University of Manitoba FACULTY ASSOCIATION

NEWS & VIEWS

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UMFA's Response to President Barnard

Over the past four months, UMFA has released a series of newsletters (http://www.umfa.ca/pages/publications/newsletters/) laying out the results of our investigation into the U of M's financial statements. Our investigation was motivated by two events: (1) the approaching expiration of the current Collective Agreement and preparation for bargaining; and (2) warnings by President Barnard that the University was facing a $36.4 million budget shortfall in 2010-2011, a shortfall that could force the University to cut operating budgets, programs, and, very likely, staff positions.

Our major findings were the following:

1. The $36.4 million budget shortfall is an artifact of the Council on Post-Secondary Education (COPSE) application process that consistently creates a predicted budget shortfall although none has ever occurred.
2. The U of M's total cash and investments in its General Fund had been relatively stable throughout the first half of the last decade and then steadily increased over the period 2006-2009. The total increase of $72 million works out to an average annual increase of $18 million per year.
3. The increase in General Fund cash and investments coincided with a substantial and sustained increase in the U of M's net revenue (operating revenues minus operating expenses). The U of M's net revenue over the years 2006-2009 totaled $154 million, virtually all of which has been transferred out of the U of M's operating fund and into, primarily, Capital Assets and Specific Provisions.
4. Specific Provisions represent unspent monies that have been reserved for specific future purposes. As the General Fund cash and investments have grown, so have the Specific Provisions such that the General Fund's long-term bond investments and the Specific Provisions Fund both total almost exactly $80 million.

President Barnard issued a memo to all university employees on April 9 giving his update on the University's budget situation and identifying what he believes to be key areas of disagreement between UMFA's view and his view of the U of M's financial situation. The arguments are listed and discussed on the following pages.

IN THIS ISSUE:

This special edition newsletter is in response to the memo on university finances sent to all university employees by President Barnard on April 9th. We are interested in feedback from you which you can send by return email to faum@umfa.ca.

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President Barnard: ***The surplus is $16,000, not $42 million.***

A condensed version of the U of M's 2008-2009 General Operating Fund Statement of Operations is presented below:

Statement of Operations General Operating Fund	
Revenue	$458,394,000
Expenses	416,846,000
Net Revenue	41,548,000
Inter-Fund Transfers	(41,532,000)
Net Increase in General Operating Fund Balance	$16,000

Which number here is the "surplus"? The net revenue figure, rounded off to $42 million, is total operating revenues minus total operating expenses. The $16,000 figure represents what is left of net revenue after the Inter-Fund Transfers, which are mostly to Capital Assets and Specific Provisions. President Barnard argues that there is no substantive difference between operating expenses and Inter-Fund Transfers and, therefore, it is appropriate to think of the $16,000 as the surplus.

"Surplus" is not clearly defined under accounting principles but "income" is defined broadly as the difference between revenue and expenses. Inter-Fund Transfers are not operating expenses because (1) in most cases, transfers to Capital Assets for buildings, equipment, etc., become expenses of the Capital Asset Fund; and (2) transfers to Specific Provisions represent monies that have not been spent yet. The UMFA newsletters did not take any position on the advisability of these transfers, but they are not expenses under generally accepted accounting principles and so do not figure in the calculation of operating income.

Aside from technical accounting issues, there is strong justification for clearly distinguishing Inter-Fund Transfers from operating expenses. Inter-Fund Transfers represent current operating revenues that are being diverted to something other than current operations. From an accountability perspective, it is important to understand the administration choices that these transfers represent and the consequences that they have for university programs, employees, and students, particularly at a time when operating grants are so limited.

President Barnard: ***$80 million investments in bonds are available for current operating purposes.***

President Barnard is correct in saying that the bonds are marketable securities that can be converted to cash on a moment's notice. For that reason, we included them as part of liquid assets in our analysis. If, in addition, he means that the $80 million can be used to fund the anticipated budget shortfall, that would appear to be good news to stakeholders around campus. However, this is not consistent with the argument that he puts forward regarding the Specific Provisions Fund (see below). The net assets of the General Fund are almost all restricted, mostly in the Specific Provisions Fund. As the President argued both in his recent memo and in the COPSE submission (page 24, available online at http://www.umanitoba.ca/admin/vp_admin/media/estimates_2010_2011.pdf), these provisions are not available for use in balancing the University's general operating budget.

President Barnard: ***Funds restricted in Specific Provisions cannot (or should not) be used to fund ongoing budget shortfalls.***

President Barnard presents several arguments here. Specific Provisions Funds (especially budget carryover provisions) are committed to units who are already facing the prospect of 5% operating budget cuts. He also argues that Specific Provisions Funds represent an existing stock of resources and not a steady flow of revenue that can be used to support ongoing costs.

Our analysis indicates that the University's General Fund has a sizeable stock of liquid assets, equal at the end of the 2009 fiscal year to 30% of 2008-2009's operating budget. Over the last four years,

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however, there has also been a sustained flow of liquid assets into the General Fund coffers to the tune of $18 million per year. UMFA's position is that this flow can be used to support ongoing operating costs, including those of the units under budget constraints, rather than further increases to Specific Provisions.

Events from the 2009-2010 fiscal year, which just ended on March 31, seem to confirm that there are still substantial financial resources available within the University. Some recent examples of sources and uses of these resources include:

1. Significantly reduced recruiting of new staff this year. In its COPSE submission, the University estimated that a freeze on hiring of academic staff would save $7-$8 million per year (page 11, see link above). A freeze on support staff hiring would save $5-$8 million per year (page 12).
2. The ROSE and OARs projects, which have entailed the engagement of external consultants. The administration has not responded to UMFA requests regarding the cost of these projects, but it seems likely that this cost is running into the millions of dollars.
3. Several new academic programs that require new funding have been approved over the past two years. Approval had been recommended subject to the condition that implementation not occur until sufficient new funding was available to support these programs. New COPSE funding has not been provided, but the administration was able to find internal funding to support at least four of these programs. Meanwhile, existing faculties and schools must present a budget for 2010-2011 that cuts expenditures by 5%.

In spite of some disagreements with the administration over the interpretation of financial results, UMFA agrees that the University is badly underfunded relative to other Canadian universities and relative to Manitoba's needs.

We appreciate the cooperation of the administration in our financial analysis and the administration's willingness to review its assumptions and priorities in allocating operating income to Specific Provisions, especially when that allocation could be to the detriment of current operations and could affect members of the university community negatively.

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