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 certain 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. Provincial Base Operating Grant

   The provincial base operating grant is the largest single revenue line item for the University, which comprises approximately 49% of the University's operating revenue budget. The provincial operating grant is not normally formally 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.

   The University has experienced a 24% reduction ($24 million) in the base operating grant since 2019 and this obviously has caused significant stress on our budget and operations. It is hoped that there will be no further reductions to the base operating grant over the next few years.

   In the past, Alberta's fiscal environment fluctuates widely and this influences the provincial operating grant allocations and any major fluctuation in this grant has substantial implications for the sustainable financial position for the University. Added stress on the provincial grant is the demand from other public sectors of the province, in particular health care funding needs.

2. Tuition Revenue / Student Enrolment

   Tuition fee revenue comprises approximately 40% 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.

   As per provincial legislation, in the 2024-25 academic year, average tuition rate increases for domestic students were capped at 2% per year. It is expected that the average increases for domestic students will be capped at 2% for the foreseeable future.

   Tuition revenue is also influenced by student enrolments. 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 that exist at the University of Lethbridge. Significant efforts have also been put into maintaining and enhancing student services to improve our student retention rate. Additionally, the Government of Canada introduced several significant changes to international study permits, impacting the ability of international students to come to Canada to study. These changes introduce significant uncertainty into international student enrolment projections, and revenue from international student tuition fees.

   The 2024-25 budget projected that there would be a slight decrease in the 2024-25 enrolment for undergraduate credit hours compared to 2023-24.

3. Investment Income

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

   There is much volatility in the investment market and it is difficult to predict investment income. The budget is based on an analysis of realized investment income returns over the past 15 years and investment projections with the 2022 change in external investment managers and additional diversification of the asset mix.

The largest 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.

4. <u>Exchange Rates</u>

The majority of the University's expenditures are in Canadian funds, but when the exchange rate shows a significant downward trend, the impact of this severely reduces our buying power, especially for library acquisitions and information technology contracts which typically are paid to US vendors.

5. <u>Compensation</u>

The largest component of the University's expenditures is salaries and benefits (82%). Salary adjustments are based on contract negotiations with the respective unions and assumptions for the negotiated increases are built into the budget. These assumptions may or may not be accurate at the time the budget is being formulated and thus can have a substantial impact on the overall budget.

Attracting and retaining quality employees continues to remain a Board of Governors' priority.

6. <u>Information Technology Contracts</u>

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.

The University expends concerted efforts in reviewing all licenses and in negotiating more favourable terms in existing site licenses.

7. <u>Utilities</u>

The University's utilities budget is expected to decrease by 13% in 2024-25, then increase by 6% and 7% in the following two years.

The University mitigates the risks in utilities costs by negotiating long term contracts with suppliers.

8. <u>Insurance Premiums</u>

Insurance premiums are projected to increase by 4% in 2024-25.

The University is a member of Canadian Universities Reciprocal Insurance Exchange (CURIE) which was created specifically to handle the specialized insurance needs of universities across Canada. Being a member of CURIE has resulted in favourable insurance premiums compared to those premium costs in the open insurance market.

9. <u>Pension Plan Contribution Rates and Employee Benefits</u>

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 significantly increase year over year.

10. 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 University's expenditure budget increases have been outpacing the revenue budget increases, which adds additional pressure to achieve a balanced budget.

11. 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 progress from minor repair work to evolving 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.
The University currently has 42 buildings on campus totaling 237,535 gross square meters averaging 33 years of age. Due to the age of the buildings, deferred maintenance on existing facilities continues to be a matter of concern. Deferred maintenance is not reflected in the University's financial statements since it is not a liability or a commitment for accounting purposes. The provincial government has normally provided annual infrastructure maintenance grants to address deferred maintenance on campus academic facilities.

Deferred maintenance on our facilities is estimated at $258 million based on a facility condition index (FCI). To ensure facilities are maintained properly and keep the FCI at a reasonable level, it would require $107 million be spent on deferred maintenance projects by 2025, including ancillary and residential buildings. For more information on capital projects and deferred maintenance please refer to the University's Capital Plan.