



Memorandum

Date: 31 May 2010

To: All Faculty and Staff in the Faculty of Arts and Science

From: Meric S. Gertler, FRSC

Dean and Professor of Geography and Planning
Goldring Chair in Canadian Studies

Re: Budget Update

CC: Cheryl Misak, Vice-President and Provost
Scott Mabury, Vice-Provost, Academic Operations

When I last wrote to you on the subject of the Faculty's budget plan, we were in the midst of a significant global economic downturn. Though the Canadian and Ontario economies are experiencing a gradual recovery, the recent upheavals in Europe show that the international economy remains fragile. With this context in mind, this memo summarizes a number of recent developments in the Faculty's financial situation and their consequences for our budget and activities over the next few years.

Our structural deficit explained

In my previous budget memos to the Faculty [CPAD #77-2007-08](#) and [CPAD #43-2008-09](#), I have explained that for the past few years, our annual expenditures have outstripped our annual revenues by a considerable margin. This situation arose for several different reasons. Provincial grant levels per student have remained frozen for many years and annual rates of increase in undergraduate tuition fees are tightly constrained by provincial regulation. Meanwhile, our salary and benefit costs (making up 82 percent of our net operating budget) have been increasing significantly faster than our revenues. At the same time, the end of mandatory retirement has contributed further upward pressure on our labour costs.

During the 2009-10 budget year, the gap between our annual revenues and expenditures – commonly referred to as a structural deficit – stood at just over \$22M (on a net operating budget of \$222M). When added to the annual deficits accumulated over the previous few years, our total accumulated deficit as of 30 April 2010 was just shy of \$56M.

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Our initiatives to eliminate the structural deficit

Clearly, this situation is unsustainable over the long run. As noted in earlier communications, the Faculty's Budget Committee has devised a strategy to address this challenge by identifying opportunities to raise our revenues and trim our expenditures. Our revenue-raising strategy has been based on three primary elements: (i) a revision of our undergraduate enrolment targets, which now forecast a more gradual decline in our annual intake and total enrolment; (ii) an increase in international undergraduate enrolment; and (iii) the gradual transition to the program fee tuition structure for all Arts & Science programs.

At the same time, we have reduced expenditures through a series of base and one-time-only budget cuts administered equally across all units within the Faculty in 2008-09, 2009-10 and 2010-11. While these cuts have been very difficult for many units to sustain and have had a discernible impact on our teaching and research programs, we have done our best to keep these as small as possible. Indeed, in relative terms, we are fortunate that they have been considerably smaller than the budget cuts sustained by many of our peer institutions across North America over the same period. We have also slowed our academic hiring dramatically over the same period, in response to greatly reduced rates of retirement amongst our faculty. Here too, notwithstanding the frustration felt by those units that were unable to fill positions awarded under the Faculty's Stepping UP plan, the fact that we were able to make even a small number of new appointments stands in sharp contrast to those universities that have imposed outright hiring freezes or even laid off permanently appointed faculty.

Recent changes and their impact on our financial future

Three recent developments have further impacted our budget picture in important ways. As anticipated in my last budget memo, the global financial downturn led to a cancellation of the normal payout from University endowments in 2009, compelling the Faculty to cover unfunded liabilities such as needs-based student aid and endowment-based faculty salaries and program expenditures. To cover this cost, the Faculty borrowed \$3.5M from the University's special loan fund, a sum that must be repaid over the next five years. Since then, the news has been better. The subsequent recovery in financial markets has enabled the University to restore an endowment payout for 2010, at a rate within the normal range (\$7.26 per unit, or 5 percent of the opening market value of endowments) – welcome news indeed.

Second, the Provost has announced that the Faculty's University Fund allocation for 2010-11 will be \$4.25M, which represents a significant increase in our base budget funding from the University. This decision was made both to recognize the significant progress that the Faculty has already achieved through its own initiative to improve its financial picture, and to ensure that the University's largest division – and one of its finest – will continue to thrive.

Third, the March 2010 Provincial Budget and follow-up announcements clarified a number of important questions facing the University and the Faculty. While the grant per student remains fixed at current levels, the Province has confirmed stable grant funding commitments for 2009-10 and 2010-11.

The number of Ontario Graduate Scholarships will increase by 1,000 (a 50 percent increase province wide), especially good news, as it will begin to bring external scholarship support into line with our greatly expanded graduate enrolments in the wake of graduate expansion. At the same time, the Province has extended the current tuition fee framework for another two years, meaning that we will continue to face the same limitations on annual domestic undergraduate tuition fee increases. The same budget has introduced improvements to student financial aid in the form of major changes to OSAP, which will bring some important financial relief to many of our students.

The combination of the recent Provincial announcements, the restoration of an endowment payout, the major increase in our University Fund allocation and, above all, our own hard work in pursuit of a carefully considered budget strategy, mean that our overall budget picture is expected to improve significantly over the next five years. The latest forecast shows the Faculty's annual structural deficit shrinking from \$22M to \$14M by the end of 2010-11, and declining further to \$11M by 2011-12. By the end of 2012-13, we are forecasting an annual net operating surplus of \$2.5M, and if current assumptions hold – most importantly, the modest assumptions we have built into the budget regarding faculty salary increases – we expect further small annual surpluses through the end of the five-year budget plan.

Challenges ahead: tackling our accumulated deficit

Considering the very serious financial challenges we have faced over the past few years, this anticipated turnaround in the Faculty's fiscal position represents an achievement of major proportions. It stands as a testament to the hard work and sacrifice of many faculty, staff, department chairs, and centre/institute directors across the Faculty.

Nevertheless, at least three important caveats are in order. First, while our annual structural deficit may be shrinking, the Faculty must still contend with the deficit it has accumulated through our annual shortfalls over the past several years. Our forecasts indicate that the accumulated deficit will continue to grow (though more slowly) to an estimated \$60M by the end of 2011-12. The Faculty's long-term budget strategy will need to acknowledge this deficit and develop a plan for retiring it over time.

Second, our current budget forecast assumes that the pace of new faculty appointments will remain quite constrained over the next five years. Until the number of annual retirements once again approaches normal levels experienced before the end of mandatory retirement (roughly 25-30/year, versus current rates of 9-12/year), the number of net new appointments to the Faculty will remain necessarily small.

Third, since our largest single expenditure category by far is salaries and benefits, the future financial health of the Faculty – and the rate at which it can reinvest in the classroom, the research environment, and faculty renewal – will be greatly impacted by the pace of future salary increases. At the time of writing, we are still awaiting the results of the arbitrated settlement with UTFA. Once the outcome of this process is known, we will adjust our budget forecasts accordingly.

Academic planning: Strengthening our research and education programs within our financial means

As you know, the Faculty has been engaged in a year-long academic planning exercise that will soon reach its conclusion. This fall 80 units in FAS crafted plans to strengthen their units in teaching and research, and to promote the overall goals of the Faculty. The Strategic Planning Committee has been meeting since January to review these plans carefully in light of the issues addressed above. The Committee will be making specific recommendations concerning academic appointments and many other initiatives to advance our considerable strengths in research and graduate education, to strengthen our undergraduate programs, and to enhance the experience of our students. The goal of this exercise is clear and simple: to make the Faculty and its various teaching and research programs as strong as possible, within a budget plan that will return us to financial sustainability. It aims to foster innovative and creative ideas that will benefit our students and scholars, while we continue to work our way towards fiscal recovery.

In closing, let me once again emphasize how much we value the tremendous work that our faculty and staff do on a daily basis to advance the goals of the Faculty. As always, I very much value your input and helpful suggestions. Please send your thoughts to feedback@artsci.utoronto.ca.