REPORT OF THE PRIORITIES COMMITTEE

TO THE PRESIDENT

Recommendations Concerning the Operating Budget

for 2013–2014

January 16, 2013

PRINCETON UNIVERSITY

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

January 16, 2013

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

Dear President Tilghman:

Attached please find the Priorities Committee's report on the University's budget and recommendations for the fiscal year 2013-14 (FY14). The concluding year of your presidency finds Princeton in excellent financial health. Through the combined efforts of the University's faculty and staff, and the continued generosity of its alumni and friends, we have overcome many of the challenges that resulted from the market downturn in 2008. We balanced the budget in FY12 without the draws on one-time reserves that we had anticipated might be necessary, and we expect to do so again in FY13 and FY14. We have restored more than $5 million annually to the Fund for Faculty Recruitment and Retention, which was cut when the recession began. The spend rate on the endowment at the beginning of this fiscal year was 4.7%, slightly below the midpoint of the University's policy band.

Princeton achieved these results only because every academic and administrative unit in the University has repeatedly hit the targets that we established at the time of the downturn. We will need to sustain that financial discipline in the years ahead. Despite the substantial progress that we have made, the University must continue working to replenish the reserves that we drew upon to weather the financial crisis. As you know, those reserves are crucial to Princeton's ability to seize opportunities to improve its teaching and research and to cope with what challenges the future may bring.

The Priorities Committee's budget recommendations fall into three major categories: tuition and fees, employee salary pools, and, when possible, additions to program. The Committee also advises SUMAR ("Strengthening University Management and Resources"), an administrative group devoted to finding and implementing cost-saving strategies around the University.

The Committee deliberated on the increase in tuition and fees in consultation with members of the Board of Trustees' Committee on Finance. Last year, the Trustees and the Priorities Committee formulated three principles that should guide the University when setting its fees: it should ensure that its education is genuinely affordable to all students whom it admits; it has a responsibility both to sustain excellence and to do so efficiently; and it should ensure that the education it offers remains a good value for all students, including those who pay the full tuition price. On the basis of these guidelines, the Committee recommends a total fee package (tuition, room, and board) of $53,250 for next year, which amounts to a 3.8% increase over last year's package. This recommendation both recognizes the investment needed to sustain Princeton's excellence and keeps Princeton firmly at the bottom of its comparison group: Princeton's FY14 fees will be approximately $1,000 below the FY13 package of its nearest competitor.

This Priorities Committee, like its predecessors, was proud to endorse an increase in the Financial Aid budget that will maintain Princeton's commitment to full access for any student who is admitted, regardless of ability to pay and without the need for loans. If the Committee's recommendations are accepted, Princeton's scholarship budget would increase by 4.6%, bringing it from $116.1 million to $121.4 million. The aid budget would once again rise more rapidly than the fee package, as it has done in every year of your presidency.

After reviewing data on salary markets presented by the Dean of the Faculty and the Vice President for Human Resources, the Committee recommended salary pools tailored to an environment characterized by low inflation but intense competition for key employees. The data about inflation led the Committee to endorse base pools that are the lowest that the University has had during the past decade (aside from the two years at the bottom of the recession). The Committee recommended slight increases to centrally managed pools so that the University could reward and retain its top performers. For the second consecutive year, the Committee also recommended a small addition to the faculty salary pool to accommodate an expected bulge in promotions resulting from increased hiring at the junior level and more rapid advancement to the rank of full professor.

Because of the University's improved financial health, the Priorities Committee was able to recommend $1.2 million in programmatic increases. The proposed allocations support important University priorities including internationalization, Princeton's online presence, career services and placement, graduate student stipends, sustainability, compliance, and employee benefits.

I am very grateful to the faculty, student, and staff members of the Priorities Committee who gave up many hours to its work, faithfully carrying out their commission on behalf of the University community. They are a pleasure to work with and as dedicated a group of University citizens as I have encountered. I also want to take this opportunity to thank several people who labored both at the meetings and behind the scenes to support the Committee in its work. Aly Kassam-Remtulla this year succeeded Katherine Rohrer, who had served with distinction for eight years as secretary to the Committee, and he did a masterful job. Dr. Rohrer remained a crucial contributor to the Committee's efforts, as did Steven Gill, Ellen Riscoe, and Treby Williams. Each of them brings good humor, a valuable set of skills, and unflagging devotion to his or her role in this important process.

For the Committee,

Christopher L. Eisgruber, Provost
Chair, Priorities Committee

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THE COMMITTEE

Christopher L. Eisgruber, Provost (chair)

Carolyn Ainslie, Vice President for Finance and Treasurer

Mary Baum, Associate Dean of the Faculty (representing the Dean of the Faculty)

Mark Burstein, Executive Vice President

Willa Chen ’13

Marco De Leon *GS

Jill Dolan, Professor of English

Wendy Heller, Professor Music

Brian Kernighan, Professor of Computer Science

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Jacob Nebel ’13

Carolyn Rouse, Professor of Anthropology and African American Studies

Clarence Rowley, Professor of Mechanical and Aerospace Engineering

Gavin Schlissel ’13

Blair Schoene, Assistant Professor of Geosciences

Denis Zhernokleyev *GS

MEETING WITH THE COMMITTEE

Steven Gill, Budget Director and Associate Provost for Finance

Aly Kassam-Remtulla, Associate Director for Academic Planning and Institutional Diversity, Office of the Provost (secretary)

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I. Introduction

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

The Priorities Committee annually makes recommendations about rates of change for several variables important both to the budget and to the University community: tuition and fees, undergraduate financial aid, rental rates for University housing, graduate stipends, and faculty and staff salaries. Each year the Committee hears from SUMAR (the committee on Strengthening University Management and Resources) about initiatives aimed at cutting costs and improving efficiency. The Committee typically allocates some money in response to programmatic requests presented to it by Cabinet officers.

The Priorities Committee normally 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. All 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/priorities-committee/pricomm-2012-2013/). Each November the Committee holds an open meeting to hear from any interested members of the University community who wish to comment on priorities for future budgeting.

In November the Committee meets with the Finance Committee of the Board of Trustees to share the requests it has received and to review early thoughts about the fee package and salary pools. The following month, the Committee discusses its proposed recommendations with the Finance Committee. 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 2013–2014 academic year (known as fiscal year 2014 or FY2014) operating budget are discussed in detail below.

II. Budgetary Background

Last year's Priorities Committee summarized three principles that guided its work in the University's new post-recessionary fiscal environment:

- The University needs to maintain the budget discipline that it has imposed over the past two years: it must sustain the efficiencies that it has achieved and look for additional ones that will enable it to meet new costs and capitalize on opportunities for improvement.

- The University must continue to focus intently on its highest priority needs. In particular, it must provide the resources necessary to attract and retain the human capital—faculty members, graduate students, undergraduates, and staff—crucial to excellence.

- The University should eliminate its annual draw on one-time funds as soon as possible and begin rebuilding the strategic reserves that it relies upon to recruit new talent, fund new initiatives, and respond to economic adversity.

By the time this year's Committee gathered for its initial update on the FY2013 budget in October, the University had made small but significant strides toward achieving the goals identified in the third of these principles. The University has stopped using one-time reserves to balance its budget, and it has restored $5.1 million annually to the Fund for Faculty Recruitment and Retention (colloquially referred to as the "Science Fund" because it was originally created to meet the expenses associated with the recruitment of laboratory scientists).

These improvements capitalized on multiple favorable developments. The most impressive was the continuing generosity of Princeton's alumni. In FY2012, the Annual Giving campaign yielded a spectacular $57.4 million cash total. This success was extraordinary even by Annual Giving's high standards. The University budget also benefited from substantial positive variances in the energy budget, from continued budget discipline in academic and administrative departments throughout the campus, and from more moderate rates of increase in healthcare benefits costs.

The endowment spend rate provided an additional and significant indicator of financial health. The rate rose slightly from FY2012 to FY2013 because markets languished and the University's investment arm, PRINCO, posted a return of 3.1% (PRINCO's average annual return over the past decade, including the recession years, remained at a lofty 9.9%). Even so, the spend rate at the beginning of FY2013 stood at 4.7%, well within the policy band prescribed by the University's current spend rule. This benign rate, together with the modest surpluses achieved in FY2012 and those projected for the current year, indicated to the Committee that the University's financial health was more robust than at any point since the recession began.

After reviewing these developments, the Committee reaffirmed the guiding principles articulated in last year's report and summarized at the beginning of this section. It noted, in particular, that budget discipline remains essential to the University's ability to pursue its mission effectively. Princeton must continue rebuilding the strategic reserves that enable it to improve its teaching and research. Moreover, the Budget Office's multi-year projections, which we describe in the final section of this report, show that while Princeton no longer faces anything like the deficits that it confronted when the financial markets crashed, small deficits will likely occur in the near future if current revenue and spending patterns persist. The budget changes implemented in response to the recession must therefore remain in place if the University is to attract, retain, and support the talented faculty, students, and staff who sustain Princeton's excellence.

III. Recommendations

A. Salary Pools

As it does each year, the Priorities Committee heard presentations from the Dean of the Faculty and the Vice President for Human Resources regarding the salary pools for faculty and staff. The Dean and the Vice President described an environment in which general inflation rates were low but where the University faced intense competitive pressures for its best talent. The strength of the University's faculty means that Princeton professors are often at the top of the "wish list" at other universities. In this environment of aggressive recruitment by research institutions, lagging faculty salaries become an invitation for poaching. It is usually more effective and fair for Princeton to maintain competitive salary pools and appropriately reward its strongest faculty members than to counter-offer when an eminent professor is being actively courted. On the staff side, the Vice President told the Committee that the University faces a rising market in certain areas, such as research compliance and some sectors of financial services, where it competes directly with commercial enterprises as well as with other universities. The University has had to authorize higher salaries in order to recruit candidates and retain talent successfully in these fields.

In light of this combination of low inflation and intense competition, the Committee approved salary pools that included a modest base pool—the lowest that the University has had in the last decade aside from the two years at the bottom of the recession—paired with a slightly enlarged central pool. The Committee recommended a supplement to the faculty central pool to accommodate anticipated promotions. It also approved a staff pool that will give managers the ability to distinguish among levels of performance, provide resources for departments to reward and retain top performers, and offer clear information for employees about the meaning of their raises. The Committee hoped that these actions would allow the Dean and Vice President to maximize the University's ability to reward merit and to ensure that resources effectively address competitive risk.

B. Financial Aid

Princeton's promise of affordability has become one of its signature commitments. This has been implemented through a number of policies including The University's leadership in providing students with "no-loan" financial aid packages beginning in FY2002. Princeton's aid packages now consist of grants, and students are not expected to borrow to support their education. As a result, the majority of Princeton students graduate without any debt, while others take on modest amounts of it—for example, in order to finance a summer internship. The University takes pride in consistently ranking among the most affordable private colleges or universities in the United States, and the Priorities Committee and the Committee on Undergraduate Admissions and Financial Aid (CUAFA) cooperate to ensure that Princeton's financial aid program continues to meet the full need of all students.

CUAFA annually presents the Priorities Committee with a "stay-even" financial aid budget designed to make sure that financial aid packages keep up with increasing costs. This "stay-even" policy means, among other things, that the University increases its financial aid packages to protect aid recipients from the effects of any increases in the fee package. CUAFA also provides the Committee with estimates of any anticipated changes to the percentage of students likely to need aid. This is not a number within the control of CUAFA or the Committee: the University admits students on a need-blind basis and supplies as much aid as needed, even if doing so requires financial aid expenditures beyond those contemplated in the budget forecast.

At present, the University's percentage of students on aid appears stable at about 60%. The recommended increase to the financial aid budget is, for that reason, almost entirely attributable to the impact of our "stay-even" policy as aid packages must expand to cover increased fees. In addition, expected family contributions and student earnings tend to rise more slowly than the University's computation of what it costs to attend Princeton. That will be true again in FY14, when according to CUAFA's estimates the average parental contribution is projected to rise by only 2.5% and the expectation of student earnings will remain flat for the third year in a row—thus increasing the amount of scholarship dollars required to fund the full financial need of all students. Given these factors, the Priorities Committee endorsed an increase of 4.6% in the overall undergraduate scholarship budget, bringing it from $116.1 million to $121.4 million.

This proposed budget also includes a $60 reduction to the course book portion of the personal allowance included in each financial aid package. The reduction reflects the impact of a University program that lowers the cost of books assigned for University courses by providing students with a 30% discount at Labyrinth, the University-supported bookstore on Nassau Street. For most students, the benefits of the discount program far exceed the reduction to the book portion of the allowance, but CUAFA took a conservative approach in order to ensure that the financial aid packages remained sufficient to support the needs of all students. This $60 reduction for course books was balanced by a $60 increase in the non-book portion of the allowance. Despite being held flat, Princeton's overall personal allowance remains among the highest in the Ivy League.

C. Programmatic Recommendations

Each year, the Priorities Committee considers requests from Cabinet officers seeking additions to their budgets. For the last several years, the Committee has been limited to an annual allocation of $500,000 for programmatic improvements, due to persistent deficits experienced in the four years during and immediately after the recession. Given the modest surpluses last year and those anticipated for both this year and the coming one, the administration determined that it would be reasonable to allow the Committee to allocate a larger amount—$1.2 million—this year. That number is comparable to what the Committee allocated in pre-recession years.

The Committee invested these funds in the programmatic requests described in this section, as well as graduate stipends and the work of SUMAR that are discussed in the next two sections of the report. The programmatic requests can be grouped into two categories: those that provide continuing support for existing term-funded positions and those that support high priority strategic initiatives.

The first category of needs relates to requests to establish permanent funding for extant positions that had been created with term funding. This category of requests was directly related to the recession's impact. The need for these positions to become part of the base budget was apparent some time ago, but the lingering effects of the recession delayed the University's ability to incorporate the positions into its operating budget. In one case, Harold Shapiro provided term funding at the conclusion of his presidency for partial support of an archivist who could organize and steward the vast collection of paper and electronic documents added to the University's collection each year. Some of these documents must be kept pursuant to Princeton's records retention policy; others are retained because of their potential interest to scholars and friends of the University. Their volume is growing, and the Shapiro allocation is now exhausted. The Committee agreed with the University Librarian that the position was necessary and allocated funds to continue it.

The Vice President for Facilities also sought ongoing support for the Sustainability Coordinator and the Sustainability Assistant Manager, term positions that were created in connection with the University's sustainability plan. The individuals in these roles develop and lead initiatives that foster an appreciation for sustainability in the academic and co-curricular life of Princeton students. The Vice President had sought funding for these positions in the fall of 2008, but when the economy nose-dived, the University decided to support the positions with a term allocation. The Committee agreed that the Office of Sustainability deserved more durable support, and it endorsed this request. The Vice President also asked the Committee to consider $40,000 in programmatic support for sustainability to supplement $30,000 in funding that he would provide from the Facilities budget. The Committee urged him to find the entire amount from within his own budget, and he agreed to do so.

The second category of needs grew out of high-priority initiatives related to internationalization, the University's online presence, and student placement.

Internationalization

The Committee heard and approved a request to add a Manager of International Appointments to the staff in the Office of the Dean of the Faculty. As the University presses forward with its international research and teaching initiatives, it is employing more people abroad. It is also developing policies to ensure that Princeton remains compliant with the myriad requirements that pertain to such hiring, which is especially challenging given that requirements vary significantly by the type and length of employment, citizenship of the employee, and country in which the employee will be working. Implementing these policies, however, requires time and expertise. At some universities, multi-person offices handle this responsibility. The Committee agreed that the task warranted the addition of a full-time position to ensure that the University can execute its international initiatives in ways that are fully compliant with the law.

Online presence

In addition to requesting funding for the record archivist, the University Librarian—in partnership with the Office of Information Technology—sought funding for a Scholarly Communications Librarian. In September 2011, the University faculty approved an open access policy that called for the creation of an online database of articles by Princeton researchers. The policy also provided that the University would co-own the copyright to such articles unless the author sought a waiver (which is routinely granted, since some publishers would otherwise refuse to publish the articles). This policy parallels those adopted by several of our peers, including Harvard, Columbia, and MIT. It promises multiple benefits: not only does it serve Princeton's mission by disseminating the University's research more widely, but it may reduce costs over the long term if the open access trend leads journal publishers to retreat from their rapacious pricing strategies.

In the short term, the policy created an unfunded mandate for which the Library graciously assumed responsibility. The University Librarian, however, reported to the Priorities Committee that she could not fully implement the policy without additional budgetary support. Several Committee members expressed enthusiasm for the open access philosophy and, in particular, for the support that the new librarian would provide in assisting scholars to navigate the complexities of copyright policies, negotiate with publishers, and include their work in the electronic database. The Committee accordingly endorsed both the FTE (full time equivalent, which corresponds to employment by an individual for one year) requested and the software licensing fee needed to support the work of the new librarian.

Student placement

Two requests pertained to the University's ongoing efforts to improve its support of students and recent alumni in achieving their post-graduation goals. First, the Vice President for Campus Life brought forward a package of requests related to the Office of Career Services. This request built upon two positions that a previous Committee had allocated in FY2012: one to leverage connections with Princeton alumni and the other to provide better support to students seeking positions in the artistic, non-profit, and public sectors. Recent survey data indicates that satisfaction with the Office's services is rising, due in part to these new positions.

Despite these improvements, the Vice President told the Committee that the Office required further improvements to meet the needs of students seeking employment and to equal the service levels provided at peer institutions. She requested four additional positions for the Office: an Executive Director, a Communications Assistant, an Assistant Director responsible for careers in the sciences, and an Assistant Director focused on employer relations. The Vice President also requested program funds to support the activities of the new positions. She conceived of this request as the first phase of a plan that would require future authorizations from the Priorities Committee.

The Committee devoted a great deal of time to this request given its size and the number of FTEs involved. It was persuaded that Princeton needed to continue to raise the quality of the Office and agreed that substantial investments would be required in order to achieve that goal. At the same time, members were unsure whether Career Services needed all of the new positions at once and whether the Office could reallocate internal resources to support some of its growth. Much discussion centered on the Executive Director position, which would be partially supported by gift funding that has already been received. According to the Vice President, the Executive Director would have responsibility for strategic leadership of the Office and for high-level external relations between the Office and various on-campus and off-campus constituencies including some employers. Under the plan presented to the Committee, the Office would retain the Director position, thereby creating a senior staff structure similar to several of Princeton's peers. The Committee ultimately approved only the Executive Director position and asked that the new leader undertake a comprehensive review of the resources currently available within the Office before adding further positions.

A related request pertained to staff support for undergraduates applying for competitive fellowships such as the Rhodes, Marshall, and Fulbright Scholarship programs. The University has made multiple efforts in recent years to stimulate greater and more diverse student interest in these fellowships. Those efforts have paid off, but the growing workload leaves the office over-burdened. The impact is especially great with respect to Fulbright Scholarships, where applications must be tailored to specific and changing criteria, which vary across 140 eligible countries. The Dean of the College requested a position to support increased fellowship activity levels and to focus specifically, though not exclusively, on Fulbright applications. The Committee noted that the Fulbright was also important to Princeton's doctoral students, and it suggested that the position would have a greater impact if it served graduates as well as undergraduates. Both the Dean of the College and the Dean of the Graduate School agreed with this suggestion, and the Committee endorsed the request with that revision to the scope of responsibilities.

D. Graduate Stipends

Graduate students play a critical role in the University's research and teaching enterprises, and one key aspect of the University's mission is to train the next generation of world-class scholars. Princeton accordingly provides all doctoral students and most other graduate students with full tuition and health insurance and with a stipend to cover room, board, travel, and incidental expenses. The University pays great attention to the adequacy of graduate stipends with two key goals in mind. First, the stipends must be sufficient to attract the most talented students to Princeton, and second they must provide enough support so that those students can focus on their work (rather than their finances) and successfully finish their dissertations in a timely manner.

This year the Graduate School presented a request for additional funding that would allow it to simplify its stipend structure and make offers more attractive to prospective students. At present, graduate student stipend rates depend on a number of different factors. One factor focuses on whether graduate students have taken and passed their general examinations: once they are "post-generals," they are paid more for serving as ARs (assistants in research) or AIs (assistants in instruction). This distinction—which almost none of our peers make at a central administrative level—intersects with a myriad of others to produce a complex matrix of rates. From a recruiting perspective, the distinction is counter-productive: prospective students in the sciences and engineering focus on the first-year fellowship stipend, which turns out to be lower than what they will receive as ARs or AIs in all subsequent years. They might accordingly perceive Princeton's offer as less competitive than those of our peers. From an accounting perspective, the distinction causes headaches for academic departments and central offices. It is part of a very complicated labor accounting system, and, as Princeton revises its chart of accounts and renews its financial systems, the Office of the Dean of the Graduate School and the Office of the Treasurer agree that simplification would be highly desirable.

The Committee agreed that this request was compelling and, given upcoming revisions to the University's financial systems, timely. It accordingly allocated $170,000 to enable the Graduate School to simplify and enhance its stipend packages. Full implementation of the revised structure will require the administration to build an additional allocation, of roughly equal size, into the FY2015 budget. The Committee's allocation supplements the 3.0% increase in graduate stipends already incorporated into the base budget by allowing the Graduate School to increase first-year fellowships in the humanities and social sciences by 3.5% and in the natural sciences and engineering by 4.2%. The increase in the sciences and engineering equalizes the first-year fellowship rate with what is now the post-generals AR rate. Post-generals rates in the sciences and engineering will increase more modestly this year: for example, the post-generals AR rate will increase by 2.0% if the Committee's recommendations are accepted. In this scheme, AI rates will remain higher than others in acknowledgement of the substantial demands of teaching.

E. SUMAR

The recent recession forced the University to develop central initiatives designed to identify and implement cost-saving measures. To sustain these efforts in the post-recession environment, the University created SUMAR to pursue improvements to management. SUMAR now reports annually to the Priorities Committee and, indeed, typically meets with the Committee several times over the course of the semester.

In the three years since its inception, SUMAR has tracked more than 60 projects with total potential savings and cost avoidance in excess of $15 million per year. This year it provided the Committee with an update on its five major priorities: multi-year projects for energy and utility savings, reforms to the human resources compensation process, procurement efficiency, financial management tools (including travel services and policies), and healthcare cost mitigation.

Its discussions with the Committee focused on two topics. The first was its request for funding to supply employees with expert medical advice, which grew out of broader efforts to enable Princeton employees and retirees to be more knowledgeable about the quality and cost of the healthcare services they select. This new service would provide Princeton employees and retirees with 24/7 access to credentialed medical doctors who can provide guidance in decision-making by explaining diagnoses, treatment options, and likely outcomes; coordinate results with primary care providers; and recommend "centers of excellence" capable of providing high quality care. Employers report that such services are highly valued by their employees and that after several years of use they provide savings in excess of their cost (partly because "centers of excellence" are often higher in quality and lower in cost than other options). The Committee provided enthusiastic support, agreeing that the new service could not only help to control costs, but would also improve the overall health of the community and be much appreciated by employees and retirees.

The second topic was related more to management than to cost-savings: how best to administer the University program to supply discounted course books to students through the Labyrinth bookstore (this topic was mentioned earlier in connection with the recommendations on undergraduate financial aid). Colleagues from University Services—who manage Princeton's relationship with Labyrinth—are looking for ways to improve the discount program, and they solicited thoughts from the Committee about how best to do this. The conversation focused on identifying the data that would provide the most valuable insight about the needs and behaviors of students with regard to academic course materials. University Services plans to gather and analyze data in the spring semester and will report its progress to next year's Committee.

F. Fee Package and Rental Rates

The Priorities Committee deliberated over the undergraduate fee package (composed of tuition, room, and board) at several of its sessions. Its dialogue with the Finance Committee of the Board of Trustees in November aided its discussions. Last year's Committee and the Finance Committee agreed upon three principles that should guide future increases to the fee package. They were published in the Priorities Committee report last year and read as follows:

- The University should ensure that the education it offers is genuinely affordable for every student whom it admits. More specifically, the University should constantly monitor its financial aid program to verify that it continues to meet the full need of all students.

- The University has a responsibility both to sustain excellence and to do so efficiently. The University should not raise its fees simply because it has the market power to do so or because other universities are doing so.

- The University should continue to ensure that a Princeton education is a good value for all of its students, including those whose families receive no financial aid and so pay full tuition. The Committee reviewed an analysis showing that the cost of educating an undergraduate at Princeton was somewhere between 1.5 and 2 times the full tuition price. The Committee concluded that the University should sustain this generous subsidy, but that this commitment did not preclude it from incorporating justifiable cost increases into its tuition price.

Princeton implements the first of these principles primarily through its financial aid program. While the aid policy provides generous scholarships to students from low-income families, the Committee wanted to ensure that it also reaches upper middle class families who find it hard to meet the rising costs of a college education. In response to this concern, the Committee reviewed data about the aid packages of Princeton families with incomes in the top 5% of the American income distribution (which amounts to just over $200,000 per year). Even at this income level, some families can find it difficult to pay the full sticker price of a Princeton education. The Committee found that the average grant for such families that are judged to need aid exceeds $19,000 per year. This figure, along with the remarkably low debt levels reported by Princeton students at graduation, enhanced the Committee's confidence that Princeton is genuinely affordable for every admitted student. The Committee also noted that the University's "stay-even" financial aid policy, described earlier in this report, protects aid recipients from the impact of any increases to the fee package. The Committee recognized, however, that a Princeton education requires a large financial investment from many families, and it affirmed the importance of reviewing annually whether Princeton remains affordable to students from all backgrounds, including both low-income families and families whose incomes are at the cusp of the University's aid program.

In addition to examining the affordability issue, the Committee devoted considerable attention to the third of the principles approved last year by the Committee and the Trustees. That principle contemplates that the University will pass along to full tuition-payers a portion of the year-to-year cost increases needed to sustain Princeton's excellence. Since the University's expenses are predominantly for labor, and because labor markets tend to rise more rapidly than the Consumer Price Index (CPI), these increases may exceed the most common general measures of inflation.

After multiple discussions of the issues relevant to fee-setting, the Priorities Committee recommended an FY14 fee package increase of 3.8%. On the basis of data about national labor markets and other inflation rates, the Committee regarded the recommended change as commensurate with the University's year-to-year cost increase for its core instructional program. It also noted that Princeton's fee package is already the lowest among Ivy-plus peers. The proposed increase is sufficiently modest to guarantee that Princeton will remain so (unless one of the other universities reduces its fees next year). Finally, the Committee observed with approval that the University's net price per student—that is, its total fee package minus its average financial aid per enrolled student—had risen more slowly than the CPI for the last two decades.

The table below breaks out the components of the recommended fee package. Since Princeton's dining halls are managed on a modified profit-and-loss basis, the Committee sized the board increases at 3.2% based on market data (about projected increases to food prices and labor costs for food service workers, for example). It then calculated roughly equal increases of 3.9% to room rates and tuition to achieve the overall fee package. As noted earlier in this report, the University's financial aid budget will increase by 4.5%—a more rapid increase than the fee package or any of its elements.

Fee package component	**2012-2013**	**2013-2014**	**Percent increase**
Tuition	$38,650	$40,170	3.9%
Room	$6,950	$7,220	3.9%
Board	$5,680	$5,860	3.2%
TOTAL	**$51,280**	**$53,250**	**3.8%**

The Committee's recommendations also include a 3.9% ($1,520) increase in the rate of regular graduate tuition, from $38,650 to $40,170, the same as the undergraduate tuition; a comparable increase for DCE (Dissertation Completion Enrollment) graduate tuition, from $2,930 to $3,040; and an increase in the Student Health Plan fee from $1,850 to $1,900.

The Committee is responsible for proposing increases to rental rates for faculty, staff, and graduate student housing. The Vice President for University Services begins this process by presenting recommendations based on a market analysis of rates for comparable properties. This year, he recommended increases that were approximately 3% for faculty and staff housing and 3-4% for graduate student apartments (the exact increase varies from property to property). Each year the Committee focuses its review of rental rates on two points. First, it considers whether the market analysis is reasonable. Second, it considers the relationship between graduate stipends and graduate apartment rental rates; the point of this comparison is to ensure that the rise in stipends takes into account the rise in housing costs for students. This inquiry focuses on graduate students, rather than on faculty and staff housing, since graduate stipends are lower than the salaries of the employees who qualify for University housing. The Committee was satisfied on both counts.

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 University budget office typically constructs the projections by extending the growth rates recommended for the upcoming budget year's salary pools, endowment pay-out, rents, inflation allowances, and most other variables. The budget office uses multi-year trends to project changes to the fee package. Estimates for items not under the University's direct control—such as funding for sponsored research, Annual Giving and other fundraising, and real estate taxes—are based on assessments of likely growth rates. The budget office also layers in the impact of projected savings generated by SUMAR, as well as known new programs, initiatives, facilities, and changes to undergraduate or graduate programs.

The resulting projections are not predictions of what we expect to occur, but rough extrapolations of trends derived from current budget assumptions. Economic circumstances will inevitably change, and the University's budgetary choices will evolve with them. The projections nevertheless serve useful purposes: they test whether recommendations for the upcoming budget year are sustainable, they alert us to potential problems so that we can take steps to avoid them, and they establish a starting point for the discussions of next year's Committee.

This year's projections showed deficits, ranging from two to six million dollars, in budget years 2015-2017. These deficits are small by comparison to the University's $1.5 billion budget base. They incorporate some conservative assumptions, and even minor variations in the extrapolations would suffice to convert the small deficits into small surpluses. The Committee accordingly concluded that the projections provided no ground for revising this year's recommendations.

The modest deficits in the projections, nevertheless, illustrate the character of the long-term budget challenges facing the University. The deficits result from the interaction of the two most critical factors in the extrapolations: endowment contributions and labor costs. These items make up roughly fifty percent of revenue and expenditure respectively. The University is prone toward deficits if salaries and benefits rise more rapidly than the endowment's contributions to the operating budget.

Under the University's spending policy, endowment pay-out typically increases by 5% per year. The objective of this policy is to preserve the purchasing power of the endowment; its feasibility depends on markets favorable enough to permit PRINCO to build the endowment's value. Labor costs meanwhile increase in three different ways: through salary pools, benefits costs, and new positions. With the exception of the recession years, total salary pools—which include both the base pools and the centrally-managed promotion and adjustment pools—have typically averaged somewhere between 4% and 5%. Benefits costs have risen more rapidly. Despite the successful measures the University has implemented to temper the rise of healthcare costs, they continue to escalate at an annual rate in excess of 7%. Thus, even if the University were to add no new positions, salaries and benefits may combine to increase by more than 5% per year—at more or less the same growth rate anticipated (markets permitting) for endowment pay-out.

The University must accordingly manage growth carefully in order to keep labor costs and endowment revenue in equipoise. During the years preceding the great recession, bull markets made this task easier for Princeton and other endowment-driven private universities. From FY1992 to FY2007, PRINCO achieved returns greater than 16.5% in twelve out of sixteen years (including a 35.5% return in FY2000 and four other years of 19.4% or higher returns). These remarkable results allowed us to increase average endowment pay-out over that period much more than 5% per year, and masked the relationship between labor costs and the 5% step increase contemplated by the University's spending rule.

Economists doubt that the bull markets of the 1990s will return anytime soon. The University should, therefore, anticipate that the imperative to manage growth carefully will be more exacting in the decade ahead. Given the centrality of labor costs, doing this well hinges upon understanding trends in hiring and retirement. The Treasurer has been working with the Office of the Dean of the Faculty to improve our projections for faculty staffing. This is a complex task that requires layering in the effects of retirements, leaves, new initiatives (such as Neuroscience, the Lewis Center, and the Andlinger Center), the tenure and promotion process, and other factors. As a result of the work done by the Dean, the Treasurer, and their staffs, the University now has more accurate models for projecting the long-term budgetary impact of new academic initiatives and faculty searches. The Vice President of Human Resources is also focused on trends in FTE growth and a review of the staff compensation structure is underway. These models will enhance the University's ability to make sound decisions in an environment of constrained growth.

The Committee ultimately regarded the out-year projections as evidence that the University has at last emerged from the recession into a budgetary "new normal." The Committee expressed its appreciation for the contributions from all sectors of the Princeton community—alumni, faculty members, staff, administrators, and students—that have helped the University operate more efficiently and eliminate the deficits that it faced after the markets dropped. Through the generosity of its alumni and friends, and because of the steps it took to protect its core teaching and research priorities, Princeton is now stronger than ever. Yet, even if the advent of this "new normal" signals the end of persistent deficits and the beginning of a healthier budget climate, it does not promise opportunities like those that characterized the boom years preceding the recession. One of the University's challenges in the years ahead will be to reset community expectations for growth that were driven for almost twenty years by exceptionally favorable investment conditions unlikely to recur in the foreseeable future.

PRIORITIES COMMITTEE SCHEDULE
2012 – 2013

(**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*
Wednesday	October 10	4:30 p.m.	Orientation I	Introduction to Priorities Committee Financial Context
Tuesday	October 16	4:30 p.m.	Orientation II	Preview of Budget Issues for FY14
		5:15 p.m.	Orientation III	**Elizabeth Boluch Wood** *Vice President for Development*
Tuesday	October 23	4:30 p.m.	SUMAR	**Mark Burstein**, *Executive Vice President*
		5:30 p.m.	Tuition	
Wednesday	October 24	4:30 p.m.	Budget Update	
		5:15 p.m.	Housing and Dining	**Chad Klaus** *Vice President for University Services*
[Fall Recess October 27 – November 4]				
Tuesday	November 6	4:30 p.m.	Facilities	**Mike McKay** *Vice President for Facilities*
		5:15 p.m.	Graduate School	**William Russel** *Dean of the Graduate School*
Wednesday	November 7	4:30 p.m.	Campus Life	**Cynthia Cherrey** *Vice President for Campus Life*
		5:15 p.m.	Committee Discussion	
Monday	November 12 *101 Friend Center*	4:30 p.m.- 6:30 p.m.	CPUC/Public Discussion of Priorities Committee Recommendations and Report	
Tuesday	November 13	4:30 p.m.	Library and Information Technology	**Karin Trainer** *University Librarian* **Jay Dominick** *Vice President for Information Technology*
		5:30 p.m.	SUMAR II	**Mark Burstein**, *Executive Vice President*

Day	***Date***	***Time***	***Topic***	***Presenter/Invited Guest***
Wednesday	November 14	4:30 p.m.	Faculty Salaries and Faculty Staffing	**David Dobkin** *Dean of the Faculty*
		5:15 p.m.	Staff Salaries	**Lianne Sullivan-Crowley** *Vice President for Human Resources*
Friday	November 16 *Chancellor Green (Room 105)*	12:30 pm.	Meeting of Priorities Committee with the Committee on Finance for a General Discussion of the Budget	
Tuesday	November 20	4:30 p.m.	Undergraduate Financial Aid	**Valerie Smith** *Dean of the College* **Robin Moscato** *Director of Undergraduate Financial Aid*
		5:15 p.m.	Administrative Offices	**Mark Burstein** *Executive Vice President*
[Thanksgiving Recess—November 21 – 25]				
Tuesday	November 27	4:30 p.m.	Budget Update, Deliberations	
Wednesday	November 28	4:30 p.m.	Deliberations	
Tuesday	December 4	4:30 p.m.	Deliberations	
Wednesday	December 5	4:30 p.m.	Deliberations	
Tuesday	December 11	4:30 p.m.	Projections/Preliminary Recommendations	
Wednesday	December 12	4:30 p.m.	Projections/Preliminary Recommendations	
Friday	December 14 *Wallace Hall (Room 300)*	10:00 a.m.	Meeting of Priorities Committee Members with the Committee on Finance for Presentation of Tentative Recommendations	
[Winter Recess December 17 – January 6]				
Tuesday	January 8	3:30 p.m.	Final Discussion/Final Report	
Thursday	January 10	3:30 p.m.	Final Discussion/Final Report	
Friday	January 25	1:15 p.m.	President and Provost Present Final Budget Recommendations to Committee on Finance	

PRINCETON UNIVERSITY
Operating Budget: Income
(dollars in thousands)

	2011-12 Actual (1)	2012-13 Current Estimate (2)	2013-14 Projection (3)	Difference (3) - (2) (4)	*% Diff (3) - (2) (5)*
1. Endowment Payout and Other Investment Income					
a. Total Income	683,441	715,039	752,180	37,141	*5.2%*
b. Income transferred (to)/from fiscal periods	(2,855)	0	0	0	*na*
Subtotal	680,586	715,039	752,180	37,141	*5.2%*
2. Student Fees					
a. Undergraduate Tuition	187,905	199,350	206,560	7,210	*3.6%*
b. Graduate Tuition	80,810	87,029	91,134	4,105	*4.7%*
c. Other	12,113	13,053	13,442	389	*3.0%*
Subtotal	280,828	299,432	311,136	11,704	*3.9%*
3. Gifts, Grants, & Other					
a. Sponsored Projects	29,888	30,104	31,005	901	*3.0%*
b. Other	111,887	112,775	116,356	3,581	*3.2%*
Subtotal	141,775	142,879	147,361	4,482	*3.1%*
4. Federal & State Government					
a. Sponsored Projects	239,727	245,763	250,439	4,676	*1.9%*
b. Other	14,419	14,797	15,172	375	*2.5%*
Subtotal	254,146	260,560	265,611	5,051	*1.9%*
5. Auxiliary Activities					
a. Athletics	2,491	2,538	2,538	0	*0.0%*
b. Dorm & Dining Services	65,449	69,188	71,291	2,103	*3.0%*
c. Rental Housing	15,626	14,086	14,534	448	*3.2%*
d. Other Income	19,984	19,108	19,626	518	*2.7%*
Subtotal	103,550	104,920	107,989	3,069	*2.9%*
6. Service Departments					
a. Office of Information Technology	1,633	1,756	1,756	0	*0.0%*
b. Other	5,736	3,621	3,726	105	*2.9%*
Subtotal	7,369	5,377	5,482	105	*2.0%*
TOTAL	**1,468,254**	**1,528,207**	**1,589,759**	**61,552**	*4.0%*
Less Interdept'l Transactions	12,098	12,000	12,500	500	*4.2%*
GRAND TOTAL	**1,456,156**	**1,516,207**	**1,577,259**	**61,052**	*4.0%*
Summary of Sponsored Projects:					
a. Direct Costs	219,342	224,197	228,322	4,125	*1.8%*
b. Indirect Cost Reimbursement	50,273	51,670	53,122	1,452	*2.8%*
Total	**269,615**	**275,867**	**281,444**	**5,577**	*2.0%*

PRINCETON UNIVERSITY
Operating Budget: Expense
(dollars in thousands)

	2011-12 Actual (1)	2012-13 Current Estimate (2)	2013-14 Projection (3)	Difference (3) - (2) (4)	*% Diff (3) - (2) (5)*
1. Academic Depts & Programs					
a. Instruction Costs					
i. Faculty, academic year	170,492	180,417	184,692	4,275	*2.4%*
ii. Teaching Assistants	21,313	23,292	24,180	888	*3.8%*
b. Sponsored Research direct costs	139,180	146,050	150,432	4,382	*3.0%*
c. Other salaries, expenses	216,786	218,843	232,107	13,264	*6.1%*
Subtotal	547,771	568,602	591,411	22,809	*4.0%*
2. Plasma Physics Laboratory	81,509	80,000	80,000	0	*0.0%*
3. Undergraduate Scholarships	109,569	116,094	121,420	5,326	*4.6%*
4. Graduate Fellowships	98,185	104,296	109,421	5,125	*4.9%*
5. Other Student Aid and Misc Fellowships	9,043	9,763	10,195	432	*4.4%*
6. Central University Services					
a. Library	55,668	56,586	59,243	2,657	*4.7%*
b. Office of Information Technology	34,186	35,515	36,912	1,397	*3.9%*
c. Public Safety	9,251	9,624	9,934	310	*3.2%*
d. Other	4,255	3,710	3,694	(16)	*(0.4%)*
Subtotal	103,360	105,435	109,783	4,348	*4.1%*
7. Administration					
a. Academic Administration and Student Services	77,784	81,849	85,535	3,686	*4.5%*
b. General Administration and Expenses	74,840	78,245	79,175	930	*1.2%*
Subtotal	152,624	160,094	164,710	4,616	*2.9%*
8. Athletics	23,203	23,649	24,617	968	*4.1%*
9. Physical Facilities					
a. Physical Plant	111,130	117,059	126,618	9,559	*8.2%*
b. University Services	47,107	49,060	50,314	1,254	*2.6%*
Subtotal	158,237	166,119	176,932	10,813	*6.5%*
10. Tsfr for Renewal/Replacement/Debt	184,753	185,103	200,420	15,317	*8.3%*
11. Allowance for Contingencies					
a. Provision for expenses	0	750	1,500	750	*100.0%*
b. Anticipated vacancies	0	(1,900)	(1,500)	400	*(21.1%)*
Subtotal	0	(1,150)	0	1,150	*(100.0%)*
Total Expense	**1,468,254**	**1,518,005**	**1,588,909**	**70,904**	*4.7%*
Less Interdepartmental Transactions	12,098	12,000	12,500	500	*4.2%*
Grand Total	**1,456,156**	**1,506,005**	**1,576,409**	**70,404**	*4.7%*
12. Income	1,456,156	1,516,207	1,577,259	61,052	*4.0%*
13. Surplus or (deficit)	**0**	**10,202**	**850**	**(9,352)**	

NOTES TO SUMMARY TABLES

Income

1. Endowment Payout & Other Investment Income. This line includes income earned from investments, mainly the University's endowment, as well as income from external trusts, current fund balances, and faculty and staff loans. The increase primarily reflects the planned 5% increase in endowment payout for FY2014, along with growth in income streams not governed by the endowment spending rule.

2. Student Fees. Tuition revenue increases result from the combination of higher recommended tuition rates and projected changes in enrollment. For FY14, the total number of undergraduate students is projected to decline slightly, but there is a modest projected increase in the number of graduate students. The growth in Other Student Fees primarily reflects an increase in the Student Health Plan fee.

3. Gifts, Grants, & Other. Research supported by non-governmental grants is projected to increase by about 3%. The "Other" line includes expected growth in Annual Giving and gift support for student aid.

4. Federal & State Government. The direct and indirect expenses of main-campus sponsored research are projected to increase by 3%. We project no change for the Princeton Plasma Physics Laboratory. The increase in "Other" government income reflects increased support for student aid.

5. Auxiliary Activities. The increases for Dormitory and Dining Services are the result of the recommended rate increases, together with projected changes in enrollment. The increase in Rental Housing income reflects the recommended increases for rents. The growth in "Other" income reflects increases in a number of areas, such as Conference and Event Services and commercial rental income.

6. Service Departments. This line reflects normal inflationary increases.

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

Expense

1. Academic Departments & Programs. Faculty costs reflect planned changes in staffing levels, including new faculty positions supported by gift and endowment income. Assistants in Instruction (AI) costs reflect the tuition component of support packages rising in line with the proposed tuition increase. Sponsored research direct costs increase in line with the trends described above. 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 funds. Assistant in Research (AR) tuition support increases modestly, based on enrollment projections. An appropriate share of the salary pool, as recommended by the Committee, appears on each line except the one for "Sponsored Research direct costs."

2. Princeton Plasma Physics Laboratory. We project no change in expenditure levels.

3. Undergraduate Scholarships. The increase primarily reflects the recommended increase in the fee package. The total number of awards is projected to decline very slightly because of variations in the size and aid profiles of the graduating and entering classes. The average scholarship is projected to increase at a rate higher than fees because offsets from family contributions and student earnings tend to rise more slowly than the fee package.

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

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

6. Central University Services. All lines reflect normal inflationary adjustments. The totals for the Library include the Priorities Committee's recommended funding. An appropriate share of the recommended salary pool appears on each line.

7. Administration. All lines reflect normal inflationary adjustments, and one-time FY13 costs are removed. Line 7.a. includes the Priorities Committee's recommended allocations to the Office of the Dean of the Faculty, Career Services, and Dean of the College. An appropriate share of the recommended salary pool appears on each line.

8. Athletics. Normal inflationary adjustments are included, along with 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. One-time adjustments are removed. Line 9.a. includes the Priorities Committee's recommended allocation to the Office of Sustainability. An appropriate share of the recommended salary pool appears on each line.

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 increase reflects growth consistent with the current ten-year capital plan.

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

Salary Pool (Distributed Above). Funds to provide salary increases for continuing faculty and staff supported by general funds (including the recommended promotion and adjustment pools), plus amounts for recommended increases in AI stipends, are included within the appropriate expense categories shown above. The Priorities Committee's recommended allocation for expert medical advice is included in the salary pool as a component of employee benefits. The benefits rate for non-academic departments is projected to increase from 27.5% to 28.4%, and the comparable rate for academic departments is projected to increase from 34.2% to 34.4%.