University of British Columbia Finances
Report on Ability to Pay

Report Commissioned by The UBC Faculty Association

Authored by

Janet Morrill, Ph.D.	Cameron Morrill, Ph.D.
Asper School of Business	Asper School of Business
University of Manitoba	University of Manitoba

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This report was prepared on the request by the University of British Columbia (UBC) Faculty Association in preparation for their arbitration hearing regarding UBC's ability to pay. Our analysis was based on publicly available information on UBC's website (http://finance.ubc.ca/reports and http://www.pair.ubc.ca/). Our data comes from the following documents:

- Student statistics released by the Office of Planning and Institutional Research for 2007-2012;
- Faculty and staff statistics released by the Office of Planning and Institutional Research for 2008-2011;
- Annual consolidated financial statements for fiscal years 2008 to 2012 inclusive; and
- Budget summary books for fiscal years 2008 to 2010 inclusive

Like most not-for-profit organizations, UBC receives and/or generates two kinds of funding: *restricted*, which must be used for a specific purpose designated by the donor, such as research, buildings (capital) or endowments; and *unrestricted*, which can be used for any purpose consistent with the overall mission of the organization. Unrestricted funds are used to finance the organization's operations, i. e., pay salaries and other operating expenses, but the Administration is free to use these funds for any legitimate purpose. The ability to pay increased salary and benefits to employees ultimately turns on the availability of unrestricted funds.

Our analysis focuses on the UBC's sources and uses of unrestricted funds. Based on our analysis, we conclude that UBC does have the ability to pay reasonable increases in compensation to their academic faculty. We base this on the following:

1. UBC has continuously had unrestricted operating surpluses i.e., operating revenues that exceed operating expenses. In the most recent fiscal year, UBC had the highest operating surplus of the five years covered by our analysis. The $135 million operating surplus in 2011-2012 was equivalent to just over 13% of total UBC salaries for the year. It would be interesting to see how this figure compares to total UBC faculty salaries.
2. Despite small reductions in government grants, UBC has a large student base and unrestricted revenues per student that are stable and have increased over the period of our analysis.
3. Net assets: unrestricted and operating became negative in 2012 after a 90-million-dollar decrease during the year, but this situation was created by the Administration's decision to transfer $229 million in unrestricted funds to Capital Assets.
4. The recent level of capital asset acquisitions is extremely high and is financed with an unusually high proportion of unrestricted funds. Management's future commitments to purchase capital assets are minimal. Thus, they can elect to not make as large capital assets purchases from operating funds, or can be forced to make such an election.
5. Over the period under study, management has expended large sums to increase their complement of management and professional staff. While we only know the number of staff, our experience from other universities is that these staff are very highly paid and

have often had salary increases that far outpace the increases provided to professorial faculty.

6. As with many universities, UBC's budgeted figures for the future tend to be pessimistic and should therefore not be relied upon as a basis for assessing ability to pay.

Details supporting these points follow.

Consistent operating surpluses

UBC's statement of operations is presented on a consolidated basis which means that the revenue and expense figures combine the results of all funds, both restricted and unrestricted. In the context of our analysis, the ability to pay is a function of unrestricted resources and, therefore, the consolidated statement of operations is not helpful. However, the excess of unrestricted operating revenues over operating expenses, or unrestricted operating surplus, is disclosed in the consolidated statement of changes in net assets. From fiscal 2008 to fiscal 2012 those results were as follows:

	2008	2009	2010	2011	2012
Unrestricted operating surplus ($ millions)[1]	69	44	94	67	135

It is also noteworthy that the excess in 2012 was substantially higher than in previous years.

Operating revenues

Information on consolidated UBC revenues is presented below. UBC does not disclose unrestricted operating revenues in their financial statements but this is the information we need to assess ability to pay increased faculty compensation. We therefore estimate unrestricted revenues as described in footnote 1. It is possible that some of the investment income is unrestricted and that some of the deferred contributions can be used to pay faculty salaries. To the extent that either of these is the case, ours is a conservative estimate of the university's ability to pay.

	2007	2008	2009	2010	2011	2012
($ millions)						
Revenues: government grants	765	817	859	967	1,020	1,005
Revenues: student fees	284	303	326	358	387	412
Revenues: investment income	81	(51)	(189)	130	103	62
Revenues: sales and services	274	249	256	258	264	282
Rev.: amortization of deferred capital contributions	66	74	81	83	92	97
Total revenues	1,596	1,530	1,472	1,953	2,035	2,014
Estimated unrestricted revenues[2]	924	924	1,272	1,226	1,314	1,371

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[1] The 2007 figure was not disclosed in the UBC financial statements that we had.

[2]Estimated unrestricted revenues = Total consolidated revenues – Investment income – Income from equity-accounted organizations – Amortization of deferred capital contributions – Deferred contributions recognized to revenue. The last item is from the Deferred Contributions note (note 14 in 2012) in the financial statements. The other items are all from the consolidated statement of operations and changes in net operating assets.

Revenues per student

Total estimated unrestricted revenues per enrolled student FTE are as follows:

	2007	2008	2009	2010	2011	2012
Estimated unrestricted revenue ($ million)	924	924	1,272	1,226	1,314	1,371
Total students (full time equivalents)	40,736	41,676	43,587	45,830	47,225	48,608
Per student ($ thousands)	22.7	22.2	29.2	26.8	27.8	28.2

Deficits created through management's decisions to transfer funds from operating net assets to capital

UBC's net asset positions for their unrestricted operating and internally restricted[3] funds are as follows:

($ millions)	2007	2008	2009	2010	2011	2012
Net Assets: internally restricted	100	196	88	105	0	0
Net Assets: unrestricted operating[4]	7	12	8	0	49	(41)

Net assets, both internally restricted and unrestricted operating, have declined steadily since 2007. However, the cause of the declines has been large and systematic transfers by the Administration from unrestricted operating directly to capital, or indirectly via internally restricted net assets. Those transfers have been as follows:

($ millions)	2008	2009	2010	2011	2012
Transfer from unrestricted operating to capital	10	34	36	50	229
Transfer from unrestricted operating to internal restricted	53	6	66	17	0
Transfer from internal restricted to capital	14	163	99	137	0

Note that there would have been very healthy balances in net unrestricted operating assets had these transfers to capital not taken place.

Proportion of capital assets financed internally by UBC

Not only has the Administration of UBC used large amounts of operating funds to finance capital assets, but the amount of capital assets per student is larger than has been the case in the past, and the proportion of capital assets funded internally by the university (i. e., with unrestricted funds) is also greater than past practice. The net book value (NBV) of capital assets per student is as follows:

[3] An internal restriction represents an "earmarking" of unspent unrestricted operating funds for some purpose determined by the Administration of the university. For example, the Administration of the University of Manitoba has a pool of funding internally restricted for Fiscal Stabilization, which can be used to make up a budget shortfall at the Administration's discretion. Typically, the funds are invested until needed. As shown here, UBC does not appear to have any internally restricted funds in either 2011 or 2012.

[4] Figures in brackets indicate a negative or deficit balance.

Capital assets per student	2007	2008	2009	2010	2011	2012
Capital assets-NBV ($ millions)	1,806	1,909	2,080	2,190	2,434	2,600
Total students (full time equivalents)	40,736	41,676	43,587	45,830	47,225	48,608
Capital assets per student	$44,334	$45,806	$47,720	$47,789	$51,531	$53,487

The historic proportion of capital assets that UBC has financed internally can be computed as the ratio of net assets invested in capital assets (which is the net book value of assets that UBC has financed internally) to the net book value of all capital assets. That ratio has been as follows:

	2007	2008	2009	2010	2011	2012
Net Assets: in capital assets ($ millions)	504	415	531	588	671	796
Capital assets-NBV ($ millions)	1,806	1,909	2,080	2,190	2,434	2,600
% of capital assets internally funded	28%	22%	26%	27%	28%	31%

The percentage of capital assets internally funded has increased over the period because the additions to capital assets have been funded by UBC through transfers from their general fund to a greater extent than has been their past practice. Total transfers from the general fund to the capital fund, or indirectly via internal restrictions, as a percentage of the cost of capital assets purchased have been:

(all figures in millions)	2008	2009	2010	2011	2012
Transfer from unrestricted operating to capital	10	34	36	50	229
Transfer from unrestricted operating to internal restricted	53	6	66	17	0
Total transfers from unrestricted operating that directly or indirectly went to capital	63	40	102	67	229
Total capital asset purchases	327	335	307	438	369
% of capital asset purchases financed by unrestricted operating funds	19%	12%	33%	15%	62%

It is difficult to ascertain the extent to which capital asset purchases are necessary. However, our analysis certainly shows that over the past 5 years UBC has certainly greatly increased their capital assets more than their increase in students would justify, and has diverted significant funds from operations to finance these purchases.

<u>Future commitments to purchase capital assets are minimal</u>

In some cases, organizations may have little room to maneuver as they are already locked in to commitments. That was not the case for UBC in 2012, the year where the largest transfers from operating to capital took place, and is not the case going forward. The commitments for future capital purchases are disclosed in the financial statements. The university also has deferred contributions for capital in place that offset the cost of those commitments. The remaining commitment must either be funded through future diversions of operating funds or through future fundraising. These commitments have been as follows:

($ millions)	2007	2008	2009	2010	2011	2012
Outstanding commitments for capital projects (note 21)	62.6	111.4	88.0	146.2	204.1	133.5
Deferred contributions for capital projects (note 14)	28.5	28.0	73.3	46.0	18.0	57.8
Net outstanding commitments	34.1	83.4	14.7	100.2	186.1	75.7

Comparing the outstanding commitments at the end of each year to the actual capital asset purchases made in the following year (see table above), it is apparent that the Administration exercised considerable discretion each year in terms of the capital asset purchase decisions they made. That is, their decisions were not bound by commitments that had been made (perhaps unwisely) in previous years. Looking forward, management has few outstanding commitments for capital projects, so they can choose (or be required) to prioritize salary increases over capital projects in future.

<u>Large increases in numbers of management and professional staff</u>

Considerable cost savings could perhaps be realized through reductions of management and professional staff. UBC has a very large complement of management and professional staff as seen below:

	2008	2009	2010	2011
Faculty: Professorial	2,266	2,342	2,397	2,262.6
Management & Professional	2,746	3,016	3,105.6	3,295.9
Ratio of mgmt and professional to professorial faculty	1.21	1.29	1.30	1.46

Management and professional staff do not include clerical, secretarial, library assistants, trades, service or technical staff. Further, the growth in management and professional staff significantly outpaces the growth in other key groups on campus:

	2008	2009	2010	2011
Cumulative increase in professorial faculty since 2008	0%	3%	6%	0%
Cumulative increase in students since 2008	0%	5%	10%	13%
Cumulative increase in management and professional staff since 2007	0%	10%	13%	20%

Furthermore, these staff are generally highly paid and at many universities have received greater salary increases than the faculty directly involved in the university mission. It is distinctly possible that the increase in management and professional staff has been the greatest contributor to the increase in UBC salaries given that the number of professorial faculty have not increased in the past five years and their salary increases have been minimal.

	2008	2009	2010	2011
Cumulative increase in total salaries since 2008	0%	8%	19%	23%

We include an article recently published in *Business Week* that notes similar “administrative bloat” at other universities.

Budgeted figures

We compare budgeted to actual performance for the years 2007-2010 below:

Comparison to budget: ($ thousands)	2007	2008	2009	2010
Budgeted revenues	1,519,055	1,646,137	1,732,310	1,897,694
Actual revenues	1,595,814	1,529,924	1,472,140	1,952,796
Budgeted expenses	1,487,796	1,611,540	1,711,595	1,881,797
Actual expenses	1,498,683	1,550,331	1,687,180	1,829,418
Budgeted surplus	31,259	(34,197)	20,715	15,897
Actual surplus	97,131	(20,407)	(215,040)	123,378
Actual - Budget	65,872	13,790	(235,755)	107,481
Difference attributable to investment income	15,377	(108,361)	(264,328)	57,418
Difference attributable to all other items	50,495	122,151	28,573	50,063

We have removed the deviations from budget attributable to differences in investment income, as these differences are large in the consolidated budget, and particularly in 2008 and 2009 were largely outside of management control. We were unable to discern the consolidated budget figures for 2011 and 2012 based on the PowerPoint presentations that UBC has posted at (http://finance.ubc.ca/reports). For both years, however, the university predicted “balanced budgets” although the actual surplus was $92 million in 2011 and $40 million in 2012.

As is common practice for most universities, it is evident that UBC’s budgeted figures tend to be pessimistic as they serve several purposes in terms of both internal and external communications. However, this makes them ill-suited as a basis for assessing ability to pay.

Conclusion

Financial statements are only available on the UBC website back to 2008. Furthermore, the financial statements in 2008 contain considerably more detail, including supplementary schedules, than financial statements in 2012. Therefore, our analyses in some cases require estimation, such as our analyses estimating unrestricted revenues (only unrestricted surplus is disclosed in the financial statements).

As with every university, the UBC Administration has a strong informational advantage over the Faculty Association. They would know, for example, how much of the capital spending was done by spending decisions of the academic units, such as library acquisitions, how much was to repair dangerously decrepit buildings, and how much was to acquire new buildings that are more vanity projects than essential to the university mission. We can identify how much operating funds are being spent on capital activities like building renovations and acquisitions, but we cannot assess the extent to which this was a prudent use of those funds.