April 2016

OCAD University

FY 2016/17 Proposed Operating Budget Overview

INTRODUCTION

This is an overview of the proposed FY 2016/17 Operating Budget and budget development process that together with the 2016/17 Draft detailed Operating Budget and Accompanying Schedules and Notes, Appendix 1, forms the University's proposed FY 2016/17 operating budget.

The report is divided several parts:

A. FY 2016/17 Budget Context and Assumptions Overview
B. The Budget Advisory Committee and the University Fund and Budget Remedial Action Plan

Appendix 1: 2016/17 Operating Budget and Accompanying Schedules and Notes

Review of the Summary 2016/17 Operating Budget Summary on page 2 of Appendix 1 indicates the following:

- Small operating deficit estimated actual for 15/16 offset by prior years accumulated surplus and a small budgeted surplus for 16/17 before extraordinary expenditures for university fund and capital allocations;
- A 2015/16 year end estimated actual accumulated surplus of $67K;
- An overall balanced budget for 2016/17 with application of the University's $67K accumulated surplus from 15/16.

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. These assumptions and the proposed operating budget for FY 16/17 are presented in detail in Appendix 1. The model presents as a ‘hybrid’ because it modestly engages strategic resource allocation – this year through application of the University Fund and the remedial action plan – rather than passively and incrementally responding to the financial vicissitudes of its operating environment.

The University began research on alternative budget models this past year and the implications of incentivized and decentralized budget models will be further considered in the coming year.

An overview of the underlying revenue and expenditure assumptions that underpin the proposed FY 2016/17 operating budget (see Schedules 1 and 2 of Appendix 1) follows:

A. BUDGET CONTEXT AND ASSUMPTIONS

1. Revenues

a) Grants

Base Operating -The Province of Ontario reduced base operating grants by 1% in 2013/14 and a further 2% in 2014/15. In the 2016/17 Provincial budget there were no reductions and no increases, and the prior year 1% and 2% reductions have been rolled into base funding as permanent reductions.

Enrolment Growth Grants - OCADU as part of the Strategic Mandate Agreement (SMA) process negotiated a three year phased funding of domestic graduate students. In 2015/16 the funding of domestic graduate students will increase from 177 FTE’s in 2015/16 to 185 FTE’s in 2016/17, in keeping with our SMA projections.

Undergraduate enrolment growth grant funding will increase in 2016/17 over 2015/16 due to the increase in projected domestic enrolment of 52 FTE’s (see Schedule 1.2 c). This is not in line with our SMA projections.

b) Tuition Revenue

Tuition Rate Increase – In March 2016, the Board of Governors approved an increase of 4% per year for international undergraduate and graduate students.

In March 2016, 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 2016/17 is projected to be at 2015/16 levels of 214 FTE's, which overall is in keeping with the SMA. Within this total, however, domestic graduate student FTEs may not be realized.

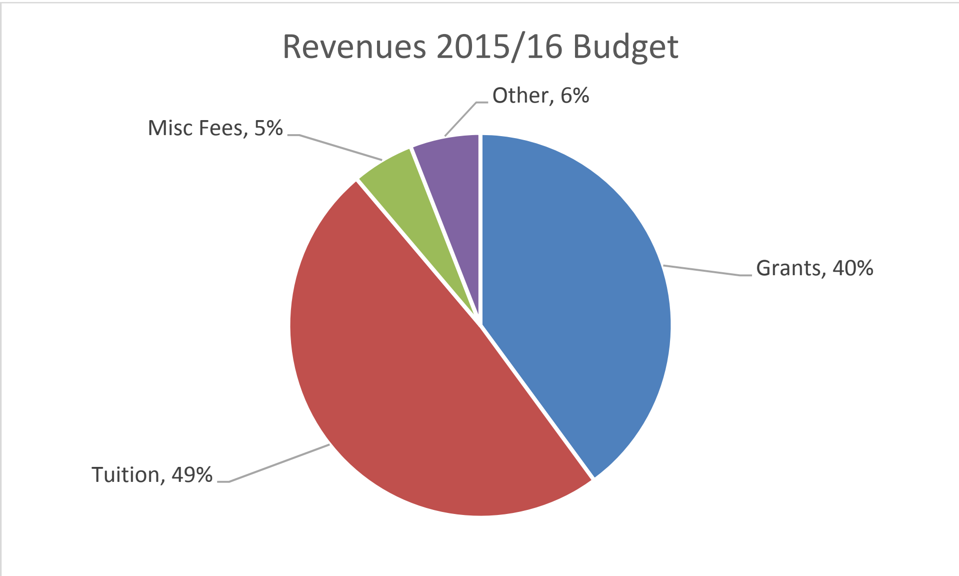
First year FY 2014/15 intake declined by 130 FTE's from FY 13/14 levels. In FY 2015/16, first year intake increased by a net 66 FTE's over 14/15 with increases primarily in the Faculty of Design and decreases in the Faculty of Art and some increase in the Digital Futures program. 2016/17 first year intake is expected to increase by a net 49 FTE's over FY 15/16 with increases primarily in the Faculty of Art and LASSIS. The overall undergraduate enrolment is projected to increase in 2016/17 by 58 FTE's to 3,855 FTE's due to the flow-through of increased first year intake in 2015/16 and 2016/17.

c) Other Revenues

Increases in other revenues over 2015/16 levels will occur from proceeds received from the launch in November of the fundraising campaign which has included operating funding in its donations.

Overall, and based on revenue assumptions, it is not expected that the relative percentage of various major revenue categories to total revenues will change in the upcoming FY 2016/17 compared to FY 2015/16. As can be seen in Table 1, below, 89% of the University's revenue is derived from tuition and government grant funding.

Table 1: FY 2015/16 Revenues by Major Category



2. Expenditures(see Schedule 2)

a) Compensation

The recently negotiated collective agreement with OCADFA took steps to reduce teaching load in 2015/16 for Studio Faculty from a full time load of 8 courses to 7. The cost of the teaching load reduction and other OCADFA collective agreement implementations in 2015/16 is $1.2M. The current collective agreement expires June 30, 2016 and negotiations towards a new collective agreement have commenced. The current budget provides for the mandate approved by the University Board Executive Committee.

Also included in the budget is the negotiated settlement (2.0% ATB, $341K) of OPSEU Unit 1 (Staff Union). The OPSEU labour groups for 2016/17 have negotiated collective agreements.

The second year of the three year implementation of the 2015/16 Faculty Voluntary Retirement Incentive Program takes place in 2016/17 with increased costs of $25K as 50% of the retiree replacements will be non-sessional faculty.

b) Non-Compensation

FY 2016/17 Budget contains no provision for inflationary increases in non-compensation costs excluding utilities. The general assumption has been made that increases in non-compensation expenditures will be funded out of individual unit budgets.

c) Capital/FF&E

An allocation of $250K has been provided for new and replacement furniture and equipment in addition to the $700,000 ($370,000 increase over 15/16) of Facilities Renewal Grant funding provided to the university by the provincial government for minor renovations and deferred maintenance.

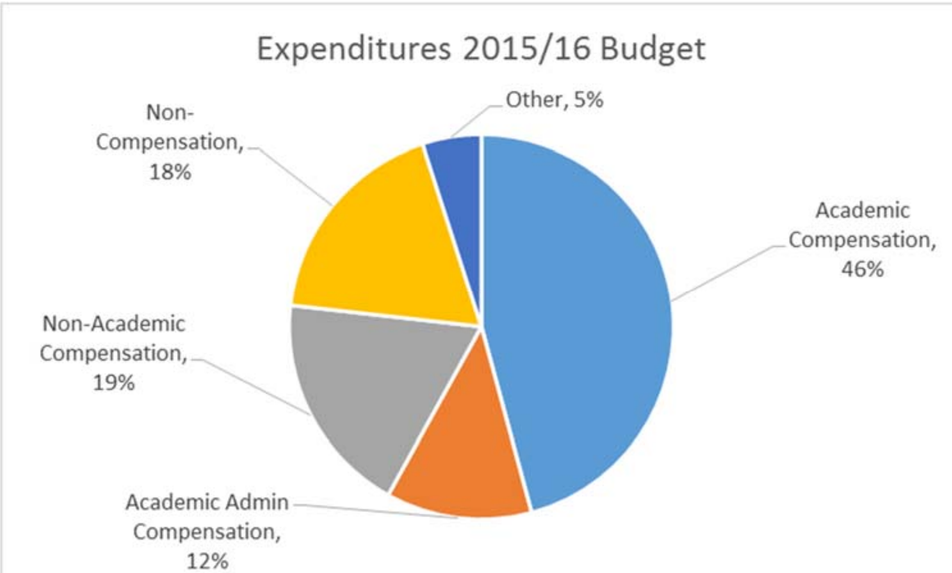
d) Contingency

A contingency fund of $500K (.8% of the budget) has been set aside for unexpected and unfavourable variances to the budget projections.

Based on these expenditure assumptions, the relative percentage of major expenditure categories to total expenditures will not change from FY 2015/16 to

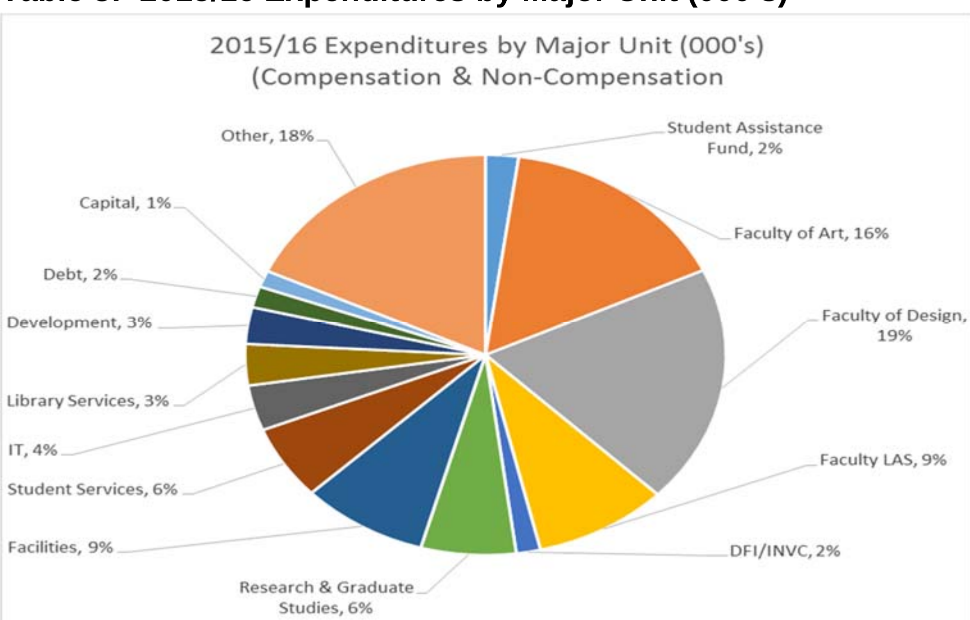
FY 2016/17. Nearly 80% of the University's annual operating expenditures are comprised of salary and compensation (Table 2). This is one reason why it is typically challenging for a university to pivot quickly in the face of unfavourable financial variances.

Table 2: 2015/16 Expenditures by Major Category



Another reason is that expenditures are splintered finely across many different operating units (Table 3) making it impractical to undertake major interventions if necessary in year over year budget exercises.

Table 3: 2015/16 Expenditures by Major Unit (000's)



B. BUDGET ASSUMPTIONS – RISK ASSESSMENT

The following are possible material events or risks in the 2016/17 Budget planning year which could lead to either favourable or unfavourable variances from projections:

Favourable	**Unfavourable**
Higher retention and/or intake rates than assumed in the Faculty of Art ($11,000 FTE)	Lower retention and/or intake rates than assumed in the Faculty of Art ($11,000/FTE)
Higher retention and/or enrolment intake rates than assumed in the Faculty of Design ($11,000/FTE)	Lower retention and/or enrolment intake rates than assumed in the Faculty of Design ($11,000/FTE)
Higher enrolment rates for graduate student programs ($15,000/FTE)	Lower enrolment rates for graduate students and/or higher proportion of international students ($ 12,680/FTE)
	Inability to fully meet offsetting revenue assumptions on University Fund allocations ($150,000)
	Higher than expected utility consumption ($100,00)
	Higher than expected legal consultant and labour relations costs ($100,000)
Higher than expected misc. revenues including executive training initiatives	Lower than expected misc. revenues ($200,000)
	Inability to meet operating fund donation targets. 10% of target = $100,000
	Extra borrowing costs to fund capital projects due to donations not raised or timing of when donations received
	Arbitrated Faculty compensation settlement exceeds mandate (1% = $231,000)

C. THE 16/17 BUDGET DEVELOPMENT PROCESS AND THE BUDGET ADVISORY COMMITTEE

Composition of the annual operating budget began following the Board's review of the Multi-Year Plan proposal and the supporting assumptions in late January 2016. As a means of achieving a balanced operating budget in a fiscal environment in which revenues remain tightly linked with expenditures, the Multi-Year Plan had proposed taking steps towards a budget model that began to link strategic allocations with remedial action – in other words, beginning a move from purely an incremental budget model to one that could better enable the priority planning required with the forthcoming and refreshed academic plan.

Both the University Fund and the Remedial Action Plan concepts, as proposed in the Multi- year action plan briefing notes to the Board, therefore became a structural element of the draft operating budget for FY 16/17.

As part of this year's process, 18 budget unit heads were invited to present to the Budget Advisory Committee (which includes all the Deans) (BAC)on four issues or subjects:

1. The extent to which, if at all, any of the expenditure assumptions made for the upcoming year as part of the Multi-Year Plan did not recognize issues affecting the unit;
2. Budget unit submissions to the University Fund for strategic initiatives from the unit or unit collaborations;
3. Ideas or suggestions for the Remedial Action Plan as further cost savings or revenue offsets, and;
4. Submissions to the Furniture Fixtures & Equipment Fund (FF&E)for funding the suggested nature of acquisition for the unit (to be allocated by a Committee comprised of the Deans and the CIO)

Specific allocations in respect of the University Fund and the FF&E Fund will be made by June 1, 2016. Allocations from the University Fund ultimately will be determined by the Vice-President (Academic) in consultation with the President and the Vice-President (Administration), which in turn would be based on priority recommendations from the BAC.

The aforementioned presentations to BAC were held recently on April 12 and 15, 2016. The following general observations can be made:

1. There are some unanticipated and unfavourable potential variances related to inflationary pressures, IT licensing and the potential increased cost of various service contracts that are up for renewal. An allowance for these has been made in the budget.
2. The total financial requests to the University Fund exceeds $2M, which is expected and part of setting priorities for resource allocations. Although specific allocations have not yet been made, the amount proposed for allocation in the operating budget for FY 16/17 is $600K. The majority of this amount does not require associated revenue offset and it has been assumed that the allocations for the most part will be non-recurring in order to maintain maximum flexibility going into the following planning cycle and fiscal year.
3. A significant portion of the FF&E requests can be accommodated with an allocation of $250k, and capital repairs and maintenance can be addressed through an increase in the government's facilities renewal program to $700,000 from approximately $300,000.
4. A remedial action plan of $300,000 can be achieved without across-the-board cuts and is a relatively low percentage of the operating budget - about .5%

D. NEXT STEPS

The BAC will continue to meet through May 2016 and recommendations for allocation of the University Fund and FF&E allocations will be finalized by June, 2016. The AFRC and the Board will be updated on these allocations.

The academic plan priorities and principles will come into focus within the next several months and priority costing and financing will be undertaken immediately.

Consideration and research of revenue generation opportunities will be advanced in preparation for a Board retreat on the subject this Fall.

An ad-hoc working group will be established to advance the budget model research undertaken this year with the aim of reducing reliance on an incremental budget model for planning and decision-making.