

The table below shows a cash flow forecast, with monthly budget of both revenues (green bar), expenses (orange bar) and COVID-19 impacts (red bar) on a cash basis and reflects the rolling cash balance (red line). Based on the current assumptions, the cash end balance budget is projecting to be a cash deficit of \$81.0M.

The University maintains a \$10M cash balance in the bank account and has an additional \$259M in short-term investments, plus another \$50M in long-term investments. This \$259M excludes the \$300 funds related to the recent bond issuance, which is restricted for Top Shelf.

From a cash perspective, there is adequate cash to operate the University for next year based on the current outlook.



Mitigation mechanisms

The solution to solving the financial challenges ahead will be thoughtful and based on a more concrete economic outlook. At this time, there is significant volatility in the variables and dependencies, particularly with respect to student enrolment, which generates approximately half of uOttawa’s operating revenue. This requires methodical and deliberate action: being too aggressive at this juncture, based on current assumptions,

could create long-term political and resource impacts. With this in mind, management is exercising caution while monitoring the environment carefully.

Nevertheless, management took various steps in the interim to mitigate financial risk, such as increasing revenues, implementing hiring freezes for non-academic positions, mass salary and other expense reductions (pre-COVID-19). Other mechanisms are currently under consideration and, if needed, will be implemented.

Conclusion

Considering the information presented in this budget document, the uOttawa management will continue monitoring the information and environment in order to remain responsive and agile. Accountability will be exercised at all levels of the organization, with regular reporting to various community stakeholders. With respect to transparency of information and decisions, management will return to the Finance Committee regularly with updates and projections. In addition, in September 2020 management will provide updated assumptions and any required budget revisions to the Finance and Treasury Committee and the Board of Governors.