

University of Alberta

2019-20 Budget



Contents

1. Introduction.....	1
2. Consolidated Budget	2
2.1. Operating Budget.....	4
2.1.1. Operating Revenues.....	5
2.1.2. Operating Expenditures.....	6
2.1.3. Overall Budget Planning Assumptions.....	7
2.2. Ancillary Operations.....	9
2.3. Research	12
2.4. Capital.....	13
2.4.1. Capital Investments.....	13
2.4.2. Capital Plan Development.....	13
2.4.3. Capital Budget	14
2.4.4. Deferred Maintenance	17
2.5. Special Purpose.....	17
3. Concluding Comments.....	17

1. Introduction

The University of Alberta’s 2019-20 budget has been developed at a time of significant uncertainty. A provincial election is pending. It is not known whether a provincial budget for 2019-20 will be introduced or passed prior to the election date. In the second quarter update, the Ministry of Finance projected a 2018-19 in-year provincial deficit of \$7.5 billion. The update highlighted substantial uncertainty related to oil revenues. As a result, Alberta real GDP growth forecasts for 2018 and 2019 have been revised downward to 2.5% and 2.0% from the 2.7% and 2.5% estimates in the provincial 2018 budget. Net financial debt (the difference between financial assets and liabilities) on March 31, 2019 is estimated to be \$28.1 billion.

In the context of this, the university has developed the budget with an assumption of no increase in the Campus Alberta grant and no tuition backfill beyond what was provided by the Province for 2018-19. Additionally the assumption has been made that the Infrastructure Maintenance Program funding remains at the same level as for 2018-19 (at \$34.9 million) and that all prior capital funding announcements made by government proceed as approved in the Government of Alberta Capital Plan.

2. Consolidated Budget

The consolidated budget for the upcoming year, as well as projections for the following two years, are presented below and include all university activities.

(\$000's)	2017-18	2018-19		2019-20	2020-21	2021-22
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (Including deferrals)						
Government of Alberta grants	955,343	1,021,681	1,000,999	983,086	971,503	973,463
Federal and other government grants	196,782	190,510	204,393	196,265	203,299	211,404
Student tuition and fees	336,129	341,218	353,970	359,053	365,156	363,478
Sales of services and products	215,471	218,863	211,148	215,928	220,090	226,442
Donations and other grants	153,900	115,243	143,641	138,061	142,494	148,286
Investment income	72,101	70,984	83,327	84,682	84,788	84,493
Total revenue	1,929,726	1,958,499	1,997,478	1,977,075	1,987,330	2,007,566
Expense						
Salaries	944,063	992,918	969,378	976,351	976,987	981,247
Employee benefits	192,156	193,909	190,510	199,075	201,832	211,710
Materials, supplies and services	270,994	310,552	285,291	298,588	302,473	308,913
Scholarships and bursaries	120,038	116,417	125,623	130,124	135,244	140,544
Maintenance and repairs	125,317	92,566	121,972	107,061	99,219	102,985
Utilities	52,214	55,904	49,503	50,174	49,264	48,459
Amortization of tangible capital assets	172,139	181,878	179,582	177,953	179,601	184,594
Total expense	1,876,921	1,944,144	1,921,859	1,939,326	1,944,620	1,978,452
Annual operating surplus (deficit)	52,805	14,355	75,619	37,749	42,710	29,114
Impact of Future Benefit Liability	(16,598)	(15,903)	(24,682)	(26,233)	(28,303)	(24,430)
Annual operating surplus (deficit)	36,207	(1,548)	50,937	11,516	14,407	4,684

In addition to the consolidated budget above, which will appear in the institution's audited financial statements, Public Sector Accounting Standards (PSAS) also require a budget for the Statement of Change in Net Financial Assets. This budget is derived from the figures included in the consolidated budget and represents the budgeted change in the institution's financial assets (including endowments) less financial liabilities:

(\$000's)	2017-18	2018-19	2019-20
	Actual	Forecast	Budget
Annual surplus	105,980	75,619	37,749
Acquisition of tangible capital assets	(197,691)	(150,825)	(188,945)
Amortization of tangible capital assets	172,139	179,582	177,953
Loss on disposal of tangible capital assets	4,443	-	-
	(21,109)	28,757	(10,992)
Change in prepaid expenses	(782)	(136)	(170)
Change in spent deferred capital contribution:	(21,515)	(48,591)	(41,051)
Change in re-measurement gains and losses	26,673		
Increase (decrease) in net financial assets	89,247	55,649	(14,464)
Net financial assets, beginning of year	1,076,805	1,166,052	1,221,701
Net financial assets, end of year	1,166,052	1,221,701	1,207,237

The consolidated budget for the institution includes the Operating, Ancillary, Research, Capital and Special Purpose funds.

- **Operating** relates to the funds within the university's budget that represent the general operations of the institution. The revenue sources support the core teaching activities and the indirect costs of research. The university's budget process focuses on the allocation of these funds.
- **Ancillary** relates to cost recovery operations within the University of Alberta. These units are expected to be stand-alone enterprises that are funded by their own revenues. Major operations include residence and hospitality services, parking services and utilities.
- **Research** includes the annual spending allocation for research-related endowments and other research funding used in the direct pursuit of research endeavours. These are generally subject to restrictions and can only be used for the purposes for which the funds were provided.
- **Capital** includes both restricted and unrestricted funding used for major capital projects and large deferred maintenance projects.
- **Special Purpose** relates primarily to the Academic Medicine and Health Services Program (AMHSP), and the annual spending allocation for undergraduate student awards and non research-related endowment funds held by the university.

One other comment to note about the university's budget. There is a line towards the bottom of the numbers presented above called: Impact of Future Benefit Liability. This relates to a reduction in the benefit liability for the university's employee pension plans. It is removed from the overall financial picture as these amounts represent the change in the pension obligations and are not funds available to be used for any other purpose.

Following is the consolidated budget segregated into the various funds identified above.

(\$000's)	Ancillary					Total
	Operating	Operations	Research	Capital	Special Purpose	
Revenue (Including deferrals)						
Government of Alberta grants	679,517	-	120,996	111,122	71,451	983,086
Federal and other government grants	20,157	-	155,969	20,139	-	196,265
Student tuition and fees	359,053	-	-	-	-	359,053
Sales of services and products	106,676	94,838	14,181	-	233	215,928
Donations and other grants	10,759	-	86,791	26,208	14,303	138,061
Investment income	15,000	-	48,952	-	20,730	84,682
Total revenue	1,191,162	94,838	426,889	157,469	106,717	1,977,075
Expense						
Salaries	720,496	20,063	183,216	-	52,576	976,351
Employee benefits	151,718	4,352	28,621	-	14,384	199,075
Materials, supplies and services	113,883	23,470	136,403	3,609	21,223	298,588
Scholarships and bursaries	40,248	-	79,412	-	10,464	130,124
Maintenance and repairs	37,186	24,999	4,159	40,618	99	107,061
Utilities	42,792	6,956	426	-	-	50,174
Amortization of tangible capital assets	51,008	10,534	-	116,411	-	177,953
Total expense	1,157,331	90,374	432,237	160,638	98,746	1,939,326
Annual operating surplus (deficit)	33,831	4,464	(5,348)	(3,169)	7,971	37,749
Impact of Future Benefit Liability	(26,233)	-	-	-	-	(26,233)
Annual operating surplus (deficit)	7,598	4,464	(5,348)	(3,169)	7,971	11,516

An overview for each individual fund follows, including the key assumptions used in the development of the budget.

2.1. Operating Budget

The 2018-19 operating budget was originally developed with the assumption that provincial government funding would remain the same as the previous year. The university also planned to reduce the operating budget reliance on investment income to support ongoing expenses, and needed to address its structural deficit. Therefore, the institution implemented a 4% budget reduction to all faculties and units for the 2018-19 fiscal year.

In developing the 2018-19 operating budget, the university introduced a multi-year planning process to encourage planning of expenditures on a longer term basis. For the two out years (2019-20 and 2020-21), the planning parameters incorporated further budget reductions of 2.5% in each year.

Ultimately, as confirmed in the Campus Alberta grant received in the summer of 2018, the university was allocated a 2% grant increase along with tuition backfill funding to compensate for the government imposed tuition freeze for domestic students. This additional funding amounted to a total of \$16.9 million for the 2018-19 fiscal year, for which the university is very grateful.

As is the university's normal process to address budget changes subsequent to the official approval of the budget, the funds received were allocated on a one-time basis for 2018-19, with the base funds incorporated in the development of the next budget for 2019-20. The one-time allocations include:

- \$9.5 million for program development in faculties (determined by the Provost through a faculty submission process)
- \$2 million for student safety and security infrastructure
- \$1 million for new *For the Public Good* initiatives (including experiential learning, signature areas, professional and leadership development)
- \$0.5 million for special hires (spousal hires, deans, etc.)
- \$0.25 million for student mental health initiatives
- \$3.5 million to partially cover benefit cost increases

The above amounts were distributed in the latter half of the 2018-19 fiscal year with spending estimates incorporated in the forecast for 2018-19, and in the budgeted expenditures for the 2019-20 fiscal year.

With this additional \$16.9 million in base funding, the university was able to update the planning parameter for 2019-20, to incorporate 0% change to faculty and unit budget allocations, versus the 2.5% budget reduction incorporated in the planning parameters a year ago for 2019-20.

2.1.1. Operating Revenues

2.1.1.1. Government of Alberta Grants

As noted in the introduction, the institution continues to approach the upcoming fiscal year with caution due to the uncertainty generated by the upcoming 2019 provincial election and the province's ongoing fiscal challenges. As a result, the budget has been developed assuming no additional funding or tuition backfill in the Campus Alberta Grant. Additionally, the Infrastructure Maintenance Program grant is assumed to remain flat.

2.1.1.2. Federal and Other Government Grants

The largest component of this category relates to the Federal Research Support Fund provided to the institution in order to support research grants provided by the Tri-Council agencies. The amount budgeted for the 2019-20 fiscal year is consistent with the amount forecasted to be received in the current year, \$18.4 million.

2.1.1.3. Student Tuition and Fees

The 2019-20 budget as it relates to tuition and fees follows the same approach as in 2018-19. With the recent approval of Bill 19 and subsequent changes to the Post Secondary Learning Act, the way that the university sets, assesses, and communicates tuition and fees for both domestic and international students will change in future. The Office of the Registrar is currently working through the system changes that will be required to implement Bill 19. By October of 2019 when offers of admission for prospective new students for September 2020 enrollment commence, changes required by Bill 19 will need to be incorporated in offer letters. But as noted, there is no change in approach for the 2019-20 academic year.

The overall budgeted increase in tuition and fees is driven by a proposed international tuition increase as well as the impact of tuition deferrals. Given the government's continuation of the tuition freeze for the 2019-20 academic year, domestic student tuition remains unchanged.

Tuition and fees for 2019-20 have been calculated on the basis of 35,775 full learning equivalent students. This same number was used for the 2020-21 and 2021-22 tuition and fees computation. This is essentially the same number as in the forecast for 2018-19. Given the timing of when this budget is prepared, versus the process for confirmation of the entering class for September 2019, the final number is bound to be slightly different.

International student tuition is proposed to increase by 2.77%, in line with the expected overall increase in the university's costs to deliver programs. This rate has been calculated based on external sources for wage growth and the Alberta consumer price index (CPI) for the upcoming fiscal year. It is the government's expectation that international tuition be set at a level which covers the full costs of education for international students, and none of the Campus Alberta grant may be used to subsidize these costs.

Tuition deferral results from our academic year being out of synch with our fiscal year. From a financial accounting perspective, there is a requirement to defer tuition equating to the number of days of instruction that fall into the next fiscal year (meaning the number of days after March 31). As our budget is required (by government) to be presented alongside the audited financial results, we must follow all accounting rules in calculating our budget numbers. Each day of instruction that falls in the next fiscal year equates to \$1.9 million in tuition deferral.

2.1.1.4. Investment Income

As noted in previous years, the University of Alberta had become reliant on investment income to support ongoing expenditures. Given the uncertainty inherent to this type of income, a strategy was developed to reduce dependence on this income stream at a measured pace. Hence, the investment income expected to support operational expenditures is reduced from \$17 million in the 2018-19 fiscal year to \$15 million in 2019-20. Any investment revenues realized in excess of these amounts will be set aside as reserves, first to fully fund the required 17% reserve calculated on the principal of funds invested to allow for market fluctuations, and subsequently to fund the strategic initiatives fund, which is envisioned as a component of the new budget model to be implemented in the 2020-21 fiscal year. The 17% reserve is required as the cash flow the university invests to generate these earnings is otherwise owed to faculties, units and researchers.

2.1.1.5. All Other Sources of Revenues

These revenue streams are budgeted with an increase comparable to Alberta CPI for the year. These funds flow directly to the faculty or unit from which they are generated, and as a result, have no impact on the amount of budget allocation that is distributed by the university.

2.1.2. Operating Expenditures

Unless otherwise stated, expenditures associated with materials and supplies are expected to grow by 2.20% in the 2019-20 fiscal year, representing the estimated Alberta CPI.

2.1.3.1. Salaries

Salaries are expected to increase in the year, primarily due to the impact of merit increases to both academic and support staff.

2.1.3.2. Benefits

The increase in benefits is driven by increased salaries and an overall increase in the cost of the employee benefit plans. These increases include some of the following items:

- Increased contribution maximums for both CPP and EI.
- Increased costs related to health and dental benefits provided to university employees.
- Increased pension costs related to the overall increase in salaries. Pension costs represent approximately 50% of the institution's overall benefit costs.

Benefit costs have been increasing annually at a rate of 5 to 6%. Containing benefits costs will be a significant challenge in the years ahead.

2.1.3.3. Institutional Budget Priorities and One-time funding (continuation from 2018-19 fiscal year)

In addition to the general inflationary cost increases noted, other known factors are built into the expenditure budgets for the 2019-20 fiscal year. This includes estimates for the spending of the one-time budget funds allocated in 2018-19 and the following institutional base budget priorities:

- Funding for pre-existing liabilities \$1.9 million
- Strategic funding and faculty supports \$2.0 million
- Fundraising and outreach activities \$3.5 million
- Funding targeted to reduce the deferred maintenance liability \$1.0 million
- Institutional contract obligations \$1.0 million

2.1.3. Overall Budget Planning Assumptions

The above discussion provides insights into the assumptions and planning parameters used to develop the operating budget for next fiscal year. The table below provides a summary of these, along with the similar figures used for the next two years.

Revenue	2019-20	2020-21	2021-22
Operating Grant	0%	-3%	-2%
Domestic Tuition	0%	2%	2%
International Tuition	2.77%	2.77%	2.77%
Investment Income	\$15 million	\$13 million	\$11 million

Expenditures	2019-20	2020-21	2021-22
ATB (NASA & AASUA)	TBN	TBN	TBN
Merit (NASA & AASUA)	1.06%	1.06%	1.06%
ATB (graduate students and post-doctoral fellows)	TBN	TBN	TBN
Employee Benefits	Custom	Custom	Custom
Other Costs	2.20%	2.00%	2.00%

ATB - Across the board salary increase

TBN - To be negotiated

Custom - benefits amounts are calculated using a combination of staff headcounts, staff salaries and benefit costs / rates particular to each employee group

Additional explanatory comments:

- The decrease in the government grant noted in both projection years is a cautious approach to support provided by government in a period of provincial fiscal uncertainty.
- The increase in domestic tuition is consistent with the recently introduced Bill 19, which generally caps tuition increases for domestic students at Alberta CPI starting in the fall of 2020.
- As the University of Alberta continues to evaluate the international tuition requirements imposed by Bill 19 starting in 2020-21, the tuition increase proposed for 2019-20 was incorporated in each of the next two years as a placeholder. What is ultimately decided is not yet known, but almost certainly will be different than 2.77%.

Another key consideration in developing the institutional budget is the underlying sensitivities concerning major revenue sources and expenditure types. The following represent the key sensitivities.

Sensitivity	Amount
Operating Grant (1% change)	\$6.5M
Domestic Tuition (1% change)	\$1.5M
International Tuition (1% change)	\$1.1M
Mandatory Non-Instructional Fees (1% change)	\$0.3M
ATB (1% for NASA and AASUA)	\$6.5M
Merit (annual impact)	\$7.0M
Employee Benefits (1% increase in staff	\$1.6M

headcount)	
Employee Benefits (1% increase in salary of current staff)	\$0.8M

Given the above planning parameters and assumptions, projections have been developed with 2.5% budget reductions applied in each of 2020-21 and 2021-22 fiscal years. This is preliminary and subject to annual review as part of the multi-year planning process.

The table below provides an overall outline of the following in relation to the operating budget:

- Actual results for 2017-18
- Budget and forecast for the year ending March 31, 2019
- Budget for the year ending March 31, 2020
- Projections for the years ending March 31, 2021 and March 31, 2022

(\$000's)	2017-18	2018-19		2019-20	2020-21	2021-22
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (Including deferrals)						
Government of Alberta grants	663,018	665,688	679,517	679,517	659,748	647,203
Federal and other government grants	1,414	1,559	19,723	20,157	20,560	20,971
Student tuition and fees	336,098	341,218	353,970	359,053	365,156	363,478
Sales of services and products	103,797	103,207	104,380	106,676	108,810	110,986
Donations and other grants	11,277	11,347	10,527	10,759	10,974	11,194
Investment income	23,663	17,000	17,000	15,000	13,000	11,000
Total revenue	1,139,267	1,140,019	1,185,117	1,191,162	1,178,248	1,164,832
Expense						
Salaries	692,811	711,502	713,539	720,496	713,112	708,284
Employee benefits	147,527	147,692	142,835	151,718	152,954	160,991
Materials, supplies and services	100,515	110,640	108,165	113,883	111,229	111,415
Scholarships and bursaries	37,404	37,417	39,382	40,248	41,053	41,874
Maintenance and repairs	29,073	32,842	35,437	37,186	36,476	37,205
Utilities	45,876	48,407	42,566	42,792	42,235	41,700
Amortization of tangible capital assets	52,009	54,227	54,227	51,008	52,137	52,958
Total expense	1,105,215	1,142,727	1,136,151	1,157,331	1,149,196	1,154,427
Annual operating surplus (deficit)	34,052	(2,708)	48,966	33,831	29,052	10,405
Impact of Future Benefit Liability	(16,598)	(15,903)	(24,682)	(26,233)	(28,303)	(24,430)
Annual operating surplus (deficit)	17,454	(18,611)	24,284	7,598	749	(14,025)

2.2. Ancillary Operations

Ancillary operations at the university are comprised of the following:

- Residence and dining services located on Edmonton campuses
- Augustana residence and dining services
- Parking
- ONEcard office
- Bookstore
- Commercial property and real estate
- Utilities

As noted earlier in the document, ancillary operations are expected to be stand-alone enterprises that are funded by their own revenues. This means they each are expected to cover their operating costs, as well as establish appropriate and adequate operating and capital reserves. To the extent loans may be required for capital enhancements or to address deferred maintenance, the revenues must also cover the cost of debt repayment, together with the applicable interest.

In the interest of keeping rates as low as possible, for many years the University’s residence and meal plan rates have not been sufficient to cover all of the operating costs while also allowing for adequate investments in maintenance and renewal activities. As a result, new residence projects and major refurbishments are mostly debt-financed. In addition, operating and capital reserves are currently in a deficit position of approximately \$10.6 million, and residence and dining services have an accumulated deferred maintenance liability of \$93 million.

Here is the forecast, budget and reserve information for residences and hospitality services in the Edmonton facilities:

Edmonton Residence and Dining Services			
(\$000's)	2018-19		2019-20
	Budget	Forecast	Budget
Revenue	\$ 42,043	\$ 37,563	\$ 40,387
Expense	40,114	38,770	37,764
Annual operating surplus (deficit)	1,929	(1,207)	2,623
Reserves			
Operating	\$ (8,698)	\$ (10,637)	\$ (21,518)
Capital	1,913	-	-
Total reserves (deficit)	\$ (6,785)	\$ (10,637)	\$ (21,518)

The following guiding principles have been established to govern residence and dining services:

- Quality housing and good nutrition are critical to student academic and experiential success.
- Residence and dining services must operate on a financially sustainable basis having due regard for operating costs, addressing deferred maintenance, as well as maintaining operating and capital reserves. No profit is sought, but no loss is acceptable either.

- All funds received from students for shelter and food stay within the residence and dining system.
- No student tuition or government base, capital, or maintenance funding is available for investment in residences or dining operations.
- Residences will be operated as a system.
- Student input is highly valued. Students will assist in shaping the development of residence and dining plans and priorities to sustain and improve the residence and food system.

Obviously this is an area of university operations that we will need to pay close attention to in coming years as we come to grips with substantial residence upgrade and deferred maintenance requirements and work our way through the financial challenges.

The overall increase in ancillary revenues (for all ancillary operations) is driven predominantly by the following rate increases:

- A 5% proposed increase in all residence rates except for Augustana Campus which is proposed at 3%.
- A 2.27% proposed increase in meal plan rates except for Augustana Campus which is proposed at 3%.
- A 2.27% increase in monthly parking rates, with visitor parking rates remaining unchanged.

The decrease in expenditures for the 2019-20 fiscal year is driven by cost containment and efficiencies within a number of the ancillary units. The combined figures for all ancillary operations are below:

(\$000's)	2017-18	2018-19		2019-20	2020-21	2021-22
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (Including deferrals)						
Government of Alberta grants	-	-	-	-	-	-
Federal and other government grants	-	-	-	-	-	-
Student tuition and fees	16	-	-	-	-	-
Sales of services and products	97,324	104,606	92,466	94,838	96,713	100,729
Donations and other grants	1	-	10	-	-	-
Investment income	11	-	1	-	-	-
Total revenue	97,352	104,606	92,477	94,838	96,713	100,729
Expense						
Salaries	24,065	25,677	22,313	20,063	20,226	20,404
Employee benefits	5,251	5,469	4,621	4,352	4,363	4,414
Materials, supplies and services	23,793	28,810	24,981	23,470	23,892	24,857
Scholarships and bursaries	-	-	-	-	-	-
Maintenance and repairs	20,694	26,424	24,732	24,999	25,962	25,993
Utilities	5,952	7,096	6,532	6,956	6,582	6,290
Amortization of tangible capital assets	8,377	10,960	8,664	10,534	10,560	10,591
Total expense	88,132	104,436	91,843	90,374	91,585	92,549
Annual operating surplus (deficit)	9,220	170	634	4,464	5,128	8,180

2.3. Research

Research revenues at the University of Alberta come from five major sources:

- Government of Alberta grants from a number of Ministries
- Federal government grants including those provide by the Tri-Council Agencies
- Fee-for-service research activities for outside entities
- Donations and nongovernmental grants
- The endowment spending allocation resulting from research-related endowments

Research productivity is expected to remain strong but the budgeted research revenues are expected to slightly decrease in the upcoming fiscal year. There are a number of factors that drive this decrease:

- The Research Support Fund (approximately \$18M) is budgeted as part of the Operating fund and not the Research fund where it had been in previous fiscal years. This change was made as these funds are intended to support indirect research costs that are generally recorded within the operating fund.
- Research revenues in the previous two fiscal years were exceptionally strong due to large awards received from the Canada First Research Excellence Fund and the Strategic Investment Fund (SIF). There are no known replacements for these revenue streams at this time. This factor also impacts both federal and provincial grants as both levels of government contributed to the SIF program.
- Partially offsetting the impact of the above two factors is an expected 1% increase in the overall level of research funding to be received from provincial and federal sources that do not relate to the above two specific types of grants.
- In addition, the increase in investment income relates to an overall increase in the value of the research-related endowment funds leading to a larger spending allocation.

(\$000's)	2017-18	2018-19		2019-20	2020-21	2021-22
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (including deferrals)						
Government of Alberta grants	146,271	148,623	127,600	120,996	126,074	131,487
Federal and other government grants	175,246	171,769	164,482	155,969	162,515	169,492
Student tuition and fees	15	-	-	-	-	-
Sales of services and products	13,897	10,850	14,041	14,181	14,323	14,466
Donations and other grants	87,601	79,384	91,204	86,791	90,273	93,982
Investment income	24,564	29,730	46,601	48,952	50,428	51,623
Total revenue	447,594	440,356	443,928	426,889	443,613	461,050
Expense						
Salaries	172,699	197,987	177,880	183,216	188,713	194,374
Employee benefits	26,978	27,999	27,787	28,621	29,480	30,364
Materials, supplies and services	123,701	139,037	129,907	136,403	143,225	150,386
Scholarships and bursaries	72,029	67,416	75,630	79,412	83,383	87,552
Maintenance and repairs	3,772	2,557	3,961	4,159	4,367	4,585
Utilities	386	401	405	426	447	469
Amortization of tangible capital assets	-	-	-	-	-	-
Total expense	399,565	435,397	415,570	432,237	449,615	467,730
Annual operating surplus (deficit)	48,029	4,959	28,358	(5,348)	(6,002)	(6,680)

2.4. Capital

2.4.1. Capital Investments

While there are capital items purchased or funded with operating and other funds (such as learning materials, IT equipment and certain renovation projects), the capital budget incorporates significant building maintenance projects and larger scale building construction and renovation projects.

Throughout this section, it is important to note that the capital plan and the resulting capital budget are developed as 'point-in-time' items. Due to the unpredictable nature with which, for example, government grants, borrowing resolutions, and philanthropic gifts materialize, capital projects may be added or the scope changed throughout the year. All material changes, regardless of when they occur, remain subject to the institution's normal governance and approval processes.

The capital budget included within the University of Alberta consolidated budget is subject to complex financial accounting requirements. The figures throughout the capital budget have been translated for the purposes of being presented with the institution's audited financial statements.

2.4.2. Capital Plan Development

The University develops an annual capital plan and, further, identifies its capital requirements in a submission to the Government of Alberta through the Building and Land Inventory System (BLIMS). Recent submissions, the latest dated August 2018, included a number of priorities which focus on the

renewal and refurbishment of existing buildings. The following capital budget is reflective of the information contained within the capital plan and that which was provided within our BLIMS submission.

2.4.3. Capital Budget

(\$000's)	2017-18		2018-19		2019-20	2020-21	2021-22
	Actual	Budget	Forecast	Budget	Budget	Projection	Projection
Revenue (Including deferrals)							
Government of Alberta grants	86,077	100,988	119,032	111,122	111,122	111,299	117,416
Federal and other government grants	20,122	17,181	20,188	20,139	20,139	20,224	20,941
Student tuition and fees	-	-	-	-	-	-	-
Sales of services and products	-	-	-	-	-	-	-
Donations and other grants	31,547	21,004	26,287	26,208	26,208	26,303	27,235
Investment income	277	-	-	-	-	-	-
Total revenue	138,023	139,173	165,507	157,469	157,469	157,826	165,592
Expense							
Salaries	-	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-	-
Materials, supplies and services	5,814	-	1,374	3,609	3,609	1,961	-
Scholarships and bursaries	-	-	-	-	-	-	-
Maintenance and repairs	71,750	30,661	57,752	40,618	40,618	32,310	35,099
Utilities	-	-	-	-	-	-	-
Amortization of tangible capital assets	111,753	116,691	116,691	116,411	116,411	116,904	121,045
Total expense	189,317	147,352	175,817	160,638	160,638	151,175	156,144
Annual operating surplus (deficit)	(51,294)	(8,179)	(10,310)	(3,169)	(3,169)	6,651	9,448

Due to the nature of Public Sector Accounting Standards that govern the preparation of our audited financial statements, it adds the complexity of revenue deferrals. In essence, a large portion of the revenue in this fund cannot be recognized until the underlying expenses (predominantly amortization of tangible capital assets) have been incurred. In order to remove this impact, the following three tables provide a view of the capital budget for next year on a near “cash” basis.

The key figures in the following tables are:

- Government of Alberta grants which provides the expected amount of government funding in relation to capital projects.
- Maintenance and repairs which provides the expected amount of maintenance, repair and deferred maintenance to be conducted on a stand-alone basis as well as the expected amount that will be performed as capital projects are completed. These costs are expensed as they do not extend the useful life of the building.

The following table provides an outline of anticipated Government of Alberta revenues on a cash basis:

Capital Budget: Revenue			
(\$000's)	2019-20	2020-21	2021-22
	Budget	Projection	Projection
Provincial Government Grants			
Infrastructure Maintenance Program	34,914	34,914	34,914
Dentistry/Pharmacy Renewal	48,000	49,000	44,000
Greater Campus Area Utility System Upgrade*	9,100	4,900	1,900
Other			
Other Projects - Donation Presidents Circle	35	-	-
Total revenue	92,049	88,814	80,814

*This utility system serves: UofA North Campus; Alberta Health Services (UofA Hospital, Stollery Children's Hospital, Mazankowski Alberta Heart Institute, Kaye Edmonton Clinic and the Cross Cancer Institute); Alberta Infrastructure (Canadian Blood Service and Jubilee Auditorium); and others such as St. Joseph's College, Stephen's College and the National Institute for Nanotechnology).

The following table outlines maintenance and repair projects planned within the capital fund (others do occur within the operating and ancillary budgets).

Capital Budget: Maintenance and Repairs			
(\$000's)	2019-20	2020-21	2021-22
	Budget	Projection	Projection
Project			
Central Academic Building (Main and Lower Level)	3,700	50	-
Chemistry West (Lab Renewal)	3,000	-	-
ECERF - Nano Fab Lab Ventilation Renewal	1,000	-	-
HRIF - MSB Lab Renewal Program 2017-2018	600	550	-
Van Vliet Men's Change Rooms	900	125	-
Van Vliet Women's Change Room	900	125	-
Subtotal	10,100	850	-
Other Renovations	2,354	1,546	185
Infrastructure Maintenance Program	28,164	29,914	34,914
Total maintenance and repairs	40,618	32,310	35,099

Major renovation projects often involve both repairs and maintenance as well as capital additions or overall improvements to buildings. The following capital projects represent capital additions to buildings as defined by accounting standards. In this case, the expenditures do not appear on the statement of operations; rather they are captured as investments in tangible capital assets on the university's statement of financial position.

One significant project, the Lister (Classic) Tower refurbishment included in the table below is worthy of mention. A request for approval to access debt financing through the Alberta Capital Finance Authority in the amount of \$75.5 million was submitted to government in May of 2018. This project cannot proceed until and unless that approval is granted.

Capital Additions

(\$000's)

Project	2019-20	2020-21	2021-22
	Budget	Projection	Projection
Biological Sciences Renewal	848	-	-
Central Academic Building (Air Handling)	1,500	-	-
Chemistry Electrical Vaults	6,000	2,000	994
Dentistry/Pharmacy Renewal	20,000	65,000	75,000
Edmonton Clinic Health Academy	2,600	2,300	1,085
HRIF - Wet Lab Development (BARB)	1,300	950	-
Peter Lougheed Hall	500	-	-
South Campus Infrastructure Development	1,850	500	-
South Campus Power Service (CUBE)	918	-	-
Greater Campus Area Utility System Upgrade*	9,100	4,900	1,900
UA Botanic Garden	1,000	64	-
Van Vliet East Mechanical	700	-	-
Van Vliet Electrical Vault	5,500	-	-
Subtotal	51,816	75,714	78,978
Other Capital Projects	1,752	-	1
Energy Management Envision	4,255	4,000	1,500
Capital Interest	2,068	-	-
Total tangible capital acquisitions	59,891	79,714	80,479

Operating & Ancillary

(\$000's)

Project	2019-20	2020-21	2021-22
	Budget	Projection	Projection
Lister (Classic) Towers Renewal	25,000	25,000	25,000
NREF Renewal	13,000	4,000	365
R.E. Phillips Building Renovation	4,519	-	-
RCRF (South Campus Services)	1,000	2,500	-
Total tangible capital acquisitions (100/310)	43,519	31,500	25,365

*This utility system serves: UofA North Campus; Alberta Health Services (UofA Hospital, Stollery Children's Hospital, Mazankowski Alberta Heart Institute, Kaye Edmonton Clinic and the Cross Cancer Institute); Alberta Infrastructure (Canadian Blood Service and Jubilee Auditorium); and others such as St. Joseph's College, Stephen's College and the National Institute for Nanotechnology).

2.4.4. Deferred Maintenance

Excellence in teaching and research needs to be supported by well-functioning labs, classrooms, and other building infrastructure. Unfortunately, government grants alone have been incapable of addressing the necessary maintenance activities across our campuses to avoid an increase to our deferred maintenance liabilities. As of December 31, 2018, the deferred maintenance liability stands at \$309 million with a five-year projected aggregate liability of \$893 million. In the upcoming budget, we have made a modest additional investment of \$1 million in base funding from the operating budget to address deferred maintenance. Ideally it would be more, but our operating resources are constrained. It is our intent to increase support for attending to deferred maintenance needs as resources permit.

2.5. Special Purpose

The overall decrease in both revenues and expenditures relates primarily to a shift in the Academic Medicine and Health Services Program agreements, as certain activities have been shifted to Alberta Health Services. This shift has already commenced in the current year, subsequent to the development of the 2018-19 budget.

(\$000's)	2017-18	2018-19		2019-20	2020-21	2021-22
	Actual	Budget	Forecast	Budget	Projection	Projection
Revenue (Including deferrals)						
Government of Alberta grants	59,977	106,382	74,850	71,451	74,382	77,357
Federal and other government grants	-	-	-	-	-	-
Student tuition and fees	-	-	-	-	-	-
Sales of services and products	453	200	261	233	244	261
Donations and other grants	23,474	3,508	15,613	14,303	14,944	15,875
Investment income	23,586	24,254	19,725	20,730	21,360	21,870
Total revenue	107,490	134,344	110,449	106,717	110,930	115,363
Expense						
Salaries	54,488	57,752	55,646	52,576	54,936	58,185
Employee benefits	12,400	12,748	15,267	14,384	15,035	15,941
Materials, supplies and services	17,171	32,065	20,864	21,223	22,166	22,255
Scholarships and bursaries	10,605	11,585	10,611	10,464	10,808	11,118
Maintenance and repairs	28	83	90	99	104	103
Utilities	-	-	-	-	-	-
Amortization of tangible capital assets	-	-	-	-	-	-
Total expense	94,692	114,232	102,478	98,746	103,049	107,602
Annual operating surplus (deficit)	12,798	20,112	7,971	7,971	7,881	7,761

3. Concluding Comments

As noted at the outset, this budget has been prepared at a time of significant uncertainty. Hence we have adopted conservative budget assumptions and will proceed forward on a note of caution and prudence.

We continue to focus on delivering our vision: To inspire the human spirit through outstanding achievements in learning, discovery, and citizenship in a creative community, building one of the world's great universities for the public good.