

STATEMENT

Economic Uncertainty: Effects on the College and Our Path Forward

May 25, 2009

DEAR COLLEAGUES,

In this time of unprecedented economic uncertainty, I am writing to share with you my observations and thoughts concerning our College's financial challenges and opportunities, and our approach for addressing this situation. It is important that we closely monitor and carefully analyze our financial situation for it is a great responsibility to select an optimal pathway forward for the College of Engineering, an institution that has guided engineering education in the province since its founding in 1912.

CURRENT FINANCIAL STATUS

No region is fully sheltered from the downturn in real economic activity. Recent events have affected organizations globally, and the situation is showing no signs of immediate improvement in Canada. Here in Saskatchewan the economic situation is still relatively positive with a balanced provincial budget announced two months ago. Nevertheless, as the Province and the University are preparing themselves for a variety of economic scenarios, we must do the same.

Even before the global economy worsened, our College was facing tough fiscal challenges. We have been handicapped for some time by an operational budget which has remained underfunded in the amount of approximately \$3 million per year, approximately \$2,000 per undergraduate student, in comparison to peer engineering colleges in Canada (based on information provided by the National Council of Deans of Engineering & Applied Science). This structural underfunding is related, in part, to the way tuition is regulated in the Province and the level of the University's operating grant. We were expecting some progress on this front, related to the resource re-allocation process, but it may not be realized in the current financial situation.

In addition to these structural challenges, the direct effect of the global economic downturn has been spreading into our University and our College. Of particular concern is the impact the current economically volatile period is having on investment income, endowments, trusts, and pensions. In the 2008-09 fiscal year, the University has used operating reserves to cover a deficit of approximately \$10 million created by declining returns on investments. We anticipate similar deficits for several years, linked to restoration of the pension level and an increase in labor costs. It adds up to a significant financial challenge.

The College's endowments and trusts, which are numerically greater than our annual budget and provide for scholarships, selected salaries and other operating expenditures, have lost approximately \$3.7 million between May 2008 and May 2009. This is on top of the \$1.4 million total loss in the 2007-08 academic year from the same funds. The University's conservative investment policy has protected us from the more substantial losses experienced by many other schools, but we still face an endowment and trust decline from approximately \$22 million in July 2007 to \$16.9 million now (~23% of their paper value). This decline will be felt because our average annual revenue from trusts and endowments is around \$640,000. We are working closely with the Office of Vice-President Finance & Resources to decide upon the optimal course of action, one that will preserve and build capital as quickly as possible with as little impact as possible on the College's operations.

Philanthropic gifts and donations to the College have also been affected. Some donors are extending the length of time needed to complete their gift payments, which means there are fewer dollars available for operating and strategic budgetary items. Reductions in donors' financial health may also have a future impact that cannot currently be predicted. Although the total donations are slightly lower than last year at this time, the number of donors to a variety of the College's funds has actually increased, which attests to the unprecedented generosity and support of our alumni and friends. We aim to stay the course on preparations for the *'Building our Future'* engineering campaign. We are confident that doing so will bring us closer to achieving one of our goals, a new engineering building, during the next integrated planning cycle. We are enormously grateful that so many of our alumni and friends are standing by the College in this difficult time, a time when we need them most.

Our NSERC-based research enterprise has grown, mostly thanks to our success with Strategic Projects (a total of approximately \$4.1 million until 2011), but revenues have actually decreased in this area due to a decline in the overall amount of Indirect Cost of Research (ICR) which has diminished for the entire University (we share the ICR income with other colleges and the Office of Vice-President Research). We were also successful in securing substantial research funding from the Government and industry (~\$7.8 million over the next three years), which will increase overhead-related revenue in future years, though not likely in this year. We must continue our growth in these areas at an even higher rate in order to keep the per capita research revenue pace similar to that of our national peers. Increased research activity, including industrial partnerships, is one potential source of College revenue.

Our revenue projections are changing. We see fewer retirements and more requests for reduced appointments (RAPs) and we need to analyze the impact of RAPs on the long-term academic mission of the College. In addition, we have been asked to assume financial responsibility, both benefits and risks, for a group of previously *out-of-scope* colleagues who are becoming *in-scope* employees due to agreements between the University and the Faculty Association. Indeed, we must adjust the ways we used to operate the College's financial milieu.

THE COLLEGE BUDGET

The University has just announced its operating budget for 2009-10, as well as a set of measures addressing a projected \$10 million permanent financial shortfall. The engineering tuition has been increased by 4%, which is slightly above the 3% average increase for the majority of academic programs. Our College’s annual budgetary allocation has been permanently reduced by 2.6% or \$337,000, which is slightly below the average reduction of 2.8% for all academic units. These adjustments to the operating budget allocations will create a significant financial challenge across the campus.

The College of Engineering is already a relatively lean operation, and we are careful in the way we manage all of our funds and research dollars. Approximately 95.3% of our operating allocation of \$12,892,339 is dedicated to salaries (please see Figure 1). We manage the College with the remaining 4.7% non-salary allocation (\$601,170), plus revenues from endowments/trusts (\$633,341), research overheads/indirect costs (\$321,346), and a ‘salary recovery’ component (\$682,182; this has fluctuated between \$200,000 and \$700,000 over the past ten years). Figure 2 illustrates the distribution of the College operating revenue based on our 2008-09 budget.

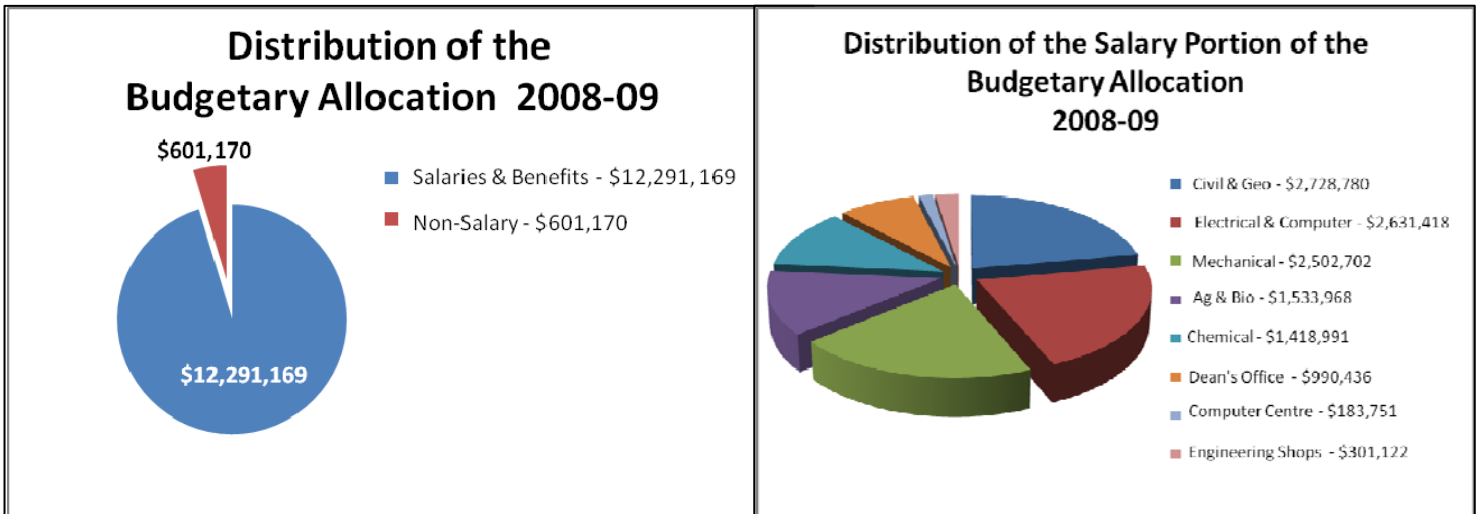


Figure 1 – Distribution of the Budgetary Allocation

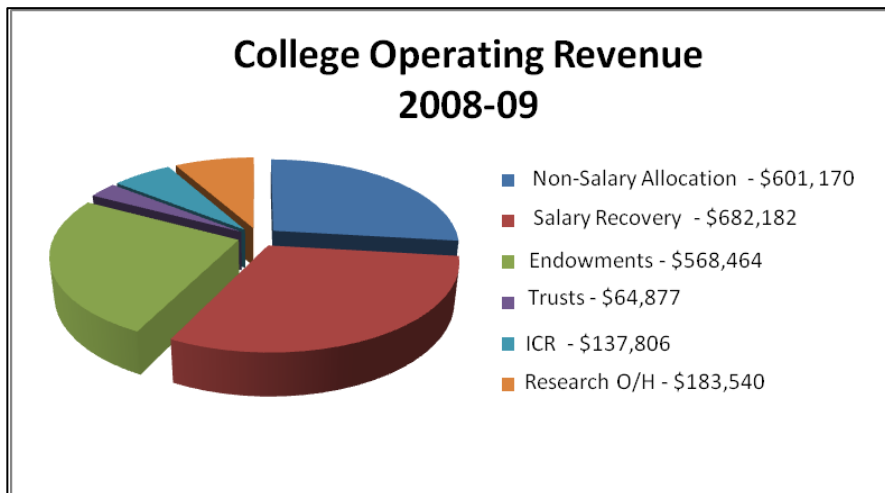


Figure 2 – College Operating Revenue

The non-salary portion of the budgetary allocation to the College by the University (\$601,170) is distributed between the five Departments, the Dean's Office, the Engineering Computer Centre, and the Engineering Shops. Details of this distribution are listed in Figure 3.

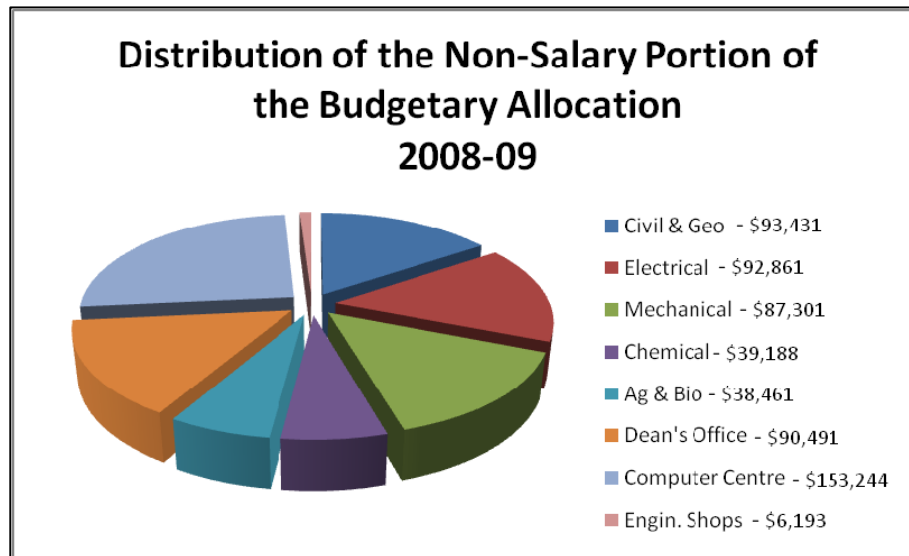


Figure 3 – Distribution of the Non-Salary Portion of the Budgetary Allocation

The remaining operating revenue (\$1,636,869 in 2008-09) is used, for example, to cover costs associated with (i) salaries of several lecturers/sessional teachers, (ii) lab- and academic program-related requests, (iii) a fraction of selected infrastructure renovations (e.g., the Engineering Student Centre), (iv) an additional support for teaching assistants, (v) a support for student groups and activities, (vi) selected research/equipment support, (vii) a portion of ASPA merit and bonus allocation, (viii) hiring differentials for new faculty, (ix) impromptu requests by faculty and departments including a partial support for summer students. In addition, a portion of the operating revenue contributes to the College contingency fund, which typically fluctuates between 7% and 10% of the budgetary allocation. I am determined to streamline the College's financial milieu, implementing straightforward procedures and transparent practices but this will take some time because it cannot be done in an *ad hoc* manner.

The College has historically financed a substantial component of administrative/support staff from the 'salary recovery' process related to position reallocation, delayed hires, sabbaticals, retirements, and other revenues including those from research, endowments and trusts. With the availability of these funds diminishing, and with the necessity to address the permanent reduction of our operating allocation, we will need to consider our options carefully.

HOW DO WE MOVE FORWARD?

We know that tough times require discipline and prudence. We will build on our strengths, while preparing for the future in an economically uncertain world. We will need to make difficult choices but we will uphold our fundamental principle: ***we will not sacrifice the quality of our academic programs and research priorities.***

In every challenge, there is an opportunity. This is our opportunity to work together to build a sounder financial future for the College. Our first action will be to improve the management of our programs, activities and expenditures, to work smarter and to realize efficiencies wherever possible without lowering the quality of our academic curriculum. It is inevitable that we will need to be more efficient in what we do with fewer resources available to us. We will immediately begin conducting consultations across the College that will examine how we can cut costs while preserving and growing academic excellence, and how we can diversify and enhance our revenue streams. Initially, Heads will carry out these consultations within individual Departments. I am confident that these consultations will, with significant input from the community, help us to identify areas in which we can improve and save. We anticipate the completion of this initial phase by mid June.

We will also be conducting consultations with other Colleges and Administrative Units on campus, as well as with our alumni and friends. In addition, we will be working with the Offices of the Provost and the Vice-President Finance & Resources in order to determine how best to achieve our goals in conjunction with the actions being undertaken by the University. We have been asked by the Provost to submit, by June 30th, a plan describing the process and timing for achieving the \$337,000 operating budget adjustment.

After analyzing the limitations of the 2009/10 budget and the outcome of the consultations, we will bring forward to the College Executive suggestions for dealing with the financial constraints. The College Executive will develop a prioritized list of objectives, specific actions and realistic timelines. I will communicate our recommendations directly to the engineering community. Our ultimate proposals will go to the Provost for discussion and approval. Our actions will be determined by taking into account our realities, customs, traditions, history, and strategic priorities.

We will also consider launching a Task Force, which will further guide this collegial process and make additional, long-term recommendations to the College Executive that will help determine the roadmap ahead.

I want to emphasize that, while considering all options, our primary focus is on improvements that can and should come from everywhere across our College. I anticipate that our biggest gains will come primarily from a focus on stronger management, cost containment, and workload realignment – and these are areas in which everyone can and must help. I know that I can count on each of you, and foresee an inspiring response demonstrating the spirit, courage, resilience and sense of community that have always been the cornerstone values of our College.

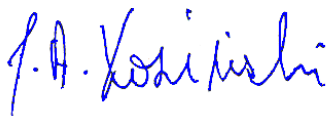
Since people are our College's greatest asset, it is natural that the engineering community be a source of advice and counsel on the way forward. By initiating the all-inclusive and wide-ranging consultations, I call on our community to work together in turning the current situation into an opportunity to build sound, long-term strategies for coping with money problems, regardless of their origin. In order to achieve best results, we must accelerate the processes in which we are already engaged to increase financial accountability and transparency. Difficult decisions and possible sacrifices will require disclosure of our options, the decision-making processes, and our final choices.

A STRONG BASE AND A CLEAR PURPOSE

Regardless of difficult economic times, we can take some comfort in the real progress we have made, and the cumulative resources we possess that will allow us to continue to excel. We have hired strategically and have invested in professional development, which has provided us with much-needed talent to more effectively support the College's core academic mission. We have also started to renew faculty and staff in areas of critical importance to the College, develop a comprehensive plan for administrative revitalization, and continue to invest in maintaining the excellence of our academic programs and quality research contributions. Our College stands on a firm foundation, thanks to our collective commitment to excellence and relevance. We are determined to strengthen this foundation. In particular, we will try to safeguard our most precious resource: our people. I recognize and am deeply grateful to each of you for your hard work, dedication, wisdom, and loyalty and I am determined that we will provide you with the support you need to succeed in every way we can.

The thing is, amid uncertainty, there are things we are certain about. We remain committed to academic excellence; we remain research-intensive; we remain centered on students, their life and learning. We know our priorities. Over the past two years we identified key areas of activity that serve as guideposts towards our future. In addition, the University's Integrated Plan outlines what we stand for, what we want to do and where we are going. We are devoted to managing and growing our limited resources strategically, in order to continue to (i) enhance the educational environment and student experience, (ii) further increase research activity and output, and (iii) stimulate interdisciplinary partnerships. We will continue focusing our resources in these areas. It is even more important to maintain our priorities during the time of an economic downturn than when resources are flowing more freely. While we are committed to remaining publicly funded *via* the University's multi-year budget, we want to continue to grow and diversify our revenue sources.

Our College has dealt with restricted resources and uncertainty in the past – it is part of our collective culture. We have been through difficult times before and have always prevailed. We will do so again emerging from this situation an even stronger and more focused institution.



— **Janusz A. Kozinski**
Dean, College of Engineering