



To: Wynne Young
Deputy Minister, Advanced Education, Employment and Labour

From: Brett Fairbairn, Provost and Vice-President Academic
Richard Florizone, Vice-President (Finance and Resources)

Date: December 16, 2008

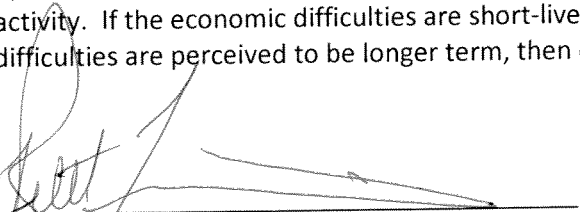
Subject: Operations Forecast 2009/10 –Implications of Recent Economic Events

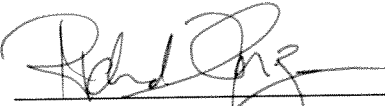
In recent months, world financial markets have experienced a significant downturn and great volatility. As you know, the university's financial risks – such as changes in our operating grant, enrolment, utility costs and investment earnings – are managed through the Multi-Year Operating Budget Framework and annual Operations Forecasts. The conservative assumptions we use have helped to mitigate the impact of recent market events. Given our process and the continued health of the provincial economy, our 2009/10 budget and longer-term projections may hold. However, the magnitude and duration of the investment market downturn requires the University consider scenarios for the future and to revise our planning assumptions accordingly. The University is carefully monitoring our investment earnings and evaluating various scenarios, including appropriate consultation with university stakeholders.

We do know that the global financial crisis has created unique pressures on us that were not foreseen when the Operations Forecast 2009/10 presentation was delivered to the Province in September. As the Operations Forecast 2009/10 document developed over the fall term, the global financial environment has continued to change dramatically. The attached brief summarizes the key areas where investment earnings affect the university's finances: Operating Budget, Pensions and Endowments. Although the University's conservative and well managed investment approach has mitigated the impact, based on results for the year to date, we expect that investment earnings will not meet the forecasted level for 2008/09. However, we anticipate that the revenue shortfall could be addressed by one-time measures to absorb the impact. Every attempt will be made to mitigate the impact on programs and priorities.

The future is uncertain, and further deterioration of the global economy has the potential to alter our assumptions in areas such as tuition strategy, enrolment and salary settlements. As of the time of this memo, it is difficult for us (and for government) to determine just what the permanent effects might be. We will need to continue to monitor the situation and work closely with government in the coming months to update our multi-year forecast accordingly.

During this time, we are encouraging restraint in spending. We are asking all Colleges and units to carefully consider discretionary expenses and major commitments. We are also asking Colleges and units to consider options that might be available to address one-time funding challenges for some of our endowment supported activity. If the economic difficulties are short-lived, these measures should be temporary. If the economic difficulties are perceived to be longer term, then other more permanent measures will need to be undertaken.


Brett Fairbairn, Provost and Vice-President Academic
University of Saskatchewan


Richard Florizone, Vice-President
(Finance & Resources), University of Saskatchewan

Key Areas where University of Saskatchewan Finances are Affected by Investment Earnings

Operating Budget

Investment earnings within the University's operating budget support program delivery, service and administrative activities. Investment income is drawn from a relatively conservative set of investments in equities and fixed income and makes up less than 3% of the Operating Budget (\$9.5 million of \$337 million operating budget for 08/09).

Given current market conditions and actual results for the first 7 months of 2008/09, there is a high probability that we will not reach the \$9.5M goal and the operating Budget will be in a deficit position. Based on current results, we would be projecting a negative income of \$2 million, which would result in a deficit of \$11.5M in investment income. The 2008/09 Operating Budget is fully committed and there is limited flexibility and capacity to realize savings in other areas. As such, we have considered one-time measures as a funding solution. Other investment income projections are being considered and one-time funding options prioritized for 2008/09. Options considered for 2009/10 will be based on scenario projections and the actions required.

Endowments

The university has \$190M (as at April 30/08) in endowment funds. These represent primarily resources received from donors with the stipulation that the original contribution not be spent. The investment earnings generated by these resources can be spent to support research, scholarships, etc. in accordance with the donor's terms of reference and university policy. Reduced investment earnings weaken these endowments and their ability to fund activities across the university. Results to November 30, 2008 would produce a contributed capital funding shortfall of about 9.6M.

In order to protect the original principal of an endowment, the university's spending policy (#4.34 – link: http://www.usask.ca/university_secretary/policies/operations/4_34.php) requires an endowment to achieve a specified level of "segregated capital" before spending begins. Under the current policy, where a spending allocation has begun for an endowed fund, that allocation will not be discontinued or reduced in the year of a downturn. However, a prolonged period of low or negative returns may affect the sustainability of our current spending policy and the level of segregated capital for all funds. The Board has approved a change to our spending policy for 2009/10, requiring a reduction of about .3% (from 4.8% to 4.5%), with the intent to revisit this allocation for future years. Colleges and unit heads have been asked to develop plans to fund segregated capital deficits based on a \$4.8 million challenge (as at September 30/08). These plans will be reviewed and actions considered prior to year-end to address segregated capital deficits.

Pensions

As at April 30/08, the university has approximately \$760M in pension and benefit assets, all of which are heavily dependent on investment returns. Of these assets, \$320M is in Defined Contribution (DC) pension plans, and \$440M is in Defined Benefit (DB) pension plans.

This key distinction between these two types of plans is who bears the rewards and risk of investment returns. In DB plans the university bears the rewards and risk and in the DC plans, the individual employee bears the reward and risk. If there is a going-concern shortfall or an investment (solvency) shortfall in any of the DB plans, then the university must fund that shortfall through operating funds.

The financial position of the DB plans is highly sensitive to long-term bond rates. Of greater concern is the decrease in our pension assets. Even if markets return to normal, we would be facing a significant solvency deficit in 2010 when the next actuarial valuations are due. Based on recent projections the deficit could be as high as \$90M requiring annual payments of about \$20M annually. The University is pursuing mitigating strategies, including solvency relief, however additional contribution costs will likely need to be expended. We will continue to monitor investment markets to determine the implications for the university's pension plans and to develop an appropriate action plan.



UNIVERSITY OF SASKATCHEWAN

The University of Saskatchewan

Operations Forecast 2009/10

Submitted to

*Advanced Education, Employment and Labour
Government of Saskatchewan*

December 16, 2008

Executive Summary

The annual Operations Forecast is an opportunity for the University of Saskatchewan to present its operating and capital budget priorities to the Government of Saskatchewan and support the Ministry of Advanced Education, Employment and Labour in its annual presentation to the Treasury Board on needs of the post-secondary education sector.

May 2008 saw the Board of Governors and University Council approve our *Second Integrated Plan*. Last year's forecast presented a transition year from the first plan to the second. This year we present our priorities for the *Second Integrated Plan*. 2009/10 is the second year of our *Second Integrated Plan*. Continuing from the *First Integrated Plan*, the University strives to be a leader in integrated planning, setting priorities, implementing strategic initiatives and successfully operating within a multi-year operating budget framework

As part of the *Second Integrated Plan* we are striving to create an engaged University through the following priority areas: to improve the undergraduate and graduate student experience, to enhance the University's profile in research, scholarly and artistic work; and to work together more effectively across unit and institutional boundaries. We believe these priorities also address the Province's desire to engage our Saskatchewan residents and attract new residents, to enrich the Saskatchewan quality of life through education and knowledge and grow the Province in international forums.

In this Operations Forecast, we present our case for the operating and capital investments required to sustain the activities of the University, as well as create greater self sufficiency for the University through increased fundraising capacity. We are requesting:

- An operating grant increase of \$19.133 million (8.33%), including \$16.838 million (7.33%) for the economic and tuition increase, and \$2.295 million as an investment in University Advancement.
- The opportunity to participate with other key stakeholders in the development of the tuition component of the provincial universities funding strategy.
- An increase to the annual capital allowance of \$10 million and a one-time capital funding allotment of \$62.1 million.

We also encourage the Province to invest in areas beneficial to the Province and the University which are currently beyond the scope of the University's available resources, such as scholarships, research, facility maintenance, and housing.

This Operations Forecast is not without its risk and consequences. The permanent budget adjustments required under the *Multi-Year Operating Budget Framework* have restricted our flexibility. Sustaining investment is required to ensure our students obtain a high quality affordable education, to attract and retain outstanding faculty to teach in our programs and conduct internationally recognized research of high caliber, and to compete for federal funds available through research and infrastructure programs.

Introduction

As in previous years, the University begins by commending and thanking the Province of Saskatchewan for its continued commitment and support of the post-secondary education sector, specifically the University of Saskatchewan. In a time of increasing global economic and fiscal uncertainty, it is important to continue to place priority on the provision of high quality education and professional opportunities for Saskatchewan citizens.

The Province demonstrated this commitment once again in 2008/09 with an economic and tuition increase to the University operating grant of 8.2%, providing an increase of \$16.192 million. The Province also included targeted funding in the amount of \$5.262 million to programs including Medicine, Nursing and WCVM. On the capital side, an additional \$884,000 was provided to the annual capital allowance.

The University of Saskatchewan aspires to the highest standards of education programming, research and scholarly pre-eminence, governance and administration. We continue to be a well-managed institution, holding ourselves accountable against international standards. We aim for recognition as a leader in integrated planning and strive for continual improvement in our processes based on best practices in higher education.

May 2008 saw the Board of Governors and University Council approve our *Second Integrated Plan*. Last year's forecast presented a transition year from the first plan to the second. This year we present our priorities for the *Second Integrated Plan*. 2009/10 is the second year of our *Second Integrated Plan*. Continuing from the *First Integrated Plan*, the University strives to be a leader in integrated planning, setting priorities, implementing strategic initiatives and successfully operating within a multi-year operating budget framework. The integrated planning process has brought more transparency and accountability to our activities. With our recently approved *Framework for Assessment*, the University will be implementing a mechanism to assess our programs, units, and functions within our University against our priorities as prescribed in the *Strategic Directions*. We will also be reporting our progress in annual reporting to all governing bodies of the University and to the campus community.

As part of the *Second Integrated Plan* we have outlined three institutional imperatives: to engage more fully with Aboriginal peoples; to use our expertise to resolve critical issues that face society, linking global and local; and to foster innovation throughout the University's programs and services. We have encapsulated these imperatives in three priority areas which represent ways for the University to transform in key areas; to improve the undergraduate and graduate student experience, both inside and outside the classroom, to enhance the University's profile in research, scholarly and artistic work; and to work together more effectively across unit and institutional boundaries. The effect of this work is to create an engaged University.

We believe our priorities reflect the best options from a range of alternatives that have potential to advance the University farthest towards its stated goals. The priorities also address many of the Province's future needs; for citizens who are well-educated through leading-edge general, specialized and professional programs; for new knowledge and knowledge clusters; for enrichment of the Saskatchewan quality of life; for internationalization and local-global connections; and for attracting great minds to Saskatchewan. As we are in the early stages of plan implementation, further opportunities will be highlighted in next year's *Operations Forecast* featuring initiatives of mutual interest.

The second integrated plan outlines what we must do over the next four years, and is supported by a *Multi-Year Operating Budget Framework* which makes assumptions about funding and an Academic Priorities Fund which provides funds for priority initiatives in keeping with our view of the plan. To be successful, must be supported by resources; human, financial, physical and infrastructure. We have committed to further enhancing the use of our resources through the establishment of a resource allocation/reallocation model.

In this Operations Forecast, we present our case for the operating and capital investments required to sustain the activities of the University. We also encourage the Province to invest in areas beneficial to the Province and the University which are currently beyond the scope of the University's available resources, such as investment in University Advancement which would increase the fundraising capacity of the University and its ability to be more self sustaining, and investment in the deferred maintenance of capital assets, as well as scholarships, recruitment and research to assist the Province in matters of immigration and employment.

The University of Saskatchewan welcomes the opportunity to participate with other key stakeholders in the development of the tuition component of the provincial universities funding strategy. We appreciate these discussions will occur simultaneously with the operating grant and with changes to the public policy framework initiated by Government.

Integrated Planning

The University of Saskatchewan is currently in its second cycle of integrated planning – a process that draws together university-wide and unit-specific planning efforts, permits strategic decision-making and provides a synoptic view of resources and commitments – and is now implementing its *Second Integrated Plan*.

We are building on success of our *First Integrated Plan* in which we saw the University make major investments in student scholarship funding, grow graduate student population, increase performance on key research indicators, realign the operating budget to address our structural deficit, establish three new interdisciplinary graduate schools and raise over \$150 million with the *Thinking the World of Our Future* capital campaign. A final report card of the accomplishments of the *First Integrated Plan* will be released in the early New Year.

Second Integrated Plan

Approved in May 2008, the *Second Integrated Plan: Toward an Engaged University (2008/09-2011/12)* commits the University of Saskatchewan to concentrate resources and energy on three areas of priority over the next four years:

1. Improve the undergraduate and graduate student experience, both inside and outside the classroom
2. Enhance the university's research, scholarly and artistic profile
3. Work together more effectively across unit and institutional boundaries

Building on the accomplishments of the successful *First Integrated Plan* and on the goals articulated in the *Strategic Directions*, the plan steers the University of Saskatchewan toward becoming a fully engaged university, one that distinguishes itself by the integration of teaching and research, university and community, students and faculty and staff, in focused and collaborative endeavours. Twenty commitments within the plan will generate university-level initiatives to accomplish these aims. Cutting across the three priorities, are three institutional imperatives: to engage more fully with Aboriginal peoples; to internationalize the University and the student experience; and to foster innovation throughout the University's programs and services.

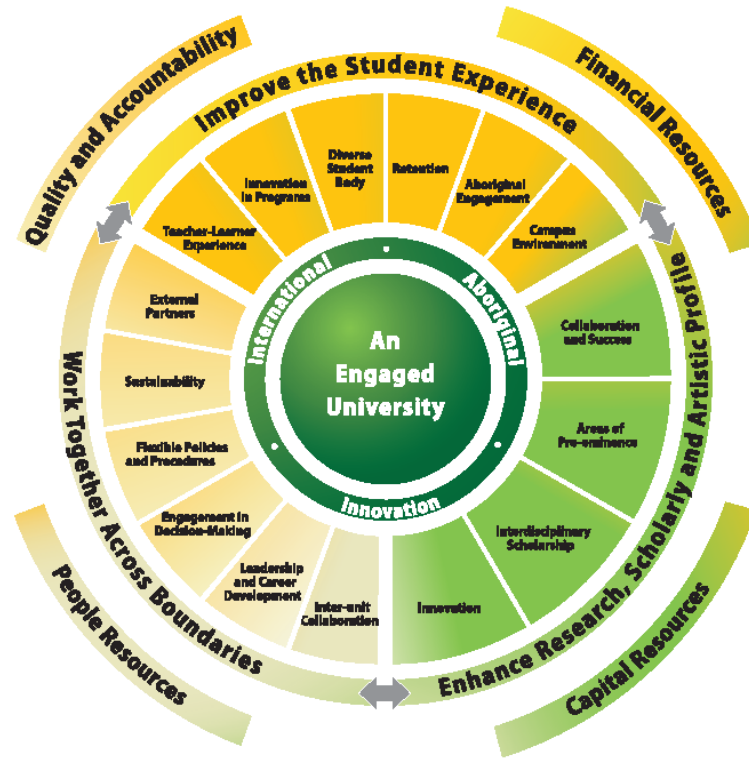
The implementation of the *Second Integrated Plan* is supported by \$4.5 million in permanent funding in the Academic Priorities Fund. The implementation process, which is underway, is based on a collaborative model which encourages a new way of working together and a focus on results. Measuring our success is a critical part of the planning process and thus quality improvement and accountability will be closely monitored. The University aspires to the highest standards of governance and administration in its planning, budgeting, and assessment activities.

20 Commitments

The 20 commitments in the *Second Integrated Plan* represent 20 ways to transform the University in key areas, identified through the integrated planning process as areas where our resources and attention should focus over the next four years. Some examples are: Aboriginal Engagement, Retention Strategies, Innovation and Cultural Contributions, and so on; the full list of 20 can be seen in the diagram below. Sixteen of the 20 commitments relate specifically to one of three priorities, although some intersection between commitments will occur. The final four commitments are supporting strategies because they cross across all three priorities and provide

the foundation of the university: People Resources, Finance Resources, Infrastructure and Capital Resources, and Quality and Accountability.

The University is using a project management approach to plan implementation and is ensuring that financial and human resources are available to achieve the plan's goals. Opportunities for investment and partnership, on and off campus, will arise over the planning cycle to 2012.



Integrated Plan Components

In total, the *Second Integrated Plan* includes five separate components, each focusing on a specific area as shown below. A communications plan also supports the various components to ensure internal and external stakeholders are well informed.

- *The Second Integrated Plan* – identifies the priorities, strategies and commitments for the planning cycle
- *University Implementation Plan* – Identifies leaders for each commitment area and principles that will guide the implementation process
- *Multi-Year Operating Budget Framework* – Provides a financial projection and guiding principles for the University's operating budget for the planning cycle
- *College and Unit Planning Parameters* – Outlines expectations for colleges and units, including specific initiatives, and goals related to the environment, research and scholarship, program innovation and resources
- *University Capital Plan* – Provides details on new and continuing infrastructure projects for the planning cycle

The integrated planning process and budget development go hand in hand with the plan and academic priorities setting the context for budget development. The *Multi-Year Operating Budget Framework (2008/09 – 2011/12)*, also approved by the Board of Governors in May 2008, is the resource plan for the *Second Integrated Plan* and is an outcome of the integrated planning principle of associating the University's academic direction and budget planning over a multi-year period.

In addition, a *Capital Plan* is currently being developed to support the capital and infrastructure needs of the *Second Integrated Plan*. The *Capital Plan* will serve as a comprehensive and strategic capital assessment and planning document encompassing traditional capital projects necessary to protect the physical environment including major building projects and utilities and municipal infrastructure. The plan will also include non-traditional capital projects, such as information and communications technology, multi-media systems, major information systems, and capital equipment that support and enable the University's academic and research mandate.

Next Steps

The continued implementation of the plan and finalization of the other components, including the Capital Plan and the Planning Parameters are the immediate next steps. To date, 30 of the 31 commitment leaders have been identified. Commitment leaders are currently familiarizing themselves with their commitment area, examining related work already happening on campus, forming their working groups and developing work plans. A review of the process to develop the *Second Integrated Plan* is also underway. Recommendations for improving the planning process will be reported back to the campus community and considered for the third planning cycle.

Operating Grant

We request that the Province provide an operating grant increase of \$19.133 million (8.33%), including \$16.838 million (7.33%) for the economic and tuition increase, and \$2.295 million (1%) for an investment in University Advancement.

The Province demonstrated their commitment once again in 2008/09 with an economic and tuition increase to the University operating grant of 8.2%, providing an increase of \$16.912 million. The Province also included targeted funding in the amount of \$5.262 million to programs including Medicine, Nursing and WCVI, for a total operating grant increase of \$22.174 million.

The University of Saskatchewan's total financial activity now approaches \$711 million annually. This includes core operating activity principally funded from the Province's operating grant and tuition revenue, and other activity funded by sources of revenue including research, donations, targeted funds received for capital projects and other sources. The multi-year operating budget framework is developed around the University's core operating activity that approximates \$357 million, or slightly more than 50% of total revenue. The operating grant planning for 2009/10 is based on the *Multi-Year Operating Budget Framework (2008/09 – 2011/12)* which was approved by the Board of Governors in May 2008.

The multi-year operating budget framework presents a balanced budget in each year of the second planning cycle and maintains general operating reserves with the Board of Governors approved range of 1% to 4% of planned operating expenditures. It sustains the core activity of the University and continues to financially support fundamental change in line with the institutional priorities as expressed in its *Second Integrated Plan*. The four year plan sees the University strategically investing in University priorities through planned spending of modest resources held in the Academic Priorities Fund, while at the same time planning for a replenishment of the fund for the next planning cycle.

Development of the 2009/10 projected budget is contingent on the guiding principles of the Multi-Year Operating Budget, as well as other budget considerations and assumptions required for planning of operating costs (major expense elements such as those resulting from provincial salary settlement patterns, from operating new facilities, and from other ongoing operating costs, including utility rate increases, software and systems upgrades, and compliance costs associated with legal and regulatory changes) and revenue streams (including tuition management policies and investment uncertainties).

Operating Budget development considerations include:

1. **Balanced budget** - The operating budget for each year should either be balanced or project a modest surplus with the percentage growth in expenditures not exceeding the percentage growth in revenues.
2. **Ambitious, yet achievable, assumptions** - The planning assumptions should be reasonable and achievable. The key assumptions include the operating grant, tuition revenue (rates and enrolment), and salaries and benefits costs.
3. **Realistic requests of government** – The request to the government will be a clear projection of economic increases and required support to continue operations, not an attempt to gain more than required from the Province.

4. **Cost Competitiveness** – The operating budget is based on the University remaining competitive with market-based settlements.
5. **Effective Resource Allocation** – The operating budget is based on the University's effective allocation of resources to the priority areas of the University. We continue to do this through the use of Saskatchewan Universities Funding Mechanism (SUFM), and will enhance the allocation with the Resource Allocation/Reallocation Initiative outlined in the *Second Integrated Plan*.

In planning for 2009/10, this *Operations Forecast* can not ignore the current global economy. The University is not immune to the market downturn on investments, specifically, the endowments which contribute revenue to activities such as scholarships, research and operating of colleges and units. The University also acknowledges the economic impact of the markets on the Province's financial plans and believes that the Province is well positioned to withstand the global trends. However, the risk has increased considerably in the past few months.

Prior to considering the key individual planning assumptions, an understanding of the Province's tuition management program and its future direction is important.

The tuition management program was introduced in 2005/06 and continued through 2008/09. Under this program, undergraduate and graduate rates have remained at 2004/05 levels (although there have been exceptions for a few professional graduate programs). In return for the University agreeing to maintain tuition at 2004/05 rates, the Province agreed to provide the funds for an economic increase in the operating grant and rate increase in tuition (economic and tuition) sufficient to support our basic needs including inflationary increases.

In March 2008, the Province indicated that 2008/09 would be a transition year in which it would work with the university sector to develop a tuition management strategy that focuses on more targeted programs. Pending specific information on the nature of the changes to the tuition management program and the impact of those changes on operating grant increases (economic and tuition), we have provided projected related revenue increases for both economic and tuition increases as a combined increase to the operating grant.

The University also assumes the use of SUFM to allocate the annual increase in post-secondary funding to the universities in the Province.

The use of all considerations, making reasonable and realistic assumptions of revenue and expenses of the operating budget, the University has refined the operating budget for 2009/10. The following section discusses the key assumptions required for planning of 2009/10.

Key Planning Assumptions

Operating Grant and Tuition Revenue

The Operations Forecast in 2008/09 included both an economic increase from the Province and tuition increases for undergraduate students, with the latter based on our then national norm tuition policy. Using the projected combined economic increase from the Province and tuition increases for students in 2006/07 as the base, in the past years under its tuition management program, the Province provided the University with an operating grant increase (economic and tuition) of \$12.024 million (7.0%) in 2006/07, \$13.660 million (7.3%) in 2007/08, and \$16.912

million (8.2%) in 2008/09. These increases allowed the University to maintain tuition at 2004/05 rates and provided sufficient operating funds to support basic needs.

We expect that the combined percentage increase in the operating grant for 2009/10 will be in the same range as for the past few years and accordingly we are projecting a **7.33% (\$16.838 million) increase** for 2009/10. This increase holds tuition rates at current rates.

As we are attempting to place less reliance on the Provincially funded operating grant, becoming more self sustaining, the University is targeting fundraising as a means to increasing our resource base. In addition to our required operating grant increase, we are making a special operating grant request of **1.0% of the operating grant, \$2.295 million to be invested** in University Advancement (see the following section on “Opportunities for Additional Impact”) to allow the University to grow our fundraising capabilities to assist the University in having a greater degree of self sufficiency.

The required grant increase may be adjusted if tuition revenue assumptions change. Tuition revenue is contingent on both **tuition rates** and **enrolment**. The setting of the tuition rates is not contingent on the need to balance our budget, rather setting an appropriate increase that is sustainable, realistic, competitive, and affords accessibility to students. For example, increasing 2008/09 tuition by a CPI like factor, tuition revenue would increase (holding all other factors constant). The operating grant requirement would be decreased by the increased revenue received from tuition. This increase excludes any new or increased targeted funding such as that for Medicine accreditation and Medicine and Nursing program expansion.

It is likely with the change to the public policy framework, the tuition management program will change, and the University would favor setting tuition **rates** by the Board of Governors based on factors including maintaining competitiveness, ensuring quality of instruction and facilities, ensuring continued student access, affordability for students and retention of students. We believe the increase should reflect the balance between the public and private benefits of a university education. The increase should also be sustainable and reasonable coupled with continuing improvements in student scholarships and student aid. A possible strategy would be to increase tuition rates by a percentage similar to CPI in the Province of Saskatchewan, with allowance for the possibility that different adjustments may be required for particular programs.

In developing a revised tuition policy, the University will be guided by these factors, as well as advice from the Planning Priorities Committee of Council, Provost’s Committee on Integrated Planning, and others, to be finalized and approved by the Board of Governors.

The University of Saskatchewan welcomes the opportunity to participate with other key stakeholders in the development of the tuition component of the provincial universities funding strategy.

Regarding **enrolment**, we remain sensitive to enrolment changes and we have significant financial risk in an environment where natural undergraduate levels are declining. We are planning for stable enrolment, a modest increase in graduate and international undergraduate student numbers, with a slight decrease in undergraduate enrolment, resulting in stable tuition revenue. As we acknowledge the declining enrolment levels, we are focusing on recruitment strategies, ensuring a diverse student body population with particular emphasis on the Aboriginal Engagement. The *Second Integrated Plan* includes the student experience as a main priority, with initiatives underway to retain our students.

For certain programs where we have an enrolment and/or approved rate increase, the increased tuition revenue will be directed to specific colleges rather than made available for the general operations of the University. In other situations such as for the undergraduate programs in the School of Business and Pharmacy and the differential tuition in Law, colleges were expected to generate tuition revenue through rate increases that would then be available for college operations. As part of a new tuition strategy, these rate increases may be phased in to continue the expansion plans of particular Colleges. The budget line **Directed revenue** refers to the commitment we have made to particular Colleges in lieu of the rate increases. The funding is directed to colleges through the operating budget as a temporary measure.

The allocation to the **Student Services Fund** is intended to be a percentage of the increase in tuition revenue that results from increased rates, but as we are currently unsure of the tuition management program continuation and/or tuition rate increases, we have chosen to continue the funding at the same level as 2008/09. This fund is intended to support scholarships, bursaries, and other forms of student services; in particular, the fund has been used in the past two years to support increased operating costs from implementing the new student information system (SiRIUS).

Salaries and Benefits Costs

Salaries and benefits costs constitute in excess of 70% of total operating expenditures. These costs increase annually as a result of normal salary progression (annual increments, merit increases, promotions through the ranks) and provisions for negotiated settlements, and are reduced by turnover savings resulting from retirements and resignations. In the absence of any negotiated increases, salaries and benefits costs normally progress by approximately 1% annually. Any negotiated increases would then be in addition to this normal progression.

Salaries and benefits costs are projected to increase by 5.5% in 2009/10. The projected increase in salary and benefits includes employee growth and exceptional performance, movement through career paths, as well as market adjustments and negotiated increases. Also included in the projected increase is the expected salary expense increase due to the change in legislation regarding mandatory retirement and the compounding market effect on pensions. The University is expecting to have a higher salary expense as senior members of the University are electing to continue employment both as a desire to contribute and due to market conditions. The amount for negotiated increases is a weighted average aggregation across all bargaining units.

By constituting in excess of 70% of total operating expenditures, the annual increase in salaries and benefits costs is the primary contributor to the growth rate in total operating expenditures. As we compete nationally for faculty and senior administrative positions and as our collective bargaining is conducted in the context of provincial salary settlement patterns, we believe that our projected rate of growth in salaries and benefits costs and total operating expenditures are reasonable and realistic.

We currently have collective agreements in place for all major bargaining units with the exception of the Administrative and Supervisory Personnel Association (ASPA), whose agreement expired April 30, 2008. 2009/10 will see the University negotiating two more of our major employee group contracts; the University of Saskatchewan Faculty Association agreement expiring June 30, 2009, and the Canadian Union of Public Employees Local 1975 (University Employees' Union) agreement expiring December 31, 2009. The other major collective agreements by expiry date include: the Canadian Union of Public Employees Local 3287 (Sessional Lecturers) - August 31, 2010.

Other Operating Costs

Other operating factors included in the planning of the multi-year operating budget, as well as the annual operating budget, are items such as the following:

- New facility cost – operating costs of new building can be categorized as pre-opening costs and post-opening costs. The pre-opening costs include costs such as the cost of utilities for the new space, post-opening, as new facilities are finished and normal usage starts to occur, the on-going cost of operating the facility must be included in the budget. Facilities such as Intervac and AHSN are in the pre-opening stages. The 2009/10 includes a new building space increase for these types of new facilities
- Utilities – the market for utilities; natural gas, electricity, and others, inherently contains volatility which we must plan for. The use of multi-year purchase contracts has offered some protection for large increases in a given year. We are projecting a modest increase in the utilities in 2009/10.
- Increase in non-salary costs – in recent years, the non-salary budgets of the University have been held at constant levels. 2008/09 budget included a 2% increase to adjust for continuing decrease in purchasing power. 2009/10 budget includes another 2% increase.

Financial Support for Institutional Priorities

The Academic Priorities Fund (APF) was created in 2002/03 when funds were set aside with the introduction of SUFM. Despite the financial challenges over the first planning cycle, permanent operating budget allocations continued to be made to the APF to support fundamental change in line with University priorities as expressed in the *First and Second Integrated Plans*.

The APF not only represents a source of permanent funds to support fundamental change, but to the extent funds accumulate, it also represents a pool of funds that can be drawn upon for investments in selected projects and innovative ideas on a term or one-time only basis.

Since the APF was created, permanent allocations and/or commitments include \$1.0 million for graduate student scholarships; \$1.45 million to support the structures and graduate programming in the three Interdisciplinary Schools - Public Health, Public Policy, and Environment and Sustainability; \$234,000 for faculty positions in Native Studies and Computer Engineering; \$371,000 to enhance services and support students through the University Learning Centre and Global Commons; and \$450,000 for strategic research to ensure research readiness and accommodate research activities. A commitment of \$2.0 million has been made pending approval of the Aboriginal Student Centre.

The unallocated permanent balance in the APF as at April 30, 2008 was \$4.485 million which has been set aside as permanent funding for strategic initiatives to be articulated as priorities in the second planning cycle (2008/09 to 2011/12).

If there were no further permanent budget allocations to the APF, by April 30, 2012 there would be no funds available for strategic initiatives for the third planning cycle (2012/13 to 2015/16). The planned \$500,000 allocation per year in the second planning cycle is the process of setting aside funds for the third planning cycle.

A pool of funds accumulates within the APF to fund selected projects, innovative ideas, and programs on a one-time-only or a planning cycle basis. Funding of this nature provides the University with an opportunity to maintain flexibility by supporting specific endeavours or discrete projects, and to evaluate investments prior to considering further funding support. A description of the APF and how it has been used on a permanent and/or one-time basis to finance

these initiatives is presented in greater detail at http://www.usask.ca/vpacademic/integrated-planning/planning_office/budget_planning.php.

Operating Grant Request

The table below summarizes the 2009/10 operating grant consistent with the practices followed by the Province in reporting the grant. The amount is based on the Province's funding approval of \$229.012 million plus the University's estimate of funding increase for April 2009. (All amounts are expressed in millions of dollars.)

		Base Grant
Operating Grant – 2008/09		\$229.012
Adjustment (Year End Accrual)		.952
Adjustment (Medicine Seats/ 07/08 income)		<u>(.309)</u>
Adjusted Total		\$229.655
Economic and Tuition increase (7.33%)	16.838	
Special – University Advancement (1%)	<u>2.295</u>	<u>19.133</u>
Operating Grant – 2009/10		<u>\$248.788</u>

We request that the Province provide an operating grant increase of \$19.133 million (8.33%), including \$16.838 million (7.33%) for the economic and tuition increase, and \$2.295 million (1%) for an investment in University Advancement.

Risks and Consequences

This Operations Forecast presents a financial framework for 2009/10 that while addressing basic financial needs, continues to support fundamental change in line with the University's priorities. This financial framework is not, however, without its risks and consequences.

While the key planning assumptions have been presented individually, they must be combined when considering financial consequences; that is, a negative outcome for one parameter may not be significant if offset by a positive outcome for another. For example, a change in the operating grant that differs from the budget must be assessed in the context of outcomes for student enrolment and salaries and benefits costs. The sensitivity can be expressed in dollar terms as: a 1% change in the operating grant is \$2.1 million; 1% in undergraduate enrolment is \$0.65 million; and 1% in salaries and benefits costs is \$2.2 million.

Regarding specific risks, demographics indicate natural undergraduate enrolment levels are declining. We must invest in student recruitment and retention to counter the natural declines. With respect to salaries and benefits costs, as we negotiate collective agreements, we fix our future salaries and benefits costs but have no certainty as to the availability of sufficient increases in the combined provincial operating grant and tuition revenue to fund these cost increases. While capital is discussed in the next section, insufficient funds to meet basic capital needs place added financial pressure on our operating budget.

Investment income is another area of risk for the University. The global financial crisis has created one-time pressures on the University. The pressures are focused in three areas:

investment income for operating, trusts and endowments, and pensions. Investment income is approximately 3% of the operating budget revenue. At present, the University is forecasting a short fall of investment income due to the global financial crisis. The 2008/09 Operating Budget is dependent on investment income of \$9.5 million to have a balanced budget outcome. Based on November 2008 results, the present forecasting is projecting negative investment income of \$2.0 million for 2008/09, \$11.5 million less than budgeted. Funds which had been targeted for projects or specific priorities are now being assessed, with the intention to utilize the funds which will result in the least disruption of our operations. This action may result in funding challenges for future years, as well as lead to a change in the forecasting of the 2009/10 budget.

Endowments and pensions could be faced with similar issues. Currently, the University's endowment income supports annual spending of approximately \$8.5 million based on our spending allocation policy of 4.5%. The spending allocation policy may no longer be sustainable which will result in a reduction of the funding available for student awards and other priorities specified by donors. Perhaps the greatest risk is associated with the defined benefit pension plan which holds approximately \$440 million in assets. The risk associated with endowments and pensions, may put pressure on the operating budget to assist with resources in the short term. We are taking a prudent approach in an extremely fluid situation.

Regarding consequences, if the combined outcome for the key planning assumptions is negative, and differs significantly from our budget, then our budget framework will need to be adjusted. The nature and timing of any necessary adjustments for 2009/10 and subsequent years would be considered in revising annually the *Multi-Year Operating Budget Framework (2008/09 to 2011/12)*. The University is determined to continue funding innovation even in periods of resource shortfalls and constraints. Therefore, we would protect the Academic Priorities Fund (APF) even in the case of severe resource challenges. We would, instead, look to internal resource allocations to balance our budgets, as we did when faced in our first planning cycle with a structural deficit. As noted above, the APF is an important mechanism to support fundamental change in line with the University's priorities as expressed in the *Integrated Plans*.

Significant permanent budget adjustments in the amount of \$6.192 million were required to eliminate our structural deficit and balance the operating budget in the first planning cycle. Apart from the pure mechanics of implementation, any significant permanent budget adjustments to balance the budget in the second cycle would seriously jeopardize the University's ability to ensure that our students obtain a high quality education, to attract and retain outstanding faculty to teach in our programs and conduct internationally recognized research of high calibre, and to compete for our fair share of federal funds available through research and infrastructure programs.

There are a number of ways the quality of student education will suffer if significant permanent adjustments are required to balance the budget in the second cycle. Students will have a more limited selection of program offerings; students will be in larger class sizes with reduced access to faculty for individual assistance; students will have reduced access to services that provide dedicated support for specific needs; students will lack appropriate information technology, well-equipped classrooms and laboratories, and up-to-date libraries, all adequately resourced with people to help them. Students will predictably have higher failure rates in first year with all of the personal consequences associated with failure.

To mitigate risks within the University, the *Second Integrated Plan* includes in the Supporting Strategies to support the efforts of the plan, an initiative in this planning cycle to understand and implement a process for resource allocation/reallocation. Resources include our people

resources, financial resources and infrastructure and capital resources. We have committed to having defined principles and a process for resource allocation with the operating budget, enabling us to better respond financially to priorities and potential risks, such as a downturn in undergraduate enrolment and tuition revenue.

Capital Grant

We request that the Province provide a capital funding increase of \$10.0 million, \$5.0 million to be directed to annual capital allowance and \$5.0 million allocated to Core Area Revitalization. We are also requesting a one-time capital funding grant of \$62.1 million to assist with unfunded balances on capital projects and critical capital needs, as well as increase accessibility to current capital grant funds. In the absence of one-time funding, the annual capital funding request would increase to \$18.0 million.

The *Second Integrated Plan* includes the requirement for developing a capital plan. A *Capital Plan* has been developed to identify and categorize operational (short-term), tactical (medium-term) and strategic (long-term) capital projects that align with and support the *Second Integrated Plan*.

The *Capital Plan* includes traditional capital projects necessary to protect the physical environment, including major building projects, utilities and municipal infrastructure, building renovations, adaptation, capital renewal, and deferred maintenance. The plan also includes non-traditional capital projects, including information and communications technology, multi-media systems, major information systems, and capital equipment that support and enable the University's academic and research mandate.

By its nature, the *Capital Plan* focuses on long-term capital needs in support of the University's *Strategic Directions* and *Integrated Plan*. The plan serves as the reference document to support the discussion on capital in the Operations Forecast in much the same way as that the multi-year operating budget framework serves as the reference document to support the discussion on the operating grant.

Apart from new governance structures and developments in capital planning processes, the University recognizes the value of environmental sustainability as important to the future of the campus and has included it as central to one of the themes developed as a focal point for the second planning cycle and a major principle of the *Capital Plan*. We have made progress on sustainability initiatives and plan to increase our focus and move forward in a holistic, systematic, and coordinated way, so that sustainability informs all aspects of our short and long-term planning activities. A significant life cycle benefit of many sustainable practices is a reduction in operating costs.

Annual Capital Allowance

The annual capital allowance is provided as a combination of a cash grant and borrowing approval, with subsequent funding to cover principal and interest repayments. The cash grant in 2008/09 was increased to \$13.682 million from \$12.798 million in the prior year. The borrowing approval has remained at \$4.7 million since 2006/07. The total capital funding for 2008/09 was \$18.382 million.

The annual capital allowance funding is an investment in the University's growing liability for capital equipment replacement, information and communications technology, capital renewal and replacement, and deferred maintenance.

The capital planning process, with the use of industry standards, has identified critical building and infrastructure capital expansion and renewal. The Current Replacement Value (CRV) for 2008 is \$5.0 billion, determined as a cost of construction per square foot by total campus gross

square footage, including infrastructure. This value has increased dramatically in the past two years with construction cost escalation. CRV is suggested as a base for calculating annual capital renewal requirements as well as annual adaptation, 1% and 0.3% of CRV respectively. This suggests the University contribute \$50.0 million to capital renewal annually, and \$15.0 million to annual adaptation.

Annual capital allowance is required for the renewal, replacement and adaptation of our facilities, for information and communications technology, and for general capital equipment including start-up funding for the equipment needs of new faculty. The annual amount we have been receiving provides limited flexibility given the demands of basic life-safety and core asset re-investment. A significant increase in annual funding for capital renewal and replacement is required to prevent an already large deferred maintenance backlog from continuing to accumulate beyond its estimated level of \$620 million. **We are requesting an increase of \$5.0 million per year until 2015/16 to close the gap between current funding levels and the projected level of funding required to sustain our capital.** This request is contingent upon the University having access to capital grant funding that is currently directed to capital debt repayment.

Campus Core Revitalization

Campus Core Revitalization is a request for stable annual capital funding for smaller campus core projects and those with multiple funding sources. The model would allow the University and AEEL to systematically identify, plan, prioritize and implement high priority projects as opportunities arise. We would continue to request major capital funding on a project-by-project basis for larger and/or specific projects. An investment in Campus Core Revitalization will also link capital investment decisions with capital renewal and deferred maintenance priorities by synergistically and efficiently coordinating essential and critical infrastructure services and systems upgrades with functional occupancy and program requirements. The initiative will lead to more effective use of existing facilities and reduction of the campus space deficiency through the creation of classrooms, undergraduate laboratories, resource facilities, support space; and improved operating efficiency of academic resources. **The University is requesting the Province allocate \$5.0 million annually to campus core revitalization.**

The primary objectives to be realized through the Campus Core Revitalization include:

- Strategically linking the initiatives and priorities identified in the *Integrated Plan* with the reallocation and development of space. The current core area relief plan consists of a series of sequential relocations and space upgrades to provide critical relief in academic and graduate student space for the Humanities and Social Sciences in the College of Arts and Science, the College of Engineering, and the recently approved School of Environment and Sustainability.
- Enhanced facilities for students through a series of projects developed exclusively for services required by the student community
- Rejuvenation of existing campus buildings located in the campus core through “backfill opportunities” and extensive renovations – e.g. Kirk Hall, McLean Hall.
- New and upgraded facilities that support academic, research, and student programs
- Capital projects that could benefit from Campus Core Revitalization funding include: Student Health and Counseling, Aboriginal Student Space, University Learning Centre/Library Transformation project, Global/International Commons, Graduate Student Association Commons, Place Riel Centre Expansion/Renovation

Capital Financing

The capital grant provided by the Province is, in part, a commitment by the Province to the University to assist in repaying debt on capital expenditures up to a specific amount, that is, the University agrees to borrow an amount specified by the Province, and the Province indicates its willingness to finance the principal and interest payments on the borrowing. For 2008/09, the Province has committed to \$4.7 million in borrowing room.

As at April 30, 2009, the University will have borrowed a total of \$27.12 million over a period of six years with repayments of almost \$9.0 million, for a total exposure of just over \$18.0 million. The University, although confident that the Province will honor its commitment to provide funding to repay the principal and interest, is exposed to an increasing debt load that could reach more than \$41 million by 2018/19.

Our preference would be that the full amount of the committed capital grant be provided up-front rather than approximately 25% of the amount being provided over a 15 year period. We believe that issuing the full grant directly would also be beneficial for the Province given that the actual cash outlay is more than the capital grant amount due to the interest charges. By 2013/14, the Province will move into a position where the total amount repaid in each year will exceed the amount that would have been paid had the grant been issued directly. **We request that the Province provide all annual capital funding as a cash grant.**

While we believe the Province has a responsibility to provide an adequate level of annual capital funding to protect and maintain the University's significant public asset and to reduce life-cycle costs, we are not proposing that the annual requirements noted above should be funded entirely through the "public purse". Particularly for the Campus Core Revitalization category, we will raise funds through our own fundraising activities and to the extent possible seek "matching" sources to reduce the challenge including internal resource reallocations. Examples of recent capital projects where we have partial or total funding in place without direct provincial funding include the College of Law expansion and renovation, Griffiths Stadium upgrades, University Learning Centre/Library Transformation, Aquatics Toxicology Centre, and the University Services Building expansion and renovation. A strategy for funding projects the University is exploring is a new internal fee structure for capital projects on campus to recognize the need for ongoing renewal and expansion of our infrastructure. The project fee structure includes 1% of the project to be direct to a central fund to be used for infrastructure renewal and expansion.

One-Time Capital Funding Assistance

We are grateful that the Province allows the University the flexibility to apply the capital grant monies as deemed appropriate; the ability to utilize the capital grant funding to pay off unfunded capital projects has been of great benefit to the University. Nevertheless, as we learn more about our capital renewal needs and gaps through enhanced inventory tools, external assessments, and building and infrastructure failures, this commitment to capital projects becomes increasingly burdensome as it reduces the amount of the capital grant that the University is able to apply to capital renewal and adaptation. The following table highlights the capital projects we are currently paying with a combination of the operating grant, capital grant and other internal resources.

	Balance as of April 30/09	Annual Payment
Thorvaldson Building Restoration	\$7.228 Million	\$5.00 Million
College Building Restoration	\$2.948 Million	\$0.50 Million
Utility Infrastructure Renewal Fund	\$6.900 Million	\$2.50 Million
TOTAL	\$17.076 Million	\$8.00 Million

One-time capital funding assistance in the amount of \$17.076 million would release the commitment against annual funding in the amount of \$8.0 million to these past projects, allowing for reallocation to critical projects and cyclical renewal identified in the capital planning process. We have considered the reallocation of these funds in our request for an annual capital increase, as we appreciate that the increase in annual funding that is required to bring our annual capital funding to projected levels cannot realistically be achieved in one year.

The capital planning process has also identified the deferred maintenance backlog at the University. Current estimates of deferred maintenance are \$620 million, with approximately \$250 million considered critical. Some of the immediate projects include (please see Appendix 2 for more information on projects):

Roof Replacement	\$23.0 million
Heating Plant boiler feed water treatment Replacement and expansion	\$10.5 million
Roadways renewal	\$ 2.4 million
Direct buried service replacement	\$ 6.1 million
Replace T1 and T2 transformers	<u>\$ 3.0 million</u>
	\$45.0 million

There are numerous other examples of building and infrastructure renewal and expansion work that cannot proceed without adequate funding. In addition to assisting with the release of annual funding used for past project repayment, we are requesting funding assistance to these projects. **We request one-time capital funding of \$62.1 million to assist with debt repayment on capital projects and fund critical deferred maintenance capital projects.**

Opportunities for Additional Impact

The University of Saskatchewan has committed available resources to the priority areas outlined in the *Second Integrated Plan*. An economic increase in the operating grant combined with internal efficiencies and reallocation of resources will enable us to support our key operating objectives and to continue on a path of institutional renewal.

In addition to our current efforts, the University is needing to address other areas that require significant new investment beyond what our operating budget can support. We are interested in partnerships with government and others to advance key shared interests. The following are a few of the key shared initiatives:

1. *Enhanced Financial Self-Sufficiency*

Most Canadian universities, including our own, have historically had underdeveloped fundraising arms and, as a result, have been heavily reliant on government fundraising. We have recently completed a very successful campaign, exceeding our target by 50%. In light of these results and the strength of the Western Canadian economy, now is the time to grow our fundraising capacity.

Growth in fundraising capacity leads to diversification of university revenues which is in the public interest as it decreases future reliance on the Provincial Operating Grant, it provides funds for needed enhancements and innovations (the cost of the current integrated plan exceeds the ability of the funding), and it increases capacity to partner with other funding sources.

The University of Saskatchewan is seeking a cultural and structural change, greater responsibility for future resources, and as such is seeking a \$4 million shared investment to be allocated to University Advancement, the Province to contribute \$2.295 million (1% of operating grant) and the University responsible for the remainder.

2. *Student Access, Excellence and Retention*

Saskatchewan needs to retain its best and brightest students as well as attract other top students from outside the province. We need to create opportunities for the most creative and promising minds. In the competitive environment of higher education today, the challenge is largely scholarships.

The University has expanded our scholarship programs using our core resources as well as creative sources such as the APF in the *First Integrated Plan*, Preston Crossing revenue, and *Thinking the World of our Future* campaign. These are major commitments relative to our resources and reflect considerable effort and creativity, but unfortunately, are not nearly enough. We lag all our competitors in scholarship support per student. A permanent increase in fundraising capacity as proposed above will assist in mobilizing new resources in this area, but will be most effective if coupled with other initiatives. A commitment by the province to match donations to student scholarships would provide a large incentive to donors. In conjunction with a permanent investment in fundraising capacity, it would ensure a growing and ongoing stream of new funding for student success.

3. *Accelerating Research, Development and Innovation*

The university's core activities constantly generate new ideas for research, scholarly, and artistic work and for external partnerships to enhance the impact and the spin-offs from our work. However, to build specific research partnerships is expensive. The rate of

innovation and its impact can be enhanced through targeted investment into the Innovation and Science Fund (ISF).

The ISF is an important source of matching funds for research projects. It has provided significant financial leveraging opportunities for other funding programs, such as federal CFI competitions. The province has increased investment in the ISF but we would like to see continued enhancements.

4. *Research Focused on Saskatchewan Priorities*

Creation of chairs for targeted areas of work is an important mechanism for the university to augment existing areas of strength, make national and international-level impact, enhance institutional profile and reputation, and renew its faculty.

While donors have supported numerous chairs, government funding is also required if a sufficient number and range of chairs, comparable to our comparator institutions, is to be developed. Also, targeted funding is desirable to help ensure that areas of significance to our Saskatchewan context are funded.

5. *Maintaining our facilities and infrastructure*

The public has a major stake in the University's facilities and infrastructure, and investment to maintain the value of these assets is a priority both for the University and for the public interest.

Maintenance issues are growing acute and have impaired both capital and operating budgets. Currently, maintenance of our buildings and infrastructure is funded through the Annual Capital Allowance (ACA) provided by the Province. In 2008/09, the ACA was \$18.382 million, of which we are able to commit \$7.332 million to minor capital (alterations, grounds, infrastructure). As discussed in the Capital Grant section, we currently have a \$620 million backlog in deferred maintenance, and should have been investing approximately \$50 million annually in capital renewal.

The University requests a combination of one-time funding to alleviate current funding allocated to the repayment of debt (\$8.0 million) and contribute to the backlog of deferred maintenance, as well as an increase in on-going funding to alleviate future deferred maintenance escalations.

6. *Student Housing*

Among our ideas for new facilities, student residences have special prominence because they are both critically important to our goal of being competitive in recruitment and they are difficult to fund from our traditional models.

The University of Saskatchewan currently houses approximately 6% of our student population which is less than half the national average.

A barrier to growth has been construction costs outpacing rent, so that mortgage financing is not viable. Students do not have the current earning power to pay market rents and face attractive offers from other institutions.

In parallel with the operations forecast process, we are working with government to submit a revised proposal for 200 to 400 townhomes to be located in the vicinity of Cumberland Avenue and 14th Street. We hope to begin construction in 2009.

Conclusion

The University of Saskatchewan is well positioned, given the *Second Integrated Plan*, to achieve its goal of an engaged University. We look to the Province and other partners to support our academic vision and priorities in the coming year.

In this Operations Forecast, we have presented our request for operating grant and capital grant funding to sustain the activity of the University. We have also encouraged the Province to increase its investment in areas of priority to both the University and the Province.

Appendix One

Operations Forecast 2009/10

	Notes	2008/09	2009/10		
		Projected Budget	Projected Change	Key % Change	Projected Budget
Revenue					
Provincial government grant	1	229,655	19,133	8.3	248,788
Credit and non-credit course tuition	3	77,407			77,407
Combined grant and tuition		307,062	19,133		326,195
Other government (WCVM)	2	15,926	1,167	7.3	17,093
Income from investments	4	9,500			9,500
Fees and other miscellaneous income		4,037	0		4,037
Total revenue		336,525	20,300	6.0%	356,825
Expenditures and transfers					
Salaries and benefits	5	235,903	12,880	5.5	248,783
Central utilities	6	18,005	635		18,640
Academic Priorities Fund	7	5,725	(1,000)		4,725
Student Services Fund	8	394	394		788
Library acquisitions	9	8,275	414	5.0	8,689
Medicine accreditation	1	16,893	921	5.5	17,814
Federal funds for indirect research	10	(2,939)	(228)		(3,167)
Other operating costs (net)	11	54,269	797		55,066
		336,525	14,813		351,338
Essential requirements/new initiatives					
Integrated Plan Initiatives			1,500		1,500
Other provincial targeted funding	1		2,295		2,295
Directed revenue	12		278		278
New building space	13		478		478
Other requirements	14		936		936
Total expenditures and transfers		336,525	20,300	6.0%	356,825
Surplus (deficit) before adjustments		0	0		0
One-time measures	4	0	0		0
Surplus (deficit) after adjustments		0	0		0
General operating reserve, beginning		6,719			6,719
General operating reserve, ending		6,719			6,719

Operations Forecast 2009/10 Supporting Notes

1. Provincial government grant

The Province has indicated that 2008/09 is to be a transition year in which it will work with the university sector to develop a tuition management strategy that focuses on more targeted programs. The increase for 2009/10 is projected at 7.33%, or \$16.838 million. Implications of a new tuition management strategy may reduce the increase required from the Province.

The increase in the provincial grant excludes any new or increased targeted funding such as that for Medicine accreditation and Medicine and Nursing program expansion.

The University is including the request for University Advancement, 1%, \$2.295 million, as other Provincial targeted funding.

2. Other government (WCVM)

Other government revenue results from billings to provinces under the Inter-Provincial Agreement for the Western College of Veterinary Medicine. The latest five-year Agreement expires 2011/12. Under that agreement, the billings would increase by the same percentage (7.33%) as the economic increase in the provincial government grant.

3. Credit and non-credit course tuition

While we are planning for modest increases in graduate student and international undergraduate student numbers, given the uncertainty regarding enrolment for domestic in-province undergraduate students, those planned increases will simply represent a shift in numbers within total student enrolment. Pending the outcome of discussions regarding the tuition management program, a realistic and reasonable tuition increase may be an increase similar to current CPI increases in the Province of Saskatchewan.

4. Income from investments and One-time measures

The 2009/10 budget is projected at the 2008/09 investment level. The University is carefully monitoring our investment earnings and evaluating our investment projections.

5. Salaries and benefits

Salaries and benefits include the costs of normal salary progression (annual increments, merit increases, promotions through the ranks) and provisions for negotiated settlements, and are reduced by turnover savings resulting from retirements and resignations. In the absence of any negotiated increases, salaries and benefits costs normally progress by approximately 1% annually.

6. Central utilities

Central utilities includes items such as electricity, natural gas, telephone, water, hardware and network maintenance, and software licenses that are critical to the University's overall operations including teaching and service delivery. Projections are based on patterns of consumption and use and include contracted rate increases.

**Operations Forecast 2009/10
Supporting Notes (continued)**

7. Academic Priorities Fund

The second planning cycle has \$4.5 million available in permanent funding to support priorities in the *Second Integrated Plan*. Initiatives committed to in the first plan will flow in the second cycle in the amount of \$1.806 million. As well, in the second cycle, the APF will increase by \$500,000 each year to support priorities of the third planning cycle.

8. Student Services Fund

The Student Services Fund provides funding for scholarships, bursaries, and other forms of student services. The fund will continue at the same level as the past two years.

9. Library acquisitions

Consistent with the annual percentage increases in the first planning cycle, the acquisitions budget is projected to increase by 5% in 2009/10 to offset the escalation in costs including internet-based services.

10. Federal funds for indirect research

Federal funding is provided to support the indirect costs of research and is recorded as revenue in the Research Fund. A portion of the Federal Indirect Costs of Research Grant is transferred to the operating budget on an ongoing basis to help defray indirect costs of research paid from the operating budget.

11. Other operating costs (net)

This category includes all other expenditures and transfers and is reported net of external sales and internal cost recoveries. A number of these costs including the non-salary budgets for colleges and administrative unit are subject to inflationary pressures and have not been increased for a number of years. If determined to be sustainable in the multi-year operating budget framework, a calculated 2% increase is projected for 2009/10. The basis for the increase to individual colleges and units is to be determined but will differ for each depending upon the nature of non-salary costs.

12. Directed revenue

Directed revenue refers to increases in the provincial government grant and tuition revenue from certain programs that require offsetting amounts directed to colleges.

13. New building space

New building space costs include utilities and operating and maintenance costs as new building come on stream.

14. Other requirements

Incremental funding is required to invest in activities and services, to meet regulatory and legal requirements, and to fulfill existing commitments. The funding includes required on-going investments in IT systems, continuous campaign funding for University Advancement, and investments in recruitment and retention activities such as investment in the consumer services unit. 2009/10 will see an increase in the Strategic Research Fund to assist with Intervac opening costs.

Appendix Two

One-Time Funding Request \$62.1 Million

Thorvaldson/College Building Restoration Debt Repayment – Makes \$5.5 million available annually from the Annual Capital Allowance for reallocation to critical deferred maintenance needs totaling some \$250 million.	\$10,176,000
UIRF Deficit – Payment of the Utility Infrastructure Renewal Fund deficit frees \$2.5 million in annual recoveries for renewal of infrastructure. The deficit is largely due to the \$10 million Chiller Addition.	\$ 6,900,000
Critical Roof Replacements – Consultant roof assessment conducted in 2007 found nearly 25% of campus roofs in ‘failed’ or ‘poor’ condition. The results of this study are evident through the number of roof leaks that FMD responds to in any given time period. \$23 million addresses the most immediate needs.	\$23,048,250
Heating Plant Boiler Feedwater Treatment Replacement and Expansion – The steam output from the Central Heating Plant is presently limited to 300,000 pounds per hour (PPH) by the capacity of the existing feed water treatment system. Campus peak demand has reached 280,000 PPH over the last few years. The additional new load due to mainly InterVac and Academic Health Sciences coming on line will push us over the 300,000 PPH line. The new treatment system is required to use the already available capacity of the boilers to meet this load. The project also includes the upgrade of the existing emergency generator. The existing generator installed in 1972, is under sized and cannot support the starting of the boilers simultaneously.	\$10,500,000
Roadways Renewal – Campus roads have been deteriorating at an alarming rate. Recent replacement of Campus Drive cost in the range of \$1.2 million for approximately 0.8 km. Campus Drive, as other roads on campus, had completely failed and required complete reconstruction rather than resurfacing. Our next priority is North Road, approximately 500 m in length. FMD is currently in the process of completing a consultant condition assessment of roadways on campus.	\$ 2,400,000
Direct Buried Service Replacement – Much of the buried infrastructure on campus is in unreliable condition. In particular, the area around Intervac is in critical condition. This area requires continual emergent work making it unreliable as well as inefficient. Capacity of the return condensate cannot be supported once Intervac comes on line. The University will realize costs for additional water, energy and chemicals required to makeup the wasted condensate at the Plant.	\$ 6,100,000
Replace T1 and T2 Transformers – These transformers, located in Preston Substation, are 40 years old and are nearing the end of their expected life. Failure of the transformers would result in a reduction of service to the general campus community, risking all operations from administration and teaching to research.	\$ 3,000,000
Total One-time Funding Request	\$62,124,250

Repayment of Unfunded Balances for Thorvaldson and College Building \$10.2 Million

The original funding for the Thorvaldson and College Building restorations was inadequate. Annually, \$5.5 million is reserved from the Annual Capital Allowance for repayment of loans (both internal and external) that were secured for the difference. For Thorvaldson, the unfunded amount was \$42.3 million, with \$5 million committed annually from 2002/03 to 2010/11. For the College Building, the unfunded amount was \$6.5 million, with \$500,000 committed annually from 2002/03 to 2014/15 (note that the College Building Restoration has also received contributions from operating).

Payment of Thorvaldson and College Building debt would release approximately \$5.5 million annually from the Annual Capital Allowance for reallocation towards deferred maintenance needs.

Utility Infrastructure Renewal Fund Deficit \$6.9 Million

As of April 30, 2008, the Utility Infrastructure Renewal Fund (UIRF) sits at a deficit of \$6.9 million largely due to the \$10 million Chiller Addition. One-time funding would eliminate or pay down the deficit. Annual revenues amounting to approximately \$2.5 million from the UIRF are recovered from distribution to external and ancillary customers (e.g. Royal University Hospital, Consumer Services, etc.). The current deficit will be paid off by April 30, 2013, assuming no other projects are funded from the UIRF. There are numerous demands on the UIRF, however, and it is unrealistic to expect that we will not be required to utilize the revenues from the current year to fund projects.

Eliminating the UIRF deficit would make available \$2.5 million annually for use towards planned and emergent utility infrastructure projects.

Critical Deferred Maintenance \$45 Million

The University hires consultants to conduct annual condition assessments which have resulted in an estimate of \$620 million in deferred maintenance (DM). Approximately \$250 million of this is considered critical. Some of the more immediate needs include: Roof replacements \$23.0 million; Heating Plant boiler feed water treatment replacement and expansion \$10.5 million; roadways renewal \$2.4 million; direct buried service replacement \$6.1 million; and T1 and T2 transformers replacement \$3.0 million. There are numerous other examples of building and infrastructure renewal and expansion work that cannot proceed without adequate funding.