

# College Task Force on the Future

## “The 2015-16 Fiscal year”

### *Interim Draft Report*

January 27, 2015

The University of King's College is a unique and valued institution — for its students, its faculty, its staff, its community. Maintaining all that makes King's “King's” is vitally important to all of us.

We do believe King's has a viable long-term future, but we acknowledge we will need to make changes to how we do what we do in order to maintain the King's we value for the long term.

In the 2015-16 academic year, that means we must make difficult decisions to bring our finances into balance. Given that our expenses have been increasing faster than our revenues for some time, it is also unlikely we will be able to solve all of our financial issues within one fiscal year. But we can — and should — see this year's short-term fixes as a way to buy time to make longer term structural changes that can make us more sustainable. We cannot lose sight of the real goal for any changes: a College that is both sustainable and also flourishing into the foreseeable future.

The purpose of this interim draft report is to provide the King's community with information about the difficulties — and choices — we face. The purpose of our **Town Hall meeting on Wednesday, January 28 at 3:30 p.m. in Alumni Hall** is to allow the community an opportunity to discuss those options, raise questions and make further suggestions for the 2015-16 fiscal year.

The Task Force's goal is to produce an interim report by February 1, whose recommendations will inflict the least short-term damage while protecting the institution and laying the groundwork for its sustainable long-term future.

## Background

The “Faculty Working Group on the Future of the College,” in its November 2014 report, recommended the establishment of a College Task Force made up of representatives of all of the university’s various communities — staff, students, faculty, administration, board, alumni — to examine the College’s current financial situation and to make recommendations about its future. The idea of a College Task Force was quickly embraced by all constituencies within the university.

This Task Force, chaired by Vice President Kim Kierans, held its first meeting December 12, 2014. Since then, it has met nine times for 24 hours.

- We have been briefed, and then updated on the College’s current financial situation by the Bursar, the Director of Finance, and the Board Treasurer. We thank each of them for their quick, courteous responses to our many questions, and their forbearance in answering our many follow-up queries and requests for clarification.
- We have examined the reports filed by each of the College’s administrative and academic units in response to a request from the Budget Advisory Committee. The BAC had asked them to detail how they would achieve cuts of 5, 10 and 20 per cent in their annual budgets, and the impact such cuts would have on their ability to perform their important functions.
- We have since met with supervisors of most of those administrative units to follow up on those reports and ask further questions. We appreciate their candid and thoughtful responses.

The focus of this interim report — and most of our deliberations to date — is the short term: the 2015-16 fiscal year. Our goal with this draft is to provide members of the King’s community with a better understanding of some of the financial challenges we face in the upcoming year and the options we have to respond to them.

**We welcome your comments and suggestions. Our email is [collegetaskforce@gmail.com](mailto:collegetaskforce@gmail.com)**

In keeping with our mandate, the Task Force will file its interim report, with recommendations, by February 1, 2015.<sup>1</sup> This tight time frame is necessary for a number of reasons: our report will be considered by the Board Finance Committee and the Board, which meet February 5. Faculty also needs to know our recommendations so they can begin to finalize class and staffing plans for 2015-16.

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<sup>1</sup> It is important to note the Task Force will also be preparing a subsequent report later in the semester looking at the College’s longer range options and opportunities for a sustainable future.

And the Budget Advisory Committee and the Board Finance Committee need this input as they begin preparing the budget for next year.

### **What is King's current financial situation?**

What follows is the text of a briefing we received from the Bursar on December 16, 2015:

The College faces a situation of declining enrolment. As of December 1, 2014 full-time undergraduate enrolment was 1001, a drop of 197 or 16.4% from the high three years ago. Offsetting the decline to some extent is the increase in graduate enrolment from 7 to 48. The FYP enrolment on December 1, 2014 is 238, a decline of 20% in one year.

Our operating cash balance on March 31, 2014 was negative \$1,265,000. The proceeds from the sale of the house and further measures that have been taken may allow us to stay close to that balance by the end of March 2015.

But looking ahead to 2015-16 and beyond, if enrolment does not improve, the College will incur growing cash deficits as the imbalance between resources to fund the College's activities and the costs of those activities increase. While there are many assumptions that can be made in forecasting here is one set for the next four years.

- Operating grant increases of 0%.
- Allowable student fee increases capped at 3%.
- Full time undergraduate enrolment decline in 2015-16 of 5% as the small current FYP class moves into the upper years. This assumes an entering FYP class for next year of 240. After that it is difficult to predict with any confidence what will happen. For purposes of these forecasts I am assuming a 2% decrease in full time undergraduate enrolment for each of the three years. Graduate enrolment stays steady throughout.
- Continuance of the additional .5% endowment draw.
- Increased non-instructional net income (i.e. conference services).
- Continuance of the \$300,000 ATB cut in the 2014-15 budget but no further ATB cuts. [In 2014-15, there was an additional \$200,000 ATVB cut.]
- Status quo on staffing levels and compensation increases.
- Keep increases in other non-salary costs at 2% inflation.

**The short version of all of that is that we need to reduce our expenses by approximately \$1.4 million in 2015-16. If we don't, the College's deficit will increase by another \$500,000 in each subsequent fiscal year.**

## **What are the options for 2015-16?**

When we began this process, we knew there would not be one single solution to our short-term financial crisis. Given the extent of the budgetary shortfall and the limited savings to be gained from most of the available cost-cutting options, we are faced with choosing various combinations of unpleasant options from among a menu of unpalatable choices.

As we delved deeper into the weeds of the departmental and administrative numbers, we discovered the complicating reality that there is very little “low-hanging fruit, ripe for the plucking.” That’s not to suggest there aren’t some expenses that can’t be cut or trimmed. There always are. But, generally speaking, King’s is a lean organization.

On the one hand, that’s good news. We are well and carefully run, academically and administratively. But, on the other hand, it means any cuts will almost certainly touch bone.

## **Some of the issues:**

During our meetings, members of the College Task Force raised some difficult, even potentially contentious questions. For example:

- Has the administration grown too big for the size of the university?
- Do faculty members really need sabbatical leaves?
- Why shouldn’t we increase the draw on the endowment further to help deal with the projected 2015-16 shortfall?
- Why not use the recently discovered \$2.228 million recently identified as “non-endowed” investments to eliminate our 2015-16 deficit?
- Is it possible to cut expenses by 5, 10 or 20 percent and continue to function as a university?
- What would the much talked-about salary freeze actually look like, and how would it impact faculty, staff and the institution?
- What would be the effect on enrolment — and revenue — if tuition and fees were reduced... or increased?<sup>2</sup>

These are all important questions, which have been considered in an open, respectful atmosphere. That’s not to suggest we suddenly, magically agree on the answers, but we all now have a much better idea of how the College and its interconnected communities actually work.

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<sup>2</sup> It’s important to understand the answers to some of the questions raised, including tuition, are not entirely within King’s control. The provincial government has set caps on tuition increases and King’s tuition fees, for all but Journalism students, are determined by Dalhousie.

While it's impossible to replicate our Task Force learning experience in a report, we believe it may be useful to reflect on some of the contentious issues raised, the questions asked, and the answers given.

**Size of the administration:**

We asked for numbers to show whether administrative departments had increased in complement and cost over the past decade, by how much, and how those increases compared to academic increases and overall costs.

Currently, King's employee lists include 58 academic and 45 staff/administration positions. In 2009-10, those numbers were: 45 academics and 38 staff/administration.

The table below shows the costs of academic salaries (General Academic, and Carnegie/Equalization) versus staff and administration over the past decade, as well as the year-over-year percentage increase in expense in each category.<sup>3</sup>

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<sup>3</sup> Costs under Administration include two presidential salaries and two bursars in 2012-13.

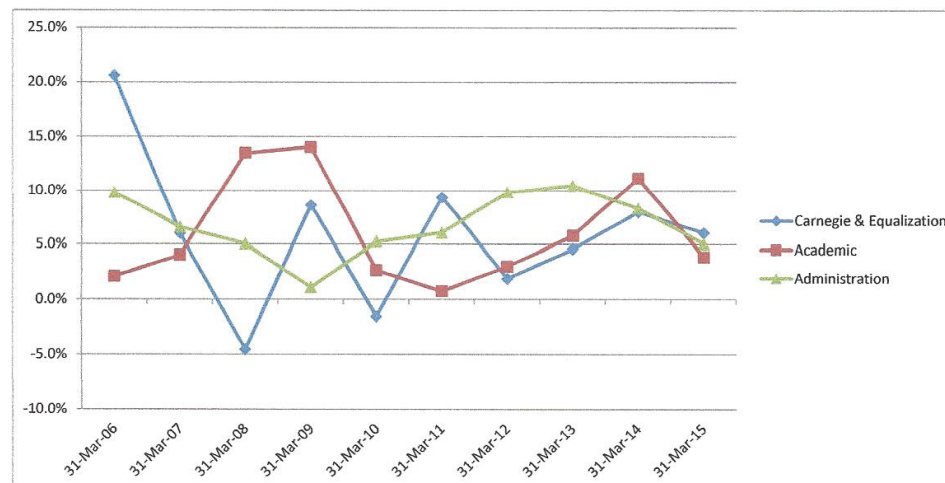
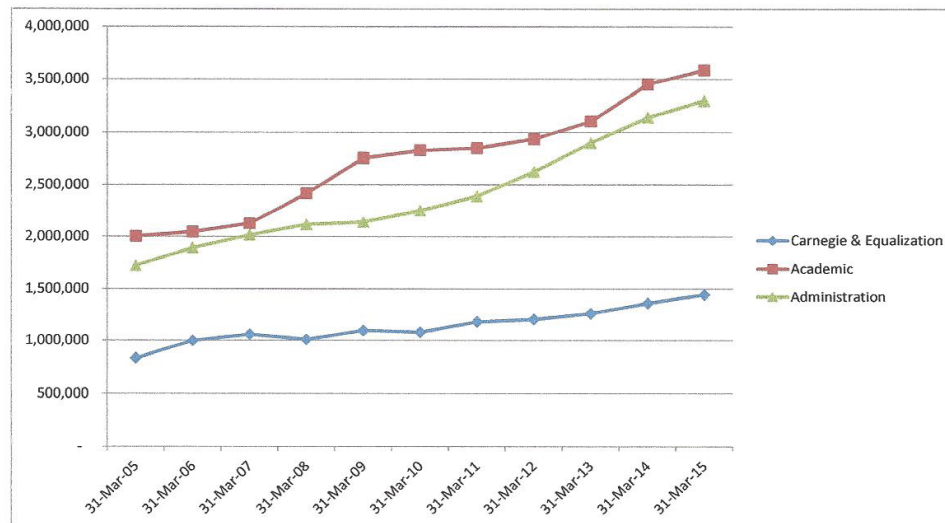
**University of King's College**  
**Salaries Paid (excluding casuals, TA's, lecturers, etc.)**  
**2005 - 2015**

Category	31-Mar-05	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	Forecast 31-Mar-15
Carnegie & Equalization	828,583	999,376	1,059,269	1,011,318	1,098,398	1,081,354	1,182,564	1,205,052	1,260,634	1,360,775	1,442,900
Academic	2,003,535	2,046,349	2,129,389	2,416,616	2,756,112	2,829,525	2,850,968	2,936,979	3,106,926	3,453,564	3,586,915
Administration	1,723,419	1,892,553	2,016,215	2,118,445	2,141,989	2,254,612	2,390,979	2,626,183	2,901,309	3,141,984	3,301,321

**Year over year % increase**

Category	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15
Carnegie & Equalization	20.6%	6.0%	-4.5%	8.6%	-1.6%	9.4%	1.9%	4.6%	7.9%	6.0%
Academic	2.1%	4.1%	13.5%	14.0%	2.7%	0.8%	3.0%	5.8%	11.2%	3.9%
Administration	9.8%	6.5%	5.1%	1.1%	5.3%	6.0%	9.8%	10.5%	8.3%	5.1%

Administration includes Registrar casual staff as there were several full time vacancies over the years covered by casuals.  
Administration also includes two presidential salaries in 2012-13.



There are, of course, different ways to parse all of these numbers. So it may be helpful to zoom in on what is happening currently in the three largest administrative units:

- **Registrar's Office:** The Registrar's Office is currently in the midst of a reorganization, in part the result of an external review. Marketing and website development have already been transferred to Advancement. One of the goals of the restructuring, which is expected to be complete by July 1, is that some of the work currently done by the Registrar's Office will be done by Dalhousie. Although this is a work in progress, we have been told the reorganization will lead to savings of 10 per cent of the Registrar's \$750,000 annual budget.

- **Bursar's Office:** The Bursar's Office has the same overall complement of administration and staff (six) as it had during most of the final years of the previous Bursar.

That said, the former Bursar's job has now been sub-divided into three positions: Bursar, Director of Finance and Director of Facilities. The division of the Bursar and Director of Finance roles is considered good management practice, encouraging transparency, efficiency, and accountability.

Facilities management is an increasingly specialized skill that requires a dedicated professional. It is worth noting the new Director of Facilities was able to realize identified savings equal to his salary in his first year on the job.

- **Advancement:** The Advancement Office, which is responsible for alumni development, communications and fund raising, has recently added (from the Registrar's Office) marketing and the university website to its responsibilities.

As a result, the Director of Advancement told us, there has been an internal reorganization that will allow the Office to better meet its new and existing responsibilities, while reducing our reliance on costly outside contractors.

In the past five years, the College's Annual Fund has grown from roughly \$100,000 to \$225,000. Overall, Advancement has raised \$4 million in the past 2 years, more money than in any other previous similar period. (For comparison, the University raised less than half of that — \$1.57 million — in 2011-12 and 2012-13).

The office is currently in the "quiet phase" of a five to seven-year capital campaign whose goal will be to raise roughly \$20 million for College purposes from individuals and private sector. For comparison, each of the two previous campaigns raised less than half of that amount and, in the case of the \$7.5-million library, over half came from government, which is no longer a likely source of funds.

## **The 5–10–20 per cent solutions**

The Task Force has looked at the “narratives” provided by academic and administrative units concerning the impact of 5, 10 and 20 per cent budget reductions.

It is clear from examining them that a 20 per cent cut across the university is simply unsustainable. King’s could not survive such a cut.

A 10 per cent cut would mean the elimination of programs and positions. King’s might survive but it would not be the unique and valued institution we referred to at the beginning of this report.

A 5 per cent cut — which would produce \$561,000 in savings<sup>4</sup> — would be incredibly painful, but we believe it could be managed in the short term in order to give us breathing room to plan a more sustainable future.

We have included the 5 per cent cut as one of the mix of measures the university can consider to reduce its funding shortfall.

But there are caveats and factors to be keep in mind:

- The 2014-15 budget already included a \$300,000 permanent cut, \$40,000 affecting the academic departments and \$260,000 from the administrative departments.
- Cuts should not be made across the board. There are units and programs that cannot sustain even a 5 per cent cut, others that can cope with more. We need to be selective with the cuts, aiming at an overall cut of 5 per cent.
- These cuts, for the most part, should be considered temporary and reconsidered after a year.
- Determining the specific cuts is beyond the scope of this Task Force. We believe that is the role of the Budget Advisory Committee.
- We believe the guiding principle for cuts to administrative and academic units must be to make sure those cuts do the least harm to the interests of our students.

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<sup>4</sup> For clarity, the calculation of the 5 per cent saving is not based on the overall university budget of \$20,475,000 but on that amount, minus those expenses (\$9,237,000) the university does not control, such as Carnegie and Equalization professor costs, the Dalhousie allotment, scholarships, utilities, interest and service charges, etc. The budget subject to cuts is \$11,238,000.



## **Sabbaticals and Sessionals**

This report is not the proper venue for an in-depth discussion of the place of sabbaticals in academia, but everything is on the table and such questions should be part of the discussion moving forward.

There are, however, more immediate issues that could be addressed. Figures provided by the Bursar's Office show the estimated cost of a sabbatical replacement is \$11,000 per year if the faculty member is replaced by part-timers, \$89,000 if by sessionals. Some universities simply do not replace professors on sabbatical.

Given our small size and the limited number of core courses offered in some programs, not teaching certain courses might prove impossible. But we need to look carefully at savings that might be realized by changing policies with regard to sabbatical replacement.

The issue of sabbaticals and the employment of sessionals are related but also different. It may be possible to generate significant savings if we were to eliminate all sessionals in the Humanities,<sup>5</sup> for example, but this could compromise the capacity of those programs to deliver their core courses during sabbatical leaves. We also know, from letters submitted by students, that they have real concerns about eliminating sessionals or relying on per-course faculty to teach their core courses.

Our difficult task, however, is to consider all those unpalatable options. For example, what would be the "least worst" choice: eliminating sessionals or imposing a salary freeze?

## **Endowment**

Last October, the original Board Task Force on Financial Sustainability concluded increasing the draw on the university endowment to deal with our short-term financial difficulties "would run counter to the best principles of endowment management and governance [and] is not a solution to our long-term problem."

Two months later, however — after the Faculty Working Group again raised the issue in its report — the Board considered the question again.

Rather than increase the endowment draw, the Board did agree to follow the practice of some other universities and apply a ½ percentage point annual

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<sup>5</sup> We reference only the Humanities here because we are focused on the 2015-16 budget year and only the Humanities sessional contracts are set to expire this year.

administrative charge to the endowment on an ongoing basis, resulting in additional funds of approximately \$150,000 in 2014-15.

Attractive investment returns experienced during 2014 will also result in a higher level of distributions from the endowment in 2015 under the current distribution formula. But, given the current state of investment markets, a similar increase is unlikely in 2016.

Some have asked whether it might be possible to further increase the administrative charge or the level of endowment distribution on either a one-time or ongoing basis.

As pointed out in the Faculty Working Group report, “other Canadian universities, faced with similar issues, are increasing their draw on endowments well beyond five per cent on a temporary basis.” And, quoting from *Inside HigherEd*, the Faculty report added: “endowments should exist to support the educational mission; the college’s mission is not to increase the endowment.”

The flip side of that, of course, is that consideration of such options must take into account:

- (i) the current environment of low interest rates and investment returns;
- (ii) the potential impact on donor’s willingness to contribute to the endowment in future; and
- (iii) the wishes, legal and implied, of the donors who contributed to the endowment in previous years.

We understand the Board has fiduciary responsibility for the endowment and will want to make certain that the funds are used responsibly.

That said, the College Task Force in this draft report has included a modest increase (\$75,000) in the endowment draw/administrative charge to reduce the 2015-16 deficit as one of the options available for consideration.

### **The \$2.228 million in non-endowment investments**

As you may have read in our last Update, the Bursar and Board Treasurer informed our Task Force that, while “re-examining the long term accounts, focusing on the details of the investment and endowment lines... [they] discovered that a significant amount of funds may indeed be available that were not previously available. The funds are the result of past internal restrictions related to items not including general operations.”

As welcome as that news was, it raised two questions:

1. Are there more such funds that might be available?
2. How should this fund be used?

The Finance Committee is indeed continuing to examine all investment and endowment lines. If additional funds are discovered, they will be reported in a timely and transparent manner.

The Bursar and the Treasurer have made it clear, however, they believe the funds should not be used for a “one-shot fix” — funding our 2015-16 shortfall, for example — but should instead be invested “to provide a return to the College for its sustainability,” including such items as funding early retirements and/or buyouts, administrative restructuring costs, deferred maintenance projects that would have an operational payback, developing conference services and debt reduction.

Let us consider a few of those options.

### **Early retirements/buyouts**

One identified potential use for some of the funds would be to support early retirements and/or buyouts. King’s currently has 15 faculty and staff between the ages of 60 and 70.

It is difficult to know how many of them might take up such an offer and the savings would depend on a number of factors — Will the position be replaced? By whom? At what salary? When? — but estimates indicate such an “investment” could pay for itself in 18 months to two years.

If we used part of the \$2.228 million to finance faculty renewal, for example, we could expect immediate savings as a result.

The Carnegie professors are a special case. Because Dalhousie reimburses King’s for 2/3 of the salaries of Carnegie professors, the savings to King’s if a Carnegie professor retired would be one-third of the cost of the salary, but just 12 per cent after factoring in the Carnegie endowment.

Under the terms of the endowment, Carnegie professors must be replaced. But what if, instead of hiring a new professor for the position, we were able to name an existing King’s professor a Carnegie? This would clearly have to be negotiated with Dalhousie. But it could lead to additional savings.

**Energy Retrofit**

Over a year ago, the College commissioned a government-funded engineering report that identified potential savings of \$100,000 – \$150,000 per year in utilities costs (heat, light, water). To achieve that saving, the University would need to spend \$860,000 in a capital expenditure. We have applied to the government for a grant in this amount. We are still waiting for word on whether it will fund the project.

**Conference Services and Special Projects**

King's recently hired half-time Director of Special Projects has identified \$50,000 in potential additional profits in 2015 from hosting summer conferences and other projects. This is a beginning; other revenue-generating opportunities are currently under consideration, and we believe we can and should develop and implement these going forward.

**Divinity funds**

The College holds an endowment that was set aside and contributed to for divinity purposes when the College had a School of Divinity.

There are various obligations the fund must meet, but most significant is the payment of an agreed annual amount to support the work of the Atlantic School of Theology, which our School of Divinity joined in 1971. In recent years, however, we have not needed the full draw from the divinity funds to meet this obligation.

Which means there are two potential additional sources of revenue for King's:

- If we begin to take the full draw each year, we would have an additional \$40,000 for college operating expenses (which could include the chapel or other current divinity expenses).
- There is now also an accumulated unspent fund of approximately \$200,000 that belongs to the College.

The Task Force is suggesting the College make full use of the draw, and draw down \$40,000 a year from the unspent funds to assist in balancing the books during the next five years.

**Salary freeze**

The idea of a wage freeze has been on the table since at least last summer. It was one of the recommendations of the Board Task Force. The Faculty Working Group, in its report, raised many questions about

what that would actually mean. Who would be affected? When would it start? How long would it last? What would happen after? How would it affect the “parity clause”?

Given the College’s financial situation, the Task Force believes a wage freeze is another one of the options we must consider.

That said, we understand there must be clarity. We believe that, if a salary freeze should be implemented, the following considerations should apply:

- Any salary freeze should not take effect until July 1, 2015. That means that the 2014-15 increases agreed to by Dalhousie and the Dalhousie Faculty Association (including retroactive pay to July 1, 2014) would be implemented fully. But any Dalhousie-DFA salary increases for July 1, 2015 and beyond would be postponed.
- Because of union and policy considerations, the freeze would not apply to Carnegie/Equalization professors or unionized faculty.
- In the interests of fairness, the freeze should not apply to employees below a certain to-be-determined salary level. This will, of course, affect the savings the freeze might provide.
- The freeze should be for a limited period — we suggest a maximum of two years — but it should still be reviewed annually, in December each year, to assess the current state of the university’s finances and determine if the freeze can be lifted, in whole or in part. We would invite faculty and other interested stakeholders to suggest mechanisms and fiscal benchmarks for such reviews.
- The Task Force sees a salary freeze as a temporary measure to deal with the current financial situation. While actual parity may be affected in the short term, we believe the principle of parity must be maintained over time.

## **The challenge:**

**The Task Force has scheduled a Town Hall meeting for Wednesday, January 28 from 3:30–5 p.m. in Alumni Hall to discuss this draft interim report.** We encourage you to spend some time before that considering the various options and savings from each as outlined in this report and the accompanying chart.

Our goal is to bring the projected 2015-16 shortfall of \$1.4 million to zero. How would *you* do that? What choices would you make? Are there ideas and options we haven't considered?

We look forward to the discussion.

***On behalf of the members of the College Task Force:***

Jennifer Barnhill

George Cooper

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Dale Godsoe

Stephen Kimber

Colin MacLean

Gordon McOuat

Kelly Porter

Neil Robertson

Michaela Sam

Shirley Tillotson

Emily Rendell Watson

Kim Kierans, Chair of the College Task Force

January 27, 2015

## Making Choices

Our goal is to find \$1.4 million in savings during 2015-16 from some combination of the options below. We welcome your input in advance of the Task Force's meeting on January 30, 2015 (8:30-11:30 a.m.) during which we will be finalizing our recommendations.

Options	Estimated Savings (2015-16)
Increase the draw on Divinity Funds	\$80,000
Energy Retrofit	\$50,000
Conference Services profit	\$50,000
Retirements (net)	\$100,000
5 per cent cut	\$561,000
Salary freeze	\$300,000 <sup>6</sup>
Increase endowment administrative charge/draw	\$75,000
Eliminate Sessionals in the Humanities	\$300,000
Carnegie	\$75,000
Savings from administrative restructuring	\$185,000
<b>TOTAL from Options Above</b>	<b>\$2,026,000</b>

We note the Task Force did look, in a preliminary way, at a number of other cost-saving options, including:

- Converting the King's pension plan to a complete defined contribution model
- Eliminating some Blue Cross Benefits
- Reducing the Scholarship Budget
- Renegotiating the Dal-King's Agreement

We did not include them as options because they would not generate savings in 2015-16, or they would be too difficult or impossible to implement, or they didn't, on reflection, seem like good ideas.

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<sup>6</sup> This figure is based on all employees, except Carnegie/Endowment and those faculty with collective agreements. If some employees whose salaries fell below a to-be-determined salary level were to be exempted, the savings would be less.