THE UM'S FINANCIAL CONDITION

October 15, 2020

*Confidential – for UMFA only

Summary:

- The UM's General Operating Fund contains revenues that are used to pay for the University's academic, administrative, and operational costs.
- Cash and investments in the UM's General Fund have increased every year since 2015. The increase in 2020 alone is enough to pay us the salary we lost because of the government's illegal wage-restraint legislation (the PSSA).
- These increases in operating cash flows exceed the best-practice standard that the UM sets for itself. The administration's stated ideal standard is achieving a ratio of operating cash flow relative to total revenue of 4%. In the last two years the ratio was between 3 and 4 times greater than that at over 16% and 13%, for 2019 and 2020 respectively.
- Using this standard to compare us to similar Universities shows that while the UM pays us at almost the lowest rate, it has one of the highest operating cash flows.
- This means the University is in good financial shape, but choosing not to remedy the perennial problems with our salaries. This leaves us underpaid when compared to colleagues at similar institutions. This also affects the whole university community, as it leads to recruitment and retention issues.
- This is a choice on the part of the administration, not a necessity. We've proposed binding interest arbitration to resolve this round of bargaining. If you agree that's the fairest way forward, let the administration know by signing the petition now waiting in your inbox – details below!

The UM's Financial Condition

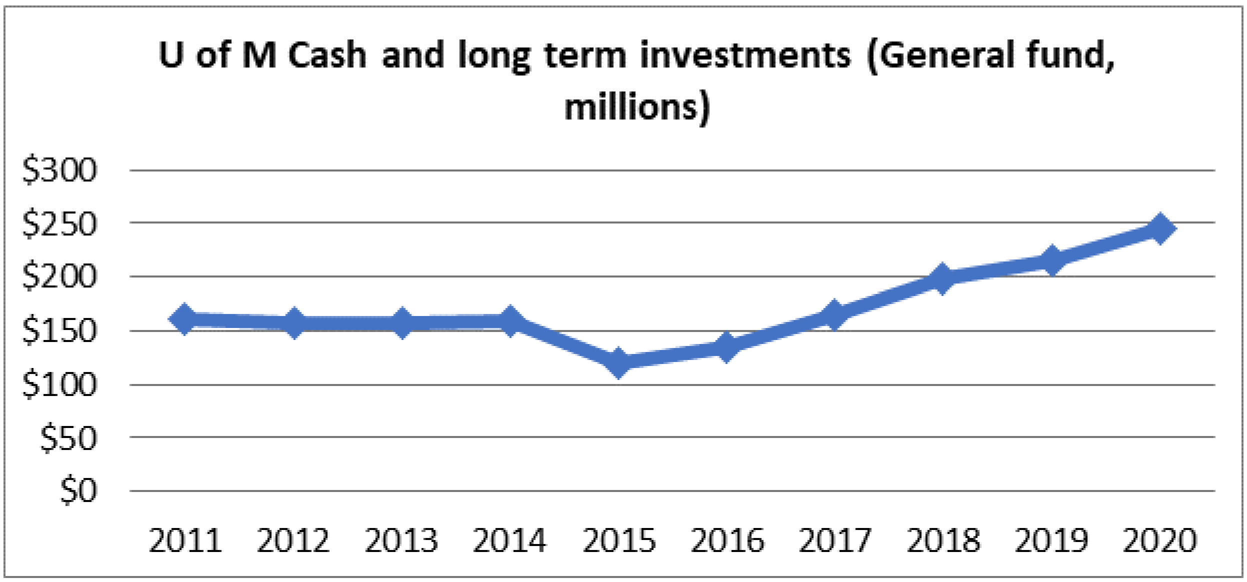
Analyzing the financial condition of the employer is a standard technique in collective bargaining. In the case of the UM, it is easy to see that we're underpaid relative to their counterparts in the other U15 universities: In 2018/2019 data obtained from Statistics Canada, the average salaries paid to each of our three ranks of professors comes in 13th or 14th in the U15, ahead of only Laval University and, sometimes, the University of Montreal. The UM's target for UMFA salaries is 11th place among the U15. Our position is well back of 11, and has dropped further over the past four years under the Public Services Sustainability Act (PSSA) which restricted scale increases to 0, 0, 0.75% and 1% over the past four years.

In addition, the Court of Queen's Bench Manitoba ruled this past June that the PSSA is constitutionally invalid, and that the sections of the PSSA that imposed the 0, 0, 0.75% and 1% are null and void. UMFA calculations show that, because of the PSSA, our salaries are 8.41% lower than they should be as at March 31, 2020; and on average each of us lost $25,919 in salary over the period 2016-2020.

It is clear that as full time academics at a U15 University we all deserve sizeable salary increases and a large amount of backpay, both to undo the effects of the PSSA and to catch up with the U15. But can the UM afford it? The answer from the Administration in this round has been "No." The reason? In a recent meeting, the other side argued that all of its operating surplus (what UM calls "net revenue") is fully committed to priorities other than UMFA salaries.

FOLLOW THE CASH

Financial statements are prepared according to an arcane set of rules and methods that can sometimes obscure financial performance. When in doubt, focus on Cash as that is immune to accounting tricks. The UM's Cash and Investments in the General Fund, liquid assets that are not externally restricted to specific purposes and can be used to pay salaries, are plotted below:



General Fund Cash and Investments dropped as low as $120 million in 2015, but have more than doubled since then. The balance, equivalent to UM's unrestricted money in the bank, was $245.9 million at March 31, 2020. That amount is sufficient to pay UMFA's total 2019 salaries for more than 19 months.

The increase in 2020 alone, just over $30 million, is almost enough to pay the entire estimated PSSA losses ($32.3 million) incurred by Members over 2016-2020.

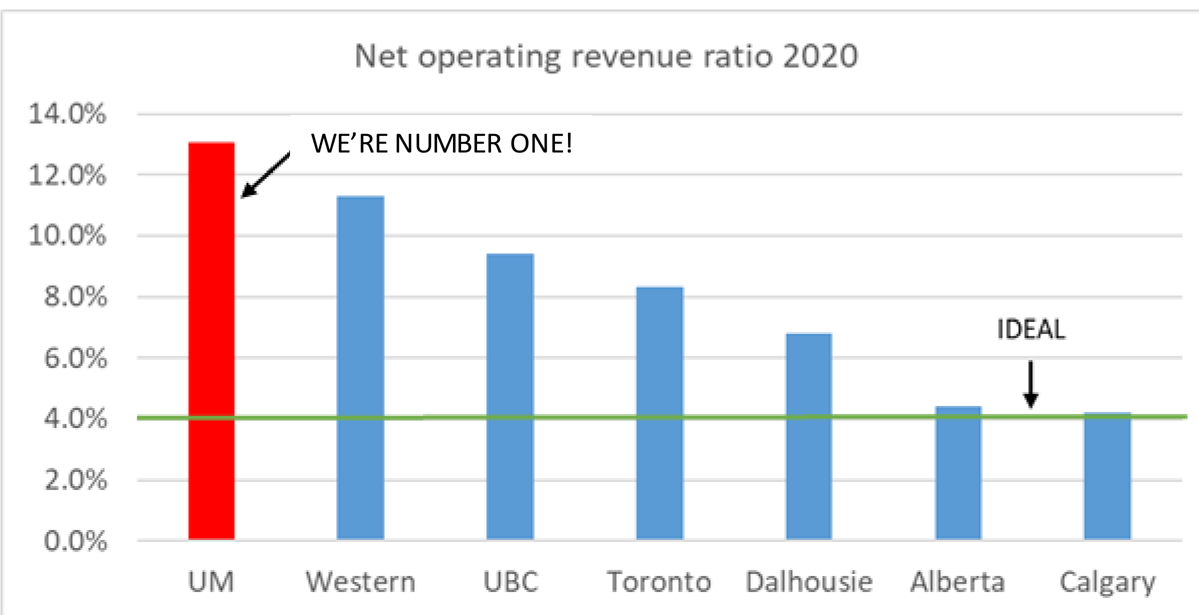
ANALYSIS OF CASH FLOW

Cash and Investments "in the bank" are what is required to make a one-time payment, like the PSSA backpay proposal that UMFA has made in this round. The Administration has always argued, however, that it is inappropriate to use Cash and Investment holdings to justify salary increases. Cash and Investments represent a stock of funds, where salary increases require sustained cash flows. The UM has proposed a cash-flow-based financial performance metric to evaluate a Canadian university's financial performance. In its [2016 annual financial report](), the UM reports what it calls the net operating revenue ratio (p. 7), calculated by dividing net cash generated by operating activities by total revenues. This is a measure of Cash "income," or net cash inflow, that is left over after the UM has paid all of its operating expenses.

In its 2016 report, the UM argues that 4.0% is the "ideal score", which implies it is both a minimum and a maximum. Less than 4.0% implies a thin margin of safety in case unexpected expenses come up; while more than 4.0% suggests that the Administration is starving its operations in order to fund other activities (e.g., invest in capital) or save money (e.g., allow General Fund Cash and Investments to grow).

The UM's net operating revenue ratio for 2020 is \$124.4 million ÷ \$953,437 million = 13.0%. This is already more than three times the "ideal value." The 2019 value was 16.2%.

The UM's performance on this ratio relative to other U15 institutions is presented below (these are 2020 results for the seven U15 universities that have released their annual reports so far this year – note, however, that all six of the other universities included here pay higher average salaries than UM at all professor ranks):



In terms of the net operating revenue ratio, the UM is clearly the top performer among the U15 universities reporting so far this year. Of course, it is no coincidence that UM's average professor salaries are among the lowest in the U15 while its cash flow performance is among the highest. One of the surest way to increase net operating cash flows is to reduce operating cash outflows, like salaries.

How would this round's salary proposals affect UM's net operating ratio? Based on the financials for 2019-2020, if the UM agreed to adopt a scale increase of 11.41% to make up for the effects of the PSSA and offer an increase for the last year of the CA, and restructured the salary grid, its net operating ratio would have been between 10.6% and 11.0%. That is still two and one-half to three times the UM's stated "ideal value" for the net operating revenue ratio. This would leave the UM comfortably in second place, between Western (11.3%) and UBC (9.4%).

The UM can afford a fair deal that would: (1) leave us all with the same income that we would have had without the PSSA; (2) leave the UM with $218 million in unrestricted funds in the bank, the same level it had in 2019; and (3) put the UM in second place among U15 universities in terms of its operating cash flow relative to revenue.

Financial constraints are not the reason that a deal has been out of reach. As has been the case for the last several years and several rounds of bargaining, the Administration would rather spend UM's money elsewhere.

For this reason we've asked that the administration agree to put our proposals to a neutral third party interest arbitrator, and thereby bring negotiations to an end.

Show the administration that you agree – read and sign the petition now in your inbox! Some people are reporting that the email went to their junk folder, so please have a look there if you don't see it in your inbox.

A reminder email will be going out this evening if you missed it the first time around. The survey closes tomorrow (Friday, Oct. 16) at 9:00 a.m.

Questions, comments, or concerns? Contact the Office – faum@umfa.ca / 474.8272