**May 2018**

# OCAD University

## FY 2018/19 Operating Budget Overview

### INTRODUCTION

This is an overview of the proposed FY 2018/19 Operating Budget and process as follows:

A. **FY 2018/19 Budget Context and Assumptions**
B. **FY 2018/19 Budget Risks Assessment**
C. **FY 2018/19 Budget Remedial Action Process**
D. **FY 2018/19 Accumulated Deficit**

**Appendix 1: 2018/19 Operating Budget and Accompanying Schedules and Notes**

The Consolidated 2018/19 Operating Budget Summary on page 2 of Appendix 1 presents an overall deficit budget for 2018/19.

The University currently uses a hybrid version of an incremental budget model as a planning tool. This essentially means that the previous year's budget, modified in accordance with specific assumptions related to revenue and expenditure categories, becomes the starting point for formulating and projecting the upcoming year budget.

The model presents as a 'hybrid' because it modestly engages strategic resource allocation – this year through allocation to Academic Plan priorities – rather than passively and incrementally responding financial vicissitudes of its operating environment.

It is important to note that the operating budget does not finance capital projects during construction phases. Post-construction, the operating cost of any additional space will be reflected in the operating budget as well as any debt service costs associated with undertaking the capital project.

The budget assumptions and the proposed operating budget for FY 18/19 are presented in detail in Appendix 1.

## A. FY 2018/19 BUDGET CONTEXT AND ASSUMPTIONS

This section provides an overview of the underlying revenue and expenditure assumptions that underpin the proposed FY 2018/19 operating budget (see Schedules 1 and 2 of Appendix 1). The assumptions are consistent with those used and presented last month to formulate the Multi-Year Financial Forecast in respect of the subject budget year.

**OCAD University Unrestricted Operations**

| | **2017/18 Estimated Actual** | **2018/19 Budget** |
|---|---|---|
| ***A) OPERATING*** | | |
| Revenue (Schedule 1) | 67,256 | 72,534 |
| Expenditures (Schedule 2) | (69,017) | (73,620) |
| Contingency (Note 16) | (350) | (700) |
| Surplus (deficit) prior to extraordinary allocations | (2,111) | (1,786) |
| ***B) EXTRAORDINARY ALLOCATIONS*** | | |
| Furniture, Fixtures and Equipment (Note 15) | - | (200) |
| University Fund | - | - |
| Surplus (deficit) for the year after extraordinary allocations | (2,111) | (1,986) |
| ***C) REMEDIAL ACTION PLAN*** (Note 17) | 3,519 | 780 |
| Surplus (deficit) for the year after remedial action plan | 1,408 | (1,206) |
| ***D) UNRESTRICTED NET ASSETS*** | | |
| Unrestricted accumulated Surplus(Deficit) beginning of the year | (1,408) | - |
| Unrestricted accumulated Surplus (Deficit) end of year (Note 18) | - | (1,206) |

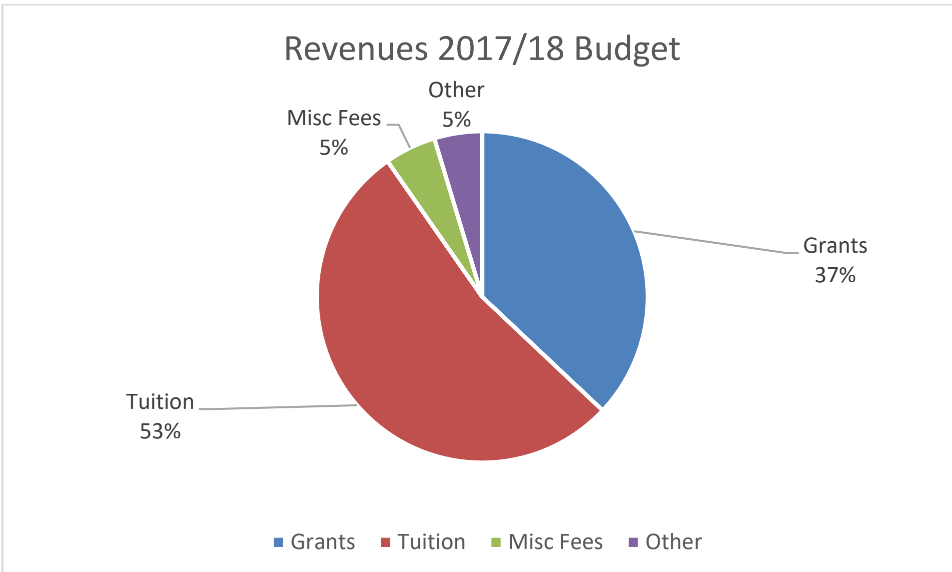
Appendix 2

| OCAD University<br>Multi-Year Financial Forecast<br>2017/18 to 2022/23<br>Summary ('000s) | | | | | | |
|---|---|---|---|---|---|---|
| | **17/18 Forecast** | **18/19 Forecast** | **19/20 Forecast** | **20/21 Forecast** | **21/22 Forecast** | **22/23 Forecast** |
| **A) OPERATING** | | | | | | |
| **Revenue - Unrestricted (Schedule 1)** | 67,256 | 72,534 | 78,360 | 85,091 | 91,958 | 99,003 |
| **Expenditures (Schedule 2)** | (69,017) | (73,620) | (77,997) | (83,499) | (87,761) | (92,131) |
| **Academic Plan** | 0 | 0 | (100) | (200) | (700) | (1,000) |
| **Captial FF & E** | | (200) | (250) | (250) | (500) | (750) |
| Contingency | (350) | (700) | (750) | (800) | (2,500) | (3,500) |
| **Surplus (Deficit) prior to remedial action** | (2,111) | (1,986) | (737) | 343 | 498 | 1,622 |
| **B) REMEDIAL ACTION** | | | | | | |
| **i) Remedial Action (1) - One Time** | 1,723 | 700 | 700 | 700 | 0 | 0 |
| **ii) Remedial Action (1) - Permanent** | 796 | 80 | 100 | 100 | 0 | 0 |
| **iii) Remedial Action Plan (2)** | 1,000 | | | 0 | 0 | 0 |
| **Surplus (Deficit) for year after budgetary remedial action** | 1,408 | (1,206) | 63 | 1,143 | 498 | 1,622 |
| **C) UNRESTRICTED NET ASSETS** | | | | | | |
| **Unrestricted Accumulated, Surplus (Deficit), Beginning of the year** | **(1,408)** | **-** | **(1,206)** | **(1,143)** | **(0)** | **497** |
| **Unrestricted Accumulated, Surplus (Deficit) End of Year** | **-** | **(1,206)** | **(1,143)** | **(0)** | **497** | **2,119** |

## 1. Revenues

It is not expected that the relative percentage of various major revenue categories to total revenues will change in the upcoming FY 2018/19 compared to FY 2017/18. As can be seen in Table 1, below, 90% of the University's revenue is derived from tuition and government grant funding.

**Table 1: FY 2017/18 Revenues by Major Category**




### a) Grants

The province introduced a new funding formula for 2017/18 with objectives of:

i) Improving sector financial sustainability
ii) supporting differentiation
iii) emphasizing the quality of the student experience
iv) improving transparency and accountability

Previous grant categories were reclassified as:

i) Core Operating Grant (enrolment based)
ii) Differentiation
iii) Special Purposes Grant

The Core Operating Grant was determined by a new funding weight unit per student and an enrolment corridor within which a university's five year moving average of domestic undergraduate enrolment must track in order to maintain funding entitlements.

The differentiation grant segment is outcomes based with individual university metric objectives established as part of the strategic mandate agreement (SMA2) negotiations with the province.

As part of the transition to the new funding model, each university has been guaranteed no loss in existing core and differentiation grant revenues from 2016/17 levels for the next two years.

### b) Tuition Revenue

**Tuition Rate Increase –** In March 2018, the Board of Governors approved an increase of 5% and 6% per year for international undergraduate and graduate students for 18/19 and 19/20 respectively with a portion of the tuition revenue to provide additional staffing in the Internationalization office to support students.

In March 2017, and in the context of the Multi-Year Forecast for the period 17/18 to 18/19, the Board of Governors approved an increase of 3% to domestic undergraduate and graduate student fees (maximum allowable under the provincial government multi-year tuition framework).

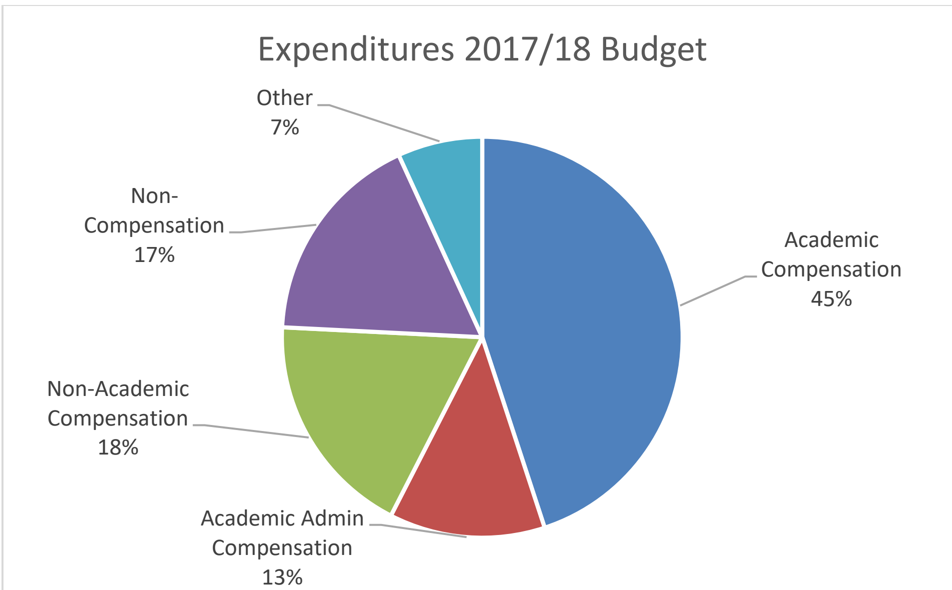
**Enrolment (see Schedule 1.2 c)** - Graduate enrolment for 2018/19 is projected to increase over 2017/18 levels by 25 FTEs.

The Undergraduate 2018/19 first year intake is expected to increase by 22 FTE to 1104 with overall enrolment increasing by 197 FTEs (5.3%) to 3,885 FTEs.  Of the 197 FTEs increase, 70 FTEs is domestic and 127 FTEs is international.

## 2. Expenditures (see Schedule 2)

The percentage of major expenditure categories to total expenditures will not change from FY 2017/18 to FY 2018/19. Nearly 80% of the University's annual operating expenditures are comprised of salary and compensation (Table 2). This significant percentage of total expenditures dedicated to human resources is why, in part, it is typically challenging for a university to pivot quickly in the face of unfavourable financial variances.

**Table 2: 2017/18 Expenditures by Major Category**




### a) Compensation

In 2017/18 a new four-year Faculty collective agreement was negotiated retroactive to 2016/17. Key provisions of the collective agreement being implemented in 2018/19 are a reduction of studio teaching load from 7 courses to 6 courses per year, phased conversion of seven sessional salary steps to four steps and across the board increases (ATB).

In 2017/18 a new four-year OPSEU Staff collective agreement was negotiated retroactive to June 1, 2017. Key provisions of the collective agreement being implemented in 2018/19 are across the board (ATB) increases and benefit changes.

### b) Non-Compensation

FY 2018/19 Budget contains a 1% provision for an inflationary increase in non-compensation costs, a 5% increase in utilities and property related fees such as condominium fees in respect of the new Onsite Gallery and provisions for increase in minimum wages increases in security and cleaning contracts due to Bill 148.

An allocation of $200,000 from the operating budget has been provided for new and replacement furniture and equipment (FF & E) and renovations.

### c) Executive Education Business Trust

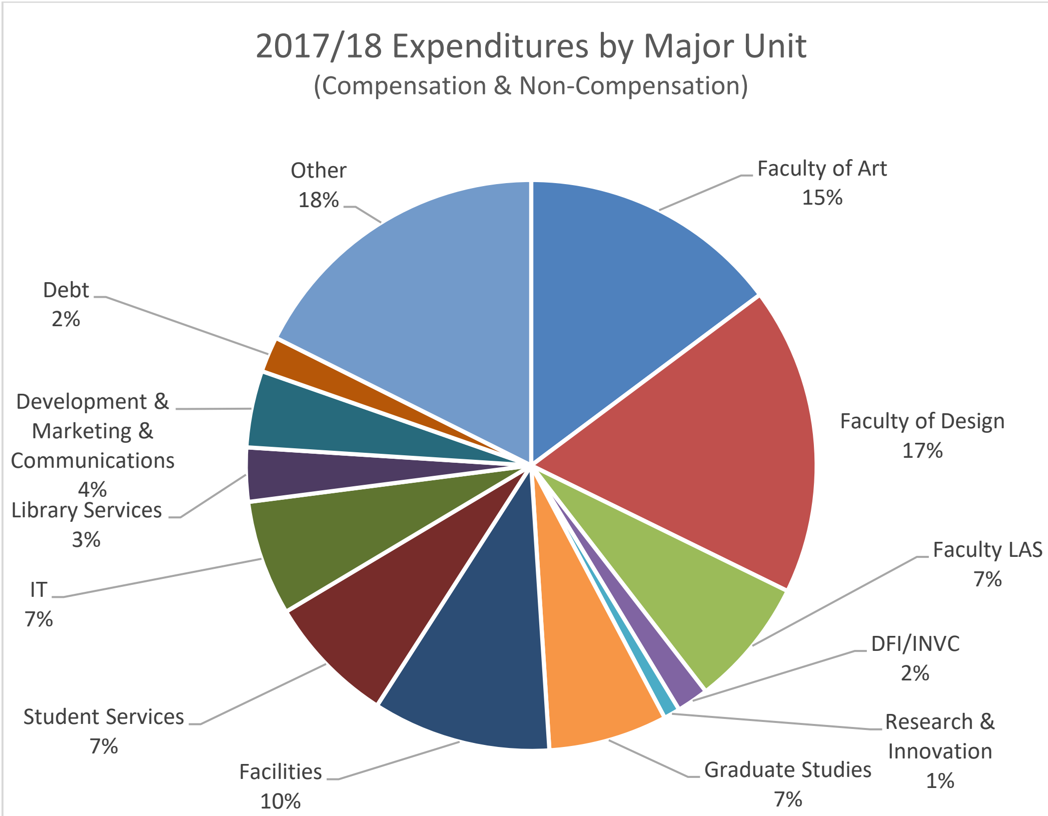
In 2018/19 the operations of the Executive Education Program to commence at the new Waterfront campus in the fall will be structured within a new Business Trust with financial transactions not consolidated within the OCAD University's financial operations.

### d) Contingency

A contingency provision of $700K has been reserved for unexpected and unfavourable variances.

Total expenditures are splintered finely across many different operating units (Table 3) making it challenging to undertake major interventions if necessary in year over year budget exercises.

**Table 3: 2017/18 Expenditures by Major Unit (000's)**




## B. BUDGET RISKS ASSESSMENT

Possible events or risks in the 2018/19 Budget planning year which could lead to either favourable or unfavourable variances from projections are:

| **Favourable** | **Unfavourable** |
|---|---|
| Higher retention and/or intake rates than assumed ($6,600 FTE) | Lower retention and/or intake rates than assumed ($6,600/FTE) |
| | |
| Higher enrolment rates for graduate student programs ($12,000/FTE) | Lower enrolment rates for graduate students and/or higher proportion of international students ($ 12,000/FTE) |
| | Inability to meet remedial action target of $780,000 of expenditures |
| | Higher than expected utility consumption ($100,00) |
| | Higher than expected legal consultant and labour relations costs ($100,000) |
| | Lower than expected misc. revenues ($200,000) |
| | Inability to meet operating fund donation targets. 10% of target = $70,000 |

Enrolment-based risk – whether favourable or unfavourable – typically presents the most significant potential variable to projection assumptions. The exposure to variance is monitored at points from June to September, but it is not until September of each year that some certainty is achieved. The risk of an unfavourable variance for 18/19 may be moderated by the current pattern of a high number of first-choice applications and a continuing strong trend in international student interest.

## C. FY 17/18 BUDGET REMEDIAL ACTION PROCESS

Consistent with the multi-year financial forecast presented to the Board of Governors and OCADU community last month, remedial action of $780,000 (1.0% of total expenditure) will be required under the 18/19 Operating Budget in order to balance the budget - through a combination of permanent and one-time reductions of which $80K are permanent and $700K one-time only.

The proposed remedial action plan for the upcoming year will not be developed as an individual President/Vice President portfolio basis as in the prior years, but based on specific university initiatives (i.e. hiring deferral process)

The Executive Team will meet to review recommendations prior to July 1, 2018 and formalize the overall Remedial Action Plan. Impact and risk analysis will form part of the assessment of the final Remedial Action Plan.

The plan will be reviewed with the Budget Advisory Committee prior to a report on the plan being provided to next round of AFRC and Board meetings.

## D. FY 18/19 BUDGET ACCUMULATED DEFICIT

The 18/19 budget recommended, projects an accumulated deficit of $1.2M. Consultations with the Board of Governors and University community on measures to balance the budget for 2018/19 would result in severe impairment to the student experience and learning environment. The 18/19 budget is recommended in a context of the multi-year financial forecast (see appendix 2) which projects the elimination of the accumulated deficit by the end of 2020/21 primarily through increase in undergraduate enrolment 632 FTEs (17%) by 2020/21 of which 216 FTEs will be domestic and 416 FTEs will be international and continued cost containment measures.