PRINCETON UNIVERSITY

REPORT OF THE PRIORITIES COMMITTEE

TO THE PRESIDENT

Recommendations Concerning the Operating Budget

for 2010–2011

January 14, 2010

OFFICE OF THE PROVOST

January 14, 2010

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 2010-11 (FY11). The Committee is once again proposing a balanced budget, but, as you know, that result has been achieved in this difficult year only by making hard choices and implementing exceptional measures.

This year's Priorities Committee convened in the midst of a deep global recession. The University's endowment had declined substantially when financial markets fell, and the University's administration responded by formulating a two-year budget-reduction plan in the Spring of 2009. By the time that the Committee held its first meeting in October, the University's managers were already well on their way to meeting FY11 budget reduction targets. Rather than hearing requests for additions to budget, as the Priorities Committee usually does, this year's Committee listened as cabinet officers described their budget reduction plans.

Three key conclusions emerged from the Committee's deliberations. First, the Committee was unanimous in its respect for, and gratitude to, the faculty members, staff, students, alumni, and friends of the University who have pulled together to help Princeton weather this economic storm. The Committee commended University managers for developing thoughtful budget reduction plans that not only saved money but also protected the University's core mission and campus community.

Second, the Committee recognized that while Princeton has made excellent progress, we are not yet out of the woods. We will need to maintain budget discipline, and we will need to continue to search for new opportunities to cut costs and operate more efficiently.

Third, the Committee affirmed the importance of protecting the University's human capital. Princeton's people are the key to its excellence. If the University is to retain its outstanding faculty and staff, it must be able to offer salary increases that recognize meritorious performance. Although the Committee reluctantly agreed that Princeton's budgetary situation permitted it to offer only minimal salary pools in FY11, the Committee stressed the importance of moving toward more generous pools in FY12.

In closing, I would like to convey special thanks to the members of this year's Committee. The Priorities Committee is hard work in any year, but this year's work, which required members to focus upon reductions rather than additions to budget, was especially demanding. The members of the Committee rose to the occasion, and, as you had a chance to observe firsthand, their deliberations were both insightful and collegial. I would also like to thank Budget Director Steven Gill and his staff and Vice Provost Katherine T. Rohrer, the Secretary of the Committee, and her staff. They are a formidable team: smart, experienced, imaginative, and persistent. Every member of the Committee would join me in saying that we are fortunate to have the benefit of their wisdom and talent at Princeton.

For the Committee,

Christopher L. Eisgruber, Provost

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THE COMMITTEE

Christopher L. Eisgruber, Provost (chair)

Carolyn Ainslie, Vice President for Finance and Treasurer

Craig Arnold, Associate Professor of Mechanical and Aerospace Engineering

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Benjamin Brooks *GS, Economics

Mark Burstein, Executive Vice President

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Ana Gonzalez ’11

Wendy Heller, Professor of Music

Rhonda Hospedales, Office of Human Resources

Brian Kernighan, Professor of Computer Science

Samuel Krauss ’10

David S. Lee, Professor of Economics and Public Affairs, Woodrow Wilson School

James Richardson, Professor of Creative Writing in the Peter B. Lewis Center for the Arts and English

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

Peter Tzeng ’11

MEETING WITH THE COMMITTEE

Steven Gill, Budget Director and Associate Provost for Finance

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

TABLE OF CONTENTS Page

I.	Introduction	1
II.	Budgetary Background	2
III.	Recommendations	8
	Financial Aid	9
	Salary Pools	9
	Fee Package	11
	Graduate Stipends	13
	Budget Reduction Plans	13
IV.	The Outlook for the Future	15

Appendices:

A. Schedule of Meetings and Presentations

B. Summary Budget Tables: Income and Expenditures

I. Introduction

The Priorities Committee, established in 1969 as a charter committee of the Council of the Princeton University Community, is a deliberative body that recommends the University's operating budget for the next fiscal year to the president and Board of Trustees of the University. The provost chairs the Committee, whose members include tenured and 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 ordinarily describe 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. As the next section explains in greater detail, this year was far from ordinary: because the endowment had declined substantially in value, the University was in the midst of a two-year budget-cutting effort, and the Committee had no funds to distribute. Rather than presenting requests for supplements to their budget, the University's senior officers explained their budget reduction plans.

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 2010–2011 (FY2011) operating budget are discussed in detail below.

II. Budgetary Background

The Priorities Committee had an unusual and demanding assignment this year. It convened while the University was in the midst of a two-year budget-cutting plan occasioned by the nation's most severe economic crisis in more than half a century. Because the two-year plan provided the context for all of the Committee's deliberations and recommendations, we begin this report with a review of its genesis and content.

When last year's Priorities Committee submitted its recommendations in January, the University and the Committee were already preparing for rough times. The Princeton University Investment Company (PRINCO) had counseled the administration and the Committee that it would be prudent to plan for a 25% drop in the endowment's value. Unless the University reduced transfers from the endowment to the operating budget, the University's spending rate (that is, the fraction of the endowment's value expended in support of operations each year) would climb well above 5.75%, the maximum permissible under University policy. The 2008–09 Priorities Committee accordingly recommended a FY2010 budget that assumed an 8% reduction in endowment spending for each "unit" or share of the endowment by comparison to FY2009—the first such reduction since the University's current spending policy was adopted more than 30 years ago.

In addition to the recession's impact on the endowment, other budgetary stresses confronted the University on both the expense and revenue side. Prominent among these was a projected increase to the financial aid budget as students and their families experienced the effects of the recession. The 2008–09 Priorities Committee anticipated an $8 million increase in aid expenditures as a result of the recession. On the revenue side, the recession created an inhospitable environment for charitable giving, and, while Princeton's alumni remained loyal and generous even in these exceptionally difficult circumstances, the University knew that it could not count on the record-setting achievements that it had enjoyed in recent Annual Giving campaigns. To compensate for the lost revenue and growing financial aid expenses, the 2008–09 Priorities Committee recommended a budget that included measures designed to save $88 million from the annual operating budget.

As markets continued to decline during the first three months of 2009, PRINCO advised the University administration that it would be prudent to plan for a reduction of 30%, rather than 25%, in endowment value. During the same period, the administration continued to analyze the multi-year impact of large declines in the endowment. These analyses revealed that, even if the loss were only 25% rather than 30%, the University would have to make additional reductions in endowment spending in FY2011 in order to bring its spend rate close to the policy maximum of 5.75% by FY2012. The administration reluctantly concluded that a second 8% reduction in spending per unit of endowment would be needed in FY2011. This decline would remove another $82 million in revenue from the University's budget and require corresponding cuts, for a total of $170 million in reductions by the beginning of FY2011. The administration recognized that even with these two consecutive 8% reductions—which produce a combined total reduction of 15.4% —the University's spend rate might still exceed 5.75% in FY2012. At the time, the administration believed that a third consecutive reduction in endowment spending might conceivably be needed in FY2012.

In light of the severity and urgency of the budget pressures, the administration began working with the University Trustees to formulate a two-year plan. Four principles guided the administration's efforts. First and foremost, the University sought to design a plan that protected its core priorities: world-class research and teaching, and a leadership financial aid program that makes Princeton affordable to all students it admits. Second, the University recognized the importance of preserving its human capital—its faculty, graduate and undergraduate students, and staff. Universities are defined by the quality of their people, and though Princeton has many assets, none is more valuable than the talented individuals who compose the University community. Given the depth of the needed cuts, the University knew that it would be unable to avoid layoffs entirely, but it aimed to minimize their number. Third, the University decided that it should smooth the needed cuts over a two-year interval, rather than demanding mid-year cuts in FY2009 or seeking to achieve all the needed reductions in time for the FY2010 budget year. By extending the budget reductions over two years, the University avoided the need for precipitous reductions that might prove unnecessarily disruptive or damaging to core priorities. For example, managers could achieve some needed workforce reductions through vacancy management and voluntary retirements rather than involuntary reductions in force. Fourth, the University endeavored to get managers their budget reduction targets as rapidly as possible. Disseminating targets quickly would afford managers time to plan needed changes strategically and implement them gradually. It would also give managers the option of achieving reductions more rapidly than required; if managers were able to make cuts ahead of schedule, they would both reduce uncertainty within their administrative units and aid the University's budget-cutting efforts.

In light of the need to get targets out quickly, the University began work on the FY2011 budget in the spring of 2009, well ahead of the ordinary Priorities Committee cycle. In March, the provost took the unusual step of reconvening the Committee to revisit the FY2010 salary pools that it had recommended, and that the Trustees had approved, just two months earlier. Those pools focused the highest percentage increases on the University's lowest paid staff, but they contemplated modest raises, capped at $2000, for all University faculty members and staff. At its March meeting, the Committee heard that because of the continuing bad news about the financial markets and the darkening forecast for the multi-year impact of the recession on the University budget, the University confronted an unavoidable trade-off between preserving salary pools and preserving jobs. The Committee decided, based on its own judgment and feedback from around the campus, that it would be desirable to reduce the salary increase program in order to minimize the number of layoffs. The Committee accordingly endorsed a proposal to eliminate raises for staff members and tenured faculty members with salaries above $75,000.

The provost and the executive vice president distributed two-year budget-cutting targets to every academic and administrative unit in the University in April and May of 2009. Many of these units had already begun to implement cost-cutting initiatives in anticipation of receiving their targets. The FY2009 budget close reflected these efforts: in FY2009, every unit on the campus stayed within budget, and many of them achieved significant savings even though the University had not imposed any mid-year cuts. As a result, not only were these units well-positioned to hit their FY2010 and FY2011 budget targets, but the University finished FY2009 with a net positive variance of $11 million by comparison to the budget projections presented to the Trustees only six months earlier, in January 2009. This variance was in some respects misleading, of course: the FY2009 results did not incorporate any of the reductions to endowment revenue that loomed in the next two budget years. Nevertheless, the variance represented real and valuable progress toward the University's budgetary goals.

One of the most encouraging variances was a tripling of projected vacancy savings, from a budgeted $1.5 million to an actual $4.6 million. This result demonstrated that managers were taking advantage of voluntary departures by leaving some jobs unfilled, thereby reducing the need for layoffs in the future. The vacancy savings contributed to favorable variances in multiple budget lines, including a $4.6 million reduction in expenditures on administration and central services.

The largest positive variance in the budget resulted from the redeployment of $9.0 million of restricted endowment income to support core (rather than discretionary) expenses that were consistent with gift restrictions. The redeployment gains included $2.5 million that will recur in future budget years and $6.5 million in one-time savings. These savings called upon the good will of academic and administrative units throughout the campus, which cooperated unselfishly with the administration to ensure that University resources went to the most critical priorities during a difficult time.

The FY2009 budget results also benefitted from an unexpected $800,000 positive variance in indirect cost recoveries from sponsored research grants. Although modest by comparison to some of the budget challenges facing the University, the increase to indirect cost recoveries was nevertheless very welcome news. It reflected significant growth in sponsored research awards after a multi-year period in which the University's research funding profile was relatively flat. The growth in sponsored research not only allows the University to recover some of its investment in research infrastructure, but also provides direct support for its research enterprise and demonstrates the strength of the faculty, which is competing successfully for federal dollars.

Although the Annual Giving campaign did not reach the aspirational target that it had set for itself prior to the global financial crisis, it produced a remarkable $43.8 million in cash receipts. That result, achieved in exceptionally difficult economic circumstances, was the third highest in Princeton's history. That Princeton's alumni and friends were willing to give so generously in such challenging times testifies to their extraordinary loyalty. The provost informed the Committee that both he and the president consider this to have been Annual Giving's finest hour.

The most significant negative variance in University expenditures (other than the increased need for financial aid, which had already been anticipated in the fall) occurred in "the Science Fund," the budget line that the University uses to pay for faculty recruitments and retentions. This line also supports University cost-shares on government grants and other joint ventures. Commitments associated with recruitments and retentions actually declined slightly by comparison with FY2008, but cost-shares increased substantially. This variance has a silver lining, since, in general, the sponsored research awards associated with cost-shares are revenue-generating: they include indirect cost recoveries that enable the University to recoup a portion of the costs expended in support of its research enterprise. As already noted, indirect cost recoveries increased in FY2009; they continue to grow in the current year, and funding appears adequate to sustain further growth through next year and beyond, even setting aside the impact of Recovery Act funding.

The University used the net $11 million positive variance from the FY2009 budget year to pay for supplementary retirement packages offered during the summer through its Voluntary Incentivized Retirement Program (VIRP) for staff members. The plan was available to any staff employee who was eligible for retirement (in other words, was at least 55 years of age with at least 10 years of service) and who met "the rule of 80" (in other words, the sum of their age and their years of service was a number greater than or equal to 80). The point of the plan was to enable employees who wished to retire to do so (despite the negative impact of the recession on their savings) and thereby to create additional vacancies that managers could use to meet their budgetary targets. Although the plan helped the University to reduce its labor costs, the incentives offered to qualified employees imposed substantial one-time costs on the University; the reserve created from FY2009 savings enabled the University to cover those costs.

One hundred forty-five Princeton employees elected to take the VIRP. Some retiring employees held essential positions that had to be refilled, but the University administration estimated that around 40% of the openings could be left unfilled. In combination with the University's vacancy management efforts, the VIRP substantially reduced the number of layoffs that would otherwise have been necessary to meet the two-year budget targets. The administration estimated that the University would need to eliminate a total of approximately 200 staff FTEs (full-time equivalent positions) between June 2008 and June 2010; vacancy management yielded more than 50% of that total, and the VIRP generated an additional 25%.

Nevertheless, the University could not avoid layoffs entirely when implementing its two-year plan. As the Committee convened in September, University managers were finalizing plans for reorganizations. In the last week of October, the University informed forty-three employees that their positions were being eliminated. Another eighteen employees learned that the duty-time of their positions would have to be reduced. Though these changes were necessary, the administration implemented them with regret, and the University's Office of Human Resources worked with managers to provide counseling and placement support for employees who lost their jobs. (Layoffs associated with the completion of projects or with reorganizations do occur periodically at the University, but the involuntary layoffs and duty-time reductions described here, which were unusual in their number and scope, complete the personnel actions required under the two-year, $170-million budget reduction plan.)

This, then, was the stark picture that confronted this year's Priorities Committee: the University faced its most severe budgetary challenges in many decades. To meet these challenges, the administration had put in place a set of demanding two-year budget targets. The entire University community—faculty members, administrators, staff, undergraduate and graduate students, and alumni—had pulled together to meet those targets while protecting the University's key priorities and meeting the increased financial need of its undergraduate students. The fruits of these exceptional efforts were visible in the savings achieved during the FY2009 budget year and the performance of the Annual Giving campaign. Nevertheless, the University had no choice but to take some difficult steps, including, most painfully, the involuntary termination of forty-three employees. Moreover, although financial markets were showing signs of a rebound, the University's spend rate continued to exceed its policy maximum, and, if the economic recovery were to falter, the University might face the need for further cuts in FY2012.

III. Recommendations

In an ordinary year the Priorities Committee hears proposals related to salary increase pools, changes to the fee package (tuition, room, and board), increases to the financial aid budget, and proposed additions to academic and administrative programs. As already noted, this year's Committee did not receive any proposals for budget supplements; it made no sense to contemplate such additions when the University was cutting $170 million from its budget. Instead, the Committee received reports about the budget reductions taking place around the campus, and it provided feedback to managers about the impact of the reductions and the possibility of achieving even greater savings.

Throughout its deliberations, the Committee focused squarely on the importance of the University's human capital: the faculty members, staff, graduate students and undergraduates who define Princeton's excellence and carry out its educational and research missions. The Committee agreed with senior managers that the University must maintain budget discipline during the current year in order to ensure that it will have the resources it needs to retain and attract the best people at all levels in the years ahead. The Committee noted, in particular, that financial aid costs were likely to continue to rise, and that while the recession's impact would require the University to have very constrained salary pools again this year, it will be important for the University to plan to restore more generous pools in FY2012.

In light of these concerns, the Committee adopted the same attitude toward its recommendations as the University's senior officers had taken toward their own budget reduction efforts: the Committee aimed to recommend the most financially disciplined package consistent with protecting the University's commitment to excellence in teaching and research and to being affordable to students from all income groups. The Committee's overall objective was to support the University's efforts to implement the budget cuts required by its two-year plan so that it could emerge from the recession with the resources needed to compete effectively and sustain its world-class quality.

A. ***Financial Aid.***

Each year the Committee on Undergraduate Admissions 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 to the percentage of students on aid. Last year, CUAFA predicted that the percentage of students on aid in the freshman class would rise from 57% to 59%. The actual percentage was even higher—slightly over 60% —and CUAFA projected that the lagging effects of the recession would push the number even higher, to as much as 63%, next year. This estimate, if correct, would increase the University’s financial aid budget by more than $5 million over previous projections.

Despite the difficulty of absorbing this additional expense on top of all the other budgetary pressures facing the University, the Committee strongly endorsed the University’s leadership commitment to financial aid and CUAFA’s “stay even” budget. The Committee noted, however, the need to respect budgetary discipline even in the domain of financial aid, and it counseled against increasing elements of the financial aid package in which Princeton was already substantially more generous than its peers.

B. ***Salary Pools.***

The daunting economic situation confronting the University led this year’s Committee, like last year’s, to discuss salary pools at exceptional length. The Committee recognized that the salary pools were especially important elements in the University’s budgetary picture. On the one hand, labor costs account for roughly 50% of the University’s expenses, and a 1% increase (or decrease) to salaries across the campus translates into a $3.6 million impact on the general funds budget. On the other hand, the University's outstanding faculty and staff are its most valuable assets, and it must maintain competitive salaries if it is to retain them.

The Committee usually hears a single presentation from the vice president for human resources and the dean of the faculty; for the past two years, it has engaged with those offices through multiple presentations. Last year's Committee formulated a proposal that gave the largest raises, in percentage terms, to the University's lowest paid employees. Ultimately, nearly all of the University's tenured faculty members and staff who made more than $75,000 per year received no raise at all. This year, the Committee heard about the need to provide some recognition, even if modest in amount, to faculty members and staff at all levels of the University, all of whom made significant efforts to achieve the University's budget-cutting goals. The dean of the faculty also emphasized to the Committee the need to ensure that the University could provide the same increases that it would normally provide to the small set of faculty members each year who received promotions or achieved awards demonstrating exceptional academic distinction. The vice president for human resources underscored the need to ensure that non-faculty employees who received promotions or whose job duties substantially changed could be appropriately recognized.

In light of these objectives, the Committee recommended base salary pools that would provide 1.5% raises to all University faculty members and staff (except for members of the President's cabinet, who will receive no raise), up to a maximum increase of $2000. Because the salary pools were so small, managers would not be asked to make merit-based differentiations among employees; virtually all employees would receive a 1.5% raise (up to the $2000 cap) unless their performance was unsatisfactory. The Committee also recommended that the University preserve centrally managed resources to pay for promotions on the staff side and promotions and special achievements on the faculty side.

While the Committee endorsed these increases as the best that the University could provide in the midst of its two-year budget-cutting efforts, it observed that the University would need to begin building more substantial salary pools as rapidly as possible—in particular, it hoped, for the FY2012 budget year. Committee members stressed not only that the University must continue to offer salaries that were sufficiently competitive to attract and retain the best people, but also that it must recognize differences in the quality of performance. As one Committee member put it, merit is central to everything that Princeton does, and the University's salary programs should reward exceptional work.

C. *Fee Package.*

Last year's Committee regarded the fee package as posing issues comparable in intricacy to those raised by salary increase pools. This year was no different. Like its predecessors, the Committee considered the fee package in light of Princeton's commitment to the accessibility of higher education to all qualified students. The University's financial aid program is the most important vehicle for ensuring that a Princeton education is affordable to all the University's students. For students on aid, the family contribution and the student's work expectation are not increased when tuition and fees rise. However, the Committee recognized that the cost of a Princeton education puts substantial burdens on families that do not qualify for aid, especially those only slightly above the aid threshold. The Committee also recognized that this consideration was especially sensitive in the current year, when even well-off families may have lost ground economically.

The Committee discussed the fee package at several of its own meetings and at two meetings of the Trustee Finance Committee. In the course of its deliberations, the Committee considered that the University's tuition price, though substantial, already reflects a significant discount from the true cost of an undergraduate education. Estimates of that cost put it at roughly twice the University's tuition price. Committee members observed that the drop in the endowment's value has burdened all segments of the University's population and that the University faces difficult choices between restraining its tuition price and making further budget cuts. Committee members also noted that the University's financial aid program now included substantial aid for students from some families making more than $250,000 per year, so that non-aid families had higher incomes than was the case in the recent past. On the other hand, Committee members acknowledged that Princeton's tuition price was high enough that it felt burdensome even to relatively well-off families. Some members of the Committee offered observations based on their own experience as tuition-paying parents.

The Committee ultimately recommended that the overall fee package (tuition, room, and board) increase by 3.3%. That increase is higher than last year's, but it is the second lowest since FY1968 (last year's increase was 2.9%, and the FY2001 increase, at 3.3%, was as low as this year's recommendation). The Committee believes that its recommendation strikes a reasonable balance that recognizes both the University's budgetary challenges and the need to avoid putting unnecessary burdens on tuition-paying families.

More specifically, the Committee recommended that tuition increase by 3.7%, room rates increase by 2.0%, and board rates increase by 2.5%. The increase in board rates reflects trends in actual cost. The increase in room rates applies not just to dormitories but across the University's various housing units, including faculty, staff, and graduate student housing. It incorporates information that the Committee received regarding the University's investments in its residences, the local rental market, and preliminary comparisons to the rates charged by peer institutions offering comparable facilities.

	2008–2009	*2009–2010*	*% Change*
Tuition	$35,340	$36,640	3.7%
Room	$6,340	$6,467	2.0%
Board	$5,340	$5,473	2.5%
Total	$47,020	$48,580	3.3%

The Committee's recommendations also include a 3.7% ($1,300) increase in the rate of regular graduate tuition, from $35,340 to $36,640, the same as undergraduate tuition; a 3.7% ($100) increase in the rate of DCE (Dissertation Completion Enrollment) graduate tuition, from $2,680 to $2,780; average increases in room and board rates at the Graduate College of 2.0% and 2.5% respectively; and an increase in renewal rental rates of 2% for most faculty and staff housing and for most graduate student apartments. The University also expects to increase the Student Health Plan fee from $1,270 to $1,450 for 2010–2011. This significant increase is required to offset rapidly rising medical costs.

D. *Graduate Stipends.*

The dean of the graduate school recommended a 0.97% increase ($250) to base stipend levels for graduate students. (In accordance with Committee practice, the proposal was framed in terms of University fellowship stipends, but, as a result of various budgeting conventions, the increase filters through to rates paid to Assistants in Instruction and Assistants in Research.) The dean's proposal, which raised the twelve-month stipend from $25,750 to $26,000, was sized to compensate graduate students fully for the effect of the 2% increase to University rental rates.

The Committee endorsed the dean's proposal as an appropriate measure in austere times. Members of the Committee agreed, however, that future Committees should monitor Princeton's stipends carefully to ensure that they were sufficient to attract outstanding graduate students to Princeton and enable them to complete their doctoral work efficiently. Several members of the Committee remarked that graduate students play a critical role in the University's research and teaching enterprise. The Committee suggested that it would be desirable for a future Committee to look carefully at the principles behind Princeton's stipend packages to determine what the University should do to ensure that they were accomplishing their goals both effectively and efficiently.

E. *Budget Reduction Plans.*

The Committee received reports about budget reduction plans from the dean of the college, the executive vice president, the university librarian, the vice president for campus life, the vice president for development, the vice president for facilities, and the vice president for information technology. The Committee's purpose was not to approve or reject these plans; indeed, given the timing of the Committee's meetings and the University's budget reduction plans, most aspects of the plans were already in the process of implementation. Instead, the Committee's objectives were to provide feedback about areas where changes to service levels might be in tension with the University's mission and priorities; to offer advice about areas where continued communication and monitoring might be especially important; and to identify, if possible, additional areas where savings might be realized.

In general, the Committee was impressed by the thoughtful, thorough, and strategic character of the plans presented to it. Committee members commented upon how much work had been done to identify cuts that operated ‘behind the scenes’ and so did not immediately impact the educational or research experiences of the Princeton community. Some of these changes harvested the gains of long-term trends toward modernization or consolidation. For example, the Library was able to leave some vacancies unfilled because of technological changes in its book acquisition and cataloging processes, and the Office of Information Technology took advantage of its new location to combine some support functions that in the past required multiple people at multiple locations. The Committee also noted, however, that some changes depended on the talent, good will, and energy of staff members who would now operate in a leaner environment, and this observation reinforced the Committee’s conviction that it would be important for the University to restore merit-based salary pools in the future.

The Committee agreed that managers had done a remarkable job of identifying potential cuts. When committee members raised possibilities for additional cuts, they usually found that managers had already considered those options. The Committee concluded that, in most areas, further cuts would damage important University services. While Committee members admired, and took pride in, the budget-cutting efforts that had been made around the University, they expressed their hope that, in light of the possibility of real harm to the research and teaching program, the University could avoid another round of cuts in FY2012.

The Committee did identify a small number of specific areas in which it thought that additional savings might be achievable. These areas included compensation rates for residential college advisers (the Committee asks that the appropriateness of the compensation package be assessed relative to RCA responsibilities and that the review consider optimal RCA/advisee ratios and practices at peer schools), rules related to waiving the student health fee (which were already slated for reexamination by the Committee on Undergraduate

Admissions and Financial Aid), and departmentally run computer clusters. The Committee urges OIT to work with departments to identify potential efficiencies and savings.

The Committee also recommended that the administration study additional mechanisms for incorporating budget reduction initiatives into the Priorities Committee process even during growth years. One possibility would be to organize such initiatives around themes—such as 'sustainability' or 'shared services'—that might reveal cross-campus cost-cutting opportunities that would otherwise go unnoticed. This process of identifying additional savings will help provide the resources the University needs to seize new opportunities, respond to new challenges, and preserve its human capital.

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 three-year budget view is part of a planning model that provides longer-term context to decisions made for the next annual cycle. This longer-term operating budget model is also used as a companion planning tool with the 10-year capital plan to ensure appropriate integration of capital and operating plans. Given the extraordinary economic factors described earlier in this report, the Committee wishes to emphasize that these projections are viewed more as an extrapolation than as a forecast. Nonetheless, they remain useful with respect to their intended purposes: both to test whether recommendations for the upcoming budget year are sustainable and to establish a starting point for the discussions of next year's Committee.

Typically, we construct these projections by extending for another three years the growth rates recommended for the budget year's fee package, salary pools, 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, real estate taxes, and the like—are based on our assessment of likely average growth rates. We also layer in the impact of new programs, initiatives, and facilities, as well as any changes to undergraduate or graduate enrollments.

Projecting sponsored research funding was more difficult this year than in past years, but for a welcome reason: as described earlier in this report, Princeton has experienced a substantial growth in sponsored research volume after several years in which it was more or less flat. This growth appears sustainable. The Committee accordingly looked at projections that assumed a rise of more than 10% in sponsored research revenue this year and more than 5% per year for each of the next three years. The indirect cost recoveries from these awards will permit the University to recoup a portion of the investment it has made in its research enterprise. While both beneficial and significant, the revenue from indirect cost recoveries on the budget is modest in magnitude by comparison with the impact of some other variables discussed below.

The turbulent economy once again complicated the projections regarding the University's budget for undergraduate financial aid. Last year, the University forecast that 59% of the 2009 entering class would be on financial aid, but also that, as the economy recovered over a multi-year period, the aid population would eventually stabilize at its pre-recession level—about 57% of the student body. The University's financial aid office based those estimates on historical trends from the early 1980s, which was the last time that national economic factors caused a dramatic change to the demand for student aid at Princeton. The population of the freshman class on aid this year exceeded these estimates, surpassing 60%. In addition, the recession has proven deeper than anticipated. The financial aid office now projects that 63% of next year's freshman class may be on aid. If that increase materializes, the logic of last year's analysis might suggest two different scenarios for the future: either that the size of the aid population would eventually decrease to pre-recession levels (that is, to 57%), or that the size of the aid population would eventually decrease by 2% (on last year's numbers, from 59% to 57%, or on this year's numbers, from 63% to 61%). The differences are material: in FY2013, each 1% on aid translates to $2 million in scholarship expenditures, so the difference between 57% on aid and 61% on aid is $8 million. The projections presented to the

Committee assumed that the aid population would stabilize at 61%. This prediction is, of course, merely a guess, and the actual numbers might be higher or lower.

Small percentage changes to salary pools and endowment revenue have an even larger impact on the operating budget than do changes to the percentage of students on aid. A 1% change to the salary pools (for example, moving from a 2% increase pool to a 3% pool) has an impact of roughly $4 million on the budget. The impact of that change compounds: the effect is in the neighborhood of $8 million after two years, $12 million after three, and so on. Likewise, a 1% change to the rate of increase in endowment revenue (for example, increasing endowment revenue by 3% per year rather than 2%) also has an impact of roughly $4 million per year, and it also compounds.

In its unusual spring-term meeting in March 2009, last year's Priorities Committee looked at scenarios that assumed the University would continue to offer salary pools no more generous than the very low ones planned for FY2010 and that the growth rate for endowment revenue would return to 5%, its pre-recession norm, beginning in FY2012. Neither assumption appears realistic now. Indeed, last year's Committee report acknowledged that the University would have to restore more generous salary pools in the near term, and this year's Committee concluded, on the basis of reports from the dean of the faculty and the vice president for human resources, that it would be important to do so in FY2012. With regard to endowment revenue, the University administration worried during much of 2009 that endowment distributions might have to decrease yet again in FY2012 on the heels of the 8% reductions in FY2010 and FY2011. The markets rebounded in the last three quarters of 2009, however, and it now seems reasonable to contemplate that endowment spending will increase somewhere between 2% and 4% in FY2012. The 5% increase used in last year's projections, however, remains implausible for FY2012 and may not be achievable for some time thereafter.

In light of the uncertainties surrounding salary pools and endowment revenue, the vice president for finance and the budget director shared with the Committee multiple scenarios based on differing assumptions about rates of growth in salary pools and endowment distributions. The scenarios shared a basic pattern: if the University restores salary pools to pre-recession levels, and if it makes no other changes to its operations, it will run budget deficits. If the University is able to restore a 5% annual growth rate for endowment distributions, the gaps are relatively manageable: they average around $5 million, and relatively modest savings initiatives or additional revenue growth would enable the University to balance its budget. If the University cannot achieve a 5% growth rate, however, the deficits become significantly larger and compound into the future. The Committee reviewed some scenarios that showed deficits of between $10 million and $20 million by FY2014.

Deficits of that size are not sustainable, and the University will have to depart in some way from the paths described by those projections. The easiest solution—but not one that the University can control or count upon—would involve more rapid growth of the endowment. If the endowment returns were again to grow at close to their pre-recession rate, the resulting revenue could eliminate the deficits. If, however, the markets are less kind to the University in the years ahead, it would have to pursue other solutions. The University might consider a combination of measures such as the following: reducing further the transfers from the operating budget to support its capital program; shifting faculty hiring practices more firmly toward junior positions; seeking new and additional initiatives to cut operating costs; or allowing the endowment spend rate to rise higher than has been deemed acceptable in the past (and thereby increasing endowment income in the near-term at the expense of endowment growth over the long-term).

Though the projected scenarios concerned the Committee, none of the projections gave the Committee any pause with regard to the recommendations contained in this report. On the contrary, the scenarios demonstrated that this year's recommendations were sustainable. The Committee's earlier work, however, convinced its members that the University must be able to offer more generous salary increases in FY2012 in order to sustain the excellence of its faculty and staff. Thus, after reviewing the projections for future years, the Committee affirmed yet again the principle that guided its deliberations throughout its many meetings: through the contributions of its faculty members, staff, students, alumni and friends, Princeton has gone a long way to meeting the budget challenges posed by this recession, but it is not yet out of the woods. The University urgently needs to maintain tight budget discipline, and it must continue to search for new efficiencies and savings, so that it will have the resources needed to preserve the human capital that is critical to its mission.

Appendix A

PRIORITIES COMMITTEE SCHEDULE
2009 – 2010

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

Day	*Date*	*Time*	*Topic*	*Presenter/Invited Guest*
Tuesday	October 20	4:30 p.m.	Orientation	Introduction to Priorities Committee, Operating Budget
Tuesday	October 27	4:30 p.m.	Budget Update	State of the Budget – Actions for FY09-FY11
		5:15 p.m.	Orientation	Liquidity; Sponsored Research; Capital Budget
Wednesday	October 28	4:30 p.m.	Tuition and Fees	Chad Klaus *Assistant Vice President, Office of the Vice President for Facilities*
		5:15 p.m.	Orientation	Q&A for new members
[Fall Recess October 31 – November 8]				
Monday	November 9	7:30 p.m.	**Priorities Committee PUBLIC MEETING (All members should attend.) McCosh 28**	
Tuesday	November 10	4:30 p.m.	Information Technology	Betty Leydon *VP for Information Technology*
		5:15 p.m.	Budget Update	Outlook on 2009-2010 and Potential Developments Affecting 2010-2011 Budget
Wednesday	November 11	4:30 p.m.	Staff Salaries	Lianne Sullivan-Crowley *Vice President for Human Resources*
		5:15 p.m.	Faculty Salaries	David Dobkin *Dean of the Faculty*
Monday	November 16	4:30 p.m.	**CPUC Discussion of Priorities Committee Recommendations and Report**	
Tuesday	November 17	4:30 p.m.	Graduate School	William Russel *Dean of the Graduate School*
		5:15 p.m.	Office of the Dean of the College	Nancy Malkiel *Dean of the College*

Day	*Date*	*Time*	*Topic*	*Presenter/Invited Guest*
Wednesday	November 18	4:30 p.m.	Library	Karin Trainer *University Librarian*
		5:15 p.m.	Facilities	Mike McKay *Vice President for Facilities*
Friday	November 20	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 24	4:30 p.m.	Undergraduate Financial Aid	Nancy Malkiel *Dean of the College* Janet Rapelye *Dean of Admission* Robin Moscato *Director of Undergraduate Financial Aid*
		5:15	Campus Life	Janet Dickerson *VP for Campus Life*
[Thanksgiving Recess—November 26 – 29]				
Tuesday	December 1	4:30 p.m.	Development	Brian McDonald *Vice President for Development*
		5:15	Administrative Offices	Mark Burstein *Executive Vice President*
Wednesday	December 2	4:30 p.m.	**Budget Update/Discussion	
Tuesday	December 8	4:30 p.m.	**Discussion	
Wednesday	December 9	4:30 p.m.	**Discussion	
Friday	December 11 *Chancellor Green ?*	2 p.m.	**Meeting of Priorities Committee Members with the Full Finance Committee for Presentations of Tentative Recommendations**	
[Winter Recess December 19 – January 3]				
Tuesday	January 5	3:30 p.m.	Final Discussion/Projections/Final Report	
Thursday	January 7	3:30 p.m.	Final Discussion/Projections/Final Report	
Friday	January 22		[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.**

Appendix B

PRINCETON UNIVERSITY
Operating Budget: Income
(dollars in thousands)

	2008-09 Actual (1)	2009-10 Current Estimate (2)	2010-11 Projection (3)	Difference (3)-(2) (4)	Diff %
1. Endowment Payout & Other Investment Income	650,957	667,067	629,094	-37,973	-5.7%
2. Student Fees:					
a. Undergraduate Tuition	164,435	173,696	183,276	9,580	5.5%
b. Graduate Tuition	73,028	74,672	78,904	4,232	5.7%
c. Other	9,279	10,448	11,480	1,032	9.9%
Subtotal	246,742	258,816	273,660	14,844	5.7%
3. Gifts, Grants, & Other:					
a. Sponsored Projects	23,773	23,920	24,159	239	1.0%
b. Other	95,574	92,633	93,849	1,216	1.3%
Subtotal	119,347	116,553	118,008	1,455	1.2%
4. Federal & State Government:					
a. Sponsored Projects	196,549	217,949	233,536	15,587	7.2%
b. Other	13,108	13,842	14,168	326	2.4%
Subtotal	209,657	231,791	247,704	15,913	6.9%
5. Auxiliary Activities:					
a. Athletics	2,150	2,130	2,149	19	0.9%
b. Dorm & Dining Services	58,920	60,471	62,333	1,862	3.1%
c. Rental Housing	17,012	16,634	16,848	214	1.3%
d. Other Income	19,466	19,210	19,829	619	3.2%
Subtotal	97,548	98,445	101,159	2,714	2.8%
6. Service Departments:					
a. Office of Information Technology	1,509	1,399	1,399	0	0.0%
b. Other	3,791	4,387	4,178	-209	-4.8%
Subtotal	5,300	5,786	5,577	-209	-3.6%
Total Income	**1,329,551**	**1,378,458**	**1,375,202**	-3,256	-0.2%
Less Interdepartmental Transactions	12,065	11,500	11,500	0	0.0%
Grand Total	**1,317,486**	**1,366,958**	**1,363,702**	-3,256	-0.2%
Summary of Sponsored Projects:					
a. Direct Costs	179,338	197,599	209,512	11,913	6.0%
b. Indirect Cost Reimbursements	40,984	44,270	48,183	3,913	8.8%
Total	**220,322**	**241,869**	**257,695**	15,826	6.5%

PRINCETON UNIVERSITY
Operating Budget: Expense
(dollars in thousands)

	2008-09 Actual (1)	2009-10 Current Estimate (2)	2010-11 Projection (3)	Difference (3)-(2) (4)	Diff %
1. Academic Depts & Programs:					
a. Instruction Costs					
1. Faculty, academic year	157,916	162,106	163,905	1,799	1.1%
2. Teaching Assistants	19,547	19,376	19,687	311	1.6%
b. Sponsored Research direct costs	107,061	119,011	129,067	10,056	8.4%
c. Other salaries, expenses	158,880	159,588	159,063	-525	-0.3%
Subtotal	443,405	460,081	471,722	11,641	2.5%
2. Plasma Physics Laboratory	73,542	80,000	82,000	2,000	2.5%
3. Undergraduate Scholarships	92,288	103,207	113,114	9,907	9.6%
4. Graduate Fellowships	84,779	84,938	90,050	5,112	6.0%
5. Other Student Aid & Misc Fellowships	9,169	8,425	8,462	37	0.4%
6. Central University Services:					
a. Library	53,755	53,672	53,442	-230	-0.4%
b. Office of Information Technology	35,398	34,960	34,331	-629	-1.8%
c. Public Safety	7,157	6,942	7,064	122	1.8%
d. Other	2,871	2,939	3,012	73	2.5%
Subtotal	99,181	98,513	97,849	-664	-0.7%
7. Administration:					
a. Academic Administration and Student Services	66,974	70,329	71,883	1,554	2.2%
b. General Administration and Expenses	68,153	70,601	70,548	-53	-0.1%
Subtotal	135,127	140,930	142,431	1,501	1.1%
8. Athletics	20,975	21,125	20,504	-621	-2.9%
9. Physical Facilities	154,639	165,019	166,366	1,347	0.8%
10. Tsfr for Renewal/Replacement/Debt	216,446	206,533	189,604	-16,929	-8.2%
11. Allowance for Contingencies					
a. Provision for expenses	0	675	1,350	675	100.0%
b. Anticipated vacancies	0	-2,420	-2,450	-30	1.2%
Subtotal	0	-1,745	-1,100	645	-37.0%
12. Savings Target	0	0	-5,800	-5,800	
13. Voluntary Incentivized Retirement Program	0	11,432	0	-11,432	
Total Expense	**1,329,551**	**1,378,458**	**1,375,202**	-3,256	-0.2%
Less Interdepartmental Transactions	12,065	11,500	11,500	0	0.0%
Grand Total	**1,317,486**	**1,366,958**	**1,363,702**	-3,256	-0.2%
13. Income	1,317,486	1,366,958	1,363,702		
14. Surplus or (deficit)	**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 decrease primarily reflects the planned reduction of 8% in endowment payout for FY2011. The decrease is partially offset by the redeployment of income and accumulated balances from departmentally managed accounts to cover centrally managed departmental costs that was undertaken as part of the two-year savings plan described in Chapter II of the Report, and by growth in income streams not governed by the endowment spending rule. The $11 million of funds carried forward from FY2009 and used to fund the FY2010 Voluntary Incentivized Retirement Plan, also described in Chapter II of the Report, are removed for FY2011.

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 from $1,270 to $1,450.

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 9%. While this higher than normal growth partially reflects funding under the Recovery Act, it is primarily attributable to the success of Princeton faculty members in securing sponsored project funding from proposals submitted well before the Recovery Act was passed. Funding levels at PPPL are not expected to change significantly at this time, except for the roughly $16M in Recovery Act funding that will be spent over the next two to three years. 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 increases, plus increases from the expansion of the student body. The increase in Rental Housing income reflects the recommended increases for rents, partially offset because of planned changes in the mix and number of units available. The growth in "Other" income reflects increases in a number of areas, such as Conference and Events Services and commercial rental income.

6. Service Departments. The decrease reflects normal inflationary increases, more than offset by the loss of one-time FY2010 revenues.

Interdepartmental transactions. Although sale-of-service rates will reflect modest inflationary adjustments, we expect essentially flat volume overall.

Expense

1. Academic Departments & Programs. Faculty costs reflect planned changes in staffing levels, including new faculty positions supported by gift and endowment income, as well as projected savings from the two-year savings plan described in the Report. 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. 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 decrease in "other salaries and expenses" results mainly from the planned reduction in endowment payout to these accounts in FY2011, along with the planned cost savings in academic administrative costs. 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.

2. Princeton Plasma Physics Laboratory. The increase primarily reflects projected spending under the Recovery Act.

3. Undergraduate Scholarships. Increases are provided to cover the higher fees recommended and to fund projected additional awards, reflecting both the expansion of the student body and our assumption that next year's entering and returning classes will all have a higher fraction of students qualifying for aid.

4. Graduate Fellowships. Increases are provided to cover the higher tuition rate being recommended, the higher student health plan fee, and the recommended 1% 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 the reductions in staff and non-staff administrative costs described in the Report. The totals for the library include amounts authorized to accommodate the undergraduate expansion as well as lower projected expenditures in departmental restricted funds due to the decrease in endowment payout. An appropriate share of the recommended salary pool appears on each line.

7. Administration. Planned reductions in staff and non-staff administrative costs are reflected, and one-time FY10 costs are removed. Line 7.a. also includes amounts authorized in University Health Services and the Office of the Dean of Undergraduate Students to accommodate the undergraduate expansion. An appropriate share of the recommended salary pool appears on each line.

8. Athletics. Planned reductions in staff and non-staff administrative costs are reflected, along with a decrease in departmental restricted funds due to the planned decrease in endowment payout. An appropriate share of the recommended salary pool is also included.

9. Physical Facilities. This line includes inflationary adjustments in property taxes, water and sewer charges, insurance, and energy costs, along with planned reductions in certain staffing and non-staffing 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 decrease reflects normal inflationary growth, offset by a reduction of about $23 million to reflect the reductions in transfers described in the Report.

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

12. Savings Target. This reflects an estimate of savings targets that remain to be identified and achieved within the two-year savings plan after the specific cost savings reductions reflected above.

13. Voluntary Incentivized Retirement Plan. The University-wide one-time costs of this plan, as described in Chapter II of the Report, are removed for FY2011.

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 and in hourly student wages, are included within the appropriate expense categories shown above. The benefits rate for non-academic departments is projected to increase from 27.7% to 28.1%, and the comparable rate for academic departments is projected to increase from 34.3% to 34.4%.