

QUFA VOICES

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PRESIDENT'S VOICE

QUFA Meets with Principal to Discuss Budget Issues and QUFA Motion

**By Peter Dacin
President, QUFA**



On 6 January 2008, Principal Tom Williams presented at a joint meeting of the QUFA Executive and Council of

Representatives. This

was a follow-up to a previous meeting with QUFA in September, and the focus was once again the budget and the general financial state of Queen's University. This special issue of *QUFA Voices* contains a summary of that 6 January meeting with Principal Williams.

As I mentioned in my last column, QUFA is busy following up on a number of activities coming out of the Fall General Meeting. I do want to comment on one of those things, the motion from the floor directed to the University Administration. Here are some updates related to that motion.

With respect to the first part of the motion calling for a moratorium on cuts, QUFA did follow up at both the Joint Committee to Administer the Agreement (JCAA) and in my meeting with the Principal stating our concerns about the immediacy and depth of mandated cuts by certain Faculties. As you will read in the summary of the 6 January meeting, the University Administration does not believe that we can't afford not to implement budget cuts this year, as that will raise the deficit to what they and the Board of Trustees consider to be unacceptable amounts. However, in some Faculties, such as Arts and Science, the targeted level of cuts for this year have been revised.

The second part of the motion demanded a general meeting and that the University Administration make critical financial information available to the Queen's community. As you know, the Principal has now set up a Web site providing the information that the Administration has been using in their assessment of the current financial situation at Queen's University. In addition, the Principal's financial Web site also contains preliminary reports of several task forces set up to address various financial issues. I encourage everyone to spend some time on these pages and to send us any comments or concerns that you have

about the information on those pages. While there are no immediate plans for a general meeting with the Queen's Community, QUFA is still hopeful that one will be scheduled in the near future.

The third part of the motion demanded an external and independent auditor. The Principal stated during the 6 January meeting with QUFA Executive and Council that he would not undertake this audit.

The final part of the motion, about student staff and faculty being involved in the creation of a plan for financial recovery, is something that QUFA has raised with the University Administration. QUFA has raised the necessity of a financial recovery plan at both the JCAA and the 6 January meeting. However, we are also interested in hearing from our Members as to what, if anything, has been going on with respect to this issue.

As always, if you have any comments or questions, please feel free to contact me, your QUFA Council Representative, or anyone at the QUFA Office.

Peter Dacin can be reached at pdacin@business.queensu.ca.

FYI

QUFA Executive and Council Meeting with Principal: A Summary

By Elaine Berman
Administrative Officer, QUFA

Susan Fitzgibbon
Member Services Officer, QUFA

Ramneek Pooni
Member Services Officer, QUFA

and Michael White
Engineering and Science Library



Queen's Principal Tom Williams attended a meeting of QUFA Executive and Council members on 6 January 2009, from 3.30 p.m. to 5.30 p.m., in Room 202, Policy Studies Building. QUFA President Peter Dacin moderated the meeting.

Information and Clarifications from the Principal

The purpose of the meeting was to provide an update on the University's budget situation and to address issues that were raised last month at the QUFA Fall General Meeting. Principal Williams brought with him three members of the University

administration: Patrick Deane, VP (Academic); Bill Bryck, Acting VP (Operations and Finance); and Dan Hogg, Associate VP (Finance) and CFO. He had originally wanted to bring several Deans along as well, but he did not do so at the request of President Dacin. Principal Williams had hoped to bring Donna Janiec, Director of Risk Management and Audit Services, but she was prevented from attending by a last-minute emergency. He was open to taking questions away from the meeting for Donna Janiec or others to answer later.

Principal Williams mentioned at several points during the meeting that he would not discuss the Pension Plan, as nobody would sleep if he did. He did say, though, that the Pension Plan's unfunded liability had grown, explaining at one point that it was approximately \$40 million in September 2008, \$80 million at Thanksgiving, and probably higher today. The federal government had announced extending the payment timeframe for unfunded solvency valuation liabilities, but this really would not help Queen's.

Principal Williams provided an overview of the University budget with a number of PowerPoint slides (see appendix to this issue of *QUFA Voices*). He said that the Administration was working with experts in the Business School to educate themselves and to figure out creative strategies for those heading units. He said that we are still in a

fluid situation and that it might get worse in 2009. All Ontario universities are in deficit, and some are in much worse shape than Queen's. Queen's had expected approximately \$10 million from the government in May, but it got nothing. The pooled endowment fund shrank from \$620 million in April to \$491 million in October, and is probably lower today. Queen's uses revenue from the endowment to cover student bursaries, research chairs, some operating costs, etc., so this steep decline will affect how these commitments will be financed. He knows that more students will need the financial aid provided by the Student Access Guarantee because of the recession. Donations are also expected to decline.

Someone asked about the \$20 million loss in the projected 2008-2009 budget related to "revised accounting for financial instruments." Principal Williams and CFO Hogg explained that these are unrealized (paper) losses, and that new accounting rules require universities to include these in their consolidated financial statements.

Queen's receives about 41% of its revenue from the province, but the Minister for the Ministry of Training, Colleges, and Universities (MTCU) has told university presidents that there will be no new funds. Queen's cannot raise tuition until the tuition freeze expires in a couple of years, and tuition and fees are already at the maximum in programs not affected by

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QUFA Voices publishes QUFA-related news and information for QUFA Members and provides QUFA Members with a forum to express their QUFA-related ideas and opinions. We want to hear from you! Please send your QUFA-related story ideas, news items, opinion pieces, letters to the editor, photographs, and other submissions to the editor at mayr@queensu.ca.

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the cap. He expects that in the next few weeks Ontario and the federal government will announce a large infrastructure package to help stimulate the economy. This will help universities and colleges with infrastructure projects (e.g., maintenance, renovations, new buildings, etc.), but not with operating costs.

The University has lost approximately \$125 million because of the financial market meltdown, in addition to the increased Pension Plan unfunded liability, and will be running a deficit. Principal Williams expressed his concern that if universities do not tackle their deficit problems themselves, the province may appoint someone to do so. He noted that several weeks ago the MTCU hired an outside expert to help Durham College address its financial and governance problems, just as it has done in the hospital sector. Durham College has accumulated a deficit of more than \$21 million in the past two years. Some University Boards have resolved that their universities will no longer be able to have deficit budgets because of the difficulties they face in getting out of debt.

Queen's projects it will accumulate a deficit of approximately \$18-20 million by the end of the next three years. In past years, Queen's was able to take advantage of internal loans from one source of funds to another, but this is not possible right now. While it would be possible for this money to come out of the Endowment Fund of approximately \$491 million (October 2009), and this strategy will be considered, it is not something Queen's is likely to do, as it would eat into the principal, and some of the endowment money is restricted as to the use of the funds.

Principal Williams feels confident about the dollar amounts projected for 2009-2010 and 2010-2011, but less so about those for 2011-2012, as there are too many variables to

estimate accurately that far into the future, including a new QUFA collective agreement. The 6% figure attributed to faculty compensation compares the salary base this year to the total increase in the salary mass in the following year, which, in addition to the 3.2% increase on existing QUFA Member salaries, takes into account progress through the ranks, merit, benefits, salaries of new hires, etc. The Administration relies on figures from the Canadian Association of University Business Officers (CAUBO) for comparative data about Queen's, which says that Queen's has one of the lowest administrative costs and one of the highest instructional costs among Ontario universities.

The Deans have been told to cut 15% over three years, but they have not been ordered to cut 5% in each of three years. How each academic unit manages those cuts will be decided at the unit and departmental level, taking into account the peculiarities and priorities of each, input from their members, retirements, etc. Some faculties are back-end loading the cuts. If these cuts are not implemented now, then the deficit will grow even larger, and so the luxury of waiting does not exist. However, the Principal told QUFA that he could not answer the question about whether the current deficits would be eliminated, even if these 15% cuts are implemented over the next three years.

Queen's has not run a deficit in the past, likely because of its "Presbyterian history." Prior to this year, Queen's has chosen to cut its budget by an average of 2.5% for twelve of the last fifteen years. As Patrick Deane noted, these budgeting exercises were undertaken to reallocate money to those programs or projects deemed to be the Administration's priorities in other parts of the University.

When asked about possible financial

mismanagement and cost overruns with the Queen's Centre and any link to the departure of former Vice-Principal (Operations and Finance) Andrew Simpson, Principal Williams bluntly stated that there was no evidence of malfeasance or negligence related to the Queen's Centre, and this was not the reason for the departure of Andrew Simpson. As a public institution, Queen's is subject to considerable scrutiny. KPMG audits the university's finances every year and issues a detailed report. This report and the annual report can be viewed online.

For the Annual Report 2008-2009, please see http://www.queensu.ca/fins/info/pdf/annual_budget09.pdf.

For the Financial Statements, please see <http://www.queensu.ca/fins/info/pdf/AnnualReport2008.pdf>.

Having been told of the lack of trust in the Administration arising because it does not appear to be adequately communicative or transparent, Principal Williams stated that there will be a special budget Web site by the end of the week linked to the Principal's Web site where copies of slides, documents, and other budget-related information will be stored. He also said that the administration is working on ways to improve communications, including a Frequently Asked Questions (FAQ) page on the Web site, and he encouraged Members to submit their questions.

There is no simplistic way of solving the dilemma. Ontario Universities will have to lobby Queen's Park. The Principal's Office has set up several task forces charged with looking into issues such as space, cost reduction, bulk purchasing of software and equipment, revenue generation, enrolment, employee departure packages, new technologies, and so on. He would be posting the reports

of the task forces on his Web site.

Early departure plans may not be realistic, as money is needed up front for such packages. As well, any such process would have to be negotiated with employee groups, so it would take time. He then mentioned targeted retirements, because in the past the people who took early departure packages were not the ones who the University hoped would go. (Note: Targeting of retirement packages is not an acceptable option for QUFA which would insist that any early retirement plan be offered to all Members.)

The Board will be updated on the budget in March 2009. The University Budget will be voted on for approval in May 2009.

Principal Williams said he would not agree to hiring an external and independent auditor as requested by the QUFA Membership at the Fall General Meeting.

Comments and Questions from QUFA Councillors and Executive

How has Queen's taken into account the possibility that the market will change at some point? So far, the documents and discussions are about short-term situations and do not show what happens at Queen's over, say, a thirty-year period. This long range view is necessary in a balanced discussion and decision-making process.

Queen's accounting and information technology systems are outdated, and the lack of timely investment in computerized record-keeping has added to the cost of running the University. *The Principal agreed.*

Queen's budget documents must be made more obvious to average readers. If the money is going to light-bulbs or the library or whatever, then those details should be clear and not obfuscated by lumping these costs in

with salaries and other expenses and calling it "VP and Principal Allocation."

Administrative costs for the Principal and Vice-Principals have gone up from 12% twelve years ago to 20% now, and this must also be investigated for cost savings before QUFA Members can be called on for any matching remedies.

Before entering into any negotiations to deal with the current financial situation, Members will want to know exactly how any money that might be "given back" to the University would be used by the University.

The information given out at the local levels (departments, faculties, schools) is not detailed enough. The University Budget Document may not get far enough into each area of the University. Until that data is readily available, there is no possibility of Members asking perceptive questions or suggesting creative ideas for local budgeting.

Apart from the current situation, the University must make a plan. It must have its mission and goals clearly spelled out for a substantial commitment to the academic environment, and outline how it will proceed should it ever run into financial difficulties again. There must be clarity and predictability about where the cuts will be. The plan must be one that values quality of education and promotes this core mission of the University, not one based on a corporate model. *Principal Williams agreed that this was a good idea and suggested that Senate was the place to pursue this.*

The objectives of the University's commitment to internationalization and diversity should not be lost in the flurry of cost-cutting.

Someone suggested that Queen's should invest in less risky investments. *Principal Williams said*

that our investments are managed by five independent fund managers who use different strategies for managing risk and minimizing exposure, and making changes takes time. Some universities have experienced much greater losses.

Queen's must look elsewhere for ideas on how to run itself more efficiently, and to consider alternative administrative structures that might be more responsive and responsible to its constituent members.

Someone noted that it makes no sense that units that attract high-calibre students and that currently turn away hundreds of applicants are now faced with having to implement budget cuts in ways that may change their programs beyond recognition. These cuts are based on financial reasons alone, and do not in any way improve the academic functions of Queen's, and could hurt the university's reputation in the long run.

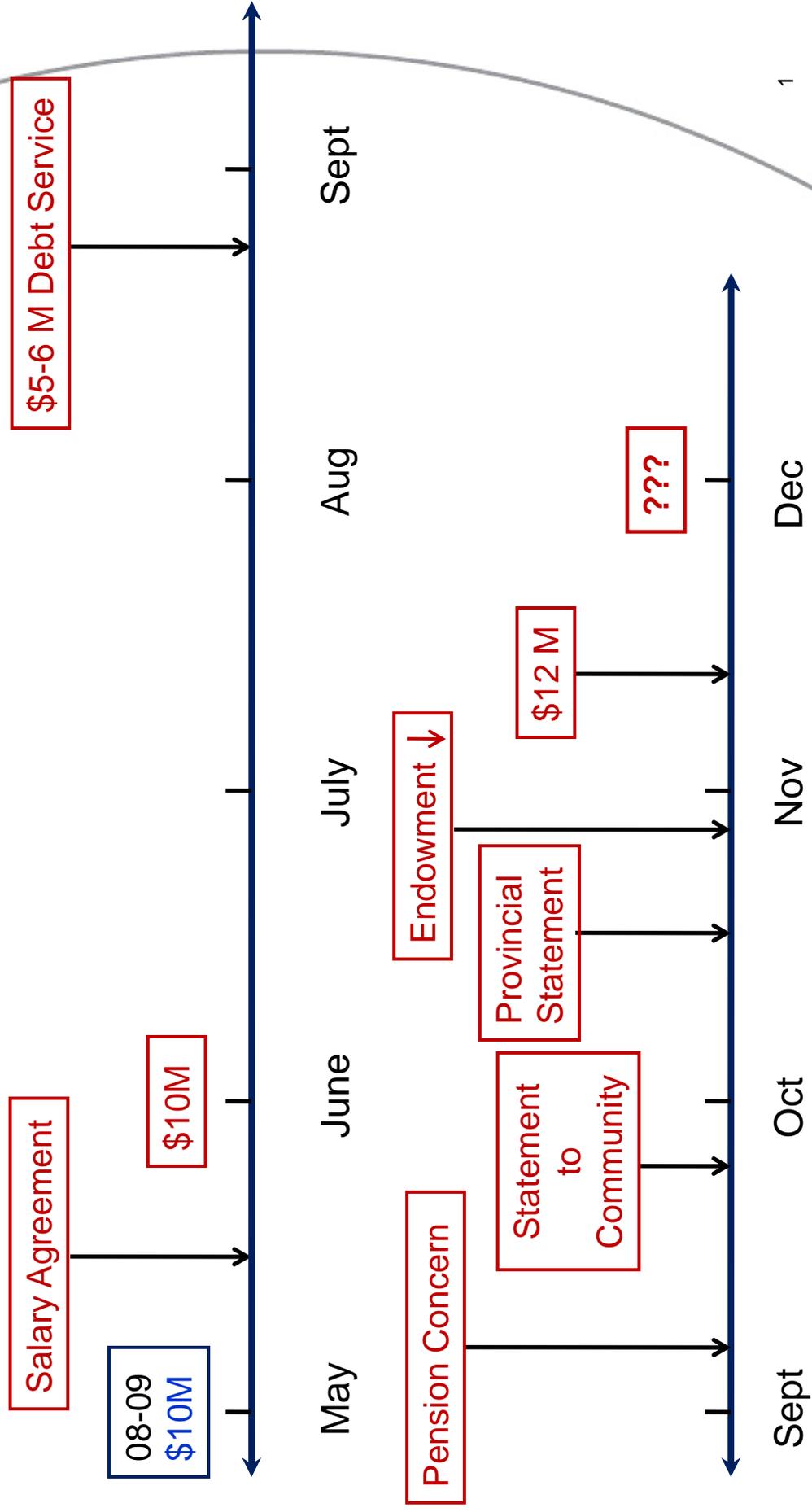
Towards the end of the meeting, someone asked if a salary freeze would eliminate the shortfall. *Principal Williams made clear that he had not and was not asking anyone for a salary freeze. He did acknowledge that a freeze would help, but he did not know how much and it would not likely eliminate the need for cuts over the next three years. He suggested that there were other ways that might be tried first. He agreed that if a salary freeze were put on the table he would expect QUFA to have input and to ask for guarantees on how the savings were allocated (e.g., that they would go to departments and programs and not be diverted for other purposes).*

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Endowment Meltdown



Queen's
UNIVERSITY



Operating Budget



Budget Planning - 2009/10 to 2011/12

- Context
- Process
- Key assumptions
- Projections

Context



- Other Ontario Universities
- Provincial Government
- Financial Market Meltdown
- Pension Plan Unfunded Liability

Budget Planning Assumptions



- Unsustainable growing gap between revenues and expenditures
- Three-year budget planning horizon
- 15% budget reduction from 2009/10 to 2011/12

Assumptions Cont'd



- Provincial Funding
- Enrolment
- Tuition
- Capital and Debt Commitments
- Donations and Investment Income

Pooled Endowment Fund



Decline in Market Value and Contribution to Operations:

	Market Value		2008-09 income \$000
	April 30, 2008 \$000	Oct. 31, 2008 \$000	
General- Operating Budget	100,685	77,581	4,403
Student Assistance	266,693	210,195	11,754
Trust (Chairs, etc.)	236,284	187,677	10,414
Research	21,091	16,383	930
	624,753	491,836	27,501
Original Principal		435,985	

Projections-Balanced Budget



Budget cuts required to balance the budget

Queen's University			
2009-10 - 2011-12 Operating Budget - \$000,000s			
	Budget	Budget	Budget
	2009-10	2010-11	2011-12
Total Operating Revenue	\$ 336.2	\$ 352.1	\$ 363.1
Total Operating Expenditures	\$ 358.8	\$ 364.6	\$ 371.6
Budget Deficit	\$ (22.6)	\$ (12.5)	\$ (8.5)
Deferral of Internal Loans	\$ 3.6	\$ 3.6	
Budget Surplus (Deficit) after deferral	\$ (19.0)	\$ (8.9)	\$ (8.5)
Budget cut required to balance	\$ 19.0	\$ 9.0	\$ 8.5
Budget cut	9.5%	4.5%	4.25%

3 Year Budget Projections



Queen's University			
2009-10 - 2011-12 Operating Budget Projections - \$000,000s			
	Budget 2009-10	Budget 2010-11	Budget (3) 2011-12
REVENUE			
Student Fees	\$ 126.3	\$ 136.7	\$ 146.2
Government Grants	\$ 184.9	\$ 189.8	\$ 191.3
Investment Income	\$ 18.9	\$ 19.0	\$ 19.0
Other Income	\$ 4.6	\$ 5.1	\$ 5.1
Unrestricted Donations	\$ 1.5	\$ 1.5	\$ 1.5
Total Operating Revenue	\$ 336.2	\$ 352.1	\$ 363.1
EXPENSE			
Allocations:			
Principal and Vice-Principals	\$ 66.1	\$ 69.1	\$ 74.5
Faculties and Schools	\$ 153.9	\$ 169.8	\$ 182.4
Compensation increase (<i>net of PTR Recovery</i>)	\$ 9.9	\$ 10.6	\$ 10.6
Reinvestment	\$ 0.3	\$ -	\$ -
Targetted Funding (1)	\$ 8.7	\$ 7.3	\$ 4.9
Total Allocations	\$ 238.9	\$ 256.8	\$ 272.4
Cumulative 5%/year Budget Cut	\$ (10.0)	\$ (20.0)	\$ (30.0)
Other Central Expenses:			
Benefits	\$ 37.8	\$ 39.4	\$ 39.4
Utilities	\$ 15.5	\$ 16.0	\$ 16.5
Library Acquisitions	\$ 9.8	\$ 9.8	\$ 9.8
Student Assistance	\$ 29.4	\$ 30.6	\$ 30.6
Deferred Maintenance	\$ 5.9	\$ 5.9	\$ 5.9
Capital Projects Debt Financing	\$ 3.5	\$ 6.8	\$ 6.8
Administrative System Replacement	\$ 3.0	\$ 3.0	\$ 3.0
Other Expenses, net of recoveries	\$ 15.0	\$ 15.3	\$ 15.2
Total Operating Expenditures	\$ 348.8	\$ 363.6	\$ 369.6
Budget Surplus (Deficit)	\$ (12.6)	\$ (11.5)	\$ (6.5)
Deferral of Internal Capital Loans (2)	\$ 3.6	\$ 3.6	\$ 3.6
Budget Surplus (Deficit)	\$ (9.0)	\$ (7.9)	\$ (2.9)

Task Force Update



Mandate of Principal's Task Forces:

- Identify the crucial issues
- Gather appropriate background information, both inside and outside Queen's
- Propose a set of broad courses of potential action and their implications.

Principal's Task Forces



- Space
- Enrolment
- Employee Departures
- Revenue Generation
- Cost Reduction
- Virtualization
- Communications

Next Steps Cont'd



- Advocacy
- Budget Planning
- Mitigation Strategies
- Board Budget Update (March, 2009)
- Board Budget Approval (May, 2009)

Faculty Compensation



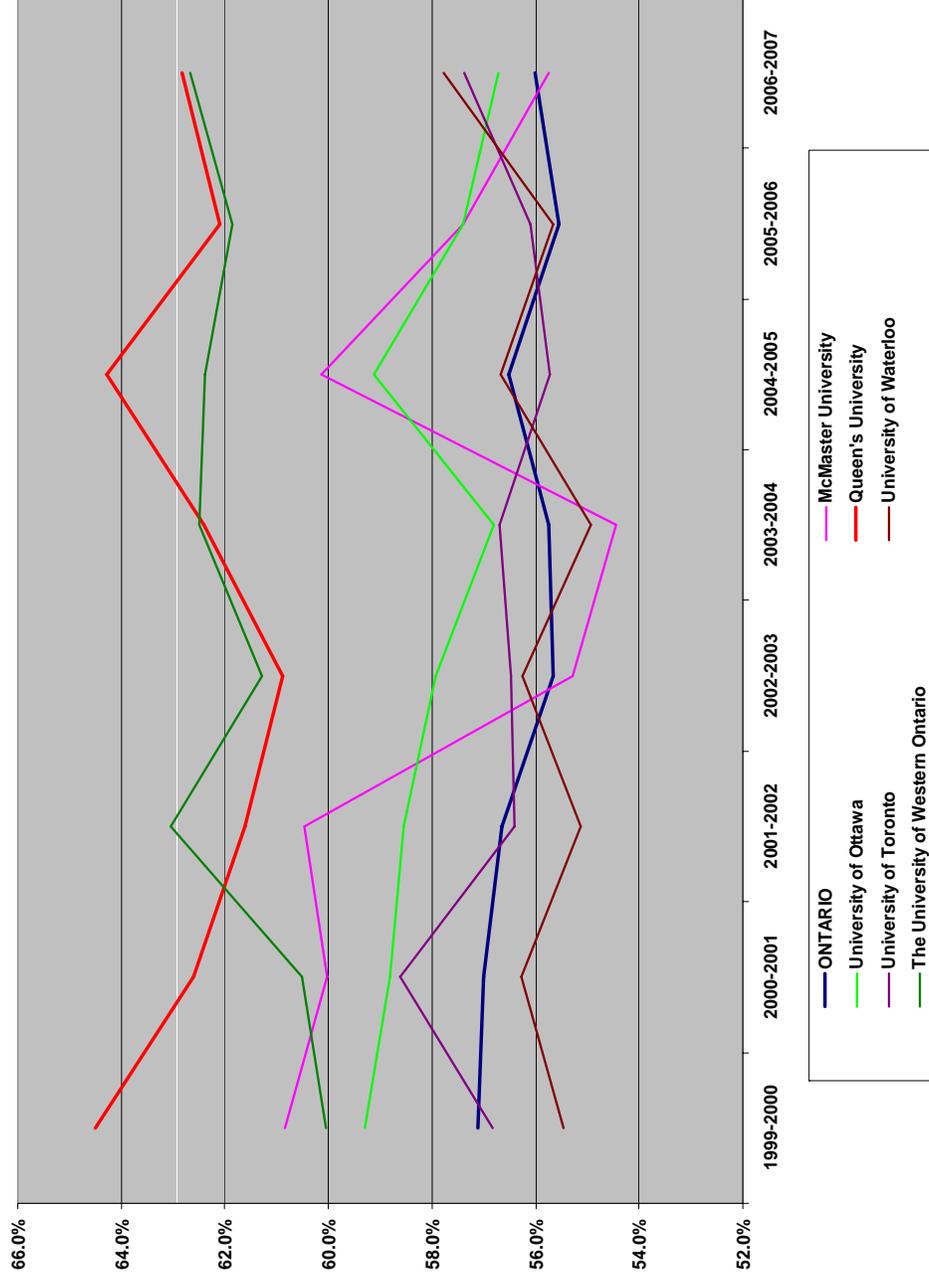
2008-09 Faculty Compensation Increases (Excludes Adjuncts and Clinicians)

	\$000's
2007-08 Total Faculty FTE Salary	95,866
2008-09 Total Faculty FTE Salary after May 1, 2008 increases	101,118
2008-09 Anomalies not yet allocated	500
2008-09 Total Faculty FTE Salary after Anomalies	101,618
2008-09 Faculty Salary Increases	5,752
Total % Increase	6%
Individual Increases before anomalies ranged from 2.85% to 9%	

Comparative Operating Instructional Expenditures



Instruction & Non-Sponsored Research Expenses as a % of Total Operating Expenditures

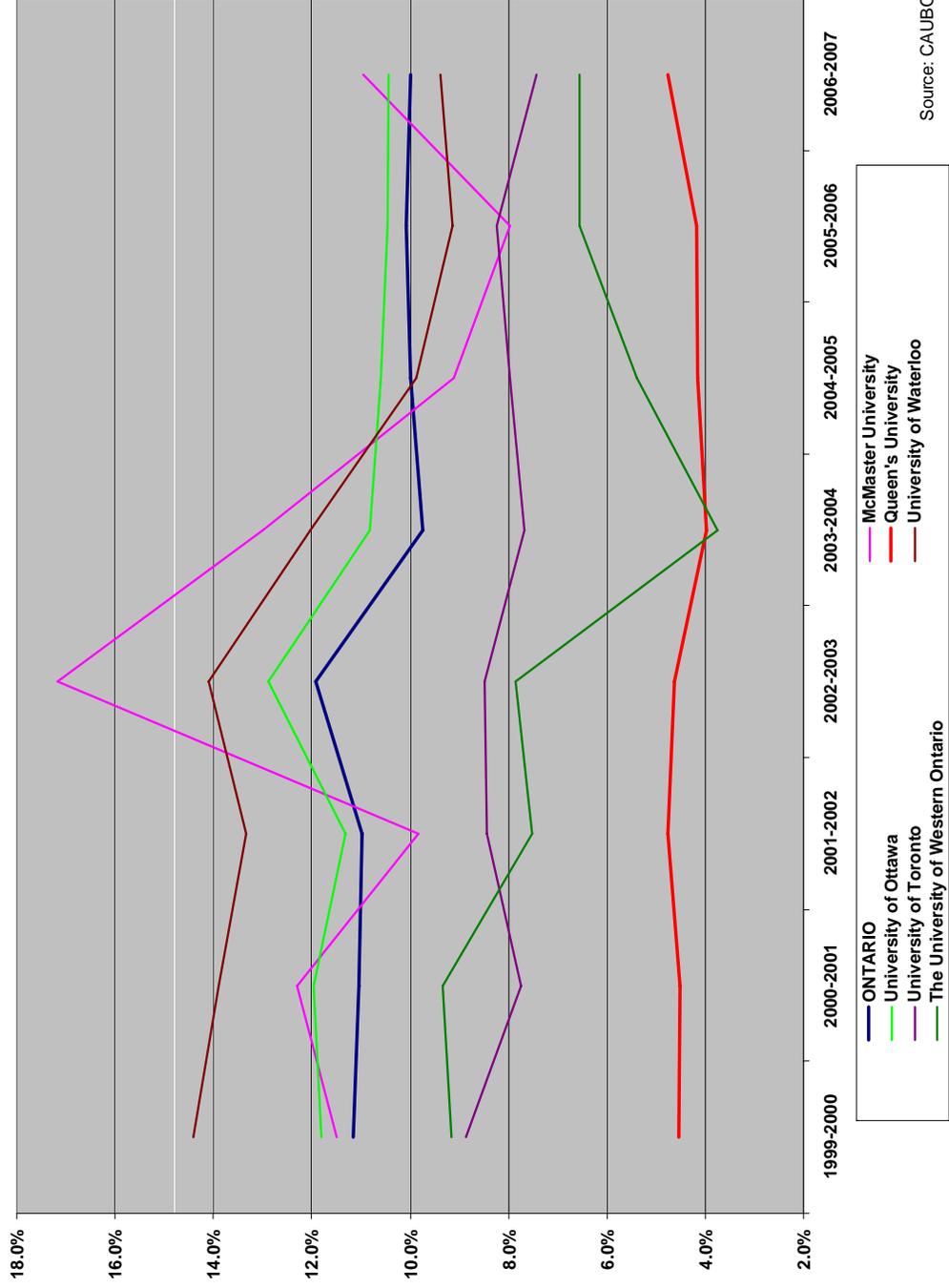


Source: CAUBO

Comparative Operating Administrative Expenditures



Administrative Expenditures as % of Total Operating Expenditures

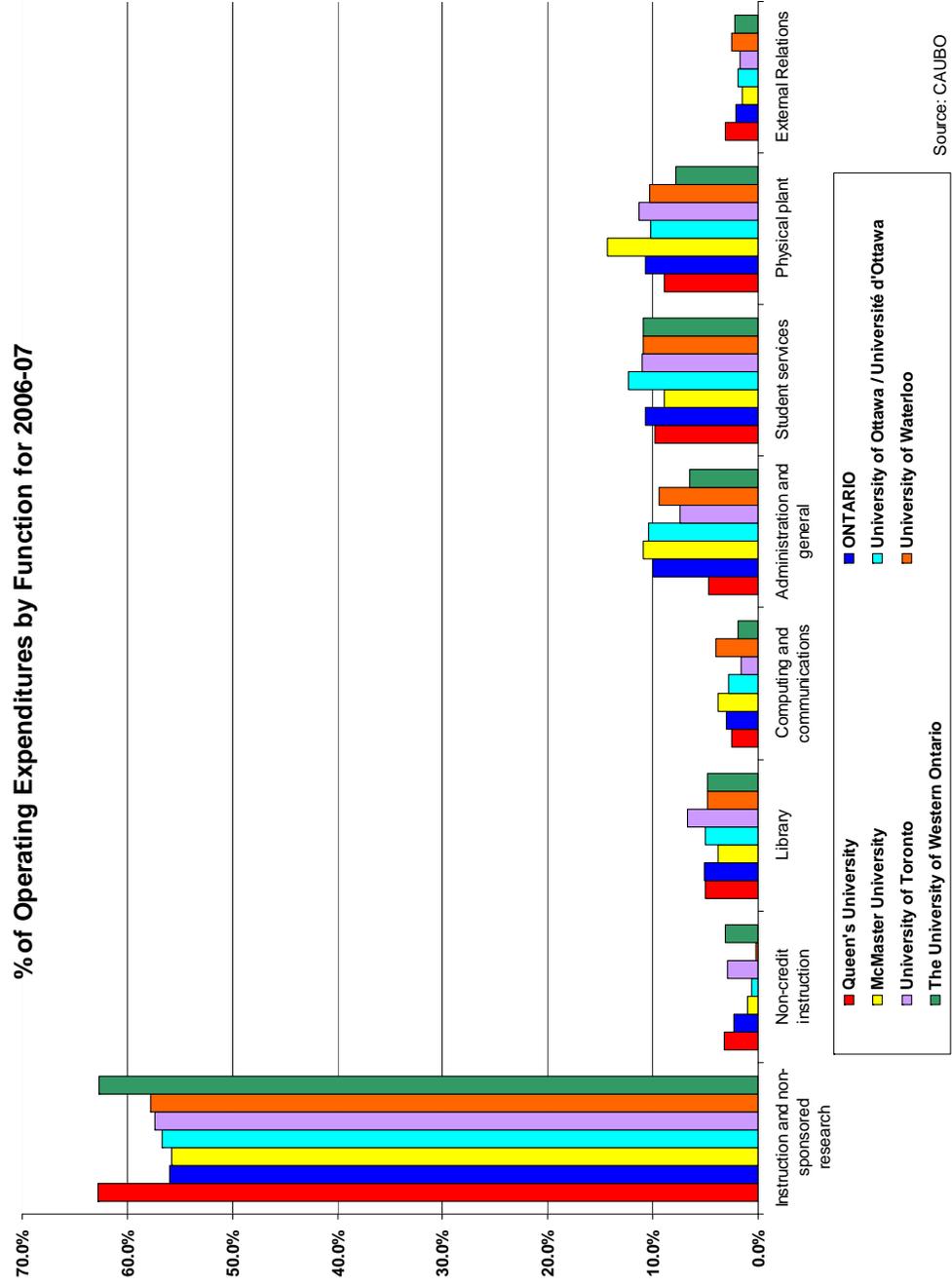


Source: CAUBO

Comparative Operating Expenditures by Function: 2006-07



% of Operating Expenditures by Function for 2006-07



Source: CAUBO

Principal and Vice-Principal Budget Expenditure Breakdown (\$000's)



Budgeted Expenditures for the Principal and Vice-Principal Portfolios as per the 2009-10 and 2010-11 Operating Budget (000's)

	2009-10	2010-11
Principal	2,189	2,263
VP (Research) (a)	3,875	4,091
VP (Advancement) (b)	11,776	12,145
VP (Operations & Finance) c)	6,139	6,608
Information Technology Services	6,186	6,451
Physical Plant Services	9,244	9,639
VP (Human Resources) (d)	3,221	3,355
VP (Academic) (e)	6,261	6,694
University Registrar	3,812	3,954
Dean of Student Affairs	4,648	4,821
Library Administration	8,758	9,084
Total Principal and Vice-Principals	66,108	69,106

- a) Includes Research Services, eQUIP
- b) Includes Marketing and Communications
- c) Includes Finance, Environmental Health and Safety, Risk Management and Audit
- d) Includes Human Rights and Equity
- e) Includes Archives, Centre for Teaching and Learning, Institutional Research and Planning, McGill-Queen's Press ...