



BUDGET ADVISORY COMMITTEE

REPORT XXXVIII

**A DISCUSSION PAPER ON THE
OPERATING BUDGET PLAN
FOR 2009-10**

December 2008

The Budget Advisory Committee (BAC) was established by the President in 1992 to advise on budgetary matters. The current membership of the Committee includes: - Alan Shaver (Chair), Vice-President, Academic & Provost –Tom Gill, Food Science - Tom Vinci, Philosophy - Rita Caldwell, College of Pharmacy – Josh Leon, Dean of Engineering – Jeff Lamb, Assistant Vice-President, Facilities Management - Ken Burt, Vice-President, Finance & Administration and Alan Dalton (Student Representative). The Committee's resource persons are: Ian Nason, Assistant Vice-President (Financial Services), Elizabeth Lane, Director of Institutional Analysis and Research, and Susan Zinck, Associate Director (Financial Services). The Committee employs an open and consultative approach to budget discussion at the University. To date, the BAC has issued thirty-seven reports related to the University's operating budget.

Table of Contents

	<u>Page</u>
HIGHLIGHTS OF THE DISCUSSION PAPER	i
I INTRODUCTION.....	1
II REVENUES.....	1
III EXPENDITURES	4
IV BALANCING THE 2009-10 OPERATING BUDGET	7
V INVITATION FOR COMMENTS.....	9
 APPENDICES	
A BUDGET MODEL 2009-10 – LINE-BY-LINE DESCRIPTION	10
B TUITION SURVEYS	14
C AVERAGE BUNKER C PRICE BY MONTH SINCE APRIL 2005	18
D EXCERPT FROM BAC XXXVI REPORT ON FACILITIES RENEWAL	19
E SUMMARY OF STRATEGIC INITIATIVES ALLOCATIONS 2003-04 TO 2008-09	22
F COMPARISON OF OPERATING EXPENDITURES BY AREA FOR SELECTED CANADIAN UNIVERSITIES 2006 -07	23

2009-10 OPERATING BUDGET DISCUSSION PAPER HIGHLIGHTS

This paper seeks to stimulate input from members of the University community on Dalhousie's Operating Budget for 2009-10. It includes the following highlights:

- 2009-10 is the second year of the Memorandum of Understanding with the Province and provides for:
 - increased government funding of \$17.4 Million (12.3%);
 - tuition fees for regular credit programs to be frozen; and
 - Nova Scotia students to receive a bursary of up to \$1,022 (full course load)
- Projected enrolment unchanged for fall 2009.
- Comparative fee information has been included for the information of the campus community.
- Collective Agreements in place for Dalhousie Faculty Association and Nova Scotia Government Employees Union (Agreement with IUOE expired during 2008-09 and CUPE will expire during 2009-10).
- A preliminary allocation of \$7.7 million in funding for new investment in Strategic Initiatives.
- No Faculty and Unit Budget Reductions are reflected in this early version of the model.
- Discussion of uncertainties relating to investment markets, energy costs, enrolment and the implications of economic conditions generally.

Dalhousie University
Budget Advisory Committee
A Discussion Paper on the Operating Budget Plan
For 2009-10

I INTRODUCTION

This is the thirty-eighth report of the President's Budget Advisory Committee (BAC). This report is prepared as a discussion paper to inform and invite input from members of the University community on the development of the University's Operating Budget for 2009-10. A subsequent report will be issued and will include recommendations to the President on the Operating Budget Plan for 2009-10.

In developing recommendations the BAC reviews the factors that will impact on the financial outlook for the coming year and for 2009-10 the most significant factors of government grants, tuition and compensation costs are known. The 2009-10 fiscal year is the second of a three year Memorandum of Understanding (MOU) signed by universities and the government of Nova Scotia which establish tuition fees and grant increases. The MOU provides that tuition fees be frozen in exchange for specified grant increases during the period of the MOU. The Province's commitment to multi-year funding has provided the University with improved stability and certainty in budget planning. Collective agreements are in place for the universities two largest employee groups (DFA and NSGEU).

There is considerable uncertainty in the economic outlook precipitated by the deep decline in investment markets globally. The effect this will have on enrolment and government finances are not known at this time. However, we do know that this decline will place added pressure on the support that Dalhousie draws from its endowments and in the years ahead will almost certainly result in an increase in pension plan costs. More immediately, declines in short term interest rates will reduce operating income on University cash balances. A more detailed discussion of these issues is contained in this report.

This report will review these as well as other factors that will shape discussion and development of the University's operating budget recommendations for 2009-10.

II REVENUES

1. Provincial Operating Grants

The MOU provides for increased funding of \$17.4 million for Dalhousie in 2009-10. This level of funding is intended to address increased operating costs and compensate the University for frozen tuition fees for all students (except full cost recovery programs). It also includes a \$4.7 million adjustment in funding reflecting an increase in Dalhousie's proportional share of system enrolment since the formula was last adjusted in 1997. This second installment of funding and future amounts will provide Dalhousie much needed funding to invest in strategic priorities as discussed later in this report. Dalhousie is relying on this critical infusion of revenue to meet expenditure deficiencies after decades of constrained revenues.

The preliminary budget model for 2009-10 on page 8 (notes are included as Appendix A) include the operating grant increase of \$17.4 million or 12.3%. It should be noted that tuition revenue which represents 33% of Dalhousie's operating budget revenue is frozen as a result of the MOU. Hence, an

increased level of government support is necessary to offset the forgone potential to increase tuition fees.

The province has also provided increased support to Universities through the Nova Scotia Student Bursary Trust Fund. This program was established as part of the Province’s initiative to reduce fees to the national average by 2011. The second year of the program is 2009-10 and the budget model includes increased funding of \$1.37 million which will provide for an increase in the bursary for full time Nova Scotia students by \$261 to \$1,022 in 2009-10.

It is noteworthy that in March 2008 Dalhousie received \$35 million in funding from the government as a prepayment of a portion of funding for 2008-09. On a system wide basis the province prepaid \$72 million of the \$289 million in funding to universities for 2008-09. These prepayments were possible from year end surpluses of the province in 2007-08 but are not part of the provinces’ current base budget. If year end surplus funds are not available in the 2008-09 provincial budget, the province will need to provide increased funding of \$102 million in its 2009-10 budget in order to meet its MOU commitment to Nova Scotia Universities.

2. Tuition Revenues

Tuition revenue projections are based on fee changes and enrolment forecasts.

a) Tuition Fees

The MOU provides that tuition fees for 2009-10 will continue to be frozen at 2007-08 levels as the government works toward lowering net fees for students attending Nova Scotia universities. The MOU also provides for bursary support of \$1,022 to full-time Nova Scotia students in 2009-10, an increase of \$261 from 2008-09. The bursary program results in no bottom line impact to the University operating budget.

The gap between net tuition fees paid by Nova Scotia students attending Dalhousie and tuition fees they would pay at other G13 universities (i.e. consortium of thirteen leading research intensive universities in Canada) have been reduced since the first MOU was signed in 2004-05. The following table shows that for select undergraduate programs Dalhousie fees have declined by 4.7% since 2004-05 while tuition for other G13 universities has increased an average of 16.2% over the same period.

	Arts	Computer Science	Engineering	Nursing	Science	Average
2004-05						
Dalhousie *	5,610	6,360	6,360	6,540	6,360	6,246
Average G13 Universities **	4,290	4,731	5,497	4,468	4,290	4,655
2008-09						
Dalhousie *	5,269	6,079	6,079	6,259	6,079	5,953
Average G13 Universities **	4,906	5,497	6,468	5,240	4,931	5,408
% Increase/Decrease (-)						
Dalhousie *	-6.1%	-4.4%	-4.4%	-4.3%	-4.4%	-4.7%
Average G13 Universities **	14.4%	16.2%	17.7%	17.3%	14.9%	16.2%
* fee shown for Dalhousie is net of the \$761 Bursary that is credited to full time e Nova Scotia students						
** excluding Dalhousie						

The BAC indicated that although tuition was frozen it would continue to monitor tuition levels in accordance with the University's own policy on setting tuition fees. Dalhousie's policy was first established in 1990 and subsequently reaffirmed by the Board of Governors' Long Term Financial Planning Committee (LTFPC) in 2006. Comparative fees for a range of programs at Canadian universities have been included in Appendix B for the information of the campus community.

b) Enrolment

2008-09 is the first year of increased enrolments after three consecutive years of declining enrolments. The BAC had conservatively estimated there would be a decline of 155 students in 2008-09. Fall 2009 enrolment experience indicates an increase of 0.8% students over enrolment at the same time last year. This relatively small growth in enrolment is positive news for Dalhousie especially when compared with other Atlantic universities, many of which are experiencing enrolment declines in 2008-9. Overall enrolment at Atlantic Universities has declined by 0.6% when comparing year over year enrolments as of October 1st.

Although Dalhousie experienced a small growth in enrolment in 2008-09, demographics indicate a trend of smaller high school graduating classes in parts of Canada (including Atlantic Canada). This, in addition to global economic uncertainties, raises questions about enrolment in 2009-10 and beyond.

The Enrolment Management Committee has done some preliminary modeling for 2009-10 and one scenario projects a small increase in enrolment. However, the BAC is of the view that stable enrolment (i.e. no change) is a prudent planning assumption at this stage in the budget process. Therefore, the \$1.4 million adjustment in tuition revenue in the model on page 8 relates to the favorable enrolment experience in 2008-09.

3. Investment Income

Operating

The University invests cash balances on a short term basis in order to generate interest income. As a result of the rapid decline in short term market interest rates operating interest income is expected to decline by \$1.8 million in 2009-10. This decline is based on the reduction in interest rates announced by the Bank of Canada on December 9th. Putting this into context short term Treasury bill rates declined since April from 2.45% to 1.23% at present and there is potential for further rate declines.

Endowment

At this stage in the budget planning process no change has been incorporated in the 2009-10 revenue and expenditure model for Endowment income (and offsetting expenditures).

The sharp decline in capital markets worldwide has resulted in a significant drop in the market value of endowments including Dalhousie's endowment. In 2004 Dalhousie revised the endowment spending allocation methodology to one which would allow the University to

maintain stability in spending through the boom\bust cycles in capital markets. Under the old method spending was determined with reference to market value and so in rising markets the spend rate would increase well above the rate of inflation. The new approach provides spending allocations that are increased each year by the annual change in the consumer price index and so the returns in the high return years are re-invested to provide a cushion in the down market periods such as we are currently experiencing.

The unknown at this point is when the market recovery will begin and how long it will take. Some analysis has been completed based on the experience of past recoveries and suggests that there is no immediate requirement for Dalhousie to impose a general reduction in endowment spending allocations for 2009-10. However, there will be a need to postpone or modify spending plans for newer endowments where market values have dipped below the original gift amount. The spending rate is not normally set at this stage of the budget cycle and so University management will continue to monitor investment market developments over the next few months before setting spending allocations for next year. This provides an opportunity to gather more up to date information prior to the start of the next fiscal year.

4. Indirect Costs of Research

Information on any increase in funding for the Indirect Costs of Research program in 2009-10 will not be available until the next federal budget. At this stage in budget development the budget model assumes no change in funding from 2008-09.

III EXPENDITURES

1. Faculty and Staff Compensation

Collective agreements are in place for the University's two largest employee groups (DFA and NSGEU). The budget model includes a provision for scale increases for these groups as well as estimates for other non-unionized employees and for the collective agreements that have or will expire in 2009-10 (IUOE and CUPE). The provision also includes allowances for progression increases (CDI's, steps, etc) and the annualization of previous years increases. Benefit and pension costs have been included at 2008-09 rates as any cost impacts will not be determined until insured benefit program renewals are negotiated. The total provision for increased compensation costs including benefits is \$9,750,000 for 2009-10.

As noted earlier in the report investment markets have suffered significant declines and the assets of the University's Pension Plan have not been immune from these events. Market recoveries following severe market declines have historically taken between 24 to 48 months once markets hit their lowest point. Given that the next actuarial valuation of the Dalhousie Staff Pension Plan must occur not later than June 30, 2010 (i.e. 18 months time), there will almost certainly be a need to increase contributions by a significant amount to offset the negative impact of Plan performance. Increased contributions will result in higher operating budget costs that will need to be met through remedial action.

The BAC is aware that consultations have commenced with employee groups to discuss various aspects of the Dalhousie Pension Plan. It should also be noted that the Government of Nova Scotia

has embarked on a review of pension regulation which dictates how pension plans in the province operate. The outcome of this review and the implications for the Dalhousie Plan are not yet known.

The Provincial Government has stated its intention to introduce legislation to eliminate mandatory retirement to take effect no earlier than July 1, 2009. Without knowing the details of such legislation the precise impact on University operations is unknown but in any event the impact would not be felt until fiscal 2010-11 at the earliest. It is clear however, that in the early years following an end to mandatory retirement Faculties will experience lower turnover. Turnover savings have been used as a tool to reduce expenditures and without this tool there will be additional pressures on Faculty budgets in the period immediately after an end to mandatory retirement.

Work is underway through the President's Office to determine human resource planning implications and financial consequences resulting from an end to mandatory retirement. Results of this analysis will inform future reports of the BAC.

2. Energy, Water, Taxes and Insurance

The volatility in fuel oil prices has made it difficult to estimate energy costs for the balance of 2008-09 and 2009-10. Bunker C fuel oil prices peaked at an all time high in July 2008. The price remained significantly higher than budget until mid October at which point the price has dropped dramatically. The price at the time of writing this report is the lowest since March 2005. Appendix C provides the reader with some background on fuel oil prices.

The expenditure model includes estimates for Bunker C based on average pricing for the last year. Nova Scotia Power recently received approval for a rate increase of 9.3% effective January 2009. Increases in water rates (including waste water management) and civic taxes have not yet been announced and insurance renewals are not yet in place. The overall provision for cost escalation in this budget line is \$1,100,000 or 8%.

3. Other Non-Salary Budget Lines

Non-salary costs are budget items that are not related to compensation for Faculty and staff. Within Faculty budgets these costs would include items such as teaching materials, lab supplies and office costs. A 2 % general inflationary increase has also been provided on non-salary budgets including Student Assistance, Library Acquisitions, Non Space Equipment and Unit Non-Salary budgets.

4. Facilities Renewal

Since the Board's Facilities Renewal Strategy Committee Report was released in February 2001 the University has increased funding for Facilities Renewal from \$2.2 million to \$11.1 million in 2008-09. The issue has been featured in many BAC reports. Appendix D is an excerpt from the most recent discussion in the BAC discussion paper released last fall (BAC XXXVI). Despite improvements to date there continues to be a pressing need to provide additional funding in this area.

5. Contingency

The University budget provides for contingencies representing unforeseen revenue decreases and/or expenditure increases. The 2009-10 budget model includes a Contingency line item of \$1,600,000. This represents a \$300,000 increase from 2008-09 and will bring the budget for contingency to 0.6%

of the total operating budget. This increase has been provided based on the heightened level of uncertainty relating to investment markets and the general economic climate.

6. Enrolment Related Budget Adjustments (ERBA)

The BAC has established a subcommittee which is currently conducting a review of the ERBA policy. Final ERBA calculations will be completed in April and it is anticipated that those calculations will reflect any approved changes to the policy.

The University's current ERBA Policy requires that approximately one-half of the tuition revenue generated by the year-over-year increase in enrolment be passed through to the Faculties. Based on the existing policy the budget model provides for \$350,000 as a preliminary estimate of the ERBA adjustment to be added to Faculty budgets as a result of year-over-year enrolment increases in 2008-09.

7. Strategic Initiatives

Since 2003-04 the University budget has provided for annual allocations for Strategic Initiatives which have provided a total investment of \$20 million in targeted areas of university priority. Appendix E provides a summary of the investments to date. The original investments were designed to begin to address areas where 'expenditure deficits' were identified between Dalhousie and a comparator group of other Canadian Universities. (*Readers requiring further context can refer to BAC reports XXIV and XXV that can be accessed through Financial Services website.*) The report of the Board's Long Term Financial Planning Committee (2006) reaffirmed the importance of such investment by recommending that strategic initiatives continue to be funded.

This fall the President initiated discussions on an approach to Strategic Initiatives investment in the coming years. The approach focuses on supporting, in a financial sense, institutional objectives outlined in his report "Making an Impact: The President's Strategic Focus, 2007-2010". (This report can be accessed through the President's Office website at <http://senioradmin.dal.ca/president/reports.php> .)

The report outlined strategic spending areas as follows:

- Enhance Research and Academic Strengths
- Enrich Student Experience
- Strengthen Enrolment
- Campus Renewal
- Renew Human Resources
- Increase Philanthropic Support

Consistent with the approach under discussion the BAC has provided a preliminary allocation of \$7.7 million in the model. This amount is comprised of \$4.7 million in government grant funding (derived from the redistribution formula specified in the MOU) plus an annual reallocation for strategic initiatives of \$3.0 million.

The BAC is keenly aware of the many uncertainties that loom as a result of current economic conditions. These uncertainties provide a strong case to proceed cautiously with any long term commitments from Strategic Initiatives funding in 2009-10 (e.g. new staff hires, debt financing).

For example, a cautious approach might direct the bulk of new strategic initiatives funds in 2009-10 to facilities renewal projects. This approach would provide important investment in an area of great need without committing funds on a long term basis.

IV BALANCING THE 2009-10 BUDGET

Without budget unit reductions the 2009-10 preliminary model would result in a shortfall of \$3.7 million. The budget model in this discussion paper includes no recommendations about unit budget reductions that would be necessary to balance the 2009-10 budget.

Approaches to annual budget reductions has varied and evolved over time. Budget reductions were applied on an across-the-board basis (i.e. every unit reduced by the same percentage) in particularly difficult years (e.g. in 2006 - 07 to address unforeseen midyear budget pressures). In recent years Faculties and support units have been treated differently. Arguments in favour of differential reductions include the fact that turnover savings due to the difference between the salary of retiring individuals and those newly hired accumulate largely in the Faculties. Faculties also have the means to generate additional revenues (for example via increasing enrolments) but service units do not enjoy this opportunity. Data comparing Dalhousie with other Canadian Universities (Appendix F) continues to support differential treatment of non-Faculty units.

In recent years the BAC has recommended that all units be required to seek efficiencies in their operations but allowed for a lower level budget reduction for non-Faculty units receiving significant Strategic Initiatives funding. This distinction was made in recognition that it is counterproductive to invest in strategic areas and continue to apply significant budget reductions.

Some areas continue to be sheltered from budget reductions. Budgets for energy and insurance have been exempted as the cost is determined largely by external factors. Student Assistance and Library collection budgets have also been protected by policy.

If an approach similar to the approach taken in 2008-09 was applied, Faculties would be cut 2.35%, other units 1.0% and strategic areas (Registrar, Facilities Management, Student Services, Communication and External Relations) 0.5%. Alternatively an across-the-board cut to all units of 1.87% would be required.

The Preliminary Budget Model (page 8) incorporates the significant financial drivers outlined above, but makes no assumption on unit budget reductions and therefore shows a preliminary shortfall for the year of \$3.7 million. The next BAC report will include an Operating Budget Plan for 2009-10 that will contain recommendations to eliminate the shortfall and balance the budget for 2009-10.

Dalhousie University

Preliminary Operating Budget Revenue and Expenditure Model for 2009-10

Assumptions	
Government Grant	\$17,435,760
Tuition Revenue	
Fee Increase	0%
Enrolment Change	none assumed
Facilities Renewal Fee	TBD
Base budget Reduction	none assumed
ERBA distribution to Faculties	50%
Compensation Provision/estimates for all employee groups	included
Non Salary Inflationary Increase (included in lines 8a,9,10 ,13 and 16)	2%
Energy Water Taxes and Insurance	8%

	Column 1 Approved Budget 2008-09	Column 2 Change 2009-10	Column 3 2009-10 Projection
REVENUES - INCREASE(DECREASE)			
1. Government Funding			
a) Operating Grant	141,699	17,436	159,135
b) Grant to support Nova Scotia Students	4,417	1,370 *	5,787
c) Facilities Grant	1,000		1,000
d) Other Government Grants	1,885		1,885
2. Tuition revenues	91,774		93,524
a) Tuition Change from Enrolment Difference (budget 08-09)		1,400	
b) Enrolment Change 2009-10		-	
c) Provincial Rebate Program (balance 07-08)		350 *	
3. Endowment Income	18,450		18,450
4. Operating Interest Income	3,200	(1,800)	1,400
5. Facilities Renewal Fee	1,270	25	1,295
6. Indirect Costs of Research Funding	6,942		6,942
TOTAL REVENUES - INCREASE (DECREASE)	270,637	18,781	289,418
EXPENDITURES - INCREASE (DECREASE)			
7. Compensation	196,584	9,750	206,334
8. Student Assistance			
a) Operating Support	9,628	193	9,821
b) Endowment Support	5,540		5,540
c) Nova Scotia Student Bursary	4,067	1,720 *	5,787
9. Library Acquisitions	6,406	124	6,530
10. Non-Salary (net of recoveries)	36,050	596	36,646
11. Energy, Water, Taxes and Insurance	13,769	1,100	14,869
12. Facilities /Space	1,000		1,000
13. Non Space Equipment	2,434	49	2,483
14. Budget Unit Adjustments			
a) Strategic Initiatives		7,705	7,705
b) ERBA adjustment (preliminary estimate)		350	350
c) Operating Costs Chem Storage		160	160
d) Base budget reduction			-
15. Faculty/Unit Revenue	(17,200)		(17,200)
16. Facilities Renewal- Annual			
a) Annual	10,609	434	11,043
b) Backlog	450	9	459
17. Contingency	1,300	300	1,600
TOTAL EXPENDITURES - INCREASE (DECREASE)	270,637	22,490	293,127
SURPLUS (SHORTFALL)	-	(3,709)	(3,709)

* 2008-09 adjustments on these three lines are revenue neutral. They reflect adjustments resulting from the 2007-08 provincial tuition rebate program to the second year of the Nova Scotia Student Bursary program. Both programs are fully funded by the province.

VI INVITATION FOR COMMENTS

The BAC invites comments and suggestions from all members of the University on these specific questions as well as other areas.

- What approach should the University take to address the current economic uncertainties?
- What approach should be taken for reductions to Faculty/unit budgets?
- What approach should be taken for investment in strategic initiatives in 2009-10 and in the future?

Please send your comments and advice on the contents of this report by January 15, 2009 to Susan Zinck at susan.zinck@dal.ca.

BUDGET MODEL - LINE-BY-LINE DESCRIPTION

The Revenue and Expenditure Model for 2009-10 on page 8 incorporates known changes and estimates for the University's operating revenue and expenditure lines. The following briefly explains how the table functions. Column 1 is the base operating revenue and expenditure budget for 2008-09. The figures in Column 2 include estimates and preliminary assumptions for revenues and expenditures for 2009-10. Column 3 is the preliminary budget model for 2009-10. For example, line 8(a) of the model shows the 2008-09 budget for Student Assistance – Operating Support of \$9,628,000; the projected increase for this budget line is a non salary adjustment of 2% or \$193,000 (column 2) for a total of \$9,821,000 as shown in Column 3.

1. **Government Funding (Line 1)**

Line 1(a) of the model includes increased government funding of \$17,436,000. This increase includes sufficient funding to cover operating costs, eliminate tuition increases for all students and provide funding to partially allow for a relative enrolment adjustment.

Line 1(b) is a provincial government grant to offset the reduced tuition revenue received from Nova Scotia students due to the Nova Scotia student bursary program.

Line 1(c) is a facilities grant that is committed to facilities upgrade projects. The offsetting expenditure appears in line 12 of the model.

Line 1(d) reflects provincial grant funding for the expansion of Dalhousie's MD program and other minor grant amounts.

2. **Tuition Fees (Line 2)**

The approved budget for 2008-09 was based on a projected decline of 155 students from the previous year yet projected experience for 2008-09 is for an increase of 177 students. Line 2(a) is an increase in tuition revenue of \$1,400,000 resulting from the enrolment difference from budget in 2008-09.

Line 2(a) provides for no change in revenue based on projected enrolment at 2008-09 levels.

Line 2(c) includes the \$350,000 balance of the provincial rebate program.

3. **Endowment Income (Line 3) and Endowment Expenditures**

Once finalized, the model will include both endowment income and expenditure in 2009-10 for established endowments based on the University’s approved spending policy. For information the 2008-09 endowment expenditures are distributed in the budget lines as follows:

	\$
Compensation - Line 7	5,584,000
Student Assistance - Line 8	5,540,000
Library Acquisitions – Line 9	226,000
Non-Salary - Line 10	<u>*7,100,000</u>
	<u>18,450,000</u>

*Approximately \$2.3 million of this amount is student assistance awarded through Faculty budgets.

4. **Operating Interest Income (Line 4)**

Operating interest income is projected to decrease by \$1,800,000 in 2009-10 based on current interest rate projections.

5. **Facilities Renewal Fee (Line 5)**

At this stage, the model for 2009-10 includes an increase \$25,000 in fee revenue resulting from an increase in improved enrolment from budget in 2008-09.

6. **Indirect Costs of Research Funding (Line 6)**

The model assumes no change in the Federal Indirect Cost of Research Grant.

7. **Compensation (Line 7)**

The budget model includes provision for progression increases (CDIs, steps, etc.) and scale increases based on collective agreements currently in place, as well as provision for collective agreements that have expired (i.e. IUOE) and will expire in 2009-10 (i.e. CUPE). Increases for non-unionized employees have been estimated and are also included on this line. The provision makes no allowance for increased benefit costs as a result of renewals which are not yet finalized. The projected total increase for compensation costs is \$9.75 million.

8. **Student Assistance (Line 8)**

The budget model assumes the operating component of the student assistance budget is increased by an inflationary factor of 2%.

The Province's plan to provide fee relief to Nova Scotia students will provide \$1,022 in bursary support for full-time students in 2009-10. This results in an increase of \$1,720,000 in the provincial bursary amount from 2008-09 as shown on line 8(c).

9. **Library Acquisitions (Line 9)**

The model includes a 2% inflationary increase on this line.

10. **Non-Salary Expenditures (Line 10)**

The budget model includes an inflationary increase of 2% for the operating component of non-salary budgets.

11. **Energy, Water, Taxes and Insurance (Line 11)**

Fuel prices have been extremely volatile in 2008-09 with the current price of Bunker C fuel at lowest seen since April 2005 after peaking in July 2008 at the highest rate ever. Provision has been made for approved increases in electricity rates effective January 2009. At this stage of planning a \$1,100,000 increase (approximately 8% overall) has been provided for these increases as well as nominal adjustments for water, taxes and insurance.

12. **Facilities (Line 12)**

There is no change in the expenditure line for facilities. Please refer to note 1(c) above.

13. **Non Space Equipment (grant supported) (Line 13)**

This line includes a 2% inflationary adjustment.

14. **Budget Unit Adjustments (Line 14)**

The budget model assumes funding for strategic expenditures of \$7,705,000. No recommendations have yet been made on the allocation of funding to the various strategic areas.

Exact calculations of adjustments to Faculty budgets through the ERBA calculation have not yet been finalized. As indicated in line 14, an estimate of the ERBA adjustment to Faculties in 2009-10 is \$350,000. Any recommendations arising from the BAC review of ERBA that is currently underway will inform changes in this assumption.

The completion of the Chemical Storage facility will result in increased operating costs for the University. This is reflected in line 14(c).

The Operating Budget plan for 2009-10 will ultimately include base budget reductions (line 14(d) required to achieve a balance of operating revenues and expenditures. Section III of this report describes the possible budget adjustments necessary.

15. **Faculty/Unit Revenue (Line 15)**

Significant cost recoveries for salary and non-salary items are netted directly in lines 7 and 10 above. Line 15 includes other base revenue generated by Faculties and budget units (e.g. tuition revenue from ERBA exempt programs that is retained by Faculties). While no change is assumed on this budget line, these sources of revenue provide an important means by which Faculties deal with annual budget reductions.

16. **Facilities Renewal (Line 16)**

This model includes a 2% inflationary increase on this line, an increase from revenue generated from student fees for this purpose (see line 5 above), as well as an increase of \$222,000 in funding for deferred maintenance as provided for in the new MOU with the province.

17. **Contingency (Line 17)**

This budget represents an annual provision for unforeseen revenue decreases and/or expenditure increases throughout the year. This budget line has been increased by \$300,000 to reflect growth in the overall operating budget since the contingency was last increased in 2007-08 and uncertainties in the economic climate.

2008/2009 Undergraduate Arts Tuition Fees - Atlantic Universities

University	Tuition Fee ⁽¹⁾	Tuition and Auxiliary Fees *	Tuition and Auxiliary Fees * net Bursary for N.S. Students
1 Acadia	6,652	7,962	7,201
2 Mt. Allison	6,720	6,987	6,987
3 St. Francis Xavier	6,205	6,948	6,187
4 Kings	6,030	6,916	6,155
5 Dalhousie	6,030	6,817	6,056
6 UNB	5,482	5,958	5,958
7 Mount Saint Vincent	5,550	6,390	5,629
8 Saint Mary's	5,580	6,357	5,596
9 Moncton	4,920	5,404	5,404
10 UPEI	4,530	5,305	5,305
11 CBU	5,660	5,971	5,210
12 St. Thomas	4,570	5,105	5,105
13 Memorial	2,550	3,040	3,040

(1) Tuition fees shown are for non-Nova Scotia students . Nova Scotia Students in Nova Scotia Universities receive a \$761 bursary in 2008-09.

* includes compulsory auxiliary fees

**Survey of Tuition fees for Entering Students at Selected Canadian Universities
2008-2009 Academic Year**

	Dalhousie (before \$761 for NS Students)	Victoria	UBC ⁽¹⁾	Alberta ⁽²⁾	Calgary ⁽³⁾	U Sask ⁽⁴⁾	Manitoba ⁽⁵⁾⁽⁶⁾⁽⁷⁾	McMaster ⁽⁸⁾⁽⁹⁾	Western ⁽⁸⁾⁽¹⁰⁾	Windsor ⁽⁸⁾⁽¹¹⁾	Toronto ⁽⁸⁾⁽¹²⁾	York ⁽⁸⁾	Queen's ⁽⁸⁾	Waterloo ⁽⁸⁾	Ottawa ⁽⁸⁾⁽¹³⁾	McGill ⁽¹⁴⁾⁽¹⁵⁾	UNB	Memorial ⁽¹⁶⁾	Dalhousie Ranking
UNDERGRADUATE																			
Arts	6,030	4,581	4,343	4,900	4,958	4,380	3,000	4,717	4,724	4,693	4,776	4,774	4,785	4,788	4,751	5,378	5,482	2,550	1
Dental Hygiene	7,530	--	4,777	9,276	--	--	5,995	--	--	--	--	--	--	--	--	--	--	--	2
Engineering	6,840	5,192	5,211	5,226	4,958	4,950	4,320	6,766	7,495	5,833	8,655	4,774	7,605	8,786	5,934	5,378	6,482	2,550	5
Management	6,060	4,581	4,487	4,900	4,958	6,000	4,020	5,702	--	5,372	4,776	5,270	10,395	--	4,751	5,378	5,482	2,550	2
Nursing	7,020	4,581	4,632	6,534	4,958	4,950	3,660	4,717	4,724	4,693	6,409	4,774	4,785	--	4,751	5,378	5,482	2,550	1
Pharmacy	8,676	--	7,896	4,900	--	6,180	3,990	--	--	--	11,337	--	--	12,480	--	--	--	2,550	3
Science	6,840	4,581	4,777	4,900	4,958	4,560	3,540	4,717	4,724	4,693	4,776	4,774	4,785	4,788	4,751	5,378	5,482	2,550	1
Social Work	6,660	4,581	4,343	--	4,958	--	3,780	4,717	--	4,693	--	4,774	--	4,788	4,751	5,378	--	2,550	1
GRADUATE																			
Occupational Therapy	13,017	--	5,953	5,647	--	--	5,000	7,500	5,700	--	7,577	--	8,370	--	5,989	5,378	--	--	1
Masters in Arts	6,381	4,758	4,018	3,449	5,148	3,000	4,177	5,154	5,568	6,225	6,121	5,451	4,785	6,246	5,713	5,378	5,562	3,030	1

Note: All fees included in this schedule are for Out-of -Province students. Full time Nova Scotia students attending Dalhousie will receive a bursary of \$761.

(1) UBC - The tuition rate for Management increases to \$6,649 for years 2 to 4 of the program. The tuition rate for Engineering increases to \$5,562 for years 2 to 5 of the program.

(2) Alberta - No increase in OT rates from 07/08. Tuition rates increased approximately 4.5%.

(3) Calgary - Tuition rates increased approximately 4.5%.

(4) U Sask - A government imposed tuition freeze has been in effect since 2005 for Saskatchewan. The freeze is expected to be lifted for the 2009-2010 academic year.

(5) Manitoba - A government imposed tuition freeze has been in effect since 2000 for Manitoba. The freeze is expected to be lifted for the 2009-2010 academic year. In addition to the freeze, the Manitoba government mandated a 10% fee reduction which will be applied to tuition fees when they are assessed.

(6) Manitoba - The tuition rate for Dental Hygiene decreases to \$5,320 for year 2 of the program.

(7) Manitoba - The tuition shown for Engineering includes a \$40 surcharge approved by the students in a referendum held March 07. The purpose of the charge is to help the Engineering faculty deal with a pressing budget deficit. The surcharge is not subject to any International differential fees.

(8) McMaster, Western, Toronto, York, Waterloo, Ottawa -The Government Imposed Tuition Freeze in Ontario was lifted in 2006-07. Universities are permitted a maximum tuition increase of 4.5% or 8%, depending on the type of program. Increases vary by program for 2008-09.

(9) McMaster - Level 2, 3, 4 courses are at a reduced rate for all undergrad programs.

(10) Western - Upper Level courses are at a reduced rate for all undergrad programs.

(11) Windsor - Second Year or higher courses are at a reduced rate for all undergrad and grad programs.

(12) Toronto - Second Year and higher students generally are assessed lower rates than students entering in 2008.

(13) Ottawa - Social Work and Physiotherapy are offered only in French.

(14) McGill - The tuition rates shown are for out-of-province students.

(15) McGill - The tuition rate shown for Occupational Therapy is for a students without a BscOT

(16) Memorial - No increase in tuition over 2007-08.

	Law 2008-09	Medicine 2008-09	Dentistry 2008-09
Dalhousie ⁽¹⁾ (excludes \$761 bursary)	11,666	13,818	14,074
Victoria	8,017	n/a	n/a
UBC	9,742	14,857	14,857
Alberta ^{(2),(3)}	9,412	11,086	18,579
Calgary ^{(2),(4)}	11,334	13,818	n/a
Saskatchewan ⁽⁵⁾	6,840	11,036	32,000
Manitoba ⁽⁶⁾	8,475	7,595	13,595
McMaster ^{(7),(8)}	n/a	12,829	n/a
Western ⁽⁷⁾	12,282	16,385	21,541
Windsor ⁽⁷⁾	10,700	n/a	n/a
Toronto ^{(7),(9)}	20,155	17,199	22,612
York ⁽⁷⁾	15,116	n/a	n/a
Queens ⁽⁷⁾	11,290	15,628	n/a
Ottawa ⁽⁷⁾	10,708	15,976	n/a
McGill ⁽¹⁰⁾	5,378	12,550	11,474
UNB	9,032	n/a	n/a
Memorial	n/a	6,250	n/a
Average (excl. Dal)	10,606	12,934	19,237
Dal Rank 2008-09	4 rd of 15	6 th of 13	6 th of 8
Dal Rank 2007-08	3 rd of 15	6 th of 13	6 th of 8
Dal Rank 2006-07	3 rd of 15	6 th of 13	6 th of 8

The BAC has endeavored to gather information on tuition fees for professional programs at comparator universities. Internal policies and budgeting practices will vary by university and it is not possible to provide a comprehensive enumeration of all such policies and practices.

(1) Fees shown are for out of province students. Nova Scotia students are eligible for a \$761 bursary on fees in 2008-09. Law fee includes auxiliary fee of \$2500. These fees are retained by the Faculty.

(2) In March 2006, the Government of Alberta announced a grant to increase base funding for universities to rebate approved tuition increases in 2005-06 and 2006-07 so that students pay at 2004-05 fee rates. The Government of Alberta Tuition Fee Policy limited 2007-08 and 2008-09 tuition increase to a maximum of the percentage annual change in the Alberta CPI.

(3) There are program differential fees included for Law (\$4,184) and Medicine (\$4,184). Dentistry fee includes a Clinical fee and a Clinical Operations fee.

(4) Includes program differential fees.

(5) The top 15 Saskatchewan Dentistry students pay \$14,000. All other students pay the Dentistry fee indicated.

(6) The Manitoba Government mandated 10% fee reduction will be applied to tuition fees when they are assessed. The Law tuition rate includes a \$4000 surcharge for all students admitted to the program for September 2003 or later.

(7) Fees in Ontario were frozen at 2003-04 levels, for 2006-07, 2007-08 and 2008-09 the provincial government has lifted the freeze and permitted a maximum increase of 4.5% for new students and up to 8% for professional programs, provided average increase in tuition across the institution is no more than 5%.

(8) Medicine is a three year program, fee shown is total fee for three years divided by four.

(9) Tuition includes library and laboratory supplies and services.

(10) Fees shown are for out of province students.

International Tuition Fees at Selected Universities (2008-09)
(fee shown is for entering student in an Arts Program)

	Total Fees		2008-09 Differential	Dalhousie Rank (out of 13)
	Canadian Students	International Students		
Dalhousie University	(1)			
Undergrad	6,030	\$13,290	\$7,260	11
Graduate - Masters	6,381	\$11,571	\$5,190	9
Graduate - PhD	6,699	\$11,889	\$5,190	9
University of British Columbia	(2)			
Undergrad	4,343	\$19,334	\$14,991	
Graduate - Masters	4,018	\$7,200	\$3,182	
Graduate - PhD	4,018	\$7,200	\$3,182	
University of Alberta	(3)			
Undergrad	4,900	\$17,033	\$12,133	
Graduate - Masters	3,449	\$7,040	\$3,591	
Graduate - PhD	3,449	\$7,040	\$3,591	
University of Calgary				
Undergrad	4,958	\$16,881	\$11,923	
Graduate - Masters	5,148	\$11,686	\$6,538	
Graduate - PhD	5,148	\$11,686	\$6,538	
University of Manitoba	(4)			
Undergrad	3,000	\$8,400	\$5,400	
Graduate - Masters	4,177	\$8,354	\$4,177	
Graduate - PhD	4,177	\$8,354	\$4,177	
McMaster University	(5)			
Undergrad	4,717	\$12,071	\$7,354	
Graduate - Masters	5,154	\$12,525	\$7,371	
Graduate - PhD	5,154	\$12,525	\$7,371	
University of Western Ontario	(5)			
Undergrad	4,724	\$14,100	\$9,376	
Graduate - Masters	5,568	\$12,400	\$6,832	
Graduate - PhD	5,568	\$12,400	\$6,832	
University of Toronto	(5)			
Undergrad	4,776	\$19,404	\$14,628	
Graduate - Masters	6,121	\$13,892	\$7,771	
Graduate - PhD	6,121	\$13,892	\$7,771	
Queen's University	(5)			
Undergrad	4,785	\$15,765	\$10,980	
Graduate - Masters	5,574	\$11,448	\$5,874	
Graduate - PhD	5,574	\$11,448	\$5,874	
Waterloo University	(5)			
Undergrad	4,788	\$17,070	\$12,282	
Graduate - Masters	6,246	\$15,258	\$9,012	
Graduate - PhD	6,246	\$15,258	\$9,012	
University of Ottawa	(5)			
Undergrad	4,751	\$14,482	\$9,731	
Graduate - Masters	5,713	\$13,968	\$8,255	
Graduate - PhD	5,713	\$13,968	\$8,255	
McGill University				
Undergrad	5,378	\$13,965	\$8,587	
Graduate - Masters	5,378	\$12,593	\$7,215	
Graduate - PhD	5,378	\$12,593	\$7,215	
Memorial University				
Undergrad	2,550	\$8,800	\$6,250	
Graduate - Masters	3,030	\$3,936	\$906	
Graduate - PhD	2,049	\$2,661	\$612	

(1) Tuition fees are for non-Nova Scotia students (i.e.before the \$761 bursary is applied). The government of Nova Scotia has imposed a tuition freeze at 2007-08 rates.

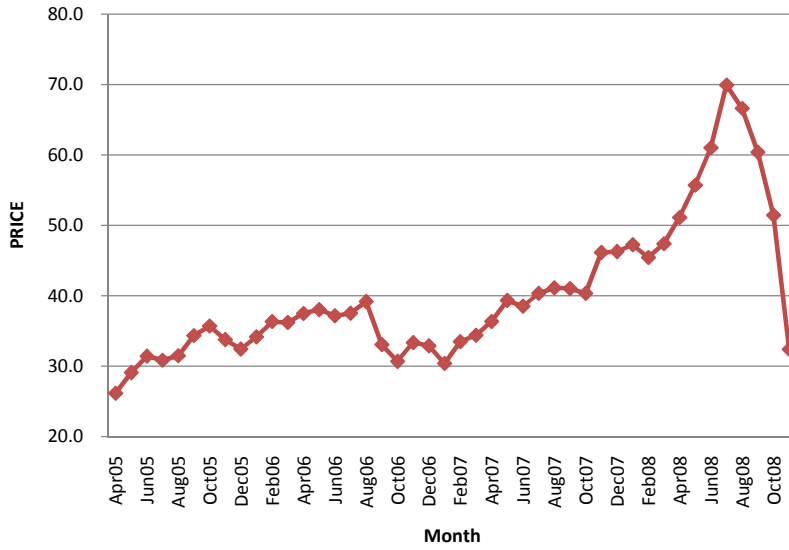
(2) International fees represent "full cost of education" increased annually by the cost of living. 2007-08 is the first year of a three year increase to cover "capital cost of education". Most graduate students are eligible for a \$3,260 scholarship.

(3) In March 2006, the Government of Alberta announced a grant to increase base funding for universities to rebate approved tuition increases in 2005-06 and 2006-07 so that students pay at 2004-05 fee rates. The Government of Alberta Tuition Fee Policy limits 2007-08 and 2008-09 tuition increase to a maximum of the percentage annual change in the Alberta CPI.

(4) Figures shown for domestic students do not include the Government of Manitoba's 10% fee reduction. This fee reduction does not apply to international students differential fee.

(5) 2006-07, 2007-08 and 2008-09, the provincial government limited tuition increases to a maximum of 4.5% for new students and up to 8% for professional programs, provided average increase in tuition across the institution is no more than 5%.

Average Bunker C Price by Month Since April 2005



Excerpt from BAC Report XXXVI on Facilities Renewal

There are two fundamental facets of the facilities renewal challenge at Dalhousie. Both components are required to upgrade and maintain University physical infrastructure.

Annual Maintenance

Universities have an annual requirement to perform major maintenance projects in order to repair or replace building systems that have reached the end of their useful lives. Using the standard of a 2% annual investment in facilities maintenance, based on an estimated asset base of \$1.36 billion (including student residence facilities valued at \$206 million), the required annual funding to maintain Dalhousie University's assets would be approximately \$27 million. In 2007-08, the Facilities Renewal Budget was \$9.3 million for non-residence facilities and \$1.5 million for residences, leaving a shortfall of \$16.2 million in annual maintenance funding.

The Board of Governors has reaffirmed the need to address this shortfall and has recommended adding an additional \$1.0 million each year to the facilities renewal budget until the University reaches the target.

Deferred Maintenance Backlog

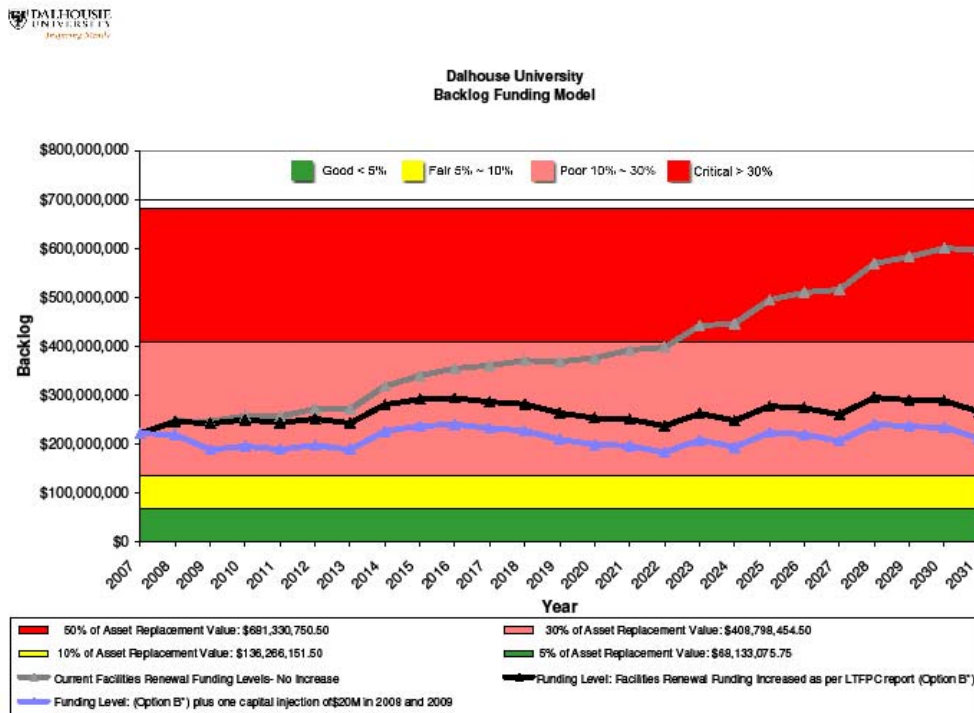
The deficit in annual maintenance funding described above leads to the year over year accumulation of unfunded projects collectively known as the deferred maintenance backlog. The current estimate of Dalhousie's deferred maintenance backlog is \$235 million.

An accumulation of deferred maintenance leads to deterioration in the condition of the campus facilities and an increased incidence of system failures and resultant negative impacts on the accomplishment of the institutional mission. Appendix I provides further background on the current state of backlog deferred maintenance at Dalhousie, projections of the future backlog under various scenarios and one possible plan to improve the state of the University's physical infrastructure.

Backlog Deferred Maintenance

In North America, universities assess the condition of their infrastructure by applying a facilities condition index, or FCI. The index is a function of Backlog deferred maintenance as a percentage of current replacement values. Dalhousie University uses an asset assessment software application to calculate our FCI. A rating of more than 10% is considered poor condition and unacceptable, with fair ranging from 5% - 10% and good at less than 5%. Many of Nova Scotia's universities including Dalhousie have facilities with an index well in excess of 10%, with some in the critical category of more than 30% and individual buildings in excess of 50%. Based on the data collected in our faculties Dalhousie's overall FCI is calculated to be 17.26%.

The following graph predicts the level of the deferred maintenance backlog in future years based upon different levels of maintenance funding. These measures would have an impact on our increasing backlog maintenance deficit. However, even at an assumed debt-based funding of \$40M (the lowest line on the graph), Dalhousie would only be able to maintain the current FCI and would not actually improve the condition of the campus. Hence, a more significant investment is required in order to bring the campus FCI into a "fair" category.



11/6/2007

The following table provides one possible approach to reduce the FCI to a fair rating (FCI between 5% - 10%) It includes a combination of building disposal or demolition that would remove the assets with the highest FCIs from our portfolio followed by an investment of \$75M debt serviced over 20 years (approximately \$6M/year). This is projected to result in an FCI of 9.9%.

<u>One Scenario for Improvement of Back Log Deferred Maintenance/FCI</u>			
	Deferred Maintenance Backlog	Total Asset Replacement Value	Facilities Condition Index
Current	235,257,189	1,362,661,515	17.3%
Building Disposals	(31,066,686)	(62,507,700)	49.7%
Funding for Backlog Catch up	<u>(75,000,000)</u>	<u></u>	
Projected	129,190,503	1,300,153,815	9.9%

Dalhousie University
Funding Allocations for Strategic Initiatives (2003-04 to 2008-09)
(thousands of dollars)

	2008-09	Allocations first five year plan						Total Investment to date
		2007-08	2006-07	2005-06	2004-05	2003-04	Total	
Enhance Research and Academic Strengths	1,100	513	500	900	550	500	2,963	4,063
Enrich Student Experience	460	480	125	320	250	800	1,975	2,435
Strengthen Enrolment	300	395	150	780	200	1,350	2,875	3,175
Campus Renewal	1,740	1,520	500	1,170	845	2,350	6,385	8,125
Renew Human Resources	400	447	-	130	155	200	932	1,332
Increase philanthropic support	500	500	-	-	-	-	500	1,000
Total Strategic Initiatives	4,500	3,855	1,275	3,300	2,000	5,200	15,630	20,130

Note: Certain of the allocations in the 2003-04 to 2007-08 plan have been reclassified to conform with strategic initiatives categories adopted in 2008-09

Comparison of Operating Expenditures by area, for selected Canadian Universities, 2006-2007¹
 ('000's)

Comparator Universities	Total Operating Expenditures		Academic		Library		Computing		Administration and General		Student Services		Physical Plant		External Relations		Total Non Academic		Student Faculty Ratio ²
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%			
Laval	440,145		296,805	67.4%	24,045	5.5%	8,761	2.0%	43,777	9.9%	21,328	4.8%	44,402	10.1%	1,027	0.2%	143,340	32.6%	22.6
McGill	493,502		288,070	58.4%	29,777	6.0%	24,416	4.9%	59,269	12.0%	22,181	4.5%	53,161	10.8%	16,628	3.4%	205,432	41.6%	17.1
McMaster	457,544		259,426	56.7%	17,567	3.8%	17,454	3.8%	50,069	10.9%	40,610	8.9%	65,671	14.4%	6,747	1.5%	198,118	43.3%	19.6
Ottawa	409,319		234,503	57.3%	20,369	5.0%	11,493	2.8%	42,758	10.4%	50,519	12.3%	41,950	10.2%	7,727	1.9%	174,816	42.7%	29.3
Queens	405,969		268,008	66.0%	20,176	5.0%	9,988	2.5%	19,309	4.8%	39,825	9.8%	36,248	8.9%	12,415	3.1%	137,961	34.0%	23.9
Waterloo	336,334		194,887	57.9%	16,321	4.9%	13,539	4.0%	31,546	9.4%	36,871	11.0%	34,716	10.3%	8,454	2.5%	141,447	42.1%	26.3
Western	472,103		310,382	65.7%	22,798	4.8%	9,192	1.9%	30,938	6.6%	51,503	10.9%	37,078	7.9%	10,212	2.2%	161,721	34.3%	23.1
Calgary	539,278		282,357	52.4%	24,777	4.6%	36,958	6.9%	35,174	6.5%	59,234	11.0%	91,038	16.9%	9,740	1.8%	256,921	47.6%	16.8
Larger Universities	3,554,194		2,134,438	60.1%	175,830	4.9%	131,801	3.7%	312,840	8.8%	322,071	9.1%	404,264	11.4%	72,950	2.1%	1,419,756	39.9%	22.3
UBC	677,245		416,358	61.5%	27,095	4.0%	23,133	3.4%	69,172	10.2%	50,826	7.5%	80,925	11.9%	9,736	1.4%	260,887	38.5%	18.2
Toronto	1,174,213		707,760	60.3%	78,486	6.7%	18,691	1.6%	87,253	7.4%	129,387	11.0%	133,134	11.3%	19,502	1.7%	466,453	39.7%	25.9
Montreal	538,208		342,585	63.7%	29,501	5.5%	22,955	4.3%	59,538	11.1%	29,081	5.4%	49,958	9.3%	4,590	0.9%	195,623	36.3%	26.9
Alberta	663,718		406,623	61.3%	40,777	6.1%	30,710	4.6%	61,748	9.3%	35,237	5.3%	75,539	11.4%	13,084	2.0%	257,095	38.7%	23.2
	3,053,384		1,873,326	61.4%	175,859	5.8%	95,489	3.1%	277,711	9.1%	244,531	8.0%	339,556	11.1%	46,912	1.5%	1,180,058	38.6%	23.6
Total Comparators	6,607,578		4,007,764	60.7%	351,689	5.3%	227,290	3.4%	590,551	8.9%	566,602	8.6%	743,820	11.3%	119,862	1.8%	2,599,814	39.3%	22.9
Dalhousie	279,204		180,777	64.7%	12,361	4.4%	10,752	3.9%	18,206	6.5%	24,723	8.9%	27,449	9.8%	4,936	1.8%	98,427	35.3%	14.0
Dalhousie Rank (out of 13)			4		11		6		11		7		10		7		10		1

1 Source: CAUBO/ACPAU Financial Information of Universities and Colleges, 2006-2007, Statistics Canada, May 2008

2 Source: Almanac 2008: "University FTE Enrolment - Full time Faculty Ratios, 2005-06"