

Princeton University

**REPORT OF THE PRIORITIES COMMITTEE
TO THE PRESIDENT**

**Recommendations Concerning the Operating Budget
for 2006 – 2007**

January 13, 2006



Princeton University



OFFICE OF THE PROVOST

January 13, 2006

President Shirley M. Tilghman
One Nassau Hall
Princeton University
Princeton, NJ 08544

Dear President Tilghman:

The accompanying annual report of the Priorities Committee presents our recommendations for the University's operating budget for fiscal year 2006-2007 (FY07). We are proposing a balanced operating budget for FY07. As you know, this has been another challenging year to plan for the future. The Committee felt continuing pressure from energy costs and once again had only very limited resources available for allocation.

The Committee's recommendations, which are explained in detail in the report, respond to critical priorities in a number of different areas, among them core needs of the university's academic mission and efforts to increase diversity and make the University's education accessible to all. The Committee also recommends staff and faculty salary pools that are substantially larger than the limited pools of the previous two years. The increases to the pools reflect our need to remain competitive in the hiring markets for faculty and staff. Finally, the Committee recommends increasing the cost of tuition, room, and board by slightly more than 4.9%.

The Committee is grateful to all those who contributed to its work. We extend a special thanks to Budget Director Steven Gill and his staff, whose knowledge of the intricacies of the University's budgets and whose willingness to share their expertise with the Committee were invaluable, and to Vice Provost Katherine T. Rohrer, the Secretary of the Committee, whose wisdom, talent, and effort enabled the Committee to do its work efficiently and well in a difficult year.

For the Committee,

A handwritten signature in black ink, appearing to read "Chris Eisgruber".

Christopher L. Eisgruber

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THE COMMITTEE

Christopher L. Eisgruber, Provost (chair)

Robert Biederman '08

Mark Burstein, Executive Vice President

Michael A. Celia, Professor of Civil and Environmental Engineering

Esther da Costa Meyer, Professor of Art and Archeology

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Paula D. Matthews, Mendel Music Librarian

Christopher McCrudden, Treasurer

Ian Parrish *GS, Plasma Physics

Sashank Rishyasringa '06

Mario L. Small, Assistant Professor of Sociology

Emily Smith '07

MEETING WITH THE COMMITTEE

Steven Gill, Budget Director and Associate Provost

Katherine T. Rohrer, Vice Provost for Academic Programs (secretary)

TABLE OF CONTENTS	Page
I. Introduction	1
II. Budgetary Background	2
III. Recommendations	3
Administrative and Support Services	4
Campus Life	7
Facilities	8
Faculty and Staff Salaries	9
Faculty Staffing	9
Graduate School	10
Information Technology	10
Library	11
Tuition, Room, and Board	12
Undergraduate Financial Aid	13
IV. The Outlook for the Future	14
Appendices:	
A. Schedule of Meetings and Presentations	
B. Summary Budget Tables: Income and Expenditures	

I. Introduction

The Priorities Committee, established in 1969 as a charter committee of the Council of the Princeton University Community, is a deliberative body that recommends the University's operating budget for the next fiscal year to the President and Board of Trustees of the University. The Provost chairs the Committee, whose members include tenured and nontenured faculty members, graduate and undergraduate students, and staff.

The Priorities Committee typically convenes in the months of October through January. It structures its work into three parts: a set of orientation meetings during which budgetary basics are reviewed, a series of presentations from senior officers, and deliberative meetings to determine the Committee's recommendations. Senior officers of the University present their highest priority needs to the Committee, which evaluates them in the context of the full range of competing claims on the University's available resources. All presentations to the Committee are preceded by detailed written reports from the senior officers. (Copies of these reports are available to members of the University community on the Provost's website at <http://www.princeton.edu/~provost/priorities.html>). The Committee also holds an open meeting to hear from any interested members of the University community who wish to comment on the highest priorities for future budgeting. In December, the Committee formulates its tentative recommendations, which are expected to result in a balanced budget, and discusses them with the Finance Committee of the Board of Trustees and the Council of the Princeton University Community. Reconvening in early January, the Committee finalizes its recommendations and submits them to the President for her approval and transmittal to the Board later in the month. These recommendations are discussed in detail below.

II. Budgetary Background

For the second year in a row, the Committee found itself functioning in a delicate financial environment that the Provost has come to describe as “short-term pressures against a background of long-term financial health.” While the FY2005 budget had been plagued by a number of negative factors, all these had returned to normal levels in FY2006 except one: the cost of energy. Virtually the entire imbalance of \$6.0 million in the FY2006 budget was due to energy costs far beyond even the very high costs envisioned by the Priorities Committee in January 2005. Fortunately, the trustees have agreed temporarily to allow the majority of these unbudgeted energy costs to be charged against reserve funds, bringing the operating budget into balance, as shown on the summary tables in Appendix B. The Committee gratefully recognizes that the University’s highly effective efforts at energy conservation kept the problem from being even greater, and understands that even the most aggressive such program could not contain costs that have been high and volatile for two years.

In addition to this combination of deficits and uncertainty, the Committee confronted other pressures on the University’s budget. Inflation levels are rising, and the rather modest recent University salary pools required serious attention. Moreover, as detailed later in this report, the heads of departments brought to the Committee a set of requests that were both thoughtful and urgent.

The Committee also received some good economic news. First, the increase in short-term interest rates substantially raised the university’s current funds income, which directly feeds the operating budget. These earnings had been depressed for several years by the abnormally low short-term interest rates that had been in effect. This shift allowed the Committee to restore, as had been previously planned, \$2 million of the \$6 million in cuts made in the annual transfer of funds from the operating budget to the renovation fund. It also allowed the Committee to add \$1 million to the budgeted energy line for FY2007. In addition, our current spending from endowment (expressed as a percentage of market value) is now close to the lower bound of our 4-5% target range, thanks to two consecutive years of

much higher than expected investment returns under the management of PRINCO. This contrasts with the situation several years ago when, as a result of difficult markets, the spending rate was near the upper bound of the target band. Thus, in absolute terms, the financial health of the University improved despite the demands on current operating expenditure levels. This gives both the Finance Committee of the Board of Trustees and the Priorities Committee comfort that the University can address its shorter-term budget pressures and provide for some modest growth in program without compromising the longer-term sustainability of the budget plan.

In consultation with the Finance Committee, the Provost and the Priorities Committee developed a plan to respond to this complex combination of significant deficits, volatile energy prices, strengthening market returns, and rising inflation. While most Priorities Committees consider tuition and fees, programmatic increases, and salary pools as part of a single package, because of the current conditions the Trustees encouraged the Committee to make its best recommendations for each of these three elements without forcing all of them into lockstep. As a result of this approach, the Committee was able to recommend the allocation of \$500,000 of permanent increases to the operating budget; a significant increase in the University's salary pools; and a competitive package of tuition and fees that seems likely to keep Princeton's fee package the least expensive in its peer group.

III. Recommendations

In addition to the salary pool proposals, the Committee considered a set of requests that totaled over \$2.1 million, more than four times the \$500,000 that the Committee was able to recommend for allocation. Because the presenters of these requests were well aware of the University's budgetary situation, they had considerably shortened their lists of requests before bringing them to the Committee. Within this context, the Committee found the task of identifying the most critical needs extremely challenging.

Working with a limited set of funds, the Committee chose to address especially urgent needs in a variety of areas, rather than establishing thematic initiatives, as past Committees have sometimes done. Nevertheless, some unifying motifs emerged from the Committee's deliberations. The Committee is pleased that its largest single recommended allocation, to the Dean of the Faculty's office to increase the number of Assistant in Instruction hours, focuses upon the University's undergraduate and graduate teaching needs, which are at the heart of Princeton's mission. The recommended allocation to the Library also responds to core academic concerns. A second, though not unrelated, motif pertains to the University's goals in the area of diversity. The Committee's second-largest recommended allocation would permit the hiring of a new Director of Disability Services, and the Committee also proposes to provide money to support diversity-related initiatives in the Admission Office.

The Committee's recommendations for fiscal year 2006-2007 are described below, in alphabetical order of the requesting office. All the requests submitted to the Committee are accessible to members of the University community at <http://www.princeton.edu/~provost/priorities.html>.

Administrative and Support Services

The Executive Vice President brings to the Committee the priority needs of the administrative units. In response to current budgetary constraints, many of the units he represents chose not to make requests this year. The Committee recommends funding for proposals in two of the areas that did bring forward pressing needs, the Offices of Admission and of the Provost.

The Office of Admission has identified a serious need in increasing its outreach both to minority students and to low-income students, with the goal of bringing more such candidates into the applicant pool. Princeton has not kept up with its peers' best practices in this area and seeks to improve its competitive position by increasing its activity level in two ways. First, more minority students can be reached in sophomore and junior years by targeted mailings to high-school students who have demonstrated excellent academic performance through standardized exams (PSAT, SAT, AP exams, et al.). Second, more

low-income students can be reached through increased travel of admission officers to various urban and rural areas where high school students might otherwise not imagine that Princeton could be a possibility for them. The Dean of Admission, Janet L. Rapelye, requested \$61,800 for the targeted mailings and \$38,000 for the increased travel budget. The Committee recommends an addition of \$25,000 to the Admission Office's budget that can be distributed between these purposes at the Dean's discretion. The Committee also asked the Dean to consider how Princeton might tailor its outreach to the particular opportunities available to undergraduates here, rather than simply repeating practices that are already well established elsewhere.

In its discussions about recruiting minority and low-income students to the University, the Committee recognized a larger problem: the need to improve the experience of these students once they arrive at Princeton. Disparities in the satisfaction levels of minority and non-minority students have been recently documented in the Princeton Experience Survey of the Classes of 2003 and 2005 and the report of the USG Survey on Race Committee. Committee members were sensitive to the need not only to recruit minority and low-income students more effectively but also to provide a supportive environment for them once they arrive. While endorsing the additional recruitment dollars, the Committee hopes to see future proposals from senior university officers that could help address the retention and quality-of-life issues that currently affect minority and low-income students here.

The Executive Vice President also presented a proposal from the Provost to establish an Office for Disability Services. This office would provide services to the greater Princeton community, ensuring that we effectively meet the needs of faculty, staff, students, and visitors with disabilities. The need to strengthen Princeton's commitment to improve access to its programs for persons with disabilities has been identified and documented by the Offices of the Provost, the Dean of the College, and the Vice President for Campus Life. There is a particular need to respond to the growth in the population of college students with special needs—especially those with learning disabilities—that is occurring not only at Princeton but nationwide. The Committee recommends funding a full-time position for a Director of Disability Services who will develop a strategic approach

to providing services on campus for all people with disabilities and will work with members of the relevant offices to make Princeton more welcoming to these community members and more responsive to their needs.

On behalf of the Office of Public Safety, the Executive Vice President presented a proposal to add .50 FTE for an assistant fire marshal who could assist with government-mandated fire inspections. In recent years, the University has experienced increases not only in the volume of such inspections but also in the length of each inspection and the expectation for detailed follow-up afterwards. The Committee recommends full funding of this request at \$26,900.

Three other proposals brought forward by the Executive Vice President could not be included in the funding package for FY2007. The first was a proposal from the Director of the Art Museum to add a manager of campus collections and loans to oversee outdoor sculpture and artworks distributed throughout campus (for example, in Nassau Hall, Prospect House, and the new archway in Bloomberg Hall), some of which are extremely valuable, but none of which currently falls within any university office's portfolio. This staff member would also administer a campus loans program, identifying works of lesser value in the Art Museum's collections that could be placed in public spaces on campus to be enjoyed by all. The Committee recognizes the importance of good stewardship of the university's resources and believes that this particular need will have to be addressed in the future, whether through the action of a subsequent Priorities Committee or through fundraising for the creative and performing arts initiative.

The Dean of the College asked for permanent funding for the position of Director of International Internships and Assistant Director of the Study Abroad Program. The Committee was persuaded of the critical nature of this function, particularly in view of the University's ambition to increase its global awareness and the internationalism of its curriculum. Last summer 76 undergraduates were placed and at least partially supported in international internships through the efforts of this program. However, because term funds currently supporting this position will not expire for another year, the Committee felt that it

needed to reserve this year's sparse resources for requests that could not otherwise be supported in FY2007.

Last year the Priorities Committee recommended funding for increased duty time for one of the senior auditors in the Office of Internal Audit. This year the same office asked for a half-time audit administrator/analyst to provide support for the senior auditors in the office. Because the Office of Internal Audit is currently reviewing its staffing plan in order to maximize its effectiveness, the Committee recommended, after consultation with the Executive Vice President and the Vice President for Finance and Treasurer, that this request be deferred.

Campus Life

The Vice President for Campus Life is responsible for four administrative units that have a significant impact on the quality of undergraduate and graduate-student life and that of other members of the University community: Athletics, Health Services, Religious Life, and Undergraduate Students. She requested additional resources for three of these four units, as well as for "FluFest," a university-wide activity administered by Health Services.

The "FluFest" is a two-day fall event that offers influenza vaccines to faculty, staff, students, and their dependents at a reduced rate, along with health screening and wellness information. Its benefits are realized throughout the University community through sick time avoided and productivity enhanced. In the current season, about 3,500 University community members took advantage of this service. While the Committee supported the spirit of this request, it could not add the necessary \$46,000 to the operating budget this year. Happily, the Provost has agreed to provide term support from his discretionary fund for the project's operations in FY2007 and FY2008.

University Health Services asked for increased duty time for its staff psychiatrist and for its information technology manager. The Committee recommends funding the first of these in full, recognizing the growing demand for mental health care in the student population and the priority need for psychiatric expertise within Counseling and Psychological Services.

The duty-time increase for the staff psychiatrist will cost \$25,170. The Committee is not able to recommend this year the \$15,850 requested to increase the duty time of the information technology manager.

Another of the Vice President's requests concerned two positions for strength and conditioning coaches within Athletics, which are currently being supported by the President's Fund. The strength and conditioning function is considered vital for varsity athletes, whose risk of injury is increased if this service is unavailable. Princeton has lagged behind its peer institutions in this regard. The Committee asked whether Athletics might be able to absorb the cost of these coaches within its own budget, but was persuaded by the results of recent administrative budget reviews that Princeton Athletics, relative to the breadth of the program to which the University is committed, has a lean budget with little flexibility for reallocation. The Committee recommends that the senior of these two positions be moved fully onto the operating budget.

The Vice President for Campus Life also asked for support for computing assistance in the Office of the Dean of Undergraduate Students, funding for which is currently patched together on a combination of term funds. While the Committee was wholly sympathetic to this need, it was unable to work the necessary funds into this year's package.

Facilities

The Vice President for Facilities brought forward a request for a half-time position to enhance the Housing Office's ability to assist faculty, staff, and graduate students in locating off-campus rental housing when university rental housing is not available. This service would particularly help postdoctoral researchers, graduate students who are moving out of university housing, and new staff members who are relocating to the Princeton area. Facilities would contribute some term funds to jump-start the creation of a database of local rental housing opportunities and contacts. The Committee's members endorsed the plan but were unable to fund it this year. They expressed the hope that term funds might be found to support a pilot project in this area.

Faculty and Staff Salaries

The Dean of the Faculty and the Vice President for Human Resources each brought to the Committee a request for salary pools that were substantially higher than the pools of the previous two years, based on increased inflation and market survey research. The Committee recognizes the importance of competitive compensation to attracting and retaining the very best faculty and staff members.

The Dean of the Faculty provided data regarding the salaries offered to Princeton's faculty members, professional technical and research staff members, and professional librarians, including available comparisons to the salaries offered at peer institutions. While Princeton's salaries continue to be competitive, only vigilant attention can maintain the University's position relative to its peers.

The Vice President for Human Resources updated the Committee on the competitiveness of the salaries for bi-weekly and administrative staffs, predicting that some local employers would increase their salary pools if labor markets became tighter. She also asked the Committee for funds to address some serious salary inequities among some of Princeton's lowest-paid employees, a portion of which the Committee was able to include within its recommended budget package.

With the support of the Finance Committee of the Board of Trustees, the Priorities Committee is able to recommend full funding of the requested increase in the salary pools for all University employees.

Faculty Staffing

The Dean of the Faculty provided an overview of Princeton's teaching budget, which includes both faculty appointments budgeted as full-time equivalents (FTEs) and graduate student assistants in instruction (AIs). The Dean asked the Committee for an addition of 193 AI hours—which translates into about 16 full-time, two-semester AIs—to the total budget of 3639 AI hours to address instructional needs in two different areas. The first is innovative interdisciplinary undergraduate courses in science and engineering—specifically, the six-

course introductory science sequence coordinated by the Lewis-Sigler Institute for Integrative Genomics and EMP1, the four-course integrated introduction to engineering, math, and physics. The second is large introductory graduate courses, for which AI assistance was approved in principle by the Academic Planning Group last year, but for which sufficient resources have not yet been made available.

The Dean's request exceeded the total amount available for the Priorities Committee to allocate to the FY2007 operating budget, so full funding was not possible. The Committee recognized this instructional request as central to the university's mission, and made its single largest allocation to this area, committing about \$124,000 to fund 38 additional AI hours. The Committee recognizes that this allocation leaves unmet a significant part of the need described by the Dean of the Faculty, and suggests that fundraising for new academic initiatives should take into account any additional teaching resources that may be required as part of those initiatives.

Graduate School

The Dean of the Graduate School made no requests of the Committee, but described an initiative in his office to reorganize the current graduate support package for students in the humanities and social sciences. Currently, the budget for their summer support is treated separately from the academic-year stipend budget. The Dean proposes to combine summer and academic-year support into a single, 12-month package, as well as to regularize the summer support by smoothing out the current difference between the pre-generals and post-generals summer support rates, effectively increasing the amount of support available to graduate students in their earlier years of enrollment. The Graduate School believes that these changes, which are expected to be cost-neutral, will better communicate Princeton's financial commitment to its graduate students.

Information Technology

The Vice President for Information Technology made two requests to the Committee for improvements in computing service to the university. The first was the addition of 3.0 FTEs in order to extend the hours of the IT Operations and Support Center to 24 hours, 7 days per

week. This change would not only provide “Help Desk” services currently unavailable between 5:00 pm Friday and 5:00 pm Sunday but would also allow for on-site monitoring of the University’s computing infrastructure at all times. While many of the Committee members would welcome this enhancement in oversight and service, some believed that a modification in the staffing schedule, based on an analysis of periods of highest use, might address part of the need. In any case, the priority level of this request was not felt to be high enough for the proposal to receive funding this year.

The second request was for a second position to help manage the University’s central computing facilities. Currently, a single individual looks after both the data center at 87 Prospect Street and the computing facility at New South. The latter serves an increasingly important role as a “disaster recovery” site in OIT’s plans for responding to emergency outages. The Committee was intrigued with this proposal and appreciated the need for attention to the security of the University’s computing infrastructure, but could not incorporate the request into this year’s allocations.

Library

The University Librarian met with the Committee to discuss continuing pressures on library acquisitions. In the preceding four years, the Committee had recommended that a total of \$735,000 be added to the base of the acquisitions budget. These additions, which supplemented ordinary inflationary adjustments to the Library’s budget, substantially compensated for earlier cuts that had let the cumulative increase in Princeton’s acquisitions budget slip to the bottom of its peer group. Nevertheless, despite these recurring and significant allocations to the Library, rapidly escalating costs of serials and periodicals as well as expenses associated with securing materials for emerging fields and new programs are placing severe pressure on the Library’s acquisitions budget. The Library estimates that it needs twice its normal inflationary adjustment simply to stay even in its acquisitions budget, without any expansion of fields covered. The Committee recognizes that the cost of acquisitions will continue to exceed inflationary increases and that the University’s expansion into new fields—e.g., neuroscience, creative and performing arts, genomics, law and public affairs, biomedical ethics—constitutes an unfunded mandate for the Library.

Absent supplementary allocations to its budget, the Library would be forced to make even further cuts to existing acquisitions in order to meet the costs imposed by these new ventures and by rising prices of existing journals. Given these pressures and the centrality of the Library to the University's position of excellence, the Committee recommends an additional increase of \$25,000 to the operating budget for library acquisitions. The Committee is keenly aware that an allocation of this size does not address the underlying causes of pressure on the acquisitions budget, and believes that the Library and the University need to develop strategies that will enable us both to attack the root problems that produce this pressure and to operate within the constraints of modest but stable budgetary growth.

Tuition, Room, and Board

Reflecting its commitment to accessibility of higher education for all, the Committee has sought once again to recommend as low a rate of increase in tuition and fees as is consistent with sustaining Princeton University's overall excellence. Our undergraduate financial aid program is unsurpassed nationwide and ensures all prospective students and their families that they can afford a Princeton education without a loan requirement. Every dollar added to Princeton's total fees each year is also added to every financial aid award.

The Committee's recommendation is to increase our total fee package (tuition, room, and board) by \$1,987 for 2006-2007. The specific recommendations are as follows:

	<i>2005-2006</i>	<i>2006-2007</i>	<i>% Change</i>
Tuition	\$31,450	\$33,000	4.9%
Room	\$4,610	\$4,885	6.0%
Board	\$4,153	\$4,315	3.9%
Total	\$40,213	\$42,200	4.9%

Princeton's student fee package has been the lowest of our comparison group (the Ivy institutions plus Stanford and MIT) for the past five years, and the dollar gap between Princeton's fee package and the average of the other schools' fees has grown considerably during that time. While a 4.9% increase falls at the high end of the range of percentage

increases that the Committee has recommended in the past ten years, we believe that, given the rising costs of higher education and recognizing the strength of our financial aid policies, it is as small an increase as we can prudently recommend.

The Committee's recommendation of a 4.9% increase to the total fee package incorporates an increase of 4.9% in tuition, 6.0% in room, and 3.9% in board. The variation in these levels reflects a continuing effort gradually to bring room and board charges more into line with those of our peers. The package recommended by the Committee would return about \$70,000 of revenue from graduate dormitory rates to the Graduate School for the purpose of ameliorating the effects of the increase on graduate students' expenses. Committee members suggested that the Dean target the funds so as to relieve the burden on those graduate students most adversely affected by the increase in graduate dormitory rates.

The University expects to keep the premiums for the Student Health Plan unchanged in 2006-2007, reflecting the successful containment of medical costs in year 2005-2006 to date.

Undergraduate Financial Aid

The University has the best undergraduate financial aid program in the country, and commits each year to implementing that program for all undergraduates who are eligible for financial aid. Some years ago, the University was able to extend need-blind admission to international students. This commitment makes Princeton's aid plan for international students exceptionally generous. Under this plan, international students enjoy the same aid policies as domestic students, with a single exception: the University funds only one trip home per year for international students rather than the two that are supported for domestic students. In past years, the Committee on Admission and Financial Aid has recommended the addition of a second trip home for international students, but the Priorities Committee has been unable to fund that request. Last year, cognizant of the constraints under which the Priorities Committee was operating, the Dean of the College and the Director of Financial Aid brought forward a request from the Committee on Admission and Financial Aid to provide an annual grant of \$400 for each international student to help cover costs during the winter break—for example, travel to a friend's home, meals when the dining halls are closed,

or day trips for culture and entertainment. This request, which the Committee was unable to fund last year, was renewed this year. The Committee saw much merit in paying attention to the needs of international students over the holiday break in some way, but was unable to fund this request in this year's very constrained budget. Some Committee members suggested that the University should consider providing additional programming for international students, such as organized meals, trips, or other events. Greater interaction with faculty and staff during the break was also proposed as a possible means of improving the atmosphere for students on campus during this period.

IV. The Outlook for the Future

At the end of each Priorities Committee process, the Committee reviews projections for an additional three years beyond the upcoming budget year. Typically these projections both test whether recommendations for the budget year are sustainable over the longer term and serve as a starting point for discussion by the following year's Committee. In general, we construct these projections by extending the growth rates recommended for the budget year's fee package, salary pools, rents, inflation allowances, and other variables for another three years. Estimates for items not under our direct control—such as funding for sponsored research, Annual Giving and other fundraising, real estate taxes, and the like—are based on our assessment of likely average growth rates.

We also estimate the impact of new buildings coming on line and other planned changes over the next four years. For example, this set of projections includes the full operating and maintenance costs of the new Lewis Library, scheduled for occupancy in FY2007. We also included the planned expansion of the undergraduate student body, continuing to project that new revenue will be matched by increased operating and debt service expenses.

Based on past experience, we added a programmatic contingency of \$500,000 in each year from FY2008 forward. This contingency recognizes the University's need continuously to improve its instructional, research, and campus life programs in order to maintain its

position as a vibrant and evolving institution. However, if finances remain constrained, any such additions would need to meet a high threshold in order to merit adoption into a future budget.

Finally, we have had to make assumptions about energy prices, where significant increases in recent years have created much of the financial pressure in the current operating budget. At a time when month-to-month swings can translate into annual changes of several million dollars, we tried to take a longer-term view, assuming that prices (primarily for natural gas) would settle at levels roughly double those experienced for most of the last decade. However, current gas prices are roughly 50% higher than that assumption, and the projected decline in the futures markets is not nearly as steep as had been projected at this time last year. Since many continue to believe that considerable correction will be made in these markets, we feel that as long as the University continues to have sufficient capital reserves to cover possible costs above our base budget, we should continue to proceed on the basis that more price moderation will occur. We think that the risk of diminishing reserves is less than the disruption of making serious operating cuts in response to a cost pressure that may be short lived. Obviously, we will monitor this assumption closely as time passes.

Last year at this time, our projections showed a significantly positive trend. We anticipated that we would be able to restore \$2 million each year to the amount transferred from the operating budget to the renovation fund. By FY2009, we expected to have restored entirely the \$6 million reduction in such transfers that we had made in the FY2006 budget base and also to have achieved a small surplus. This year, for reasons attributable to various types of pressures, both internal and external, the projections are less reassuring. Even if we assume that transfers to renovations remain at the level budgeted for the upcoming year (a level \$4 million below that funded in FY2004), we would still expect a pattern of growing deficits reaching approximately \$3 million. Three factors account for most of this change. First, this year's Committee recommended a higher salary pool than we had incorporated into last year's projections, and our new projections assume that that increase will compound in the future. The resulting salary pools consume most of the approximately \$2 million in annual improvements displayed in last year's budget projections. Second, the fee increase

package generates less income than the package that was projected last year. Third, we now project that new freshman classes in the coming years will, like this year's class, have 55% of their students on financial aid. The increase in the number of students on aid adds approximately \$1 million in higher scholarship costs per year as new classes arrive. Given these factors, the projections produce deficits that grow by approximately \$1 million each year, reaching about \$3 million in FY2010. Fortunately, if one projects beyond our normal four-year time frame, the deficits essentially stabilize at this level. While the fact that the deficits do not continue to compound is encouraging, they remain deficits and require continued reductions in transfers to the renovation fund. And, as mentioned above, they come on top of a potentially unfunded energy exposure.

Were nothing else to change, these deficits would suggest reduced expectations as we move forward. Thus, for example, any new academic or programmatic initiatives undertaken would need to be fully funded in terms of direct and ancillary costs such as space, library acquisitions, unusual teaching demands, and the like, since the regular operating budget is not expected to have room to absorb them. Furthermore, operating units, especially those that come before the Priorities Committee, could not assume that future committees would necessarily have any funds to disburse, and units could be expected to look to re-engineering not only to cover their own new initiatives but also, potentially, to contribute to high-priority University needs, such as the increasing cost of undergraduate financial aid.

Future developments could, however, turn out to be more positive than we are now projecting. We might, for example, surpass our targets for fundraising, especially given the historical record of strong support by our alumni for endowing our student aid program. Inflationary pressures could conceivably drop back to previous levels, relieving the need for the additional funds that we now project to be required to keep salary pools competitive. Finally, continued excellence in investment returns could allow for a change in the endowment spending rule.

In many ways, of course, this last development could be most beneficial, as it might allow the University to address issues on a number of fronts. While it is not within the

purview of this Committee to advise on the exact application of additional funds that might be generated in the future, we do want to share our thoughts about some broad areas that we think are clear candidates for any additional flexible funds that might be generated. Three general categories of expense come to mind: providing funding for recurring needs now dependent on transfers from capital reserves; attracting and retaining the best students, faculty, and staff; and addressing structural budgetary problems.

In terms of unfunded areas, restoring the cut to transfers to the renovation fund would have high priority, as would permanently funding energy, should prices remain at their current levels. The need to attract and retain the best faculty, students, and staff is obviously critical to the University's mission, and some important challenges in this domain are apparent from the budget process in recent years. On the student side, we will need to ensure, whether through fundraising or through other means, that the operating budget can accommodate the growing demands of the University's unsurpassed commitment to providing financial aid to make Princeton accessible to all whom it admits. It will also be especially important—as the University expands, as the new four-year residential college program comes into full bloom, and as the University builds on its efforts to recruit more minority students—to support programs that enhance the inclusiveness and attractiveness of our social and intellectual community. On the faculty and staff side, the University will have to ensure that it can provide competitive compensation packages and, especially in the case of faculty, recruitment packages that enable them to pursue their research effectively. The latter demand may become especially acute in light of declines in government support for scientific research.

Finally, there are structural problems that in constrained budget times create difficult challenges beyond the ability of any one Priorities Committee to solve. Examples include positions initiated on term funds whose functions are integral to the ongoing program of the University; areas such as library acquisitions, in which unusually high inflation rates, exacerbated by budget cuts in the 1990s and the addition of new areas in the curriculum, have eroded the budget's basic purchasing power; and areas such as information technology, where we are increasingly dependent on services and support to carry out our instruction,

research, and administrative responsibilities, and yet where the University has not been able to invest as much as it would like.

While we hope that the University will be in a fortunate position of making an upward change in the spending rule that will help address these areas and others of high importance, we are aware that the various financial markets remain highly unsettled and that we could easily experience another three-year stretch, such as the one between FY2001 and FY2003, that would leave us again at the upper end of the spending target range. We therefore fully appreciate the appropriate caution exercised by the Trustees in the timing of any such adjustments.

The members of the Priorities Committee and others who plan for the University's future are constantly trying to balance the past and the future needs of our human capital, our physical capital, and our financial capital. We are grateful for the goodwill and good spirits of all those we have encountered in our deliberations and appreciate a chance to be a part of the process of striking those balances.

**PRIORITIES COMMITTEE SCHEDULE
2005 – 2006**

Unless otherwise noted, all meetings are scheduled for 4:00 p.m. to 6:00 p.m. at Prospect House.

<i>Day</i>	<i>Date</i>	<i>Time</i>	<i>Orientation Sessions</i>
Tuesday	October 18	4:30 p.m.	Introduction to Priorities Committee Orientation: Operating Budget
Tuesday	October 25	4:00 p.m. 5:00 p.m.	Orientation: Sponsored Research (with Michelle Christy); Capital Budget Outlook on 2005–2006 and Potential Developments Affecting 2006–2007 Budget

Presentation of Budget Requests by Fiscal Units

<i>Day</i>	<i>Date</i>	<i>Time</i>	<i>Topic</i>	<i>Presenter/Invited Guest</i>
Wednesday	October 26	4:00 p.m. 5:00 p.m.	Academic Initiatives Q&A for new members	Mark Burstein, Executive Vice President
<u>[Fall Recess October 31 – November 6]</u>				
Tuesday	November 8	4:00 p.m. 5:00 p.m.	Computing Facilities	Betty Leydon, VP for Information Technology Michael McKay, VP for Facilities
Wednesday	November 9	4:00 p.m. 5:00 p.m.	Campus Life Graduate School	Janet Dickerson, VP for Campus Life William Russel, Dean of the Graduate School
Friday	November 11	TBD	Meeting of Priorities Committee with the Finance Committee of the Board of Trustees for a General Discussion of the Budget	
Monday	November 14	8:00 p.m.	Priorities Committee PUBLIC MEETING (All members should attend). McCosh 28	
Tuesday	November 15	4:00 p.m. 5:00 p.m.	Library Administrative Initiatives	Karin Trainer, University Librarian Mark Burstein, Executive Vice President

<i>Day</i>	<i>Date</i>	<i>Time</i>	<i>Topic</i>	<i>Presenter/Invited Guest</i>
Wednesday	November 16	4:00 p.m.	Salary Pools	David Dobkin, Dean of the Faculty
		5:00 p.m.	Salary Pools	Lianne Sullivan-Crowley, VP for Human Resources
Tuesday	November 22	4:00 p.m.	Undergraduate Financial Aid	Nancy Malkiel, Dean of the College Janet L. Rapelye, Dean of Admission Don Betterton, Director of Undergraduate Financial Aid
		5:00 p.m.	Faculty Staffing	David Dobkin, Dean of the Faculty

[Thanksgiving Recess—November 24 – 27]

Tuesday	November 29	4:00 p.m.	**Budget Update/Development of Tentative Recommendations
Wednesday	November 30	4:00 p.m.	**Tentative Recommendations (continued)
Tuesday	December 6	4:00 p.m.	**Tentative Recommendations (continued)
Wednesday	December 7	4:00 p.m.	**Tentative Recommendations (continued)
Monday	December 12	4:30 p.m.	CPUC Discussion of Priorities Committee Recommendations and Report <i>Friend Center 101</i>
Tuesday	December 13	4:00 p.m.	Final Recommendations /Projections
Wednesday	December 14	4:00 p.m.	Final Recommendations /Projections [Canceled]
Friday	December 16	TBD	Meeting of Priorities Committee Members with the Full Finance Committee for Presentations of Tentative Recommendations

[Winter Recess December 19 – January 8]

Monday	January 9	4:00 p.m.	Final Recommendations/Projections/Final Report
Tuesday	January 10	4:00 p.m.	Final Recommendations/Projections/Final Report [Canceled]
Wednesday	January 11	4:00 p.m.	Final Recommendations/Projections/Final Report
Friday	January 20	TBD	President and Provost Present Final Budget Recommendations to Finance Committee and Board of Trustees

****It may be necessary to extend these meetings until 7:00 p.m.**

Appendix B

PRINCETON UNIVERSITY
Operating Budget: Income
(dollars in thousands)

	2004-05 <u>Actual</u> (1)	2005-06 Current <u>Estimate</u> (2)	2006-07 <u>Projection</u> (3)	Difference <u>(3)-(2)</u> (4)	Diff %
1. Investment Income	337,126	355,814	377,384	21,570	6.1%
2. Student Fees:					
a. Undergraduate Tuition	136,939	146,358	155,331	8,973	6.1%
b. Graduate Tuition	57,073	60,940	64,225	3,285	5.4%
c. Other	<u>5,468</u>	<u>6,072</u>	<u>6,237</u>	<u>165</u>	2.7%
<i>Subtotal</i>	199,480	213,370	225,793	12,423	5.8%
3. Gifts & Grant (non-govt):					
a. Sponsored Projects	33,030	35,737	36,452	715	2.0%
b. Other	<u>92,176</u>	<u>95,661</u>	<u>99,107</u>	<u>3,446</u>	3.6%
<i>Subtotal</i>	125,206	131,398	135,559	4,161	3.2%
4. Federal & State Government:					
a. Sponsored Projects	181,797	178,466	182,634	4,168	2.3%
b. Other	<u>11,932</u>	<u>12,121</u>	<u>12,581</u>	<u>460</u>	3.8%
<i>Subtotal</i>	193,729	190,587	195,215	4,628	2.4%
5. Auxiliary Activities:					
a. Athletics	1,908	2,008	2,035	27	1.3%
b. Dorm & Dining Services	41,611	43,745	46,116	2,371	5.4%
c. Rental Housing	14,571	15,900	16,716	816	5.1%
d. Other Income	<u>17,329</u>	<u>16,383</u>	<u>17,088</u>	<u>705</u>	4.3%
<i>Subtotal</i>	75,419	78,036	81,955	3,919	5.0%
6. Service Departments:					
a. Office of Information Tech	1,059	969	970	1	0.1%
b. Other	<u>2,957</u>	<u>3,417</u>	<u>3,598</u>	<u>181</u>	5.3%
<i>Subtotal</i>	4,016	4,386	4,568	182	4.1%
TOTAL	934,976	973,591	1,020,474	46,883	4.8%
Less Interdepartmental Transactions	<u>11,630</u>	<u>12,000</u>	<u>12,400</u>	<u>400</u>	3.3%
GRAND TOTAL	923,346	961,591	1,008,074	46,483	4.8%
Summary of Sponsored Projects:					
a. Direct Costs	176,581	175,090	179,212	4,122	
b. Indirect Cost Reimbursements	<u>38,246</u>	<u>39,113</u>	<u>39,874</u>	<u>761</u>	
Total	214,827	214,203	219,086	4,883	

PRINCETON UNIVERSITY
Operating Budget: Expense
(dollars in thousands)

	2004-05 <u>Actual</u> (1)	2005-06 Current <u>Estimate</u> (2)	2006-07 <u>Projection</u> (3)	Difference <u>(3)-(2)</u> (4)	Diff %
1. Academic Depts & Programs:					
a. Instructional Costs					
1. Faculty, academic year	124,883	132,653	139,391	6,738	5.1%
2. Assistants in Instruction	13,897	15,342	17,036	1,694	11.0%
b. Other salaries and expenses	<u>206,411</u>	<u>214,009</u>	<u>222,242</u>	<u>8,233</u>	3.8%
<i>Subtotal</i>	345,191	362,004	378,669	16,665	4.6%
2. Plasma Physics Laboratory	75,977	72,000	74,000	2,000	2.8%
3. Undergraduate Scholarships	59,217	65,418	72,579	7,161	10.9%
4. Graduate Fellowships	58,881	60,304	63,351	3,047	5.1%
5. Other Student Aid and Misc Fellowships	9,219	10,788	10,878	90	0.8%
6. Central University Services:					
a. Library	39,970	42,234	44,075	1,841	4.4%
b. Office of Information Technology	26,869	26,372	27,221	849	3.2%
c. Public Safety	6,052	5,366	5,587	221	4.1%
d. Other	<u>2,580</u>	<u>2,945</u>	<u>3,047</u>	<u>102</u>	3.5%
<i>Subtotal</i>	75,471	76,917	79,930	3,013	3.9%
7. Administration:					
a. Academic Administration and Student Services	43,255	47,029	48,933	1,904	4.0%
b. General Administration and Expenses	<u>47,614</u>	<u>54,630</u>	<u>56,423</u>	<u>1,793</u>	3.3%
<i>Subtotal</i>	90,869	101,659	105,356	3,697	3.6%
8. Athletics	17,041	18,244	18,833	589	3.2%
9. Physical Facilities	117,278	123,183	128,046	4,863	3.9%
10. Tsfr to Reserve for Renewal/Replacement					
a. Major Maint, Renovation, Equipment	84,549	82,448	87,563	5,115	6.2%
b. Debt service - new construction	<u>1,860</u>	<u>1,860</u>	<u>1,860</u>	<u>0</u>	0.0%
<i>Subtotal</i>	86,409	84,308	89,423	5,115	6.1%
11. Allowance for Contingencies					
a. Provision for expenses	0	675	1,350	675	n/a
b. Anticipated vacancies	<u>0</u>	<u>-1,909</u>	<u>-1,941</u>	<u>-32</u>	1.7%
<i>Subtotal</i>	0	-1,234	-591	643	-52.1%
Total Expense	934,976	973,591	1,020,474	46,883	4.8%
Less Interdepartmental Transactions	<u>11,630</u>	<u>12,000</u>	<u>12,400</u>	<u>400</u>	3.3%
Grand Total	923,346	961,591	1,008,074	46,483	4.8%
12. Estimated Income	<u>923,346</u>	<u>961,591</u>	<u>1,008,074</u>		
13. Surplus or (deficit)	0	0	0		

NOTES TO SUMMARY TABLES

Income

1. Investment Income. This line includes income earned from investments, mainly the University's endowment. Most of the increase shown here is governed by the endowment income spending rule. In addition, Current Funds earnings are projected to increase by \$5.4 million, reflecting the recent increases in short-term interest rates.
2. Student Fees. The increases in tuition revenues result primarily from the higher tuition rates being recommended as well as tuition growth related to the expansion of the student body.
3. Gifts and Grants (non-government). There is a projected increase of about 2% in support for sponsored projects. The "Other" line includes Annual Giving and other term support.
4. Federal and State Government. The direct expenses of both PPPL and main-campus sponsored research are expected to increase at a rate of roughly 2% overall. The increase in "Other" government income reflects increased support for student aid.
5. Auxiliary Activities. The slight increase in Athletics income reflects normal inflationary adjustments in the rates for facilities rentals and similar items. The increases for Dormitory and Dining Services and Rental Housing are the result of the recommended rate increases, plus increases from the expansion of the student body. The growth in "Other" income reflects increases in a number of areas, such as Conference and Events Services and commercial rental income.
6. Service Departments. The increases reflect revenue expectations for other service departments, some of which are offset by higher expenses, plus a projected improvement in revenues from our Technology Transfer Program.
7. Interdepartmental Income. The increase reflects inflationary adjustments in the rates of various sale-of-service units.

Expenditures

1. Academic Departments. The increase in faculty costs is primarily linked to planned changes in staffing levels, including new faculty positions supported by gift and endowment income. The increase in Assistants in Instruction (AI) costs reflects the tuition component of support packages rising in line with the proposed tuition increase, plus a reversal of some current-year transfers between AI and faculty appointments. It also reflects the recommended increase in total AI hours described in the Report. The increase in “other salaries and expenses” results mainly from inflationary adjustments to various components of academic departmental budgets, including the matching portion of graduate Assistant in Research (AR) tuitions and higher projected expenditures in departmentally restricted and sponsored research accounts. There is also a modest projected increase in AR tuition support based on enrollment projections. An appropriate share of the salary pool as recommended by the Committee appears on each of the three lines shown.
2. Princeton Plasma Physics Laboratory. This increase is essentially offset by projected growth in sponsored funding.
3. Undergraduate Scholarships. Increases are provided to cover the higher fees recommended and to fund some projected additional awards, reflecting both the expansion of the student body and our assumption that next year’s entering class will have a higher fraction of its students qualifying for aid than this year’s graduating senior class, consistent with our experience in recent years.
4. Graduate Fellowships. Increases are provided to cover the higher tuition rate being recommended, the base inflationary adjustments to average stipend levels, and the second year of a phased increase in funding for merit stipends in the humanities and social sciences that was recommended by last year’s Priorities Committee. A modest increase in the number of fellowships, including some supported on departmental and outside awards, is also projected, based on expected growth of roughly 0.5%.
5. Other Student Aid and Miscellaneous Fellowships. This line includes a variety of student aid programs, most of which are fully supported by funds restricted to these purposes, including the majority of the Federal Work Study Program, postdoctoral fellowships, and the like.
6. Central University Services. All lines reflect normal inflationary adjustments. The recommended funding for library acquisitions is included in line 6.a. The recommended funding for an additional part-time fire marshal is included in line 6.c. An appropriate share of the recommended salary pool appears on each line.
7. Administration. Normal inflationary adjustments are included, and one-time FY2006 costs are removed. The amounts recommended for the Director of Disability Services, the Admission Office, and University Health Services appear in line 7.a. An appropriate share of the recommended salary pool appears on each line.

8. Athletics. The increase reflects routine inflationary adjustments plus expected growth in departmental restricted funds. The recommended funding for a strength and conditioning coach appears here, along with an appropriate share of the recommended salary pool.

9. Physical Facilities. This line includes inflationary adjustments in property taxes, water and sewer charges, insurance, and energy costs. Energy prices are projected to decline somewhat from their extraordinarily high current-year levels, and the total costs on this table reflect the plan to charge unbudgeted energy costs to reserve funds in FY2006 and FY2007, as described in the Report. The FY2007 budget adds \$1 million of energy costs to the base budget and thus reduces the unfunded gap by that amount. Various one-time adjustments are removed. Costs to support a partial year's occupancy of the new Lewis Library are included. An appropriate share of the recommended salary pool is also included.

10. Transfer to Reserve for Renewal and Replacement. This line reflects the costs of major maintenance and renovation projects and capital equipment purchases, which are separately budgeted. A reserve fund has been established to pay for these expenditures, and contributions from the operating budget replenish that reserve. The increase reflects normal inflationary growth. As in FY2005 and FY2006, this line includes a temporary reduction in the renovation budget. The FY2007 budget restores about \$2 million of the \$6-million reduction reflected in FY2006.

11. Allowance for Contingencies. Line 11.a. reflects the restoration of our contingency to its normal full-year level. Line 11.b. reflects a slight adjustment in our faculty vacancy expectation.

Salary Pool (Distributed Above). Funds to provide salary increases for continuing faculty and staff supported by general funds, plus amounts for recommended increases in AI stipends and in hourly student wages, are included within the appropriate expense categories shown above. Also included are a decrease of three-tenths of a point in the benefits rate for non-academic departments (to 27.1%) and an increase of eight-tenths of a point in the rate for academic departments (to 34.0%).