ACCOUNTING FOR OPERATING BUDGET UNCERTAINTIES IN THE PLANNING PROCESS

The preparation of a University budget is very complex and requires making assumptions about revenue and expenses. In making these assumptions, the Budget Advisory Committee (BAC) must take into consideration the uncertainties inherent in budget line items. The BAC has adopted a conservative approach to ensure that any changes to these assumptions will still allow for sufficient resources to provide for a balanced budget.

The significant budget uncertainties that are considered by BAC are:

1. Campus Alberta Grant

   The Provincial Campus Alberta Grant is the largest single revenue line item for the University, which comprises approximately 65% of the University's operating revenue budget. The Campus Alberta Grant is not normally confirmed by the Provincial Government until the province's budget is announced, usually in March or April, but since the University's fiscal year begins in April this causes concern when preparing the budget due to the significant impact any changes to the grant can have on the institution's finances.

   There is greater anxiety regarding the Campus Alberta Grant for the upcoming years due to the funding model review for Alberta post-secondary institutions currently being undertaken by the Ministry of Advanced Education. The results of the funding model review are not expected to be announced before the next provincial election in Spring 2019, meaning that the predictability of provincial funding will be unknown. This poses a significant risk since we have been informed that there will not be any additional money to be allocated to Alberta post-secondary institutions as a result of the funding review, just a reallocation of the current funding available. We have been informed that the new funding model will not be implemented prior to the 2021-22 fiscal year.

   With the Alberta economy being slow to recover from the downturn and the price of oil remaining low, this will influence the Campus Alberta Grant. A 1% change in the Campus Alberta grant equates to $1.04 million and thus any major fluctuation in this grant has substantial implications for the sustainable financial position of the University.

2. Tuition Revenue

   Tuition fee revenue comprises approximately 28% of the University's annual operating revenue budget. The change in tuition revenue year over year depends upon the tuition fee rates and student enrolments. A 1% change in the student tuition rate equates to $330,000 per year.

   In Alberta, tuition and mandatory instructional fees are set in accordance with the Alberta *Public Post-Secondary Institutions' Tuition Fees Regulation*. Tuition fees have been frozen at the 2014-15 levels. The Province has conducted a review of tuition fees and mandatory non-instructional fees, recently announcing that both tuition fees and mandatory non-instructional fees will remain frozen for 2019-20, and any increases thereafter will be capped at the average Alberta Consumer Price Index (CPI). It is not expected that the provincial government will be providing any tuition revenue reparation to the University in 2019-20 in light of the tuition fee revenue lost due to the tuition fee freeze.

Recently announced new provincial fees regulations will include additional changes to the setting of and increases to fees which will likely have a substantial impact on the University's fees and the University is in consultation with the Province right now to ascertain those details. More information will be released when known.

3. Student Enrolment

Tuition revenue is also influenced by student enrolments. A 1% change in student credit hours equates to $330,000 per year. Our student taught credit hours are expected to remain at the 2018-19 levels, resulting in no expected increase in tuition revenue due to frozen fees and no increase in credit hours.

The Campus Alberta Planning Resource (CAPR) (2016), provided by the Provincial Government, anticipates a shift in the age distribution for Alberta learners over the next ten years; while overall population growth is anticipated to be 15.2%, the projected growth of 18-24 year-olds is much lower at 3.1%. There is much competition amongst post-secondary institutions for students, so the University must maintain its recruitment efforts to ensure students are well aware of the high quality programs and student experience that exists at the University of Lethbridge. Significant efforts have also been put into maintaining and enhancing student services to improve our student retention rate. The Fall 2017 to Fall 2018 full-time new high school student retention rate was 78.93%, which has been increasing over the past several years.

4. Investment Income

There is significant uncertainty and variance in investment income, which comprises approximately 3% of the University's operating revenue budget.

The investment managers and the change in the investment strategy from segregated to pooled funds and asset mix were modified in 2015-16 and this has had an impact on the investment income results. The new investment managers are not as active in buying and selling investments and therefore realized income has decreased compared to prior years. The University needs a longer-term timeframe to determine the impact on the budget and, therefore, an investment income reserve has been set up in case realized investment income falls short of the budget.

Government granting agencies also have grant terms and conditions that require interest income allocations to conditional grant funds held by the University. The impact is a reduction in general operating investment income that can be allocated to operating expenses.

The other major influence on investment income is the performance of the markets. The Board of Governors Finance Committee manages this risk using a diversified investment portfolio to meet our objectives and specific performance standards related to expected rates of return.

5. Exchange Rates

The majority of the University’s expenditures are in Canadian funds, but when the exchange rate shows a significant downward trend, as we have experienced in recent years, the impact of this severely reduces our buying power, especially for library acquisitions and information technology contracts which typically are paid to US vendors. A 1% increase in the foreign exchange rate translates into a $70,000 increase in expenses.

6. Compensation

The largest component of the University's expenditures is salaries and benefits. Salary adjustments are based on contract negotiations with the respective unions and assumptions for the negotiated increases are built in to the budget. These assumptions may or may not be accurate and thus can have a substantial impact on the overall budget. A 1% increase in salaries equates to an increase of $1.12 million in expenses and a 1% increase in employee benefit costs equates to $240,000 increased costs.

Attracting and retaining quality faculty and staff continues to remain a Board of Governors priority.

7. Destination Project (new Science and Academic Building) Lights on Funding

The new science and academic building will be completed in Spring 2019, with move in scheduled in Spring/Summer 2019. The new facility will be operational and ready for classes in September 2019. When the Provincial funding for the project was approved in 2016 the University was told that the lights on funding (operational costs to operate the facility) were included in the Province's budget planning but since that time, due to Alberta's poor economic environment, this funding has not been confirmed. The total Alberta Government annual budget allocation for lights on funding for all post-secondary institutions is $2 million, which falls significantly short of institutional demands and thus there is great uncertainty regarding the availability of the required facility operating funding for the Destination Project (Phase I). With projected operating costs for the building being approximately $3.5 million per year, this adds considerable negative uncertainty and impact to our operating budget.

8. Student Mental Health Funding

The University is grateful for the grant funding received from the Provincial Government in the past few years in support of mental health programs and supports. The funding received has been $1 million per year for the last 3 years with funding ending in April 2019, and then the funding will be reduced in 2020-21 to $625,000 and to $440,000 in 2021-22. This obviously imposes a major concern on how to continue to provide the services that the students need in this area, which also directly impacts our students' experiences.

9. Information Technology Contracts

The cost of information technology contracts is increasing in significance each year as the University continues to implement technology that has long term maintenance and ongoing licensing components.

10. Pension Plan Contribution Rates and Employee Benefits

Most employee benefits are negotiated with the respective employee groups, but there are a few, most notably the pension plan contribution rates and health care premium costs, that are paid by the University but are set by external agencies, that can increase significantly year over year.

11. General Inflation Pressures

Just as for all households, there are general inflation increases in most expenditures and the University needs to anticipate the impact of these changes on the budget allocation to each budget unit. The carbon tax is one example of such a cost, as the University expects to pay nearly $400,000 for the carbon tax in 2018-19. The University's expenditure budget increases have been outpacing the revenue budget increases, which adds additional pressure on trying to balance the budget.

12. Deferred Maintenance

Deferred maintenance refers to maintenance projects that are required for building and equipment upkeep but have been postponed generally due to a lack of funds. Deferred maintenance can allow minor repair work to evolve into more serious conditions.

In order to be a top destination university, our facilities must be well maintained. The University allocates a portion of its operating budget to address deferred maintenance projects. Deferred maintenance on our facilities is estimated at $158.8 million (2017: $147 million) based on a facility condition report completed by the University in January 2018. This means that if the University undertook all the maintenance projects it would require $158.8 million.

The following figure outlines the dollar impact of a 1% variance from budget.