



**PRINCETON
UNIVERSITY**

REPORT OF THE PRIORITIES COMMITTEE

TO THE PRESIDENT

Recommendations Concerning the Operating Budget

for 2011–2012

January 11, 2011



OFFICE OF THE PROVOST

January 11, 2011

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 2011-2012 (FY12). The Committee is once again proposing a balanced operating budget for FY12, but achieving that balance will depend both on a continuing commitment to the \$170-million, two-year budget savings plan that has brought us through the worst of the economic crisis and on our ability to call on additional financial reserves created through one-time budget savings and the redeployment of accumulated balances in some endowment accounts.

Many members of the University community joined efforts to help us get beyond the very challenging recessionary conditions of the past two years. Managers and employees, faculty members and students identified and implemented cost savings with a potent combination of creativity and discipline.

The Committee's recommendations fall into three major categories: tuition and fees; the employee salary pools; and strategic additions to the University's activities. For tuition and fees, the Committee recommends an overall 1% increase for FY12. This historically low increase took into account several features of the unusual economic circumstances of the past year: very low inflation, high unemployment, positive endowment returns, and the (once again) breathtakingly successful results of Annual Giving.

Last year's Committee stated plainly that, in order for the University to remain competitive in attracting and retaining the best faculty and staff, this year's Committee would need to contemplate significantly larger salary pools than were possible within the constraints of the previous two fiscal years. This year's Committee responded by recommending pools that exceed the low inflation rate and that will allow enough flexibility to recognize promotions, adjustments, and reclassifications for employees who reach these milestones. In addition, the Committee endorsed the 3% increase in graduate stipends that had been tentatively projected for FY12.

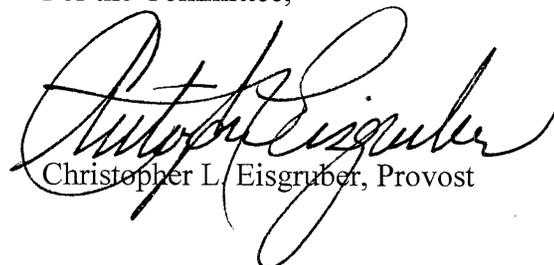
The Committee also recommends the addition of \$500,000 among the operating budgets of six units. About half this funding will go to Career Services, to help students investigate a broader range of employment opportunities, and to Human Resources, to help Princeton employees improve their skills through learning and development programs. Additional funding is also proposed to support University priorities in the arts (through caring for the Campus Collections), internationalization (through strengthening programming for international students and visitors), and sustainability (by including graduate students in the current program that provides incentives for using mass transit). Finally, the Committee recommends an addition to the budget for graduate student Assistants in Instruction (AIs) to respond to increased enrollments in science and laboratory courses, which require more intensive teaching resources than do other areas of the curriculum.

In response to lessons learned during the recent financial crisis, this year's Priorities Committee cycle incorporated a new process designed to identify and achieve cost savings. The process involves a new administrative committee, christened SUMAR ("Strengthening University Management and Resources"), which reported to the Priorities Committee for the first time this year and will report to it annually in the future. SUMAR's work will be an essential, ongoing effort to release resources that will help balance the budget and provide funds for future programmatic enhancements. SUMAR's annual report to the Priorities Committee will include a review of cost-savings measures implemented over the preceding year and a request for the Committee's blessing and support of cost-cutting measures that would have significant impacts on the community.

The out-year projections contained in this report underscore the importance of SUMAR's work. While the Priorities Committee's recommendations lead to a balanced budget in FY12, projections for the future raise questions about the sustainability of the current approach. Unless we experience faster growth in spendable pay-out from the endowment than we have assumed, future Priorities Committees will have to consider significant cost-saving or revenue-raising measures in order to position the University for a secure future.

As in years past, I wish to express my deep gratitude and appreciation to the members of the Committee, who impressed me once again with their hard work and selfless dedication to the best interests of the entire University community. Its members were an extraordinary and collegial group. I would also like to thank the Committee's superb staff—two veterans, Vice Provost Katherine Rohrer and Budget Director Steven Gill, joined this year by the very capable Associate Budget Director Steve Semenuk—who assisted the Committee in its work. Their tireless effort, unmatched expertise, and reliable wisdom were indispensable to the successful completion of our tasks.

For the Committee,



Christopher L. Eisgruber, Provost

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

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THE COMMITTEE

Christopher L. Eisgruber, Provost (chair)

Carolyn Ainslie, Vice President for Finance and Treasurer

Mark Burstein, Executive Vice President

Catherine Che '11

Judd Cramer *GS, Economics

Jared Crooks '11

Jill Dolan, Professor of English and Theater in the Lewis Center for the Arts

Alison Gammie, Senior Lecturer in Molecular Biology

Rhonda Hospedales, Office of Human Resources

Igor Klebanov, Professor of Physics

Sarah Paige '11

Sara Poor, Associate Professor of German

Carolyn Rouse, Professor of Anthropology and African American Studies

Clarence W. Rowley, Associate Professor of Mechanical and Aerospace Engineering

John Tully *GS, Classics

Toni Turano, Associate Dean of the Faculty (representing the Dean of the Faculty)

Haley White '12

MEETING WITH THE COMMITTEE

Steven Gill, Budget Director and Associate Provost for Finance

Steven H. Semenuk, Associate Budget Director

Katherine T. Rohrer, Vice Provost for Academic Programs (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 non-tenured faculty members, graduate and undergraduate students, and staff.

The Priorities Committee typically convenes in the months of October through January. It structures its work in four parts: a set of orientation meetings during which budgetary basics are reviewed, a series of presentations from senior officers, deliberative meetings to determine the Committee's recommendations, and a final set of meetings for the production of this report. During the presentations phase, 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-committee/PriComm_Final_Report_11-12.pdf.)

Each year the Committee also holds an open meeting to hear from any interested members of the University community who wish to comment on the 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. Reconvening in early January, the Committee finalizes its recommendations and submits them to the president for her approval and transmission to the board later in the month. The recommendations for the 2011–2012 (FY2012) operating budget are discussed in detail below.

II. Budgetary Background

In the two years preceding this one, the Priorities Committee convened during the most severe economic crisis in memory. This year's Committee met in circumstances that were considerably more encouraging but nevertheless still unusual and precarious. The endowment rebounded, posting a 14.7% return in FY10 under the wise stewardship of Andrew Golden and his team at PRINCO. This excellent result and the University's budget cutting plan (described in more detail below) returned the University's spend rate to around 5.1%, well within the policy band prescribed by the University's current spend rule. Annual Giving also rose in FY10, recording its highest participation rate in more than a decade and achieving its second highest cash total ever, \$48.9 million. This would have been a remarkable showing under any circumstances; it was an astonishing one given the economic environment. Inflation, meanwhile, was at record lows: CPI was tracking at around 1% for the year and HEPI (the Higher Education Price Index) was at a similar level. At the same time, the real economy remained in the doldrums, and headlines warned that another round of economic problems might lie ahead.

The University responded to the recession by implementing a two-year \$170 million budget adjustment plan. The current budget year, FY11, is the plan's second. The plan requires sustainable budget reductions in nearly every academic and administrative unit of the university. It also involves the establishment of additional financial reserves, created through one-time budget savings and through the redeployment of accumulated surpluses in some endowment accounts, which the University will draw down over a ten-year period to smooth the transition to its new budget baseline.

The Priorities Committee learned that academic and administrative departments throughout the University have continued to track toward the targets specified by the plan. Indeed, the October update of the FY11 budget indicated a \$5 million to \$7 million net positive variance by comparison to last January's projections. The most important contribution to this variance was in the undergraduate financial aid budget, which increased by approximately 6% from FY10 to FY11 rather than by the projected 9%. The Committee on

Undergraduate Admission and Financial Aid (CUAFA) had estimated last year that the effects of the recession on family income would cause the percentage of the freshman class on aid to rise to around 63%. This projection was very much a guess, since it endeavored to gauge the effects of unprecedented economic conditions, and it proved too conservative: the percentage on aid stabilized at around 59% to 60%. From a budgetary standpoint, this was very encouraging news, because it is likely that these savings will be sustainable in future years. Annual Giving also surpassed budgeted assumptions, and indirect cost recoveries from sponsored research rose even more rapidly than anticipated. Both of these favorable trends, like the financial aid numbers, appear sustainable into future years.

Though this good news was very welcome, the University's budget circumstances remain tightly constrained. The plan requires that all University departments remain within their rebaselined budgets in this and future years. Moreover, as the Finance Committee and the Priorities Committee recognized last year, the University must restore pre-recession salary pools for FY12 if it is to attract and retain the human talent—on both its faculty and its staff—that is critical to the University's success. Last year's Priorities Committee, with the blessing of the Finance Committee, built such salary pools into its multi-year projections, but those projections showed budget deficits that required increasing draws upon one-time reserves. This year's favorable variances thus did not create spendable surpluses but rather reduced the demand on reserves to the sustainable levels envisioned by the two-year budget reduction plan. Finally, the University's budget plan required it to pull back on various capital-type budget lines, including allocations for recruitment and retention of faculty, renovation of the campus, and the pre-payment of debt. These lines will need to be rebuilt to restore both the University's capacity to seize new opportunities and its ability to respond to unanticipated economic shocks in the future.

Against this complex background, the Priorities Committee approached its task guided by three basic considerations: the need to be sensitive to unusual economic circumstances that included low inflation, high unemployment, and great uncertainty about the future; the need to restore merit pools for salary increases; and the importance of sustaining the University's

recent budget cuts while also positioning the University to support new initiatives as it emerges from the trials of the recession.

A. Endowment Payout and the Infrastructure & Administrative Charge.

Princeton's endowment provides roughly 50% of the annual operating revenue. For that reason, one of the most important determinants of the University's budgetary outlook is the year-to-year change in endowment pay-out. These changes are governed by a spend rule (in other words, a policy about endowment spending) that is administered by the Trustees. The rule is not itself subject to the Priorities Committee's recommendations, but it requires the Committee's attention because it has such a large impact upon the University's income. Discussion of the spend rule was especially complicated this year, when the University's post-recession circumstances presented a unique set of challenges and opportunities.

Until two years ago, the University's spend rule had for many years specified that endowment pay-out per unit would increase by 5% per year. In addition, the University occasionally, after multiple years of strong endowment performance, declared "spend rule changes" which increased per-unit payout more dramatically. Departments benefitting from endowment income were thus in the happy circumstance of expecting that spendable funds from the endowment would rise by 5% in most years and by more in others.

In FY10 and FY11, however, the recession, and the resulting losses to endowment value, forced the University to reduce pay-out per unit by 8% per year, for a total reduction of 15.4% by comparison to FY09 levels. This year's positive 14.7% return on the endowment made it possible to contemplate an increase to per-unit payout in FY12. The administration and the Finance Committee discussed the structure and size of the increase over multiple meetings, and the provost briefed the Priorities Committee in detail about these discussions.

In light of the economic conditions previously summarized, the administration and the Trustees found themselves wrestling with multiple considerations. First, the economic upheaval of the last two years created uncertainty about whether previous assumptions

regarding long-term endowment return remained valid. Second, although long-term returns were debatable, short-term volatility appeared inevitable. Third, for reasons already stated, the University needed to increase endowment pay-out in FY12 sufficiently to meet the urgent need for a merit increase salary program. Fourth, as already observed, the University needed to avoid premature optimism and to begin rebuilding budgetary levers and shock-absorbers that could help Princeton to plan for and address future downturns.

The Finance Committee instructed the administration to review previous studies of endowment spending policies so that the Finance Committee might consider in spring 2011 whether the 5% annual increase that prevailed in the “old normal” continued to make sense in light of the economic fundamentals of the “new normal,” or whether a more conservative increase would be preferable. For FY12, however, the administration and the Finance Committee came to consensus on a one-year proposal that increases per-unit payout by 5% (from FY11 to FY12) but couples that increase to a series of budgetary and accounting changes that improve transparency and enhance the University’s capacity to deal with budgetary fluctuations.

The accounting changes include elimination of a decades-old practice called the ‘thirteen-month lag.’ Under that program, the University began debiting endowed accounts more than one year in advance of the time when it released the relevant funds for expenditure. Thirty years ago, this practice was necessary to ensure that cash was available at the time funds were expended. Over time, the policy also imposed a kind of indirect and opaque tax to support the indirect costs of endowed activity: because the University held debited funds centrally for up to a year, it had the option to invest those funds during that period in ways that might (and did at times) generate income. The University controlled the resulting resources centrally.

The thirteen-month lag is no longer a necessary element of the University’s cash-management policy. It is opaque, it frustrates budgetary planning in the departments (because it makes it hard for managers to understand their accounts), and it is unpopular with donors who know about it. The University will therefore eliminate the lag. It is still necessary, however, to pay for the indirect costs of endowed activity, and the University will accordingly

implement an “Infrastructure and Administration Charge” sized to be roughly equal to the average earnings it collected on the thirteen-month lag. The size will be 1.5% of FY11 per-unit payout (this charge, like the more opaque mechanism that preceded it, pays for only a small fraction of the indirect costs associated with endowed activity). The charge will apply to all endowed funds, whether managed departmentally or centrally, except where the deed of gift prohibits the imposition of such a charge or where the fund is already paying full overhead. Princeton’s peer institutions generally impose significantly larger charges of this kind, and the provost informed both the Priorities Committee and the chairs of academic departments that the University may have to raise its charge in the future—most likely in connection with an upward spend rule change or, less happily, in the distress of another economic crisis.

The net effect of these changes is that most departments will in FY12 see a 3.5% increase in their spendable endowment payout per unit: 5%, minus the 1.5% that goes to create the IAC. In future years, they will get the additional accumulations that would otherwise have been collected by the central administration. As a result, the new policy offers benefits to both the central administration and individual departments:

- The new accounting system will provide a more transparent mechanism to support indirect costs and so will facilitate planning for budgetary contingencies.
- The central administration, which collects the IAC, will see a net 5% increase to per-unit pay-out which will enable it to afford the salary pools recommended below (and endorsed by the Trustees last year).
- Departments that benefit from endowment pay-out will see a 3.5% per-unit increase in FY12 by comparison to FY11, more than the 3% that we have been advising them to use in their budget projections since last spring.
- The 3.5% increase to endowed departments, while exceeding prior expectations, will not be so large as to induce them to ramp up programmatic activity too rapidly.

The administration and the Trustees recognized the importance of implementing the Infrastructure and Administration Charge in a way that was fully respectful of donor intent and the University's stewardship responsibilities. The provost accordingly discussed the legal and stewardship aspects of the new Infrastructure and Administration Charge with both the University's Office of General Counsel and the Vice President for Development, who were supportive. The provost shared the reasoning behind the changes with the chairs of academic departments, who supported the move toward greater transparency.

III. Recommendations

A. *Fee Package.*

Princeton has an endowment-driven budget: the University's endowment generates roughly fifty percent of the University's operating revenue. As a result, the impact of modest changes in the endowment spend rate greatly exceeds the impact of increases to the fee package. This unusual circumstance gives Princeton a greater range of options with regard to its fee package than would be the case if the University were more heavily dependent on tuition revenue. In recent years, the Priorities Committee and the Finance Committee have engaged in lively discussions about the principles that ought to guide the choice among these options.

Those discussions took place again this year, and participants proposed a variety of perspectives on the question. Members of the Committee noted the relevance of many different and competing factors, including the following:

- the rising cost of higher education is a major concern of national policy-makers and a significant burden upon tuition-paying families
- increases to the cost of higher education are attributable not only to inflation but also to improvements in the quality of educational programs and experiences, and these improvements are highly valued by students and parents

- Princeton's financial aid program is exceptionally generous and protects students' families from fee increases, so that increases are felt only by families in the top five percent of the American income distribution
- Princeton subsidizes the education of every student, even those paying full tuition: the full annual cost of a year of undergraduate education is roughly two (or more) times the tuition price
- Princeton's fee package is lower than that of comparably endowed peers even though Princeton offers an undergraduate education that is as good or better than what those peers offer
- Princeton's commitment to financial aid and the University's relatively low (by comparison to some peer institutions) annual fee package increases are sources of pride among Princeton's loyal alumni community

In light of these considerations, reasonable people can and do differ about whether the most mission-consistent way to use marginal dollars of endowment revenue is to improve the quality of education and research, to enhance financial aid, or to sustain or increase the subsidy that the University provides even to the wealthiest tuition-payers. No consensus was reached on these philosophical issues, but members of the Priorities Committee agreed that, in light of the unusual economic circumstances prevailing this year, Princeton's fee package increase ought to be very low. The relevant circumstances include the following factors: the favorable endowment returns achieved by PRINCO, the excellent result from Annual Giving, the record-low HEPI rate, and durable rates of high unemployment in the economy at large. In a year when Princeton had done relatively well and many families continued to struggle, the Committee felt it appropriate to hold down the increase to the fee package to levels consistent with the very low inflation rates experienced by the University.

Some members of the Committee emphasized that the low HEPI rates were unlikely to persist, since they were generated by (among other things) unsustainably low salary pools at many universities, including Princeton. As a result, they observed, the FY12 tuition increases were likely to be lower than the FY12 HEPI rate. Nevertheless, all members of the Committee agreed that, in the circumstances that prevailed this year, it was desirable to restrain the rate of increase of the fee package to a level that reflected, but did not exceed, the inflation rate the University experienced in FY11.

The Committee accordingly recommends a 1% increase to the overall fee package, composed of a 1% increase to tuition, a 2% increase to room rates, and a 0% increase to board rates. The recommendation on tuition tracks the HEPI index. The 2% increase to room rates reflects the fact that Princeton's rates are now lower than those at its Ivy League counterparts. The flat board rates take into account cost savings achieved by Dining Services, lower inflation rates for food prices, and recent trends in student purchasing preferences that have benefitted the bottom line of Princeton's dining services. For example, renovations to Princeton's dining halls allowed for more efficient serving options that have reduced food waste, and more juniors and seniors are purchasing meal plans, thereby enabling Dining Services to lower its per capita costs.

PROPOSED INCREASE IN TUITION AND FEES FOR 2011-2012

	<i>2010-2011</i>	<i>2011-2012</i>	<i>% Change</i>	<i>\$ Change</i>
Tuition	\$36,640	\$37,000	1.0%	\$360
Room	\$6,467	\$6,596	2.0%	\$129
Board	\$5,473	\$5,473	0.0%	\$0
Total	\$48,580	\$49,069	1.0%	\$489

These are the lowest increases to Princeton's fee package since 1966, when total fees were held flat following an 11% increase in 1965.

The Committee's recommendations also include a 1.0% (\$360) increase in the rate of regular graduate tuition, from \$36,640 to \$37,000, the same as undergraduate tuition; a comparable increase in the rate of DCE (Dissertation Completion Enrollment) graduate tuition, from \$2,780 to \$2,800; average increases in room and board rates at the Graduate College of 2.0% and 0% respectively; and an increase in the Student Health Plan fee from \$1,450 to \$1,620. The significant increase to the Health Plan fee is necessary to offset rapidly rising medical costs.

B. Salary Pools.

Last year, both the Priorities Committee and the Finance Committee of the Board of Trustees emphasized the need to restore pre-recession salary pools for FY12. The two Committees observed that such pools were desirable for two independent reasons. First, those pools, unlike the lock-step increase programs of the last two years, permit the recognition of outstanding achievement by members of the faculty and the staff. Second, improved pools are essential if Princeton is to attract and retain the outstanding talent on which the quality of the University depends.

As usual, the Priorities Committee heard reports from both the Dean of the Faculty and the Vice President for Human Resources about the competitive pressures on Princeton's faculty and staff labor pools. Both the Dean and the Vice President expressed concern. Even in a constrained hiring environment, other universities find Princeton's faculty members attractive: a school or department with only one search may use it to go after a Princeton professor, and the Dean reported having to contend with numerous retention issues over the past year. The Vice President likewise described to the Committee a situation in which some valued staff members had left Princeton for other institutions. Moreover, data on competitors suggested that Princeton's discipline about salary increases over the last two years had been tighter than at alternative employers, particularly with regard to higher-paid staff salaries.

Thanks in large part to the budget discipline exercised by managers across campus and the successful implementation of the \$170 million savings plan, the University will be able to

institute salary increase merit pools for FY12 that will exceed the current low inflation rate. In addition, the operating budget will contain enough funding for promotions, adjustments, and reclassifications to ensure that faculty and staff members who reach these milestones are properly rewarded for their achievements. These pools add approximately \$8 million in expenses to those the University would incur if it were instead to repeat FY11's 1.5% lock-step salary pools in FY12.

C. *Programmatic Recommendations.*

Because the University continues to operate in a transitional budgetary phase, within which it draws (by design) on reserves that it generated to smooth the changes to its budget, the Priorities Committee's capacity for allocations was constrained in two ways. First, the Committee was limited to a maximum of \$500,000 to allocate for programmatic improvements, as has been the case in every recent year when the University did not enjoy secure prospects for recurring operating surpluses. Second, the Committee recognized an obligation to preserve the budget cuts imposed during the past two years, which are critical to the integrity of the University's budget plan going forward. The Committee accordingly limited its attention to proposals that advanced new university initiatives or responded to new needs, rather than those that might alleviate the pressures and challenges associated with the recent round of budget cuts.

The Committee's constraints, and the need for continued budgetary discipline, were communicated by the administration to managers throughout the University, and those managers accordingly exercised considerable restraint with regard to the requests they put before the Committee. Several major units—including Facilities, the Library, and the Office of Information Technology—made no requests this year. Their decisions, obviously, reflected not an absence of creativity, nor an absence of budgetary pressure on their operations, but, on the contrary, recognition that the University's circumstances (despite the previously noted improvements in the endowment's performance) required continuing creativity from managers to meet needs without requesting budget increases.

The Committee accordingly began its deliberations with \$500,000 to allocate to \$779,000 in programmatic requests. The Committee's allocations focused on employment-related pressures that have affected students and staff especially acutely as a result of the depressed economy and on support for major university initiatives.

The largest allocation from the Committee went to Career Services to support two new FTEs (that is, full time equivalents—in other words, new positions). Career Services has been the focus of concerns expressed over multiple years by undergraduate students, graduate students, and trustees. These concerns have, of course, become more acute during the recession, which has heightened the difficulty of finding jobs and the anxieties that students feel about their careers. Career Services had made a request for additional staffing three years ago, but the Committee turned down that request partly because undergraduate members of the Committee believed that it did not address the core problems they experienced when dealing with Career Services (including, in particular, a perceived focus on an unduly narrow range of employment opportunities).

This year, with the arrival of Vice President for Campus Life Cynthia Cherrey and the impending transition in the Office of the Dean of the College, the University moved Career Services from the Dean to the Vice President (this change had the enthusiastic support of both offices). The Vice President brought in an outside consultant to assist with a review of Career Services. On the basis of this information and the University's priorities, the Vice President requested two new FTEs for Career Services, one focused on employment opportunities in the arts, non-profits, foundations, and government agencies, and the other focused on leveraging alumni connections (this second proposal had the full backing of Assistant Vice President Margaret Miller on behalf of the Alumni Council). The Committee was pleased that the proposed positions corresponded with important University priorities, and that they would not only enhance the overall capacity of Career Services to assist students but also enable the office to broaden the range of opportunities presented by the office.

In the midst of the Committee's work, the Vice President for Development informed the Committee that Princeton was very likely to receive a gift to name the directorship of

Career Services. This gift would provide part of the funding necessary to support the two new FTEs, and so reduced the overall price of those two FTEs to the Committee. The Committee found the request from the Vice President for Campus Life persuasive and well-timed. It recommended that the full request be funded.

The Committee's second largest recommended allocation also focused on how the depressed national economy had affected the Princeton community. The Committee supported in full a request from the Vice President for Human Resources for an additional FTE to provide training sessions for Princeton employees, and supported partial funding for a related request to pay for additional learning and development programs for employees. The Vice President for Human Resources reported that because of favorable responses to existing programs for both bi-weekly and administrative staff, demand for such programs had swelled to a point where her office was unable to supply the programs that employees wanted. She observed that such programs had at least two benefits: they improved the performance and morale of Princeton's employees, and they enabled the University to retain valued employees by providing them with paths to promotion and ways to make their workplace experiences more rewarding. The Committee noted that these objectives were both consistent with the University's commitment to learning and building human capital for all of its members—including staff, who play an integral role in the University community—and especially timely given the pressures on the University's staff generated by the recent recession. It accordingly provided full support for the requested FTE, and it funded as much of the programmatic request as was possible given the constraints of the Committee's budget envelope.

These employment-related requests from Career Services and Human Resources consumed slightly more than half of the \$500,000 allocable by the Committee. In addition to these requests, the Committee recommended funding for four other requests related to high-priority university initiatives:

- *The Arts.* For years, many pieces of campus art at Princeton have been, in effect, beloved orphans: though cherished by the community, they have had no department willing to claim responsibility for maintaining them and no budget

allocated for doing so. A previous Priorities Committee solved the first half of this problem by creating a Curator for the Campus Collection, but that Committee felt unable to supply the maintenance budget required for the Curator's work. The Art Museum had worked with the provost's office to identify term funds to support some urgent projects, but the Museum came back this year to the Priorities Committee—as the earlier Committee had suggested—to seek ongoing support for its conservation efforts. The Committee found this request compelling in light of the need to steward campus assets prudently and President Tilghman's emphasis on the importance of the arts.

- *Internationalization.* A second major initiative of the Tilghman presidency seeks to increase the flow of students and scholars across international boundaries. This initiative is bringing many educational and research benefits, but it is also adding to the workload for certain campus offices, including, in particular, the Davis International Center and one of its constituent parts, the Office of Visa Services. During a recent reorganization, the Center ramped up the portion of its resources allocated to visa processing. This change was essential if the Center was to meet the demands for visa services on the campus, but it left a deficiency in the Center's capacity to supply programming, including orientation programs for international students that are required by law. The Committee endorsed the Davis International Center's request for an additional half-time staff position to provide that programming because of its connection to major university priorities and to the University's compliance obligations.
- *Sustainability.* The University's benefits programs for its employees include a mass transit subsidy for those who commute to work via rail or bus services, providing 50% of the cost of a monthly ticket. Participants in the mass transit subsidy, the most highly subscribed incentive of the University's Transportation Demand Management program, are not eligible for campus parking permits. The Graduate School requested that this opportunity be extended to graduate students as well. The School pointed out that doing so would have multiple advantages.

Graduate students who participate in the program will not bring cars to campus; having fewer car-commuters helps the University to meet its sustainability goals and also reduces the number of parking spaces it must supply. Such subsidies also make it more feasible for some graduate students to live off-campus, which is important because the University's capacity to supply on-campus housing is limited. The Committee supported this request because of its relation to the University's sustainability goals and because of the importance of providing an array of benefits that will help the University to attract the best graduate students.

- *Expansion of the Undergraduate Student Body.* Princeton has now admitted two classes of 1300 students; after two more years, it will have achieved its expansion target of 5200 students, a 500-student increment over its previous level of 4700. The University undertook this expansion with a commitment to preserve the quality and intensity of the Princeton experience. The University recognized that doing so would require supplemental staffing in various areas, including with regard to Assistants-in-Instruction (AI's), the graduate students who lead precepts, provide laboratory instruction, and in other ways assist the teaching enterprise. The expansion-related demand for AI's has, however, outstripped the University's projections because the additional students are taking laboratory and science courses in higher numbers than projected, and these courses involve more intensive demand for AI hours. The Dean of the Faculty requested funding for additional AI hours to meet this demand. He provided a conservative estimate of the hours required; depending on how enrollments evolve over the next two years, additional hours may be needed. The Committee funded the Dean's request in full because of its connection to the University's core teaching mission.

D. Graduate Stipends.

The Committee's recommendations also include a 3% increase for graduate stipends. This increase was built into the base budget derived from the projections done by last year's Committee. The Graduate School requested additional funding to raise the increase to 3.8%.

The School recommended the larger increase in order to maximize Princeton's ability to compete for the most sought-after graduate students.

The Committee agreed vigorously and unanimously that the capacity to attract top-flight graduate students is critically important to the quality of the University's research and teaching programs. Nevertheless, the Committee did not think it appropriate to fund the School's request for stipend increases greater than 3% this year. The Committee had several reasons for that conclusion. Princeton's base stipends are currently the second-highest in the nation, with Harvard's stipends being modestly higher. The 3% figure contemplated in the budget projections was a healthy increase relative to the low CPI of about 1%, was comparable to the coming year's salary pools for employees, and was more than sufficient to cover the modest increased housing costs of graduate students occupying university units (this group is a substantial fraction of the total graduate student body: Princeton houses more than 70% of graduate students who are in their first five years of study). In addition, unlike faculty and staff salaries, all graduate stipends had increased in each of the last two years despite the constraints of the recession. The Committee also drew upon survey data showing that graduate students who turned down the University's offer of admission were driven by programmatic strengths and weaknesses, not concerns about stipends, which they generally regarded as satisfactory. Finally, it questioned whether competitive pressures might be met more efficiently by targeted top-ups rather than increases to base stipend levels for all students. The Committee accordingly encouraged the Graduate School to come back next year with another proposal, accompanied by a thorough analysis of competitive pressures and possible responses to them.

E. Rents.

The Priorities Committee annually reviews recommendations from the University Housing Office regarding rental rates for graduate student, faculty, and staff housing. The University seeks to maintain rough parity between its housing prices and market rates, and the Housing Office accordingly bases its recommendations on appraisals of university properties and on market survey data. This year the Office recommended increases on graduate housing

rates ranging between 1.0% and 3.5% (the latter for a very small number of units); the average rate of increase across all graduate housing units would be 2.3%. The Office recommended increases upon faculty and staff rental rates ranging from 1% to 4%, with the average increase being 1.7%. The Committee was satisfied that these increases were consistent with market considerations and that they were likely to be affordable to affected students and employees in light of the recommended stipend increases and MIP pools. The Committee accordingly endorsed the recommendations.

F. Financial Aid.

Each year the Committee on Undergraduate Admission and Financial Aid (CUAFA) recommends to the Priorities Committee a “stay even” budget that meets the full need of all admitted students. The “stay even” budget adjusts aid awards to take into account rising costs faced by students, including costs that result from increases to the University fee package.

The “stay even” budget also incorporates projections about changes in the size of the undergraduate population and the percentage of students on aid. The changes in both of these variables are expected to be minimal for next year. The budget also factors in the anticipated scholarship savings from implementing the new Student Health Plan policy described below. The result is that total undergraduate scholarship expenditures from Princeton sources are expected to rise less than 1%, to roughly \$110 million. By far the largest driver of scholarship costs in FY2012 is the historically low fee package increase; had fees increased at last year’s 3.3% rate, the scholarship budget would have grown 3.9%, to \$113.5 million. The Committee strongly endorsed the University’s leadership commitment to financial aid and CUAFA’s “stay even” budget.

G. Budget Reduction Plans.

In the wake of the recession, the University’s capacity to pursue new initiatives and advance its mission effectively will depend more than ever before on its ability to find creative

efficiencies and cost-savings. Moreover, the exigencies of the budget crisis made clear that the University had some operational inefficiencies that ought ideally to have been disclosed by the University's routine budget processes—in other words, while some cuts required by the two-year plan were very difficult, others were easier than they should have been.

To address this problem and improve the identification of cost-saving measures, the University has now incorporated a cost-savings focus into the Priorities Committee process. A new committee, christened SUMAR (“Strengthening University Management and Resources”), will now report regularly to the Priorities Committee. Relying on suggestions from campus community members, SUMAR's work will be an essential, ongoing effort to release resources that will help balance the budget and provide funds for future programmatic enhancements. SUMAR's annual report to the Priorities Committee will include a review of cost-savings measures implemented over the preceding year and a request for the Committee's blessing and support of cost-cutting measures that would have significant impacts on the community.

Treby Williams, Assistant Vice President for Safety and Administrative Planning and the leader of SUMAR, reviewed for the Priorities Committee a series of campus-wide cost-savings initiatives and then sought feedback from the Committee about two specific initiatives. The first proposal aimed to ensure that the University delivered its financial aid benefits as efficiently and cost-effectively as possible. SUMAR recommended, and the Priorities Committee supported, a change to the Student Health Plan that would transition it from an “opt-out” to an “opt-in” structure: this shift would avoid needless expenses incurred by the University when financial aid students default to university coverage (for which the University covers the premiums) even though they already have coverage under their parents' plans. The Committee's recommended budget incorporates this change.

SUMAR also vetted with the Committee various options for constraining the growth of healthcare costs in employee benefit plans. Like other employers, the University is seeing rapid increases in its healthcare costs, and it must find ways to control these costs or make other sacrifices in its budget plan. SUMAR discussed with the Committee various strategies

for incentivizing employees to make more cost-effective healthcare choices, such as using generic drugs rather than brand-name ones, paying attention to the pricing of medical procedures, and selecting lower-cost health care plans. Several members of the Committee felt that clearly communicating the actual cost of medical services to participants in the University's health-care plans could help provide downward pressure on rising costs. The Committee deliberated these options at two separate meetings, and concluded by encouraging SUMAR and the University's Benefits Committee to continue analyzing and pursuing them. It is expected that a detailed proposal will be shared with next year's Priorities Committee.

IV. The Outlook for the Future

At the end of each Priorities Committee process, the Committee reviews projections for an additional three budget years beyond the upcoming one. The University budget office typically constructs the projections by extending for another three years the growth rates recommended for the budget year's fee package, salary pools, endowment pay-out, rents, inflation allowances, and other variables. Estimates for items not under the University's direct control—such as funding for sponsored research, Annual Giving and other fundraising, and taxes and fees—are based on assessments of likely average growth rates. The budget office also layers in the impact of new programs, initiatives, and facilities, as well as any changes to undergraduate or graduate enrollments.

Because the projections extrapolate forward this year's recommendations without attempting to predict how the University's circumstances might change in the future, it would be a mistake to treat them as a forecast. Economic circumstances will inevitably change, and the University's budgetary choices will evolve in response to such changes. The projections nevertheless serve two useful purposes: they test whether recommendations for the upcoming budget year are sustainable, and they establish a starting point for the discussions of next year's Committee.

This year's projections underscored that the University has not yet fully recovered from the recent recession. If the University were to repeat this year's salary pools, fee increases,

and increases to endowment payout, it would face budget deficits beginning at \$10 million in FY13 and compounding to more than \$18 million per year by FY15. If pay-out per unit of the endowment were to increase more slowly, then deficits would grow more rapidly. For example, if pay-out per unit rose by 4% per year rather than 5% per year, the deficits would begin at \$14 million per year and compound to more than \$31 million per year by FY15.

Deficits of that size are not sustainable, and the University will have to improve upon the scenarios described by the projections. Through SUMAR and other processes, the University will continue to look for cost-savings opportunities and efficiencies that will ease the budget pressures. The University also has a number of other options by which to contain the deficits, but none of them is easy and each of them has liabilities. For example, a 1% decrease to salary pools would save \$4.4 million in FY13 compounding to more than \$14 million in FY15, but the University must pay competitive salaries to retain the talent upon which its success depends. Raising the fee package by 2% per year—rather than replicating this year’s 1% increase—would produce \$1.3 million per year of revenue, net of financial aid, in FY13 compounding to more than \$4 million in FY15. Returning to last year’s projected rate of increase—3.3% —would result in more than \$9 million of net additional revenue (by comparison to the 1% baseline projection) annually by FY15. Such increases would, however, add to the burden that the fee package imposes on families that do not qualify for aid.

Last year’s Committee report noted some of the other levers that the University might pull to eliminate the deficits that it will confront in the years ahead: it might consider pulling back further on its capital program; it might shift the composition of its faculty more aggressively toward junior positions; it might seek new and additional opportunities for operational savings; or it might allow the endowment spend rate to rise higher than has been deemed acceptable in the past (and thereby increase endowment income in the near term at the expense of endowment growth over the long term). The University is now committed to shifting the mix of its faculty toward the junior ranks. Last spring, the Dean of the Faculty launched an enhanced retirement incentive program funded through this mechanism: by replacing retirees at the junior rather than the senior level, the University will eventually pay for the incentive program. The projections reviewed by the Committee already incorporate the

savings that will be achieved through implementation of the Dean's plans; an even more aggressive shift toward junior hiring would be necessary to address the deficits shown in the projections.

Though sobering, those deficits are less daunting than the ones contemplated by last year's projections. The improvement reflects the fact that the percentage of students on financial aid increased less rapidly than anticipated in FY11. CUAFA predicts that the aid population of the incoming class will remain steady at 60% in FY12. If this trend persists, the financial aid budget will reach a kind of equilibrium for the first time in a decade after having increased by an average of 12.5% per year since Princeton adopted its no-loan policy ten years ago. Of course, Princeton remains committed to meeting the full need of every admitted student, and it is entirely possible that future classes will have larger numbers of students on aid than the current ones. Each 1% increase in the percentage of the student body on aid would result in a \$2 million addition to the financial aid budget.

Despite the worrisome deficits, the overall picture looks more promising than it did in either of the last two years. Nevertheless, the University clearly has hard work to do and difficult choices to make. That conclusion came as no surprise to the Committee, since last year's Committee anticipated that restoring pre-recession salary pools would create the possibility of recurring deficits. Fortunately, the University community has demonstrated over the past two years its capacity to react quickly and effectively to financial adversity. The Committee thus endorsed the recommendations contained in this report with respect for the challenges that lie ahead but confidence in Princeton's ability to meet them.

**PRIORITIES COMMITTEE SCHEDULE
2010 – 2011**

*****REVISED*****

(Unless otherwise noted, all meetings are scheduled for 4:30 p.m. to 6:15 p.m. in Prospect House, Room E.)

<i>Day</i>	<i>Date</i>	<i>Time</i>	<i>Topic</i>	<i>Presenter/Invited Guest</i>
Tuesday	October 19	4:30 p.m.	Orientation	Introduction to Priorities Committee Operating Budget, Capital Budget
Wednesday	October 20	4:30 p.m.	Development	Elizabeth Boluch Wood <i>Vice President for Development</i>
		5:15 p.m.	Endowment, Sponsored Research	
Tuesday	October 26	4:30 p.m.	University Savings Initiatives	Mark Burstein , <i>Executive Vice President</i> Treby Williams , <i>Assistant Vice President for Safety and Administrative Planning</i>
Wednesday	*October 27*	4:30 p.m.	Budget Update	
		5:15 p.m.	Tuition and Fees	Chad Klaus <i>Assistant Vice President, Office of the Vice President for Facilities</i>
Meeting Location Change Frist Campus Center <u>EAS Seminar Room 234</u>				
[Fall Recess October 30 – November 7]				
Tuesday	November 9	4:30 p.m.	Information Technology	Betty Leydon <i>Vice President for Information Technology</i>
		5:00 p.m.	Facilities	Mike McKay <i>Vice President for Facilities</i>
		5:30 p.m.	Orientation	Endowment (continued)
Wednesday	November 10	4:30 p.m.	Library	Karin Trainer <i>University Librarian</i>
		5:15 p.m.	Faculty Staffing	David Dobkin <i>Dean of the Faculty</i>
Monday	November 15	4:30 p.m.	CPUC Discussion of Priorities Committee Recommendations and Report	
		7:30 p.m.	Priorities Committee PUBLIC MEETING, McCosh 28 (All members should attend)	
Tuesday	November 16	4:30 p.m.	Campus Life	Cynthia Cherrey <i>Vice President for Campus Life</i>
		5:15 p.m.	Administrative Offices	Mark Burstein <i>Executive Vice President</i>

<i>Day</i>	<i>Date</i>	<i>Time</i>	<i>Topic</i>	<i>Presenter/Invited Guest</i>
Wednesday	November 17	4:30 p.m.	Faculty Salaries	David Dobkin <i>Dean of the Faculty</i>
			Staff Salaries	Lianne Sullivan-Crowley <i>Vice President for Human Resources</i>
Friday	November 19	1:15 p.m.	Meeting of Priorities Committee with the Finance Committee of the Board of Trustees for a General Discussion of the Budget	
Tuesday	November 23	4:30 p.m.	Undergraduate Financial Aid	Nancy Malkiel <i>Dean of the College</i> Janet Rapelye <i>Dean of Admission</i> Robin Moscato <i>Director of Undergraduate Financial Aid</i>
		5:15	Graduate School	William Russel <i>Dean of the Graduate School</i>
[Thanksgiving Recess—November 25 – 28]				
Tuesday	November 30	4:30 p.m.	Budget Update; Deliberations	
Wednesday	December 1**	4:30 p.m.	Deliberations	
Tuesday	December 7**	4:30 p.m.	Deliberations; University Savings Initiatives	
Wednesday	December 8**	4:30 p.m.	Deliberations	
Tuesday	December 14**	4:30 p.m.	Preliminary Recommendations	
Wednesday	December 15	4:30 p.m.	Preliminary Recommendations	
Friday	December 17 Chancellor Green Room 105	10 a.m.	Meeting of Priorities Committee Members with the Full Finance Committee for Presentations of Tentative Recommendations	
[Winter Recess December 18 – January 2]				
Tuesday	January 4	3:30 p.m.	Final Discussion/Projections/Final Report	
Thursday	January 6	3:30 p.m.	Final Discussion/Projections/Final Report	
Friday	January 21	T/B/A	FYI: President and Provost Present Final Budget Recommendations to Finance Committee and Board of Trustees. (Committee members do not attend.)	

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

PRINCETON UNIVERSITY
Operating Budget: Income
(dollars in thousands)

	2009-10 <u>Actual</u> (1)	2010-11 Current <u>Estimate</u> (2)	2011-12 <u>Projection</u> (3)	Difference <u>(3) - (2)</u> (4)	% Diff <u>(3) - (2)</u> (5)
1. Endowment Payout and Other Investment Income	679,605	630,484	660,384	29,900	4.7%
a. Income transferred (to) from fiscal periods	<u>-17,230</u>	<u>7,423</u>	<u>7,752</u>	<u>329</u>	<u>4.4%</u>
<i>Subtotal</i>	662,375	637,907	668,136	30,229	4.7%
2. Student Fees:					
a. Undergraduate Tuition	173,650	184,611	188,090	3,479	1.9%
b. Graduate Tuition	73,582	78,172	81,522	3,350	4.3%
c. Other	<u>10,818</u>	<u>11,299</u>	<u>11,864</u>	<u>565</u>	<u>5.0%</u>
<i>Subtotal</i>	258,050	274,082	281,476	7,394	2.7%
3. Gifts, Grants, & Other:					
a. Sponsored Projects	28,449	27,857	28,118	261	0.9%
b. Other	<u>96,588</u>	<u>106,384</u>	<u>108,723</u>	<u>2,339</u>	<u>2.2%</u>
<i>Subtotal</i>	125,037	134,241	136,841	2,600	1.9%
4. Federal & State Government:					
a. Sponsored Projects	225,730	242,524	252,074	9,550	3.9%
b. Other	<u>14,610</u>	<u>14,466</u>	<u>14,784</u>	<u>318</u>	<u>2.2%</u>
<i>Subtotal</i>	240,340	256,990	266,858	9,868	3.8%
5. Auxiliary Activities:					
a. Athletics	2,128	2,361	2,380	19	0.8%
b. Dorm & Dining Services	61,016	63,315	64,464	1,149	1.8%
c. Rental Housing	16,638	16,583	16,669	86	0.5%
d. Other Income	<u>19,817</u>	<u>19,527</u>	<u>19,877</u>	<u>350</u>	<u>1.8%</u>
<i>Subtotal</i>	99,599	101,786	103,390	1,604	1.6%
6. Service Departments:					
a. Office of Information Tech	1,472	1,479	1,479	0	0.0%
b. Other	<u>4,334</u>	<u>4,078</u>	<u>4,041</u>	<u>-37</u>	<u>-0.9%</u>
<i>Subtotal</i>	5,806	5,557	5,520	-37	-0.7%
Total	1,391,207	1,410,563	1,462,221	51,658	3.7%
Less Interdepartmental Transactions	<u>11,495</u>	<u>11,500</u>	<u>11,500</u>	<u>0</u>	<u>0.0%</u>
Grand Total	1,379,712	1,399,063	1,450,721	51,658	3.7%
Summary of Sponsored Projects:					
a. Direct Costs	209,131	221,611	228,822	7,211	3.3%
b. Indirect Cost Reimbursements	<u>45,048</u>	<u>48,770</u>	<u>51,370</u>	<u>2,600</u>	<u>5.3%</u>
Total	254,179	270,381	280,192	9,811	3.6%

PRINCETON UNIVERSITY
Operating Budget: Expense
(dollars in thousands)

	2009-10 <u>Actual</u> (1)	2010-11 Current <u>Estimate</u> (2)	2011-12 <u>Projection</u> (3)	Difference <u>(3) - (2)</u> (4)	<u>% Diff</u> <u>(3) - (2)</u> (5)
1. Academic Depts & Programs:					
a. Instruction Costs					
1. Faculty, academic year	158,177	162,656	172,418	9,762	6.0%
2. Teaching Assistants	19,330	21,280	21,720	440	2.1%
b. Sponsored Research direct costs	131,187	141,067	148,312	7,245	5.1%
c. Other salaries, expenses	<u>163,616</u>	<u>174,823</u>	<u>183,753</u>	<u>8,930</u>	<u>5.1%</u>
<i>Subtotal</i>	472,310	499,826	526,203	26,377	5.3%
2. Plasma Physics Laboratory	79,103	82,000	82,000	0	0.0%
3. Undergraduate Scholarships	102,543	109,206	110,011	805	0.7%
4. Graduate Fellowships	88,098	91,746	96,664	4,918	5.4%
5. Other Student Aid and Misc Fellowships	8,972	8,797	9,041	244	2.8%
6. Central University Services:					
a. Library	53,976	52,710	55,177	2,467	4.7%
b. Office of Information Technology	33,474	34,600	36,150	1,550	4.5%
c. Public Safety	6,932	7,529	7,912	383	5.1%
d. Other	<u>2,807</u>	<u>3,026</u>	<u>3,177</u>	<u>151</u>	<u>5.0%</u>
<i>Subtotal</i>	97,189	97,865	102,416	4,551	4.7%
7. Administration:					
a. Academic Administration and Student Services	67,526	72,371	75,818	3,447	4.8%
b. General Administration and Expenses	<u>66,872</u>	<u>70,394</u>	<u>72,990</u>	<u>2,596</u>	<u>3.7%</u>
<i>Subtotal</i>	134,398	142,765	148,808	6,043	4.2%
8. Athletics	21,590	21,250	22,184	934	4.4%
9. Physical Facilities	156,488	165,617	164,578	-1,039	-0.6%
10. Tsfr for Renewal/Replacement/Debt	219,103	192,316	200,466	8,150	4.2%
11. Allowance for Contingencies					
a. Provision for expenses	0	675	1,350	675	100.0%
b. Anticipated vacancies	<u>0</u>	<u>-1,500</u>	<u>-1,500</u>	<u>0</u>	<u>0.0%</u>
<i>Subtotal</i>	0	-825	-150	675	-81.8%
12. VIRP (one-time payments)	11,413	0	0	0	
Total Expense	1,391,207	1,410,563	1,462,221	51,658	3.7%
Less Interdepartmental Transactions	<u>11,495</u>	<u>11,500</u>	<u>11,500</u>	<u>0</u>	<u>0.0%</u>
Grand Total	1,379,712	1,399,063	1,450,721	51,658	3.7%
13. Income	<u>1,379,712</u>	<u>1,399,063</u>	<u>1,450,721</u>	<u>51,658</u>	<u>3.7%</u>
14. Surplus or (deficit)	0	0	0	0	

NOTES TO SUMMARY TABLES

Income

1. Endowment Payout & Other Investment Income. This line includes income earned from investments, mainly the University's endowment, as well as income from external trusts, current fund balances, and faculty and staff loans. The increase primarily reflects the planned 5% increase in endowment payout for FY2012, along with growth in income streams not governed by the endowment spending rule.

2. Student Fees. Tuition revenue increases result from the higher tuition rates being recommended, from the planned expansion of the undergraduate student body, and from a projected increase in the total number of graduate students. The growth in Other Student Fees primarily reflects an increase in the Student Health Plan fee.

3. Gifts, Grants, & Other. Research supported by non-governmental grants is projected to increase by about 1%. The "Other" line includes expected growth in Annual Giving and gift support for student aid.

4. Federal & State Government. The direct and indirect expenses of main-campus sponsored research are expected to increase at a rate of roughly 6%. 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 are the result of the recommended rate increase for Dormitories, plus increases related to the expansion of the student body. The increase in Rental Housing income reflects the recommended increases for rents. Overall income is reduced slightly because Hibben and Magie apartments will close for renovation in June 2012; the full impact of that closing on both income and expense will not be felt until FY2013. The growth in "Other" income reflects increases in a number of areas, such as Conference and Event Services and commercial rental income.

6. Service Departments. Normal inflationary increases are more than offset by the loss of one-time FY2011 revenues.

Interdepartmental transactions. The increase reflects inflationary adjustments in the rates of various sale-of-service units.

Expense

1. Academic Departments & Programs. Faculty costs reflect 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, less a reversal of some current-year transfers between AI and faculty appointments, plus the increase in AI hours recommended by the Priorities Committee. Both the faculty and AI lines reflect increases authorized to accommodate the undergraduate expansion. Sponsored research direct costs increase in line with the funding trends described above. The increase in “other salaries and expenses” results mainly from inflationary adjustments to various components of academic departmental budgets, including higher projected expenditures in departmentally restricted funds. It also reflects the recommended allocation to the Art Museum. There is also a modest projected increase in AR (Assistants in Research) tuition support based on enrollment projections. An appropriate share of the salary pool as recommended by the Committee appears on each line except the one for “Sponsored Research direct costs.”
2. Princeton Plasma Physics Laboratory. We project essentially no changes in funding.
3. Undergraduate Scholarships. Increases are provided to cover the higher fees recommended and to fund projected additional awards, reflecting the expansion of the student body.
4. Graduate Fellowships. Increases are provided to cover the tuition rate being recommended, the higher student health plan fee, and the recommended 3% inflationary adjustment to average stipend levels. An increase in the number of fellowships, including some supported on departmental and outside awards, is also projected, based on planned growth in the total number of graduate students.
5. Other Student Aid & 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 totals for the library include amounts authorized to accommodate the undergraduate expansion. An appropriate share of the recommended salary pool appears on each line.

7. Administration. All lines reflect normal inflationary adjustments, and one-time FY11 costs are removed. Line 7.a. includes the Priorities Committee's recommended allocations to the Davis International Center and Career Services, and line 7.b. includes the recommended allocation to Human Resources. An appropriate share of the recommended salary pool appears on each line.

8. Athletics. Normal inflationary adjustments are included, 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. One-time adjustments are removed. An appropriate share of the recommended salary pool is also included.

10. Transfer for Renewal/Replacement/Debt. This line reflects the costs of major maintenance and renovation projects and of capital equipment purchases. A fund has been established to pay for these expenditures, and contributions from the operating budget to replenish that fund appear here. The increase reflects normal inflationary growth.

11. Allowance for Contingencies. The contingency is restored to its normal full-year level.

12. VIRP (Voluntary Incentivized Retirement Plan). This line records the FY2010 one-time costs of a University-wide staff retirement plan that was undertaken during the first year of the two-year cost reduction program mentioned in section II of the Report.

Salary Pool (Distributed Above). Funds to provide salary increases for continuing faculty and staff supported by general funds (including the recommended promotion and adjustment pools), plus amounts for recommended increases in AI stipends, are included within the appropriate expense categories shown above. The benefits rate for non-academic departments is projected to increase from 28.2% to 30.1%, and the comparable rate for academic departments is projected to increase from 34.5% to 36.8%.