

McMaster UPDATE June 2009

McMaster Update is a university publication for the internal community at McMaster. The monthly publication will focus on financial developments, policy changes and updates, and initiatives and issues that affect faculty, staff and students at the University. An electronic edition of each issue is available on the Daily News Website. Inquiries can be sent to update@mcmaster.ca

Message from the President and the Provost:



The University's Consolidated Budget was presented and approved at the June meeting of the Board of Governors and we wanted to take this opportunity to update the campus community on this most important issue.

It has been impossible to shield the University from the world economic crisis. Our endowment funds are impacted by the

payment and deficit payment requirements drains money away from the operating budget, and that threatens the University's ability to maintain programs and the quality of education it can provide to students both today and into the future.

While the province once again provided much needed one-time year-end money,

and academic support, research, operating activities and capital, an increase of 3% over the 2008/09 projection.

The operating budget component of \$480 million includes all funds for salaries and benefits as well as the operating expenses of units across campus. The operating budget is developed by the Budget Committee

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volatile stock markets so the funds return fewer dollars to our operating budget. The pension plan investments have also lost considerable value and although there has been a recent rebound in the stock markets, the pension fund is still down 16% from a year ago. Ontario pension regulations ensure the pension plan is not at risk. But meeting our growing ongoing pension

these increases only partially address our increasing costs. Inflation alone adds approximately \$20 million to the budget each year. Further, the end-of-year funding followed the recent trend of being targeted for specific uses, limiting our ability to use it in the optimal way to reduce financial risks.

The University will spend approximately \$830 million in the next year on teaching

which has been chaired by professor Brian McCarry. The Committee has spent countless hours developing the operating budget and members deserve our thanks for their tireless work.

The ongoing operating budget of the University for 2009/10 is balanced thanks to cost-saving strategies and new revenue generation. But when one-time expenses

anticipated over the next year are included the operating budget moves into the red with a deficit of almost \$27 million; i.e. expenditures exceed revenues for the year by roughly \$27 million. These expenses will be covered by budget envelope managers drawing down their financial reserves but these funds are disappearing. Once they are spent, units will have no savings to apply against rising costs. The operating budget also does not include almost \$4 million for this year's pension deficit payment which instead will come directly through reserves. And post-retirement benefits will be paid for on a cash basis as the expenses are incurred.

We are very concerned about the financial health of the University. The approaches used for this year's budget do not provide long-term solutions. Despite current cost savings strategies many of our Faculties continue to have operating deficits and accumulated debts. Unless the University gets relief from pension and benefit obligations and more revenue in operating grants through the province's Reaching Higher Two plan, McMaster is facing projected annual deficits in the range of \$50 to 60 million.

The projections are serious and credible. The University is facing:

- Significant increase in our pension deficit payments from the operating budget – currently at \$8.4 million per year they are expected to rise considerably even if the stock markets continue to show positive returns. The plan was already in a growing deficit position before the stock market crash.
- Decline in endowment investment returns means we are unable to count on the \$21 million normally available to the operating budget to fund expenditures. We have already frozen spending from some endowments.
- Rising costs of post-retirement benefits that are expected to reach double-digit millions of dollars on an annual cash basis are adding an even greater burden to the operating budget
- Need to finance unfunded portions of capital projects (through interest-accruing internal or external loans) adds ongoing debt and financing charges, and this amount is expected to increase over time

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The chair of the Board of Governor's Finance Committee, Roger Couldrey, has called 2009/10 a pivotal year for the University in which we will need to find shared solutions and make very tough decisions. The President's Advisory Committee to Address the Impact of the Current Economic Situation (PACICES) has been making progress and its recommendations will be the focus of campus consultations in the fall.

The Management Group has already taken a leadership role with a zero per cent across-the-board increase for the next year, a 2% merit pool, increased pension contributions, the closing of the current defined benefit pension plan to new members who will instead be enrolled in a group RRSP, and an end to post-retirement benefits for new hires. The president and vice-president's group has taken the same actions on pensions and benefits and they along with the deans and AVPs have volunteered to freeze their compensation for the next year. Labour negotiations with various bargaining unions over the summer months are similarly focusing in on these issues.



Finding new approaches that provide real and long-term solutions has the potential to cause a great deal of tension and stress to our community. For example, hiring more tenured and tenure-track faculty is a strategic goal that we know is the best solution to meeting student expectations and strengthening our research ability and reputation. So far this year we have hired 48 new tenured, tenure-track and teaching stream faculty members including several externally funded Chairs. This naturally results in a rebalancing of teaching loads between full-time faculty and short-term sessional appointments.

If we are able to find solutions in a collegial manner, tension levels will be reduced. The more we are able to work together and to negotiate solutions across all groups the stronger our McMaster community will become.

We will continue to keep you updated on budget developments. We thank everyone for the many valuable contributions you are making towards solving our financial challenges and for your ongoing commitment to McMaster and our students. ■

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter George'.

President Peter George

A handwritten signature in black ink, appearing to read 'Ilene Busch-Vishniac'.

Ilene Busch-Vishniac

