

BUDGET ADVISORY COMMITTEE

REPORT XLII

**DISCUSSION PAPER ON THE OPERATING BUDGET
PLAN FOR 2010-11
(With a Preliminary 2011-12 Budget Outlook)**

March 22, 2010

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 – Katherine Sheehan, Assistant Vice-President, Human Resources - Ken Burt, Vice-President, Finance & Administration and Andrew Sullivan (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 Robertson, Director, Budgets and Financial Analysis. The Committee employs an open and consultative approach to budget discussion at the University. To date, the BAC has issued forty-one reports related to the University's operating budget.

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HIGHLIGHTS ON THE DISCUSSION PAPER

This paper seeks to stimulate input from members of the University community on Dalhousie's Operating Budget for 2010-11. In light of budget uncertainties the paper also provides a preliminary outlook for 2011-12. The following are the highlights:

- 2010-11 is the final year of the Memorandum of Understanding (MOU) with the Province and provides for:
 - increased government funding of \$18.9 Million (11.9%);
 - tuition fees for regular credit programs to be frozen; and
 - Nova Scotia students to receive a bursary of up to \$1,283 and other Canadian students to receive a bursary of \$261.
- Tuition Revenue:
 - \$4.1 million increase in tuition revenue budget as a result of increased enrolment in 2009.
 - year over year stable enrolment assumption for fall 2010.
- Estimated increase in compensation costs for 2010-11 is \$9.9 million
- In anticipation of the Pension Plan valuation as of June, 2010 provision has been made for increased contributions of \$15.7 million annually.
- A preliminary allocation of \$10.3 million has been made for new investment in Strategic Initiatives.
- Preliminary operating budget model results in deficit of \$10 million and report considers measures to balance:
 - unit budget reductions
 - adjust investment in Strategic Initiatives
- Uncertainties faced by the University:
 - Pension Plan deficit
 - government policy on funding or tuition beyond 2010-11 is not known. In addition:
 - year end funding arrangement for Universities raises concerns, and
 - Nova Scotia Student Bursary Trust funding not adequate beyond 2010-11
 - effect of demographics, economic climate and competition on enrolment
 - impact of end of mandatory retirement on Faculty budget flexibility
 - all collective agreements have expired or will expire before July 2011.
- In light of these uncertainties a discussion of a preliminary budget outlook for 2011-12 is included in the report.
 - Recommendations for the 2010-11 will take into consideration the budget outlook for 2011-12.

Dalhousie University
Budget Advisory Committee
A Discussion Paper on the Operating Budget Plan for 2010-11
(With a Preliminary 2011-12 Budget Outlook)

I INTRODUCTION

The previous BAC Report XLI issued a few months ago addressed a host of factors that will shape the University's operating budget outlook for the foreseeable future. After releasing the BAC XLI Report, the Budget Advisory Committee met with various groups including the Senate, the Board of Governors, representatives of the DSU, Dean's and administrative directors. The BAC appreciates the feedback from these groups and those who submitted written comments.

In recent weeks the Government has announced the appointment of a university review commissioner who will advise the Province on the Nova Scotia university system. While the results of the review will not be available until this summer, Dalhousie must continue planning for the 2010-11 operating budget.

This report is a discussion paper that includes a preliminary budget model for 2010-11 and a very early outlook for 2011-12. Following a period to allow for feedback, the BAC will issue a further report that will include recommendations to the President on an Operating Budget Plan for 2010-11.

A key issue discussed during the campus community budget consultations in January and February was the outlook beyond the 2010-11 year. While government grant funding for 2010-11 has been announced by the Province (i.e. in the provincial budget of September 2009), there is no information on grant funding beyond next year. The Province's fiscal position has been reported on widely and all indications are for tougher times ahead in 2011-12 and beyond. The University faces its own challenges including managing enrolment and coping with increased pension costs. The BAC is providing a 2-year view of the Dalhousie's operating budget model thereby allowing Dalhousie's budget decisions for the upcoming year to be made in the context of an expanded time horizon.

II 2010-11 PRELIMINARY OPERATING BUDGET PLAN

This section of the report will review major factors to be included in the discussion and development of the University's Operating budget recommendations for 2010-11. A preliminary budget model for 2010-11 is included on page 9 (line-by-line description is included in Appendix A on page 13).

1. REVENUES

a) Provincial Operating Grant

The model includes increased funding of \$18.9 million for 2010-11 as described by the terms of the Memorandum of Understanding (MOU). 2010-11 is the third year of a three year MOU requiring that tuition fees be frozen and in return specific grant increases are provided to cover annual increases in operating costs. The MOU also allowed for a redistribution of the Nova Scotia university system funding based on updated enrolments. As a result of this redistribution, Dalhousie's share of system wide

funding has increased over the 3-year period and \$6.0 million of the \$18.9 million grant increase in 2010-11 results from this recalibration.

The provincial budget included a commitment to Universities to fund the total system budget for 2010-11 before the end of the 2009-10 fiscal year (March 31st, 2010). This is positive news for universities in 2010-11 but may create challenges for the provincial government in 2011-12 insofar as the prepayment of grants has been growing in recent years. Final confirmation of the 2010-11 grant has not yet been received.

The University also receives government funding for the Province's Nova Scotia Bursary Program. 2010-11 is the third year of the program and the budget model includes increased funding of \$2.6 million which will allow for an increased bursary for full-time Nova Scotia students by \$261 to \$1,283. The increased funding will also allow the program to be extended to other Canadian students who will be eligible to receive a bursary of \$261.

b) Tuition Revenue

Tuition revenue projections are based on two variables which are the level of tuition fees and changes in enrolment.

i) Tuition fees

In accordance with the terms of the MOU the budget model for 2010-11 assumes tuition fees will continue to be frozen for all students enrolled in regular credit programs.

ii) Enrolment

The prediction of enrolment continues to present challenges given a range of factors. These factors are described below:

- The BAC XLI report indicated that preliminary fall enrolments showed a year over year increase of 655 students. The increase is due to a number of factors including a modest increase in new enrolments from high school and transfer students as well as improved retention and increased numbers of international students. The 2010-11 tuition revenue budget has been increased by \$4.1 million for this rise in enrolment.
- The BAC has also highlighted information with respect to the demographic trend for Nova Scotia high school students which is expected to decline sharply. Declines are also projected elsewhere in Canada beginning over the next year or two. The University has been investing strongly in an array of recruitment and retention activities to maintain and grow enrolments. These activities include increasing Dalhousie's presence in key marketing areas, improving communication with prospects and increasing our presence in international markets.
- It is not clear what influence the uncertainty related to the economy has had on 2009-10 enrolments or how future enrolments will be impacted.

- The Enrolment Management Committee has prepared two enrolment scenarios for 2010-11 using different assumptions. The more optimistic scenario projects an increase in enrolment of 100 students while the second scenario is stable (i.e. no change). In 2005-06 budget units faced a 1% mid year budget reduction as a result of decreased tuition revenue from an unanticipated decline in enrolment. BAC has received feedback from campus that it is very difficult to make budget adjustments of this magnitude at the mid year point. Hence, the BAC has chosen to use the stable enrolment assumption at this stage of budget deliberations.

c) **Investment Income**

i) Operating

University cash balances are invested in the short term to generate investment income that supports the operating budget. The level of investment income is affected by interest rates and cash on deposit throughout the year. The Bank of Canada lowered rates in June 2009 and have indicated that rates are likely to remain stable throughout the second quarter of 2010.

There are a variety of cash flow changes expected during the year including the receipt of additional grant revenue at the start of the fiscal year. Credit card fees will also decline. Offsetting those factors will be a reduction in interest earned on maturing short term investments that must be replaced by lower yielding securities. The projection of interest incorporates all of these factors.

ii) Endowment

The decline in global capital markets in 2008 and early 2009 has negatively impacted Dalhousie's endowed funds and as a result of the market downturn remedial action was taken in 2009-10. In particular 2009-10 spending allocations were reduced by 5% from the previous year and spending from some newer endowments was suspended to allow for the value to recover.

In 2010-11 the market value of University endowments has yet to recover to the previous levels and further actions are required in 2010-11 to aid in this recovery. In particular, there are some Endowments where market value has not kept pace with the indexed value or in some cases the gift value of the endowment. These endowments are of special concern and will need to be monitored annually to assess capital recovery. A longer term strategy has been developed to allow for this recovery over a multi-year period. This strategy is based on assumptions of future market returns from a consensus of external investment professionals.

Spending will be curtailed where possible on newer endowments and for others lower spending allocations will be determined depending on the gap between the indexed value and the market value of the Endowment. A provision of \$700,000 has been included in the budget model to supplement the spending allocation for these endowments. This funding will be applied at the individual endowment level as required based on the actual spending for the year. The supplement will be discontinued in the years ahead once endowment values have recovered.

2. EXPENDITURES

a) Compensation

The current collective agreement with the Dalhousie Faculty Association will expire on June 30th, 2011. The contract for the NSGEU will expire on June 30th, 2010 and contracts for CUPE and NSUPE are currently being negotiated. In recent years when contracts were in place for most groups, the determination of the provision for compensation increases has been relatively straightforward. For 2010-11 and 2011-12 the preliminary estimate for this budget line has been developed in a more uncertain environment. The budget model includes a provision for scale increases for all groups as well as allowances for progression increases (CDI's, steps, etc) and the annualization of the previous year's increases. Benefit increases are included for 2010-11 based on program renewals that have now been negotiated.

b) Pension

The BAC XLI report included a discussion of the financial position of the University's Pension Plan. A deficit in the Plan will affect the annual funding cost but does not affect the defined benefit of an individual's pension.

Every three years the University must have an actuarial consultant prepare a valuation to determine the financial position of the Plan and hence the amount of required contributions paid by the University through the operating budget for the subsequent three year period. The next mandatory valuation will be as of June 30, 2010 and this valuation will specify required contributions to the Plan beginning on July 1, 2010 (i.e. part way through the 2010-11 fiscal year).

A recent projection of the Plan financial position at June 30, 2010 indicates an increase in required contributions to the Plan of \$15.7 million per annum. The increase is effective July 1, 2010 and therefore would require increased contributions of \$11.8 million in 2010-11 and a further \$3.9 million in 2011-12.

The \$15.7 million increase assumes the University will be able to amortize a solvency deficit over 10 years. To realize this relief the University requires the support of retirees and active Plan members in accordance with recently announced provincial legislation.

If the University was unsuccessful in achieving this support a five year solvency period would apply and the University burden would double from \$15.7 million to \$31.5 million. Conversely, the University has proposed full relief from the solvency requirements. If full exemption is achieved, the budget requirement could be reduced by about \$8.6 million to \$7.1 million.

In addition to the impact of investment markets on assets, the growth in liabilities has and will continue to be a key influence on the financial position of the Pension Plan. A review of the Plan is currently underway.

The budget models for 2010-11 (page 9) and 2011-12 (Appendix E) incorporate the \$15.7 million increase required to fund the estimated Plan deficit as of June 2010.

c) **Energy, Water, Taxes and Insurance**

In recent years the volatility in fuel prices has presented challenges in determining an appropriate estimate of energy costs going forward. In 2009-10 prices have stabilized somewhat and significant savings are anticipated on this budget line in the current year. Although recent pricing has been relatively stable, there continues to be pressure on this budget line for 2010-11 as a result of sourcing changes, more stringent provincially-legislated emissions standards and peaking capacity in the University's steam plant. Conversion of Dalhousie's heating plant to natural gas is anticipated in the second half of 2010-11.

The budget attempts to recognize the estimated heating costs based on these changes as well as a modest allowance for increased prices in 2010-11.

d) **Other Non-Salary Budget Lines**

Non-salary costs are University costs other than compensation related costs. Within Faculty budgets items such as teaching materials, lab and office supplies would be considered non-salary costs. Traditionally, the budget model has provided for a 2 % inflationary increase on non-salary budgets in Faculties and budget units as well as student assistance, library acquisitions, non space equipment and facilities renewal budget lines.

At this stage of budget planning for 2010-11 the BAC has **not** automatically assumed a 2% increase for student assistance and library acquisitions. A comparison of Dalhousie spending in the Student Services area including Student Assistance (See appendix D) shows that Dalhousie is very close to the average spending of other G13 universities (the G13 is a consortium of thirteen leading research intensive universities in Canada). Indeed, Dalhousie's spending on student assistance alone as a percentage of the total operating expenditures (including the Nova Scotia Bursary) ranks well when compared with these same universities. This suggests that spending on the service portion of the Student Services budget is less than the average.

The University library has undergone a significant transformation in recent years as the emphasis has moved from traditional hard copy library collections to electronic media versions. This would suggest a change in approach for this area so that funding should be linked to the overall strategy for library collections.

The BAC suggests that these areas should be considered more strategically through possible investment from strategic initiatives. Note that both library acquisitions and student assistance have traditionally been protected from budget reductions.

e) **Strategic Initiatives:**

Since 2003-04 the University has allocated funding for investment in strategic initiatives. The President's Office has recently released a report summarizing the outcomes of

investments from 2006-07 to 2009-10. (This report can be accessed at http://senioradmin.dal.ca/files/vpacademic/Strategic_Initiatives_Investments_Final_Report6.pdf)

Allocations from Strategic Initiatives funding for 2010-11 and coming years will be guided by “Making Choices: Dalhousie’s Strategic Focus 2010-2013” released last month. (This report can be accessed through the President’s office website at <http://senioradmin.dal.ca/files/Dalhousies-Strategic-Focus-2010-2013-Feb101.pdf>)

The report identifies eight modified strategic focus areas where the University must excel to achieve its ambition: **“to become Canada’s best university”**. Appendix B provides a list of more specific objectives that have been identified under each of the eight areas:

- Foster Academic Innovation
- Enrich Student Experience
- Strengthen Enrolment
- Support Research Excellence
- Develop Outstanding Human Resources
- Sustain Campus Renewal
- Ensure Financial Sustainability
- Engage Our Community

The report highlights the need to make careful choices given the factors that shape Dalhousie’s prospects for future success and suggests: a) the need to focus available resources on priorities; and b) to maintain financial flexibility to support innovation.

Before 2009-10, Strategic Initiatives funding was allocated to permanent budget commitments. The BAC’s fundamental strategy in formulating operating budget recommendations for 2009-10 was to allocate resources in such a way so as to allow them to be redeployed to help address uncertainties in 2010-11 and beyond. As a result \$4.2 million of the \$7.7 million in base budget funding for Strategic Initiatives in 2009-10 was allocated to one time expenditure projects.

As this \$4.2 million in funding was not committed permanently in 2009-10 it remains available for use in 2010-11. The preliminary model includes \$6.0 million in additional funding for Strategic Initiatives bringing the total funding for Strategic Initiatives in 2010-11 to \$10.2 million (see line 14a) in the budget model on page 9). The increased funding of \$6.0 million relates directly to the increased government grant revenue that the University expects to receive as a result of the recalibration of the university system funding model (see Government Grants section II i) a)).

Faculties and units continue to submit proposed initiatives to be considered for Strategic Initiatives funding. In addition, there are broad institutional requirements that should be considered for funding, such as the well-documented need to increase funding for facilities renewal.

The President’s Office will have to consider which initiatives should be supported.

3. **BALANCING THE 2010-11 BUDGET**

The Preliminary Budget Model (page 9) incorporates the significant financial drivers outlined above but makes no assumption on measures to balance the 2010-11 budget and therefore shows a preliminary shortfall for the year of \$10 million.

a) **Faculty & Unit Budget Reductions**

In the past, the BAC has recommended unit budget reductions as a means to deal with the budget shortfall each year. Approaches to annual budget reductions have varied and evolved over time. (Appendix C is the history of unit reductions since 2000-01). The following is a brief summary of considerations:

- Differential reductions – Lower reductions have been applied to service units who do not have the means to generate additional revenues (for example via increasing enrolments). Data comparing Dalhousie with other Canadian Universities (Appendix D) also continues to support differential treatment of non-Faculty units.
- In the past turnover savings (difference between the salary of the retiring individual and those newly hired replacements) have been an important means by which Faculties balance their budgets. Mandatory retirement has been eliminated effective July 1, 2009 and as a result Faculties will likely experience lower faculty turnover over the next few years.
- Across-the-board reductions (i.e. every unit reduced by the same percentage) have been applied in particularly difficult years.
- Smaller budget reductions have been recently applied to non-Faculty units receiving significant Strategic Initiatives funding. This distinction was made in recognition that it is counterproductive to apply significant budget reductions while investing in strategic areas.
- Some budget areas have traditionally been protected from reductions on the following basis:
 - Cost determined externally (e.g. energy and insurance)
 - Protected by policy (e.g. student assistance and library collections)

b) **Strategic Initiatives**

The 2010/11 budget model on page 9 assumes base funding for Strategic Initiatives of \$10.2 million. Another option to reduce the shortfall in the model would be to lower the amount of funding provided for Strategic Initiatives.

Table 1 demonstrates the relationship between the level of strategic investment and the budget reduction that would be required to balance the budget. For instance, the grey box reflects the base case from the 2010-11 budget model on page 9. In order to maintain funding for Strategic Initiatives of \$10.2 million an across-the-board budget reduction of

5.0% would be required of all units. If funding for Strategic Initiatives were reduced by \$2.2 million to \$8.0 million (line 2 of Table 1), the base reduction necessary to balance the budget would be 3.9%.

TABLE 1
Relationship between Strategic Initiatives and Budget
Reduction Variables in a Balanced Budget Model
(2010-11)

STRATEGIC INITIATIVES INVESTMENT	BUDGET UNIT REDUCTION (Across the Board)
\$10.2 million	5.0%
\$8 million	3.9%
\$6 million	2.9%
\$4 million	1.9%
\$2 million	0.9%

Grey box is the base scenario from 2010-11 Budget Model on page 9

The next BAC report will be an Operating Budget Plan for 2010-11 and will contain recommendations to eliminate the shortfall and balance the budget for 2010-11.

As a result of the significant uncertainties for 2011-12 the BAC has included in this report a very early look at a budget model for 2011-12. In developing recommendations on the 2010-11 operating budget plan, it is important to consider the 2011-12 outlook which is discussed in the next section of this report.

Dalhousie University

Preliminary Operating Budget Revenue and Expenditure Model for 2010-11

(model line-by-line description is included in Appendix A)

Assumptions		
Government Grant		\$18,906,194
Tuition Revenue		
Fee Increase		0%
Enrolment Change		enrolment flat
Base budget Reduction		none assumed
ERBA distribution to Faculties		60%
Compensation	Provision/estimates for all employee groups	
-Pension	Current projection with 10 year solvency amortization	
Non Salary Inflationary Increase (included in lines 10 ,13 and 16)		2.0%
Energy Water Taxes and Insurance		2.0%

	Column 1	Column 2	Column 3
	Approved Budget 2009-10	Change	2010-11 Preliminary Projection
REVENUES - INCREASE(DECREASE)			
1. Government Funding			
a) Operating Grant	159,165		178,071
Changes:			
i) Costs increases		12,914	
ii) New Formula Phase In		5,992	
b) Grant to support Nova Scotia Student Bursary	5,787	2,613	8,400
c) Facilities Grant	1,000		1,000
d) Other Government Grants	2,990		2,990
2. Tuition revenues	93,224		97,324
a) Enrolment Changes:			
i) 2009-10 Enrolment growth (estimate)		4,100	
ii) 2010-11 Enrolment change (no change)		-	
b) Fee increase		-	
3. Endowment Income	17,017		17,017
4. Operating Interest Income	1,700	-	1,700
5. Facilities Renewal Fee	1,325		1,325
6. Indirect Costs of Research Funding	6,842	(69)	6,773
TOTAL REVENUES - INCREASE (DECREASE)	289,050	25,550	314,600
EXPENDITURES - INCREASE (DECREASE)			
7. Compensation	210,819		232,569
Changes:			
a) Increased Provision for Compensation		9,950	
b) Increased Pension Contributions		11,800	
8. Student Assistance			
a) Operating Support	9,971		9,971
b) Nova Scotia Student Bursary (see line 1(b))	5,787	2,613	8,400
c) Endowment Support	5,126		5,126
9. Library Acquisitions	6,511		6,511
10. Non-Salary (net of recoveries)	30,403	477	30,880
11. Energy, Water, Taxes and Insurance	14,629	293	14,922
12. Facilities /Space	1,000		1,000
13. Non Space Equipment	2,483	50	2,533
14. Budget Unit Adjustments			
a) Strategic Initiatives	4,246	5,992	10,238
b) ERBA adjustment (estimate)		2,300	2,300
c) Operating costs Coburg		1,388	1,388
d) Operating costs LSRI			-
e) Operating costs IPH building			-
f) Supplement Endowment spending allocation		700	700
g) Base budget reduction		TBD	
15. Faculty/Unit Revenue	(16,300)		(16,300)
16. Facilities Renewal	12,775	50	12,825
17. Contingency	1,600		1,600
TOTAL EXPENDITURES - INCREASE (DECREASE)	289,050	35,613	324,663
SURPLUS (SHORTFALL)	-	(10,063)	(10,063)

2010-2011

III 2011-12 BUDGET OUTLOOK

In assessing the various alternative approaches to balancing the budget in 2010-11, the BAC believes it is important to look ahead to the budget prospects for 2011-12. The revenue and expenditure model in Appendix E provides a base scenario for the 2011-12 operating budget. Using this scenario as a reference, a range of alternative scenarios are presented to illustrate the interrelationships between budget revenue and expenditure variables.

In the base scenario it is assumed that government grant funding for 2011-12 is frozen at the 2010-11 amount of \$178.1 million. Other key revenue and expenditure model assumptions are contained in Appendix E. The budget shortfall in the base scenario is \$15.4 million and **assumes that the 2010-11 budget has been balanced.**

Table 2 below illustrates the interrelationships between three major budget variables – government grants, strategic initiatives funding available and budget unit reductions. (The table assumes there is no increase in tuition fees.) How does the table work? The grey box in the table shows that with no (nil) government grant increase and no strategic initiatives funding available to balance the 2011-12 budget, Faculty and unit budgets would have to sustain a budget reduction of 7.6% or \$15.4 million.

TABLE 2
Interrelationship of Government Grant, Strategic Initiatives and Budget Reduction
Variables in a Balanced Budget Model
(2011-12)

STRATEGIC INITIATIVES STILL REMAINING FROM 2010-11 TO HELP BALANCE THE 2011- 12 BUDGET	GOVERNMENT GRANT INCREASE/DECREASE			
	-3% (-\$5.3 million)	0% (nil)	3% (+\$5.3 million)	5% (+\$8.9 million)
	BUDGET UNIT REDUCTION (Across the Board)			
\$8 million	6.3%	3.7%	1.0%	-0.7%
\$4 million	8.3%	5.6%	3.0%	1.2%
\$2 million	9.3%	6.6%	4.0%	2.2%
nil	10.3%	7.6%	5.0%	3.2%

 Grey box is base scenario from 2011-12 budget model in Appendix E

It is important to note that the actions taken to balance the 2010-11 budget will influence the options in 2011-12. Again, if one assumes 0% change in the government grant and if \$2.0 million of the 2010-11 Strategic Initiatives funding is available to help balance the 2011-12 budget, Faculty and unit budgets would have to sustain a budget cut of 6.6%.

An alternative view of the interrelationships among key budget variables is presented in Table 3. This table shows the interrelationship between government grants, budget unit reductions and tuition fees. In the last two Memoranda of Understanding with the Province, tuition has been regulated on

the basis that grant revenue increases be provided to address university costs. The reference in the Table to tuition increases is for illustration purposes only as there has been no decision yet on either grants or fees beyond the current MOU which expires in 2010-11.

TABLE 3
Interrelationship of Government Grant, Budget Reduction and Tuition
Variables in a Balanced Budget Model
(2011-12)

BUDGET REDUCTION (Across the Board)	GOVERNMENT GRANT INCREASE/DECREASE :			
	-3% (-\$5.3 million)	0% (nil)	3% (\$5.3 million)	5% (\$8.9 million)
TUITION INCREASE (Across the Board)				
0%	24.1%	17.9%	11.7%	7.6%
1%	21.8%	15.6%	9.3%	5.2%
2%	19.4%	13.2%	7.0%	2.9%
3%	17.1%	10.9%	4.7%	0.5%

PROVINCIAL GRANTS AND BURSARY PROGRAM

There are two matters pertaining to the provincial funding program that are important to highlight for the information of the University community.

a) Provincial Grant

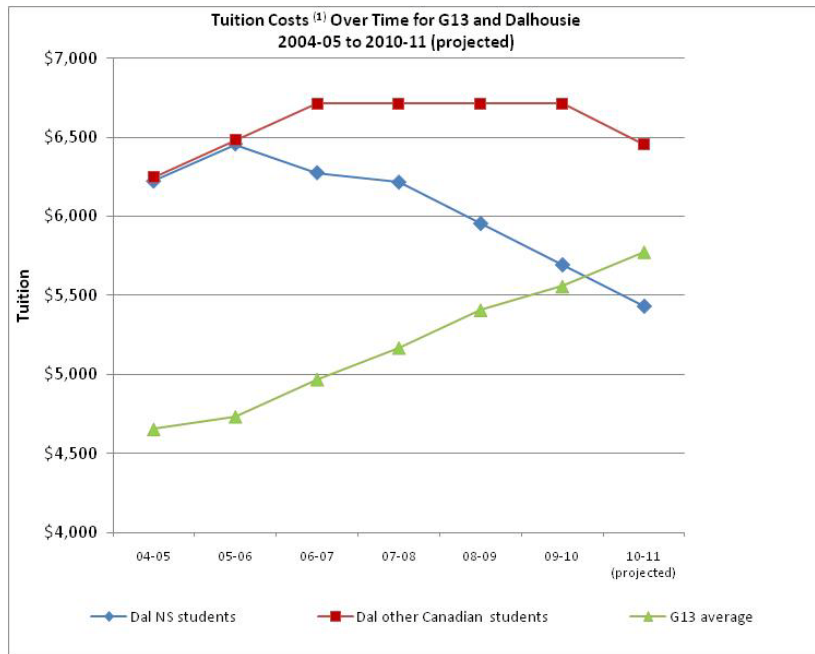
The September 2009 provincial budget included a commitment to universities to prepay almost 100% of system grants for 2010-11 before the end of the 2009-10 fiscal year (March 31st, 2010). As a result university grants in the provincial budget for 2010-11 will be negligible. In 2011-12 the provincial government will need to re-establish \$342.1 million (plus any funding increase required by a third MOU) in base funding for the university system.

b) Nova Scotia Bursary Program

In March 2008 the Province funded the Nova Scotia Student Bursary Trust to provide students with a bursary towards reducing their tuition cost while attending a Nova Scotia university. The Trust was funded so that the program would benefit students for academic years 2008-09, 2009-10 and 2010-11. Initially the bursary of \$761 applied to Nova Scotia students only. In 2009 the bursary amount rose to \$1,022 and in September 2010 the bursary will rise to \$1,283 for Nova Scotia students and a new bursary of \$261 will be implemented for other Canadian students attending Nova Scotia universities.

An explicit policy objective of the Province of Nova Scotia in 2006 was to reduce student tuition costs to the average of fees at Canadian Universities by 2011. The terms of the MOU, the bursary program and earlier tuition reduction programs have supported this objective through tuition relief to Nova Scotia’s students.

The following graph compares Dalhousie's average fees for Undergraduate programs in Arts, Computer Science, Engineering, Nursing and Science to other G13 universities (consortium of thirteen leading research intensive universities in Canada). Dalhousie's fees (net bursary) for Nova Scotia students have declined over this period while average fees for Nova Scotia students attending other G13 universities have increased. Dalhousie fees for other Canadian students have been held constant as a result of the tuition freeze that was negotiated in the MOU. Net tuition cost for these students will decline in 2010-11 as these students will now be eligible for a \$261 bursary.



(1) Tuition less Nova Scotia Bursary (and earlier relief programs in 2006-07 and 2007-08)

It is forecast that the initial funding of the Trust provided in 2008 will be largely exhausted by the end of the 2010-11 academic year. Should the fund not be replenished or replaced with a similar program the loss of the 2010-11 bursary of \$1,283 would present Nova Scotia students with a sharp increase in the cost of attending university. It is therefore very important for our students that the province continue to fund this program.

IV COMMENTS INVITED

The BAC invites comments and suggestions from the campus community on these specific questions as well as other areas:

- What approach should be taken on unit budget reductions for 2010-11? (page 7)
- Are there other measures that should be considered to balance the 2010-11 budget? (page 7)
- What approach should be taken for investment in Strategic Initiatives for 2010-11 and future? (page 6)
- How should the uncertainty in 2011-12 influence budget decisions for 2010-11? (page 10)
- Are there other sources of revenue that the University should consider?

Please send your advice and comments on these questions and other matters pertaining to this report to Susan Robertson (susan.robertson@dal.ca)

PRELIMINARY BUDGET MODEL 2010-11 - LINE-BY-LINE DESCRIPTION

The Revenue and Expenditure Model for 2010-11 on page 9 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 2009-10. The figures in Column 2 include estimates and preliminary assumptions for revenues and expenditures for 2010-11. Column 3 is the preliminary budget model for 2010-11. For example, line 11 of the model shows the 2009-10 budget for energy, water, taxes and insurance of \$14,629,000; the projected increase for this budget line is an adjustment of \$293,000 (column 2) for a total of \$14,922,000 as shown in Column 3.

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

Line 1(a) of the model includes increased government funding of \$18,906,000. 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 the University will receive to compensate for the provincial bursary program. See line 8 (b) for bursary budget of the same amount.

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 2003 expansion of Dalhousie's MD program, Physiotherapy and Occupational Therapy masters program and other minor grant amounts.

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

The approved budget for 2009-10 assumed no change in enrolment from the previous year. Line 2(a) is an increase in tuition revenue of \$4,100,000 resulting from higher than budgeted enrolment in 2009-10.

Line 2(b) provides for no change in revenue based on projected enrolment at 2009-10 levels.

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

Once finalized, the model will include both endowment income and expenditure in 2010-11 for established endowments. For information the 2009-10 endowment expenditures are distributed in the budget lines as follows:

	\$
Compensation - Line 7	5,119,000
Student Assistance - Line 8	5,126,000
Library Acquisitions – Line 9	208,000
Non-Salary - Line 10	<u>*6,564,000</u>
	<u>17,017,000</u>

*Approximately \$2.1 million of this amount is student assistance awarded through Faculty budgets.

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

Operating interest income is projected to remain unchanged at \$1,700,000 in 2010-11 based on current interest rate and cash flow projections.

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

The model assumes no change in facilities renewal fee revenue.

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

The model assumes a decline of \$69,000 in the Federal Indirect Cost of Research Grant based on estimated funding levels for 2010-11.

7. **Compensation (Line 7)**

Line 7(a) of 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. CUPE and NSUPE) and that will expire in 2010-11 (i.e. NSGEU). Increases for non-unionized employees have been estimated and are also included on this line. The projected total increase for compensation costs is \$9.95 million.

Line 7(b) is an \$11.8 million provision for increased pension contributions based on a recent projection of the Plan financial position at June 30, 2010.

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

The budget model makes no assumption on increases to the operating component of the student assistance budget.

The Province's plan to provide fee relief to students will provide up to \$1,283 in bursary support for full-time Nova Scotia students in 2010-11 and \$261 in bursary support for full-time out-of-province students in 2010-11. This results in an increase of \$2,613,000 in the provincial bursary amount from 2009-10 as shown on line 8(b).

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

The budget model makes no assumptions on increases to the library acquisitions line for 2010-11.

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)**

This budget line includes an increase of 2% for projected heating costs for 2010-11 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 total funding for strategic expenditures of \$10.2 million. No recommendations have yet been made on the allocation of funding to the various strategic areas. The line includes \$4.2 million in base funding remaining from 2009-10 and further funding of \$6.0 million from government funding from the phase in of the new enrolment formula (see line 1 a) ii) above).

Exact calculations of adjustments to Faculty budgets through the ERBA calculation have not yet been finalized. As indicated in line 14 (b), an estimate of the ERBA adjustment to Faculties in 2010-11 is \$2.3 million. In the past approximately 50% of tuition revenue changes were distributed to faculties through the ERBA formula. After a review was completed in 2009, it was recommended that the distribution be increased to 60%. The model includes the 60% distribution level to faculties.

The completion of the new academic building on Coburg Road will result in increased operating costs for the University. This is reflected in line 14(c).

For those endowments where the market value has fallen below the indexed or gift value, spending allocations will be supplemented with operating funds (line 14 (f)). This support is estimated to cost \$700,000 in 2010-11.

At this stage, the Operating Budget plan for 2010-11 does not include base budget reductions (line 14(g) required to achieve a balance of operating revenues and expenditures. Section II (3) of this report describes possible budget adjustments scenarios.

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 as well as a decrease of \$206,000 in funding for deferred maintenance according to the MOU with the province.

17. **Contingency (Line 17)**

There is no change on this expenditure line which currently represents 0.5% of the University operating budget.

Strategic Focus Areas and Specific Objectives from:
Making Choices:
Dalhousie's Strategic Focus, 2010-2013

Foster Academic Innovation

Objective #1 – Establish the Dalhousie Undergraduate Education Initiative

Objective #2 – Align technology and support resources to enhance academic innovation as well as renewing our administrative processes.

Objective #3 – Develop Faculty strategic plans that balance faculty appointments, appropriate administrative resources and other academic needs such as student services and research support.

Enrich Student Experience

Objective #4 - Create a partnership with Dalhousie students to renew the Dalplex and upgrade fitness facilities

Objective #5 – Support the capacities of Faculty student societies to create stronger local identities and stronger campus spirit

Objective #6 – Develop increased student leadership opportunities and ways to recognize these experiences

Objective – #7 Create department and Faculty student forums to enhance communication with academic leaders

Strengthen Enrolment

Objective #8 – Expand total enrolment to 17,000 students by September 2012

Objective #9 – Reduce undergraduate attrition rates

Objective #10 – Increase international student enrolments with appropriately supportive student services

Objective #11 – Increase the number of transfer students to Dalhousie

Support Research Excellence

Objective #12 – Review Dalhousie's strategic research plan in light of the evolving external environment

Objective #13 – Enhance the Vice-President Research's capacity to support major funding applications

Objective #14 – Reallocate funding to support graduate students and build our endowment for scholarships through our capital campaign.

Objective #15 – Develop a clear analysis of faculty expectations concerning research support

Develop outstanding human resources

Objective # 16 – Enhance Dalhousie’s positive work environment

Objective #17 – Increase initiatives to develop leadership skills among university employees

Objective #18 – Improve Dalhousie’s human resources policies, processes and practices to meet our evolving needs

Sustain Campus Renewal

Objective #19 – Make improved student experience space a priority wherever feasible

Objective #20 – Use our new Campus Master Plan to guide campus renewal

Objective #21 – Develop a space management process that ensures that assigned campus space is used efficiently and that the use of classrooms, labs and meeting rooms is optimal throughout the campus day

Objective #22 – Since Dalhousie has committed itself to environmental sustainability, all campus operations must proceed with such values clearly to the fore

Ensure Financial Stability

Objective #23 – With the mutual agreement of our employee groups, develop a pension plan that is financially sustainable and meets employee expectations

Objective #24 – Successfully complete a \$250 million capital campaign within the next five years

Engage Our Community

Objective #25 – Develop a coordinated international education and research strategy for Dalhousie.

Objective #26 - Develop an external communication strategy that effectively characterizes Dalhousie’s contributions to the long term development of our province and nation through our educational and research activities

Objective #27 – Develop a comprehensive alumni advancement strategy

**Dalhousie University
Budget Unit Reductions for 2000-01 to 2009-10**

	Faculties %	Other Units %	Lower Level Reduction for Selected Units	
			%	Units
2000-01	1.50%	1.50%	n/a	
2001-02	2.15%	1.25%	0.00%	Registrar and Facilities Management
2002-03	2.70%	1.70%	n/a	
2003-04	1.70%	1.00%	n/a	
2004-05	1.90%	0.33%	n/a	
2005-06	1.57%	0.73%	0.00%	Facilities Management and Information Technology Services
2005-06 Mid Year reduction*	1.00%	1.00%	n/a	
2006-07	2.10%	2.10%	n/a	
2007-08	2.00%	1.00%	0.50%	Student Services, Registrar, Facilities Management, Communications and Marketing, and External Relations
2008-09	1.75%	1.00%	0.50%	Student Services, Registrar, Facilities Management, Communications and Marketing, and External Relations
2009-10	1.95%	1.95%	0.50%	Student Services, Registrar, Facilities Management, Communications and Marketing, and External Relations

* A midyear reduction of 1% was applied across the board to all units to address shortfalls in tuition enrolment and increased energy costs.

Comparison of Percentage Operating Expenditures by area, for selected Canadian Universities¹

2003-2004									
	Academic	Library	Computing	Administration and General	Student Services	Physical Plant	External Relations	Total Non Academic	Student Faculty Ratio ²
	%	%	%	%	%	%	%	%	
Comparator Universities									
Laval	67.3%	5.5%	2.3%	9.4%	4.7%	10.3%	0.6%	32.7%	21.2
McGill	58.5%	6.2%	6.7%	12.6%	4.0%	12.0%	0.0%	41.5%	19.7
McMaster	55.1%	5.0%	2.6%	13.0%	11.5%	11.0%	1.8%	44.9%	20.7
Ottawa	57.4%	5.1%	3.5%	10.8%	11.6%	9.3%	2.2%	42.6%	27.3
Queens	66.4%	5.4%	2.1%	4.0%	14.3%	7.7%	0.1%	33.6%	26.1
Waterloo	55.2%	6.6%	4.7%	12.0%	7.8%	11.2%	2.4%	44.8%	29.3
Western	66.2%	4.4%	1.9%	3.7%	12.8%	7.9%	3.0%	33.8%	23.6
Calgary	63.7%	5.3%	4.1%	8.4%	4.9%	12.5%	1.1%	36.3%	18.1
	61.7%	5.4%	3.5%	9.1%	8.7%	10.3%	1.3%	38.3%	23.3
Larger Universities									
UBC	63.1%	6.2%	2.2%	10.3%	6.8%	10.3%	1.1%	36.9%	18.5
Toronto	59.6%	6.5%	2.1%	7.7%	12.4%	9.4%	2.3%	40.4%	24.4
Montreal	63.1%	6.1%	4.4%	10.1%	5.4%	10.2%	0.9%	36.9%	25.1
Alberta	58.0%	6.8%	5.0%	10.2%	6.2%	11.9%	1.8%	42.0%	22.1
	60.7%	6.4%	3.2%	9.3%	8.5%	10.3%	1.7%	39.3%	22.5
Total Comparators	61.2%	5.9%	3.4%	9.2%	8.6%	10.3%	1.5%	38.8%	23.0
Dalhousie	67.5%	4.8%	3.4%	6.0%	6.8%	9.8%	1.6%	32.5%	14.8
	1	12	7	11	7	9	7	13	1
	(tied for)								
2007-2008									2006-07
	Academic	Library	Computing	Administration and General	Student Services	Physical Plant	External Relations	Total Non Academic	Student Faculty Ratio ²
	%	%	%	%	%	%	%	%	
Comparator Universities									
Laval	67.5%	5.4%	2.2%	9.3%	5.2%	10.1%	0.2%	32.5%	22.5
McGill	58.5%	5.7%	4.7%	12.1%	5.1%	10.3%	3.6%	41.5%	n/a
McMaster	63.4%	4.0%	3.1%	7.5%	9.4%	11.1%	1.6%	36.6%	18.9
Ottawa	57.0%	4.5%	2.7%	10.6%	12.9%	10.4%	1.8%	43.0%	28.8
Queens	71.4%	4.6%	2.3%	5.5%	9.2%	6.9%	0.1%	28.6%	23.3
Waterloo	58.5%	4.3%	4.9%	9.0%	11.6%	9.4%	2.4%	41.5%	26.4
Western	66.7%	4.2%	2.0%	6.6%	10.8%	7.5%	2.1%	33.3%	23.1
Calgary	52.3%	5.0%	5.3%	5.5%	12.7%	17.2%	2.1%	47.7%	16.1
	61.7%	4.7%	3.5%	8.2%	9.6%	10.5%	1.8%	38.3%	22.7
Larger Universities									
UBC	65.2%	3.4%	3.0%	8.4%	7.4%	10.8%	1.7%	34.8%	14.7
Toronto	60.1%	6.1%	1.6%	8.1%	10.9%	11.4%	1.8%	39.9%	25.7
Montreal	62.2%	5.2%	4.3%	13.4%	4.8%	9.2%	1.0%	37.8%	21.3
Alberta	57.8%	5.4%	5.0%	11.6%	6.6%	11.5%	2.2%	42.2%	23.1
	61.1%	5.2%	3.2%	9.9%	8.1%	10.9%	1.7%	38.9%	21.2
Total Comparators	61.4%	4.9%	3.3%	9.0%	8.9%	10.7%	1.7%	38.6%	22.2
Dalhousie	63.3%	4.5%	4.0%	6.8%	9.1%	10.2%	2.1%	36.7%	13.8
Dalhousie Rank (out of 13)	6	8	6	10	8	8	4	8	1
	(tied for)						(tied for)		

1 Source: CAUBO/ACPAU Financial Information of Universities and Colleges, 2003-2004, Statistics Canada, June 2005, and 2007-08, Statistics Canada, April 2009.

2 Source: CAUT Almanac of Post Secondary Education 2005-06: "University FTE Enrolment - Full time Faculty Ratios, 2003-04" CAUT Almanac of Post Secondary Education 2009-10: "University FTE Enrolment - Full time Faculty Ratios, 2006-07"

Dalhousie University

Preliminary Revenue and Expenditure Outlook for 2011-12

Assumptions		
Government Grant		\$0
Tuition Revenue		
Fee Increase		0%
Enrolment Change		enrolment flat
Base budget Reduction		none assumed
ERBA distribution to Faculties		60%
Compensation	Provision/estimates for all employee groups	
-Pension	Current projection with 10 year solvency amortization	
Non Salary Inflationary Increase (included in lines 10 ,13 and 16)		2.0%
Energy Water Taxes and Insurance		5.0%
Assumes measures are taken to balance 2010-11 Budget (line 14 h)		

	Column 1	Column 2	Column 3
	2010-11 Preliminary Projection	Change	2011-12 Preliminary Outlook
REVENUES - INCREASE (DECREASE)			
1. Government Funding			
a) Operating Grant	178,071		178,071
Changes:			
i) Costs increases			
ii) New Formula Phase In			
b) Grant to support Nova Scotia Student Bursary	8,400	200	8,600
c) Facilities Grant	1,000		1,000
d) Other Government Grants	2,990		2,990
2. Tuition revenues	97,324		97,324
a) Enrolment Changes:			
i) 2011-12 Enrolment change		-	
b) Fee increase		TBD	
3. Endowment Income	17,017		17,017
4. Operating Interest Income	1,700	(500)	1,200
5. Facilities Renewal Fee	1,325		1,325
6. Indirect Costs of Research Funding	6,773	(160)	6,613
TOTAL REVENUES - INCREASE (DECREASE)	314,600	(460)	314,140
EXPENDITURES - INCREASE (DECREASE)			
7. Compensation	232,569		232,569
Changes:			
a) Increased Provision for Compensation		7,300	7,300
b) Increased Pension Contributions		3,900	3,900
8. Student Assistance			
a) Operating Support	9,971		9,971
b) Nova Scotia Student Bursary (see line 1(b))	8,400	200	8,600
c) Endowment Support	5,126		5,126
9. Library Acquisitions	6,511		6,511
10. Non-Salary (net of recoveries)	30,880	486	31,366
11. Energy, Water, Taxes and Insurance	14,922	746	15,668
12. Facilities /Space	1,000		1,000
13. Non Space Equipment	2,533	51	2,584
14. Budget Unit Adjustments			-
a) Strategic Initiatives	10,238	TBD	10,238
b) ERBA adjustment (estimate)	2,300		2,300
c) Operating costs Coburg	1,388		1,388
d) Operating costs LSRI	-	1,250	1,250
e) Operating costs IPH building	-	750	750
f) Supplement Endowment spending allocation	700	-	700
g) Base budget reduction		TBD	-
h) Measure to address 2010-11 shortfall	(10,063)		(10,063)
15. Faculty/Unit Revenue	(16,300)		(16,300)
16. Facilities Renewal	12,825	257	13,082
17. Contingency	1,600		1,600
TOTAL EXPENDITURES - INCREASE (DECREASE)	314,600	14,940	329,540
SURPLUS (SHORTFALL)	-	(15,400)	(15,400)

Each 1 %:	
increase in grant is	1,780
budget unit reduction is	2,020
increase in tuition fees is	860

* the current balance in the Bursary Trust is insufficient to fund the bursary program in 11-12 at the 10-11 rates
(for a full time Nova Scotia Arts student the 10-11 bursary is \$1,283 (a reduction of 21% of the fee))