



PRINCETON UNIVERSITY
REPORT OF THE PRIORITIES COMMITTEE
TO THE PRESIDENT

**Recommendations Concerning the
Operating Budget for 2022-2023**

April 1, 2022



Office of the Provost
Three Nassau Hall
Princeton, NJ 08544-0015
Tel: 609.258.3026

Deborah A. Prentice
Provost

April 1, 2022

President Christopher L. Eisgruber
One Nassau Hall
Princeton University
Princeton NJ 08544

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 2022-23 (FY2023).

This was a very interesting year to be on the Priorities Committee. External factors presented the Committee with challenges, questions, and opportunities that it has rarely faced. As deliberations began in the fall, we learned of Princeton's historic FY2021 investment return and reviewed initial ways that this unparalleled resource could be applied to Princeton's mission through the operating budget. Reports of increasing wage pressures and hiring difficulties in certain areas made their way to the Committee during its salary pool conversations. Inflationary price signals quickly rose in volume and persistence as we approached the end of the calendar year. And, most ominously, news from Ukraine and eastern Europe raised concerns about new sources of turbulence and disruption as the Priorities Committee completed its final report in February. Resilience, flexibility, and the wider sense of purpose, so amply demonstrated during Princeton's response to the Covid-19 pandemic, will inform and strengthen the University's approach to these serious and unpredictable new threats to normalcy.

Despite this turbulence and uncertainty, the budget recommended by the Committee includes optimistic and hopeful signs of a new era for the University, thanks to strong donor support and endowment management. Expansion of the undergraduate student population, the opening of new student-life facilities, preparation for state-of-the-art teaching and research buildings to open on the main campus, and infrastructure work to support new research, residential, and recreational facilities across Lake Carnegie are all embedded in this spending plan.

Financial assistance to students is always a primary focus of the Priorities Committee's recommendations. To this end, the Committee endorsed the planned increase in the undergraduate financial aid budget to maintain Princeton's commitment to meeting full financial need for all students

who are admitted. The first-year class entering in the fall will include an additional 125 students toward the 500-student expansion goal. The budget thus incorporates 80 additional undergraduate students expected to need financial assistance in the first-year class. This expansion of the aid population will contribute to an increase of \$13 million in the undergraduate scholarship budget, bringing it to \$217 million in FY2023.

Thanks to early trustee approval in January, Princeton was able to announce transformative increases in graduate stipend rates just as it started sending offer letters to graduate students in late January. As the report notes, Princeton's total graduate student support expenditures will grow by more than \$30 million in FY2023, exceeding the \$290 million mark. The Committee deliberated on the increase in student charges with guidance from the trustee Finance Committee and input from University Services. The recommended 2.5% undergraduate fee package increase reflects equivalent growth factors for tuition, room, and board rates. As always, Princeton's stay-even financial aid policy incorporates these rate changes.

In its discussion of salary pools, the Priorities Committee was sensitive to the sacrifices and special efforts made by our phenomenal faculty and staff during the active pandemic and its aftermath over the past two years, and was particularly mindful of those most affected by cost-of-living pressures. The Committee recommends salary pools for both faculty and staff that are higher than in any recent year, cognizant of the consumer price inflation they face and aware of the need to maintain Princeton's competitive position in the recruitment and retention of its most important resource.

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 also want to recognize several people who supported the Committee in its work, including Lisa Baratta, Steve Semenuk, Coleen Walsh, Allissa Visconti, 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 flourish extending to the right.

Deborah Prentice, Provost
Chair, Priorities Committee

The Committee

Deborah Prentice, Provost (Chair)

Nick Caggiano *GS

Austin Davis '23

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

Gene Jarrett, Dean of the Faculty

Ethan Kahn '22

Nathalie de Leon, Assistant Professor of Electrical and Computer Engineering

James Matteo, Vice President for Finance & Treasurer

Michael Mueller, Associate Professor of Mechanical and Aerospace Engineering

Chika Okeke-Agulu, Professor of Art and Archaeology and African American Studies

Daniel Persia *GS

Markus Prior, Professor of Politics and Public Affairs

Gwyndolyn (Camille) Reeves '23

Stacey Sinclair, Professor of Psychology and Public Affairs; Head of Mathey College

Cecily Swanson, Associate Dean for Academic Advising, Office of the Dean of the College

Leia Walker '22

Treby Williams, Executive Vice President

Meeting with the Committee

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

Steve Semenuk, Assistant Vice President for Planning, Budget, and Analysis

Table of Contents

I.	INTRODUCTION	7
II.	BUDGETARY BACKGROUND	8
III.	RECOMMENDATIONS	
	A. <i>UNDERGRADUATE FINANCIAL AID</i>	9
	B. <i>UNDERGRADUATE STUDENT CHARGES</i>	10
	C. <i>GRADUATE STIPENDS</i>	12
	D. <i>ENDOWMENT SPENDING</i>	14
	E. <i>RENTAL RATES</i>	15
	F. <i>SALARY POOLS</i>	15
	G. <i>COST SAVINGS AND MANAGEMENT INITIATIVES</i>	18
	H. <i>OUTLOOK FOR THE FUTURE</i>	19
IV.	APPENDICES	21

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.

Princeton has weathered the direct financial impacts of the pandemic well so far, although the disruptions of labor markets and supply chains are producing inflationary pressures that are visible in next year's budget projections. The University continues to adapt its public health protocols and interventions in response to a rapidly shifting pandemic environment. Regular reviews of national and local trend data and real-time University expense reporting continue to inform our mitigation.

Underpinning the University's response to the health crisis and associated economic uncertainties are 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.

Capitalizing on the success of last year's process, the Priorities Committee met weekly from October through December, with time spent on 'deep dives' into the University's finances and operations. Cabinet members provided written reports of their budget recommendations for FY2023, which Committee members read and evaluated outside of meeting time and then came together to deliberate. The Priorities Committee then 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, graduate student support, undergraduate expansion, and enhancements to undergraduate financial aid.

This report summarizes the Committee’s recommendations and discussions.

II. Budgetary Background

Despite the challenges of the pandemic, Princeton remains in a solid budgetary position, with outstanding endowment returns, AAA credit rating, sufficient liquidity and reserves, and a loyal and generous base of donors.

While we continue to respond to the challenges associated with the COVID-19 pandemic, budget planning for FY2023 has shifted our focus to absorbing inflation pressures, enhancing the competitiveness of our graduate student support, and launching the initial moves in a planned multi-year set of commitments involving the 500-student population expansion, significant improvements to our financial aid program, and investments in new academic initiatives. Our endowment returns, coupled with solid reserves and fundraising, continue to position the University well to implement its strategic priorities and consider new opportunities. Strong endowment gains also provide shelter against potential future downturns.

Factoring in the key budget recommendations discussed below, we project expense and allocations totaling \$2.66 billion for FY2023, with a slight General Fund surplus of \$6.0 million (0.3 percent) relative to revenues. Across all operating funds, total operating expense and capital allocations are projected to grow by 5.6 percent, with adjusted “core expense growth” increasing by 5.0 percent.¹ Core expense growth rates are moderate and compatible with those for ongoing revenue streams. As in the case for most years, rates of increase for undergraduate financial aid and graduate student support are higher than those for most other operating costs.

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

<i>Key Budget Parameters</i>	Change vs. Prior Year	
	FY2022	FY2023
Undergraduate Student Charges	3.50%	2.50%
Endowment Payout Inflation	4.00%	4.00%
Graduate Housing	2.50%	3.00%
Faculty/Staff Housing	2.50%	3.00%
Faculty Salary Pools*	5.55%	6.25%
Staff Salary Pools*	4.50%	6.20%
<i>Graduate Stipends</i>		
Fellowship Stipend	3.00%	24.70%
AR Stipend	3.00%	26.10%
AI Stipend	3.00%	20.70%

**Includes rank adjustment and reclassification pools*

¹ “Core Expenses” exclude graduate and undergraduate financial aid support, Princeton Plasma Physics Laboratory expenses, base increases due to undergraduate expansion, and transfers to the capital budget.

Investment income continues to be the largest source of revenue supporting the University's operations, accounting for 57 percent of the FY2023 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 \$1.59 billion, in FY2023. In addition to the revenue provided by the base endowment payout inflator, this growth includes additional payout generated by expected new endowment gifts.

Research grants and contract revenues contribute 16 percent of total, and are expected to increase by 3.6 percent for FY2023. Gross student fee package income accounts, increasing by 6.4 percent due largely to expansion of the undergraduate student population, provide 17 percent of projected operating revenues. Annual Giving and miscellaneous department gifts (4 percent of total) are projected to increase by 2 percent, or \$2.5 million, to \$117.3 million. Housing, dining, and event revenue (about 4 percent of total) is expected to continue to rebound, up by 9 percent in FY2023, following two years of uneven income flows from cancelled summer camps, conferences, and other events. Miscellaneous other sources add 2 percent of total revenues.

Details on sources and uses in the FY2023 operating budget, as well as changes from FY2022, 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

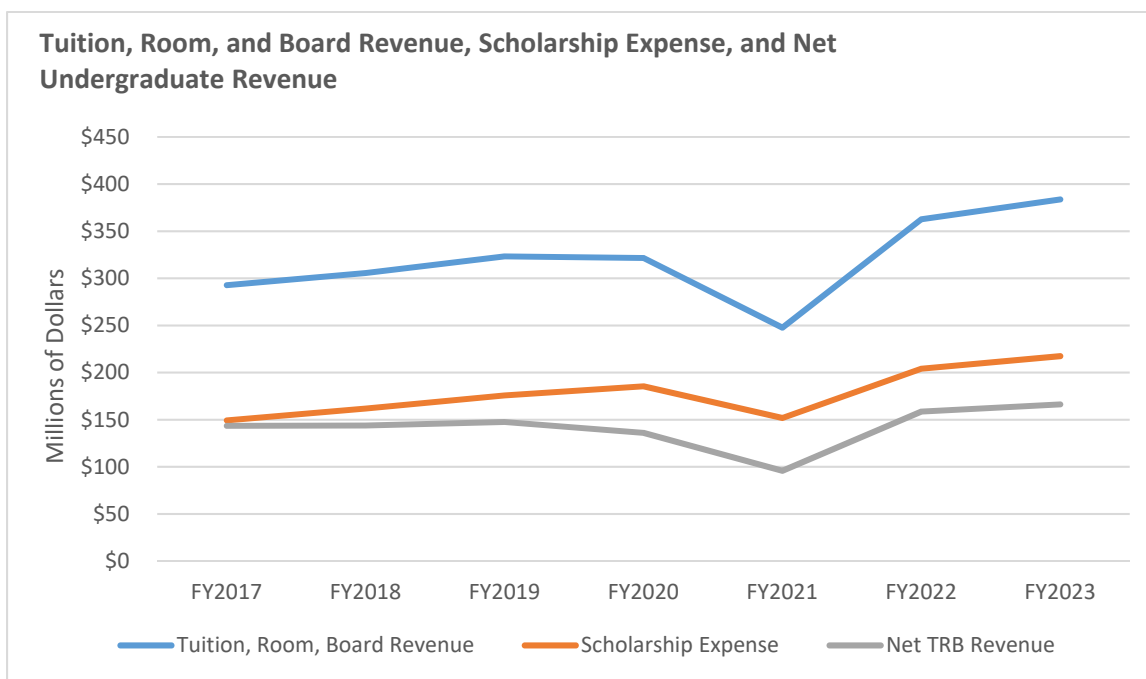
Princeton maintains an unwavering commitment to its undergraduate financial aid program. Our “stay-even” approach ensures that students' financial aid packages adjust with changes in the cost of attendance. As student charges increase, scholarship awards rise to cover the full amount of increase beyond any changes in the family contribution.

Although the exact number of scholarship recipients is not known until after the admission cycle concludes in the spring, the projection here assumes that the proportion of students who receive aid will increase to 62.6 percent, up slightly from recent years. We estimate that 3,395 undergraduate students will receive financial aid next fiscal year. We anticipate an increase in the number of students receiving financial aid with the 500-student expansion, and this assumption is factored into our budget planning.

The provisional budget assumes continuation of regular on-campus room and board rates next year, as we remain hopeful that public health measures will continue to support normal in-person, on-campus teaching and residential arrangements.

Driven primarily by the expansion-related financial aid population growth, estimated undergraduate financial aid increases to \$217.4 million, \$13.4 million more than the current FY2022 projection. Net tuition revenue, which had been flat in inflation-adjusted terms for many years, is expected to increase by 2.5 percent, to \$166.3 million in FY2023—reflecting enrollment growth. Long-run growth rates for

scholarship expense are moderating slightly with the slower fee package increases of the past three years. The implementation of the substantial changes in our financial aid packaging methodology, as discussed with trustees in November, will increase the scholarship budget significantly starting in FY2024.



Restricted endowment and trust funds will cover an estimated \$178 million, or 82 percent, of the FY2023 scholarship budget. Outside scholarships, governmental grants, and other miscellaneous funds offset \$14 million, or 6 percent, while the General Fund covers the remaining 12 percent, or \$26 million.

Looking forward, the Priorities Committee reviewed the proposed changes in financial aid methodology developed in the fall of 2021, and responded favorably. The Committee endorsed the goals of the new methodology and agreed that these changes will make Princeton’s generous financial aid policy easier to understand, and help the University to attract more students who still may not know how affordable a Princeton education is for them. These changes are intended to further enhance the diversification of Princeton’s student population, and extend the reach of Princeton’s generous financial aid to families that previously were on the cusp of qualifying for financial aid. With this endorsement, the administration recommends implementation of these policy changes in FY2024 to allow time to ensure that operational details, systems and processes for packaging are in place and to enable us to incorporate the new methodology into the early application cycle, which has already passed this round.

B. Undergraduate Student Charges

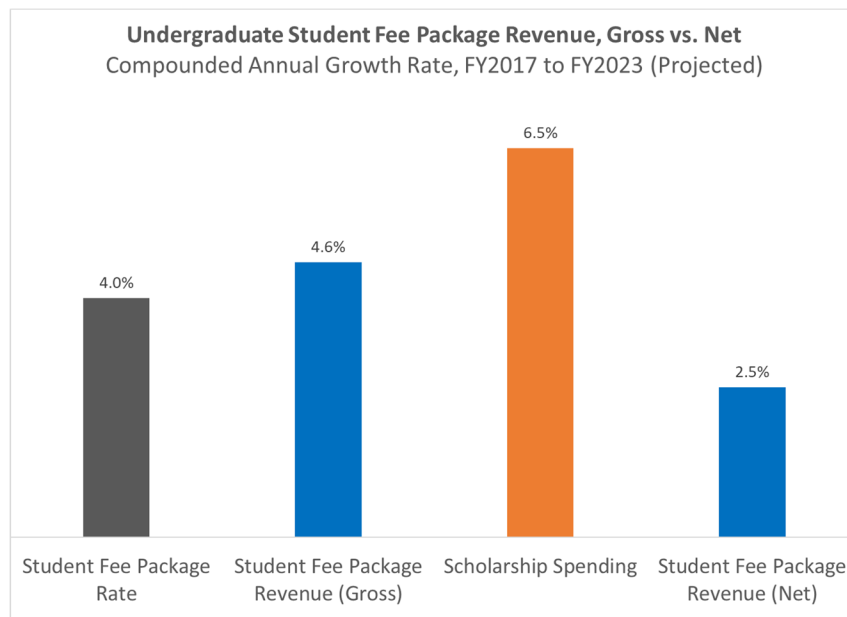
We remain committed to ensuring that a Princeton education is affordable for all families, including those families on the edges of financial aid eligibility. Prior to last year, Princeton’s student charges had been the lowest among the Ivy-Plus group for more than 20 years. Noting that our student charges had diverged significantly from those in the Ivy Plus peer group, the Board resolved in 2015 that Princeton should continue to pursue affordability and accessibility aggressively, but do so through our financial aid program, not our sticker price. In 2019, the Board affirmed that Princeton should strive to position

student charges in the bottom quartile of the Ivy-Plus group, while pursuing affordability and accessibility aggressively through increases in financial aid. Following this guidance, Princeton’s student fee package increases ranged from 3.5 to 4.9 percent over the four most recent years. With the 3.5 percent increase applied this year, Princeton’s FY2022 fee package now hovers slightly above MIT’s and Stanford’s rates, and just below Harvard’s rate.²

In FY2023, we propose to increase student charges by 2.5 percent, or \$1,850, to \$76,040, including \$57,410 for tuition, \$10,960 for room, and \$7,670 for board. Though lower than Princeton’s growth rates of the past several years and counter to steepening inflation rates, the recommended 2.5 percent increase signals Princeton’s intent to remain in the lowest quartile of the Ivy-Plus group.

The recommended increase applies a consistent 2.5 percent increase across tuition, room, and board rates. Although Princeton’s tuition and total student charges are among the lowest of the peer group, its room and board charges are second only to Harvard’s. Room and board rates also need to be viewed in light of differences in quality, proximity, and availability. We will continue to analyze the components in the weeks ahead to determine whether a different combination of increases, still totaling 2.5 percent as a group, is warranted.

Princeton welcomes the first cohort of our planned 500-student undergraduate student expansion next fall. We anticipate an additional 125 students in the class of 2026. Gross undergraduate tuition revenue should increase by \$16.9 million, or 5.9 percent, to \$304.3 million in FY2023 based on an expanded undergraduate population of 5,421 students. Estimated undergraduate room and board contract revenue also inflates by the 2.5 percent plus the 125 new entering students, growing \$4.2 million to \$79.4 million. Total undergraduate student revenue, before financial aid should reach \$383.7 million.

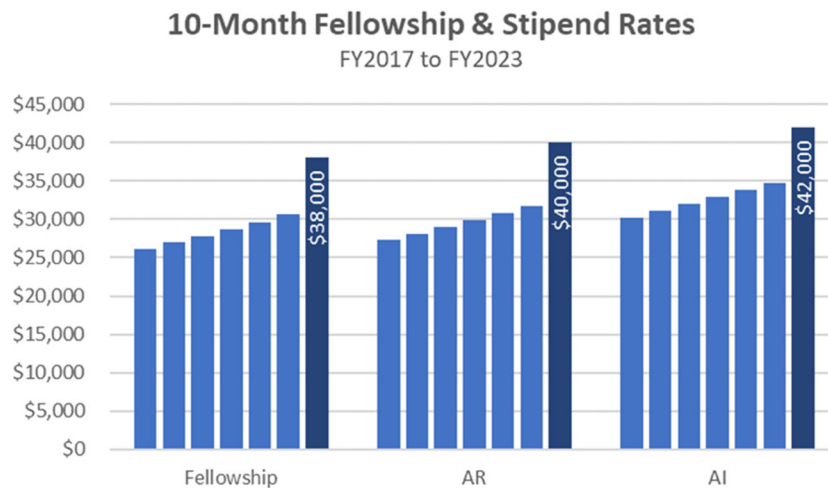


² In 2021-22, there was just a \$550 difference between Princeton and its four closest peers. Princeton’s total student charges were \$74,190; Harvard’s were \$74,528; Stanford’s and MIT’s were \$74,029 and \$73,978, respectively.

Although not part of the traditional academic year fee package, summer “tuition” revenue will enter the budget picture in FY2023. The University will pilot a program to apply a consistent instructional charge for all students who participate in summer study abroad, as well as on-campus summer credit-bearing programs. If this trial approach proves successful as intended in the summer of 2022, we will return for trustee review and approval of the official summer tuition rate in the fall of 2022, to be effective for the FY2024 budget cycle.

C. Graduate Stipends

The overall health of Princeton’s doctoral programs remains strong, as evidenced by a 33% increase in applications over the past five years, admit rates that remain below 10% for most programs, and strong degree completion and time-to-degree rates. Nearly half of admitted students, overall, choose to attend Princeton despite also being admitted to the country’s other top graduate programs. However, both anecdotal and trend data raise concern about the competitiveness of some of our programs compared to our closest peers, especially in the sciences and engineering. Many considerations factor into a student’s decision to apply to and ultimately enroll in a particular program, such as sub-field strength, the ability to work with a particular faculty member, and location. Financial support matters as well, of course, although perhaps less than other factors as long as the differential is minimal. Our strong budget position and endowment provide the flexibility to eliminate any systematic disadvantage and to ensure that admitted students across our programs can make their decisions based on program fit and opportunities rather than finances.

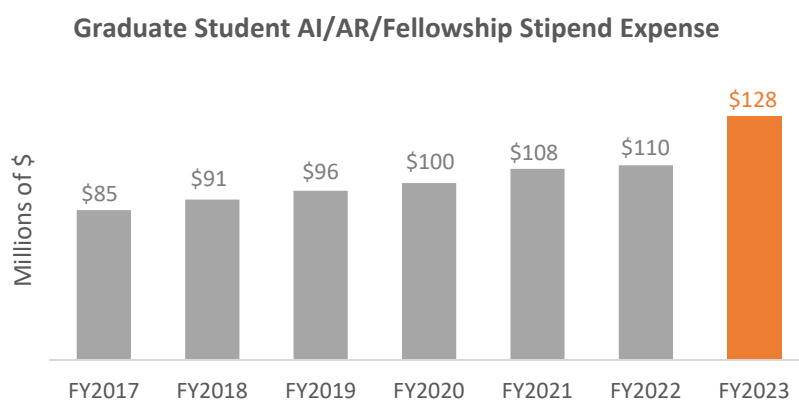


As we make considerable investments to strengthen our Engineering School, including an expansion of its faculty and graduate enrollment, and contemplate new significant building and program investments in the natural and physical sciences, we want to ensure that we have positioned these programs to compete for the best graduate talent. Accordingly, the Priorities Committee endorsed the Graduate School’s proposal, approved by the trustees in January, to substantially increase stipend and fellowship rates next year in order to move Princeton’s awards into line with those at our top competitors for

graduate students—particularly in the sciences and engineering. The budget presented here for approval incorporates these new stipend levels commencing in FY2023³:

- the 10-month Assistantship in Research (AR) stipend from \$31,720 to \$40,000;
- the 10-month Assistantship in Instruction (AI) stipend from \$34,800 to \$42,000; and
- the 10-month fellowship from \$30,475 to \$38,000 (Humanities & Social Sciences) and from \$31,720 to \$40,000 (Engineering and Sciences).

The stipend and fellowship rate increases will cost \$28 million annually at current enrollment levels, an increase of more than 10 percent in Princeton’s total graduate student support package. Nearly all AI stipends and most fellowships are funded centrally, so the majority (55%) of the net cost increase for the overall move will fall to central funds. Grants will cover approximately 30% of the rate increase on AR stipends, with the remaining 15% of the increase spreading across departmental endowment, gift, start-up, and other funds.



Recognizing the impact of the higher stipend levels on the grants that support ARs, the second part of the initiative discontinues the charging of graduate tuition and student health plan charges to external grants, effective in Fiscal Year 2023. Princeton already relieves half of the tuition and health plan charges on most federal grants through an existing cost share matching program. We will now eliminate the other half of the charge on these federal grants, and eliminate the full charge (projected at more than \$60,000 per student for FY2023) for all other external grants, including non-governmental sponsor awards. The change applies to all types of tuition charged to grants, including those related to AR appointments as well as fellowships (e.g., training grants).

Beyond the desire to offset the impact of rising stipend rates, this initiative also follows directly from internal strategic reviews of the university’s sponsored research and graduate student support programs. In 2016, Task Forces on The Future of Sponsored Research and The Future of the Graduate School made recommendations to address widespread faculty concern about the high and rising cost burden of supporting graduate students on research grants. For the current year, supporting a graduate student fully on a federal research grant would cost a faculty member nearly \$94,000, with tuition and health insurance accounting for roughly one-third of the cost. In response, the University established an

³ Students may earn up to an additional \$8000 during the two-month summer period.

internal rebate pool that provided discretionary funding back to faculty equal to the tuition burden for their fourth- and fifth-year graduate students charged to full-overhead-rate federal grants. The elimination of tuition charges altogether for all grant sponsors and for all students, regardless of their year in program, represents further development of our response to this high-priority task force recommendation.

Given the elimination of tuition charges on grants, we will discontinue the existing “tuition rebate” to faculty that returns to them the equivalent of the tuition charge they place on certain federal grants for fourth- and fifth-year graduate students. Since faculty will no longer charge their grants for tuition for these students, there is no longer a basis for this internal rebate. We will process a final tuition rebate transfer to faculty in August or September 2022, reflecting the fourth- and fifth-year students on eligible grants during Fiscal Year 2022.

This change also will eliminate the current disparity that arises when full-overhead federal grants generate tuition rebates but lower overhead and non-federal grants do not. Currently, a non-governmental grant, as well as federal grants that do not pay full overhead, are charged the full cost of tuition and health insurance premium for any students working on the grant. This places Princeton at considerable disadvantage with respect to its peers, which reduces the amount charged to these types of grants.

We estimate that this shift will relieve external grants of more than \$18 million of tuition and health plan charges that would have otherwise hit next year, shifting that expense entirely to central funds. Tuition rebates currently return approximately \$6 million to faculty each year, so the *net* cost to central funds of eliminating the tuition burden on grants is approximately \$12 million annually. We are hopeful that most granting agencies will allow faculty to re-allocate the tuition and health plan savings to other research expenses related to the grant’s purpose, allowing the grant to stretch further.

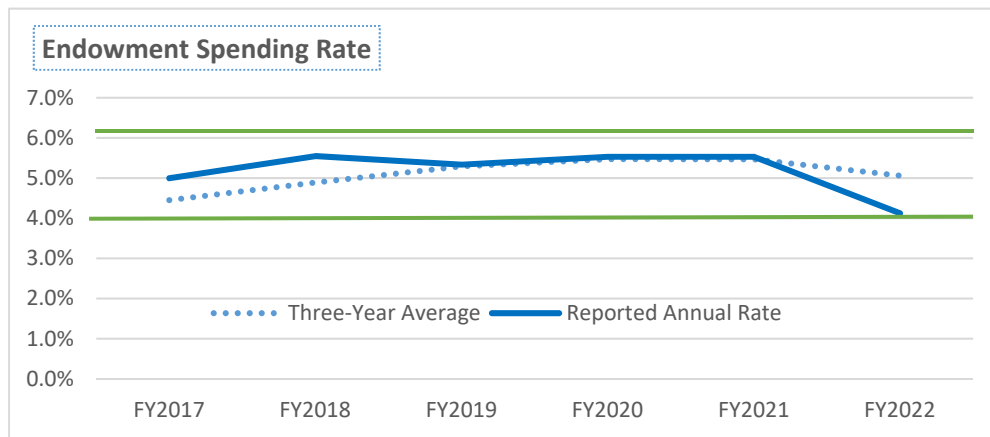
The net effect of the two sets of changes (stipend increases and the elimination of tuition burden on grants) will vary by individual faculty member, depending largely on the extent to which they were able to leverage the tuition rebate program by charging fourth- and fifth-year students to full-overhead federal grants. Across all faculty supporting graduate students on research grants, the net impact of the changes is slightly positive, even after factoring in the additional overhead charges on higher stipends. As such, the proposed two-pronged strategy allows programs to compete more effectively with higher stipend and fellowship rates while mitigating the cost to most individual faculty.

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.

Following the FY2021 pause in endowment payout inflation, we resumed the standard 4.0 percent

Payout Inflation Assumption (PIA) in FY2022. As anticipated, the FY2022 endowment spending rate declined to 4.12 percent due to the combination of the high return in FY2021 and the effects of a zero percent payout inflator for FY2021. The spending rate's three-year moving average remains in the desired 5 percent range.



In FY2023, we plan to stay the course with a 4.0 percent PIA, anticipating that the spending rate will remain in this same range for next year, assuming typical returns for the remainder of this fiscal year.

We are intentionally holding in this spending range, rather than applying a step increase to re-set the one-year spending rate statistic to the middle of the band, for at least for next year to afford time for departments to spend down balances that have accumulated during the past two years due to pandemic-driven slowdowns in teaching and research travel, visitors, and other in-person activities, before increasing payout flows to departments. This approach also provides time to monitor the effect of market volatility and other factors that may affect endowment performance and hence the spending rate.

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 3.0 percent increase in rental rates for faculty and staff housing and a 3.0 percent increase in rental rates for graduate housing.

F. Salary Pools

In their reports to the Priorities Committee, the Dean of the Faculty and the Vice President for Human Resources emphasized the continuing need to position the University competitively to recruit and retain top talent. Three key sets of indicators inform the annual salary recommendations:

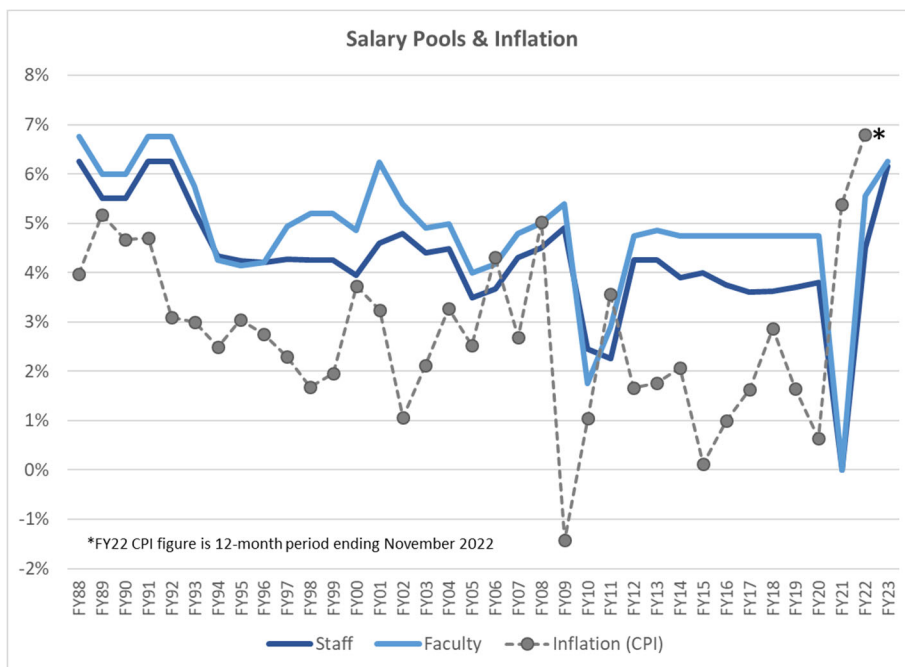
- recruitment and retention trends;
- economic indicators, such as inflation (CPI-U) and the Employment Cost Index (ECI); and

- market salary data and surveys.

Rising inflation has been the primary concern for much of the past year, and we continue to monitor both regional and national price trends closely. Recent data suggest that higher inflation will persist into and potentially through much of calendar 2022. Currently, inflation in our region lags the figures reported nationally. While the nationwide CPI-U registered 6.2 percent in October and 7.0 percent in December from the year-earlier indices, the CPI measures for the New York-Newark-Jersey City area were 4.3 percent and 4.4 percent for the same months, and 5.6 percent and 6.6 percent for October and December, respectively, in the Philadelphia-Camden-Wilmington area.

Though inflation is often the headline figure, the Employment Cost Index (ECI) tends to prove more influential in our setting of salary rates. The ECI measures the change in labor costs over time: how employers translate inflation and other economic factors into compensation levels. While we are mindful of the impact of inflation on the purchasing power of wages for our faculty and staff, we treat the ECI as a more direct measure of general salary market movements.

The relationship between inflation (CPI) and ECI is not constant or linear. ECI tends to exceed inflation when the CPI tracks below 2.0 percent, as it has much of the past decade. However, ECI has not tracked as aggressively upward during the periods when CPI has risen above 3.0 percent since 2001, but has instead moderated at about 60 percent of the CPI rates. For example, when the CPI hit 4.9 percent in 2008, the ECI only reached 3.0 percent. These projections inform the sizing of the salary pools for faculty and staff detailed below.



While economists differ in their outlooks for the duration and severity of the price increases, the committee emphasized the need to provide increased pay adjustment pools for faculty and staff salaries above typical ranges this year to mitigate current and future negative impacts of higher inflation, and to

recognize that employees will likely have experienced higher-than-typical inflation rates for more than year by the time the salary increases in July 2022 become effective.

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. Princeton's faculty salaries remain very competitive, positioned at or near the top for most disciplines, with the occasional exception for those areas in which we are rebuilding due to retirements and departures.

The Priorities Committee supports the Dean of the Faculty's recommendation to increase the faculty salary pool by 6.25 percent. The proposed pool consists of a 4.75 percent "basic salary pool" plus 1.50 percent for promotions, retentions and other special adjustments. The proposed faculty salary pool incorporates an inflation bump, in line with a similar increase for staff detailed below. As in past years, the basic pool will be distributed differentially by rank and department based on the Dean's priorities. The Committee concluded that offering a slightly larger increase for a 2nd year to the faculty salary pool (an additional 80 basis points to recent trends) this year would provide the Dean with the flexibility needed to reward meritorious performance, maintain Princeton's market position, and help to mitigate some of the anticipated impact from inflation.

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. There are several indicators that point to the need for a larger salary pool this year: inflation and external salary market pressures, which may impact Princeton's competitiveness in some labor markets.

The Priorities Committee thereby endorses the Vice President for Human Resources' recommendation for a 6.20 percent increase to the FY2023 base salary pool for non-union staff. This includes a basic staff merit pool of 4.75 percent and an allocation of 1.45 percent for the promotion and adjustment pool to address reclassifications of existing positions, equity adjustments, retentions, and other off-cycle pay adjustments.

The 4.75 percent base salary pool is informed by two core considerations: (a) that current inflation and ECI levels will persist for several more months; and (b) that a special adjustment of 0.75 percent may be needed to address targeted salary adjustments in response to market pressures.

Over the past decade, Princeton's base salary pools for staff have averaged 1.1 times the ECI level. At current rates, that would suggest a base salary pool slightly above 4.0 percent. Special pools for reclassifications and market adjustments would be in addition to this amount. While we cannot predict the course of inflation and employment costs with certainty, especially through the current turbulence, the example above illustrates the analysis that has informed the rate assumption for next year.

Human Resources compares Princeton's salary structure against national and regional benchmarks, within and outside higher education, by job category. The latest data show the average staff salaries falling slightly below our target benchmarks. This suggests that we may have a small gap emerging relative to market salaries, at least for some positions. The 0.75 percent pool for FY2023 will enable us to address the highest priority needs while Human Resources continues to study the trends in more depth and we allow the volatile labor market to settle a bit.

The hiring process provides real-time feedback on the competitiveness our staff salary levels, and this feedback points toward increasing pressure in our labor markets generally. The University has been conducting a larger-than-normal number of searches in recent months, stemming in part from pent-up retirements and resignations coming out of COVID. While it is noteworthy that turnover ticked up slightly to 9.2 percent, from 8.5 percent, over the past year, these increases are still within industry norms.

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 \$57.2 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 FY2023, SUMAR will focus on supporting racial equity initiatives and identifying lessons learned from the University's response to COVID-19. SUMAR will look for opportunities to evaluate and optimize programs, systems, and/or services in both administrative and academic units. The committee will also support the University's transition to a uniform performance management approach that includes a standardized form and evaluation of diversity, equity, and inclusion competencies. Finally, the committee will continue its efforts towards increasing supplier diversity.

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 9.1 percent in

FY2021. 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 FY2022, the Procurement Department hired an associate director of supplier diversity who will lead implementation of initiatives outlined in the multi-year supplier diversity plan and foster greater connections between diverse suppliers and campus communities. The Office of the Executive Vice President has also launched a FY2022 pilot program to challenge reporting departments to engage in greater competition and consideration of diverse suppliers.

H. Outlook For The Future

Three aspects of the FY2023 budget proposal will require continuing attention and planning over the next few years: undergraduate population expansion, external inflationary pressures, and the choices we make to leverage endowment growth and reserve balances for strategic University initiatives that are already underway or forthcoming.

Undergraduate expansion is upon us, and many of the operating costs associated with the addition of 500 undergraduate students are built into the FY2023 budget. These include additions to staff, food, and other goods and services in Dining Services, Facilities Services, the Office of the Dean of the College, University Health Services, and Recreational Athletics. While much of the expansion-related increase occurs in the first year, additional expansion-related costs will feather into the budget by FY2026 as the population increase levels off and enhanced student-related facilities come on line.

Inflationary concerns were a significant and novel topic of conversation for the Priorities Committee this year. The core “sticker” Consumer Price Index (CPI) increase now stands at a level not seen in more than twenty years of Priorities Committee deliberations, with regional indices following a similar trend pattern, albeit at slightly lower levels. So far, we have been fortunate that some of the commodity and service areas with the highest growth rates in the CPI are categories for which we have had lighter spending due to continuing travel restrictions and public health concerns about holding large group events, as well as energy-related factors that correspond to fairly minimal spending categories in the University’s budget. University car rental, travel, food, and event-related expenditures remain far below pre-pandemic levels; most are still less than 30 percent of their pre-2020 amounts. We will continue monitor these rate increases as travel and events slowly ramp up again, but the budget currently has ample buffer to withstand near-term pressures in these categories of spending. A comparison of pre-pandemic spending trajectories to the current budget projections reveals no operating expense categories spending far above the normal trendlines (other than those affected by the significant repositioning of graduate student stipends and fellowship rates and the base increases associated with expansion of the student body).

Finally, the endowment gains in FY2021, and enhanced liquidity management of the past few years, have produced a reservoir of unrestricted central resources that may be accessed in the future, most likely through a combination of one-time withdrawals in the near term, and increases to the Payout Inflation in the longer run. As discussed above, we do not anticipate an immediate step-up in endowment payout per unit due to the one-year spending rate drop in FY2022. Rather, we expect to use unrestricted central endowment payout and principal gains to meet the immediate claims of strategic university

initiatives and consider special PIA increases in later years if the average spending rate deviates from the long-run policy goal.

Investments in Princeton's graduate students through transformative stipend increases—and the enabling move of relieving sponsored research grants of the cost of students' tuition charges—mark the first installment on a number of major initiatives to be supported by central funds. We anticipate that future-year budgets will reflect substantial investments in financial aid, educational outreach, research, sustainability, and a number of other initiatives supported by targeted withdrawal and payout from central quasi-endowment growth. As new and renovated Capital Plan II facilities come on line—including the new engineering neighborhood, art museum, Lake Campus, health services center, and athletics facilities—we expect widespread payout increases to provide additional ongoing resources to expand teaching, research, and co-curricular activities in the larger campus footprint. Central endowment gains have already been earmarked to provide additional resources as Princeton once again leads the way with generational financial aid policy changes in FY2024 that will widen, deepen, and simplify the scholarship support that Princeton offers to its undergraduates.

With all of these changes to the campus population, physical size, and reach of the University, the Priorities Committee expresses its particular interest in the University's continuing efforts to ensure the sustainability of its human and physical capital through support for mental health and well-being, reductions in the environmental impacts of campus activity, and attention to the impact on inflationary pressures on lower-paid staff.

We close this budget cycle with excitement about all of the truly remarkable investments in Princeton's teaching and research mission—so long in planning—that are now being realized. These advancements are a testimony to the perseverance of the campus community through an unprecedented pandemic and the ongoing commitment of generations of donors to support the University's endowments, programs, and capital needs.

IV. Appendices

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

		(a)	(b)	(c)	(c) - (b)	(c) / (b)
		FY21	FY22	FY23	23 Proj. v.	23 Proj. v.
		Actual	Budget	Projected	22 Bud.	22 Bud.
		Final	Current		\$ Chg.	% Chg.
Revenue and Transfers						
1	Investment Income--Operating Budget	1,451.2	1,525.5	1,587.7	62.2	4.1%
2	Tuition-Undergraduate	224.5	287.4	304.3	16.9	5.9%
3	Tuition-Graduate	136.9	143.7	154.6	10.9	7.6%
4	Total Tuition	361.4	431.1	458.9	27.8	6.4%
5	Other Student Fees	1.3	2.6	3.0	0.4	17.1%
6	Grants & Contract Revenue	403.8	428.7	444.2	15.5	3.6%
7	Gift Revenue	110.2	114.8	117.3	2.5	2.2%
8	Housing, Dining, Rental, & Event Income	47.9	106.3	116.3	10.0	9.4%
9	Other Income	72.1	76.5	79.4	3.0	3.9%
10	Transfers (to)/from non-operating	(52.5)	(62.8)	(50.2)	12.5	-20.0%
11	Transfers (to)/from departmental balances	(107.2)	(98.3)	(94.1)	4.3	-4.3%
12	Total Revenue and Transfers	2,288.3	2,524.3	2,662.6	138.3	5.5%
Footnote on Annual Giving						
	<i>Annual Giving-Gifts</i>	63.8	62.5	64.0	1.5	2.3%
	<i>Annual Giving-Endowment Payout</i>	8.0	8.4	8.8	0.3	4.1%
	Annual Giving Gifts and Endowment	71.8	70.9	72.7	1.8	2.5%

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

	(a) FY21 Actual Final	(b) FY22 Budget Current	(c) FY23 Projected	(c) - (b) 23 Proj. v. 22 Bud. \$ Chg.	(c) / (b) 23 Proj. v. 22 Bud. % Chg.
Expense and Allocations					
1	Academic Departments	893.6	962.2	1,037.5	75.4 7.8%
2	Princeton Plasma Physics Laboratory	136.3	145.0	151.0	6.0 4.1%
3	Financial Aid - Undergraduate	151.9	204.0	217.4	13.4 6.6%
4	Financial Aid - Central Graduate	26.3	27.2	27.3	0.1 0.2%
5	University Library	72.9	76.9	80.0	3.2 4.1%
6	Office of Information Technology	68.2	73.7	77.6	3.9 5.3%
7	University Art Museum	18.8	20.8	22.0	1.2 5.7%
8	Academic Admin. and Student Services	132.6	143.5	152.4	8.9 6.2%
9	Athletics	27.4	40.3	44.1	3.8 9.6%
10	General Administration & Univ. Expense	137.0	153.8	159.8	6.0 3.9%
11	Facilities Services	127.9	144.8	152.6	7.8 5.4%
12	University Services (Housing, Dining, Other)	51.1	67.6	76.0	8.4 12.4%
13	Total Expense before allocations	1,843.9	2,059.9	2,197.8	137.9 6.7%
14	Capital Budget Allocation--Strat. Co-Investment Pool	178.8	180.0	182.0	2.0 1.1%
15	Capital Budget Allocation--Endowment	101.5	113.8	114.2	0.3 0.3%
16	Capital Budget Allocation--Annual Programs	149.3	162.4	162.6	0.3 0.2%
17	Total Allocations to Capital Budget	429.6	456.2	458.8	2.6 0.6%
18	Total Expense and Allocations	2,273.5	2,516.1	2,656.7	140.6 5.6%
19	Transfer To Later/ (From) Prior Periods	14.9	8.3	6.0	(2.3)
<i>Footnote on Graduate Student Support by Category, All Departments Above</i>					
	<i>Assistants in Instruction</i>	46.8	43.3	49.5	6.2 14.4%
	<i>Assistants in Research</i>	54.1	57.8	64.4	6.6 11.5%
	<i>Graduate Fellowships</i>	147.7	159.0	179.1	20.1 12.6%
	Total Graduate Student Support	248.6	260.0	293.0	33.0 12.7%

NOTES TO SUMMARY TABLES

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% increase in endowment payout per unit for FY2023 and the effect of typical levels of new gifts to endowment principal. Overall operating budget investment income is projected to increase \$62.2 million, to \$1.58 billion, and provide nearly half of the total increase across all gross operating sources. Minimal 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 6.4%, the combined result of the provisional 2.5% tuition rate increase, addition of 125 more undergraduate students above the pre-pandemic baseline, and 65 more graduate students, following typical recent growth patterns. Revenue is presented at gross, before deduction of tuition and other forms of undergraduate and graduate student aid (see undergraduate financial aid, expense line 3, and the total graduate student support footnote on page 2 of the expense summary table).

5 Other Student Fees. Other student fees, primarily for summer study abroad, grow by a larger-than-normal inflator due to the pandemic-depressed activity level in FY2022.

6 Grants & Contract Revenue. Direct and indirect expenses of main campus sponsored research are projected to grow by 3.1% for FY2023. Overall growth in this line is projected at 3.6% because sponsored expenditures at the Princeton Plasma Physics Laboratory are expected to increase more quickly than normal again in FY2023. This line also includes government student aid revenue, such as Pell Grants, but these lines do not contribute significantly to annual increases.

7 Gift Revenue. This line includes unrestricted Annual Giving and expendable gifts for specific departmental programs, research, and other initiatives. Unrestricted Annual Giving gifts—about 55% of the total—are assumed to grow by 2.3%; departmental and program gifts are estimated to increase by 2.1%.

8 Housing, Dining, Rental, & Event Income: This line's growth includes the effect of the recommended 2.5% rate increases for undergraduate room and board contracts, as well as expansion-related changes in enrollment. Faculty, staff, and graduate apartment revenue incorporates the provisional 3.0% rate increases. Event income is not projected to return fully to pre-pandemic levels in FY2023, as the public health considerations still may limit the complete return of 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 taxable debt service and reserves. The row also fluctuates due to changes in departmentally funded capital project activity.

11 Transfers (to)/from departmental balances. This line records net income and balance increases. The largest categories are additions to endowment balances held for spending in future periods and faculty research and other specially designated internal fund balances, including committed but not expended faculty recruitment and retention allocations. Expendable gifts awaiting expenditures on specific programs

and purposes in future years also are reflected. Though still growing in a healthy way, balances are projected to accumulate more slowly in FY2023 as departments should be able to resume pre-pandemic levels of travel, events, and other activities; and as continuing asymptomatic testing costs use some central reserves available to cover these non-base expenditures.

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 7.8% academic department increase reflects planned changes in faculty staffing levels, including new faculty positions supported by gift and endowment income, as well as the salary increases recommended for faculty, technical/research, and administrative staff in these departments. The tuition component of graduate student teaching and research assistantships rises in line with the proposed tuition increase, while the stipend portion increases much more appreciably due to the recommended rate increases ranging from 20.7% to 26.1%. 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 6.6% increase from FY2022 reflects the recommended 2.5% fee package parameter, and a 181-student increase in the aid population—125 students as part of the first wave of the four-year expansion plan, plus return of the enrollment base to the pre-pandemic level. The estimated average scholarship rises 2.8%, to \$64,036. Endowment/trust fund income restricted for scholarships is growing at just over 4% as a result of the payout inflator assumption and the effect of new scholarship endowment gifts. With the pandemic-induced accumulation of scholarship endowment payout spent down in FY2022, the percentage of the aid budget supported by these funds falls back to a more typical share--82%. \$26 million is expected to fall on the General Fund--12% of the total. Government, gift, and outside aid funds, which normally see little to no growth, support the other 6% of the \$217.4 million total.

4 Financial Aid - Graduate. This line includes only graduate aid expenses charged to the Graduate School—most graduate student expenses are recorded directly in academic departments, line 1. As indicated in the “Footnote on Graduate Student Support by Category,” graduate student support across all departments is projected to increase by 12.7%. The increase stems primarily from the aforementioned stipend rate recommendations above 20%, with some growth also attributable to the provisional 2.5% tuition increase and a 2.5% increase in the number of graduate students, following recent trends. Approximately 23% of the total is charged to departmental restricted and designated funds, and 11% to outside grants, including sponsored research; the remaining 66% is projected to fall on the General Fund. As noted in the accompanying memo, the share borne by sponsored research funds drops appreciably under the proposal to fully relieve grants of graduate tuition charges and shift them to other university funds.

5 University Library. Increase reflects normal inflationary adjustments (including a 5% increase in the acquisitions budget) and an appropriate share of the HR staff and DOF library staff recommended salary pools.

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. Although regular museum spending has declined during the construction of the new building, FY2023 includes significant non-recurring expenditures to provide alternate exhibition space and prepare collections before the re-opening in 2024.

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 and Friends groups.

10 General Administration and Expenses. This 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.

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. For FY2023, this includes a step-up for operation and maintenance of the new residential colleges to open on Poe Field.

12 University Services. Includes Housing, Dining, Conference and Event Services, and Transportation Services. Provisional estimates of the additional cost of operating the new residential colleges and dining facility are included in the total projection. Most of the revenues associated with these units are shown under Revenue line 8.

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

14 Capital Budget Allocation—Strategic Co-Investment Pool. This row records additional allocations to the Capital Budget, to augment Capital Plan II, from the central payout earmarked in the Strategic Co-Investment Pool.

15 and 16 Capital Budget Allocation—Endowment and Annual Programs. These rows report regular 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 previous such projects. The rate of increase from FY2022 to FY2023 for all three capital budget allocation lines appears lower than the normal planned inflation factors due to the one-time catch up funding added in FY2022 to restore these bases to the trendline in place before budget reductions in FY2021 temporarily reduced these transfers.