





# 2009 Provincial Pre-Budget Submission

## The Right Balance: Navigating Present Needs and Future Opportunities

Submitted by the Council of Ontario Universities

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## EXECUTIVE SUMMARY

Ontario's universities are an enormous strategic asset for the province and the country, addressing current needs and future opportunities for Ontario. In the global knowledge economy, the advantage goes to countries that are innovative, productive and technologically savvy – in other words, countries that invest in education, research and the skills of their people. Our universities provide the talent and innovation that drive economic growth. We help to create jobs by educating a highly skilled and adaptable workforce, generating cutting-edge research and stimulating economic activity in every region of our province.

### Ontario Government Committed to Higher Education

The Ontario government has demonstrated leadership in supporting postsecondary education; in 2005, it implemented the historic \$6.2 billion Reaching Higher plan, which expanded access and focused on student success. The government has made tremendous investments in research, campus renewal and new infrastructure, helping to ensure that our students have the best learning environments and that our faculty members are able to expand the boundaries of knowledge and create new treatments, products and services. We applaud the government's commitment and commend the investments they have made.

Even in these challenging times, the government has committed to an economic plan that focuses on education and skills training, infrastructure, innovation, economic development and strategic partnerships. It understands that building prosperity in our great province means investing in its people. Universities stand ready to work with our partners in government to ensure that our province remains strong and competitive.

### Navigating Present Needs and Future Opportunities

At times of economic downturn, people turn to the postsecondary sector to upgrade their skills. We must continue to build on the momentum that the government has created with their investments. To support Ontario's economic recovery and the future of our universities and our students, our sector looks to the government to consider the following:

- Investing in campus renewal and infrastructure projects to create jobs in every region of the province immediately and help stimulate economic recovery. The dedication of \$500 million this year to quick-start campus renewal projects at Ontario's universities will benefit students – the talent so essential to our future – and create jobs for local workers. It would also help to address the \$1.6 billion backlog of deferred maintenance resulting from the fact that 65% of useable space at our institutions is over 30 years old.
- Committing in the upcoming budget to investing \$2 billion over two years in new construction at Ontario's universities as part of its long-term capital infrastructure plan. This would provide longer-term economic stimulus, create jobs and thereby create a legacy for future innovation. Demand for postsecondary education continues to increase. It is anticipated that there will be an additional 95,000 students by 2021-22 – the equivalent of adding Ryerson, Waterloo and York universities to the system.
- Providing one-time operating relief of \$270 million as “bridge funding” to protect jobs and to see the sector through until the Reaching Higher II plan can be developed and implemented. Currently, precious operating dollars are being diverted away from their educational purposes as operating costs rise 5% annually and rapidly outpace government operating grants. Coupled with a massive decline in endowment income that supports bursaries, scholarships and endowed chairs, universities are facing an operating hole of \$511 million. Universities across the province are executing fiscal restraint

plans and cutting faculty and staff positions, but some institutions will soon be unsustainable without government assistance.

- Providing extended regulatory relief from current pension obligations to Ontario's universities, specifically, an exemption from special payments, allowing markets to settle and for COU to work with government on longer-term structural solutions. If an actuarial assessment had been performed for all our universities on October 31, 2008, the annual pension obligations for the next number of years would be \$564 million. Since pension obligations have to be funded out of operating budgets, close to 20% of the government's annual \$3 billion in operating grants would have to go to pension obligations. We acknowledge and welcome the steps proposed by the Ontario government to provide some significant relief to our sector, but more needs to be done to ensure the sustainability of these plans.

Ontario universities can be a powerful vehicle through which the government can create jobs immediately, and stimulate and sustain the recovery, ensuring that Ontario rebounds from the looming recession stronger than ever. We look forward to ensuring a better tomorrow for our students, our fellow citizens and our great province.

## INTRODUCTION

The Ontario government articulated three principles in its Fall Economic Statement: taking actions that build confidence; being prudent but yet prepared to move quickly to address changing circumstances; and maintaining a balanced, comprehensive approach to expenditure and tax policy. Ontario's universities support these principles and believe that they speak to the needs of the present as well as the opportunities for the future.

All across this province, our universities, their faculty and their staff are nurturing and inspiring the minds of students, advancing the boundaries of knowledge, creating innovations in our laboratories and making an impact in our communities economically, socially and culturally. The work we do makes a difference in people's lives today as well as helping Ontario achieve its goals for tomorrow.

These are challenging times. Systemic cost pressures and financial market volatility are having a significant impact on university operating budgets just as a weakening economy is increasing the strain on government budgets. The government should be supported in its determination to stay the course, balancing fiscal prudence and discipline with the need to "maintain ... important investments in Ontario's economic future."

Like most governments around the world, the Ontario government is seriously considering economic stimulus measures that will soften the impact of the slow-down and accelerate our recovery. Infrastructure spending is one of these measures. It creates jobs today, builds a platform for opportunities in future, provides a vivid signal of business activity that helps to restore confidence and lays a stronger foundation for Ontario's economy of the future.

In addition to creating jobs during these difficult times, it is important to ensure that jobs are not lost, particularly jobs associated with the knowledge economy such as those in our universities. "Bridge funding" for universities together with a further easing of the regulatory pension burden would help to maintain jobs and momentum. It would help ensure that universities can continue to provide the education and research that produces talent, innovative products and services and the regional development which are the foundation of Ontario's future.

"Higher education is at once a social good, a personal opportunity and an economic investment." *The Honourable Bob Rae, in his 2005 report, Ontario: A Leader in Learning, submitted to the Ontario government*

## THE ONTARIO GOVERNMENT'S EDUCATIONAL LEGACY

Premier McGuinty's government has demonstrated a profound commitment to advancing higher education in both mandates, and this commitment has had impressive results.

The \$6.2 billion Reaching Higher plan introduced in 2005 was the largest investment in postsecondary education in the province's history. It has had a major impact on access to universities. The following are some important examples:

- Increased participation in undergraduate education – over 75,000 new students.
- Expansion of graduate education – 14,000 new spaces by 2009-2010.
- Improved access for Aboriginals, who now represent 1.5% of the total student population; first-generation students (3.5%); and students with disabilities (3.6%).
- Nearly 29,000 international students (7%).

Last year, Minister John Milloy secured \$335 million for deferred maintenance and campus renewal. This investment was 12 times more than the typical annual allocation, and it had the following benefits:

- Helped to retrofit and modernize many campus buildings across the province that were desperately in need of attention.
- Provided construction jobs in communities around the province.

"We understand that education is much more than just the transmission of information from one generation to the next. It's the foundation for an engaged citizenry and a strong democracy. It enriches the enjoyment of our lives — something my father, a professor of romantic poetry, impressed upon me. And it's essential to our economic success." *Premier Dalton McGuinty to Ryerson University students on May 13, 2005*

This past year, the government has made \$289 million in capital investments available for new academic buildings to create improved learning and research environments. The results are state-of-the-art facilities that are critical to attracting the best and the brightest students and faculty.

The Premier also demonstrated leadership by creating the province's first Ministry of Research and Innovation, and becoming its first Minister. The current Minister, John Wilkinson, has continued the commitment to ensuring that the province helps spur the innovation it needs. He has provided \$192 million to fund research projects, and provided \$250 million in Budget 2008 to match the awards made to universities by the Canada Foundation for Innovation (CFI) grants.

Finally, the government has recognized that university and college infrastructure is a fundamental platform for Ontario's knowledge economy. Universities and colleges have recently been included within the province's new 10-year, \$60 billion capital infrastructure plan. This long-term plan will enable the sector to address campus renewal, create new facilities for students and faculty, and strengthen research capacity at our universities.

Ontario's universities welcome and applaud these important investments.



## BUILDING THE FUTURE

Ontario universities understand the challenges of economic slow-down and a looming recession. We are partners in meeting the needs today and in providing the talent and innovation that will drive and sustain us in hard times and grow our economy in good times.

Education is essential to the success of the province, and many studies point to the need to strengthen the commitment to it. For example, the Task Force on Competitiveness, Productivity and Economic Progress, which was established by the Ontario government, has repeatedly indicated that one of the fundamental reasons for the productivity gap between Ontario and U.S. peer states is that Ontario's population is less educated than populations in the U.S. jurisdictions, particularly in the area of graduate degrees.

Recently, *Compete to Win*, a report of the Federal Commission on Competitiveness, argued that a "skilled workforce is critical to attracting and retaining investment in the knowledge-based economy." Among a long list of recommendations, the report suggested that more funding be invested in education and training. There is public support for increased investment in

higher education as witnessed by a recent poll. Since this report was published, Harris Decima Research has conducted a survey to determine Canadians' perceptions of the report's recommendations. Investing more in education and training received a more favourable response than most other recommendations, with over 80% of respondents indicating that they thought it would help enhance our competitiveness.

Universities provide excellent preparation for the labour market with over 94% of university graduates employed six months after graduation and over 96% after two years.

Around the world, developed countries and emerging economies have recognized that investment in education is critical to their future. As a result, they are investing more in universities in order to expand access and increase the educational levels of their populations. Competition has intensified to secure the best and brightest. Many of the countries from which we have traditionally attracted talented students and faculty, such as India and China, are investing massively in their universities to retain homegrown talent and expand access. With the race for talent heating up worldwide, we cannot afford to let up on our efforts to educate Ontario's population. While we have reversed the brain drain, there are still powerful incentives for the best graduate students and professors to go anywhere in the world. We need to ensure that Ontario universities are sufficiently funded and well equipped to be competitive in the race for international talent. We also need to ensure that we have in place the right incentives to ensure that Ontario remains a magnet for international talent.

The Ontario government is well aware of the profound importance of higher education and an internationally competitive strategy. Indeed, it has made education one of the pillars of its five-point economic plan because it understands and supports the need for the "best educated workforce" in the world. Ontario's universities are strategic partners, committed to doing our part to deliver on this priority of government.

## UNIVERSITIES: DELIVERING TALENT, INNOVATION AND REGIONAL DEVELOPMENT

To succeed in the global knowledge economy, the advantage goes to countries that are innovative, productive and technologically savvy – in other words, to those that invest heavily in the skills and education of people. Ontario needs people with advanced skills.

Ontario universities educate over 402,000 full-time students – about 42% of Canada’s total university population.

Ontario universities are key providers of this talent and innovation that Ontario needs to compete in the future. Our graduates touch all aspects of our lives. They teach our children, treat our families, help our businesses innovate, supervise our networks, create our artworks and cultural activities, manage government programs, produce cutting-edge research – to name just a few of the many roles that they play in the workforce and our communities. University graduates are highly employable and incredibly flexible.

Economists believe that 70% of the jobs in the knowledge economy will require a postsecondary education. University graduates are particularly well equipped to provide the talent for our workforce needs and the solutions to our social and economic challenges. They are a critical partner with the Colleges and government in the “reskilling” of Ontario’s economy.

At the same time, Ontario universities play a critical role in the full spectrum of knowledge development, including the creation of discovery research that will solve the problems of tomorrow as well as the development and application of ideas, solutions and commercializable products that can address the needs of today. University research programs are expanding the boundaries of knowledge, shaping public policy, developing new health treatments, addressing issues like climate change, creating new and “greener” sources of energy, and developing new products in digital media and other technologies.

Universities also contribute significantly to their local communities. That contribution goes well beyond their role as stable employers and purchasers of goods and services. Faculty and staff are engaged with economic development councils, chambers of commerce and other community organizations in helping to develop plans and create opportunities to grow and improve our quality of life as well as growing and sustaining local economies. Our students are engaged in volunteer or cooperative initiatives and our facilities and services such as our hospitals, pools, theatrical events and hockey teams are often the mainstay of local life.

Ontario’s 19 universities and the Ontario College of Art & Design operate on 33 campuses and contribute to the economic, social, cultural and athletic life of the 27 communities in which they operate.

Ontario universities have robust research programs in all disciplines. They lead the country in industrial designs and account for the largest number of patents granted in Canada and almost half of the registered trademarks.

**Ontario universities are driving economic activity and social well-being in the province by producing talent, innovation and regional development opportunities that keep Ontario strong and provide the platform for future growth. We are strategic partners in helping to maintain stability in the present and accelerate economic recovery and future growth.**

## UNIVERSITIES ARE HIGHLY ACCOUNTABLE AND TRANSPARENT

Ontario universities are committed to being accountable and transparent to a wide variety of stakeholders. Every university has signed a Multi-Year Accountability with the province. They are accountable to government for the annual operating funding that they receive under Reaching Higher through Multi-Year Accountability Agreements. These agreements identify key performance indicators in a variety of areas including access and quality.

Universities are also accountable to their students. Ontario is the only province where every university surveys its students on the quality of their learning experience and then takes action to address the issues raised. Ontario universities have undertaken a wide variety of initiatives to enhance student engagement on their campuses in response to feedback from past surveys, and as a result of this action have recently seen improvements in the recent system-wide results. Further improvement will require strengthened government funding to hire additional faculty and reduce student-faculty ratios, which are 62% higher in Ontario than in a comparable set of universities in U.S. peer states. Ontario universities also survey graduate students using the Canadian Graduate and Professional Student Survey and have received strong endorsements from graduate students concerning their experience at Ontario institutions.

Universities are also accountable to their boards of governors, their senates, faculty, students, benefactors and their communities. In response to their multiple audiences, they are conducting their activities with enhanced transparency, publishing vast amounts of information about their plans and activities on their websites and are investing more time in explaining the opportunities and challenges that they face in town hall meetings.

"Governments must continue to commit to and invest in education and training.... This is particularly important in light of increasing postsecondary education enrolment in many jurisdictions and the attendant operating and capital cost pressures borne by institutions serving more students." *Red Wilson, in his report Compete to Win submitted to the federal government*

## **INFRASTRUCTURE INVESTMENTS TO CREATE JOBS TODAY AND TOMORROW**

The Ontario economy needs direct stimulus on an urgent basis, according to respected economists and business leaders, to mitigate the impact of the upcoming recession and to create jobs. Reflecting classic Keynesian thinking, the International Monetary Fund (IMF) has recommended to G-20 governments that they invest 1% to 2% of the GDP in stimulus measures, even if it means borrowing to do so. Consistent with this advice, Ontario should be considering investments in quick-start infrastructure that create jobs immediately in all parts of our province. It would be even better if these investments could leave a legacy that furthers innovation and the development of talent. Campus renewal (deferred maintenance) is the perfect candidate for such stimulus and job creation. There are also some smaller new construction projects that could be ready to begin in May 2009, if decisions were made in the early winter to allow time for preparation of construction documents and tendering.

### **Deferred Maintenance**

Last year we noted in our pre-budget submission that Ontario universities had a backlog of deferred maintenance totalling \$1.6 billion. The university system has some \$16.6 billion (Current Replacement Value – CRV) in building assets. The industry standard for annual maintenance of buildings is 1.5% of CRV. Funding for maintenance should therefore be in the order of \$265 million annually. Ontario universities typically receive only \$27 million annually.

Last year, the Ontario government and Minister John Milloy acted swiftly on our request to begin addressing this backlog. They dedicated \$335 million to campus renewal at Ontario's universities. This has made a tremendous dent in the backlog of renewal projects that include new roofs, energy-efficient heating, ventilation and cooling systems, lab upgrades and space reconfiguring to support e-learning and distance learning environments. However, sixty-five percent of useable space on university campuses is 30 years or older and so there is still much to do. The colleges face similar challenges and opportunities for attention to these vital projects.

This year we repeat the request, but with the added urgency that the market meltdown and coming recession have placed on this type of stimulus. These investments would help boost our economy at a time of pressing need.

Campus renewal investments are, by definition, projects providing quick-start stimulus, as compared to major new infrastructure. The work has been defined, the tenders can be issued, trades people and contractors can begin work immediately. In every region of this province, housing and other construction starts are appreciably slowing down, meaning contractors are available. Materials are also dropping in price. These investments would not only create jobs. They would address the government's own agenda to make Ontario "greener" as retrofits often involve newer and more energy efficient systems.

### **RECOMMENDATION #1**

COU recommends that the Ontario government dedicate \$500 million this year to quick-start campus renewal projects at Ontario's universities, to stimulate the economy and create jobs in every region of the province.

## Long-Term Capital Infrastructure

There are many new construction projects at universities that could also be undertaken to provide stimulus as well as a long-term benefit for the many communities in which they are located. Now that the Ontario government has included universities and colleges in its 10-year, \$60 billion long-term capital infrastructure plan, expediting approval of some of these projects this winter could ensure that construction activity begins in May 2009. The Ministry of Training, Colleges and Universities has been working with both the university and college sectors over the past six months to develop a complete inventory of priority projects at every institution and an approach for prioritizing them.

These projects are dedicated to accommodating recent growth and to preparing for future growth. Over the coming decade, growth in the system is expected to be in the order of some 95,000 additional students, the equivalent of creating a university the size of Ryerson, York and Waterloo universities combined. In addition projects to addressing escalating demand, there are proposed projects focused on enhancing Ontario's research and innovation capacity. In terms of new construction, it is estimated that Ontario universities will require \$9.4 billion in new construction by 2021-2022.

Accelerating these anticipated projects would provide sustained stimulus to augment the immediate benefits of the deferred maintenance projects recommended above. Furthermore, it would send a reinforcing signal to businesses and foreign talent that Ontario intends to continue investing for the long term in innovation and the knowledge economy. Environmental industries, nanotechnology, design and communications, financial services, creative clusters, health services, biotechnology – these are some of the critical components of Ontario's future. It is the talent and the research coming out of Ontario's universities that will drive them.

### RECOMMENDATION #2

COU recommends that the government commit in this upcoming budget to investing \$2 billion over the next two years in new construction at Ontario's universities as part of its long-term capital infrastructure plan, in order to provide sustained stimulus, job creation and a legacy for future innovation.

## **MAINTAINING JOBS TODAY THROUGH OPERATING AND REGULATORY RELIEF**

### **Operating Budget Challenges Universities' Ability to Protect Jobs**

Retaining current jobs in today's economy is as important as creating new ones, particularly when those jobs are related to the knowledge economy. University jobs are these kinds of jobs; currently many are in danger.

The Ontario government strengthened higher education in Ontario with its historic \$6.2 billion Reaching Higher plan. The funding, however, did not envision the magnitude of growth that saw an expansion of some 89,000 students, an additional 41,500 students beyond our expectations. That growth is expected to continue for the next decade as more and more people recognize that jobs in the knowledge economy require higher education and that demands for advanced degree holders are even stronger.

This year, government operating grants have flat-lined while our overall costs have continued to escalate, increasing by an average of 5%. The cost pressure across our system is in the order of \$270 million this coming year.

The market meltdown has also had a major impact on endowments, which are used to support base commitments such as bursaries, scholarships and endowed chairs. The shrinkage in endowment and investment income therefore places further stress on operating budgets. Indeed, university vice-presidents of finance and administration estimate that the lost revenue due to market meltdown is upwards of \$143 million across the system. In summary, the university sector is facing an operating "hole" of \$511 million. This is before taking into account the impact that the decline in financial markets has had on university pension funds. (This will be discussed in the next section.)

In response, every university is implementing major cuts. These cuts mean the loss of good jobs in our communities, including faculty, lab technicians, library and support staff, and others. Without relief from government, it will also mean a loss of momentum on the agenda that the Ontario government has so correctly been striving to promote through Reaching Higher. This agenda includes enhanced access to higher education and improved quality. At times of economic downturn, more people look to higher education to upgrade their skills. It is a time when support for the "engine" of the knowledge economy – investing in human capital and higher learning – should be intensifying, not decreasing.

Due to the impact of the markets on endowments, universities simply do not have the flexibility this year to address the increased costs while still maintaining support for student bursaries and other endowment obligations. Over time, we will need a long-term plan – a Reaching Higher II – but in the short term, operating relief would help sustain the educational experience of our students and help mitigate some of the budget cuts that universities are already implementing, including those affecting faculty and staff.

It is essential that we ensure current students get the support they deserve and also that the province continues to receive the volume and scope of talent, innovation and regional development that universities provide.

### **RECOMMENDATION #3**

COU recommends that the government provide one-time operating relief of \$270 million as "bridge funding" to protect jobs and to see us through until the Reaching Higher II plan can be developed and implemented.

## Regulatory Relief on Pension Plans: Also Important to Job Preservation

Ontario university pension plans have been recognized as well-managed and well-funded by the pension industry. The market meltdown has taken a toll on the pensions of many sectors, and the obligations are unsustainable for many of our institutions. The situation is so grave that several of our institutions would literally become insolvent if they are required to obey the letter of the law under the *Ontario Pension Benefits Act*. They would close their doors.

Regulatory relief on pensions would help to alleviate enormous pressure on university operating budgets, and, in so doing, help to reduce the magnitude of cuts including job cuts that are currently being anticipated.

COU has been working closely with the Ministry of Finance to demonstrate the impact of current rules on our budgets in the present circumstances. To give some sense of the scale of the problem, if an actuarial assessment had been performed for all of our universities on October 31, 2008, the annual pension obligations (solvency payments and going concern payments) for the next number of years would be \$564 million. To put this in perspective, the annual operating grant for all of Ontario's universities from the Ontario government is approximately \$3 billion. Pension obligations have to be funded out of operating budgets. Under the current scenario, close to 20% of what the government provides would have to go to supporting our pension obligations. This would mean diverting resources away from their intended educational purposes away from classrooms. Meeting this level of obligation would effectively hobble our university system. It would also mean massive job cuts at our universities.

We are seeking regulatory relief, guided by sound actuarial principles. We are not asking for a financial bail-out. Regulatory relief will mean our universities remain viable and that we will not have to implement major job cuts or worse. We acknowledge and welcome the steps proposed by the Ontario government this week to provide some relief to our sector, along with many businesses, on solvency payments. Further steps are still needed to provide adequate relief to our universities.

### RECOMMENDATION #4

COU recommends that the government provide extended regulatory relief from current pension obligations to Ontario's universities, specifically, an exemption from special payments, allowing markets to settle and for COU to work with government on longer-term structural solutions.

## CONCLUSION

The province and its citizens can be very proud of Ontario's outstanding universities and the important role they play in our economy and our communities. Our universities inspire minds to generate new ideas and innovations that produce new products and services, help solve pressing societal problems and strengthen our communities. Ontario's success depends on the ability of our institutions to stay strong, to continue to offer a high quality learning and research environment, and to engage and mobilize this generation of knowledge seekers and innovators. Investments in creating and protecting good jobs will allow us to emerge from the looming recession stronger than ever.

Ontario universities understand the extraordinary pressures on government today and the desire to limit the size of deficits. We are implementing restraint measures and cutting our own budgets. However, there are limits to the size and scope of restraints and cuts our institutions can exercise if we are to maintain momentum in our institutions and develop talent. We remain poised to use government funding effectively to maximize the benefits to our students, our communities and the entire province. We also believe that we can be a powerful vehicle through which the government can create jobs immediately and stimulate economic recovery.

We stand ready, willing and able to contribute to ensuring a better tomorrow for our great province and a rapid rebound from the economic difficulties in which we find ourselves. We are in this together.