University of Guelph

2016 2017 Budget Plan

Prepared for the Board of Governors

April 20, 2016

Contents

Executive Summary

The annual budget process is when the University assesses its operational strengths and risks and looks to provide resources for those initiatives that support the core academic mission and strategic directions in teaching and research. Fiscal Planning for 2016 2017 includes funding to continue to maintain the University's infrastructure and to provide funding for initiatives that will help sustain our strong academic profile to remain competitive in both attracting high quality students and recruiting the best faculty and staff.

The University of Guelph is in a sound financial position. This is the result of a combination of cost constraints through a multi-year planning process and the continued strong demand for our academic programs resulting in increased enrolments. The key objective for 2016 2017 will be to consolidate these gains and maintain the current overall enrolment levels as the new target. The positive results from the additional enrolments will allow us to invest in areas of highest priorities including increased student assistance, offering a competitive compensation structure and maintaining of core campus infrastructures including buildings, health and safety and information technology.

The demand for new investments and other cost increases needs to be managed against future risks including the uncertainties of provincial funding, post-employment costs and the ongoing need to address deferred maintenance issues. This annual Operating Budget Plan reflects a balance that we believe ensures we maintain the strength of our academic and support programs that will continue to underpin our current positive fiscal position.

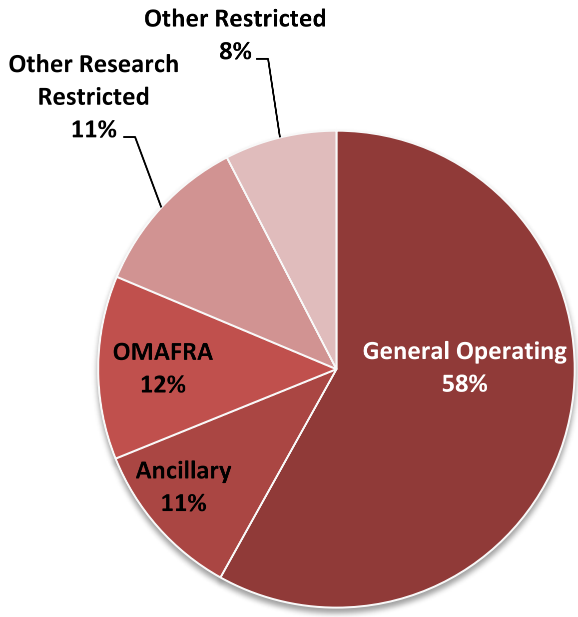
The budgeting at the University is a continuous process that begins with setting overall assumptions at the beginning of each fiscal year and monitoring progress through the following twelve months. Setting the initial assumptions provides the overall fiscal framework for the year in which the University is expected to operate. As with any set of assumptions, actual results will differ. The most significant milestone to measure results against assumptions occurs when fall enrolments are confirmed.

This document summarizes the 2016/2017 fiscal planning across the major operating activities of the University and presents an annual Budget Plan for Board of Governors approval. This year, for the first time, the traditional process of presenting multiple budgets each with a separate document and approval, has been changed to present a consolidated plan combining the financial structures of the OMAFRA[1] contract, Ancillary Enterprises and the General Operating Budget into one document. In addition, the University Major Capital Projects Plan is presented, updating the previous plan that was presented to the Board in January.

The following chart presents the major Operating (non-capital) components of the University's Budget Plan. The major focus of planning excludes "Other Restricted" and "Other Research Restricted" activities. These funds are composed of many individual restricted projects/grants that have limited direct impact on the overall fiscal net position of the University. They are not expected to change materially in 2016 2017.

[1] OMAFRA (Ontario Ministry of Agriculture and Rural Affairs) and the University of Guelph have a long standing operating contract that provides funding and facilities for research and service programs in support of the Ontario agri-food sector.

Major Components of University Operating Funds (Excluding Capital)
2014 2015 Results $725 million



- **General Operating $420M:** Revenues are 85% in provincial grants and student fees. Expenses consist of 70% salaries and benefits.
- **Ancillary $80M:** self-funding services with revenues from fees for services; food, student housing, parking etc.
- **OMAFRA $90M:** is a major contract with the Ministry of Agricultural and Rural Affairs funding mainly research infrastructure and projects in agri-food and food safety.
- **Other Restricted Research $80M:** are funds received from large numbers of individual sponsors including federal, industry and private agencies restricted for research.
- **Other Restricted Funds $55M:** are funds from donations and endowment income received for mainly student awards and other non-research grants/contracts restricted for specific purposes.

Highlights of the 2016 2017 Operating Plan

1. The General Operating Budget

- Total revenues and recoveries are expected to increase by 0.1% and total expenses including transfers are expected to increase by 4.9%. The overall target for 2016 2017 is to balance the General Operating Budget.
- The target for university degree level enrolments is set at the 2015 2016 actual levels of 19,500 undergraduate and 2,300 graduate FTE's (full-time equivalents). While not an increase from prior year actual results, it is a new high in terms of an on- going budget target and reflects an increase of 600 FTE's over the previous target.
- Additional budgetary revenue realized from setting a higher enrolment target will be invested in student and academic support programs and to defer planned cost reduction plans made as part of an earlier multi-year plan.
- For 2015 2016 General Operating has a projected surplus of $21 million, very similar to 2014 2015. This is mainly derived from additional undergraduate enrolment that exceeded budget expectations by 600 full-time equivalents (FTE's). These funds will be added to the University's overall net reserves to cushion the potential costs of pension contributions and uncertainties such as any shortfalls in provincial or enrolment funding relative to current assumptions.

2. OMAFRA Contract

- It is expected that provincial funding under this contract will be reduced by $4.5 million or 6% in 2016 2017. Covering this reduction will require the use of contract reserve funds on a one-time basis. There is no major impact on core operations within the contract or the General Operating Budget at this time and overall the contract will be balanced for the year. While currently managed as a one-time reduction, discussions with the Ministry continue with respect to 2017 2018, the last year of the current agreement.
- The closures of the two regional campuses at Alfred and Kemptville Ontario begun in 2014 are nearing completion in terms of transferring programs to other locations. The facilities continue to be maintained through OMAFRA contract funding limiting the effective cost savings that can be realized. Discussions continue with the Ministry on the future uses for the properties.

3. Ancillary

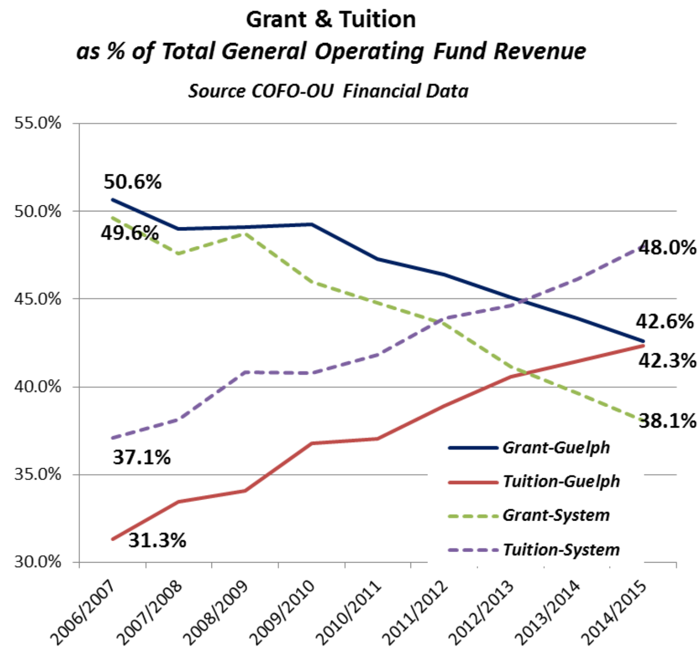
- Overall the University's five Ancillary units, Parking, Student Housing, Hospitality, University Centre Administration and Real Estate Division are expected to have relatively flat revenue in 2016 2017, decreasing by 0.6% compared to the forecast. This reflects the one-time sale of a property in the Real Estate Division in 2015 2016 and an assumption of flat enrolments and sales when compared to 2015 2016 results. Overall operating expenses and transfers are expected to increase by 1.3% mainly due to increases in cost of sales, including food prices and capital renovations primarily for Student Housing. There are no planned unfunded deficits and all units will cover planned operating expenses from their respective in-year revenues or accumulated reserves.
- Parking and Student Housing Services will be undertaking major capital projects this year totaling $15.4 million. No external borrowing will be required as all funds will be drawn from unit reserves or will be internally financed from University working capital.
- Fee increases will range from 2% for student residences, 3% in food plans and 7% for parking permits. All increases will be used to support operating within those units to remain fiscally balanced.

4. Capital

- An estimated $95.6 million is expected to be approved for 2016 2017 projects. Covering these projects will be $39.7 million in grants, $9 million in fundraising $23 million in reserves, $10 million in draws from the Heritage Fund with the balance of $13.9 million in temporary internal financing.
- Major projects include:
  - $33 million for the Ontario Veterinary College for two of the highest priorities in the OVC Master Plan; Enhanced Clinical Learning and an Advanced Surgery and Anesthesia facilities. $23 million of this project will be funded by a designated provincial grant
  - $27.1 million in capital renewal projects for the main campus and student housing facilities.
  - $15 million for the new Turf Grass Institute funded entirely from designated provincial grants.
  - $10 million for renovations to the Powell Building to consolidate and expand student health and wellness services.
  - $5 million for renovations to the University library to enhance student learning and study space.
  - $3 million for renovations to the University Centre to enhance student "gathering" areas and improve washroom facilities.
  - $2.5 million to add a new entrance to the Mitchell building to improve access to the new addition.

Fiscal Context

In preparing the 2016 2017 Budget Plan an important objective is to maintain our significant programmatic strengths that are the foundation for sustaining the levels and quality of student enrolments. Dependency on student fees as a source of revenues is growing steadily not only at the University of Guelph but for the entire Ontario university system. The adjacent chart show the major shift in support to tuition as provincial grants have not provided for inflation and universities have become more dependent on tuition fee and enrolment increases to fund cost increases and maintain core infrastructures. When combined with the demographic shift to fewer high school graduates, the traditional source for university enrolments, the post-secondary institutions in Ontario have never been more leveraged to not only maintain their enrolment base but to increase enrolments to avoid expense reductions or deficits. Planning in this context means greater competition for students. Further adding to longer term uncertainties are the challenges facing the province as it strives to balance its budget in the face of weak economies and competing demands in health and education.



Planning for 2016 2017, as in any year requires first determining major cost commitments that must be met. The University of Guelph's largest labour groups, have contracts in place for 2016 2017. In addition, the provincial budget contained no grant reductions and there were commitments to continue to fund certain levels of enrolment increase by the province. In combination with the increased expected enrolment income, this makes 2016 2017 a year of relative cost certainty with the opportunity to invest in academic programs and supporting infrastructure that will better position us to maintain our competitive academic position. In this context, 2016 2017 contains allocations available to support our highest priorities in areas of student accessibility, recruitment of high quality faculty and staff and sustaining the infrastructure platforms in facilities and technology.

While 2016 2017 has limited risk of major assumption errors, 2017 2018 will be a year when a series of events will converge to increase uncertainties and potential challenges. A new funding formula for universities in the province and a new tuition framework are scheduled to be released for 2017 2018. With a focus on student service and accessibility we feel investments this year will position us to help meet provincial directions. The OMAFRA contract will be entering its last year and negotiations will begin to maintain and grow our unique ability to meet provincial priorities in the agri-food sector of the provincial economy. Labour negotiations will begin for the largest employee groups at the University and provincial solvency relief for pension plans will end, both of which are two major risks from the cost side.

The 2016 2017 Budget Plan reflects the decisions and opportunities to invest this year to position the University in areas of strength to help manage the following years of increasing uncertainty.

The following presents details of the 2016 2017 Budget Plan we are recommending to the Board of Governors and the University stakeholder community.

Some Major Budget Decisions in 2016 2017

ENROLMENT TARGETS

Changes in enrolment levels drive most of revenue changes that support operating costs. In 2016 2017 the enrolment target for undergraduate university-degree credit enrolment will be set at the actual 2015 2016 level of 19,450 FTE's. This is a more aggressive target relative to past planning practices and in the context of demographic trends however is considered reasonable based on the University's strong academic reputation and current initial indications of demand for the fall of 2016. The graduate enrolment target also is set at the same as last year's level of 2,350 FTE's. This less aggressive assumption has been adopted due to the ongoing highly competitive environment in Ontario for recruiting graduate students.

SALARIES AND BENEFITS

With compensation consuming almost 70% of total operating costs, ensuring sufficient funding is in place to meet negotiated increases is the primary cost consideration in setting assumptions. For 2016 2017 most major employee groups will be in the final year of their contracts. Overall it is estimated that $9.0 million will be required to cover not only salary increases but related benefits. Pension contribution requirements will be met with both funds drawn from current year revenues as well as reserves set aside for that purpose. Currently the University is not required to make pension plan solvency deficit payments ($40 million annually) under temporary provincial legislation which will end August 1, 2017. Discussions at the provincial and university-system level are ongoing with the objective of finding a more sustainable framework for these pension plans.

STUDENT FINANCIAL SUPPORT

Significant additions have been made to the support from the General Operating Budget for student needs-based and merit based awards. A total of $4 million in funds will be added to the existing budget base of $19 million in the General Operating Budget. Of this increase $2.150 million will be for graduate awards and $1.850 million will be for undergraduate, mainly needs-based, bursary programs. In addition the University will be engaged with the province to plan for the implementation of the restructured student assistance program contained in the March 2016 provincial budget and scheduled to begin in 2017.

ACADEMIC ACTIVITY BASED FUNDING

The University has been building the level of funding allocated to colleges based on levels of specific activities achieved each year. A major example is a pool of funds transferred to colleges each year in direct proportion to the numbers of certain graduate students enrolled in college-based programs. The objective of this direction is to develop more effective resource allocation processes that reflect outcomes and improve accountability for the use of University funding. In 2016 2017 an additional $2.0 million will be added increasing the total activity-based funding to $31.2 million. Most of this will be used to enhance the allocation levels for enrolment to enable the recruitment and retention of high quality graduate students.

MYP TARGETS

Year 3 of the current MYP (Multi-Year Plan) targeted savings of $7.8 million will be cancelled. A portion of the increased revenue targeted from increasing the enrolment targets will be used to cover this requirement. When the MYP plan was first initiated in 2013 it was estimated savings or new net revenues of $32 million would be required over the following three fiscal periods in order to balance the budget. In 2014/2015 this target was reduced to $25 million due to enrolment revenue increases above budget. This final reduction takes the total saving target to $17.2 million, most of which has been achieved.

FACILITIES AND SUPPORT SERVICES

Significant base investments will be made from the General Operating Budget for the operations of both existing and new space; $3.1 million for the annual operating costs of Mitchell building addition and repurposing Macdonald Hall; $1.0 million to finance deferred maintenance projects; $3.4 million for information technology ($2.0 million in one-time and $1.4 million in base) for increased support services of core systems including improved security of university information and; $1.275 million for a number of new support positions in areas of communications, campus security and health and safety.

FINANCIAL RESERVES

Over recent fiscal years, enrolment growth greater than planned combined with cost containment programs help generated operating surpluses that were used to increase both University and department reserves. These reserves will be used to mitigate a number of significant financial risks including revenue volatility, unplanned capital renewal and potential pension and non-pension post–employment costs[2]. The University of Guelph has the following types of major reserves currently projected at the end of April 30, 2016:

- **College and Divisional Reserves**; forecast at $74 million these are funds generated within colleges and operating divisions through local cost-containment actions. Units are permitted to retain control of these funds under a Board-approved policy. In addition to providing liquidity for the University overall, these funds provide units with the opportunity to fund unit-based initiatives and absorb funding changes in any year.
- **General Reserves**; forecast at $66.5 million are funds accumulated mainly from University-level revenues, such as when tuition and provincial operating grants, exceed the annual budget in any year. These funds are currently not designated for spending and will be used to provide a buffer against any in-year funding declines and if necessary for pension contribution requirements in addition to those below.
- **Post-Employment Reserves**; forecast at $75 million, these funds are targeted to sustain pension contributions that exceed annual budget provisions. On August 1, 2017 the current temporary solvency relief legislation is due to expire with the potential for the University to fund the solvency deficit, currently estimated at $500 million. At this time these reserves are estimated to be able to fund one year of projected solvency deficit payments, out of a total requirement of five-years.

[2] The University has currently accumulated accrued liabilities of $280 million in non-pension post-employment costs.

General Operating Fund

The table below presents the major components of revenues and expenses for the General Operating Fund 2016 2017 budget plan compared with last year's budget and forecast and 2014 2015 actual results. Overall revenues are expected to be flat compared to the current year's forecast. Expense allocations reflect the maximum spending from annual revenues. Included in expenses are budget lines designated for activity-based and reserves that are not fully committed at this time providing flexibility in meeting the overall target which is to, at least, balance the budget in 2016 2017.

Details on the major assumptions for 2016 2017 included in the table are contained in the following sections.

Summary **$ thousands**

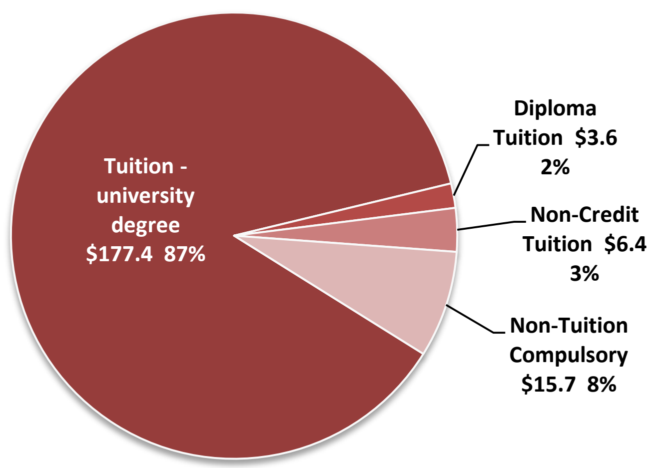
2014/2015 Actuals	2015/2016 Budget	2015/2016 Forecast		2016/2017 Budget	% Change Budget To Forecast
			REVENUES		
177,967	173,758	179,854	Provincial Operating Grants	180,470	0.3%
177,127	175,268	183,689	Tuition Fees	187,368	2.0%
15,186	13,979	15,161	Other Student Fees and Contracts	15,223	0.4%
30,474	26,383	29,155	Sales of Goods and Services	28,526	-2.2%
19,986	16,992	21,224	Guelph-Humber	20,680	-2.6%
23,010	18,703	23,234	Other Revenues	20,574	-11.4%
443,750	425,083	452,318	Total Revenues	452,841	0.1%
			EXPENSES		
245,799	239,266	242,980	Salaries	251,964	3.7%
74,958	76,088	75,164	Benefits and Pension	79,428	5.7%
20,070	21,090	22,695	Scholarships and Bursaries	25,379	11.8%
20,153	23,353	21,082	Utilities	23,869	13.2%
66,164	75,932	80,463	Operating	83,534	3.8%
427,144	435,729	442,385	Total Expenses	464,174	4.9%
			UNIVERSITY TRANSFERS		
(21,300)	(21,300)	(21,330)	From OMAFRA	(21,300)	-0.1%
(11,592)	(11,602)	(11,974)	From Ancillaries	(11,833)	-1.2%
27,790	22,256	21,975	To Major Capital & Debt Servicing	21,800	-0.8%
(5,102)	(10,646)	(11,329)	Total University Transfers	(11,333)	0.0%
21,708	-	21,262	Operating Results After Transfers	-	
205,992	195,442	195,442	Opening Fund Balance	216,704	
(32,258)			Transfered To Unrestricted		
195,442	195,442	216,704	Closing Fund Balance	216,704	

Note: the "Fund Balances" in the table above exclude the accumulated accounting charges for post-employment benefits which at the end of April 30, 2015 stood at $307 million.

Student Income

Student income in the General Operating Fund consists of tuition and non-tuition fees charged for specific services. Non-tuition fees are further classified under compulsory and non-compulsory. Compulsory[3] non-tuition fees, which are fees charged on degree-credit programs in addition to the program tuition fee, are controlled under provincially approved protocols. In 2016 2017 an estimated $203.1 million will be received into the General Operating Budget from tuition and compulsory fees.

Student Tuition and Fee
2016 2017 Revenue by Type $203.1 million



The two major components in determining total student income are both the numbers of students (enrolment) and the rates charged. For tuition fee charges, most University degree-credit programs are controlled by repeating provincial policy frameworks that vary in terms of length and rate of permitted increases. The most current framework was set in 2013 and will end at the end of our fiscal year 2016 2017. Under this framework annual tuition increases averaged across all provincially regulated[4] programs cannot exceed 3%.

Non-tuition compulsory fees increases are controlled either through student referendum or under protocols agreed to by students that permit annual increases. All other student fees (non-compulsory) mainly charged on a fee-for-service basis and increases are based on competitive or cost-of-living adjustments. The following provides details on the assumptions used for 2016 2017.

UNIVERSITY DEGREE CREDIT PROGRAMS

Tuition Increases

Tuition increases for university degree programs are classified into three major groups;

- Provincially regulated undergraduate and graduate student programs that receive provincial grant support. Typically these are domestic (permanent resident) students.
- International programs; undergraduate and graduate student enrolment that do not receive provincial support under provincial policy.
- Full-cost recovery programs; these are undergraduate and graduate programs that charge sufficient tuition to recover the full costs of the program. The major examples at Guelph are the executive MBA programs in the College of Business and Economics.

[3] "Compulsory" in this context means the fee is billed to students as part of the registration process and is payable at that time. For certain college-based compulsory fees students may apply for refunds after they have initially paid.
[4] The province through MTCU (the Ministry of Training, Colleges and Universities), determines the criteria for those students and programs that are eligible to receive provincial grant support. In addition to being registered in academically accredited programs there are residency requirements for registered students to be eligible for funding. Student enrolments in unregulated programs, including those for all international students, are not eligible for any provincial grant support.

On March 28, 2013 a new framework was announced by the province for tuition increases for the next four years. Under this framework, limits[5] to tuition rate changes for provincially regulated programs are not exceed an average total 3% across all programs with a maximum increase of 5% for students in graduate or professional programs.

For 2016 2017 the University will increase fees on regulated programs in accordance with the tuition framework to an average increase of 3%. For international students a tuition fee increase of 5% will be applied to all entering students. In-course international students will have no increase in accordance with the University's practice of a cohort fee for all international students. Overall it is expected that this increase will generate $4.5 million in additional income.

2016 2017 Tuition Fee Increases for University Degree Programs		
Provincially Regulated	Entering	Continuing
Undergraduate Regular	2.9%	2.9%
Undergraduate-Professional	3.35%	3.35%
Graduate – All Programs	**3.0%**	**3.0%**
International Students		
Undergraduate- all programs	5.0%	0%
Graduate- all programs	5.0%	0%

Enrolments

Undergraduate:

In 2015 2016 the University experienced growth of over 250 undergraduate FTE's (full-time equivalents) over the previous year's actual enrolment. These students were mainly eligible for MTCU funding. While only about a 1.3% increase in terms of numbers of students, when fully funded the financial impact is about $4 million in additional revenue. The addition of these students has also increased total enrolment levels to a historical high for the University of Guelph.

The key assumption for 2016 2017 is to sustain this level and the resulting income. The greater impact however will be the additional income that will be built into the base budget relative to 2015 2016 assumptions. In that year it was assumed the University would experience a 350 decline in undergraduate fully funded FTE's. Expenditure assumptions were adjusted to achieve a balanced budget.

Overall, the budget to budget change will be an increase in revenue from 600 students (250 actual and 350 budget assumptions). The budget for tuition and grants for 2016 2017 will be adjusted to recognize an increase of $11.7 million from this experience, becoming the new on-going target.

Graduate:

For 2016 2017 the budget assumption is to hold graduate enrolment levels at 2015 2016 levels. As with undergraduate students, graduate funding falls under MTCU eligibility policies. Students eligible for provincial funding are domestic (not international) who have not been in their programs beyond set time periods of eligibility. Since 2004, the province has had a special funding program designed to increase the numbers of graduate students in the province. This program sets institutional-specific targets among Ontario universities that apportion the total funding that is available subject to achieving those targets.

[5] If an institution exceeds these limits, the province will reduce that institution's operating grant by an amount equivalent to the excess tuition revenue.

The adjacent table provides a status of the University's current position. In 2015 2016, there was a 69 FTE increase in eligible enrolment which generated an estimate $1.7 million in additional grants income. This level will be set as the 2016 2017 budget target.

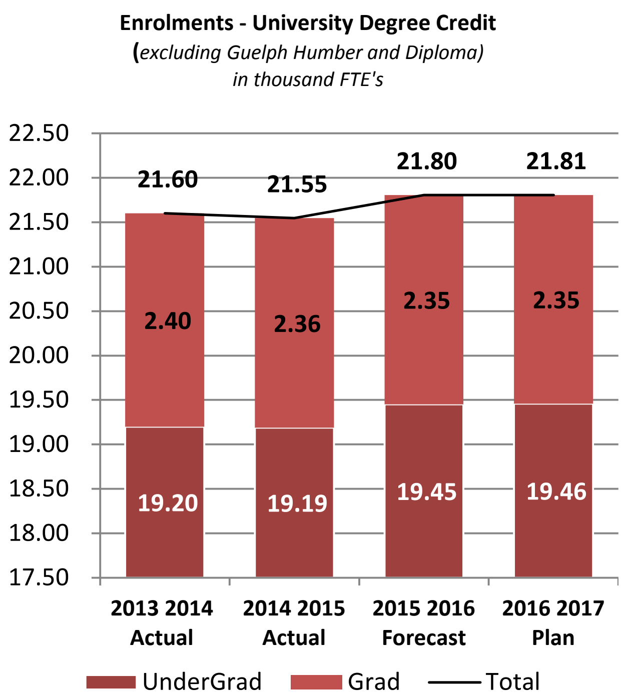
While the assumption is for no growth in 2016 2017, major efforts are underway to increase graduate eligible enrolments. Additional income generated from any growth will be allocated mainly to fund the costs necessary to continue to attract and retain top quality graduate students.

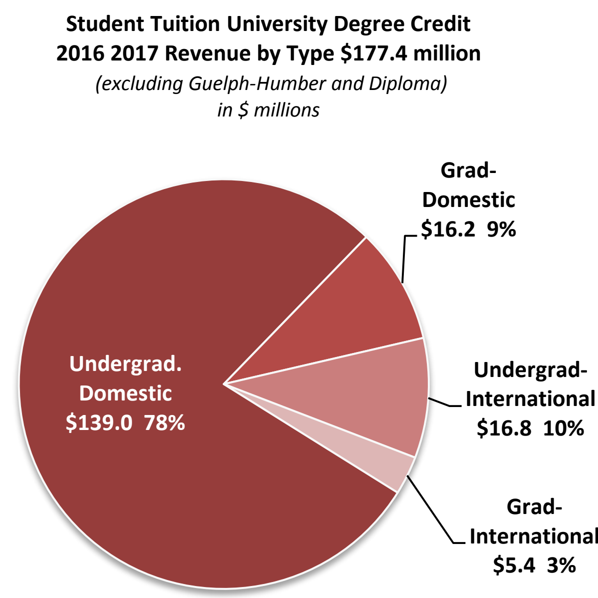
Eligible Graduate FTE's	14/15 Actual	15/16 Forecast	16/17 Plan
Masters	1,198	1,263	*1,263*
PHD	506	510	*510*
Total Actuals	**1,704**	**1,773**	***1,773***
OVER/(UNDER) Target			
Masters	(146)	(120)	(137)
PHD	(41)	(60)	(81)
Total Shortfall	**(187)**	**(180)**	**(217)**

International Students:

For a number of years the University has been increasing efforts to recruit international students through both direct recruitment and inter government and institutional programs. For 2016 2017 additional resources will be added to the Registrar's Office and Student Services for international undergraduate recruitment and in course support services. In addition the University will provide international student financial assistance, (planned at $1.1 million for 2016 2017). Efforts have resulted in almost doubling international student numbers over the past five years (an increase of 400 FTE's). While a significant increase in terms of overall percentage, international students, graduate and undergraduate, comprise 4.5% of the total University student population.

The following two charts display the assumptions for 2016 2017 for university degree-credit enrolments in terms of FTE's (full-time equivalent enrolment) and tuition revenue.





DIPLOMA PROGRAMS

For many years the University has delivered a range of agricultural diploma programs under contractual arrangements with OMAFRA and more recently MTCU. All of these programs are delivered by OAC (Ontario Agricultural College) at both the main Guelph campus and at the regional campus located in Ridgetown (near Chatham) Ontario. The programs' costs, totaling $10.7 million, are supported with a designated annual provincial grant of $4.5 million, diploma tuition of $2.2 million and other student fees (food, housing, and non-credit programs) of 4.0 million. Diploma tuition increases are determined using the current MTCU tuition framework and other fees are market-based. Overall enrolment in the diploma program is approximately 575 FTE's. For 2016 2017 the assumption will be to retain this enrolment.

OTHER STUDENT FEES

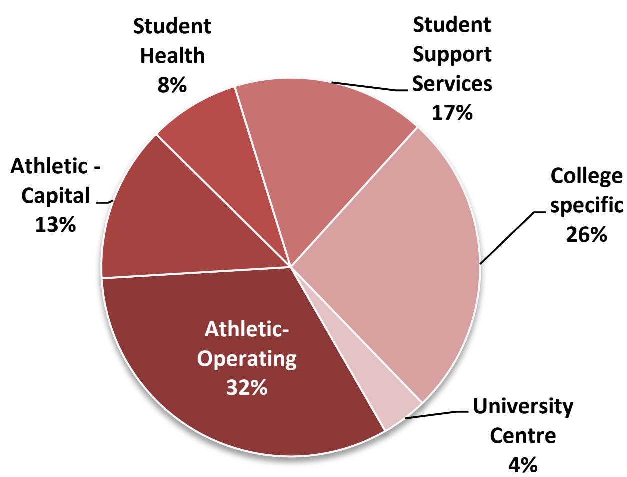
In addition to tuition, students provide support to the General Operating Budget[6] through fees charged for specific services. These fees are in the form of "non-tuition compulsory fees" charged to students as part of their registration in an academic program. Other fees are in the form of fee-for-services, are charged only as a service is used. In accordance with provincial requirements all compulsory fees must be initiated through student referenda. In addition, compulsory fee increases are controlled under student approved protocols required by the province for all universities.

All revenues from student fees in this category are credited to the units providing the service. For example, the Athletics department receives $6.8 million in fees charged to all students for both capital and operating costs to provide recreational programs and facilities[7].

For 2016 2017 there are no new fees to be charged and fee increases have all followed required approval processes. Normally fees increase by CPI (1.2% for the period) however increases can be approved greater than CPI through referendum. For 2016 2017 students approved an additional 3% increase for both the Athletic Fee and the Student Support Service Fee.

Increased revenue from these fees will be directed to incremental improvements in services in each of those areas. In Athletics additional student staff will be funded for programming in the new Mitchell building addition. The Student Support Services fee increase will be used to help fund additional professional staff in the counselling office to increase student mental health services. The adjacent chart summarizes the major compulsory fees estimated for 2016 2017. Excluded are a number of other fees charges for program specific services e.g., distance education fees to cover costs incremental to those programs.

Student Non-Tuition Compusory Fees 2016 2017 - Total $15.7 million

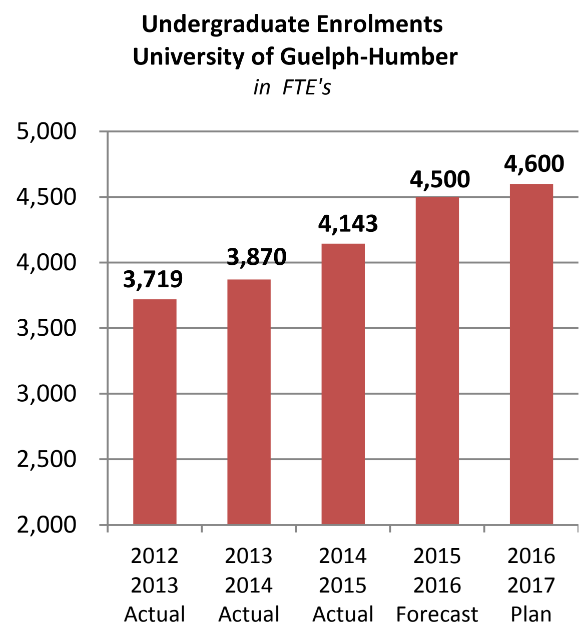


[6] Student organizations also charge fees to support student government and club activities and services. While these fees are collected by the University they are flowed through to student organizations and are not part of the University's operating activities. In total they are approximately $11 million of which $4 million is for a bus pass.

[7] Student approved a special 30 year capital fee in 2008 to be used for major capital projects for student recreation. The most recent project funded by this fee is the $45 million Mitchell building addition.

University of Guelph Humber

In 2002 the University of Guelph entered into a joint venture with the Humber College Institute of Technology and Advanced Learning to offer a combined university-degree and college diploma for students in the same four-year period. The University of Guelph-Humber has grown dramatically since its opening in 2003 and now has 4,500 students enrolled in 8 major program areas. It is planned to increase enrolments to 4,600 for 2016 2017.



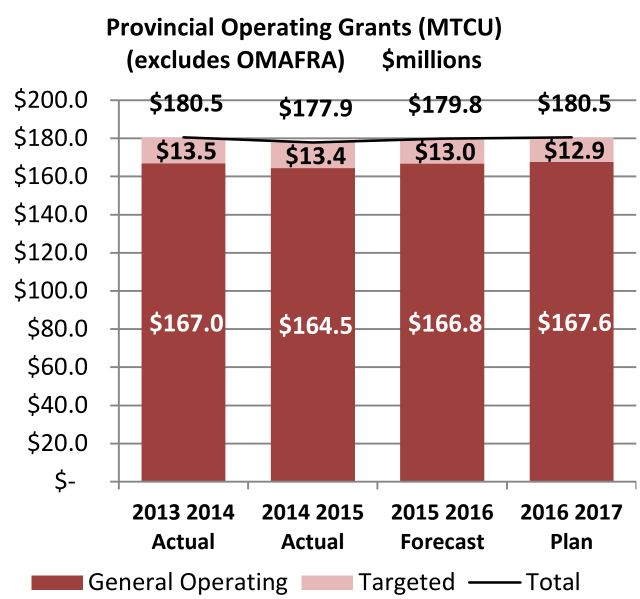
Because it is not a separate legal entity, Guelph-Humber students register as University of Guelph students. Programs are delivered on the north campus of Humber College in Etobicoke in a dedicated building built with major capital grant from the province. All revenues (provincial grants and tuition fees) and related course delivery and support costs are credited or charged to the joint venture.

Overall the Guelph-Humber joint venture generates $20.7 million for the University in revenues. This impact on the University's General Operating budget is from two sources. First, University of Guelph colleges and divisions receive $9.0 million annually for both course delivery and academic support services provided to Guelph-Humber. This level of income can vary depending on courses taught and service levels contracted by Guelph-Humber. In addition, the net income of the joint venture is shared equally between University and Humber College. The University has recognized $11.5 million annually in the General Operating Budget from this source. For 2016 2017 the assumption is that this level of net income will continue.

Provincial Operating Grants

Grant funding currently is received in 17 specific funding envelopes, reflecting an increasing trend by the province to allocate funding based either on performance metrics or targeted for specific purposes. The largest portion of this funding is derived using metrics that are based on the numbers of students taught in provincially-regulated programs.

In 2016 2017 institutional provincial operating grants are expected to remain essentially flat. This is based on the assumptions of flat enrolment and no new provincial policy changes. The adjacent chart summarizes the total change in grants over the past three years and the expected level for 2016 2017.



The total General Operating category includes seven separate envelopes the majority of which are variable based on enrolments. The Targeted category is ten separate envelopes all restricted for specific programs in departments.

Enrolment-based grant funding is calculated using the Ministry's long-standing and very complex FTE (full-time equivalent) weighting system that allocates differentiated per FTE funding based on program. For example undergraduate FTE's attract grants ranging from $3,000 to $24,000 depending on program and between $12,000 (masters) and $29,000 (PhD) per graduate student in the Ontario university system. In addition, grants will not be provided for students who are registered in their programs longer than provincially predetermined periods of time. The recent provincial budget supports continuing funding at these levels.

Looking ahead to 2017 2018 the province has announced that a new funding model will be implemented for Ontario universities. While details are not complete, provincial priorities that will frame future funding include;

- Enhance quality and improve student experience
- Support the existing differentiation process
- Financial sustainability
- Increased transparency and accountability.

It is expected that universities will need to continue to improve outcomes reporting with established performance metrics against which their activities will be measured in the context of these priorities.

Inter Fund Transfers

The University uses a fund accounting structure to ensure the appropriate accountability and reporting requirements for the many different sources and uses of the funds received. Often funds are transferred among funds for a range of purposes such as recovering costs for providing services, transferring funding from operating funds to capital projects or providing support for indirect costs.

Transfers occur in two major classifications; major institutional-level transfers that are established as part of the budget process at the beginning of the year and numerous smaller transfers occurring during the year for normal procurement activity such as the equipment purchases and transfers for research support.

The table on the following page provides details of the major institutional-level transfers that are planned for 2016 2017. These transfers overall provide support for a number of activities in the General Operating Budget including support for faculty positions. Most significant are transfers from OMAFRA for both faculty support and indirect costs support for which there are no changes expected for 2016 2017.

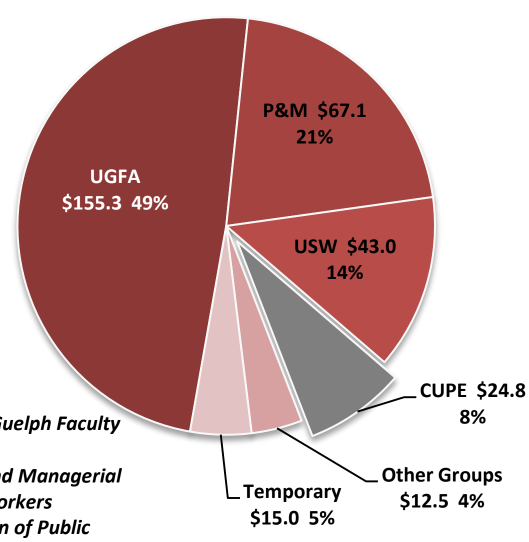
Summary of Major Interfund Transfers 2016 2017

(FROM) TO	General Operating	OMAFRA	Ancillary	Major Capital	Guelph-Humber	Research	Heritage Fund
RESEARCH;							
OMAFRA - Faculty Positions	10.8	(10.8)					
OMAFRA- Indirect Costs	10.5	(10.5)					
FEDERAL - Research Support Fund	5.7					(5.7)	
Other Research Indirect Support	4.9					(4.9)	
Total RESEARCH	**31.9**	**(21.3)**	-	-	-	**(10.6)**	-
ANCILLARY							
Indirect Support Services	11.8		(20.6)	3.7			5.1
CAPITAL							
Capital Projects				10.0			(10.0)
Debt Servicing	(21.8)			21.8			
Total CAPITAL	**(21.8)**	-	-	**31.8**	-	-	**(10.0)**
GUELPH HUMBER							
College Program Delivery	9.2				(9.2)		
50% Share of Net Income & Mgmt Fee	11.5				(11.5)		
Total GUELPH HUMBER	**20.7**	-	-	-	**(20.7)**	-	-
TOTAL TRANSFERS	**42.6**	**(21.3)**	**(20.6)**	**35.5**	**(20.7)**	**(10.6)**	**(4.9)**

Compensation

Total compensation (salaries and benefits) comprises approximately 70% of total costs and therefore, is a critical factor in financial planning. Most cost increases are negotiated through 15 separate agreements (both unionized and non-unionized employee agreements). For 2016 2017 three CUPE (Canadian Union of Public Employees) units with a total current base cost of $24.8 million will be bargaining. Combined these groups comprise 8% of the total compensation in the General Operating Budget. All other groups will have agreements in place including compensation cost increases.

2016/2017 General Operating Budget
Compensation By Major Category
$317.7 million *Including Benefits*



Notes:
UGFA: University of Guelph Faculty Association
P&M: Professional and Managerial
USW: United Steel Workers
CUPE: Canadian Union of Public Employees

A provision for cost increases to all groups including those covered by signed agreements and those that will be negotiated, has been estimated at $9.0 million. This estimate includes a provision for the increased salary costs of all groups and categories as well as adjustments to cover projected changes to annual employer benefits costs

Employee Benefit Assumptions: Employer benefit costs have two major cost components:

1. Statutory and negotiated benefits for current employees consisting of statutory items such as CPP (Canada Pension Plan) and EI (Employment Insurance), and negotiated benefits including support for extended health and dental coverage. There are no major changes expected to these costs in the short term and overall increases are expected to be in line with CPI.
2. Post-employment benefits for retirees which are composed of both;
    a. non-pension post-employment benefit costs (mainly dental and extended health including a supplemental drug plan) and
    b. pension plan benefits.

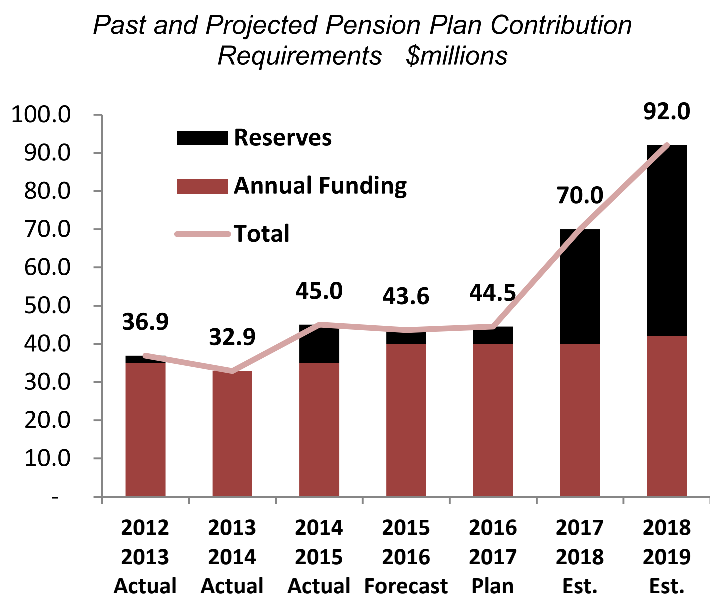
Non-Pension post-employment: At the end of fiscal 2014 2015, the University had recorded a $280 million in accrued accounting liability for its non-pension post-employment benefits. While the University is not required to immediately fund this liability it will, under current assumptions, have to be paid for over the course of the next 15-20 years. In 2014 2015 the University paid cash contributions of $4.6 million for these plans projected increases are 10% per year over the next decade. Beginning to control these costs through negotiations, education and the constant review of spending is a growing priority. For budgeting purposes, only current annual cash costs of these plans are built into assumptions.

Pension Plans: The University of Guelph is the legal sponsor of three defined benefit pension plans (the Plans) with a combined membership of 5,900 members (active and retirees). Under Ontario law, these types of plans are required to fund their estimated future liabilities using actuarial estimates as opposed to a "pay-as-you-go" basis, as is allowed for non-pension post-employment benefits. While there are $1.3 billion in invested assets earning income in the Plans, under the provincial regulations liabilities must be calculated regularly with any shortfall between assets and liabilities being funded by the plan sponsor. Complicating this obligation is the requirement to calculate the funded positions (surplus or deficit) of the Plans are calculated under two methods:

1. **Solvency:** The solvency valuation is based on the assumption that the pension plans are to be closed ("wind up") and all past and future obligations settled using financial market conditions at the time of the measurement. Key financial drivers used in this wind-up or "solvency" calculation include long-term interest rates and pension plan asset values on the date the plans are valued. The University (sponsor) funds any deficit i.e., plan assets being less than wind-up pension liabilities, normally over a 5 year period. The solvency test is much more volatile as it is based upon a number of external financial factors, measured at the date of the valuation which can change daily with market conditions.

    Temporary Solvency Relief: With many universities and other institutions in the province facing similar conditions for many years and because strict application of the normal funding rules would potentially devastate post-secondary educational capacity system-wide, the province announced in August 2010 temporary solvency relief legislation. Under the legislation, subject to specific conditions, university plan sponsors have been relieved of the requirements to make full solvency deficit payments. Currently this relief period for the University of Guelph is scheduled to end August 1, 2017. Using recent estimates, University's contribution requirements could increase by 100% by 2018 2019. Discussions continue with provincial, university and employee group representatives to reach more sustainable solutions to pension plan costs through structures such as Jointly Sponsored Pension Plans (JSPP).

2. **Going Concern:** The other key valuation (going concern) takes a longer term view of the plans and assumes they will continue to operate into the foreseeable future. Any deficits in this case must be paid for over 15 years. Under current market conditions, going concern funded positions (surpluses or deficits) usually are smaller and less volatile than those resulting from solvency calculations.



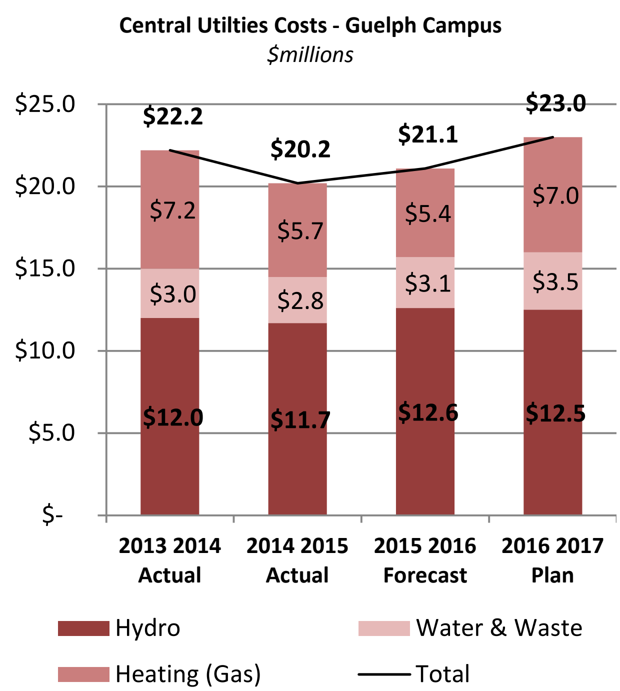
3. **Funding Projections:** The surplus/deficits of the Plans will be assessed under the two funding calculations on the next mandatory valuation date, August 1, 2016. Given the major impact that pension costs have on University operations, estimates are made regularly, the most recent estimates indicate combined solvency deficits of $500 million and going concern deficits of $100 million. Based on current identified reserves, the University could fund these requirements until March 2019 (refer to adjacent chart).

Infrastructure Costs

This category captures the cost of core services that are required to support all funds and programs. They include not only physical space costs but also information (computing and communications) technology which has now become a critical "utility" for most operating activities

Central Utilities

2016 2017 contains assumptions for main campus utilities for the major categories of heating (natural gas) and hydro (including cooling). Other utilities include waste and water costs. For 2016 2017 the $23 million budget is based on increasing natural gas pricing and hydro cost increases mitigated to some extent with the implementation of major new energy savings projects targeted particularly at hydro costs which are currently expected to increase significantly over time.



Pricing for natural gas is using a base-line pricing model and savings are expected due to forward pricing contracts already in place given a "normal" winter. Further impacting these costs is the addition of new space. For 2016 2017 the addition of the Mitchell building addition will add $0.570 million in utility costs.

Space Costs

The operating costs of facilities include on-going maintenance and custodial costs. As well as inflation the University will be adding in new space with the opening of the new Mitchell building addition (14,400 sq. meters) which will cost $0.703 million annually (excluding utilities costs). In addition, repurposed space will transfer costs back into the General Operating Budget of $0.240 million annually consisting of 7,300 sq. meters in Macdonald Hall and the Food Science building both transferred for academic program uses.

Information Technology

Central computing and communication capacities are a critical and growing "utility" necessary in order to deliver competitive high quality programs and services. While there are numerous departmentally operated specialty systems, they all require a secure and responsive central internet and communication infrastructure to be effective. In addition the University has core business systems ranging from payroll to student billing and registration systems that need to be maintained and evolved with increasing demands for service improvements. The current investment in central information technology support is $12.7 million annually.

In recent years the highest priority for investments in information technology has been security of both the network and systems data. For 2016 2017 funds have been initially allocated for continuing additions to cover cost increases (inflation) on existing systems and to enhance both business systems and internet – based services. In total $0.93 million in base (recurring) and $2.0 million in one-time capital costs have been allocated as additions for 2016 2017. Of this $0.30 million is to support a new research administration system and $0.20 million is for new security staff specialists.

Student Aid

Supporting student accessibility and attracting high quality students are major priorities of the 2016 2017 budget plan. Reflecting those priorities are significant investments of $4 million in the General Operating Budget. While more difficult to predict there are also planned increases in merit-based awards from the endowment fund for both graduate and undergraduate students. Overall it is expected that there will be an 11.4% increase in funds available for direct[8] student assistance. Contained in the new allocation for 2016 2017 are:

- Five new graduate awards for aboriginal scholars — worth $30,000 a year for PhD students and $15,000 a year for master's students
- A new University graduate excellence entrance award program with $1.5 million dollars allocated for merit-based awards to attract high-quality graduate students. $0.500 million in funding to match competitive awards for graduate students with the objective of attracting graduate students.
- $1.7 million in new needs-based funding mainly for undergraduate students. Included in the increase will be enhancement to the needs-based work study and Undergraduate Research Assistantship (URA) programs.

[8] This excludes other University funded employment based income for students such as Graduate Teaching and Research assistant appointments (GTA's and GRA's) of approximately $25 million annually.

TOTAL SCHOLARSHIPS AND BURSARIES By Program Level

in $millions	14/15 Actual	15/16 Forecast	16/17 Plan	Plan % CHG
Undergraduate				
Needs Based (including work study and URA)	10.43	11.60	13.38	
Merit Based	9.20	9.08	9.38	
Undergraduate	19.63	20.67	22.75	10.1%
Graduate				
Needs Based (including work study and URA)	3.57	3.63	3.62	
Merit Based	11.95	12.95	15.14	
Total Graduate	15.52	16.58	18.75	13.1%
TOTAL SCHOLARSHIPS AND BURSARIES	35.15	37.25	41.50	11.4%

The table above shows the distribution of planned funding by program level. Increases in undergraduate support are focused in needs-based programs. This is in response to the increasing costs of education and the principle that additional funding should be directed to students with the greatest need. These programs are all in addition to provincial and federal support programs that flow funding directly to students. Key among this currently is the OSAP (Ontario Student Assistance Program) and the OTG (Ontario Tuition Grant) program.

The province announced in the February 25, 2016 provincial budget a fundamental restructuring of student assistance for Ontario post-secondary education to be implemented in 2017 2018. This includes restructuring not only the OSAP and OTG programs but removing the current income tax-credit and replacing these programs with a single Ontario Student Grant (OSG). At this time it is expected that universities will be required to actively participate in the administration of the new programs however details are not yet available.

Funding University of Guelph student assistance has two major sources; the General Operating Budget and restricted funds that include funds from endowments and targeted annual support from both external agencies and governments and donors. The increase for 2016 2017 reflects the planned commitment of an additional $4 million from General Operating income, effectively 90% of the revenue increase expected to be raised from the tuition fee increases.

TOTAL SCHOLARSHIPS AND BURSARIES By Funding Source

in $millions	14/15 Actual	15/16 Forecast	16/17 Plan	Plan % CHG
Operating Fund				
Undergraduate	16.40	17.59	19.44	
Graduate	7.52	7.50	9.65	
Total Operating Fund	23.92	25.089	29.089	15.9%
Endowment and Trust				
Undergraduate	3.23	3.08	3.31	
Graduate	8.00	9.08	9.10	
Total Endowment and Trust	11.23	12.16	12.41	2.1%
TOTAL SCHOLARSHIPS AND BURSARIES	35.15	37.25	41.50	11.4%
Total Share from Operating Fund	68%	67%	70%	
Total Share from Endowments and Trust	32%	33%	30%	

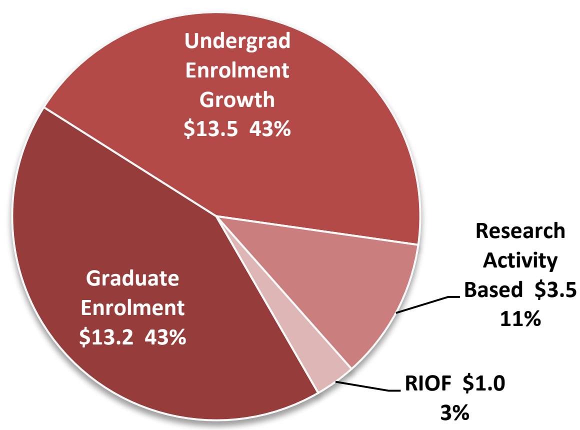
Academic Programs

An additional priority on the 2016 2017 Budget Plan is to invest where possible to increase support for the academic mission. This is reflected in not only the substantial increase in student assistance to attract and retain the best students, but to add resources accessible to colleges to strengthen their core teaching and research capacities.

Academic Activity Based Funds

In 2008 the University began a process to increase the level of "performance-based" funding for academic programs. Under this direction units would receive funding based on their achieved levels of activity measured year over year. Referred to as activity-based funding, this was the beginning of a direction to increase levels of accountability and implement more responsive resource allocation processes as part of the 2013-2017 Integrated Plan. The 2016 2017 Budget Plan continues with that direction with $5.0 million more in funding in two programs: $3.5 million added to the existing program to support graduate growth. This is part of an overall priority to increase our numbers of graduate students to meet both our strategic goal of increasing the proportion of graduate student enrolment and to meet our Strategic Mandate Agreement (SMA)[9] goal of an addition 217 graduate students and a further $1.5 million added to support undergraduate new growth initiatives. This is in addition to funding already allocated over the past several years to targeted growth areas such as the engineering program. As with all activity-based funding, funds will not be allocated unless certain activity (e.g., enrolment) levels are achieved by colleges.

Activity Based Academic Funds 2016 2017 - Total $31.2 million



Activity-based funding also includes funds allocated based on research results. In the past, funds have been transferred to colleges each year based on both tri-council and other government and industry research funding awarded. In 2016 2017 $1 million will be added to the current base of $3.5 million in the form of a Research Infrastructure Operating Fund (RIOF). This fund will be allocated through the Office of the Vice-President Research to support research activities such as improving University research facilities and leveraging research funding opportunities.

Other Academic Investments

An additional $0.90 million has been set aside to fund five tenure-track aboriginal faculty members across the disciplines. Recruitment for all five positions will begin shortly, and the new professors are expected to join the University over the next six to 18 months.

The purchasing power of the University's central library's information acquisitions budget has eroded through both inflation and the decline in the Canadian dollar of almost 20% in the last year. For 2016 2017, $0.30 million in ongoing support and $0.50 million in in year support will be added to the $7.6 million information acquisitions budget to offset a significant portion of this impact.

[9] In 2015 the province directed "Strategic Mandate Agreements" (SMA) be developed by all universities defining their specific priorities and supporting initiatives. Included in the SMA were enrolment university specific targets for both undergraduate and graduate enrolments.

Incremental Funding

It is important that initiatives from across the University that can contribute effectively and efficiently to achieving the University's strategic and budgetary goals have access to funding with the appropriate review and approvals. As part of the Integrated Planning processes of the past, varying levels of funding have been provided to "seed" new ideas with the appropriate level of review and approval. For example in 2014/2015 a "UPIF" (University Priorities Investment Fund) process was initiated under which several projects were approved.

In 2016 2017 it is proposed to continue with a simplified process that will receive and review proposals for incremental funding to support projects/programs. There is no specific minimum or cap on funding and funding will be allocated, one-time funding from reserves if necessary, subject to the quality of proposals received.

Support Services

With the increases in enrolments and effects of multi-year cost containment programs, many core central services have reached the point where a certain level of incremental investment is required. Priorities when making these investments of new positions are to ensure; the health and safety of faculty, staff and students; the advancement of the University's reputation and; to meet the growth reporting and accountability requirements of the province and other stakeholders. A total of $1.275 million in base funds will be allocated to support the following areas:

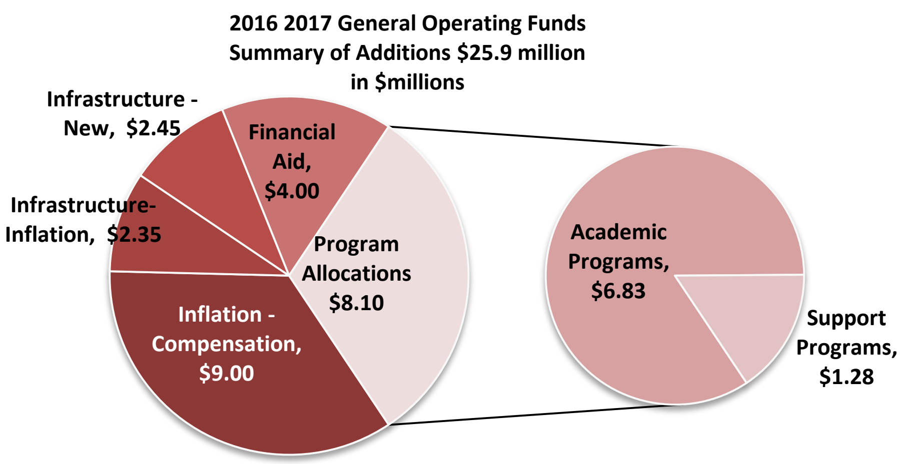
- $0.150 million for two new constable positions in Campus Community Police. With staffing levels unchanged in many years, this addition recognizes the increase in enrolments and the need to maintain appropriate security across the campus.
- $0.325 million for three new positions in External Relations and Public Affairs. Two of these positions will be for internal communications and social media. Both areas need specialized resources with the increased importance of all forms of web-based communications in strengthening the University's reputation and "brand" for all stakeholders, donors and students. A third position has been added in the area of government relations. The role of this position will be to increase the University's presence at all levels of government. A key objective will be to assist in identifying new funding opportunities and build strategic relationships with federal and provincial government ministries.
- $0.175 million will be added to the central administrative offices to increase support services in a variety of external reporting and planning functions. This is a growing area across a number of new legislative requirements including Freedom of Information and new provincial requirements for reporting under the SMA and new accountability directives.
- $0.250 million will be provided for two positions to add to the capacities in the Office of Academic Programs and Policy. This addition will be to improve the efficiency of processes required for changes in undergraduate programs given both the numbers of new and revised program requests and the effort required to ensure academic programs have the necessary provincial and accreditation approvals.
- $0.125 million will be added to regularize an Animal Care Training Officer in the Office of Research. This position is a requirement in order for the University to retain its accreditation for the use of animals in research and teaching.
- $0.175 million has been added to the base budget of the Office of Registrarial Services to maintain international student recruitment efforts. Funding was provided on a temporary basis in order to determine the effectiveness of the investment in international undergraduate

recruitment. Since 2011 when efforts began undergraduate enrolments have gone from 300 to 650 FTE's, an indication of the success of this and other efforts in international recruitment.

- $0.075 million will be provided to assist in funding two new positions in Counselling Services to improve mental health programming for students. The remaining funding necessary for these two positions will be raised from an increase in the Student Services fee of 3% that was approved by the Student Compulsory Fee Advisory Committee.

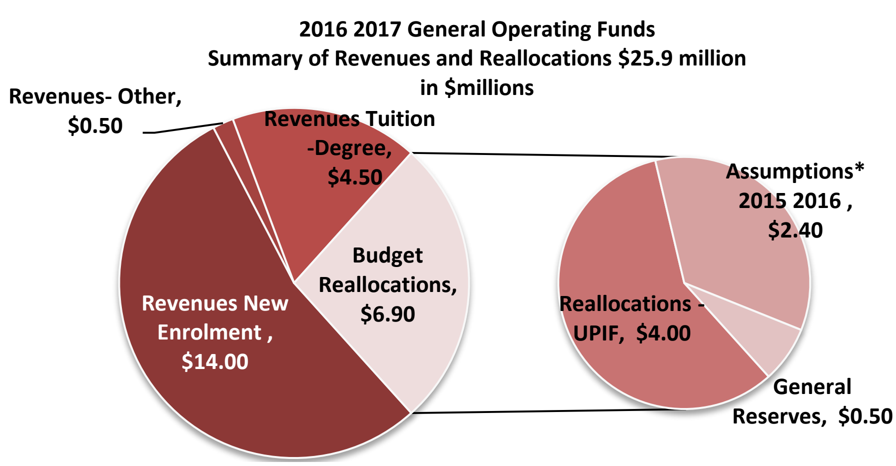
Summary of General Operating Fund Additions, Revenues and Reallocations

The chart below summarizes the major incremental expense additions allocated in the 2016 2017 General Operating Budget. They reflect the major budget priorities of meeting general costs increases, investing in student recruitment and accessibility and providing new funds for new programs and services.



Summary of Operating Fund Revenue Additions and Reallocations

The chart below summarizes the major base budget assumptions that provided the funding for supporting the additions above. The major contribution was setting the new higher enrolment level relative to the previous assumption which included a decline. "Budget Reallocations" are funds previously allocated in for other budget purposes, released to support new allocations (above)



"Assumptions 2015 2016" are base funds allocated in 2015 2016 for mainly compensation expenses based on certain assumptions now not required and therefore are available for reallocation.

OMAFRA

Since its formation in 1964, the University of Guelph has had a unique relationship in the province with OMAFRA (Ontario Ministry of Agriculture, Food and Rural Affairs) in which research and other services are provided to the agri-food sector in the province of Ontario. This relationship which supports major structural components of the University's research enterprise is reflected in a contract between the University and OMAFRA which details the University's operational responsibilities. Activities covered in the contract include; the operation of two major animal health and food testing laboratories located in Guelph; managing extensive agri-food research facilities across Ontario; supporting veterinary clinical education; and providing individual faculty-based research project-based funding across a wide range of disciplines and commodities. All funding under the contract is restricted and cannot be used as general University revenue.

The table below summarizes the major revenue and expenses components of the OMAFRA agreement. Provincial transfers provide the bulk of the funding which is supplemented by the sale of goods and services and other revenues. Highlights of 2016 2017 assumptions for the contract are on the following pages.

2014/2015 Actuals	2015/2016 Budget	2015/2016 Forecast	**OMAFRA Agreement**	**$ thousands** 2016/2017 Budget	% Change Budget To Forecast
			REVENUES		
71,300	71,300	71,300	OMAFRA Agreement	66,800	-6.3%
4,813	4,500	4,838	OMAFRA Minor Capital	4,500	-7.0%
18,365	15,845	16,915	Sales of Goods and Services	15,762	-6.8%
303	250	178	Investment Income	100	-43.8%
1,447	864	805	Other Revenues	2,853	254.4%
96,228	92,759	94,036	Total Revenues	90,015	-4.3%
			EXPENSES		
33,918	32,759	33,421	Salaries	33,252	-0.5%
8,586	8,738	8,565	Benefits and Pension	8,951	4.5%
972	523	444	Scholarships and Bursaries	500	12.6%
3,780	3,039	3,108	Utilities	3,040	-2.2%
23,638	26,400	24,259	Operating	22,972	-5.3%
70,894	71,459	69,797	Total Expenses	68,715	-1.6%
			UNIVERSITY TRANSFERS		
10,800	10,800	10,800	To Operating for Faculty Costs	10,800	0.0%
10,500	10,500	10,500	To Operating for Indirect Costs	10,500	0.0%
21,300	21,300	21,300	Total University Transfers	21,300	
4,034	-	2,939	Operating Results After Transfers	-	
29,054	33,088	33,088	Opening Fund Balances	36,027	
33,088	33,088	36,027	Closing Fund Balances	36,027	

Highlights for the 2016 2017 OMAFRA Budget

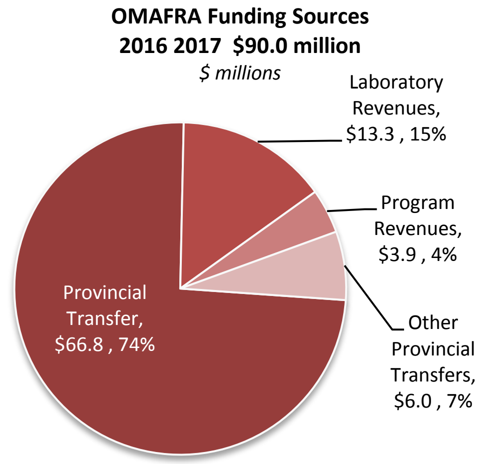
- The major provincial transfer will be reduced by $4.5 million or 6% in 2016 2017. This is part of OMAFA's contribution to meeting provincial budget targets. At this time the reduction is considered for this fiscal year only and will be covered from one-time unallocated resources within the contract. Core services and programs or the University's General Operating Budget will not be impacted. Covering this reduction in 2016 2017 will be:
  - Use of $2.0 million in OMAFRA "transition funding" (recorded under Other Revenues). These are funds transferred to the University from OMAFRA several years ago under a special agreement to assist with implementation costs, particularly the costs of staff reductions, of any possible major program reductions. OMAFRA has agreed to apply these funds for this purpose.
  - Use of $2.5 million in unallocated reserves within the contract. These funds were accumulated from a number of accounts within the contract that were not spent, including general contingency funds and investment income earned on the cash flows of the contract.
- Expenses in the contact will be increased to cover expected inflationary cost increases, most of which are associated with faculty, veterinarian and staff costs of 375 full-time appointments. A portion of the increase will be offset by the completion of the reorganization of the regional campuses which includes the closures of two locations at Kemptville and Alfred near Ottawa Ontario.
- The impact of the 2014 closures of Kemptville and Alfred continues in 2016 2017. As programs are either transferred or closed a certain level of funding will be released for reallocation within the contract. However with the majority of OMAFRA funding at these locations allocated for the costs of running and maintaining the physical facilities, until the disposition of the buildings and lands, which are provincially owned, is decided, the majority of the costs will continue to be required. To date the following summarizes the allocation of associated funding at these locations:

Table of Current Provincial Allocations; Kemptville and Alfred Closures			
Location	***Kemptville***	***Alfred***	**Total**
Maintaining and Operating Locations	1.800	0.730	**2.530**
Maintaining and Operating Research Stations*	1.590		**1.590**
Personnel Transfers to other locations	0.455	0.175	**0.630**
Program Funds released for reallocation	***0.310***	***0.245***	***0.555***
Total Provincial Funding	**4.155**	**1.150**	**5.305**
**Associated with Kemptville were several research stations at New Liskeard and Winchester Ontario. These facilities will not be affected with the closure of Kemptville at this time.*			

- Overall the contract will be at least balanced for fiscal 2016 2017. It is forecast that the end of fiscal 2015 2016 will result in total accumulated unspent funds of $36.027 million. Because of the restrictions on the use of all funds in the contract these funds will remain for future spending or reallocation within the contract

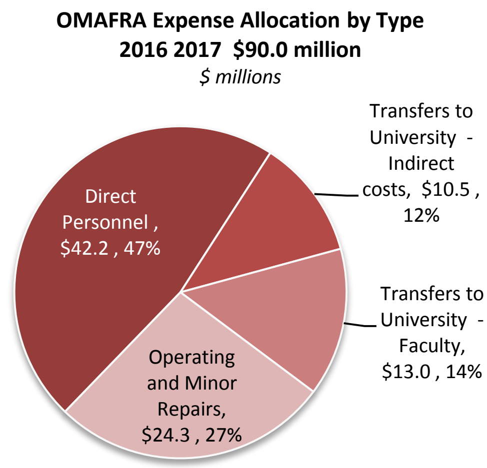
Overview of the OMAFRA Contract

OMAFRA Revenues



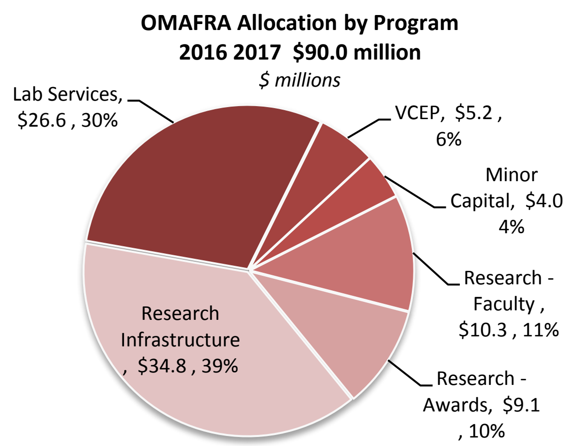
For fiscal 2016 2017, the plan is for $90 million in funding to be available for contract activities. The major changes in assumptions include the reduction in the main provincial transfer payment of $4.5 million offset by a $2.0 million use of OMAFRA special funds currently held by the University. At this time the reduction is being treated as one-time however there are indications that an additional reduction could occur in 2017 2018. Discussions are underway with Ministry officials regarding both expectation for 2017 2018 (the final year of the current contract agreement) and the plans for renegotiating the agreement for 2018 and beyond.

OMAFRA Expense Allocations



OMAFRA expenses support a number of major expense categories at the University including the direct funding of 356 regular full-time support staff and 19 faculty and veterinarians. In addition the contract provides indirect funding in the form of two major fixed transfers to support University faculty ($13 million annually) and indirect support costs ($10.5 million annually). Both of these transfers form a critical funding component of the University's General Operating Budget.

OMAFRA Program Allocations



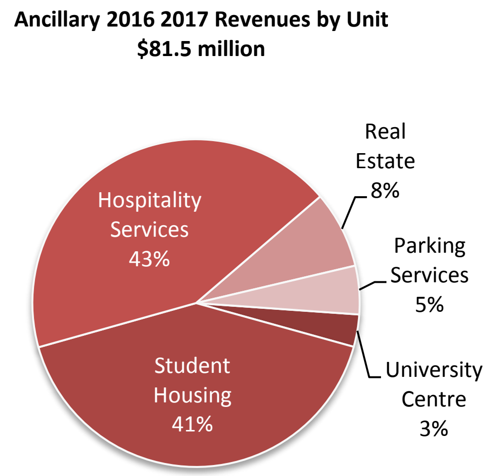
VCEP- Veterinary Clinical Education Program

Funding in the OMAFRA contract is managed within major program groups each with specific established purposes and outcomes. While the contract is mainly for research infrastructure (operations of the 14 research stations) and main campus indirect costs support, other major programs include the Lab Services division and a funding envelope (VCEP) dedicated to the OVC (Ontario Veterinary College).

Lab Services funding supports the operation of food safety and animal health laboratories under contract with the Ministry to perform a variety of food testing (e.g., milk) and disease control services for the province. The VCEP program is funding used in support of clinical education for veterinary training.

Ancillary Units

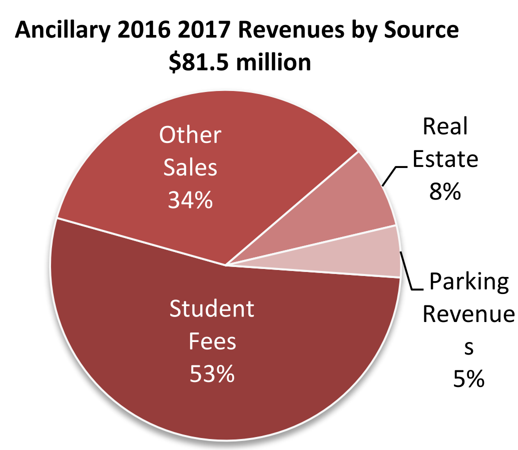
Ancillary Units at the University provide a number of important support services to students and staff that are not directly associated with the delivery of academic programs. Typically these types of services are ineligible for support from MTCU grants or tuition fees meaning costs must be covered from user fees. Collectively Ancillary units comprise 10% of the University's total revenue and have a mandate to run balanced fiscal operations. Full-costs in this context include all capital costs such as the acquisition and maintenance of buildings, land improvements and equipment. In this respect they are unique in the University fiscal structure. The University's five Ancillary units consist of;



1. Hospitality Services
2. Student Housing Services
3. Real Estate Division
4. Parking and Sustainable Transportation Services
5. University Centre Administration

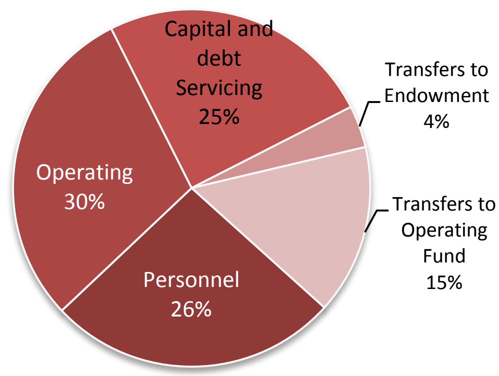
In setting budget assumptions, each Ancillary unit develops an annual plan that reflects the unique nature of their operations. Revenue from Ancillary units is concentrated in two units; Hospitality Services (on-campus food and retail) and Student Housing (on-campus residence) that together make up almost 85% of total revenues.

Revenue is mainly earned on a fee-for-service basis from both internal clients (employees and students) and the public through events and retail services. However with the primary mandate to provide student services, especially food and housing, 87% of total ancillary income is derived from student contracts for either food or residence charged on a per semester basis. The Real Estate Division is a unit that is overseen by the University's Board of Trustees with the mandate to "monetize" Board-designated real properties to add to the University's Heritage Endowment. In setting fees and service options both Hospitality and Student Housing Services engage extensively with students through advisory committees. Budgets are reviewed in detail by these student groups to ensure support for the major underlying assumptions.



Expenses across all Ancillary units are spread across staffing, operating and capital costs. Capital costs are concentrated in Student Housing and operating costs are mainly in Hospitality Services in the form of product (food and retail) costs. Transfers from Ancillary Units are to the Operating Funds for services such as space and administration costs. In the case of Parking Services, the Operating Fund also receives on-going support of $0.840 million. “Transfers to Endowments” is the net income of Real Estate Division transferred into the Heritage Endowment each year in accordance with Board policy.

Ancillary 2016 2017 Expenses by Type
$81.4 million



Highlights for Ancillary Units for 2016 2017

1. *HOSPITALITY SERVICES*

Hospitality Services is a $35 million operation responsible for all food and catering services on the main campus. In addition certain retail and bookstore operations fall under the responsibility of Hospitality Services. The major source of revenue is the sale of food contracts to students consisting of 3,900 residence meal plans and 22,900 meal plans sold to off campus students per year. Other income is derived from sales to staff and event catering services. For 2016 2017:

- Meal Plan rates to increase by 3%. This increase will keep Hospitality Services positioned in the middle of the range of mandatory food plan process for other universities in Ontario. From a competitive position, Hospitality Services is consistently ranked as #1 in Canada by students surveyed. Overall 2016 2017 revenues are expected to increase by 2.1% over 2015 2016 forecast.
- Expenses are driven mainly by the cost of products (37% of expenses), especially food costs. Costs will be contained through expanded co-operative and local buying and adjusting product mixes. Personnel costs (39% of expenses) will increase in line with centrally negotiated increases.
- Capital renovations will total $0.95 million and include upgrades to kitchen and eating areas at a number of locations across the main campus.
- Overall the annual budget will be balanced.

2. *STUDENT HOUSING SERVICES*

Student Housing Services is a $34 million operation that manages the University’s residence facilities for both single and family housing. Currently 85% of Student Housing Services revenues are derived from student contracts for 4,800 single and 300 family accommodations. Given the very capital intensive nature of housing operations, annually 45% of Student Housing expenses are allocated for capital related costs including debt servicing and renovations. For 2016 2017:

- Single student residence and family housing fees will increase by 2%. This will maintain the University’s position in the mid-range of fees in the Ontario system. Occupancy rates of 93%, slightly less than recent experience will be assumed for planning purposes. Overall revenues are expected to increase by at least 1.0%.
- Expenses are weighted to operating and maintaining the residence buildings with 35% allocated for capital debt financing and renovations. A further 28% is for operating costs including custodial and utilities charges. Overall operating costs are budgeted to increase by 2.8%.

- Charges for capital projects and renovations are budgeted to increase by 3.6% to $15.4 million which includes a $3.5 million project to install WIFI connections in residences and the initial phase of a $19 million project to refurbish the exterior of the South residence complex.
- Overall Student Housing is expected to draw down its reserves, which are forecast at $3.7 million on April 30 2016, by $1.8 million. The major component of the draw down is the one-time WIFI project which was not initially planned for 2016 2017.

3. *PARKING (AND SUSTAINABLE TRANSPORTATION) SERVICES*

Parking Services is a $3.9 million annual operation responsible for the administration of 5,400 parking spaces on the University's main campus. Revenues are derived from parking fees charged through annual, semester and daily fees. In additional Parking Services is responsible for 22 kilometers of University roadways and 56 kilometers of sidewalks as well as related lighting and signage. For 2016 2017:

- Commuting annual permits rates will increase by $43.50 annually (a 7% increase). Given that most charges are for only 2 semesters, the net annual impact is estimated to be a 4% increase.
- Initiatives funded from this increase will include the installation of outdoor seating across campus at $0.120 million and $0.150 million for personal safety initiatives. In addition Parking Services will continue to contribute $0.842 million to support the General Operating Fund.
- Major capital investments for 2016 2017 total $6.5 million most of which will be used for two major parking lot replacements including adding storm water management infrastructure. In addition $1 million will be used for improved signage across the main campus. $5.5 million of this cost will be internally financed over a period of seven years.

4. *REAL ESTATE DIVISION*

The Real Estate Division is a unit dedicated to the sale, rental or lease of certain of the University's real property designated as surplus to the University's current academic requirements. All net proceeds of this activity are transferred to the Heritage Fund Endowment. A separate Board of Trustees has been delegated the responsibility for the operational oversight of the Real Estate Division activities. Main revenue sources include lease payments and occasional property sales. Currently annual revenues are $6 million, about $4.5 million of which is transferred annually to the Heritage Endowment. For 2016 2017:

- Revenues will decrease from $7.5 million in 2015 2016 to $6.2 million due to the sale of a property in 2015 2016, reflecting the normal expected annual income from leased and rental properties.
- Capital expenses include $0.700 million for roof and HVAC replacements on some rental properties. Overall capital debt in the division is expected to decrease by $0.789 million to a very manageable $6.8 million.
- Overall net income is expected to be $5.1 million which will be targeted for transfer into the Heritage Endowment.

5. *UNIVERSITY CENTRE ADMINISTRATION*

University Centre Administration is a $2.6 million annual operation responsible for the administration of a portion of the University Centre building. Its mandate is to be the focus for the University as a community, providing those social, recreational and cultural activities that are not normally provided through other services. Major operating units include a licensed lounge (the Brass Taps) and the organization of entertainment and cultural events in the University Centre. The University Centre Administration has a separate Board that oversees annual operations and has a separate reporting relationship directly to the University of Guelph's Board of Governors. For 2016 2017:

- Overall revenues are expected to increase by 2.4% mainly due to increases in prices in the Brass Taps (licensed lounge).
- Expenses are expected to increase by 2.7% and overall there is a $0.044 million surplus expected at the end of the fiscal year. Results overall are in line with results of the prior year.

Combined Ancillary Unit Budget Table

The Table below summarizes total income, expense and transfers for the University's five ancillary units. Overall, compared to last fiscal year, operating increases are offset by declining funded capital projects, expenses and revenues remain flat.

			Summary	**$ thousands**	
2014/2015 Actuals	2015/2016 Budget	2015/2016 Forecast		2016/2017 Budget	% Change Budget To Forecast
			REVENUES		
38,252	37,742	39,137	Student Fees - Contracts (Food & Housing)	39,194	0.1%
31,685	31,546	31,690	Other Sales of Goods and Services	32,236	1.7%
6,194	5,871	7,482	Real Estate - Lease and Property Income	6,208	-17.0%
3,659	3,750	3,740	Parking Revenues	3,900	4.3%
79,790	78,909	82,049	Total Revenues	81,538	-0.6%
			EXPENSES		
17,219	17,115	17,213	Salaries	17,628	2.4%
3,657	3,620	3,612	Benefits and Pension	3,736	3.4%
14,455	10,299	9,689	Renovations/Cap Equipment	10,959	13.1%
7,336	7,718	7,202	Debt Servicing	6,519	-9.5%
1,048	1,047	1,053	Utilities	1,057	0.4%
22,035	22,795	22,423	Operating	23,043	2.8%
65,750	62,594	61,192	Total Expenses	62,942	2.9%
			UNIVERSITY TRANSFERS		
4,974	4,459	4,746	To Heritage	5,063	6.7%
12,054	12,488	12,390	To Operating	12,483	0.8%
1,415	3,872	4,141	To Major Capital & Debt Servicing	3,062	-26.1%
18,443	20,819	21,277	Total University Transfers	20,608	-3.1%
(4,403)	(4,504)	(420)	Operating Results (Unrestricted)	(2,012)	
14,169	9,755	9,755	Opening Fund Balances - Unrestricted	9,335	
(4,414)	(4,504)	(420)	Change	(2,012)	
9,755	5,251	9,335	Closing Fund Balances - Unrestricted	7,323	

Capital Plan 2016 2017

Prioritizing Capital Projects

In meeting its operational responsibilities, the University needs to effectively maintain the physical assets and infrastructure that enable the delivery of effective programs and services. Physical assets consist mainly of buildings and the utilities infrastructure that have an estimated total replacement value of $1.7 billion. With 145 buildings with 6.6 million square feet of space, maintaining capacity and quality of space is an on-going effort. Further adding to the University's challenge is the average age of its buildings (47 years), one of the oldest in the Ontario university system. Investments in buildings and the related infrastructure are supported from a number of sources, the primary ones being revenues and fees generated from operations, government grants and University debt. Over the past 10 years the University has invested $540 million in its buildings (both new and old). While these past investments are considerable they have not been able to address the backlog for capital maintenance created from many years of underfunding. With annual provincial contributions for deferred maintenance of $1.5 million and annual demands approaching $25 million, the gap to address critical capital maintenance necessitates debt financing. Ancillary units are responsible for funding each of their own major projects – including the servicing of any related project debt.

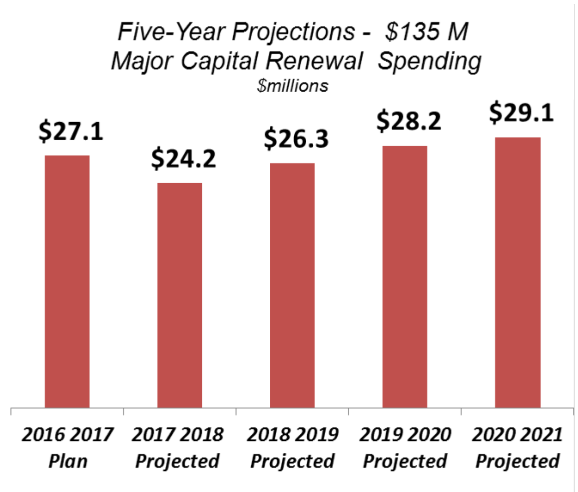
Capital planning and prioritization for major projects has been an on-going process across the University for many years. Efforts have focused on two major objectives; maintaining what we have and enabling new and improved programs and services. More specifically plans are organized around the following project groupings;

1. Capital Renewal: this refers to investments for main campus buildings and related infrastructure used for teaching, research and service programs. For the most past, spending in this category direct to ensuring on-going capacity – with limited program enhancements.
2. Major Building and Renovations: this grouping consists of major individual projects (normally over $2 million such as new buildings or major repurposing/renovations of existing buildings. Investments in this category often include major refurbishment and renewal that can enhance program delivery and services.

For capital renewal planning, there are a series of multi-year (5-Year rolling) capital planning processes for both the main campus and each of the major operations (e.g., ancillary and athletics) whose operations are responsible for and depend upon major capital assets. For major building and utility infrastructures, an extensive building and facilities condition audit is used to determine capital priorities, project schedules and the capital investments required. The plan enables the University to prioritize the capital investment required to address critical capital renewal and reduce the likelihood of a major building or utility breakdown. This investment also referred to as "deferred maintenance" helps determine an annual estimate that identifies what we should spend to address the entire backlog. Through the annual budget planning process we identify what can be spent, based on available resources.

Included in capital renewal projects are improvements to energy efficiency. In 2014 the University initiated a major $26 million energy retrofit project which included the installation of a chilled water storage system to shift chiller electrical demand to off-peak hours that will significantly contain hydro cost increases for years to come. However energy saving is also an on-going planning consideration for all major capital renewal projects. Savings recently experienced in the central utilities budget are in part a reflection of these continuous investments.

Total projected five-year spending on high priority major capital renewal projects targeted mainly to address deferred maintenance is currently estimated at $135 million (refer to chart). As part of the annual budget process the University reviews spending for the next year in the context of available resources. Based on funding availability including the level of provincial support and debt capacity, decisions are made that often ration or constrain what we should be spending for deferred maintenance.



In addition to maintaining existing facilities, the University will invest in major renewal or repurposing projects with the major objective of program or service enhancement. In some cases these may be based on reasons of maintaining competiveness and program attractiveness, in other cases they may be necessary to maintain required program quality (e.g., professional accreditation). Past examples of investment in this category include the construction of new engineering facilities to allow for a major program expansion, the construction of a new addition in the Mitchell building athletic complex and the repurposing of Macdonald Hall for the College of Business and Economics.

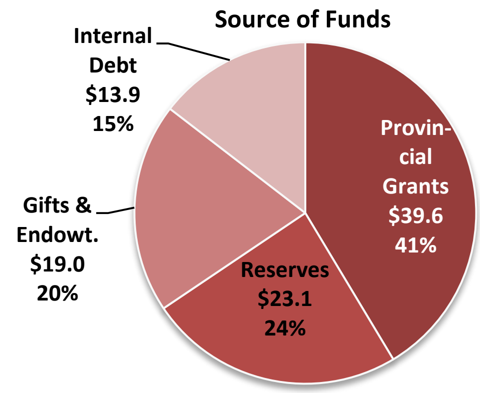
Highlights of the 2016-17 Capital Plan

The Table below summarizes the current 2016 2017 Major Capital Plan. In addition to $27.1 million in capital renewal, there is $68.5 million in major projects. Of the total cost of $95.6 million, $81.7 million will be funded from a variety of cash sources. Any financing required will use internal working capital on a temporary basis.

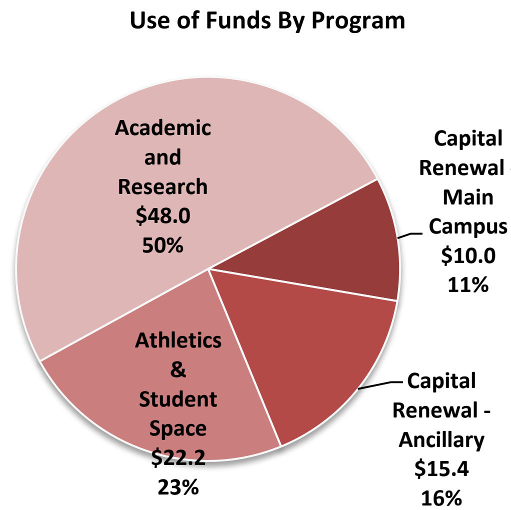
2016/2017 MAJOR CAPITAL PLANNING ($ millions)	TOTAL COST	Fund Raising	Provincial Grants	Fees	Central Reserves	Unit Reserves	Heritage Fund	Internal Financing	TOTAL FUNDING
Capital Renewal (DM)									
Main Campus Infrastructure	10.00		1.55	0.05				8.40	10.00
Athletics	1.70					1.70			1.70
Ancillary - Housing	8.90					8.90			8.90
Ancillary- Parking	6.50					1.00		5.50	6.50
SUB TOTAL - Capital Renewal	**27.10**		**1.55**	**0.05**		**11.60**		**13.90**	**27.10**
Major Buildings/Renovations									
OVC Phases 1&2	33.00	8.00	23.00				2.00		33.00
Turf Grass Institute	15.00		15.00						15.00
Powell Building Renovations	10.00				10.00				10.00
Library (storage and space)	5.00						5.00		5.00
University Centre	3.00						3.00		3.00
Mitchell Building "Link"	2.50	1.00			1.50				2.50
SUB TOTAL - Major Buildings/Reno.	**68.50**	**9.00**	**38.00**		**11.50**		**10.00**		**68.50**
Total (Current Projects ALL)	**95.60**	**9.00**	**39.55**	**0.05**	**11.50**	**11.60**	**10.00**	**13.90**	**95.60**

Funding: Sources of funds for the 2016 2017 Plan include contributions from the province totaling $39.6 million consisting of;

- $23 million is targeted for major capital renewal in the Ontario Veterinary College (OVC). These funds will be combined with donations of $ 8 million and $2 million from the Heritage Endowment to rebuild the small animal surgical unit and provide state of the art learning facilities in support of veterinary education at a total cost of $33 million.
- $15 million to relocate the Guelph Turf Grass Institute.
- $1.6 million from MTCU for deferred maintenance costs.

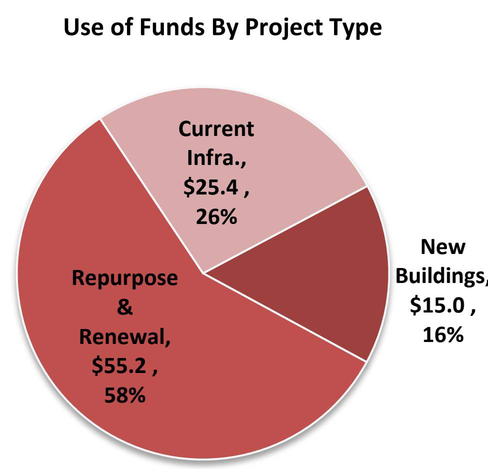


Existing unallocated University reserves will be contributed from both the General Operating Budget ($11.5 million) and Ancillary Units ($11.6 million). The Heritage Fund will contribute a total of $10 million to this year's plan; $2 million for the OVC project and $8 million for student space improvements.



Programmatically, academic and research facility projects total $48 million consisting of $33 million for the OVC clinical and teaching renewal projects and $15 million for the Turf Grass relocation project. These are major capital activities that are expected to see spending occur over several years.

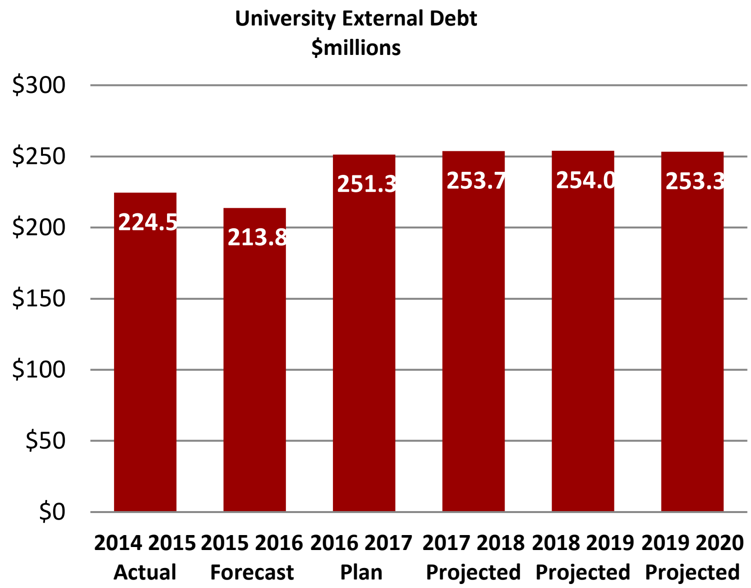
In addition programming improvements that are mainly student focused include; $10 million for the repurposing of the Powell Building into a consolidated location for student health and counselling services; $5 million to improve study space in the McLaughlin Library; $3 million for improved student space in the University Centre and; $4.2 million in a number of smaller projects in the Mitchell building (athletics). The balance of spending, $25.4 million will be used for a wide number of capital renewal projects ranging from roofing, heating and cooling renewal, parking lot refurbishment, storm water management and new "WIFI" in the residences.



Project Type; describes whether a project is adding new space or is invested within an existing building/utility. The only new building space that will be added to the University's space inventory will be the Guelph Turf Grass Institute. The precise space configuration and size of this new building have not been finalized however it is not expected to be large, by University standards. Repurposing and Renewal projects include the OVC clinical and teaching project as well as improvements to student space in a number of locations across campus.

Debt Capacity

In 2014 the University adopted a new Capital Debt Policy that included a series of “metrics” or “financial health indicators “with benchmarks that would be used in monitoring capital debt levels and the costs of servicing that debt. Capital financing decisions are made in the context of risk/return, cost/benefit of the project under consideration for approval. The adjacent chart shows the current total University projected external debt for the next five-years. It assumes no major external borrowing other than that already (2014) Board-approved for the Mitchell building expected to be borrowed in 2016 2017 once the project is complete. At these debt levels the University is projected to maintain positive debt metrics under the policy.



In addition to external debt i.e., from banks and other external lenders, the University also uses its internal working capital on a temporary basis to financial certain projects. Typically these are lower-cost projects that have shorter expected pay-back periods and economic impact. Examples where internal financing has been used include many of the parking renovations and capital renewal projects.

Capital Impact on Operating Budgets

Capital spending at the University includes a wide range of spending for equipment and minor renovations that can total $20 million in any year. Most of the funding for this type of spending is from unit operations and research grants. Given most purchases under this category are relatively small (less than $10,000), planning occurs within the annual operating budgets within colleges/divisions. Major capital project activity, typically $2 million or more are managed within the University’s Annual Capital Plan.

Major capital projects typically impact the General Operating Budget through both operating costs for facilities and funding for the capital costs of the projects, including any debt servicing costs. This year’s General Operating Budget includes space costs associated projects approved in prior years; the Mitchell building addition and the repurposing of Macdonald Hall to an academic building.

For 2016 2017 capital projects, overall the impact to the General Operating Budget will be limited to the incremental cost of internal debt financing estimated at $1 million. In addition, reserves in both the General Operating Fund and Ancillary units will be drawn down by $23.1 million. The operating cost of the new Turf Grass Institute is expected to be funded through designated provincial support through OMAFRA and should not impact the General Operating Budget for the University. As noted earlier energy savings generally improve with major capital renewal investments as projects are completed.