

# MRU and Alberta PSE Funding Challenges

A Primer

Mount Royal Faculty Association  
February 2015

# Context: MRU Budget Challenges

- MRU faces yet another annual, multi-million dollar budgetary shortfall for 2015-2016
  - **Even if the provincial government doesn't cut PSE funding levels again**
  - This shortfall must be eliminated by spring
- Educational quality, access and affordability are again under threat
- Why does this problem recur year after year?
  - This primer attempts to explain some reasons

# Context: Alta. Budget Challenges

- Provincial revenue projections have plummeted because of a dramatic drop in world oil prices
  - Alberta bases almost a third of its total revenue on resource revenue (i.e. oil & gas royalties)
  - The government is projecting a \$7 billion shortfall in advance of the upcoming annual budget
- **Another cut to PSE funding levels is a very real concern**

# The Magnitude of the Challenge

- As it drafts its 2015-2016 budget, MRU has examined multiple scenarios
  - Based on multiple variables
  - With a 0% change in provincial funding now as a best-case scenario
- Conservative estimates project the shortfall at between \$7M and \$13M
  - As announced at MRU's January budget Town Hall

# MRU Funding Basics

- This primer focuses on the *operating* budget of the University
  - Not on the budgets or funding for capital projects (e.g. new building projects)
- The annual operating budget is about the “lights on” money that allows the University to carry out its core mission, year-to-year
  - Should be about providing high-quality programs
  - Should be about providing “access” (sufficient quantity of seats to meet Albertans’ needs)
  - Should be sustainable

# MRU Funding Basics

- In Alberta, each PSE institution must submit a balanced annual operating budget to the government
  - Legislated under the Post-Secondary Learning Act
  - Essentially, expenses cannot exceed revenues
    - Avoids of accumulation of debt
    - Discourages large operating surpluses

# MRU Funding Basics

- To see a detailed breakdown of actual revenues and expenses at MRU, see its audited year end financial statements
- These are available online for the past seven years:

[mtroyal.ca/AboutMountRoyal/OfficesGovernance/AnnualReports](http://mtroyal.ca/AboutMountRoyal/OfficesGovernance/AnnualReports)

- The budget development process for 2015-2016 is currently underway

# MRU Funding Basics

- Two main revenue sources:
  - Government of Alberta grants (46.4%)
    - **The main “Campus Alberta” operating grant**
    - ... and a few other, smaller conditional grants
  - **Student tuition** and non-instructional fees (33.5%)
- The percentages above are as of the most recent year end statement (June 30, 2014)
- **The Campus Alberta operating grant and tuition are MRU’s two main oxygen supplies**



# MRU Funding Basics

- What about the remaining 20.1% of revenue?
- MRU brings in additional revenue through:
  - Sale of services & products
  - Investment income
  - Private donations
  - Federal and “other” grants (very small)
- But it is inappropriate to rely excessively on these for operational purposes

# More about Tuition and Fees

- In Alberta, annual tuition (i.e. instructional) fee increases are regulated by law
  - Limited based on the annual change in the Alberta CPI (i.e. based on the rate of inflation)
- Non-instructional fees
  - The institution charges additional fees that can increase annually at a much greater, unregulated rates

# More about Tuition and Fees

- The Government of Alberta can approve additional tuition fee increases (“market modifiers”)
  - For specific programs
  - Based on tuition fees for comparable programs in Alberta or other jurisdictions
  - Well above what tuition regulation would normally allow

# Problems with Market Modifiers

- They can lead to rapid, unexpected tuition increases
- They defeat the purpose of tuition regulation by comparing regulated fees to those in unregulated jurisdictions
- They lead to basic questions of fairness when they are introduced, for some programs and not others, to deal with institution-wide budget challenges

# Operating Grants Have Stagnated

- The operating grant was frozen for 2010-2011, denying MRU promised funding for the 3<sup>rd</sup> and 4<sup>th</sup> years of its new degree programs
- **This is a main source of systemic, ongoing budgetary problems at MRU**

# Operating Grants Have Stagnated

- The operating grant was cut by 7.3% (after a 2% promised increase) in Alberta's spring 2013 budget
  - Some was later restored in targeted form
- This shock compounded the existing problems and led to major enrollment reductions and program suspensions taking effect for 2013-2014
- The main Campus Alberta operating grant has now fallen to 39.3% of revenue

# Grants, Tuition and Inflation

- Tuition regulation should ideally help ensure PSE does not become less affordable
  - The MRFA supports tuition regulation
  - But due to inflation, regulation means that this revenue source effectively never grows
- **This shifts the funding onus**
  - Operating grants must at least keep pace with inflation, or this revenue source effectively shrinks
  - Grant stagnation leads to repeated annual operating budget shortfalls

# Grants, Tuition and Inflation

- MRU's operating grant funding for 2014-2015 is below the 2009-2010 level
- If degrees had been funded as promised and grant funding had kept pace with inflation, MRU would have seen over \$20M in additional revenue in 2014-2015
  - No danger of any budget shortfall
  - No threats to quality, access or affordability



# Grants, Tuition and Inflation

- Even if MRU degree programs had not been funded as promised, annual inflationary grant adjustments would have dealt with most or all of the currently projected 2015-2016 shortfall

# Dealing with Shortfalls

- Because MRU must balance its annual operating budget ...
- Any projected shortfall must be eliminated
  - Through raising revenue, and/or
  - Through cutting expenses

# Dealing with Shortfalls – Cuts

- MRU already runs leaner than comparable Alberta universities
  - Lower grant amount per student (FLE), including compared to MacEwan
  - Generally lower tuition fees per course
- Due to operating grant stagnation, MRU is becoming increasingly starved of revenue
- More cuts to MRU expenses further jeopardize quality, access and student services
  - E.g. rising class sizes are a current concern

# Another Complicating Factor

- Yearly, the provincial government releases the budget in early spring
- MRU's balanced budget must be submitted for approval in late spring – after only a few months
- Revenue volatility, surprises and tight timelines make careful institutional reaction and thoughtful planning difficult
  - Some cuts can be made quickly, but cannot be reversed easily when revenue rebounds

# Dealing with Shortfalls – Revenue

- In recent years, MRU has raised and introduced new non-instructional fees
- In December, the government approved market modifiers for several programs in the province, including 3 at MRU
  - \$50 more / course for Bachelor of Science
  - \$100 more / course for Bachelor of Nursing
  - \$150 more / course for Bachelor of Business Administration (~30% tuition increase)

# The Grant to Tuition Revenue Shift

- Historically in Canada
  - Government funding was significantly higher
    - In the 80% of revenue range 2-3 decades ago
  - Tuition was dramatically lower
- Recent changes are part of a long-term trend
  - PSE-related debt is a concern
    - For students and parents
  - Hours worked by students has risen significantly

# MRFA Principles

- This time of crisis provides an opportunity to rethink how PSE is funded
- Adherence to the following principles will help ensure that PSE in Alberta:
  - Is funded predictably and stably, thus ensuring thoughtful planning
  - Remains of high quality
  - Remains affordable
  - Provides sufficient access to needed programs and seats

# MRFA Principles

- The majority of PSE funding must be accomplished through operating grants
- Annual changes in operating grants must never be less than the rate of inflation
- Annual changes in tuition and fees must never be greater than the rate of inflation, and market modifiers must not be used to circumvent tuition regulation



# MRFA Principles

- PSE funding must be decoupled from unstable revenue sources such as royalties
  - PSE is a fundamental need, not a luxury. Funding it stably and sufficiently is in the best interest of all Albertans. Relying on volatile resource revenue for funding core services is therefore a mistake
- A multi-year funding cycle must be implemented
- Small class sizes at MRU must be maintained