

Investing in Educational and Research Infrastructure for Economic Recovery and Growth

A Submission to the
Pre-Budget Consultations of the
Standing Committee on Finance and Government Services

by the
Confederation of University Faculty Associations of British Columbia

October 23, 2009

Introduction

The global recession triggered in the fall of 2008 has been a tremendous burden on all British Columbians—businesses have slowed down or closed, people have lost jobs, government revenues have taken a significant hit. Thankfully, the impact of the recession on Canada has been significantly less than elsewhere in the world.

Governments in Canada and around the world have recognized that it is necessary for government to provide stimulus in times of such deep economic downturn. This has largely meant investment in physical infrastructure to keep people employed and businesses operating.

In some jurisdictions, notably the United States, legislators have recognized that the short term stimulus from investments in physical infrastructure must be balanced with the long term stimulus that comes from investments in education and research. They argue, rightly, that it's not enough to sustain the old economy; we must also increase our preparations for the new economy. To this end, the US Federal Government invested \$90.9 billion in education and \$8.9 billion in research as part of the economic stimulus package approved in February.¹

Although the BC government has not cut nominal core funding for post-secondary education, funding for ancillary programs, student financial assistance and research has been cut. Looking at the next two fiscal years, rather than making new investments, the BC government plans to reduce real spending on higher education and research in many ways. This is not a productive or wise course of action.

We recognize the challenges the current global recession creates for the BC government in implementing the recommendations contained in this document. Now is not the time for government to pull back from its commitment to higher education. Without the necessary investments in education and research, we risk stalling the economy further, thereby multiplying the effects of the crisis and ultimately undermining necessary economic transformation.

¹ "Summary: American Recovery and Reinvestment". Committee on Appropriations. 2009-02-13. <http://appropriations.house.gov/pdf/PressSummary02-13-09.pdf> Retrieved 2009-10-20.

Real Protection for Post-Secondary Funding

The provincial government's intention to "protect" funding for post-secondary education is laudable, but the budget projections for 2010/11 and 2011/12 contained in the September Budget Update offer no such protection.

The government's plan is to freeze the operating grants provided to public post-secondary institutions at the 2009/10 levels for the next two fiscal years. According to provincial government projections, the Consumer Price Index (CPI) for BC is projected to rise by 2.1% in each of the next two years.² If the operating grants are not increased to keep pace with inflation, public post-secondary institutions will effectively experience a 4.2% cut in their government operating grants by 2011/12.

This problem is further compounded by the fact that, historically, the costs of goods and services necessary to the functioning of a university have risen more quickly than the general costs of consumer goods and services. For example, in 2009 the cost of consumer goods in BC is projected to rise by 0.6%, where the Higher Education Price Index (HEPI)³ is projected to rise by 2.3% over the same period. Every one percentage point that the HEPI exceeds the CPI means an additional \$18 million shortfall in funding for BC's public post-secondary institutions.

Over the medium term, a HEPI specific to British Columbia needs to be developed to assist in creating a sustainable funding model for BC's public universities, colleges, and institutes. To really protect post-secondary funding, for 2010/11 and 2011/12, operating grants must keep pace with the growth in the consumer price index.

Recommendation

1. Increase average per full-time equivalent (FTE) student funding to all public post-secondary institutions by at least the rate of growth in the Consumer Price Index for 2010/11 onwards.

² *September Budget Update – 2009/10 to 2011/12*, p. 108.

³ http://www.commonfund.org/Commonfund/CF+Institute/CI>About_HEPI.htm The HEPI is calculated for the U.S. and is not available for Canada.

Make the Carbon Tax and Harmonized Sales Tax Expense Neutral

BC's public post-secondary institutions are supportive of the move to reduce the production of greenhouse gases to achieve carbon neutrality. Furthermore, our universities are at the forefront of much of the research being conducted on climate change. Like businesses and individuals, the public post-secondary institutions will pay higher taxes on their purchases of fuel and energy. Unlike businesses and individuals, the public post-secondary institutions will receive no benefit from corporate or individual tax reductions. For colleges and universities, the Carbon Tax is an additional expense, rather than a tax shift.

Similarly, the Harmonized Sales Tax also represents an additional expense for public post-secondary institutions. These institutions will be able to claim input tax credits for some ancillary services, such as food services, parking, and campus bookstores, but because educational services will be exempt from HST, they will not be able to claim full input tax credits.

It's not clear from documentation provided by the provincial government if public post-secondary institutions will receive the same HST rebates as are currently available for GST.⁴ If the same rebate structure were to apply, the effective HST rate would be about 4%, rather than 12%.⁵ Although substantially lower, this will, nonetheless, represent an increase in the cost of taxable goods and services purchased by colleges and universities for educational purposes. We can't say at this time what this increase in expenses will be, but a recent Toronto Dominion Bank report suggests a general increase in consumer prices of 0.7% due to the HST.⁶

Recommendation

2. Provide full rebates to public post-secondary institutions to offset the net cost of the Carbon Tax and the Harmonized Sales Tax.

⁴ Details provided in the *September Budget Update* currently speak only of rebates for municipalities, charities and qualifying non-profit organizations (p. 82).

⁵ Public universities currently receive a 67% rebate on the GST for purchases related to educational services, thereby reducing the effective GST from 5% to 1.65% <http://www.finance.ubc.ca/AP/GSTOverview.cfm> If this same approach is taken for the HST, the provincial portion of the tax would be reduced from 7% to 2.31%.

⁶ http://www.td.com/economics/special/dp0909_hst.pdf

Responding to Student Demand

Preliminary figures indicate that undergraduate enrollment this fall at the five doctoral universities is up by 5.2% overall, or 5,128 students.⁷ Unfortunately, government funding was provided to create only 2,396 new student spaces. This means that 2,732 student spaces were created this year without any new funding.

The recruitment and admissions models used by the universities are designed to prevent this type of mismatch between available funding and the number of students admitted, but the forecasting models have broken down in the face of increased student demand as a result of the global recession. This left the universities with two choices, honour the offers of admission made to all students, or retroactively rescind offers to 2,700 students—the universities chose the former.

Honouring all the offers of admission has resulted in a revenue shortfall of approximately \$19.7 million. Unless new funding is forthcoming from the provincial government to deal with this recession-created problem, the doctoral universities will have little choice but to severely restrict offers of admission to new first-year students in the New Year. This is undesirable as it would limit educational opportunities for both the 2010 high school graduates and for the older students who may want to start or resume a university program to prepare for new, post-recession opportunities.

A longer standing problem is the approximately 4,370 unfunded graduate student spaces that were created between 1994 and 2006 in response to student demand. Over this period, virtually no new funding was provided by the provincial government for graduate student spaces despite skyrocketing demand for traditional and professional Masters and Doctoral programs. These unfunded spaces continue to create difficulties for the universities, particularly in light of the other funding and revenue challenges.

Recommendation

3. Provide full funding for each the approximately 2,730 unfunded undergraduate student spaces and 4,370 unfunded graduate student spaces at the five doctoral universities (UBC, SFU, UVic, UNBC and RRU).

⁷ "More students university-bound this year", *Vancouver Sun*, September 22, 2009, p. C4

A New Funding Model for Royal Roads University

Royal Roads University is burdened by an unsustainable revenue model. When established in 1995, the original intent was that Royal Roads would receive virtually all of its operating revenue from student fees. This approach was abandoned early on and at present the University receives about 72% of the per FTE student funding received by the other four doctoral universities. Although tuition fees are generally higher at Royal Roads than at BC's other doctoral universities, they are not high enough to compensate for this funding differential.

This funding gap is primarily addressed by employing large numbers of part-time and temporary faculty members and by the regular, full-time faculty members taking on unreasonable workloads. Only by sacrificing their research programs, and in a number of cases their personal well-being, have the regular faculty members maintained the quality of the educational programs and high-level of service to their students.

This problem has been exacerbated by the global recession in that a large proportion of Royal Roads students receive financial support from their employers to attend the University. With these corporate funds drying up, Royal Roads is experiencing difficulties in recruiting and retaining students and has seen its enrollment drop by 7% this year.⁸

Royal Roads University offers unique programs to British Columbians and is a valuable member of our public post-secondary education system. Accordingly, it deserves the same financial support as the other doctoral universities.

Recommendation

4. Grant Royal Roads University per full-time equivalent (FTE) student operating funds equal to the average per FTE funding of the other four doctoral universities (UBC, SFU, UVic and UNBC).

⁸ "More students university-bound this year", *Vancouver Sun*, September 22, 2009, p. C4

Sustaining the Research Momentum

In comparison to the other large provinces, British Columbia was late to the table in making significant direct investments to support research and research infrastructure.⁹ This changed with creation of the BC Knowledge Development Fund (BCKDF) in 1998 to leverage federal funds to create and upgrade research infrastructure at BC universities and hospitals. Another major step was taken in 2001 with the initial BC government contribution to endow the Michael Smith Health Research Foundation.

In the following eight years, provincial government research support blossomed to include funding for Genome BC, the Leading Edge Endowment Fund, the World Centre for Digital Media Education, the Forest Science Program, the Pacific Institute for Climate Solutions and other initiatives.

With the 2009/10 budget, provincial government support for research has been curtailed. A \$30 million commitment to the Michael Smith Health Research Foundation was pared back to \$15 million after the provincial election. Only recently was this funding reinstated, but only on the understanding that no additional support would be forthcoming from the provincial government after March 31, 2010. Similarly, research projects supported by the Forest Science Program were suspended this past spring, and then reinstated with reduced funding and the condition that all funding would cease on March 31, 2010.

Successful research programs cannot be turned on and off like a tap. They require significant personal investments of time and energy by researchers and graduate students. Without adequate and sustained funding, these people will not make these investments and we risk losing the momentum we gained over the past decade towards expanding knowledge and diversifying our economy.

Recommendation

5. Reinstatement and sustain funding to all provincially-funded research programs; in particular, the Michael Smith Health Research Foundation and the Forest Science Program.

⁹ This is not to downplay the significance of the indirect funding of research by the BC government through operating grants to universities and programs to support graduate students and graduate-level degree programs. In addition to this type of support, Ontario, Quebec and Alberta provide substantial direct support for research and had done so for many years prior to the creation of the BC Knowledge Development Fund.

Recognizing the Global Market for Academic Labour

In the September 1st budget update, the Minister of Finance indicated that there would be no public sector wage increases while the provincial budget was in deficit. In light of the government's current financial circumstances, it could be understood why it might want to take this approach. This is, nonetheless, a flawed policy with respect to global labour markets, such as that for university professors.

In the only substantive study of the factors that affect the recruitment and retention of university professors and senior administrators in British Columbia, the Laurier Institution found that more than half of new hires came from outside of Canada.¹⁰ When it came to attracting new professors, quality of life in the region, the collegial atmosphere of the academic department, and the reputation of the department were key factors.¹¹ When it came to the decision to leave a BC university, professors indicated that the top factors were salary considerations, the cost of living in the region, and the adequacy of research facilities and research funds.¹² More than half of the professors who left a BC university went to the United States or another country.¹³

It has been suggested by some Members of the Legislative Assembly that BC's personal tax regime might be influential in attracting and keeping professors in the province, but there is no evidence of this in the Laurier Institution report nor in anecdotal reports. The primary motivation for professors is the prospect of a productive and rewarding academic career. However, if their salaries do not meet their expectations and they don't have adequate resources to teach and carry out research, they will seek greener pastures, often outside of Canada.

This is not to suggest there are the acute shortages found in Nursing for example. Nonetheless, there are difficulties in attracting and retaining professors and a blanket provincial policy restricting compensation is not helpful. Compensation for senior administrators has increased rapidly over the past few years as institutions have responded to competitive market forces; it would be a mistake not to recognize that these forces also operate for faculty.

¹⁰ *Renewal and Retention: Attracting and Keeping Faculty and Senior Administrators at British Columbian Universities*, Laurier Institution, June 2000, p. 1

¹¹ *Ibid*, p. 2

¹² *Ibid*, p. 3

¹³ *Ibid*, p. 4

Recommendation

6. That government recognize and address the debilitating effects of a wage freeze for university faculty in a globally competitive labour market.

Conclusion

Our universities are irreplaceable sources of innovation and creativity for the province and vital institutions for securing our social and economic future. The need for well-educated citizens is all the more important as we grapple with the profound social and economic changes resulting from greater integration and dependency amongst nations. Rather than constraining investment in education and research, now is precisely the time to increase educational opportunity and stimulate research in British Columbia.

The first step in an investment plan is to stop the damage to universities and colleges caused by the erosion of core funding through inflation and taxation, unfunded student spaces, and cuts to research programs as per the recommendations of this brief. Once this step is taken, we can then move forward to fully realize new investments in post-secondary education and research.

Appendix I - Summary of Recommendations

Recommendation	Estimated Cost
1. Increase average per full-time equivalent (FTE) student funding to all public post-secondary institutions by at least the rate of growth in the Consumer Price Index for 2010/11 onwards.	\$37.8 million increase in 2010/11; a further \$38.6 million increase in 2011/12 and \$39.4 million in 2012/13.
2. Provide full rebates to public post-secondary institutions to offset the net cost of the Carbon Tax and the Harmonized Sales Tax.	Figures not available.
3. Provide full funding for each the approximately 2,730 unfunded undergraduate student spaces and 4,370 unfunded graduate student spaces at the five doctoral universities (UBC, SFU, UVic, UNBC and RRU).	\$19.7 million annually for undergraduate student spaces; \$87.4 million annually for graduate student spaces.
4. Grant Royal Roads University per full-time equivalent (FTE) student operating funds equal to the average per FTE funding of the other four doctoral universities (UBC, SFU, UVic and UNBC).	\$6.7 million annually.
5. Reinstate and sustain funding to all provincially-funded research programs; in particular, the Michael Smith Health Research Foundation and the Forest Science Program.	\$15 million annually for the Michael Smith Health Research Foundation; \$8 million annually for the Forest Science Program; additional funds for other suspended research programs once identified.
6. That government recognize and address the debilitating effects of a wage freeze for university faculty in a globally competitive labour market.	