

University of Northern British Columbia

2009/10 Budget Guidelines

Background: Fiscal 2008/09

Based on a detailed review of the current year's budget for the period April 1 to September 30, 2008, I am pleased to report that UNBC is projecting a balanced budget to the end of the fiscal year. There is no need for mid-year cost reductions. However, such good news should not divert attention from the financial difficulties that the university has faced in the immediate past and will continue to face in the immediate future.

In the revised 2008-2009 budget presented to the Board in June, UNBC had to absorb a 2.6% reduction in provincial grant income – just over \$1M. More recently, UNBC has seen an erosion of the value of its endowment fund, the earnings from which support such things as named scholarships and bursaries, some of our research chairs and research facilities, and library purchases.

The impact of these financial challenges will carry forward. The 2.6% reduction in government funding represents a permanent loss to the university base grant thereby affecting future income projections. Negative earnings from the endowment could jeopardize funding for student support and research. Compounding the problem, deteriorating economic conditions could further affect future levels of government funding support.

In this regard it needs also to be noted that UNBC underwent a significant budget reduction process from 2007 to 2009 that has left many operational and academic areas especially vulnerable to further cuts.

Current financial challenges are not unique to UNBC. They are shared by other universities as the attached report from the November 2 edition of the Globe & Mail attests.

Budget Assumptions and Priorities

At the outset of the planning process for the 2009/10 university operations budget, President's Executive Council has approved a number of planning assumptions and potential spending priorities.

Council is assuming that the general operating grant identified by the Ministry of Advanced Education and Labour Market Development for the 09/10 fiscal year, the amount of \$45,269,314 (less \$1M for the Northern Medical Program), will hold firm. It is also assuming that federal government funding will remain at the current level; that there will be a further 2% increase in tuition fees; that *fte* enrolment will grow by 2%; and that there will be no changes to other revenues. Council is also including in its cost projections previously approved salary increases, benefit costs at 20% of salary costs, and an overall 3% inflationary factor affecting non-salary expenditures.

As for spending priorities, PEC is placing highest priority on maintaining, at the least, the current level of university operations. Consequently, Council is requesting that budget holders plan their 09/10 budgets within their current budgetary allocations without regard to salary increases or other inflationary factors. PEC will be asking budget units to identify non-salary inflationary costs for PEC consideration separate from their budget submissions. These identified inflationary cost pressures will be funded on a priority basis within the envelope of funding set aside for this purpose.

It is the intention of PEC to retain the Strategic Investment Fund at the current level of \$500,000, of which \$330,000 has already been committed for 09/10 in the current year's budget. PEC also intends to allocate \$800,000 to capital equipment replacement (including \$150,000 from the university's Annual Capital Allowance), to fund minor capital at the current level, and to increase the transfer to residence operations by \$50,000 to \$250,000.

On the basis of these assumptions and spending priorities, PEC projects a balanced budget for 2009-2010. The Council is not planning cutbacks at this time; however, to maintain service levels or meet critical needs, budgetary reallocations among units may be required.

On the contrary, PEC intends to plan for the possibility of revenue increases greater than those currently projected. On the off chance of higher revenues, PEC will be asking Deans and Directors to identify areas of critical need where either new or reallocated funding might be directed. It is important that these areas be identified; that the need for increased spending be convincingly argued; and that operational deficits are addressed on a priority basis if possible.

PEC will also be addressing the potential issue of reduced funding from the endowment fund giving priority, if possible, to covering funding shortfalls relating to research chairs and facilities and to using university funds to maintain student financial aid as close as possible to the current level of expenditure.

With respect to increased funding, UNBC will be working with the members of the Research Universities Council and other post-secondary institutions to seek enhanced government funding. We will also be considering the possibility of increasing residence fees and parking fees. With respect to residence fees, it is manifestly evident that any fee increase will have to be justified by significant improvements in residence upkeep and in improved services, such as access to wireless networks. As a result, any fee increase will be offset by increased expenditures. With respect to parking, where there has been no fee increase since fees were instituted in 1994, any fee increase will have to be justified on an environmental basis, for example by setting minimum parking fees on a comparable basis with, but slightly above, the cost of bus transportation to campus. The overall impact on the budget will be largely neutral as all but a small proportion of additional parking revenues will be used to support the further greening of the UNBC campus.

The Budget Planning Process

Prior to 2007, university budgets were prepared by President's Executive Council with the assistance of the two budget planning councils chaired respectively by the Provost and the Vice-President Administration and Finance. The Senate Committee on the University Budget shared all of the budgetary information provided by the V.P. Councils to PEC, conducted an independent review of this information, submitted advice to the President as required by the terms of the University Act of British Columbia, and reported to Senate.

In the past two years, the President established a Budget Cabinet. The Cabinet allocated funding to various defined budget envelopes and left the service areas within each of these budget envelopes the responsibility to finalize their budgets. Within this budget-setting context SCUB received little information and consequently found it difficult, if not impossible, to exercise its responsibilities to advise the President.

For the planning of the 2009/10 budget, PEC has decided to provide a blending of these two distinctive approaches. In the initial stages, budgets will be prepared under the direction of the relevant senior university officer to whom budget holders ultimately report. Hence, academic units that report to the Provost will develop their budgets under the direction of the Provost. Likewise, units ultimately reporting to the V.P. Administration and Finance, the Vice-President Research, and the President will work under the direction of their senior officers. It will be the responsibility of these senior officers to ensure that budgets are prepared in accordance with the directions set out above: notably that budget holders work within the current budgets; that they make no provision for salary cost increases; that they make no provision for non-salary cost increases but, separately from their budget, identify non-salary cost pressures that they want to have addressed; and that they identify and argue the case for increased budgets to address critical operational issues.

The schedule for the budget process is included in Attachment 2. Please note that some of these dates have not yet been finalized and are therefore subject to change.

The university budget will be prepared by PEC. At least three times from January to the end of March, PEC will be expanded to a broader budget cabinet. This expanded PEC will consist of the members of PEC, including the Director of Finance and Budgets and related staff, and one representative chosen from the Deans and Directors or other senior officers from each of five defined operational areas: academic programs; academic services; student services, administrative services; and research services. Following past practice, SCUB will receive the information provided to PEC, will conduct its own review of the budget, and will be provided with the opportunity to advise the President on its deliberations.

By drawing on the advice of a wider range of senior university officers, and by seeking the advice of SCUB, PEC hopes to be able to develop a budget that is based on a comprehensive understanding of university needs and aspirations.

Related budgets, such as the Ancillary Operations Budgets and the Annual Capital Allowance Budget, will be developed by PEC on the advice of the V.P. Administration and Finance. Any processes relating to these budgets will be established in due course.

The Globe and Mail

Universities eye 'painful' cuts in wake of crisis

With endowment funds taking a beating, student aid, scholarships, hiring and academic programs could all be on the chopping block

ELIZABETH CHURCH AND PAUL WALDIE

From Monday's Globe and Mail

November 2, 2008 at 8:38 PM EST

Canadian universities could be forced to cut student aid, scholarships and funding for various programs as early as next spring because of multimillion-dollar losses in their investment holdings.

The recent freefall of financial markets, coupled with a wait-and-see attitude of donors, has campus leaders across the country preparing for the worst and hoping for a quick recovery.

Some, such as the University of Waterloo, have already taken action, freezing most hiring for the next six months. Others, including the University of Victoria, have issued notices saying they may have to cut distributions from their endowment funds, which pay for scholarships and research chairs.

Stock markets around the world are down more than 30 per cent this year and dropped roughly 17 per cent last month alone. That has cost universities hundreds of millions of dollars because on average more than half of their endowment and pension funds are invested in financial markets.

Internet Links

- [For more university news, see GlobeCampus.ca](http://GlobeCampus.ca)

"We are down big time in terms of the market value of our endowment fund," said David Mitchell, vice-principal of advancement at Queen's University in Kingston. At the end of September - before the worst of the market woes - Queen's had lost more than \$100-million in its endowment, which had fallen to \$550.6-million from \$658.2-million.

Gary Brewer, York University's vice-president of finance, said the school's \$300-million endowment fund has lost roughly \$45-million this year, and its \$1.3-billion pension fund is down nearly \$200-million.

Top dollar

Canadian universities have stepped up their fundraising efforts in recent years. Here are the top endowment funds at the end of last year.

	Assets \$millions
1 Toronto	2,111.1
2 UBC	1,072.7
3 McGill	908.8
4 Alberta	746.2
5 Queen's	658.2
6 McMaster	434.0
7 Calgary	418.7
8 Manitoba	365.9
9 Dalhousie	349.5
10 Western Ontario	313.8
11 York	294.4
12 Carleton	238.0
13 Simon Fraser	221.1
14 Victoria (U of T)	220.3
15 Saskatchewan	191.7
16 Waterloo	172.5
17 Guelph	170.9
18 Victoria (B.C.)	155.7
19 Montreal	153.6
20 New Brunswick	147.1

NOTE: Figures as of Dec. 31, 2007

Source: Canadian Association Of University Business Officers

"These are substantial numbers and the implications on our operating budget could be significant and could be directly felt in short order," Mr. Brewer said.

He said the university is also dealing with a roughly \$44-million deficit in its pension plan.

Others are facing similar losses. U Vic's \$150-million endowment was down about 9 per cent at the end of September. Dalhousie University's is down roughly \$30-million to \$320-million, and the University of Toronto lost nearly 9 per cent during the third quarter on its \$5.5-billion pension and endowment funds. For most schools, those losses came on top of weak investment performance last year.

"Obviously it's painful," said Colin Spinney, treasurer of Dalhousie. The university is just beginning its budget planning for next year and Mr. Spinney said the investment losses could have an impact on spending. But like other university officials, he stressed the school invests for the long term.

William Moriarty, the chief executive of the University of Toronto Asset Management Corp., which oversees the university's endowment and pension funds, said in a recent campus-wide notice that managing the portfolio "continues to be a challenging task." He noted that the fund has performed better than the overall market and said "patience continues to be required."

Endowments are built from contributions by donors. The capital is invested and the income is distributed annually to fund scholarships or endowed chairs. University endowments typically contain hundreds of individual funds created by donors over the years for specific purposes. Canadian universities hold an estimated \$11-billion in endowment funds.

Many universities managed to build buffers in their endowments because stock-market returns had been strong prior to 2007. But in most cases those buffers have largely been wiped out.

The investment losses compound an already difficult financial climate. Government funding and tuition-fee increases have not kept pace with operating costs, and some universities have already been cutting costs.

"We are planning next year's situation with really many, many unknowns," said Amit Chakma, provost of the University of Waterloo, which plans to hold a town hall next week with faculty and staff to explain its response to the worsening economic climate.

Dr. Chakma said Waterloo is hoping to generate more income from expanded graduate programs and an increased number of foreign students, and will benefit from having had \$75-million in new donations in its endowment fund that had not been invested when the market crashed. Still, he said it is "highly unlikely" that the fund will be able to pay out the same amount that it did this year.

Sagging stock markets have also left potential donors on the sidelines. The elimination of the capital-gains tax on donations of publicly traded securities in 2006 generated a flood of giving last year. But with markets down, many donors are holding off or asking to renegotiate earlier pledges.

"The stock-market situation has had a huge impact," said Marc Weinstein, McGill University's vice-principal of development and alumni relations. "It's creating a bit of a psychology around giving in general."

Mr. Weinstein said he remains "cautiously optimistic" that donors will come forward. The university launched a \$750-million fundraising campaign a year ago and has raised \$443-million so far that included three multimillion-dollar gifts last summer.

"It takes some of the feel-good out of it if you are donating stocks that have lost money," said Doug Nelson, the chief development officer at the University of Alberta.

Roger Trull, vice-president of advancement at McMaster University, said the school has heard from a lot of potential donors in the past three weeks that they would prefer to wait.

Campus leaders caution that, despite the dramatic growth in endowments over the past decade, the income they generate represents a small portion of overall university budgets. At the same time, they describe that money as key in attracting top students and faculty.

"This is about the margin of excellence," said Peter Smailes, treasurer of the University of British Columbia. "It is about adding to what we already have."

Endowment facts

Endowments are charitable funds in which the capital is invested and the income distributed annually.

They are used to provide stable, long-term - sometimes perpetual - income. They can fund a school's general mission or be used for specific purposes, such as a scholarship or a faculty position, usually called an endowed chair.

Over the past decade, Canadian universities have stepped up the pace of their fundraising, building up larger and larger investments to help attract top professors, fund scholarships and provide financial aid to students. During this time, there also has been a growing trend for donors to give money for a specific use, making it more difficult to redistribute income from endowment funds when returns fall.

The average university endowment had just over half of its funds invested in the equity market at the end of last year, according to the Canadian Association of University Business Officers. The mix of assets varies, depending on the size of the endowment and the institution's tolerance for risk.

Endowment-fund holdings can include publicly traded stocks (Canadian and international), bonds and alternative investments such as hedge funds, private equity and real estate.

As of Dec. 31, 2007, Canadian universities held close to \$11-billion in endowment funds.

Elizabeth Church

BUDGET SCHEDULE 2009/10**ATTACHMENT 2**

Task #	Item	Completion By:
1	Budget guidelines reviewed and approved by PEC	November 7 , 2008
2	Budget guidelines presented to Admin & Finance Committee of Board	November 10, 2008
3	Budget guidelines presented to Senate	November 12, 2008
4	Dept. of Finance & Budgets updates budget system with current salaries for permanent, approved positions	December 1, 2008
5	Dept. of Finance & Budgets provides training sessions for budget holders on budget system data entry and required submission format	November 24 – December 5, 2008
6	Budget holders prepare budgets and submit to Dept. of Finance & Budgets	January 16, 2009
7	Budget submissions summarized by Dept. of Finance & Budgets for submission to PEC and SCUB	January 19 – 23, 2009
8	PEC reviews proposed budgets and prepares consolidated budget	January 26 – February 13, 2009
9	PEC and Budget Cabinet members meet to discuss issues and	January 23 – March 10, 2009
10	PEC meets with Chair of SCUB and receives SCUB's advice	March 10, 2009
11	Final Proposed 2009/10 Budget prepared by PEC	March 9 - 13, 2009
12	SCUB presents its report on the Proposed 2009/10 Budget to Senate	March 25, 2009
13	Proposed 2009/10 Budget to Board of Governors	Mar. 27 - 28, 2009
19	PEC/Budget Cabinet hosts a Town Hall meeting with students, faculty and staff on the approved 2009/10 Budget	April 3, 2009 (exact date TBA)
20	Notifications to budget holders re: approvals	April 17, 2009