UNIVERSITY of GUELPH

BUDGET PLAN

2018 2019

Prepared for the Board of Governors

April 20, 2018

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 direct expenses of salaries and benefits as well as the maintenance of the University's physical and service infrastructure that will help sustain strong academic performance and allow us to 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 weather external influences. We continue to see strong demand for our academic programs. For 2018 2019 and onwards, the institution must develop a plan on how to manage steady cost increases when our traditional revenue growth opportunities have become constrained.

With the introduction of an enrolment "corridor" in which grants remain at a fixed level, enrolment growth at universities will not generate incremental provincial grants. This places a greater reliance on other sources of revenue such as the expected growth in performance based provincial funding as defined in the negotiated "Strategic Mandate Agreement" (SMA). The SMA is the major process by which the province advances its agenda of institutional differentiation, enhanced student experience and success, and financial sustainability.

The significant change in provincial funding along with expected flat domestic enrolment will soften revenue growth for 2018 2019. The University's capacity to refocus efforts to realign resources in response to the province's new agenda will require careful planning. The additional revenues will cover most of our expected cost increases and provide funding for a number of targeted initiatives. As the planned expenditure will be greater than the expected revenues, the University is projecting an in-year deficit of $5.9 million. Based on our healthy level of reserves, contributions will be made by each College and major Division to balance the 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 2018 2019 fiscal planning across the major operating activities of the University and presents an annual Budget Plan for Board of Governors approval. This is the third year in which a consolidated plan combines the financial structures of the OMAFRA[1] agreement, Ancillary Enterprises and the General Operating Budget into one document. For this year, the recent signing of a new OMAFRA agreement will result in approval for that portion of the budget being delayed until June 2018. The income and cost supports from the OMAFRA agreement in the General Operating budget are still included pending final approval of the OMAFRA budget. In addition, the University Major Capital Projects

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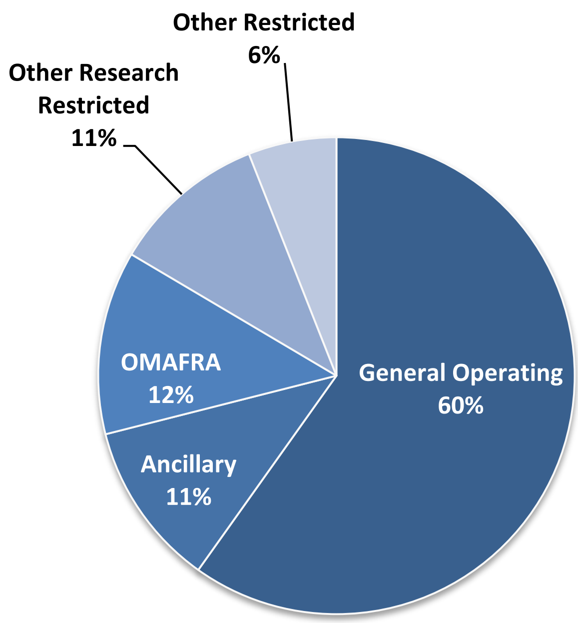
[1] OMAFRA (Ontario Ministry of Agriculture, Food and Rural Affairs) and the University of Guelph have a long standing operating agreement that provides funding and facilities for research and service programs in support of the Ontario agri-food sector; renewed in January 2018 for another 10 years.

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 2018 2019.

Major Components of University Operating Funds (Excluding Capital and Guelph Humber)
2016 2017 Results $755 million



- **General Operating $452M:** 88% of revenues are provincial grants and student fees. 71% of expenses consist of salaries and benefits.
- **Ancillary $85M:** self-funding services with revenues from fees for services; food, student housing, parking etc.
- **OMAFRA $94M:** is a major agreement with the Ministry of Agricultural Food and Rural Affairs funding mainly research infrastructure and projects in agri-food and food safety.
- **Other Restricted Research $79M:** are funds received from large numbers of individual sponsors including federal, industry and private agencies restricted for research.
- **Other Restricted Funds $45M:** are funds from donations and endowment income received for mainly student awards and other non-research grants/contracts restricted for specific purposes.

Highlights of the 2018 2019 Operating Plan

1. The General Operating Budget

- The overall target for 2018 2019 is to balance the General Operating Budget, however, the University is projecting an in-year $5.9 million deficit.
- To close the deficit gap, a contribution approach has been communicated and accepted by senior administration which requires each College and Division to contribute sufficient one-time funds on May 1st, 2018 to balance the budget for the year.
- For 2017 2018, a $5.6 million forecast deficit is included in the General Operating Budget (see table on page 7). Prior year's results have been surpluses but they have been shrinking over the past fiscal years ($18.2 million surplus in 2016 2017; $29 million surplus in 2015 2016). For 2017 2018, spending plans for prior year's reserves have increased planned costs including an additional $15 million in approved major capital projects nearing completion (i.e. Student Wellness/Powell Building renovation). Also included in this overall net 2017 2018 position is $2.9 million in tuition revenue surplus mainly the result of additional undergraduate international enrolment that exceeded budget expectations. Unlike in year's past, the forecasted tuition surplus will not contribute to the university reserves but instead be used to ensure the deficit remains $5.9 million for 2018 2019.
- For 2018 2019 assumptions, the total enrolment target for undergraduate and graduate university-degree credit enrolment will be based on actual 2017 2018 experience, nominally increasing the total enrolment target to 22,710 FTEs[2]. The additional budgeted revenue will be used to support operating cost increases.
- Domestic tuition for University-degree programs will be increased by an average of 3% consistent with the provincially mandated tuition framework.
- In keeping with average provincial tuition increases, undergraduate international tuition will see increases between 6% to 8% and graduate international tuition will be increased between 0% to 4%.
- Despite the projected in-year deficit, the University must continue to invest in both infrastructure and initiatives that will be used mainly in student and academic support programs.
- 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.

2. OMAFRA Agreement

- On January 30, 2018 the University of Guelph signed a 10 year renewal of the OMAFRA-U of G Agreement to continue the long term partnership for discovery and innovation. The renewed agreement includes confirmation for annual funding of $71.3 million. The agreement continues the support for U of G faculty, staff, research and facilities across the five existing major program areas covering Research, Veterinary Capacity, Animal Health Laboratory, Agriculture and Food Laboratory and the Research Station Property Management program.

[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.)

- As a result of the timing of the renewal, the joint agreement leadership and program management will proceed with detailed budget development and program implementation planning with a target of bringing a final 2018 2019 agreement budget forward for approval in June 2018.

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 be unchanged from their 2017 2018 forecast results overall. Within the units there is some variations and Real Estate and Student Housing did have better than expected revenues in 2017 2018 due to project timing and higher occupancy.
- Total expenses and transfers are expected to increase by 4.2% mainly due to salary costs impacted by minimum wage adjustments, increases in cost of sales, including food prices and increased 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 2.0% for student residences, 3.0% in the cost of the minimum food plan. All increases will be used to support operating and capital expenses within those units to remain fiscally balanced. Parking is planning no increase for parking permits in 2018 2019.

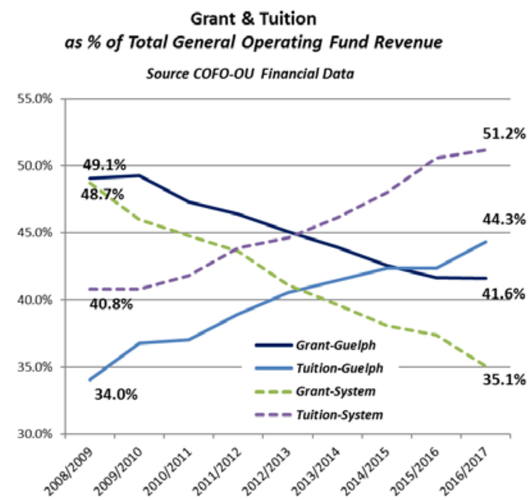
4. Capital

- An estimated $55.9 million has been approved by the Board of Governors for 2018 2019 projects. Covering these projects will be $3.7 million in federal and provincial grants, $3.0 million from fundraising, $14.5 million in reserves, $9.5 million in drawings from the Heritage Fund with the balance of $25.2 million in internal financing.
- Major projects include:
    - $19.4 million for the MacKinnon building for a CFI supported Improv Theatre and north wing renovations
    - $12.5 million proposed for renewal and repurposing of VMI building
    - $10.3 million for on-going main campus "deferred maintenance" projects
    - $10.7 million is residence capital maintenance
    - $3.0 million to complete the Alumni Stadium Pavilion

Fiscal Context

In preparing the 2018 2019 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 across 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 revenues 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.



In 2017 2018, the new provincial grant funding mechanism came into effect which keeps grant funding fixed based on a pre-negotiated enrolment corridor. This has had an impact on the University's capacity to manage general cost increases with constrained revenue.

Accompanying the "corridor" control on enrolment growth, the province has increased the initial source of performance-based funding by transferring from enrolment-based grants. This process will most likely continue in the future under 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[3].

Performance will be measured on a series of metrics[4] 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".

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. 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,

[3] The overall funding to post-secondary education is not expected to increase but funds are expected to shift among envelopes reflecting provincial priorities.
[4] 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.

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.

For 2018 2019, with the notable budgetary constraints from the fixed provincial grants, flat domestic enrolments and the steady growth of compensation costs, the University is projecting a $5.9 million in-year deficit.

One of the hallmarks of the University of Guelph is our capacity for creative and integrated planning processes, which provides us with good governance and a framework for approaching budgets that prepares us for the future.

Further to our best practices in addressing budget sustainability, University leaders have anticipated these constraints and have made strides to address them. In a multi-prong effort, members of senior administration have approached these issues from a variety of paths to ensure the institution continues to thrive. These critical efforts include but are not limited to provincial negotiations, a new budget model investigation, strategic enrolment planning, and tuition fee policy and approach. As with any effort, the financial timing of such strategies does not readily align with the immediate impact of the external budgetary constraints.

In a series of consultations and based on stakeholder feedback, senior administration has acknowledged the interim solution in relying on unit reserves to balance the budget. A reliance on this balancing methodology is not a tenable long-term solution. Considering the projected enrolment trends and continuing constraints, 2018 2019 will prove to be a critical strategic and budgetary junction for which we must consider our path carefully to strike the right financial balance moving forward.

The University remains in a strong fiscal and competitive position to weather and adjust our collective strategies to mitigate and respond to the challenges ahead.

The following presents details of the 2018 2019 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 2018 2019 Budget Plan compared with last year's budget and forecast and 2016 2017 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.

Details on the major assumptions for 2018 2019 included in the table are contained in the following sections.

2016/2017 Actuals	2017/2018 Budget	2017/2018 Forecast	Summary	$ thousands 2018/2019 Budget	% Change Budget To Forecast
			REVENUES		
183,087	182,942	183,871	Provincial Operating Grants	182,824	-0.6%
195,683	202,808	206,164	Tuition Fees	213,079	3.4%
16,236	16,166	17,169	Other Student Fees and Contracts	16,200	-5.6%
34,466	33,836	36,438	Sales of Goods and Services	32,619	-10.5%
23,532	18,399	20,790	Guelph-Humber	18,398	-11.5%
22,967	20,701	23,868	Other Revenues	21,437	-10.2%
475,971	474,852	488,300	Total Revenues	484,558	-0.8%
			EXPENSES		
257,109	275,594	273,984	Salaries	277,679	1.3%
77,292	80,755	80,086	Benefits and Pension	83,233	3.9%
24,780	24,687	25,614	Scholarships and Bursaries	27,441	7.1%
19,054	23,895	17,983	Utilities	23,835	32.5%
81,557	82,061	93,873	Operating	89,324	-4.8%
459,792	486,991	491,541	Total Expenses	501,511	2.0%
(21,300)	(21,825)	(21,825)	From OMAFRA	(22,113)	1.3%
(12,070)	(12,194)	(12,192)	From Ancillaries	(12,355)	1.3%
31,329	21,880	36,420	To Major Capital & Debt Servicing	23,380	-35.8%
(2,041)	(12,139)	2,403	Total University Transfers	(11,088)	
18,220	-	(5,643)	Annual Surplus (Deficit) Note #1	(5,865)	
			Balance Budget Contribution Note #2	5,865	
18,220	-	(5,643)	Net General Operating Results	-	
151,232	169,452	169,452	Opening Fund Balance Note #3	163,809	
169,452	169,452	163,809	Closing Fund Balance	163,809	

Note 1 Annual Surplus (Deficit) is Revenue less Expenses and University Transfers

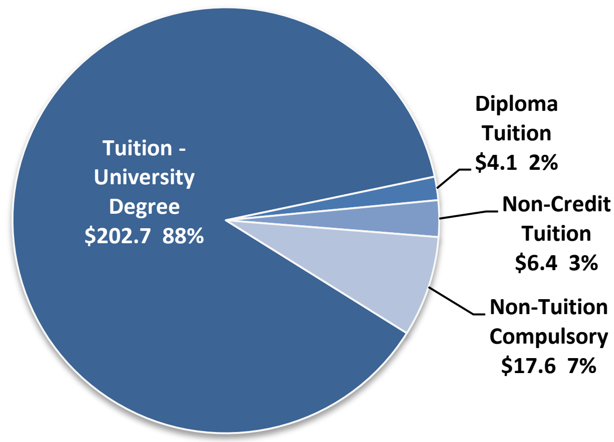
Note 2 In-year College/Division contributions to ensure a balanced budget (see Balance Budget Contribution on page 23)

Note 3 The "Fund Balances" in the table above exclude Employee Benefit reserves, Guelph Humber and the accumulated accounting charges for post-employment benefits. (See Financial Reserves on page 24)

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 2018 2019 the General Operating Budget estimate for tuition and compulsory fees is $230.8 million. As shown in the chart below 88% or $202.7 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 Fees
2018 2019 Revenue by Type $230.8 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 must adhere to the provincial tuition policy framework. Under this framework, annual tuition increases averaged across all provincially regulated[6] programs cannot exceed 3%. The terms of the existing framework will end in fiscal year 2018 2019.

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 2018 2019.

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.
- 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.

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[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.

Under the final year of the provincial tuition framework (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 2018 2019, 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 Masters programs receiving smaller increases and no increase again this year for Doctoral. 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. After a review of relative fees and program quality while ensuring accessibility for international students, targeted increases will be applied for entering undergraduate international students in Engineering and Doctor of Veterinary Medicine will increase 8% and all other undergraduate programs will increase by 6%. For international graduate programs, regular Masters and Doctoral programs will increase 2% and professionally oriented Masters programs will increase 4%. Pre 2017 2018 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 who entered in 2017 2018 and subsequent years will be subject to approved annual fee increases.

Provincially Regulated	Fee Increase
Undergraduate Regular, Diploma	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 – Engineering, DVM	8.0%
Undergraduate- all other programs	6.0%
Graduate – MA, MSc, MASc	2.0%
Graduate – Professionally Oriented	4.0%
Graduate - Doctoral	2.0%

1. *Exceptions for Mech, Comp and Biomed programs in engineering increased by 3%.*
2. *The "cohort" fee which fixed the fee for the term of the program is removed for 2017 2018 and later entering students.*

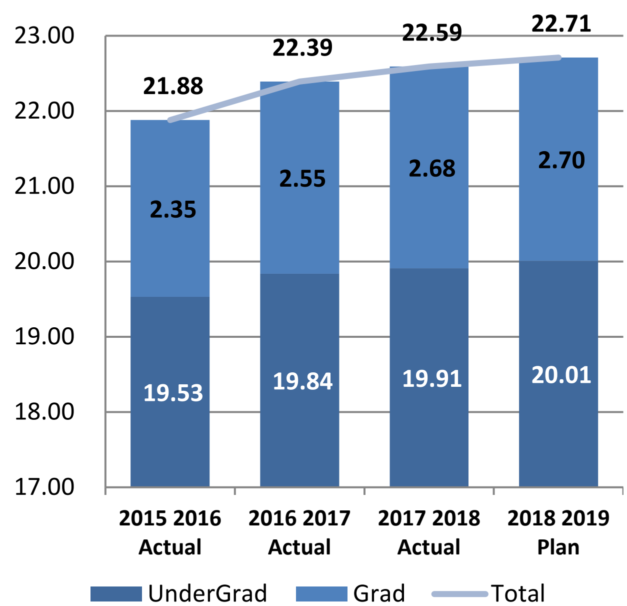
Overall, it is expected that fee increases from all university-degree programs will generate $5.7 million in additional income.

Enrolments

In 2017 2018, undergraduate enrolment at the University was essentially unchanged for domestic students over 2016 2017 but did experience small growth of undergraduate international students of approximately 100 student FTEs. At the graduate level, increases were also achieved with approximately 100 masters and 35 doctoral student FTEs (Refer to chart). These new higher enrolment numbers have generated additional income in 2017 2018, contributing to the surplus forecast tuition revenue of $2.9 million.

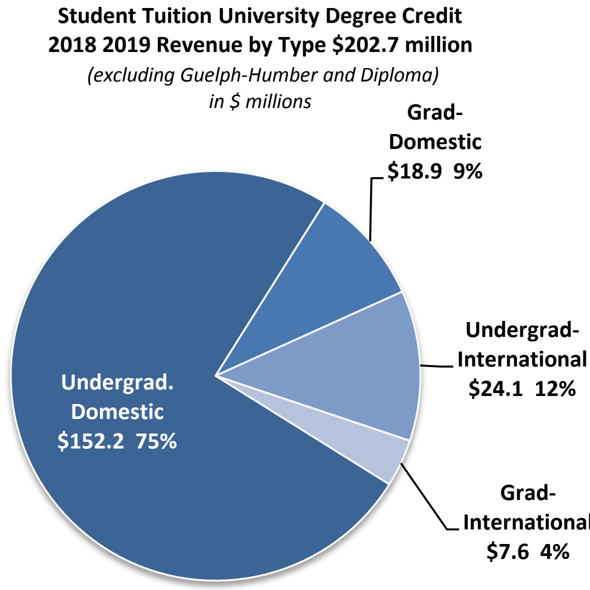
A key assumption for 2018 2019 will be to hold first year undergraduate intake targets similar to last

Enrolments - University Degree Credit
(excluding Guelph Humber and Diploma)
in thousand FTEs



[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.

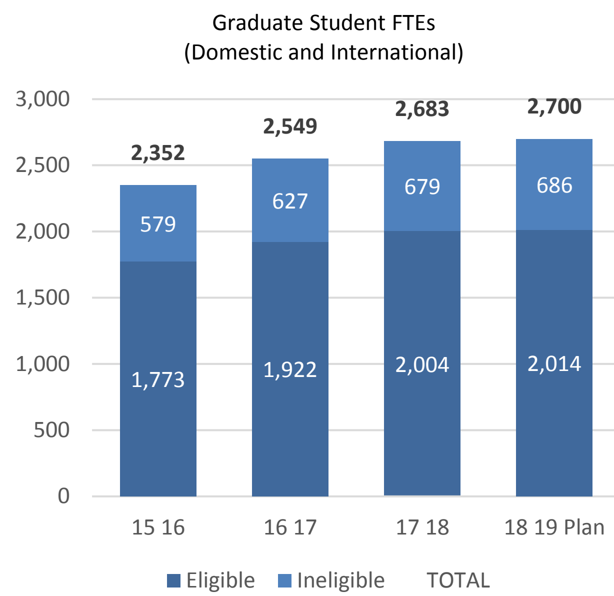
year's initial target[8]. With this intake combined with the impact of international enrolments, it is estimated that there will be a further 100 student FTEs at the University this time next year.



With the enrolment target for 2018 2019 now set at the higher level (22,710 FTEs), the net impact on 2018 2019 planning is positive. Overall, the budget to budget change will be an increase in revenue. Added to the $3.0 million in additional revenue from 2017 2018 experience, will be an additional $1.5 million estimated from the small increase of 100 international FTEs noted earlier and $5.8 million from rate increases. The combined impact of $10.3 million will be the major incremental revenue source for the new fiscal year.

Graduate Students:

The University 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. Institutional-specific targets were set under the new SMA (finalized in Fall 2017).

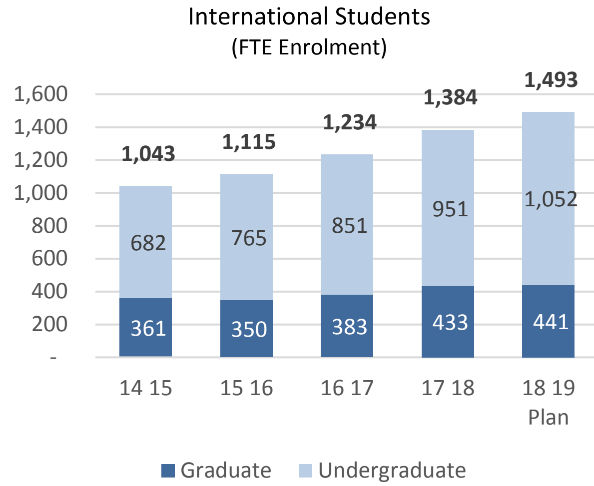


The 2018 2019 initial budget target for graduate enrolment will be set consistent with the 2017 2018 actual level (Refer to adjacent chart).

[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.

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. In recent years, resources were added to the Registrar's Office and Student Services for international undergraduate recruitment and in course support services. Efforts have resulted in a 43% increase in international student FTEs over the past five years (an increase of 450 student FTEs). Significant efforts continue for international growth as part of the Internationalization Review effort including the introduction of International Doctoral Tuition scholarships.



Diploma Programs

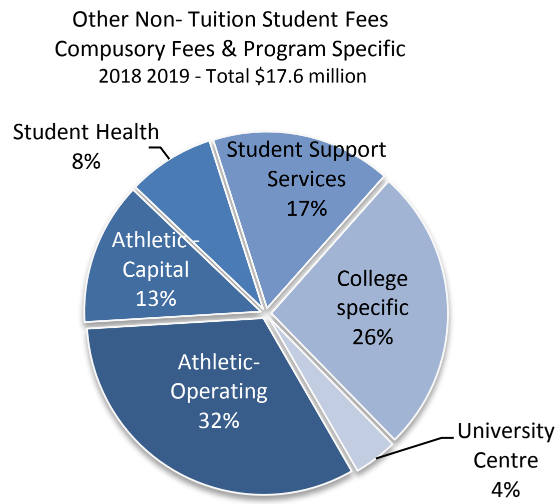
For many years the University has delivered a range of agricultural diploma programs under the agreement with OMAFRA and more recently MAESD. All of these programs are delivered by the Ontario Agricultural College (OAC) at both the main Guelph campus and at the regional campus located in Ridgetown (near Chatham) Ontario. The program costs, totaling $11.3 million, are supported with a designated annual provincial grant of $4.5 million, diploma tuition of $2.7 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 580 FTEs which has grown by 8% over the last three years.

Other Student Fees

In addition to tuition, students provide support to the General Operating Budget[9] 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, 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 $17.6 million (refer to chart).



[9] 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 $16 million of which $6 million is for a bus pass.

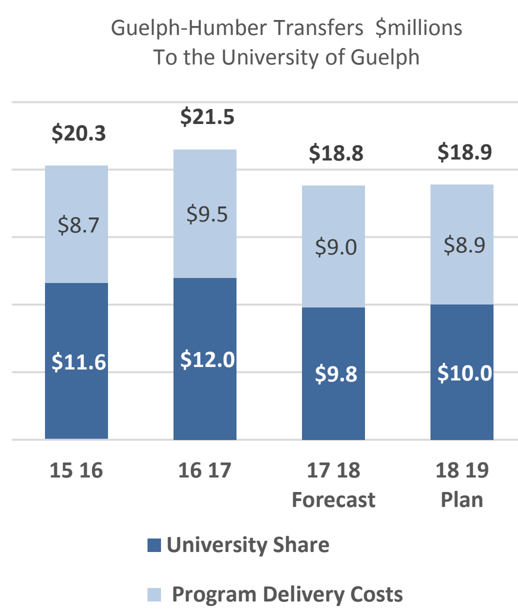
All revenues from student fees in this category are credited to the units providing the service. For example, the Athletics department receives $8.0 million in fees charged to all students for both capital and operating costs to provide recreational programs and facilities[10].

For 2018 2019 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 may increase by CPI (1.7% for 2017). 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 2018 2019 through the advisory committees, students support:

- 3.9% total increase for the non-capital Athletic Fee to be used for operating costs in the new Mitchell athletic centre;
- 3.0% total increase in the Student Health Services Fee to student mental health;

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.

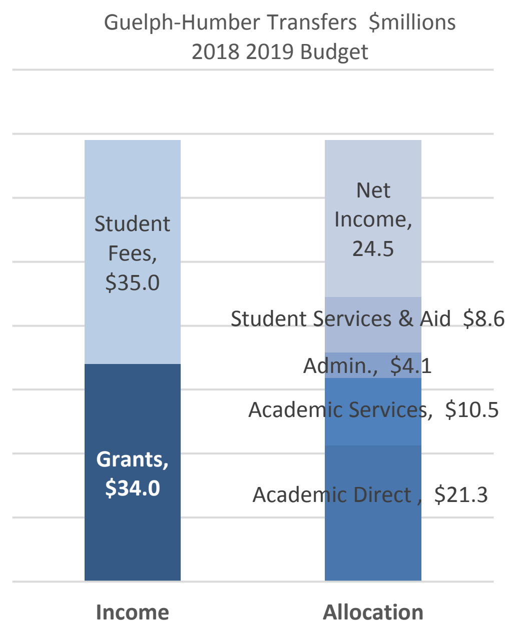


The Guelph-Humber joint venture generates about $19 million (Refer to Chart) for the University in revenue cash transfers. Funds are earned in two ways:

- University of Guelph colleges and divisions receive about $9 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;
- the net income of the joint venture is shared equally between University of Guelph 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;

[10] 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 2018 2019, the University of Guelph Humber will target to hold enrolment levels at their 2017 2018 levels of 4,700 FTEs). 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.)

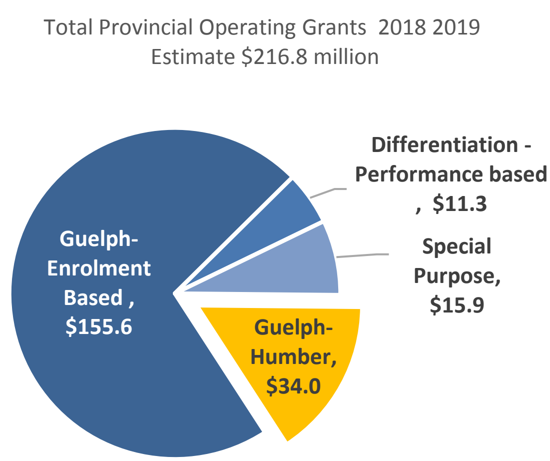


Overall, the 2018 2019 Guelph-Humber budget will continue to generate significant net income of $24.5 million (Refer to Chart) that will be split equally between Humber College and the University of Guelph. Much of this position is due to low program delivery costs (based on sessional or part-time instructors 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 planning to hire tenured track faculty dedicated to Guelph-Humber programs beginning in 2018 2019. 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, Ministry of Advanced Education and Skills Development (MAESD) and Ontario Ministry of Agriculture Food and Rural Affairs (OMAFRA). OMAFRA funding, as with other research-based or targeted 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, 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 10 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 2018 2019. In total, these are at the same funding level as 2017 2018.

Included in 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[11] and is not recognized by the

[11] 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.

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 $34.0 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: Since the beginning of fiscal year 2017 2018, the province began distributing funds based on a 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 mechanism include:

- Each University's operating grants will remain fixed and accordingly, will be held to a provincially weighted enrollment corridor that is 3% plus/minus wide. Universities are required to stay within their corridor unless approvals, are received from the province, especially for enrolment growth. The University's corridor is based on 2016 2017 weighted enrolment levels.
- Specialized envelopes for "Differentiation" and performance-based funding will receive greater priority. Over time, these envelopes are anticipated to increase based on the assumption that funds will be transferred from the corridor enrolment-based funding envelope as overall system enrolments decline[12]. By 2020, the objective is to have funding in these envelopes linked to outcomes as established and measured by predetermined metrics.
- "Special Purpose" funding is also available that includes institutional-specific grants and other special, 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.
- Over the next 2 years, the newly established funding mechanism will continue to be phased in. For 2018 2019, institutions will see relatively the same level of distribution in grant funding as seen in 2017 2018. The major constraint will be that enrolment growth will not be funded, except through negotiation with MAESD.

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[13] 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 2018 2019. Most significant are transfers from OMAFRA to the General Operating fund for faculty support, veterinary capacity and indirect costs (subject to final approval of the OMAFRA agreement 2018 2019 budget). There are no major changes in transfers expected for 2018 2019.

[12] 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).

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

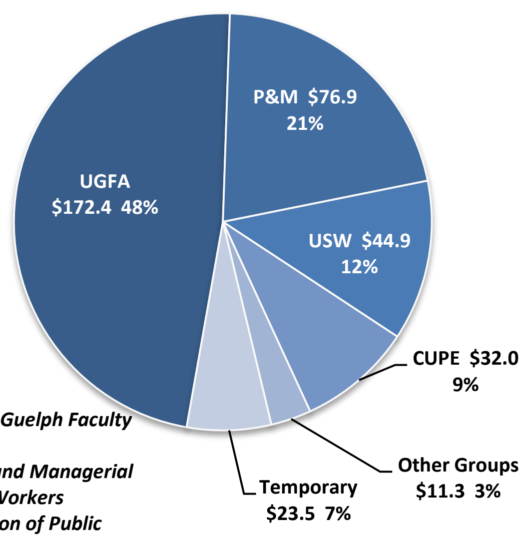
Summary of Major Interfund Transfers 2018 2019 (FROM) TO	General Operating	OMAFRA	$ millions Ancillary	Major Capital	Guelph-Humber	Research	Heritage Fund
RESEARCH;							
OMAFRA - Veterinary Capacity Program	1.9	(1.9)					
OMAFRA - Faculty Positions	9.7	(9.7)					
OMAFRA- Indirect Costs	10.5	(10.5)					
FEDERAL - Research Support Fund	5.7					(5.7)	
Other Research Indirect Support	5.4					(5.4)	
Total RESEARCH	**33.2**	**(22.1)**	-	-	-	**(11.1)**	-
ANCILLARY							
Indirect Costs, Debt Servicing, Contributions	12.4		(21.2)	3.6			5.2
CAPITAL							
Capital Projects				9.5			(9.5)
Debt Servicing	(23.4)			23.4			
Total CAPITAL	**(23.4)**	-	-	**32.9**	-	-	**(9.5)**
GUELPH HUMBER							
College Program Delivery	8.4				(8.4)		
50% Share of Net Income & Mgmt Fee	10.0				(10.0)		
Total GUELPH HUMBER	**18.4**	-	-	-	**(18.4)**	-	-
TOTAL TRANSFERS	**40.6**	**(22.1)**	**(21.2)**	**36.5**	**(18.4)**	**(11.1)**	**(4.3)**

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 2018 2019 fiscal year, employee agreements are in place for major employee groups including UGFA, P&M and USW, as well as a number of smaller groups. Combined compensation up for remaining groups under negotiation accounts for less than 3% of the total compensation budget (refer to chart).

2018/2019 General Operating Budget Compensation By Major Category $360.8 million *Including Benefits*

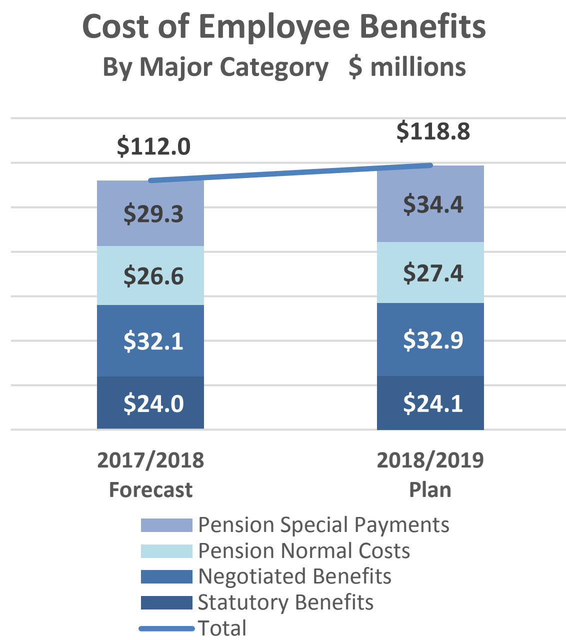


Notes:
UGFA: University of Guelph Faculty Association
P&M: Professional and Managerial
USW: United Steel Workers
CUPE: Canadian Union of Public Employees

A provision for cost increases to all groups has been established at $9.6 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.

Employee Benefits

With an expected total cost of $118.8 million (refer to chart), employee benefits are 15% 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 2018 2019 is pension contributions for special payments as a result of pension plan deficits - (from $29.3 million to $34.4 million).



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

1. Statutory benefits such as Canada Pension Plan (CPP) and Employment Insurance (EI), cost rates are expected to increase in 2018 2019 with CPP and EI employer contribution rates increasing by 1.1% and 2.6% respectively.
2. Negotiated benefits, are a variety of programs with the three largest being extended health (drug and other medical benefits) disability coverage and the dental plan. Negotiated benefits are expected to see an overall 3% increase in costs based on rate increases and usage/experience in the plans.
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.

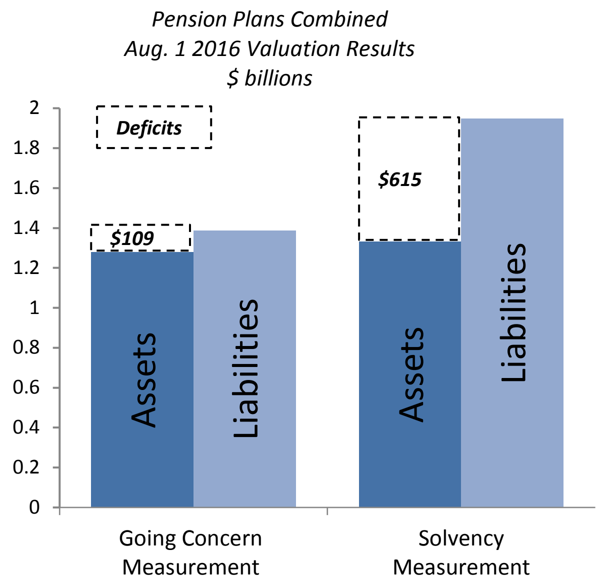
Post employment non-pension benefit programs are budgeted on a "pay-as-you go" basis, meaning only the actual annual cash costs are funded annually. In 2017 2018, that annual cost is expected to be $5.6 million. This is in major contrast to the annual accounting expense of $21 million which is based on the accrued liability for these programs estimated at $270 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[14] 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:

[14] "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.

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 three years preceding the valuation date averaging 8.2%. The total deficit was a combined $109 million for all three plans.

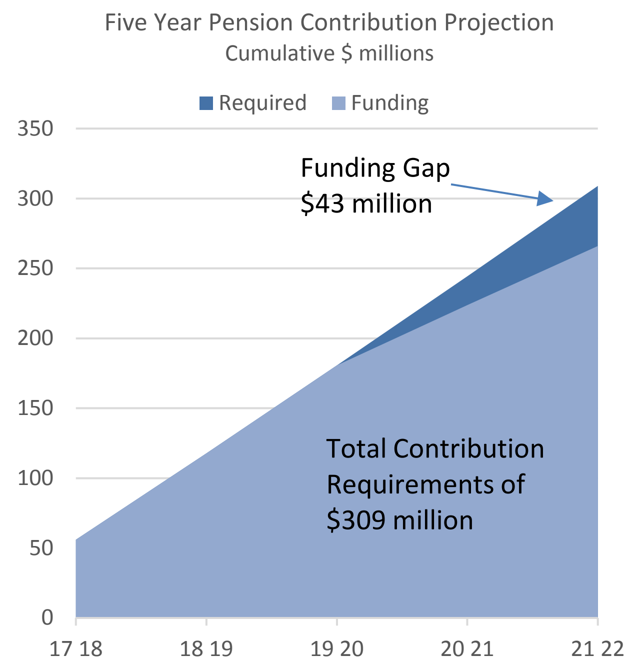


2. **Solvency:** The solvency valuation is based on the assumption that the pension plans closed ("wind up") on the valuation date and all past and future obligations settled using financial market conditions at the time of the measurement. Key financial drivers used in this wind-up or "solvency" calculation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

Funding Projections: With the August 1, 2016 valuation, required annual payments have been determined 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 into current annual budget assumptions.

The graph below 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 the University of Guelph, University of Toronto and Queens University to create a JSPP[15] (jointly sponsored pension plan) which would include all 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. Proposals for changes under the Solvency Funding Framework are under review and current solvency relief will stay in place until the next scheduled valuation. The impact of any changes will be brought forward when new regulations governing the University of Guelph plans are finalized.

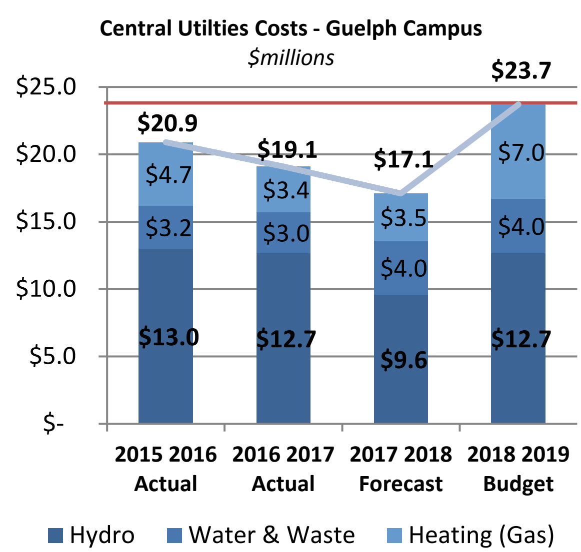


Infrastructure Costs

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 technology (computing and communications) 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



[15] JSPP’s in the province of Ontario generally are not required to fund solvency deficiencies.

is the addition of new space and offsets to hydro net costs as a result of provincial rebates.

The base or on-going allocation for the central utilities budget for several years has been $23.7 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[16]. Recent hydro cost increases are mitigated with the implementation of major new energy savings projects and receipt of provincial rebates.

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 over 25,000 m^2 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), almost 10,000 m^2 in academic space under the SIF program (for research facilities, Food Science, Business, the Ontario Veterinary College) and the new Frost Turfgrass centre adding 2,000 m^2 in 2018 2019. As they are completed and occupied costs are added to the General Operating Budget. The impact for 2018 2019 is $0.235 million.

In addition, $0.100 million will be provided to help offset the cost increases experienced over a number of years in the Grounds operations for landscaping supplies, equipment and vehicle maintenance including the snow removal fleet.

Capital Infrastructure Debt Servicing

In January 2018, an update of the 5 year Capital Financing plan was presented to the Board of Governors contained total approved spending of $56.0 million and borrowing of $25.2 million. Projects under this plan include deferred maintenance for $10.3 million, Student Housing Services upgrades of $10.7 million and $35 million for primarily academic space including Arts (MacKinnon) and renewal of space in OVC allowing consolidation of clinical services operated by the CSAHS. An increase of $1.5 million has been added to the existing $21.9 million base allocation for capital funding and debt servicing of projects that do not have capital funding sources.

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 well over $10 million annually.

Given this growing fiscal demand and importance of technology to all University programs, a review of information technology across the University was completed in 2017. As part of the plan going forward, a new governance process for IT and communication infrastructure that will guide all new and enhanced technologies is now in place.

In this budget, a general provision has been made of $0.625 million in on-going and $1.8 million in one-time. The base funding will cover as required, specific essential services such as increases (inflation) on the

[16] Currently these savings are used to pay for a $26 million energy retrofit project begun in 2015 and now completed.

external costs of current systems and to continue with enhancing IT security, key systems and desktop support. The investment in one time costs contributes to increasing licensing costs and management for Oracle systems, server replacement, web accessibility support and initiating phone lifecycle replacement.

Library Information Services

The purchasing power of the University's central library's information acquisitions budget (currently at $7.9 million) continues to erode through inflation currently at a rate of between 4% and 6% annually. $0.340 million (4.25%) will be provided in this year's budget to help sustain current purchasing power levels. The impact of US dollar exchange rates will continue to be monitored by Library leadership to assess impact on the information resources costs.

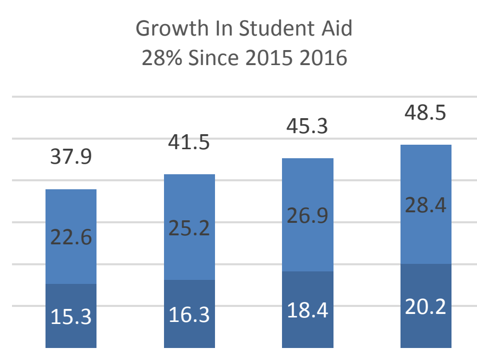
Support Services

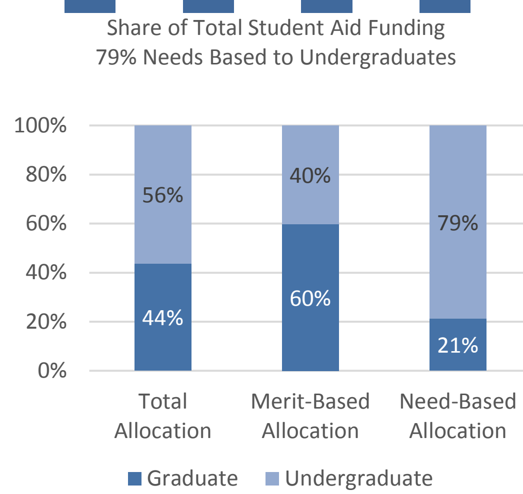
Along with central infrastructure, funding is provided for high priority central services that provide for the health and safety of students, activities in support of University-wide objectives to meet external reporting or other legislative or legal requirements. A total of $0.760 million in base funds will be allocated to support the following areas:

- $0.560 million will be provided to assist in funding of one new position and other support services in Student Affairs for exam accommodation and diversity as well as a contribution to the costs of student labour in Athletics operations and other student support areas.
- $0.200 million contribution to the costs in the Office of Research for administering new provincial requirements for governance, risk management and reporting requirements of the OMAFRA agreement which was recently renewed for the next ten years.

Student Aid

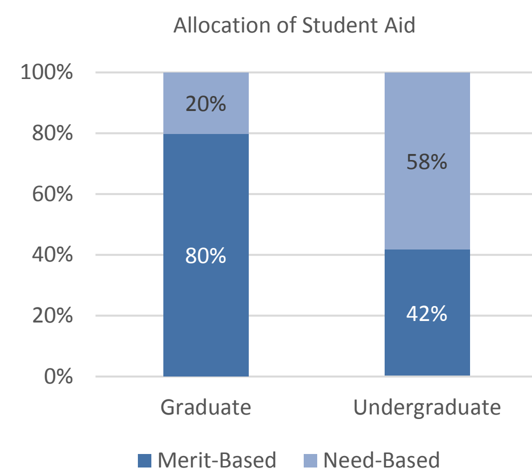
Supporting student accessibility and attracting high quality students has been a major budget priority. At the University of Guelph a fundamental principle is that, working in partnership with government and students, all qualified individuals should be able to attend university regardless of their financial status. Reflecting this priority the University has increased direct student financial assistance by 28% since 2015 2016 (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 Ontario Student Assistance Program (OSAP). 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. In 2017 2018, the province implemented a fundamental restructuring of student assistance for Ontario post-secondary education. These changes include a rebranding, introduction of a more user-friendly website,





consolidation of several grants into one upfront grant, free tuition for eligible students, eliminating reporting of RESP amounts and a net cost view for eligible students outlining the financial information related to attending the University of Guelph. A key feature of the revisions is the concept of "Net Billing" for students – "Net" being the amount the student is responsible for after OSAP and University support has been applied to their total costs. Guelph was part of the pilot and successfully implemented Net Billing for students in the of Fall 2017. The positive outcomes for the students include transparency of out of pocket costs, a streamlined application process and potentially increased access to government and institutional aid. In addition, the provincial changes to OSAP (i.e. excluding RESP proceeds in need calculation) resulted in a significant funding increase to the Student Access Guarantee (SAG) obligation which ensures that students in need have access to the resources they require for their tuition, books, and mandatory fees.

In terms of University support, there are two major funding sources for student financial aid; 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 80% of what they receive. Undergraduate tend to receive a larger share of needs-based support, which comprises 58% of what they receive. (refer to chart)



Over a 3 year period, direct student assistance by the University and the provincial changes to the OSAP program has increased significantly. The tables below show the University support increasing within the General Operating Fund by a total of 25.9% for an overall University increase of 17%. Early indications are new Net Tuition OSAP support levels increasing by 24% over three years to approximately $118 million with almost 50% of that amount awarded as OSAP grants.

Student aid from General Operating in 2018 2019 includes another $2.3 million in base funds from the General Operating budget. Contained in the new allocation for 2018 2019 are:

- $0.700 million in new needs-based funding mainly for undergraduate students under the provincial tuition set aside requirements to allocate 10% of the increase in revenue derived from regulated fee increases for student assistance.
- $1.000 million in support of the Student Access Guarantee obligation.
- $0.600 million contribution to a new $1.5 million International Doctoral Tuition Scholarship.

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 Funding Source

in $millions	16/17 Actual	17/18 Forecast	18/19 Plan	3 Year % CHG
General Operating				
Undergraduate	19.10	21.82	23.53	
Graduate	9.51	11.05	12.47	
Total General Operating	28.60	32.87	36.00	25.9%
Endowment and Trust				
Undergraduate	3.73	3.72	3.75	
Graduate	9.13	8.70	8.75	
Total Endowment and Trust	12.86	12.42	12.50	-2.8%
TOTAL SCHOLARSHIPS AND BURSARIES	41.46	45.29	48.50	17.0%
Total Share from Operating Fund	69%	73%	74%	
Total Share from Endowments and Trust	31%	27%	26%	

TOTAL SCHOLARSHIPS AND BURSARIES By Program Level

in $millions	16/17 Actual	17/18 Forecast	18/19 Plan	3 Year % CHG
Recipients				
Undergraduate				
Needs Based (including work study and URA)	12.20	14.22	15.87	
Merit Based	10.62	11.32	11.41	
Undergraduate	22.823	25.54	27.28	19.5%
Graduate				
Needs Based (including work study and URA)	4.08	4.15	4.28	
Merit Based	14.56	15.60	16.94	
Total Graduate	18.64	19.75	21.22	13.8%
TOTAL SCHOLARSHIPS AND BURSARIES	41.46	45.29	48.50	17.0%

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.

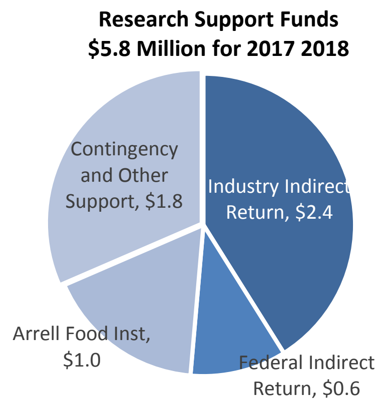
Graduate Enrolment Support:

In 2007, the University began to allocate funds to colleges based upon growth in graduate student enrolments that were eligible[17] 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. In 2016 2017, there was a substantial increase of 149 FTEs in masters-level students. This was followed up in 2017 2018 with another 62 masters FTEs and 21 PhD FTEs.

[17] "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 FTEs at the University approximately 60% are international students.

Under the University's allocation process, additional funding for this growth is provided to colleges at the rate of $6,000 per eligible Masters FTE and $10,000 per Doctoral FTE. In 2017 2018, an additional $0.560 million will be provided in the on-going budget assumptions to maintain the colleges at this new level.

Research Support Funds:



Activity-based funding also includes funds allocated based on research results and new initiatives. Under this general funding "umbrella" there are several programs:

- **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**: Funds transferred to colleges each year based on both tri-council and other government and industry research funding awarded
- **The Arrell Food Institute**: Created by a $20 million transformation gift received in 2017. The University will match gift funds at the target level of $2.0 million per year over 10 years at steady state. After an initial internal allocation to seed the startup of the Institute in 2017, an additional $0.6 million is added for 2018 2019 to contribute to match costs including the expected hiring of three research chairs, annual communication and outreach and graduate student support.
- **Other Support**: Includes a Research Infrastructure Operating Fund (RIOF) supporting research facilities and several other smaller reserves and allocations specific for support of research. 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.

Incremental Funding

It is important that initiatives from across the University that contribute effectively and efficiently to achieving the University's strategic and budgetary goals have access to funding with the appropriate review and approvals. As part of the Integrated Planning processes of the past, varying levels of funding have been provided to "seed" new ideas with the appropriate level of review and approval.

In 2018 2019 it is proposed to continue to invest incremental funding to support high priority projects/programs. There is $3.0 million in designated funding to be allocated in 2018 2019 along with one-time funding from reserves if necessary for the program priorities.

Balancing the 2018 2019 Budget

Balance Budget Contribution

For 2018 2019, the University is projected to have an in-year budget deficit of $5.9 million. Although such budgets have been presented in the past, the circumstances are much different in that the University reserves allow the institution to develop a different narrative for 2018 2019.

To close the gap, each College and Division will contribute one-time funds based on their respective total budget. In the instance that the efforts yield a different 2018 2019 budget picture by January 2019, some or possibly all the one-time contributions may be returned to each College / Division at that time.

Contribution will be based on the total budget of the College or Division for 2016 2017. Consideration was given to the proportion that any unit could contribute to ensure they remain financially sound.

As another indicator used in the methodology, the Carryforward Policy will also be a factor in determining the level of contribution. Furthermore, any unit that is exempt from the Carryforward Policy (Student Assistance, Research Institutes, and General University Expenses) will not contribute to balancing the budget.

Units that reported to be above the Carryforward policy for the 12 months ended April 30, 2017 will contribute a higher proportion than those under the policy limit. 90% of the units were above policy limit and therefore, a majority will not qualify for the lesser contribution percentage.

This should not be viewed as an exercise in enforcing the carryforward policy, but rather, the goal of the contribution level rules is to primarily ensure that each unit remains in a good position for the coming year. Carryforward levels are a simplified proxy to determine a unit's financial standing.

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**: 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;** funds 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 2018 2019:

FINANCIAL RESERVES

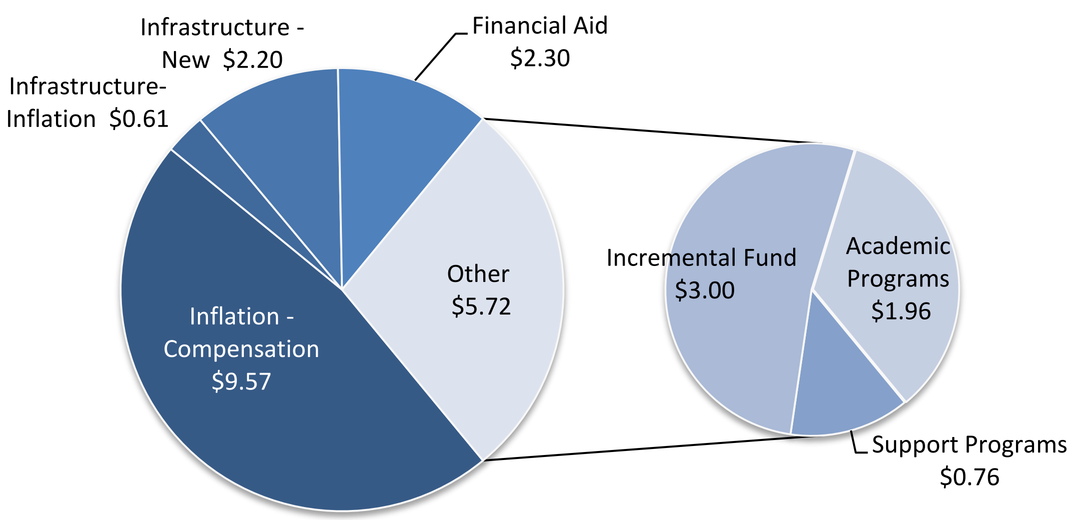
in $millions	14/15 Actual	15/16 Actual	16/17 Actual	17/18 Forecast
Divisional Reserves	71.0	82.6	95.7	94.2
General Reserves	48.0	68.6	73.7	69.6
Total General Operating Reserves	**119.0**	**151.2**	**169.4**	**163.8**
Post Employment Benefits	74.0	71.7	64.6	45.9
Self Insured Losses / Guelph-Humber	2.5	1.9	3.3	3.3
Total Internally Restricted	195.5	224.8	237.3	213.0
Unrestricted	(300.5)	(345.3)	(308.0)	(295.0)
TOTAL NET ASSETS OPERATING	(105.0)	(120.5)	(70.7)	(82.0)

Summary of General Operating Fund Revenue and Expense Additions

In summary for the 2018 2019 General Operating Budget, the expense additions include inflation costs, new investments and designation of funds for incremental priorities for a total of $20.4 million. On the revenue side, the budget identifies incremental revenues primarily from credit tuition (both flow through of 2017 2018 enrolment gains and tuition rate increases and targeted international undergraduate enrolment growth) plus other miscellaneous revenues and recoveries and budget reallocations from prior years for a total of $14.53 million. The funding gap of $5.9 million has been covered by budget contributions from colleges and divisions to balance the budget for the year.

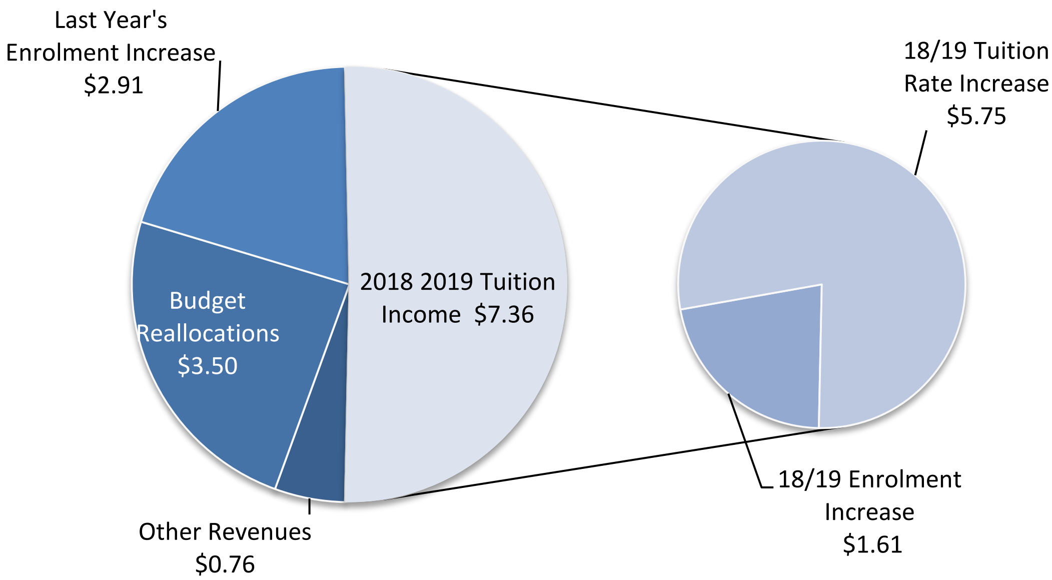
The chart below summarizes the major incremental expense additions allocated in the 2018 2019 General Operating Budget. They reflect the major budget priorities of meeting general costs increases, investing in student recruitment and accessibility and providing funds for new programs and services.

2018 2019 General Operating Funds - Allocation to Expense Increases
TOTAL $20.4 million (in $millions)



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).

2018 2019 General Operating Funds - Additions of Revenues
TOTAL $14.53 million (in $millions)



"Last Year's Enrolment Increase" refers to additional tuition income from enrolments having exceeded targets last year (2017 2018). These revenues will be regenerated in 2018 2019 by targeting to maintain the Graduate enrolment level and used to assist in balancing the 2018 2019 budget.

OMAFRA

Since its founding, the University of Guelph has had a unique 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 agreement 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; providing individual faculty-based research project-based funding across a wide range of disciplines and commodities and supporting knowledge mobilization and commercialization.

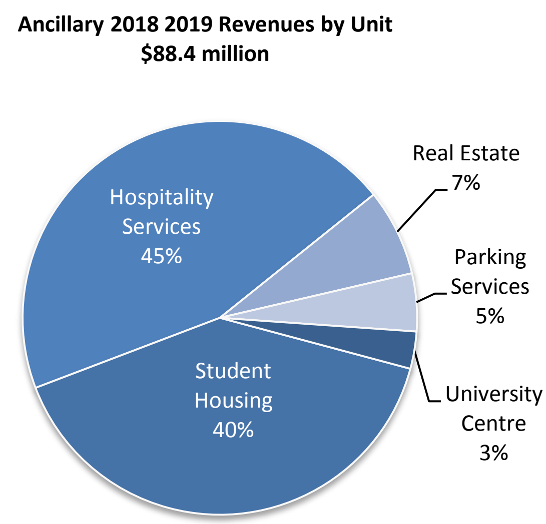
While funding within the agreement is restricted and cannot be used for general University purposes, agreement funding does support over 400 University faculty and staff and provides $10.5 million annually in support of indirect costs related to the agreement.

On January 30, 2018 the University of Guelph signed a 10 year renewal of the OMAFRA-U of G Agreement to continue the long-term partnership for discovery and innovation. The renewed agreement includes confirmation for annual funding of $71.3 million. The agreement continues the support for U of G faculty, staff, research and facilities across the five existing major program areas covering Research, Veterinary Capacity, Animal Health Laboratory, Agriculture and Food Laboratory and the Research Station Property Management program.

As a result of the timing of the renewal, the joint agreement leadership and program management will proceed with detailed budget development and program implementation planning with a target of bringing a final 2018 2019 agreement budget forward for approval in June 2018.

Ancillary Units

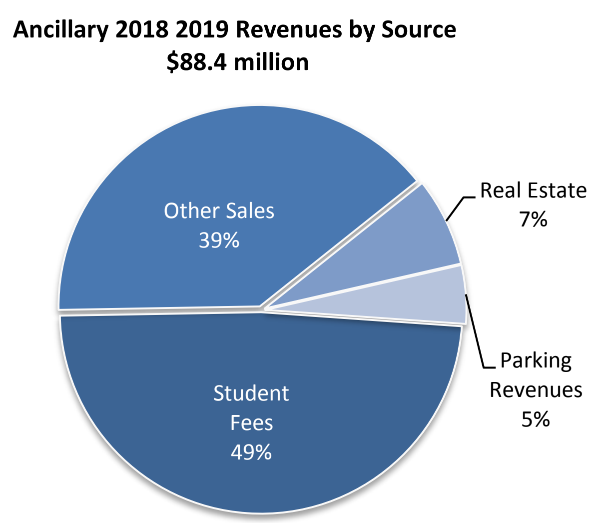
Ancillary Units at the University provide a number of important support services to students and staff that are not directly associated with the delivery of academic programs. Typically these types of services are ineligible for support from provincial grants or tuition fees meaning costs must be covered 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;



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

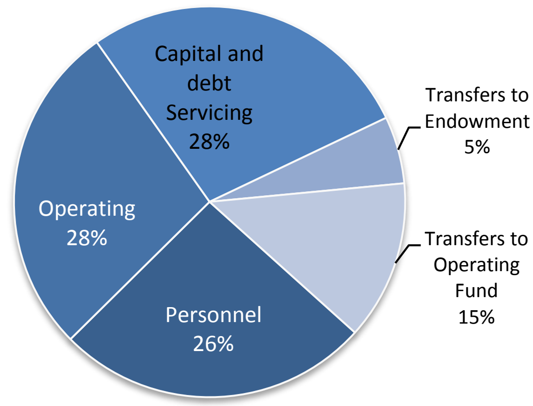
In setting budget assumptions, each Ancillary unit develops an annual plan that reflects the unique nature of their operations. Revenue from Ancillary units are concentrated in two units; Hospitality Services (on-campus food and retail) and Student Housing (on-campus residence) that together make up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



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.

In summary for the 2018 2019 fiscal year, the combined results for the five ancillary operations plan for increased capital and renovation costs funded from operations cash flow and using $6.0 million in prior years reserves without increasing borrowing or debt as a result. Individual plans are discussed below.



Combined Ancillary Unit Budget Table 2018 2019

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

Total revenues are expected to be unchanged from 2017 2018 actuals overall with some variation by unit.

Compared to last fiscal year, estimated operating expenses and net transfers, excluding capital and renovations, will increase by 4.2%. Salaries and benefits are increasing 7.7% in total due to the cost increases for part time and student staff members due to minimum wage increases and other annual general salary increases. Student Housing also increased the pay scale for Resident Life staff members.

Planned expenditures for "Renovations/Cap Equipment" are increasing by 20% which results in an overall operating result of a $6.03 million deficit. This use of reserves reflects capital spending in Student Housing and Parking. This deficit will be fully funded from accumulated reserves in the divisions. The remaining three ancillary operations are projecting small surpluses.

			Summary	$ thousands	
2016/2017 Actuals	2017/2018 Budget	2017/2018 Forecast		2018/2019 Budget	% Change Budget To Forecast
			REVENUES		
43,457	41,634	42,797	Student Fees - Contracts (Food & Housing)	42,910	0.3%
34,181	34,125	34,219	Other Sales of Goods and Services	35,035	2.4%
5,749	5,632	6,505	Real Estate - Lease and Property Income	6,287	-3.4%
4,194	4,150	4,598	Parking Revenues	4,150	-9.7%
87,581	85,541	88,119	Total Revenues	88,382	0.3%
			EXPENSES		
18,253	18,619	18,770	Salaries	20,225	7.7%
3,673	3,954	3,947	Benefits and Pension	4,249	7.7%
8,315	11,056	10,236	Renovations/Cap Equipment	15,287	49.3%
6,424	6,581	6,548	Debt Servicing	7,296	11.4%
1,014	1,102	1,027	Utilities	1,148	11.8%
25,182	24,801	24,674	Operating	24,938	1.1%
62,861	66,113	65,202	Total Expenses	73,143	12.2%
			UNIVERSITY TRANSFERS		
6,193	4,359	4,554	To Heritage	5,249	15.3%
12,122	12,330	12,279	To Operating	12,442	1.3%
3,680	4,009	3,657	To Major Capital & Debt Servicing	3,577	-2.2%
21,995	20,698	20,490	Total University Transfers	21,268	3.8%
2,725	(1,270)	2,427	Operating Results (Unrestricted)	(6,029)	
11,752	14,477	14,477	Opening Fund Balances - Unrestricted	16,904	
2,725	(1,270)	2,427	Change	(6,029)	
14,477	13,207	16,904	Closing Fund Balances - Unrestricted	10,875	

Highlights for Ancillary Units for 2018 2019

1. HOSPITALITY SERVICES

Hospitality Services is a $40 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 2018 2019 budget provided their support. The major source of revenue is the sale of food contracts to students consisting of 4,100 residence meal plans and 19,500 meal plans sold to off campus students per year. Other income is earned from sales to staff and event catering services. For 2018 2019:

- Meal Plan (minimum) rates to increase by 3.0%. 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 for its emphasis on local food. Overall 2018 2019 revenues are expected to increase by 3% over 2017 2018 forecast.

- Expenses are driven mainly by the cost of products (37% of expenses), especially food costs. Costs will be contained through expanded co-operative, bulk and local buying. Personnel costs (38% of expenses) will increase by 5.6% allowing for centrally negotiated increases and the resulting increasing costs of part time staff costs due to recent legislation. Hospitality Services employs approximately 700 part time staff members. Note that any changes made to cope with increasing costs will not negatively impact on quality or service.
- Capital renovations will total $0.975 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 87% 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 52% of Student Housing expenses are allocated for capital related costs including debt servicing and renovations. As part of the budget development process, SHS completed a five year budget plan guided by their high level goals of Sustainability, Accessibility and Marketability. Each year a student advisory group reviews the Student Housing Services budget and for the 2018 2019 budget provided their support.

For 2018 2019:

- Single student residence fees will increase by 2.1% which includes a $30 per semester charge for a revised laundry services plan. The program replaces a former mandatory laundry card purchase system. The base rate increase will maintain the University's position in the mid-range of fees in the Ontario system. The occupancy assumption for 2018/2019 for planning purposes is 95% for their regular capacity. Family Housing rent increases of 1.8% follow the provincially allowed RTA increase. Overall revenues are budgeted to increase by 2% over last year's budget from both student contracts and summer conference activity.
- Overall operating costs excluding capital costs are budgeted to increase by 4.7% due to part time staff increases and a revised salary plan for Residence Life staff to match costs of living in residence and comparable with new minimum wage rates. Expenses are weighted to operating and maintaining the residence buildings with 50% allocated for capital costs, debt financing and renovations. Other operating costs including custodial and utilities charges.
- Charges for capital projects and renovations are budgeted to increase to $18 million which includes $5.7 million for year 2 of a 6 year project to refurbish the exterior of the South residence complex. The capital plan has a focus on safety and deferred maintenance.
- Overall Student Housing is expected to draw down its accumulated reserves, which are forecast to be $8.3 million on April 30 2018, by $3.8 million. No new borrowing or debt is required for the 2018 2019 capital plans.

3. PARKING (AND SUSTAINABLE TRANSPORTATION) SERVICES

Parking Services is a $4.2 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 addition, 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 2018 2019:

- Commuting annual permits rates will remain unchanged for the year to keep the cost of a commuting permit in line with the costs of a reduced rate Guelph Transit pass.
- Operating costs are increasing to add a new assistant manager position to assist service levels and efficient operations. Initiatives include the installation of new campus wayfinding signage at $0.831 million (deferred from last year) and the completion of Lang Way (Powerhouse Lane) for $1.575 million. In addition, Parking Services will continue to contribute $0.887 million to support the General Operating Fund.
- The total major capital investment of $3.356 million will be funded from cash flow from operations and a planned $2.17 million draw on prior year reserves.

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 forecast at $6.5 million, about $4.6 million of which will be transferred to the Heritage Endowment. For 2018 2019:

- Revenues budgeted at $6.3 million reflecting the normal expected annual income from leased and rental properties.
- There are no major capital expenses planned for 2018 2019. Overall capital debt in the division is expected to decrease by $0.435 million to a very manageable $4.5 million.
- Overall net income is expected to be $5.2 million which will be targeted for transfer into the Heritage Endowment.

5. UNIVERSITY CENTRE ADMINISTRATION

University Centre Administration is a $2.7 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 2018 2019:

- Overall revenues are expected to increase by 2% overall due to increases in prices in the Brass Taps (licensed lounge) to match expense increases and a 1.7% increase in the student compulsory fee.
- Expenses are expected to increase by 1.5% and overall there is a $0.030 million surplus expected at the end of the fiscal year after a $0.180 million planned renovation in the Brass Taps facility. Results overall are in line with results of the prior year.

Capital Plan 2018 2019

Prioritizing Capital Projects

The average age of the University of Guelph's 145 buildings is 49 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 the utilities infrastructures necessary to support the extensive, research, teaching and service facilities contained in 6.6 million square feet of buildings across the main campus. Combined buildings and utilities infrastructure have an estimated total replacement value of $1.8 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 $310 million. Our Facilities Condition Index (FCI) is 17 (any rating above 15 is considered "Poor") – the Ontario university system average is an FCI of 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.

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 2018 2019 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. Savings recently experienced in the central utilities budget are in part a reflection of these continuous investments. Other projects for 2017 2018 include work on historically designated buildings (Massey, Alumni) and a continuing project for upgrades to electronic building access.

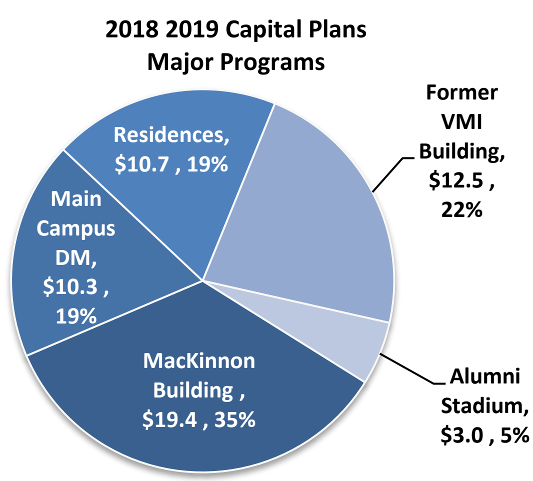
2. Major Building and Renovations: this grouping consists of major individual projects (normally over $2 million) such as new buildings or major repurposing/renovations of existing buildings. Investments in this category often include major refurbishment and renewal that can enhance program delivery and services. Recent examples in this category include the recent Strategic Infrastructure (SIF) projects.

Summary – 2018 2019 Capital Plan $55.9 million

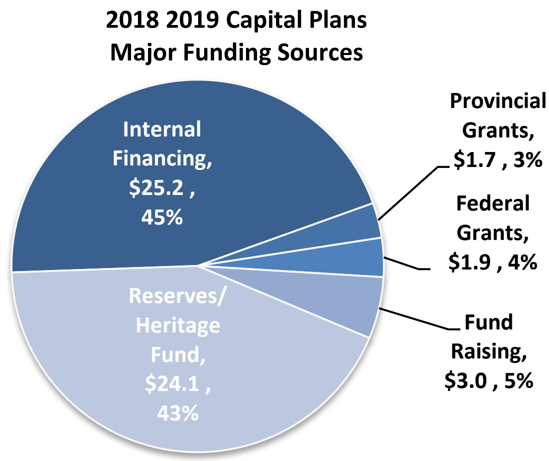
In January 2018, the Board of Governors was presented the University's 2018 2019 Annual Capital Plan. The approved plan includes continuing renewal, student housing upgrades and two of four new Major Building projects (two projects will be presented for approval when project estimates are confirmed).

Total costs of these projects was $55.9 million, funded from internal reserves ($14.5 million), the Heritage Fund ($9.5 million), fundraising and grants $6.7 million and internal financing supported from the General Operating Budget $25.2 million. Major projects include:

- Community Improv Theatre addition to MacKinnon ($4.6 million) funded from a CFI grant and internal financing
- MacKinnon north wing renovations ($14.8 million est.)
- the annual main campus deferred maintenance program ($10.3 million)
- Residence upgrades ($10.7 million) funded by Student Housing reserves
- Renovation and re-purposing of the former VMI building to relocate clinical psychology and therapy programs ($12.5 million est.)
- Alumni Stadium grounds ($3.0 million)



About 12% of the total funding for these projects will be federal and provincial government grants and fund raising. Existing University reserves and $9.5 million from the Heritage Fund will provide 43% of funds. Closing the funding gap will be $25.2 million (45%) in internal financing requirements.



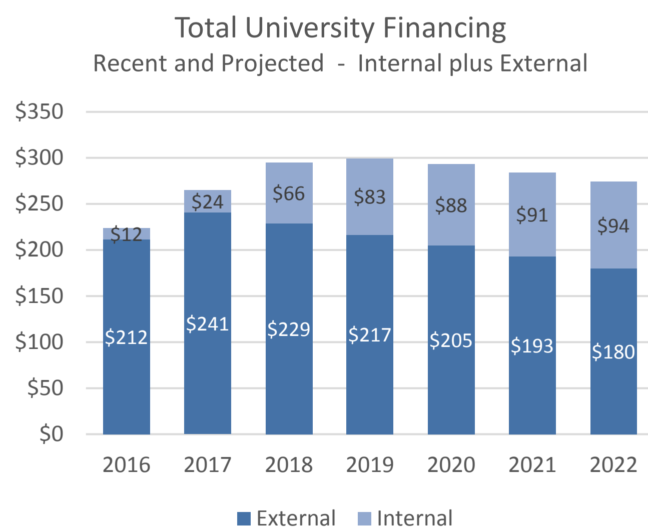
For financing, the University typically has two options; first external debt e.g., from any number of banks; second temporarily using internal cash resources. At this time it is proposed to temporarily use internal working capital (liquidity) as this internal financing source. This is based upon the 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 with low yields. 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 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 primarily to critical deferred maintenance and renovation items. 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 2018 2019 Capital Plan completion and minimal future external borrowing.



Relative to financial health metrics, with projected interest rate increases, the University is within major debt-management benchmarks under our policies.

Financing Costs

The total financing costs as a result of the 2018 2019 capital plan spending, once fulling completed, are estimated at just over $2 million annually. All of this cost will be allocated to the General Operating Budget as a result of the focus on the capital renewal of main campus and primarily academic space.