



## 2008/09 Budget Summary

June 2008

As is our annual practice at this time of year, the AUB administration presents to the Board of Trustees in June a Draft Operating Budget and final Capital Budget for the following fiscal year. We have presented below the main highlights of the 2008/09 Draft Operating Budget and the 2008/09 Capital Budget. These budgets are the result of several months of diligently identifying the university's priorities and needs while adhering to constraints due to limited resources.

The operating budget for 2008/09 is not the one I would have liked to bring to the AUB community. In 2006 we weathered the blows from the July War and recovered in the following fiscal year. What we are facing today, however, is not a one-time-only economic blow, but rather a dramatic structural change in our institutional costs. Our energy and electricity bill has doubled in less than two years even though we have become more efficient in energy use. In the current fiscal year we project our energy bill to be \$9.5 million. For the coming year we expect it to be \$14.5 million. We are, of course, not alone in facing such a challenge, but that is small comfort to us here at AUB.

We have also seen proposed changes to the minimum wage, which affects our benefits rates, as well as a proposed increase in the transportation allowance. The combined impact of these changes is to add millions of dollars to our operations that we had not anticipated, and these increases will be with us in future years. To absorb them we have had to take action on all fronts, reducing costs where possible (discretionary budgets, new faculty and management hiring), conserving energy, and increasing revenue through increases in tuition and patient fees. All of these efforts require the understanding and cooperation of our patients, students, faculty and staff.

The good news is that with the election of President Michel Suleiman and the formation of a national unity government, economic stability and growth may be re-established, and the Lebanese economy placed on a much surer footing in the coming years.

One of the key financial constraints facing the university relates to the operational costs of our new facilities. With these vital new projects comes the financial burden of their running costs. Although these expenses are anticipated, they nonetheless require careful planning and balancing of our finite financial resources. Also imposed on the university is the very large and growing governmental receivables position. At the end of April 2008, the Lebanese government owed the university \$45 million in the form of receivables due from the NSSF, Ministry of Health and Ministry of Finance. Although a receivables balance is a normal part of operations, the governmental receivables position is an excessive drain on the university which imposes very tight

constraints on the university's working capital. As the receivables position grows, it becomes more difficult to meet our obligations.

Another financial constraint for the university lies in the fact that although many generous donors support the university, many of those funds do not provide relief for operating expenses. A gift from a donor to build a new facility may allow us to construct the building, but the university must provide the annual funds needed to run the facility thereafter. Also, as the university borrows to expand its infrastructure, the debt service eventually falls on the operating budget adding further onus on an already strained operating budget. Similarly, our necessary investments in university advancement are fully expensed to operations; however, the fundraising that results from those activities may not benefit operations for years to come.

### **Draft Operating Budget for 2008/09**

The 2008/09 Draft Operating Budget represents an initial view of the financial operating plan for the next fiscal year. It is important to note that this is a draft budget and that the final version will be presented to the Board of Trustees for ratification in September 2008. Although we feel that this draft version is representative of the final budget to be adopted, changes can and most likely will occur over the course of the summer in response to evolving realities. These assumptions and recommendations are thus based on the proviso that the economic and political environment in Lebanon remains relatively stable. In the absence of such stability, the operating budget remains subject to significant modification if deemed necessary by the university administration and its trustees. The following are some of the key assumptions of the Draft Operating Budget:

- No growth in student population
- 53% increase in fuel and electricity costs
- 9% increase in library periodical costs
- Reasonable rate increases at AUBMC

The following are the key recommendations of the Draft Operating Budget:

- Average of 6.1% tuition rate increase in 2008/09 for undergraduates over the prior year. For graduates, this is 10%.
- 4.3% increase in dormitory rates.
- \$1,000,000 increase (9.3%) in student scholarships for a total of \$11.7 million.
- 4% pool for performance (merit) increases.
- Compensation adjustment pools for an additional average of 1.5% for academics, 0.9% for management and 2.2% for non-academic staff.

## Tuition and Student Financial Support

Three years ago, AUB started to bring tuition rates into line across the faculties principally with those in Arts and Sciences which substantially lag behind other faculties. We are continuing this year with the strategy as illustrated in the below table.

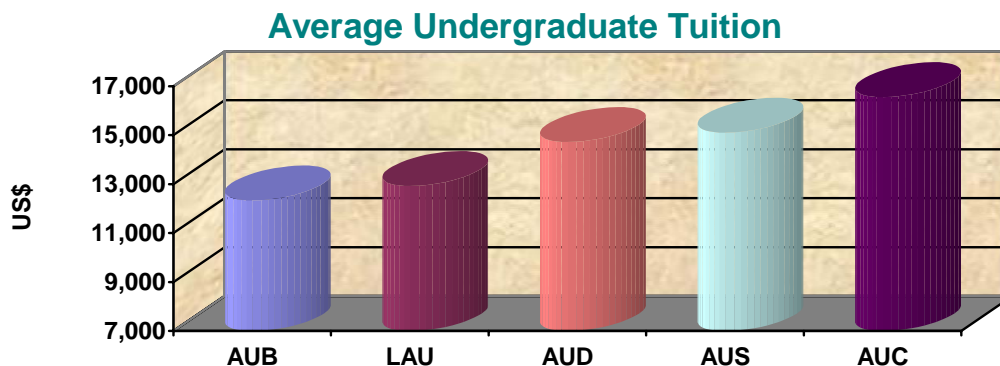
### Tuition Rate Increases

	UG		GR
	2007/08	2008/09	2008/09
FAS - New Students	7.0%	8.5%	10.0%
FAS - Continuing	6.0%	7.5%	10.0%
OSB	4.0%	6.0%	10.0%
FAFS	3.0%	5.0%	10.0%
FEA	3.0%	5.0%	10.0%
FHS	2.5%	5.0%	10.0%
FM and SN	3.0%	5.0%	10.0%
<b>Annual Average</b>	<b>4.3%</b>	<b>6.1%</b>	<b>10.0%</b>

The higher average increase rate of tuition this year is also due to strong inflationary pressures in our proposed budget notably from rising energy costs and government-imposed increases in compensation and allowances.

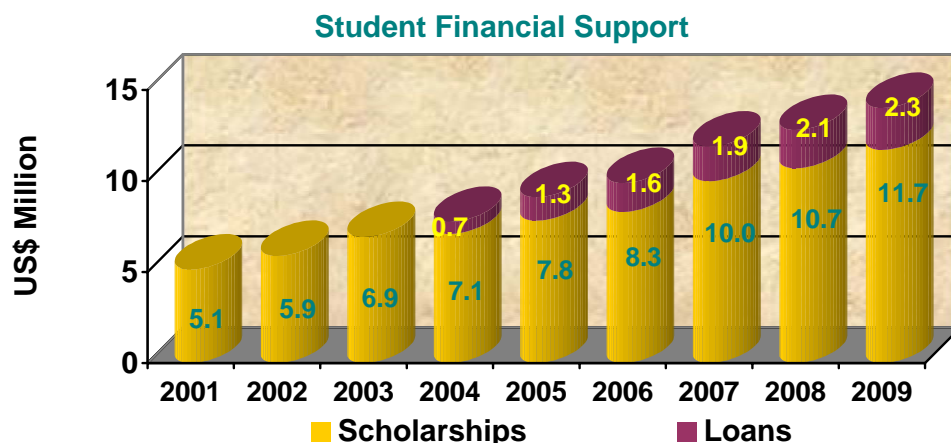
As part of our tuition rationalization process, students newly entering the Faculty of Arts and Sciences can expect to pay higher tuition rate increases than students entering the university in other faculties. We feel that this is a fair distribution of increasing tuition rates, as the gap between the Faculty of Arts & Sciences and other faculties has become unjustifiably wide. For example, the FAS average rate in 2007/08 for new students is \$10,380 as compared to FEA at \$12,846 and OSB at \$12,218.

Compared to certain peer institutions in the region, AUB is well positioned. We consider AUB to provide an exemplary education to its students for a price that is well below other major institutions of similar or lesser stature. The below table compares yearly tuition rates for 2007/08 that have been averaged to account for minor differences in pricing practices and obligatory summer courses between the various institutions. AUB offers the lowest tuition of the five universities listed below which are AUB, the Lebanese American University (LAU), American University in Dubai (AUD), American University of Sharjah (AUS) and American University in Cairo (AUC).



Within Lebanon, LAU is five percent higher than AUB. In terms of value for one's money, we believe that no institution in the region is superior to AUB.

As part of our commitment to keep AUB's quality education accessible to a broad range of student applicants and continuing students, we are increasing our financial support as depicted in the below graph.



AUB has strengthened its commitment to need-based scholarship support. Total financial aid as a percentage of tuition has been increased to 16.6 percent. We propose a \$1,000,000 increase in scholarships to a total of \$11.7 million. This represents a 9.3 percent increase over 2007/08. Moreover, AUB supports loans for selected financial aid recipients totaling \$2.1 million in 2007/08.

We are also investigating options to expand the student loan program to all financial aid recipients. Currently, banks are restructuring their loan programs to professional schools. If we succeed, we would be adding up to \$5 million in financial aid beginning in 2009/10.

### Revenue Generation and Operational Expenditures

Net revenues are expected to increase at the university in 2008/09 by approximately \$13.2 million as detailed in the below table.

#### Net Revenue Generation

	US\$ Million
Hospital Revenues & Support	7.5
Tuition and Student-Related Revenue	4.8
Gifts, Grants, Endowment Income & USAID	0.9
<b>Total</b>	<b>13.2</b>

Our intention is to allocate these funds in a balanced manner towards the below list of operational expenditures.

## Operational Expenditures

	US\$ Million
Scholarships & Financial Assistance	1.3
Utilities	5.4
Pool for Performance-Based Salary Increases	4.2
Benefits and Healthcare	1.9
Library Books and Periodicals	0.4
<b>Total</b>	<b>13.2</b>

## Non-Instructional Support Services Costs

Several years ago, the university sought to achieve efficiency gains through growth in its academic programs and academic support services (such as Jafet Library or the Office of Student Affairs) while keeping its non-academic support services costs relatively constant. The below table illustrates our continued commitment to invest a significant amount of funds into academic support services (8.9% per annum) while restraining expenses in non-academic services (4.2% per annum).

## Non-Instructional Support Services Costs Per Student

Costs (\$)	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	% PA
Academic	1,363	1,467	1,497	1,549	1,779	2,084	8.9
Non-Academic	1,986	2,097	2,201	2,320	2,274	2,440	4.2
Total	3,349	3,564	3,698	3,869	4,053	4,525	6.2

We feel that our continued commitment towards academic support is an important part of maintaining our competitive edge in the marketplace allowing us to provide the best academic environment possible.

## Capital Budget for 2008/09

The Capital Budget for 2008/09 comprises construction projects and major equipment acquisitions deemed priorities for the coming fiscal year for the Campus and AUBMC as listed below.

### New and On-Going University Projects

	Cost (\$M)
Olayan School of Business	24.1
Operating Rooms	19.0
Irani Oxy Engineering Complex	16.7
Abu Khater Ambulatory Care Center	10.8
Basile Adult Cancer Center	8.5
Bechtel and Engineering & Science Library	7.0
New Dormitory	6.7
Dar Al-Handasah Architecture Building	6.1
Abou Haidar Neuroscience Center	5.9
Issam Fares Institute	5.2
<b>Total</b>	<b>110.0</b>

Annual funding for capital projects and major equipment acquisitions is planned to come from a variety of sources available to the university. The sources are listed with their corresponding amounts in the table below.

**2008/09 Capital Funding**

	<b>Cost (\$M)</b>
AUB Funding	12.0
Loan Financing	15.8
Donor Funding	1.9
American Schools & Hospitals Abroad	1.8
<b>Total</b>	<b>31.5</b>

**Closing Remarks**

The Draft Operating Budget for 2008/09 represents a year of planned fiscal balance for the university in the shadow of trying times in the country as a whole. This budget hinges, first and foremost, on relatively predictable operating conditions and political stability and security in the country. We hope that this year will represent a sustained return to calm and stability for the good of the university and the country as a whole.

John Waterbury  
President