2022-23 OPERATING BUDGET GUIDELINES and ASSUMPTIONS

Revenues and expenses fluctuate year to year, but in order to formulate the University's budget certain assumptions must be made. The 2022/23 budget formulation process started in fall 2021 so, inherently, estimates for revenue and expenses must be made for the fiscal year April 2022 to March 2023. In making these assumptions, the Budget Advisory Committee has adopted a conservative approach to ensure that any deviations from these assumptions will still allow for sufficient resources to provide for a balanced budget.

The 2022/23 budget planning cycle differed from previous year processes since there was relative certainty regarding the operating grant reduction for 2022/23 prior to the Budget 2022 announcement. The 2022/23 budget process anticipated that the revenue generation and expenditure savings that would be realised by 2022/23 from the transformational task forces would provide a balanced budget. Due to the extensive budget consultation processes in 2020 to 2022, and the ongoing challenges due to the COVID-19 pandemic and the academic labour disruption, the task force savings were not realized for the 2022/23 planning cycle. To counter these delays interim measures were implemented once again in 2022/23 pending realization of the task force savings.

BUDGET MODEL PRINCIPLES

i. The University is required by the Post-secondary Learning Act (PSLA) to achieve a balanced budget in the upcoming three years and therefore cannot submit or approve deficit budgets. Given this, budget reductions or increases in revenue are required whenever expenditure projections of the University exceed revenue projections. Given this, budget reductions or increases in revenue are required whenever expenditure projections of the University exceed revenue projections.

ii. Revenue projections - Revenues are budgeted conservatively to ensure the projections are attainable.

iii. Capital planning and approvals - The Board of Governors approves on an annual basis the infrastructure renewal projects, faculty/department capital budget, and the long-range capital plan. This long-range planning allows time to build reserves and plan for future capital and deferred maintenance funding requirements.

iv. Debt - Debt may only be incurred with approval from the Board of Governors and the Lieutenant Governor in Council. The University prepares an extensive business plan to ensure debt is only incurred when there is a realistic projection of revenue sources to fund the debt instrument. Currently the University's only debt instrument is for student housing.

v. Ancillary business plan - The Board of Governors approves on an annual basis the business plans for Ancillary Services and Campus Mobility. The detailed business plan ensures there is sufficient net surplus to fund future capital requirements.

vi. Investments - As per the PSLA, the Board must approve the University's investment policy and monitor compliance and investment returns. The BOG is accountable for ensuring that the University's portfolio of investments avoids undue risk of loss and obtains a reasonable return.

vii. Operating, capital, and contractual reserves - Internally Restricted Funds represent amounts set aside by the University's BOG for specific purposes and are sometimes referred to as "reserves". These funds are not available for spending on any other purposes than those specified without the approval of the BOG. Maintaining reasonable reserves is fiscally prudent in order to mitigate risk and to take advantage of opportunities.

viii. Sustainable budget - The budget is developed using a long-term view of future anticipated revenues and expenses. While the University has made some progress dealing with the $24 million reduction in the operating grant since 2019/20 (refer to Figure 5), there remains significant work required to achieve a sustainable budget model (Figure 6). Structural changes require significant planning horizons in order to allow for adequate consultation with the University community. The budgetary shortfall caused by the grant decrease cannot be recoverable only by other revenue sources, at least not in the short term, and therefore structural changes are required to reduce expenses. The University started this process of consultation in late 2019.

The following are the 2022-23 forecast budget assumptions and budget sensitivities:

Revenue Assumptions

i. **Operating Grant** - The operating grant has decreased by 5.13% ($4.8 million) from the 2021/22 level.

ii. **Tuition Fees**

- **Tuition Rate -** For the 2022/23 academic year, the University increased the average tuition fees per domestic student by the maximum 7% per year. Beginning in the 2023-24 academic year, average increases for domestic students will be capped at the percentage annual change in the Alberta Consumer Price Index (CPI) which was assumed in October 2021 to be 1.54%.
- **Enrolment** - The 2022/23 undergraduate credit hour projections are conservative estimates for the purpose of projecting undergraduate tuition revenue. The projections are significantly lower than prior year due to the anticipated impact from COVID-19 and the faculty labour disruption. The 2021/22 actuals are the final number of credit hours and include those students who withdrew after the extended drop date. The withdrawals were higher than prior years due to the impact of the COVID-19 pandemic.

	Undergraduate Credit Hours				
	Budgeted 2021/22	Actual 2021/22	Projected 2022/23	Projected 2023/24	Projected 2024/25
All Faculties	199,760	194,775	189,058	190,295	192,831

iii. **Investment income -** The budget increased by $250 thousand to $5 million. The budgeted increase is based on an analysis of realized investment income returns over the past 15 years and investment projections due to a Board approved review and change to external investment managers and additional diversification of the asset mix in 2021/22.

iv. **Ancillary Services** operates on a financially self-sustaining model. Ancillary Services usually contributes annually a $200 thousand dividend, however, due to challenges from COVID-19 and the 2022 labour disruption, this dividend will not be paid to the operating fund in 2022/23 but will be reinstated for 2023/24. Campus Mobility contributes $700 thousand towards the Operating budget. Due to the impact of COVID-19 on Ancillary Services the University will also forego the $350 thousand contribution from Ancillary

Services to the housing reserve for years 2021/22 and 2022/23. Ancillary Services also contributes annually $767 thousand in interdepartmental charges for University services (finance, human resources, facilities, and security) and supports $1,057 thousand in debt service for student residences.

Expense Assumptions

i. Salary and benefit changes have been applied based on collective agreement contractual increases and other anticipated salary and benefit increases. Administrative Professional Officers (APO's), Excluded Professionals, Exempt Support Staff (ESS), and Senior administration employee groups remain on a salary freeze until June 30, 2022, as mandated by the Provincial Government. The salary restraint, which does not allow for any cost of living, career progress or merit increases for these employee groups, has been in place since April 1, 2016. July 1, 2015 was the last date these employee groups received any increases in salary.

ii. Information Technology (IT) maintenance and site license contracts are projected to increase by 25% in 2022/23. The 2022/23 projections are based on a combination of contract price increases, and new maintenance and site licenses, offset by concerted efforts to not renew or to negotiate more favourable terms for the University in existing site licenses.

iii. Utilities budget will increase by 32% in 2022/23, approximately $1.5 million. There is still an element of risk in this budget assumption since the Science Commons facility has not been fully occupied for an entire year, with the opening of the facility in September 2019, and the impacts from COVID-19 and restricted access to campus during 2020 to 2022. Rising gas prices is also having a negative effect on the utilities budget.

iv. Insurance premiums are projected to increase by 18%. This increase is attributable to the global risks and uncertainty due to the pandemic, fraud risks, property/casualty incidents becoming more evident, and the steady increase to global natural disaster insurance losses.

v. Workers Compensation Board premiums are based on the prior three years' accident experience in our industry and claims volume costs, and due to the University's favourable experience ratings, the projection is to decrease by 24%.

vi. The investment manager fees are projected to increase by 19%. The University transitioned three of the four investment managers in 2022. Investment manager fees are based on a percentage of market valuation of the account and therefore since the purpose of transitioning investment managers is to increase market valuation, there is an anticipated increase in investment manager fees along with a resultant projected increase in investment returns.

Budget Sensitivities

The University has adopted a conservative approach to projecting the budget assumptions however, there is a risk that the actuals will vary substantially from budget. The figure below demonstrates the impact of a 1% variance increase from budget.