

# Princeton University

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

**Recommendations Concerning the Operating Budget  
for 2005 – 2006**

**January 10, 2005**



# Princeton University



OFFICE OF THE PROVOST

January 10, 2005

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 2005-2006 (FY06). We are proposing a balanced operating budget for FY06. As you know, this has been a challenging year to plan for the future, not least because the volatility of energy costs has produced significant swings in our projections.

The Committee's recommendations, which are explained in detail in the report, focus on requests in three areas: responses to the work of the Task Force on Health and Well Being; efforts to strengthen the University's compliance with its regulatory obligations; and our continuing commitment to recruit and retain the best faculty, staff, and students. The Committee also recommends staff and faculty salary pools that are slightly larger than last year's, reflecting our need to remain competitive in recovering hiring markets. Finally, the Committee recommends increasing the cost of tuition, room, and board by 5%.

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.

For the Committee,

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

Christopher L. Eisgruber, Provost

A handwritten signature in black ink, appearing to read "Katherine T. Rohrer".

Katherine T. Rohrer, Vice Provost for Academic Programs

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## **THE COMMITTEE**

Christopher L. Eisgruber, Provost (chair)

Michael A. Celia, Professor of Civil and Environmental Engineering

Jesse Creed '07

Newsha Dau \*GS, Woodrow Wilson School

David P. Dobkin, Dean of the Faculty

Jeff Dolven, Assistant Professor of English

Mario I. Gandelsonas, Professor of Architecture

Joan S. Girgus, Professor of Psychology

Carol J. Greenhouse, Professor of Anthropology

Dylan Hogarty '06

Xiuhui Lim '05

Christopher McCrudden, Treasurer

Matthew Nguyen '06

Ian Parrish \*GS, Plasma Physics

Matthias Steiner, Senior Research Scientist, Civil and Environmental Engineering

Keith E. Whittington, Associate Professor of Politics

## **MEETING WITH THE COMMITTEE**

Mark Burstein, Vice President for Administration

Steven Gill, Budget Director and Associate Provost

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

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## **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**

This year's Committee found itself functioning in a delicate financial environment. A number of negative developments in the FY05 budget—including sharply higher energy costs, higher-than-normal vacancies in graduate and faculty/staff housing, and decreased income from indirect costs earned by sponsored research—created an unexpected and unusually large projected deficit for the current year. Budget projections for FY06 showed a significant deficit for that year as well. Because energy prices were not only much higher but exceedingly volatile, it was difficult to specify anticipated deficits precisely: during the course of its deliberations, the Committee witnessed fluctuations in natural gas futures that would translate into million-dollar swings in the size of the operating deficit. Against this background, the Committee worked with estimates that forecast a \$5 million deficit for FY05 and a \$6 million deficit for FY06.

In addition to this combination of deficits and uncertainty, the Committee confronted other pressures on the University budget. Though inflation levels have been low, evidence suggests that they are rising. University salary pools have been modest in the recent past, and both the Dean of the Faculty and the Vice President for Human Resources recommended that they be increased, supporting their recommendations with analyses of inflation rates and market survey research. Moreover, as detailed later in this report, the heads of departments brought to the Committee a set of requests that were thoughtful, urgent, and, in several cases, responsive to University-wide initiatives that addressed critical needs.

The Committee also received some good economic news. After consecutive years of low returns, markets rebounded. The University endowment, under the management of PRINCO, enjoyed healthy returns in FY04, slightly above the 16% level. This increase did not generate any sudden influx of cash into the University operating budget: transfers from endowment income to the operating budget are controlled by a spending rule that smoothes the unevenness that would otherwise result from good and bad market

years. The improved performance of the endowment did, however, lead the trustees to refrain from making a downward adjustment to the spending rule.

In consultation with the Finance Committee of the Board of Trustees, the Provost and the Priorities Committee developed a plan to respond to this unusual and complex combination of significant deficits, volatile prices, strengthening market returns, and low but rising inflation. The Provost and the Priorities Committee proposed to reduce the overall deficit by cutting the contingency line in the budget and invoking appropriate measures to decrease energy consumption and to fill vacant housing units, while keeping tuition increases as low as possible. Under the plan discussed with the trustees, the Provost would address the remaining gap by reducing transfers from the operating budget to the renovations budget. These actions would be sufficient not only to cover the projected deficit but also to free up funds for distribution by this year's Priorities Committee to urgent needs pending before it, as had been contemplated in the budget projections of last January. After receiving the tentative approval of this plan from the Board of Trustees, the Priorities Committee set about its task of formulating a budget.

### **III. Recommendations**

In addition to the salary pool proposals, the Committee considered a set of requests that totaled just over \$2 million, more than four times the \$500,000 that the Committee was able to recommend for allocation. The Committee sought to identify the most critical needs that had been presented to it. Those needs clustered in three thematic areas affecting the university as a whole:

- health and well being, specifically in response to recommendations from the University-wide task force convened by President Tilghman to assess the University's response to medical care and fitness issues;
- compliance, responding to needs identified by the trustees to better meet the regulatory obligations of the university; and
- the need to attract and retain the best students, faculty, and staff to Princeton.

The Committee's recommendations for fiscal year 2005-6 are described below, in alphabetical order. In a few instances, the Committee has identified requests that it was unable to fund but wants to highlight as likely high priorities for next year, resources permitting. 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 Vice President for Administration 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 needs in three of the areas that did bring forward pressing needs: Career Services, General Counsel, and Internal Audit.

The Dean of the College has oversight responsibility for the offices of Admission, Undergraduate Financial Aid, Career Services, Teacher Preparation and Placement, the McGraw Center for Teaching and Learning, the Princeton Writing Program, and the Residential Colleges, in addition to the core academic functions carried out in her own office (undergraduate curriculum, academic advising, academic standing and regulations, study abroad, and a number of special programs including the freshman seminars and international internships). This year she brought forward requests for Career Services and for the Princeton Writing Program.

Career Services assists undergraduates, graduate students, and alumni with career exploration, career planning, and job hunting. The Dean asked for two office support positions, one to assist in the area of internships and the other in the area of dossier creation. The Committee recommends funding of \$20,750 for a half-time position to support the internship function. The members' understanding is that this assistance, which will relieve the professional internship counselor from data-entry duties, should also facilitate the expansion of internship opportunities in areas outside the already well served financial services and consulting industries.

The Writing Program asked for additions to support the successful Writing Partners program for undergraduates, to restructure a single associate directorship into two assistant directorships, and to create a program on scientific and technical writing aimed toward graduate students. The Committee expressed appreciation for the critical work of the Writing Program, but found itself unable to support these requests in the current year.

Another set of administrative requests that could not be met in this Priorities Committee season came from the Dean of the Graduate School, who asked for program funds for the Community Director and the Community Associates, who serve the social needs of the residents of the graduate-student apartments.

The General Counsel requested funding for an additional lawyer and an additional legal support staff position to help the office meet the increasing demands placed on it by an ever-expanding university operating in an increasingly complex legal environment. The Committee found this request compelling. The size of the General Counsel's office has remained essentially unchanged for many years. During that period, the regulatory environment of the University has become more complex and its need for legal service has increased. In addition, Committee members viewed this request as central to a Trustee-supported initiative to strengthen our staff in the compliance area. An agreement was reached whereby Priorities Committee funding for one-half of the lawyer's position would be matched by the Office of Development, which would use a substantial portion of the new person's time. The cost of the Priorities Committee's recommendation on this position is \$89,250. The Committee also recommends funding for one-half of the legal support position, at a cost of \$28,400.

Another compliance-related request originated in the Office of Internal Audit. New compliance initiatives implemented in the fall of 2004 have created additional work for this office, which already has a schedule of regular audits that was established on the recommendation of our external auditors five years ago. In order to meet this demand, Internal Audit requested additional duty time for two senior auditor positions currently

budgeted at 50% time each. The Committee was able to recommend that one of these receive an increase in duty time at a cost of \$22,840.

### 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 all of those units.

The most pressing of these requests came in response to the activities of the Task Force on Health and Well Being, which was appointed by the President in the fall of 2003 “to examine a broad range of policies, practices, and issues related to the health and well being of all members of the on-campus Princeton University community” (final report of the Task Force and Health & Well Being, November 2004). Last year’s Priorities Committee contributed to this critical project by allocating \$120,000 for additional staff in University Health Services. Once again, the improvements related to Health and Well Being focused on the Health Services unit.

This year’s Committee recommends funding for the following additions to the operating budget in University Health Services:

- Expanded psychiatric consultation services, \$19,600.
- Operations administrator, \$88,400.
- Increased summer coverage (including SHARE coordinator, counselors, health promotion coordinator, athletics trainers, and physician’s assistant), \$87,291.

The money for expanded psychiatric services responds to the growing need for mental health care in the student population. The operations administrator position was listed by University Health Services as one of its two highest priorities this year (along with the expanded psychiatric services), and funding for the position will enable Health Services to improve patient confidentiality, to meet its compliance obligations, and to provide services more efficiently. The Committee deemed the summer coverage positions

important for two reasons. First, the University does not shut down during the summer months: there is an on-campus population, including especially graduate students, who require access to health care and related services. Second, by extending ten-month positions to include the summer months, the University will make it possible for people in these positions to take vacation time during the summers, when demand is lower. Summer coverage will thus also increase the availability of coverage during term-time, including such critical services as counseling.

In another item related to the University's commitment to health and well being, the Committee recommends the allocation of \$57,276 to finance the university's contribution, via student aid, to improvements in coverage for those who elect the Student Health Plan. These improvements will increase outpatient mental health visits from 24 to 30 per year, increase insurance coverage of those visits from 50% to 80%, and reduce fees for dependent coverage. The Princeton plan currently lags behind the benefits in these areas offered by health plans at peer institutions, and the improvements will close that gap. Reflecting these enhancements, the cost of the student health plan will rise from \$810 in 2004-2005 to \$1,000 in 2005-2006. The cost for covering one dependent will drop from \$3,010 to \$2,000, and for more than one dependent, from \$4,780 to \$3,000.

The Committee also recommends the provision of basic funding to support the operations of the LGBT (Lesbian, Gay, Bisexual, and Transgender) Center, at the level of \$27,000. This allocation will partially meet the University's desire to increase the center's activities to the same level as those of the International Center and the Women's Center. The Committee believes that the LGBT Center may be an attractive giving opportunity for donors, and it encourages the Vice President for Campus Life in her efforts to work with the Development Office in pursuing fundraising that will help it become a more visible and vital part of our community.

Two of the Vice President's requests, for strength and conditioning coaches for varsity Athletics teams and to support kosher operations in the kitchen of the Center for

Jewish Life, are currently being supported by term funds from other sources. While the Committee was sympathetic to these needs, they were unable under the current constraints to recommend funding this year.

A final Campus Life proposal, for additional administrative support to meet the needs of disabled undergraduates, is being postponed until a review of our disabilities services can be undertaken and the needs fully assessed. A number of University offices will be involved in this analysis.

### Facilities

The Vice President for Facilities brought forward the following requests: provision of additional cleaning staff for Dillon Gymnasium and other areas to cover some weekend and evening hours; support for window-washing, which now occurs only in the wake of dirt-producing construction projects nearby; and funds to replace dormitory furniture on a regular and more frequent schedule.

Of the cleaning requests, the most pressing, additional cleaning for Dillon Gym, is likely to be supported by an increase in users' fees, which will not affect students but will benefit all users of the gym. Additional window-washing could not be included in this year's recommendations.

The last request included funds to provide bookcases in student rooms when they were requested, a proposal that attracted lively interest from Committee members. Bookcases are currently included in the furniture provided in new and newly renovated dormitories, but students in unrenovated dorms must either request them or, if the funds available to respond to these requests have been exhausted, provide their own. The Committee felt that the absence of bookcases in some rooms created both inequalities and inefficiencies, since storage of individually-purchased bookcases is costly and bothersome. Despite these concerns and the Committee members' interest in the bookcase as physical symbol of the life of the mind, in the end this allocation could not be accommodated within the recommended package.

### 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 higher than last year's, 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. While the Committee is unable to meet the full request, it nevertheless recommends a slight increase in the salary pools for 2005-2006.

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. Princeton's salaries continue to be very competitive, though increased inflation in the last year has put upward pressure on salaries generally. The Dean also identified several areas that require special attention.

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. Like the Dean of the Faculty, the Vice President requested an increase in salary pools over last year's levels.

In recommending partial funding of each of these requests, the Committee wishes to underscore the critical importance of allocating all salary pools on the basis of merit and equity to support Princeton's excellent faculty and staff. In addition, the Committee urges future committees to continue to monitor carefully the competitive pressures on both faculty and staff salaries.

### 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). Last year's committee allocated \$359,000 to an increase in the AI budget in order to address shortages that were due primarily to undergraduates' taking additional courses (beyond the required number) and to stronger enrollments in the natural sciences, where laboratories require intensive use of AIs. This year the Dean asked for an additional AI allocation that could be used officially to fund core instruction in graduate programs. (In response to this proposal, the Academic Planning Group this fall reversed an imperfectly observed policy that restricted the use of assistants in instruction to undergraduate courses.) While the Committee recognized the value of AIs in lecture courses taken by graduate students in engineering, economics, and architecture in preparation for their general exams, they felt that the effects of last year's increase in the AI budget should be fully assessed before additional resources are allocated to this purpose.

#### Graduate School Programming and Aid

The Dean of the Graduate School asked for additions in two areas: enhancements in the stipends for graduate students in the humanities and social sciences, and permanent operating-budget support for the Princeton Summer Research Experience for undergraduates, a program that aims to increase the pools of minority and economically disadvantaged candidates for graduate school (and therefore, in some cases, for later faculty positions).

The Committee recognized the critical importance of competitive stipends in attracting the best graduate students to Princeton (a goal that has the secondary effect of supporting faculty recruitment and retention). Operating within the constraints of this year's resources, the Committee recommends additions beginning in 2005-2006 of \$24,000 each year (over five years) to support additional Centennial Fellowships. These honorific fellowships can be used to help attract top-ranked students to Princeton's graduate programs. Some members of the Committee felt that broader support of graduate fellowships in the humanities will be necessary in the future if Princeton is to remain competitive with its peers.

The Committee was very interested in supporting further diversification of the student body, faculty, and staff. This is the goal of the Graduate School's Princeton Summer Undergraduate Research Experience (PSURE) program, which brings undergraduates to campus for a one-on-one research experience with Princeton faculty members in an effort to attract the undergraduates to careers in research (and therefore graduate school attendance, either at Princeton or another institution). While unable to recommend funding for this particular program this year, the Committee wishes to express its enthusiasm for future proposals to address this issue. Committee members expect that the recent appointment of an assistant dean who will focus in part on diversity issues will generate new initiatives. Some members also suggested that the Graduate School consider joining with those departments that have their own successful programs (the Woodrow Wilson School, the Department of Molecular Biology), supporting those programs however it can, and expanding their successful methods to other disciplines. The Committee hopes that additional departments or programs, including multi-disciplinary academic units such as the University Center for Human Values, the Princeton Institute for International and Regional Studies, and the School of Engineering and Applied Sciences, can be encouraged by the Graduate School to invest in such programs.

#### Information Technology

The Vice President for Information Technology reported to the Committee on the responsibilities of and current issues facing her office. However, recognizing the financial constraints of the current season, she made no requests in this year's cycle.

#### Library

The University Librarian met with the Committee to discuss continuing pressures on library acquisitions. In the preceding three years the Committee recommended that a total of \$700,000 be added to the acquisitions budget. These additions, which supplemented ordinary inflationary adjustments to the Library's budget, 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 substantial 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 budget. The Committee recognizes that the cost of acquisitions will continue to far exceed inflationary increases and that the University's expansion into new fields—e.g., 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 \$35,000 to the operating budget for library acquisitions, which should provide at least modest relief for collections in new areas. The Committee strongly encourages the University to consider making future adjustments to the acquisitions budget whenever a new program is initiated. Some members of the Committee also suggested that the Library should seek ways to educate the University community about alternative solutions geared towards mitigating the cost escalation in scholarly publishing.

#### Tuition, Room, and Board

The Committee is steadfast in its commitment 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 5% for 2005-2006. The breakdown in increases in undergraduate tuition, room and board is as follows:

	<i>2004-2005</i>	<i>2005-2006</i>	<i>% Change</i>
Tuition	\$29,910	\$31,450	5.15%
Room	\$4,315	\$4,610	6.8%
Board	\$4,072	\$4,153	2.0%
Total	\$38,297	\$40,213	5.0%

The Committee deliberated carefully about this proposed increase. Since the early 1990s, the University has made a continuing effort to limit the percentage increase for tuition and fees. As a consequence of this effort, which has been aided by periods of low inflation and higher than normal investment returns, Princeton's student fee package has been the lowest of our comparison group (the Ivy institutions plus Stanford and MIT) for the past four years. Princeton's total tuition and fees are almost certain to remain at the bottom of the comparison group even with a 5% increase for 2005-2006. Nonetheless, committee members expressed concern that a trend toward higher increases not escalate.

The Committee's recommendation of a 5% increase to the total fee package incorporates an increase of 5.15% in tuition, 6.8% in room, and 2.0% in board. These levels reflect 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 \$37,000 of revenue from graduate dormitory rates to the Graduate School for the purpose of ameliorating the effects of the increase on graduate students' expenses. The Dean might use these funds to add to the fellowship pool or to support certain fee reductions at the Graduate College. 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 Committee also suggested that the Graduate School and the Housing Office review the range of graduate dormitory rates to ensure that the most expensive rooms not be priced out of the reach of students, which could exacerbate the vacancy rate in graduate housing.

In addition to increasing these mandatory fees, the University expects to raise two other fees that are paid by many students: the residential college fee and the premiums for

the Student Health Plan. Both increases were recommended by the Task Force on Health and Well Being as means to accomplish some of its goals. The Student Health Plan fee is typically paid by 40-45% of undergraduates and is mandatory for all graduate students (in both cases with assistance from financial aid as appropriate). As described earlier in this report, the increase to this insurance premium will fund important improvements to the plan and bring its coverage up to the level provided by our peer institutions. The residential college fee is mandatory for students living in the colleges. The increase to it, which is still under discussion, will support college programming in a way that will free up general funds that can then contribute to funding the activities of a health educator and a clinical nutritionist. In turn, these professionals would direct much of their programming and outreach efforts to undergraduates in their first two years of study and thereby directly benefit college residents.

### 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. This 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 holiday break in December—for example, to travel to a friend's home, to help out with meals when the dining halls are closed, or to break their isolation with funds for day trips for culture and entertainment. The Committee saw much merit in paying attention to the needs of international students over the holiday

break in some way. The Committee was also impressed by the revised proposal, which attended both to the cost differences between domestic and foreign travel as well as to the needs of international students. Some Committee members suggested that the University should consider providing additional programming for international students, such as organized meals, trips, or other events. In any case, the Committee is unable to recommend funding for this request in the current cycle.

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Though this year's Priorities Committee had less money to allocate than have its recent predecessors, the Committee is pleased that it has been able to respond to critical campus needs and commitments. The University Task Force on Health and Well Being made important, thoughtful, and well-researched recommendations about how to improve the University's offerings in health care and related areas. Approximately half of the Committee's recommended allocations bear upon Health and Well Being, and the Committee is optimistic that these funds will help the University make substantial progress toward goals identified by the Task Force. At the behest of the University trustees, several University offices—including, prominently, the Office of General Counsel and the Office of Internal Audit—have taken active leadership with regard to the University's evolving compliance responsibilities. The Committee sought to reinforce the University's capacity to advance these initiatives. The Committee aims, through all its recommendations, to help sustain the University's broader mission in all its facets and to maintain and enhance the quality of the experience of students, faculty, and staff.

Economic pressures, including especially sharply rising energy costs, have created circumstances that are challenging for all universities, including Princeton. Sustaining Princeton's excellence and its capacity to undertake new initiatives under these conditions will require creativity, commitment, and leadership. The Committee is pleased by the University's capacity to support these initiatives this year while also sustaining its unparalleled commitment to undergraduate financial aid and exercising restraint in the setting of tuition and fee levels. The University's capacity to do so is a

consequence of its overall financial health, the excellent work of University staff and heads of departments, and the continuing support of Princeton's generous alumni.

#### **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. This year, the additional challenge was to determine the likelihood that the budget would return to a position where cuts to the Renovation Budget could be reduced or restored over time.

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—funding for sponsored research, Annual Giving and other fundraising, energy prices, 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 higher-than-normal growth rates in sponsored research based on the maturation of the program in the Lewis-Sigler Institute (in Genomics) and the full operating and maintenance costs of the new Lewis Library, scheduled for occupancy in FY07. We did not, however, explicitly include the planned expansion of the undergraduate student body, as ongoing analysis continues to anticipate the expansion to be revenue neutral.

Based on past experience, we added a programmatic contingency of \$500,000 in each year from FY07 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.

A critically important variable in our income projection is the return on our endowment. We are very fortunate that during the difficult financial markets since 2000 our investment performance has been both consistently positive and sufficient to allow our spending to increase each year by five percent (on a per unit basis) as provided by the current version of the endowment spending rule adopted by the Trustees. Our spending rate expressed as a percentage of market value is currently in the middle of our institutional target range of four to five percent. Therefore, for the purposes of these projections, we have assumed that the annual growth rate can remain at the rate of five percent per year. We understand that, given the volatility of the markets in the last several years and the current mixed economic outlook, this is an area that will be examined on an annual basis by the Trustees in the light of actual investment performance and future expectations.

Finally, we have had to make assumptions about energy prices, whose significant increases 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, the best we could assume is that prices will track those currently embedded in the futures contracts. Fortunately, these now show a gradual price reduction over the next several years (especially in natural gas, our primary fuel). If these price reductions come to pass, they will—along with our ongoing conservation measures—enable us to return to a better budgetary situation several years earlier than if they stay at their current levels.

These factors lead us to predict two more years in which the transfers from the operating budget to fund renovations would need to be reduced, although in diminishing amounts, before returning to a balance in FY09. While it is encouraging to be able to project an improved financial situation in that year, the cumulative effect of reduced

support for renovations over the period FY05 through FY08 would, under our current estimates, exceed \$16 million. Given our commitment to the necessary conversion of two of our existing two-year colleges into four-year colleges, reductions of this magnitude from the operating budget will undoubtedly put pressure on capital fundraising and reserves to meet our planned objectives in the necessary time frame.

A few final words about the future are warranted. Although in these projections we have focused on whether it will be possible to restore cuts made to the renovation line, changing circumstances may compel future Committees to attend to other demands. Two areas in particular bear watching. The first is our need to remain absolutely competitive on salaries and stipends so that we can continue to attract and retain the very best faculty, staff, and students. Given that this year's recommendations fall below the requested levels in several areas, simple extrapolations of our recommendations may not be sustainable. The second area is a responsibility to keep faith with the desire for Princeton to remain both affordable and perceived as affordable to all students, whether on financial aid or not. While the level of fee increases recommended for next year appears reasonable to us, we believe that drops in energy prices, if realized, may make it appropriate to moderate the rate of fee increases even before reaching the improved financial condition projected for FY09. We urge future Committees to look carefully each year for the appropriate balance among all the important budgetary factors.

**Appendix A**

**PRIORITIES COMMITTEE SCHEDULE  
2004 – 2005**

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

<i>Day</i>	<i>Date/Location</i>	<i>Time</i>	<i>Orientation Sessions</i>
Tuesday	October 12 <i>Room E</i>	4:00 p.m.	Introduction to Priorities Committee and Orientation
Tuesday	October 19 <i>Room E</i>	4:00 p.m.	Orientation (with Michelle Christy)

**[Fall Recess – October 25 – October 31]**

**Presentation of Budget Requests by Fiscal Units**

<i>Day</i>	<i>Date/Location</i>	<i>Time</i>	<i>Topic</i>	<i>Presenter/Invited Guest</i>
Tuesday	November 2 <i>Room G</i>	4:00 p.m.		Outlook on 2004 – 2005 and Potential Developments Affecting 2005 – 2006 Budget
Wednesday	November 3 <i>Room E</i>	4:00 p.m.	Graduate School	William Russel, Dean of the Graduate School
		5:00 p.m.	Campus Life	Janet Dickerson, VP for Campus Life
Tuesday	November 9 <i>Room E</i>	4:00 p.m.	Facilities	Michael McKay, VP for Facilities
		5:00 p.m.	Administrative Services	Mark Burstein, VP for Administration
Wednesday	November 10 <i>Room E</i>	4:00 p.m.	Library	Karin Trainer, University Librarian
		5:00 p.m.	Computing	Betty Leydon, VP for Information Technology
<b>Friday</b>	<b>November 12 <i>Room E</i></b>	<b>1:45 p.m.</b>	<b>Meeting of Priorities Committee with the Finance Committee of the Board of Trustees for a General Discussion of the Budget</b>	
<b>Monday</b>	<b>November 15 <i>McCosh 62</i></b>	<b>8:00 p.m.</b>	<b>Priorities Committee PUBLIC MEETING (All members should attend).</b>	

<i>Day</i>	<i>Date/Location</i>	<i>Time</i>	<i>Topic</i>	<i>Presenter/Invited Guest</i>
Thursday	November 18 <b>Room G</b>	4:00 p.m.	Salary Pools	David Dobkin, Dean of the Faculty
		5:00 p.m.	Salary Pools	Maureen Nash, VP for Human Resources
Tuesday	November 23 <b>Room G</b>	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 25 – 29]**

Tuesday	November 30 <b>Room G</b>	4:00 p.m.	**Budget Update/Development of Tentative Recommendations
Wednesday	December 1 <b>Room G</b>	4:00 p.m.	**Tentative Recommendations (continued)
Thursday	December 2 <b>309 Frist</b>	4:00 p.m.	**Tentative Recommendations (continued)
<b>Tuesday</b>	<b>December 7</b> <b>Friend Center 101</b>	<b>4:30 p.m.</b>	<b>CPUC Discussion of Priorities Committee Recommendations and Report</b>
Wednesday	December 8 <b>Room E</b>	4:00 p.m.	**Tentative Recommendations (continued)
<b>Friday</b>	<b>December 10</b> <b>Room E</b>	2:15 p.m.	<b>Meeting of Priorities Committee Members with the Full Finance Committee for Presentations of Tentative Recommendations</b>

**[Winter Recess—December 11 – January 2]**

Tuesday	January 4 <b>Chancellor Green,</b> <b>Room 103</b>	4:00 p.m.	Final Recommendations /Projections/Final Report
Wednesday	January 5 <b>Chancellor Green,</b> <b>Room 103</b>	4:00 p.m.	Final Recommendations /Projections/Final Report
<b>Friday</b>	<b>January 21</b>	<b>TBD</b>	<b>President and Provost Present Final Budget Recommendations to Finance Committee and Board of Trustees</b>

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

## Appendix B

PRINCETON UNIVERSITY  
Operating Budget: Income  
(dollars in thousands)

	2003-04 <u>Actual</u> (1)	2004-05 Current <u>Estimate</u> (2)	2005-06 <u>Projection</u> (3)	Difference <u>(3)-(2)</u> (4)	Diff %
<b>1. Investment Income</b>	327,531	336,161	353,382	17,221	5.1%
<b>2. Student Fees:</b>					
a. Undergraduate Tuition	130,334	136,649	143,685	7,036	5.1%
b. Graduate Tuition	53,657	56,836	59,762	2,926	5.1%
c. Other	<u>5,117</u>	<u>5,550</u>	<u>6,341</u>	<u>791</u>	14.3%
<i>Subtotal</i>	189,108	199,035	209,788	10,753	5.4%
<b>3. Gifts &amp; Grant (non-govt):</b>					
a. Sponsored Projects	34,025	33,110	34,101	991	3.0%
b. Other	<u>87,596</u>	<u>82,784</u>	<u>85,894</u>	<u>3,110</u>	3.8%
<i>Subtotal</i>	121,621	115,894	119,995	4,101	3.5%
<b>4. Federal &amp; State Government:</b>					
a. Sponsored Projects	169,670	177,748	184,116	6,368	3.6%
b. Other	<u>11,004</u>	<u>11,114</u>	<u>11,215</u>	<u>101</u>	0.9%
<i>Subtotal</i>	180,674	188,862	195,331	6,469	3.4%
<b>5. Auxiliary Activities:</b>					
a. Athletics	2,028	1,973	1,999	26	1.3%
b. Dorm & Dining Services	42,142	43,744	45,780	2,036	4.7%
c. Rental Housing	13,100	14,100	15,101	1,001	7.1%
d. Other Income	<u>16,274</u>	<u>16,351</u>	<u>17,057</u>	<u>706</u>	4.3%
<i>Subtotal</i>	73,544	76,168	79,937	3,769	4.9%
<b>6. Service Departments:</b>					
a. Office of Information Tech	754	827	844	17	2.1%
b. Other	<u>3,316</u>	<u>3,259</u>	<u>3,496</u>	<u>237</u>	7.3%
<i>Subtotal</i>	4,070	4,086	4,340	254	6.2%
<b>TOTAL</b>	<b>896,548</b>	<b>920,206</b>	<b>962,773</b>	42,567	4.6%
Less Interdepartmental Transactions	<u>13,495</u>	<u>13,500</u>	<u>14,000</u>	<u>500</u>	3.7%
<b>GRAND TOTAL</b>	<b>883,053</b>	<b>906,706</b>	<b>948,773</b>	42,067	4.6%
Summary of Sponsored Projects:					
a. Direct Costs	167,084	172,258	177,972	5,714	
b. Indirect Cost Reimbursements	<u>36,611</u>	<u>38,600</u>	<u>40,245</u>	<u>1,645</u>	
<b>Total</b>	<b>203,695</b>	<b>210,858</b>	<b>218,217</b>	7,359	

PRINCETON UNIVERSITY  
Operating Budget: Expense  
(dollars in thousands)

	2003-04 <u>Actual</u> (1)	2004-05 Current <u>Estimate</u> (2)	2005-06 <u>Projection</u> (3)	Difference <u>(3)-(2)</u> (4)	Diff %
<b>1. Academic Depts &amp; Programs:</b>					
a. Instructional Costs					
1. Faculty, academic year	117,372	126,764	132,683	5,919	4.7%
2. Assistants in Instruction	12,856	13,930	15,723	1,793	12.9%
b. Other salaries and expenses	<u>204,860</u>	<u>201,318</u>	<u>209,402</u>	<u>8,084</u>	4.0%
<i>Subtotal</i>	335,088	342,012	357,808	15,796	4.6%
<b>2. Plasma Physics Laboratory</b>	69,266	70,000	72,000	2,000	2.9%
<b>3. Undergraduate Scholarships</b>	54,555	59,280	64,244	4,964	8.4%
<b>4. Graduate Fellowships</b>	53,733	57,043	59,754	2,711	4.8%
<b>5. Other Student Aid and Misc Fellowships</b>	9,390	9,867	10,247	380	3.9%
<b>6. Central University Services:</b>					
a. Library	38,735	40,187	42,009	1,822	4.5%
b. Office of Information Technology	26,548	24,706	25,429	723	2.9%
c. Public Safety	5,901	6,078	6,277	199	3.3%
d. Other	<u>2,157</u>	<u>2,979</u>	<u>3,086</u>	<u>107</u>	3.6%
<i>Subtotal</i>	73,341	73,950	76,801	2,851	3.9%
<b>7. Administration:</b>					
a. Academic Administration and Student Services	42,315	41,917	44,236	2,319	5.5%
b. General Administration and Expenses	<u>42,801</u>	<u>49,970</u>	<u>52,888</u>	<u>2,918</u>	5.8%
<i>Subtotal</i>	85,116	91,887	97,124	5,237	5.7%
<b>8. Athletics</b>	15,835	16,543	17,245	702	4.2%
<b>9. Physical Facilities</b>	115,281	122,447	129,224	6,777	5.5%
<b>10. Tsfr to Reserve for Renewal/Replacement</b>					
a. Major Maint, Renovation, Equipment	83,227	78,694	78,793	99	0.1%
b. Debt service - new construction	<u>1,716</u>	<u>1,860</u>	<u>1,860</u>	<u>0</u>	0.0%
<i>Subtotal</i>	84,943	80,554	80,653	99	0.1%
<b>11. Allowance for Contingencies</b>					
a. Provision for expenses	0	0	1,000	1,000	n/a
b. Anticipated vacancies	<u>0</u>	<u>-3,377</u>	<u>-3,327</u>	<u>50</u>	-1.5%
<i>Subtotal</i>	0	-3,377	-2,327	1,050	-31.1%
<b>Total Expense</b>	<b>896,548</b>	<b>920,206</b>	<b>962,773</b>	42,567	4.6%
Less Interdepartmental Transactions	<u>13,495</u>	<u>13,500</u>	<u>14,000</u>	<u>500</u>	3.7%
<b>Grand Total</b>	<b>883,053</b>	<b>906,706</b>	<b>948,773</b>	42,067	4.6%
<b>12. Estimated Income</b>	<u>883,053</u>	<u>906,706</u>	<u>948,773</u>		
<b>13. Surplus or (deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>		

## 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.
2. Student Fees. The increases in tuition revenues result almost entirely from the higher tuition rates being recommended. The growth in other fees occurs primarily because the student health plan fee is projected to increase from \$810 to \$1,000.
3. Gifts and Grants (non-government). There is a projected increase of about 3% 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 3% overall, with some additional growth expected from the Lewis-Sigler Institute for Integrative Genomics. 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, as well as an expectation that we will be able to achieve some improvement in the unusually high vacancy rates we are experiencing in the current year. The growth in "Other" income reflects increases in a number of areas, such as the Conference and Events Services and commercial rental income.
6. Service Departments. OIT income reflects normal adjustments for some service revenues. The change in the "Other" category reflects price adjustments for other service departments, 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. The increase in “other salaries and expenses” results mainly from inflationary adjustments to various components of academic departmental budgets, including the matching portion of assistant in research tuitions and higher projected expenditures in departmentally restricted and sponsored research accounts. 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 (including the impact of the higher Student Health Plan fee) and to reflect 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 higher Student Health Plan fee, the base inflationary adjustments to average stipend levels, and recommended increases in funding for merit stipend increases in the humanities and social sciences.
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. One-time FY05 costs are removed. The recommended funding for library acquisitions is included in line 6.a. An appropriate share of the recommended salary pool appears on each line.
7. Administration. Normal inflationary adjustments are included, and one-time FY05 costs are removed. The amounts recommended for Career Services and Health Services appear in line 7.a. The insurance costs associated with the improvements to the Student Health Plan appear on line 7.a. (The higher income and student aid amounts associated with the improvements appear on the other lines noted above.) The costs associated with the recommended change in LGBT Center funding appear on line 7.a., but the budgetary effect of the recommendation to absorb those costs is reflected as a reduction of the endowment income that is currently supporting them. The amounts recommended for the Office of General Counsel and the Office of

Internal Audit appear in line 7.b. 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. One-time authorized costs for FY05 are removed. An appropriate share of the recommended salary pool is also included.

9. Physical Facilities. This line includes inflationary adjustments in property taxes, water and sewer charges, insurance, and energy costs. The energy adjustment includes an expected modest decline from current levels of natural gas and oil prices. Various one-time adjustments are removed. 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. The temporary reductions in the renovation budgets for FY05 and FY06 that are discussed in the body of the report are reflected here.

11. Allowance for Contingencies. Line 11.a. reflects a contingency of \$1.0 million. This is less than our normal \$1.35 million in order to recognize the unusually difficult budget conditions we face in FY06, including our expectation that vacancy rates in our rental units, while improving, will still not fully have returned to normal levels by FY06. Line 11.b. reflects a slight adjustment in our faculty vacancy expectation, partly offsetting the higher expected level of appointments shown on line 1.a.1. above.

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 increases of seven-tenths of a point in the benefits rate for non-academic departments (to 27.4%) and one point for academic departments (to 33.0%).