

2024/25 Budget

McMaster University | Information Session

June 10 2024



McMaster University stands on the traditional territory shared between the Haudenosaunee and Mississauga nations and is protected by the **“Dish With One Spoon”** wampum agreement.

Consolidated Budget Agenda

Dr. Susan Tighe, Provost and Vice-President (Academic)

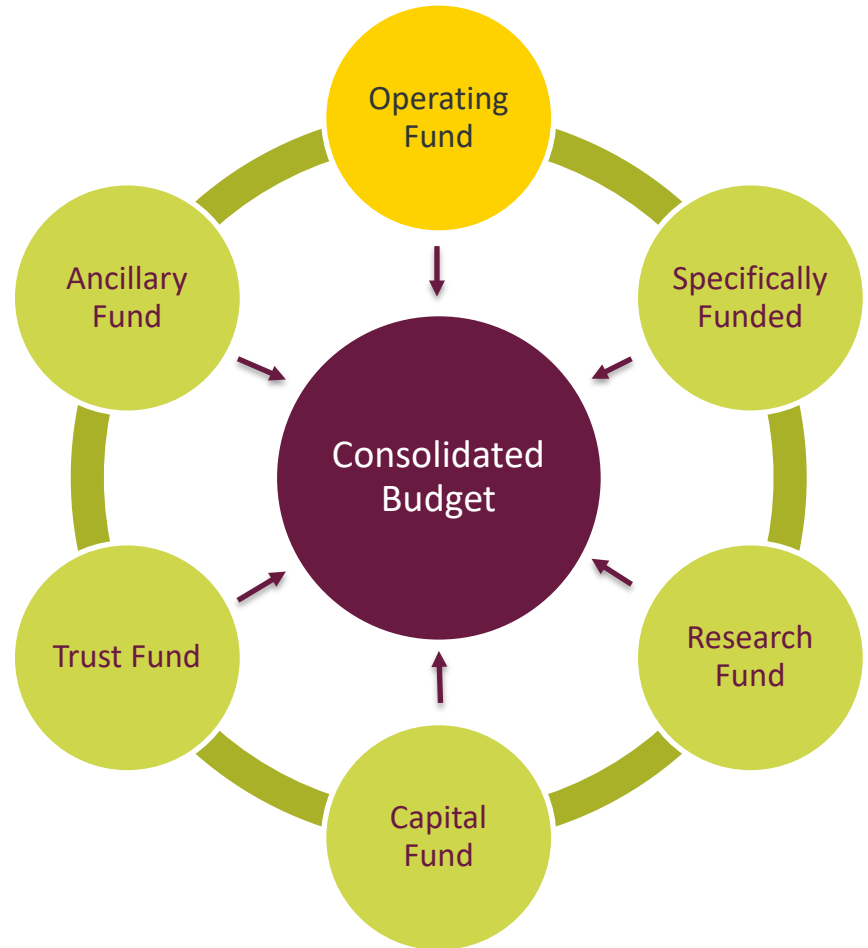
- Operating Fund Revenue Outlook
- Budget Model Principles
- Budget Model Overview
- Revenue Allocations
- Expense Allocations
- Appropriations

Dr. Nicole Wagner, Budget Committee Chair

- Operating Budget
- Consolidated Budget
- Key Matters in Budget and Going Forward
- Budget Risk & Mitigations

McMaster's Budget Overall

- Each fund budgeted on a cash basis
- Cash in/out budgets adjusted on accrual basis to produce the annual consolidated budget (*legislatively required*)
- McMaster's **budget model** addresses distribution of revenues and expenses across the **operating fund**
- **Budget Committee** oversees cash basis budget submissions across:
 - Operating Fund (Specifically Funded activities)
 - Ancillary Fund
- Other funds involve different oversight committees and are rolled up into the consolidated budget.



McMaster's Budget Committee

NAME/TITLE

Chair

Nicole Wagner - Assistant Professor, Director of eHealth Grad program, Information Systems

Ex Officio Members

David Farrar - President and Vice-Chancellor

Susan L. Tighe - Provost and Vice-President (Academic)

Saher Fazilat - Vice-President (Operations & Finance)

Members

Mark Larche - Professor, Medicine

Jacob Nease - Associate Professor, Chemical Engineering

Arlene Dosen - Exec Director, Student Success | Student Affairs

Abdul Razak Alozi - Graduate Student

Ori Epstein - Undergraduate Student

Permanent Consultants

Matheus Grasselli - Deputy Provost

Omer Ahmed - Chief Financial Officer

Melissa Pool - AVP, Academic Planning and Finance

Lou Mitton - Controller, Financial Affairs

Iain Clarkson - Budget Director, Budgeting Services

- Chair elected annually by UPC from faculty members on UPC following nomination by the Chair UPC (the Provost) and a call for further nominations.

- Sub-committee of the University Planning Committee (UPC) with membership drawn from that Committee as follows:

President

Provost

Vice-President (Operations & Finance)

Three faculty (Chair)

One non-teaching staff

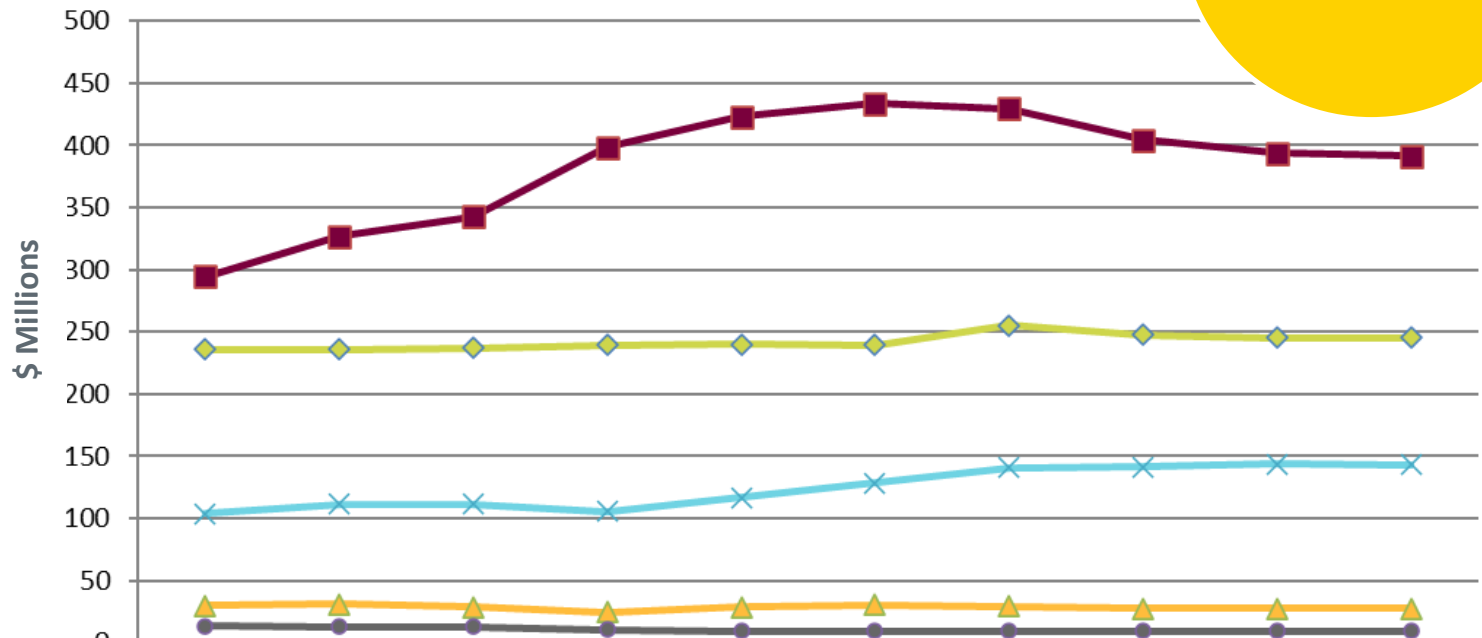
One graduate student

One undergraduate student

Operating Fund Revenue Outlook by Type

Operating Fund

- International enrolment growth to 2022/23
- Domestic tuition cut in 2019/20 and frozen since
- Provincial Grants flat (one-time STEM funding in 2023/24)
- Other income growth

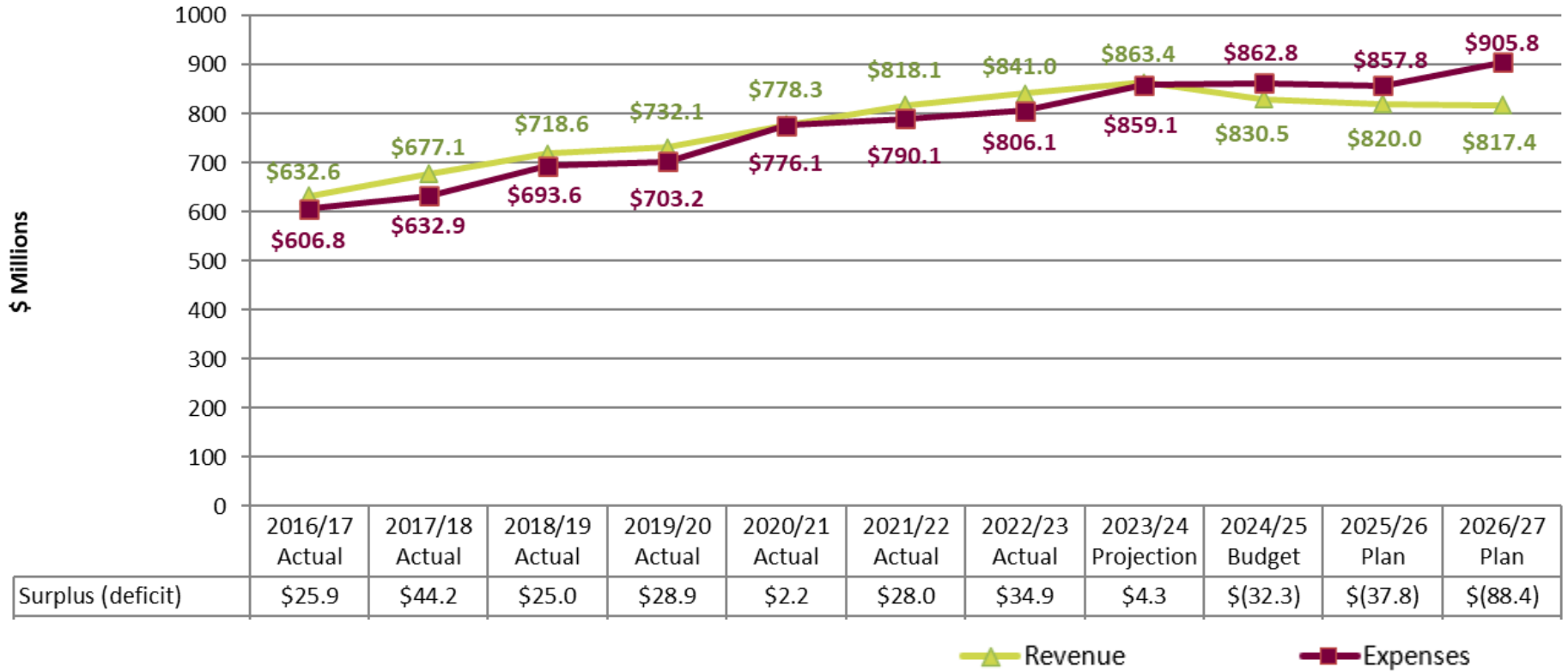


	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual	2022/23 Actual	2023/24 Projection	2024/25 Budget	2025/26 Plan	2026/27 Plan
◆ Provincial Grants	\$235.9	\$236.0	\$236.9	\$239.6	\$239.7	\$239.2	\$255.1	\$247.4	\$245.3	\$245.5
■ Tuition	\$294.3	\$327.1	\$342.7	\$398.4	\$423.0	\$433.8	\$429.2	\$404.4	\$393.9	\$391.6
▲ Research Overhead Income	\$29.7	\$31.0	\$28.6	\$24.5	\$28.9	\$30.3	\$29.1	\$27.8	\$27.9	\$27.9
● Investment Income	\$13.2	\$13.0	\$12.7	\$10.5	\$9.5	\$9.5	\$9.5	\$9.5	\$9.5	\$9.5
× Other Income	\$104.0	\$111.6	\$111.2	\$105.4	\$117.0	\$128.3	\$140.5	\$141.3	\$143.5	\$143.4

2024/25 Budget

Operating Fund Outlook

Operating Fund



- Balanced with operations close to break-even for Budget 24/25 before one-time items
- Expense pressures due to one-time initiatives (strategic initiatives, contract staffing, transfers for Capital projects) and revenue environment



Budget Model Principles

Operating
Fund

McMaster's budget captures strategic spending to support the **five strategic priorities**:

1. Inclusive Excellence
2. Teaching and Learning
3. Research and Scholarship
4. Engaging Local, National, Indigenous and Global Communities
5. Operational Excellence

Principles:

- Promote transparency, trust and engagement
- Assure financial responsibility, accountability and fairness
- Advance efficient use of physical and human resources
- Have predictability and stability
- Enable innovation, creativity and change
- Assign fiscal and academic responsibility to the appropriate levels
- Build student experience
- Enable rapid response to opportunities

Guidelines:

- Support and enhance academic mission
- Avoid the creation of “silos” and promote cooperation
- Keep things simple
- Utilize the concept of “materiality”
- Simple to administer

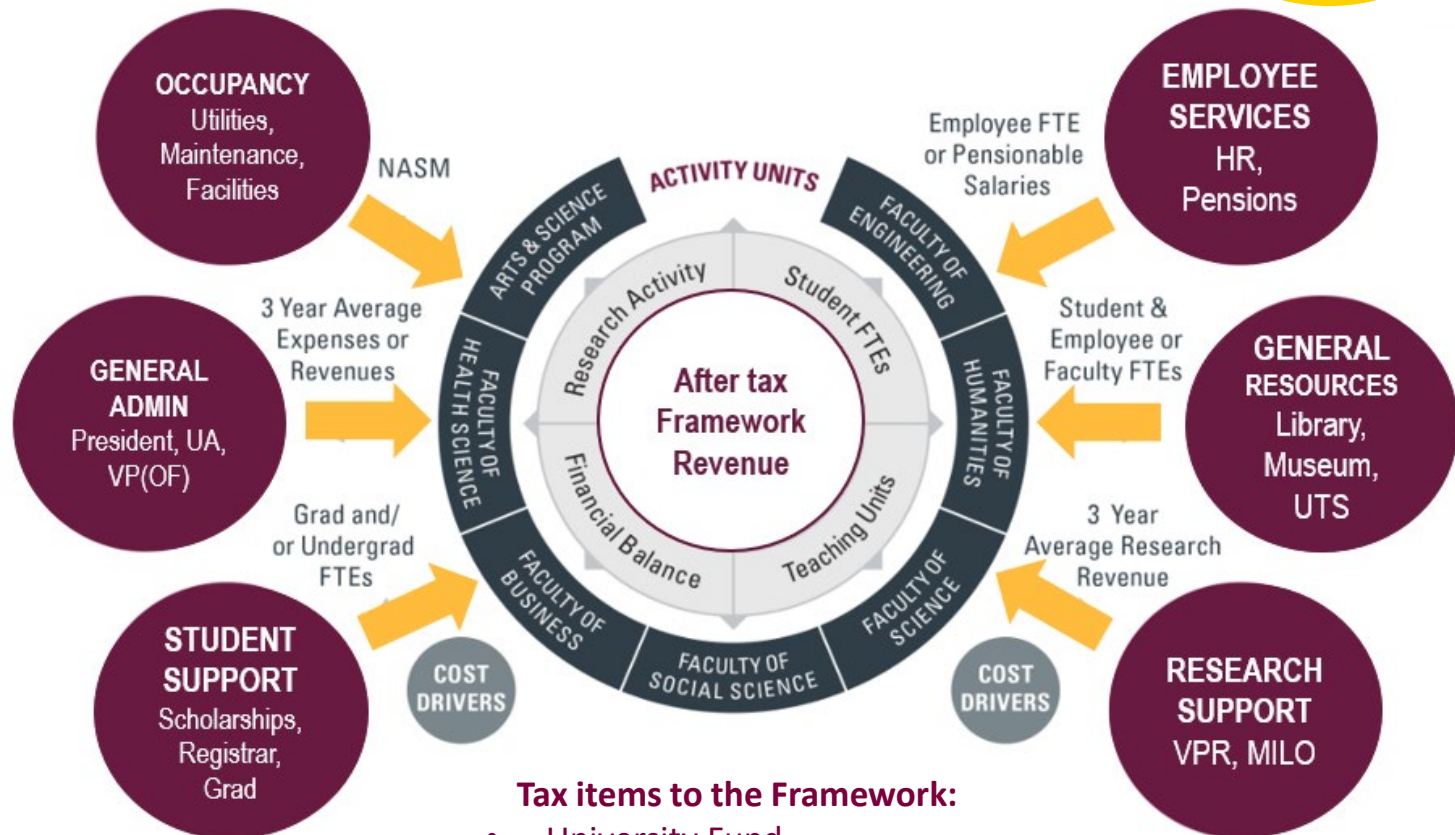
Budget Model Overview

Operating Fund

Timeline:



Model:



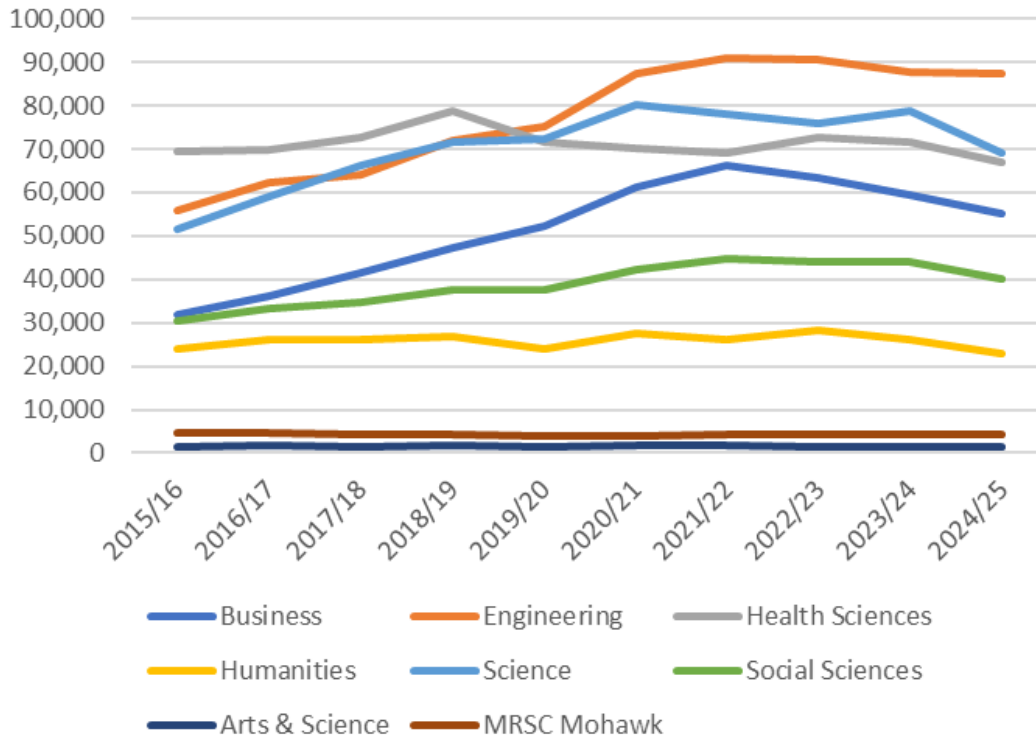
Tax items to the Framework:

- University Fund
- Research Infrastructure Fund
- VPR Discretionary Fund

Budget Net Allocations

Operating Fund

Net Revenue Allocations (000's)



Model distributes net allocations to Faculties based on enrolment growth areas

Total Faculty Net Revenue Growth over 10 years: \$78.4M or 29.2%

Revenue Decline over 5 years: -\$27.2M or -7.3%

2015/16 2016/17 2017/18 2018/19 2019/20 2020/21 2021/22 2022/23 2023/24 2024/25

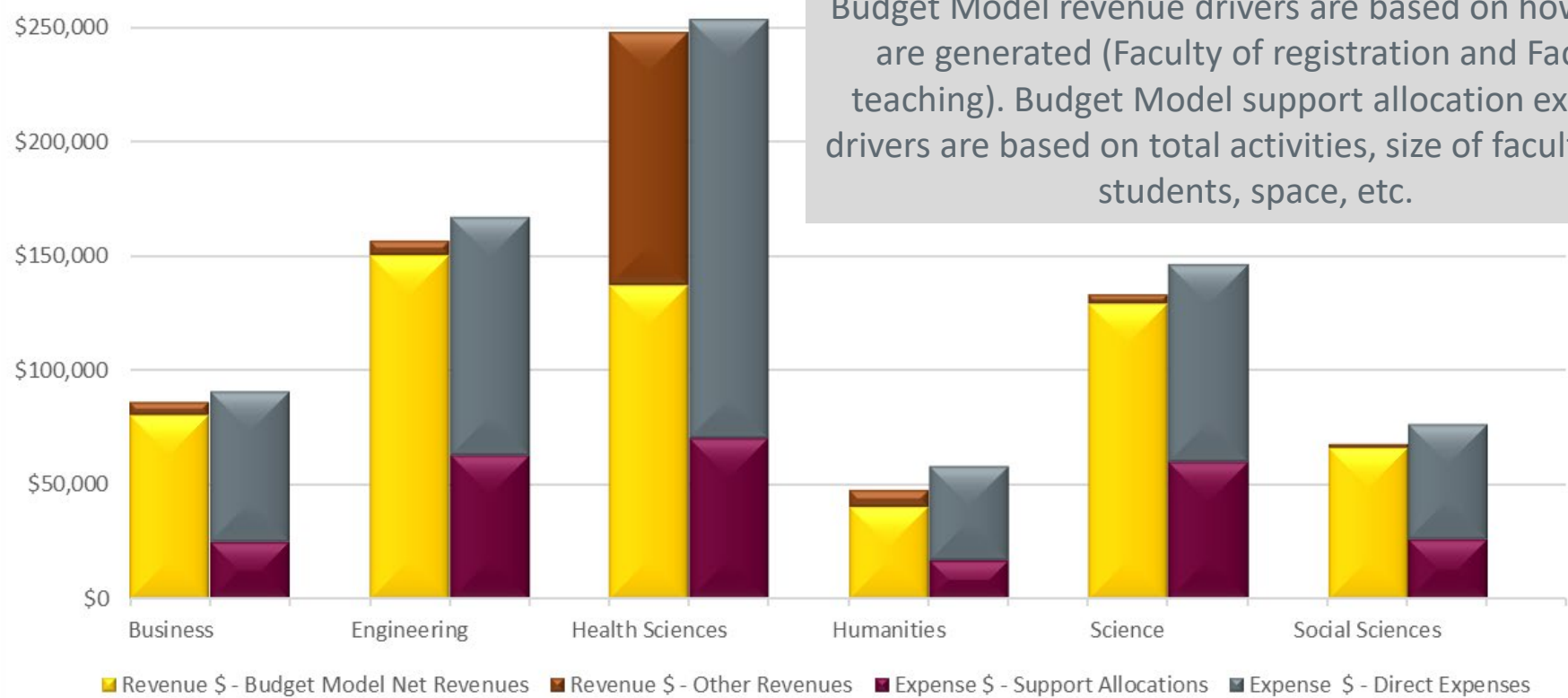
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Faculty Total %	53.9%	55.1%	55.2%	56.9%	55.1%	55.8%	55.1%	54.6%	55.0%	52.1%
University Fund %	3.7%	5.0%	4.6%	4.4%	5.9%	6.5%	6.2%	5.9%	5.1%	7.4%
Support Unit %	42.5%	40.0%	40.2%	38.6%	39.0%	37.7%	38.7%	39.5%	39.9%	40.4%

Budget Revenue & Expense ('000s)



Revenues & Expenses 2024/25

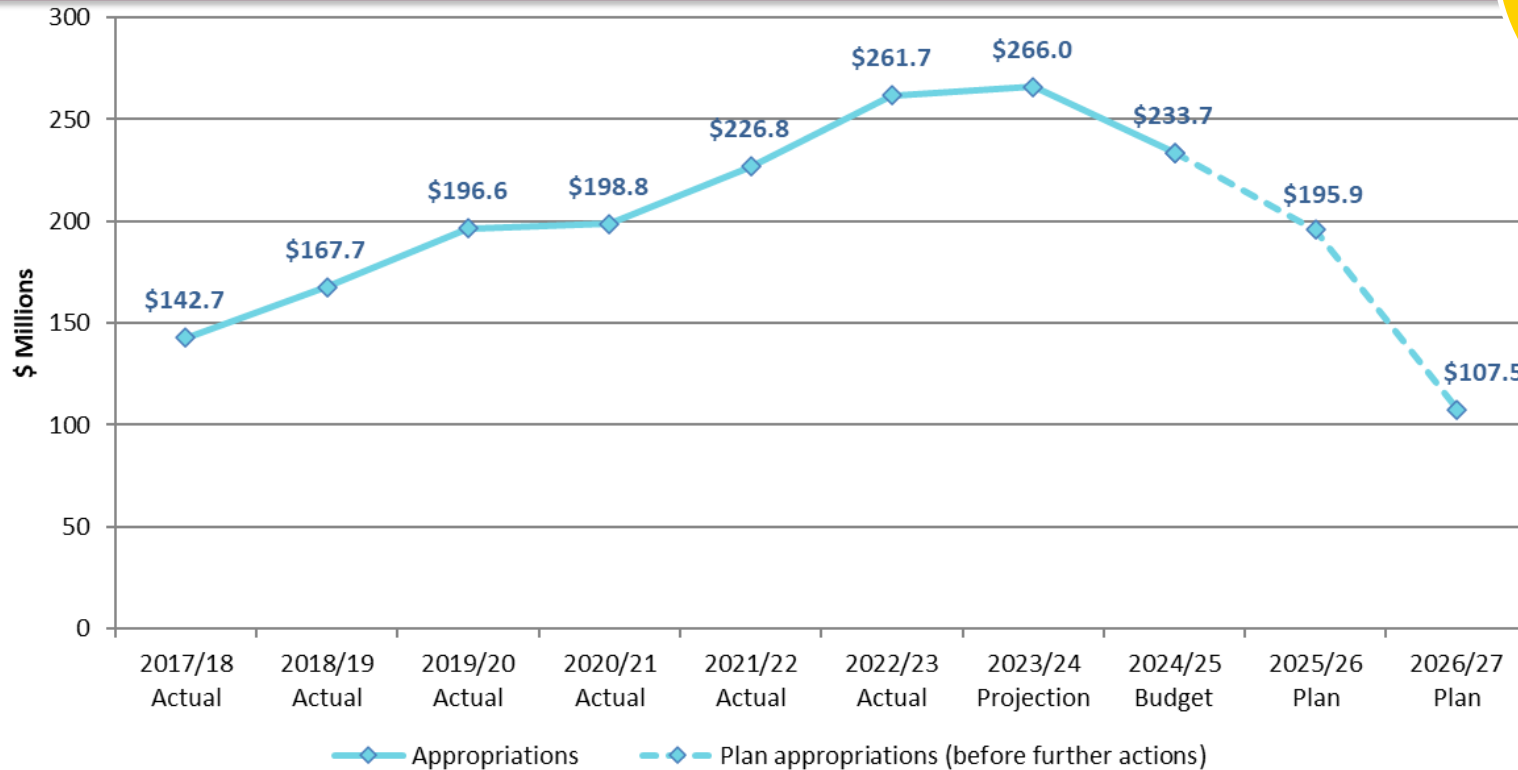
Budget Model revenue drivers are based on how funds are generated (Faculty of registration and Faculty teaching). Budget Model support allocation expense drivers are based on total activities, size of faculty, staff, students, space, etc.



Other Revenues includes: Gulf State resident fees, MOH funding, Miscellaneous fees (Supplementary application, Co-Op, Registration), Research Contract OH, Royalties, Non-degree tuition, Special Purpose Grants, Transfer from trusts

Operating Fund Appropriations

Operating Fund

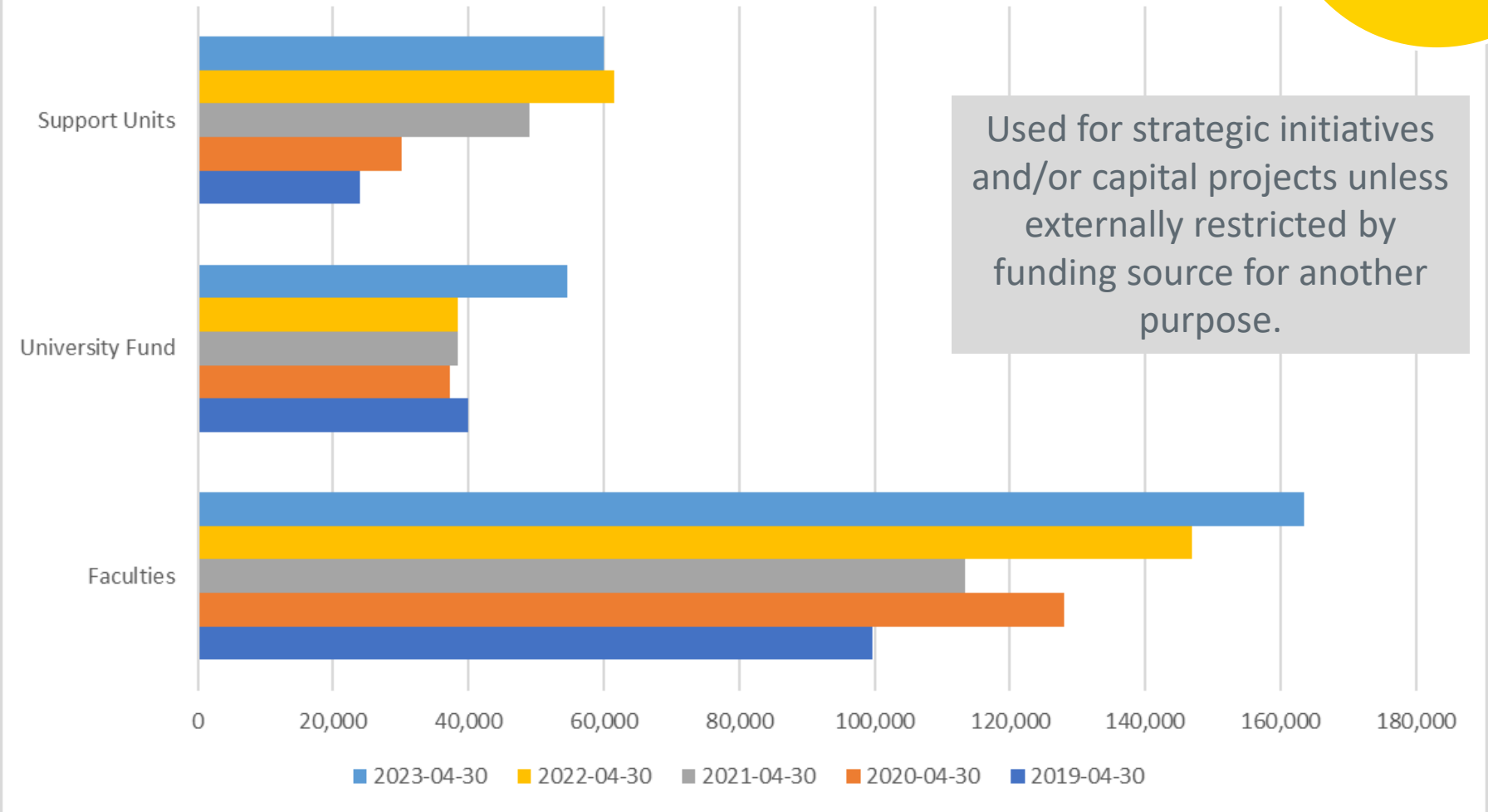


- Appropriations are departmental balances carried forward for spending in future years
- Directed toward strategic investments (capital, recruitment, and other one-time costs associated with strategic priorities and technology)
- In prior years the balance was \$70-\$80M. In the current constrained environment these savings can now be used for faculty investments and to enable temporary support for essential expenses for continuing operations as efficiency and revenue growth opportunities are realized.

Operating Units Net Appropriations (5-Year Actual Historic Trend)



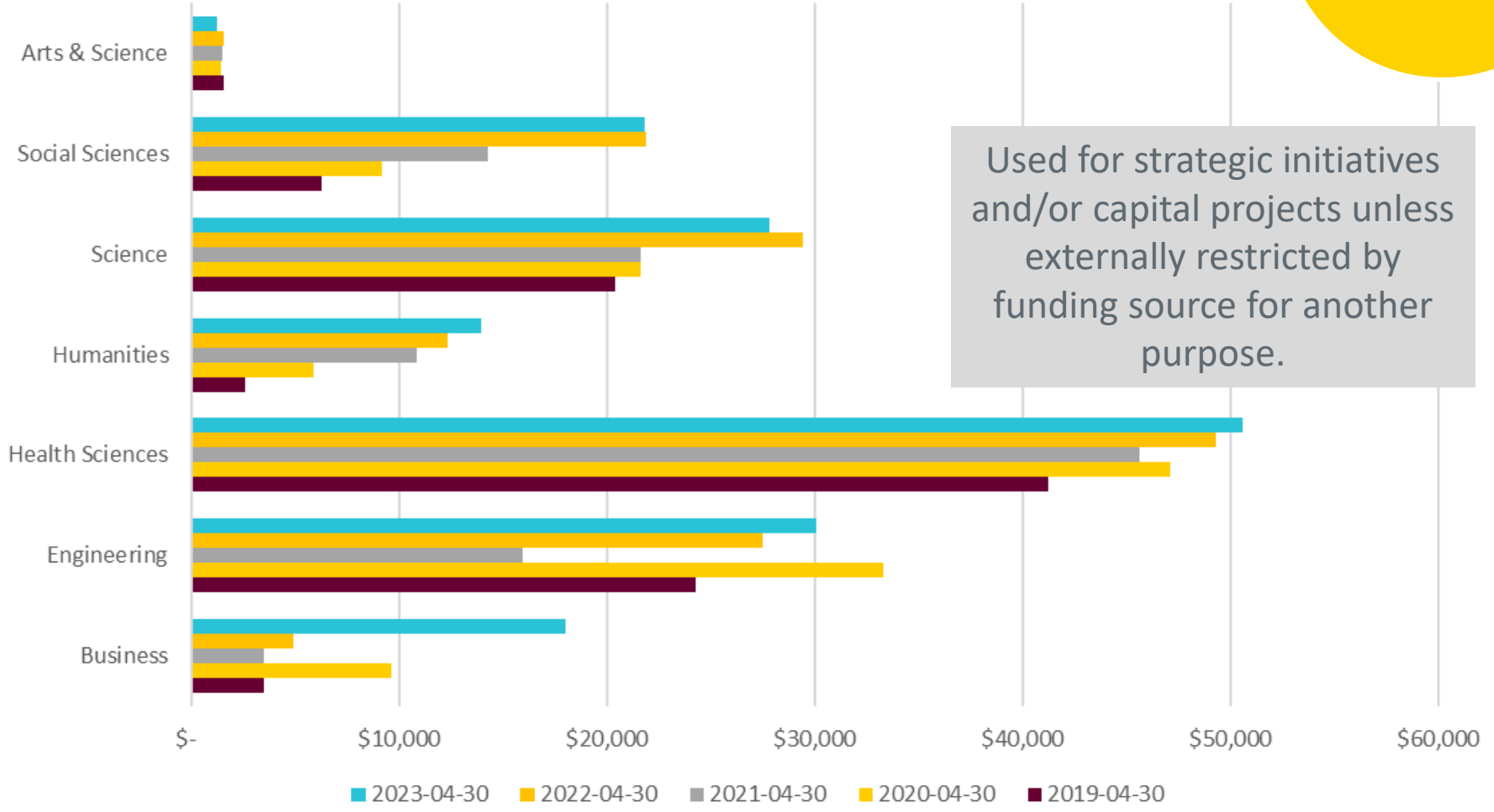
Appropriations Balance by Unit Type ('000s)



Faculty Net Appropriations (5-Year Actual Historic Trend)



Appropriations Balance by Faculty ('000s)



Used for strategic initiatives and/or capital projects unless externally restricted by funding source for another purpose.

Budget 2024/25

Dr. Nicole Wagner, Budget Committee Chair

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- Consolidated Budget 2024/25
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Operating Fund

Operating Budget 2024/25

(\$ thousands)

	2023/24 Projection	2024/25 Budget
Revenues		
Provincial grants	255,124	247,439
Tuition	429,226	404,417
Research overhead income	29,069	27,841
Investment income	9,467	9,467
Other income	140,538	141,338
Total revenues	863,424	830,502
Expenses		
Salaries, wages and benefits	604,053	615,430
Utilities and maintenance	49,893	52,523
Equipment and renovations	52,985	43,650
Scholarships, bursaries and work study	39,711	42,278
Library acquisitions	15,819	15,971
Debt and financing charges	25,330	25,330
All other expenses	71,307	67,602
Total expenses	859,097	862,785
Excess of revenues over expenses	4,327	(32,282)
Fund balance, beginning of year	261,670	265,997
Fund balance, end of year	265,997	233,715 *

Operating Grant had been flat at 2016/17 level. One-time STEM funding in 2023/24 higher than the % increase budgeted from Province in 2024/25
 UG International enrolment decline (includes drop off of large 2020/21 cohort)
 Research OH income decline in Royalties and Contract OH

Salary inflation partially offset by refined hiring practices for vacant positions
 Additional Classroom maintenance
 Reduction in Faculty and University Fund capital transfers and lower renovations spending

Reduced spending reflects initiatives to contain costs and generate efficiencies

Includes items considered one-time (\$11.9M surplus from ongoing operations)

*Reserve Policy for overall financial statements is 1 to 4 months of expenses – operating fund is at the higher end of that spectrum | 16

Operating Budget 2024/25 (Ongoing V One-time)

(\$ thousands)	2023/24 Budget	2023/24 Projection	2024/25 Budget
Fund balance, beginning of year	223,928	261,670	265,997
Ongoing:			
Allocated income	702,428	690,973	681,478
Other income	129,869	147,469	147,945
Total revenues	832,297	838,442	829,423
Expenses	824,134	815,909	817,524
Structural surplus	8,164	22,532	11,900
% of revenue	1.0%	2.7%	1.4%
Fund balance before one-time items	232,092	284,202	277,897
One-time spending from appropriations	(37,995)	(18,205)	(44,182)
Fund balance, end of year	194,097	265,997	233,715
<i>Net change in Fund balance</i>	<i>(29,831)</i>	<i>4,327</i>	<i>(32,282)</i>

Fund balance, beginning of year is largest % of revenue in recent years *

Ongoing items incurred in the normal operations of units within Operating Fund

Operating Fund budget is in a **structurally balanced position**

Other revenue opportunities, cost constraints, and operational efficiencies provide levers to further improve the position

Fund Balance (Appropriations = Savings) and Ongoing position enables one-time spending:

One-time items vary from year to year and occur in a single reporting period, although may cross over multiple periods.

= Strategic investments, equipment and renovations, systems projects, contract staff. Spending can be dialed back, delayed or halted more easily than ongoing operational expenses

*Reserve Policy for overall financial statements is 1 to 4

Consolidated Budget 2024/25

Consolidated
Budget

(\$ thousands)

	2023/24 Projection	2024/25 Budget	
Revenues			
Operating grants	300,602	293,041	
Research grants and contracts	229,199	233,782	
Tuition fees	441,737	416,197	→ International enrolment outlook & domestic tuition freeze
Ancillary sales and services	96,226	100,661	
Other revenues	217,463	215,413	
Investment income (net)	102,979	97,463	→ Projected and Budgeted at 5.6% per year (subject to market volatility +/-1% = \$7.8M)
Amortization of deferred capital contributions	46,402	43,727	
Total revenues	1,434,608	1,400,284	
Expenses			
Salaries and wages	701,468	712,236	→ Increase with negotiated settlements and step increases while pausing new hires except filling essential vacancies and offering faculty retirement incentives.
Employee benefits	159,585	162,519	
Supplies and services	384,385	378,191	→ Reflect initiatives to contain costs and generate efficiencies
Interest on long-term debt	18,068	18,009	
Amortization of capital assets	94,299	96,721	
Total expenses	1,357,805	1,367,676	Recall accrual based adds back \$100M in capital assets expenses and applies one-year amortization. Some aspects of the consolidated surplus is to service future debts or employee obligations.
Excess of revenues over expenses	76,803	32,608	→

- Blue Ribbon Panel recommendations not all realized:
 - Limited provincial funding growth provided by MCU over planning period (less than 2016/17 in real terms)
 - Remains unfunded enrolment of domestic students beyond corridor, but received one-time funding towards STEM students
 - Domestic tuition cut in 2019/20, then frozen since, continuation to 2026/27 announced
- Decline of international undergraduate enrolment:
 - Competitive international market
 - Federal Visa application caps
- New Provincial accountability metrics – well positioned, but need to ensure not on watchlist

- Retirement incentives offered in Faculties
- Budget does not anticipate adjustments resulting from repeal of Bill 124 – decisions and negotiated agreements based on legislated requirements at the time
- Cost containment activities across McMaster operating units to maintain a balanced operating fund budget
- Continued emphasis on advancing McMaster’s strategic priorities, including research excellence in electric vehicles, infectious diseases and nuclear medicine
- Developing research ecosystem through continued investment in MIP development

Key Matters Going Forward

- Limitations on international student growth limit revenue support for inflationary pressures on costs
- One-time strategic investments and essential expenses for continuing operations may need to be supported by accumulated appropriations balances
- SMA performance-based funding activated at system-wide proportion of 25% (2024/25) means risk grant may decline
- SMA funding corridor negotiations for 2025/26+
- Key alternative revenue strategies (real estate strategy, research commercialization, P3, etc.)
- Financial impact of any future adjustment as a result of the repeal of Bill 124 is unknown at this time.
- Further focus on expense containment strategies

Budget Risks and Mitigations

Consolidated
Budget

- McMaster uses an integrated reporting model to inform consolidated budget
- DBRS confirmed McMaster's credit rating at AA (stable) in Jan 2024. However, their report cites any prolonged period where debt per student exceeds \$12,000 would result in downward pressure to the assigned rating
- Annual multi-year financial projections are prepared in February where the impact of potentially material enterprise risks are modelled and discussed with PVP to ensure mitigation strategies are in place
- The following key risks are considered potentially material and are modelled in the annual Debt Strategy Report to inform mitigation plans:
 - Significant additional capital investments
 - Lower investment returns
 - Enrolment declines
 - Cost inflation
- Additionally, geopolitical risk is monitored using scenarios with PVP

Thank You



Questions?