

Report to the Membership

Executive Committee
February, 2010

TUFA established the University Finance Oversight Committee (UFOC) as a subcommittee of the Executive in February, 2010. UFOC's first report identified three particular areas of concern: "strategic planning, strategic operating budgeting and immediate budget crisis." (**UFOC Report #1, February 15th, 2010**).

Following this report, UFOC identified a number of key questions and submitted these to the Administration, receiving responses from the Office of the Vice President, Administration. These responses have been discussed in the Committee's previous reports. The Committee's third report recommended further questioning of the Administration and the appointment of a specialist to review the University's finances.

Following UFOC's recommendation, TUFA's Executive Committee appointed a financial specialist this summer to analyse the University's financial operations and health. The results of this work are provided below. TUFA will be holding a special meeting on February 15th, 2011, to provide our members with an opportunity to discuss the University's financial situation.

Trent University Finances – Summary

Operating Cash Flow – In academic year 2000/2001 enrolment at Trent University was approximately 5,000 students; the annual operating budget, close to \$40 million. As a partial result of the ‘double cohort,’ enrolment at Trent reached its highest level (8,050 student FTE) in 2006/2007. Increasing class sizes from 2001 through 2008 provided the University with significant operating cash flow surpluses in its operating budget in that span of years. Also during those years the University began to purchase significant capital assets:

| Year | Operating Cash Flow | Purchase of Capital Assets |
|-------------|----------------------------|-----------------------------------|
| 2001 | \$7,951,000 | (\$4,228,000) |
| 2002 | \$12,616,000 | (\$5,514,000) |
| 2003 | \$29,594,000 | (\$19,635,000) |
| 2004 | \$30,232,000 | (\$41,273,000) |
| 2005 | \$8,975,000 | (\$14,002,000) |
| 2006 | \$18,958,000 | (\$17,249,000) |
| 2007 | \$9,278,000 | (\$15,834,000) |
| 2008 | \$12,390,000 | (\$6,532,000) |

Although the University’s enrolment challenges have resulted in a reversal of this positive trend, the University continues to purchase significant capital assets.

| Year | Operating Cash Flow | Purchase of Capital Assets |
|-------------|----------------------------|-----------------------------------|
| 2009 | \$2,451,000 | (\$14,774,000) |
| 2010 | \$7,538,000 | (\$35,541,000) |

Operating cash flow is the cash generated by the University from its day-to-day operations, generally defined as operating cash inflow (e.g. tuition fees, operating grants) minus operating cash outflow (e.g. salaries, utilities). Operating cash flow is differentiated from Investing cash flow (e.g. purchase and sale of buildings) and Financing cash flow (e.g. loan amounts received from and repaid to banks). Operating

cash flow is the best measure of the university's operations in the short run and more relevant to the operating budget. The Investing and Financing Activities are more relevant to the long-term capital budget (assets such as buildings, liabilities such as loans, and so forth).

Funding Formula – The provincial government provides all Ontario universities with operating grants that are intended to match each institution's tuition revenues according to a calculation based on the approximate cost associated with each student's chosen area of study. The unit of measure applied for purposes of these calculations is the so-called "BIU," or basic income unit. Depending on academic program and the level of study, students from different programs (and in different years) may be funded by the provincial government at different rates: Most Arts and Humanities students, for example, attract 1 BIU when they pay their tuition. This means that, for every dollar in tuition, the provincial government pays Trent University roughly one dollar more in operating grant monies. This one-for-one ratio is the base appropriation. Science students, by comparison, attract 2 BIUs or double the operating grants for the same tuition payment.

BIU Weights by Program

| Program type | Year of study | BIU Weighting |
|--------------------------|----------------------|----------------------|
| Arts & Science | 1 | 1 |
| Three-year Arts | 2,3 | 1 |
| BScFS | 1 | 1 |
| Three-year Science | 2,3 | 1.5 |
| Four-year Arts | 2,3,4 | 1.5 |
| BBA | all | 1.5 |
| Four-year Science | 2,3,4 | 2 |
| BScFS | 2,3,4 | 2 |
| BScN | all | 2 |
| BEd, Consecutive Program | all | 2 |

On its face, therefore, it would appear that the institution would be best advised to discourage enrolment by arts students and try to recruit an entire cohort of chemists and physicists. The actual profitability of individual programs depends equally on the cost to offer them. In fact, programs like Business Administration are among the most profitable, precisely because they attract a BIU premium (1.5), but do not entail the sort of costs involved in the sciences (lab overhead, chemicals and other materials, computational needs, and so on). It is probably not coincidental that the growth in enrolment over the last 10 years has tended to track those programs with higher BIU values without commensurate cost increases (Education, Nursing, and Forensics all attract 2 BIUs).

Total Budget – The annual budget for Trent University in fiscal year 2010 was approximately \$135 million. Roughly 47% of the University’s revenue comes from government grants, 31% from tuition, and 15% from ancillary services. Primary among these ancillary services are the rents and leases paid on Trent’s property holdings by such tenants as the Ministry of Natural Resources and the Trent Severn Waterway. Since 2005/2006, the proportion of TUFA salaries and benefits to total salaries and benefits has decreased from 51.1% to approximately 49.5%.

As required by the 2010/2011 Trent University Operating Budget, all University departments were required to reduce their budgets by 5%. The most significant impact of the 5% reduction was on the instructional budget, particularly undergraduate teaching. This reduction forced University management to take a hard look at programs and class sizes. It is entirely likely that academic programs may need to jettison elective courses to stabilize their core required program courses. It is likely that the opportunities to provide varied course selection will be severely constrained in future. It certainly seems clear that the University’s management has worked to achieve significant cost reductions by 1) reducing the hiring of contract faculty and 2) delaying or denying replacement of tenured faculty retirements and resignations.

While the immediate cost reductions of such steps may be apparent, their long-term economic impact is difficult, if not impossible, to measure. As a general observation, one might expect there to be a “tipping point” beyond which certain cost containment measures significantly compromise the institution’s ability to discharge its mission. At such a point, further cuts might be expected to constrain revenues beyond any realized savings, thereby further constricting resources and deepening the crisis that the cuts were designed to allay. Leaving aside the question of whether Trent’s highly reactive budget exercises have created such a feedback cycle, it is worth noting that the President’s 17 December 2010 paper “Toward a Sustainable Future: The First Integrated Plan for Trent University (2010–2014)” takes a significant step in making the development of a multiyear budget framework a managerial priority.

Structural Deficit – Annual tuition rate increases are controlled by the provincial government and have been limited to approximately 5% per year. Such a rate of increase has not been commensurate with the inflation costs within the institution. Quite apart from the University’s other activities, the aggregate cost of faculty members’ career development increments, parity adjustments, merit increases, and extended health benefits has, grown at a much faster rate than tuition. It is for this reason that Trent University has been compelled to try and increase its enrolment every year. This is to say that the institution must grow (or take extraordinary steps) to avoid an end-of-year deficit. This situation is referred to as the ‘structural deficit’.

Accumulated Deficit – As a result of previous years’ excesses of expenses over revenues, the University built up an ‘accumulated deficit’ (similar to a line of credit with a negative balance). The current value of Trent’s ‘accumulated deficit’ from operations is approximately \$5,000,000. Every time the University incurs a yearly operating deficit, the accumulated deficit grows accordingly. On the other hand, every time the University

realizes a yearly operating surplus, the accumulated deficit shrinks. During the 'double cohort' years the University was running significant operating surpluses and the institution's accumulated deficit was being slowly pared down. However, the significant increase in cash spent on capital assets is one of the reasons that the University has been unable to make a meaningful reduction of its accumulated deficit.

It appears the Trent University's management is now committed to maintaining a balanced budget and not incurring a deficit because the impact of an accumulated deficit on future budgets would be far more difficult to manage than the Board of Governors' present policy of maintaining a balanced budget. Whether or not the University could or should use deficit financing in the current circumstances is an open question. Trent University is responsible for its own financial situation and it is highly unlikely that the provincial government would intervene to eliminate either the accumulated deficit or any operating deficit in the future. That said, some of Trent's Peer institutions in Ontario have deliberately moved relatively much further into debt than Trent and so it should be remembered that the fiscal parameters within which the University is operating are self-imposed.

Oshawa – The Oshawa campus contributed approximately \$6 million or 4% of the University's annual revenue. Also, Oshawa represents approximately 8% of total University FTE. While Oshawa students are lucrative on the one hand, they do not generate much ancillary revenue (housing, meal plans, and so forth). The most significant financial difference between the Oshawa and Peterborough campuses is the manner in which they are staffed. The operation in Oshawa does not employ many tenured or tenure-track faculty relative to either student enrolment or to the number of limited-term appointments and CUPE stipends being used there. Precisely because so much of the University's departmental and organizational infrastructure is located in Peterborough, the Oshawa campus is able to provide a very cost effective model of course delivery. Prior to the relocation of Trent in Oshawa from the UOIT campus, Trent's operations in Oshawa had been a positive contributor of cash, due to stable enrolment and relatively low costs. The cost for the space leased from UOIT was 24% of Trent's grant and tuition revenues from that operation. With the new Oshawa campus, Trent should realize an increase in revenue because it will now retain the 24%, but this will be offset by a significant increase in costs for such things as utilities, security, and maintenance.

Prospects for the Future – Due to the way in which the University's Administration manages the budget, the 'structural deficit', and the Province's restrictions on increasing tuition, there are only 2 ways that Trent will be able to balance its operating budget in the foreseeable future. The first is to A) increase net enrolment every year by improving retention, recruiting more students into new and existing programs without increasing spending commensurately or B) the University can try to cut costs without commensurately diminishing recruitment and retention.

Valuable Assets – Having said that, there is one other way to balance the operating budget but it would involve selling or leasing more of the University's capital assets.

Trent University's main Symons Campus comprises 1,460 acres of land and has three major components: the core campus, the nature areas, and the endowment lands. In addition to the Symons campus, the University owns land in downtown Peterborough: specifically the Catherine Parr Trail College. The University also owns approximately 25 acres of property in Haliburton County (Windy Pine) and a 266 acre parcel of land (the James McLean Oliver Ecological Centre on Pigeon Lake). Accounting principles prevent these assets from being valued at their fair market value in the University's Financial statements, but it should be noted that University's management is preparing to profit from many of these assets in the coming years. Trent University has signalled its intent to pursue good development opportunities on Trent-owned land that will complement the goals of the Endowment Lands Master Plan.

Capital Projects – The University contracted to construct a new Health Sciences facility “Module C” of the existing DNA Complex. The total cost of the project is estimated at \$19,200,000 and will be funded by a government grant of \$9,807,000 and debt financing. The project was completed in May 2010. Costs incurred as of April 30, 2010 total \$13,436,000.

On May 21, 2009, the University entered into a contract for the renovation and expansion of the Trent University Athletic Centre. The total project cost is estimated at \$15,845,000 to be funded mostly by debt financing and \$4 million in donations. Costs incurred as of April 30, 2010 total \$9,232,000.

In October 2009, the University purchased a public school in Oshawa and subsequently entered into contracts for the renovation of this property for the Trent-in-Oshawa Campus. The total project cost is estimated at \$11,413,000 which will be funded by debt financing. Costs incurred as of April 30, 2010, total \$2,877,000.

On July 1, 2009, the University signed a Knowledge Infrastructure Program (KIP) Construction Agreement with the Ministry of Training, Colleges and Universities to fund the construction of a Health Sciences Centre as “Module D” of the existing DNA Complex to a maximum funded cost of \$20,700,000, with substantial completion of the project expected by March 31, 2011. The University subsequently entered into contracts for the construction of this building. Costs incurred as of April 30, 2010 total \$3,239,000.

The Water Street Residence – Trent University and the Residence Development Corporation have entered into a multi-million dollar partnership to develop a townhouse and apartment residence on Water Street for upper-year students. University management has stated that the goal of this project is to “generate a new revenue stream to offset capital costs for core academic buildings on the Symons campus”. The University intends to lease lands to a developer and receive approximately \$2 million before August 2014, and in addition receive 5% of gross revenues from the project starting in Year 20.

Robert G. Lake Generating Station (Lock 22 and Lock 23) – Peterborough Utilities Inc. has partnered with the Trent Rapids Power Corporation to operate this generating

station. The powerhouse and southern portion of the power canal is situated within the City of Peterborough on land leased from Trent University. To date, information on the future projected net revenue from this partnership has not been made available to TUFA.

Debt – To finance these capital projects, Trent University will be increasing its debt significantly in the next 3 years. Trent University’s financial risk is calculated by dividing its long-term debt by its net assets. This provides a measure termed the “Debt-to-Equity” Ratio. Trent University’s Debt-to-Equity Ratio is low relative to its peer institutions, but can be expected to be substantially higher in the future:

Projected Debt-to-Equity Ratio

| Year | Debt-to-Equity Ratio (%) |
|-------------|---------------------------------|
| 2010 | 56% (current) |
| 2011 | 63% (forecast) |
| 2012 | 77% (forecast) |
| 2013 | 81% (forecast) |

An increasing Debt-to-Equity Ratio reflects the institution’s increasingly aggressive financing of recent capital projects with debt. The additional interest expense that will accrue as a result of these activities can be expected to have an impact on future operating budgets. In addition, a higher Debt-to-Equity Ratio affects the University’s credit rating which could lead to higher interest rates to compensate for the additional risk.

Information Flow & Decision Making

Reporting – In the 1990s, the Director of Financial Services (Tony van Hoeckel) issued a report on the annual operating and ancillary budgets. The purpose of this report was to provide members of the University community with comprehensive information on the various components of revenue and expense which make up the operating and ancillary budgets. This report used to consist of over 100 pages of detailed information (revenue and expenses by department, detailed comparisons with other universities, etc.) This comprehensive report gave way to much shorter "Annual Reports" and, most recently, to a shorter and glossier "Report to the Community."

The other important financial report is the University's audited Financial Statements which are formally approved by the Board of Governors. Both the Financial Statements (through April 2010) and Budget Reports (up to 2010-2011) are available to the public on the Trent University website.

The University's Administration is responsible for preparing the Financial Statements. The fiscal year end is April 30th, and the audited Financial Statements are usually available on Trent's website by the following October. The University’s Board of

Governors is responsible for ensuring that management fulfills its responsibilities for these statements and is ultimately responsible for approving them. The Board generally relies on its Audit Committee to meet the Board's responsibility to review the Financial Statements and Annual Report. The majority of individuals on the Audit Committee are not officers or employees of the University. It seems fair to say that this Board, has been more focused on managing costs and balancing the operating budget than has been the case in prior years.

Enrolment Planning vs. Budgetary Planning – In Strategic Enrolment Management (SEM) there are three generic models used by universities: 1) Enrolment Planning, where enrolment is fairly certain and the University makes proactive strategic choices because they have some certainty about their enrolment figures in advance; 2) Budgetary Planning, where enrolment is uncertain and the University makes reactive decisions because they cannot predict their enrolment figures with any certainty and therefore find it difficult to plan spending; 3) Enrolment and Budgetary Mediation, where there is a blending of the other two methods. Financial planning at Trent University seems to fall predominantly under category two, “Budgetary Planning”. Among the consequences of this approach, the planning cycle is necessarily pushed later in the academic year. Many universities, for example, are able to make staffing decisions in the fall term for the next academic year whereas staffing plans at Trent are often delayed until the spring, or even early summer.

Estimates – The development of a budget for the coming fiscal year requires management to make certain estimates and assumptions. Since there is a University-wide shift towards integrated planning it will be important for TUFA to be attentive to these estimates, especially those relating to enrolment and tuition revenues, instructional expenses, and pension solvency.

Key Financial Dates – Setting the budget involves a continuous monitoring process by management throughout the operating year (May 1st to April 30th). In September the Financial Information Subcommittee (FISC) meets to review enrolment data and projections and to discuss their implications for staffing. In early November official enrolment data goes from Trent's Financial Services Department to the provincial government for fall counts and subsequent operating grant reconciliation. In December the FISC meets to discuss finalized enrolment numbers and their implications for staffing. In January, the FISC meets to discuss any decisions taken or contemplated by the University Administration that may effect staffing. In February, the official enrolment data goes to the provincial government for winter counts. In March, the FISC meets to review the draft budget before it is presented to the Finance and Property Committee. In April, the draft budget (with three-year forecasts) is approved by Board of Governors. In June, the financial statements are audited and the FISC meets to discuss the Board-approved budget and its implications for staffing.

Trent University Finances – A TUFA perspective

Salaries and Benefits – The University's Administration has expressed concern that Trent “invests in instructional salaries at higher levels, relative to its funding sources, than most other Ontario universities.” It should be noted, however, that the proportion of TUFA salaries and benefits to total salaries and benefits at the University has remained stable in recent years.

| Fiscal Year | TUFA Salaries & Benefits | Total University Salaries & Benefits | Proportion of TUFA to Total Salaries and Benefits |
|--------------------|-------------------------------------|---|--|
| 2008/2009 | \$38.5 Million | \$77.8 Million | 49.5% |
| 2007/2008 | \$37.6 Million | \$75.4 Million | 49.9% |
| 2006/2007 | \$35.2 Million | \$69.0 Million | 51.0% |
| 2005/2006 | \$31.8 Million | \$62.2 Million | 51.1% |
| 2004/2005 | \$28.3 Million | \$56.8 Million | 49.8% |

Student/Faculty Ratio – Unfortunately data on this indicator is not shared by other universities. At Trent, the ratio has increased from 19.3 to 1 in 2004/05 to its current level of approximately 26.2 to 1.

The Parity Formula – This contractual mechanism has had a marked effect on TUFA wages over the years. Trent's parity formula, combined with the salary step structure and end of mandatory retirement, have resulted in an anomalous system that has improved relative salaries across faculty ranks, albeit unevenly, while bringing all TUFA faculty into the top quartile for pay across the country. According to the most recent CAUT Almanac, full professors' salaries at Trent are the 3rd highest in Canada. Though not as high relative to full professors, Trent's assistant and associate professors' salaries also compare favourably with salaries at other Canadian universities. Trent's associate professors' salaries ranked 11th among the 96 institutions in CAUT's dataset; assistant professors' salaries, 12th.

Budget Deficit Projection – In January 2010, University management presented a “Budget Deficit Projection” of \$4.6 million for 2010/2011. At the time, the University's cost-cutting focus was on limited-term appointments: this threatened a number of TUFA members personally, the viability of some departments/programs, and the overall health of the Association. A month later, TUFA responded by establishing the University Finance Oversight Committee (UFOC) was chaired by Momin Rahman (Sociology) and included Rodney Fitzsimmons (Ancient History & Classics) and Michael Konopaski (Business Administration). UFOC was given the task of providing accurate financial information to TUFA's Executive and membership as well as to assess the University's

budget and decision-making procedures. Because the original budget deficit document presented by the University was summarized on only 6 lines of one page, UFOC affectionately referred to it as the 'napkin budget.'

Correspondence between TUFA and University Management – In February 2010, UFOC began corresponding with University management on a regular basis and Don O'Leary (Vice President of Administration) generally provided written responses to UFOC's questions within a few weeks of receiving them. While the 'napkin budget' caught TUFA members off guard, UFOC established a more healthy pattern of consultation between the Union and Administration.

Financial Information Subcommittee (FISC) – In August 2010, Trent University management and TUFA agreed to establish a subcommittee of the Joint Committee to review financial information in a timely and collaborative fashion. In this regard, the FISC built upon the consultative precedent established by UFOC. The purpose of this new committee is to improve communication between management and TUFA and is scheduled to meet at predetermined points in the fiscal year to review and discuss budget decisions, enrolment data, and staffing. In addition to the establishment of the FISC, the agreement in August saw the University reaffirm a commitment to academic staffing based on a preference for full-time regular faculty: "academic units are best served by the employment of full-time faculty who are engaged in teaching, research and University service."

Public Sector Compensation Restraint – Recently, the provincial government has been calling for wage restraint in the public sector (Bill 16). All Ontario faculty associations, both unionized and non-unionized, agreed to disengage from the consultation process that the government had organized around compensation restraint. In general, faculty associations agreed that, given the diverse situations of Ontario universities, local bargaining remains the best and only appropriate way to address compensation and other employment matters. The Government's objective of seeing institutions bring down wage freezes for two consecutive years has played out differently at different institutions in Ontario. It should be noted, however, that the 0% increase given TUFA members this summer was independent of these processes and resulted from the operation of the parity formula.