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Report of the Finance Committee

GD19-54

Board of Governors Meeting of April 23, 2020

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The following items arise from a meeting of the Finance Committee on April 16, 2020. They are presented to the Board of Governors for information.

I. FOR ACTION BY THE BOARD OF GOVERNORS

1. Maximum Borrowing Resolution for Fiscal Year 2021 [F19-29]

The *Ministère de l'Éducation et de l'Enseignement supérieur* (MEES) requires annual borrowing authorization limits to be confirmed by the University. In accordance with its terms of reference, the Committee reviewed the extent and methods of external borrowing for both operating and capital needs. Given the unce

, 2021.

ors, on the recommendation of the Finance ving of up to $400 million, for the twelve- 1, 2021.

Governors, on the recommendation of the e Vice-Principal (Administration and pal, Financial Services or the Chief horized to sign contracts, documents, or wings.

r Last Tranche [F19-31]

ves (i.e. , at the $400 million option), the following on 1 [Roll-over the locks (on $150 hedge the financing costs of the purchase to hedge a portion ($60 million) of the g IT initiative] as the preferred option will be required for the building purchase ked to approve this Option.

Be it resolved that the Board of Governors, on the recommendation of the Finance Committee, further and pursuant to the relevant provisions of Board of Governors resolutions GD15-21 and GD14-17 and Executive Committee resolution ED14-14, approve and authorize the Chief Investment Officer and Vice-Principal (Administration and Finance) to continue to roll over the interest

INVESTMENT POLICY

Sinking Fund for Repayment of McGill University Long-term Debt

Presented to the Finance Committee 16-04-2020

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1. PREAMBLE

This Investment Policy aims to establish a framework for long-t

4.1 The Board of Governors (“the Board”) after the recommendation of the Finance

f) corporate bonds rated “A” or higher (Investment Grade) by the credit rating agency with the lowest rating for a particular security;
g) a pooled fund comprised of the vehicles in 5a) through 5f) hereinabove managed by a recognized investment

shall be valid until the furthest due date of the debts targeted by this policy. An annual policy review will be carried out.

9. SECURITIES CUSTODIAN

The custodian shall be available at all times and any authorized person connected with the implementation of this Policy shall have access to the custodian at all times.

10. CONFLICT OF INTEREST

A conflict of interest, whether real or apparent, is defined for the purposes hereof as any situation in which a member of the Board or its committees, an investment manager, an agent or mandatary, an advisor, a staff member of the University or any other party directly related to the preceding persons could obtain personal benefit or gain from information about the portfolio, from the person's involvement in the portfolio or from an investment decision or decision concerning the securities held in the portfolio.

Schedule B

Debt issued by McGill and due date:

1. $ 150 million, Series “A” 6.150%, September 22, 2042
2. $ 160 M, Series “B” 3.975%, January 29, 2056
3. $ 90 M, Series “C” 2.926%, July 26, 2049

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Budget Planning III

McGill University Provisional Budget FY2021

Presentation to the Board of Governors
April 16, 2020

Christopher Manfredi, Provost and Vice-Principal (Academic)

McGill

FY2020 Forecast

McGill

FY2020: Unrestricted Revenues

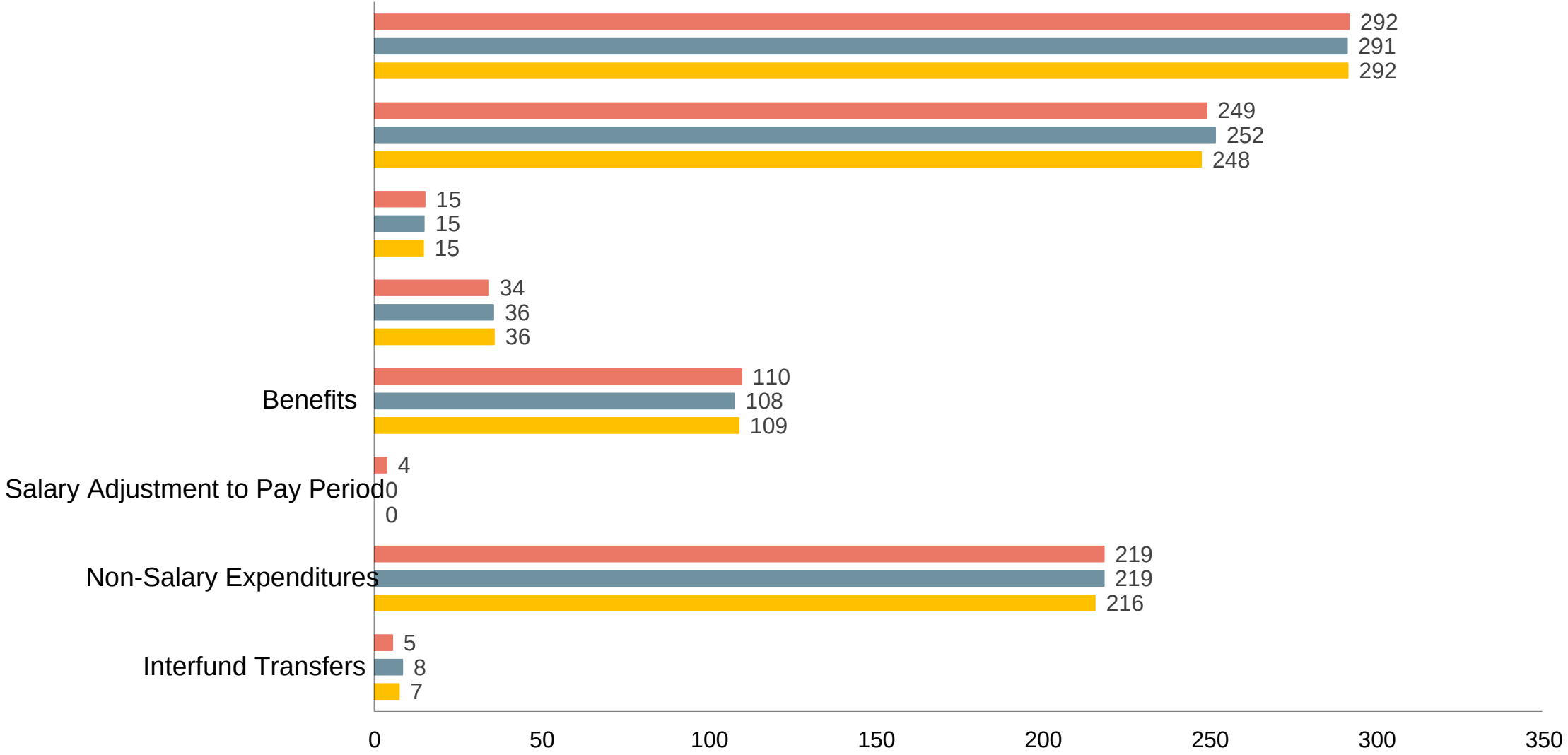
- A more precise model of anticipated grant revenues is possible after the close of the third quarter of the year (that is, after Budget Presentation II)
- Higherthan anticipated enrolments = higher than anticipated tuition and grant revenues
- Tuition and fees, and provincial grant revenues variance (forecasted vs. budgeted) = +$20.4M
- The unprecedented disruption of activity in the last months of the academic year is expected to materially affect revenues from tuition and fees or grants in FY2020.

- However, revenues from sales of goods and services have been substantially affected
- SOGS variance (forecasted vs. budgeted) = ($18.3M)
  - Pro-rated refunds for residence leases, meal plans, athletics memberships
  - Loss of activity in other ancillary services (e.g., bookstore, parking, printing services, other food services)
  - Losses within Faculties (e.g., dental clinic, performances)

FY2020 Forecast: Unrestricted Expenses

- Despite the unanticipated reduction in revenues, overall expenses have not declined significantly.
- Unrestricted expenses variance (forecasted vs. budgeted) = ($5.9M)
- The Quebec Government has thus far instructed universities to continue to pay employees based on pre-established expectations.
- Some non-salary expenses have changed, with some normal activities ceasing, and new activities taking their place. For example:
  - Significantly reduced travel
  - Suspension of Macdonald Campus shuttle
  - Investment in software and hardware necessary to deliver the remainder of the Winter 2020 term online
  - Increased student aid to address need with respect to access to resources to complete courses
- Some unit-level year-end surpluses

FY2020 Forecast: Unrestricted Expenses



FY2020 Forecast: Summary

	Approved FY2020 Budget	FY2020 Outlook (Budget Presentation II)	FY2020 Forecast (Presentation III)	Variance (Budget vs. Forecast)
Total revenues	920,001	922,701	920,817	0.1%
Total expenses[1]	928,870	929,075	922,772	0.6%
Annual financial surplus/(deficit)	(8,668)	(6,374)	(1,955)	
Financed accumulated deficit[2]			(121,755	
Financed accumulated deficit/Revenues (%)			13.22%	

(1) Excluding year-end actuarial adjustments and related accrual

(2)

FY2021 Provisional Budget

McGill

- Enrolment targets and enrolment-driven revenues for FY2021 were modelled before disruption and have not been adjusted.
- Anticipated loss of revenues has been addressed through creation of a significant contingency and the implementation of expense reduction measures.
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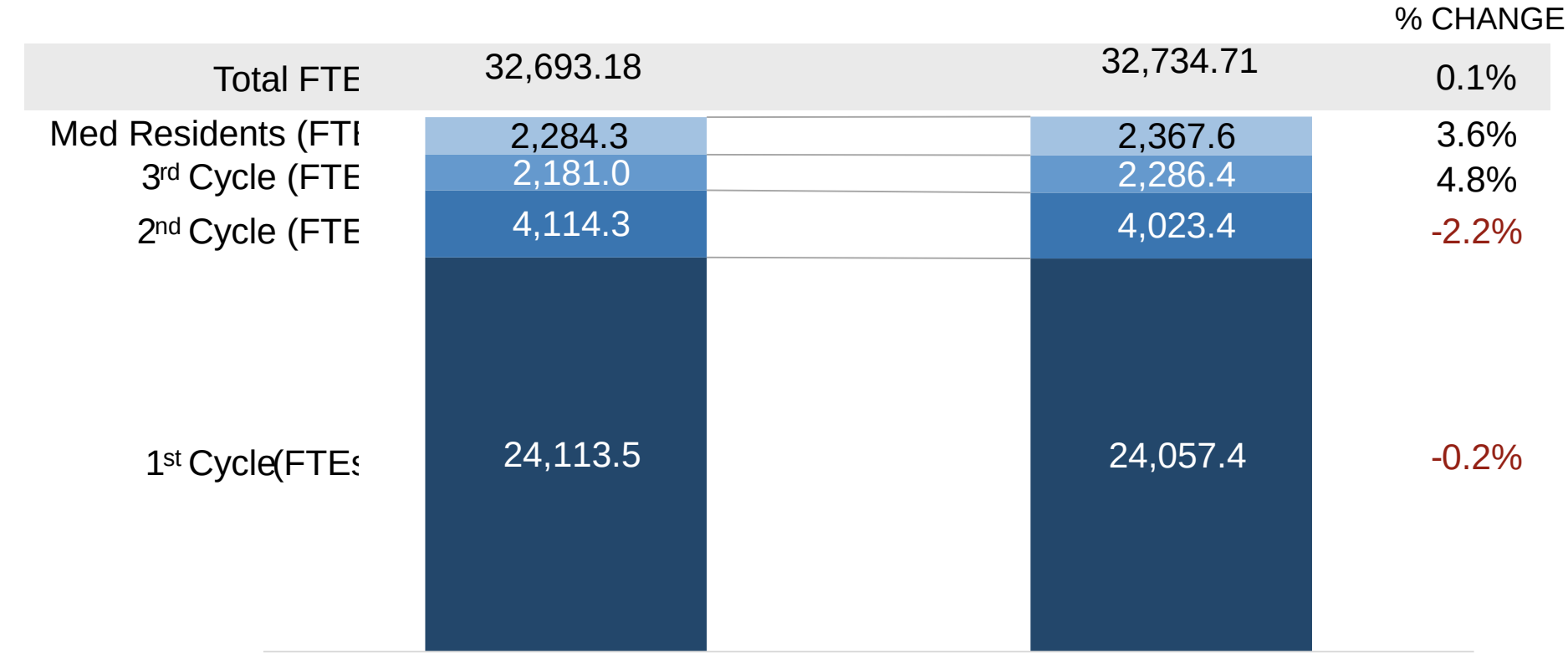
FY2021 Key Pre-COVID-19 Assumptions: Student Enrolment

- Growth in PhD enrolment; slight decrease in undergraduate enrolment.



(1) WFTEs = FTEs weighted by discipline and level, using the CAREF weighting grid

p = projected; e = estimate

- Student enrolment accounts for approximately 80% of University revenues in normal circumstances, directly via tuition and fees, and indirectly through support grants received from the Quebec Government
- Lost enrolments in 2020 í } µ o Œ u] v ^ o } • š e r s (} Œ s m a l l e r t h a n - n o r m a l cohort makes its way through its programs, meaning revenues could be equally depressed for an extended period of time. (Mitigation strategies are in development.)
- Self-funded units also generate significant revenue through student activity (e.g., residences, food services, athletics, University bookstore
- Enrolment retention

FY2021 Enrolment Considerations II

- The numbers of new students who have confirmed their acceptance of our offer of admission as of early April 2020 are broadly comparable to those from April 2019, with some qualification:
  - Confirmations from CEGEPs and US high schools are up, though more offers were made to each population this year
  - Confirmations from Ontario high schools are on par, though this follows considerably more offers having been made
  - Confirmations from Canadian high schools (excluding QC and ON) are down, despite making a similar number of offers
  - Confirmations from international (non-US) high schools are down slightly, though slightly fewer offers were made this year
- The month of April usually sees the greatest number of confirmations so there are many more outstanding offers than confirmed acceptances
- The confirmation deadline will be extended from 1 May to 1 June to accommodate this period of exceptional uncertainty, but this will reduce visibility into the intentions of admitted applicants.

Scenario	Approximate Potential Revenue Loss	Assumptions	Mitigation Difficulty
1	$10M	‡ Stable QC enrolment ‡ 5% decline in new CNRQ enrolment; staoetuoning ‡ Send	

FY2021 Key expense reduction measures I

- Establish an $20M contingency to brace against as yet unknown enrolment decline and/or extraordinary costs associated with alternate program delivery
- Defer approximately $10M in planned expenditures for FY2021 across all sectors of the University, including some new commitments for FY2021 that were made in previous years
- Achieve approximately $2M in additional non-salary expenditure reductions to be determined and managed by local leadership (e.g., Deans and VPs)
- Limit spending and restrict new allocations in particular to mission-critical activities, core operations, and contractual obligations
- Reduction of FY2021 sinking fund payment from $11.5M to $8.5M

- Suspend tenure-track and contract academic hiring until further notice (course lecturers excepted, but to be hired only where needed to ensure program continuity)

- Suspend administrative and support staff hiring until further notice

- [TBC] Defer June 2020 merit increases for all non

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FY2021 Risks/Unknowns

- Duration of COVID-19 emergency measures will directly affect our capacity to return to business-as-usual, and is out of our control
- Remote delivery of academic programs in Fall 2020 is feasible, but the proportion of our programs that are effectively adaptable to such delivery is to be determined
- The proportion of our new and returning students who are willing and/or able to participate in remote instruction over a full term is to be determined
- Effect of economic downturn and market volatility on philanthropic revenues and the h v] À Œ •] š Ç [• v } Á u v š (µ v Œ u] v • š } • v
- Effect of market volatility on pension fund and University obligations remains to be seen

Discussion

- Questions
- Comments
- Concerns
- Suggestions

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