INSTITUTIONAL BUDGET, 2014-2015

Although the University of Alberta continues to face significant budget challenges in 2014-2015, it is looking forward to a period of greater budget stability, helped by the government's decision to begin reinvesting in post-secondary education late in 2013-2014. As the university moves into 2014-2015, it will advance on the vision and academic priorities as laid out in *Dare to Discover* and this Comprehensive Institutional Plan.

With a positive consolidated budget and moving toward a structurally balanced operating fund, the university will leverage government's reinvestment strategically in 2014-2015. A major thrust of the reinvestment will be stimulation of new revenue (net) that will help to mitigate the impact of budget cuts planned for 2014-2015. All of this will be accomplished within the context of the university's four-point action plan focused on academic transformation, sustainable financial models, ongoing administrative effectiveness, and internal culture change.

As noted in last year's CIP, the university has been transitioning to Public Sector Accounting Standards (PSAS) incorporating required accounting adjustments and modifying budget tables to better align with the standards. This transition will continue over the next several years as the university receives further clarification from the provincial government on the application of standards.

In the 2014-2015 consolidated budget table, the 2013-2014 budget has been restated to reflect further PSAS adjustments. In particular, Amortization of Deferred Capital Contributions is no longer budgeted as a separate line item but distributed to the revenue source to which the deferral applies. This has resulted in an increase of $98 million in provincial government revenue, an increase of $9 million in federal government revenue, and an increase of $13 million in investment income revenue. The net effect of this change on the total revenue budget is zero, as these revenue increases are directly offset by the elimination of the revenue line for the Amortization of Deferred Capital Contributions.

For 2014-2015 the university has also begun reporting the consolidated budget by fund, which offers a greater level of transparency and understanding of the university's budget, in particular the activity within the operating fund, the key teaching and learning budget.

Consolidated Budget

Prepared under Public Sector Accounting Standards (PSAS), the U of A's 2014-2015 consolidated budget (see Table 4) reflects the entire enterprise, including unrestricted and restricted funds. This includes funding for general operations, ancillary operations, research activities, and capital projects. Funding for general operations is fully unrestricted within the consolidated budget. Funding for ancillary operations remains within those operations, while the majority of research revenues, philanthropic sources of revenue, and capital project funding are fully restricted. The difference between unrestricted and restricted funds is in the degree of university control over the use of the funds. All unrestricted funds fall fully within the authority of the board to advance the institution's enterprise, whereas restricted funds can only be used for the purposes for which they were received. To further enhance the university community's understanding of the budget, a budget primer document was developed and is publicly available on the university's website, along with a supporting animated budget primer video.

Over the last year, the university has implemented plans that will realign the budget within a new funding context. For 2014-2015, the university has developed detailed plans and strategies that will achieve a consolidated balanced position for 2014-2015 and made limited strategic investments to advance the institution. Although the mid-year 2013-2014 2.6 per cent base funding increase to the Campus Alberta grant helped to reduce negative impacts, and the university has advanced efforts to generate new sources of revenue, cuts across the institution will still need to be implemented in 2014-2015 to realign the university's expenditures with its budgeted and forecast revenues.

For 2014-2015, the consolidated budget reflects an excess of revenue over expense of $9.5 million on total revenue of $1,749 million. This represents less than one per cent of the university's budgeted consolidated revenue. The $35-million change between the 2013-2014 preliminary actuals and the 2014-2015 proposed budget is driven by a number of factors. First, there was the specific decision by the Board of Governors to approve a consolidated budget deficiency in 2013-2014 and phase in budget cuts over two years in an effort to plan effectively and limit the impact of the cuts on the institution. Second, in 2013-2014 the university booked the full impact of the Voluntary Severance Program along with other one-time severance payments associated with 2013-2014 budget cuts. Finally, and based on current assumptions of no increase to the Campus Alberta grant, the 2014-2015 consolidated budget has factored in seven per cent budget cuts to the academic units and eight per cent budget cuts to the administrative units in order to bring the university's consolidated budget into a balanced position.

The Statement of Operations (consolidated budget) under the PSAS, and the Statement of Cash Flows are presented in tables 8 and 9 on pages 168 and 169.

TABLE 4 CONSOLIDATED BUDGET, 2014-2015 ($,000)

	2013-14		Budget	Projections		
	Approved Budget[1]	Prelim. Actuals	2014-15	2015-16	2016-17	2017-18
Revenue:						
Provincial Government	851,069	864,804	861,492	872,003	868,350	871,773
Federal and Other Government	191,394	186,358	188,670	194,005	204,245	210,118
Tuition and Related Fees	301,630	304,356	313,594	322,177	329,290	340,028
Grants and Donations	127,688	122,663	133,247	129,672	127,306	130,584
Investment Income	48,870	56,610	58,900	64,807	67,920	70,485
Sales of Services and Products	184,023	185,515	192,917	196,841	202,599	205,837
Total Revenue	**1,704,674**	**1,720,306**	**1,748,821**	**1,779,504**	**1,799,709**	**1,828,826**
Expense:						
Salaries	885,029	896,356	875,530	885,737	884,691	892,597
Employee Benefits	179,957	181,062	177,093	181,743	188,319	193,894
Materials, Supplies and Services	299,406	289,930	292,172	300,426	298,150	303,636
Utilities	43,143	50,338	48,506	50,567	53,563	52,902
Maintenance	72,102	72,006	84,259	80,596	72,893	71,339
Scholarships and Bursaries	93,170	87,141	85,158	87,644	90,279	93,060
Amortization of Capital Assets	176,555	169,461	176,605	180,571	182,068	183,367
Total Expense	**1,749,363**	**1,746,293**	**1,739,323**	**1,767,285**	**1,769,963**	**1,790,795**
Excess of Revenue Over Expense	**(44,689)**	**(25,988)**	**9,498**	**12,220**	**29,746**	**38,031**
Transfer from Endowment	10,000	10,000	10,000	10,000	10,000	10,000
Investment in Capital Assets	(17,709)	(6,754)	(73,856)	(29,643)	(18,318)	(292)
Increase (decrease) for the Year	(52,399)	(22,742)	(54,358)	(7,423)	21,427	47,739
Unrestricted Net Assets, Beginning of Year	(76,132)	(76,130)	(98,872)	(153,230)	(160,653)	(139,226)
Unrestricted Net Assets, End of Year	**(128,531)**	**(98,872)**	**(153,230)**	**(153,230)**	**(139,226)**	**(91,487)**

[1] Budget revenue distribution restated under PSAS. Amortization of deferred capital contribution has been re-allocated to reveune sources - there is no change to the revenue total.

CONSOLIDATED REVENUE

Budgeted revenue for 2014-2015 is $1,749 million. As illustrated in Figure 16, 49 per cent or $860 million comes from the Government of Alberta, mostly through the Campus Alberta grant, sponsored research funding, and capital funding. Of the $861 million, $591 million represents the Campus Alberta Grant, the primary source of unrestricted funding for the university's day-to-day operating activity. The 2014-2015 budget has been prepared on the assumption that there will be no increase to the Campus Alberta grant. If there is an increase to the Campus Alberta grant, the university is committed to applying that increase, dollar for dollar, to reducing the planned budget cuts factored into the budget.

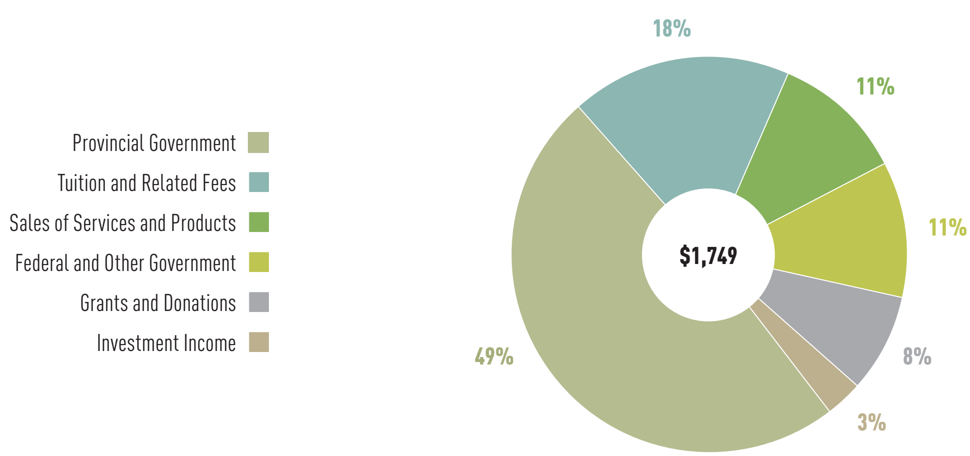
The federal and other government revenue of $189 million largely reflects the funding received by the university in support of its research mandate. This revenue is budgeted to be marginally greater than the 2013-2014 preliminary actuals. Any change in this revenue source is driven by the federal government's level of investment in Tri-Council funding and the university's national competitiveness in these and other funding competitions. The university's competitiveness is a direct function of the number and quality of faculty, the research environment, and administrative support the university provides them.

Tuition and related fees are budgeted at $314 million and, at 18 per cent, represent the second-largest source of consolidated revenue. This includes all instructional fees, market modifiers, and non-instructional fees. The fee revenue is largely unrestricted, resides in the operating fund, and is used for the day-to-day general operations of the university. In December 2013, pursuant to the provincial tuition fee regulation, the Board of Governors approved a one per cent increase to general tuition fees, program fee differentials, and market modifiers, and an effective five per cent increase in undergraduate international tuition fees including international program differentials, course differential and market modifiers. The one per cent increase applies to 2012-13 general tuition fee levels due to government's 2013 decision to freeze tuition at 2012-13 levels. The budget has factored in a one per cent increase to all mandatory non-instructional fees with the exception of the athletics and recreation fee. Through a comprehensive student consultation process, the Faculty of Physical Education and Recreation has proposed an increase of $16.38 per term to the athletics and recreation fee. The non-permanent CoSSS fee is budgeted to generate $12 million of revenue in 2014-2015. For 2013-2014 the government provided the university with one-time funding of $4 million to make up the revenue shortfall as a result of the tuition freeze. For 2014-2015, the university has assumed that it will receive a one-time base adjustment of $4 million to replace the lost tuition revenue on a permanent basis. This assumption reflects a $4-million risk to the university's budgeted revenue.

The fourth-largest source of revenue comes from sales of services and products, representing 11 per cent of total consolidated revenue, or $193 million. This revenue is primarily derived from ancillary operations such as residence services, the bookstore, parking, and food services. For 2014-2015, these revenues were adjusted based on a board-approved weighted increase to residence fees of 3.76 per cent at all campuses, with a base increase of 1.75 per cent to most products, and adjustments to parking rates of 1.14 per cent. Sales of services and products revenues are also derived from operating activities across all faculties and units. Examples include sales associated with physical education and recreation activities (passes, camps, etc.), medical clinical assessments, and rental of equipment.

The other sources of consolidated revenue for 2014-2015 include grants and donations of $133 million, and investment income of $59 million.

FIGURE 16 CONSOLIDATED REVENUE BUDGET, 2014-15 ($MILLION)



CONSOLIDATED EXPENSE

For 2014-2015, consolidated expense is budgeted at $1,739 million. The budgeted expense for 2014-2015 reflects expenditure reductions of $56 million in the operating fund including a seven per cent budget cut to the faculties and an eight per cent budget cut to administrative units. These cuts have been distributed throughout the various expense categories based on previous trends on where cuts have been applied. The expenditures also reflect further one-time severance payments of approximately $14 million in response to the faculty and administrative unit budget cuts.

As Figure 17 illustrates, investments in salaries and benefits to maintain teaching, research, and other critical activities account for 60 per cent of total expense. The salary and benefit expense lines reflect a combination of the implementation of the contractually agreed to salary and merit adjustments (1.65 per cent and two per cent respectively), the inflationary costs of benefits as well as that portion of the budget cuts that have been applied to positions. The net effect of these changes is an overall $25-million reduction in salary and benefit expense from the 2013-2014 preliminary actuals.

Of significant concern to the university is the rate of increase to the university's benefit program costs including its pension plan contribution rates. Although total benefit expense is budgeted to decline in 2014-2015 from 2013-2014 due to the reduction in staff, benefit program costs continue to escalate. For example, the university`s 2014-2015 benefit plan costs are budgeted to increase by 7.2 per cent from the 2013-2014 estimated actuals. At the same time, with continuing uncertainty in the equity markets, historically low interest rates, unfunded liabilities and actuarial reviews, the university is forecasting continuing increases in pension plan contribution rates. Although a relatively small increase in pension plan contributions is budgeted for 2014-2015, over the following three years, pension plan contributions are forecast to increase 22 per cent. The Universities Academic Pension Plan board undertook negotiations to address this challenge, but to date those efforts have not come to fruition.

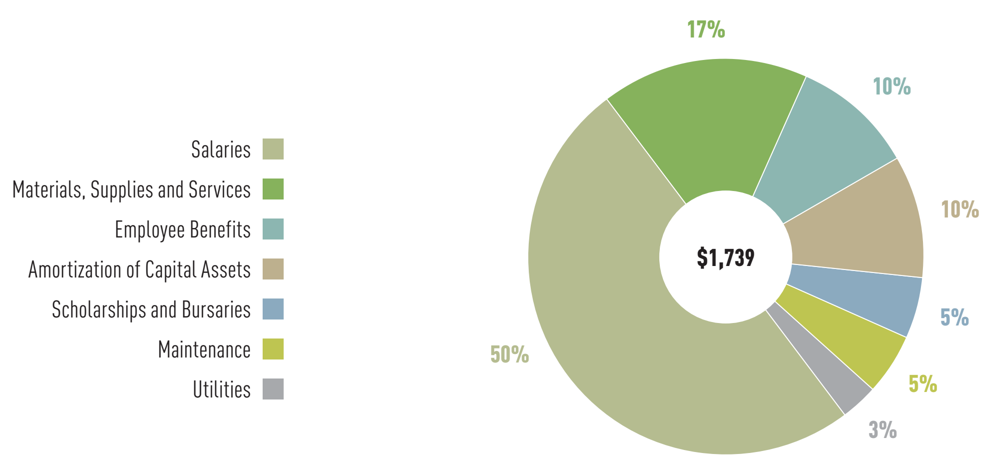
The university's next largest expense is materials, supplies, and services. Budgeted at $292 million, these expenses provide essential support across the campuses, including information systems and technology, research expenditures, library resources, maintenance, and day-to-day operations such as insurance premiums, communications, and classroom support. This expense line also includes the costs of goods sold and recovered. In budgeting for these expense items, the university continues to face the challenge whereby inflation within higher education significantly exceeds general inflationary pressures. Examples of this include library collections increasing by 6.9 per cent, information technology licences increasing by 6.1 per cent, waste removal increasing by four per cent, a broad range of industrial supplies increasing by five to eight per cent, and various health and safety maintenance contracts increasing in the range of 2.2 to 2.7 per cent.

On a continuous basis, the university implements plans and strategies that maximize administrative efficiencies in delivering vital services in direct support of the university's core mission. In fact, the university is required to track and report to the provincial government the proportion of operating expenditures directed toward administrative purposes over a two-year cycle. The provincial government establishes the criteria for the specific expenditures that must be included in the calculation and sets five per cent as the benchmark for administrative expenditures as a proportion of operating expenditures. Based on the ministry's own criteria, for the 2010-11 to 2011-12 cycle, the university allocated only 3.8 per cent of its expenditures for administrative purposes versus the maximum target allocation of five per cent.

A further significant expense in the consolidated budget is $177 million for the amortization of capital assets. Under PSAS, amortization is an annual expense that is calculated based on the estimated useful life of the asset. These assets include such things as buildings, scientific and computing equipment, software, and learning resources.

For 2014-2015, scholarships and bursaries expense are budgeted at $85 million, marginally less than the 2013-2014 preliminary actuals. The 2014-2015 scholarship budget reflects reductions that were applied in 2013-2014, plus an adjustment based on a lower than anticipated uptake of scholarships and bursaries by students. Going forward, the university is committed to growing its scholarships and bursaries through advancement activities.

FIGURE 17 CONSOLIDATED EXPENDITURE BUDGET, 2014-15 ($MILLION)



Operating Fund

In an effort to increase the transparency of the budgets, in addition to the consolidated budget, for 2014-2015 the university has included budgets by fund including the operating fund (see Table 5).

As noted, the operating fund is unrestricted and is used to support the primary teaching and learning activities of the university. To ensure alignment of the operating fund with the consolidated budget, this fund is presented using PSAS and therefore includes the amortization of capital assets.

For 2014-2015 the university has budgeted total operating fund revenues of $998 million and total operating fund expense of $1,011 million for an operating fund deficiency of $13 million. The operating fund has been prepared based on the core assumptions of no increase to the Campus Alberta grant, along with the implementation of budget cuts to the faculties and administrative units. In the event of any increase in the Campus Alberta grant, those dollars will be used to offset and reduce the impact of the planned budget cuts. For every one per cent increase in the grant, the university will be able to reduce budget cuts across the institution by 0.7 per cent.

The two primary sources of revenue within the operating fund are the Campus Alberta grant, and tuition and related fees totalling $903 million or 90 per cent of the operating fund revenue. The remaining 10 per cent of revenue is derived from federal and other government funding, donations and investment income, and sales of services and products.

Within the operating fund, 76 per cent of expenses are associated with salaries and benefits. Ten per cent of expenses are associated with the materials, supplies, and services that support teaching and learning, with the remaining 14 per cent of expenses associated with utilities, maintenance, amortization expense, and scholarships and bursaries.

In November 2013, the provincial government announced a 2.6 percent or $14.4-million increase to the university's 2013-2014 base Campus Alberta grant. Because the funding was received late in the fiscal year, the university did not make any base allocations in the 2013-2014 budget. Instead, the university will make one-time investments of $14.4 million to address immediate budget pressures, and will also make permanent base allocations of $14.4 million in the 2014-2015 budget, for a total investment in the academy of $28.8 million.

One-time investments will mitigate the impact that 2013 provincial budget cuts have had on the teaching and learning enterprise of the U of A. A total of $2.6 million was immediately reinvested in the 2013-2014 budget for graduate assistantships to maintain expected graduate student support, and ensure that labs, tutorials and courses led by graduate students are maintained to the greatest extent possible. In 2014-2015, this one-time investment will become a permanent base allocation.

One-time funding of $3 million will also be distributed to faculties in 2014-2015 to seed revenue generation projects that will assist in easing enrolment pressures, maintaining access, and enabling strategic faculty and staff renewal. New revenue streams will, in future, increase faculties' ongoing capacity to hire faculty and staff needed to maintain student access to programs and provide a high-quality educational experience to all enrolled students. A further one-time investment of $5.1 million will be allocated over a three-year period to fund continuing efforts to develop and offer high-quality digital learning options for students in both blended and massive online open course formats. The balance of the one-time funding ($3.7 million) will be allocated to various academic and administrative initiatives that will assist the

TABLE 5 CONSOLIDATED BUDGET 2014-15 BY FUND ($'000)

	2013-14		Consolidated Budget by Fund, 2014-15					
	Approved Budget[1]	**Prelim. Actuals**	**Operating**	**Ancillary**	**Research[2]**	**Capital[2]**	**Special Purpose**	**TOTAL**
Revenue:								
Provincial Government	851,069	864,804	591,100	-	100,990	110,272	59,131	**861,492**
Federal and Other Government	191,394	186,358	5,544	-	173,708	8,966	452	**188,670**
Tuition and Related Fees	301,630	304,356	311,624	1,970	-	-	-	**313,594**
Grants and Donations	127,688	122,663	8,788	-	87,463	28,802	8,194	**133,247**
Investment Income	48,870	56,610	15,741	2	24,883	-	18,273	**58,900**
Sales of Services and Products	184,023	185,515	65,265	102,681	20,671	-	4,300	**192,917**
Total Revenue	**1,704,674**	**1,720,306**	**998,062**	**104,653**	**407,715**	**148,039**	**90,351**	**1,748,821**
Expense:								
Salaries	885,029	896,356	624,202	24,660	185,409	-	41,259	**875,530**
Employee Benefits	179,957	181,062	139,575	5,090	23,982	-	8,446	**177,093**
Materials, Supplies and Services	299,406	289,930	97,409	41,869	134,782	-	18,112	**292,172**
Utilities	43,143	50,338	40,457	6,002	2,048	-	-	**48,506**
Maintenance	72,102	72,006	29,977	22,106	3,537	28,498	140	**84,259**
Scholarships and Bursaries	93,170	87,141	33,467	-	41,697	-	9,994	**85,158**
Amortization of Capital Assets	176,555	169,461	46,386	10,677	-	119,542	-	**176,605**
Total Expense	**1,749,363**	**1,746,293**	**1,011,474**	**110,404**	**391,454**	**148,039**	**77,951**	**1,739,323**
Excess of Revenue Over Expense	**(44,689)**	**(25,988)**	**(13,411)**	**(5,751)**	**16,261**	**-**	**12,400**	**9,498**
Transfer from Endowment	10,000	10,000	-	-	5,800	-	4,200	**10,000**
Investment in Capital Assets	(17,709)	(6,754)	34,882	3,892	(1,579)	(111,052)	-	**(73,856)**
Increase (decrease) for the Year	(23,342)	(41,139)	21,471	(1,859)	20,482	(111,052)	16,600	**(54,358)**
Unrestricted Net Assets, Beginning of Year	(76,132)	(76,130)	(218,056)	46,700	49,862	22,621	-	**(98,872)**
Unrestricted Net Assets, End of Year	**(128,531)**	**(98,872)**	**(196,585)**	**44,841**	**70,345**	**(88,431)**	**16,600**	**(153,230)**

[1] Budget revenue restated under PSAS . Amortization of deferred capital contribution has been re-allocated to reveune sources - there is no change to the revenue total.

[2] Research and Capital funds includes both restricted and unrestricted activity.

university to maintain and manage current and predicted levels of student enrolment. This includes investments in information technology infrastructure, the Registrar's Office, libraries, and other areas that provide vital support to the core teaching and research activities of the institution.

Base allocations, totalling another $14.4 million, will also be made in the 2014-2015 budget. As already mentioned, the first priority is funding for graduate assistantships, and thus, the one-time allocation of $2.6 million to support graduate assistantships will become a permanent base allocation. A further $5 million will be allocated by the Provost's Office to faculties to provide continued assistance in the hiring and retention of professors and other faculty costs associated with delivering excellence in research and teaching. $1 million will be allocated for core supports for students, researchers, and faculties.

The U of A recognizes that public funding models for universities are shifting and that new financial realities demand that all post-secondary institutions seek multiple sources of revenue to support their core mission. Stimulating ideas for revenue generation has been a major priority of university senior leaders over the last year. Turning ideas into reality is, in many cases, a long-term endeavour requiring dedicated seed funding. As such, $6 million will be available to faculties to help implement revenue generation initiatives. Another $6-million fund can be accessed by faculties as an internal loan to be repaid as new revenue streams come online. With $3 million in one-time funding, plus $6 million base allocation and access to a further $6 million in a repayable loan, faculties will have access to $15 million in funding to strategically plan for and generate new revenue. The proposed objective is that faculties will raise $2 of new net revenue for every $1 provided as seed money. If successful, the university will generate $30 million of new net revenue over time that will be used to increase faculty numbers, reduce student-to-professor ratios, and continue strengthening the overall academy.

Finally, a further $6.1 million in base funding will be transferred to the faculties in 2014-2015 as a result of changes to the revenue-sharing formula for international differential fees and the indirect costs of research for grants and contracts. Previously that $6.1 million in revenue flowed to the centre to support core administrative services. However, in an effort to further mitigate budget cuts in the faculties and to provide them with additional incentives to generate new revenues, this base funding has been transferred to them.

The approach that the university has taken will enable it to achieve three primary goals: one, address 2013-2014 enrolment pressures; two, mitigate the impact of the 2014-2015 budget cuts; and three, leverage the government's reinvestment to increase the university's capacity to raise revenues and continue to provide high-quality educational experiences.

The university has taken significant steps in 2013-2014 and 2014-2015 in an effort to move toward a structurally balanced operating fund. However, the ability to sustain a structurally balanced position will be subject to the university's capacity to generate these new and ongoing revenue streams while continuing to manage ongoing operating expenditures.

Operating Fund Budget Assumptions and Sensitivities

The university prepares its budgets using a comprehensive integrated planning and budget process, involving key stakeholders from across the institution. Key budget assumptions and sensitivities are cornerstones of the university's multi-year budgeting process. The goal is to achieve improved accuracy in forecasting elements of the budget and provide common assumptions for budget planners across the university.

2014-2015 BUDGET ASSUMPTIONS

Key highlights of the university's revenue assumptions include:

- a zero per cent adjustment to the Campus Alberta grant. Any increase in the grant will be used to offset budget cuts.
- an estimated $4-million base increase to the Campus Alberta grant to replace tuition revenue following government's decision to freeze tuition at 2012-13 levels
- a one per cent increase in general tuition fees and graduate student international differential fees and an effective five per cent increase to undergraduate international student tuition fees
- continued phased approach to full implementation of market modifier tuition
- a one per cent increase to all mandatory non-instructional fees with a proposed $16.38 per term increase to the athletics and recreation fee
- marginal growth in investment income

Key highlights of the university's expenditure assumptions include:

- salary increases driven by negotiated salary settlements (1.65 per cent across the board increase and an average two per cent increase for merit)
- employer-paid non-statutory benefit cost increases averaging 7.2 per cent
- a seven per cent overall average cut to faculties and eight per cent to administrative units
- one-time severance costs associated with budget cuts
- marginal decline in utility expenditures
- stable scholarship funding

2014-2015 BUDGET SENSITIVITIES

Revenue Approximate Value

- one per cent on Campus Alberta grant: $5.8 million
- 0.25 per cent on short-term interest rate: $1.3 million
- one per cent increase on credit tuition: $2.5 million

Expense Approximate Value

- one per cent increase in salary settlements: $5.5 million
- one per cent increase in benefits: approximately $1.4 million
- $1/gigajoule increase in natural gas: $2.3 million (ancillary budget)
- one per cent operating budget reduction: $7 million

FORECAST BUDGET ASSUMPTIONS

The university has used the following forecast budget assumptions.

Revenue assumptions:

- There will be no increase in the Campus Alberta grant for each of 2015-2016 to 2017-2018.
- Regulated tuition will increase annually by Alberta CPI (approximately two per cent per year) as confirmed by the ministry.
- All non-regulated tuition are forecast to increase annually at rates more closely associated with the actual cost increases in the delivery of the university's academic programs. (approximately 3 to 5 per cent)
- All mandatory non-instructional fees will increase by a minimum of Alberta CPI.
- Interest income will remain at historically low levels.

Expenditure assumptions:

- There will be a revenue gap of one per cent per year between 2015-2016 and 2017-2018.
- Changes to ATB salary increases, merit and benefit costs will be subject to collective agreement negotiations for 2015-2016 and beyond.
- All other expenditures are forecast to increase in the range of two to seven per cent.