

TOTAL EXPENDITURE TARGETS

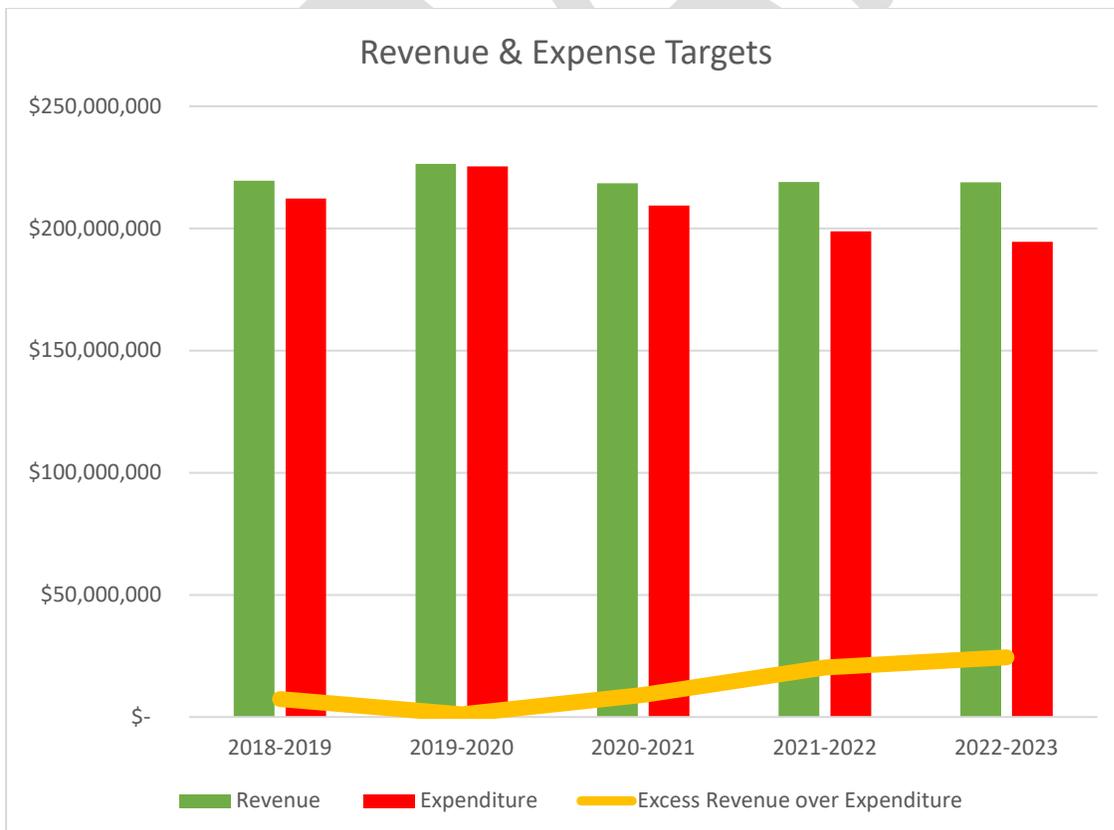
Revenue and Expenditure Metrics

On March 9, 2020, the Provincial Government issued the University its 3-year targets for total revenue and expenditures. There have been a few revisions to the target amounts since March 9 and the following are the latest target amounts (as of June 1, 2020):

TARGET	2020-2021	2021-2022	2022-2023
Revenue	\$ 218,444,390	\$ 219,061,670	\$ 218,880,117
Expenditure	\$ 209,411,484	\$ 198,829,317	\$ 194,458,584
Government Targeted Surplus	\$ 9,032,906	\$ 20,232,353	\$ 24,421,533

The revenue and expenditure targets are the total revenues and expenses of the University, which includes all its general operating, ancillary services, research (i.e. NSERC, SSHRC, Alberta Innovates, etc.), special purpose (i.e. scholarship donations, Dhillon donation, etc.) endowments, and capital funds (see 2020-2021 Budget Brief [Operating vs Restricted Budgets](#)).

As can be seen in the above chart with the targets, the Provincial Government requires the University to generate significant surpluses annually or risk further reductions in the provincial operating grant.



Provincial Operating Grant Reductions

The University had previously been informed in October 2019 that our Provincial operating grants will be reduced, with the 2019-2020 grant reduction being an in-year grant reduction when the University had already been in its fiscal year 6.5 months. The 4-year total operating grant reduction is 20.14%.

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
	ACTUAL	ACTUAL	BUDGET	BUDGET	BUDGET
Operating Grant	\$ 108,122,489	\$ 104,709,647	\$ 98,391,913	\$ 93,367,002	\$ 88,340,992
Mental Health	\$ 1,000,000	\$ 1,000,000	\$ 635,000	\$ 635,000	\$ 635,000
Health Workforce	\$ 284,000	\$ 284,000	\$ 284,000	\$ 284,000	\$ 284,000
Support for Learners with Disabilities	\$ 275,705	\$ 275,705	\$ 275,705	\$ 275,705	\$ 275,705
Targeted Enrolment	\$ 374,700	\$ 374,700	\$ -	\$ -	\$ -
Graduate Technology Grant	\$ 68,302	\$ 68,302	\$ -	\$ -	\$ -
	\$ 110,125,196	\$ 106,712,354	\$ 99,586,618	\$ 94,561,707	\$ 89,535,697
Decrease over previous year		\$ (3,412,842)	\$ (7,125,736)	\$ (5,024,911)	\$ (5,026,010)
TOTAL 4 YEAR PROVINCIAL OPERATING GRANT REDUCTION (\$)					\$ (20,589,499)
Decrease over previous year		-3.10%	-6.68%	-5.05%	-5.32%
TOTAL 4 YEAR PROVINCIAL OPERATING GRANT REDUCTION (%)					-20.14%

What do the total expenditure targets mean in relation to our budget?

The above reductions to our budget as a result of the reductions to our provincial operating grant are significant (20%) but the added requirement to reduce our total expenditures (including general operating, ancillary services, research, special purpose, endowments, and capital expenditures) or add additional revenue sources over and above the revenue metric adds another major blow to our budget.

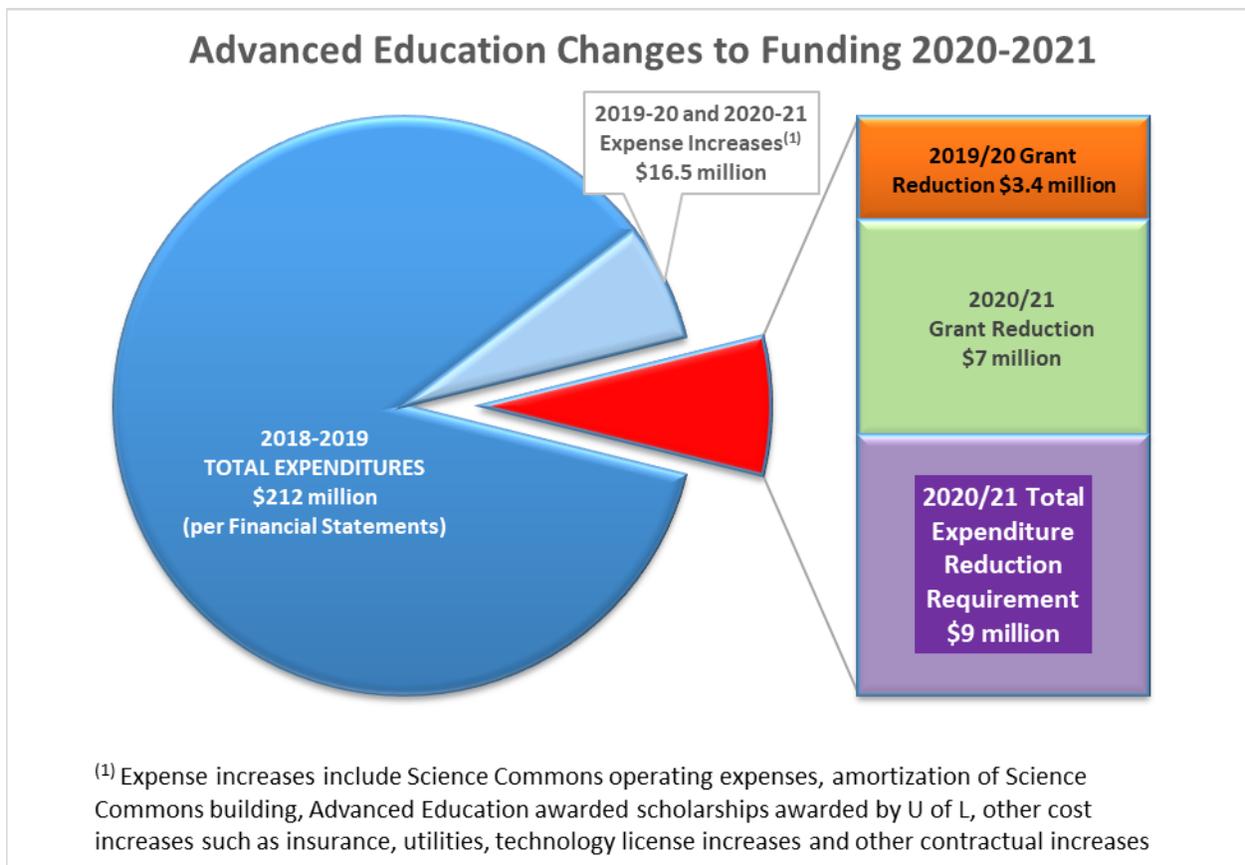
	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	TOTAL
	ACTUAL	ACTUAL	BUDGET	BUDGET	BUDGET	
Total Expenditures (previous year)	\$ 212,264,000	\$ 212,264,000	\$ 225,364,000	\$ 209,343,182	\$ 198,761,015	
Annual Expense increase		\$ 16,512,842	\$ -	\$ -	\$ -	
Grant reduction		\$ (3,412,842)	\$ (7,125,736)	\$ (5,024,911)	\$ (5,026,010)	\$ (20,589,499)
Government Expense Target Reduction			\$ (8,895,082)	\$ (5,557,256)	\$ (655,277)	\$ (15,107,615)
Total Expenditures	\$ 212,264,000	\$ 225,364,000	\$ 209,343,182	\$ 198,761,015	\$ 193,079,728	

The 4-year budget reductions required as a result of the reductions to the Provincial operating grant are \$20.5 million, plus reductions of another \$15 million due to the total expenditure target metric.

In budget preparations for 2020-2021, the University has already reduced expenses or increased revenues by \$7.4 million, resulting in another \$8.6 million budget reduction still to be realized in 2020-2021.

For the purpose of simplification, the above budget reductions required in future years do not take into account increases in expenses due to inflation or obligations required in collective agreements. Obviously if there are increases required in these areas it will mean more budget reductions required in order to present a balanced budget and to meet the expenditure target. It is a requirement of the Post-secondary Learning Act that institutions must present a balanced budget for approval to Advanced Education.

The following figure presents the budget reduction requirements for 2020-2021.



The annual increase in expenses in 2019-2020 of \$16.5 million is mostly attributable to the increased costs to the University to operate the new Science Commons facility. A more detailed explanation of the \$16.5 million increase can be found in the 2020-2021 Budget Brief [2019-2020 Total Expenditures](#).

In correspondence received from the Minister of Advanced Education on June 1, 2020, the Minister stated that the University must operate within the total expenditure limits. The University must submit a Board approved budget to Advanced Education for approval by June 30, 2020 and if the budget is not in compliance with the expenditure metric our Provincial operating grant will be reduced by the divergent amount beginning as early as July 2020.

Revenue Target Metric

The above data also assumes that the University will meet its revenue targets set by the Province. At this time the revenue targets are not a required metric in the Investment Management Agreements (see [2020-2021 Budget Brief Investment Management Agreement](#)) but Advanced Education has indicated that this target is one that is expected to be achieved. Prior to COVID-19 and the closing of the University campus and moving classes to remote delivery, the University was confident that it would meet its revenue targets, but with the impact of COVID-19 there are serious concerns that the revenue targets will not be met. It is too early at this time to determine the full impact of COVID-19.

The University has been verbally informed from Advanced Education that if the revenue targets are exceeded, the amount that the target is exceeded may reduce the impact of the total expenditure target. This is good news and will perhaps provide some relief by reducing the budget reductions required. As an example, if the University exceeds its revenue target by \$3.5 million due to an increase in enrolment revenue, the expense target may be reduced to \$5.3 million by the offset of the \$3.5 million.

REVENUE TARGET EXCEEDED		2020-2021
Government Revenue target		\$ 218,444,390
Actual revenue realized (e.g. due to enrolment increases)		\$ 222,000,000
Excess actual over Govt Revenue target		\$ 3,555,610
Government Expense target reduction		\$ (8,895,082)
Reduced Expense target reduction		\$ (5,339,472)

It is important to note that increases in research grant and donation revenue will not benefit the University in relation to the revenue target. Any increases in research grant or donation revenue will also have a corresponding increase in total expenses since the revenue is not included on the financial statement until the funds are spent.

Continued dialogue with Advanced Education

Senior administration, as well as the University's Board of Governors has been in constant contact and discussions with Advanced Education and the Provincial Treasury to outline the significant negative impact the total expenditure target metric has on our University and our required budget reductions. As a result of the [MacKinnon Report on Alberta's Finances](#), which was released in September 2019, the Province is determined to reduce the expenditures of post-secondary institutions to be more in-line with the expenditures per student to the comparative provinces. The MacKinnon report indicated that Alberta spends approximately \$10,000 more per student than the compared provinces (BC, Ontario and Quebec). There are many historic reasons for the difference in spending levels between the provinces but imposing the expenditure targets with such a short timeline to achieve them puts the institutions in very difficult budget circumstances.