BUDGET PLAN 2019-20

Prepared for the Finance Committee of the Board of Governors

May 31, 2019

UNIVERSITY of GUELPH

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Executive Summary

The University's Budget Plan 2019-20 outlines the expected expenses and revenues for the Guelph and Ridgetown campuses. The Budget Plan considers the fiscal context the University is operating under, operational opportunities and risks, resources allocated to cover non-discretionary costs and supports key strategic initiatives arising from the University's academic and research missions. In addition, this Budget Plan provides information on the ancillary operations, capital projects, and the Ontario Agri-Food Innovation Alliance, our partnership with the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA). Lastly, this Budget Plan provides important context for the University of Guelph-Humber partnership. The actual budget for the University of Guelph-Humber is developed as a separate document.

Fiscal Context

In January 2019, the Government of Ontario announced a change in policies regarding tuition, student fees and student assistance. These changes affect tuition fee rates for funding-eligible students, ancillary fees charged to these students, OSAP award amounts and repayment requirements associated with Ontario student loans. Pertinent to the Budget Plan is the new tuition framework requiring universities to reduce tuition levels for 2019-20 by 10% from 2018-19 levels for MTCU funding-eligible domestic students. It is estimated that the impact of these tuition reduction at the University of Guelph for affected students will decrease gross tuition revenue from that group in 2019-20 by approximately $17.7M (Guelph and Ridgetown campus). Changes to non-tuition student fees are not expected to have a large material effect on the budget. Changes to student assistance will likely affect the ability of some students to attend or complete their university education but will not have a significant direct impact on our operating budget.

Recent communications from the provincial government indicate that through the third phase of our Strategic Mandate Agreement, government will make significant shifts to post-secondary funding moving from student-based to performance-based funding. This shift will occur gradually over five years between 2020 and 2025, with a greater portion of our funding tied to outcomes each year. At the same time, the province has indicated that the enrolment corridor will continue. Prompted by this change in fiscal context, the University is engaged in a revenue generating, financial sustainability exercise that we expect will allow the University to meet current and future budget challenges.

Projected budget position for 2019-20

Compared to the 2018-19 budget it is projected that in 2019-20 our revenues will remain flat, while our expenses will increase by $7.5 million (assumptions for the revenue and expense projections can be found in section 3.2). This will result in an initial projected deficit of approximately $9.3 million. However, owing to a one-time offset from the re-evaluation of the pension liability, the final deficit for 2019-20 is estimated at $5.3 million. For the 2019-20 budget year, the University will use central reserves to cover the deficit.

The University expects to be in a deficit position beyond 2019-20. To safeguard the financial sustainability of the University in the long-term, we are engaged in a planning and revenue generation process that is expected to find efficiencies and identify new revenue opportunities for the University. Through an engaged process with the

University community, work has begun on identifying and prioritizing these ideas, and developing detailed plans for the implementation of these strategies. The impact of this work will be reflected in the 2020-21 budget plan and in future years.

In this past year, the University introduced a robust unit budget planning submission process that greatly enhanced how units strategically plan their budgets and assess the long-term viability of their budget strategies, and the risks and challenges therein. This budget submission process succeeded in meeting our goals of increasing budget transparency and accountability, whilst also laying the ground work for improved long-term budget planning. This more formally engaged budgeting approach worked in tandem with the foundational Institutional budget planning cycle by revealing promising strategies and successful activities while also highlighting budget deficiencies in certain areas.

Continued focus on academic priorities and strategic investments

While the University works to mitigate the impact of the recent and ongoing changes to University funding from government sources, it is important to ensure that our investments continue to support our academic and research missions. The University of Guelph is a top comprehensive university that is both learner-centred and research intensive. We have a deep and abiding commitment to building a diverse and inclusive campus. Over the past year, our academic budget priorities were articulated in the Provost's budget presentations to the University community as: Internationalization; Innovations in Teaching and Learning; Faculty Renewal; Strategic Enrolment Planning and investment in University-wide strategic research and academic partnerships (such as One Health and Care-AI).

Of note is the commitment to Internationalization of the University. Driven by the President's Strategic Framework and Global@Guelph, the University recognizes that internationalization is key to fulfilling our aspirations as a University. To quote, Global@Guelph, "In a world that is increasingly interconnected, and where the pace of change is accelerating, we continue to recognize the essential requirement for a fully-fledged approach to internationalization. Increasingly, internationalization will be a vital force for research excellence and innovation, learner-centred and engaged education, and knowledge mobilization and transfer". The University has begun investment into this priority, specifically focusing on increasing international opportunities for students and faculty, including increased international student recruitment. Consistent with our commitment to student success, the University has committed to increasing student aid for international students by $500,000. The University is also investing in administrative and academic supports for international students and faculty, ensuring that we are successful in our commitments to fulfilling the President's vision.

Core to the University's success is the recruitment and retention of world-class faculty. The number of faculty[1] at the University of Guelph has grown since 2015 by 6% to a total of 792 in 2018-19. The University is committed to continue its hiring, while recognizing our current fiscal. Indeed, in 2018-19, the University hired 41 new faculty.

At a time when digital technologies and data are ubiquitous components of everyday life, IT is core to fulfilling our University mission. The University will continue to update and modernize systems with the goals of improving service, increasing capacity for evidence-based decision making and increasing efficiencies. Projects that have been approved by the IT governing council (ITGC) include an enterprise-wide data strategy, renewal and upgrades to the student system, augmentation of the data centre, an updated research administration

[1] Faculty referenced here does not include senior administrative positions such as deans and associate deans.

information system, and a new human resources management system. Many of these projects are multi-year. All of these projects will increase the efficiencies to the way we work and allow better academic planning and decision making.

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 2019-20 fiscal planning across the major operating activities of the University and presents an Annual Budget Plan for Board of Governors approval. This Budget Plan presents a consolidated plan that combines the financial structures of the OMAFRA agreement, ancillary enterprises and the General Operating Budget into one document. In addition, the University's major capital projects are presented, summarizing the plan that was presented to the Board of Governors on January 23, 2019 with particular attention paid to its impact on the General Operating Budget.

1 Fiscal Context

A strategic requirement in preparing the 2019-20 Budget Plan is to determine foreseeable operational and external influences that become key assumptions that inform the underpinning for the University's projected resources and planned expenditures. For the University of Guelph, this planning year comes with an unprecedented number of major external influences, each of which may affect the University's path in meeting our core academic mission.

1.1 Shifting Provincial Government Landscape

On January 17, 2019 the Ministry of Training, Colleges and Universities (MTCU) announced several key policy changes for universities and colleges. These policy changes include changes to the tuition framework, the Ontario Student Assistance Plan (OSAP) and student fees.

New Tuition Framework

For several years, universities have had the ability to increase domestic tuition fees by no more than 3% overall (3% for arts & science programs and 5% for professional and graduate programs). This long-standing framework expired on March 31, 2019.

In the January announcements, the provincial government introduced a new tuition framework[2] requiring colleges and universities to reduce tuition fee levels by 10 percent in 2019-20, relative to 2018-19 levels. Colleges and universities are expected to maintain tuition fees in 2020-21 at the same level as 2019-20 tuition. This policy affects all tuition fees for programs and student categories eligible for MTCU operating funding. The only exceptions to this policy are tuition fees charged for cost-recovery programs and international students. Diploma students at the University are also considered exempt. This tuition reduction will affect approximately 93% of our students.

This is the first time in Ontario's history the government has mandated a tuition reduction resulting in broad ranging impacts for the University. For example, if the previous framework (e.g., allowed to increase by an overall average of 3%) was rolled over for 2019-20 and 2020-21, tuition revenues would be approximately 18% higher than under this new fee reduction policy.

The table below shows the impact of this policy change in terms of absolute dollar for the students and programs affected. Note that this does not include any offset in revenue loss from unregulated tuition fee increases.

[2] http://www.tcu.gov.on.ca/pepg/mtcu-university-tuition-framework-guidelines-mar2019-en.pdf

Gross Revenue Loss Due to New Tuition Policy

	Estimated Tution Revenue for 2019-20 ($ in millions)		Tuition Impact
	Based on 2018-19 Fees	Based on 10% Reduction	
Main Campus	176.5	158.8	(17.7)
Guelph-Humber	33.8	30.4	(3.4)
Total	210.3	189.2	(21.1)
Using 2019-20 enrolment projections for impacted students only			

OSAP & Student Aid Changes

The provincial government implemented several changes to the OSAP program beginning in the 2019-20 academic year. These changes affect financial resources, particularly non-repayable loans, available to students. The most significant OSAP changes include:

- An increase to the maximum weekly OSAP funding amount by 1% thereby increasing the total provincial funding available to students;
- The expected parental contributions will be increased and based on contributions in place in 2017-18;
- A change to the definition of independent student. A student will need to be out of high school six years to be considered independent of their parent's financial obligation (previously it was four years out to be considered independent);
- 100% grant funding for low income students has been eliminated and is replaced with a minimum 10% loan component. The loan component will increase as the family income increases on a sliding scale;
- Students will accrue interest immediately after leaving full-time studies, eliminating the 6-month interest-free grace period.

Although tuition has been cut by 10% for domestic students, it is almost certain that the tuition saving will be offset by the loss of OSAP grants for those who need them most and the increase to expected student and parental contributions.

Student Choice Initiative

In the January announcements, the provincial government introduced the "Student Choice Initiative" for student fees (i.e., all non-tuition related fees) to take effect September 2019. According to the government, this initiative has three goals:

- Ensuring transparency regarding the fees that students are expected to pay
- Bringing consistency and simplicity to the ways students can opt-out of student fees
- Ensuring students have more choice regarding the services and activities they wish to support

Under this new student fee initiative, some fees can be charged on a mandatory basis (and thus required to be paid by all registered students) while other fees must now be considered optional. Students will be provided the opportunity to opt-out of all optional fees. According to the Ministry directive, fees that are considered mandatory include those fees under the following categories:

Academic support	Financial aid offices	Student buildings
Athletics and recreation	Health and counseling	Student ID cards
Campus safety programs	Student achievement and records	Student transit passes[3]
Career services		

In addition, all health and dental plans will be mandatory with an opt-out option based on proof of pre-existing coverage. Programs-specific fees (e.g., co-op fees, field trip fees) are not subject to the new changes. All other fees are considered non-mandatory and universities must provide the students the ability to opt-out online at the time of billing.

It is anticipated that the government directive will have little impact on the University's operating budget for 2019-20 beyond the significant operational and system investments required to provide the online opt-out options for students by the September deadline.

Under this directive, most fees gathered by and for our student associations and groups are considered optional, putting these groups at-risk for revenue reduction. A reduction in revenues for these groups, particularly for the student government groups, could interfere with the ability of students to self-govern and participate in the governance of the University.

Ontario Agri-Food Innovation Alliance (OMAFRA Agreement)

The Ontario government notified the University that there would be a $5.2 million decrease in the anticipated $71.3 million OMAFRA transfer payment in each of the remaining four years of the current five-year funding plan. A scenario planning process between University and OMAFRA leadership was undertaken in order to maintain the highest priority program activities while seeking approval from the Ministry to use uncommitted reserve funds to balance the annual budget.

1.2 On the Horizon

University Pension Plan (2021)

For several years, the University of Guelph, along with the University of Toronto and Queen's University, has been working with faculty associations, United Steelworkers and non-union employees to establish a new jointly sponsored defined benefit pension plan for eligible faculty and staff at all three institutions. A foundational principle of these discussions has been that the plan would be scalable to allow other universities to join in the future. A jointly-sponsored pension plan is a type of defined benefit pension plan that is sponsored, governed, and funded by both employers and plan members. This proposed pension plan provides a long-term sustainable path for preserving a defined benefit pension plan by reducing volatility, proactively addressing the rising costs

[3] Existing mandatory transit pass fees will remain.

of single-employer pension plans as well as leveraging efficiencies of scale for administration and investment. The inception of the proposed University Pension Plan, if consent is achieved, is expected to be July 1, 2021.

The short and long-term implications to the operating budget of a transition to the new pension plan have been explored. As jointly sponsored pension plans are funded on a going concern basis without the requirement to fund solvency deficiencies, the long-term impact to the University's operating budget is both positive and significant which supports the investment in such a transition.

Strategic Mandate Agreement Renewal(2020-2025)

Strategic Mandate Agreements (SMAs) are bilateral agreements between MTCU and postsecondary institutions. The SMA outlines the role the University currently performs in the postsecondary system and how the University will build on its current strengths to achieve its vision and help drive system-wide objectives and government priorities. The first SMA (effective 2014 to 2017) opened the dialogue to develop system-wide and differentiation metrics along with reporting. MTCU identified priorities for (i) differentiation, (ii) quality workforce & experiential learning and (iii) student access to higher education.

The second SMA (SMA2; 2017 to 2020), identified 5 priorities areas (Enhancing Student Experience, Teaching & Learning Excellence/Innovation, Access & Equity, Research Excellence/Impact, Economic Development & Community Engagement). SMA2 came with a series of system-wide and institution specific metrics and identified targets. While the intent was a move by the provincial government to a more performance-based accountability structure, funding was still primarily driven by the enrolment corridor.

For the third SMA (SMA3; 2020 to 2025), MTCU will use the agreement as the basis to shift provincial funding of post-secondary education from a primarily grant-per-student funding model to an outcome-based funding model in which up to 60% of government funding will be performance based. A challenge for the University of Guelph, as with other Ontario postsecondary institutions, is to recalibrate our strategic path to accommodate the transition from primarily enrolment-based funding to a performance-based model derived from system wide metrics identified by the province for SMA3. It is anticipated that this agreement will be signed in late fall 2019. The University of Guelph is engaged in a planning exercise to prepare the University for the transition to performance-based funding, whilst ensuring that we continue to pursue our goal of being one of Canada's best comprehensive research universities. Our overall goal is to continue to support the academic and research mission in this fiscally shifting landscape.

2 Budget Strategies

The Budget Plan for 2019-20 has been developed at a time of great uncertainty. The new direction for post-secondary education being charted by the current government combined with reductions in revenue and greater future uncertainty have fueled this uncertainty. It is likely changes to the way universities are funded will continue evolve over the coming years. Indeed, the April 2019 provincial budget signaled a greater reliance on performance-based funding for universities and colleges. The University has an articulated path to deal with the projected budget deficit and changed its approach to budget planning processes to better navigate current and forthcoming changes.

2.1 Deficit Mitigation Approach

The University's strategic approach to dealing with revenue reductions and projected budget deficit will be a long-term planning process during the next 18 months. The objective of this process will be to develop initiatives to find efficiencies and revenue generation opportunities to feed into the 2020-21 and subsequent University budget plans.

2.2 Unit Budget Planning Process

In October 2018, a new budget planning submission process was launched. This new planning approach to unit budgets prioritized alignment of strategic and academic priorities with unit plans and introduced greater transparency and accountability. Key units (seven Colleges and 23 administrative units) across the University submitted a budget plan outlining their strategic and operational objectives for 2019-20 and their resource needs to meet those objectives.

During the first week of March 2019, each budget planning unit met with one of two budget committees, the University of Guelph Budget Committee and the College Budget Committee. These budget committees were chaired by the Provost & Vice-president Academic. The committees were advisory in nature and composed of representation from administrative, research and academic[4] areas. The plans submitted from the units informed the setting of the 2019-20 Budget Plan.

This year's budget submission process succeeded in meeting goals of increased transparency and accountability, while also laying the groundwork for improved long-term budget planning. This process will continue in the coming years.

2.3 Importance of Strategic Investments & Looking Ahead

The University of Guelph is in a sound financial position with the capacity to brace against the changing budgetary landscape. In spite of the known fiscal constraints, 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 appropriate resources to meet our goals, with the appropriate review and approvals.

[4] Faculty and staff can access information on the budget planning process at: https://www.uoguelph.ca/bfpo/20192020-budget-planning

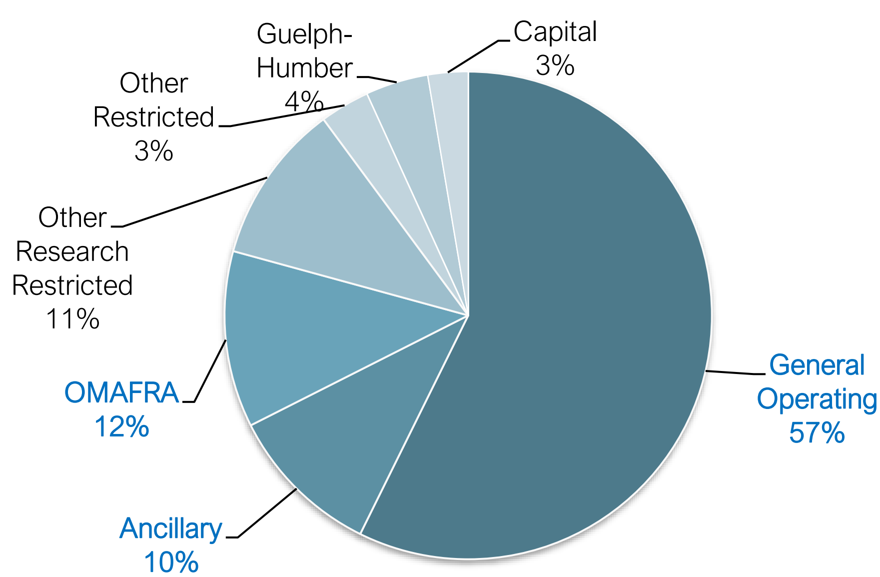
The University will invest in initiatives that directly meet the goals of the academic mission and/or that present a return on efficiencies and resources. This will require a two-pronged approach: by assessing more efficient ways to work and by identifying creative avenues for increasing revenues. To be successful, this process must engage the University community. We are committed to such engagement and follow through. This process will also require the implementation of a strategy aimed at smoothing the impact of changes in source funding over the coming years.

3 Highlights of the Operating Plan

3.1 Audited Financial Statement Result for 2017-18

The following chart presents the elements of the University's audited financial statement with the major operating (non-capital) components of the University's Budget Plan highlighted. The major focus of budget planning excludes "Other Restricted" and "Other Research Restricted" activities. These funds are composed of many individual projects/grants that have restrictions and accountabilities on their use as per direction from their funders (e.g., tri-agency research agency) and have limited direct impact on the overall fiscal net position of the University.

2017-18 Audited Financial Statement Results $825 Million



The Operating Plan addresses the following source of University funds:

- General Operating[5] $473 million: (Section 4) 85% of operating revenues are provincial grants and student fees. 70% of operating expenses consist of salaries and benefits.

[5] General Operating Fund in the audited statements shown above excludes the revenues attributed to Guelph-Humber ($34.7 million) and Veterinary Capacity Program funds ($5.3 million). Unlike the 2017-18 actuals listed in the General

- OMAFRA $97 million: (Section 5) is a major agreement with the Ministry of Agricultural Food and Rural Affairs funding research program, personnel, and infrastructure management for the purposes of addressing provincial priorities related to agriculture and food. This also includes revenues ($25.7 million) generated from facilities supported by this agreement.
- Ancillary $85 million: (Section 6) self-funding services with revenues from fees for services; food, student housing, parking etc.

3.2 General Operating Budget

- For the operating budget of 2019-20 we are projecting an in-year $9.3 million deficit.
- As part of recent favorable actuarial pension valuation of the University's pension assets and obligations, the University's going concern special payments are reduced. The University will utilize the one-time pension savings to reduce the projected deficit by $4 million. The remaining deficit will be covered through the University's central reserves.
- Before 2018-19 fiscal year, the budget planning exercise included the use of in-year surplus to shore up the following year's budget. For 2018-19, there was not enough 2017-18 revenues to bridge the 2018-19 budget deficit. As such, the University required one-time budget contributions from unit's divisional reserves of $5.9 million to balance the budget.
- Although 2019-20 Budget for core operating revenues is flat versus prior year, due to realizing efficiencies in the central utilities budget ($7.2 million) and a reduction of the going concern payments ($8 million), core operating expenses are projected to grow by only 1.5%.
- Key Revenue Assumptions:
    - Domestic tuition fees of provincially funded programs will be reduced by 10% under the new Tuition Framework;
    - International undergraduate tuition remains amongst the lowest in our peer group. Balancing the needs of students with demand for programs, international undergraduate tuition will see increases between 5% and 15% for degree programs. International graduate tuition will increase between 3% and 4% for all but one professional master's program in engineering that will increase by 12%. Consistent with our commitment to research intensity, the University will continue to offer international PhD students (with minimum 80% average) scholarships equal to an amount that offsets much of the premium tuition paid by international students.
    - Domestic undergraduate enrolment is projected to increase marginally by 0.9% over 2018-19 while international undergraduate enrolment is projected to grow by approximately 200 students;
    - Provincial operating grants are assumed essentially flat due the change to corridor funding by the province in 2017-18, with only the exception of a small increase projected for graduate enrolment which is funded outside of the corridor.

Operating Plan Summary (section 4.1), this figure excludes the Guelph-Humber transfers that flow into the operating budget ($22.9 million)

- Key Expenditure Assumptions:
    - Subject to employee group collective agreements, compensation inflation is between 2% and 3.5%;
    - Going concern special payments in the operating budget were $12.8 million in 2018-19, and in previous years. Due to the changes in pension valuation, going concern special payments will be reduced by $8 million;
    - Central utilities budget will be reduced by $7.2 million to account for savings realized from capital project efficiencies;
    - The University values student support and will ensure the same level of aid is available in 2019-20 despite mandated changes by the province on the level of tuition required to be set-aside for financial support. The University will also provide an additional $500,000 for international student supports;
    - IT Governance Council (section 4.8) approved projects for university-wide system changes and upgrades will require $1.98 million in 2019-20. Other planned major IT investments aimed at improving efficiencies and service levels will be funded from reserves.

3.3 Ontario Agri-Food Innovation Alliance (OMAFRA Agreement)

- 2019-20 is year 2 of the 10-year renewal of the OMAFRA-University of Guelph agreement, the long-term alliance for discovery and innovation. The Agreement supports faculty, staff, research, innovation, testing, 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.
- OMAFRA notified the University that there would be a $5.2 million decrease in the scheduled $71.3 million transfer payment in each of the remaining four years of the current five-year funding plan. A scenario planning process between the University and OMAFRA leadership was undertaken in order to maintain highest priority program activities while seeking approval from the Ministry to use Uncommitted Reserve Funds to balance the annual budget. The 2019-20 Budget Plan proposes the use of reserves to balance the budget with targeted program reductions in years three through five.

3.4 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 2018-19 results overall. There is some variation within the units. Parking and Student Housing did have better than expected revenues in 2018-19 due to project timing and higher occupancy and permit sales.
- Fee increases will range from 2.0% for student residences, 3.0% in the cost of food plans and 0% increase for parking permits in 2019-20.

- On the expense side, estimated operating costs, excluding capital and renovations, will increase by 3.3% compared to last fiscal year. Salaries and benefits are increasing 5.3% in total due to the cost increases for part-time and student staff members as a result of salary compression[6], other annual salary increases and some key staff position increases.
- Student Housing Services will be continuing major capital renovations, primarily to South Residence, this year totaling $9.7 million. The remaining ancillaries have a series of smaller projects totaling $3.4 million. Of the total $13.1 million, $1.1 million will be financed internally with the balance funded from cash flow and reserve balances.

3.5 Capital

The 2019-20 Capital Plan presented proposed projects totaling $52.1 million to the Board of Governors.

- The Board approved $29.6 million in capital renewal projects:
  - $13 million for main campus deferred maintenance, funded by $1 million in provincial grants and $12 million from internal financing
  - $5 million for the next phase of the MacNaughton renewal, funded by internal financing
  - $11.6 million is residence capital maintenance and other ancillary facilities, funded by unit reserves.
- Proposed major capital projects to be recommended for approval by the Board of Governors when project estimates and external funding are confirmed:
  - $5 million for the Human Anatomy Lab, funded from Heritage Funds
  - $2.5 million for an Athletic Performance Centre, funded by fundraising
  - $15 million for the Guelph Agri-Food Innovation Centre (GAIN), funded by a grant.

[6] Due to previous minimum wage increases, certain units experience salary discrepancies that must also be reviewed and potentially adjusted.

4 General Operating

4.1 Three-Year General Operating Budget Plan Summary

The table below presents the major components of revenues and expenses for the General Operating Budget Plan for 2019-20 compared with the budget and preliminary results for 2018-19 and 2017-18 actual results.

In Thousands	2017-18 Actuals	2018-19 Budget [A]	2018-19 Preliminary	Preliminary % to Budget	2019-20 Budget	Budget % Year over Year	% of Category
REVENUES							
Provincial Operating Grants	186,517	183,333	186,917	2.0%	185,044 [1]	0.9%	37.8%
Tuition Fees	205,646	213,186	215,831	1.2%	210,171 [2]	-1.4%	42.9%
Other Student Fees & Contracts	18,260	16,828	18,830	11.9%	17,351	3.1%	3.5%
Sales of Goods and Services	37,225	36,829	38,202	3.7%	36,638	-0.5%	7.5%
Guelph-Humber	22,986	17,588	23,286 [3]	32.4%	18,642	6.0%	3.8%
Other Revenues	25,131	20,986	24,263	15.6%	21,517	2.5%	4.4%
Total Revenues	495,764	488,750	507,330	3.8%	489,363	0.1%	100.0%
EXPENSES							
Salaries	274,466	293,592	292,836	-0.3%	297,915	1.5%	58.1%
Benefits and Pension	79,284	85,558	83,179	-2.8%	82,404	-3.7%	16.1%
Scholarships and Bursaries	28,636	29,980	28,339	-5.5%	29,210	-2.6%	5.7%
Utilities	14,471	23,295	14,148 [4]	-39.3%	16,093	-30.9%	3.1%
Operating	90,271	73,210	95,456	30.4%	87,559	19.6%	17.1%
Total Expenses	487,128	505,634	513,957	1.6%	513,181	1.5%	100.0%
TRANSFERS							
From OMAFRA	(21,825)	(23,540)	(23,545)	0.0%	(23,545) [5]	0.0%	
From Ancillaries	(12,098)	(11,829)	(11,728)	-0.9%	(12,847)	8.6%	
From Heritage	-	-	-	0.0%	(1,473)	0.0%	
To Major Capital & Debt Servicing	36,801	24,351	28,436	16.8%	23,380	-4.0%	
Division Contributions	-	(5,865) [6]	-				
Total Transfers	2,878	(16,884)	(6,837)		(14,485)		
Operating Net Results before one-time savings [7]	5,758	-	210		(9,333)		
One-time pension savings	-	-	-		4,000 [8]		
Net Results before adjustments	5,758	-	210		(5,333)		
Post Employment Benefits [9]	(5,681)	-	-		-		
Excess revenues over Expenses	77	-	-		-		
Division & Central Reserves (Open)	170,845 [10]	170,845	176,603		176,813		
Division & Central Reserves (Close)	176,603	170,845	176,813		171,480		

General Operating Fund Summary Notes

Note A	2018-19 budget includes one-time budget changes in year. See Table F3 in the Appendices for additional details.
Note 1	Small increase projected for graduate enrolment growth funded outside of the University's enrolment corridor.
Note 2	Tuition includes credit and non-credit tuition fee revenue. The budget reduction for tuition revenue shown above is the net loss where the loss in domestic tuition is offset by international tuition revenue growth.
Note 3	Budget revenues attributed to Guelph-Humber operations were kept conservative in 2018-19 to reflect potential residual impact to enrolment due to the OPSEU strike in late 2017.
Note 4	Capital efficiencies and the impact of the Ontario hydro rebates brought forecast significantly lower than budget.
Note 5	Budget transfers from the OMAFRA agreement are not subject to the proposed cuts by the Ministry
Note 6	In 2018-19, Colleges and divisions contributed on a one-time basis to balance the budget. The use of these contributions is attributed throughout the operating lines in the 2018-19 preliminary results.
Note 7	General Operating net results is revenue less expenses and transfers
Note 8	In 2019-20, there is an expected reduction in going concern special payment due to a favourable valuation (see Section 4.6 Compensation)
Note 9	See page nine of the audited financial statements (Internally Restricted Operating Net Assets). The table above excludes employee benefit reserves, Guelph-Humber and the accumulated accounting charges for post-employment benefits (see Financial Reserves in Section 5.1).
Note 10	Post-employment benefit changes do not impact Division and Central Reserves

Budget Plan Overview

Preliminary 2018-19 results do not include final year-end accounting adjustments and are not audited. The preliminary revenues for 2018-19 are anticipated to be 3.8% higher than budgeted due to several factors. The provincial grant transfers from graduate enrolment growth accounted for some of the additional revenues. The budget tuition estimates assumed not meeting our domestic enrolment intake targets in the fall. In addition, the conservative estimates for Guelph-Humber contributions were assumed based on potential enrolment reductions due in part to the work stoppage as a result of college faculty strike. For 2019-20, the University assumes greater contribution from Guelph-Humber that is then offset by impacts of projected tuition revenues reductions.

On the expense side, investments in international recruitment and student supports, and one-time contracts for time-limited projects (e.g., Career Ready Stream 1 and 2), translated into higher than anticipated expenses in 2018-19.

Furthermore, due to the University's commitment to address the financial needs of our students, student aid was in a deficit position, requiring a one-time budget transfer of $3 million in 2018-19. In the 2019-20 budget for scholarships and bursaries, the anticipated drawdown of one-time budget in student aid is offset by an increase of $500,000 for international student aid. In the coming year, we will better understand the impact of all the government policies on the Student Aid budget and adjust accordingly.

The 2018-19 preliminary results indicate operating line expenses higher than the budgeted amount. This variance is in part explained by one-time unit renovations ($4 million) not included in the 2018-19 budget. This includes a $700,000 spend on a data centre renovation and $2 million for various OVC animal hospital renovations. As well, certain operating expenses such as student travel are offset by revenues. Lastly, the $5.9 million budget balance contribution from Colleges and divisions is reflected throughout the operating lines in the 2018-19 preliminary results.

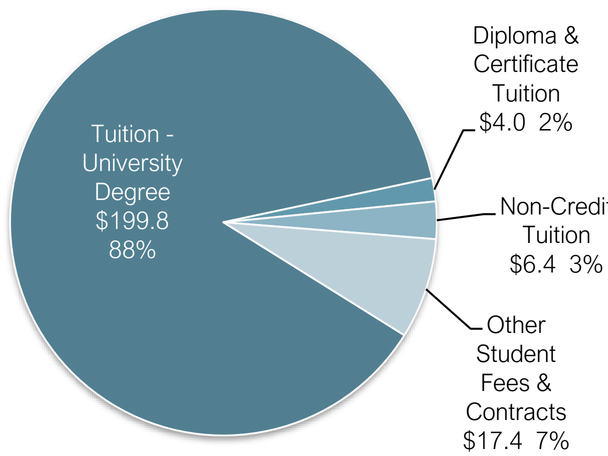
Overall, the preliminary results show a balanced budget ($200,000 net result before year-end adjustments) as had been anticipated in the preliminary budget plan approved in April 2018.

4.2 Revenue generated from student fees

Revenues generated from student fees in the General Operating Fund consists of tuition and non-tuition fees charged for specific services. Non-tuition fees, which are charged in addition to the program tuition fee, are governed under board approved protocols.

In 2019-20 the General Operating Budget estimate for tuition and non-tuition fees is $227.7 million. As shown in the accompanying chart, 87% or $199.8 million of this revenue is from University-degree tuition. Altogether fees charged to students for all academic programs comprise 42.9% of Core Operating Revenues.

Student Tuition and Fees
2019-20 Revenue by Type $227.7 million
($ in millions)



The two major components in determining total student income are both the number of students (enrolment) and the rate of the fees charged. For most University degree-credit programs, change in tuition fees must adhere to the provincial tuition framework policy. Since 2006-07, tuition fee framework policies have provided a means to increment fees for provincially regulated [7] programs. In contrast, the new tuition fee framework outlines that all tuition fees for domestic students in provincially regulated programs are subject to a 10% decrease.

Non-tuition compulsory fee increases are controlled either through student referendum or under protocols agreed to by students. The non-tuition fees shown above ($17.4 million) do not include student-lead government, associations or societies as those fees are flowed directly to the groups[8]. As noted in section 1.1, under the Student Choice Initiative students will be provided with an opportunity to opt out of some fees that are considered optional. Some components of the Student Services Fee will be considered optional however, minimal impact on the operating budget is expected as these fees are collected by the University and flowed through to the appropriate unit.

[7] The provincial government lays out specific criteria for which students and programs are considered eligible to receive provincial grant support. In addition to being registered in academically accredited programs there are residency requirements for registered students to be considered as eligible for funding. Programs that are cost-recovery and international students are not eligible for any provincial grant support.

[8] Also excluded are non-tuition fees charged to students that support student facing infrastructure, such the athletics building. These fees flow outside of the general operating budget

Tuition Fees

Table A in the Appendices provides a listing of rate changes for 2019-20 for all categories of tuition fees.

The Budget Plan for 2019-20 shows an expected decrease in total tuition revenues of $3.4 million over the 2018-19 budget. Of this decrease, $2.9 million is from tuition collected for University degree programs which are projected to have an anticipated loss of in domestic tuition revenues ($12.1 million) but an increase in international tuition revenue ($9.2 million).

Change in tuition fees for university degree programs are classified into three major groups;

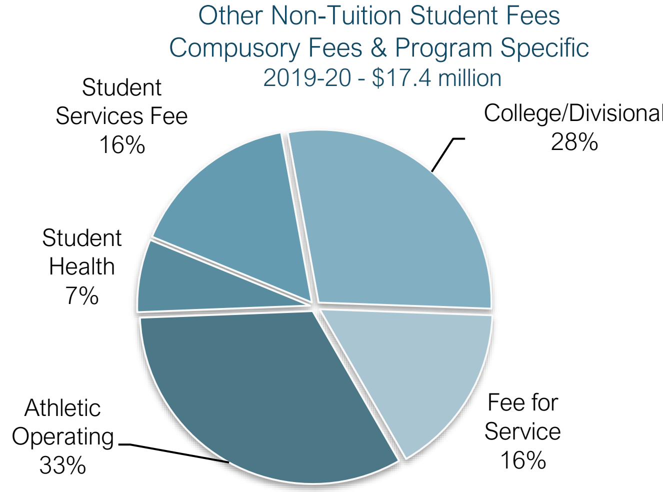
- **Provincially regulated;** undergraduate and graduate student programs that receive core operating grant and domestic (permanent resident) students.
- **International programs**; undergraduate and graduate student enrolment that does not receive provincial support under provincial policy. The approach in setting the international tuition fees recognized the balance of accessibility to students while reflecting the need to continue to support the delivery of high academic quality programs and services to international students. In spite of the fee increases, the university charges some of the lowest tuition fees amongst our peer group.
- **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.

Diploma & Certificate Programs

For many years the University has delivered a range of agricultural diploma programs. All programs are delivered by the Ontario Agricultural College (OAC) at both the Guelph campus and at the regional campus located in Ridgetown (near Chatham) Ontario. The program costs, totaling $11.9 million (2018-19), are supported with a designated annual provincial grant of $4.5 million, diploma tuition and student fees of $3 million, and other fees and sales (food, student housing, and non-credit programs) of $5.2 million. Consistent with long standing history, the associate diploma programs do not fall within the MTCU tuition framework. However, in the interest of students and consideration of this transition year to the new OSAP policy, the University will voluntarily decrease tuition in associate diploma programs by 10% for 2019/20. Overall enrolment in the diploma program for 2019-20 is estimated to be 612 students (fall headcount enrolment), a growth of 14% over the last five years.

OTHER STUDENT FEES & CONTRACTS

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. With the introduction of the Student Choice Initiative, students can opt out of certain fee components within the Student Services Fee and for some College specific fees. The process to initiative a fee structure compliant with the Student Choice Initiative is underway and therefore 2019-20 estimates may be subject to change. See Table B in the Appendices for a listing of the student fees and recommended increases for 2019-20.

Excluded from protocols are a number of college-based and other fees charges for program-specific services, such as co-op placement and distance education fees, which cover direct costs incremental to those programs.

The total estimated revenue from these fees is $17.4 million (refer to chart).

All revenues from student fees in this category are credited to the units providing the service. For example, the Athletics department receives $8 million in fees charged to all students for both capital and operating costs to provide recreational programs and facilities[10].

For 2019-20, the fees for the spring term have been approved. The fee increases for the Fall and Winter terms will follow the required approval processes that all require student participation. By default, fees may increase by the consumer price index (CPI; 1.7% for 2017). However, increases greater than CPI can be approved 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.

[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 from bus passes.
[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.

Enrolments

Total Headcount Enrolment - University Degree Credit[11]

	2015-16 Actual	2016-17 Actual	2017-18 Actual	2018-19 Actual	2019-20 Projected
Domestic	22,061	22,541	22,622	22,735	22,942
International	1,138	1,239	1,387	1,456	1,657
Grand Total	**23,199**	**23,780**	**24,009**	**24,191**	**24,599**
% Year over Year Change		2.5%	1.0%	0.8%	1.7%

Undergraduate Enrolment:

In 2018-19, Guelph campus domestic undergraduate enrolment at the University was relatively flat over 2017-18 while there was a slight increase (3.2%) in undergraduate international students (N=981). The increase in international students is in line with the strategy outlined in the University's SMA2 (2017-2020).

For budget planning purposes, first-year domestic undergraduate intake targets are projected to increase by 50 compared to last year's target. Intake targets for first-year international students were assumed to increase in line with the SMA2 plans, coupled with student flow through results in approximately 200 additional international students for 2019-20.

Undergraduate Student Headcount Enrolment

	2015-16 Actual	2016-17 Actual	2017-18 Actual	2018-19 Actual	2019-20 Projected
Domestic	19,939	20,241	20,229	20,306	20,490
International	781	844	950	981	1,190
Grand Total	**20,720**	**21,085**	**21,179**	**21,287**	**21,680**
% Year over Year Change		1.8%	0.4%	0.5%	1.8%

[11] Headcount enrolment excludes Guelph-Humber and Ridgetown. Enrolment as of November 1st of each year and as reported to MTCU. Headcount enrolment excludes students on off-campus co-op work term.

International Student Headcount Enrolment[12]

	2015-16 Actual	2016-17 Actual	2017-18 Actual	2018-19 Actual	2019-20 Projected
Undergraduate	781	844	950	981	1,190
Graduate	357	395	437	475	467
Grand Total	**1,138**	**1,239**	**1,387**	**1,456**	**1,657**
% Year over Year Change		8.9%	11.9%	5.0%	13.8%

Graduate Enrolment:

Consistent with the University's status as a research-intensive institution, the University has made recruitment of graduate students a priority. As with undergraduate students, graduate funding falls under MTCU eligibility policies. Students eligible for provincial funding are domestic graduate students (international students are excluded) and are in their programs within set time-periods of eligibility.

The 2019-20 initial budgeting assumptions for graduates is aligned with funding and targets associated with the SMA2 and College plans. Indeed, due to increased demand for our graduate programs, the University surpassed both the SMA2 Ministry funded masters and doctoral spaces in 2018-19.

Graduate Student Headcount Enrolment by Eligibility[13]

	2015-16 Actual	2016-17 Actual	2017-18 Actual	2018-19 Actual	2019-20 Projected
MTCU Eligible	1,858	2,014	2,093	2,085	2,100
MTCU Ineligible	621	681	737	819	819
Grand Total	**2,479**	**2,695**	**2,830**	**2,904**	**2,919**
% Year over Year Change		8.7%	5.0%	2.6%	0.5%

[12] Headcount enrolment excludes Guelph-Humber and Ridgetown. Enrolment as of November 1st of each year and as reported to MTCU. Headcount enrolment excludes students on off-campus co-op work term.

[13] Headcount enrolment excludes Guelph-Humber and Ridgetown. Enrolment as of November 1st of each year and as reported to MTCU. Includes both domestic and international students. Headcount enrolment excludes students on off-campus co-op work term.

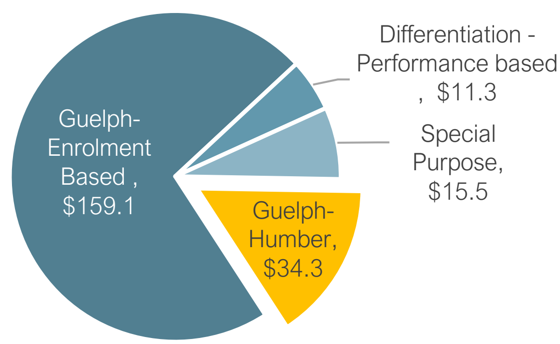
4.3 Provincial Operating Grants

The University of Guelph receives provincial funding from several ministries, the two principal ones being, Ministry of Training, Colleges and Universities (MTCU) 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. MTCU operating grants are a major source of funding for University core operations, representing 37.9% of core operating revenues.

MTCU operating grant funding currently is received in three primary funding envelopes, reflecting an increasing trend by the province to allocate funding based on performance metrics or less targeted for specific purposes.

The adjacent chart shows the major distribution of MTCU operating grants forecast for 2019-20[14]. In total, provincial operating grants are projected to be at essentially the same funding level as 2018-19.

Total Provincial Operating Grants
2019-20
Estimate $220.2 million ($ in millions)



Included in MTCU operating grants are funds earned from University of Guelph-Humber student enrolments. This reflects the fact that Guelph-Humber is not a legal entity[15] and is not recognized by the province as a standalone institution. Students enrolled in Guelph-Humber programs are University of Guelph students for MTCU reporting and funding purposes. Currently the University of Guelph transfers $34.3 million to the Humber Institute of Technology and Advanced Learning (Humber) based on actual Guelph-Humber enrolments funded at university-level MTCU grants values. Guelph-Humber grant shares reflect the new MTCU Funding Formula (based on final actual 2016-17 enrolment and Guelph-Humber contribution to the University of Guelph corridor midpoint). Humber provides financial management and much of the academic, student and administrative support for the Guelph-Humber operations.

Provincial Funding Mechanism:

In 2017-18, 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 include:

- Each University's core operating grant is fixed within a corridor model. Universities are required to stay within their corridor. University enrolment corridors are fixed at a mid-point based on 2016-17 enrolments[16] with universities able to deviate from this mid-point by 3% plus/minus.
- A portion of provincial funding is tied to differentiation and performance (as measured by various metrics in SMA2). Over time through SMA3, proportion of funding tied to performance will increase.

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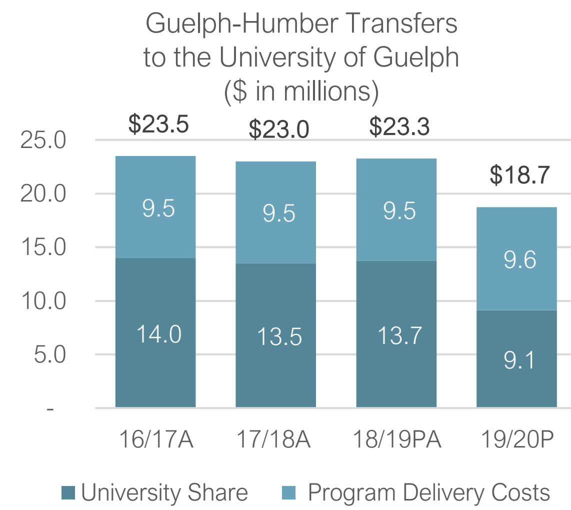
[14] A portion of special purpose grants flows directly to non-operating funds.
[15] For the University's General Operating Budget and financial statement purposes, Guelph-Humber is treated as a "joint venture" and grants received for Guelph-Humber enrolments are not recognized as University revenues.
[16] Note that enrolments are converted to Weighted Grant Units (WGU). Guelph's 2016-17 mid-point is 64,832 WGUs.

- The University of Guelph also receives special grant funding for our agricultural diploma and veterinary programs of $4.5 million and $6.5 million, respectively.
- For 2019-20, institutions will see relatively the same level of distribution in grant funding as seen in 2018-19. As was the case in 2018-19, undergraduate enrolment growth will not be funded. Graduate enrolment growth up to our specified targets for 2019-20 will be funded.

4.4 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) to offer a combined university-degree and college diploma for students in the same four-year period. Since inception, the University of Guelph-Humber has grown dramatically. In 2018-19 there are more than 4,900 students enrolled in eight major undergraduate program areas. Programs are delivered on the north campus of Humber in Etobicoke in a dedicated building built with a 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.

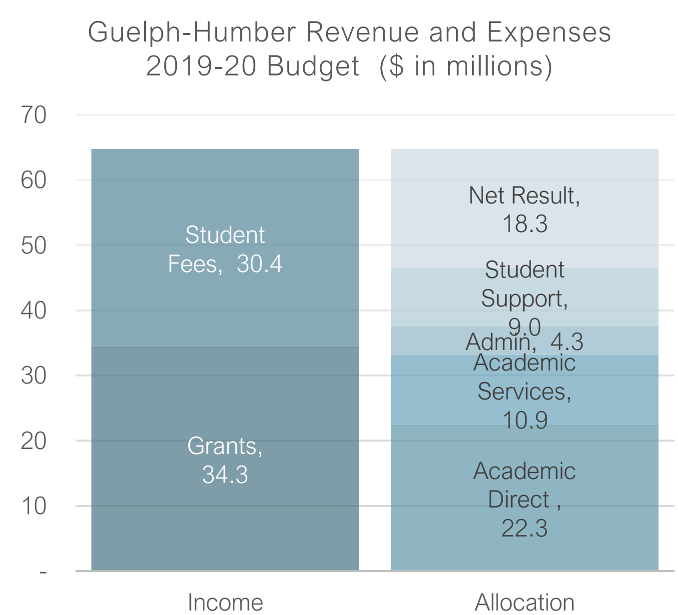


The Guelph-Humber joint venture generates approximately $19 million (refer to chart) for the University of Guelph in revenue cash transfers. Funds are earned in two ways:

- University of Guelph colleges and divisions receive about $9.5 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.

For 2019-20, the budget context is characterized by considerable uncertainty. Tuition fee reductions will result in a $4.5 million decrease in tuition revenue.

The University of Guelph-Humber is projected to increase enrolment levels to 4,974 students in fall 2019. For provincial funding purposes, the University of Guelph's enrolment corridor includes students registered in University of Guelph-Humber programs.



Total expenses are increasing by $3.5 million due to salary increases and 2% increases on service agreements. Guelph- Humber is continuing its plan to hire tenured track faculty dedicated to Guelph-Humber programs which began in 2018-19. In total, the revenue decrease and expense plans will result in a $8.0 million decrease in net contribution to the joint venture partners.

4.5 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 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.

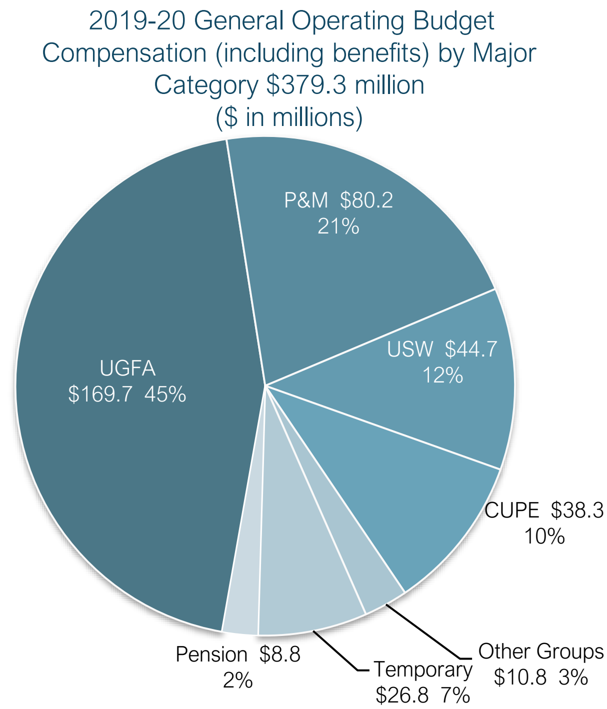
The table below provides details of the major institutional-level transfers that are anticipated for 2019-20. Most significant are transfers from OMAFRA to the General Operating fund for faculty support and indirect costs.

Summary of Major Interfund Transfers 2019-20
($ in millions)

(FROM) TO	General Operating	OMAFRA	Ancillary	Major Capital	Guelph-Humber	Research	Heritage Fund
RESEARCH;							
OMAFRA - Faculty Positions	13.0	(13.0)					
OMAFRA- Indirect Costs	10.5	(10.5)					
FEDERAL - Research Support Fund	5.4					(5.4)	
Other Research Indirect Support	5.4					(5.4)	
Total RESEARCH	34.3	(23.5)	-	-	-	(10.8)	-
GENERAL OPERATING							
Support for International Initiatives	1.3						(1.3)
Support for ITGC Projects	0.2						(0.2)
Total GENERAL OPERATING	1.5	-	-	-	-	-	(1.5)
ANCILLARY							
Indirect Costs, Debt Servicing, Contributions	12.8		(20.7)	3.2			4.6
Total ANCILLARY	12.8	-	(20.7)	3.2	-	-	4.6
CAPITAL							
Capital Projects				5.0			(5.0)
Debt Servicing	(23.4)			23.4			
Total CAPITAL	(23.4)	-	-	28.4	-	-	(5.0)
GUELPH HUMBER							
College Program Delivery	9.5				(9.5)		
50% Share of Net Income & Mgmt Fee	9.1				(9.1)		
Total GUELPH HUMBER	18.6	-	-	-	(18.6)	-	-
TOTAL TRANSFERS	43.8	(23.5)	(20.7)	31.6	(18.6)	(10.8)	(1.9)

4.6 Compensation

Total compensation (salaries and benefits) comprises approximately 74% of total operating 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.

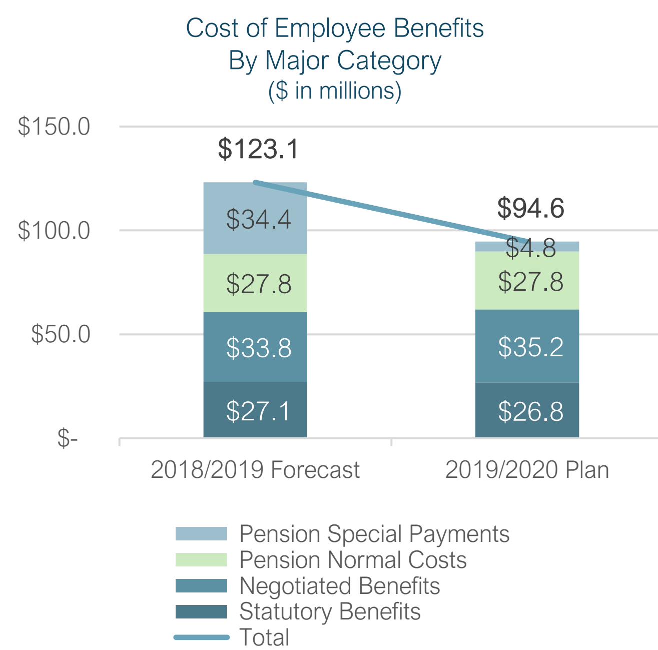


For the 2019-20 fiscal year, employee agreements are in place for major employee groups including UGFA, P&M, OSSTF and USW[17], as well as several smaller groups. Combined compensation for remaining groups (primarily CUPE) in negotiation accounts for approximately 10% of the total compensation budget (refer to chart).

A provision for cost increases to all groups has been established at $9.54 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 University cash cost of $94.6 million (refer to chart), employee benefits are 15% of total revenue and 27% of total salary costs. The administration of employee benefits is very complex with each major employee group potentially having a variety of benefits arising from labor negotiations. Many negotiated benefit coverages are based on actual claims. The major benefit cost change in 2019-20 is for pension contribution special payments for going-concern liability as a result of expected improvements in plan actuarial valuations. This is forecast to reduce going concern special payments by $8 million. In addition, the solvency special payments of $21.6 million will also be reduced. See the Post-



[17] UGFA: University of Guelph Faculty Association | P&M: Professional and Managerial | USW: United Steel Workers | CUPE: Canadian Union of Public Employees | OSSTF: Ontario Secondary School Teachers' Federation

Employment Benefits section below for more information.

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

- Statutory benefits include Canada Pension Plan (CPP) and Employment Insurance (EI), cost rates are expected to increase in 2019-20 with CPP contributions increasing by 6%. This is the start of the new enhanced plan that will see contribution rates increasing by 20% over 5 years followed by a 14% increase in the maximum contribution over two more years. For 2019, EI contributions are relatively flat, increasing by less than 1%.
- Negotiated benefits, are a variety of programs with the three largest being extended health (drug and other medical benefits), long-term disability coverage, dental plan and life insurance. Benefits are estimated to see an overall 3.6% increase in costs based on rate increases and usage/experience in the plans.
- Post-employment benefits for retirees comprise both a non-pension post-employment benefit costs (mainly dental and extended health including a supplemental drug plan) and pension plan benefits. See next section for more information on Post Employment.

Post-Employment Non-Pension Benefit Program

The program is budgeted on a "pay-as-you go" basis, meaning only the actual annual cash costs are funded annually. In 2018-19, that annual cash cost was $8.1 million (2017-18 $5.7 million). This is in major contrast to the 2017-18 annual accounting expense of $23.5 million which is based on the accrued liability for these programs estimated at $286 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 more 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 of approximately $1.5 billion these plans are a significant obligation and risk to the University's financial condition.

Under Ontario law, defined benefit pension 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[18] with any shortfall between assets and liabilities being funded by the plan sponsor – in this case the University. Plan valuations determine liabilities under two distinct sets of assumptions:

1. **Going Concern:** This method of calculating the financial condition of a pension plan (valuation) assumes that the plan will be ongoing and that its assets must be sufficient to meet its liabilities (the pension benefits promised) when they come due in the future. If a plan is under-funded on a going concern basis, it has an unfunded liability, which must be amortized over 10 years (new funding rules as at May 1, 2018; previously 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

[18] "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.

than those resulting from solvency calculations (see below). For the university's plans the August 1, 2016 valuation showed 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. The University is in the process of preparing another valuation as at October 1, 2018. Preliminary estimates show continued improvements with estimates being between 98% and 103%.

2. Solvency: The solvency valuation assumes 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 five-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 was $615 million (a 68% funded ratio). Our preliminary estimates for October 1, 2018 show a decrease to just under $300 million (an 84% funded ratio). This change was a result of a reduction in wind up liability due to several factors including pension membership, benefits, and discount rate, and an increase of over $200 million in asset values due to increased contributions through special payments to the pension fund along with stronger than anticipated return on investment. Solvency valuation is not applicable for jointly sponsored pension plans.

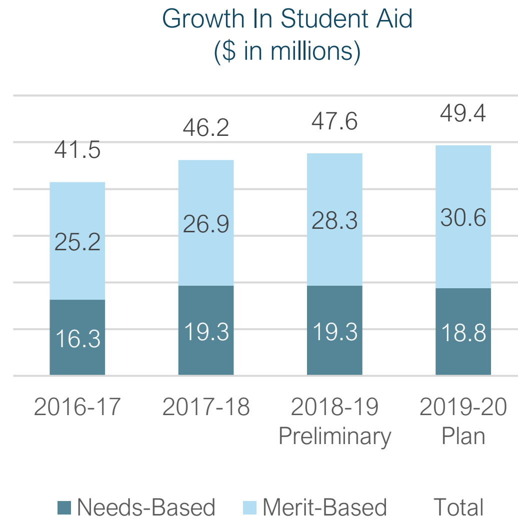
Funding Projections: With the August 1, 2016 valuation, required annual payments have been determined until at least the next required valuation date (August 1, 2019). Although not required, the University is proceeding with a valuation as at October 1, 2018 as conditions have improved as a result of significant payments made over the past few years combined with favorable market conditions. As of March 31, 2018, the University had $48.0 million set aside as a Post-Employment reserve. Payments for fiscal 2018-19 are anticipated to be approximately $21.9 million, reducing the reserve accordingly.

Going forward: The University of Guelph, University of Toronto, and Queens University, along with the faculty associations, United Steelworkers and non-union employees have been working collaboratively to establish a jointly sponsored pension plan (JSPP).[19] The conversion of the pension plans at the three universities to the jointly sponsored pension plan requires that at least two-thirds of its active members consent and no more than one-third of its former members, retired members and other persons entitled to benefits, as a group, object. Trade unions may consent on behalf of the active members represented by such trade union. This consent process has been initiated and will conclude on June 28, 2019.

[19] JSPP's in Ontario generally are not required to fund solvency deficiencies.

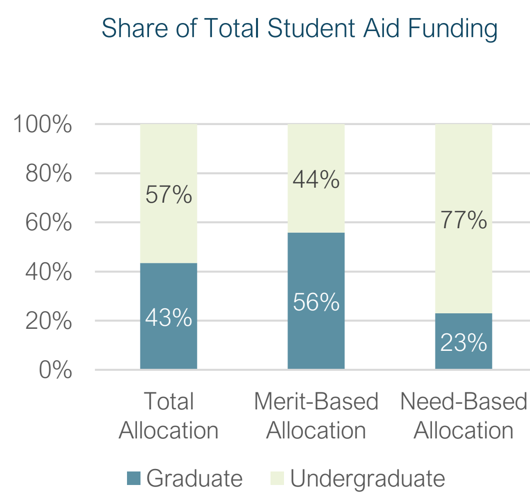
4.7 Student Aid

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 20% since 2016-17[20] (refer to "Growth in Student Aid" chart).



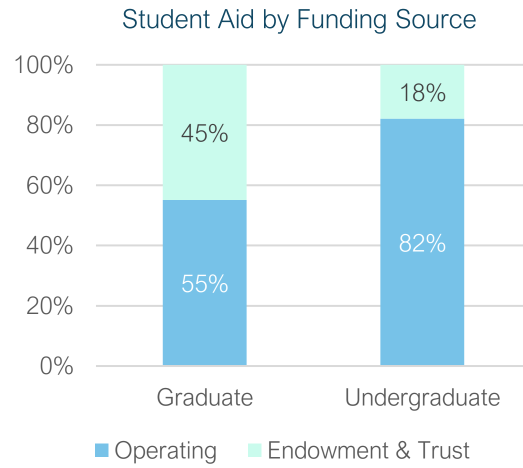
Student assistance is generally categorized as either "needs-based" or "merit-based" with some overlap as some individual scholarships contain elements of both needs and merit-based criteria. In addition to University support, the provincial government provides financial support directly to student through 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. For 2019-20, the provincial government implemented a fundamental restructuring of student assistance for Ontario post-secondary education that was underpinned by a comprehensive 10% reduction in tuition fees for all domestic students.

These changes affected the amount of needs-based aid that would be required under the long running support plan known as Tuition Set Aside (TSA) where Universities are required to dedicate a fixed portion of their increases in tuition revenue to student aid. The new OSAP plan also changes the obligation the University has under 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. Through all these changes, the University of Guelph has reaffirmed its practice that students who have unmet need during the school year will receive the funds from all available sources (general operating budget, endowments) to make up that need and allow them to continue their studies.



[20] Total student aid in the tables below represents all scholarships and bursaries but also includes work study program support. In the Operating Plan Summary (section 4.1), the work study expenses and budget reside under the salaries line.

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. Undergraduate tend to receive a larger share of needs-based support.



Over a four-year period, direct student assistance from the University from both general operating and endowment & trust increased by 20%.

Student aid spend from general operating in 2019-20 is expected to increase by $1 million overall including support of increasing numbers of international students. The new allocation for 2019-20 is:

- $500,000 in support of undergraduate international students funded by the tuition rate increases

The tables below show the distribution of planned funding by program level and funding sources[21]. 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. With the tuition cost reduction and the OSAP formula changes, undergraduate needs obligations will decrease but any funds not required will remain in the Student Aid budget to support any increases in merit programs and for international students.

[21] Total student aid in the tables below represents all scholarships and bursaries but also includes work study program support. In the Operating Plan Summary (section 4.1), the work study expenses and budget reside under the salaries line.

TOTAL STUDENT AID By Funding Source

in $millions

	2017-18 Actual	2018-19 Forecast	2019-20 Plan	3 Year % CHG
General Operating				
Undergraduate	22.16	22.75	23.00	
Graduate	11.08	10.99	11.80	
Total General Operating	33.24	33.74	34.80	4.7%
Endowment and Trust				
Undergraduate	3.87	4.50	4.95	
Graduate	9.04	9.30	9.60	
Total Endowment and Trust	12.91	13.80	14.55	12.7%
Total Student Aid	**46.15**	**47.54**	**49.35**	**6.9%**
Total Share from Operating Fund	72%	71%	71%	
Total Share from Endowments and Trust	28%	29%	29%	

TOTAL STUDENT AID By Program Level

in $millions

	2017-18 Actual	2018-19 Forecast	2019-20 Plan	3 Year % CHG
Recipients				
Undergraduate				
Needs Based (including work study and URA)	14.93	15.01	14.41	
Merit Based	11.10	12.24	13.54	
Total Undergraduate	26.03	27.25	27.95	7.4%
Graduate				
Needs Based (including work study and URA)	4.34	4.26	4.34	
Merit Based	15.78	16.03	17.06	
Total Graduate	20.12	20.29	21.40	6.4%
Total Student Aid	**46.15**	**47.54**	**49.35**	**6.9%**

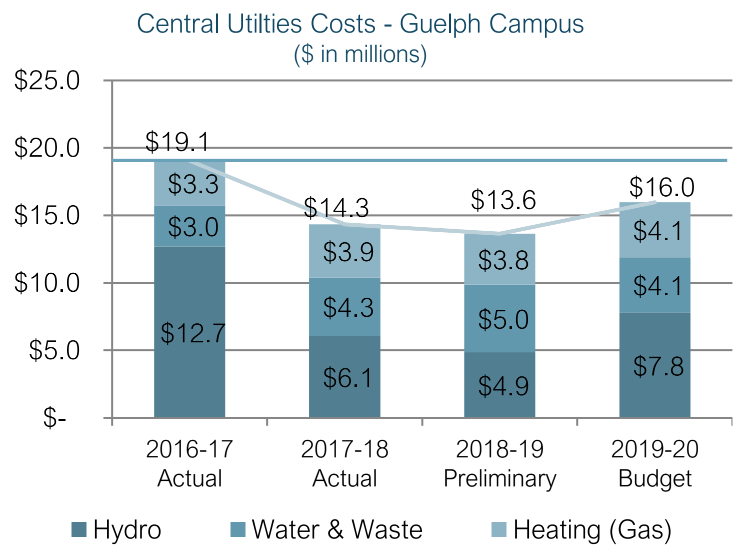
Total student aid in the tables above represents all scholarships and bursaries, including work study program support. In the Operating Plan Summary (section 4.1), the work study expenses and budget are found in the salaries line.

4.8 Infrastructure Costs

At the University, there are 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 their own utilities costs. For on-going budgeting purposes, funds are provided based on long-term estimate of natural gas pricing (main campus heating). Further impacting these costs is the addition of new space and offsets to hydro net costs as a result of provincial rebates.



The base or on-going allocation for the central utilities budget has been reduced to $16.0 million (refer to chart) resulting in a base savings of $7.2 million towards the structural deficit. There were several significant changes to cost structures for utilities over the last several years as a result of significant investments in efficiency projects where the capital costs have been supported by budget savings achieved. Net hydro costs have fluctuated lower due to provincial rebate programs.

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 2020 2021. As they are completed and occupied, costs are added to the General Operating Budget. The cost increase impact for 2019-20 is $80,000.

For housekeeping services, a plan was negotiated as part of the last CUPE 1334 employee agreement to restructure a number of custodial positions and recruit to fully staff the housekeeping function. Starting in 2017-18, a total of 43 custodial position were hired which were funded by 20 existing vacancies that were repurposed and 23 newly funded positions. For fiscal year 2017-18 and 2018-19, Physical Resources supported the incremental salary and benefit costs from one-time savings accumulated in the divisional budget. For 2019-20, a base budget increase of $1.1 million is included in this budget plan to provide the ongoing support for the housekeeping function.

Capital Infrastructure Debt Servicing

In January 2019, the proposed 2019-20 Capital plan was presented to the Board of Governors, which approved spending $29.6 million of which borrowing is $17 million. Projects under the approved part of the plan are all capital renewal and deferred maintenance activity. There were three major building projects introduced for information with a total estimated capital cost of $22.5 million. There was no request for approval presented at the time as all the projects are in various planning stages. These projects will come forward on a project-by-project basis when approval is recommended. For 2019-20, there is no planned increase in the $23.4 million base allocation for capital funding and debt servicing of previous projects while a capital planning process review is undertaken. This is sufficient funding for the spending already approved.

Information Technology (IT)

Integral to the delivery of high-quality programs and services is the need for a critical ongoing assessment and investment into information technology. While there are numerous departmentally-operated specialty systems, they all require a secure and responsive central internet and communication infrastructure to be effective.

In recognition that the current state of some of the University's core systems present high continuity risk in delivering critical services, the IT Governance Council was struck to plan for and evaluate university-wide systems and projects. In May 2018, the Council supported the need to invest in core systems such as the Student Information and Human Resources systems. Six projects came forward through the governance process that require a $6 million budget investment wherein only 12% of the amount will be towards added personnel over a five-year period. The University plans to invest a portion of the university's reserves to manage these development costs. In addition, in this operating budget, $1.98 million has been approved for investment in IT infrastructure.

Library Information Services

The purchasing power of the University's central library's information acquisitions budget (currently at $8.2 million) continues to be affected by inflation. An increase of $240,000 (3.0%) will be provided in this year's budget to help sustain current purchasing power levels. The impact of US dollar exchange rates will be assessed mid-year by Library leadership in order to determine what further support is needed.

4.9 Academic and Activity-Based Funds

The University has specialized pools of funding assigned to support specific activities in academic programs. Much of this funding is allocated to colleges based on enrolment. The following currently are the major programs with related assumptions for 2019-20.

Graduate Enrolment Support

In 2007, the University began to allocate funds to colleges based upon growth in graduate student enrolments that were eligible 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.

The Ministry shifted all post-secondary institutions into a corridor funding model with the expectation that there will be a greater proportion of provincial funding linked to outcomes-based indicators. In the interim, the

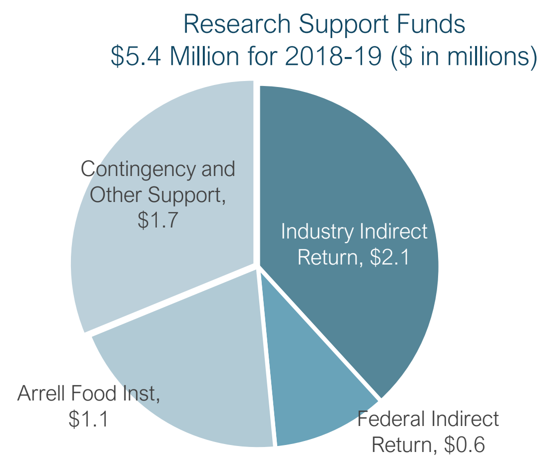
University will continue to fund eligible graduate enrolment to the colleges. Under the University's allocation process, additional funding for this growth is provided to colleges at the rate of $6,000 per eligible masters full - time equivalent (FTE) and $10,000 per doctoral FTE. In 2019-20, an additional $140,000 will be provided in the on-going budget assumptions to maintain the colleges at this new level.

Budget Revenue Sharing Agreements

Beyond eligible graduate support, the University has agreed to several internal revenue sharing agreements which allow colleges to receive budget allocations tied to a portion of confirmed tuition revenue in key program areas. In the past year, the University has been phasing in a new budget revenue sharing agreement for international course-based master programs. It is assumed that additional agreements are necessary to bridge the gap between the direct academic support required based on monies received by the University. $300,000 will be allocated to Colleges tied to budget revenue sharing agreements.

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 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 transformational gift received in 2017. The University will match gift funds at the target level of $2 million per year over 10 years at steady state.
- **Other Support:** Includes a Research Infrastructure Operating Fund (RIOF) supporting research facilities, several other smaller reserves and allocations specific for support of research and the Research Leadership Chairs and Research Excellence Awards. 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

Strategic Initiatives Fund

In the 2018-19 budget, a $3 million Provostial Strategic Initiatives Fund was earmarked to help seed research and encourage academic innovation and transformative ideas. As such, several strategic proposals were advanced by the Provost that align with the strategic mission of the University. Along with the investments in academic and research listed below, the University will fund diversity and inclusion projects as well as invest in a new Teaching and Learning Centre. For 2019-20, the Strategic Initiatives Fund is $1.4 million. This amount only accounts for 0.25% of budget operating expenses and may be adjusted upward in future planning years.

- **Centre for Advancing Responsible and Ethical Artificial Intelligence (CARE-AI):** The goal of the Centre is to advance multidisciplinary AI training and research and its responsible application to foster economic growth and improve life.
- **Guelph Institute for Environmental Research (GIER):** With nearly a quarter of all faculty members across the Colleges studying many different aspects of the environment, it is critical to ensure that we showcase our strengths and stimulate further research in this field, including interdisciplinary work.
- **One Health Institute:** With this investment, the University of Guelph will build on its existing leadership and capabilities to become a recognized national and global leader in One Health — engaging in research and preparing our future leaders for the complex challenges at the confluence of human, animal and environmental health, working across disciplinary boundaries, conducting multidisciplinary research, mobilizing knowledge, and informing policy.

Further Incremental Funding

As part of the Budget Plan Unit Submission process, units submitted budget requests to fund budget gaps in their operations to meet objectives. Having evaluated the 2019-20 financial plan for each unit created a fulsome assessment of their budget requests. $500,000 in base budget was approved to various units.

4.10 Summary

Balancing the 2019-20 Budget

With a projected shortfall of $9.3 million, $4 million in one-time savings as a result of an improved position for pensions, specifically going concern special payment requirements as a result of the October 1, 2018 valuation will be used to offset this deficit. To balance the residual deficit in the general operating budget for 2019-20, general reserves have been committed in the amount of $5.3 million.

Financial Reserves

A number of factors have contributed to the current reserve balances, including higher revenue than planned (partly driven by enrolment growth), position vacancies, and other cost containment programs. A minimum reserve level is essential to ensuring stability through times of uncertainty, while excess reserves can provide a source of funding for strategic initiatives. As of April 30, 2018, our operating fund reserves had decreased by 2% to 27% of revenues and is anticipated to decrease a further 2% to 25% based on preliminary 2018-19 results. In the coming year(s) we will need a portion of the reserves to provide a buffer for the recent changes to tuition, as well as other provincial funding. Determining the appropriate minimum reserve level will require a comprehensive risk assessment given the current funding environment.

The development of the 2019-20 budget provides an opportunity for a continued cultural shift towards a more collaborative budget process. This new level of engagement will continue to foster the development of strategic initiatives aligned with our academic mission while growing revenues and improving organizational efficiency and effectiveness. By also utilizing reserves to fund these strategic initiatives, over time we will balance our base budget and ultimately create capacity to sustainably address long term resource requirements.

The operating reserves are 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, budget balancing and incentives for budget reorganizations.
- **Post-Employment and Pension Benefits:** funds targeted to sustain pension contributions that exceed annual budget provisions, particularly for special payments.

The following table shows some recent history of operating budget reserves as well as a forecast position to the end of fiscal 2018-19:

FINANCIAL RESERVES
in $ millions

	15/16 Actual	16/17 Actual	17/18 Actual	18/19 Preliminary
Divisional Reserves	82.6	95.7	100.5	95.6
Central Reserves	68.6	73.7	76.1	81.2
	151.2	169.4	176.6	176.8
Post Employment Benefits Reserve	71.7	64.6	48.0	26.4
Self Insured Losses / Guelph-Humber	1.9	3.3	1.9	1.9
Total Operating Fund Reserves	224.8	237.3	226.5	205.1
Operating Fund Reserves as % of Total Revenues	*30.2%*	*29.0%*	*27.4%*	*24.5%*
Operating Fund Reserves as % of Operating Revenues	*50.3%*	*48.0%*	*44.2%*	*39.1%*

5 Ontario Agri-Food Innovation Alliance (OMAFRA Agreement)

5.1 Overview

Since its founding, the University of Guelph has had a unique relationship with the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA). The aims of the OMAFRA – University of Guelph Agreement (the Agreement) are multi-fold: assure food safety; protect animal, plant and public health and the environment; grow

Ontario's capacity to produce food; support a globally and domestically competitive agri-food sector to deliver research, innovation, and other services to the Ontario agri-food sector. Activities covered in the Agreement include operating 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, innovation, and commercialization.

On January 30, 2018 the University of Guelph signed a 10-year renewal of the OMAFRA-University of Guelph Agreement to continue the long-term partnership for discovery and innovation. The Agreement continues to provide support for 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.

5.2 Revised Agreement Impact

The revised Agreement has significant changes from the prior Agreements including:

- A greater focus on outcomes and impact, rather than output;
- More efficiency and flexibility in research programming;
- Increased third party leveraging of the Ministry's funding
- A greater focus on data, including sharing and access to data and information to support new agri-food and rural research and data analytics;
- Financial strategies to help ensure the Agreement is sustainable for its duration, including revenue targets and built-in inflation allowances in key program allocations;
- Enhanced joint governance structures and mechanisms.

Impact of the OMAFRA Agreement as part of the University of Guelph Budget

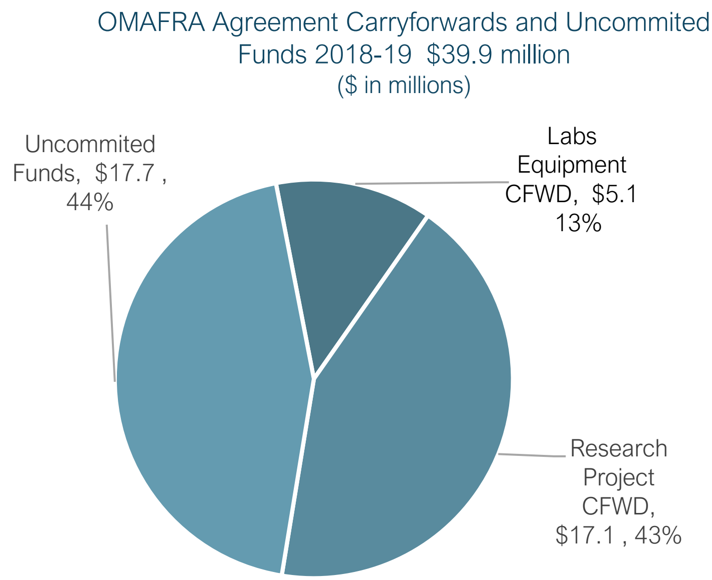
While the OMAFRA Agreement is segregated for accounting and reporting purposes, the level of funding and the nature of expenses supported also mean the OMAFRA relationship is both complex and critical in the University's overall multi-year planning. At the University level, the OMAFRA Agreement generates $99.8 million (2018-19) in total revenue. Within the University this funding provides:

- 12% of total University revenues;
- 39% ($55 million annually) of total research funding;
- 11% of the total University Faculty and College Professor positions;
- 18% of the total University regular non-faculty appointments;
- $10.5 million for Guelph campus indirect support costs (physical plant, library, and administration);
- $5.2 million in support of the OVC veterinary capacity development in livestock animal health and veterinary public health; and

- $20 million for property costs at major research stations across the province and the Ridgetown regional campus.

OMAFRA Carryforward and Uncommitted Funds 2018-19

The renewed 2018 to 2028 OMAFRA-University of Guelph Agreement included new governance rules with respect to the allocation and approval for the use of the funds remaining at the end of the prior Agreement (2017-18 fiscal year). At the February 22, 2019 meeting of the Agreement Executive Committee, a decision was ratified that allocated the program carryforwards for funds committed to multi-year research project awards in the Research Program and excess revenues in the Agri-food Lab and Animal Health Lab for approved equipment investment and renewal according to the approved capital strategy as presented in the annual business plan and approved by the Executive Committee. All other remaining program funds were defined as uncommitted funds to be held in a central reserve account separate from program budget allocations. These funds are then retained for approved usage within the Agreement according to Ministry direction. The original financing plan for the 10-year renewal of the Agreement indicated that uncommitted funds would be used to fund inflationary costs incurred over the life of the Agreement. The adjacent graph shows the allocation of Carryforward and Uncommitted funds as approved by the Executive Committee at May 1, 2018.



5.3 Assumptions and Highlights for 2019-20 (year 2 of 5):

Provincial Revenue

On May 1, 2019, OMAFRA notified the University that there would be a $5.2 million decrease in the scheduled Annual Maximum Funds of $71.3 million in each of the remaining 4 years of the current funding plan. A scenario planning process between the University and OMAFRA leadership was undertaken in order to maintain highest priority program activities and seek approval from the Ministry to use Uncommitted Reserve Funds to balance the annual budget.

Program Expense Assumptions

- Program Expenses estimates include a 2% allowance for inflation across many Program Schedules

- Salary and employee benefits cost increases according to existing University employee agreements already in place for 2019 estimated at $1 million
- The Property Management schedule includes continuing expenditures of $500,000 for maintenance of remaining properties no longer used for program activities (Alfred main campus, Kemptville) until sale now expected in 2021.

Approved OMAFRA Program Allocations

The following table summarizes the revised budget allocations for 2019-20 and forward for three years to the end of the current five-year plan. Targeted program reductions are planned for 2020-21 to 2022-23 fiscal years. Uncommitted Reserves will be used to balance the budget annually through the remainder of the five-year funding agreement.

OMAFRA Agreement Budget Summary

in $millions

	2018-19 Budget	2019-20 Budget	2020-21 Plan	2021-22 Plan	2022-23 Plan
Annual Maximum Funds per Agreement	71.300	71.300	71.300	71.300	71.300
Budget Reduction		(5.200)	(5.200)	(5.200)	(5.200)
Revised Annual Maximum Funds	71.300	66.100	66.100	66.100	66.100
Net Program Expenses - Current Plan	69.310	70.317	70.696	70.923	71.837
Targeted Program Expense Reduction [1]		-	(0.518)	(0.518)	(0.518)
Revised Program Expense Plan	69.310	70.317	70.178	70.405	71.319
Annual Net Surplus (Deficit)	**1.990**	**(4.217)**	**(4.078)**	**(4.305)**	**(5.219)**
Annual Deficit Mangement Plan					
Uncommitted Reserves Balance [2]	19.670	15.453	11.375	7.070	1.851
Agreement Interest Fund [3]	0.287	0.806	1.168	1.405	1.588
Total Agreement Reserves [4]	**19.957**	**16.259**	**12.543**	**8.475**	**3.439**

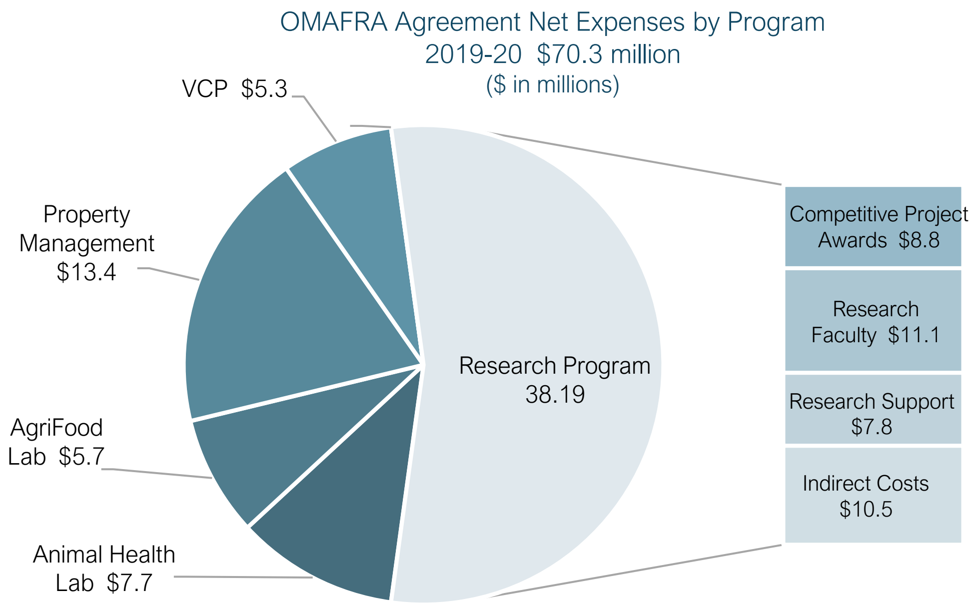
Notes:

1) Program reductions approximating 0.75% of planned program schedules or $0.518 million beginning next year (2020-21) affecting most program schedules. There are no expected position losses due to these targeted program reductions.
2) As noted above, the Agreement budget has Uncommitted Reserves forecast at $19.67 million held separate from program schedule carryforwards which the Ministry targeted to the balancing of the Agreement budget going forward. The original plan forecast only a small portion to be required in the first five years of the Agreement. The subsequent budget reduction this year required a significant modification of the budget plan as shown here.
3) In addition to the Program Schedules, the University credits the Agreement with interest earned on the balance of funds advanced to the University (both prior unspent funds and current year

advances). The interest income is held separately on the Ministry's behalf for the Agreement under their approval (also known as the Exigency Fund). No planned expenses are approved for the 2019-20 budget plan.

4) Total Agreement Reserves are the sum of the Uncommitted Reserves funds and the Interest funds held in the Agreement on behalf of the Ministry, excluding committed program funds (see OMAFRA Agreement Fund Balances table below).

Funding in the OMAFRA Agreement is directed to major program groups each with specific established purposes and outcomes. The major activities under the "Research" program are support for University research faculty, research support staff and indirect operating costs. There are also competitive funds totaling $8.8 million annually for specific research projects undertaken by University faculty. The Property Management Program consists of the operating costs of 14 research stations and main campus research related infrastructure. Agriculture and Food Laboratory (AFL) and Animal Health Laboratory (AHL) programs are the operations of food safety and animal health laboratories under contract with the Ministry to perform a variety of food safety (e.g., milk) and animal surveillance services for the province. The Veterinary Capacity Program (VCP) funding is allocated to the Ontario Veterinary College (OVC) in support of OMAFRA-approved clinical experience in priority species and livestock production for veterinary students.



5.4 OMAFRA 2019-20 Budget & Prior Year Results

The table below summarizes the major revenue and expenses components of the OMAFRA Agreement. Any funds not spent in any year are retained within the Agreement under "Fund Balances". Highlights of 2019-20 assumptions for the contract are contained in sections on the following pages.

2017/2018 Actuals	2018/2019 Budget	2018/2019 Pre-Audit	OMAFRA Agreement	In Thousands 2019/2020 Budget	% Change Budget To Forecast
			REVENUES		
71,840	71,300	71,300	OMAFRA Agreement	66,100	-7.3%
4,344	7,000	6,740	OMAFRA Minor Capital	4,500	-33.2%
19,807	19,730	20,297	Sales of Goods and Services	20,307	0.0%
327	300	629	Investment Income	519	-17.5%
2,024	1,185	1,491	Other Revenues	805	-46.0%
98,342	99,515	100,457	Total Revenues	92,231	-8.2%
			EXPENSES		
33,920	33,748	33,405	Salaries	34,618	3.6%
8,519	8,771	8,487	Benefits and Pension	9,086	7.1%
463	500	700	Scholarships and Bursaries	650	-7.1%
3,548	2,653	3,117	Utilities	3,100	-0.5%
28,239	28,308	28,689	Operating	24,930	-13.1%
74,689	73,980	74,398	Total Expenses	72,384	-2.7%
			UNIVERSITY TRANSFERS		
11,325	13,045	13,045	To Operating for Faculty Costs	13,045	0.0%
10,500	10,500	10,500	To Operating for Indirect Costs	10,500	0.0%
21,825	23,545	23,545	Total University Transfers	23,545	
1,828	1,990	2,514	Annual Operating Results	(3,698)	
38,015	39,843	39,843	Opening Fund Balances	42,357	
39,843	41,833	42,357	Closing Fund Balances	38,659	

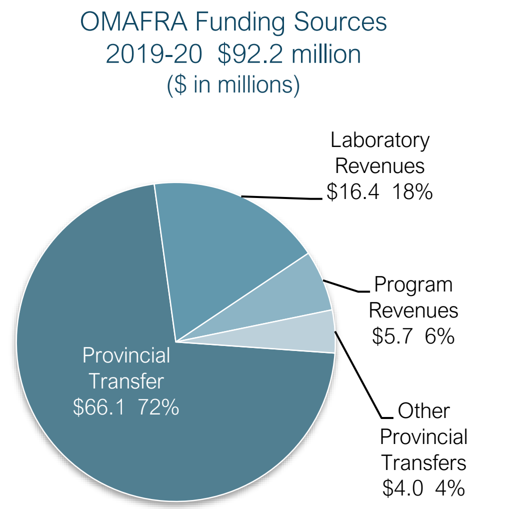
OMAFRA Agreement Fund Balances

Statement of Changes in Fund Balances

Category	2017/2018	2018/2019		2019/2020	
	Balance	Results	Balance	Results	Balance
Committed Program Funds	22,163	237	22,400		22,400
Exigency Funds	-	287	287	519	806
Central Uncommited Reserve	17,680	1,990	19,670	(4,217)	15,453
Fund Balances	39,843	2,514	42,357	(3,698)	38,659

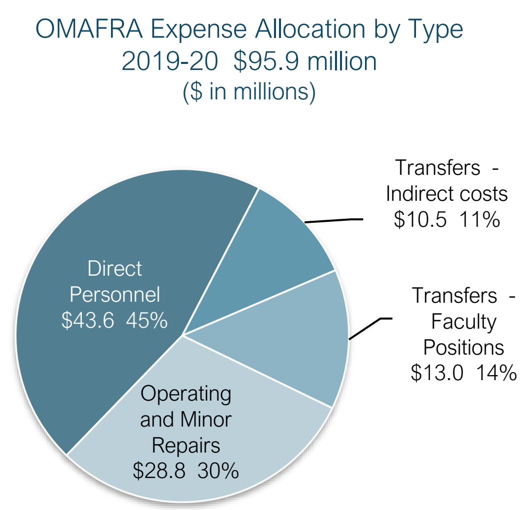
OMAFRA Revenues $92.2 million

For 2019-20, Agreement revenues will be $66.1 million after the provincial reduction of $5.2 million for 2018-19. Additional revenues mainly earned from the delivery of laboratory testing (food and animal health) services and property management activities will remain relatively stable.



OMAFRA Expenses $95.9 million

OMAFRA funding supports a wide range of operating expenses including the salaries and benefits for more than 400 University staff. Assumptions for compensation increases mirror those of the University. In addition, the contract provides funding in the form of fixed "transfers "into the General Operating Budget to support University faculty positions and indirect support costs. These transfers of $23.5 million form a critical funding component of the University's General Operating Budget. Overall expenses are expected to remain relatively stable when compared to last year.

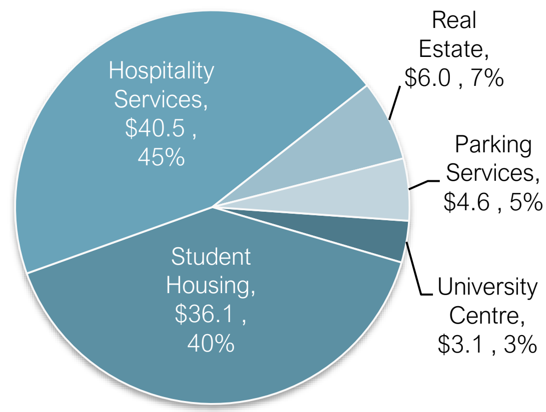


6 Ancillaries

Ancillary Units at the University provide 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

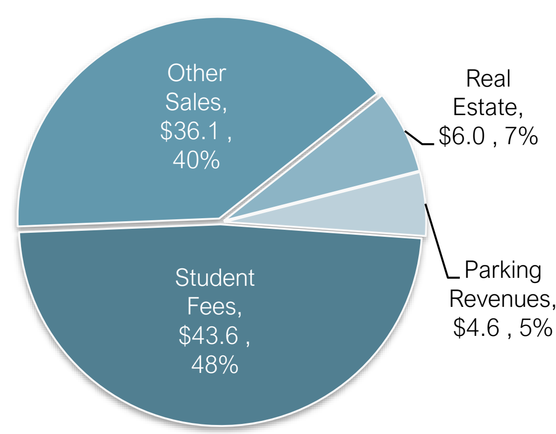
Ancillary 2019-20 Revenues by Unit
$90.3 million ($ in millions)



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. 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. 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 estate properties to add to the University's Heritage Endowment.

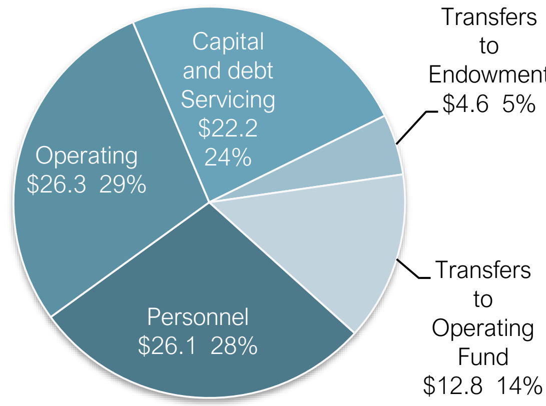
Ancillary 2019-20 Revenues by Source
$90.3 million ($ in millions)



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 2019-20 fiscal year, the combined results for the five ancillary operations include capital and renovation costs funded from operations cash flow and $2.1 million in prior years reserves. Overall capital financing plans for both ancillary and general operating purposes are under review for future years planning purposes. Individual ancillary unit plans are discussed below.

Ancillary 2019-20 Expenses by Type
$92.0 million ($ in millions)



6.1 Combined Ancillary Unit Budget Table 2019-20

The table below summarizes total income, expense and transfers for the University's five ancillary units. Total 2019-20 revenues are expected to be unchanged from 2018-19 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 3.3%. Salaries and benefits are increasing 5.3% in total due to the cost increases for part time and student staff members as a result of salary compression[22] and other annual general salary increases. Student Housing also reviewed salary levels for Resident Life staff members. On the capital side, Student Housing Services will be continuing major capital renovations this year totaling $9.7 million, primarily for South Residences. The remaining ancillaries have a series of smaller projects totaling $3.4 million. Of the total $13.1 million in spending, $1.1 million will be financed with the balance funded from cash flow and reserve balances.

Summary **$ thousands**

2017/2018 Actuals	2018/2019 Budget	2018/2019 Forecast		2019/2020 Budget	% Change Budget To Forecast
			REVENUES		
42,534	42,421	43,591	Student Fees - Contracts (Food & Housing)	43,651	0.1%
34,232	35,524	36,232	Other Sales of Goods and Services	36,080	-0.4%
5,927	6,287	5,811	Real Estate - Lease and Property Income	6,042	4.0%
4,695	4,150	4,800	Parking Revenues	4,600	-4.2%
87,388	88,382	90,434	Total Revenues	90,373	-0.1%
			EXPENSES		
19,377	20,225	20,626	Salaries	21,701	5.2%
3,894	4,249	4,150	Benefits and Pension	4,388	5.7%
10,591	15,287	15,150	Renovations/Cap Equipment	11,955	-21.1%
6,558	7,296	7,296	Debt Servicing	7,012	-3.9%
1,017	1,148	911	Utilities	1,128	23.8%
23,822	24,938	24,748	Operating	25,194	1.8%
65,259	73,143	72,881	Total Expenses	71,378	-2.1%
			UNIVERSITY TRANSFERS		
4,554	5,249	4,757	To Heritage	4,623	-2.8%
12,151	12,442	12,441	To Operating	12,847	3.3%
3,564	3,577	3,584	To Major Capital & Debt Servicing	3,192	-10.9%
20,269	21,268	20,782	Total University Transfers	20,662	-0.6%
1,860	(6,029)	(3,229)	Operating Results (Unrestricted)	(1,667)	
14,478	16,338	16,338	Opening Fund Balances - Unrestricted	13,109	
1,860	(6,029)	(3,229)	Change	(1,667)	
16,338	10,309	13,109	Closing Fund Balances - Unrestricted	11,442	

[22] Due to previous minimum wage increases, certain units experience salary discrepancies that must also be reviewed and potentially adjusted.

6.2 Highlights for Ancillary Units for 2019-20

HOSPITALITY SERVICES

Hospitality Services is a $40 million operation responsible for all food and catering services on the Guelph 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 2019-20 budget have provided their support. The major source of revenue is the sale of food contracts to students consisting of 5,000 residence meal plans and 12,000 meal plans sold to off-campus students per year. Other income is earned from sales to staff and event catering services.

For 2019-20:

- Meal Plan (minimum) rates to increase by 3%. This increase will keep Hospitality Services positioned in the lower middle of the range of mandatory food plan 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 2019-20 revenues are expected to increase by 1.5% over 2018-19 forecast.
- Expenses are driven mainly by the cost of products (36% of expenses), especially food costs. Costs will be contained through expanded co-operative, bulk and local buying. Personnel costs (40% of expenses) will increase by 3.7% allowing for centrally negotiated increases and the resulting increasing costs of part-time staff costs. Hospitality Services employs approximately 979 part-time staff members. Note that any changes made to cope with increasing costs will not have a negative effect on quality or service.
- Capital renovations will total $696,000 and include upgrades to kitchen and eating areas at a number of locations across the main campus.
- Overall, the annual budget will be balanced.

STUDENT HOUSING SERVICES

Student Housing Services is a $36 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 45% of Student Housing expenses are allocated for capital related costs including debt servicing and renovations. As part of the budget development process, Student Housing Services 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 have provided their support for the 2019-20 budget.

For 2019-20:

- Single student residence fees will increase by 2%. The base rate increase will maintain the University's position in the mid-range of fees in the Ontario system. The occupancy assumption for 2019-20 for planning purposes is 95% for fall and 92% for winter. Family Housing rent increases of 1.8% follow the provincially allowed RTA increase. Overall revenues are budgeted to increase by 1.9% over last year's budget from both student contracts and summer conference activity.

- Overall operating costs excluding capital costs are budgeted to increase by 5.8% due to staff complement increases (3 coordinator positions) and operating cost increases. Expenses are weighted to operating and maintaining the residence buildings with 45% allocated for capital costs, debt financing and renovations. Other operating costs include custodial and utilities charges.
- Charges for capital projects and renovations are budgeted at $9.7 million which includes $5.7 million for year three of a six-year project to refurbish the exterior of the South residence complex. The capital plan has a focus on safety and deferred maintenance. Debt servicing costs of $7.5 million remain the same as prior years.
- Overall Student Housing is expected to draw down its accumulated reserves, which are forecast to be $6.4 million on April 30, 2019, by $2 million. No new borrowing or debt is planned for the 2019-20.

PARKING (AND SUSTAINABLE TRANSPORTATION) SERVICES

Sustainable Transportation and Parking Services is a $4.6 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 2019-20:

- Commuting annual permits rates will remain unchanged for the year.
- Capital and renovations costs are decreasing to a total $1.35M in 2019-20 due to no planned major parking lot reconstructions.

REAL ESTATE DIVISION

The Real Estate Division is a unit dedicated to the sale, rental or lease of certain University's real estate properties 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 $5.8 million, about $4.8 million of which will be transferred to the Heritage Endowment.

For 2019-20:

- Revenues budgeted at $6 million reflecting the normal expected annual income from leased and rental properties.
- There are no major capital expenses planned for 2019-20. Overall capital debt in the division is expected to decrease by $305,000 to $4.1 million.
- Overall net income is expected to be $4.9 million, which will be targeted for transfer into the Heritage Endowment.

UNIVERSITY CENTRE ADMINISTRATION

University Centre is a $3.1 million annual operation responsible for the administration 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 2019-20:

- Overall revenues are expected to increase by 2% overall due to a 2.35% increase in the UC student fee and price increases in the Brass Taps Restaurant to offset anticipated expenditures.
- Expenses are expected to increase by 1.5% and overall there is a $300,000 surplus expected at the end of the fiscal year after a $240,000 planned renovation in the Brass Taps facility. Results overall are in line with results of the prior year.

7 Capital

7.1 Prioritizing Capital Projects

The average age of the University of Guelph's 143 buildings is 50 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 structures 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 7 million square feet of buildings across the main campus. Combined buildings and utilities infrastructure have an estimated total replacement value of $1.9 billion. With decades of limited funding for maintaining these assets, a deferred maintenance estimate for the University's main campus (all building including residences) is estimated at $312 million. Our Facilities Condition Index (FCI) is 18. Any FCI rating above 15 is considered *"poor"*. By comparison, the Ontario university system average has an FCI of 11.

Maintaining capacity and quality of space under these conditions is an ongoing 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 ongoing 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 will not be able to address the growing backlog of capital maintenance created from many years of underfunding.

THE 2018-19 ANNUAL CAPITAL PLAN:

A formal annual capital planning and prioritization process for major projects has been ongoing 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 Guelph campus and other major operational centres that are capital dependent (e.g., residences, parking and athletics), rolling five-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.

2. Major Building and Renovations: this grouping consists of major individual projects (normally more than $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 Strategic Infrastructure (SIF) projects.

SUMMARY – 2019-20 CAPITAL PLAN $52.1 MILLION

In January 2019, the Board of Governors was presented the University's 2019-20 $52.1 million Annual Capital Plan. The approved portion of the plan includes continuing renewal and student housing upgrades. In addition, there are three new proposed Major Building projects which will be presented for approval when project estimates and external funding are confirmed.

- The Board approved $29.6 million in capital renewal projects:
  - $13 million for main campus deferred maintenance, funded by $1 million in provincial grants and $12 million from internal financing
  - $5 million for the next phase of the MacNaughton renewal, funded by internal financing
  - $11.6 million for residence capital maintenance and other Ancillary facilities, funded by unit reserves.
- The Board received $22.5 million in proposed major capital projects to be returned for approval when project planning is complete:
  - $5 million for the Human Anatomy Lab, funded from Heritage Funds
  - $2.5 million for an Athletic Performance Centre, supported by fundraising
  - $15 million for the Guelph Agri-Food Innovation Centre (GAIN), funded by a grant.

About 35% of the total funding for these projects will be federal and provincial government grants and fund raising. Existing University reserves and Heritage Fund will provide 32% of funds. Closing the funding gap will be $17 million (33%) in internal financing requirements.

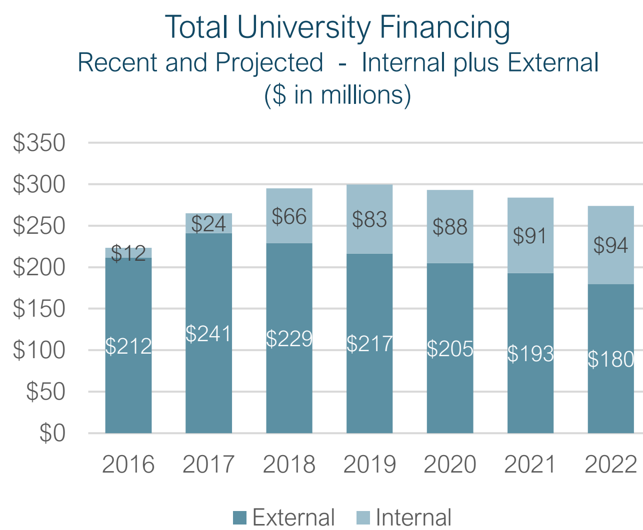
For financing, the University typically has two options: 1) external debt (e.g., from any number of banks); and/or, 2) temporarily using internal cash resources. At this time, it is proposed to temporarily use internal working capital (liquidity) as this internal financing source. This is based upon 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 these 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.

7.2 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's *Strategic Innovation Fund* (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 2018-19 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.

7.3 Financing Costs

The total financing costs as a result of the 2018-19 capital plan spending, once fully 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.