University of Guelph

2017-2018 Budget Plan

Prepared for the Board of Governors

April 21, 2017

Contents

Executive Summary

The University's financial planning begins each year with the Budget Plan in which major operational opportunities and risks are evaluated and resources allocated for both non-discretionary costs and initiatives in support of the University's primary academic mission. Expense priorities include not only direct expenses of salaries and benefits but the maintenance of the University's physical and service infrastructure that will help sustain a strong academic profile and remain competitive in both attracting high quality students and recruiting the best faculty and staff.

Overall, the University of Guelph continues to be in a sound financial position. The University's current financial strength is measured by strong liquidity, manageable debt and flexibility to absorb uncertainty. Much of the recent fiscal foundation is the result of a continued strong demand for our academic programs resulting in increased enrolments that have been absorbed without major cost increases. This trend continued in 2016 2017, when once again the University exceeded its planned enrolment levels for both graduate and undergraduate university-degree enrolment targets. Total enrolment increases over the past two years have totaled just over 900 students, a 4.8% increase. With the province having provided funding, this additional revenue was a primary contributor toward maintaining a balanced budget and generating modest annual net income.

A key operational objective for 2017 2018 will be once again 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 core campus infrastructures including buildings, health and safety and information technology.

Looking ahead, a major impact on planning will be the introduction of a new provincial grant framework that comes into effect April 1, 2017. A key feature of this new process is the introduction of an enrolment "corridor" in which grants remain at a fixed level unless universities receive prior approval for enrolment levels outside their prescribed enrolment corridors. This new reality means universities cannot expect annual enrolment growth to attract incremental provincial grants – in fact, the current model indicates penalties in the form of grant reductions could be imposed for enrolment movement outside corridors. While precise regulations are still being refined, it is clear that the province will be taking a much greater role in managing enrolments at the institutional level. In addition, the province has signaled that a greater portion of provincial funding will be based on "performance metrics" as defined in a negotiated "Strategic Mandate Agreement" (SMA). The SMA is positioned to be the major process by which the province advances its agenda of institutional differentiation, enhanced student experience and success, and financial sustainability.

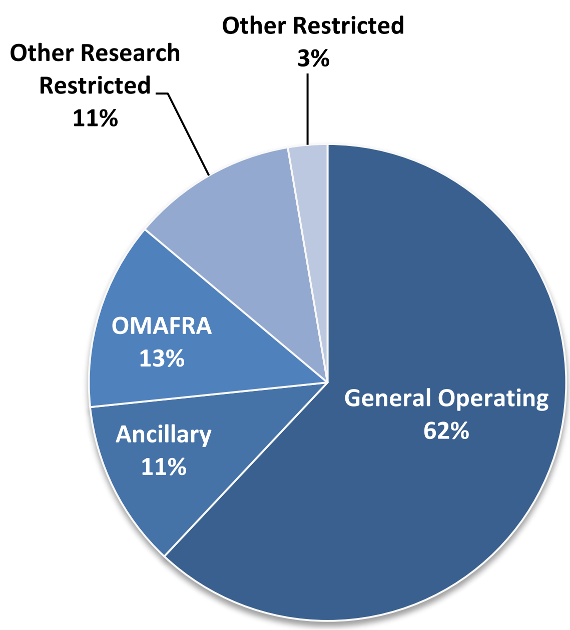
With this significant change in provincial funding, this year's annual Budget Plan will leverage last year's enrolment growth, to establish a new level of enrolment, on which our fixed corridor will be based. The additional revenues will be allocated to cover our expected cost increases and provide funding for a targeted number of initiatives. This approach will again result in a balanced annual budget.

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 2017/2018 fiscal planning across the major operating activities of the University and presents an annual Budget Plan for Board of Governors approval. This is the second year in which a consolidated plan combines 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, summarizing the plan that was presented to the Board in January with particular attention paid to its impact on the General Operating Budget.

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 2017 2018.

Major Components of University Operating Funds (Excluding Capital)
2015 2016 Results $713 million



- **General Operating $442M:** 86 % of revenues are provincial grants and student fees. 74% of expenses consist of salaries and benefits.
- **Ancillary $81M:** self-funding services with revenues from fees for services; food, student housing, parking etc.
- **OMAFRA $91M:** is a major contract with the Ministry of Agricultural Food 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 $19M:** are funds from donations and endowment income received for mainly student awards and other non-research grants/contracts restricted for specific purposes.

[1] OMAFRA (Ontario Ministry of Agriculture, Food 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.

Highlights of the 2017 2018 Operating Plan

1. The General Operating Budget

- The overall target for 2017 2018 is to balance the General Operating Budget. Compared to the 2016 2017 forecast, total revenues and recoveries are expected to increase by 0.1% and total expenses are expected to increase by 4.0%.
- For 2016 2017, an $8.5 million surplus is forecast in General Operating Budget ($29 million surplus in 2015 2016). This overall positive position was mainly the result of additional undergraduate enrolment that exceeded budget expectations generating additional grant and tuition revenues. The revenue gain was offset somewhat by increased transfers for approved major capital projects. 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.
- For 2017 2018 assumptions, the total enrolment target for undergraduate and graduate university-degree credit enrolment will be based on actual 2016 2017 experience, increasing the total enrolment target to 22,600 FTE's[2]. The additional budgeted revenue will be used to support operating cost increases and balance the budget. This enrolment level is a new high in terms of an ongoing budget target and reflects an increase of 700 FTE's over the previous budget target.
- Tuition for University-degree programs will be increased by an average of 3% consistent with the provincially mandated tuition framework.
- The largest expected increase in costs is a general provision for all compensation including negotiated settlements and benefit increases. 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 under temporary solvency relief legislation and is not required to make full pension plan solvency deficit payments. Discussions at the provincial and university-system level are ongoing with the objective of finding a more sustainable framework for these pension plans.
- The University will continue to invest in both infrastructure and initiatives that will be used mainly in student and academic support programs. There will be no mandated unit cost-savings targets this year.

2. OMAFRA Contract

- The current assumption is that OMAFRA provincial funding will remain at the full contracted levels that have been in place since that last renewal in 2008. This is in contrast to last year when a budget adjustment called for an annual transfer reduction of $4.5 million (6%). Contract reserve funds were used to cover this requirement and there was no immediate impact on core operations.
- There are no major revenue or expenditure assumptions other than those necessary to provide for cost increases to continue to deliver the University's research and service program objectives.
- Negotiations are under way with regard to the contract renewal (effective April 1, 2018). There are no indications of major changes to funding levels on the renewal, at this time.

[2] Full-time Equivalent (e.g., for reporting purposes undergraduate students are counted as 1 FTE if they are enrolled at a full-time course load for 2 semesters.)

3. Ancillary

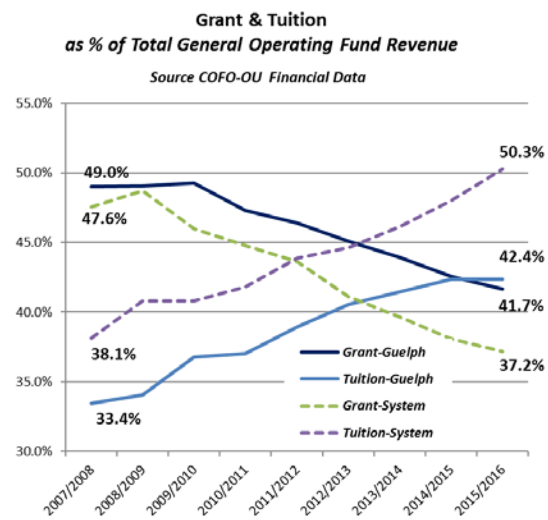
- Total revenues in the University's five Ancillary units, Parking, Student Housing, Hospitality, University Centre Administration and Real Estate Division are expected to decrease by 1.7% in 2017 2018 compared to the forecast. The decline is due mainly to reduced revenues in Student Housing as extra "overflow" rooms rented from a local hotel will no longer be required, reducing student revenues.
- Total expenses and transfers are expected to increase by 1.5% 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 $14.1 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 1.8% for student residences, 2.6% in the cost of the minimum food plan and 8.3% for parking permits. All increases will be used to support operating and capital expenses within those units to remain fiscally balanced.

4. Capital

- An estimated $92.7 million has been approved by the Board of Governors for 2017 2018 projects. Covering these projects will be $30.9 million in federal and provincial grants, $8.9 million in reserves, $3.5 million in drawings from the Heritage Fund with the balance of $49.4 million in internal financing.
- Major projects include:
    - $66.6 million Strategic Infrastructure Renewal Program, a federally sponsored capital renewal program in which the University has targeted 4 major building renovations and smaller academic/research building additions.
    - $8.0 million for on-going main campus "deferred maintenance" projects
    - $8.4 million is residence capital maintenance
    - $5.7 million in parking lot and roads maintenance
    - $3.5 million for a major upgrade to the main campus "WIFI" capacity

Fiscal Context

In preparing the 2017 2018 Budget Plan an important objective is to continue to invest in the University's significant programmatic strengths that will sustain our strong competitive position as a comprehensive university in the province. Achieving this objective has been made even more critical given a growing dependency on student fees as a source of revenues. This trend is growing steadily not only for the University of Guelph but also in the entire Ontario university system.



The adjacent chart shows the major funding shift 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 critical 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 both maintain their enrolment base while increasing enrolments to avoid expense reductions or deficits. Planning in this context means greater competition for students. Further adding to our longer-term uncertainties are the challenges facing the province as it strives to balance its budget in the face of uncertain economic times and competing demands for better infrastructure and rising costs in health care.

For the past year, the province has signaled that there will be a new way in which post-secondary education will be funded. Key to the new funding rules will be a departure away from funding actual enrolments using a per student formula each year. For many universities, Guelph included, this will seriously constrain new revenue sources that have been used to fund general cost increases. Now each institution will have a pre-negotiated enrolment corridor within which grant funding will be fixed and any growth beyond the corridor must be pre-approved by the MAESD (Ministry of Advanced Education and Skills Development). Fiscal 2017 2018 will be the inaugural year of this new framework.

Accompanying the "corridor" control on enrolment growth, the province plans to increase funds for the post-secondary sector to "performance-based" envelopes. Performance will be measured on a series of metrics[3] tracking a wide range of factors including student success, both during their periods of study and post-graduation, to overall institutional financial management and "health". The province has indicated that an initial source of increased performance-based funding will be transfers from enrolment-based grants based on the assumption that demographic declines in university-aged students in the province will reduce the need for the same level of funding as it is today[4].

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[3] Details of these metrics are not yet finalized and discussions are being held with MAESD representatives to determine the specific measures, which will become the basis for performance-based funding in the future.
[4] The overall funding to post-secondary education is not expected to increase but funds are expected to shift among envelopes reflecting provincial priorities.

On planning the expense side of the budget, every year begins with first determining major cost commitments. With 75% of the budget composed of compensation costs, it is imperative that salary and benefit cost estimates are reasonably accurate. Employment contracts for the University of Guelph's largest labour groups will expire early in fiscal 2017 2018. Sector pressures continue to drive salary increases and providing for compensation will once again be the largest single cost increase that needs to be funded. With an aging physical plant and major information systems approaching the end of their effective life-spans, there are constant pressures to continue to increase investments to keep programs and services operational and effective. Competing with the cost increases for compensation and infrastructure are the important budget objectives of investing in programmatic innovation, student success and more effective and responsive support services.

In many ways, the 2017 2018 fiscal period will be the beginning of significant new challenges and opportunities in managing the fiscal health of the University. While the 2017 2018 Operating Budget will remain balanced, in future years the new funding formula will require a shift from our recent practice of enrolment growth as the major source of incremental revenues. Opportunities for revenue growth will need to focus on diversified non-traditional sources including cost recovery programs. In addition, enrolment planning and cost management at all universities will take on greater importance as revenue growth is constrained and cost pressures continue. This year is also the year in which the OMAFRA contract will be entering its last year and negotiations are underway with the objective to maintain and grow our unique ability to meet provincial priorities in the agri-food sector of the provincial economy.

Even with this context of increasing uncertainty, 2017 2018 contains allocations that increase support to our highest priorities in areas of ensuring student accessibility, recruiting high quality faculty and staff, and maintaining the infrastructure platforms in facilities and technology. It is our belief that this Budget Plan reflects decisions that will continue to position the University in a strong fiscal and competitive position on the proposition that starting from a position of strength will enable us to be better respond to the challenges ahead.

The following presents details of the 2017 2018 Budget Plan we are recommending to the Board of Governors and the University stakeholder community.

General Operating Fund

The table below presents the major components of revenues and expenses for the General Operating Fund 2017 2018 Budget Plan compared with last year's budget and forecast and 2015 2016 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 2017 2018.

Details on the major assumptions for 2017 2018 included in the table are contained in the following sections.

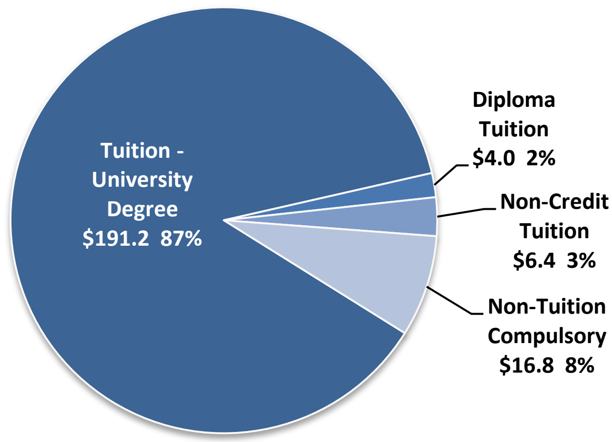
2015/2016 Actuals	2016/2017 Budget	2016/2017 Forecast	Summary	$ thousands 2017/2018 Budget	% Change Budget To Forecast
			REVENUES		
180,869	180,222	183,288	Provincial Operating Grants	182,826	-0.3%
183,131	187,729	196,273	Tuition Fees	201,538	2.7%
15,838	15,296	16,293	Other Student Fees and Contracts	16,865	3.5%
31,877	30,491	31,652	Sales of Goods and Services	30,331	-4.2%
22,344	18,819	22,063	Guelph-Humber	20,159	-8.6%
22,403	19,654	21,572	Other Revenues	19,701	-8.7%
456,462	452,210	471,141	Total Revenues	471,420	0.1%
			EXPENSES		
245,783	260,378	255,403	Salaries	267,210	4.6%
76,851	79,688	77,880	Benefits and Pension	80,609	3.5%
21,854	24,125	24,581	Scholarships and Bursaries	25,150	2.3%
21,114	23,654	19,512	Utilities	23,894	22.5%
73,529	79,310	90,498	Operating	89,687	-0.9%
439,131	467,156	467,875	Total Expenses	486,550	4.0%
			UNIVERSITY TRANSFERS		
(24,600)	(24,600)	(24,600)	From OMAFRA	(24,600)	0.0%
(11,870)	(12,145)	(12,145)	From Ancillaries	(12,330)	1.5%
23,885	21,800	31,471	To Major Capital & Debt Servicing	21,800	-30.7%
(12,585)	(14,945)	(5,274)	Total University Transfers	(15,130)	
29,916	-	8,541	Operating Results After Transfers	-	
195,442	225,358	225,358	Opening Fund Balance	233,899	
225,358	225,358	233,899	Closing Fund Balance	233,899	

Note: the "Fund Balances" in the table above exclude the accumulated accounting charges for post-employment benefits which at the end of April 30, 2016 stood at $345 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[5] 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 2017 2018 the General Operating Budget estimate for tuition and compulsory fees is $218.4 million. As shown in the chart below 87% or $191.2 million of this revenue is university-degree tuition. Altogether fees charged to students for all teaching programs comprise about 28% of total University revenue.

Student Tuition and Fee
2017 2018 Revenue by Type $218.4 million



The two major components in determining total student income are both the number of students (enrolment) and the rates charged. For most University degree-credit programs, increases in tuition are controlled under provincial policy frameworks. The most current framework was set in 2013 and was scheduled to end in 2016 however has been extended two more years by the province (to the end of fiscal year 2018 2019). Under this framework, annual tuition increases averaged across all provincially regulated[6] 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 are 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 2017 2018.

University Degree 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 does not receive provincial support under provincial policy.

[5] "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.
[6] The province through MAESD (the Ministry of Advanced Education and Skills Development), 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.

- Full-cost recovery programs; these are undergraduate and graduate programs that charge sufficient tuition to recover the full costs of the program. The University of Guelph has relatively few full-cost recovery programs, the major examples at Guelph are the executive MBA programs in the College of Business and Economics which combined are 1.5% of total tuition revenue.

Under the current provincial tuition framework (effective until 2018 2019), increases are limited[7] on provincially regulated programs to a maximum average of 3% across all programs, with maximum increases of 5% for graduate or professional programs. For 2017 2018, the University will increase tuition fees on regulated programs in accordance with the tuition framework to the overall maximum permitted. Within programs, fees will be differentiated with non-professional stream graduate programs receiving minimal increases. This is part of an overall strategy to increase graduate student numbers by becoming more competitive in terms of both fees and funding for graduate students. For international undergraduate students or international students entering professionally-oriented degree programs, a tuition fee increase of 3% will be applied to all entering students. Current in-course international students will have no increase in accordance with the University's past practice of a cohort fee for all international students however, students entering in 2017 2018 will be subject to annual fee increases.

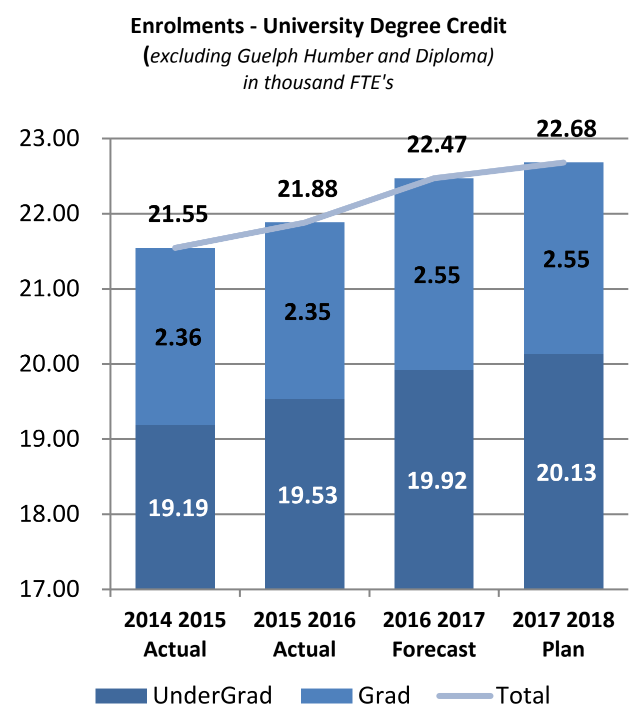
Provincially Regulated	Fee Increase
Undergraduate Regular	3.0%
Undergraduate-Professional[1]	5.0%
Graduate – MA, MSc, MASc	1.0%
Graduate – Professionally Oriented	3.5%
Graduate - Doctoral	0.0%
International Students[2]	
Undergraduate- all programs	3.0%
Graduate – MA, MSc, MASc	0.0%
Graduate – Professionally Oriented	3.0%
Graduate - Doctoral	0.0%

1. *Exceptions are certain programs in engineering increased by 3%.*
2. *The "cohort" fee which fixed the fee for the term of the program ,will be removed for2017 2018 entering students.*

Overall, it is expected that fee increases from all university-degree programs will generate $4.9 million in additional income.

Enrolments

In 2016 2017, the University experienced growth of 580 undergraduate and graduate FTE's (a 2.5% increase) over the previous year's actual enrolment. The addition of these students has set total enrolment levels at another historical high for the University of Guelph. (Refer to chart).

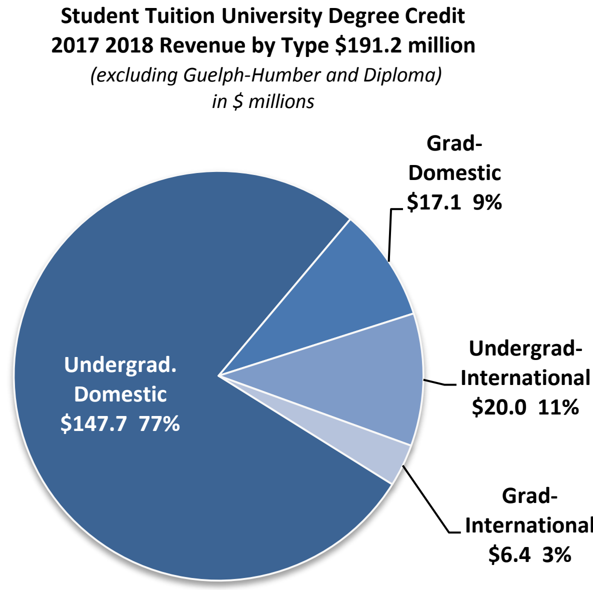


These new higher enrolment numbers have generated additional income in 2016 2017, contributing significantly to the surplus forecast for the year. This additional revenue is comprised of grants of $2.7 million and tuition revenue of $6.6 million.

A key assumption for 2017 2018 will be to hold first year undergraduate intake targets at about 4,600,

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

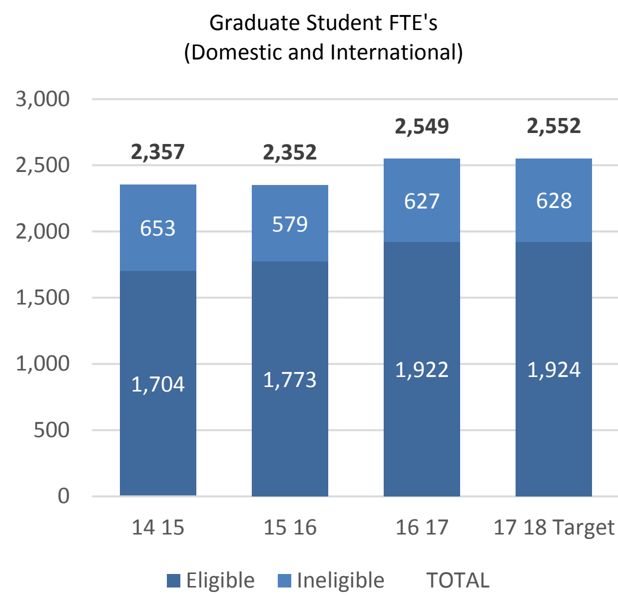
similar to last year's initial target[8]. With this intake combined with the impact of international enrolments and students transferring in from other institutions, it is estimated that there will be a further 190 students registered at the University this time next year.



With the enrolment target for 2017 2018 now set at the higher level (22,680 FTE's), the net impact on 2017 2018 planning is positive. Overall, the budget to budget change will be an increase in revenue from 880 students[9]. Added to the $9.3 million in additional revenue from 2016 2017 experience, will be an additional $2.3 million estimated from the small increase of 190 FTE's noted earlier. The combined impact of $11.6 million will be the major incremental revenue source for the new fiscal year.

Graduate Students:

The University for a number of years has made recruitment of greater numbers of graduate students a priority. This was done both in response to additional provincial funding that targeted increased graduate students and to enhance the University research capacity and development of highly qualified personnel across all disciplines. As with undergraduate students, graduate funding falls under MAESD eligibility policies. Students eligible for provincial funding are domestic graduate students (international students do not attract any provincial funding support), who have not been in their programs beyond set time-periods of eligibility. While the University will continue to make efforts to increase the proportion of graduate students, the new funding formula and enrolment management processes with the province mean that we will have to receive approval for additional funding for further growth. It is expected that institutional-specific targets will be one of the metrics set and assessed under the new SMA (currently under negotiation).



The 2017 2018 initial budget target for graduate enrolment will be set at the 2016 2017 actual level (Refer to adjacent chart).

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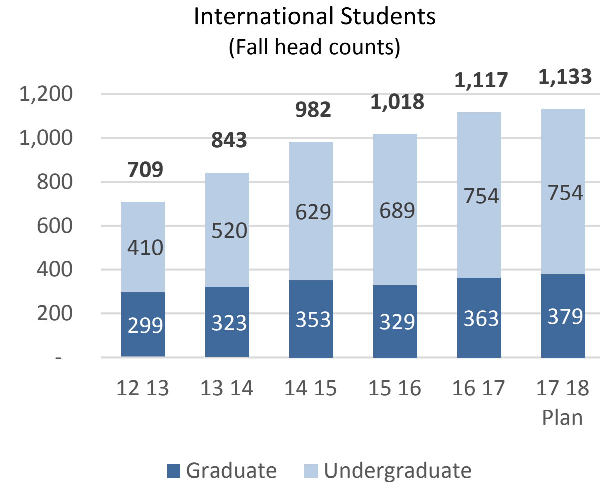
[8] Setting intake targets for first year students and achieving them is a major challenge given variability in acceptance and registration rates among students who have choices. Last year's target was 4,625 however closer to 5,000 were actually registered.

[9] The 2016 2017 Budget target was set at 21,800 FTE's; the 2017 2018 target is set at 22,680 FTE's.

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 resources were added to the Registrar's Office and Student Services for international undergraduate recruitment and in course support services. Efforts have resulted in almost doubling international student numbers over the past five years (an increase of 400 students). While a significant increase in terms of overall percentage, international students, graduate and undergraduate, comprise about 5% of the total University student population.

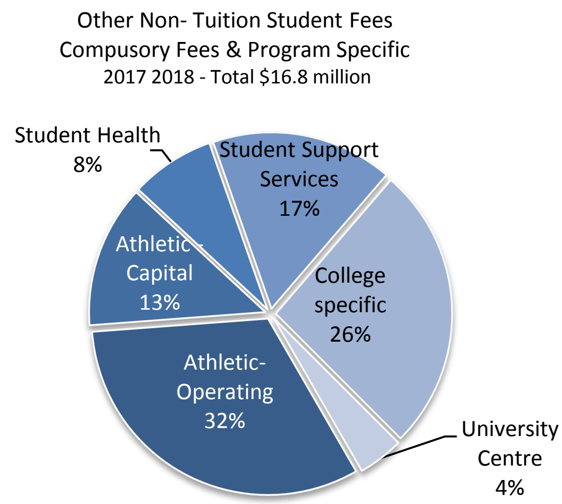


Diploma Programs

For many years the University has delivered a range of agricultural diploma programs under contractual arrangements with OMAFRA and more recently MAESD. 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 $11.2 million, are supported with a designated annual provincial grant of $4.5 million, diploma tuition of $2.6 million and other student fees (food, housing, and non-credit programs) of $4.1 million. Diploma tuition increases are determined using the current MAESD tuition framework and other fees are market-based. Overall enrolment in the diploma program is approximately 600 FTE's with no major change planned for 2017 2018.

Other Student Fees

In addition to tuition, students provide support to the General Operating Budget[10] 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.



Excluded from protocols are a number of college-based and other fees charges for program-specific services e.g., CO-OP placement and distance education fees to cover direct costs incremental to those programs.

The total estimated revenue from these fees is $16.8 million (Refer to Chart)

[10] 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.

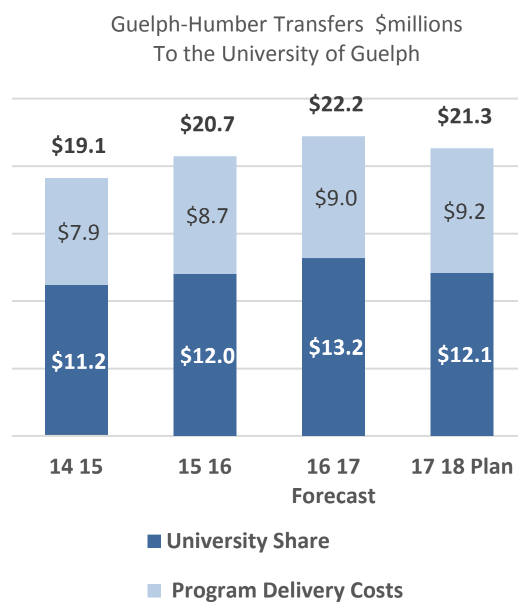
All revenues from student fees in this category are credited to the units providing the service. For example, the Athletics department receives $6.8 million in fees charged to all students for both capital and operating costs to provide recreational programs and facilities[11].

For 2017 2018 there are no new fees to be charged and fee increases have all followed required approval processes that all require student participation. By default fees increase by CPI (1.8% for the period) however increases can be approved greater than CPI either through a referendum or increases up to 3% above CPI may be approved through the various student fee advisory committees which oversee spending of these fees. For 2017 2018 through the advisory committees, students support:

- a 4.5% total increase for the non-capital Athletic Fee to be used for operating costs in the new Mitchell athletic centre;
- a 4.0% total increase in the Student Health Services Fee to student mental health;
- a 4.6% total increase in the Student Services Fee to assist in the hiring of 1.8 FTE additional counsellors (funding to be matched by the University).

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 (Humber College) 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 4,700 students enrolled in 8 major undergraduate program areas. 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.

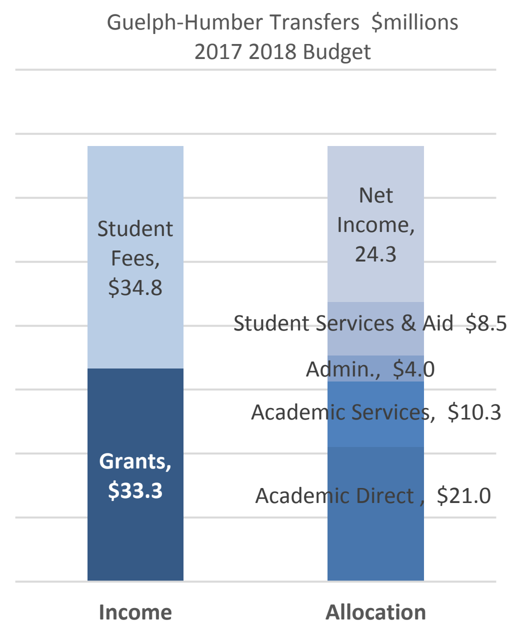


The Guelph-Humber joint venture generates about $20 million (Refer to Chart) for the University in revenue cash transfers. Funds are earned in two ways:

- First, University of Guelph colleges and divisions receive about $9.0 million annually for both course delivery and academic support services provided to Guelph-Humber. This level of income, used mainly to offset direct costs, 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. This income is now an important component of the University's overall revenue assumptions with the majority of the funds now supporting general University costs.

[11] 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.

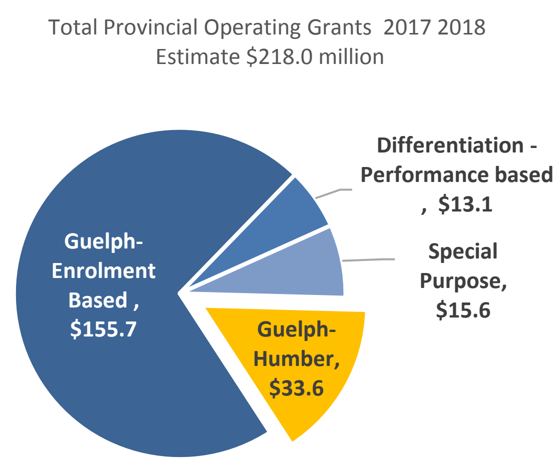
For 2017 2018, the University of Guelph Humber will target to hold enrolment levels at their 2016 2017 levels of 4,700 FTE's). This target is consistent with the University's overall position of holding and maintaining a stable overall enrolment level. (For provincial funding purposes, including the SMA negotiated enrolment corridor the University of Guelph-Humber enrolments are included under the University of Guelph's overall target.)



Overall, the 2017 2018 Guelph-Humber budget will continue to generate significant net income of $24.3 million (Refer to Chart) that will be split equally between Humber College and the University of Guelph. Much of this position is due to low program delivery costs (based on sessional or part-time instructors used to deliver many courses). With the need to strengthen the sustainability and academic profile of the programs especially in meeting accreditation requirements, it is planned to hire tenured track faculty dedicated to Guelph-Humber programs beginning in 2017 2018. Financially this will result in a decline in overall net income due to the increased cost of the investment in full-time faculty.

Provincial Operating Grants

The University of Guelph receives provincial funding from several ministries, the two principle ones being, MAESD (Ministry of Advanced Education and Skills Development) and OMAFRA (Ontario Ministry of Agriculture Food and Rural Affairs). OMAFRA funding, as with other research-based or contractual based funding is restricted and cannot be used for general University operating purposes. While MAESD will flow certain grants for capital renewal (currently around $2 million annually) and occasionally for other major capital projects[12], MAESD operating grants are by far the largest and a major source of funding for University core operations.



MAESD operating grant funding currently is received in 21 specific funding envelopes, reflecting an increasing trend by the province to allocate funding based either on performance metrics or targeted for specific purposes. Many of these envelopes are very small and by far the largest portion of operating grants are earned based on the enrolment numbers of students taught in provincially-regulated programs.

The adjacent chart shows the major distribution of MAESD operating grants forecast for 2017 2018. In total, these are at the same funding level as 2016 2017. Certain reallocations have been made by the province to increase the performance-based funding consistent with the policy shift to performance-based funding.

[12] A recent example is $23 million received last year for major improvements in the OVC surgical small animal hospital.

Included in our MAESD operating grants are funds earned from University of Guelph Humber student enrolments. This reflects the fact that Guelph-Humber is not a legal entity[13] and is not recognized by the province as a standalone institution. Students enrolled in Guelph-Humber programs are University of Guelph students for MAESD reporting and funding purposes. Currently the University of Guelph transfers $32.6 million to Humber College based on actual Guelph-Humber enrolments funded at university-level MAESD grants values. Humber College provides financial management and much of the academic, student and administrative support for the Guelph-Humber operations.

New Provincial Funding Mechanism: Up until the end of 2016 2017 enrolment-based grant funding was 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. Beginning in 2017 2018 the province will introduce a new funding framework with greater emphasis on performance-based funding and a mechanism for greater provincial control over enrolment levels at all institutions. Key features of the new mechanism include:

- Introduction of an enrolment "corridor" established for each university within which grants will be fixed. The corridor is 3% plus/minus wide and is measured using a provincially-eligible enrolments weighted by program values[14]. Universities are required to stay within their corridor unless approvals, especially for enrolment growth, are received from the province. 2016 2017 enrolment levels, including Guelph-Humber, will be used to establish the University's initial corridor.
- Specialize envelopes for "differentiation" and performance-based funding will receive greater priority. Over time, these envelopes will be increased based on the assumption that funds will be transferred from the corridor enrolment-based funding envelope as overall system enrolments decline[15]. By 2020, the objective is to have funding in these envelopes linked to outcomes as established and measured by predetermined metrics.
- Included is a pool of "Special Purpose Funds" that include institutional-specific grants and other specialize targeted funding. The University of Guelph currently receives two unique allocations for our diploma and veterinary programs of $4.5 million and $6.5 million respectively.
- Institutional enrolment corridors and performance metrics that will underpin all operating grants will be negotiated with the province and embedded in a multi-year "Strategic Mandate Agreement" (SMA). The SMA cycle, three years in duration, begins in 2017 2018. At this time, SMA negotiations are underway and should be in place early in fiscal 2017 2018.
- Implementation of the new funding formula will be staged over the next 3 years. For 2017 2018, institutions will not see major re-distributions in grant funding relative to 2016 2017. The major constraint will be that enrolment growth will not be funded, unless through negotiation with MAESD.

While initial indications are that there will be no additional funding for enrolment growth, SMA negotiations with MAESD are not yet finalized. Based on our goals to target enrolment in certain undergraduate and graduate programs, the University will be requesting consideration for adjusted enrolment-based grant funding. If achieved the intention would be to invest much of any additional funding in the programs and any additional academic support costs.

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13 For the University's General Operating Budget and financial statement purposes, Guelph-Humber is treated as a "joint venture" and grants received for Guelph-Humber enrolments are not recognized as University revenues.

14 Academic program costs can vary significantly e.g., medical programs versus general arts and science. This is recognized by weighting programs differently for funding purposes. For example a veterinary program will be weighted at 8.1 units and a first years Arts program at 1.0 units. Units in this case are called Weighted Grant Units (WGU) the value of which is set by MAESD.

15 This assumption of declining enrolments is based on current demographic projections that show a significant decrease in the traditional university recruitment age group (17-20 years).

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 revenues received. Transfers[16] among these accounting funds may consist of revenue or expenses and are for a range of purposes such as recovering costs for providing services, providing support 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 below provides details of the major institutional-level transfers that are planned for 2017 2018. Most significant are transfers from OMAFRA to the General Operating fund for faculty support, veterinary clinical education and indirect costs. There are no major changes in transfers expected for 2017 2018.

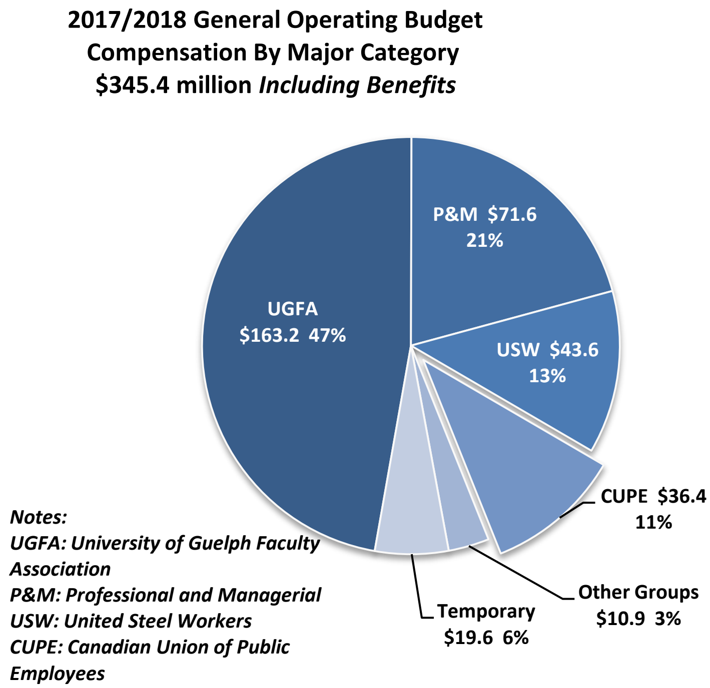
Summary of Major Interfund Transfers 2017 2018 **$ millions**

(FROM) TO	General Operating	OMAFRA	Ancillary	Major Capital	Guelph-Humber	Research	Heritage Fund
RESEARCH;							
OMAFRA - Veterinary Clinical Education	5.2	(5.2)					
OMAFRA - Faculty Positions	8.9	(8.9)					
OMAFRA- Indirect Costs	10.5	(10.5)					
FEDERAL - Research Support Fund	5.7					(5.7)	
Other Research Indirect Support	5.2					(5.2)	
Total RESEARCH	**35.5**	**(24.6)**	-	-	-	**(10.9)**	-
ANCILLARY							
Indirect Costs, Debt Servicing, Contributions	12.3		(20.7)	4.0			4.4
CAPITAL							
Capital Projects				3.5			(3.5)
Debt Servicing	(21.8)			21.8			
Total CAPITAL	**(21.8)**	-	-	**25.3**	-	-	**(3.5)**
GUELPH HUMBER							
College Program Delivery	8.7				(8.7)		
50% Share of Net Income & Mgmt Fee	11.5				(11.5)		
Total GUELPH HUMBER	**20.2**	-	-	-	**(20.2)**	-	-
TOTAL TRANSFERS	**46.2**	**(24.6)**	**(20.7)**	**29.3**	**(20.2)**	**(10.9)**	**0.9**

16 By definition, all transfers across all funds must net to zero at the University level.

Compensation

Total compensation (salaries and benefits) comprises approximately 74% of total costs and therefore, is a critical factor in financial planning. Most cost increases are negotiated through 15 separate agreements covering both unionized and non-unionized employee groups.

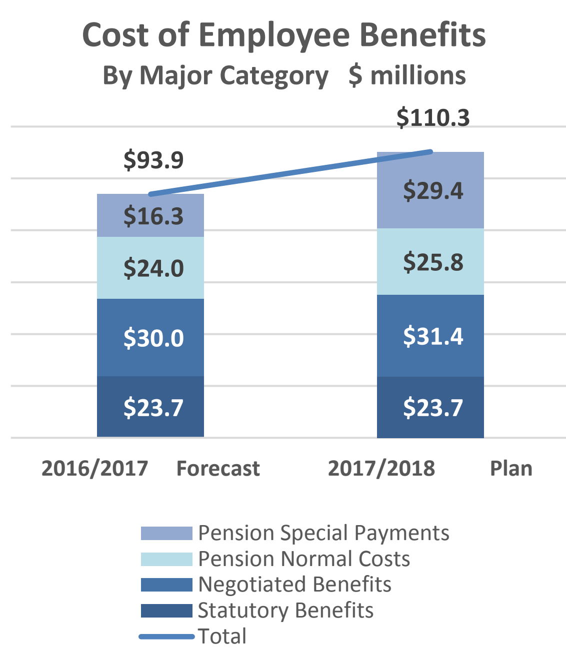


For the 2017 2018 fiscal year, employee agreements will expire for major employee groups including UGFA, P&M and USW, as well as a number of smaller groups. Combined compensation up for negotiation accounts for about 85% of the total compensation budget (Refer to chart).

A provision for cost increases to all groups has been established at $9.0 million. This estimate includes the total provision for all component of salary cost of all groups and categories as well as adjustments to cover projected changes to annual employer benefits costs. No specific allocation has been provided to any group and allocations will be finalized when agreements are reached and ratified during the negotiation cycle.

Employee Benefits

With an expected total cost of $110 million (refer to chart), employee benefits are 13% of total costs and 28% of total salary costs. The administration of employee benefits is very complex with each major employee group potentially having a unique set of benefits arising from labor negotiations. Many negotiated benefit coverages are based on actual claims with the University liable for the costs of negative experience. The major benefit cost increase in 2017 2018 is for pension contributions for special payments as a result of pension plan deficits - (from $16.3 million to $29.4 million – Refer to Chart).



University benefit programs provided to employees have three major cost components:

1. Statutory benefits such as CPP (Canada Pension Plan) and EI (Employment Insurance), cost rates are expected to be stable overall for 2017 2018 with CPP increases offset somewhat by decreasing in EI contribution rates.

2. Negotiated benefits, are a variety of programs with the three largest being extended health (drug and other medical benefits) disability coverage and a dental plan. Negotiated benefits are expected to see an overall 4.7% increase mainly due to a increases in extended health costs as well as experience losses in both group life and long-term disability coverages.
3. Post-employment benefits for retirees composed of both;
    a. non-pension post-employment benefit costs (mainly dental and extended health including a supplemental drug plan) and pension plan benefits.

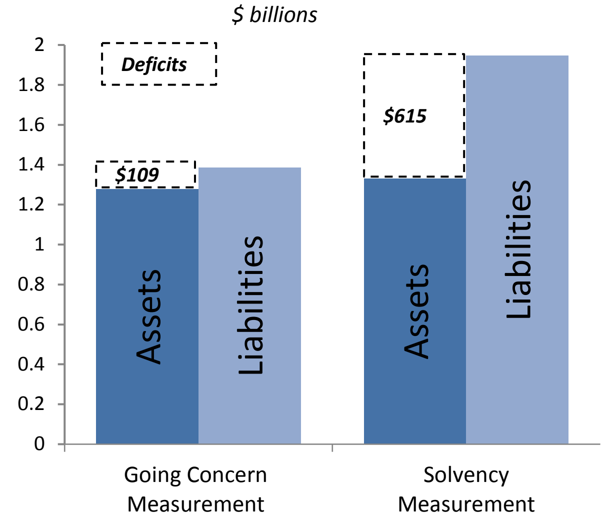
Post employment non-pension benefit programs are budgeted on a "pay-as-you go" basis, meaning only the actual annual cash costs are funded annually. In 2017 2018, that annual cost is expected to be $5.6 million. This is in major contrast to the annual accounting expense of $24 million which is based on the accrued liability for these programs estimated at $238 million. While the University is not required to fully fund the liability i.e., set aside an equivalent value of assets, the actual cash costs are expected to increase annually at the rate of 8%-10%, becoming significant costs over the next 15-20 years.

Pension Benefits: 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). With assets and liabilities in the $1.3 billion-$1.5 billion range these plans are a significant obligation and risk to the University's financial condition.

Under Ontario law, these types of plans are required to fund their estimated future liabilities using actuarial estimates (in contrast to a "pay-as-you-go" basis, permitted for non-pension post-employment benefits). Under the provincial regulations, liabilities must be calculated regularly[17] with any shortfall between assets and liabilities being funded by the plan sponsor – in this case the University. Plan valuations determine liabilities under two distinct sets of assumptions:

1. **Going Concern:** This method takes a long 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. Assumptions used are generally stable between valuation periods and are set using long term expectations. Going concern funded positions (surpluses or deficits) usually are smaller and less volatile than those resulting from solvency calculations (see below). For the university's plans the most recent valuation shows an improvement in the going concern position with major plans funded between 90% and 95% mainly due to asset gains over the past three years averaging 8.2%. The total deficit was a combined $109 million for all three plans.

Pension Plans Combined
Aug. 1 2016 Valuation Results
$ billions

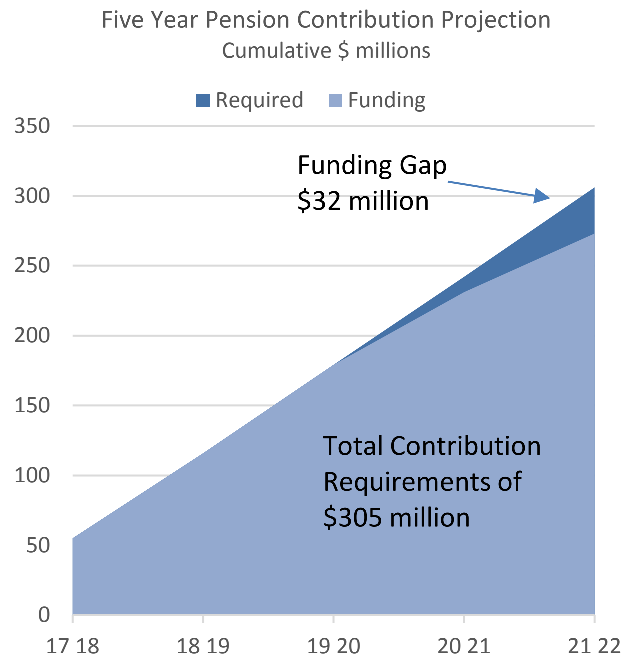


2. **Solvency:** The solvency valuation is based on the assumption that the pension plans closed ("wind up") on the valuation date and all past and future obligations settled using financial market conditions at the time of the measurement. Key financial drivers used in this wind-up or "solvency" calculation 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

17 "Valuations" of pension plan surpluses/deficits or are performed on valuation dates of each pension plan. Sponsors have some degree of freedom in setting valuation dates however, valuations must be performed at least every three years. For the University, the most recent valuation was completed effective August 1, 2016.

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. The solvency deficit on August 1, 2016 (our last valuation date) was $615 million (a 68% funded ratio).

Temporary Solvency Relief: There is a prevalence of these type of pension plans among universities in Ontario. With the strict application of the normal solvency funding rules being potentially devastating to many universities' capacity to offer programs, in 2010 the province began a series of temporary solvency relief legislation changes. The most recent iteration of the relief legislation requires the University to fund 25% of the solvency deficit measured at the most recent valuation date (in our case August 1, 2016). Without the provincial funding relief, payments for this deficit ($615 million) alone would have been $93 million annually. With relief, annual payments are $22 million. A form of further relief was provided in February of 2017, when the University of Guelph was permitted to use a letter of credit for covering solvency payments.



Funding Projections: With the August 1, 2016, valuation now complete (to be filed with the province by April 30, 2017), reasonably accurate projections can be made for payments until at least the next required valuation date (August 1, 2019). Having anticipated major future pension contribution requirements, the University accumulated $70 million in reserves specifically designated for pension contributions. These funds are in addition to about $40 million that is built current annual budget assumptions.

The adjacent graph shows the accumulated cash required for expected contribution requirements (under the current temporary solvency relief), against funding that is currently allocated for pension contributions. It shows that there is sufficient funding to cover requirements until fiscal 2020 2021. This assumes no changes in either the current funded status or legislative frameworks governing the Plans in Ontario. A number of initiatives are underway in the province that are focused on addressing solvency funding challenges. These include efforts among certain universities in the province (of which Guelph is one) to create a JSPP[18] (jointly sponsored pension plan) to include the University of Guelph Plans. In addition, a broader provincial initiative is underway to restructure the solvency requirements for all similar pension plans in the province. This effort, referred to as the Marshall review is targeted to release recommendations in 2017. Both of these efforts could provide permanent relief for solvency funding requirements. In any event going concern funding requirements will remain in place and pension plans will continue to be major component of both benefits and total compensation costs.

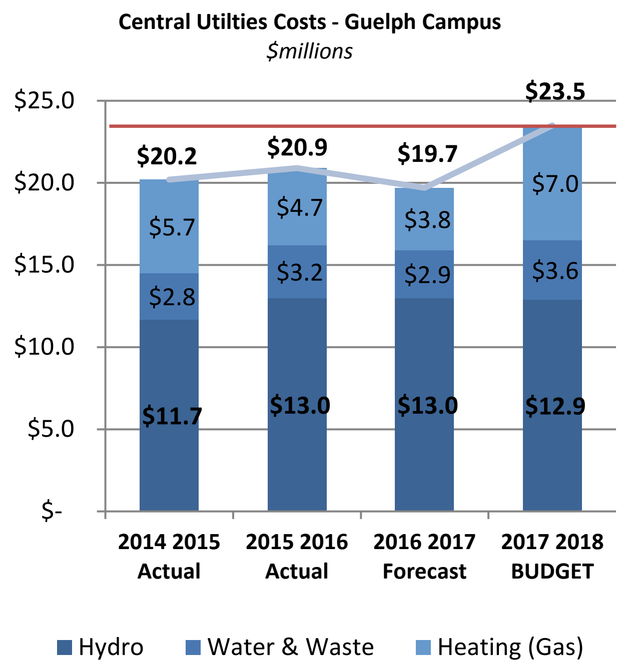
18 JSPP's in the province of Ontario generally are not required to fund solvency deficiencies.

Infrastructure Costs

At the University, there are certain central services that provide the operational platform for and are common to, almost all University programs and services. These exist not only as the obvious physical space occupied by our students, faculty and staff but also information (computing and communications) technology which has now become a critical "utility" for most operating activities. Costs for these services vary not only by external price inflation or legal requirements but also by internal demand. For planning purposes, they are classified in three categories.

Central Utilities

Central Utilities are external costs for major categories of heating (natural gas) and hydro (including cooling) as well as other central services such as waste management and water costs. Central Utilities refers to the costs of the main Guelph campus provided through the Central Utilities Plant (CUP) providing heat and air conditioning for 613,000 m^2 (square meters) of space. Certain operations including research stations and other facilities on University land, such as those in the Research Park provide for their own utilities costs. For on-going budgeting purposes, funds are provided based on long-term estimate of natural gas pricing (main campus heating). Further impacting these costs is the addition of new space.



The base or on-going allocation for the central utilities budget for several years has been $23.5 million (refer to chart). With the current historically low cost of natural gas combined with recent milder than "normal" winters, savings in this account of between $2.0 and $3.0 million have been realized each year[19]. Recent hydro cost increases are mitigated to some extent with the implementation of major new energy savings projects targeted particularly at hydro costs.

Space Costs

The operating costs of buildings include utilities costs and the on-going maintenance and custodial services including inflation on supplies for both existing and additional space. Since 2016, the University has added almost 25,000 m^2 square meters in space to its centrally managed inventory. This includes new buildings completed or under construction or space previously assigned for non-academic purposes. Major additions include 15,500 m^2 for athletics facilities (Mitchell addition and the Football pavilion) and almost 10,000 m^2 in academic space (for research facilities, Food Science, Business, the Ontario Veterinary College).Total costs of this new space including utilities are estimated at $1.9 million annually. As they are completed and occupied costs are added to the General Operating Budget. The impact for 2017 2018 is $0.600 million.

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19 Currently these savings are used to pay for a $26 million energy retrofit project begun in 2015 and nearing completion.

In addition, $0.320 million (1.5%) will be provided to help offset the costing increases on basic maintenance and custodial supplies.

Information Technology (IT)

Central computing and communication capacities are a critical and growing "utility" necessary 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 $8.8 million annually.

With the growth threat of external "attacks" on technologies and information, the highest priority for investments in information technology has been security of both the network and systems data. In addition demands for new systems continues with the introduction of new teaching and learning software and the impact of new legislation such as the AODA (Accessibility for Ontarians with Disabilities Act). These new technologies also require additional underlying support for database management and hardware security. WEB-based support has also grown in demand exponentially in recent years. Combined, these factors have led to typical annual funding increases of 10%. Given this growing fiscal demand and importance of technology to all University programs, in 2017 a review of information technology across the University will be conducted with the assistance of an external consultant. An important outcome of this review will be a decision making process for central IT that considers the cost implications of new and enhanced technologies. In this budget, a general provision has been made of $0.700 million in on-going and $1.0 million in one-time (mainly for capital equipment). This funding will be released, as required, for specific essential services such as increases (inflation) on the external costs of current systems and to continue with enhancing IT security.

For 2017 2018, the Board of Governors approved a $3.5 million project to upgrade WIFI access on the main campus. Funding for this multi-year capital project will be provided from the Heritage Fund. In addition, $0.180 million will be provided from the General Operating budget to cover the on-going costs of maintenance and life-cycle refresh costs of the improved service.

Library Information Services

The purchasing power of the University's central library's information acquisitions budget (currently at $7.6 million) continues to erode through inflation currently at a rate of between 4% and 6% annually. $0.300 million (4%) will be provided in this year's budget to help sustain current purchasing power levels.

The University of Guelph has for many years, been part of a three-university consortium (with Wilfrid Laurier and the University of Waterloo) sharing not only library collections but also a common library information system. The current system is 17 years old and an initiative is underway to replace it with a "cloud-based" product with enhanced capabilities and capacity. While pricing is not yet finalized this budget will have a provision of $0.150 million in on-going support costs and $0.500 million in one-time costs for the new system.

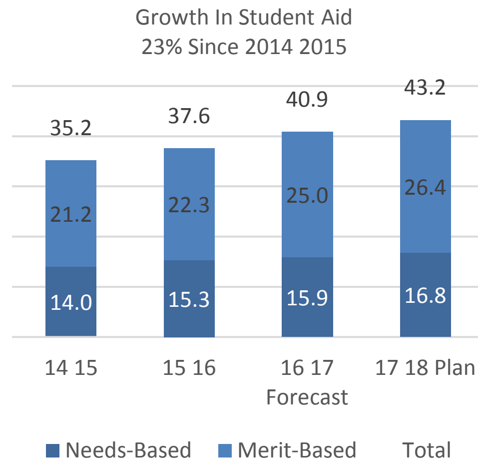
Support Services

Along with central infrastructure, funding is provided for certain central services that provide for the health and safety of faculty, staff and students, high priority activities in support of University-wide objectives or are non-discretionary to the extent they are required to meet external reporting or other legislative or legal requirements. A total of $1.05 million in base funds and $1.3 million in one-time funding will be allocated to support the following areas:

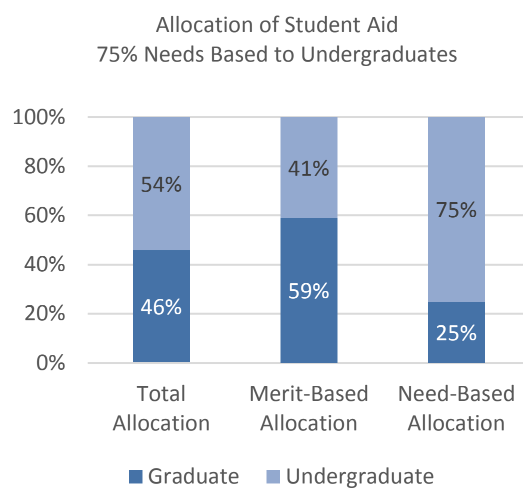
- $0.200 million for system and on-going maintenance costs for upgrades to the campus building security systems. In addition, $1.0 million will be provided to begin the replacement of main campus cameras.
- $0.100 million in on-going costs for a new Emergency Notification System (ENS) for the main campus. This is a high priority project under the oversight of Campus Community Police in conjunction with central Computing and Communication Services. An additional $0.300 million will be provided for the initial purchase of the related software.
- $0.200 million has been added to the base budget of the Office of Registrarial Services to maintain international student recruitment efforts begun several years ago. This funding will regularize a number of positions where the focus will be on the recruitment of international undergraduate students, which has become a priority to diversify recruitment and enhance the University's international profile.
- $0.100 million will be provided to assist in funding of two new positions and other support services in Counselling Services to improve mental health supports for students. The remaining funding necessary for these two positions will be raised from an increase in the Student Services fee that was approved by the Student Compulsory Fee Advisory Committee.
- $0.250 million will be provided for the Office of Institutional Analysis and Research for the recruitment of new professional, support staff required to meet the additional reporting, and analytical demands from the provincial government, much of which is required as part of the SMA (Strategic Mandate Agreement) process. In addition, there is a growing internal need for additional data and analysis for decision-making purposes, especially related to academic and enrolment related planning.
- $0.200 million will be added to the University's $1.8 million central insurance budget. This budget funds insurance premiums for all major property (building, equipment and automobile) and liability coverage for the University. Recent poor experience especially because of several major water damage claims has contributed to increased premium costs for next year.

Student Aid

Supporting student accessibility and attracting high quality students has been a major budget priority for many years. At the University of Guelph a fundamental principle is that, working in partnership with government and students, all qualified individuals should be able to attend university regardless of their financial status. Reflecting this priority the University has increased direct student financial assistance[20] by 23% since 2014 2015 (Refer to Chart). Student assistance is generally categorized as either "needs-based" or "merit-based" with some overlap as some individual scholarships contain elements of both needs and merit-based criteria. In addition to University support, the provincial government provides financial support directly to student through its OSAP (Ontario Student Assistance Program). In 2015 2016, 39% of University of Guelph students received $90.8 million in OSAP-based support. The definition of "need" typically begins with the OSAP criteria which are established by the province. In addition, the University expands this definition to ensure that where there are gaps in OSAP funding, University funds can be used. 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 programs but removing the current income tax-credit and replacing these programs with a single Ontario Student Grant (OSG). A key feature of the revisions is the concept of "Net Tuition" billing for students – net being the costs of tuition after OSAP and University support. Universities, including Guelph, are engaged with MAESD on the implementation planning for the new process, which will have considerable impact on current practices and systems.



In terms of University support, there are two major funding sources; the General Operating Budget and Endowments and Trusts, which include funds from external donors or funding agencies such as the federal research granting councils. Donors and other external sources tend to restrict their support for merit-based programs. Graduate students tend to receive more of their support in the form of merit-based awards, which comprise 59% of what they receive. Undergraduate tend to receive more needs-based support, which comprises 75% of what they receive. (Refer to Chart)



In 2016 2017 the University made a major investment with a funding increase of $4 million for direct student assistance. This will be augmented in 2017 2018 with another $1.1 million in funds available for direct student assistance. Contained in the new allocation for 2017 2018 are:

20 Includes scholarships, bursaries, needs-based work-study, and summer employment programs. 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 is excluded.

- $0.700 million in new needs-based funding mainly for undergraduate students. This will be distributed for bursaries, needs-based work-study, and Undergraduate Research Assistantship (URA) programs.
- $0.150 million for continuing five new graduate awards for aboriginal scholars — worth $30,000 a year for PhD students and $15,000 a year for master's students
- $0.100 million for needs-based graduate support
- $0.150 million for the increased costs of the "Graduate Tuition Scholarship" award program.

The tables below show the distribution of planned funding by program level and funding sources. Increases in undergraduate support are focused in needs-based programs while graduate awards, in recent years have been mainly for merit-based programs designed to attract the high-quality students in an increasingly competitive environment.

TOTAL SCHOLARSHIPS AND BURSARIES By Program Level

in $millions	15/16 Actual	16/17 Forecast	17/18 Plan	Plan % CHG
Recipients				
Undergraduate				
Needs Based (including work study and URA)	11.47	11.82	12.62	
Merit Based	9.28	10.50	10.74	
Undergraduate	20.75	22.32	23.36	4.7%
Graduate				
Needs Based (including work study and URA)	3.84	4.10	4.20	
Merit Based	13.03	14.50	15.70	
Total Graduate	16.87	18.60	19.90	7.0%
TOTAL SCHOLARSHIPS AND BURSARIES	37.62	40.92	43.26	5.7%

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TOTAL SCHOLARSHIPS AND BURSARIES By Funding Source

in $millions	15/16 Actual	16/17 Forecast	17/18 Plan	Plan % CHG
Operating Fund				
Undergraduate	17.54	18.90	19.84	
Graduate	7.71	9.21	10.41	
Total Operating Fund	25.25	28.11	30.25	7.6%
Endowment and Trust				
Undergraduate	3.21	3.41	3.51	
Graduate	9.16	9.40	9.50	
Total Endowment and Trust	12.37	12.81	13.01	1.6%
TOTAL SCHOLARSHIPS AND BURSARIES	37.62	40.92	43.26	5.7%
Total Share from Operating Fund	67%	69%	70%	
Total Share from Endowments and Trust	33%	31%	30%	

Academic Activity Based Funds

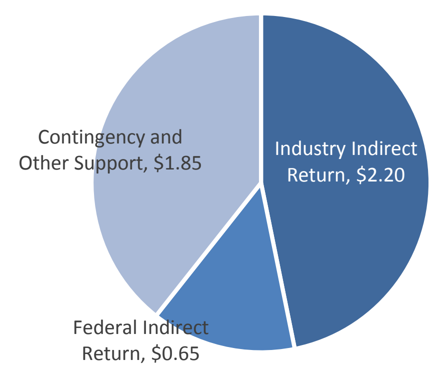
The University has specialized pools of funding assigned for certain "performance-based" activities in academic programs. Much of this funding is allocated to colleges based on achieving certain enrolment targets. The following currently are the major programs with related assumptions for 2017 2018:

Graduate Enrolment: In 2007, the University began to allocate funds to colleges based upon growth in graduate student enrolments that were eligible[21] for provincial funding. The purpose of this allocation process was to support a planned growth in the number of graduate students consistent with multi-year enrolment targets negotiated with the province. While the period since 2007 has seen some growth, in recent years, given the competition for graduate students in the province, overall enrolments have been relatively flat. In 2016 2017 however, there was a substantial increase of 149 FTE's[22] in masters-level students. Under the University's allocation process, additional funding for this growth is provided to colleges at the rate of $6,000 per eligible FTE. In 2017 2018, an additional $1.0 million will be provided in the on-going budget assumptions to fund colleges at this new level.

Undergraduate Enrolment: In addition to providing funds for all eligible graduate enrolments, there are in place two smaller targeted activity-based programs for undergraduate growth. Started in 2008, in the School of Engineering, a multi-year growth program is winding down as enrolment targets have been achieved. Similarly, in the Ontario Agricultural College a small program in bio-resource management was supported to achieve a certain enrolment level. Both of these arrangements will be concluded in 2017 2018 with a final allocation of up to $0.400 million in combined additional funding.

Research Indirect Costs: Activity-based funding also includes funds allocated based on research results. Under this general funding "umbrella" there are several programs:

Research Support Funds
$4.8 Million for 2017 2018



- Industry Indirect Returns: for many years, the University has had a program whereby approximately 45% of the indirect costs received on industry and agency research contracts are returned to colleges for investment in research support services.
- Federal Indirect Returns: are funds transferred to colleges each year based on both tri-council and other government and industry research funding awarded
- Other Support: In 2016 2017 $1 million was added to in the form of a Research Infrastructure Operating Fund (RIOF). This pool will be increased by $0.300 million in 2017 2018 reflecting an increase in indirect cost returns on research contracts. In addition, there are several other smaller reserves specific for support of research activities. This funding is allocated through the Office of the Vice-President Research to support research activities such as improving University research facilities and leveraging research funding opportunities.

21 "eligibility" in this case refers to student enrolment that will attract provincial grant funding. Currently provincial funding is not provided for all international students nor domestic (Canadian residence) students who are enrolled passed a prescribed period of study. Of the total population of ineligible graduate FTE's at the University approximately 60% are international students.

22 FTE refers to "full-time equivalent".

Other Academic Investments

In 2016 2017 funding was set aside for five new tenure-track aboriginal faculty members across the disciplines. Based on the number of qualified candidates the decision was made to recruit an additional position. $0.200 million has been allocated to support the costs of this position.

Incremental Funding

In 2016 2017, the University allocated funding for an "incremental" funding process where initiatives from colleges and divisions that could contribute effectively and efficiently to achieving the University's strategic and budgetary goals would be financially supported. The program was successfully completed with fourteen initiatives receiving some level of funding totaling $3.2 million in on-going support and $4.9 million in one-time funding. Funding will support 8 new faculty positions as well as 12.5 new support staff positions once fully implemented.

In 2017 2018 additional funding of $2.1 million will be initially allocated for a similar purpose. However, given the uncertainty in this budget including the new provincial funding framework, the final allocation of these dollars will be subject to clarification of provincial funds and final enrolments. It is not anticipated this will be finalized until the fall.

Financial Reserves

Over recent fiscal years, enrolment growth greater than planned combined with cost containment programs helped generate operating surpluses that were used to increase both University and department reserves. These reserves, not only provide a considerable level of financial liquidity but help mitigate a number of significant financial risks including revenue volatility, unplanned capital renewal and potential pension and non-pension post–employment costs. Major reserves currently classified as;

- **Divisional Reserves**; are funds generated within colleges and operating divisions through local cost-containment or revenue generating actions. Units are permitted to retain control of these funds subject to a Board-approved policy.
- **General Reserves**; funds accumulated mainly from University-level revenues e.g. Positive enrolment gains in any year. These funds buffer against any in-year funding declines and when required, funding for one-time priorities such as capital projects.
- **Post-Employment Benefits**; these funds are targeted to sustain pension contributions that exceed annual budget provisions.

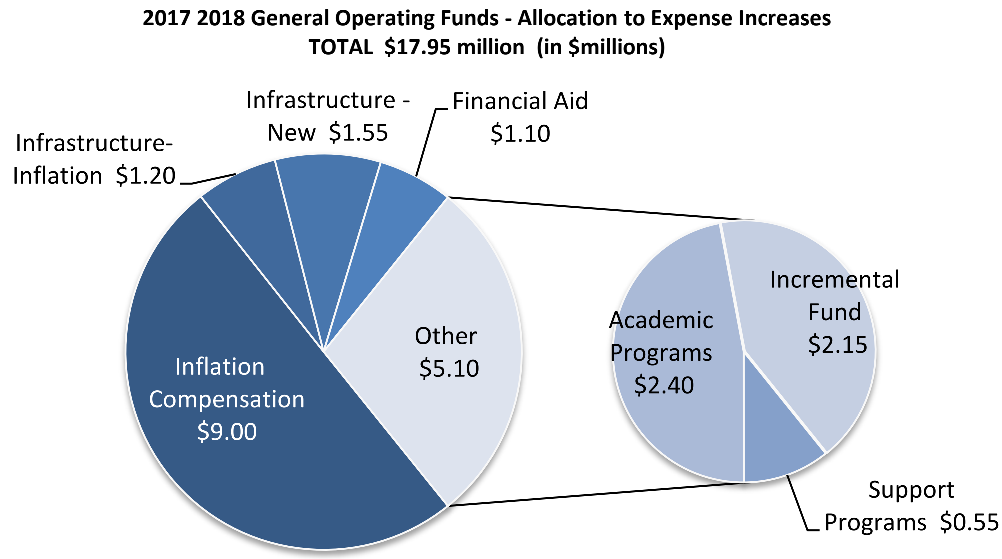
The following table shows some recent history of Operating Budget Reserves as well as a forecast position to the end of fiscal 2016 2017.

FINANCIAL RESERVES

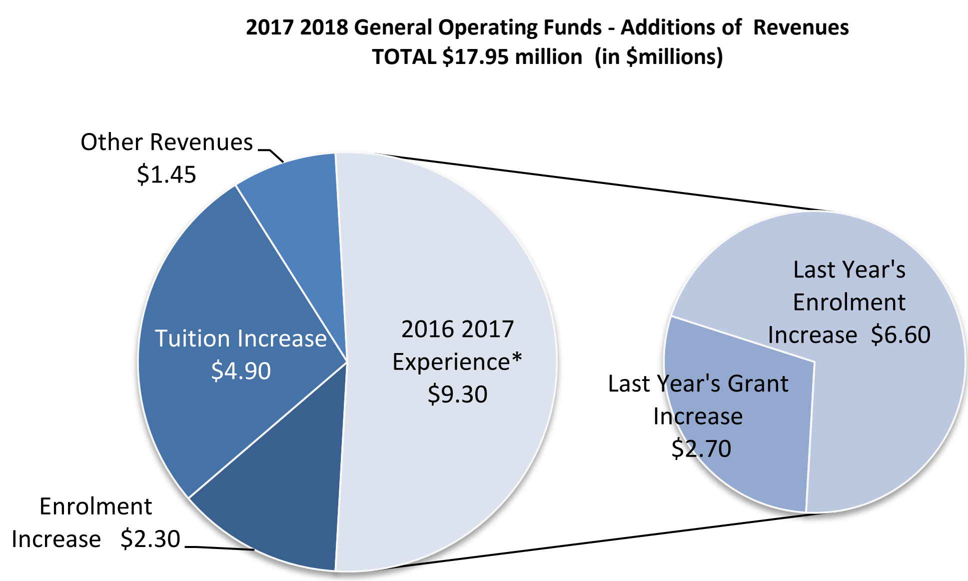
in $millions	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Forecast
Divisional Reserves	58.7	71.0	82.6	87.7
General Reserves	64.6	48.0	68.6	72.1
Post Employment Benefits	80.8	74.0	71.7	71.4
Self Insured Losses / Guelph-Humber	1.9	2.5	2.4	2.5
Total Internally Restricted	206.0	195.5	225.3	233.7
Unrestricted	(382.7)	(300.5)	(345.3)	(295.0)
TOTAL NET ASSESTS OPERATING	(176.7)	(105.0)	(120.0)	(61.3)

Summary of General Operating Fund Revenue and Expense Additions

The chart below summarizes the major incremental expense additions allocated in the 2017 2018 General Operating Budget. They reflect the major budget priorities of meeting general costs increases, investing in student recruitment and accessibility and providing funds for new programs and services.



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 for other budget purposes, released to support new allocations (above).



"2016 2017 Experience" refers to additional uncommitted grants and tuition income from enrolments having exceeded targets last year (2016 2017). These revenues will be regnerated in 2017 2018 and used to assist in balancing the 2017 2018 budget.

OMAFRA

The University of Guelph, since its founding, has had a unique contractual relationship with the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) to deliver research and other services to the Ontario agri-food sector. 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.

While funding within the contract is restricted and cannot be used for general University purposes, contract funding does support over 400 University faculty and staff and provides $10.5 million annually in support of indirect costs related to the contract. 2017 2018 is the final year of a ten-year contract and renewal discussions are underway with Ministry officials regarding renegotiating the agreement for 2018 and beyond. Preliminary indications are that funding level will continue at current levels.

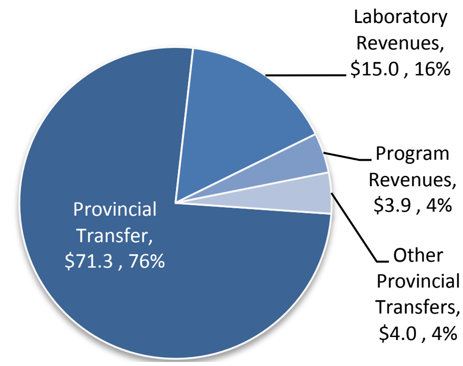
The table below summarizes the major revenue and expenses components of the OMAFRA agreement. Any funds not spent in any year must be retained for future spending under “Fund Balances”. Highlights of 2017 2018 assumptions for the contract are contained in sections on the following page.

			OMAFRA Agreement	**$ thousands**	
2015/2016 Actuals	2016/2017 Budget	2016/2017 Forecast		2017/2018 Budget	% Change Budget To Forecast
			REVENUES		
71,300	66,800	66,800	OMAFRA Agreement	71,300	6.7%
5,537	4,100	4,387	OMAFRA Minor Capital	4,500	2.6%
18,021	16,881	17,995	Sales of Goods and Services	17,407	-3.3%
180	200	150	Investment Income	100	-33.3%
1,590	944	1,028	Other Revenues	944	-8.2%
96,628	88,925	90,360	Total Revenues	94,251	4.3%
			EXPENSES		
33,612	31,924	32,487	Salaries	32,820	1.0%
8,353	8,710	8,321	Benefits and Pension	8,909	7.1%
454	475	480	Scholarships and Bursaries	500	4.2%
3,049	3,010	3,033	Utilities	3,010	-0.8%
21,340	20,206	24,748	Operating	24,412	-1.4%
66,808	64,325	69,069	Total Expenses	69,651	0.8%
			UNIVERSITY TRANSFERS		
5,200	5,200	5,200	To Operating for Veterinary Clinical Education	5,200	0.0%
8,900	8,900	8,900	To Operating for Research Faculty Costs	8,900	0.0%
10,500	10,500	10,500	To Operating for Indirect Costs	10,500	0.0%
24,600	24,600	24,600	Total University Transfers	24,600	
5,220	-	(3,309)	Operating Results After Transfers	-	
33,086	38,306	38,306	Opening Fund Balances	34,997	
38,306	38,306	34,997	Closing Fund Balances	34,997	

OMAFRA Revenues

In 2016 2017, for first time since the renewal of the contract in 2008, the provincial transfer was reduced by $4.5 million or 6%[23]. For 2017 2018, it is expected that that funding levels will be restored to $71.3 million. Additional revenues mainly earned from the delivery of laboratory testing (food and animal health) services will remain relatively stable.

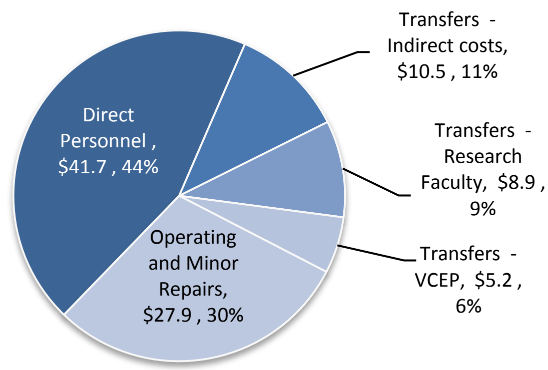
OMAFRA Funding Sources
2017 2018 $94.2 million
$ millions



OMAFRA Expense Allocations

OMAFRA funding supports a wide range of operating expenses including the salaries and benefits for over 400 University staff. Assumptions for compensation increases mirror those of the University. In addition, the contract provides funding in the form of three fixed “transfers “into the General Operating Budget to support University faculty positions, veterinary clinical education and indirect support costs. These transfers of $24.6 million form a critical funding component of the University’s General Operating Budget. Overall expenses are expected to remain relatively stable when compared to last year.

OMAFRA Expense Allocation by Type
2017 2018 $94.2 million
$ millions

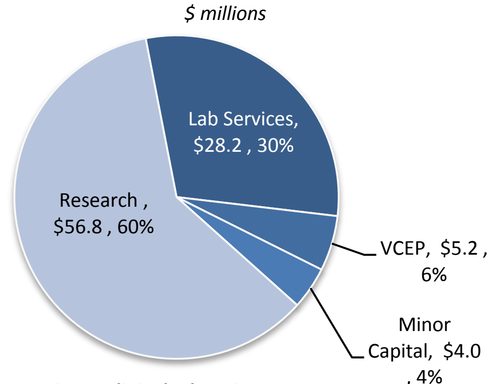


OMAFRA Program Allocations

Funding in the OMAFRA contract is directed to major program groups each with specific established purposes and outcomes. Under the “Research” program are the operating costs of 14 research stations and main campus research-related infrastructure as well as about $9 million annually for specific research projects undertaken by University faculty.

“Lab Services” is 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 animal disease control services for the province. The “VCEP” program funding is allocated to the OVC (Ontario Veterinary College) in support of clinical education for veterinary students.

OMAFRA Allocation by Program
2017 2018 $94.2 million
$ millions



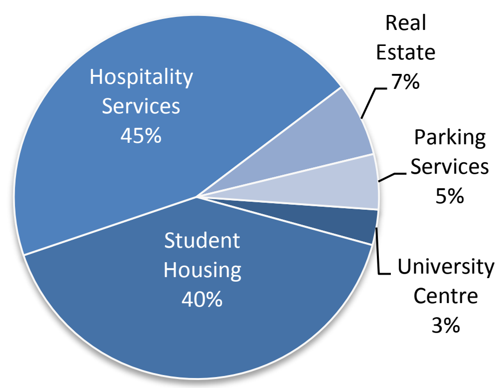
VCEP- Veterinary Clinical Education Program

23 This reduction was met through the use of accumulated reserves within the contract budget. There was no major impact on on-going programs or operations as a result.

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 provincial 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;

Ancillary 2017 2018 Revenues by Unit
$85.6 million

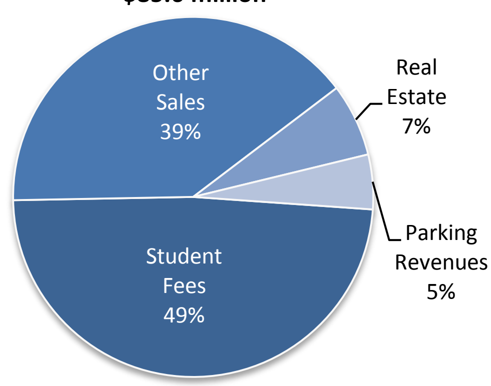


1. Hospitality Services
2. Student Housing Services
3. Real Estate Division
4. Parking and Sustainable Transportation Services
5. University Centre Administration

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 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, almost 50% 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.

Ancillary 2017 2018 Revenues by Source
$85.6 million



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 mainly for services such as space and administration costs.

Combined Ancillary Unit Budget Table 2017 2018

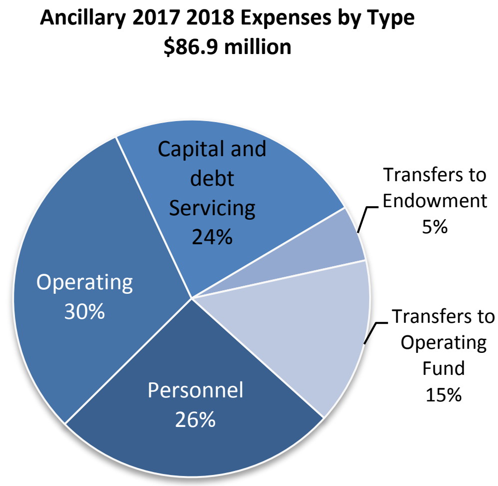
The Table below summarizes total income, expense and transfers for the University's five ancillary units.

Total revenues are expected to decrease by 1.7% from 2016 2017 actuals primarily due to the elimination of "overflow" beds externally leased by Student Housing Services to accommodate increased first year enrolment in 2016 2017.

Overall, compared to last fiscal year, estimated operating expenses and net transfers will increase by 1.5%. Salaries and benefits are increasing due to the addition of new staff in Student Housing and annual general salary increases. "Renovations/Cap Equipment" increasing by 35% and operating results of a $1.27 million deficit reflect capital spending in Student Housing for a major cladding project. This deficit will be fully funded from accumulated reserves in the division. The remaining four ancillary operations are projecting small surpluses.

Summary **$ thousands**

2015/2016 Actuals	2016/2017 Budget	2016/2017 Forecast		2017/2018 Budget	% Change Budget To Forecast
			REVENUES		
40,468	39,859	42,748	Student Fees - Contracts (Food & Housing)	41,634	-2.6%
32,155	31,571	34,539	Other Sales of Goods and Services	34,233	-0.9%
7,582	6,208	5,777	Real Estate - Lease and Property Income	5,632	-2.5%
3,747	3,900	4,050	Parking Revenues	4,150	2.5%
83,952	81,538	87,114	Total Revenues	85,649	-1.7%
			EXPENSES		
17,499	17,616	17,666	Salaries	18,619	5.4%
3,702	3,748	3,712	Benefits and Pension	3,954	6.5%
9,739	10,959	8,147	Renovations/Cap Equipment	11,056	35.7%
7,145	6,519	6,500	Debt Servicing	6,581	1.2%
1,072	1,057	932	Utilities	1,102	18.2%
23,115	22,754	25,708	Operating	24,909	-3.1%
62,272	62,653	62,665	Total Expenses	66,221	5.7%
			UNIVERSITY TRANSFERS		
4,746	5,063	6,193	To Heritage	4,359	-29.6%
11,896	12,123	12,124	To Operating	12,330	1.7%
3,040	3,712	4,519	To Major Capital & Debt Servicing	4,009	-11.3%
19,682	20,898	22,836	Total University Transfers	20,698	-9.4%
1,998	(2,013)	1,613	Operating Results (Unrestricted)	(1,270)	
9,754	11,752	11,752	Opening Fund Balances - Unrestricted	13,365	
1,998	(2,013)	1,613	Change	(1,270)	
11,752	9,739	13,365	Closing Fund Balances - Unrestricted	12,095	



Highlights for Ancillary Units for 2016 2017

1. HOSPITALITY SERVICES

Hospitality Services is a $38 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. Each year a student advisory group reviews the Hospitality Services budget and for the 2017 2018 budget provided their support. The major source of revenue is the sale of food contracts to students consisting of 4,150 residence meal plans and 17,500 meal plans sold to off campus students per year. Other income is earned from sales to staff and event catering services. For 2017 2018:

- Meal Plan (minimum) rates to increase by 2.6%. This increase will keep Hospitality Services positioned in the lower 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 2017 2018 revenues are expected to increase by 0.5% over 2016 2017 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 (37% of expenses) will increase in line with centrally negotiated increases.
- Capital renovations will total $0.96 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 $35 million operation that manages the University's residence facilities for both single and family housing. Currently 86% of Student Housing Services revenues are derived from student contracts for 4,700 single and 300 family accommodations. Given the very capital intensive nature of housing operations, annually 48% of Student Housing expenses are allocated for capital related costs including debt servicing and renovations. For 2016 2017, an unexpected bulge in first year intake required the addition of temporary capacity (200 beds) achieved by renting an adjacent hotel property. This was necessary to accommodate the extra first year students that are guaranteed a residence spot. The 102% occupancy rate resulted in Student Housing services exceeding the revenue budget by 8% offset by increased operating expenses for rent charges and student support costs for the extra off-campus location. Each year a student advisory group reviews the Student Housing Services budget and for the 2017 2018 budget provided their support.

For 2017 2018:

- Single student residence and family housing fees will increase by 1.8%. This will maintain the University's position in the mid-range of fees in the Ontario system. The occupancy assumption for 2017/2018 for planning purposes is 95% for their regular capacity (It is not expected that additional housing spaces will be required in 2017 2018.) Overall revenues are budgeted to increase by 3.2% over last year's budget from both student contracts and an increase in summer conference activity.
- Overall operating costs are budgeted to increase by 2.6% mainly due to a plan to hire 3 new staff positions to support residence programming for students in both family and single housing facilities. Expenses are weighted to operating and maintaining the residence buildings with 48% allocated for capital debt financing and renovations. A further 33% is for operating costs including custodial and utilities charges.
- Charges for capital projects and renovations are budgeted to increase by 3.0% to $15.9 million which includes $4.7 million for year 1 of a 6 year project to refurbish the exterior of the South residence complex.
- Overall Student Housing is expected to draw down its accumulated reserves, which are forecast at $7.4 million on April 30 2016, by $1.7 million.

3. PARKING (AND SUSTAINABLE TRANSPORTATION) SERVICES

Parking Services is a $4 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, signage and the emergency phone poles. For 2017 2018:

- Commuting annual permits rates will increase by $62.6 annually (an 8.3% increase). Given that most charges are for only 2 semesters, the net impact is $41.7 for the year.
- Initiatives funded from this increase will include the installation of new campus wayfinding signage at $0.964 million (project deferred from last year) and $0.150 million for personal safety initiatives. In addition, Parking Services will continue to contribute $0.887 million to support the General Operating Fund.
- Major capital investments for 2017 2018 total $6.3 million most of which will be used for two major roadway projects and two parking lot replacements including adding storm water management infrastructure. $5.7 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 under Board policy. 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

$5.8 million, about $4.4 million of which is transferred annually to the Heritage Endowment. For 2017 2018:

- Revenues budgeted at $5.6 million reflecting the normal expected annual income from leased and rental properties.
- There are no major capital expenses planned for 2017 2018. Overall capital debt in the division is expected to decrease by $0.450 million to a very manageable $4.8 million.
- Overall net income is expected to be $4.5 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 2017 2018:

- Overall revenues are expected to increase by 1% mainly due to increases in prices in the Brass Taps (licensed lounge).
- Expenses are expected to increase by 1.5% and overall there is a $0.040 million surplus expected at the end of the fiscal year. Results overall are in line with results of the prior year.

Capital Plan 2017 2018

Prioritizing Capital Projects

The average age of the University of Guelph's 145 buildings is 47 years, making it one of the oldest campuses in the Ontario university system. Several buildings have "heritage" designations with many dating back to the 19th and early 20th century in origin. In addition, as with many other universities in Ontario, a large portion of the University's buildings were constructed in the late 1960's and early 1970's, meaning many of these are reaching or surpassing their normal expected life spans. Paralleling buildings and as important are utilities infrastructures necessary to support the extensive, research, teaching and service facilities contained in 613,000 square meters of buildings across the main campus. Combined buildings and utilities infrastructure have an estimated total replacement value of $1.9 billion. With decades of limited funding available for maintaining these assets, a deferred maintenance estimate for the University's main campus (all building including residences) is estimated at $380 million. Our Facilities Condition Index (FCI) last reported in 2015, is 13 (any rating about 10 is considered "Poor") – the Ontario university system average is 11.

Maintaining capacity and quality of space under these conditions is an on-going challenge, not only from the practical consideration of just how much can be done each year and still operate programs and services, but also to find sufficient funding for deferred maintenance to sustain an on-going improvement program at the level it should be. (To improve the FCI, it is estimated that about $35 million would be required annually.)

In 2007, recognizing that current provincial funding support for capital renewal of $1.5 million annually was wholly inadequate; the University undertook a multi-year borrowing program with the main objective of balancing growing critical deferred maintenance requirements with affordable debt. While recent past investments under this program (averaging between $15 million and $20 million annually) were considerable, they were not be able to address the growing backlog of capital maintenance created from many years of underfunding.

The 2017 2018 Annual Capital Plan:

A formal annual capital planning and prioritization for major projects has been an on-going process across the University for several years. As part of this annual process, funding requirements for major capital projects, including deferred maintenance programs are reviewed for the next year in the context of available resources including the level of provincial support and debt capacity. Capital program decisions are made in the context of 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 part, spending in this category is directed to ensuring on-going capacity – with limited program enhancements.

   For capital renewal planning on the main campus and other major operational centres that are capital dependent (e.g., residences, parking and athletics), rolling 5-year deferred maintenance plans are prepared each year and presented in the Annual Capital Plan. 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. Included in this category are projects that improve utilities energy efficiency. For example 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. Savings recently experienced in the central utilities budget are in part a reflection of these continuous investments

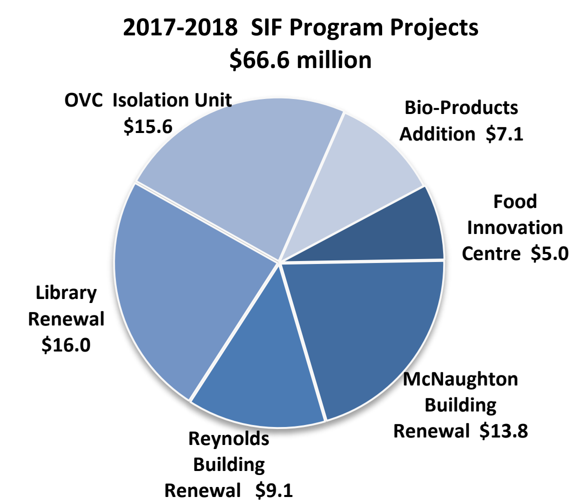
2. Major Building and Renovations: this grouping consists of major individual projects (normally over $2 million) such as new buildings or major repurposing/renovations of existing buildings. Investments in this category often include major refurbishment and renewal that can enhance program delivery and services. Recent examples have been the construction of new space for the expansion of the School of Engineering ($50 million) and the construction of a new addition to the Mitchell Athletic Centre ($45 million).

In January 2017, the Board of Governor approved the University's 2017 2018 Annual Capital Plan. The Plan was highlighted by the impact of new federal funding announced in the summer of 2016 Strategic Infrastructure Program (SIF)

Strategic Infrastructure Program (SIF)

Periodically as a result of federal or provincial policy directions, funding is made available to the post-secondary sector under special one-time capital spending programs. Typically, these require some form of cost sharing with institutions and are subject to eligibility restrictions including required completion dates. The most current example of these programs is the 2016 federal Strategic Infrastructure Fund or SIF program created as a major fiscal stimulus program with funding ($2 billion) targeted for colleges and universities across Canada. Terms of the program provide for funding up to 50% of "eligible" projects and expenses. Federal priorities for spending were for two key areas; improving the "environmental sustainability" and increasing the scale and quality of facilities dedicated for "research and innovation" including commercialization space. Eligible costs are directed to buildings and related utilities with equipment and furnishings being ineligible costs. Most critical is that projects that were submitted on May 9, 2016 must be "substantially" complete by April 30, 2018.

The University submitted 6 major projects for consideration for funding and was successful in receiving most of the funding requested for all 6 projects (refer to graph). Overall this program has $66.6 million in total spending, $31 million of which will be funded through federal and provincial capital grants with the balance provided by general University funds. The program is administered through the province of Ontario, which directed that two years (2016 2017 and 2017 2018) of annual "Facilities Renewal Funding" be transferred to this program. While this enhances SIF specific projects, it

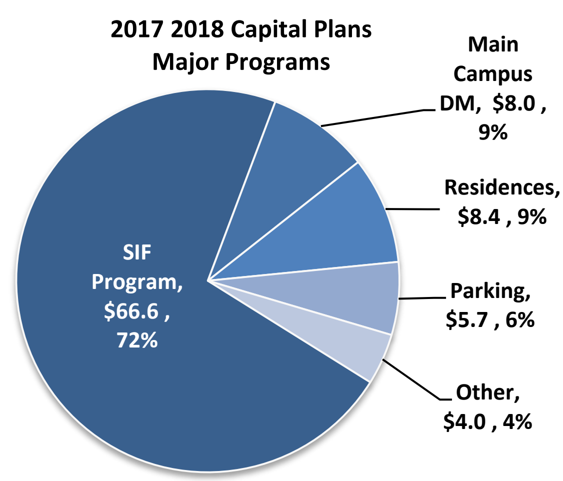


redirects funding from campus wide infrastructure that had been built into our longer term capital renewal program.

Summary – 2017 2018 Capital Plan $92.7 million

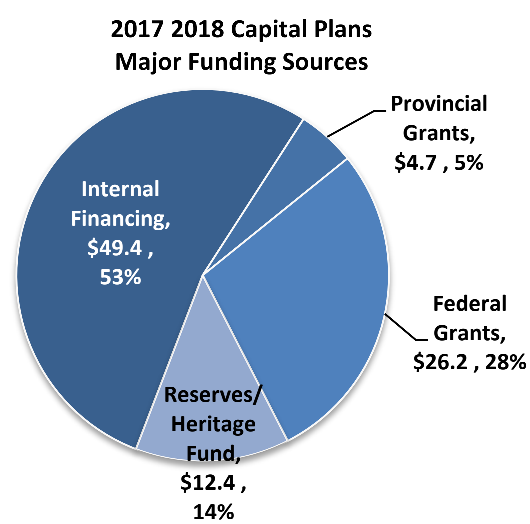
Given the extraordinary impact of the SIF program, other capital plans for 2017 2018 were kept to a minimum, with the sole emphasis being on high priority capital renewal projects. Total costs of these projects was $26.1 million, funded from internal reserves ($8.9 million), the Heritage Fund ($3.5 million) and internal financing supported from the General Operating Budget ($13.7 million). Major projects include:

- major upgrade of main campus WIFI service ($3.5 million) funded from the Heritage Fund
- the annual main campus deferred maintenance program ($8.0 million)
- year 2 of a major renewal program of parking lots and roads ($5.7 million)
- $0.500 million in a variety of Athletic maintenance and renewal projects



When combined with the SIF program, total approved spending for 2017 2018 projects will be $92.7 million.

About 33% of the total funding for these projects will be federal and provincial government grants under the SIF program. Existing University reserves and $3.5 million from the Heritage Fund will provide 14% of funds. Closing the funding gap will be $49.4 million in financing requirements.



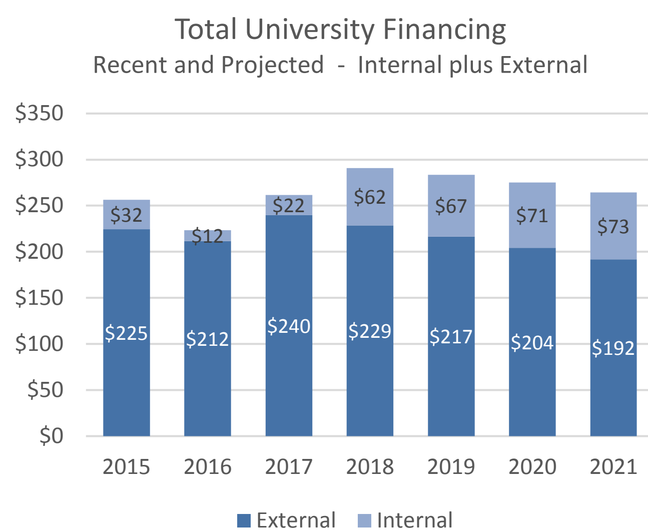
For financing, the University typically has two options; first external debt e.g., from any number of banks; second temporarily using internal cash resources. At this time it is proposed to temporarily use internal working capital (liquidity) as this internal financing source. This is based upon the current overall financial position the University is in with respect to funds which are not immediately required for spending. Currently these funds are invested in short term instruments yielding less than 2%. Temporarily using these funds for this capital financing purposes will avoid more expensive external debt. Funds will be replenished over time under an amortization schedule that will charge the Operating Budget over a period not to exceed 15 years.

Debt Capacity

Under the University's Capital Debt Policy are a series of metrics or "financial health indicators" with benchmarks that are used in monitoring capital debt levels and the costs of servicing that debt. (These metrics are reported each year as part of the Annual Financial Report and Audited Financial Statements.)

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 finance certain projects (referred to as internal financing). External debt is normally applied to very large projects with extended life expectancies e.g., major new buildings. Internal financing generally is used on 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 including the financing required for the federal government SIF program projects.

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 and internal debt for the next five-years. It assumes no new external borrowing and internal financing limited critical deferred maintenance items only. It is important to note that this projection is not a plan, but a trajectory of what the current debt loads would be, given the 2017 2018 Capital Plan completion and minimal future borrowing of any kind.



Relative to financial health metrics, the University is well within major debt-management benchmarks under our policies.

Financing Costs

The total financing costs as a result of the 2017 2018 capital plan spending, once fulling completed, are estimated at $4.3 million annually. Most of this cost will be allocated to the General Operating Budget mainly as a result of the costs of the SIF program. The full effect of this cost is expected to be offset to some extent as allocation previously applied to older internal financing, now completed will be redirected for this purpose.