

University of New Brunswick  
**Q & A on Financial Position and Budget Outlook**

**Q.1 What is the position of the university operating budget?**

A. The 2009-10 operating budget, approved by the Board of Governors, had a \$3-million shortfall.

Budgeted expenses were \$166.1 million, in comparison to budgeted revenues of \$161.5 million, resulting in a structural shortfall of \$4.6 million. This number was further reduced to \$3 million through one-time budget actions. The University budget is available at <http://www.unb.ca/vpfin/budget.html>.

**Q.2 What is a structural budget shortfall?**

A structural budget shortfall is a situation where spending is permanently higher, and growing faster, than revenues.

**Q.3 How did the University operating budget get to be in a structural shortfall position?**

A. A number of factors have contributed to our current structural shortfall position. They include:

- UNB continues to be underfunded relative to other national comprehensive universities.
- There has been a 14% decline in full-time equivalent student enrolment at UNB for the four-year period ended April 30, 2009. This decline has resulted in a permanent loss of over \$12 million in student tuition fee income.
- Declines in student enrolment have impacted the UNB Fredericton residence system which has fallen below a break-even occupancy level.
- While there has been a significant amount of expense management and reduction over this same period, overall revenues have fallen behind expenses. UNB faces a structural shortfall, a situation in which spending is permanently higher, and growing faster, than revenues. This situation was identified as part of the McDonald/Betts independent financial review in July 2006 (<http://www.unb.ca/vpfin/financialreview.html>).
- Over the last few years, various budget actions, with one-time or short-term impacts, have also been utilized. While these actions have helped to avoid in-year budget shortfalls, they have not rectified the structural nature of the shortfall and cannot be relied upon as part of an ongoing sound financial strategy.
- A global economic recession is challenging public institutions across the country, negatively impacting university endowments and government funding.
  - The base unrestricted operating grant from the provincial government, at nearly \$95 million, is a major component of overall operating budget funding. In 2009, UNB received a 0.6% reduction in the level of the unrestricted operating grant received from the province. This reduction resulted in \$4.4 million less than had been assumed in budget planning models.

- Interest rates have dropped significantly. The bank rate dropped from 4.25% in January 2008 to 0.5% by the end of 2009, directly impacting the level of income that UNB earns on the short-term cash-flow-based investments it makes. This revenue dropped by approximately \$600,000 in 2009.
- World investment markets plunged over the course of the last year and with it the value of UNB's trust and endowment accounts. What was valued at \$175.4 million on May 31, 2008 was valued at \$167.9 million by November 30, 2009. The majority of UNB's scholarships and bursaries are normally funded out of earnings from these accounts. Without earnings or sufficient reserves in place to support this spending priority, there is additional financial pressure placed on UNB. While market improvements have been significant, they have not been enough to recover the value lost in our trust and endowment accounts.

**Q.4 What is the current outlook for the university operating budget?**

**A. 2009-10 (current fiscal year)**

The 2009-10 budget year runs from May 1, 2009 to April 30, 2010. The current outlook is that UNB will have a structural shortfall of at least \$4.6 million. The net shortfall, following one-time budget actions, should be close to the budget amount of \$3 million.

Actual fall student enrolment on the Fredericton campus was 232 full-time equivalent (FTE) students less than budgeted, causing additional revenue loss and budget pressure for the campus.

Actual fall student enrolment on the Saint John campus was better than budgeted by 117 FTE students, which improved the budget position for the campus.

A financial report on the outlook for the 2009-10 fiscal year was made to the Board of Governors on December 10, 2009. That report is available at <http://www.unb.ca/vpfin/reports.html>.

**2010-11 (next fiscal year)**

UNB is currently developing the budget for 2010-11 (the fiscal year begins May 1, 2010).

Estimates have been made for revenues, including student enrolment, and for expenses that reflect current operations.

Following the provincial budget as released in December 2009 we now know that UNB will receive a 3% increase to our base operating budget and funding to offset the equivalent of a 5% increase in tuition fees for domestic students.

When factored together, the 2010-11 estimated budget still contains a structural shortfall. Details of this are illustrated in Question 5.

## 2011-12 and beyond

There are many uncertainties and risk factors associated with UNB's operating budget beyond 2012. The recent provincial budget did not contain any information on what levels of future funding would be available for New Brunswick universities. The context for tuition fees is unknown at this time as is what continuing impact the global economic condition will have on government funding.

We have modeled several different hypothetical scenarios to illustrate what our operating budget might look like in the coming years. In simple terms, the scenarios illustrate a basic challenge of operating expenses growing faster than operating revenues. Operating expense scenarios illustrate that expenses could increase in the range of 3-4% per year, where as, University operating revenues could increase in the range of 1-2% per year. This difference results in an ongoing shortfall. In general terms, the unrestricted provincial operating grant amounts to 60% of overall operating revenue, with tuition fees and other revenues making up the remaining 40% (the percentage weightings vary by campus). An illustration of various revenue scenarios modeled follows:

<u>UNB Operating Budget Revenues</u>	<u>% Increase Scenarios</u>				
-Restricted provincial operating grant (60% of budget)	1.0%	1.0%	1.0%	2.0%	3.0%
-Tuition fees and other revenue (40% of budget)	1.0	2.0	3.0	2.0	0
<b>Overall revenue increase</b>	<u>1.0%</u>	<u>1.4%</u>	<u>1.8%</u>	<u>2.0%</u>	<u>1.8%</u>

The net result of this imbalance is that, if left unchecked, the University's annual operating structural shortfall would continue to grow each year, amounting to approximately \$4 million in 2011-12 and over \$8 million in 2012-13. This does not represent the current University budget plan.

### **Q.5 I thought the university received an increase in funding from the province as part of the 2010 provincial budget. Hasn't this fixed our financial challenges?**

- A. No. Although important additional funds were identified, including a 3% increase to UNB's operating grant and the equivalent of 5% in lieu of a tuition increase, our expenses at this time continue to outpace our revenue. This has been compounded by declining levels of enrolment and the existing structural shortfall.

The provincial budget did not contain any information with respect to funding levels for either base grants or tuition fees beyond 2010-11. The 2010-11 budget announcements and new funding was very helpful to the UNB budget situation, however, it did not cure all of UNB's financial challenges.

The University of New Brunswick faces a structural shortfall, a situation in which spending is permanently higher, and growing faster, than revenues.

This challenge is illustrated as follows:

**UNB Operating Budget**  
**Illustration of Structural Shortfall Scenario**  
**2010-11**  
(before further budget actions)

	<u>\$ millions</u>
<b>STRUCTURAL SHORTFALL IN 2009-10 OPERATING BUDGET</b>	\$(4.6)
- Level of estimated increase in budgeted expense in 2010-11 (.88%)	(1.5)
- Estimated fee impact of change in student enrolment 2010-11	(.9)
- Increase in provincial base grant (3%)	+3.6
- Payment from province for tuition freeze (in lieu of 5% increase)	+2.7
<b>OPERATING BUDGET STRUCTURAL SHORTFALL 2010-11</b>	<b>\$(.7)</b>

When this schedule is rolled forward for the 2011-12 fiscal year, the following results:

**UNB Operating Budget**  
**Illustration of Structural Shortfall Scenario**  
**2011-12**  
(before further budget actions)

	<u>\$ millions</u>
<b>STRUCTURAL SHORTFALL IN 2010-11 (from above)</b>	\$(.7)
- Estimated overall operating expense increase in 2011-12 (2.97%)	(5.0)
- Estimated fee impact of change in student enrolment 2011-12	(.3)
- Estimated level of increase in provincial base grant (1%)	+.5
- Estimated level of tuition fee increase (3%)	+1.4
- Other items	(.1)
<b>OPERATING BUDGET STRUCTURAL SHORTFALL 2011-12</b>	<b>\$(4.2)</b>

**Q.6 The operating budget is only one component of university finances, what is the overall financial situation?**

A. The operating budget represents approximately 65% of UNB’s total annual revenues (approx. \$250-million). The other 35% is targeted funding and not accessible to the general operating budget. For example, research funding, grants and contracts amount to approx. \$50 million every year. Other forms of targeted funding include specific-purposes equipment and capital renewal funding as well as revenues from ancillary operations and residences.

The university’s financial records and statements are independently audited on an annual basis and are available to the public for review at [www.unb.ca/vpfin/](http://www.unb.ca/vpfin/)

A summary of key aspects of the university’s balance sheet follows:

University of New Brunswick Balance Sheet			
	April 30 \$ millions		
	<u>2009</u>	<u>2008</u>	<u>\$ Change</u>
- Total assets	\$397.5	\$458.5	(\$61.0)
- Cash and short-term investments	58.1	100.3	(42.2)
- Long-term investments	152.2	185.6	(33.4)
- Capital assets	145.1	130.5	14.6
- Long-term liabilities	80.5	84.2	(3.7)
- Accumulated operating deficit*	(3.0)	(3.0)	0
- Unfunded non-pension employee benefits	(38.0)	(38.2)	(0.7)

\*The accumulated operating deficit of \$3 million represents the sum of all operating budget shortfalls of the University up until April 30, 2009. The actual level of operating account shortfall in 2009-10 will be added to this balance in order to determine the total as at April 30, 2010. If the actual results in 2009-10 are as budgeted, then \$3 million more will be added to the accumulated deficit to bring the amount to \$6 million. When the modeled shortfalls for the next few years, identified in Question 4 and 5, are added to this, the balance could grow to over \$19 million by the end of 2013-14.

**Q.7 UNB is receiving millions of dollars in capital stimulus funds. Can’t these funds be used to address the operating budget shortfall?**

A. No. UNB will receive \$16 million in federal capital stimulus funding over two years and \$32 million in provincial capital stimulus funding over three years. These are targeted funds directed at projects as approved by the funding body.

Stimulus funding has been directed to major capital projects in Fredericton and Saint John, including the Richard J. CURRIE CENTER (Fredericton) and the University Commons (Saint John).

Provincial capital stimulus funding has also been directed to address a number of deferred maintenance projects as well as classroom improvements on both campuses. UNB has an accumulated back log of approximately \$116 million in required capital renewal and deferred maintenance and the completion of these projects will significantly improve the teaching and learning environment at UNB.

Once the stimulus funding is complete and without a sustainable funding model, the university will continue to fall short, on an annual basis, by about \$4-5 million of what it needs to deal with capital renewal and deferred maintenance.

The capital stimulus funding is significant and helps with the overall deferred maintenance situation, however, the underlying challenge of insufficient ongoing capital renewal funding continues.

**Q.8 Is UNB the only university facing financial challenges?**

- A. No. Many universities are facing similar challenges. The fragility of the traditional university financing model has been exposed by the dramatic effects of the global recession on operating funding, endowment and cash flow earnings, pension funding and research support. The Association of Universities and Colleges of Canada (AUCC) is tracking public statements by Canadian universities about their economic responses. Universities from across the country are represented. These statements can be viewed at [http://www.aucc.ca/recession\\_e.html](http://www.aucc.ca/recession_e.html)

The situation in the United States appears to be even more challenging as public institutions face significant state funding reductions. A recent article from *Inside Higher Ed* references a study prepared by the Illinois State University Center for the study of Education Policy. This study illustrates the significant decline in public funding for higher education.

<http://www.insidehighered.com/news/2010/01/18/grapevine>

Many flagship private institutions are also experiencing challenges as the decline in investment markets and interest rates have impacted earnings from the larger endowments on which they have grown to rely.

**Q.9 Why is the university concerned about accumulating an operating budget shortfall?**

- A. It is not a sustainable position to continuously spend more money than is taken in.

In short, we want to invest in our academic and research experience, not accumulated debt.

There are also serious questions around intergenerational equity when one generation is asked to pay for debts arising from budget shortfalls of another.

We are also obligated through provisions established by the Maritime Provinces Higher Education Commission (MPHEC) which prohibits the accumulation of a budget shortfall total that amounts to more than 2% of the annual provincial operating grant. Exceeding this limit risks a reduction in the amount received from the provincial operating grant. It is important to note the MPHEC has temporarily suspended this provision due to the current severity of current economic conditions.

**Q.10 What is the university planning to do to improve the budget situation?**

- A. UNB has developed a multi-year framework to eliminate the structural shortfall over a period of three years. The objectives of the budget framework are to eliminate the structural deficit in the operating budget and address the financial risks of the University, while minimizing the impact on our students. We will implement several strategies, representing a mix of cost-saving and revenue-generation measures. The plan is specific to the current financial situation and outlook for each campus.

In 2010-11, a total of \$2.5 million in expense reductions is planned for the Fredericton campus and \$400,000 is planned for the Saint John campus. These reductions will apply to both campus-specific and university-wide units residing on each campus. In order to minimize the disruption to our programs and operations, and in order to respect various commitments, it will take some time for the full financial effect of budget actions to take place.

**Q.11 How has the level of budget expense adjustments been determined for each campus as part of the 2010-11 budget.**

- A. The sum of the operating budget situation, before budget adjustments, is illustrated in Question 5.

The detailed budget position and outlook have been reviewed for each campus. A number of hypothetical scenarios were modeled to illustrate various levels of expense adjustments in each of the three years of the financial framework. Each of these scenarios was then assessed against several criteria, chief among these was possible impacts on operations, services, students, faculty and staff. The resulting possible budget shortfall was also considered as was the balance of the accumulated deficit.

It is important to note in many cases there is expected to be a “lag effect” that follows an expense reduction. For example, the removal of \$100,000 from a particular budget envelope could take more than one budget period to fully realize the savings (i.e. \$50,000 the first year followed by \$50,000 in the second year). In order to manage impacts of the change, it may only be feasible to partially realize financial savings in the first year of a budget adjustment.

**Q.12 It seems that the university has always found a way to manage to balance the operating budget. Why can't this just continue to happen?**

- A. We have a responsibility to our students and supporters to develop and implement a sustainable model that ensures the best possible education and research.

Most universities struggle to find the resources that are required to support their mission. Part of this challenge is the inherent nature of university cost structures where costs tend to rise at a rate that is higher than basic inflation. A heavy reliance on public funding and tuition revenue combined with a low-interest environment, recession and shrinking enrolments makes it increasingly difficult to achieve a balanced budget while using our traditional financial model.

UNB's financial situation has become progressively more challenging. For example, in 2006-07, the university finished the year with a small operating budget shortfall of \$69,000. In 2007-08, the shortfall for the year grew to more than \$700,000 and while the University managed to finish the 2008-09 year with a balanced budget result, there was a budgeted structural shortfall of \$2.1 million that was offset by one-time budget measures.

In each of these years, there was a great deal of restraint on expenses and many budget reductions were made. A number of one-time budget strategies were also used to bring the budget close to a balanced position. The fragility of this approach became clear in the 2009-10 budget when the effect of the government grant reduction, further enrolment decreases and the impact of the global recession combined to grow the inherent structural deficit to \$4.6 million, even after further one-time budget measures available, the final budget shortfall was \$3 million.

**Q.13 What kind of financial risks are UNB currently facing?**

- A. There are currently a number of financial risks and uncertainties faced by many organizations. The key ones influencing the UNB operating budget include:

**The global economic situation**

The current economic climate has had a significant impact on government funding capacity as well as on philanthropic donations. The effects of the recession are expected to be felt for some time, resulting in a greater deal of risk and uncertainty in regards to public funding for university research and operating budgets going forward.

**Provincial funding uncertainty**

The level of provincial operating grant from the Province of New Brunswick is not known beyond 2010-11. There currently is no multi-year funding framework in place for New Brunswick universities, affecting the ability to plan over a longer period of time. The President of UNB plans to work with the three other university presidents in developing a multi-year funding framework with the province.

**Student enrolment trends**

Student enrolment at UNB has decreased in recent years. The Maritime region, representing the majority of UNB's current student base, is expected to continue a decline in population, including the age group associated with the majority of UNB undergraduate students.

**Tuition competitiveness**

UNB tuition fees are currently very comparable on a regional basis, but above the Canadian average. Provincial governments, including New Brunswick, have recently been involved directly or indirectly in institutional tuition fee policies. The future direction for fees is uncertain.

**Low-interest environment**

Interest rates are currently very low. This has significantly reduced interest earned on short-term cash flow investments. It is widely expected that interest rates will rise again but the timing and extent of this is unclear.

**Endowment impact**

The university has an investment portfolio of \$168 million which represents the invested funds from trust and endowment accounts. The earnings from these accounts support specific expenditures on activities and priorities, such as student scholarships and bursaries, chairs or library acquisitions. The level of return from these investments impacts the level of spending that is possible on specific activities. In the absence of earnings or accumulated reserves, spending is not possible. While there has been a significant recovery in investment markets and the overall position of UNB's portfolio and account balances, the full value of market declines has not been recovered and the level of earnings required to resume normal spending patterns has not been achieved. The financial markets continue to be uncertain.

**Cost uncertainty**

There are a number of components of the operating budget that are influenced by economic conditions, including heating costs, maintenance, cleaning, library acquisitions and supplies. The bulk of university operating expenses, approximately 75%, are allocated to salaries and benefits costs.



## **Academic Pension Plan**

Full-time faculty at UNB are members of the Pension Plan for Academic Employees of the University of New Brunswick. The university and members of the Plan share in the funding of the plan with the university matching contributions of members. A July 01, 2009 valuation of the plan has disclosed a funding shortfall (plan deficit) of \$61.6 million. Further details of the valuation are as follows:

<b>Pension Plan for Academic Employees of the University of New Brunswick \$ millions</b>		
	December 31, 2006 <u>Actual</u>	July 01, 2009 <u>Draft</u>
Actuarial asset value	\$140.5	\$171.8
Deficit	\$42.5	\$61.6
Funded ratio:		
-Actuarial assets/liabilities	76.7%	73.6%
-Market assets/liabilities	80.2%	67.1%

In 2006, the University and Faculty Association entered into a six-year agreement with the objectives of improving the long-term financial position of the Plan and bringing more stability to annual funding requirements.

This agreement included, among other things, the establishment of a funding stabilization reserve. Plan actuaries have advised the parties that, due to the decline in financial markets and the impact on the overall position of the Plan, the level of stabilization reserves may not be sufficient to maintain stable rates. An alternative plan has been developed by the parties, the Plan trustees and the Plan actuary. (A plan to consolidate amortization of prior deficits into a new 15-year amortization period). If this alternative plan is not accepted by the New Brunswick Superintendent of Pension, the University and Plan members could be faced with a funding increase during the remainder of time in the six-year agreement.

**Q.14 How does the University budget for progression-through-the-rank (PTR) payments and retirement turnover for faculty and staff?**

- A. When an individual becomes eligible for an increase in salary resulting from a PTR adjustment, this additional amount is added to the person's salary in the payroll and budget systems.

When individuals retire from the university, their salary is removed from the university payroll and budget systems.

If an individual is hired to replace a vacant position, the payroll and budget systems are adjusted to reflect the individual's actual salary.

In terms of budget modeling scenarios for future years, the models reflect additional PTRs for those who will qualify on their eligibility date at the specified amount. The budget models are also reduced by the salary figures of those who are scheduled to retire at age 65. The models also reflect the

anticipated salary of a notional replacement of the retirement position until such time that a decision is made to either replace or not replace the position. If the position is not replaced, the replacement amount is removed from the budget system and models. If the position is replaced, the estimated replacement amount is removed and the actual replacement amount is added to the budget system and models.

**Q.15 Why are major projects like the CURRIE CENTER and University Commons proceeding when the university budget is so restricted?**

A. The generosity of donors and stimulus plans from both levels of government have made the majority of funding for these projects available from outside the university’s finances. The ability to provide such appealing new spaces at UNB is a great opportunity.

**Q.16 What is the funding plan for the Richard J. CURRIE CENTER?**

A. To date, the funding identified for construction of the CURRIE CENTER is as follows:

<u>Confirmed Funding Sources</u>	<u>\$ millions</u>
- Donors	\$25.0
- Provincial University Infrastructure trust funds	10.0
- Federal Knowledge Infrastructure stimulus funds	8.0
- Provincial University deferred maintenance funds	2.0
- Other sources	.25
Funding as of January 2010	\$45.25
- Cost estimate (as of November 2009)	57.50
Construction funding shortfall	\$12.25

Strategy to Deal with Construction Funding Shortfall

- Additional fund raising
- Continue to examine other sources of funding
- As a final backstop, any residual shortfall would be borrowed and repaid over a period of up to 25 years (considering the useful life and borrowing term limits). Annual debt service costs not to exceed \$1 million. At prevailing interest rates, this annual amount could support borrowing of up to the current funding shortfall amount.

In addition to the capital costs of a building, there are ongoing costs to provide heat, lights, cleaning and maintenance. It is estimated that the annual cost for the CURRIE CENTER could approach up to \$1 million per year. Various options to fund these costs are under consideration.

**Q.17 Where can I find out more information on finances of the university and planning for the 2010-11 and beyond budget?**

- A.** Each year, the Vice-President (Finance and Corporate Services) provides an annual report on university finances to the Senates. These reports also include detailed appendices which compare UNB resources and allocations to other universities. Copies of the 2009 reports are available on the open University website at <http://www.unb.ca/vpfin/reports.html> .