REPORT OF THE PRIORITIES COMMITTEE

TO THE PRESIDENT

Recommendations Concerning the Operating Budget

for 2009 – 2010

January 15, 2009

OFFICE OF THE PROVOST

January 15, 2009

President Shirley M. Tilghman
One Nassau Hall
Princeton University
Princeton, NJ 08544

Dear President Tilghman:

The accompanying annual report of the Priorities Committee presents our recommendations for the University's operating budget for fiscal year 2009–2010 (FY10). The Committee is once again proposing a balanced operating budget for FY10, but we will have to implement University-wide austerity measures, including significant budget cuts, to produce that result.

The current budgetary circumstances are the most unfavorable the University has experienced for many years. The Committee's deliberations accordingly emphasized the need to sustain Princeton's defining commitments: excellence in teaching and research, and equity in ensuring that qualified students can not only attend this University but flourish here. The Committee's recommendations require that the University's resources—both those managed centrally and those managed within the departments—be reserved for core needs, including undergraduate financial aid, graduate student stipends, and support for our faculty and their research.

The Committee recognized that Princeton's people—its students, faculty, and staff—are the University's most valuable asset. In order to maximize the likelihood that the University can avoid layoffs, the Committee has recommended very modest salary pools, and it worked with the Vice President for Human Resources and the Dean of the Faculty to craft plans that would send the largest percentage raises to the University's lowest paid employees and its lowest ranked faculty members.

In recognition of the financial stress that will be experienced this year even by some families that are not eligible for financial aid, the Committee recommended only a 2.9% increase to the University's fee package. That is the lowest recommended increase since 1966.

This year's meetings of the Priorities Committee were much different from those of recent years. Committee members confronted difficult choices and limited options. They nevertheless approached their assignment with good cheer, extraordinary effort, and remarkable collegiality. Their judgment and insights have improved the University's ability to respond to the challenges now facing us, and their performance again confirms the value of the Priorities Committee process. They have my sincere thanks. As in years past, I would also like to convey my special gratitude to Vice Provost Katherine T. Rohrer, who serves as Secretary to the Committee, and to Budget Director Steven Gill and his staff. Their wisdom, talent, and experience serve the Committee well each year, and they were indispensable this year as we confronted a set of problems unlike any that this University has seen in a very long time.

For the Committee,

Christopher L. Eisgruber, Provost

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THE COMMITTEE

Christopher L. Eisgruber, Provost (chair)

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Mark Burstein, Executive Vice President

Jacob Candelaria ’09

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Ryan Harper *GS, Religion

Wendy Heller, Professor of Music

Manav Lalwani ’09

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Katherine Newman, Professor of Sociology and Public Affairs, Woodrow Wilson School

Giridhar Parameswaran *GS, Economics

Halcyon Person ’10

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

Marya Stansky ’09

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

Edwin Turner, Professor of Astrophysical Sciences

MEETING WITH THE COMMITTEE

Steven Gill, Budget Director and Associate Provost for Finance

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

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I. Introduction

The Priorities Committee, established in 1969 as a charter committee of the Council of the Princeton University Community, is a deliberative body that recommends the University’s operating budget for the next fiscal year to the president and Board of Trustees of the University. The provost chairs the Committee, whose members include tenured and non-tenured faculty members, graduate and undergraduate students, and staff.

The Priorities Committee typically convenes in the months of October through January. It structures its work in four parts: a set of orientation meetings during which budgetary basics are reviewed, a series of presentations from senior officers, deliberative meetings to determine the Committee’s recommendations, and a final set of meetings for the production of this report. During the presentations phase, senior officers of the University present their highest priority needs to the Committee, which evaluates them in the context of the full range of competing claims on the University’s available resources. Presentations to the Committee are preceded by detailed written reports from the senior officers. (Copies of these reports are available to members of the University community on the provost’s website at http://www.princeton.edu/~provost/Pricomm.htm). The Committee also holds an open meeting to hear from any interested members of the University community who wish to comment on the priorities for future budgeting. In December, the Committee formulates its tentative recommendations, which are expected to result in a balanced budget, and discusses them with the Finance Committee of the Board of Trustees. Reconvening in early January, the Committee finalizes its recommendations and submits them to the president for her approval and transmission to the board later in the month. The recommendations for the 2009-2010 operating budget are discussed in detail below.

II. Budgetary Background

After two consecutive years in which the Priorities Committee benefited from upward adjustments to the spend rate on Princeton's endowment, this year's Committee confronted a different and sobering financial outlook. The scope and rapidity of the changes were stunning. As recently as June 2008, the University's budget news continued to reflect the strength of the economy in prior years. Indeed, positive variances (that is, changes from the planned budget) exceeded negative ones in the FY08 budget by almost $9 million. The most uplifting news came from the Annual Giving Campaign, which surpassed both its own ambitious goals and its past records by bringing in over $54 million in gifts. The Campaign's glittering success, made possible by the unflagging energy of volunteers and the exceptional generosity of Princeton's alumni and friends, was especially impressive because it was achieved during an economic downturn. The University used the additional funds from the Campaign to meet the increased financial need of its undergraduates and to improve the terms of its financial aid program at a time when many students and families were facing economic hardship.

The enhancements made possible by Annual Giving were rendered all the more valuable by the severe economic downturn in the summer and autumn months. The events were of historic proportion: giant financial services companies dissolved, credit markets froze, and markets tumbled. By November, economists agreed that the nation faced its most serious recession in many decades. These events had an immediate impact on the University's FY2009 budget. The financial need of Princeton's students increased sharply as families felt the effects of the recession. The average aid award rose by $1,000, and the fraction of students receiving aid grew from 55% to 56% of the undergraduate population. The Office of Undergraduate Financial Aid provided the Committee with updates over the course of the semester; by November, the Office projected that Princeton's financial aid expenditures would be $5 million higher than budget. Fortunately, this increase was partially offset by revenue from restricted funds and external sources—including a significant uptick in the number of Pell Grants received—so that the net additional cost to the general funds financial aid budget was $4 million.

More generally, negative variances are now projected to exceed positive ones in the FY2009 budget by more than $7 million. Included among the negative variances are an unusually high number of one-time costs totaling nearly $4 million and spread across many areas of the budget, including $1 million in additional compliance and risk management costs.

Other negative variances might recur in future years. For example, university support for academic programs exceeded projections by $1.8 million in FY2009. A significant portion of this increase was directly related to new initiatives in African-American Studies and Neuroscience, where the University has advanced support for positions that the administration anticipates will be funded by gifts in the future. Preliminary estimates for graduate support suggest a $0.9 million increase in the net cost of this $125-million budget. Finally, there were adjustments in the costs of central administration and declines in various income streams.

Not all the news was gloomy. Through an intensive review of endowed funds, the administration was able to identify about $1.4 million of annual income that could be allocated to the support of the operating budget. Employee health benefits costs did not increase as much as projected, resulting in a savings of $1.3 million. Three Princeton professors were named to the prestigious Howard Hughes Medical Institute's Investigators program, which will bring about $1.3 million of unrestricted annual support to Princeton for each year of their seven-year terms. After several years of essentially flat support for sponsored research from federal and other sources, there was a modest gain in FY2008, which appears to be continuing into FY2009.

The deficits in the FY2009 budget would not by themselves have been cause for serious concern. As has already been noted, the extraordinary response to the 2008 Annual Giving Campaign enabled the University to meet the increased demand for financial aid, and the University was able to call upon various strategic reserves to address the remaining budget variances. The deterioration of the world economy, however, created more formidable challenges for the FY2010 budget year. On the expense side, the Office of

Financial Aid projected not only that 59% of next year's freshman class would be on aid—a 2-point increase over this year's entering class—but that the percentage on aid for each returning class would rise by another 2%. This would increase the overall percentage of the undergraduate population on aid from 56% to 58%. As a result, the undergraduate financial aid budget would exceed its previously projected allocations by approximately $9 million. On the revenue side, the University confronted the possibility that, for the first time since the adoption of its current spend rule framework three decades ago, it would have to adjust its spend rate downward. In December, the University estimated that its endowment had declined in value by 11% as of October 31, 2008, and might decline by 25% for the year ending June 30, 2009. The administration accordingly concluded that it would be prudent to plan for the possibility that the endowment payout, which normally increases by 5% per year, would instead decline by 8% from FY2009 to FY2010. The endowment supplies more than 45% of the University's operating revenue, and an 8% decrease in payout would amount to a reduction of more than $50 million in general funds operating revenues. The overall budget gap, encompassing both increased financial aid expenditures and reduced endowment income, would thus be in the neighborhood of $60 million. Losses of income from gifts or sponsored research could push the deficit higher.

These harsh numbers required a vigorous response. Over the course of the semester, the administration, the Priorities Committee, and the Trustees developed a plan designed to address the budgetary challenges and protect the University's key priorities. The plan recognizes that the core of the University is its human capital: its undergraduates, graduate students, faculty, and staff. For that reason, Princeton's financial plan must sustain its leadership financial aid program, provide graduate students with stipends adequate to sustain their studies, and retain and reward the University's hard-working faculty and staff. Because of prudent planning in the past, Princeton is relatively well positioned to achieve these objectives. It can do so, however, only if all members of the Princeton community pull together to reduce costs and ensure that all University funds are deployed as efficiently as possible to support core priorities.

The resulting plan, which forms the foundation for the recommendations in this report, includes several elements:

- The University must continue to meet fully the financial need of its undergraduate student body.

- In light of the difficult economic conditions being experienced by tuition-paying families who do not benefit from the University's financial aid program, the University should hold increases in its fee package to less than 3% in FY2010.

- The University should sustain the anticipated 3% increase to graduate stipends built into previous budget projections, while containing costs by limiting the rental increases for graduate housing.

- The University should provide very modest salary increase pools for FY2010, and these pools should focus upon protecting the employees with the lowest salaries, the most vulnerable members of the University's workforce.

- The University should continue, with care and prudence, to hire outstanding people to fill open positions on its faculty and staff. However, any new search authorizations on either the faculty or staff side should be reviewed carefully before they are approved, and the University should minimize the number of visiting faculty and researchers whom it brings to campus next year.

- The Priorities Committee should allocate a modest amount of funds ($500,000 annually) in response to programmatic requests that aim to protect existing University programs, resources, and commitments from harm.

- To muster the resources needed to support these goals, the University will need to act aggressively on multiple fronts. In addition to constraining its annual salary program and its hiring activity, the University must reduce its non-personnel administrative budgets by $10 million and redeploy $12 million of departmentally managed restricted funds (i.e., Fund 20s) to support core program expenses. The University will also have to reduce the transfers it makes annually from its operating budget to its capital program.

The Committee recognized that this plan would require exceptional efforts, tremendous good will, and very real sacrifices from people throughout the Princeton community. The cost-cutting goals will result in 5% decreases to the non-personnel expense budgets of academic and administrative units throughout the University, instead of the typical 2% increase. The Committee heard reports from the administration about some campus-wide initiatives designed to make the 5% target more easily attainable, but the Committee also recognized that budget-cutting will inevitably involve some difficult decisions and choices. For example, the University plans to negotiate and implement new campus-wide contracts that will reduce the cost of purchased services, but these plans will reduce the departmental choice of vendors for certain commodities and services.

Units benefitting from departmentally managed endowment funds will need not only to prepare for an 8% decrease to their endowment income but also to heed the call to redirect some of those funds to core University priorities, such as support for graduate students. The Committee believes, however, that these contributions are well justified and worthwhile; the only alternative would be to reduce labor costs by cancelling searches and reducing the size of the University's workforce. If the Princeton community reduces costs and deploys its resources wisely, chances become much greater that the University will successfully safeguard its key priorities—and, indeed, thrive—during this very difficult passage.

III. Recommendations

The Priorities Committee hears proposals each year related to salary increase pools, changes to the fee package (tuition, room, and board), and proposed additions to academic and administrative programs. This year's exceptional circumstances required the Committee to devote particular attention to the University's salary pools and fee package. We accordingly begin our report with those items and then describe the Committee's response to requests for additions to program.

A. *Salary Pools and Fee Package.*

Because of the daunting economic situation confronting the University, the Committee discussed salary pools at exceptional length. The Committee recognized that the salary pools were an especially important element in the University's budgetary picture. Labor costs account for roughly 50% of the University's expenses, and a 1% increase (or decrease) to salaries across the campus translates into a $3.6 million impact on the general funds budget. The Committee was also aware that some of Princeton's lowest paid employees might be especially vulnerable to the effects of the economic downturn.

The Committee usually hears a single presentation from the vice president for human resources and the dean of the faculty; this year, it engaged with those offices through multiple presentations. The Committee sought to formulate a proposal regarding salary increases that would satisfy several objectives: (1) hold down costs; (2) preserve maximum flexibility to respond to changing economic news; (3) protect the University's lowest paid and hence most vulnerable employees; (4) maintain equity across and within various University units; and (5) enable the University to retain highly valued employees (on both the faculty and staff sides) who might receive attractive offers even in depressed economic circumstances.

With the advice of the Office of the Vice President for Human Resources, the Committee developed a proposal that it believes meets these objectives. The proposal provides for very modest salary pools. The Committee believed that the University was fortunate to offer salary pools in a year when some peer institutions have offered none; that said, the pools will be the smallest that the University has seen in decades. The Committee felt strongly that the annual pools should be weighted in favor of the University's lowest paid employees. The Committee accordingly endorsed proposals from the vice president for human resources and the dean of the faculty that would create a progressive scale for raises. In this extraordinary year, when the pools will be so small, annual increases for satisfactory (or better) performance will be calculated on the basis of current salary levels rather than relative merit. Assistant professors and employees in the lowest salary bands will receive the largest raises in percentage terms, and raises will be capped at $2,000 for the University's tenured faculty members and highest compensated staff. Both the dean of the faculty and the vice president for human resources will, as in years past, have a separate pool available to handle promotions, reclassifications, and other changes in status, but these pools will be managed even more tightly than in usual circumstances. Such changes will be recognized at levels comparable to those offered under more favorable economic conditions, but the pools will be used only when real changes in status have occurred.

Committee members regretted that it was necessary to constrain salary pools so severely, but the Committee was unanimous in its view that the University should hold pools down in order to avoid the need for reductions in the workforce. Several members of the Committee noted that the University was fortunate to be able to offer some stability to its faculty and staff members during unstable economic times.

The Committee regarded the fee package as posing issues comparable in intricacy to those raised by salary increase pools. Like its predecessors, the Committee considered the fee package in light of Princeton's commitment to the accessibility of higher education to all qualified students. Although the University's financial aid program is the most important vehicle for ensuring that a Princeton education is affordable to all the University's students, the Committee recognized that the cost of a Princeton education puts substantial burdens on families that do not qualify for aid, especially those only slightly above the aid threshold. The Committee regarded this consideration as especially important in the current year, when even many well-off families will have lost ground economically. While many universities may have no choice this year but to raise tuition sharply because other income streams have declined abruptly, the Committee believed that Princeton had the capacity to hold down the rate of its increase, and that it ought to do so. The Committee recognized that this commitment would add to the cost-cutting obligations undertaken by the Princeton community, but the Committee concluded that, in these unusual and difficult times, the University needed to take extraordinary measures in light of the hardships being faced by many tuition-paying families.

The Committee ultimately recommended that the overall fee package (tuition, room, and board) increase by 2.9%. That increase is a full point lower than last year's recommendation, and it is the lowest rate of increase for Princeton's overall fee package since 1966. More specifically, the Committee recommended that tuition increase by 3.1%, room rates increase by 2.2%, and board rates increase by 2.7%. The increase in board rates reflects actual cost trends. Although food prices have risen considerably, Dining Services has improved the efficiency of its operations and thereby largely offset price increases. A slightly lower rate of increase seemed warranted for dormitories, based on preliminary comparisons with the rates charged by peer institutions offering comparable facilities.

	2008-2009	*2009-2010*	*% Change*
Tuition	$34,290	$35,340	3.1%
Room	$6,205	$6,340	2.2%
Board	$5,200	$5,340	2.7%
Total	**$45,695**	**$47,020**	**2.9%**

The Committee's recommendations also include a 3.1% ($1,050) increase in the rate of regular graduate tuition, from $34,290 to $35,340, the same as undergraduate tuition; a 3.5% ($90) increase in the rate of DCE (Dissertation Completion Enrollment) graduate tuition, from $2,590 to $2,680; average increases in room and board rates at the Graduate College of 2.2% and 2.7% respectively; and an increase in renewal rental rates of 2.5% for most faculty and staff housing and 2.2% for most graduate student apartments. The University also expects to increase the Student Health Plan fee from $1,150 to $1,270 for 2009–2010.

B. ***Additions to Program.***

As in other recent years when the University faced budget deficits, the Finance Committee of the Board of Trustees authorized the Priorities Committee to allocate $500,000 to the programmatic requests pending before it—an amount only one-third as large as last year's and one-quarter the total allocated in the year before. This authorization recognizes that some increases to program are required even in years when the University finds itself forced to pull back on initiatives and cut costs. Under the circumstances, the Committee regarded its task as "battening down the hatches" to avoid damage from an impending storm, rather than as "trimming the sails" to enable the University to seize new opportunities. The Committee accordingly applied very demanding standards to the requests pending before it. Indeed, it had little choice but to do so, since the requests totaled over $2.8 million, far more than the amount the Committee would have had to allocate even in a more favorable economic climate.

The requests approved by the Committee fell under two main themes, *sustainability* and *health care*:

- **Sustainability.** In February 2008, Princeton adopted a long-term Sustainability Plan. The Plan recognizes that the University's operations have a significant environmental impact, and that the University has a responsibility to conduct those operations in sustainable fashion. The benefits of this commitment will be felt not only by the University's students, faculty, and staff, but also by the towns of Princeton and the surrounding communities. The University used a combination of generous gifts and its own term funds to begin implementing the Sustainability Plan, which carried the endorsement of both President Tilghman and the University's Board of Trustees. This year's Priorities Committee approved two requests designed to protect the foundations built by these initial investments. One request asked for funds to continue and expand the University's recently launched traffic demand management initiatives; the other request sought permanent funding for the University's Office of Sustainability.

• **Health Care.** During the past several years, the Committee has repeatedly made allocations to the budget of University Health Services. The Committee's twin goals have been to enable UHS to make progress toward the standards identified four years ago by the President's Task Force on Health and Well-Being, and, more specifically, to make sure that the staffing for counseling and mental health services was appropriate to meet demand. The Committee again made major allocations to support UHS this year, recognizing both that the University had a fundamental commitment to protect the health of its student body and that the financial stress on students and their families this year would likely add to the demand for counseling and other health services.

Each of the proposals submitted to the Priorities Committee for consideration is reviewed briefly below in alphabetical order of the cabinet office that presented the request. All the requests submitted to the Committee are accessible to members of the University community at http://www.princeton.edu/~provost/Pricomm.htm.

Since much of the Committee's time this year was absorbed by addressing the budgetary situation and the resulting effects on salary pools and on tuition and fees, and because the Committee had a relatively modest amount to allocate to new programmatic initiatives, the discussion of the proposed additions to the budget focused on those items seen by the Committee as the very most pressing.

Campus Life

The vice president for campus life is responsible for five administrative units that have a significant impact on the quality of life for undergraduates, graduate students, and other members of the University community: University Health Services, Athletics, the Office of the Dean of Undergraduate Students, the Office of Religious Life, and the Pace Center. The vice president requested additional resources for the first three of these five units.

University Health Services requested a number of additional personnel, among which they placed priority on a director of inpatient services and two fellows' positions within Counseling and Psychological Services (CPS). UHS argued for the additions on the basis of continually increasing demands for counseling and for emergency mental health care. The Committee discussed at length the many concerns raised by this phenomenon, which is common among students at universities and colleges across the nation. The Committee felt strongly that it needed to help UHS respond to this trend by providing the resources required to meet students' mental health needs in a skilled and timely fashion.

The director of inpatient services position existed at UHS before 2000, when it was cut after a retirement in order to contain costs. Efforts in succeeding years to patch together the function from other positions have proved to be unworkable, particularly because many emergency situations present themselves at the inpatient facility outside of regular business hours. In addition, since many students come to the facility in connection with drinking problems, UHS believes that the addition of the new director will aid the University's comprehensive response to alcohol issues. One responsibility of the new director will be to participate in the coordination of complex cases with counseling and psychological services, the deans of undergraduate students and the graduate school, and the Princeton Medical Center (recently renamed the University Medical Center at Princeton). The Committee agreed with UHS on the importance of this position, and recommended full funding for it.

Further acting on its commitment to maintaining and improving the quality and availability of mental health services, the Committee recommended providing permanent funding for two UHS postdoctoral fellows positions in Counseling and Psychological

Services that are currently supported on term funds that expire at the end of FY2009. These positions are filled by newly qualified psychologists who provide many counseling hours to students while benefitting from the supervision of more experienced colleagues. The Priorities Committee judged that losing these positions when the term funds expired would set back recent gains UHS had achieved in shortening the wait time for counseling appointments. The Committee recommended that $193,000 of the programmatic allocation for the FY2010 operating budget—roughly 40% of the available funds—be devoted to these three positions at UHS. A third request, to increase the amount of in-house psychiatric time from 2.2 to 2.7 FTEs, was deferred by the Committee at the request of UHS, pending the full implementation of the previous increase to 2.2 FTEs and an analysis of the resulting level of service. Two final requests, for an increase in duty-time of administrative support staff and for a full-time position in care case management, could not be funded.

The Committee recommended funding for two small budgetary items in the Department of Athletics and the Office of the Dean of Undergraduate Students (ODUS). Athletics submitted three requests: an annual fund for the replacement of fitness equipment in the Stephens Fitness Center; a modest allocation to upgrade the service and maintenance schedules for the existing equipment; and a fund to provide additional support for the for-fee group fitness and instructional programs that are offered through the Campus Recreation office. The Committee concluded that additional costs of the fitness programs would need to be either reduced or passed along to the users, and that the replacement of fitness equipment would have to be postponed to another year; however, the members did recommend funding to increase the frequency of servicing on the fitness equipment, as a means of protecting investments from past years by extending the lifetimes of the current machines and keeping them as available as possible for use.

The Office of the Dean of Undergraduate Students made a number of requests, including the addition of one position (a program coordinator at the Carl Fields Center, which will open in its new home at 58 Prospect Avenue next fall) and an increase in duty time of another position (the office assistant at the Women's Center). Other requests included increases in funding for the Carl Fields Center to support end-of-year graduation ceremonies for affinity groups, the activities of the various student-to-student mentoring programs united under the umbrella of the Princeton University Mentoring Program (PUMP), and the creation of a new weekly speakers program to encourage roundtable discussions with students on issues including race, class, politics, and identity. While the Committee expressed firm support for the mission of the Carl Fields Center, the exigencies of this year's financial circumstances prevented the Committee from recommending permanent budgetary support for these items, several of which are at least partially supported by discretionary funds under the control of the vice president for campus life. However, the Committee did recommend a modest allocation to support ODUS's top priority: additional funding to maintain the quality of the pre-Orientation program for international students. The budget line for this item has been stretched both by an increase in the numbers of international students and by the University's decision to shift the program earlier in order to allow international undergraduates to participate in Outdoor Action or Community Action. (The schedule shift has created additional costs for the upperclass students who assist in the program as peer advisers.) This recommendation will enable ODUS to meet the increased costs while maintaining the level of service provided by this important program for international students.

Executive Vice President (Academic Administration and Support Services)

The executive vice president brings to the Committee the priority operational needs of the University's many administrative units. Leaders of those units work with the executive vice president's office throughout the year and, in particular, in advance of each Priorities Committee season to review their budgetary needs and identify ways to meet them. This year, the executive vice president presented proposals from three offices to the Priorities Committee for consideration.

The Office of Career Services currently comprises nine administrative staff members (seven who focus on counseling, programming, and employer development, and two who provide administrative and computer/technical support) and two and a half office support positions. In the coming year they are authorized to add two more positions—a communications/events coordinator and an office support position—as a result of funding made available to respond to the increased size of the undergraduate student body ("Wythes" funding, named for the trustee who led the committee that recommended the growth in 2000). The Office requested that the Priorities Committee assign them an additional full-time counselor to enhance service and respond to the increases in demand that are anticipated as a result of the move of the Office to a more central location on campus, the former Princeton University Store building. The Committee was sympathetic to the request, but was prevented from funding it by the stringent budgetary restrictions under which they were operating. The Committee hoped that the addition of the two positions through Wythes funding (which will free up the current counselors to add a total of roughly 20 hours per week to their core functions), along with the increased convenience of the new location, would help Career Services make substantial progress toward the higher levels of service to which the office aspires.

The Graduate School requested an additional part-time administrative position as well as some programming funds to increase the outreach of the Office of Graduate Alumni Relations. The Committee concluded that this potential enhancement, while desirable, did not meet the test of protecting core functions of the University from damage in a difficult economic environment.

The provost and the vice president for human resources requested that the Committee allocate permanent funding for two term positions that had been created in FY07 in response to the report of the Diversity Working Group. These positions, the manager of diversity and inclusion in the Office of Human Resources and the director of equal opportunity programs in the Office of the Vice Provost for Institutional Equity, have played leading roles in shaping the University's efforts to become a workplace in which people of all backgrounds can be engaged and productive. The Committee expressed support for the roles of these important University staff members but asked that their positions be continued on term funding for the immediate future, recommending that a future Priorities Committee make them permanent as soon as sufficient funding becomes available.

University Services brought forward a request to fund the Transportation Demand Management (TDM) program that is a key feature of the University's Sustainability Plan. The Plan calls for the University to reduce the number of single occupancy vehicles traveling to campus by at least 500, or 10%, by the year 2020. (This change will contribute to another important goal of the Sustainability Plan, that of reducing campus emissions to 1990 levels by 2020.) The first 300 vehicles will be removed through policy changes affecting undergraduate and graduate students as well as employees, but the next 200 will rely on reductions among faculty and staff members who currently have parking privileges on campus. The TDM program will institute a wide range of travel options, programs, and incentives designed to achieve this aggressive goal. Because the TDM plan represents an important commitment of the University that affects the surrounding community, the Priorities Committee believed that it must be funded as soon as possible. Committee members also noted that portions of the TDM plan—for example, university support for van pools—would assist University employees in the lowest salary bands; the Committee expressed its hope that this benefit would help some employees whose families were adversely affected by the weak economy. While unable to accommodate the full request of $250,000, the Committee recommended an addition of $180,000 to the FY2010 budget to fund the TDM program.

<u>Facilities</u>

Continuing on the same theme, the vice president for facilities brought forward a request for permanent funding for the work of the Office of Sustainability, created in December 2006 with term support from generous alumni donors. The request would make permanent the position of the Director of Sustainability, would add two additional positions in the Office, and would provide support for office programs, training, and operations. Princeton's Sustainability Plan involves offices and individuals across campus, in the community, and among our alumni. Its goals incorporate ambitious targets for campus operations, including the reduction of greenhouse gases and the conservation of resources through reducing water use and recycling both household materials and the waste resulting from demolition and construction. Only the careful planning and coordination that is spearheaded through the Office of Sustainability will enable these efforts to succeed. The

Office also provides educational experiences for Princeton students through internships and volunteer training. While the Committee was unable to meet the full request of $313,000 for the steady-state support of the Office, it did recommend permanent funding for the director's position and for part of the office budget, for a total addition of $112,000 to the FY2010 operating budget. In so doing, the Committee avoided placing a lien on a future Committee's funding against a budgetary addition that it judged to be imperative; the Committee also ensured that the University's term funds, which would otherwise have to be deployed to continue operation of the sustainability office, would be available to meet other urgent needs during the economic downturn. In addition, the Committee believed that some of the initiatives managed by the Office of Sustainability would create savings in various areas of the budget, making this funding decision a good investment for the University as a whole.

Graduate School

The dean of the graduate school brought forward a proposal to increase fellowship stipends for graduate students in the humanities and social sciences by $750 beyond the annual 3% increase already included in the FY2010 budget, raising the FY2010 amount from $25,750 to $26,500. (The proposal was limited to humanities and social sciences because graduate students in natural sciences and engineering generally receive greater support through higher summer pay and the ready availability of positions as Assistants in Research.) While the size of the request exceeded the full amount that was eventually determined to be available for allocation in FY2010, the Committee nevertheless considered the request—which was scalable to a lower level—extremely carefully, since the University's ability to attract the very best graduate students is a core goal under any economic circumstances.

Members of the Committee agreed that graduate stipends at Princeton must remain competitive with those of our closest competitors, particularly those on the east coast with costs of living comparable to ours. On the means to this end, however, the members differed, some believing that top-ups for the most desirable candidates worked most efficiently, others favoring a system that keeps stipends at the same level for all fellowship recipients in the department. Given the extreme pressures on the University's budget for FY2010, including the severely constrained salary pools, the Committee eventually concluded that protecting the

3% stipend increase already in the budget would produce the most appropriate level for graduate fellowship stipends in the following year. Because on-campus graduate housing costs are rising only 2.2% (and off-campus options are not expected to rise any more quickly), graduate students should experience a slightly larger increase in their net income in FY2010 than they would have if the housing fees had increased at the same rate as stipends.

Information Technology

The vice president for information technology requested the addition of four staff positions: a Roxen systems programmer, an end-user IT consulting support person, an IT trainer, and a technical support staff member for the SCAD and DCS programs (Support for Computing in Academic Departments and Departmental Computing Support for the administrative units). Because the total cost of the proposal was large, the Committee focused its discussions on the top priority, the systems programmer for the Roxen content management system that the University uses for its central website and that many of the individual academic and administrative units employ for their departmental websites.

Last year's Committee had partially funded two positions designed to assist units in developing their websites using Roxen, a software system that greatly facilitates the updating of content by end users and the ability of the Office of Information Technology (OIT) to support the University's website throughout its many components. While these new positions have effectively reduced the backlog in requests for assistance in developing departmental websites, the very success of Roxen across campus has created major stresses on the system, requiring a significant expansion in the number of servers and a new, improved system architecture. The requested "back-end" staff position would provide both primary and backup support for the Roxen system environment in order to keep its infrastructure fully functional.

The Committee affirmed the importance of keeping the University's web presence running smoothly and, in a year with more plentiful resources, might well have recommended funding for this position. In the end the Committee concluded that OIT, like many units across campus, would be called upon to exercise considerable ingenuity in marshalling its resources (themselves reduced by budgetary exigencies) to meet the priority needs within its charge.

Library

The Princeton University Library is a core resource for the University's students and faculty, and the Priorities Committee over the years has been particularly sensitive to the Library's needs (including the difficulty of meeting costs that rise much faster than the general inflation rate for non-salary expenses). This year the university librarian made two requests, the first for a staff position and acquisition funds to support South Asian Studies and the second to add a librarian for scholarly publishing (also considered by last year's Priorities Committee). Once again, because of limitations on available funding, the Committee focused its deliberations on the Library's top priority, the support for South Asian Studies.

When new fields of scholarly inquiry are added to the University's academic program, the Library must provide access to the materials required for study and research in that area. That access typically requires not only new acquisitions but also the support of a librarian who has the necessary skills, often including the knowledge of multiple foreign languages, to make those acquisitions possible. The Committee acknowledged the need for additional Library materials and expertise due to the arrival of several new faculty members in South Asian Studies and the recent creation of an undergraduate certificate program in that area, but, lacking the resources to make a permanent budget addition at this time, asked the Provost to investigate the possibility of finding a combination of term funds and support from academic departments to meet the need for the next few years.

IV. The Outlook for the Future

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

Typically, we construct these projections by extending the growth rates recommended for the budget year's fee package, salary pools, rents, inflation allowances, and other variables for another three years. Estimates for items not under the University's direct control—such as funding for sponsored research, Annual Giving and other fundraising, real estate taxes, and the like—are based on our assessment of likely average growth rates.

Our base projections follow the convention outlined above for fees, salary pools, and rents. We assume that the -8% spend rule adjustment and the -5% standard inflation required for the FY2010 budget will both return to their normal levels of +5% and +2%, respectively, in FY2011 and beyond. This allows us to assess underlying budget dynamics over the next four years absent further major dislocations. Nonetheless, we recognize that some of the savings may take more than one year to achieve fully. In addition, the combination of a return to normal expected investment returns and the resumption of annual 5% increases in spending for FY2011 would require that the trustees be willing to tolerate spending rates that remain on the order of a half a percentage point above the top limit of our target range for several years.

We also include in our projections the estimated impact of significant known changes over the next four years. Notably, we will next fall welcome our first full-sized expanded freshman class of just over 1300 students, and will thus be on track to achieve our planned steady-state undergraduate expansion target of 5,200 undergraduates in the fall of 2012 (FY2013), the final year of this set of projections. The approved staff and related costs to bring administrative and other offices to the levels needed to support the additional undergraduates are built into these projections as well.

In keeping with recent practice, we have added a programmatic contingency of $500,000 in each year from FY2010–2011 forward. This contingency recognizes that the University needs continuously to improve its instructional, research, and campus life programs in order to remain a vibrant and evolving institution. In addition to the growing size of the undergraduate student body, an important variable is the percentage of those students projected to be receiving scholarship aid. We have already mentioned the Committee's assumption that all four classes will see a 2-percentage-point increase in the fraction of students receiving aid in FY2010. This was based in part on analysis conducted by the Office of Undergraduate Financial Aid regarding aid patterns in the early- to mid-1980s, which was the last time we saw so dramatic an impact on aid from national economic factors (the University has experienced even larger shifts since 2002, but these resulted from the elimination of student loans and outreach to a broader student demographic). In the early 1980s, we saw a sudden 2-point increase in the percent on aid—from 41% to 43%—that took another six or so years to work its way back to the starting point. We have assumed a similar pattern this time around. Specifically, we project that after next year's entering class with 59% on aid, we will have two subsequent classes at 58% and then a return to this year's 57% on aid—noting that even this 57% is 2 points above where we thought we would be as recently as one year ago. In FY2013 dollars, each 1% on aid translates to $2 million of scholarship expenditures.

Under this mix of assumptions, the model shows a series of deficits hovering around $10 million, or slightly less than 1% of the expenditure base, over the next four years. After four years, the deficit steadily declines until we return to a pattern of modest and growing surpluses after another few years. The balanced budget shown for FY2010 is achieved only through the planned use of approximately $9 million in accumulated reserve funds and rolled up balances from restricted fund accounts. Together, these transfers of accumulated funds enable the University to close the budget gap projected to remain after enacting the spending cuts and income reallocations outlined in Section II of this report. Our projections suggest that similar draw-downs would allow us to get through a five-to six-year period of retrenchment following the sudden reversals of FY2009, if further dramatic changes in the overall investment and economic climate do not develop during this period.

This result is modestly encouraging; it suggests that this year's budget cuts might suffice to enable the University to weather the effects of the most severe economic crisis the country has experienced since the Great Depression. These projections depend upon a stringent set of base-line assumptions: the lowest salary pools in decades, the lowest increases to the fee package since 1966, and investment returns that at best allow the spend rule to return to its customary annual +5% injections to central funds—but on a base that is more than $50 million lower than this year's. We might characterize this as a "slow recovery" scenario. If the endowment grows more rapidly than we have anticipated, or if it grows less rapidly, the outlook is much different. For example, if the University were fortunate enough to achieve a +25% total return for either FY2010 or FY2011, leaving the other assumptions unchanged, that result alone would be enough to return us to our targeted spending range. Many observers believe, however, that FY2010 is likely to be another lean year. If FY2010 were to be a zero total return year on the heels of a 25% loss in FY2009, the University would most likely have to hold endowment contributions flat from FY2010 to FY2011. The consequence would be further cuts on the order of $50 million, for a total impact on the annual core budget that would exceed $100 million.

The uncertainty facing us is thus substantial. Nevertheless, we believe that the base projections, limited though they are, give us reasonable assurance that the set of budget recommendations we are making for FY2010 should go forward. If the financial outlook does not turn around in the short term, and if further cuts are required, we will be in a better position to make them given the aggressive actions we are taking for next year to hold down expenses and redirect endowment income from discretionary activities to core aspects of the University's program. If the outlook improves, we can certainly take advantage of that, recognizing that even with a rapid return to normal returns it may take several years before we can prudently return to the levels of spending we enjoy this year. As we have so often remarked in better times, we owe an enormous debt of gratitude to past generations of loyal Princetonians who have so generously provided the solid financial base that allows us to take the time to react thoughtfully in a time of crisis, and to make the difficult choices that will conserve the core of Princeton in the long run without risking the serious damage that could result from ill-advised, short-term cuts across the board.

Appendix A

PRIORITIES COMMITTEE SCHEDULE
2008 – 2009

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

Day	***Date***	***Time***	***Topic***	***Presenter/Invited Guest***
Tuesday	October 21	4:30 p.m.	Orientation	Introduction to Priorities Committee, Operating Budget
Wednesday	October 22	4:30 p.m.	Orientation	Sponsored Research; Capital Budget
		5:15 p.m.	Orientation	Q&A for new members
[Fall Recess October 25 – November 2]				
Tuesday	November 4	4:30 p.m.	Campus Life	Janet Dickerson *VP for Campus Life*
Wednesday	November 5	4:30 p.m.	Information Technology	Betty Leydon *VP for Information Technology*
		5:15 p.m.	Library	Karin Trainer *University Librarian*
Monday	November 10	4:30 p.m.	**CPUC Discussion of Priorities Committee Recommendations and Report** ***(101 Friend Center)***	
Tuesday	November 11	4:30 p.m.	Tuition & Fees	Chad Klaus *Assistant Vice President, Office of the Vice President for Facilities*
		5:15 p.m.	Budget Update	Outlook on 2008-2009 and Potential Developments Affecting 2009-2010 Budget
Wednesday	November 12	4:30 p.m.	Graduate School	William Russel *Dean of the Graduate School*
		5:15 p.m.	Faculty Staffing	David Dobkin *Dean of the Faculty*
Monday	November 17	7:30 p.m.	**Priorities Committee PUBLIC MEETING (All members should attend). McCosh 28**	
Tuesday	November 18	4:30 p.m.	Facilities	Mike McKay *VP for Facilities*
		5:15 p.m.	Administrative Initiatives	Mark Burstein *Executive Vice President*

Day	*Date*	*Time*	*Topic*	*Presenter/Invited Guest*
Wednesday	November 19	4:30 p.m.	Staff Salaries	Lianne Sullivan-Crowley *VP for Human Resources*
		5:15 p.m.	Faculty Salaries	David Dobkin *Dean of the Faculty*
Friday	November 21	1:15 p.m.	**Meeting of Priorities Committee with the Finance Committee of the Board of Trustees for a General Discussion of the Budget**	
Tuesday	November 25	4:30 p.m.	Undergraduate Financial Aid	Nancy Malkiel *Dean of the College* Janet Rapelye *Dean of Admission* Robin Moscato *Director of Undergraduate Financial Aid*
	(if needed)	5:15 p.m.	Administrative Initiatives II	Mark Burstein *Executive Vice President*

[Thanksgiving Recess—November 27 – 30]

Tuesday	December 2	4:30 p.m.	**Budget Update/Development of Tentative Recommendations
Wednesday	December 3	4:30 p.m.	**Tentative Recommendations (continued)
Tuesday	December 9	4:30 p.m.	**Tentative Recommendations (continued)
Wednesday	December 10	4:30 p.m.	**Tentative Recommendations (continued)
Friday	December 12 *(Chancellor Green)*	2 p.m.	**Meeting of Priorities Committee Members with the Full Finance Committee for Presentations of Tentative Recommendations**

[Winter Recess December 13 – January 4]

Tuesday	January 6	3:30 p.m.	Final Recommendations/Projections/Final Report
Wednesday	January 7	TBD	Final Recommendations/Projections/Final Report
Thursday	January 8	TBD	Final Recommendations/Projections/Final Report
Friday	January 23	1:15 p.m.	[FYI: President and Provost Present Final Budget Recommendations to Finance Committee and Board of Trustees; Committee members do not attend]

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

Appendix B

PRINCETON UNIVERSITY
Operating Budget: Income
(dollars in thousands)

	2007-08 Actual (1)	2008-09 Current Estimate (2)	2009-10 Projection (3)	Difference (3)-(2) (4)	Diff %
1. Investment Income	599,861	653,290	645,156	-8,134	-1.2%
2. Student Fees:					
a. Undergraduate Tuition	156,915	164,124	172,675	8,551	5.2%
b. Graduate Tuition	67,920	74,671	77,619	2,948	3.9%
c. Other	8,264	9,189	9,974	785	8.5%
Subtotal	233,099	247,984	260,268	12,284	5.0%
3. Gifts & Grant (non-govt):					
a. Sponsored Projects	23,766	22,950	23,180	230	1.0%
b. Other	95,171	101,907	104,961	3,054	3.0%
Subtotal	118,937	124,857	128,141	3,284	2.6%
4. Federal & State Government:					
a. Sponsored Projects	191,167	198,307	199,431	1,124	0.6%
b. Other	13,443	13,717	13,953	236	1.7%
Subtotal	204,610	212,024	213,384	1,360	0.6%
5. Auxiliary Activities:					
a. Athletics	2,069	2,081	2,100	19	0.9%
b. Dorm & Dining Services	55,227	58,702	60,880	2,178	3.7%
c. Rental Housing	17,318	16,929	16,498	-431	-2.5%
d. Other Income	17,565	19,091	19,704	613	3.2%
Subtotal	92,179	96,803	99,182	2,379	2.5%
6. Service Departments:					
a. Office of Information Tech	1,599	1,555	1,555	0	0.0%
b. Other	3,083	3,394	3,494	100	2.9%
Subtotal	4,682	4,949	5,049	100	2.0%
TOTAL	**1,253,368**	**1,339,907**	**1,351,180**	11,273	0.8%
Less Interdepartmental Transactions	12,169	13,200	13,500	300	2.3%
GRAND TOTAL	**1,241,199**	**1,326,707**	**1,337,680**	10,973	0.8%
Summary of Sponsored Projects:					
a. Direct Costs	175,273	180,865	181,845	980	0.5%
b. Indirect Cost Reimbursements	39,660	40,392	40,766	374	0.9%
Total	**214,933**	**221,257**	**222,611**	1,354	0.6%

PRINCETON UNIVERSITY
Operating Budget: Expense
(dollars in thousands)

	2007-08 Actual (1)	2008-09 Current Estimate (2)	2009-10 Projection (3)	Difference (3)-(2) (4)	Diff %
1. Academic Depts & Programs:					
a. Instructional Costs					
1. Faculty, academic year	145,232	159,401	163,141	3,740	2.3%
2. Assistants in Instruction	18,717	19,164	18,965	-199	-1.0%
b. Other salaries and expenses	241,373	257,262	259,429	2,167	0.8%
Subtotal	405,322	435,827	441,535	5,708	1.3%
2. Plasma Physics Laboratory	72,120	76,000	76,000	0	0.0%
3. Undergraduate Scholarships	80,682	91,960	104,207	12,247	13.3%
4. Graduate Fellowships	78,132	85,403	89,167	3,764	4.4%
5. Other Student Aid and Misc Fellowships	7,798	8,943	9,202	259	2.9%
6. Central University Services:					
a. Library	49,982	53,863	55,112	1,249	2.3%
b. Office of Information Technology	32,521	35,955	35,671	-284	-0.8%
c. Public Safety	6,733	7,039	7,171	132	1.9%
d. Other	2,899	2,940	2,970	30	1.0%
Subtotal	92,135	99,797	100,924	1,127	1.1%
7. Administration:					
a. Academic Administration and Student Services	62,804	69,021	71,048	2,027	2.9%
b. General Administration and Expenses	64,230	72,161	72,451	290	0.4%
Subtotal	127,034	141,182	143,499	2,317	1.6%
8. Athletics	19,942	21,878	22,282	404	1.8%
9. Physical Facilities	147,613	157,259	161,814	4,555	2.9%
10. Tsfr for Renewal/Replacement/Debt	222,590	222,971	210,006	-12,965	-5.8%
11. Allowance for Contingencies					
a. Provision for expenses	0	675	1,350	675	100.0%
b. Anticipated vacancies	0	-1,988	-4,006	-2,018	101.5%
Subtotal	0	-1,313	-2,656	-1,343	102.3%
12. Savings Target	0	0	-4,800	-4,800	
Total Expense	**1,253,368**	**1,339,907**	**1,351,180**	11,273	0.8%
Less Interdepartmental Transactions	12,169	13,200	13,500	300	2.3%
Grand Total	**1,241,199**	**1,326,707**	**1,337,680**	10,973	0.8%
13. Estimated Income	1,241,199	1,326,707	1,337,680		
14. Surplus or (deficit)	**0**	**0**	**0**		

NOTES TO SUMMARY TABLES

Income

1. Investment Income. This line includes income earned from investments, mainly the University's endowment. The decrease shown here primarily reflects the reduction of 8% in the endowment payout that is planned for FY2010. The decrease is partially offset by the planned redeployment of departmentally restricted funds to support central funds as described in section II of the Report, and by growth in income streams not governed by the endowment spend rule, such as earnings on current fund balances.

2. Student Fees. The increases in tuition revenues result from the higher tuition rates being recommended, from the planned expansion of the undergraduate student body, and from a slight projected increase in the total number of graduate students. The growth in Other Student Fees primarily reflects an increase in the Student Health Plan fee from $1,150 to $1,270.

3. Gifts and Grants (non-government). There is a projected increase of about 1% in support for sponsored projects. The "Other" line includes Annual Giving and other gift support.

4. Federal and State Government. The direct expenses of main-campus sponsored research are expected to increase at a rate of roughly 1% overall. Funding levels at PPPL are not expected to change significantly at this time. The increase in “Other” government income reflects increased support for student aid.

5. Auxiliary Activities. The slight increase in Athletics income reflects normal inflationary adjustments in the rates for facilities rentals and similar items. The increases for Dormitory and Dining Services are the result of the recommended rate increases, plus increases from the expansion of the student body. The decline in Rental Housing income reflects the plan to take a large housing complex off line for renovation and repurposing to graduate student housing. The growth in "Other" income reflects increases in a number of areas, such as Conference and Events Services and commercial rental income.

6. Service Departments. The increases reflect net revenue expectations for service departments other than OIT.

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

Expense

1. Academic Departments. Faculty costs reflect planned changes in staffing levels, including new faculty positions supported by gift and endowment income, as well as projected savings from the plan to minimize the number of visiting faculty as described in section II of the Report. The increase in Assistants in Instruction (AI) costs reflects the tuition component of support packages rising in line with the proposed tuition increase, less a reversal of some current-year transfers between AI and faculty appointments. Both the faculty and AI lines reflect increases authorized to accommodate the undergraduate expansion. The increase in "other salaries and expenses" results mainly from inflationary adjustments to various components of academic departmental budgets, including higher projected expenditures in departmentally restricted and sponsored research accounts. The figure shown reflects some offset from the planned reduction in endowment payout to these accounts in FY2010, along with a planned 5% reduction in non-personnel administrative costs. There is also a modest projected increase in AR (Assistants in Research) tuition support based on enrollment projections. An appropriate share of the salary pool as recommended by the Committee appears on each of the three lines shown.

2. Princeton Plasma Physics Laboratory. No change.

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

4. Graduate Fellowships. Increases are provided to cover the higher tuition rate being recommended, the higher student health plan fee, and the base inflationary adjustments to average stipend levels. A modest increase in the number of fellowships, including some supported on departmental and outside awards, is also projected, based on expected growth in the total number of graduate students.

5. Other Student Aid and Miscellaneous Fellowships. This line includes a variety of student aid programs, most of which are fully supported by funds restricted to these purposes, including the majority of the Federal Work Study Program, postdoctoral fellowships, and the like.

6. Central University Services. All lines reflect the 5% reduction in non-staff administrative costs described in the Report, and one-time FY09 costs are removed. The totals for the library include amounts authorized to accommodate the undergraduate expansion as well as lower projected expenditures in departmental restricted funds due to the decrease in endowment payout. The decrease in the Office of Information Technology reflects a planned reduction in technology infrastructure investment. An appropriate share of the recommended salary pool appears on each line.

7. Administration. The 5% reduction in non-staff administrative costs is included, and one-time FY09 costs are removed. The amounts recommended for Health Services and the Office of Undergraduate Students (ODUS) are included. Line 7.a. also includes amounts authorized in University Health Services, Career Services, and ODUS to accommodate the undergraduate expansion. An appropriate share of the recommended salary pool appears on each line.

8. Athletics. The increase reflects the 5% reduction in non-staff administrative costs, plus a smaller than usual growth in departmental restricted funds due to the decrease in endowment payout. The amount recommended for the Stephens fitness center is included, along with amounts authorized to accommodate the undergraduate expansion and an appropriate share of the recommended salary pool.

9. Physical Facilities. This line includes inflationary adjustments in property taxes, water and sewer charges, insurance, and energy costs, along with a 5% reduction in certain non-staffing costs. Various one-time adjustments are removed. The recommended increases for Transportation Demand Management and the Office of Sustainability are reflected. An appropriate share of the recommended salary pool is also included.

10. Transfer for Renewal/Replacement/Debt. This line reflects the costs of major maintenance and renovation projects and of capital equipment purchases. A fund has been established to pay for these expenditures, and contributions from the operating budget to replenish that fund appear here. The decrease reflects normal inflationary growth, offset by a reduction of about $34 million to reflect the reductions in transfers described in the Report.

11. Allowance for Contingencies. Line 11.a. reflects the restoration of our contingency to its normal full-year level. Line 11.b. reflects $2 million of targeted savings from the careful review of faculty and staff vacancies described in section II of the Report.

12. Savings Target. This reflects the savings target remaining after the 5% reductions reflected above.

Salary Pool (Distributed Above). Funds to provide salary increases for continuing faculty and staff supported by general funds (including the recommended increase to the promotion and adjustment pool), plus amounts for recommended increases in AI stipends and in hourly student wages, are included within the appropriate expense categories shown above. The benefits rate for non-academic departments is projected to decrease from 27.6% to 27.4%, and the comparable rate for academic departments is projected to increase from 34.0% to 34.1%.