PRINCETON UNIVERSITY

REPORT OF THE PRIORITIES COMMITTEE

TO THE PRESIDENT

Recommendations Concerning the Operating Budget

for 2014–2015

January 15, 2014

OFFICE OF THE PROVOST

January 15, 2014

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

Dear President Eisgruber,

Attached please find the Priorities Committee's report on the University's budget and recommendations for the fiscal year 2014-15 (FY15). The first year of your presidency finds Princeton in stable financial condition. We have benefited from continued savings in energy and moderating increases in healthcare costs, and our endowment spend rate is slightly below the middle of our target band.

Although the University has admirably weathered the recession and its aftermath, the budgetary picture remains challenging. The University faces a number of financial pressures including the need for additional financial aid resources to ensure that Princeton remains accessible to all students, an anticipated downward trend in federally-funded research, support for essential needs related to compliance and risk mitigation, and ongoing economic and political uncertainty. To respond to these pressures, we must maintain financial discipline in the years ahead and reset community expectations for growth that were driven by exceptionally favorable long-term investment conditions unlikely to recur in the foreseeable future.

The Priorities Committee's budget recommendations fall into three major categories: tuition and fees, employee salary pools, and 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. Together they reviewed five principles that have guided discussion and deliberation in recent years: the University 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; it should ensure that the education it offers remains a good value for all students, including those who pay the full tuition price; the proportion of educational costs borne by the University should remain constant and justifiable cost increases should be reflected in the tuition price; and numerical swings in year-to-year increases should be stabilized.

On the basis of these guidelines, the Committee recommends a total fee package (tuition, room, and board) of $55,440 for next year, which amounts to a 4.1% increase over last year's package. This recommendation recognizes the investment needed to sustain Princeton's excellence and keeps the University firmly at the bottom of its comparison group. Princeton's FY15 fees will be approximately $800 below the FY14 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 is estimated to increase by 8.5%, bringing it from $121.3 million to $131.6 million. Princeton's financial aid expenditures will once again rise more rapidly than its fee package, as they have for thirteen of the last fourteen years.

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 of continuing low inflation but intense competition for key employees. In this context, the overall pools being recommended this year are the same size as those for FY14.

Given the cost pressures described above, this year's Committee worked with a programmatic allocation of $600,000—half that of last year's Committee. The allocations support important priorities including teaching and learning, student safety and support, IT security, and social media outreach.

I am very grateful to the faculty, student, and staff members of the Priorities Committee who invested many hours in faithfully carrying out their responsibilities on behalf of the University community. They have been a true pleasure to work with. I also want to thank several people who supported the Committee in its work including Steven Gill, Aly Kassam-Remtulla, Ellen Riscoe, and Katherine Rohrer. Each of them brings good humor, a valuable set of skills, and devotion to their role in this important process.

Sincerely,

David S. Lee, Provost
Chair, Priorities Committee

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THE COMMITTEE

David S. Lee, Provost (chair)

Carolyn Ainslie, Vice President for Finance and Treasurer

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

Treby Williams, Executive Vice President

Christopher Achen, Professor of Politics

Carolann Buff *GS

Ray Chao ’15

Ariel Futter ’15

Claire Gmachl, Professor of Electrical Engineering

Devin Livi, Assistant Director, Grounds and Building Maintenance

Imani Perry, Professor of African American Studies

Katherine Pogrebniak ’14

Clarence Rowley, Professor of Mechanical and Aerospace Engineering

Blair Schoene, Assistant Professor of Geosciences

Nigel Smith, Professor of English

Lizette Taguchi *GS

Kristin Wilson ’14

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, graduate stipends, faculty and staff salaries, and rental rates for University housing. Each year since 2010, the Committee has heard from SUMAR (the committee on Strengthening University Management and Resources) about initiatives aimed at cutting costs, improving efficiency, and enhancing management. The Priorities Committee allocates some money from the operating budget for ongoing funding in response to programmatic requests presented to it by cabinet officers.

The Priorities Committee normally convenes from October to January (schedule in Appendix A). 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 outlining their highest priority funding needs, deliberative meetings to evaluate requests in the context of the full range of competing claims on the University's available resources, and a final set of meetings to determine the Committee's recommendations and produce this report. All presentations to the Committee are preceded by detailed written reports (which are available to members of the University community on the Provost's website at http://www.princeton.edu/provost/priorities-committee/pricom-2013-2014/). Each November the Committee holds an open meeting to hear from 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 his approval and transmission to the Board later in the month. The recommendations for the 2014–2015 academic year (known as fiscal year 2015 or FY2015) operating budget are discussed in detail below.

II. Budgetary Background

Although the University has admirably weathered the recession and its aftermath, the budgetary picture remains challenging. We have benefited from continued savings in energy and moderating increases in healthcare costs, and our endowment spend rate is slightly below the middle of our target band. However, there are emerging budgetary pressures that warrant caution:

- We have made a number of necessary investments to address essential needs in the areas of compliance, technology, information security, and online education.
- Our continued priority for expanding socioeconomic diversity in the undergraduate population will require additional financial aid resources over the longer term.
- While year-to-year levels of sponsored research funding fluctuate by their very nature, we anticipate a general downward trend in federally-funded research and associated indirect cost recoveries.
- We are drawing on one-time funds to support activities that will, in some cases, require the identification of ongoing resources.
- We continue to face economic and political uncertainties that pose a risk of disruption similar to those experienced during the last economic downturn.

Our current projections for FY2015 and beyond have been adjusted to reflect the factors outlined above. They show a string of modest deficits, which we describe in the final section of this report, extending for several years. The projected deficits decline steadily from their peak and turn to surpluses by FY2021. In order to balance the budget, we plan to draw $7.1 million in FY2015 from operating reserves and have begun efforts to develop a plan to moderate projected deficits in the coming years.

III. Recommendations

A. Financial Aid and Graduate Stipends

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 undergraduate students with "no-loan" financial aid packages beginning in FY2002, which means that students are not required or 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 an unpaid summer internship. The University takes pride in its recognition as one of the best values among private colleges or universities in the United States. The Priorities Committee and the Committee on Undergraduate Admission and Financial Aid (CUAFA) cooperate to ensure that Princeton's financial aid program continues to meet the full need of all students.

As has been the case for many years now, CUAFA presented 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 we increase our financial aid support 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 the class likely to need aid. This is not a number within the control of CUAFA or the Committee; it moves up and down depending on the demographics of each class.

The Priorities Committee endorsed a $10.3 million (8.5%) increase in the undergraduate scholarship budget, bringing it from $121.3 million to $131.6 million. This budget reflects a prediction of a slight increase in the percentage of students on aid in the Class of 2018—from 61.1% to 61.5%—as a result of our efforts to increase the economic diversity of our undergraduate population. The average percentage of students on aid across all classes is projected to increase from 59% to 60%. If the estimate that 61.5% of the next freshman class will be on financial aid holds true for successive entering classes, general funds support for the scholarship budget will continue to increase rapidly.

The Priorities Committee also reviewed a two-year plan, approved by last year's Committee, to simplify the graduate student stipend structure to make it more attractive to prospective students and reduce the administrative burden in anticipation of updates to the University's financial systems. The plan had three aspects: (1) removing the discrepancy between students who have and have not taken their general examinations (which must be passed to advance to PhD candidacy) for both ARs (assistants in research) and AIs (assistants in instruction), (2) setting the first-year fellowship for science and engineering doctoral students at the new combined AR rate, and (3) raising humanities and social science stipends more than the normal 3% annual increase for FY14 and FY15. Since FY15 is the second year in this approved plan, the Priorities Committee did not—as it normally does—deliberate on the increase in graduate fellowship stipends, which will be 3.5% in FY15.

B. Salary Pools

Each year the Priorities Committee hears presentations from the Dean of the Faculty and the Vice President for Human Resources regarding the salary pools for faculty and staff.

As they explained last year, we are in an environment in which general inflation rates remain low; however, the University continues to face significant competition for its top faculty members. In this environment of aggressive recruitment, lagging salaries could make us vulnerable to losing our best talent to our peers. Providing competitive salary pools and appropriately rewarding the University's strongest faculty members is the most effective and fair way to maintain our world-class faculty.

On the staff side, competition persists in certain areas—such as audit, compliance, and financial services—and the University has had to authorize higher salaries to recruit and retain talent in some of these fields. Last year's Committee approved a staff pool that gave managers more ability to recognize different levels of performance and provide resources for departments to reward and retain top talent. This procedure was successful in providing incentives for managers to distinguish among levels of performance, which resulted in a marked change in the distribution of salary increases over previous years. The Committee approved a similar proposal this year.

In light of this context, the overall faculty and staff salary pools being recommended this year are the same size as those for FY14.

C. Programmatic Recommendations

Each year, the Priorities Committee considers requests from cabinet members seeking additions to their budgets. Given the large number of investments related to information security, technology, and compliance that were required during the last year, as well as the anticipated budget shortfalls and uncertainties mentioned above, this year's Committee worked with an allocation of $600,000—half that of last year's Committee. Within this more constrained total, the Committee responded thoughtfully and creatively to the highest needs and emerging priorities that were brought forward.

The programmatic requests can be grouped into four categories: teaching and learning, student safety and support, security of IT infrastructure, and social media outreach. The recommendations are described below.

Teaching and learning

The first category of need included requests from the Dean of the College and the University Librarian to provide additional academic resources for undergraduate and graduate students.

The Committee approved a request from the Dean of the College to establish permanent funding for two extant three-year term positions reporting to the Deputy Dean: the Associate Dean of the College and the Director of Undergraduate Research. As part of her request, the Dean provided partial, permanent funding for each of the positions. The role of the Associate Dean was established in 2011 to support the University's decennial reaccreditation and to take a leading role in pursuing strategic goals to ensure the effective use of information technology in support of undergraduate education. Over the last two years, the responsibilities of this individual have increased as a result of the expansion of the Deputy Dean's portfolio, especially his oversight of the University's online learning initiatives. The Associate Dean's responsibilities include: collecting and analyzing data needed to inform the deliberations of the Committee on the Course of Study and other efforts to enhance undergraduate teaching and learning; supporting the Deputy Dean in providing decanal oversight and administrative support for online learning; and assisting the Dean and Deputy Dean in a variety of other curricular initiatives and policies.

The position of the Director of Undergraduate Research was established in 2012 to lead a variety of initiatives to expand and diversify early opportunities for undergraduate research and to enhance the educational value of independent work as an integral component of a Princeton education. In this first year, the Director undertook a significant role in supporting the reaccreditation process by working with academic departments to create and enhance written guidelines for the support and assessment of independent work. In the future, the Director will expand activities in support of undergraduate research such as developing mentored research opportunities; creating a centralized web portal to share resources and build community and visibility around undergraduate research; organizing initiatives to better prepare students for independent work; and coordinating internal funding and soliciting external funding for independent work. The Director will also take a leadership role in supporting a broad variety of student entrepreneurship opportunities related to independent research.

The Priorities Committee was unable to fund a request from the University Librarian to expand access to *Article Express* to graduate students. This service—free to faculty members—allows them to make online requests for articles or short selections from journals, books, and conference proceedings. When such requests are received, the item is found among Princeton's collection, accessed through one of our no-cost sharing arrangements, or purchased by the Library and delivered electronically in 24-48 hours. The service began in 2006 through a reallocation of internal resources within the Library; demand has increased steadily and has been supported through further reallocations. Expanding it to graduate students would have required additional staff as well as programmatic funds. Since in-person article retrieval assistance is already available to all patrons, the Committee did not find this request to be as critical as some of the others under consideration.

Student safety and support

A second category of needs grew out of a desire to improve the safety and support of students. There were three such requests, one each from the Vice President for Campus Life, Dean of the Graduate School, and CUAFA.

The Vice President for Campus Life brought forward a package of requests related to SHARE (Sexual Harassment/Assault Advising, Resources, and Education), the office on campus which provides confidential support to victims of power-based personal violence. These requests were developed in response to recommendations of the Sexual Misconduct Working Group and the SHARE Task Force. They were further influenced by recent government legislation that provides guidance and establishes obligations for higher education institutions to reduce the likelihood that members of the campus community are subject to sexual violence. In particular, the Violence Against Women Reauthorization Act, which goes into effect on March 14, 2014, mandates that colleges provide education programs to promote awareness of power-based personal violence.

The Vice President sought funding for four related aspects of SHARE's programming:

1. Current activities supported through *ad hoc* funding, including general SHARE programming and an annual visit by a nationally renowned forensic consultant to educate campus constituencies about sexual misconduct on college campuses.

2. A new program to enlist male students as advocates against sexual violence by challenging social norms related to misogyny, sexism, masculinity, and bias.

3. Online training to help students assess healthy and unhealthy behaviors and better equip them to foster a safer campus environment. This training would target freshmen, who are among the most vulnerable students; juniors, who play a large role in defining undergraduate social life; and graduate students, to establish a common understanding of appropriate conduct among this diverse population.

4. The development of a comprehensive program to educate and train students to be active bystanders who can defuse potential high-risk situations by identifying and appropriately intervening to halt problematic behaviors before they escalate. There is

considerable evidence that bystander intervention strategies can be effective in changing a community's social norms.

The Priorities Committee devoted a great deal of time to discussing this request. Members felt strongly about the importance of this issue and recommended funding for the first three activities above. The Committee also recommended that the bystander intervention program be supported through term funding during which the SHARE staff could further research and solidify its approach to this critical matter. The Committee felt that term funding would provide the flexibility and opportunity to develop a comprehensive and long-term plan. The Provost agreed with this recommendation and committed two years of term funding for this important work. The Committee anticipated that a future request for bystander education prevention would be accompanied by a complete evaluation of how best to effect a change in community norms and behaviors to prevent the occurrence of high-risk activities that threaten the health and safety of campus community members.

The Committee also heard a request from the Dean of the Graduate School to provide a small number of free meals for graduate students at Procter Hall, the dining facility at the Graduate College. The College, which was built 100 years ago, originally housed the majority of graduate students. Today, it can accommodate roughly 20% of the graduate school population. In an effort to foster a vibrant residential community among graduate students, the Dean requested that each nonresident student be eligible for six free meals per semester. The hope is that this modest allotment would bring more graduate students to the College for interaction over brunch and dinner. In addition to purely social interaction, this program might provide an incentive for graduate students to attend programming related to professional development and career choices; events offered in partnership with, for example, the Davis International Center or the LGBT Center; or a new alumni dining program designed to bring graduate alumni to campus to engage with current students.

This proposal was modeled on an undergraduate initiative that provided free meals for juniors and seniors (excluding those already on dining hall meal plans) to return to their residential colleges for two free meals per week. The undergraduate program has been highly successful, with roughly half the meals being utilized. Given the different nature of the graduate student population, the predicted participation rate is a more modest 35%. While Committee members were uniformly enthusiastic about developing a stronger community among graduate students, some were concerned that students might use these free meals to dine with known colleagues rather than engage with students in other fields. Since we have no advance knowledge of how these meals would be used, the Committee asked that the Provost support this request with two years of term funding to allow the Graduate School to experiment with ideas to strengthen fellowship among students. The Provost was able to provide term funding for this pilot initiative.

The Committee was unable to fund the final request in this category, which came from CUAFA. Princeton's undergraduate financial aid support for international students is among the most generous in the country. As our financial aid program has evolved, international students on aid have received increasing support for travel home. Initially, such students were offered one round trip during their four years at Princeton; the program then evolved to two round trips over an undergraduate career. Now international students receive an allowance for a single round-trip ticket each year as well as a winter break allowance. In contrast, students from North America (United States, Canada, and Mexico) receive a travel allowance for two round-trip tickets each year. CUAFA proposed adding enough support to convert the winter break allowance for international students on financial aid into a second annual round trip.

While the Committee saw some merit in addressing this one remaining difference in the treatment of international and North American financial aid students, it was unable to support this request. In part, this was because the Committee came to understand that increasing the travel allowance would not guarantee international students a second annual trip home, nor would it mitigate the logistical challenges of international travel.

Families could choose to use additional funds for any purpose related or unrelated to their child's education (as is true for North American students on aid). To better understand this issue, the Committee suggested that conducting research about financial aid students might provide valuable insight into their needs, preferences, and behaviors.

Security of information technology infrastructure

The third area of need focused on IT security. The Committee heard a request from the Vice President for Information Technology for four new positions in the area of information security. Protecting the university's digital information and electronic infrastructure has become substantially more important over the past decade as more devices are connected to our network, more of our important processes are automated, and more of our sensitive information is electronically stored and shared. Cybersecurity is especially important at a time of increasingly organized and well-funded cyber intrusion designed to steal intellectual capital or destroy critical physical infrastructure. In response to these threats, the University's Office of Information Technology (OIT) is strengthening its oversight of our operating environment through advanced data analytics and monitoring systems.

The Committee was fully persuaded about the importance and timeliness of this request and, based on feedback from the Vice President about his highest priorities, approved funding for two of the four positions. The first is an IT Security Specialist to oversee the identity management system, which includes the complex process of granting and revoking access to our electronic systems. This individual will be responsible for deploying important new technologies such as mobile device authentication. The second position was one of the two requested Network Operations Center Security Specialists, who are dedicated to turning the information derived from data analytics into knowledge that will help protect our resources.

Given its limited resources, the Committee was unable to fund the second Network Operations Center Security Specialist and the IT Forensics Specialist requested in the proposal. The Committee encourages OIT to return to a future Priorities Committee to fund these two positions.

Social media outreach

The fourth and final category included a request from the Vice President and Secretary for two positions to enhance outreach through social media. The Office of Communications identified four areas where its social media work has the most potential benefit: introducing Princeton to prospective students, especially those from lower socioeconomic backgrounds; raising Princeton's profile outside of the United States where we are less known than some of our peers; highlighting the University's priority initiatives and activities; and communicating to on- and off-campus communities in a crisis situation. Based on the Committee's review, the social media team has been successful and will continue to play a critical role as the University expands and strengthens its online presence. The Priorities Committee agreed that the Office deserved more durable support.

The Committee agreed to make a term Social Media Strategist position permanent. The individual in this role will develop and implement social media policies and strategies for the University's Facebook, LinkedIn, and Twitter sites as well as international platforms such as Sina Weibo in China and Orkut in Brazil and India. The strategist will also disseminate policies and procedures across campus by training and advising departments, offices, and programs in their social media efforts; coordinate an on-campus group of roughly 60 individuals who are involved with social media; and work with institutions, companies, and other outside entities to extend the University's messaging.

The Committee did not fund the more junior proposed position for an Interactive Digital Analyst who would also focus on social media. The members felt that once someone is hired for the senior role, that individual could assess staffing needs and either pursue reallocation of funding within the Office of Communications or solicit a future Priorities Committee for additional support.

D. Cost Savings and Management Initiatives

The recession sped up and enhanced the University's central cost-saving initiatives. To sustain these efforts in the post-recession environment, the University created SUMAR to continue to identify and implement cost efficiencies and improvements to management. SUMAR typically meets with the Committee multiple times over the course of the semester. In the four years since its inception, SUMAR has tracked more than 60 projects with a total potential savings of approximately $16 million per year.

This year, SUMAR provided the Committee with an update on its major priorities, which include implementing a new online travel system, streamlining departmental fees and charges, reviewing the human resources compensation process, upgrading the University's financial systems, and controlling healthcare costs. While SUMAR had no requests this year, it updated the Priorities Committee on two topics. One was a report on early positive indicators for two programs that were approved by last year's Committee —My Health Coach and My Medical Expert— which offer free health and medical advice to all University employees, retirees, and their families, in an effort to improve their health and to manage healthcare costs. The other was an update on the second year of the successful implementation of a program that provides undergraduate students with a 30% discount on course books at the Labyrinth Bookstore on Nassau Street.

E. Fee Package and Rental Rates

The 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. At that meeting, the Priorities

Committee and the Finance Committee reviewed five principles that have guided discussion and deliberation in recent years, and continue to do so for this budget cycle.

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

2. 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.

3. The University should continue to ensure that a Princeton education is a good value for all of its students, including those students whose families receive no financial aid.

4. The University should maintain the current relationship of the total cost of education to tuition in the form of a subsidy to all students. The current cost of educating an undergraduate at Princeton is somewhere between 1.5 and 2 times the full tuition price. This commitment implies that as justifiable cost increases occur, they will need to be reflected in the tuition price.

5. The University should stabilize its year-to-year increases whenever possible, so that it avoids large numerical swings.

Princeton implements the first of these principles through its financial aid program. The Committee 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. At the same time, the Committee recognized 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 more affluent families who are on the cusp of the University's aid program.

The Committee was reminded that the financial aid package for each family is tailored to its particular circumstances. Princeton reviews not only the family's income but also its financial assets (excluding equity in the primary residence and retirement savings) and obligations, including educational expenses for other children as well as debt and medical bills for dependents. This holistic approach enhanced the Committee's confidence that all families with legitimate financial needs are provided with the aid to ensure that Princeton is genuinely affordable for every student whom the University admits.

Outside observers sometimes express concern that, even if the aid policy provides generous scholarships to students from low-income families, it might not reach upper middle class families who find it hard to meet the full costs of a college education. In response to this concern, the Committee reviewed data about the aid packages of families with annual incomes above $119,000. Princeton aid families with incomes in this range contribute on average $23,000 per year to their child's education; within that range, those families with less than $100,000 in assets contribute on average less than $20,000 per year. Within this broad income band, families with incomes between $119,000 and $140,000 contributed on average $17,140 per year. At the top end of the band, over 200 families with an annual income over $220,000 received some financial aid. By national standards, such families are in the top 5% of the American income distribution. However, some of them—especially those on the lower end of this band—may find it challenging to pay the full sticker price of a Princeton education, particularly if they have other financial obligations, especially other children in college.

In addition to examining the issue of affordability, the Committee devoted considerable attention to the fourth principle which explains that the University will pass along to full tuition-payers a portion of the year-to-year cost increases needed to sustain the University's excellence. Throughout the course of its meetings, the Priorities Committee discussed a number of important cost pressures which must be fully funded by our major revenue streams:

- Support for hiring and retaining top faculty members which necessitates competitive salaries, start-up packages, and retention costs.
- Increases in financial aid due to ongoing efforts to ensure that a Princeton education is affordable to all students.
- Resources for the expansion of academic programs and to support innovation (such as our exploration of online learning).
- Compliance and risk mitigation efforts in a number of areas including sponsored research, animal safety, and information security.

Some of these cost drivers are increasing at rates that outstrip fee package increases. For example, since salaries for the top talent tend to rise more rapidly than the Consumer Price Index (CPI), the cost of recruiting and retaining exceptional faculty members may rise at rates that exceed the most common measures of inflation.

In consideration of all these factors, the Priorities Committee agreed to a recommended FY15 fee package increase of 4.1%. 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 the lowest among its Ivy-plus peers, and that even with the FY15 increase it will be lower than all current (FY14) peer fee packages. The Committee observed with approval that the University's net price per student—which is the fee package minus the average financial aid per enrolled student—had risen more slowly than the CPI for the last two decades. For FY15, the net tuition will decline by 2%.

The table below includes the components of the recommended fee package. Since Princeton's dining halls are managed on a modified profit and loss basis, the Committee set the board rate increase at 3.2% based on market data about projected increases to food prices and labor costs for our dining services employees. The 4.9% increase to room rates is higher, in part to reflect the labor and energy costs associated with providing housing for our undergraduate students. As noted earlier in this report, the University's financial aid budget will increase by 8.5%—a much more rapid increase than the fee package or any of its elements. This "stay-even" budget will ensure that no families of students on financial aid will be adversely affected by the fee package increase.

Fee package component	**2013-2014**	**2014-2015**	**Percent increase**
Tuition	$ 40,170	$41,820	4.1%
Room	$ 7,220	$ 7,570	4.9%
Board	$ 5,860	$ 6,050	3.2%
TOTAL	**$53,250**	**$55,440**	**4.1%**

The Committee's recommendations also include a 4.1% ($1,650) increase in the rate of regular graduate tuition, from $40,170 to $41,820, the same as the undergraduate tuition; a comparable increase for DCE (Dissertation Completion Enrollment) graduate tuition, from $3,040 to $3,160; and no change in the Student Health Plan fee, which will remain at $1,900.

The Priorities Committee is also 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. Although the exact increases vary from property to property, this year the Vice President recommended increases of roughly 3-4% for graduate student apartments and 3-5% for faculty and staff housing. These recommendations are based on a desire to keep rents within market range, appropriately reflect costs, and assure consistent pricing among various rental properties.

IV. 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 baseline projections by extending the growth rates recommended for the upcoming budget year's salary pools, fee package, endowment pay-out, rents, inflation allowances, and most other variables. It also includes projected savings generated by SUMAR. 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. While the budget office layers in the impact of known new programs, facilities, and changes to academic programs, there is no provision for significant new costs or programs not currently funded or approved. Support for costs not accounted for in these baseline projections must be met through the reallocation of resources, reprioritization of activities, specialized funding, or new revenue.

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 show deficits, starting out at $11 million in FY2016 and decreasing to $6 million in FY2018. These deficits are small by comparison to the University's $1.6 billion budget base. They incorporate some conservative assumptions, and even minor variations in the extrapolations could convert the small projected deficits into small projected surpluses. Moreover, the projected deficits turn into projected surpluses starting in FY2021. The projected deficits, nevertheless, illustrate the character of the long-term budget challenges facing the University. The deficits result in part from the interaction of two 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; sustaining a 5% annual growth in pay-out depends on markets favorable enough to permit PRINCO to build the endowment's value. Such sustained growth requires a much higher rate of return from PRINCO, which must steadily build endowment value despite market volatility from year to year. 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 basic departmentally-managed merit pools and the centrally-managed promotion and adjustment pools—have typically increased annually at an average 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—the growth rate anticipated (markets permitting) for endowment pay-out.

This year's projection of scholarship costs also reflects trends suggesting that a higher proportion of Princeton's undergraduate population will be receiving student aid. Total scholarship grants from central funds—those not supported from federal and other outside sources—are projected to grow at an average annual rate of nearly 7% over the next four years, while the pay-out from existing scholarship endowment will grow 5%. This suggests that fundraising for scholarships will be an essential ingredient of plans to reduce deficits in future years.

The changed climate for sponsored research funding is also a significant factor in the projections and for our academic mission. If indirect cost recoveries were continuing to grow at the rates projected a year ago, the FY2018 deficit would be eliminated. Beyond that, reduced outside research funding will inevitably strain our internally-funded research capacity in ways that we are now beginning to study and plan for. Since the nature of this impact is not known, it cannot be reflected in these projections.

So far this fiscal year, the financial markets have been strong, even in the face of budget turmoil in Washington. Nonetheless, it would be unwise to develop budgets that depend on returns resembling the bull markets of the 1990s. In the decade ahead, we will need to manage growth with careful attention to optimizing resources to best support our priorities. The Vice President for Finance and Treasurer and the Dean of the Faculty are modeling trends in faculty hiring, promotion patterns, and retirements in order to understand how to manage faculty growth and renewal. The Vice President for Human Resources is also focused on trends in staff growth and a review of the compensation structure is underway. These efforts will enhance the University's ability to make sound decisions in an environment of constrained growth. All this suggests that, if these baseline projections develop as we expect, future Priorities Committees should expect to have less flexibility to respond to pressing needs and to meet the inevitable pressures for programmatic enhancements.

The Committee ultimately regarded the out-year projections as evidence that the University continues its financial recovery from the recession into a budgetary "new normal." As noted in last year's report, one of the University's challenges in the years ahead will be to reset community expectations for growth that were driven by almost twenty years of exceptionally favorable investment conditions that may well not return in the foreseeable future. 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 by implementing and sustaining the budget reductions that were required after the economic downturn. 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 well-positioned to build on its core strengths in the coming years.

PRIORITIES COMMITTEE SCHEDULE
2013 – 2014

(**<u>Unless otherwise noted</u>**, all meetings are scheduled for 4:30 p.m. to 6:15 p.m.)

Day	***Date***	***Time***	***Topic***	***Presenter***
Wednesday	October 9	4:30 p.m.	Orientation I	Introduction to Priorities Committee Financial Context
Tuesday	October 15	4:30 p.m.	Orientation II	Preview of Budget for FY15
		5:15 p.m.	Orientation III	**Elizabeth Boluch Wood** *Vice President for Development*
Wednesday	October 16	4:30 p.m.	Graduate Student Aid	**William Russel** *Dean of the Graduate School*
		5:15 p.m.	Fees – Housing and Dining	**Chad Klaus** *Vice President for University Services*
Tuesday	October 22	4:30 p.m.	Facilities	**Mike McKay** *Vice President for Facilities*
		5:15 p.m.	Campus Life	**Cynthia Cherrey** *Vice President for Campus Life*
Wednesday	October 23	4:30 p.m.	Committee Discussion	
[Fall Recess October 29 – November 1]				
Wednesday	November 6	4:30 p.m.	Faculty Staffing	**David Dobkin** *Dean of the Faculty*
		5:15 p.m.	Budget Update	
Monday	November 11 *(010 East Pyne)*	4:30 p.m.	CPUC and Public Discussion of Priorities Committee Recommendations	
Tuesday	November 12	4:30 p.m.	Information Technology	**Jay Dominick** *Vice President for Information Technology*
		5:15 p.m.	Library	**Karin Trainer** *University Librarian*

Day	*Date*	*Time*	*Topic*	*Presenter*
Wednesday	November 13	4:30 p.m.	Faculty and Staff Salaries	**David Dobkin** *Dean of the Faculty* **Lianne Sullivan-Crowley** *Vice President for Human Resources*
		5:15 p.m.	Committee Discussion	
Friday	November 15	1:45 p.m.	Meeting of the Priorities Committee with the Finance Committee of the Board of Trustees for a General Discussion of the Budget	
Tuesday	November 19	4:30 p.m.	Administrative Offices/SUMAR	**Treby Williams** *Executive Vice President*
		5:15 p.m.	Programmatic Requests	**Valerie Smith** *Dean of the College*
Tuesday	November 26	4:30 p.m.	Undergraduate Financial Aid	**Valerie Smith** *Dean of the College* **Robin Moscato** *Director of Undergraduate Financial Aid*
		5:15 p.m.	Committee Discussion	

[Thanksgiving Recess—November 27-December 1]

Tuesday	December 3	4:30 p.m.	Budget Update; Deliberations
Wednesday	December 4	4:30 p.m.	SUMAR (continued from 11/19); Deliberations
Tuesday	December 10	4:30 p.m.	Projections/Preliminary Recommendations
Friday	December 13	10 a.m.	Meeting of the Priorities Committee with the Finance Committee of the Board of Trustees for Presentation of Tentative Recommendations

[Winter Recess December 17 – January 6]

Tuesday	January 7	3:30 p.m.	Final Discussion/Finalize Report

PRINCETON UNIVERSITY
Operating Budget: Income
(dollars in thousands)

	2012-13 Actual (1)	2013-14 Current Estimate (2)	2014-15 Projection (3)	Difference (3) - (2) (4)	*% Diff (3) - (2) (5)*
1. Endowment Payout and Other Investment Income:					
a. Total Income	714,221	740,350	782,375	42,025	*5.7%*
b. Income transferred (to)/from fiscal periods	5,585	8,774	7,094	(1,680)	*-19.1%*
Subtotal	719,806	749,124	789,469	40,345	*5.4%*
2. Student Fees:					
a. Undergraduate Tuition	199,660	206,403	214,881	8,478	*4.1%*
b. Graduate Tuition	87,139	91,409	98,054	6,645	*7.3%*
c. Other	13,110	12,860	12,973	113	*0.9%*
Subtotal	299,909	310,672	325,908	15,236	*4.9%*
3. Gifts, Grants, & Other:					
a. Sponsored Projects	31,088	29,124	29,124	0	*0.0%*
b. Other	121,233	118,401	117,780	(621)	*-0.5%*
c. Income transferred to future periods	0	1,380	0	(1,380)	*-100.0%*
Subtotal	152,321	148,905	146,904	(2,001)	*-1.3%*
4. Federal & State Government:					
a. Sponsored Projects	242,988	244,594	244,594	0	*0.0%*
b. Other	15,502	15,162	15,683	521	*3.4%*
Subtotal	258,490	259,756	260,277	521	*0.2%*
5. Auxiliary Activities:					
a. Athletics	2,693	2,641	2,641	0	*0.0%*
b. Dorm & Dining Services	69,322	71,271	73,667	2,396	*3.4%*
c. Rental Housing	14,205	15,385	16,565	1,180	*7.7%*
d. Other Income	20,244	19,251	19,263	12	*0.1%*
Subtotal	106,464	108,548	112,136	3,588	*3.3%*
6. Service Departments:					
a. Office of Information Technology	1,727	1,597	1,597	0	*0.0%*
b. Other	4,711	3,904	3,741	(163)	*-4.2%*
Subtotal	6,438	5,501	5,338	(163)	*-3.0%*
TOTAL	**1,543,428**	**1,582,506**	**1,640,032**	**57,526**	*3.6%*
Less Interdept'l Transactions	12,836	13,250	13,650	400	*3.0%*
GRAND TOTAL	**1,530,592**	**1,569,256**	**1,626,382**	**57,126**	*3.6%*
Summary of Sponsored Projects:					
a. Direct Costs	223,843	224,448	224,448	0	*0.0%*
b. Indirect Cost Reimbursement	50,233	49,270	49,270	0	*0.0%*
Total	**274,076**	**273,718**	**273,718**	**0**	*0.0%*
Sponsored Projects without PPPL:					
a. Direct Costs	146,624	146,615	146,615	0	*0.0%*
b. Indirect Cost Reimbursement	46,915	46,000	46,000	0	*0.0%*
Total	**193,539**	**192,615**	**192,615**	**0**	*0.0%*

PRINCETON UNIVERSITY
Operating Budget: Expense
(dollars in thousands)

	2012-13 Actual (1)	2013-14 Current Estimate (2)	2014-15 Projection (3)	Difference (3) - (2) (4)	*% Diff (3) - (2) (5)*
1. Academic Depts & Programs:					
a. Instruction Costs					
i. Faculty, academic year	180,337	187,256	194,208	6,952	*3.7%*
ii. Teaching Assistants	23,058	26,097	26,904	807	*3.1%*
b. Sponsored Research direct costs	146,368	146,360	146,360	0	*0.0%*
c. Other salaries, expenses	238,721	232,520	239,782	7,262	*3.1%*
Subtotal	588,484	592,233	607,254	15,021	*2.5%*
2. Plasma Physics Laboratory	78,855	80,000	80,000	0	*0.0%*
3. Undergraduate Scholarships	115,427	121,344	131,614	10,270	*8.5%*
4. Graduate Fellowships	101,792	102,425	108,359	5,934	*5.8%*
5. Other Student Aid and Misc Fellowships	10,190	10,403	10,663	260	*2.5%*
6. Central University Services:					
a. Library	58,815	59,123	61,494	2,371	*4.0%*
b. Office of Information Technology	35,950	36,017	37,419	1,402	*3.9%*
c. Public Safety	10,655	9,913	10,249	336	*3.4%*
d. Other	1,864	1,898	1,965	67	*3.5%*
Subtotal	107,284	106,951	111,127	4,176	*3.9%*
7. Administration:					
a. Academic Administration and Student Services	81,712	87,794	91,308	3,514	*4.0%*
b. General Administration and Expenses	77,380	84,096	84,254	158	*0.2%*
Subtotal	159,092	171,890	175,562	3,672	*2.1%*
8. Athletics	24,413	24,875	25,632	757	*3.0%*
9. Physical Facilities:					
a. Physical Plant	114,710	120,311	123,530	3,219	*2.7%*
b. University Services	51,627	52,607	54,953	2,346	*4.5%*
Subtotal	166,337	172,918	178,483	5,565	*3.2%*
10. Tsfr for Renewal/Replacement/Debt	191,555	200,114	209,838	9,724	*4.9%*
11. Allowance for Contingencies:					
a. Provision for expenses	0	750	3,000	2,250	*300.0%*
b. Anticipated vacancies	0	(1,500)	(1,500)	0	*0.0%*
Subtotal	0	(750)	1,500	2,250	*-300.0%*
Total Expense	**1,543,428**	**1,582,403**	**1,640,032**	**57,629**	*3.6%*
Less Interdepartmental Transactions	12,836	13,250	13,650	400	*3.0%*
Grand Total	**1,530,592**	**1,569,153**	**1,626,382**	**57,229**	*3.6%*
12. Income	1,530,592	1,569,256	1,626,382	57,126	*3.6%*
13. Surplus or (deficit)	**(0)**	**103**	**0**	**(103)**	

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 FY2015, 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 FY2015, the total number of undergraduate students is projected to remain constant, but the number of graduate students is projected to increase. The growth in Other Student Fees reflects normal inflationary increases.

3. Gifts, Grants, & Other. The volume of research supported by non-governmental grants is projected to be unchanged. The "Other" line reflects a modest projected decrease in the level of outside gifts.

4. Federal & State Government. The direct and indirect expenses of main-campus sponsored research are projected to be unchanged, as are expenditures at the Princeton Plasma Physics Laboratory. The “Other” line reflects projected 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 and the opening of the new Lakeside and Merwick apartments. 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 projected volume.

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 and on the proposed tuition increase. 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 reflects the recommended increase in the fee package as well as a projected increase in the total number of awards because of variations in the size and aid profiles of the graduating and entering classes.

4. Graduate Fellowships. Increases are provided to cover the recommended tuition and stipend rates. 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 Office of Information Technology 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 FY14 costs are removed. Line 7.a. includes the Priorities Committee's recommended allocations to the Office of the Dean of the College and the Vice President for Campus Life. Line 7.b. includes the Priorities Committee's recommended allocation to the Office of Communications. 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. These totals include inflationary adjustments in property taxes, water and sewer charges, insurance, food, and energy costs, along with the costs associated with new construction, including the new apartment complexes mentioned above. One-time adjustments are removed. 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. 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 increased to its 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 benefits rate for non-academic departments is projected to increase from 27.9% to 28.0%, and the comparable rate for academic departments is projected to increase from 33.7% to 34.0%.