# BUDGETING FOR TUITION INCREASES

## *The truth behind McGill's budget deficit*

No doubt you've heard the senior McGill administration complaining that its revenues can't cover its expenses, that its budgetary deficit undermines the quality of education it can deliver, and that, as a result, tuition increases are the only way to bring McGill on par with universities around the country.

As HMB put it in the November 14th edition of the McGill Daily[1]:

> ***"Having the lowest tuition rates has put universities in Quebec – and, hence, Quebeckers – at a comparative disadvantage vis-a-vis our peer institutions in the rest of the country. Our universities are starved for funds to provide adequate student aid, to improve facilities and patrimonial buildings, and to provide appropriate levels of student services."***

1. "Starved for funds"? How so? Let's examine that claim by first looking at how the budget works. This is from the administration's *McGill Budget Book, Fiscal Year 2012*[2]:

> The overall University **Budget** is comprised of four funds: **operating (unrestricted)**, **restricted**, **capital (plant)**, and **endowment**. The first two funds deal with all of those activities normally associated with the University's core teaching and research activities. The primary difference between them is that monies received with specific restrictions on their use (e.g., research **grants**) must be recorded in the restricted fund. Of course, the associated **expenditures** must also be recorded separately to facilitate tracking and reporting. The capital fund records all **revenues** from sources other than operating or restricted funds that are specifically earmarked for the acquisition, construction or renovation of capital **assets**. The endowment fund consists of all **gifts**, donations, and **bequests,** including those for named chairs, financial aid, and other specific purposes for which the capital has been endowed. (p.28, emphasis added)

**When the administration is talking "deficit" and "starvation" however, they are speaking about the Operating Fund only**. Here's how the deficit shows up in policy, again from the *2012 Budget Book*, taken from the sub-section "Revenues have grown but expenses have grown faster":

> The period of serious ongoing economic uncertainty dating from the 2008 downturn in financial markets persists. McGill has continued, nonetheless, to adapt and grow. Revenues are again projected to follow an upward trajectory during FY2012 but, in light of expenditure increases, the Provost has requested of our Board that our operating budget close FY2012 with a deficit of $6M (on a pre-GAAP [Generally Accepted Accounting Principles] basis). This decision was not taken lightly, and its attainment will demand considerable effort on the part of all members of our community. (p.2)

But no mention is made that this "$6M" deficit refers only to the Operating Budget. Since a university can't operate without the required funds in its Operating Budget, Québec's Ministre de l'education, loisirs et sports (MELS) is mandated to take on McGill's debt. This makes running deficits in the Operating Budget a palatable option. In reality, between the Operating, Restricted, and Capital budget, the total budget deficit is only 3.1 million dollars. Why, then, such a huge deficit in the Operating Budget? It has to do with how funds are spent.

---

[1] See http://www.mcgilldaily.com/2011/11/campus-leaders-talk-tuition-hikes/

[2] McGill Budget Book, Fiscal Year 2012 : https://secureweb.mcgill.ca/provost/sites/mcgill.ca.provost/files/mcgill_university_budget_book_fy2012_0.pdf

2. Dollars and sense? Let's now take a look at the numbers to see how, exactly, the McGill administration is "starving" for funds:

It is possible for McGill to obtain surpluses in its total budget, yet still have operating deficits and claim to be underfunded. How? Because of **inter-fund transfers**. Ideally surpluses in any one of the four budgets can be transferred to reduce the shortfalls of another. This seems like the obvious thing to do, unless those deficits can be covered by the Québec Government who can then pass it on to the student. How does the McGill admin see it?

If you take away one thing from this document let it be this: **At McGill money from the Operating and Restricted Funds (the money needed to actually run McGill) is being transferred to the Capital Fund in order to acquire, construct or renovate capital assets, e.g. buildings.**

Here's what's going on (all this from the FY 2012 McGill Budget Book):

Surplus (deficit) in operating, restricted, and capital (plant) funds before inter-fund transfer in projected FY 2012 Budget:

| Operating Fund | Restricted Fund | Capital Fund |
|---|---|---|
| $28,138,000 | $12,986,000 | ($42,748,000) |

Inter-fund transfers projected in FY 2012 Budget:

Out of the **Operating Fund:** $34,155,000
Out of the **Restricted Fund:** $13,885,000
Into the **Capital Fund:** $52,700,000 (extra $4.66M from Endowment Fund)

Now comes the $6M deficit. Surplus (deficit) in operating, restricted and capital (plant) funds after inter-fund transfer in projected FY 2012 Budget:

| Operating Fund | Restricted Fund | Capital Fund |
|---|---|---|
| ($6 017 000) | ($899 000) | $9,952,000 |

At McGill, the administration's inter-fund transfers lead to deficits in the operating fund, even though the actual operating costs (i.e. salaries, building occupancy, equipment, software) are exceeded by operating revenue. *The above operating deficit is being purposefully created by the university administration*. It's not difficult to get from inter-fund transfers to tuition increases, unfair labour contracts, fewer TA hours, etc. In fact the line is drawn clearly in the *FY 2012 Budget Book*:

> After presenting to the Board of Governors the preliminary considerations for developing the McGill budget for FY2012 and incorporating their suggestions and recommendations, **the senior administration of the University is proposing to run several years of budget deficits** (on a pre-GAAP basis) starting with FY2012, but returning to an effective breakeven budget beginning in FY2014, **as these modest tuition increases take effect**. (p.14, emphasis added)

3. The problem is compounded by the fact that the McGill administration takes money out of the Operating Budget deficit to cover shortfalls in the Endowment budget. Back to the *FY 2012 Budget Book:*

> In FY2011 it was decided to maintain the income distribution rate at 4.25%, consistent with the rate of the previous year. The Board of Governors has approved the income distribution rate at 4.25% for FY2012. Although the rate will remain the same in FY2012, the income distribution expressed in dollars will be 8.7% less per unit because of the three-year moving average of market values on which the income distribution rate is based. While the Academic Renewal envelope, which funds all tenure- track professors [an Operating Budget Item], **will cover the shortfall in endowed chair salaries for tenure track professors**, there are a number of endowment-supported activities in the Faculties and Administrative Units that will need to be rationalised. (p.54, emphasis added)

Money from the Operating Budget is being used to pay for endowed salaries. The result, bigger Operating Budget shortfalls.
In 2009-2010, the income derived from the endowment fund for the operating budget was $3 million more than that for 2011-2012. If the payout from the endowment fund would track the recent growth of the endowment, the operating deficit would be nearly zero!

4. So, are we really starving for funds or is the administration hungry to change how universities in Québec are funded?

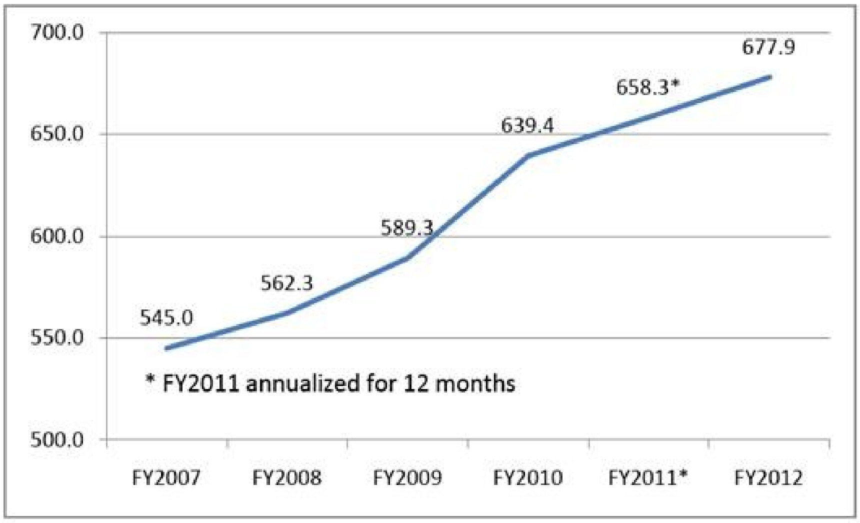
What is essential to realize is that while there have been consistent 'operating' deficits over the last few years, the overall budget has generally been balanced and the total assets of the University are increasing. Make no doubt about it, McGill is on solid financial footing. Take a look at the following table, from Appendix 9 of the *FY 2012 Budget Book*:

**McGill University**
**Statement of change in net assets**
**year ended May 31, 2010**
**(in thousands of dollars)**

| | | 2012 Budget | | 2011 Forecast | | 2010 | | 2009 |
|---|---|---|---|---|---|---|---|---|
| Net Assets, beginning of year | $ | 1,060,795 | $ | 952,357 | $ | 873,290 | $ | 998,707 |
| Excess (deficiency) of revenue over expenses | | (3,170) | | 7,692 | | 5,654 | | (13,538) |
| Endowment contributions | | 35,000 | | 25,000 | | 38,966 | | 46,906 |
| Investment income items reported as direct increase (decrease) in net assets | | 75,000 | | 75,746 | | 34,447 | | (158,785) |
| **Net assets, end of year** | **$** | **1,167,625** | **$** | **1,060,795** | **$** | **952,357** | **$** | **873,290** |

The first line is the sum of all the monies coming into the Operating, Restricted, and Capital Funds. The second line is the total revenue of the three Funds for each year minus the total expenses of those three funds. Once you include Endowment contributions and Investment income, McGill consistently comes out ahead. Moreover, there have been large increases in the operating revenues over the past five years (24.4% increase in five years; *FY 2012 McGill Budget Book*, p.30):

**Table: Operating Revenues FY 2007 to FY 2012**




The McGill community has a right to know why, when end of year assets show a net surplus, are inter-fund transfers being used to defund the operation of the University? Why is our principal actively pushing for tuition increases to cover shortfalls she and her senior administration team fabricate themselves? Why should students pay for new buildings when the senior administration can't manage the day to day working of the University?

**It's time to stop accepting "deficits" as justification for tuition increases.**
**It's time for an honest senior administration.**