

# Brock University 2009/10 Budget

World Economic Situation &  
The Operating Budget Challenge  
January, 2009

# Economic Situation - Overview

- Canadian universities are not isolated from the world economic crisis.
- The economic situation has exacerbated the financing challenges that almost all universities were already under.
- As all Canadian universities are largely dependent on provincial funding – the forecasts of provincial budgets will likely have the largest impact on revenue projections.
- The economic financial impact varies among universities depending on asset mix and equity exposure of endowment, pension and other investments held.

# Brock Impact - Highlights

- Endowment
  - Unlike Canadian Universities with large endowments, Brock is not dependent on endowed funds to support the operating budget.
  - Other universities have suspended or reduced their payout.
  - Brock's payout rate will likely be reduced.
- Pension
  - Severity of the impact is compounded by the DB structure of pension funds.
  - Brock's plan is primarily a DC with a minimum guarantee component. The greatest impact is borne by the pensioner.
  - Plan valuation at June 30, 2008 may result in operating budget requirements to meet minimum guarantee and solvency funding.

# Brock Impact - Highlights

- Debt Management
  - No impact on current debt service obligations.
  - Majority of all debt obligations are long-term.
  - Current debt due in 2009 has a sinking fund.
- Short-term Investments
  - No surplus cash funds were held in assets in the equity market.
  - Investment income will decline with expected lower returns and surplus cash eroding.

# Provincial Funding

- General purpose provincial grants represent about 50% of Brock's operating budget revenue.
- No one-time year end funding is expected for 2008/09 and the best we can expect for 2009/10 is level funding.
- The freeze in provincial funding will result in the most adverse impact on our projected revenues.
- A freeze to grant funding is a significant decline in revenue as inflationary costs outpace government-controlled tuition rates.
- It was expected that beginning in 2009/10, modest increases to provincial funding would be received.
- Previous commitments to on-going funding was lagging significantly behind operating costs.

# 2008/09 Base Shortfall

- Budget balanced with one-time funds of \$12.6m
  - This included about \$4m from 2007-08
- Financial Summary (000's)

Total Base Revenues	\$195,138
Total Base Expenditures	\$207,791
Base Shortfall	\$(12,653)
Percentage of budgets	8.3%
- Budget is still projected to be balanced at year end
  - Thus no accumulated deficit, unlike other Cdn universities

# 2009/10 Preliminary Assumptions

- Revenue Assumptions:
  - Government operating grants will be flat
  - Government's tuition policy will continue with Brock's average rate increase of 4.5%
  - Enrolment levels are stable with 08/09
- Expenditure Assumptions:
  - Inflationary costs on 08/09 base expenditures will average 6% on related expenses
  - Some one-time costs for branding/web redesign

# 2009/10 Preliminary Estimates

## Financial Summary (000's)

08/09 Base Revenues	\$195,138
Additional Tuition	3,428
Operating Grants	<u>-</u>
09/10 Base Revenues	\$198,566
08/09 Base Expenditures	\$207,791
Incremental New Costs	<u>8,200</u>
09/10 Base Expenditures	\$215,991
Base Budget Shortfall	\$(17,425)
Percentage of budgets	11.5%

# 2010/11 - 2013/14 Assumptions

- Revenue Assumptions:
  - Government operating grants will be increased at about 2% (\$1.5m) in each year beginning in 10/11
  - Government's tuition policy will continue with Brock's average rate increase of 4.5%
  - Enrolment levels continue to be stable
- Expenditure Assumptions:
  - Inflationary costs will average 6% on related expenses
- Each in-year shortfall (current year expenditures in excess of current year revenues) averages 3% .

# Recovery over the Economic Cycle

- Funding all of the 08/09 structural deficit in 2009-10 is insurmountable to recover (shortfall \$17.4m or 11.5%).
- Like most universities, operating budgets can no longer be balanced annually.
- Therefore proposing to the Board of Trustees a recovery strategy over the 4 year economic cycle.
- Each in-year shortfall averages 3% + about 2% for a portion of the 08/09 base shortfall = 5%.
- This translates to an average amount of \$7.5m of new external revenues or cost savings in each year.
- This target of 5% is similar to other Canadian universities range of expenditure cuts.

# Revenue/Cost Saving Targets

- An overall University average of 5% is needed.
- Target of 7% is being requested of Budget Developers.
- Each and every Administrative and Academic department is included in this target request.
- To maintain fairness all Budget Developers will be required to propose targets.

# Base for Savings Target

- The base for the target is the Board of Trustees 08/09 approved base budget excluding university-wide expenses.
- University-wide expenses include global, regulatory compliant and other fixed costs (e.g. utilities, insurance, debt service, mandated student bursaries, library acquisitions)
- For consistency, the Budget – Finance Office has confirmed with each Budget Developer their base budget.

# Overview of Timelines & Process

- Target proposals will include specific plans and implications to service levels, programs, etc.
- Target proposals are to be submitted to the Budget – Finance Office (for compilation for President & VPs (Acad & Fin/Admin) by:
  - February 19 – All (except Deans)
  - February 26 – Deans
- Meetings with President & VPs (Acad & Fin/Admin) with each Budget Developer
  - Scheduled during week of March 9 -13.

# Questions or Comments

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