



**PRINCETON
UNIVERSITY**

REPORT OF THE PRIORITIES COMMITTEE

TO THE PRESIDENT

Recommendations Concerning the Operating Budget

for 2015–2016

January 22, 2015



OFFICE OF THE PROVOST

January 22, 2015

President Christopher L. Eisgruber
One Nassau Hall
Princeton University
Princeton, New Jersey 08544

Dear President Eisgruber,

I am pleased to enclose the Priorities Committee report on the University's operating budget and recommendations for the fiscal year 2015-16 (FY16). Princeton is in a solid financial position with steady endowment growth, a strong credit rating, sufficient liquidity, and a loyal and generous base of alumni and donors. The budget has benefited from continued savings in energy, moderating increases in healthcare costs, and an endowment spend rate below the middle of our target band.

While the University is on solid financial footing, we must sharpen our efforts to be as efficient with our resources as possible. Princeton faces a number of pressures including the need for additional financial aid resources to ensure that we remain accessible to all students, resources to support academic innovation and the academic enterprise, investments in important institutional initiatives, and support for essential needs related to compliance and risk mitigation. Responding to these pressures involves tradeoffs among many important needs. Those tradeoffs will be informed by the strategic planning process, which aims to define how Princeton can best pursue its teaching and research mission.

The Committee's budget recommendations fall into four major categories: fee package (tuition, room, and board), financial aid, employee salary pools, and additions to program. The Committee also hears from SUMAR ("Strengthening University Management and Resources"), an administrative group devoted to identifying and implementing cost-saving strategies around the University.

The Committee deliberated on the increase in tuition and fees in consultation with members of the Board of Trustees Committee on Finance. Together they reviewed five principles that have guided discussion and deliberation in recent years: the University should ensure that its education is genuinely affordable to all students whom it admits; it has a responsibility both to sustain excellence and to do so efficiently; it should ensure that the education it offers remains

a good value for all students, including those who pay the full tuition price; the proportion of educational costs borne by the University should remain constant, and justifiable cost increases should be reflected in the tuition price; and large numerical swings in year-to-year increases should be avoided. The conversation at the November Trustee meeting led to a sixth principle: consider the implications that decisions about tuition income could have on resources available for teaching, research, and operations.

On the basis of these guidelines, the Committee recommends a total fee package of \$57,610 for next year, which amounts to a 3.9% increase over last year's package. This recommendation recognizes the investment needed to sustain Princeton's excellence and keeps the University firmly at the bottom of its comparison group. Princeton's FY 16 fees will be approximately \$630 below the current year (FY15) package of its nearest competitor.

This Priorities Committee, like its predecessors, was proud to endorse an increase in the Financial Aid budget that will maintain Princeton's commitment to full access for any student who is admitted, regardless of ability to pay and without the need for loans. If the Committee's recommendations are accepted, Princeton's scholarship budget is estimated to increase by 7.4%, bringing it from \$130.5 million to \$140.2 million. The University's financial aid expenditures will once again rise more rapidly than its fee package, as they have for fourteen of the last fifteen years.

After reviewing data on salary markets presented by the Dean of the Faculty and the Vice President for Human Resources, the Committee again recommended salary pools tailored to an environment of continuing low inflation but intense competition for top talent. This year's Committee worked with a programmatic allocation of \$1 million which they used towards resources for career exploration, support for teaching and learning, enhancements for graduate students and graduate alumni, and support for academic infrastructure.

I am very grateful to the faculty, student, and staff members of the Priorities Committee who invested many hours in faithfully carrying out their responsibilities on behalf of the University community. They have been a true pleasure to work with. I also want to thank several people who supported the Committee in its work including Steven Gill, Aly Kassam-Remtulla, and Ellen Riscoe. Each of them brings good humor, a valuable set of skills, and devotion to their role in this important process.

Sincerely,

A handwritten signature in black ink, appearing to read 'David S. Lee', with a stylized flourish at the end.

David S. Lee, Provost
Chair, Priorities Committee

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

**Recommendations Concerning the Operating Budget
for 2015 – 2016**

January 22, 2015

THE COMMITTEE

David S. Lee, Provost (chair)

Carolyn Ainslie, Vice President for Finance and Treasurer

Deborah Prentice, Dean of the Faculty

Treby Williams, Executive Vice President

Christopher Achen, Professor of Politics

Jill Dolan, Professor of English

Maria Garlock, Associate Professor of Civil and Environmental Engineering

Brandon Holt '15

George Khoury *GS

Michael Kochis '15

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Devin Livi, Assistant Director, Grounds and Building Maintenance

Yessica Martinez '15

Sally Poor, Associate Professor of German

Blair Schoene, Assistant Professor of Geosciences

Nicholas Turk-Browne, Associate Professor of Psychology

Carolyn Yang '15

MEETING WITH THE COMMITTEE

Steven Gill, Budget Director and Associate Provost for Finance

Aly Kassam-Remtulla, Associate Director for Academic Planning and Institutional Diversity,
Office of the Provost (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 changes to the University's operating budget for the next fiscal year to the President and Board of Trustees. The Provost chairs the Committee, whose members include tenured and non-tenured faculty members, graduate and undergraduate students, and staff.

The Priorities Committee annually makes recommendations about rates of change for several variables important both to the budget and to the University community. These variables include the fee package (composed of tuition, room, and board), undergraduate financial aid, graduate stipends, faculty and staff salaries, and rental rates for University housing. Each year since 2010, the Committee has heard from SUMAR (the committee on Strengthening University Management and Resources) about initiatives aimed at cutting costs, improving efficiency, and enhancing management. The Priorities Committee allocates some money from the operating budget for new funding in response to programmatic requests presented to it by cabinet officers.

The Committee normally convenes from October to 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 outlining their highest priority funding needs for investments that impact faculty, staff, and students; deliberative meetings to evaluate requests in the context of the full range of competing claims on the University's available resources; and a final set of meetings to determine the Committee's recommendations and produce this report. Each November the Committee holds an open meeting as part of the CPUC agenda to hear from interested members of the University community who wish to comment on priorities for future budgeting.

Later that month, the Committee meets with the Finance Committee of the Board of Trustees to share the requests it has received and to review early thoughts about the fee package and salary pools. The following month, the Committee discusses its proposed

recommendations with the Trustee Finance Committee. Reconvening in early January, the Committee finalizes its recommendations and submits them to the President for his approval and transmission to the Board later in the month. The recommendations for the 2015–2016 academic year (known as fiscal year 2016 or FY2016) operating budget are discussed in detail below.

II. Budgetary Background

Princeton is in a solid financial position with steady endowment growth, a strong credit rating, sufficient liquidity, and a loyal and generous base of alumni and donors. The operating budget has benefited from continued savings in energy, moderating increases in healthcare costs, and an endowment spend rate that remains below the middle of our target band. At the same time, the University's resources are finite, and, in many cases, have restrictions on their use. Decisions about investments require us to prioritize the many calls on our resources. Several ongoing budgetary pressures warrant our attention:

- Our commitment to expanding socioeconomic diversity in the undergraduate population will require additional financial aid expenditures over the long term.
- We have made a number of investments to address essential needs in the areas of compliance and safety.
- We continue to need resources to fund academic innovation and to provide the administrative support required to sustain the academic enterprise.
- Hiring and retaining top faculty members necessitates competitive salaries and start-up packages. Competition remains fierce, and the general softening of federal support for research will likely magnify the continuing upward pressure on recruitment and retention packages.

III. Recommendations

A. Financial Aid and Graduate Stipends

Princeton's promise of affordability continues to be one of our signature commitments. One measure of our success is that, over the last decade, we have more than doubled the percentage of students receiving Pell grants (government-funded, need-based scholarships available to U.S. citizens and permanent residents) from 18.0% for the freshman class of 2018, up from 7.2% for the freshman class of 2008. In general, Pell grants are awarded to students whose families are in the bottom 40% of the national income distribution. The University takes pride in having been designated one of the most affordable private colleges or universities in the United States in multiple rankings. The Priorities Committee and the Committee on Undergraduate Admission and Financial Aid (CUAFA) will continue to work together to ensure that Princeton's financial aid program continues to meet the full need of all students.

As has been the case for many years, CUAFA presented the Priorities Committee with a "stay-even" financial aid budget designed to make sure that financial aid packages keep up with increasing costs. This "stay-even" policy means, among other things, that we increase our financial aid packages to protect aid recipients from the effects of any increases in the fee package. CUAFA also provides the Committee with estimates of any anticipated changes to the percentage of the class likely to need aid. This is not a number within the control of CUAFA or the Committee; it moves up and down depending on the demographics of each class. CUAFA predicts a slight increase in the percentage of students on aid as a result of our efforts to increase the socioeconomic diversity of our undergraduate population. It projects that this percentage will increase from 58.6% to 60.0% for the class entering in the fall of 2015 (the average across all classes is projected to remain flat at 59%).

The Priorities Committee endorsed a \$9.7 million (7.4%) increase in the undergraduate financial aid budget, bringing it from \$130.5 million to \$140.2 million. Although 78% of

scholarship grants are covered by endowment income, this year's budget projects that general funds support of scholarships will increase 32% to roughly \$20 million.

Graduate students play a critical role in the University's research and teaching enterprise and are central to the University's mission to train the next generation of world-class scholars and researchers. The administration, accordingly, pays great attention to the adequacy of graduate stipends with two goals in mind: the stipends must be sufficient to attract the most talented students to Princeton, and they must provide enough support so that those students can focus on their work and finish their degrees successfully in a timely manner. This year the Dean of the Graduate School requested a stipend increase of 3%, which he felt was sufficient to achieve both of these goals. Based on recommendations about graduate housing cost increases (described on page 16) and more general information about inflation, the Priorities Committee endorsed his request.

B. Salary Pools

Each year the Priorities Committee hears presentations from the Dean of the Faculty and the Vice President for Human Resources regarding the salary pools for faculty and staff, respectively. For the last few years, they have described an environment in which general inflation rates were low, but where the University continues to face significant competition for top talent.

In regard to faculty pay, average salary data shows that we are very much in the "middle of the pack" in terms of trends over time, compared to our peers. The Dean explained that we continue to be vulnerable to poaching of top faculty members by other institutions. She requested, and the Priorities Committee approved, an aggregate salary pool equivalent to the pools of the last two years. In regard to staff pay, the Vice President explained that in certain areas—such as audit, compliance, and financial services—the University continues to authorize higher salaries to recruit and retain talent.

For the last two years, the Priorities Committee has approved a staff pool that gave managers an increased ability to recognize different levels of performance and provide resources for departments to reward their highest performers. This procedure was successful in incentivizing managers to distinguish among levels of performance, which resulted in a marked change in the distribution of salary increases over previous years. The Committee approved a similar proposal this year.

C. Programmatic Recommendations

Each year, the Priorities Committee considers requests from Cabinet members seeking additions to their budgets for investments that benefit the University community of faculty, staff, and students. Requestors sometimes refine their initial proposals based on conversations with the Committee. This year's Committee worked with an allocation of \$1 million in ongoing funds, up from \$600,000 last year but less than the \$1.2 million available the year before. Within this total, the Committee responded thoughtfully and creatively to identify the highest needs and priorities from the final requests that were submitted. In addition to entertaining requests for permanent support, this year the Committee reviewed requests for term funding. Based on the advice and feedback of the Committee, the Provost agreed to support a number of these one-time requests, to be paid out over the course of the next five years.

The programmatic requests can be grouped into four categories: resources for career exploration, support for teaching and learning, enhancements for graduate students and graduate alumni, and support for academic infrastructure. The recommendations are described below.

Career Exploration

The first category of requests relates to Career Services. Over the years, students and alumni have expressed a number of concerns about this function, including the dearth and lack of diversity of opportunities available outside financial services and management

consulting as well as limited resources to support those interested in positions in entrepreneurship, nonprofits, arts, and government. Historically, Princeton has not been able to benefit fully from its alumni, many of whom have expressed a strong interest in providing mentorship and potential job/internship opportunities to students.

Career Services has been the subject of several Priorities Committee discussions in recent years. In the fall of 2012, the Committee reviewed a request from the Vice President for Campus Life—to which Career Services reports—to add four new full-time positions to the office. At that time, the Committee decided to fund only the position of Executive Director, the individual who would have responsibility for overall leadership of the office. That Committee suggested that the Vice President return once the Executive Director had been hired and had undertaken a comprehensive review.

This fall the Vice President and the new Executive Director presented an ambitious proposal to reimagine the work of Career Services to enable each student to define a unique and compelling career and life vision, and then connect students in personalized ways to the resources, people, and opportunities to achieve that vision. The proposal expressed a goal to move Career Services away from a transactional model—in which the office primarily serves juniors looking for summer internships and seniors looking for their first job—into a transformative model in which the office provides all undergraduate and graduate students with a framework that they can use to develop hypotheses about meaningful career goals and that gives them opportunities to test and refine those hypotheses through academic and co-curricular experiences.

This multi-faceted strategy involves the following components:

- Developing a new “Career and Life Vision” program that includes large workshops, facilitated small group activities, personalized counseling, and a digital library that makes content from over 300 career workshops available online.
- Reimagining campus events and career fairs to facilitate more meaningful conversations between students, alumni, and employers.

- Engaging alumni through a database that enables searching and matching between students and alumni on shared interests, affiliations, and intent. They also plan to create an Alumni Career Corps who will mentor students, participate in Career Services initiatives, and help find sources for work and internship opportunities.
- Personalized support of students through an online student profile available to Career Services that would enable students to receive information about resources, alumni connections, and job/internship leads targeted to their specific interests. The online profile would also be coupled with a proactive outreach initiative, using student interests and preferences to identify a more diverse range of opportunities.

Because this proposal addresses many of the previously voiced concerns, the Committee expressed broad support for a substantial investment in Career Services. After much discussion, its members decided to fund three senior positions that were identified as the Executive Director's highest priorities.

Teaching and Learning

A second category of requests grew out of a desire to improve resources and infrastructure for teaching and learning among undergraduate and graduate students. The Dean of the College made four such requests, and the Vice President for Information Technology made a request for three positions on behalf of OIT (the Office of Information Technology).

The Dean identified expanded resources for peer tutoring and study halls at the McGraw Center for Teaching and Learning as her top priorities. Study halls offer free group tutoring for certain introductory quantitative problem-solving courses in chemistry, physics, economics, mathematics, politics, and psychology. She requested resources to expand the number of courses supported by this program, increase hourly compensation rates for undergraduate facilitators, increase the total number of tutoring hours, and supplement the staff with graduate student tutors.

While Committee members saw the importance of additional pedagogical resources for students, they wondered if other interventions might address some of the underlying shortfalls. For example, some Committee members suggested that additional support might be most productive if it was developed and offered by the course instructor or teaching assistants rather than by peer tutors (who have previously taken the class but are not currently enrolled). Others expressed concern that these services might be preventing students from reaping the academic rewards of fully grappling with the material. At the same time, some students articulated the value of receiving support from someone not affiliated with the course, both because it may be less intimidating to get support from a peer and because those peers have no role in course evaluation. Given these questions, the Committee advised the Provost, who agreed to support these two requests through three years of term funding. The Dean will explore these issues and, if appropriate, come back to a future Committee with a continuing funding request.

The Dean requested two other positions. The first was for an Assistant Director for the Freshman Scholars Institute (FSI). The Institute is a seven-week residential summer academic program for incoming freshmen, including those who are first-generation college students, those whose high schools offered limited opportunities for advanced work, and those who are likely to face extraordinary time constraints in their first year (such as varsity athletes). The Dean also requested a Coordinator for the Writing Program, which would have been filled by a recent Princeton graduate. The Committee expressed unanimous support for the FSI position; it did not fund the Writing Program position.

The Vice President for Information Technology made a request for three new positions—one ongoing and two term—for classroom multimedia support. This request responded to the findings of the recent faculty-led Classroom Design Committee, which recommended equipping classrooms with user-friendly digital technology and making rapid-response technical support more widely available.

Although the scope and complexity of media use in classrooms has increased substantially in recent years, the size of the media services group has not kept up with demand. The group has six technicians (one of whom also serves as the manager of the group) who prepare and maintain a wide variety of equipment in nearly 400 classrooms that are used for academic classes, lectures, events, and meetings. The Vice President explained that he is in the midst of appointing a new manager for this group through internal reorganization and reallocation of resources. He requested three new technicians in order to meet the need for rapid response, allow for greater maintenance of equipment, and support regular monitoring of equipment.

The Committee expressed broad support for more reliable and user-friendly multimedia technology in classrooms and for more rapid response. At the same time, Committee members wondered if these services could be provided without hiring new staff, suggesting that existing multimedia staff in some departments might have the capacity to meet this demand. This request also sparked a conversation about investment in classroom IT infrastructure. Since the Committee was convinced that more staff capacity is needed, they agreed to fund one ongoing position but neither of the term positions. They asked the Vice President to look into opportunities to redeploy current departmental staff and to investigate the possibility of increased central investments in IT infrastructure, which might reduce demand for additional staff.

Graduate Students and Graduate Alumni

The Committee heard three requests to support graduate students and graduate alumni. Two requests came from the Dean of the Graduate School and one from the Vice President and Secretary.

The Dean asked the Committee to convert a term position of Assistant Dean into an ongoing position. He explained that the demands on the Graduate School had increased in recent years in part due to the rising number of non-degree graduate students (mostly international visiting student research collaborators). This growing workload had

prompted the creation of a term position for an Assistant Dean who is responsible for day-to-day academic affairs in the natural sciences and engineering. This Assistant Dean has also become the point person for developing communications materials for academic departments, data profiles that are provided to each department, and support for women in science and engineering fields.

The second request sought to increase the duty time of the Student Life Coordinator from half-time to full-time. The Coordinator provides administrative and programmatic support to the Associate and Assistant Deans for Student Life at the Graduate School. She helps respond to urgent student needs and crises, processes financial transactions for graduate student organizations, coordinates the recently-introduced receptions for all first-year graduate students, and supports weekly events at Procter Hall in connection with a pilot program that offers a limited number of free meals to graduate students (funded by last year's Priorities Committee). The Committee supported both of the Dean's requests.

The Vice President and Secretary presented a request to extend term funding, granted in FY12, for outreach and engagement efforts to graduate student alumni who constitute roughly 30% of Princeton's 90,000 living alumni. At that time, then-Provost Eisgruber provided term funding for expanded programming. Among other things, the term funding was intended to enable Alumni Affairs to experiment with a range of ideas designed to increase graduate alumni participation.

The Vice President reported broad positive response to many of the programs that had been introduced such as department-based activities, enhanced activities at reunions, and regional events. The turnout for the *Many Minds, Many Stripes* conference for graduate alumni in the fall of 2013 was substantial—indeed, twice what was expected. Based on this success, Alumni Affairs leadership wishes to develop an effective longer-term program along these lines, using additional term funding to experiment further with

different models and to work collaboratively with the new Dean of the Graduate School. With the results of this next phase of the program, the office would then proceed to make a recommendation about the right level of regular funding. The Committee endorsed—and the Provost funded—the request for two additional years of term support before a future Committee entertains a proposal for ongoing funding.

Academic Infrastructure

The final category of requests related to academic infrastructure for teaching and research and included requests from the Princeton University Art Museum and OIT.

Like our library holdings, the University's collection of 92,000 original works of art is an essential academic resource and is considered to be among the top five university art collections in the world. In 2013, faculty members brought 2,000 students into direct contact with artifacts not on regular display. In addition, faculty members regularly use the collection for their own research. Due to physical constraints, however, the Museum can only display 3% of its objects at a given time. The Committee heard a comprehensive proposal from the Museum to provide universal access to the digital images and scholarly documentation of its collection, including the vast number of objects not on display. Building on an effort to digitize images of these works that is due to be completed by late 2015, the Museum plans to implement a five-year project to develop a content-rich online presentation of its full collection. Museum leaders believe that a comprehensive online catalog would promote much greater utilization of the collection for teaching and research.

The Museum's proposal includes a request for two ongoing staff positions—a Manager of Collections Information and a Collections Data Associate—that will provide leadership for the project. Once the initial project is completed, these staff members will ensure that this newly enriched resource continues to be updated. The proposal also includes a request for term funds to support a two-year Information Architect who will create a sustainable information architecture for the catalog, and one-time funds for

hardware and software. The proposal requests funds to support roughly 60% of total project costs, with the Museum providing the remaining resources through income from its endowed funds and through fundraising.

The Committee was fully persuaded about the importance and timeliness of this request, since it aims to serve the teaching and research needs of our students and faculty. Members also felt that Princeton had a responsibility to ensure universal access to its collection. The Committee agreed to fund the two permanent positions, and the Provost agreed to fund the term position and term support for hardware and software.

The Vice President for Information Technology made a request for a new position in high performance computing (HPC), a need articulated by faculty members in the course of OIT's recent long-range strategic planning exercise. The HPC analyst would provide support for researchers using the central HPC systems as well as those hoping to secure access to national supercomputing centers. This individual would help Princeton faculty, students, and post-doctoral researchers get the best possible performance from the existing hardware. This request was strongly supported by the Committee as a way to increase the overall utility and efficiency of the University's significant investment in HPC infrastructure.

D. Cost Savings and Management Initiatives

The recession forced the University to develop central initiatives designed to identify and implement cost-saving measures. To sustain these efforts in the post-recession environment, the University created SUMAR (Strengthening University Management and Resources), a permanent committee to pursue improvements to management. SUMAR typically meets with the Priorities Committee to provide an update on its work and, if necessary, to make requests to advance its goals.

In the five years since its inception, SUMAR has tracked more than 65 projects with a total potential savings of approximately \$17.5 million. This year, it provided the

Committee with a brief update on its major priorities, which pertain to multi-year projects on emergency preparedness; reforming the human resources compensation process; upgrading the University's financial systems; and controlling healthcare costs. SUMAR had no requests for the Committee this year.

E. Fee Package and Rental Rates

The Committee deliberated over the undergraduate fee package at several of its sessions. Its dialogue with the Finance Committee of the Board of Trustees in November aided the discussions. At that meeting, both Committees reviewed five principles—first articulated in December 2012—that continue to guide discussion and deliberation of the fee package:

1. The University should ensure that the education it offers is genuinely affordable for every student whom it admits. The University should monitor its financial aid program to verify that it continues to meet the full need of all students.
2. The University has a responsibility both to sustain excellence and to do so efficiently. It should not raise its fees simply because it has the market power to do so or because other universities are doing so.
3. The University should continue to ensure that a Princeton education is a good value for all of its students, including those students whose families receive no financial aid.
4. The University should maintain the current relationship of the total cost of education to tuition in the form of a subsidy to all students. The current cost of educating an undergraduate at Princeton is somewhere between 1.5 and 2 times the full tuition price. This commitment implies that as justifiable cost increases occur, they will need to be reflected in the tuition price.

5. The University should stabilize its year-to-year increases, so that it avoids the lurching numerical swings that we have seen in the recent past.

The Committee's discussion with the Trustees in November led to a sixth principle:

6. Tuition income—which is unrestricted—is an important source of revenue, and decisions that influence its long-term path have significant implications on the resources available for teaching, research, and operations. We must consider how best to serve the University's mission when studying the balance of all revenue streams, including net tuition. It should be considered within the larger framework of the University's financial model.

Princeton implements the first of these principles through its financial aid program. The Committee noted that the University's "stay-even" financial aid policy, described earlier in this report, protects aid recipients from the impact of any increases to the fee package. At the same time, the Committee recognized that a Princeton education requires a large financial investment from many families, and it affirmed the importance of reviewing annually whether Princeton remains affordable to students from all backgrounds, including both low-income families and more affluent families who are on the cusp of the University's aid program.

The Committee was reminded that the financial aid package for each family is tailored to its particular circumstances. Princeton reviews not only the family's income but also its financial assets (excluding equity in the primary residence and retirement savings) and obligations, including educational expenses for other children as well as debt and medical bills for dependents. This holistic approach ensures that families with legitimate financial needs are provided with the aid to ensure that Princeton is genuinely affordable for them.

In addition to examining the issue of affordability, the Committee devoted considerable attention to the fourth principle, which explains that the University will pass along to full-tuition payers a portion of the year-to-year cost increases needed to sustain the University's excellence. Throughout the course of its meetings, the Priorities Committee discussed a number of important cost pressures that must be funded by our major revenue streams:

- Support for hiring and retaining top faculty members, which necessitates competitive salaries, start-up packages, and retention costs.
- Increases in financial aid due to ongoing efforts to expand the socioeconomic diversity of our student population and to ensure that a Princeton education is affordable to all students.
- Resources to expand academic programs, to fund innovation, to advance institutional priorities, to support strategic planning efforts, and to invest in IT and physical infrastructure.
- Compliance and risk mitigation efforts in a number of areas such as information security.

In consideration of all these factors, the Priorities Committee agreed to recommend a FY16 tuition increase of 3.9%. On the basis of data about national labor markets and other inflation rates, the Committee regarded the recommended change as commensurate with the University's year-to-year cost increase for its core instructional program. It also noted that Princeton's fee package continues to be the lowest among its peers (the other Ivy League institutions, Stanford, and MIT), and that even with the recommended FY16 increase it will be lower than every other member of that group's current year (FY15) fee package. The Committee observed with approval that the University's net price per student—which is the fee package minus the average financial aid per enrolled student—had risen more slowly than the CPI (consumer price index) for the last two decades.

As noted earlier in this report, the University's financial aid budget will increase by 7.4%—a much more rapid increase than the fee package or any of its elements. This

“stay-even” budget will ensure that families of students receiving any level of financial aid will automatically receive an adjustment to meet full need.

The table below breaks out the components of the proposed fee package. Since Princeton’s dining halls are managed on a modified profit-and-loss basis, the Committee set the board rate increase at 3.1% based on market data about projected increases to food prices and labor costs for our dining services employees. The 4.6% increase to room rates is partly a reflection of the significant physical infrastructure costs associated with providing housing for our undergraduate students.

Fee package component	2014-2015	2015-2016	Percent increase
Tuition	\$41,820	\$43,450	3.9%
Room	\$ 7,570	\$7,920	4.6%
Board	\$ 6,050	\$6,240	3.1%
TOTAL	\$55,440	\$57,610	3.9%

The Priorities Committee is also responsible for proposing increases to rental rates for faculty, staff, and graduate student housing. The Vice President for University Services begins this process by presenting recommendations based on a market analysis of rates for comparable properties. Although the exact increases vary from property to property, this year the Vice President recommended average increases of roughly 3% for graduate dorm rooms, 2% for graduate student apartments, and 3% for faculty and staff housing. These recommendations are based on a desire to keep rents within market range, appropriately reflect costs, and assure consistent pricing among various rental properties.

IV. Outlook for the Future

As part of its annual process, the Committee reviews projections for budget years beyond the upcoming one. The University budget office typically constructs the baseline projections by extending the growth rates recommended for the upcoming budget year's salary pools, fee package, endowment pay-out, rents, inflation allowances, and most other variables. Estimates for items not under the University's direct control—such as funding for sponsored research, fundraising, and real estate taxes—are based on assessments of likely growth rates.

The resulting projections are rough extrapolations of trends derived from current budget assumptions, acknowledging that economic circumstances will inevitably change and that the University's budgetary choices will evolve with them. The projections, nevertheless, serve a useful purpose: they test whether recommendations for the upcoming budget year are sustainable, they alert us to potential areas of concern so that we can take steps to avoid them, and they establish a starting point for the discussions of next year's Committee. These projections show, beginning in FY18, a series of deficits starting at \$20M and decreasing by about \$2M per year thereafter. These deficits are small by comparison to the University's projected \$1.74 billion budget base in FY16, and can be readily managed through a combination of expense reduction, possible revenue enhancements, and/or continuing to draw on budget reserves that were established to buffer our recovery from the recession.

These baseline projections do not account for future (and currently unknown) initiatives, infrastructure, and changes to academic programs, the costs of which must be borne through the reallocation of resources, reprioritization of activities, targeted fundraising, or new revenue. An increase in the spend rate on the endowment could change the projections significantly. For example, the deficits described above would disappear by FY18 if the spend rate were to increase from its current 4.2% to 4.5%, which is below the middle of the policy spend rate band of 4.0% to 5.75%. This sensitivity of the

projections to the spend rate serves as a striking reminder of the important role that endowment income plays in the University's operating budget.

While the University is on solid financial footing, we must enhance our efforts to be as efficient as possible. We must continue to improve our budget processes to ensure that only the most meritorious investments receive funding. For example, while our salary pools are greatly influenced by the pressures of competing with peer institutions, if we are able to accomplish our recruitment and retention goals with even marginally smaller pools, some of these "saved" resources could be directed towards other efforts that advance our teaching and research mission. Similarly, on the administrative side, if we are able to continue to provide a high level of administrative support through re-allocation and more efficient compensation structures, the resources saved can be reinvested in the University's human and physical capital.

As noted in last year's report, one of the University's ongoing challenges will be to shift community expectations about the pace of growth that was driven by almost twenty years of exceptionally favorable investment conditions that may well not return in the near future. Adapting to this fiscal reality involves tradeoffs among many important needs. Those tradeoffs—which occur across the University on a daily basis—will be informed by a comprehensive strategic planning process launched in January 2014. That process aims to define how Princeton can best pursue its teaching and research mission by creating a practical framework for allocating University resources and prioritizing new initiatives. To do this well will require us to make decisions that align with our highest priorities, question our assumptions, optimize within and across units, acknowledge opportunity costs, and rely on monitoring and evaluation. If we are successful, Princeton will be well positioned to build on its core strengths and to weather the uncertainties that lie ahead.

PRINCETON UNIVERSITY
Operating Budget: All Operating Funds Summary
(dollars in thousands)

	FY15 Current	FY16 Budget	Difference \$	Difference %
Revenue				
1 Investment Income	781,148	820,590	39,441	5.0%
2 Tuition-Undergraduate	216,278	225,048	8,770	4.1%
3 <u>Tuition-Graduate</u>	<u>95,638</u>	<u>100,663</u>	<u>5,025</u>	<u>5.3%</u>
4 Total Tuition	311,916	325,711	13,796	4.4%
5 Other Student Fees	13,364	13,589	225	1.7%
6 Grants & Contract Revenue	291,998	294,590	2,592	0.9%
7 Gift Revenue	78,137	79,762	1,625	2.1%
8 Housing, Dining, Rental, & Event Income	101,249	106,135	4,886	4.8%
9 Other Income and Transfers	110,018	112,834	2,816	2.6%
Total Revenue and Transfers	1,687,829	1,753,210	65,381	3.9%
Expense				
1 Academic Departments	584,344	606,263	21,918	3.8%
2 Princeton Plasma Physics Laboratory	80,000	80,000	(0)	0.0%
3 Financial Aid - Undergraduate	130,500	140,162	9,662	7.4%
4 Financial Aid - Graduate	149,783	157,407	7,624	5.1%
5 University Library	58,911	61,681	2,771	4.7%
6 Office of Information Technology	55,621	57,993	2,373	4.3%
7 University Art Museum	13,436	14,366	930	6.9%
8 Academic Admin. and Student Services	94,302	98,682	4,380	4.6%
9 Athletics	26,280	27,491	1,211	4.6%
10 General Administration and Expense	107,282	111,568	4,286	4.0%
11 Facilities Services	125,189	131,607	6,418	5.1%
12 University Services (Housing, Dining, Other)	55,592	56,444	852	1.5%
13 Capital Budget Transfer	206,589	209,546	2,957	1.4%
Total Expense	1,687,829	1,753,210	65,381	3.9%
Surplus or (Deficit)	0	(0)	(0)	

NOTES TO SUMMARY TABLE

Revenue

1. 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 FY16, along with growth in income streams not governed by the endowment spending rule.
- 2., 3., 4. Tuition-Undergraduate and Graduate. Tuition revenue increases result from the combination of higher recommended tuition rates and projected changes in enrollment.
5. Other Student Fees. The growth in Student Fees reflects normal inflationary increases.
6. Grants & Contract Revenue. A slight increase in the direct and indirect expenses of main campus sponsored research is projected. Expenditures at the Princeton Plasma Physics Laboratory are projected to remain unchanged.
7. Gift Revenue. This line includes Annual Giving and expendable gifts for departmental programs, research, and other initiatives.
8. Housing, Dining, Rental, & Event Income: The increase reflects the recommended rate increases for dormitories, rental housing, and dining, projected changes in enrollment, and the opening of the new Lakeside apartment complex.
9. Other Income and Transfers. This line reflects projected volume and inflationary adjustments in the various sale-of-service units. It also includes transfers in from the capital plan for support of new buildings and prior-period balances.

Expense

An appropriate share of the salary pools recommended by the Priorities Committee appears on each line except 2, 3, 4, and 13.

The Priorities Committee programmatic recommendations are reflected on lines 6, 7, 8, and 10.

1. Academic Departments. The increase reflects planned changes in faculty staffing levels, including new faculty positions supported by gift and endowment income. The tuition component of graduate student teaching and research assistantships rises in line with the proposed tuition increase. The increase also includes inflationary adjustments to academic departmental budgets and projected expenditure growth in departmentally restricted funds. The overall growth of 3.8% is depressed due to the 1% growth assumption for sponsored research, which constitutes about 25% of the total expenditures. The remaining expenses are growing at 5%.

2. Princeton Plasma Physics Laboratory. No change.
3. Financial Aid - Undergraduate. The increase reflects the recommended increase in the fee package as well as a projected increase in the total number of awards due to variations in the size and aid profiles of the graduating and entering classes.
4. Financial Aid - Graduate. Increases are provided to cover the recommended tuition and stipend rates. 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. University Library. Reflects normal inflationary adjustments.
6. Office of Information Technology. Includes technical, administrative, and programming support of university enterprise systems, including research computing.
7. University Art Museum. Includes all curatorial, exhibition, preservation, storage, and other operating costs.
8. Academic Administration and Student Services. Includes the Office of the Provost; the Deans of the Faculty, College, Graduate School, Research, Religious Life, and Undergraduate Students; the offices of Admission and Undergraduate Financial Aid; the offices of the Vice President for Campus Life, Career Services, and University Health Services; and other offices primarily devoted to central support of the academic mission.
9. Athletics. Includes varsity and club sports, recreational athletics, and Friends groups.
10. General Administration and Expenses. This includes central business functions such as the offices of the President, Executive Vice President, Human Resources, General Counsel, Vice President for Finance and Treasurer, Development, Public Safety, and the like.
11. Facilities Services. Staff and operating expenses directly associated with the operation and maintenance of the physical plant, including the costs of property taxes, water and sewer charges, insurance, and energy costs.
12. University Services. Includes Housing, Dining, Event Services, and Transportation Services. One-time FY15 expenses of \$1.2 million associated with the Lakeside apartment complex transition are removed. Most of the revenues associated with University Services are shown under Revenue line 8.
13. Capital Budget Transfer. This line reflects the costs of major maintenance and renovation projects. 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 growth consistent with the current ten-year capital plan.