2023-24 Budget Discussion

December 7, 2022

There are still many elements affecting the 2022-23 operating budget that are unknown at this time but this document identifies reasonable approximate values of revenue changes and discusses the other factors that add to the financial challenges at the University heading into 2023-24.

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 year. None of the topics should be taken as targets or decisions… this is intended for discussion purposes and to provide data at this early stage. A proposed multi-year budget scenario is offered to assist as a starting point for discussion with SLT.

2022-23 Budget Shortfall
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Budgeted Structural Deficit for 2022-23	($3,443)
S&S Enrolment Adjustments (Actual)	(2,871)
Fall Enrolment Adjustments (Actual)	(3,748)
Winter Enrolment Adjustments (Estimate)	(2,752)
2022-23 Revenue Shortfall	**($12,814)**

Prior Year Structural Deficit

For the 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. The 2021-22 budget also anticipated a continuation of strong domestic enrolments. 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. The proposed solution was to utilize bridge funding recovered from Units across campus through a contribution from carry-forwards.

Enrolment experience in 2021-22 did not match what was budgeted. Although international enrolments declined as anticipated, the decline was greater than the projected 8% and instead of growing by 2%, domestic enrolments dropped by almost 6%. The structural deficit grew from the anticipated $3.556 million to $9.4 million. With the size of the structural deficit growing, a decision was made to implement across the board base budget reductions of 3% ($4.6 million) while continuing to utilize bridge funding recovered from Units across campus through a contribution from carry-forwards, special purpose funds, overhead funds and capital funds.

Tuition Projections vs Enrolments – 2022-23

Budget Projections - More than in any other budget year we've experienced, the future is harder to predict! During the 2020-21 year, which was the first year of the pandemic, the University saw increases in domestic enrolments while international enrolments declined due to travel restrictions and the inability of students to get visas during lockdowns. 2021-22 was the first year that the University experienced declines in both domestic and international students while other Universities did not experience the same declines. The budget was prepared with the assumption that those trends would reverse in 2022-23. International students were once again able to travel to Canada and the University returned to in-person delivery of classes. The 2022-23 year budget was created with the expectation that the university would recover the decrease in domestic enrolments experienced in 2021-22. Domestic enrolments were anticipated to increase by 6% while international enrolments were anticipated to increase by 8%. In line with the MOU signed with the Province and in recognition of the significant financial challenge facing the University, tuition rates were increased by 3.5%.

The experience so far in 2022-23 is significantly worse than what was originally anticipated in the budget. Overall, student numbers are down significantly in the Spring/Summer and Fall semesters. Early registrations for the Winter term are trending in the right direction when compared to the previous year but are not increasing at the rate anticipated in the budget. It is currently too early to assume the upward enrolment trend will continue.

Spring and Summer - Undergrad international enrolments declined a further 14.9% instead of growing the anticipated 8%. Undergrad domestic enrolments dropped a further 8.4% instead of growing the anticipated 6%. This is offset marginally by a small increase in Graduate tuition revenue and Co-op placements, but the impact on the budget is **a shortfall in tuition revenue of $2.9 million.**

Fall - Undergrad international enrolments have increased as expected but the growth is 5.1% instead of the projected 8%. Instead of recovering lost undergrad domestic enrolments, these enrolments decreased by a further 4% and did not increase by the anticipated 6%. Similarly to the Spring and Summer semester, this was offset marginally by increased graduate student enrolments and increased Co-op placements, but the impact on the budget is a **shortfall of $3.7 million**.

Winter – The impact of Winter registrations is not yet known; early registrations suggest that enrolment patterns may be reversing. Normally, Winter enrolments trend in the same direction as the Fall. If enrolment trends continue to follow the pattern in the Fall, the financial impact of this decline is conservatively estimated at **an additional $2.75 million loss**.

The University originally budgeted for a $3.4 million dollar deficit for 2022-23 but with the current year's decreases in enrolment, this **structural deficit has now grown to $12.8 million**. This increase needs to be addressed one-time in the current year as well as structurally going into 2023-24.

Budget Challenges into 2023-24

Salary and Cost Increases – You may recall that the 2021-22 budget included a 0% COLA increase on salaries. A modest increase in COLA was built into the current 2022-23 budget. CUPE is the only contract that has been settled to date while all of the other bargaining units remain unsettled. CUPE agreed to 0% in year 1 and 3% in the current year. Inflation has increased by 7-8% 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; inflationary cost increases for non-salary expenditures; and a modest $500K for reinvestment in high growth/strategic areas, overall **expenses are estimated to increase by $10.2 million.** Combined with

the structural deficit carried over from 2022-23 and the revenue shortfalls created by the enrolment declines, the University is facing a **budget challenge in 2023-24 of $23.0 million**.

General Reinvestment – It is recognized that "full status quo" 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.

Provincial Grant – The 2023-24 year is year 3 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.

Tuition Rates – As noted earlier, the University increased tuition rates by 3.5% in 2022-23 after a 4% increase in 2021-22 and a 0% in the previous year. The MOU signed with the government limits increases in tuition to no more than 4% per year over the term of the MOU. There is also a reluctance from some constituents to increase tuition by an additional 4% in the current year. Based upon the financial challenge as well as the high inflation rates, the maximum allowed tuition increase of 4% is anticipated. This tuition rate increase would offset the budget challenge above by $3.36 million.

Non-Credit Revenue – The pandemic has impacted non-credit revenues in CCE and K&H. The biggest impact has been felt in ESL as those students face the same challenges of our other international students. No adjustments are currently included for changes in non-credit revenue. If we continue to experience reduced enrolments in these areas in the current 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 to Units in the budget process.

Summary – To summarize the narrative above, the University is facing a serious budget challenge going into 2023-24. The following table identifies the best estimate of our starting point for next year:

Structural Deficit from 2022-23	$(3.4M)
2022-23 enrolment shortfall	(9.4M)
2022-23 Non-credit adjustment	0.0M
2023-24 Cost increases	(10.2M)
2023-24 Provincial grant increase	0.0M
2023-24 Tuition increase	3.4M
2023-24 Budget Challenge	**$(19.6M)**

Major Discussion Points/Illustrations

A. **Enrolments.** The University has very few cost and revenue levers that can be adjusted in order to balance the operating budget. As noted above, the provincial operating grant, which makes up 45% of our revenues, will remain unchanged over the next two years. We are constrained on tuition rate increases and although every Unit on campus strives to find efficiencies in their operations to try and save costs on the expenditure side, ongoing budget cuts are not a sustainable alternative to balancing budgets. The one factor that the University has a significant degree of control over is enrolments. The University has seen sustained growth in enrolments

over the last two decades particularly in international students. The decrease in enrolments in the previous and current year accounts for the budget challenge that the University is facing. The outcome of decreased enrolments is multifactorial, and choices about course delivery has impacted the student experience dramatically. The University needs to continue to explore and pursue alternative revenue streams (eg. micro credentials and non-credit instruction) and cost reductions/efficiencies, however, our **enrolments will drive our sustainability**. The biggest question and decision on balancing the 2023-24 budget is, when will the enrolments recover?

The following illustrates the impact of various enrolment changes:
One percent enrolment increase – undergrad domestic is equal to approximately $470,000. (Approximately 70 undergrad domestic students)
One percent enrolment increase – undergrad international is equal to approximately $350,000. (Approximately 20 undergrad International Students)
One percent graduate enrolment increase is equal to approximately $120,000. (Approximately 20 Grad Students)

In order to balance the $19.6 million shortfall in 2023-24, domestic, international and graduate enrolments would each have to increase by 21%. Clearly, this is not achievable in one year and not realistically achievable over an acceptable time horizon to allow us to deal with this through enrolment increases alone. We need to analyze the enrolment data to enable us to better estimate enrolment changes, particularly the trends in international enrolments. One more point to note is that a large amount of the $11 million MOU funding received from the province has been allocated to enrolment generating initiatives. The benefits from these initiatives should begin to impact enrolments as early as the coming year.

B. Base Operating Budget cuts. 2022-23 is the first time that base budget reductions were implemented to assist with the growing deficit created by the pandemic. Over the previous two budget cycles, the University has maintained status quo budget allocations. The rationale was to avoid base budget reductions to correct for short-term revenue impacts created by the pandemic. This equitable approach was to address the shortfalls with bridging contributions from the Units until such a time as the revenues normalized. It was also expected that during this time enrolments could be grown as the impact of the pandemic declined. This approach now needs serious reconsideration as the unanticipated challenge created by the significant enrolment declines moves the "break even" time horizon out a number of years. The amount of resources that would be required to continue to cover the bridging shortfalls is not sustainable. Looking at some amount of base budget reductions appears unavoidable to narrow the gap between the total budget challenges and "break even".

To illustrate, **one per cent of the "cuttable" budget is equal to approximately $1.5 million.**

To satisfy the full 2023-24 budget challenge without enrolment growth, a cut across the board of approximately 13% would be required.

C. Addressing the current year shortfall and any structural deficit moving forward. After the 30% claw-back of carry forwards at the end of 2020-21 to cover the budgeted deficit for that year as well as the additional 50% claw-back in 2021-22 to cover a portion of the $12.9 million revenue shortfall that year, Carry Forward balances remained healthy at $13.2 million. Units across campus continue to manage spending with the knowledge that enrolments have not reached the budgeted targets. There is a general understanding that there will be some sort of shortfall contribution coming, but the magnitude of the shortfall is not yet fully understood.

Discussions and decisions are required to determine how the revenue shortfall will be addressed in the current year. All the resources available to each Unit were evaluated last year for possible repurposing.

To illustrate, **10 per cent of carry forward claw-back is equal to approximately $1.3 million.**

D. **Is this a short-term problem that will reverse quickly or is this situation our new reality that we need to recover from slowly.** We have addressed the challenge created by the pandemic with bridge funding assuming that it was short term and would reverse quickly. If this is truly a fixed term (COVID) phenomenon, this approach makes sense as we do not want to make permanent budget adjustments and then see the areas of shortfall return back to normal levels quickly. The further decline in enrolments in 2022-23 indicate that this situation may not reverse quickly but will require a longer-term approach to budget creation. The structural "Gap" has grown dramatically and if the activity level does not return, it leaves a problem that becomes increasingly challenging. In fact, the current shortfall is likely beyond management in a single year. This does not mean that we cannot address some part of the challenge in this manner. In other words a large bridging contribution to cover the current year revenue shortfall plus any projected shortfall for the coming year as well as a significant base budget reduction to address a significant portion of the Gap. With the current size of the Gap, it is important to set a realistic balancing target generated by enrolment increases. 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 in 2020-21, $8M in 2021-22 and $4M in the current year. We have fully funded this shortfall. We have parking fees in place this year, and expect Parking operations to return to normal in the current year. Residences normally fill with first year students, so it will still take some time until new first-year students come to campus and return the residences to normal occupancy levels. We do carry significant "cash flow" debt in Ancillaries as a matter of course and our business plans. Our current total accumulated operating deficit in Ancillaries is $24M at the end of 2021-22.

   Any increase in the gap relative to our business plan risks putting us into a less desirable long term position and beyond the point where the overall operation becomes profitable. We normally like a 10 year payback period (which we achieved with the Paskwa and Wakpa Project), but a gap in funding from the province for Kisik and a large retrofit in CW earlier than expected has already stretched these targets, so a further large one-time loss year puts that in jeopardy.

Although the pandemic will still impact the Ancillary operations in the range of $2M next year followed by $1.5M and $1M over the next two fiscal years, a direct subsidy from the Operating Fund is not anticipated. The business plan should be able to absorb these shortfalls without jeopardizing the long-term sustainability of the ancillary operations.

<u>Proposed Scenario</u>

The position we find ourselves in this year is very similar to last year, only worse. The biggest unknowns are what enrolments are going to do, and when the revenue impacts of COVID will truly end. We anticipate that local domestic enrolments will increase in a few years given the demographics.

We also anticipate that international recruitment will accelerate as the world opens up. As such, if we structure a multi-year phased budget that helps us transition, it is likely the best case scenario to minimize drastic actions, and actions that we anticipate reversing once enrollment returns.

The following is proposed as a starting point for discussions on a multi-year operating budget.

			2023-24		2024-25		2025-26
Opening Deficit			**(13,500)**		**(5,480)**		**(1,995)**
Cost Increases							
	Salary Increase		(8,050)		(7,866)		(7,777)
	Utilities		(370)		(223)		(196)
	Non-Discretionary		(1,340)		(1,650)		(1,560)
	Reinvestment		(500)		(500)		(500)
Total Cost Increases			**(10,260)**		**(10,239)**		**(10,033)**
Cost Reductions/Revenue Increases							
Budget Cut		(Salary lift)	8,050	2/3 salary lift	5,244	1/3 salary lift	2,592
Tuition		4%	3,800	4%	3,800	4%	3,800
Enrolment	Domestic	2%	940	2%	940	2%	940
	Int'l	15%	5,250	10%	3,500	10%	3,500
	Graduate	2%	240	2%	240	2%	240
Total Cost Reductions/Revenue Increases			**18,280**		**13,724**		**11,072**
Deficit			**(5,480)**		**(1,995)**		**(956)**
Cut %			**5.0**		**3.3**		**1.6**

Base Budget Reduction Equal to Anticipated Salary increases. This action would be identical to last year, albeit with a larger reduction. Financial Services will calculate the actual salary lift (estimated for contracts not yet negotiated) and provide that as a targeted reduction like last year. Units will identify the areas that will be reduced and then the salaries will be topped up. This method for those familiar with "envelope funding" would recognize this as a neutral budget allocation. The estimated impact is a 5.0% reduction in purchasing power for a typical unit.

Optional Targeted Operating Budget Reduction for Discussion. To recognize that not all units have been impacted in the same way over the past few years (i.e. by enrolment growth or decline or other operational impacts), a small differential budget adjustment (1-2%) could allocated to those units who have not managed growth as aggressively as others, or vice versa. This increase or decrease will have to balance across the University. There are various options in terms of how the discussion could pursue if this option was selected. It could be done as a full SLT, within functional VP grouping, or through direction of CCB or UET. Ultimately, a recommendation would be made to the President and then approval would be the prerogative of the Board.

Note that discussions of this sort are very polarizing and difficult. The amounts in play for the first year are actually minimal as system changes will definitely be necessary to achieve deeper cuts. An option is to begin the differential discussions and system changes now, but include them as budget implications in the second and third year.

One time Contributions. In addition to base budget cuts, there will need to be one-time contributions like last year. Note that the smaller the base budget cut taken this year, the larger the one-time

contribution will be each year. The anticipated one-time shortfall to balance the budget this year will be approximately $14M in the scenario above. Discussions of whether the allocation of contributions should be via an equal, equitable, or other fair methodology will also be an SLT discussion. This will not be easy and will generally require the capturing of most degrees of freedom in every unit. It gets harder and harder each year!

Structural Deficit. To minimize the base budget reductions, and to support the multi-year planning approach, it is proposed that we present a structural deficit to the Board for approval. This will be the third year that we have done so, and the multi-year plan shows that unless we exceed our targets that we will have a Structural Deficit for three years. We anticipate that the amount of the Structural Deficit required this year in the multi-year plan is $5M.

Enrolment Impacts. Note that the term enrolment is used for simplicity in the chart and in the discussion piece. Enrolment is NOT the simple consideration of new admissions to first year. It is the financial impact of every sort of enrolment, recruitment, retention, program length, and includes new teaching opportunities, consideration of teaching modalities and class size, and changes in non-traditional students, as well as many other revenue impacts. In short, it is the change in revenue derived from our teaching activities.

The enrolment forecasts necessary to balance the three years of budget are noted. In terms of International Students the 15% growth is what is anticipated by URI for next year. It seems high, but is less than we have seen in other years and equates to 300 net new students (new admits minus graduates of all programs). For domestic students a 2% growth is forecast. Note that new admissions are not expected to necessarily increase. However, a new phenomenon developed over COVID where the number of courses that each student took reduced by 2.7%, so this increase could potentially come simply from students returning to previous registration habits.

Once again, enrolment is the key in this entire budget plan, last year we missed our targets (to grow/rebound) and we are paying for that this year. If we do not meet targets next year we will be in serious challenge. Conversely, with coordinated efforts in every area (not just recruitment) we can achieve dividends early and reduce future budget reductions. We (and the province) has invested heavily in initiatives to drive enrolment revenue and operational savings through the $11M of MOU funding. Each of these is projected to help with the budget challenge, however, it is recognized that some of these initiatives will take longer to achieve results and the revenue/expense dividend that we need to help. Growing enrolment will take every unit to do what is necessary to admit every eligible student that our recruiters can entice! More discussion is obviously necessary on this as it is the core of our problem, and of our solution!

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