

2011-12 Operating Budget Summary (May 11, 2011)

This document contains:

- Context to the university's operating budget
- Overview of the detailed annual operating budget, including expected revenues and planned expenditures
- Appendix 1: University of Saskatchewan 2011-12 detailed operating budget (with 2010-11 comparative)

Introduction and Context:

The purpose of this document is to provide an overview of the University of Saskatchewan's 2011-12 operating budget, including expected revenues and planned expenditures.

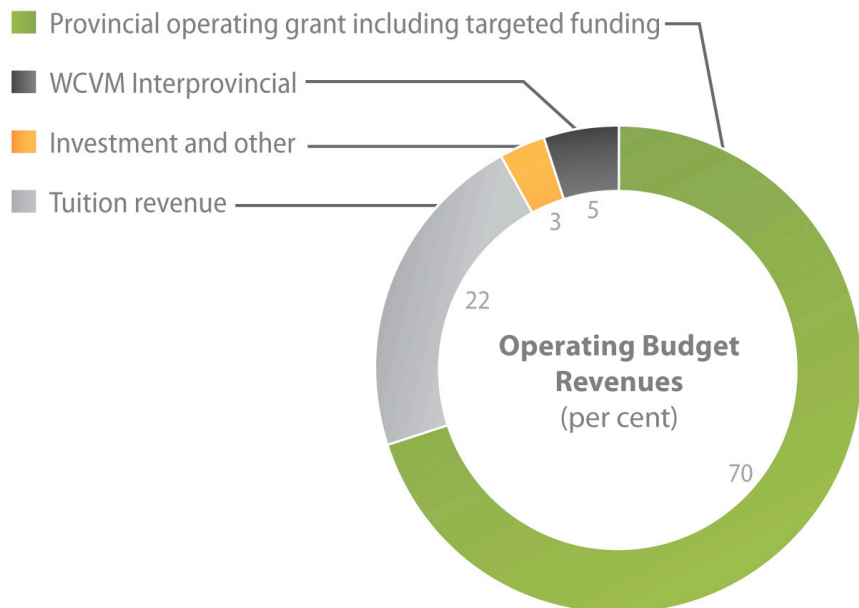
The operating budget is prepared each year and is a forecast of expected annual revenues and planned expenditures that support the university's core academic mission. The university's operating budget is part of a series of key financial planning and accountability documents that include:

- a multi-year integrated plan that sets priorities for the institution for a four-year cycle, and includes a multi-year operating budget framework and multi-year capital framework. The university is currently concluding its second integrated plan (2008-09 to 2011-12) which focuses on three priority areas – improving the student experience, enhancing the research profile and working together). An annual capital plan is also prepared for each year of the plan. The 2011-12 capital plan will go to the Board of Governors for approval in June 2011;
- the annual operations forecast prepared for the provincial government each fall that outlines the projected funding requirements of the university;
- the annual operating grant to the university from the provincial government (coincides with release of the annual provincial budget);
- annual tuition rates as set by the university's Board of Governors;
- the detailed annual operating budget; and
- the university's annual report that includes audited consolidated financial statements at the end of each fiscal year.

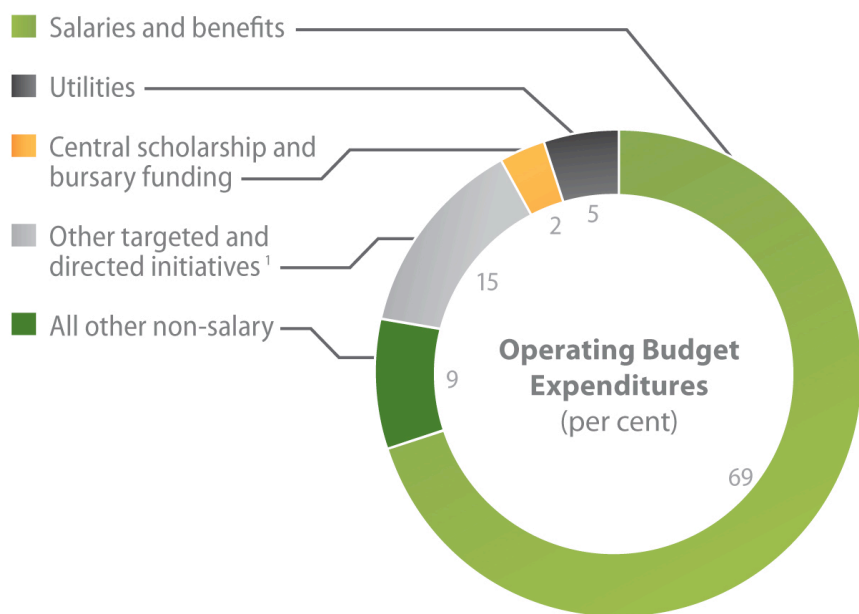
The development of the 2011-12 detailed annual operating budget continued to build on the university's commitment to effective and efficient use of resources to support institutional priorities. Informing the budget development process is an ongoing analysis of opportunities and risks that are managed on an annual and multi-year basis as well as the following principles that remain constant from year to year:

- sound financial management;
- clear responsibilities for budgeting and financial oversight shared between central administration and colleges and units;
- sustainability over the long term;
- alignment with the University of Saskatchewan's strategic directions; and
- positioning of the university in a comparatively stronger position relative to competitor institutions.

At its May 10, 2011 meeting, the Board of Governors approved the university's operating budget for 2011-12. Revenue within the operating budget is comprised of four key elements:



Operating budget expenses fall into five primary categories, as follows:



¹ Targeted and directed initiatives include: medicine accreditation, class size expansion and other provincially targeted funding, academic priorities fund, library acquisitions, student-related enhancements (from tuition revenue), and the student services fund. These are explained in the “operating budget expenditures” section of this document.

2011-12 Operating Budget – Overview (see Appendix 1):

The operating budget is a forecast of the university's core operating revenues and expenditures for the year and does not include revenues received for specific purposes (for example, "restricted" revenues for capital or research projects, endowment revenues, or externally funded student aid) nor associated expenses. The total operating budget revenue for 2011-12 is \$420 million, which comprises about 50 per cent of the university's total revenues.

As part of the annual operating budget process, the university takes into account operating budget revenues available from all sources, including the provincial operating grant, tuition and investment income. These revenues are compared to essential operating budget expenditures including allocations to colleges and units to cover salaries and benefits and operating expenditures, as well as strategic investments. The following is a discussion of some of the main elements of the 2011-12 operating budget.

Revenues (see Appendix 1):

Provincial Operating Grant:

An annual grant from the Province of Saskatchewan provides the majority of the revenue for the university's operating budget. There is also an accrual included in the provincial operating grant line item due to differing year-ends for the province and the university. The 2011-12 provincial operating grant represents a 7.19 per cent total increase over the 2010-11 grant (excluding the effect of the April accrual portions). Of this, 5.05 per cent (or \$13.58 million) is termed an "economic increase," and is intended to fund the increased costs of existing activities.

Although the 5.05 per cent is higher than the university's operations forecast request of 4.3 per cent, it incorporates an increase in lieu of tuition, provided by the provincial government in order to hold the post-secondary education sector's average tuition increase to approximately 3 per cent.

The remaining 2.14 per cent (or \$5.80 million) of the provincial grant increase represents new targeted funding for 2011-12. It is important to note that prior years' targeted funding is considered part of the base operating grant by the province. New targeted funding includes the following:

- \$0.234 million and \$1.938 million in permanent funding for College of Medicine undergraduate and post-graduate seat expansion respectively;
- \$1.074 million in permanent funding for the College of Nursing traditional program;
- \$1.00 million limited-term funding for the International Centre for Northern Governance and Development;
- \$0.515 million towards the province's \$10 million commitment over seven years for the Canada Excellence Research Chair, which includes a \$0.015 million economic increase;
- \$0.302 million in permanent funding for the Academic Renal Transplant program;
- \$0.100 million for library outreach (U-Study); and
- \$0.635 million for the Meewasin Valley Authority (MVA) grant.

Targeted funding of \$3.5 million for 2011-12, the first intake year for the new provincial nursing program, was received partway through the 2010-11 fiscal year. This revenue was deferred until 2011-12 in order to be matched with related expenditures and, as such, explains part of the increase in the provincial operating grant in 2011-12.

It should be noted that the \$13.58 million economic increase includes the economic increase on prior years' targeted funding (totalling \$0.928 million), which is passed on to the affected colleges.

Provincial funding for matching scholarships for students, both undergraduate and graduate, continues at \$0.86 million per year. The expectation is that the provincial funding will be matched by an equivalent amount from the community. This amount may be augmented by the new Saskatchewan Advantage Scholarship funding program announced in the 2011-12 provincial budget.

Tuition:

The 2011-12 operating budget incorporates a \$8.93 million increase to tuition over the 2010-11 budget. This reflects three factors:

- actual tuition revenue in 2010-11 will be approximately \$2.82 million higher than the budgeted amount due to undergraduate and graduate enrolment increases; this higher enrolment has been factored into the 2011-12 budget;
- new tuition amounts that will be generated by increased student numbers resulting from class size expansions in targeted programs;
- an average 3.2 per cent tuition rate increase approved by the Board of Governors in April 2011.

Of the budgeted tuition revenue increase, \$4.79 million will be subject to tuition revenue sharing with colleges for investment in student-focused program and service enhancements.

Western College of Veterinary Medicine (WCVM):

The university receives funding from the Alberta, British Columbia and Manitoba governments for WCVM operations towards seats in the college for students from those provinces. This funding increases each year by a percentage similar to the economic increase in the university's grant from the Province of Saskatchewan. The proportion of funding paid by each province is based on the relative number of seats allocated to each. Under the inter-provincial agreement, all of this funding flows to WCVM.

Investment Income:

The university has developed policies to ensure the prudent investment of funds and to outline practices for the distribution of investment income. The university has also developed investment policies for its investment pools in order to provide a framework for managing the funds invested. The primary investment objective of the investment pools is to ensure the safety of principal, maintain sufficient liquidity for operating purposes and maximize earnings for the funds. Additional information on the university's investment policies and practices can be found at:

http://www.usask.ca/fsd/colleges_depts_research/endowments_trusts_investments.php

For 2011-12, the university's investment managers are forecasting lower fixed income returns and higher long-term (equity) returns. As the operating budget allocation is heavily weighted to fixed income, the 2011-12 budget for investment income has been reduced to \$8.0 million from \$9.5 million in 2010-11.

Expenditures (see Appendix 1):

Salaries and Benefits:

The largest component of the university's operating budget expenditures is salaries and benefits, which comprises close to 70 per cent of total expenditures. In the 2011-12 operating budget, the salary and benefit expense line item is projected to increase by 8.83 per cent over the previous year across all employee groups. Approximately 3.5 per cent of this increase reflects the creation of incremental positions across campus. Notable examples include the College of Nursing (which has used most of its prior and current year targeted funding to create new positions to support program expansion), and the International Vaccine Centre (InterVac), a new research centre which will commence operations in 2011-12. The Western College of Veterinary Medicine has also increased its position complement to reflect increased seats and teaching, clinical and related support activities. Also contributing to the 3.5 per cent increase are additional permanent strategic investments reflected in the 2011-12 detailed operating budget towards incremental positions within Campus Safety, the student health centre and accommodation services for disabled students.

The remaining increase of about 5.53 per cent reflects increased costs associated with collective agreements, including normal salary progression (annual increments, merit increases, promotions through the ranks). These increases are partially offset by turnover savings from retirements and resignations.

Most of the university's collective agreements funded by the operating budget extend through or beyond 2011-12. For these collective agreements, known and projected increases are reflected in the salary and benefit line increase from 2010-11 to 2011-12. There are two collective agreements that are currently under negotiation – CUPE 3287 collective agreement for sessional lecturers (expired on August 30, 2010) and the Administrative and Supervisory Personnel Association (ASPA, expired on April 30, 2011). The 2011-12 operating budget includes provision for the estimated settlement costs of these collective agreements.

Pensions:

The budgeted pension payment of \$1.47 million for 2011-12 represents the estimated payment required under provincial pension legislation to maintain the long-term (going concern) viability of defined benefit pension funds. This amount includes consideration of temporary cash position (solvency) relief options being provided by the province. Despite the enactment of temporary solvency relief measures, the university is required to remit payments to fund the going concern deficit based on actuarial estimates as at December 2009. The budgeted payment amount of \$1.47 million is subject to adjustment based on the update of actuarial estimates to December 2010 values.

Utilities:

Another large component is central utilities (electricity, natural gas, water, telephone, hardware and network maintenance, and software licenses), which represent 5 per cent of total expenditures. Annual utility budgets are set based on a combination of forecasted rates and forecasted consumption/usage. For hardware and network maintenance and software licenses, the 2011-12 budget includes the cost of planned upgrades to maintain baseline service level expectations (e.g. email, calendar and file sharing license upgrades, larger server licenses).

Provincial Targeted Funding:

Targeted funding specified by the province includes undergraduate and post-graduate seat expansion in the College of Medicine, College of Medicine accreditation, and seat and program expansion in the College of Nursing. In 2011-12, new items specified by the province within the current year targeted funding provided include the International Centre for Governance and Northern Development, the provincial contribution to the Canada Excellence Research Chair, and the Meewasin Valley Authority grant.

Internally Directed Funding:

Consistent with the outcomes of our integrated planning processes, the university has directed operating budget funding to specific strategic initiatives, as follows:

- The Student Services Fund supports various initiatives that benefit students. For example, funding has been provided to support the incremental operating costs for the student information system, which is used to manage student registration and tuition assessment. This fund will receive \$0.788 million in 2011-12. Similarly, while the university's 2011-12 operating budget includes \$9.252 million for student financial aid, there are other sources of funding for students that are combined with operating budget resources to provide scholarships and bursaries.
- Library acquisition expenditures represent the cost of maintaining current books, journals and internet-based services within the university libraries. This fund will receive \$9.124 million in 2011-12.

- The Academic Priorities Fund (APF) is an internally directed fund used to support institutional priorities. It contains \$4.5 million in permanent funds for the second integrated planning cycle. APF permanent funds, which have been allocated to items such as new investments in graduate programming and scholarships, reflect the university's support for initiatives to improve the student experience, enhance our research profile, and allow us to work together better. The APF line item in the 2011-12 operating budget also includes monies being accumulated for strategic investments that will be made during the third integrated planning cycle, which starts in 2012-13.
- \$6.329 million of the total tuition revenue expected in 2011-12 is budgeted for student-related enhancements. Colleges with higher than average tuition increases will use a portion of the additional revenue to fund specific program and service enhancements such as increased financial aid, student advising, curriculum innovation, increased research activity and hiring professors to strengthen student/faculty ratios. Additional tuition revenue will be used to enhance the student experience and the positive learning environment not only within specific colleges but for the university as a whole. For example, previous enhancements in the College of Arts and Science included support for undergraduate student priorities like academic advising, first year curriculum review, student assistants, teaching assistants and tutorial leaders. The college will also direct funding to the new assistant dean of Aboriginal affairs. Institution-wide enhancements included the expansion of the campus wireless access network.

Other Non-Salary Expenditures:

Other non-salary costs (net of external sales, internal cost recoveries and funding transfers) include expenditures and transfers incurred to support core activities. Examples include operational supplies and expenses (paper, postage, classroom and lab supplies); cost of goods sold; and professional development expenses for university employees. A number of these expenditures (e.g. property and liability insurance, costs for ceremonies such as convocation and employee long service recognition) are subject to unavoidable cost increases so budgets for these amounts are actively set each year. In an operation the size and scope of the University of Saskatchewan, there will also be other essential expenditures such as those caused by changes in legislation where we have no choice but to respond. These items include expenditures required to operate new building space, and such things as legal, financial and other reporting or health and safety requirements.

An annual transfer from the Federal Indirect Costs of Research Grant to the operating budget helps defray a portion of the indirect costs of research paid from the operating budget (for example, the non-salary costs described above which support the performance of research on campus). For 2011-12, the amount of indirect cost of research funding received into the operating budget will be \$3.21 million.

Strategic Research Investments

2011-12 is the year in which two of the university's large strategic research initiatives will significantly ramp up their activities: the International Vaccine Centre (InterVac) and the Canada Excellence Research Chair (CERC). Although these initiatives are primarily funded by sources other than the university's operating budget, their specific impacts on the operating budget are discussed here.

InterVac:

The InterVac facility is expected to open in the fall of 2011, after commissioning activities are complete. As a central component of the University of Saskatchewan's life sciences cluster, InterVac will be key to Saskatchewan's global leadership in vaccine development and pandemic preparedness. Once certified as a Containment Level 3 Laboratory, InterVac will enable scientists from around the globe to perform urgently needed research on existing and emerging infectious diseases and will be equipped to handle emerging and persistent afflictions with its unique focus on vaccine development for both human and animal diseases.

The estimated 2011-12 commissioning and operating expenses for InterVac total approximately \$8.0 million and are included in the salary and benefit and other non-salary expense line items within the university's 2011-12 operating budget. In 2011-12, these expenses are anticipated to be funded from three sources: about \$3.9 million from the Canada Foundation for Innovation (CFI) Infrastructure Operating Fund; up to \$2.8 million for commissioning from the provincial government; and about \$1.3 million from the university's operating budget.

Significant work has been done on a long-term funding strategy for InterVac operating expenses, involving multiple levels of government and industry partners. These discussions will continue to determine the funding strategy for 2012-13 and future years.

Canada Excellence Research Chair (CERC):

In October 2010, Dr. Howard Wheeler joined the University of Saskatchewan as the CERC in Water Security. He will establish a world-leading research and training program focused on solving critical domestic and global challenges related to water security. This activity is to be supported through a \$30-million funding commitment made through an equal three-way partnership between the federal and provincial governments and the university. The estimated total costs for the University of Saskatchewan CERC in 2011-12 are approximately \$5.8 million, which includes research, capital and operating expenditures. These costs will be funded from three sources: federal funding of about \$2.14 million (including \$0.7 million carried forward from 2010-11), funding from the provincial government of \$0.515 million; and about \$1.6 million from the university operating budget. The shortfall will be carried forward and funded by larger contributions from the provincial government in future years of the program. Fundraising initiatives to support the university's contribution are actively underway.

Surplus/(Deficit) for 2011-12

After consideration of the revenues and expenses discussed in the preceding sections, the university is planning a balanced budget for 2011-12. While the operating reserve position shown in Appendix 1 is subject to finalization of the 2010-11 financial statements, the projected operating reserve is within the range required by university policy (i.e. 1 to 4 per cent of total operating budget expenditures).

Capital:

Capital expenditures are made in the restricted capital fund and are therefore outside the university's operating budget. Additional information on capital funding and capital expenditures is contained in the university's 2011-12 annual capital plan, which will be considered by the Board of Governors in June 2011.

APPENDIX 1:**University of Saskatchewan 2011-12 Operating Budget With 2010-11 Comparative (in \$000's)**

	Original Board-Approved Budget	
	2011-12	2010-11
Revenue:		
Base provincial operating grant (excludes new targeted funding)	\$283,047	\$261,885
New targeted funding (includes escalation on prior targeted funding)	10,226	8,505
Other government (WCVM)	19,317	18,190
Tuition	95,449	86,519
Investment income	8,000	9,500
Fees and other income	3,976	4,067
Total Revenue	\$420,015	\$388,666
Expenditures:		
Salaries and benefits	\$287,815	\$264,456
Estimated pension payments (going-concern)	1,471	1,750
Utilities	19,993	19,335
<i>Provincial targeted funding:</i>		
Medicine accreditation	18,910	18,359
Medicine class size expansion	16,479	13,930
Other targeted funding	3,946	1,626
<i>Internally directed funding:</i>		
Central scholarship and bursary funding	9,252	9,099
Student services fund	788	788
Library acquisitions	9,124	8,689
Academic priorities fund	6,958	5,740
Student-related enhancements (from tuition revenue)	6,329	1,543
<i>Other:</i>		
Other net operating costs	42,162	44,968
Indirect cost of research grant	(3,212)	(3,117)
Subtotal	\$420,015	\$387,166
Surplus (Deficit) before one-time requirements	\$0	\$1,500
University contribution - Canada Excellence Research Chair (CERC)	\$1,600	0
Anticipated CERC donation revenue	(1,600)	0
Financial uncertainty transition funding		(1,500)
Budgeted Surplus (Deficit) for the year	\$0	\$0
General operating reserve, beginning	\$15,620	\$15,620
General operating reserve, ending	\$15,620	\$15,620