



PRINCETON UNIVERSITY
REPORT OF THE PRIORITIES COMMITTEE
TO THE PRESIDENT

**Recommendations Concerning the
Operating Budget for 2021-2022**

April 1, 2021



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Deborah A. Prentice
Provost

April 1, 2021

President Christopher L. Eisgruber
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Dear President Eisgruber,

I am pleased to present the annual report of the Priorities Committee, with recommendations for the University's operating budget for fiscal year 2021-22 (FY2022).

The Priorities Committee carried out its work this year in a novel and uncertain budgetary context. After a half-dozen years of extraordinary financial and operational stability, the University was thrown into disarray in the spring of 2020 by the Covid-19 pandemic. The pandemic produced an immediate financial shock to the University that had significant implications for the work of last year's Priorities Committee. Fortunately, quick work by that Committee to revise the FY2021 operating budget, along with rapid recovery of the financial markets, stabilized the University's finances without requiring major structural adjustments. As the Priorities Committee began work this fall, the University's budget outlook was solid and it has improved significantly since then.

The public-health crisis and its impact on University operations have persisted, however. Although the University has been able to bring many undergraduate and graduate students back to campus safely, to resume some level of research activity, and to continue to make progress on capital projects and other strategic initiatives, the pandemic continues to take a toll on the University's educational and scholarly activities. This toll is manifest, in the operating budget, in a flattening or reduction of virtually all University revenues and expenses in FY2021.

With the public health situation continuing to improve, the University plans to return to normal or close-to-normal levels and patterns of activity next year, and the budget recommendations for FY2022 reflect that assumption. Specifically, the Committee assumes that the University will welcome all undergraduate and resident graduate students back to campus, that all courses will be taught in-person, that research activity will be at 100 percent, and that the full range of student activities will be supported on campus. Of course, public health guidelines may not allow for this level of campus activity, at least in the early fall, and any ongoing restrictions would affect operating revenues and expenses.

With respect to specific recommendations, the Priorities Committee is pleased to endorse an increase in the Financial Aid budget that maintains Princeton's commitment to meeting full financial need for all students who are admitted. The \$212.2 million undergraduate scholarship budget for FY2022 represents a \$60 million increase over the current year's total, but much of that increase reflects the effects of returning to full undergraduate enrollment and on-campus residency. The Committee deliberated on the increase in student charges with guidance from the trustee finance committee and input from University Services. The recommended 3.5% increase reflects a standard 3.9 percent increase in tuition rates and a more modest 2.0 percent increase in room and board rates.

In its discussion of salary pools, the Priorities Committee focused on what it will take to bring our talented, hardworking, and remarkably flexible faculty and staff back to full strength after the pandemic. Part of the recovery process involves responding to labor markets, many of which moved while the University's faculty and staff salaries were largely frozen. Part of the process involves helping faculty members recover their scholarly productivity and staff members restore their work rhythms after a monumental disruption. And part of the process involves capitalizing on what we have learned about work that can be done effectively at a distance and work that benefits from or even requires co-presence. The Committee recommends larger salary pools for both faculty and staff, to provide leaders and managers with the flexibility to tackle this very important work.

I am grateful to my colleagues on the Priorities Committee, who invested many hours in the Committee's work, brought their best thinking to every meeting, and provided valuable perspectives from where they sit in the Princeton community. Their engagement, intelligence, and goodwill were remarkable under the circumstances, and they made Pricom meetings a highlight of my week. I remember your telling me that the Priorities Committee proves its value in a crisis, and now I have experienced that first-hand. I also want to recognize several people who supported the Committee in its work, including Steve Semenuk, Lisa Baratta, Katie Cloys, and Rick Myers. Each of them brought a unique perspective, complementary skills, and genuine devotion to their role in this important process.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Prentice', with a long horizontal line extending to the right.

Deborah Prentice, Provost
Chair, Priorities Committee

The Committee

Deborah Prentice, Provost (Chair)

Oluwatamilore (Tamilore) Ajeigbe '22

Gabriel Duguay '22

Lauren Feldman *GS

Judith Hamera, Professor of Dance, Lewis Center for the Arts and American Studies

Tod Hamilton, Associate Professor of Sociology, Charles G. Osgood University Preceptor

Matthew Karp, Associate Professor of History

Gyoonho Kong *GS

Sanjeev Kulkarni, Dean of the Faculty

Nathalie de Leon, Assistant Professor of Electrical Engineering

Caasi Love, Assistant Director, Finance and Planning, School of Engineering and Applied Science

James Matteo, Vice President for Finance & Treasurer

Ron Miasnik '22

Michael Mueller, Associate Professor of Mechanical and Aerospace Engineering

Eve Ostriker, Associate Chair, Department of Astrophysical Sciences; Professor of Astrophysical Sciences

Ashley Scott '21

Treby Williams, Executive Vice President

Meeting with the Committee

Lisa Baratta, Associate Provost for Budget Planning (Secretary to the Committee)

Steve Semenuk, Director of Operating Budget

Table of Contents

I.	INTRODUCTION	7
II.	BUDGETARY BACKGROUND	8
III.	RECOMMENDATIONS	
	<i>A. UNDERGRADUATE FINANCIAL AID</i>	10
	<i>B. UNDERGRADUATE STUDENT CHARGES</i>	11
	<i>C. GRADUATE STIPENDS</i>	13
	<i>D. ENDOWMENT SPENDING</i>	14
	<i>E. RENTAL RATES</i>	14
	<i>F. SALARY POOLS</i>	15
	<i>G. COST SAVINGS AND MANAGEMENT INITIATIVES</i>	16
	<i>H. STRATEGIC CO-INVESTMENT POOL</i>	17
	<i>I. OUTLOOK FOR THE FUTURE</i>	18
IV.	APPENDICES	19

I. Introduction

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

The Committee's work is guided by three fundamental principles: (1) a Princeton education should be affordable and accessible to any family; (2) Princeton's status as a world-class teaching and research institution depends on its ability to attract, support, and retain the very best academic talent; and (3) the University must manage its resources so that a Princeton student 50 or 100 years from now can have all the same advantages as a student enrolled today. These three principles -- Affordability, Academic Excellence, and Intergenerational Equity -- provide the framework within which the Committee makes decisions about specific budgetary priorities in a given year.

The Committee recommends rates of change for several items central to the University's budget, including student charges (composed of tuition, room, and board), undergraduate financial aid, graduate student support, faculty and staff salaries, and rental rates for University housing. The Priorities Committee also considers the impact of strategic planning initiatives on the University's operating budget and reviews initiatives from the committee on Strengthening University Management and Resources (SUMAR) aimed at improving efficiency and enhancing management.

The past year has no known contemporary precedent. As the Priorities Committee was wrapping up work on the FY2021 budget recommendations last February, concerns about a world-wide health pandemic affecting Princeton were barely a murmur. By May, the Committee had been called back into special session to revise the FY2021 budget projection, and new budget parameters—including a flattening of endowment payout and most salary and wage growth—were endorsed by the Trustees. Further changes to University revenue and expense estimates were adopted in the summer, following the decision not to bring the majority of students, faculty, and staff back to campus in the fall.

As we look back more than a year later, every aspect of University operations has been affected directly or indirectly by the Covid-19 pandemic, with significant implications for the operating budget. Fortunately, Princeton's administrative responsiveness, resilient endowment, generous donors, dedicated and creative faculty and staff, and adaptable, committed students have all joined forces to bring the University through this tremendous challenge without major lasting damage. Princeton should emerge from the pandemic strong and well-positioned to execute on several major strategic initiatives over the next couple of years.

As we prepare this report, however, the pandemic is still very much with us, and it figured prominently in the Committee's discussions this year. In the early days of the public health crisis last spring, the University identified four institutional priorities: ensuring the health and well-being of students, faculty, and staff; pursuing teaching and research activities as vigorously as possible within safety constraints;

sustaining commitments to access and affordability; and retaining and supporting its talented workforce. These priorities have shaped the University's response during the last year, and inform many of the FY2022 budget recommendations proposed in this report.

One consequence of the pandemic was an unusually demanding workload for the FY2022 Priorities Committee. The Committee met weekly from October through December, with meeting time spent on intensive tutorials on the University's finances and operations. Cabinet members provided written reports of their budget recommendations for FY2022, which Committee members read and evaluated outside of meeting time and then came together to deliberate. This process worked well, as did the virtual format of the meetings. The Priorities Committee met with the Finance Committee of the Board of Trustees in January to review a preliminary set of recommendations for student charges, salary pools, and other budget parameters, and then finished out this cycle with discussions of longer-term budgetary issues – specifically, the financing of strategic initiatives, including undergraduate expansion, and the projects undertaken by SUMAR.

This report summarizes the Committee's recommendations and discussions. It will be forwarded to the President and then transmitted to the Board of Trustees for approval at its April meeting.

II. Budgetary Background

Despite the challenges of the pandemic, Princeton remains in a solid budgetary position, with strong endowment returns, AAA credit rating, sufficient liquidity and reserves, and a loyal and generous base of donors. Last spring, the University undertook several cautionary measures to mitigate the anticipated financial impacts from the crisis. These swift actions and several stronger-than-expected economic trends have positioned the University's finances more positively than was anticipated as the pandemic took hold last spring. Although it is too early to know how far into FY2022 and beyond the impacts of the pandemic may last, the projections included here assume the resumption of most regular aspects of University life in the fall of 2021. Estimates will flex accordingly in the fall budget update to reflect any significant operational impacts that linger into the fall.

Applying a longer lens to smooth out the distorting effects of the pandemic, the following table compares the FY2019-FY2022 compound annual growth rate to that prevailing in the preceding five years. Core expense growth rates are moderate and compatible with those for ongoing revenue streams. Rates of increase for financial aid and other student support are higher than those for core operating costs, but are manageable and reflective of increases in the number of supported students, as well as enhancements to financial aid policy. Above-normal increases in activity of the Princeton Plasma Physics Laboratory do not materially affect central University funds, as they result from growth in federal and other external research funding. Allocations to capital reflect the significant step-up in funding that commenced in FY2020 with the designation of strategic initiatives funding to augment Capital Plan II.

Major Expense Category	Compound Annual Changes	
	FY2015-2019	FY2019-2022
Core Expenses	5.2%	3.3%
Scholarship Budget	7.9%	6.5%
Graduate Student Support	5.7%	6.8%
Princeton Plasma Physics Lab	-1.8%	9.0%
Allocations to Capital Budget	4.8%	20.6%
Total Operating Expense and Allocations	5.0%	6.6%

An overview of the recommendations reveals above-normal rates of increase in several revenue and expense categories for FY2022. In most cases, these rates are merely returning to the levels that would be expected based on the historical trends in place before the revenue and expense slowdowns during FY2021. Factoring in the key budget recommendations we discuss below, we project expense and allocations totaling \$2.49 billion for FY2022, resulting in a slight General Fund surplus of \$7 million (0.4 percent). Across all operating funds, total expense and capital allocations are projected to grow by 7.6 percent, though the adjusted core expense growth drops to 6.6 percent when controlling for graduate and undergraduate financial support, the increase for the Princeton Plasma Physics Laboratory, and transfers to the capital budget.

The remainder of this memo explores in greater detail each of the primary budget parameter recommendations contained in the following table.

Key Rate Assumption	Annual Changes	
	FY2021	FY2022
Undergraduate Student Charges*	3.90%	3.50%
Endowment Payout inflator	0.00%	4.00%
Faculty Salary Pool**	0.00%	5.55%
Staff Salary Pool**	0.00%	4.50%
Benefits Rate		
Base rate	27.50%	28.40%
Academic dept. rate	34.10%	35.50%
Graduate Support		
Fellowship	3.10%	3.00%
AR Stipend	3.00%	3.00%
AI Stipend	2.70%	3.00%

**Approved increase before application of tuition discount and shortened-term room and board proration*

***Base salary increases for FY2021, not including faculty rank adjustments and contractually obligated changes*

Investment income continues to be the largest source of revenue in dollar terms supporting the University's operations, accounting for 60 percent of the FY2022 operating budget. Total investment

income to the operating budget—which also includes modest amounts from external trusts and faculty and staff mortgages—is projected to increase by \$62 million, to \$1.50 billion, in FY2022. In addition to the \$58 million provided by the base payout inflator, this growth includes additional payout from expected new endowment gifts and University liquidity investments in the endowment, as well as from *cy pres* court actions, which broaden the restrictions on a small number of funds each year and allow more income to be used.

Research grants and contract revenues contribute most of the remainder (16 percent of total), and are expected to increase by 3.7 percent for FY2022. Gross student fee package income accounts for over 15 percent of projected operating revenues. Annual Giving and miscellaneous department gifts (2 percent of total) are projected to increase nearly 3 percent, or \$2.9 million, to \$112.7 million. Housing, dining, and event revenue will rebound to normal levels (about 2 percent of total) in FY2022, following two years that were significantly affected by refunded, discounted, and foregone room and board contract revenues, as well as lost income from cancelled summer camps, conferences, and other events.

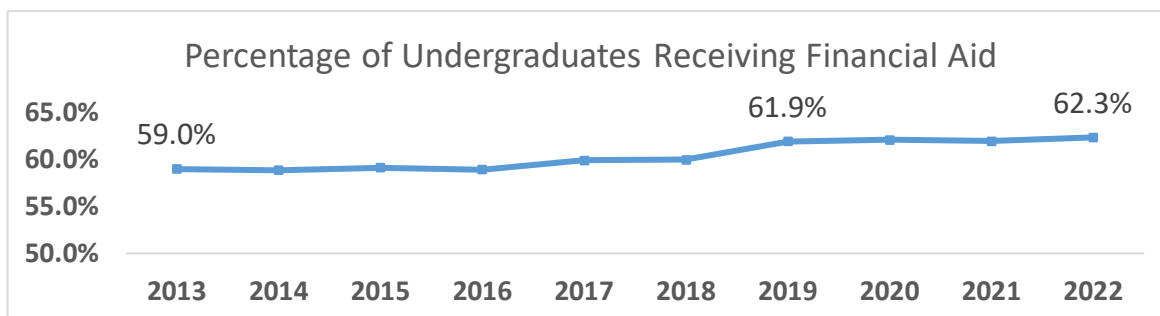
Details on sources and uses in the FY2022 operating budget, as well as changes from FY2021, can be found in the tables in the Appendix. We now turn to our recommendations for increases in key expense growth parameters and other uses.

III. Recommendations

A. Undergraduate Financial Aid

Princeton maintains a steadfast commitment to its undergraduate financial aid program, even in the face of the financial challenges presented by the Covid-19 pandemic. The principle that undergirds the University’s financial aid program is that a Princeton education should be affordable and accessible to any family. Our “stay-even” approach ensures that financial aid packages adjust as tuition and other student fees increase annually. We adjust scholarship awards to cover the full amount of these increases, adjusted for any changes in the family contribution. Our financial aid office takes extraordinary effort to ensure that parental contributions are no more than what each individual family can afford.

The FY2022 scholarship budget assumes that the proportion of students who receive financial aid will remain at 62 percent, consistent with our experience in recent years. This translates to 3,301 students expected to receive a scholarship grant next fiscal year.



Princeton intends to welcome all students back to campus in the fall of 2021, so the scholarship budget has been projected using on-campus room and board rates. This results in an undergraduate financial aid projection of \$212.2 million, approximately \$60 million above the FY2021 scholarship amount, dampened by reduced enrollment and lower off-campus allowances in aid packages. The estimated average scholarship of \$64,282 in FY2022 falls in line with the compound average growth rate trend seen over the past decade. The average scholarship reflects a return to regular student contribution expectations (\$3500), which were suspended in FY2021 due to COVID.

Restricted endowment and trust funds will cover an estimated \$190 million of the FY2022 scholarship budget. This share is higher than usual because it includes payout carried forward from FY2021 due to the reduced scholarship cost of at-home students and lower number of students on aid. Outside scholarships, governmental grants, and other sources offset \$14 million, and the General Fund carries the remaining \$8 million.

B. Undergraduate Student Charges

Princeton's student charges have been the lowest among the Ivy Plus group for 20 consecutive years, a trend we expect will extend into FY2022 given normal growth rates for Princeton and its peers. This ranking persists despite several years of increases in the mid- to upper four-percent range that narrowed the gap to our closest peers' (Harvard, MIT, Stanford, and Yale) total charges.

Princeton moderated its increases to student charges in FY2021, increasing them by 3.9 percent. The Priorities Committee recommends a slightly lower rate of student charge growth for FY2022: a 3.5 percent, or \$2,480, increase to \$74,190 next year, including \$56,010 for tuition, \$10,690 for room, and \$7,490 for board.

2020-2021 Undergraduate Student Charges

Tuition & Fees		Room & Board		Student Charges		1-yr. Change Student Charges	
Columbia	\$61,832	Harvard	\$18,389	Penn	\$76,826	Stanford	4.90%
Brown	\$60,596	PRINCETON	\$17,820	Columbia	\$76,612	MIT	4.20%
Penn	\$60,042	MIT	\$17,320	Brown	\$76,504	Harvard	4.00%
Dartmouth	\$59,458	Stanford	\$17,256	Dartmouth	\$76,480	Dartmouth	3.90%
Cornell	\$59,316	Yale	\$17,200	Cornell	\$75,112	Penn	3.90%
Yale	\$57,700	Dartmouth	\$17,022	Yale	\$74,900	PRINCETON	3.90%
Stanford	\$56,169	Penn	\$16,784	Stanford	\$73,425	Brown	3.80%
MIT	\$55,818	Brown	\$15,908	MIT	\$73,138	Cornell	3.60%
Harvard	\$54,002	Cornell	\$15,796	Harvard	\$72,391	Yale	3.60%
PRINCETON	\$53,890	Columbia	\$14,780	PRINCETON	\$71,710	Columbia	2.00%
Peer average	\$58,326	Peer average	\$16,717	Peer average	\$75,043	Peer average	3.80%
Peer median	\$59,316	Peer median	\$16,903	Peer median	\$75,112	Peer median	3.90%
HYSM Average	\$55,922	HYSM Average	\$17,541	HYSM Average	\$73,464	HYSM Average	4.20%
Over/(Under) Peer Avg.	(\$4,436)	Over/(Under) Peer Avg.	\$1,103	Over/(Under) Peer Avg.	(\$3,333)	Over/(Under) Peer Avg.	0.10%
Over/(Under) Peer Med.	(\$5,426)	Over/(Under) Peer Med.	\$917	Over/(Under) Peer Med.	(\$3,402)	Over/(Under) Peer Med.	0.00%
Over/(Under) HYSM Avg.	(\$2,032)	Over/(Under) HYSM Avg.	\$279	Over/(Under) HYSM Avg.	(\$1,754)	Over/(Under) HYSM Avg.	0.30%

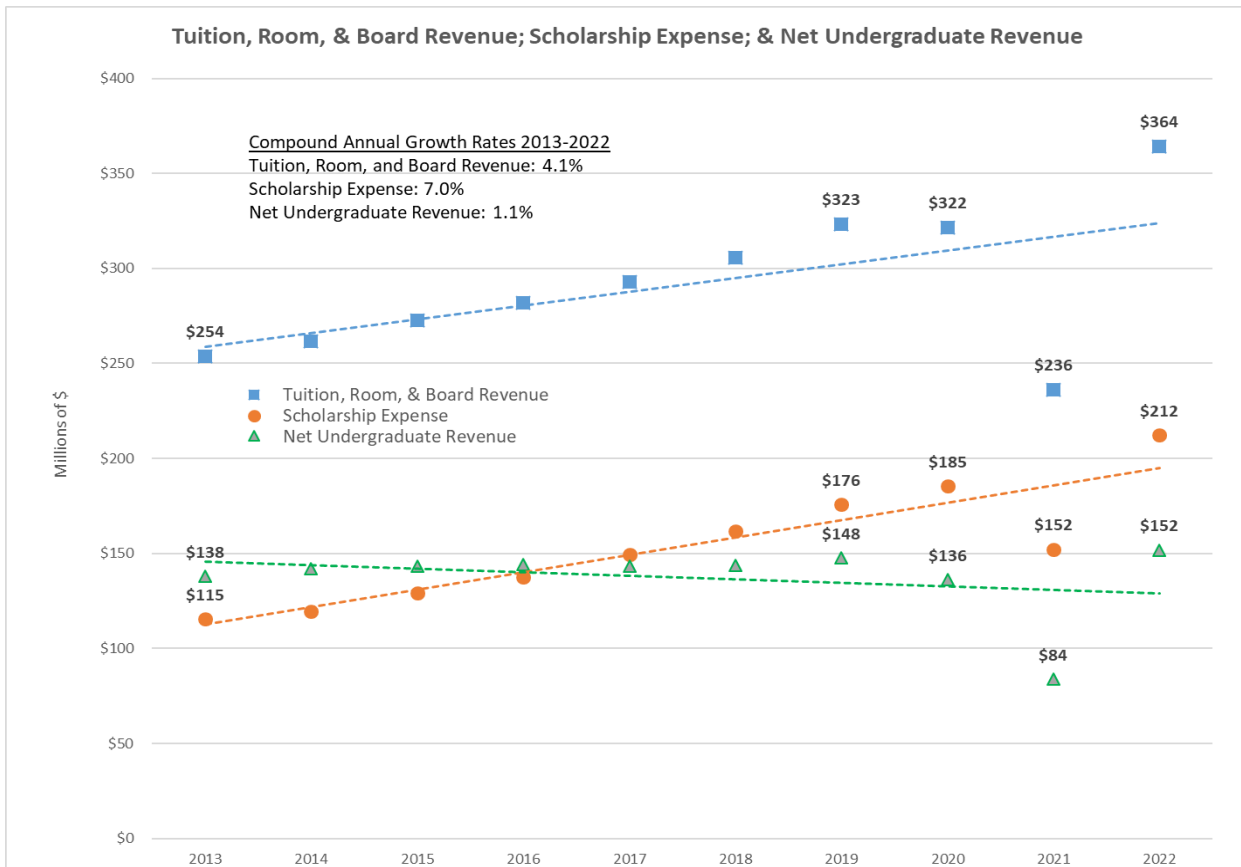
The recommended student charge increase blends a 2.0 percent room and board rate increase with a

3.9 percent tuition rate increase. Although room and board rates have grown at the same rate as the overall student charges in most recent years, conversations in the Committee and with our colleagues in University Services pointed toward a slightly lower recommended rate of increase for room and board for FY2022. Although Princeton’s tuition and total student charges are the lowest of the Ivy plus peer group, its room and board charges are second only to Harvard’s. Princeton’s total student charges (before financial aid) remain among the lowest nationally, and approach even the subsidized rates charged at the top public universities.

Though lower than the increases over the past several years, the recommended 3.5 percent increase in student charges is in line with recent averages at peer institutions, and likely will maintain Princeton’s position as the lowest in our core peer group next year.

Gross undergraduate tuition revenue is projected to increase by \$67 million, or 30 percent, to \$291 million in FY2022, reflecting the rebound from the 10 percent tuition discount and the 13 percent smaller undergraduate student population this year.

Net revenue from undergraduates (tuition, room, and board less after financial aid) will increase nominally in FY2022 under this proposed fee package increase and scholarship projection. We expect total undergraduate revenues to net \$151.8 million in FY2022, \$4 million more than the last non-pandemic year, FY2019. (FY2020 and FY2021 figures are much lower, and are not comparable due to refunds, discounts, headcount reductions, and corresponding changes in scholarships.)



Pandemic-related impacts—and the expected return to normal trajectories in FY2022—are evident in the preceding chart. Total undergraduate financial aid expense resumes its pre-Covid flightpath as the average grant per student continues to grow more quickly than do total student charges. Net undergraduate revenues rebound markedly with a full student population and removal of pandemic-related rate cuts. Still, the attenuated long-run net revenue trend indicates Princeton’s increasingly generous financial aid packages and ongoing changes in the student population’s socioeconomic profile.

C. Graduate Stipends

Princeton guarantees funding for the regular program length for all doctoral students (four or five years, depending on the program), assuming they are making satisfactory progress. This funding takes various forms depending on their stage in the program and the norms for the discipline, and consists of a combination of fellowships, research assistantships, and teaching. The Graduate School sets a floor for the minimum funding package to regularly enrolled PhD students to ensure that it covers full tuition and fees plus a stipend amount that covers the estimated living expenses. Financial support for master’s degree candidates varies considerably by school and discipline, with some students receiving partial and others receiving full support.

Each year, the Priorities Committee receives a recommendation from the Dean of the Graduate School aimed at maintaining Princeton’s competitive position in the recruitment of students, keeping pace with cost of living increases, and accounting for enrollment changes. The graduate support budget has increased at a compounded annual rate of 7.4 percent between FY2018 to FY2021.¹ Controlling for enrollment growth, rate changes alone would have resulted in 4.0 percent annual growth.

The Priorities Committee endorses increases of 3.0 percent for fellowships, research assistant stipends, and teaching assistant stipends. The proposed rates will be \$36,750 for a twelve-month fellowship, \$34,800 for a ten-month teaching assistantship (AI), and \$31,720 for a ten-month research assistantship (AR).² We expect that these increases will maintain our competitive position relative to peers. The annual admission cycle provides a direct market testing of our stipend levels given the concentration of universities against which we compete for most programs.

The proposed graduate student support budget for FY2022 totals \$265.3 million³, which is a 5.5 percent increase over the FY2021 projection given continued graduate enrollment growth. Approximately 63 percent of this support is charged to centrally managed sources, 21 percent to departmental endowments, gifts, and designated funds, and 16 percent to external sources—primarily government agencies. The distribution of funding across types and sources tends to remain relatively steady from one year to the next. Despite the relative stability in sources, a slight shift toward departmentally managed sources, and away from external research grants, has occurred over the past few years. More students are being supported by the growth in endowed fellowship funds, as well as more flexible research gifts and internally designated funds.

¹ The Graduate School enrolled 3,079 degree-seeking students as of Fall 2020, of which 2,762 (90 percent) are PhD students, and the remainder are master’s students. These figures represent an increase of 131 more doctoral students compared to Fall 2019 census.

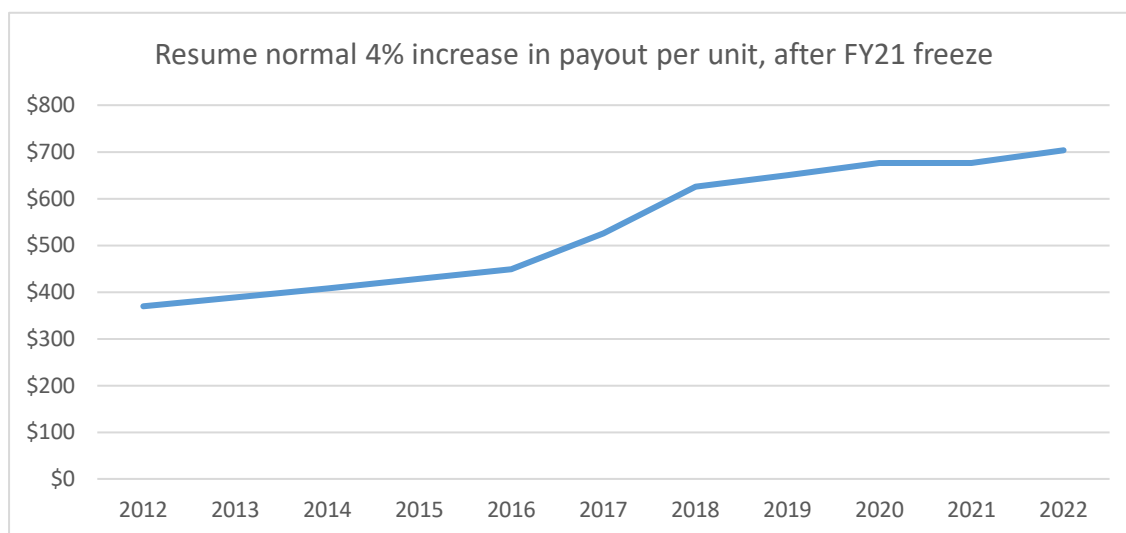
² Departments typically augment the ten-month assistantships with summer support.

³ Spending for graduate student support primarily appears in the budget tables on both the “Financial Aid – Central Graduate” as well as the “Academic Departments” rows under Expenses and Allocations.

D. Endowment Spending

The Board of Trustees has a long-established framework to guide endowment spending rates within a percentage band that measures spending relative to the market value of the endowment. Currently, that framework band calls for payouts between 4.0 percent and 6.25 percent of the market value of the endowment. Managing within this band enables the University to pursue intergenerational equity, balancing the benefits of the endowment between current and future generations of Princeton students. Another important consideration is budget stability; payout from the endowment should be sufficiently predictable to facilitate multi-year financial planning.

After the FY2021 pause in endowment payout inflation, the FY2022 proposed budget plans for resumption of the standard 4.0 percent Payout Inflation Assumption (PIA). These 4 percent annual increases per share of endowment were applied in fiscal years 2019 and 2020, following the 17 percent and 19 percent increases of FY2017 and FY2018, respectively. The recent history of payout increases is traced on the following chart.



With the better-than-expected endowment return in FY2020 and the positive performance indications evidenced so far in FY2021, we expect the endowment's spending rate to fall in FY2022 from the current 5.53 percent rate to the middle of the 4.0 percent to 6.25 percent spending rate policy band.

These are beneficial trends given the particular importance of endowment payout to major elements of the budget. Restricted endowment payout supports more than four-fifths of all undergraduate financial aid, for example, contributing more than \$160 million to financial aid each year. In addition, additional payout allocated to the Strategic Co-Investment Pool is enabling the University to move forward with an expanded capital plan while still maintaining its commitments to operating projects and programs.

E. Rental Rates

Princeton maintains rental properties that enable faculty, staff and graduate students to live close to the University in modest apartments at market rates. Each year, the Priorities Committee consults with

University Services to benchmark rental rates for faculty, staff, and graduate students compared to the local market for comparable properties, and with consideration of the University's costs for maintenance and management of its rental properties. The Committee endorses the recommendation of the Vice President for University Services for a 2.5 percent increase in rental rates for faculty and staff housing and a 2.5 percent increase in rental rates for graduate housing.

F. Salary Pools

The University sets salary pools at levels needed to recruit and retain top talent. This year, the Priorities Committee discussed at length the need to provide somewhat higher base pay adjustment parameters for faculty and staff salaries than in a typical year to ensure continued competitive market positioning after a year of no salary increases and to recognize the extraordinary effort and performance of employees throughout this crisis. The offices of the Dean of the Faculty and Vice President for Human Resources will continue to monitor salary trends in the diverse employment markets that the University taps for changes that could affect Princeton's positioning.

Faculty Salaries

The University seeks best-in-class faculty talent, and therefore anticipates maintaining faculty salaries near the top of market in each academic discipline. The Dean of the Faculty provided data regarding the salaries offered to Princeton's faculty members, professional technical and research staff members, and professional librarians, including available historical comparisons to the salaries offered at peer institutions. On the basis of these data, the Dean recommended an increase of 5.55 percent to the faculty salary pool this year. The Priorities Committee endorses this recommendation. While Princeton's salaries continue to be competitive, only vigilant attention can maintain the University's position relative to its peers.

In the six years prior to FY2021, Princeton had increased the faculty salary pool by 4.75 percent each year. The Committee concluded that offering a slightly larger increase (an additional 80 basis points) to the faculty salary pool this year would provide the Dean with the flexibility needed to reward meritorious performance, maintain Princeton's market position, and acknowledge the extraordinary efforts of our faculty throughout the pandemic.

Staff Salaries

The University seeks to align its staff salaries with market norms, and strives to maintain salaries at or above average market levels in each job category. A benchmark database for all HR Staff positions is used to monitor salary alignment with market target and equity across the University.

The Priorities Committee endorses the Vice President for Human Resource's recommendation to increase the staff salary pool by 4.5 percent in FY2022 (an additional 60 basis points over the increase pool two years ago). Several indicators point to the need for a larger salary pool this year. Research from outside consultants indicates that a year with no salary increases may have reduced Princeton's competitiveness in some labor markets, especially those with overlap in the for-profit sector. A similar picture emerges from national economic indicators, as well as compensation data from midsize and

large employers. Providing a higher adjustment to this year's staff salary pool will allow managers the additional flexibility needed to maintain our positioning in the market.

The larger increase pool will also enable the University to reward those staff who have made exceptional contributions to the University throughout the pandemic. Managers have an array of compensation tools with which to reward extraordinary performance, including the special merit pool for the highest performers, and the "Tiger and Spot Awards" program, which provides for non-base one-time pay adjustments. Additionally, the Office of Human Resources manages a salary adjustment pool to address off-cycle pay adjustments such as reclassification of existing positions and equity adjustments.

G. Cost Savings and Management Initiatives

The Priorities Committee receives an annual report on the work of the Committee to Strengthen University Management and Resources (SUMAR). While cost savings continue to be a goal for SUMAR, this cabinet-level committee also puts a premium on administrative efficiencies, strengthening operations, and enhancing management practices, which often cannot be translated into direct dollar savings. SUMAR continues to track legacy cost savings and evergreen initiatives (e.g., controlling healthcare and energy savings), and today counts more than 77 projects with potential recurring annual savings of approximately \$51.3 million. More recently, SUMAR has championed initiatives that leverage the opportunities of a high-functioning organization, serving as a catalyzing agent for campus-wide initiatives that (1) require the efforts of multiple University units, (2) require significant cultural or policy change, and/or (3) benefit from SUMAR members' organizational roles, expertise, and broad departmental representation, affording broad institutional perspectives that would not be found in a single department.

In FY2022, SUMAR will turn its focus to two select University priorities: leveraging and building on staff redeployment initiatives surfaced in the Covid-19 response, and supporting racial equity initiatives. SUMAR will look for opportunities to evaluate and optimize programs, systems, and/or services in both administrative and academic units. In addition, the committee will continue its efforts towards increasing supplier diversity.

From May 2020 to the present, the University has pursued a redeployment initiative to enable units to shift short-term projects from staff who may be feeling overburdened by the campus response to COVID-19 to staff who may have less to do as a result of the reduction in on-campus activity. The initial phase of redeployment matching from May to July was coordinated by the Office of the Executive Vice President and included outreach to cabinet members and select academic departments. The second phase of matching from October through November was conducted in partnership with the Office of the Provost and the Office of Human Resources and included direct outreach to all administrative and academic departments.

Redeployment examples include:

- 100 staff members from Athletics, OIT, Facilities, and University Services supported Covid-19 testing operations
- 20+ staff members from Athletics, Facilities, and University Services supported annual Flu Fest operations.

- Staff members from Conference and Event Services supported Graduate School in monitoring testing compliance among graduate students

Overall, the initiative matched available personnel with 76 of the 182 proposed projects, representing over 11,000 hours of redeployed staff time. SUMAR has asked a working group to consider how the learnings from this initiative can be incorporated into a program that that will continue to broaden employee exposure in support of professional development.

With respect to racial equity, the Procurement Department, in collaboration with a number of administrative units, has been making progress on its supplier diversity efforts. The University has increased expenditures with certified diverse suppliers from 1.8 percent in FY2017 to 8.9 percent in FY2020. This progress is the result of key efforts, including increasing the percentage of purchases that are competitively bid, growing the participation rates of diverse suppliers in the bidding process, and expanding the number of certified diverse suppliers in our supplier portfolio. In FY2021, following a call from President Eisgruber to support racial equity through an examination of our operations, Procurement developed a multi-year action plan to enhance our efforts around supplier diversity. An important part of this enhancement will include financial activities that fall outside the scope of traditional procurement, such as financial and related professional services.

H. Strategic Co-Investment Pool

The Priorities Committee also receives an annual report on the funds maintained in the Strategic Co-Investment Pool (SCIP). Created from the payout on centrally managed endowment shares with the large payout increases in FY2017 and FY2018, the SCIP is set aside from the General Fund and used to co-invest with donor and departmental resources in major strategic initiatives. Although the Priorities Committee does not directly recommend allocations from the SCIP, we do provide feedback on strategic additions to the University's budget, such as Wintersession, that are supported by the SCIP. The provost and her colleagues consider this feedback as they weigh tradeoffs and optimize use of this pool.

The proposed FY2022 budget includes a \$231 million allocation to the SCIP, 4 percent above the FY2021 level. Approximately three-quarters of the FY2022 payout to SCIP is designated toward the capital budget, representing 41 percent of the total capital transfer of \$438 million shown on the Priorities Committee budget for FY2022.

The proportions of SCIP payout devoted to capital and operating purposes will change over time, as large, near-term capital claims support the construction of new facilities that will support strategic teaching, research, and student experience enhancements on the operating side of the University. Current projections anticipate that 57 percent of total SCIP inflows will be allocated to the capital budget between FY2017 and FY2030, 28 percent will support operating uses, and 15 percent will be reinvested in quasi-endowment or held for future allocation. The University earmarks both one-time and ongoing capacity in the pool to enable progress on identified priorities and to maintain flexibility to pursue new ideas and needs that may emerge over the remainder of the long-run planning cycle.

I. Outlook For The Future

We assume that this report, outlining the FY2022 operating budget, will be the last Priorities Committee report from the Covid era. Although the lessons of budgeting during a pandemic will stay with us, we look forward to resuming a more strategic approach to budget planning in FY2023. Endowment performance is expected to push the University's spending rate downward from the mid-five-percent range of the last few years to the low five-percent range or even lower. If sustained, these lower spending rates may lead to larger payout increases in future years. Net tuition will begin to increase in FY2023 with the first wave of undergraduate student body expansion. In contrast to the expectation at many other institutions that undertake student population growth, however, net revenue increases from Princeton's undergraduate student enrollment increases will be offset by additional student service and programming costs and therefore will not provide a flexible resource to the University.

Sponsored research award balances continue to grow from already healthy levels, and should support higher-than-normal increases when research can return to completely normal operational status, on campus and off (travel and off-site research are the most affected categories at present). Princeton's important new agreement with the Ludwig Institute for Cancer Research will stand up a new center over the next several years and serve as a model of innovative and exciting new collaborations in which the University is engaging.

Ongoing shifts in the socio-economic composition of the student body will mean that the financial aid budget will continue to expand faster than other parts of the operating budget, but these costs will be met with strategic co-investment allocations toward extended socioeconomic diversity goals, alongside the payout from additional gifts to financial aid endowment. Expansion also will add to operations and maintenance costs, and some student service and campus life unit outlays, beginning in FY2023. Additional operating and programming costs associated with new facilities will be layered into the base budget by FY2025, as the new art museum, campus infrastructure enhancements, and academic buildings move from construction to operational status.

IV. Appendices

PRINCETON UNIVERSITY
Operating Budget: ALL OPERATING FUNDS SUMMARY
(dollars in millions)

	(a) FY20 Actual Final	(b) FY21 Budget Current	(c) FY22 Projected	(c) - (b) 22 Proj. v. 21 Bud. \$ Chg.	(c) / (b) 22 Proj. v. 21 Bud. % Chg.
Revenue and Transfers					
1	Investment Income--Operating Budget	1,405.6	1,440.6	1,503.2	62.5 4.3%
2	Tuition-Undergraduate	270.7	224.0	290.5	66.6 29.7%
3	Tuition-Graduate	130.7	139.4	147.5	8.1 5.8%
4	4 Total Tuition	401.4	363.3	438.1	74.7 20.6%
5	5 Other Student Fees	4.4	2.3	3.0	0.7 31.9%
6	6 Grants & Contract Revenue	385.0	390.5	404.8	14.3 3.7%
7	7 Gift Revenue	110.2	109.8	112.7	2.9 2.7%
8	8 Housing, Dining, Rental, & Event Income	85.7	36.5	110.0	73.5 201.5%
9	9 Other Income	86.4	73.2	91.3	18.1 24.7%
10	10 Transfers (to)/from non-operating	(38.3)	(40.0)	(62.3)	(22.3) 55.6%
11	11 Transfers (to)/from departmental balances	(136.7)	(85.7)	(105.2)	(19.5) 22.7%
12	12 Total Revenue and Transfers	2,303.8	2,290.6	2,495.7	205.1 9.0%
Footnote on Annual Giving					
	<i>Annual Giving-Gifts</i>	54.0	59.3	60.5	1.2 2.0%
	<i>Annual Giving-Endowment Payout</i>	7.9	7.9	8.2	0.3 4.1%
	Annual Giving Gifts and Endowment	61.9	67.2	68.7	1.5 2.2%

PRINCETON UNIVERSITY
Operating Budget: ALL OPERATING FUNDS SUMMARY
(dollars in millions)

	(a) FY20 Actual Final	(b) FY21 Budget Current	(c) FY22 Projected	(c) - (b) 22 Proj. v. 21 Bud. \$ Chg.	(c) / (b) 22 Proj. v. 21 Bud. % Chg.
Expense and Allocations					
1	Academic Departments	888.0	914.4	957.5	43.1 4.7%
2	Princeton Plasma Physics Laboratory	124.1	130.0	135.2	5.2 4.0%
3	Financial Aid - Undergraduate	185.5	152.3	212.2	59.9 39.3%
4	Financial Aid - Central Graduate	23.6	28.4	30.1	1.7 6.0%
5	University Library	70.9	72.1	75.3	3.2 4.4%
6	Office of Information Technology	70.5	70.4	73.5	3.1 4.4%
7	University Art Museum	19.2	20.5	22.6	2.0 10.0%
8	Academic Admin. and Student Services	121.5	132.4	137.9	5.5 4.2%
9	Athletics	37.9	34.0	42.7	8.7 25.6%
10	General Administration & Univ. Expense	135.5	144.8	152.7	8.0 5.5%
11	Facilities Services	126.8	130.8	142.2	11.4 8.7%
12	University Services (Housing, Dining, Other)	57.9	52.1	68.0	15.9 30.6%
13	Total Expense before allocations	1,861.5	1,882.2	2,050.0	167.8 8.9%
14	Capital Budget Allocation--Strat. Co-Investment Pool	173.0	178.8	178.8	0.0 0.0%
15	Capital Budget Allocation--Endowment	101.5	101.5	105.6	4.1 4.0%
16	Capital Budget Allocation--Annual Programs	149.3	149.3	153.6	4.3 2.9%
17	Total Allocations to Capital Budget	423.8	429.6	438.0	8.4 2.0%
18	Total Expense and Allocations	2,285.4	2,311.8	2,488.0	176.2 7.6%
19	Transfer To Later/ (From) Prior Periods	18.4	(21.2)	7.7	28.9
<i>Footnote on Graduate Student Support by Category, All Departments Above</i>					
	<i>Assistants in Instruction</i>	38.1	48.9	51.5	2.6 5.3%
	<i>Assistants in Research</i>	52.2	53.4	56.1	2.7 5.0%
	<i>Graduate Fellowships</i>	141.4	149.2	157.7	8.5 5.7%
	<i>Total Graduate Student Support</i>	231.7	251.5	265.3	13.8 5.5%

NOTES TO SUMMARY TABLE

Revenue

1 Investment Income--Operating Budget. This line includes income earned from investments, mainly the University's endowment, as well as income from external trusts and faculty and staff loans. The estimate reflects the planned 4 percent increase in endowment payout per unit for FY2022 and the effect of typical levels of new gifts to endowment principal as well as additional investments in University quasi-endowments. Overall operating budget investment income is projected to increase \$62 million, to \$1.49 billion. No growth is projected for external trusts and other investment income streams that are not governed by the University's endowment spending rule.

2, 3 and 4 Tuition-Undergraduate and Graduate. Total tuition revenue is projected to grow by 20.6 percent, the combined result of a provisional 3.9 percent tuition rate increase, return from the 10 percent undergraduate tuition discount in FY2021, and resumed enrollment at previously approved levels. Revenue is presented at gross, before deduction of tuition and other forms of undergraduate and graduate student aid (see total graduate student support footnote on page 2).

5 Other Student Fees. Other student fees, primarily for summer study abroad, reflect normal inflationary increases.

6 Grants & Contract Revenue. A 2.0 percent increase in the direct and indirect expenses of main campus sponsored research is projected for FY2022. 3.7 percent overall growth in this line is projected because sponsored expenditures at the Princeton Plasma Physics Laboratory are expected to increase significantly again in FY2022. This line also includes government student aid revenue, such as Pell Grants, which rebound from the slightly lower utilization in the pandemic-affected FY2021.

7 Gift Revenue. This line includes unrestricted Annual Giving and expendable gifts for specific departmental programs, research, and other initiatives. Annual Giving gifts—almost 54 percent of the \$112.7 million total—are assumed to grow by 2 percent; departmental and program gifts are estimated to increase by just over 3 percent.

8 Housing, Dining, Rental, & Event Income. The increase reflects the recommended rate increases for dormitories, rental housing, and dining and projected enrollment changes that affect housing and dining contracts. Overall growth includes the resumption of full cohorts of undergraduate room and board contract holders following the pandemic's effect on FY2021 on-campus counts, and incorporates the provisional 2.0 percent undergraduate housing and dining rate increase. Event income is not projected to return to fully typical levels in FY2022, as the pandemic may continue to affect summer camps and conferences.

9 Other Income. This line includes income in sale-of-service units, recharge centers, as well as royalties and miscellaneous other external revenue streams.

10 Transfers (to)/from non-operating. The primary factor in this line is a transfer to cover working capital debt service and reserves. The row also fluctuates due to changes in departmental transfers to support capital projects.

11 Transfers (to)/from departmental balances. This row records net operating budget income and balance increases. The largest categories are additions to the Strategic Co-Investment Pool reserve, endowment balances held for spending in future periods, and faculty research and other specially designated internal fund balances. Expendable gifts awaiting expenditures on specific programs and purposes in future years are also reflected. The line fluctuates from year to year as spending trails changes in commitments and receipts Reserves are expected to increase slightly more in FY2022 as the Covid reserve will not draw down as it did in FY2021.

Expense

An appropriate share of the salary pools recommended by the Priorities Committee appears on each line except 2, 3, 4, 13, 14, 15, and 16. The exception lines are student aid and capital budget allocations, as well as the Princeton Plasma Physics Laboratory, which operates under its own budget-setting process.

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. Sponsored research direct costs rise in line with the trends described above. The increase also includes inflationary adjustments to academic departmental budgets and projected expenditure growth in departmentally managed gift, endowment, and internally designated funds, such as those for faculty research, recruitment, and retention.

2 Princeton Plasma Physics Laboratory. Estimated expenditures at the Laboratory increase, funded almost solely by increased externally funded research contracts.

3 Financial Aid - Undergraduate. The 39 percent increase in undergraduate financial aid reflects the recommended 3.5 percent fee package increase. Because students will be back on campus and receive scholarships for on-campus room and board charges, the average scholarship will increase to its expected pre-pandemic level. Endowment/trust fund income restricted for scholarships is growing at just over 4 percent as a result of the payout inflator assumption and the effect of new scholarship endowment gifts. However, this source category also will include the use of over \$20 million of payout not used FY2021 because of lower off-campus aid needs.

4 Financial Aid - Graduate. This line includes only graduate aid expenses charged to the Graduate School; a larger portion is charged directly to academic department funds, appearing in expense row 1. As indicated in the "Footnote on Graduate Student Support by Category," graduate student support in all departments is projected to increase by 5.5 percent. The \$13.8 million increase stems from the recommended 3.9 percent tuition and 3.0 percent stipend rate increases, as well as an increase in the number of fellowships. Approximately 21 percent of the \$265 million total is charged to departmental restricted and designated funds, and 18 percent to outside grants, mostly for sponsored research.

5 University Library. Increase reflects normal inflationary adjustments (including a 5 percent increase in the acquisitions budget) and an appropriate share of the recommended salary pool.

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. FY2022 includes significant non-recurring expenditure to prepare and place holdings in storage as the museum renovation project gets underway.

8 Academic Administration and Student Services. Includes the Deans of the Faculty, College, Graduate School, Religious Life, and Undergraduate Students; the offices of the Provost, Admission, and Financial Aid; 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 recreational sports as well as Friends groups' expenditures.

10 General Administration and Expenses. This row includes central business functions such as the offices of the President, Provost, Executive Vice President, Human Resources, General Counsel, Vice President for Finance and Treasurer, Development, Public Safety, and the like. Central institutional expenses appear on this row as well.

11 Facilities Services. Staff and operating expenses directly associated with the operating 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, Conference and Event Services, and Transportation Services. Most of the revenues associated with these units are shown in Revenue section, row 8. Expense growth here is well above normal for FY2022 as activity ramps up from the pandemic-related decreases in housing and dining contracts and student population.

13 Total Expense Before Allocations. Direct operating budget expense, before allocations to the capital budget.

14 Capital Budget Allocation—Strategic Co-Investment Pool. Records additional, non-base allocations to the Capital Budget, as an augment to Capital Plan II starting in FY2019.

15 and 16 Capital Budget Allocation—Endowment and Annual Programs. These rows report planned central transfers from the Operating Budget to the Capital Budget, to help cover the costs of new construction, major maintenance, and renovation projects, including debt service on such capital expenses. Planned allocations will total \$259 million in FY2022. The "Endowment Allocation" component tracks the baseline growth in underlying endowment funds, so it resumes 4 percent growth in FY2022. "Annual Programs" allocations generally grow by 3 percent per year, with exceptions for several non-inflating fixed debt commitments. The increases are consistent with the current ten-year capital plan.