



Board of Governors
May 27, 2014
Agenda Item # 12.3.3

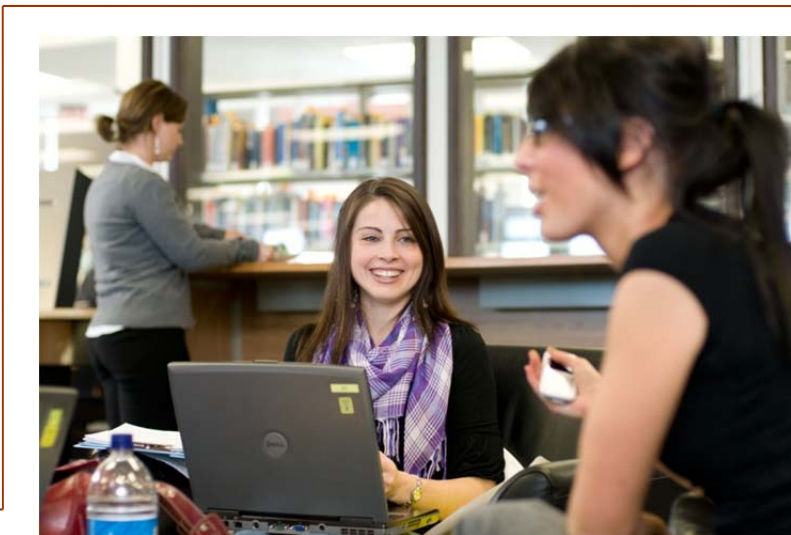
University of New Brunswick

BUDGET FOR CURRENT OPERATIONS

Summary and Detail

2014-15

*Presented by the Vice-President (Finance and Corporate Services)
Daniel V. Murray, C.A.*



2014-15 BUDGET – TABLE OF CONTENTS

	Page
President’s Commentary	3
Scope	4
Introduction and Fiscal Context.....	6
Objectives/Strategy/Plan	8
Operating Budget Summary	9
- Sources of Revenue	10
- Provincial Grant Funding	11
- Student Enrolment	12
- Tuition Fees	16
- Other Revenue	21
Operating Expenses	
-Overall Allocations	23
Residence Budget Summary	28
Capital Budget Summary	30
Endowment Budget – Pro-forma Balances and Spending.....	33
Summary of Key Budget Assumptions and Risks	35
Multi-year Financial Outlook – Operating Budget.....	37
Budget Process, Accountability and Budget Policies.....	38
Summary of Operating Revenue and Expenses Schedule A.....	41



PRESIDENT'S COMMENTARY

As a result of careful planning and much effort, we are pleased to report that the proposed 2014-15 UNB operating budget is balanced.

We have achieved this primarily as a result of a 2% increase in the provincial operating grant, as well as funding now added to the ongoing funding base, increasing tuition fees by the provincial parameter of 3%, generating new revenue from non-traditional sources such as proceeds from the College of Extended Learning and Saint John College, as well as tight management of our expenses. It is important to note that the academic portfolios have been protected in this year's proposed budget.

Despite proposing a balanced budget this year, we do expect continued challenges. Revenues in the current economic, fiscal and demographic environment are anticipated to increase by less than 2% per year, while expenses – if not managed - will go up by between 3.5% and 4% per year.

Like many universities, UNB will continue to be faced with potential funding shortfalls that must be addressed in order to maintain long-term financial sustainability. We will continue to focus on managing the elements that are within our control.

In this document, you will find an overview of the detailed budgets that have been prepared for university operations, capital activity, spending from university endowments and residence operations.

With a continued focus on enhancing collegiality, reinvigorating our academic mission and achieving the objectives of our strategic plan, we will create a better UNB.

H. E. A. Campbell
President and Vice-Chancellor
University of New Brunswick



SCOPE

The package includes operating, capital, endowment spending and ancillary operations budgets. There are separate individual budgets for each research grant or contract and for expendable trust funds.

Scope of the Budget

The University of New Brunswick's budgets are developed and managed according to the principles of fund accounting. Revenue is segregated into a variety of fund types, the use of the revenue is governed by the restrictions on the specific fund. Funding is recorded in separate individual accounts to ensure strict adherence to terms associated with the funding and to ensure there is a clear chain of accountability for the funds. The annual budget package includes information on the following funds:

Operating Budget

This fund contains the revenues and expenses associated with the day-to-day operations of the University, including instruction and program delivery, student services, administrative services, operational maintenance, cleaning, utilities and supplies.

The net position of ancillary operations, such as university residences, food services, bookstores and other non-academic activities that generate revenue, are included within the overall operating budget fund.

Each main campus, Fredericton and Saint John, prepares an annual operating budget for the activities of the campus. In certain areas, there are shared services that may be either housed in Fredericton or Saint John but are shared by both campuses. Cost-sharing mechanisms are in place to allocate the costs of shared services between campuses.

Capital Budget

This fund contains the resources and expenditures related to capital asset activity at the University, including the construction or major renovation of facilities. The capital budget also includes expenditures on equipment and technology that is funded from special purpose, restricted government funding.

Endowment Budget

The University is the recipient of donations and gifts from Alumni, corporations, members of the public and foundations. Some of the gifts are not endowed, meaning the funds are received and utilized immediately or in the near future for the specific wishes of the donor as directed. Some of the gifts are endowed, meaning the funds are held in perpetuity and only the income generated from the investment of the endowments can be spent on an annual basis. These funds are accounted for in a series of special trust and endowment funds. An annual illustration of the expected payments out of endowment accounts in 2014-15 is contained in the budget package.

Excluded from the Operating Budget Scope:

Funds that are externally restricted for non-operational purposes are not included in the operating budget. For example, research funds that may only be used for research as designated by the external provider of funds are not included in the operating budget. Each research contract or grant typically requires a specific budget in order to administer the funds, these funds are not commingled with operating funds. Similarly, if other externally funds, such as donations, special targeted non-operational grants, are provided to the university, these are not commingled with operational funds, they are held separate and spent in accordance with the external provider's specifications.

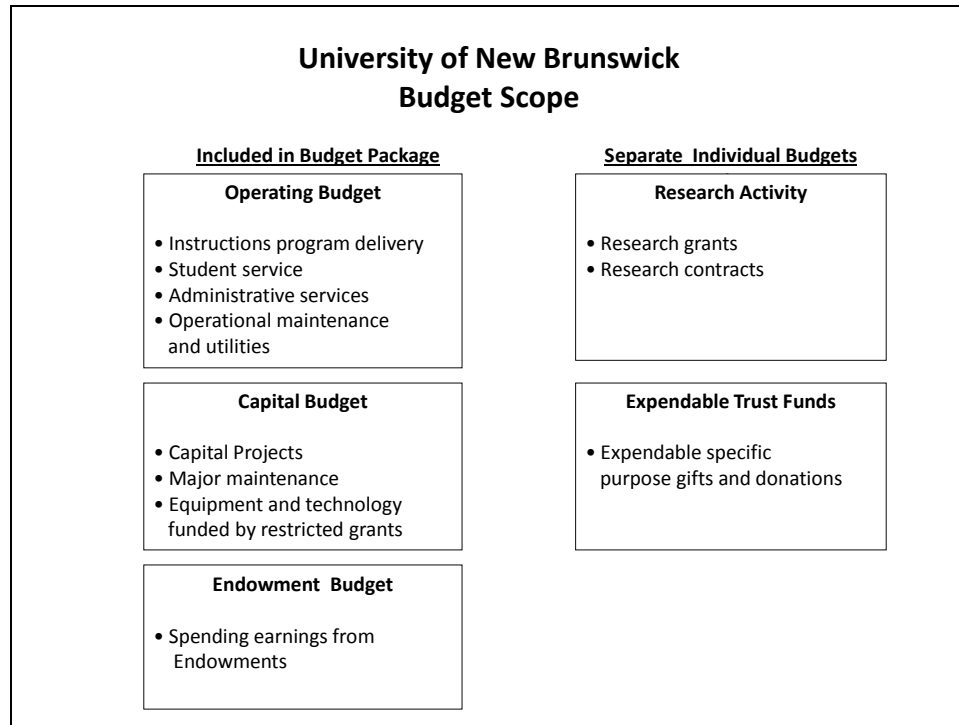
Research Activities are Excluded

The University of New Brunswick conducts a wide variety of research activity funded primarily by Federal Research Programs and various types of contractual arrangements. Each research grant or contract is budgeted and accounted for individually through a series of restricted accounts. Annual research activity for the University of New Brunswick is approximately \$50 million. Research overheads that flow centrally are included in the operating budgets.

SCOPE (continued)

Expendable Trust Funds are Excluded

In some cases, donors provide funds to the University that are intended to be utilized in the very near future for the specific purpose that the donor has designated. The activity patterns for these activities can vary widely from year to year. The University accounts for these funds via restricted trust fund accounting. Larger balances related to capital projects are included in the University Capital Budget.



Budget – Accounting Basis

University of New Brunswick's budgets are prepared on a cash basis. For clarity, this means that if there are items that are of a capital nature, such as equipment, computers, major building repairs or other similar items funded from operational funds, these amounts are considered as a use of funds when spent. Similarly, UNB budgets do not include a provision for depreciation expense.

Operational expenses, such as salaries and benefits, are accounted for on an accrual basis to reflect the number of days in the fiscal year rather than the timing of when the payroll or benefits are paid. Usual departmental carry forward policies and procedures apply.

INTRODUCTION AND FISCAL CONTEXT

Overall Context

One of the goals of the University's Strategic Plan is financial resilience and responsibility. Despite operational funding challenges, the university has made progress on this goal in several key areas over the past three years. Like most universities in Canada, UNB faces continual challenges to secure ongoing operational resources to fund its needs and aspirations.

Introduction and Fiscal Context

The University of New Brunswick is not exempt from the economic and fiscal realities currently facing many post-secondary institutions.

UNB continues to face ongoing operational funding challenges associated with continued pressure on public funding, due to ongoing economic and fiscal challenges, annual declines in student enrolment related to regional demographics, and downward pressure and constraints on tuition fees. UNB has been dealing with these pressures through a combination of efforts including, cost reduction initiatives to diversify student enrolments, encouraging and rewarding budget units to secure additional non-traditional sources of revenue. Through these efforts, the university has been able to submit balanced operating budgets in each of the past four years and, through conservative budgeting and tight in-year expenditure control, has been able to realize operating budget surpluses during this period. While these efforts have provided the university with an improved financial position in the interim, they have placed strain on operations of both campuses as, over the past eight years, UNB has managed over \$25 million out of its operating budget. A continued approach to cost reductions cannot be sustained over the longer term without altering the current university operational model. The university's Strategic Plan set a goal of an annual increase in operating revenue of 4%. At this level, UNB's current operations could be sustained. Actual operating revenue growth has fallen short of this goal over the past few years. The university continues to explore new and creative ways to realize the operating revenue growth targets established in the Strategic Plan.

The financial challenges and risks for 2014-15 and beyond include:

Operational Revenues

The university continues to face ongoing challenges associated with securing appropriate levels of stable, predictable operational funding. The challenges and risks include:

- Level of ongoing operational funding from the province. The unrestricted provincial operating grant accounts for over 60% of UNB's operational funding. In the fall of 2013, the province announced that the unrestricted operating grant to New Brunswick universities would increase by 2% in 2014-15 and again in 2015-16. The announced grant increase also was accompanied by a recommendation that tuition fee increases be limited to no more than 3% a year in each of 2014-15, 2015-16 and 2016-17.
- Shrinking regional demographics put downward pressure on the largest source of students that attend UNB. UNB is diversifying its student recruitment initiatives to attract students from other parts of Canada and around the world. There are additional costs associated with these recruitment activities.

Operational Expenses

University operational expenses continue to rise each year as salaries, benefits, utilities, heating costs, maintenance, supplies and other non-salary costs increase. Operational expenses for the university sector rise at a higher rate than general inflation due to the nature and composition of key expense drivers. It is a continuing challenge to match the ongoing levels of operational expenses with the ongoing sources of operational revenue. As outlined in the context section, this is particularly true due to current economic and fiscal challenges. The 2014-15 budget was based on a number of estimates and underlying assumptions related to events or activities that will impact operating expenses. An important factor for the 2014-15 budget is that:

- The collective agreement for full-time faculty and librarians, as represented by the Association of University of New Brunswick Teachers, AUNBT, expired on June 30, 2013. Following a labour disruption, both parties agreed to a certain level of economic adjustments for three years starting July 01, 2013. The parties also agreed that these adjustments would be subject to a binding arbitration process to be conducted in 2014.

INTRODUCTION AND FISCAL CONTEXT

Infrastructure Renewal

- Like many other Canadian universities, UNB has a challenge related to the state and condition of its buildings and facilities. Each year, facilities age and infrastructure renewal requirements increase, sufficient funding is not available to perform the required major maintenance work, deferred maintenance. UNB has been undertaking a balance of capital activities to ensure UNB facilities are modern, effective and that available capital resources are utilized efficiently. This multi-dimensional approach includes building new buildings (with the generosity of donors and governments), making improvements to classrooms, laboratories and student spaces, establishing processes and policies to ensure the efficient utilization of existing spaces, undertaking capital-based energy management projects and leveraging available funds to address deferred maintenance where possible.



OBJECTIVES – STRATEGY - PLAN

The overall objective of the 2014-15 budget is to align available resources with priorities in order to further accomplish the University's mission. The university financial framework is oriented towards long-term financial sustainability. The overall budget strategy, within the financial framework, is to exercise fiscal responsibility while striving to maintain quality of programs, manage risks and address requirements and priorities.

Basic Objectives of the University Budget

The overall objective of the University budget is to align available resources with strategic and operational plans and priorities.

For the 2014-15 operating budget, additional objectives were to:

- achieve a balanced budget.
- allocate funds to enable further implementation of the University's Strategic Plan.
- position finances to assist in enabling the University to deal with future risks and uncertainty.

The budget also serves as an important control mechanism for the management and monitoring of revenues and expenditures.

2014-15 Budget Plan

The 2014-15 university budget plan takes a multi-faceted approach:

Operating Budget

- Ongoing revenues have been matched with ongoing expenses in the 2014-15 operating budget.
- Tuition fees are increased by 3%.
- Additional ongoing funding has been allocated to student recruitment activities.
- Cost-saving initiatives and efforts to generate additional revenues that have resulted in ongoing benefits to the budget, ongoing budget assumptions have been recalibrated accordingly.
- Academic budget envelopes and the faculty complement have been insulated from budget reductions.
- Targets have been set for additional revenue growth and processes have been established for the allocation of these additional funds as they materialize.
- University risk reserves have been evaluated and a one-time release of \$6 million will be made towards one-time campus priorities in 2014-15.

Capital Budget

- The capital budget reflects UNB's pay-as-you-go approach to capital activities whereby projects are only undertaken when funding sources are secured.
- The 2014-15 capital budget contains a mix of capital activity, including over \$10 million in funds directed towards infrastructure renewal projects, residence improvements, with an additional \$6 million in expenditures for classroom renewal, new technology and equipment. Projects have been prioritized based on available funding on each campus.

Endowment Spending

- The endowment spending budget has been sustained at a real rate of 4%. Due to the increase in the value of the investment portfolio, this rate will be applied to a larger spending base, thereby providing increased funding.
- Spending on scholarships from endowments has been topped up by 6.25% as part of a strategy to enhance these funds over the longer term, primarily through an impending fundraising campaign.

Residence Budgets

- Fee increases in Residence systems on both campuses are reflective of the marketplace and cost increases associated with operations.
- Although there is much more work to do in renewing residence facilities, particularly on the Fredericton campus, additional funds have been allocated for infrastructure renewal.

2014-15 BUDGET - OPERATING BUDGET SUMMARY

Budget Overall

The 2014-15 operating budget is balanced as submitted. The budget reflects increased operational funding from the province, tuition fee increases of 3%, continued management of university expenses and allocation of resources that reflect campus priorities.

The 2014-15 operating budget is balanced as submitted. This is the fifth year in a row that the university has submitted a balanced operating budget. The main determinates in achieving a balanced budget were:

- The University has taken a prudent approach to financial management and campus budgeting over the past few years. This approach provided the university with a more stable financial position despite ongoing operational funding challenges.
- The Province of New Brunswick provided New Brunswick universities with a 2% increase in ongoing unrestricted provincial grant funding. In addition, it stabilized the funding base by moving funding that had previously been considered as temporary into the ongoing base.
- The University of New Brunswick has implemented the 3% tuition fee recommendation that was provided by the province.
- There was approximately \$1 million in budget reductions (or increases in cost offsetting revenues) implemented in the 2014-15 budget. This compares to an average of approximately \$3 million per year over the last eight years and \$3.8 million last year.
- The stabilization of provincial funding has enabled the university to submit a budget whereby the ongoing revenues budgeted for 2014-15 are equal to ongoing budgeted expenses. This means that the 2014-15 budget is balanced without the use of one-time funds.
- The 2014-15 operating budget reflects a target of \$4.2 million in additional sources of revenue, reflected as one-time due to the levels of uncertainty associated with the ongoing sustainability of these revenues. The budget also reflects the one-time expenditure of these funds, which will only occur if the additional targets are achieved.

UNB		
Key 2014-15 Operating Budget Figures		
<i>Operating Budget is Balanced</i>		
- Ongoing operating revenues	\$185.8	million 3.3% growth 2.3% before reflecting stabilization of provincial grant funding.
- Ongoing unrestricted provincial operating grant	\$112.0	million 2.0% increase over 2013-14 base plus 1.7% one-time now included as ongoing
- Basic increase in undergraduate tuition fees	\$180	increase 3% increase
- Budgeted student FTE enrolment	9,153	A decrease of 165 FTE, or 1.78%
- Ongoing Operating expenses	\$185.8	million 2.3% increase
- Level of budget adjustments	\$1.0	million (\$3.8 million in 2013-14)
- Budgeted Target for additional revenues	\$4.2	million Considered as one-time until proven to be sustainable.

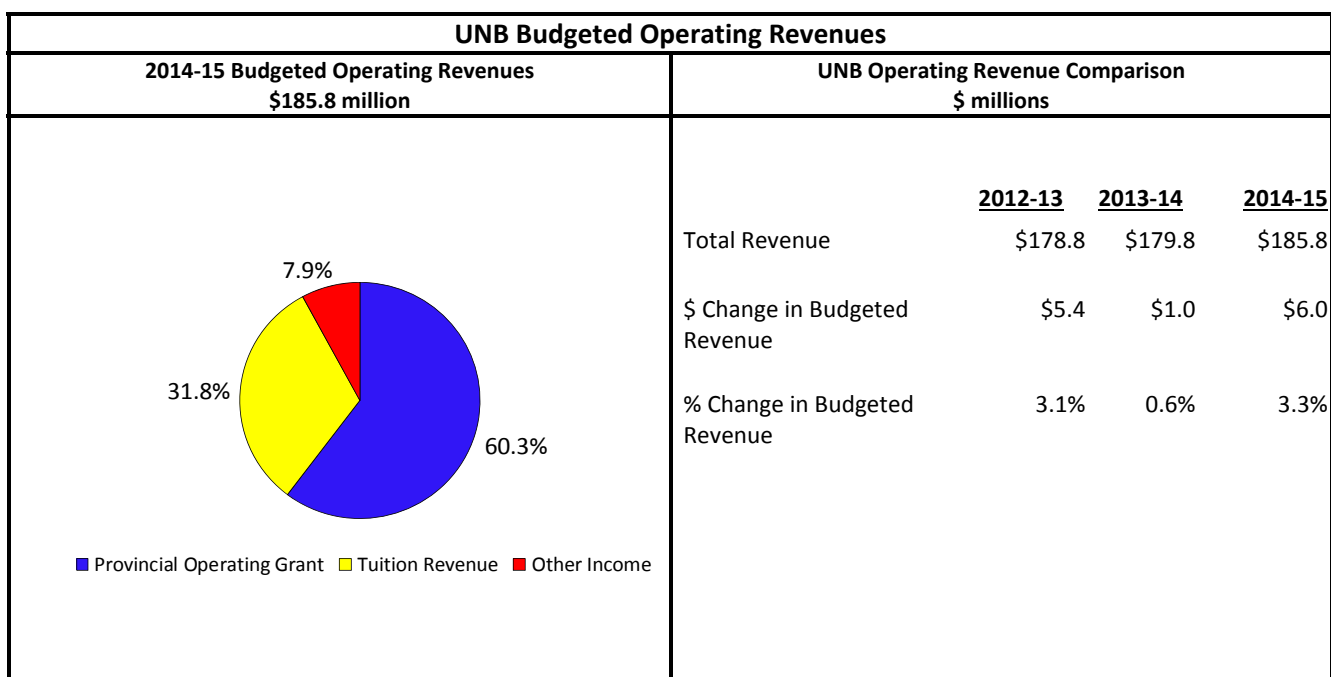
2014-15 OPERATING BUDGET – SOURCES OF REVENUE

Overall Revenue

Overall operating revenue growth is budgeted at 3.3% in 2014-15. The largest component of operating revenue is the unrestricted provincial operating grant which grew by 2% and for which 1.7% of funding that was previously one-time has now been added to ongoing funding. Tuition fees are budgeted to increase by 3%.

Total operating revenues are budgeted at \$185.8 million in 2014-15, an increase of \$6.0 million, or 3.3% over 2013-14. Before reflecting the stabilization of one-time provincial funding into base funding, total budgeted revenue increased by \$4.1 million, or 2.28%. This compares to overall operating revenue growth target of approximately 4% that is outlined in the University Strategic Plan.

The following charts illustrate the key components of UNB budgeted operating revenues with an historical comparison of key elements:



Over the five-year period ended 2014-15, the average annual growth in operating budget revenue was 2.8%.

The following table illustrates the changes in the major components of operating revenue budgets over the last three years.

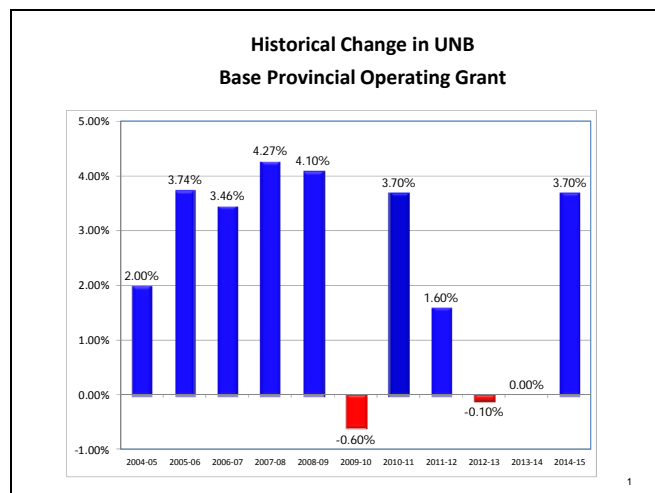
	<u>12-13</u>	<u>13-14</u>	<u>14-15</u>
% Change in Revenue Components			
Total Provincial Operating Grant	(.1%)	0%	3.7%
Tuition Revenue	8.6%	0%	2.0%
Other Income	7.9%	8.3%	5.6%
Combined % Change	<u>3.1%</u>	<u>0.6%</u>	<u>3.3%</u>

2014-15 OPERATING BUDGET – PROVINCIAL GRANT FUNDING

Total budgeted operating revenue is \$185.8 million. At 60.3% of the total, the unrestricted provincial operating grant is the largest component of operating revenue.

The following is a brief summary of recent changes to the provincial operating grant funding:

- In 2011-12, the province provided universities with a 2% increase in unrestricted provincial operating grants. Tuition fees for domestic students were limited to a \$200 increase.
- In 2012-13, the unrestricted provincial operating grant was frozen and tuition fee increases for domestic students were limited to a \$175 increase. One-time funding of \$1.8 million was also provided by the province.
- In 2013-14, the unrestricted provincial operating grant was frozen and tuition fee increases for domestic students were limited to a \$150 increase for most universities. The one-time funding provided in 2012-13 was continued again in 2013-14.
- For 2014-15, the province provided a 2% increase to unrestricted provincial operating grant funding and provided a recommendation that universities limit the level of tuition fee increase to 3%. Based on 2014-15 provincial budget announcements, UNB has assumed that the \$1.8 million in funding which had previously been considered as one-time has now been rolled into ongoing unrestricted provincial operating grant funding.



The assumption in the budget is that base unrestricted operating grant will be distributed to New Brunswick universities in accordance with the existing funding allocation formula administered by the Maritime Provinces Higher Education Commission (MPHEC). Approximately 75% of this formula is a fixed amount that changes annually based on the level of change prescribed in the provincial budget. The remaining 25% is subject to a formula allocation that allocates a fixed amount amongst the four public universities, utilizing relative enrolments for each institution and recognizing differences in level of intensity for degree programs.

The University of New Brunswick utilizes the same funding allocation formula as the MPHEC to allocate the provincial grant between the two main campuses of UNB, Fredericton and Saint John. A permanent adjustment to the Saint John campus base grant amount was made in 2008-09 through a reallocation mechanism resulting from the Report of the UNB Commission on Inter-campus Relations, Funding and Governance (31 October 2008). This adjustment continues to be reflected in campus allocations.

UNB Provincial Operating Grant \$(000's)				
	2012-13 Budget	2013-14 Budget	2014-15 Budget	\$ Change
Ongoing funding	\$108,000	\$108,000	\$112,018	\$4,018
One-time funding	\$1,800	\$1,800	-	(1,800)
Total	\$109,800	\$109,800	\$112,018	\$2,218

The following chart summarizes the change in base unrestricted operating grants to UNB over the past few years:

2014-15 OPERATING BUDGET - STUDENT ENROLMENT

Student enrolment is a key factor in the University operating budget. Overall student enrolment has been decreasing in recent years as demographic shifts have resulted in a decrease in university-aged students in areas where UNB has traditionally drawn the majority of its students from.

Context

Student enrolment is an important driver of operating funding for UNB. Tuition fee income derived from student enrolment accounts for 31.8% of total operating budget revenue. Trends in university student enrolment vary significantly across Canada, influenced by regional demographics and changes in university participation rates. According to a recent study¹, between 2000 and 2010 growing participation and population have combined to drive rapid enrolment increase in most provinces. In this study, the one province that experienced both a decline in population age 18-21 and full-time undergraduate full-time undergraduate enrolment age 18-21 was New Brunswick. The university-aged population also decreased in Quebec and Newfoundland, however, full-time undergraduate enrolment increased in these provinces. The same study indicated that with growth in population rates in Ontario since 2003, there are now more undergraduate students enrolled in that province than there were at the peak of the double cohort.

Within the Maritimes over the last decade, the number of students attending university from the Maritimes decreased by 12%*, while the number of international students increased by 102%, the number of Canadian students from outside the Maritimes increased by 28%.

The overall trend for New Brunswick universities and UNB has been an overall decrease in the number of FTE students. The number of undergraduate students in New Brunswick decreased by 12% over 10 years ended 2012-13. The number of graduate students in New Brunswick has increased by 33% since 2002-03, mainly as a result of

growth at UNB and University de Moncton. The net decrease in overall student FTE's has provided a challenging context for the University of New Brunswick which accounts for approximately 50% of university enrolment in the Province of New Brunswick.

UNB's Strategic Plan identified the importance of student enrolment growth and established broad growth targets for graduate, undergraduate and international students. Actions have been taken to invest more funds in student recruitment and retention efforts on both campuses. The 2014-15 budget sustains those previous investments and ensures that overall scholarship funding, from operating and trust and endowment sources, increases by 4.4% in 2014-15.

While overall student enrolments have been decreasing, UNB has been making progress with increased international students as the proportion of international students on the Fredericton campus increased from *7.5% in 2008-09 to 11.2% in 2012-13 and on the Saint John campus, the figures increased from 14.9% to 23.1% over the same time. The average proportion of international students in New Brunswick was 11.9% in 2012-13, 15% in Nova Scotia, and 11.7% in Prince Edward Island.

2014-15 Enrolment Estimates

The following table illustrates overall actual FTE student enrolment at the University of New Brunswick from 2001-02 to 2013-14, along with the baseline budget estimates from campus Registrars for 2014-15:

University of New Brunswick Student Enrolment (FTE's)					
	Undergraduate	Graduate	Total	Change	% Change
2001-02 A	9,106	855	9,961	-	-
2002-03 A	9,523	971	10,494	533	5.4%
2003-04 A	9,961	1,093	11,054	560	5.3%
2004-05 A	9,973	1,144	11,117	63	0.6%
2005-06 A	9,858	1,190	11,048	(69)	(0.6%)
2006-07 A	9,341	1,155	10,496	(552)	(5.0%)
2007-08 A	8,910	1,180	10,090	(406)	(3.9%)
2008-09 A	8,389	1,170	9,559	(531)	(5.3%)
2009-10 A	8,199	1,230	9,429	(130)	(1.4%)
2010-11 A	8,143	1,307	9,450	21	0.2%
2011-12 A	8,281	1,397	9,678	228	2.4%
2012-13 A	8,174	1,320	9,494	(184)	(1.9%)
2013-14 A	8,039	1,279	9,318	(176)	(1.9%)
2014-15 B	7,890	1,263	9,153	(165)	(1.8%)

FTE is based on MPHEC definitions with figures as of December 01, excludes out-of-province offshore arrangements

¹ AUCC Trends in Higher Education, Volume 1 – Enrolment 2011

*All figures from the MPHEC

2014-15 OPERATING BUDGET - STUDENT ENROLMENT

Note, starting in fall 2003, UNB enrolment was influenced by the Ontario double cohort. After reflecting the flow through of the double cohort, enrolments have decreased. The actual decline in 2012-13 was 184 FTE, with a 176 decline in 2013-14. The 2014-2015 baseline assumption is for a further decline of 165. While overall student enrolment has been decreasing, the proportion of international students has been increasing. The Province of New Brunswick does not provide funding for international undergraduate students, therefore, in keeping with national trends UNB charges these students a supplemental fee. This provides some mitigation to revenue loss for UNB, however, UNB is at an operational funding disadvantage compared to other Canadian universities that are experiencing growth in total student enrolment, including international students. The overall level of budgeted tuition revenue at UNB is summarized below:

UNB			
Tuition Revenue – Ongoing			
\$(000's)			
	2013-14	2014-15	%
	<u>Budget</u>	<u>Budget</u>	<u>Change</u>
- UNB Fredericton campus	\$41,868.0	\$43,472.3	3.8%
- UNB Saint John campus	16,129.6	15,660.6	(2.9%)
University Total	<u>\$57,997.6</u>	<u>\$59,132.9</u>	<u>2.0%</u>

Analysis

- UNB Fredericton budgeted tuition revenue is a 3.8% increase over 2013-14 budget due to a combination of a 3% increase in tuition fees, an overall decrease in student enrolment with a changing mix towards more international students.
- UNB Saint John budgeted tuition revenue is a (2.9%) decrease over 2013-14 budget as the 3% tuition fee increase is offset by an overall 4.9% decrease in student enrolment 2013-14 actual to 2014-15 budget. Additionally, actual student enrolments in 2013-14 were less than budgeted.
- Overall, UNB is budgeted to have a 2% increase in operating budget tuition revenue.

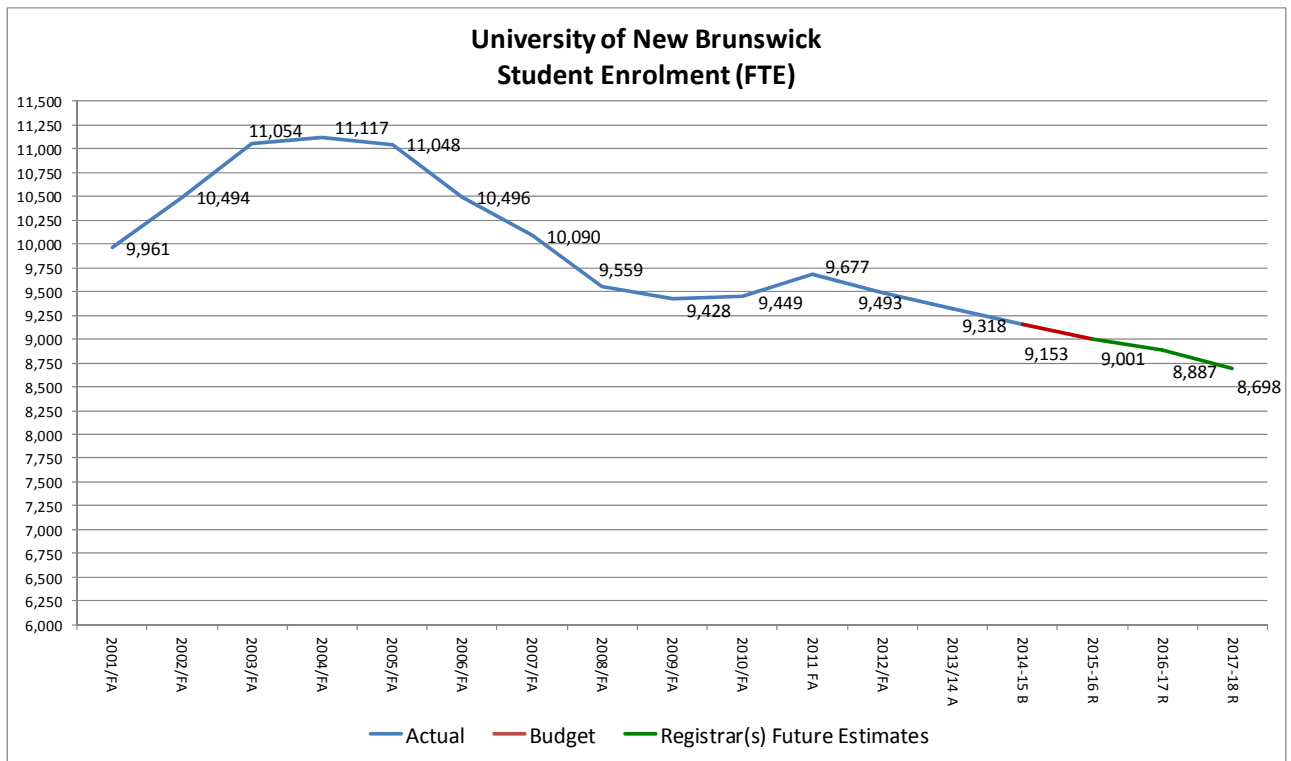
Stretch Enrolment Targets

The 2014-15 budget also includes \$1,074,900 in additional student enrolment revenue under the one-time funding sources heading within the stretch enrolment target line. The amount represents revenues that would be realized if campus stretch targets, that are 167 FTE higher than Registrars enrolment estimates, are realized.

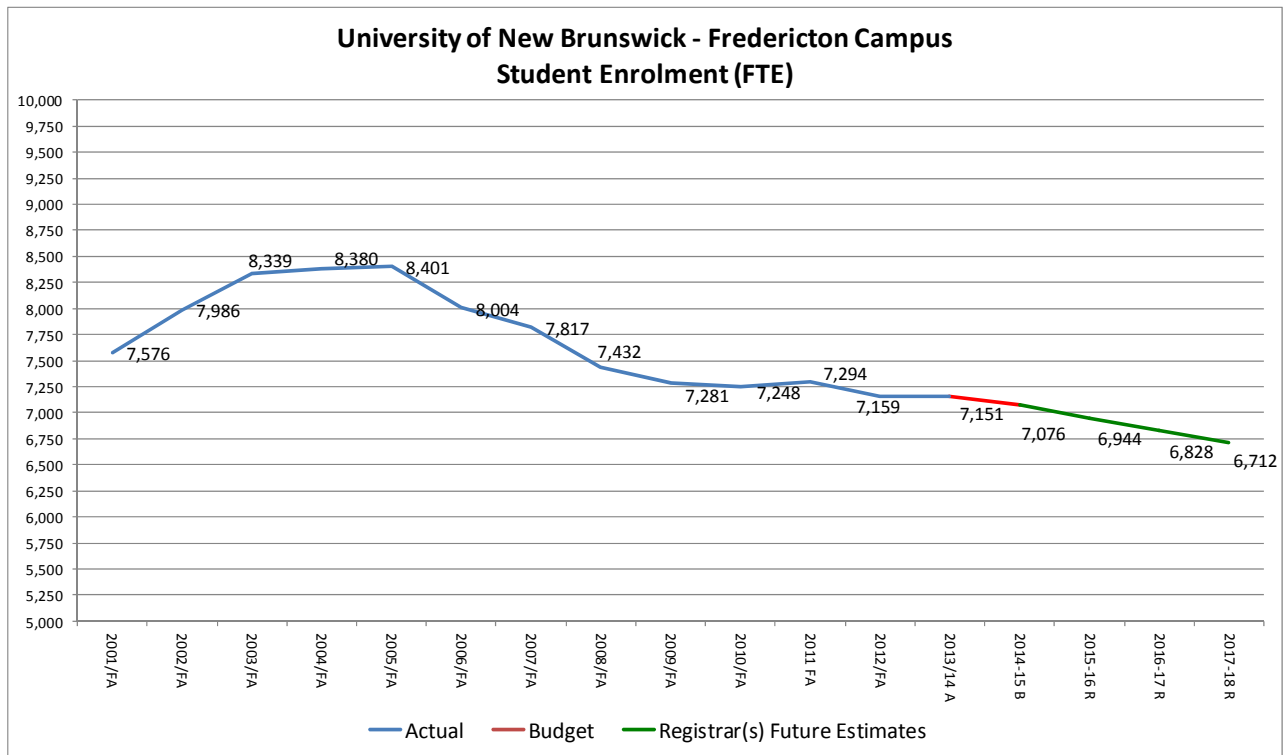
UNB Student Enrolment Trends and Future Estimates

The graph below illustrates actual FTE student enrolment since 2001-02 and shows budgeted amounts for 2014-15. Estimates of possible future FTE enrolments, as determined by the University Registrars, are also illustrated.

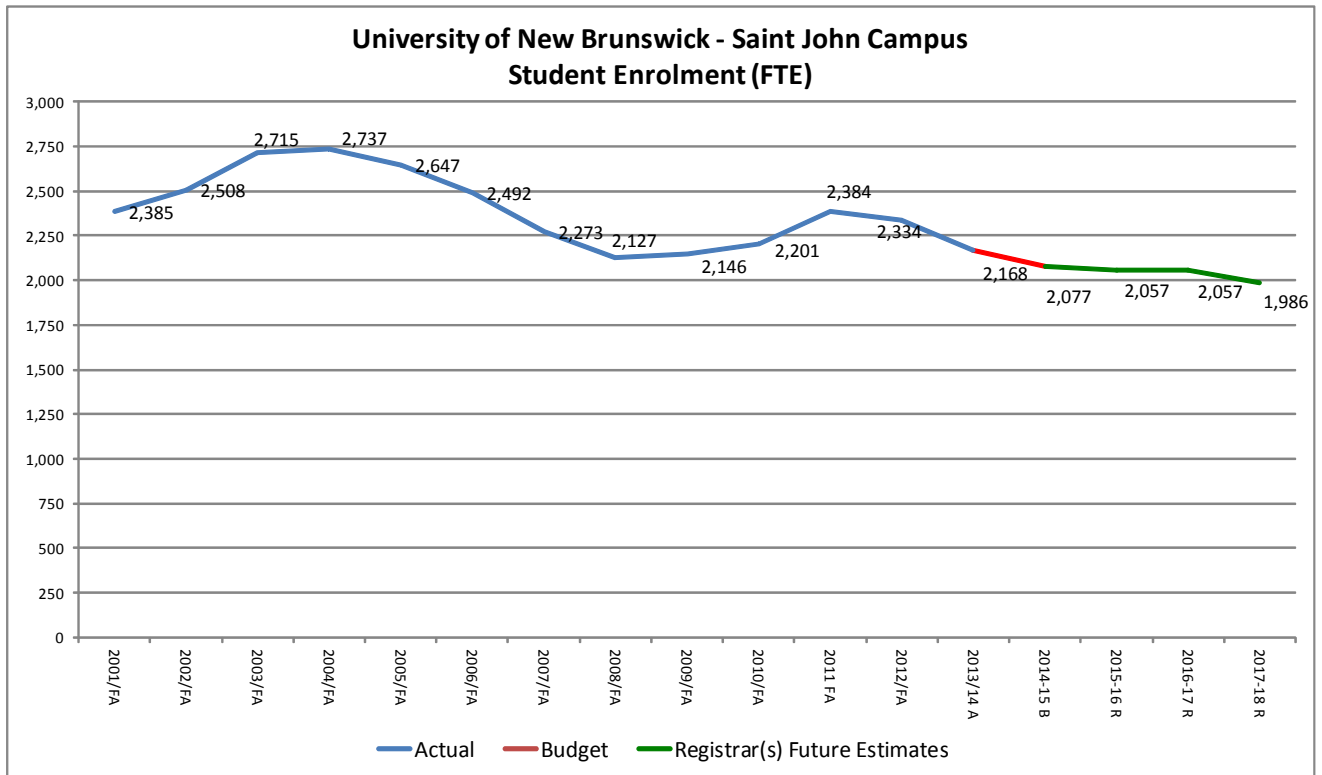
2014-15 OPERATING BUDGET - STUDENT ENROLMENT (continued)



Enrolment figures for each of the two main campuses follow:



2014-15 OPERATING BUDGET - STUDENT ENROLMENT (continued)



Student enrolment figures reflect students on both the Fredericton and Saint John campuses (students at Bathurst and Moncton nursing programs are satellite locations within the Fredericton campus). UNB is also party to various agreements with other educational institutions around the world. The financial circumstances for each of these arrangements vary and the net financial contributions from these arrangements are included in the UNB budget. There is no New Brunswick provincial government funding for students in these programs. Tuition and other similar non-credit fees paid for programs through the College of Extended Learning or Saint John College are included in College budgets. The net result of College budgets appears as a line item in other revenues in the overall operating budget. Student fees paid for facilities improvement or technology appear as funding within capital budgets.



2014-15 OPERATING BUDGET – TUITION FEES

The level of tuition fees is an important ingredient in the overall financial framework for the University. The proposed level of fee increase of 3%, or \$180, compares to \$150 last year and \$175 in the previous year. At this level of increase, UNB's tuition fees should remain in the same relative competitive situation in 2014-15 which, while above national averages, are comparable to most other provinces and closely compare to most regional fees.

In recent years, the Province of New Brunswick has been involved in the process of establishing tuition fees for New Brunswick universities. In each of the past three years, the province made suggestions as to what the level of tuition fee increases should be. UNB followed these suggestions with increases of \$200 in 2011-12, \$175 in 2012-13 and \$150 in 2013-14. In the three prior years, basic tuition fees for New Brunswick universities were frozen in return for special grant funding increases equivalent to a 5% increase in tuition fees. The province suggested a 3% limitation on tuition fee increases in 2014-15, which amounts to \$180 for basic undergraduate tuition fees at UNB. Similar rates of percentage increases will apply to other UNB programs.

The following table provides a summary of the key elements of UNB various tuition fees:

Summary of Key UNB Tuition Fees				
	<u>2013-14</u>	<u>2014-15</u>	<u>\$ Change</u>	<u>% Change</u>
- Undergraduate tuition fee	\$6,007	\$6,187	180	3.00%
- Supplemental fee for Undergraduate Int'l students	7,275	7,493	218	3.00%
- Graduate				
• Research-based (per term)	2,028	2,088	60	2.96%
• Course-based (excluding MBA) (per course)	748	770	22	2.94%
• Supplemental fee for Graduate Int'l students (per term)	1,404	1,446	42	2.99%
- Faculty of Business Administration	6,107	6,287	180	2.95%
- Faculty of Law	9,557	9,837	280	2.93%
- Faculty of Engineering	7,007	7,187	180	2.57%

The following table provides a summary of changes to the major categories of UNB tuition fees for 2014-15, as well as a six-year history:

University of New Brunswick Tuition Fee Changes 2014-15 and 6 Year History							
	<u>08-09</u>	<u>09-10</u>	<u>10-11</u>	<u>11-12</u>	<u>12-13</u>	<u>13-14</u>	<u>14-15</u>
Undergraduate Fees							
\$ change from previous year	\$0	\$0	\$0	\$200	\$175	\$150	\$180
% change from previous year	0.00%	0.00%	0.00%	3.6%	3.1%	2.56%	3.0%
Graduate Tuition Fees							
% change from previous year	0.00%	0.00%	0.00%	3.6%	3.0%	2.05%	3.0%
Undergraduate International Supplemental Fee							
\$ change from previous year	\$393	\$421	\$320	\$200	\$175	\$150	\$218
% change from previous year	7.00%	7.00%	4.98%	3.0%	2.5%	2.11%	3.0%

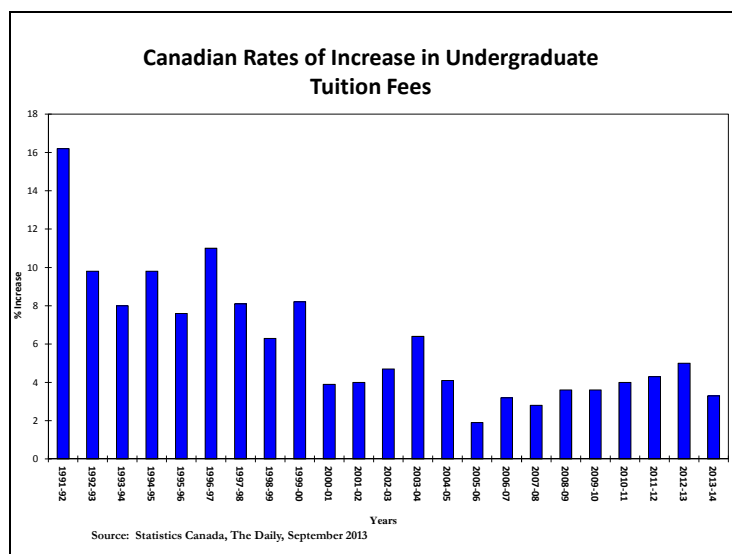
2014-15 OPERATING BUDGET – TUITION FEES (continued)

The table below illustrates the national context for average undergraduate tuition fees in provinces across Canada. The table illustrates that average Canadian undergraduate tuition fees increased by 3.3% in 2013-14 (the average increase in the previous year was 5%). Average tuition fees for New Brunswick universities increased by 3.2%, UNB's fees increased 2.56%. The table also shows that New Brunswick universities had the fourth highest average undergraduate tuition fees in Canada last year.

Average Undergraduate Tuition Fees for Canadian Full-time Students by Province			
	2012-13	2013-14	2012-13 to 2013-14
	Current Dollars		% Change
Canada	\$5,586	\$5,772	3.3%
Nfld & Labrador	2,644	2,644	0.0%
PEI	5,474	5,696	4.1%
Nova Scotia	5,977	6,185	3.5%
New Brunswick	5,940	6,133	3.2%
Quebec	2,565	2,653	3.4%
Ontario	6,975	7,259	4.1%
Manitoba	3,720	3,779	1.6%
Saskatchewan	6,106	6,394	4.7%
Alberta	5,670	5,670	0.0%
British Columbia	4,931	5,029	2.0%

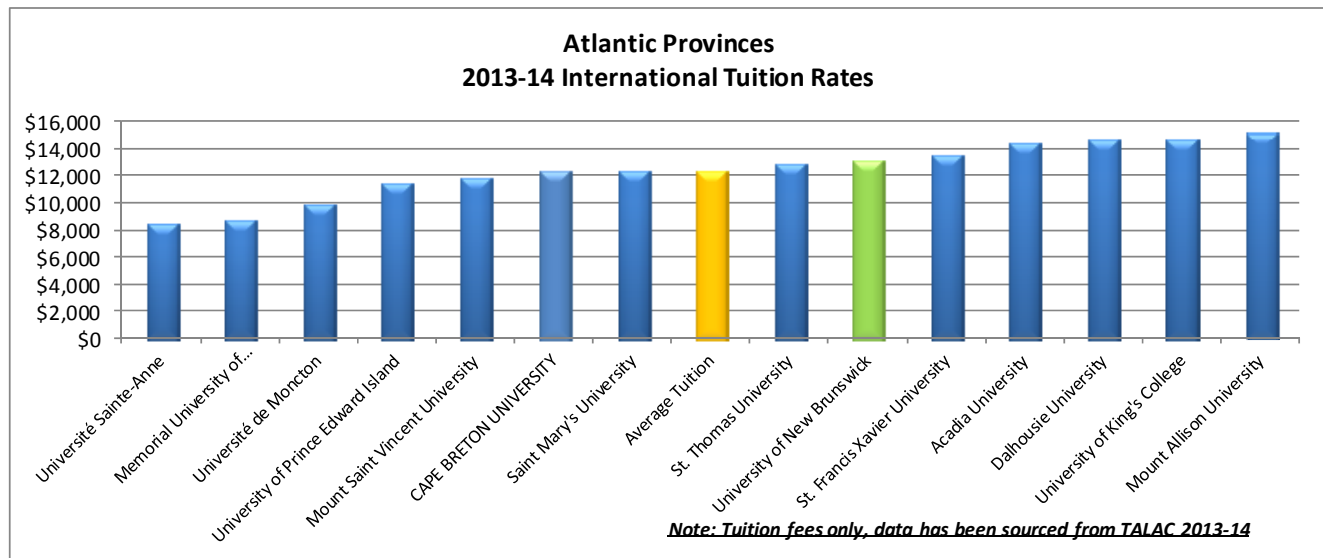
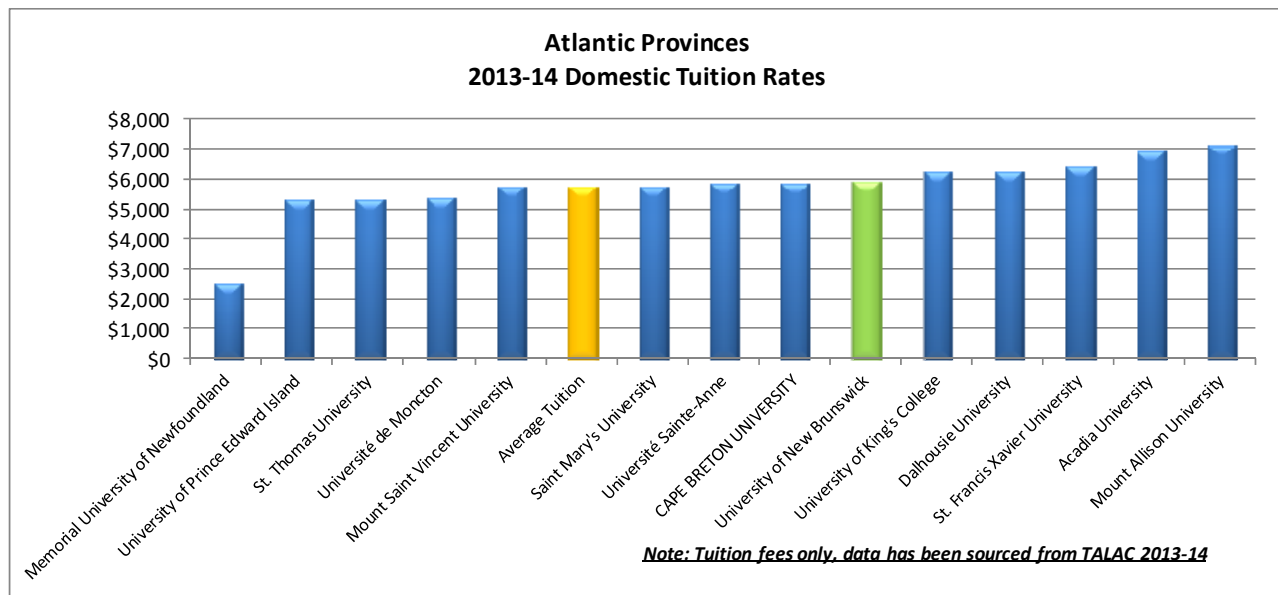
Source: Statistics Canada, The Daily, September 12, 2013

The chart below provides a 23-year historical overview of the average change in undergraduate tuition fees in Canada. The table illustrates that the 90's was a decade of very high tuition fee increases, this moderated somewhat from 2000 to 2010. In recent years, many provinces have become more actively engaged in, either establishing some form of restriction, or subsidies on university tuition fees.



2014-15 OPERATING BUDGET – TUITION FEES (continued)

The tables below illustrate regional comparisons of domestic and international students, for Arts programs, in 2013-14:



2014-15 OPERATING BUDGET – TUITION FEES (continued)

Environment for Tuition Fees in 2014-15

The tuition environment continues to be restrained in 2014-15 with the following environment for universities in provinces across Canada:

British Columbia

- The province has implemented a 2% limit on tuition fees for 2014-15.

Alberta

- Basic tuition fee increases in Alberta are limited by the province to Alberta inflation rates. This amount is 1% for 2014-15.

Saskatchewan

- The University of Saskatchewan has announced a 4.5% tuition fee increase for 2014-15.

Manitoba

- The Province of Manitoba has limited tuition fee increases to the rate of provincial economic growth, 1.6%.

Ontario

- Tuition fee increases in 2014-15 have been restricted by the province to 1% above long-term Ontario inflation, a total of 3%.

Quebec

- Tuition fees have been limited by the province to a 2.5% increase in 2014-15 for Quebec students and an overall increase of 6.5% for students from outside of Quebec.

New Brunswick

- The province has recommended that tuition fee increases be limited to 3% in 2014-15, 2015-16 and 2016-17.

Prince Edward Island

- The University of PEI increased tuition fees by 3% for 2014-15.

Nova Scotia

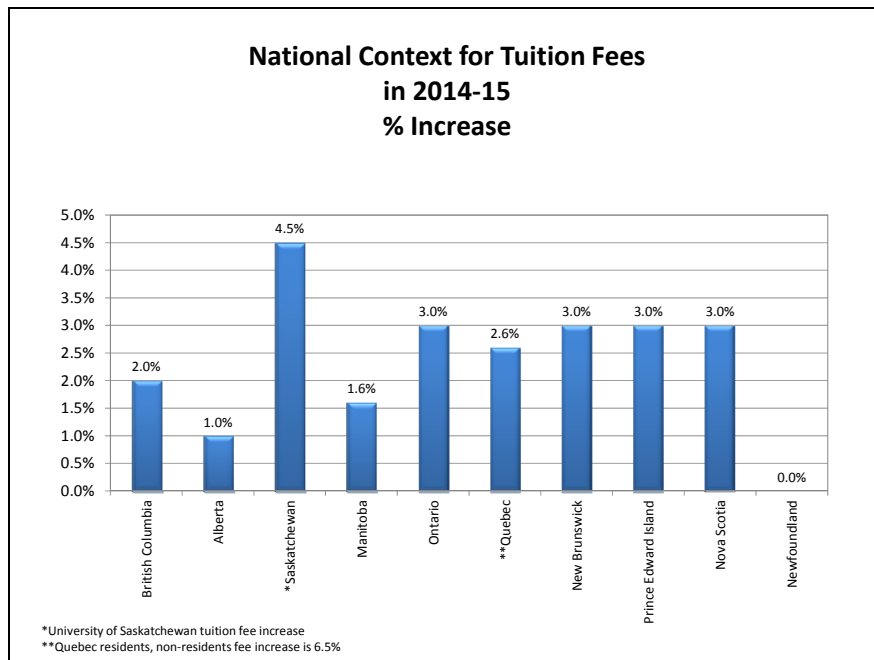
- Under the terms of a Memorandum of Understanding, the province has limited tuition fee increases to 3% for 2014-15.

Newfoundland

- Tuition fees will be frozen again in 2014-15, the province will provide compensation to fund the freeze.



2014-15 OPERATING BUDGET – TUITION FEES (continued)



Compulsory student ancillary fees levied for University purposes are listed below. The table indicates fee categories as well as the level of fees in 2013-14 and the 2014-15 fee proposals.

UNB Compulsory Student Ancillary Fees Levied for University Purposes Per Year		
	<u>2013-14</u>	<u>Proposals 2014-15</u>
Facilities Improvement Fee	\$181	\$186
Facility Access Fee (UNBF Only)	153	156
Technology Fee	51	52
Student Health Centre Fee	51	52
	<u>\$436</u>	<u>\$446</u>

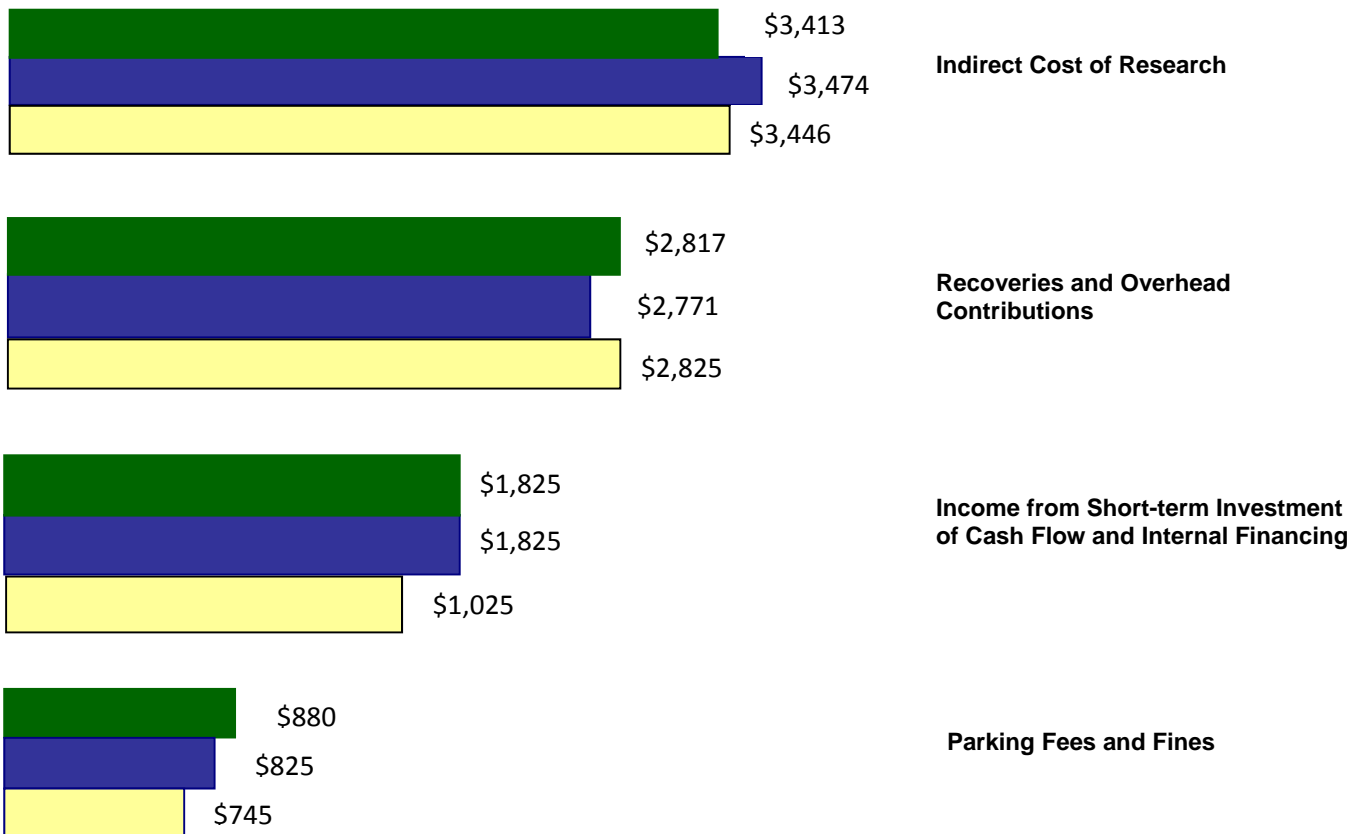
Schedule 4 outlines the analysis and rationale for proposed adjustments to ancillary fees.

2014-15 OPERATING BUDGET – ALTERNATIVE SOURCES OF REVENUE

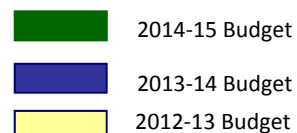
Alternative sources of revenue, other than provincial funding and tuition fees, are becoming an increasingly important component of the University's financial framework. Over the past five years, including 2014-15, budgeted levels of alternative sources of revenue have increased by 48%.

The 2013-14 operating budget contains more than \$14.6 million in revenues from other sources, this compares to \$13.9 million that was contained in the 2013-14 budget. The main areas of increase in the 2014-15 budget are, increased overhead recoveries, contributions from Saint Thomas University towards Student Health Centre and additional leasing income on the Saint John campus. The major components of centrally budgeted other revenues follows:

University of New Brunswick
Other Revenue Budget
Key Items 2012-13, 2013-14 and 2014-15
 \$000's



Other components of revenue within this category include, application fees, contribution to operations from land leasing activities, commissions earned and other miscellaneous amounts.



2014-15 OPERATING BUDGET – SPECIAL ONE-TIME SOURCES OF FUNDS

Special One-Time Funds Available in 2014-15

As part of an overall Risk Management framework, the university maintains a system of internal reserves. University programs and activities span multi-years; risk reserves are a source of funding to help provide stability to operations and programs in the event of a sudden need. Over the past several years, the university has had a “risk on” position driven by many of the uncertainties associated with global and regional economic and fiscal conditions. As part of the 2014-15 budget process, an overall risk assessment was conducted. The general conclusion was that, while uncertainty continues, there were two major changes in circumstances in 2013-14 that warrant a reduction in overall risk reserves. Specifically, two risk reserves will be released in 2014-15 providing a one-time source of funding for utilization by the university. The university will release:

- Academic Pension Plan internal rate stabilization reserve, \$3.2 million, as the Academic Pension Plan was converted to new Shared Risk model in 2013-14. The new model provides improved mechanisms that will result in greater funding rate stability to the university and members of the Plan, as well as enhanced risk management tools as part of the overall Plan design.

- The endowment backstop reserve, \$2.8 million, was established as a mechanism to provide funding stability for university scholarship endowment accounts as the endowment portfolio recovered from the impacts of the recession in 2008 and 2009. This fund was also retained to facilitate an orderly transition of endowment spending as the overall asset mix and investment strategy and the ongoing long-term spending rate for the long-term investment pool was strategically repositioned to reflect new market realities of increased volatility and lower interest rates. The transition was completed during 2013-14 with full recovery of all endowment accounts and strong risk adjusted returns being realized in the portfolio. Accordingly, the backstop accounts are being released in 2014-15.

The one-time funds have been allocated between the two main campuses, based on original contributions and usage, and will be utilized for one-time priorities in accordance with process that will be developed for each campus. The outcome of these campus processes will be reported to the Board of Governors for approval before the funds are utilized in 2014-15.

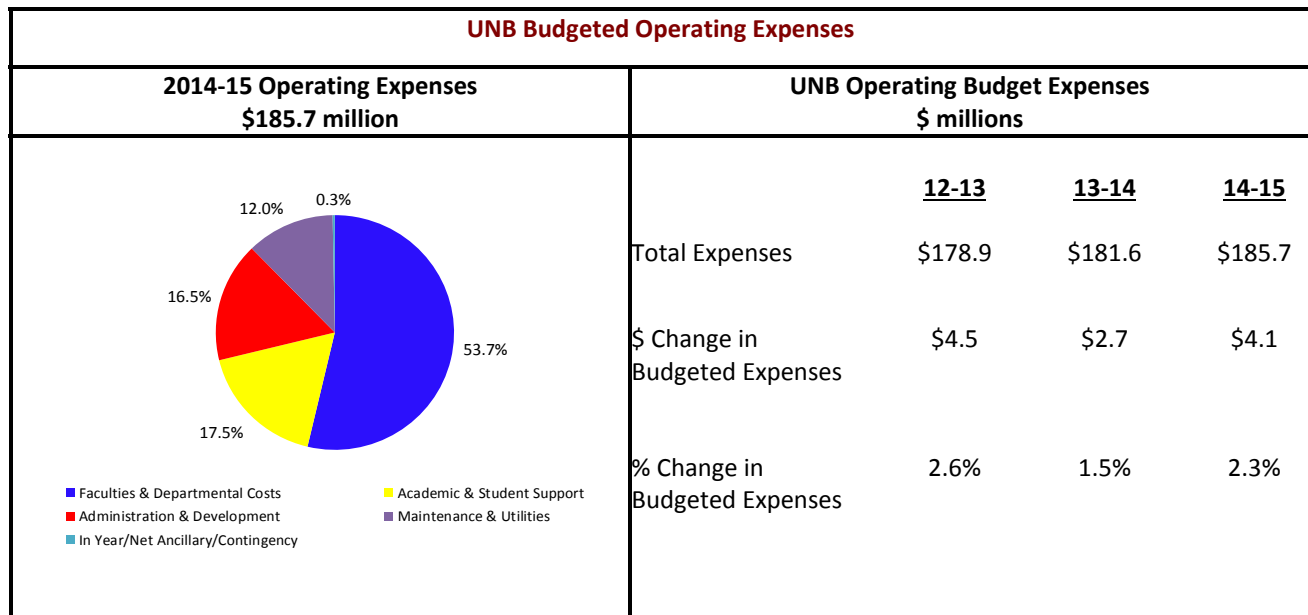
One-Time Funds to be Released in 2014-15			
\$(000's)			
	<u>UNB Fredericton & University- wide Units</u>	<u>UNB Saint John</u>	<u>University Total</u>
- Academic Pension Plan Internal Rate Stabilization Reserve	\$2,560	\$640	\$3,200
- Endowment Backstop	2,520	280	2,800
	<u>\$5,080</u>	<u>\$920</u>	<u>\$6,000</u>

2014-15 OPERATING BUDGET - OPERATING EXPENSES

Overall Expenses

Operating expenses are comprised of the salaries and benefits of faculty and support staff of the university, along with costs associated with instructional and library materials, as well as heating, cleaning, electricity and other operational costs. The operating budget does not include a provision for depreciation expense of facilities or equipment. Overall budgeted operating expenses increased by 2.3% compared to 2013-14 after reflecting \$1 million in budget reductions which, if not implemented, would have meant a budgeted increase of 2.9%.

The 2014-15 budgeted operating expense is \$185.7 million, a \$4.1 million, or 2.3%, increase over 2013-14 budgeted expenses. Overall expenses were reduced by approximately \$1 million which helped to limit budgeted expense growth by 0.6%. Certain budget assumptions were refined in 2014-15 to reflect trends that are now considered to be sustainable over the longer term, including in-year salary savings resulting from vacancies or other turnover factors. This refinement in ongoing salary savings helped to further reduce budgeted expenses by \$1.2 million, or .67%.



The average level of budgeted expense increase over the five years ending 2014-15 was 2.3%.

The composition of budgeted expense changes on a campus basis is illustrated below:

University of New Brunswick % Change in Operating Expenses		
	% change	
	<u>2013-14</u>	<u>2014-15</u>
Fredericton campus and University-wide units	1.9%	2.1%
Saint John campus	0.2%	3.0%
Overall University	1.5%	2.3%

2014-15 OPERATING BUDGET - OPERATING EXPENSES (continued)

The following table provides a high level summary of the composition of the main elements of the overall net change in budgeted operating expenses of \$4.1 million, or 2.3%

UNB Composition of Net Change in Budgeted Operating Expenses 2013-14 to 2014-15		
	\$(000's)	
- Provision for salary and benefits, including economic adjustments, progression-through-the-ranks, pension for faculty and staff	\$4,974.9	
- Increased assumption of level of in-year salary savings	(1,271.4)	
-		
- Increased costs associated with priority allocations and sustainability issues	785.0	
- Stabilization of funding for the University Development Office	250.0	
- Increases to maintenance and utility costs (not included in above items)	362	
- Budget reductions made	(1,042)	
- All other net changes	88.2	
Total	<u>\$4,146.7</u>	2.3%

Approximately 89% of the net increase in budgeted expenses is related to increased costs of salaries and benefits, after reflecting a change in the level of assumed in-year salary savings.

The 2014-15 budget reflects current funding arrangements for faculty and staff Pension Plans as follows:

- In 2013, the Pension Plan for Academic Employees of the University of New Brunswick was converted to a new Shared Risk model. Contributions to the Plan are 11.5% of pensionable earnings for the university and for active members of the Plan. The first actuarial valuation of the Plan was presented to Plan Trustees on March 28, 2014 and indicated that the Plan was meeting performance and risk expectations, therefore, the 11.5% contribution rate for each party was confirmed for 2014-15.
- Eligible university staff are members of the Provincial PSSA Pension Plan. On January 01, 2014, the province converted this Plan to a new Shared Risk Plan. Under the terms of the previous plan, UNB's obligation was to only make current service cost contributions, which equaled approximately 9% of pensionable earnings. Under the new Shared Risk model, the contribution rates that the province has set for all organizations that are party to the Plan is 12.5% of pensionable earnings. Eligibility criteria have also been expanded. This represents an annual cost increase to UNB of approximately \$1.5 million. The new rates became effective April 1, 2014, and are reflected in the 2014-15 budget. The impact of the increase is reflected in all budget lines that contain staff benefit costs.

A brief analysis of changes to main budgeted expense categories follows:

Faculty and Departmental Costs

- The total budgeted change, \$1.6 million, essentially represents increases and changes in salary and benefit provisions. Changes to the Academic Pension Plan model reduced faculty pension costs contained in this budget category.

2014-15 OPERATING BUDGET - OPERATING EXPENSES (continued)

Academic and Student Support

- The budgeted change of \$1.48 million includes increases and changes in salary and benefit provisions as graduate research assistantships and library acquisitions.

Administration and Support Services

- This budget category has increased by annual increments in salary and benefits costs and changes in certain costs, such as legal, to reflect ongoing activity levels, plus the following items which have added approximately 4% to the category:
 - Nearly \$600,000 in additional PSSA Pension costs related to budget units in this category.
 - \$367,000 of existing recruitment expenses reallocated from in-year priority allocations to this line item in the budget to reflect a long-term commitment to these recruitment activities.
 - \$250,000 reflecting the second year in a three-year Plan to change the model used to fund existing fundraising activities. This change results in the university funding more fundraising costs with less costs being funded by donations.

Maintenance and Utilities

- The budget includes increases in provisions for salaries and benefits for staff that work in related departments, as well as increased cleaning costs and provisions for electricity and heating cost increases (net of energy management savings).

Details on changes to campus budgeted expenses are included in campus budget submissions.

Each year, the University compiles a series of charts and illustrations that illustrate the allocation of UNB operating expenses compared to other Canadian universities. These comparisons are assembled from information prepared by the Canadian Association of University Business Officers (CAUBO) and can be found at the following link beginning at page 24:

<http://www.unb.ca/vpfinance/resources/pdf/reports-presentations/vannualreportsenate2014.pdf>

There were approximately \$1 million in budget adjustments (either expense reductions or cost recovery initiatives) included as part of the 2014-15 budget. This compares to \$3.8 million that was implemented in the 2013-14 budget. The nine-year total of budget adjustments is approximately \$26.5 million, or roughly 14%. Budget adjustments in 2014-15 were strategically managed to minimize the impact on academic activities and the faculty complement.



2014-15 OPERATING BUDGET – OPERATING EXPENSES AND OTHER ITEMS (continued)

Net Ancillary Operations

Ancillary operations are non-academic or non-research units that are expected to be self-funding. A detailed budget submission is made for each ancillary unit and is reviewed during campus budget processes. The net results of ancillary operations are included in the overall University operating budget to ensure completeness. The net budgeted cost for ancillary operations in 2014-15 is \$1,268,000, a slight improvement from \$1,274,500 last year. Loans related to UNB Fredericton campus residence improvements made in 1999 and 2006 have matured. The cash savings from these expired loans have been reallocated to infrastructure renewal for the Residence system. Accordingly, infrastructure renewal provisions have been increased by \$1 million to \$2.4 million within the 2014-15 campus Residence system budget.

A listing of the components within the ancillary category is illustrated below:

UNB Summary of Net Ancillary Operating Budgets \$(000's) (Net Loss)		
	2013-14	2014-15
UNBF Residence System	\$(889)	\$(879)
UNBSJ Residence System	0)	0
Aitken University Centre	(554)	(552)
BMO Turf field & dome	22	22
UNBF Bookstore	141	137
UNBSJ Bookstore	0	0
Wu Conference Centre	6	4
(Net Loss)	<u>\$(1,274)</u>	<u>\$(1,268)</u>

Contingency

The University budget contains a contingency provision of \$1.5 million (0.8%) for potential adverse deviations from budget covering both revenue and expense budget categories. The level of contingency is unchanged from the 2013-14 budget.

In-Year Priority Allocations

As part of a strategy to retain a degree of budget flexibility and have unallocated budget funds available to respond to opportunities during the year, some budget funds remain unallocated within the budget. Each campus determines the appropriate allocation of these funds during the year based on priorities. The UNB Fredericton allocation was reduced by \$367,000 as part of the 2014-15 budget as these funds have been allocated to student recruitment activities on an

ongoing basis and are now reflected in a separate ongoing budget line.

UNB In-year Priority Allocations \$(000's)		
	2012-13	2014-15
UNBF and University Wide Units	\$1,340	\$973
UNBSJ	660	660
	<u>\$2,000</u>	<u>\$1,633</u>

Sources and Application of One-Time Operational Funding:

In order to establish clarity as to what components of operational revenues and expenses are considered ongoing or temporary in nature, separate line items are provided to illustrate sources of operational funding that are currently assessed as temporary, as well as one-time expenses planned from these sources:

Sources:

UNB Sources One-time Operational Funding \$(000's)		
	2013-14	2014-15
One-time provincial operating grant	\$1,812.8	\$0
Stretch enrolment target	0	1,074.9
Additional outreach revenues	1,300	3,000
Additional salary/retirement savings	1,400	133.6
	<u>\$4,512.8</u>	<u>\$4,208.5</u>

Based on announcements from the province, the university has assumed that funding provided by the province, that had previously been considered as one-time, is now included in the ongoing provincial funding budget line item. In recognition of the additional investments and efforts being made to recruit students to the university, targets have been established that are in excess of steady state forecasts provided by campus Registrars. The revenues associated with these additional stretch targets of 167 FTE are included in the operating budget as one-time until there is evidence that the targets have been achieved. Offsetting one-time expenditures will be made if the funds are realized.

There was a recalibration of ongoing in-year salary savings as part of the 2014-15 budget. A portion of salary savings, which had previously been categorized as temporary, have not been moved to the ongoing salary savings line following establishment of a track record for these savings.

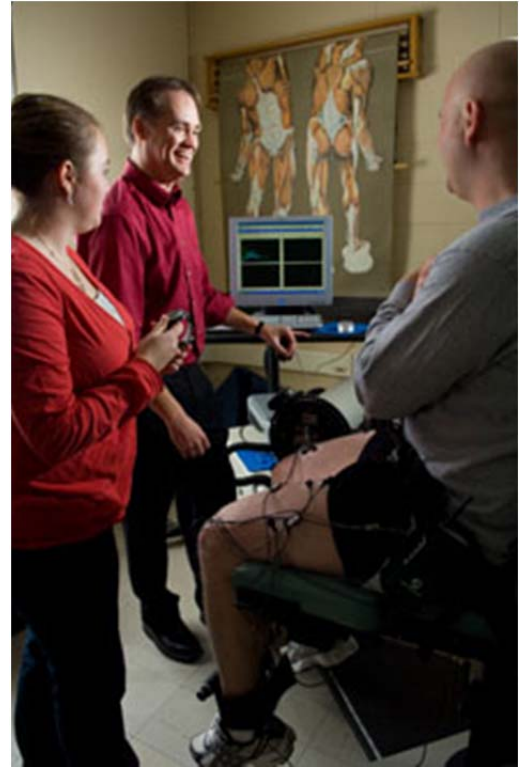
2014-15 OPERATING BUDGET – OPERATING EXPENSES AND OTHER ITEMS (continued)

Application:

UNB Application of One-time Operational Funds \$(000's)		
	2013-14	2015-16
Priority Allocations	\$3,166	\$4,272.5

Funds that are expected to be realized from operational sources, on a limited-term, or a one-time basis, will be allocated to priorities on a one-time basis in 2014-15. Each campus will be responsible for developing appropriate processes to identify priority options that will culminate in final recommendations to the Board of Governors. 2013-14 funds were allocated as \$2.3 million to capital, with \$500,000 each for strategic and operational purposes. For 2014-15, \$1.2 million of the funds related to the Fredericton campus will be allocated towards: ongoing budgets previously associated with the Bathurst site shall be deployed in the 2014-15 budget to the Moncton site and the Fredericton campus in order to stabilize the academic quality in both those geographic areas. In order to maintain the Bachelor of Nursing program in the Bathurst site during the remaining three years, as current students are "taught out" to graduation from that site, one-time funds will be required in the interim.

Remaining funds will be allocated in accordance with processes described above. Final recommendations will be provided to the Board of Governors for approval before expenditures are made.



2014-15 RESIDENCE BUDGET (including Conference Services) - Summary

University residence systems on both campuses are an important element in the attraction and retention of students at UNB. Residence operations generate approximately \$14 million in annual revenues which is utilized to operate and maintain the residences, including the contracted food services. There is a net cost of \$864,000 for current residence operations, including costs for a modest, but expanded, capital renewal program.

As part of the overall strategy to attract and retain students, the University operates a residence system on the Fredericton and Saint John campuses. On the Fredericton campus, the system comprises 12 traditional undergraduate residences, one suite-style residence and one apartment building offering accommodation for a maximum of 1,607 students. As currently configured, the operational total is 1,444 beds. The Saint John system includes two residences with a bed capacity of 236. Residences are expected to operate on a full cost recovery basis, meaning revenues are expected to offset all operational and major maintenance expenses. Over the last several years, the decline in student enrolment has had a direct impact on overall occupancy rates on the Fredericton campus. This, combined with continuously rising utilities, heating and maintenance expenses, has

resulted in a structural budget shortfall for the Fredericton campus Residence system. The Saint John system operates on a break-even basis. Campus residence budgets are prepared on a cash basis with infrastructure renewal included in budget submissions. For the UNB Fredericton Residence system, levels of accumulated deferred maintenance are high. Accordingly, when recent loans related to previous capital improvements matured, the resulting cash savings were redeployed towards additional infrastructure renewal.

The following tables provide a summary of the key operational and financial data for the residence system as related to the budget:

Fredericton Residence System

Saint John Residence System

	2013-14 Budget	2014-15 Budget	% Change	2012-13 Budget	2013-14 Budget	% Change
Financial \$(000's)						
Revenues	\$12,394	\$12,495	2.4%	\$1,453	\$1,471	1.24%
Expenses	13,271	13,559	2.2%	1,453	1,471	1.2%
Net shortfall	<u>(\$877)</u>	<u>(\$864)</u>		<u>\$0</u>	<u>\$0</u>	
Capital improvements (\$000's)						
Included in expenses	\$1,460	\$2,406		\$59	\$65	
Occupancy						
Total beds in system	1,607	1,607		238	238	
Beds budgeted to be occupied	<u>1,330</u>	<u>1,324</u>		<u>212</u>	<u>214</u>	
Budgeted Occupancy %	<u>83.0%</u>	<u>82.3%</u>		<u>90%</u>	<u>90%</u>	



2014-15 RESIDENCE BUDGET (continued)

After a review of the residence room and meal rates charged by other Atlantic universities, the local housing markets and budget requirements, recommendations are developed for UNB residence and meal rates. For the Fredericton system, traditional rates (residence and meals combined) will increase by 2.1%. Increases for single and special rooms will be higher. Apartment rates are proposed to increase by 2.0%. For the Saint John residence, declining balance meal plans will be increased from \$2,400 to \$2,600, or 8.3%, residence accommodation increases are 3%.

Fredericton Campus Residence & Meal Rates:

Room – Accommodation	2013-14	2014-15	Increase (Decrease) In 2013-14	
			\$	%
Meal Plan	\$3,900	\$3984	\$84	2.15%
Undergrad Residence (Two Terms)				
Special Room	\$6,439	\$6,868	429	6.7%
Single Room	\$6,110	\$6,100	414	7.3%
Double Room	\$4,306	\$4,392	86	2.0%
Magee House (Sept to April)				
1 Bedroom Apt.	\$6,224	\$6,352	128	2.1%
2 Bedroom Apt.	\$7,496	\$7,648	152	2.0%
3 Bedroom Apt.	\$8,608	\$8,784	176	2.0%
Suite Style Residence (Sept to April)				
Single Suite	\$6,635	\$6,768	133	2.0%
One Bdrm in Double Suite	\$5,645	\$5,757	112	2.0%
One Bdrm in Triple Suite	\$5,047	\$5,142	101	2.0%
Overall Room & Board Fees				2.1%

Saint John Campus Residence & Meal Rates

Room - Accommodation	2013-14	2014-15	\$ Increase	% Increase
Meal Plan (declining balance)	\$2,400	\$2,600	\$200	8.3%
Sir James Dunn Residence				
Super Single (double bed)	\$4,948	\$5,096	\$148	3.0%
Large Single	\$4,834	\$4,979	\$145	3.0%
Single	\$4,525	\$4,660	\$135	3.0%
Double	\$4,037	\$4,158	\$121	3.0%
Dr. Colin B. Mackay Residence				
2 Bedroom Suites	\$5,075	\$5,227	\$152	3%
Meal Plan III	\$300	\$300	\$0	0%
Meal Plan IV	\$800	\$800	\$0	0%
Overall Room and Board Fees				5.0%

2014-15 CAPITAL BUDGET – SUMMARY

Capital Budget

In order to support the needs of world class teaching, research and the overall student experience, buildings, infrastructure, classrooms, laboratories and other, spaces must be constantly renewed, upgraded and modernized. The estimated current replacement value of UNB buildings, infrastructure and contents is in excess of \$1.1 billion.

The capital budget reflects expenditures to be made on capital assets (equipment, buildings, renovations, improvements and capital renewal) that are funded from designated sources. The 2014-15 capital budget is just over \$16 million, compared to \$16.6 million in the previous year. The largest project in the capital budget is the final phase, \$4 million, of a multi-year \$11.7 million partial refurbishment of the Central Heating Plant on the Fredericton campus. The capital costs of the refurbishment will be repaid by future energy savings to UNB and through cost sharing arrangements with external customers. The capital budget also reflects a number of infrastructure renewal and improvement projects on both campuses. All funding sources for the capital budget have been secured.

A summary of the 2014-15 capital budget follows:

University of New Brunswick 2014-15 Capital Budget Summary \$(000's)				
	Fredericton Campus	Saint John Campus	2014-15 Total	2013-14 Total
Buildings and Space				
-Major maintenance, improvements and infrastructure renewal	\$11,806	\$1,710	\$13,516	\$13,803
Equipment and Technology				
-(including \$650K in library acquisitions)	2,227	413	2,640	2,847
	<u>\$14,033</u>	<u>\$2,163</u>	<u>\$16,156</u>	<u>\$16,650</u>

No new building projects are included in the 2014-15 capital budget.



2014-15 CAPITAL BUDGET – SUMMARY

The following is a summary of the major projects included in the detailed campus capital budgets:

Fredericton Campus (individual building and spaces projects greater than \$100,000)	
Central Heating Plant Reburishment	\$4,000,000
<i>Completion of the 5 phased \$11.7 million project. This final phase of project, approved by Board in 2013, consists of a new multi-fueled boiler plus relocation of a summer boiler.</i>	
Projects within the campus Energy Management Program (estimated)	1,200,000
UDMP Marshall D'Avray Phase II Window Replacement	845,120
Classroom Improvements - Bailey	352,800
SHDH Egress Issues	350,000
Classroom Improvements	297,200
Strategic Priorities	289,555
Asbestos Remediation Projects	200,000
Wireless Installation in Residences	190,000
Bridges House & Apartment Link Roof Replacement	168,500
Campus Water & Sewer Infrastructure rehabilitation	150,000
Bailey Hall - Compressed Air System Upgrade - Phase 1	136,000
Sir Howard Douglas Hall - Penthouse Roof Replacement	127,000
Bailey 129 - renovation - Phase 1	102,000
Accessibility projects	100,000

Saint John Campus (individual building and spaces projects greater than \$75,000)

Ganong Hall Room 305	\$360,000
Building envelope	211,280
Greenhouse Replacement	170,000
Washroom Accessibility	150,000
Campus Accessibility	150,000
Athletic Center and Ganong Hall Backup Low Pressure Air System	82,000



2014-15 CAPITAL BUDGET – SUMMARY (continued)

Special Provincial Infrastructure funding

For the four years from 2009-10 to 2012-13, the Province of New Brunswick had in place a special \$60 million Provincial University Deferred Maintenance program (UDMP).

Over this four year period, the University of New Brunswick received \$32 million in UDMP funding which was deployed to various infrastructure renewal projects on both campuses. A total of 49 different projects were undertaken, ranging in dollar value from \$14,000 to nearly \$4 million, including projects such as window and roof replacements, underground infrastructure (water, sewer), campus electrical systems to renewal of classroom theatres and accessibility based projects.

The province continued the UDMP program in 2013-14 with total funding of \$2 million. UNB's share of this funding amounted to approximately \$1 million.

The UDMP program was also continued in 2014-15, with total funding of \$2 million. UNB's share again amounted to approximately \$1 million. This funding has been allocated between the two main campuses and is included in UNB's 2014-15 capital budget submission.

Level of Accumulated Deferred Maintenance

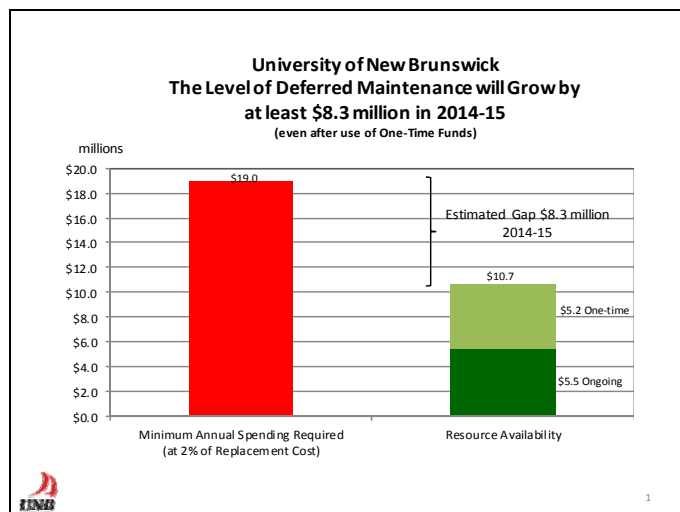
Deferred Maintenance, the backlog of necessary major maintenance on buildings and infrastructure is a significant issue for most Canadian universities. As referred to above, in recent years UNB undertook significant infrastructure renewal projects on both campuses, supported by special stimulus-based, limited

duration, funding sources. After completing this work, the level of deferred maintenance at UNB is estimated to be approximately \$200 million on buildings and infrastructure, compared to a total replacement value estimated at close to \$1 billion. The ratio of deferred maintenance to current replacement values, (FCI), of 20 is very high compared to standards which state a ratio of 10 or more is considered as poor.

Without new sources of capital maintenance funding, deferred maintenance will continue to grow at UNB as facilities continue to age and necessary replacements and repairs are not funded. Recognized standards, including those from the Association of Physical Plan Administrators (APPA), indicate that organizations should be spending annually between 2% and 3% of the current replacement value of facilities on infrastructure renewal. As a minimum, this would indicate that UNB's annual spending should be approximately \$19 million. The challenge is, however, larger than this in two ways:

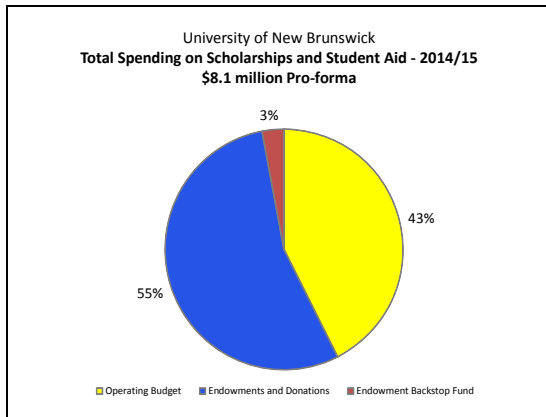
- The current backlog of over \$200 million must be addressed.
- Over the next 5 to 10 years, there will be many facilities and components on the UNB Fredericton campus that will be extending beyond their estimated useful service life and, therefore, the level of required annual funding will increase.

The chart below illustrates the level of spending on deferred maintenance type projects at UNB included in the 2014-15 capital budget.



2014-15 Endowment Budget – Pro-forma Balances and Spending

At \$8.1 million, the University’s budget for overall spending on scholarships and student aid in 2014-15 reflects a 4.4% increase compared to the previous year. The overall spending is funded from a number of sources including an allocation from the operating budget, spending from scholarship endowment and trust accounts, and ongoing gifts from donors. The chart below provides a breakdown of how the overall spending will be financed in 2014-15. Actual amounts in each category may vary depending on circumstances:



The balance of this section is focused on spending from endowment and trust accounts and how this component is expected to be approached in 2014-15.

UNB Endowment Spending Rate – Long-term Target

The University’s objective is to set a long-term target endowment spending rate (the “policy rate”) that is sustainable, competitive, and achieves inter-generational equity (inflation protection). Stability and predictability are important for planning scholarships and other programs and activities that are supported by trust and endowment spending.

The policy rate is based on the Investment Committee’s expectations for a sustainable long-term real rate of return on endowment assets, at reasonable risk. To mitigate the impact of market and return volatility, a number of smoothing mechanisms are used to stabilize annual spending at the policy rate. Key smoothing mechanisms on the investments side include diversification by asset class and by manager, and the use of a low volatility global equity strategy. Key smoothing mechanisms on the spending side include applying the spending rate to a 48-month moving average market value asset base, and maintaining spending or timing reserves within individual

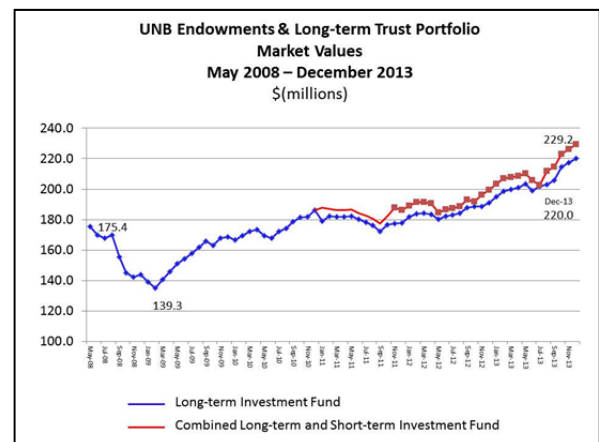
endowment accounts. Timing reserves are increased in years when actual returns exceed target, and are used to support spending in years when returns are below target.

The Investments Committee reviews the policy spending rate for appropriateness on an annual basis. A number of key indicators are examined to determine the appropriate policy rate and the recommended level of endowment spending in the following fiscal year. Key indicators include the status of endowment spending and inflation reserves, expectations for future returns, donor expectations, and best practices at other institutions.

During the 2013 review, the Committee noted that capital markets have continued to experience significant volatility since the 2008 financial crisis. Interest rates are at historic low levels and most economists are forecasting that future investment returns will likely not be at historical levels. In this environment the Committee recommended Board approval of a reduction in the policy spending rate to 4%, a .25% reduction from the previous level of 4.25%. A two year transition plan was developed whereby total spending from scholarship and bursary accounts would be maintained at the 4.25% level through a .25% transfer from endowment backstop funds in each of the next two years. It was expected that over the two year period overall endowment and bursary spending would grow as a result of the upcoming capital campaign.

Update on Endowment Returns and Market Values

The chart below tracks the market value of University endowment and other Trust accounts from May 2008 until December 31, 2013.



2014-15 ENDOWMENT BUDGET – Pro-forma Balances and Spending

The chart illustrates that in May of 2008 the portfolio had a value of \$175.4 million. Due to the sudden and sharp declines in financial markets in 2008 and into early 2009 the portfolio declined to \$135.3 million at the end of February 2009. Financial markets rebounded strongly later in 2009 and continued to perform well in 2010. Markets were very volatile in 2011 and UNB's Trust & Endowment portfolio was basically flat for the year. Returns were positive in 2012 and 2013, and the portfolio reflected a market value of \$220 million as at December 31, 2013. The following chart summarizes the returns for the portfolio for one and two-year periods ended December 31, 2013.

University of New Brunswick Trust and Endowment Portfolio Returns Dec 31, 2013 Annualized		
	<u>1 Year</u>	<u>2 Years</u>
Actual Returns	15.17%	11.22%
Policy Target	14.66%	10.90%

As noted, UNB returns for the one and two year periods ending December 31, 2013 were positive and exceeded both the policy benchmark and the estimated 6.5% nominal return needed to support a spending rate of 4.0%

Endowment Spending 2014-15

At the Board of Governors meeting of April 2014, the Board accepted a Committee recommendation to move forward in accordance with the 2-year plan that was approved by the Board in 2013.

Specifically, the policy spending rate will be maintained at 4%, and endowment spending in 2014-15 will be enacted as follows:

- Spending will be determined on an account-by-account basis
- Spending of up to 4% will be permitted from accounts where spending reserves are sufficient to support this level of spending
- For scholarship and bursary endowment accounts,
 - 1) where an award was issued in 2013-14 and the account is currently underwater, or the account's spending reserve is inadequate to support a 4% spending allocation, spending will be "topped-up" to 4.0% from the endowment backstop fund
 - 2) in order to ensure that the University maintains a competitive level of spending on scholarships and bursaries, spending from scholarship endowment accounts will be topped up to 4.25% through an allocation of endowment backstop funds.



SUMMARY OF KEY BUDGET ASSUMPTIONS AND RISKS

The University budget is prepared using a series of best estimate assumptions. These assumptions are influenced by a variety of factors, some of which are outside of the control of the University, while, in other cases, the University can influence or control the variables to various degrees.

A summary of the key budget assumptions and risks follows:

will receive in 2014-15. The assumption in the operating budget is that 2014-15 funding is ongoing.

General Economic Environment

Inflation Rates

The budget is based on the assumption that overall inflation rates will be in the range of 2.0% in 2014-15.

Interest Rates

The operating budget contains \$1.825 million in income earned from the short to mid-term investment of cash flow and other similar funds. It also contains interest earned from internal loans made on projects with a repayment cash flow. Earnings are related to the bank rate and the length of time that funds are invested. Budgeted earnings are based on an assumed average earning rate of between 1.2% and 2%.

Market Returns

The level of returns from Canadian and world equity markets, as well as the position of interest rates, has a direct impact on the level of earnings for university endowments and assets of the Academic Pension Plan. The basic assumption is that overall returns for the endowment fund will be in keeping with a real return objective of 4.0% and that real returns for the pension plan will be in keeping with actuarial assumptions. If there is a material negative variance in endowment or pension earnings, the impacts would be felt in future years.

• Operating Revenues

Student Enrolment

- Operating budget revenue is based on overall student FTE enrolment of 9,153 students. This represents a 165 FTE decrease in the number of students from 2013-14 actual amounts. Actual enrolments in 2013-14 were 176 less than the previous year. Each change in 100 FTE students (depending on the nature of students, domestic or international, and which program) has an impact on operating revenues of between \$0.6 million and \$1.4 million.

Provincial Funding

- The amounts in the 2014-15 budget reflect funding notifications from the province of what the University

• Operating Expenses

Collective Agreements

- The collective agreement with full-time faculty and professional librarians, represented by the Association of University of New Brunswick Teachers (AUNBT), expired on June 30, 2013. A renewal agreement for the period July 1, 2013 – June 30, 2016 will be finalized through a binding arbitration process during summer 2014. The budget contains provisions for the known financial impacts of the new collective agreement and assumptions related to outcomes of the final arbitration decision.
- The collective agreement with contract academic employees, represented by the AUNBT, expires on April 30, 2016. The budget reflects the financial aspects of the collective agreement.
- The collective agreement with graduate student workers, represented by the Public Service Alliance of Canada (PSAC), expired on April 30, 2013. Negotiations are ongoing. The budget contains assumptions related to the financial aspects of the collective agreement.
- The University has approximately 600 non-unionized administrative, professional and technical staff. Approximately 400 of these employees are in a bargaining unit represented by PSAC. Negotiations for a first collective agreement are ongoing. The budget contains assumptions related to the financial aspects of both the unionized and nonunionized administrative, professional and technical staff salaries and benefits.
- The University has a signed collective agreement with unionized support workers on the Saint John campus, represented by the Canadian Union of Public Employees (CUPE). The collective agreement is effective until June 30, 2016. The budget reflects the financial aspects of the collective agreement.
- The University has a signed collective agreement with unionized support workers on the Fredericton campus, represented by the University of New Brunswick Employees Association (UNBEA). The collective agreement is effective until June 30, 2015. The budget reflects the financial aspects of the collective agreement.

SUMMARY OF KEY BUDGET ASSUMPTIONS AND RISK (continued)

- Pension Plans

Eligible Academic employees of the University of New Brunswick are members of the Pension Plan for Academic Employees of the University of New Brunswick. The Plan was converted to a new Shared Risk Model in 2013. The 2014-15 budget reflects funding requirements for the Pension Plan.

Eligible staff members are members of the Provincial PSSA Pension Plan. This Plan has been recently converted to a new Shared Risk Model. The 2014-15 budget reflects the university's required contributions to the Plan.

- Non-Pension Benefit Costs

University Non-Pension Benefit Plans are cost shared equally between the University and members of the benefit plans. Certain components of these plans

contain elements of self-insurance (with partial stop loss coverage). The assumption contained in the budget is that the utilization patterns of recent years will continue in 2014-15.

Heating and Utility Costs

The operating budget contains electricity costs of \$3.1 million and heating costs of \$3.7 million. Estimates have been made for future utilization and prices.

The University Energy Management Program continues to have a positive effect on energy utilization and has contributed to stability in overall costs.



2014-15 BUDGET - MULTI-YEAR OPERATING BUDGET OUTLOOK

Background

As each annual operating budget is prepared, a series of possible scenarios that illustrate what future operating revenues and expenses could look like in a steady state of operations is also compiled. This multi-year outlook is not a budget plan nor a prediction of what future events might be, rather it is a tool to provide insights as to the possible environment for future operations. Scenarios are prepared to illustrate pessimistic, optimistic and best estimate assumptions in order to illustrate the range of possible scenarios.

2014-15 Analysis

The best estimates for the steady state of operations as of 2014-15 illustrate that UNB, like many other Canadian universities, is likely to face ongoing operational funding challenges.

Best estimate operating revenue assumptions assume:

- A 2% increase in the unrestricted provincial operating grant each year
- A 3% increase in basic tuition fee increases each year
- Campus Registrar's current best estimates of FTE student enrolment, including any planned changes to program admissions. Overall these estimates illustrate that FTE student enrolment would decrease in each of the next four years following 2014-15 by (1.66%), (1.27%), (2.12%), (1.12%) respectively.

When these estimates are translated into an overall result, UNB would have overall operating revenue growth of 1.38%, 1.63%, 1.54% and 1.86% in each year following 2014-15.

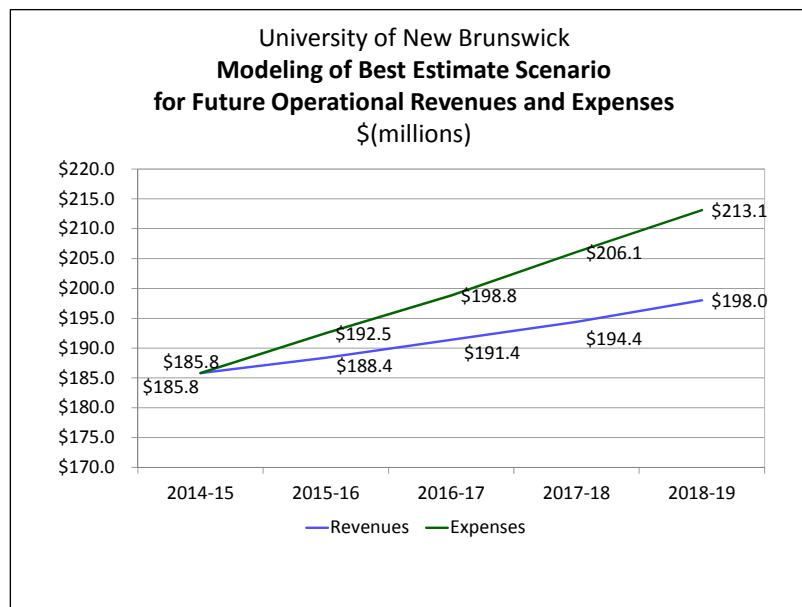
In contrast, operating expenses for steady state operations, and in a context of general inflation of approximately 2% annually, would rise by 3.65%, 3.30%, 3.63% and 3.38%. This does not assume any new expenditures for program expansion, additional services or activities.

The multi-year estimates also illustrate the potential for additional sources of one-time funding for the following two years which tail off after that.

Under these assumptions, the university would face a funding shortfall between ongoing revenues and expenses each year that, if left unchecked, would grow annually.

Conclusions

While the 2014-15 budget is balanced as submitted, there are concerns about the ongoing level of operational funding and it appears that, unless there are changes, operational revenues would fall short of steady state operational expenses in future years. This condition would indicate that current operations are not financially sustainable over the longer term, under the modeled assumptions.



BUDGET PROCESS

Preparing the annual budgets for the University of New Brunswick is a significant undertaking requiring planning, coordination and the effort and contributions from a number of stakeholders. There were three basic phases to the 2014-15 budget process as outlined below:

UNB 2014-15 BUDGET PROCESS Overview of Stages and Timing

Phase I
Planning/Assessing/Strategy
September - January

- Assessing context
- Establishing broad priorities
- Assessing risks
- Financial modeling
- Major assumptions and budget parameters
- Assessing options/choices
- Strategy development

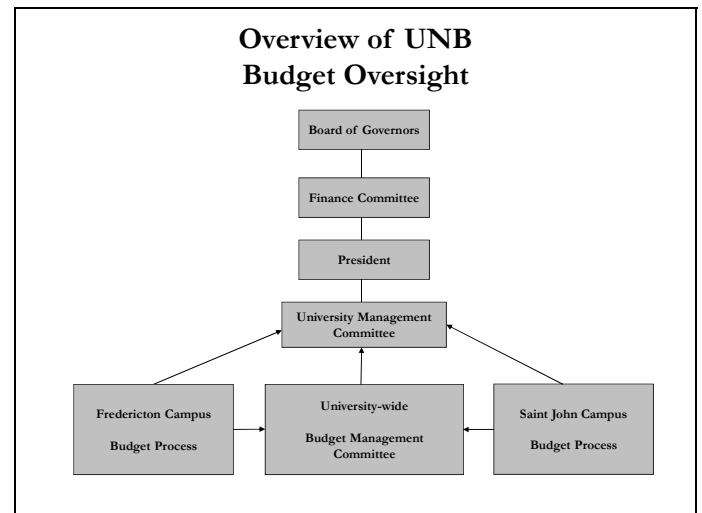
Phase II
Developing/Validation of Assumptions/Execution
January - April

- Validations of assumptions
- Assignment of budget targets
- Detailed budget preparation
- Review of detailed budgets
- Budget Committee review of budgets
- Provincial Budget
- Reassessing parameters and direction
- Reviewing budget for objectives/targets

Phase III
Completion/Approval/Implementation
March – May 2015

- Complete budget package
- Assess in relation to objectives/risks
- Presentation to Board
- Communication
- Establish funding in accounts

The following chart provides an overview of the budget oversight process at UNB to ensure that budget options and choices are reviewed and analyzed prior to the President bringing forward the final budget proposal to the Board of Governors for consideration and approval.



The following is a summary of the role of the University-wide Budget Management Committee, as well as all the membership of budget committees and basics of the Fredericton campus budget process:

University-wide Budget Management Committee

This group ensures coordination between campus budget processes and committees and provides oversight to the University budget process. The committee reviews budget submissions from University-wide budget units and acts as a forum for discussion of budget policy matters as well as inter-campus allocations. The committee is advisory to the University Management Committee.

BUDGET PROCESS (continued)

The following individuals were members of the University and campus budget committees for the 2014-15 budget process:

University-wide Budget Management Committee

Eddy Campbell, President, Chair
Daniel Murray, Vice-President (Finance & Corporate Services), Vice-Chair
Tony Secco, Vice-President Fredericton (Academic)
David Burns, Vice-President (Research)
Bob Skillen, Chief Advancement Officer
Robert MacKinnon, Vice-President Saint John
Brenda Collings, Faculty representative, Saint John
Van Lantz, Faculty representative, Fredericton
Julian Meng, Senate representative
Edmond Biden, Dean, Graduate Studies
Ben Whitney, Undergraduate Student representative, Fredericton
Wayne Solomon, Graduate Student representative
Ashley Macosky, Undergraduate Student representative, Saint John
Karen Keiller, Staff representative, Saint John
Trevor Gonnason, Staff representative, Fredericton (Directors Plus)
Chris Callbeck, Assistant Vice-President (Finance & Administration) UNBSJ
Karen Cunningham, Comptroller
Tim Walker, Assistant Vice-President (Resource Planning and Budgeting)
Eleanor Curtis, Committee Secretary

Saint John Campus Budget Management Committee

Robert MacKinnon, Vice-President (Saint John)
Chris Callbeck, Assistant Vice-President (Finance & Administration) UNBSJ
Laurelle LeVert, Associate VP
Joanna Everitt, Dean, Faculty of Arts
Fazley Siddiq, Dean, Faculty of Business
Jim Keiffer, Dean, Faculty of Science, Applied Science and Engineering (SASE)
Rob Moir, Faculty member, Arts
Saiful Huq, Faculty member, Business
Lisa Keeping-Burke, Faculty member, SASE
Bruce MacDonald, Associate Dean, Graduate Studies
Karen Keiller, Director, Information Services and Systems
Heather Finkle, Director, Financial & Administrative Services
Kathy Robertson, Manager, Budgets & Financial Analysis
Tracey Chaisson, Manager, Special Projects & Admin
Mark Bishop, Registrar
Ashley Macosky (student rep)
Steve Gamblin, Staff member

Fredericton Campus Budget Process

During the 2014-15 campus budget process, discussions were held with campus stakeholders through the Fredericton Campus Deans Council, campus and university-wide directors group, as well as consultation through the University-wide Budget Management Committee. Throughout the budget process, Deans also interacted with chairs/faculty councils and Directors with their managers/coordinators.

BUDGET – Accountability and Budget Policies

The University of New Brunswick has a long tradition of fiscal responsibility and provides clear open disclosure of its financial position, budgets and results. Among the chief tools that support this approach are:

- A comprehensive set of University financial and budget planning principles and policies which are available on the secure University website at <http://www.unb.ca/secretariat/policy-repository/resources/php/download-policy.php?id=Yw==>
- Preparation and disclosure of annual independently audited financial statements, available on the University open website http://www.unb.ca/financialservices/consolidated_financial_statements.html
- Annual reports by the University Comptroller and the Vice-President (Finance and Corporate Services) which describe the financial results and compare to budget targets, both are available on the open University website at <http://www.unb.ca/vpfinance/reports-presentations.html>
- The 2014-15 and previous years' budgets are available on the open University website at <http://www.unb.ca/vpfinance/budgets/index.html>



University of New Brunswick
University-wide Consolidated Operating Budget
2014-15

\$(000's)

	Budget 2013-14	Budget 2014-15	Change	
			Dollars	Percent
Revenue				
Provincial Operating Grant	\$107,975.5	\$112,018.4	\$4,042.9	3.7%
Tuition Revenue	57,997.6	59,132.9	1,135.2	2.0%
Other Revenue	13,887.5	14,665.9	778.4	5.6%
Total Operating Revenue	<u>179,860.6</u>	<u>185,817.1</u>	<u>5,956.6</u>	<u>3.3%</u>
Expense				
Academic and Research				
Faculties and Departmental Costs	98,185.1	99,797.3	1,612.2	1.6%
Academic and Student Support	31,000.3	32,486.6	1,486.3	4.8%
Sub-total	<u>129,185.4</u>	<u>132,283.9</u>	<u>3,098.5</u>	<u>2.4%</u>
Administration and Support Services				
Administration and Development	28,540.0	30,567.4	2,027.4	7.1%
Maintenance and Utilities	21,604.2	22,270.0	665.7	3.1%
Sub-total	<u>50,144.2</u>	<u>52,837.3</u>	<u>2,693.1</u>	<u>5.4%</u>
Total Operating Expense	<u>179,329.6</u>	<u>185,121.3</u>	<u>5,791.7</u>	<u>3.2%</u>
Ancillary Operations (Net)	1,274.5	1,268.0	(6.6)	(0.5%)
In-Year Contingency	1,500.0	1,500.0	0.0	0.0%
In-Year Salary Savings	(2,498.0)	(3,769.4)	(1,271.4)	50.9%
In-Year Priority Allocations	2,000.3	1,633.3	(367.0)	(18.3%)
Sub-total	<u>2,276.8</u>	<u>631.9</u>	<u>(1,644.9)</u>	
Total Expense	<u>181,606.4</u>	<u>185,753.1</u>	<u>4,146.7</u>	<u>2.3%</u>
Net Position before One-Time Funds	<u>(1,745.8)</u>	<u>64.0</u>	<u>1,809.8</u>	
Sources of One-Time Funding				
<u>Operating</u>				
One-time Provincial Operating Grant	1,812.8	0.0	(1,812.8)	
One-Time Tuition (Stretch Enrolment Target)	0.0	1,074.9	1,074.9	
One-time (Additional) Outreach Revenue	1,300.0	3,000.0	1,700.0	
One-time (Additional) Salary Savings	1,400.0	133.6	(1,266.4)	
Sub-total	<u>4,512.8</u>	<u>4,208.5</u>	<u>(304.3)</u>	
<u>Transfers from Internally Restricted Assets</u>				
Specific Risk	<u>399.0</u>		<u>(399.0)</u>	
Application of One-Time Funding				
Priority Allocations	3,166.0	4,272.5	(1,106.5)	
Net Sources (uses) of One-time Funds	<u>1,745.8</u>	<u>(64.0)</u>	<u>(1,809.8)</u>	
Net Position	<u><u>\$0.0</u></u>	<u><u>\$0.0</u></u>	<u><u>\$0.0</u></u>	