Financial Outlook: Balancing the system when international growth maxes out
Recap
McMaster is in Ontario
PC Premier Ford
Elected 2018
Platform?
Budget Balancing
Statistics Canada says student populations as a % are shrinking, so let’s base cuts on this.
More Tax Revenue will be directed to Health Care

Tax Revenues directed toward services for this cohort may be cut

Tax Revenue for Education may be flat OR decline!

Source: Statistics Canada, Demography Division.
PROVINCIAL BUDGET

SAVINGS:

1. Frozen Operating Grant

2. Dom. Tuition -10% ($23M), 0%, 0%

3. Cancelled Future Capital Expansion Grants ($48M)
Was Statistics Canada Right?
Distribution of the total population by age group, observed (1921 to 2013) and projected (2014 to 2063) according to the low-growth (L), medium-growth (M1) and high-growth (H) scenarios, Canada.

- **15 to 64 years**: 68% (Observed) 68% (Projected)
- **14 years and under**: 21% (Observed) 16% (Projected)
- **65 years and over**: -5% (Observed) -5% (Projected)

**Source**: Statistics Canada, Demography Division.
What Statistics Canada Say September 2019

Distribution of the total population by age group, historic (1921 to 2018) and projected (2019 to 2068) according to the fast-aging (FA), medium-growth (M1) and slow-aging (SA) scenarios, Canada

Declining on a -4% Basis

15 to 64 years

14 years and under

65 years and over

Source: Statistics Canada, Demography Division.
But this was as a % of total demographics
What about the Canadian net student population?
Canada Population Projections 2019

Population aged 14 years and under, 15 to 64 years and 65 years and over, historic (1921 to 2018) and projected (2019 to 2068) according to the low-growth (LG), medium-growth (M1) and high-growth (HG) scenarios, Canada in thousands.

Source: Statistics Canada, Demography Division.

Actually Flat – so Cuts Occurred but we have NO less Canadian inbound students.
Reflected Differently – But this is CANADA as a whole. What about Ontario’s Population?
While Eastern Populations have been shrinking, Ontario has been seeing 8-11% growth!
OK

SO WHAT?
PROVINCIAL BUDGET

SAVINGS:

1. Frozen Operating Grant

2. Dom. Tuition -10% ($23M), 0%, 0%

3. Cancelled Future Capital Expansion Grants ($48M)
Since Ontario actually has MORE Students
Maybe the Operating Grant SHOULD get some inflation?
# 101: McMaster University Finances 2019

## Revenues

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Grant</td>
<td>$274M</td>
</tr>
<tr>
<td>Tuition</td>
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</tr>
<tr>
<td>Other</td>
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<td><strong>Total</strong></td>
<td><strong>$1.2B</strong></td>
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## Expenses

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<th>Category</th>
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**Surplus** $157M

Looks Good Right?
## 101: McMaster University Finances 2019

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**Surplus** $157M

**Future Unfunded Obligations**
- People (benefits) $287M
- Debt $205M
- Deferred Maint. $430M
- New Capital $1B
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Not keeping pace with Expense Inflation

Dom. -10% & FLAT
+1.8%

So, how do we afford: expense growth + unfunded obligations?
GROWTH
NOT JUST ANY GROWTH WILL DO
Domestically if we growth we get $0 extra Operating Grant and -10% Tuition so…
WELCOME TO CANADA

BIENVENUE AU CANADA
Welcome To Ontario

More to discover
Welcome To

ONTARIO

OPEN FOR BUSINESS
Welcome to Hamilton
Population: 503,000
A City of Many Communities
Home of the 2003 World Cycling Championships

welcome to unstoppable.
Canada’s most research-intensive university
Global Teaching Excellence Award
Are we achieving results?
% International Students
Financial Stability = Growth

Almost entirely International

Almost entirely International


FT-UG  FT-Grad  Total
Historical Revenues, Expenses & Enrolment
WHY GROWTH?
WHY
INTERNATIONAL
GROWTH?
Tuition Framework
(Domestic)

2019/20  -10%
2020/21   0%
2021/20   0%
OPERATING GRANTS DEFLATIONARY

DOMESTIC TUITION DISCOUNTED & DEFLATIONARY

+60% EXPENSES = PEOPLE

EXPENSE INFLATION ~3-5%/YEAR

+ UNFUNDED OBLIGATIONS
NO TUITION RATE CAPS ON INTERNATIONAL STUDENTS
% International Students

Rate Increases 6-10% / Year
OUTLOOK
This may seem good right? NO – the capital infrastructure (land needs) and new staffing required would not help us balance.
Operating Grant & Tuition Projections ($s)

High Scenario: Mix 73%/27% by 2023/24, 3.6% Growth/YR, DR 1.82%/YR, IR 6.09%/YR
Medium Scenario: Mix 71%/29% by 2026/27, 2.6% Growth/YR, DR 0.91%/YR, IR 5.32%/YR
Low Scenario: Mix 71%/29% by 2034/35, 1.3% Growth/YR

Operating Grants | Tuition | Total
--- | --- | ---
High (H) | Medium (M) | Low (L)
800,000 | 600,000 | 400,000
1,000,000 | 700,000 | 500,000
1,200,000 | 800,000 | 600,000
1,400,000 | 1,000,000 | 800,000
1,600,000 | 1,200,000 | 1,000,000
1,800,000 | 1,400,000 | 1,200,000

Domestic vs. International (High Scenario)

58,152 Students

25%

% Domestic

% International

Domestic Students: 25% of 58,152 = 14,530

International Students: 75% of 58,152 = 43,622
Domestic vs. International (Medium Scenario)

57,988 Students

25%
Domestic vs. International (Low Scenario)

% Domestic vs. % International over the years from 1988/89 to 2040/41.

There is a significant decrease in the % Domestic from 1988/89 to 2030/31, followed by a slight increase from 2030/31 to 2040/41.

% International shows a gradual increase from 1988/89 to 2040/41.

The graph highlights a notable dip in % Domestic from 25% in 1990/91 to approximately 10% in 2030/31, with a subsequent rise to around 25% in 2040/41.

Key points:
- 1988/89: % Domestic around 95%, % International around 5%.
- 2010/11: % Domestic around 65%, % International around 35%.
- 2030/31: % Domestic around 10%, % International around 90%.
- 2040/41: % Domestic around 25%, % International around 75%.
A “More” Possible Scenario
International Participation up to 25%
Growth Overall at 0.5% thereafter
(75% Domestic / 25% International)
Operating Grant & Tuition Projections ($s)
Possible Scenario Mix 75%/25%
Growth After 2022/23 = 0.5% per Year
Domestic Rate Increase Ave. 1.5%, International Rate Increase Ave. 4.25%

Revenue growth slows when International “new” enrolment ends
Expenses + Future Obligations

Revenues
Possible Scenario
Revenues & Expenses ($‘000s) v. Enrolment
Mix 75%/25% Growth 0.5% Year to 41,000 Students 2041/42

The GAP allows us to fund future obligations
So What?
Will the Operating Grant Flat?
SMA 3
Impact?
SMA 3 =

10 Metrics

1. Graduate Employment Rate
2. Institutional Strength/Focus
3. UG FT Graduate Rate
4. Community/Local Impact
5. Institution Economic Impact
6. Tri-Agency Funding
7. Experiential Learning
8. Innovation Research Revenue
9. Graduate Earnings
10. Skills & Competencies
= Metric Targets

Metrics phased in over 5 Years

Shift

From ~90% Enrolment Based Funding (Flat since 2016/17)
To ~90% Metric Linked Funding
“Band of Tolerance”

Bands around a Metric Target a University can be within and not get a funding reduction
Negligible
Adjustments
 Likely
Large Scale Adjustments
Unlikely
Will the Tuition Framework relate to Inflation?
What about International Risk?
International Participation Diversity, 2017

- China: 55%
- India: 6%
- Hong Kong: 6%
- Saudi Arabia: 4%
- Iran: 3%
- Nigeria: 3%
- United States: 2%
- 106 Others: 21%

Based on IRA: Fact Book Actuals
Geo-political De-Risking Successful?
2019 International Diversity

- China: 56%
- India: 8%
- 90+ Others: 14%
- Saudi Arabia: 3%
- Iran: 3%
- Nigeria: 2%
- United States: 2%
- South Korea: 2%
- United Kingdom: 1%
- France: 1%
- Pakistan: 1%
- Bangladesh: 1%
- Brazil: 1%
- Egypt: 1%
- Mexico: 1%

Based on IRA: Fact Book Actuals
What about International Rate Risk?
International Rates

6-10% / Year

Sustainable?

Model Average +4.25%/Year
Premier Doug Ford
Elected 2018
Next Election 2022
Provincial Risks:

SMA3

Bill 138

International Rate Control?

International Student Recovery
We continue to focus on enrolment / revenue growth.

Because cutting expenses is really hard.
We are reaching the END to the Growth Solution
Revenues & Expenses ($‘000s) v. Enrolment
Mix 75%/25% Growth 0.5% Year to 41,000 Students 2041/42

The GAP allows us to fund future obligations
Can we leverage UniForum?

We operate at a 13% higher cost model than required.

Source: UniForum CAN Database 29 October 2018; Cubane analysis
IF Uniforum 100% Efficient by 2023/24

The GAP allows us to fund future obligations.
What Next?
RECAP 2018
We need to work together:

What work is optimally delivered customized and within decentralized units?

What work (little/no customization) is optimally delivered by decentralized shared service hubs or centralized units?

GOAL: Minimize duplication, differentiate on customization requirements, focus on expertise, quality, and speed of support delivery
What will you do to contribute to our McMaster financial stability leaving here today and over the next 6 months!
Balancing the system when international growth maxes out

Questions