Every Budget Is A Choice 2.0

Then and Now

For years, Western's administration has been telling a story of budget restraint, belt tightening and cut backs. Each time we've sat down to negotiate faculty compensation, the Administration has told UWOFA that it just can't afford to pay its faculty, librarians and archivists fairly. They especially can't afford an amount that would give us a mean salary equal to that of our comparator institutions or a competitive benefits package and pension contribution that would ensure a good retirement income for our members. It's the same story this year. We have heard again how the priorities and choices set by Western's administration in its annual budget cycle have already ensured that there is *no money* available to meet our compensation proposals. These proposals have a modest goal: make Western's faculty salaries comparable to the average salaries of the Bovey 4 (Guelph, McMaster, Queen's and Waterloo), a group of universities with which Western regularly compares itself.

The University budget is a prediction. Like any budget, it is based on many assumptions and constrained by parameters and priorities set by management. UWOFA has no ability to influence this budget, and are not consulted about it in any substantive way. If the University administration wants its budget to show that there is no money available for faculty bargaining positions, then that's an easy thing to do. And yet they are failing to do this. Instead, their financial statements show that Western is flush with cash.

The Administration also insists that all universities in Ontario are facing the same constraints to their revenue growth as Western. Yet somehow those universities are able to continue to offer more generous performance-linked increases and higher scale amounts as well as a more progressive benefits package and higher employer contributions to pension plans. Recent settlements include 1.5% at Guelph, 1.7% at McMaster, 1.75% at Queen's and 2.6% at Waterloo. How? The answer is simple: other universities place a higher priority on faculty compensation.

The Facts

Our proposals are affordable. We base them on publicly available facts, not assumptions. We have closely analyzed Western's financial situation and here are the facts:

- Between April 30, 2010 and April 30, 2018, the University's net assets have grown by over **$122 million per year**, from $508 million in 2010 to $1.6 billion this year. Some of these amounts are related to endowments and must be spent on the purpose determined by the donor. Other amounts are set aside for a particular purpose based on University priorities. However, priorities can be changed or delayed if the University chooses. For example, in the 2018-19 operating budget, millions of dollars are set aside for library improvements, the construction of a wellness centre and the creation of student spaces in the Natural Science Centre. If any of these projects had been funded from another source of money, there could be money available in the operating budget for other priorities.

- Between April 30, 2010 and April 30, 2018, the University's short and long term investments have increased by $131 million per year and now exceed ***$1.9 billion*** *in total*.

- The annual surplus experienced by Western over these many years of "difficult" budget cycles has fluctuated from a low of about $42 million in 2012 to a high of almost $140 million in 2017. The 2018 surplus alone was $131.6 million. The total of surpluses garnered by Western over these nine budget years has been ***$687 million***.

- Western's annual financial statements disclose a number referred to as "Departmental Carryforwards". These amounts represent surpluses experienced by faculties which can be carried forward for future use. At the budget presentation in 2010, Western advised us that these carryforwards should all be zero at the end of each 4-year budget cycle. However, the amount in this surplus account has grown by about $13 million per year since 2010. As of April 30, 2018, the balance of this account was over ***$186 million***.

- Undistributed Investment Returns represent funds derived from investments that are internally restricted for uses as determined by the University. This amount was not disclosed in the April 30, 2010 audited financial statements, so at that point in time it may not have existed, or it may have been an immaterial amount. However, beginning with its first appearance in the April 30, 2011 audited financial statements, this number has grown from about $71 million to a balance of $282 million at April 30, 2018. This represents an ***annual increase of almost $26 million.***

This next group of facts is derived from a review of the agendas and minutes of the Board of Governor's meetings for the period from January 1 to September 25, 2018:

- In the September 25, 2018 Quarterly Ratio Report on Non-Endowed Funds, the Board was advised that the balance in the Undistributed Investment Returns Account had grown to $303.6 million. The University tracks a statistic that compares the average of the non-endowed funds, such as investment returns, to the obligations of its portfolio. The target for this ratio is 1.08. The ratio of investments to obligations stood at 1.99 at July 31, 2018, and the Board was advised that this ratio is well above the target ratio. This target ratio essentially also sets a target for the Undistributed Investment Returns account of $24.3 million. The current balance exceeds that target by $279 million. This excess represents funds that can be used as determined by the University, but, so far, no purpose has been determined.
- The University recently borrowed $100 million to invest because the Board of Governors determined that Western has the ability to generate investment returns greater than the cost of borrowing. This additional investment income will further the growth of the Undistributed Investment Returns account.
- In its February 2018 Global Ratings report on Western's credit rating Standard and Poor's affirmed its "AA" long-term issuer credit and senior unsecured debt ratings on Western, stating that "the outlook is stable". This stable outlook reflects the expectation of Standard and Poor's that "within a two-year outlook horizon Western will maintain very strong liquidity, with cash and investments greater than 3 times its debt; a healthy enrolment and demand profile and robust consolidated financial performance."

According to the rating agency, given its "independence with regard to ownership and operations", Western's "financial assets are sufficient such that it would likely not default on its obligations under a provincial stress scenario in which all government funding was temporarily disrupted".[1]

- Western sets a target for its annual operating reserve of $7.5 million. According to the Key Financial Indicators report to the Board of Governors on January 25, 2018, the predicted balance at April 30, 2018 is $61.5 million, representing an excess of ***$54 million***. In a later report to the Board of Governors the Board was advised the surplus at April 30, 2018 was actually ***$80.3 million*** – an excess over the target of almost $73 million

- According to the Key Financial Indicators report from January 25, 2018, there are five widely accepted and commonly used financial indicators for higher education institutions in North America. Western compares itself to a group of large universities with respect to these measures, and also to the entire sector:

    - The Net Income/Loss ratio divides net income by total revenues – Western performed better than the average of the large University comparators in 2015-16.

    - The Primary Reserve ratio is equal to the ratio of expendable net assets to total expenses multiplied by 365 days. It indicates how many days the University could continue if it had to rely only on its expendable financial resources, those that can be spent without restrictions. The existence of this ratio

[1] Standard and Poor's, "University of Western Ontario 'AA Ratings Affirmed; Outlook Remains Stable", February 21, 2018, https://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/1996662. Free sign-in required.

confirms that the University has financial resources that are not restricted. For this measure of financial viability, Western had the longest period that it could continue under this very unlikely scenario – 205 days in 2015-16. The large group average is 138 days and the average for the sector is 94 days.

- The Viability ratio is a basic determinant of institutional financial health by providing information about the assets on hand that could be used should an institution need to settle its long-term obligations. Again, this is an indication that the University has assets that can be expended if necessary. It is calculated as Expendable Net Assets over Long Term Debt, and in 2015-16 Western had the second highest viability ratio in the group of large universities.

- The Interest Burden ratio is a measure of debt affordability that compares the level of current debt service costs with total expenses. In 2015-16 Western's interest burden ratio of 1.3% is slightly lower, which in this case is better, than the average of the large universities (1.4%) and considerably lower than the sector average of 2.3%.

- The Net Operating Revenue ratio. This is a metric that provides an indication of the extent to which an institution is generating positive cash flows in the long run to maintain financial sustainability. In 2015-16, Western had a net operating revenue ratio that was 9.6%, higher than the average of the larger comparators, which was 7.8%, and the average of the sector, which was 6.6%.

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The university does not dispute these numbers, in fact, they agree with them. Their bargaining proposals indicate that they are not interested in reinvesting in their faculty members or in the core mission of the university.

Clearly, Western is not worse off than other universities in Ontario. The financial situation has been stable for many years despite government changes. While financial stability is important, an organization that hoards money for the future without reinvesting in its people is not expanding, improving, or even maintaining its competitive advantage.

The facts tell us that over the years, Western has built up considerable financial strength. UWOFA members have contributed to this financial strength with salaries, pensions and benefits that have fallen behind those of the other Bovey universities.

What financial goals must be met for Western to know it has accumulated enough? When will Western decide that its financial strength and resources are sufficient to provide faculty with a compensation and benefits package that keeps pace with our colleagues at the Bovey 4 universities?

When will Western decide enough is enough and begin reinvesting in its faculty to provide the best education and research possible?