SLT 2022-23 Budget Discussion

23 November 2021

There are still many elements affecting the 2021-22 operating budget that are unknown at this time but this document starts our discussion on the various factors that will ultimately lead to the 2022-23 Budget Plan. The biggest change since SLT last met is in the area of enrolments. We had projected some growth in domestic and a smaller decrease in international, but this has not been realized as expected.

The following information is offered for a robust discussion and dialogue with SLT to help with the creation of the "way forward" for this upcoming budget year. The topics in this discussion document should not be understood as targets or decisions. Rather, they are presented for discussion purposes and to provide data at this early stage.

2021-22 Enrolment Changes (Financial Perspective)

Budgeted Structural Deficit from 2021-22	$(3,556,000)
S&S Enrolment Adjustments	(650,000)
Fall Enrolment Adjustments	(2,500,000)
Winter Enrolment Adjustments	(2,700,000)
2021-22 Enrolment Revenue Shortfall	**$(9,406,000)**

Prior Year Structural Deficit

For the current 2021-22 year, the University structured the budget as a bridging budget anticipating International enrolment declines in the year that would reverse as the pandemic eased, in keeping with similar action the year before. With the expectation that this was not a long-term trend, base budget cuts were not made to address the shortfall and the University budgeted for a base budget structural deficit of $3.556 million. This deficit was anticipated to reverse as international students were once again able to obtain their visas and travel to Canada, so the proposed solution for both of the last two years was to utilize one-time funds recovered from Units across campus through a contribution from carryforwards.

Enrolment and Tuition Projections – 2021-22

Budget Projections - More than in any other budget year we've experienced, the future is harder to predict! This is the first year that we have seen enrolment declines (other Universities don't appear to be experiencing the same declines). During the 2020-21 year, which was the first year of the pandemic, the University saw increases in domestic enrolments while international enrolments declined because of travel restrictions and the inability of students to obtain visas during lockdowns. We anticipated that those trends would endure into 2021-22 as lockdowns continued. For the 2021-22 year, the budget was created with the anticipation that domestic enrolments would increase by 2% and

international enrolments would decrease by 8%. Coming off of a year with no tuition increase, tuition rates were increased by 4%.

The experience so far in 2021-22 is significantly different than was anticipated in the budget. Overall, student numbers are down significantly in the Spring/Summer and Fall semesters and early registrations for the Winter term are trending negative when compared to registrations at the same time in the previous year.

Spring and Summer - Undergrad International revenue has declined an additional 3.3% over and above the 8% decline projected in the budget and Undergrad Domestic revenue is down 8.6% from the budgeted figures. This is offset marginally by increased enrolments in Graduate tuition revenue and Co-op placements, but the impact on the budget is $650,000 as overall student numbers are down 2.3% while **credit hours are down overall by 5.2%.**

Fall - Undergrad International revenue has declined an additional 6.6% over and above the 8% decline projected in the budget and Undergrad Domestic revenue is down 6.8% from the budgeted figures. This is offset marginally by increased enrolments in Graduate tuition revenue and Co-op placements, but the impact on the budget is $2.5 million as overall student numbers are down 3.9% while **credit hours are down overall by 5.7%.**

Winter – The impact of Winter enrolments is not yet known, but early registrations are showing that enrolment patterns are following the same declining pattern as the Fall semester. Compared to the same period last year, **registrations are 6% lower** than they were a year ago. In addition to this, there was a large cohort of international students that began in the Winter semester 2 years ago. Many of those students were registered in two year diploma programs and could be finished this semester. If enrolment trends continue, the financial impact of this decline is conservatively estimated at an additional $2.7 million loss.

It is worth noting that credit hours for the Spring/Summer and Fall semesters are both down almost 2% more than the decline in student numbers. This means that students are taking less classes than they were a year ago. It is also worth noting that both Sask Poly and the U of S have seen significant increases in enrolments in the current year as have most across the country. The biggest difference between the U of R and the other two institutions is the mode of class delivery in the Fall semester. Both Sask Poly and the U of S returned to face-to-face delivery while the U of R continued to offer classes remotely.

The University originally budgeted for a $3.6 million dollar deficit for 2021-22 but this **structural deficit has now grown to $9.4 million**. If the projected enrolments do not correct in Winter term, this will need to be addressed one-time in the current year as well as structurally going into 2022-23.

Addressing the Enrolment Impact to Finances First

The discussion as we start 2022/2023 budget planning is to develop realistic plans for enrolment which are the biggest variable and will set the stage for any scenario planning. Once we have some good projections on enrolment we can continue with the other aspects of the budget.

Enrolments – The biggest financial lever that the University has to manage the budget is enrolments. Indeed, the challenge to future budgets will be impacted most by enrolments as we have seen over the past few months. The University has seen sustained growth in enrolments over the last two decades

particularly in international students. The decrease in enrolments in the current year accounts for $5.9 million of a new budget challenge that was not envisioned only a few months ago.
The University has made difficult choices, in light of COVID, about course delivery that has impacted the student experience dramatically and it appears that students are sending a very strong, clear message that we are not offering them what they expect or want. They are voting with their feet and while our enrolments declined 5%-6% our competitors are seeing enrolment growth. Even the students that are taking classes at the University are taking reduced class loads. For discussion purposes, the following illustrates the impact of various enrolment changes:

One percent enrolment increase – undergrad domestic is equal to approximately $470,000.
One percent enrolment increase – undergrad international is equal to approximately $370,000.
One percent graduate enrolment increase is equal to approximately $100,000.

The University needs to continue to explore and pursue alternative revenue streams (eg. micro credentials and non-credit instruction, etc) and cost reductions/efficiencies, however, our enrolments will drive our fiscal sustainability. Another big question is when, or whether these enrolment issues will indeed return to pre-March 2020 patterns once the pandemic is under control. Certainly the University needs to engage in aggressive marketing and recruitment strategies for the Spring/Summer 2022 and Fall 2022.

Using the numbers above, an example of what would be necessary to return to balance using enrolments only, might be **($9.4M shortfall):**

- 6% increase in undergrad domestic $2.8M
- 18% increase in undergrad international $6.7M
- 0% increase in Graduate $0.0M

While these look like difficult numbers, they are simply a return us to barely where we were in terms of enrolment prior to Covid. This is the first area where we need to turn our attention.

Multi-year Planning. Enrolment is not something we can turn on a dime, so a multi-year plan is critical. Indeed, with Covid still lingering there will be delays in international travel and recruitment. We will definitely not get all of our International students (and the required additional growth) back in the upcoming year. We need to begin implementing our plans to get enrolment back quickly to be able to see the fruits of our labour in the next fiscal year? You will recall from the SLT retreat budget presentation in August that at that point we projected that we needed a 17.5% increase in international and a 1% increase in domestic next year. The fact that since then Fall deteriorated further as students withdrew from classes and winter is now tracking down significantly makes the challenge even more difficult.

Non-Credit Revenue – The pandemic has impacted non-credit revenues in CCE, with the biggest impact being ESL, as those students face the same challenges of our other international students. If we continue to experience reduced enrolments in these areas in the 2022-23 year, this would further impact the budget challenge. Non-credit revenue in CCE declined approximately $3 million during the pandemic. This directly impacts their profit target that is returned to the University and allocated directly to Units in the budget process.

<u>Additional Budget Challenges into 2022-23</u>

<u>Salary and Cost Increases</u> – You will recall that the 2021-22 budget included a 0% COLA increase on salaries. Inflation has increased by just over 4% over the last year. This will put pressure on salaries as well as non-salary costs. In order to cover automatic salary increases through merit, increments and CPP increases; plus a modest increase for COLA; and inflationary cost increases for non-salary expenditures, overall **expenses are estimated to increase by $7.5 million.** Combined with the structural deficit carried over from 2021-22 and the revenue shortfalls created by the enrolment declines, the University is facing a **<u>budget challenge in 2022-23 of $16.9 million</u>**.

<u>Provincial Grant</u> – The 2022-23 year is year 2 of the 4 year MOU that the University signed with the provincial government. Over this 4 year period, the provincial operating grant will remain unchanged. The application of the Saskatchewan University Funding Model remains suspended as well. No additional resources will be received from the provincial government to assist the University in addressing the budget challenge.

<u>Tuition Rates</u> – As noted earlier, the University increased tuition rates by 4% in 2021-22 after holding them at 0% in the previous year. The MOU signed with the government limits increases in tuition by more than 4% per year over the term of the MOU. There is also a reluctance from a large number of constituents to increase tuition by an additional 4% in the current year. The University must also remain cognizant of the tuition rates of our closest competitors and our tuition rates are high compared to the U of S and the Universities in Manitoba, BC and some in Alberta. **One percent tuition increase across the board generates approximately $750,000.** As a sample of the impact, increasing tuition from 1% to the maximum allowed of 4% would offset the budget challenge from $750k to $3 million.

<u>Base Budget Reductions</u> – Over the last two budget cycles, the University has maintained status quo budget allocations. The rationale was to avoid base budget reductions to correct for one-time revenue impacts created by the pandemic. This two year "equitable" and then "equal" approach was to address the shortfalls with one-time contributions from the Units until such a time as the revenues normalized, it was also expected that during this time enrolments could be maintained or grow marginally as the impact of Covid declined. This approach worked in terms of balancing the budgets and sustaining operations while the impacts of Covid declined, but the enrolment part of the plan is starting to fail. The significant enrolment declines moves the "break even" time horizon out a number of years if it is not addressed quickly.

One time solutions could continue to be a gap solution if enrolments return, but it that is not possible and we have to deal with the gap with base budget solutions here are the facts. The simplest illustration would be a one time "rebalancing". In that scenario, **one per cent of the "cuttable" budget is equal to approximately $1.65 million.** The total budget challenge represents a budget cut across the board of approximately 10%. Do not despair, this is not being recommended, and is illustrative only!

<u>Enrolments</u> – As discussed earlier, this is by far our largest and strongest lever. To simply return enrolment levels to where they were prior to Covid would deal with $9.5M worth of the challenge. Further growth beyond this as more domestic students return to the campus to pick up where they left off, and international students (double cohort?) are permitted to cross borders should put is in an even better position. The question is how much and how quickly. If an end state in enrolment allows us to balance, then once again we have a one-time challenge to balance until we get to that stead state.

General Reinvestment Needs

It is recognized that sticking with the "full status quo" and not investing anywhere, is not possible, there are always some areas that need attention, and opportunities for new programming, enrolments, and revenue generation that need to be seized. And, it should be noted that even in a "status quo" budget scenario budget managers are also expected to make internal adjustments to address inflation (other than salaries) to stay within their overall budget and to continue to maintain revenue levels, especially teaching!

Really Good News - Gap Contribution From Last Year

The designated gap contribution that all units provided last year actually solves this year's one time revenue shortfall but, since it is only one-time, it is not available to assist with budget making for this year. The second bit of good news is that expenditure forecasts from this current year indicate that units will have carryforward available for one-time expenses at the end of this fiscal year despite these generous contributions. Once again, we could consider using this to balance the one-time challenge as we deal with the structural challenge. This is the discussion that we need to have with SLT.

Carry Forward Policy

After the 30% contributions made at the end of 2020-21 to cover the budgeted deficit for the current year, Carry Forward balances still remained healthy at more than $10 million. There continues to be cost savings due to the pandemic as Units cannot travel and entertainment, printing and other costs are also down. Discussions and decisions are required to determine how to the revenue shortfall will be addressed in the current year.

CCE Revenue Sharing

At the current revenue sharing level of 15%, we can anticipate approximately $4,500,000 directly transferred to Faculties next year. This is an additional funding source beyond the base budget allocations to Faculties.

Four Faculties are part of a trial where various base budget allocations have been provided for 50% of designated faculty revenue sharing. These four Faculties have $1,156,000 included in their base budgets for this amount. This target amount must be achieved prior to further revenue for the four Faculties. If the formula were to change – for example, a reduction in the revenue sharing formula from 15% to 10% – that would achieve $1,500,000 of revenue that would accrue to CCE/Central, but $385,000 of that would return to the four Faculties to cover their commitment. Thus a change from 15% to 10% would provide a revenue to CCE/Central of $1,115,000.

Again, this is something that requires SLT discussion, especially in light of upcoming negotiations on four collective agreements, an interest to keep tuitions low, the need for strategic investments and other important interests.

Scenarios for Illustration/Discussion

A. **Operating Budget Across the board cuts.** If we were to try and solve the total structural debt without improving enrolments, the challenge would be very difficult and highly unnecessary as there is every likelihood that we will be able to address at least in part by returning enrolment to where it was. For illustrative purposes only then, as noted above, the "cuttable" part of the budget is $165M and as such each one percent cut is approximately $1.65M. To satisfy the full budget challenge only through reductions, a 10% cut across the board would be required. Again, not proposed!

B. **CCE Revenue Sharing Formula Change**. The total amount of Revenue Sharing is $4.5M, this is great news, as it is a growing "near base budget" reality in our budget structure. This dividend accrues directly and distinctly to those faculties engaging in CCE teaching. It is not built into our operating budget allocations. As noted in previous SLT budget deliberations, a reduction in the sharing percentage from 15% to 10% would generate $1,115,000 centrally and still leave $3,000,000 returning to the Faculties (net of the amount already base budgeted). If additional units wanted to join the trial with 50% of their portion being used for their own base budget growth and the remainder returning to the Center that could also be considered.

C. **Carry Forward Policy Claw back**. As noted above, each 10% might equate to $1M. Carry forward funding is one-time, so this does not address the base budget challenge. However, it would help for one-time costs or for balancing of the budget on a one-year basis.

D. **One Time Problem – Two Year Lag.** Each of the last two years we addressed our gap challenges with one-time funding. If this is truly a fixed term (Covid) phenomenon, do we continue to address the gap challenges with one-time funding and allow the areas of shortfall to bounce back to normal levels in subsequent years? This option would mean that we do Re-investments and Gap filling again with one-time funding and leave unit budgets as "status quo". The Gap has grown dramatically and if the activity level does not return, it leaves a problem that could get unmanageable. In fact, the current enrolment gap may already be unmanageable. This does not mean that we cannot address some part of the challenge in this manner. In other words a large one-time contribution and a partial base budget reduction to set a balancing target over multiple years. The key to this one is to get on a confident trajectory of enrolment increases.

E. **Ancillaries and Debt.** In addition to the budget impact that the pandemic is having on the operating fund, it has had a similar impact to University revenues in the Ancillary Operations (especially Residences and Parking). The shortfall was $9M last year and will be $8M in the current year. We have funded both fully (and this year, in advance). We will have parking fees in place this year, but we do not expect as many parkers as a typical year due to our remote teaching and operations, so overall there will be losses. Residences will have a few more occupants, but still well short of our targets. The two year cross subsidization keeps us on target with our business plan starting the year. We do carry significant "cashflow" debt in Ancillaries as a matter of course and our business plans. Our current total accumulated operating deficit in Ancillaries is anticipated to be $26M at the end of 2021-22.

   The projection this year is for a smaller loss of perhaps as much as $5M, and the point of discussion is whether another one-time "fix" is preferable to increasing the long-term debt. The answer may be in the middle of these two options: take any central one-time savings

available at the end of the current 2021-22 fiscal year to support Ancillaries, and once again build an Operations Budget for 2022-23 that does not have any base budget or one-time explicit cross subsidy.

Again, we welcome SLT input on this and all other aspects of budget-making. We are still in the midst of a once-in-a-generation challenge, and we need to work together to meet it.