Management Discussion and Analysis

2018-2019

Management Discussion and Analysis Overview

The following Management Discussion and Analysis report is intended to give context to the results of operations and the financial health of Algonquin College. The report is provided as a supplement to the College's audited financial statements and accompanying notes.

The report is an overview of the financial results achieved in the fiscal year ending March 31, 2019, and offers a detailed discussion and analysis of the following:

1. Operating Environment
2. Financial Results
3. Net Assets
4. Capital Planning
5. Areas of Financial Risk

Operating Environment

Algonquin College marked its 50th anniversary in 2017, as well as the implementation of a new strategic plan, 50+5. Over the past decade, Algonquin has continued to carefully manage operations and to build restricted net assets to invest in the continued success of students.

In 2017, the Ministry of Training, Colleges and Universities announced a new funding formula for the college sector. The new corridor funding formula provides stability in terms of budgeting and forecasting, and is not driven by enrolment growth. The results of this change have yet to be fully realized. However, government grant revenue is expected to remain relatively flat while expenditures will continue to increase with inflation. Therefore, the college sector will continue to experience financial pressures.

On January 1, 2018, the first amendments (Bill 148) to the Employment Standards Act in Ontario came into effect. The impacts of the increase to the provincial minimum wage and some initial changes to part-time compensation for statutory holidays affected the 2017-2018 financial results. On October 23, 2018, the Ontario government introduced Bill 47, Making Ontario Open for Business Act, 2018, which repealed many of the initiatives of Bill 148. After implementing Bill 148 earlier in the year, the College determined that they would honour the changes and commitments made to our employees and would not roll back the salaries and benefits afforded under Bill 148 to part-time staff and faculty.

On January 17, 2019, the Ontario government announced a 10% reduction in student tuition fees for all colleges and universities for the 2019-2020 academic year, and then be frozen for the following year. Further changes were also announced to student ancillary fees, making a

number of fees optional for students, as well as changes to the Ontario Student Assistance Program (OSAP). While these changes did not impact the 2018-2019 fiscal year results, they will have significant impacts on the College's operating budget in 2019-2020.

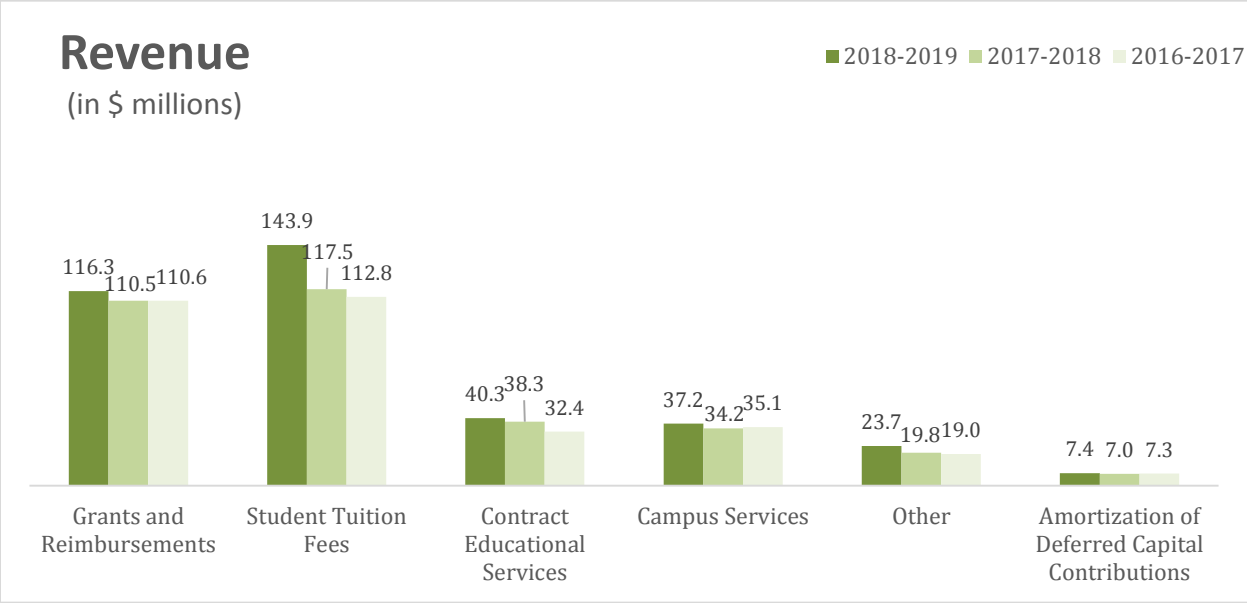
As at March 31, 2019, Algonquin has internally restricted net assets of $73.0 million. College management anticipates that the goals set out in the strategic plan and annual business plans are achievable through careful budgeting and the prudent use of these funds.

Financial Results

In the fiscal year ended March 31, 2019, the College realized an operating surplus of $15 million compared to a budgeted $5.5 million deficit. The $20.5 million positive variance is primarily due to an overestimation of the impacts of Bill 148 of approximately $10 million, and significant enrolment growth for both domestic and international students. A portion of this surplus will be used to fund some of the College's Strategic Investment Priorities pending approval by the Board of Governors. This balance has been added to the College's restricted net assets to fund future investments. These reserves will be instrumental in addressing the risks and challenges facing the College. More information on these challenges can be found on page 12 under the section Areas of Financial Risk.

Revenues

For the year ended March 31, 2019, the College recorded $368.8 million in revenues representing an increase of $41.5 million (12.7%) over the prior year. Detailed explanations of this increase follow in this report.



Grants and Reimbursements

The College operating grant from the Ontario Ministry of Training, Colleges and Universities has remained relatively stable for the past three years. This trend is expected to continue as the college sector has moved to a corridor funding model, though the impacts of Strategic Mandate Agreement 3, which is currently in discussions with the Ministry, are currently unknown. The increase in grants and reimbursements in 2018-2019 was due to a one-time $4 million Supporting Quality Programs and Student Outcomes grant, as well as a one-time increase in the College Equipment Renewal Fund and the Facilities Renewal Grant. Apprenticeship funding increased slightly in 2018-2019 by $726,000 over 2017-2018, however, the 2017-2018 funding was negatively affected by the five-week work stoppage.

Student Tuition Fees

Student tuition fees increased by $26.4 million in 2018-2019 over 2017-2018. This increase was driven primarily by a $10.8 million increase in international student premiums over the prior year. Full-time post-secondary tuition fees also increased by $14.5 million due to an overall 9.3% increase in enrolment over 2017-2018 and a budgeted 3% increase in tuition costs. Student information technology fees were also higher in 2018-2019 by $742,000 due to the increase in enrolment growth over the prior year.

Contract Educational Services

Contract educational services experienced $2.0 million increase in revenues in 2018-2019. The largest contributor to this increase included a one-time $2.5 million contract from the provincial government for the Green House Gas Campus Retrofit Program. Other revenue increases included a $936,000 increase in collaborative programs, a $395,000 increase in Corporate Training programs, and $255,000 in international offshore contract revenue. These increases were offset by a $1.0 million decrease in E-Campus contract funding, a $900,000 decrease in the School-College Work Initiative funding, and a $300,000 decrease in Second Career contract funding.

Campus Services

Campus Services revenues increased by $3.0 million over 2018-2019. The 2017-2018 revenues reported by Campus Services were significantly impacted by the five-week Academic work stoppage. The recovery of these revenues in addition to the enrolment growth in 2018-2019 resulted in a $1.1 million increase in Food Services revenues, $812,000 increase in Bookstore revenues, and $1.1 million in Parking Services revenues.

Other

Other revenues consists of a variety of revenue sources such as student application fees, international student insurance premiums, distance education hosting fees, HST and other

tax adjustments and rebates from the College's corporate credit card program. These revenues increased by $3.9 million in 2018-2019.

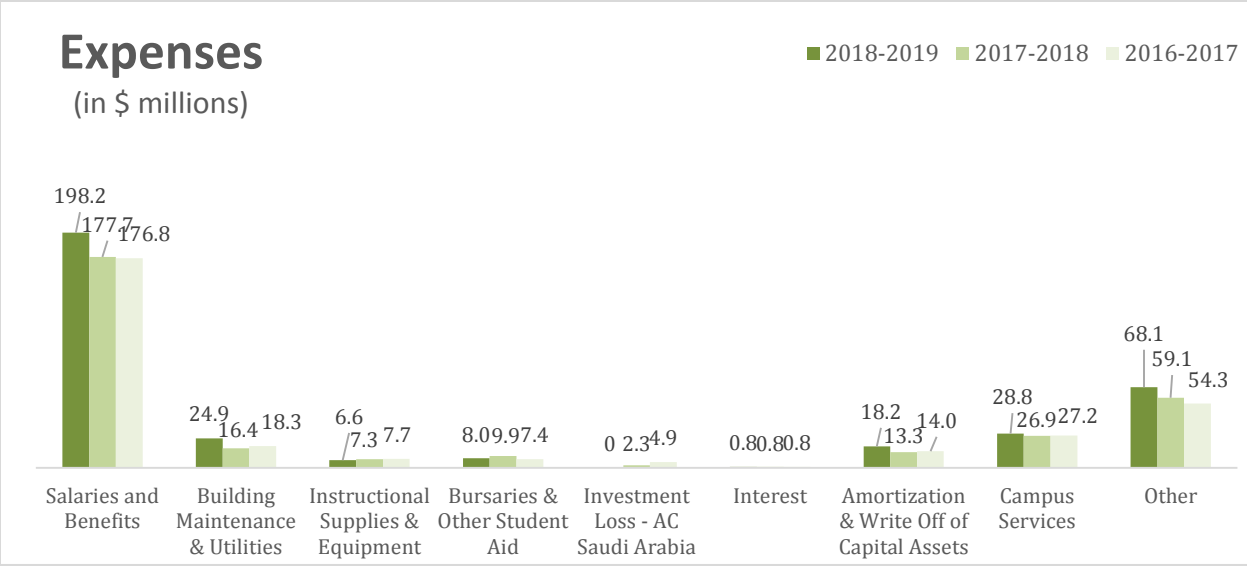
The number of International students at Algonquin surpassed fiscal year targets. International student activity accounted for $1.5 million of the revenue increase in international insurance premiums (a new process in 2017-2018). Investment income increased by $1.3 million year over year due an adjustment in 2017-2018, which had a lowered investment income in that year. An increase in student ancillary fees of $800,000 over 2017-2018 was the other major contributor to the increase in other revenues as a result of the significant increase in both international and domestic student enrolments over 2017-2018.

Amortization of Deferred Capital Contributions

Amortization of deferred capital contributions increased by $393,000 from 2017-2018. This increase was primarily the result of the completion of the DARE District in 2018-2019.

Expenses

For the fiscal year ending March 31, 2019, the College recorded $353.6 million in expenses, representing an increase of $39.8 million (12.7%) over the prior year.



Salaries and Benefits

Salaries and benefits represent the largest expense category for the College. In 2018-2019 the College spent $198.2 million on salaries and benefits, an increase of $20.5 million over 2017-2018.

The College realized an increase in salaries and benefits of $10.3 million due to the changes in the Employment Standards Act (Bill 148) which came into effect in April 2018. Despite the repeal of many of the changes by the incoming provincial government in October 2018, the College maintained the increases put into effect earlier in the year. Additionally, $7.5 million of the $21.9 million year over year increase was due to lower than anticipated salaries in 2017-2018 as a result of the five-week academic work stoppage. In December 2018, College management announced a voluntary retirement incentive program for all staff and faculty. The execution of the voluntary retirement incentive program resulted in a one-time $3.6 million cost which is reflected in 2018-2019 salaries and benefits.

Building Maintenance and Utilities

Building maintenance and utilities expenditures increased by $8.6 million in 2018-2019. Expenditures related to ESCO2 energy savings increased by $2.0 million from 2017-2018 due to the completion of the work on second co-generation engine. A five-year re-roofing plan was also implemented in 2018-2019, with $2.0 million in roofing expenses. An additional $4 million was invested in replacement of aging infrastructure required to support our thermal network.

Instructional Supplies and Equipment

Instructional supplies and equipment expenditures decreased by $713,000 from the prior year. Reductions in expenditures were mainly seen in contract activity. Youth Job Connect direct supports were reduced by $240,000 from 2017-2018, Information Technology small equipment purchases were $455,000 less than the previous year.

Bursaries and Other Student Aid

Bursaries and other student aid disbursements decreased by $2.0 million in 2018-2019. 2017-2018 disbursements of student aid were higher than normal as a result of a $1.1 million in additional student aid released by the College to support students impacted as a result of the five-week academic work stoppage. 2018-2019 also saw $824,000 in lower than expected expenditures in Student Access Guarantee Bursaries and the College Student Employment Program.

Interest

Interest expense continues to remain constant. College management continues to make regular payments on long term debt and did not assume any additional debt in 2018-2019.

Campus Services

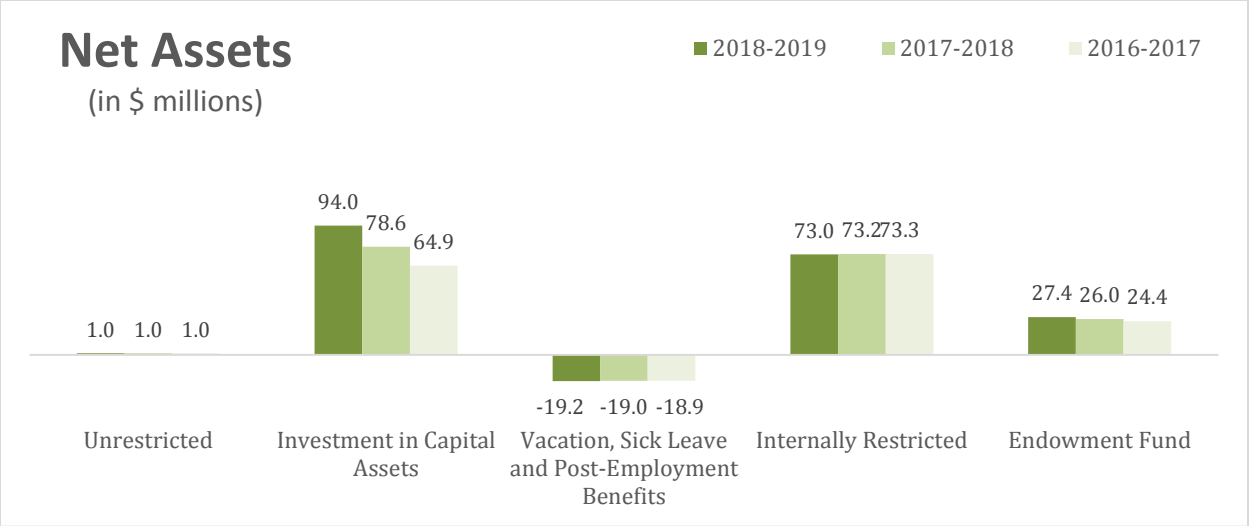
Campus Services expenses increased by $1.9 million over the prior year. Food Services, and the Bookstore saw significantly lower expenses in 2017-2018 due to the five-week Academic work stoppage. Expenses in these areas increased by $613,000 and $208,000 respectively. Residence and Parking Services expenses increased by $555,000 and $563,000 over the previous year due to increased strategic investment priorities project spending.

Other Expenses

Other expenses increased by $9.0 million in 2018-2019 over 2017-2018. Significant changes include a $1.4 million increase in contract services attributable to the data breaches and cyber security responses. Small dollar, equipment expenses increased by $5.4 million over the previous year, primarily the result of information technology renewal projects ($2.0 million), $1.2 million in classroom equipment refreshes, and $390,000 in equipment for the DARE District. Administrative furniture expenses increased by $2.1 million for one-time projects, including $1.2 million for the DARE District, and $464,000 for Student Central. Referral fees for international student recruitment increased by $1.0 million over 2017-2018 supporting the year over year international student enrolment growth of 39%.

Net Assets

The College's net asset balance is an important indicator of financial health. The College's net assets increased by $16.4 million in 2018-2019.



Major changes to net assets in 2018-2019 were the result of the College's investment in capital assets:

- Completion of construction of the DARE District,
- The implementation of Workday™, and
- Student Central.

All of these contributed to the College's increase in investment in capital assets in fiscal year 2018-2019.

Capital Planning

The College continues to invest significantly in major capital projects to increase the capacity of the College, enhance the learning experience for students, and to continually improve internal processes. The College spent $32.4 million on major capital projects in 2018-2019. The following outlines the progress made on major capital projects during the fiscal year:

Energy Service Company Project (ESCO2)

During 2018-2019, work on phase four of this project continued with a focus on the installation of the underground thermal network pipeline. $5.9 million of construction was completed during the fiscal year of which $1.6 million was contributed from College reserves. The project is expected to be completed in 2019-2020 with the tie-in of the thermal network to the associated mechanical systems. Once completed, the project is expected to save the College approximately $3.8 million annually in energy savings.

Enterprise Resource Planning – Project Workday

The Workday™ Enterprise Resource Planning system implementation was completed in 2018-2019 with a final year investment of $7.0 million. The system was implemented in two phases, Human Resources and Payroll was implemented in December 2018, and the Financial System in January 2019. The total value of the completed project was $18.8 million.

DARE District

Construction began on the DARE District initiative in the fall of 2016 to transform existing space in the College and add an additional floor for a state of the art library. A new centre for indigenous entrepreneurship is included in the renovation. The project was declared substantially complete on April 30, 2018. The transformed space allows students, researchers and entrepreneurs to come together to collaborate and spark economic growth. The overall budget of the project of $44.9 million was slightly exceeded with actual expenditures of $45.4 million. The project was completed on schedule.

Student Central

Opened in October 2018, this renovation project improved the accessibility and usability of student enrolment and retention services by creating a one-stop hub of services. The project came in slightly under the budget of $7.2 million, at $6.8 million.

Indigenous Gathering Circle

Located in the inner courtyard of the Ottawa campus, the Indigenous Gathering Circle is a modern and respectful interpretation of a significant Indigenous cultural icon. It creates a welcoming venue that is culturally rich, and students can benefit from Indigenous teachings, heritage and history. It will provide a culturally appropriate and inclusive space for the entire Algonquin College community. The Indigenous Gathering Circle was formally opened in December 2018, and came in slightly over the budget of $1.6 million, at $1.7 million.

Net Tuition Project

In spring 2016, the Government of Ontario announced a major redesign of the Ontario Student Assistance Program (OSAP) to be implemented in 2017-2018. The major changes to OSAP will provide students with access to financial assistance through bursaries and grants at the start of the semester to reduce the upfront costs to students. As a result, the Ministry of Training, Colleges and Universities introduced the OSAP Transformation and Net Tuition Project, and required College staff to produce a view for students so that they can see the total cost of tuition and the potential funding options. This $0.9 million project will be completed in 2019-2020.

Algonquin College Students' Association Athletics and Recreation Centre

In collaboration with the Algonquin College Students' Association, the College will lead the construction of a new Athletics and Recreation Centre. To be located on the north-west corner of the College's main parking lot (Lot 8). This facility will increase the physical capacity of student fitness, increase athletic opportunities, and offer students unlimited access to state-of-the-art recreational facilities. The College has committed $5.5 million towards the construction of this facility, with the Students' Association committed to funding the remainder of the total project budget of $49.9 million. Substantial completion of this project is estimated for May 2021.

Pedestrian Bridge to Bus Rapid Transit Station

In partnership with the City of Ottawa, the College has committed to support the construction of an above-grade pedestrian bridge that would link the Algonquin Centre for Construction Excellence (ACCE) facility with a new OC Transpo rapid transit station being built as part of the Light Rail Transit Stage 2 Project. The pedestrian bridge will provide a safe passage for crossing College Avenue and an efficient link for transit riders to enter Algonquin College's Ottawa campus. The College's portion of the construction cost of the pedestrian bridge is $3.1 million, with a tentative substantial completion date of 2023.

Solar Photovoltaic Plan

Algonquin College aims to become carbon neutral and be a leader in the education, research and in the adoption of environmentally sustainable practices. Moving Algonquin College to Net Zero, the Solar Photovoltaic Plan represents a behind-the-meter solar energy and power storage facility, and the targeted electrification of building infrastructure currently using natural gas as fuel that will be an integral part of the Algonquin College's energy management plan (in development since 2012). This $8.0 million project is expected to be completed in August 2019.

Future Projects

A number of additional major capital projects have been approved by the Board of Governors and are scheduled to begin in 2019-2020. These include:

- Student Information System Replacement (Phase 1). This first phase of the replacement of the current Student Information System will complete the Analyze, Strategize and Plan, Architect, and Select phases (including completing a Request for Proposals). This phase of the project, budgeted at $3.1 million, is expected to be completed in the 2019-2020 fiscal year.

The College continues to look forward and plan for the future. College management maintains a five-year major capital investments plan to help ensure a strong financial

position, and important investments in the future. These projects are submitted to the Board of Governors for approval only when appropriate funding has been found to support the initiative. Some of the future projects currently being reviewed include additional enabling works to support the Athletics and Recreation Centre, a new Healthy Living Education Initiative and enhancements to the Customer Relationship Management system.

Areas of Financial Risk

Government of Ontario 10% Rollback in Tuition Fees

On January 17, 2019, the Ontario government announced a reduction in post-secondary tuition fees across the province beginning in September 2019. As of September 2019, tuition fees are reduced by 10% from the 2018-2019 levels and will remain frozen for the 2020-2021 fiscal year. This reduction was estimated to impact Algonquin College's tuition revenues by $13 million in 2019-2020. Further to this announcement, the Government of Ontario also announced that a number of student ancillary fees will be made voluntary for students beginning in September 2019. Details of which student ancillary fees would remain mandatory versus those that would become voluntary are still being determined, and while the College feels that this is a low risk at this time, government announcements are being closely watched.

Also in January 2019, the Government of Ontario announced changes to the Ontario Student Assistance Program (OSAP), repealing some of the changes made by the previous provincial government. Under the revisions announced in January 2019, students would be eligible for fewer bursaries, and more low-interest loans would be made available by the government to support students pursuing post-secondary education. The impacts of this change on future student enrolment is unknown, however, enrolments for the fall semester beginning in September 2019 are being closely monitored.

Deferred Maintenance

Each year the College invests millions of dollars in the maintenance of the College's physical and digital infrastructure. However, due to the age of many of the College buildings, the speed at which technology develops and inadequate funding for maintenance, the College has incurred a significant deferred maintenance liability. In 2014, the College's deferred physical maintenance liability was independently estimated at $87.3 million. Using modest inflation rates, within two years, the estimated deferred liability maintenance value increased to $93.2 million as of December 2016. Algonquin College is not alone. A report on the Fiscal Sustainability of Ontario Colleges provided to Colleges Ontario by Price Waterhouse Coopers LLP, states, "…we note that on a system wide basis, deferred maintenance is projected to

increase from $1.217 billion in 2015-16 to $3.544 billion in 2024-25."[1] This situation poses significant risk to the College's annual budget as the College addresses immediate maintenance issues while balancing demand for limited funding with strategic initiatives.

Budgetary Pressures

The corridor-funding model was introduced by the Ministry of Training, Colleges and Universities for the college sector effective fiscal year 2017-2018. This model was developed to address the issue of the changing demographics in Ontario, which will see a decline across the province of the traditional pool of college-age students (typically between 18 and 24 years of age). The new funding formula aims to provide a steady level of funding to colleges. Previous funding formulas were based on domestic enrolment growth and provided additional funding for realized growth. As a result, through the current corridor-funding model, the College will receive no additional operating grant funding. Through 2018-2019 domestic enrolment for Algonquin grew by 4.4% over 2017-2018. With the reduction of tuition fees for 2019-2020 and a freeze on these fees for 2020-2021, the College budget is under increased pressure and it will become increasingly challenging to maintain the current high level of student satisfaction, a key priority for all College employees at all campuses. The College is about to enter into negotiations with the Ministry of Training Colleges and Universities regarding our third Strategic Mandate Agreement. This agreement, in alignment with the Ministry's direction will aim to create strong ties between the College's funding and key performance indicators. While not expected to have a negative impact on the College's grant revenue, this remains an area of uncertainty.

[1] Price Waterhouse Coopers, LLP, (2017). "Fiscal Sustainability of Ontario Colleges" [Online]. Available: http://collegesontario.org/policy-positions/position-papers/Fiscal%20Sustainability%20of%20Ontario%20Colleges%20Final%2004.01.16.pdf