I. Introduction

The Priorities Committee is a charter committee of the Council of the Princeton University Community. The Committee, which was established in 1969, has served as the deliberative body by which recommendations for the operating budget for the next fiscal year are brought to the President of the University and to the Board of Trustees. The Committee is chaired by the Provost and is composed of tenured and non-tenured faculty, graduate and undergraduate students, and staff.

The Committee brings together constituencies with a variety of administrative and academic experiences and perspectives to recommend fiscal and programmatic priorities for the University. In creating this Committee, Princeton introduced a model of shared responsibility for review of the operating budget. In fulfilling its charge, the Committee evaluates requests for changes in existing programs or new initiatives from senior officers of the University who oversee academic programs and large administrative units. This process serves the University well by allowing for frank discussions of current and future directions of the University as a
basis for setting its operating budget. The process allows campus constituents to evaluate specific requests in the context of competing needs and available resources.

II. The Fiscal Context

This year the Priorities Committee began its deliberations in a context of an operating budget for the preceding fiscal year that had been balanced, but only by utilizing significant sums from reserves. The Priorities Committee learned early in the fall that modest deficits were being projected for the current fiscal year 2002-03. The most significant factors contributing to the projected deficit were the financial aid program, faculty and staff recruitment, insurance, unexpected physical plant costs, and unusually high one-time costs. To some degree these factors were offset by endowment income and higher than expected net income from housing and dining operations. Nevertheless, additional action was needed to avoid a deficit. The University further modified its plan for accelerated debt funding in order fully to cover the increased scholarship costs, utilized its contingency, and undertook other appropriate actions that ultimately resulted in balanced budgets for the current year.

The Committee believes that the overall package recommended in this report represents an appropriate balance of investments in the University's future, taking account of the need to continue building an ever more excellent educational program on a very strong base. The Committee recommends added annual investments in education; in the health and well-being of our students, faculty, and staff; in our facilities; and in a broad range of curricular and extracurricular programs.

III. Procedures of the Committee

As in the recent past, the Priorities Committee structured its work into three parts: a set of orientation meetings; a series of presentations from deans, vice presidents, and other senior
officers; and deliberative meetings. During the orientation sessions, new members of the Committee were acquainted with the University's budgeting processes and the major factors affecting the operating budgets of the current and upcoming fiscal years.

Following the orientation meetings, senior officers with responsibility for major budgetary units made presentations to the Committee to supplement the written reports that they had previously submitted. (Copies of these reports are available to members of the University community on the website of the Provost’s Office, [http://www.princeton.edu/~provost/priorities.html](http://www.princeton.edu/~provost/priorities.html), and on the Princeton Shelf in Firestone Library.) Most presenters requested allocations that would permit them to undertake new initiatives or to expand existing ones. They answered questions about the basis upon which they had determined their highest priorities, and discussed with the Committee steps that had been taken to identify and implement cost-saving measures that could fund a portion of the new initiatives. In addition, all presenters provided information about current and future challenges that would affect their areas of responsibility. These presentations and the subsequent discussions focused on desirable changes that would be feasible in the foreseeable future, and were not intended to substitute for the comprehensive reviews that are undertaken outside of, and often in preparation for, the Priorities Committee process.

The Committee held an open meeting on November 12, 2002 to invite all interested members of the University community to comment on the requests and to bring to the Committee's attention a broad range of views on the University’s most pressing priorities.

After hearing all of the presentations, the Committee held a series of deliberative meetings to discuss the comparative merits of the different requests. The Committee began by building a budget model for fiscal year 2003-04 by extrapolating budget areas beyond its control
(consistent with current experience) and making policy assumptions in other areas (consistent with the prior year's projections). The intent was to begin with a starting point where all areas have been roughly adjusted for inflation. For fiscal year 2003-04, this budget model produced a modest surplus. When this surplus was augmented by a modest increase in tuition, room and board, the Priorities Committee was able to recommend allocating nearly $1 million to fund some of the highest priority requests presented to it while still proposing an overall balanced budget to the President and Trustees.

The Committee then formulated tentative recommendations that were discussed with the Finance Committee of the Board of Trustees and with the Council of the Princeton University Community in December. Based upon the comments and advice received during those consultations, the Committee reconvened in early January 2003 to finalize its recommendations. The Committee's final recommendations are now being submitted to the President for her review, approval, and transmittal to the Board of Trustees. Those recommendations are discussed in detail in the next section of this report.

As has been the recent custom, the following section focuses on the Committee's recommendations of incremental changes to the numbers that are produced by the assumptions in the budget model described earlier. It is worth noting that in a year such as this one when the results of the initial model are adopted to a large degree, our report tends to underemphasize the importance of the Committee's deliberations about the appropriateness of those assumptions. The deliberate decision to accept "stay even" budgets for student aid, for example, commits the University to over six million dollars of additional expenditures. Similarly, the decision to incorporate the amount needed to sustain the salary and benefits pools as previously projected requires more than fourteen million dollars. The Committee, after careful deliberation, decided
to accept these and other significant recommendations as part of the base budget moving forward. Underlying the recommendations that follow are therefore substantial monetary commitments to virtually all aspects of the University's operations that we do not take for granted, but challenge and reaffirm through the Priorities Committee process.

IV. Recommendations

Given the general fiscal climate facing Princeton and its peers in the third consecutive year of an economic downturn, the presenters to the Committee were aware that at best it could recommend funding only a small fraction of the requests brought before it. The budget projections for fiscal year 2003-04 put the University in the relatively fortunate position of having some flexibility for next year. After listening to excellent presentations, asking critical questions, and deliberating over the many worthy requests, the Committee is pleased to be able to recommend a set of the highest priority requests. These requests are described below (in alphabetical order), along with another set of requests that the Committee singled out as among the most likely highest priorities for next year, resources permitting. All of the requests that were brought to the attention of the Committee are accessible to members of the University community on the Provost’s Office website.

Administrative and Support Services

On June 1, 2002, Charles F. Kalmbach became Princeton’s first Senior Vice President for Administration. The Senior Vice President is leading an effort to review major cross-functional processes at the University. The goal is to identify ways in which Princeton can increase the overall effectiveness of its processes so that the University can redeploy valuable resources to
support work on other high priority matters. Requests that emerge from this review of administrative and supporting services will be brought forward in the future.

The Senior Vice President compiles requests from a broad array of administrative and academic support service units. This year the Priorities Committee received the full list of the requests submitted to the Senior Vice President by the various units that he represents. Anticipating that resources available to the Committee this year would be more limited than usual, the Senior Vice President asked the Committee to fund a subset of these requests. The Committee is pleased to be able to recommend funding two requests from the Senior Vice President for Administration.

The first recommendation is to fund the on-going costs that result from migrating the communications system of our Office of Public Safety to a server-based environment.¹ This migration is essential for the efficient and effective functioning of our Public Safety officers. The Committee is pleased to be able to recommend providing $14,200 to support the on-going costs associated with this important initiative.

Secondly, the Committee also is pleased to be able to recommend allocating $15,000 to the Academic Managers Group to support their training and professional development efforts, which heretofore have not had a stable funding source.

Campus Life

The Vice President for Campus Life is responsible for five administrative units that have a significant impact on the quality of undergraduate and graduate student life and that of other members of the University community: Athletics, Frist Campus Center, Health Services, Religious Life, and Undergraduate Students. She requested additional resources for each of

¹ The Provost and Treasurer will identify the necessary one-time resources to fund the start-up costs associated with the migration of the communications system to a server-based environment.
these units and in the budget for her office. Because the Vice President’s highest priority was for an increase in the budget for Health Services, she invited the University’s new Director of Health Services and Chief Medical Officer, Dr. Daniel Silverman, to join her when she met with the Committee.

The Director has identified a number of means for increasing the University’s capacity to respond appropriately to health and safety issues. The Committee was shown compelling data regarding the rapidly increasing caseload that Health Services has experienced over the past year. The Vice President urged the Committee to give priority to this set of requests among all of her requests before us. The most urgent staffing needs identified by the Vice President and Director for fiscal year 2003-04 were a senior staff psychologist and a patient representative for the Counseling Center. In addition, they stated that a number of other pressing staffing needs for the near term include a physician for athletic medicine and eating disorders, a clinical nutritionist, an urgent care physician, an urgent care nurse, and a special projects manager, as well as increased duty time for several staff members to allow for increased summer coverage. The Committee was persuaded that the staffing needs evidenced by the data presented required immediate and substantial action. The Committee therefore decided to recommend an allocation of $324,000 to Health Services -- one-third of the total available resources. Given the range of needs identified, the Committee specifically recommends that a senior staff psychologist and a physician be hired (duty time to be determined by the magnitude of demand), and that remaining funds be deployed to meet other pressing needs in Health Services as determined by its Director.

The Vice President also asked for funding that would be administered by her office to support the programs and activities of the Frist Campus Center, the Women’s Center, the International Center, the Carl A. Fields Center, the LGBT Student Services program, Outdoor
Action, and the Graduate School. The Committee encourages the Vice President to work with the Development Office to determine whether fundraising efforts would be successful in providing the necessary program support for some or all of these extracurricular programs that enhance the vibrancy of the social and residential experience of Princeton students, and to renew this request in future years if unmet needs still exist.

The Committee seriously considered converting the assistant director of athletics position, which is currently a term position, into a regular position in the Department of Athletics. The incumbent in this position has been instrumental in the development and execution of a number of initiatives, and will help coordinate the mid-term NCAA recertification review that will begin this spring. The Committee was not able to fund the request this year, but hopes that it will be renewed next year. In the meantime, the Provost has pledged to provide another year of term funds from available discretionary resources to ensure continuity in this important area.

Facilities

The Vice President for Facilities, who is responsible for the University’s physical plant as well as auxiliary operations (such as Housing, Building Services, Dining Services and the Center for Visitor and Conference Services), presented a series of requests aimed at improving the quality of life for the campus community and the efficiency of the division’s operations.

Over the past two years, Facilities has invested significant resources in improved maintenance management using the Maximo software system. Maximo is used by many Facilities department staff members to complete financial transactions in the PeopleSoft system managed by the Treasurer’s Office. The University is upgrading to a newer version of PeopleSoft, and in order to preserve the efficiencies derived from the use of the interface with
Maximo, this software package also must be upgraded. To support the requisite data migration, hardware and software upgrades, and training on the new version, Facilities requested $100,000 for the software and other one-time costs and $15,000 for the on-going maintenance costs. The Committee was persuaded that the on-going maintenance cost was essential and is pleased to be able to provide $15,000 for this purpose. The Provost and Treasurer will work with the Vice President to identify the one-time funding needed to purchase the software.

**Faculty and Staff Salaries**

Princeton is rightly proud of its extraordinarily talented faculty. The University cannot recruit and retain such talented scholars and teachers without excellent compensation and benefits programs. In addition to ensuring that its total compensation is competitive with those of its peers and the relevant labor markets, the University is committed to equity in its compensation programs. Those programs reward scholarship, teaching, and university citizenship, are responsive to special circumstances and external market forces, and are flexible enough to meet especially pressing needs in recruiting and retaining a preeminent faculty.

The Dean of the Faculty provided detailed data regarding the salaries offered to Princeton’s faculty members, professional technical and research staff members and the professional librarians, as compared to the salaries offered at peer institutions. The Dean also reviewed data from fiscal year 2001, the most recent data available, from salary surveys conducted by Columbia and MIT. Princeton’s salaries continue to be very competitive, although the salaries offered at a very few of our peer institutions are converging with those offered by the University. The Dean identified several areas that required special attention and asked for flexibility in the administration of the salary dollars allocated to be able to address these particular cases. He requested a slightly higher overall pool than was allocated last year. In light
of the general economic climate, the Committee is pleased to be able to allocate a modest additional amount to this important area. The Committee does so with the understanding that the Dean will use a significant proportion of the overall salary pool to address the most critical areas of merit and equity.

The Acting Vice President for Human Resources updated the Committee on the progress made in implementing the President’s and Provost’s mandate to ensure that all regular bi-weekly staff were paid at least $11.00 per hour, and that the salaries of staff members in each job family were, on average, at least 101% of market. The Committee was advised that negotiations with all of the relevant bargaining units had been successfully concluded, and that the University was fully in compliance with its objectives regarding compensation of its bi-weekly staff. The Committee also learned that, while overall salaries paid to the administrative and support staff remain competitive, there are pressures in certain administrative staff positions. The Acting Vice President requested a slightly higher salary pool for next year than had been allocated in the previous year to address those issues and to ensure that salaries remained competitive. Even with the significant budgetary constraints facing the University, the Committee was able to allocate a modest additional sum to this important area with the understanding that a significant proportion of the salary pool will be used (as in the case of the faculty, and the professional technical, research and library staffs) to address the most critical needs of merit and equity.

Faculty Staffing

The Dean of the Faculty presented an overview of Princeton's teaching budget, which includes both faculty appointments budgeted as full-time equivalents (or FTEs) and assistants in instruction (or AIs). The success of the University’s fundraising efforts and new recruitment initiatives have allowed Princeton to continue to strengthen our already outstanding faculty.
The Dean did not request additional FTEs for the coming academic year, but he did bring a request for additional resources for the Honorific Fellowship program. Many Princeton faculty members receive honorific awards that do not grant sufficient support to allow the faculty members so honored to afford a semester’s leave to devote to research. The Honorific Fellowship program is intended to make up the difference, either partially or fully (depending on available funds), between the fellowship award and the cost of salary and benefits for one semester. Since its inception, the program has seen a large growth in applications and currently it cannot support a number of meritorious requests at the level originally intended. The Dean of the Faculty therefore requested an additional $66,000 to support the Honorific Fellowship program to reward more fully faculty members honored by these external grants. The Committee is unable to fund this very worthy request this year, but encourages the Dean to renew the request next year.

**Graduate Student Support**

Last summer, William B. Russel, the Arthur W. Marks ’19 Professor in the Department of Chemical Engineering, was appointed Dean of the Graduate School. The Dean made two requests for additional resources: a residence life coordinator to assist in developing programs and activities for residents of the Butler and Lawrence apartment complexes, and additional funds to allow for merit increases in the stipends of graduate students in the humanities and social sciences.

The Graduate School currently has a residence life coordinator for the Graduate College who develops and coordinates programs for its residents, fosters a sense of community, develops and executes programs, assists in managing the facility, advises students on the services provided by other offices and other student life matters, and serves as a liaison to other Centers and
Departments on campus. The Graduate School requested a similar position to work with the residents of the Lawrence and Butler apartment complexes. This staff member would help to create a welcoming environment for graduate students there, and would help ensure that graduate students living in these University apartments are more fully integrated into the life of the campus. The Committee is pleased to be able to recommend that $47,500 be allocated to fund this request.

The Dean also requested additional resources to allow for modest increases in the merit stipends of graduate students in the humanities and social sciences to ensure that these stipends remain competitive and equitable. (The stipends for graduate students in the sciences and engineering have regularly scheduled increases already established and are thus not included in this request.) These additional funds would be used to leverage resources already managed by the Dean’s Office in order to provide small increases to deserving returning students in the humanities and social sciences to help offset increases in the costs of room and board. The Priorities Committee is pleased to be able to recommend that $20,000 be allocated towards this purpose next year and that additional funds be phased in over the next several years until a total of $60,000 per year at steady state has been added. These additional costs have been built into the University’s budget projections for future years.

Information Technology

Last year, on the recommendation of the Committee, the Trustees approved the hiring of a security officer in the Office of Information Technology (OIT) to oversee and coordinate the enhancement of the security of the University’s networks and servers. This year, the Vice President for Information Technology and Chief Information Officer thanked the Committee for that new position and made a compelling case for adding a technical staff member and tools to
strengthen the University’s efforts to secure its information technology resources. The University is increasingly dependent on its network resources for a myriad of research and administrative functions. It is therefore all the more essential that those networks and databases be secure. To that end, OIT needs the staff and tools that enable it not only to respond to attacks but also to avert attempts to infiltrate its networks. The Committee is pleased to be able to provide $150,000 to support the Vice President’s request for a technical staff member and for funds for software and other tools to secure Princeton’s networks.

Backing-up and restoring critical documents sustains productivity, protects scholarly research, and is essential to the academic and administrative functions of the University. This important service is funded from network connection charges. The growth in the number and size of files being stored severely taxes the capacity of the equipment that the current funding algorithm can support. The Vice President requested resources to purchase new back-up and storage equipment in order to reach appropriate service levels. The Committee agrees that it is vital to ensure that the University has adequate mechanisms for storage, back-up, and retrieval of academic and administrative files. Due to the limited funding available this year, the Committee was not able to fund this request, but it urges the Vice President to continue to explore ways to fund this service, and, failing that, to renew this request in the near future.

The Vice President also requested, as a high priority, resources for a technical staff member to assist in the development and implementation of new initiatives in research computing. The Committee encourages resubmission of this request next year if it remains one of the Vice President’s highest priorities.
The University Librarian made a compelling case for increasing the funding available for acquisitions in view of the rapidly escalating costs of serials and periodicals. Princeton’s libraries, as well as those of other major research universities, have had great difficulty coping with these price increases. In addition to the escalating costs of ongoing acquisitions, the emergence of new fields, programs, and departments requires that an even wider array of publications and electronic resources be acquired to meet the educational and research needs of faculty and students. Princeton is behind where we would like to be in our acquisition of books, periodicals, and alternative research media. At the Committee’s request, the Librarian again requested, as she did last year, an increase to the base budget for library collections of $250,000, which would partially address these ongoing problems. Last year, the Committee was able to allocate $250,000 for this purpose. This year’s Committee also deemed this request among those of highest priority, and therefore recommends that an additional $200,000 be allocated to strengthen the University’s superb library collection and to continue to build a solid base for the future. In view of the magnitude of the Library’s current and future needs, the Committee also encourages the University to raise new endowments to be added to the Library’s resources.

As is the case in many areas in which work is evolving and becoming increasingly dependent on information technology and electronic resources, training is needed to support the staff’s desire to stay abreast of evolving fields. Although the Library has become appropriately aggressive in developing and designing internal training programs for its staff, much of the needed training is offered externally. The Librarian therefore requested a $30,000 increase in the
Library’s budget for travel and training. The Committee was able to provide $15,000 for this purpose.

Tuition, Room and Board

The rate of increase of tuition and fees for the coming academic year is one of the most important matters upon which the Priorities Committee advises the President and Board of Trustees. The Board of Trustees and the President are committed to ensuring as low a rate of increase in tuition and fees as is consistent with supporting the initiatives that are critical to maintaining Princeton University’s overall excellence. In the academic years from 1991 through 2001, the University was able to decrease the rate of growth of tuition, room and board from 6.7% to 3.1%. Last year, the Trustees approved a 3.9% rate of growth in tuition and fees for this academic year, 2002-03, which was slightly higher than the previous year. The Trustees took this step in order to support programs and initiatives that are critical to the quality of education and campus life.

Because the Committee is convinced that important initiatives need to be funded in the coming year in order for the University to build on its strong base and sustain its overall educational excellence, the Committee recommends an increase in the rate of tuition, room and board of 4.5% for academic year 2003-04. The increases in undergraduate tuition, room and board being recommended for the coming academic year are as follows:

<table>
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<tr>
<th></th>
<th>2002-03</th>
<th>2003-04</th>
<th>Change</th>
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</thead>
<tbody>
<tr>
<td>Tuition</td>
<td>$27,230</td>
<td>$28,540</td>
<td>4.8%</td>
</tr>
<tr>
<td>Room</td>
<td>$3,912</td>
<td>$4,109</td>
<td>5.0%</td>
</tr>
<tr>
<td>Board</td>
<td>$3,930</td>
<td>$4,000</td>
<td>1.8%</td>
</tr>
<tr>
<td>Total</td>
<td>$35,072</td>
<td>$36,649</td>
<td>4.5%</td>
</tr>
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The Committee recommends that graduate tuition also increase by 4.8% to $28,540. The room and board charges for individual graduate students will depend upon the choices they make for housing and dining, but those charges will increase at rates similar to those for undergraduates.

This increase in the rate of total charges will allow the University to fund additional staffing for Health Services (which has seen a dramatic rise in caseload over the past year), additional acquisitions support for the Library (whose acquisitions budget has not been able to keep up with the costs of books and periodicals, which have escalated over the past decade far beyond the rate of inflation), and other initiatives that are essential to strengthening our academic programs and enhancing the quality of life for our students, faculty, and staff.

While the rate of increase recommended for this year is higher than the rates recommended over the past several years, it is lower than the average national rate of increase last year in both public and private institutions. Because Princeton is committed to maintaining as strong an undergraduate financial aid program as possible, the Committee is confident that this rate of increase in tuition and fees is fully consistent with the University’s leadership position in ensuring that its excellent education is affordable to all students who merit admission to Princeton on a need-blind basis.

Undergraduate Financial Aid

Enhancements to Princeton’s financial aid program in recent years, including the elimination of the loan requirement and the reduction in the expected summer earnings for undergraduates (made possible as a result of the Trustees’ increase in endowment spending in the spring of 2001), are tangible evidence of Princeton’s commitment to ensuring the affordability of its high quality education for all students regardless of their family income and wealth. The
Faculty and Student Committees on Financial Aid monitor Princeton’s financial aid program, and they assured the Priorities Committee that Princeton’s program is unsurpassed in ensuring affordability.

Undergraduate financial aid has been among the fastest growing components of the University’s expenses due to both the planned improvements to our programs and the greater than anticipated success in increasing the economic diversity of our undergraduate body. The Committee is especially appreciative of the support of the Trustees in allowing for adjustments to previously planned debt funding arrangements in order to fund the successful new financial aid program. The budget we are recommending fully funds the existing programs and expects that we will continue to be able to attract incoming classes more than half of which are on financial aid.

The Committees on Financial Aid renewed a request from previous years to add the cost of a second round-trip home during the academic year to the annual budget for international students on financial aid. Several years ago, the Priorities Committee recommended the approval of a request from the Financial Aid Committees for the addition of one annual trip home for international students on financial aid. The President and Board of Trustees approved that request. The request brought forward by the Financial Aid Committees this year would be the second and final step in bringing the financial aid program for international students into complete parity with that provided to U.S. and Canadian citizens. The Financial Aid Committees indicated that this final step was very desirable since, while some international students stay with friends or relatives over the break, others remain in the dormitories. In order to eliminate this disparity in the treatment of travel budgets, the Committees asked that this request be granted at a cost of $170,000. The Priorities Committee is persuaded that this change
in University policy would enhance Princeton’s already outstanding financial aid program. However, given the limited resources at the Committee’s disposal, and the very substantial improvements in Princeton’s financial aid program that have been approved over the past several years, the Committee did not recommend funding the proposed change this year. The Committee hopes to be able to recommend funding this request in the future when more discretionary resources are at the University’s disposal and therefore encourages a renewal of this request.

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All members of the Priorities Committee want to take this opportunity to express their appreciation to all the presenters for their very informative accounts of the challenges and opportunities that they face now and into the future. The written materials provided beforehand, the succinct presentations to the Committee, and the lively discussions with the Committee were extremely useful. They provided the Committee with a context for making the difficult decisions that formed the basis for these recommendations. Princeton is fortunate to have such strong leadership and prudent management of the University’s resources.

The Committee is mindful of the fact that future Committees will need to make difficult decisions as the University seeks to build upon its already excellent educational and research programs while balancing its operating budget in difficult economic times. Princeton is fortunate to have the resources to allow it to undertake new initiatives that strengthen its mission of teaching and research. The Committee is mindful of its responsibility to ensure that the financial and physical resources of the University are carefully stewarded. We believe that our recommendations will ensure that Princeton not only maintains but builds upon its extraordinary
record of excellence in research, scholarship and teaching within a vibrant and increasingly diverse campus community.

Although we cannot anticipate a quick return to the robust investment returns experienced in the recent past, the University remains strongly committed to maintaining an unsurpassed financial aid policy, and holding down the rate of growth in tuition, room, and board. We are mindful of the need to continue to review expenses carefully in the future to ensure that the University’s operating budget remains in balance. We are also acutely aware that even with the resources at the Committee's disposal this year, we were not able to recommend funding some very worthy requests. Future presenters and members of the Committee will need to be vigilant in identifying areas where close collaboration, new technologies, and administrative innovation can result in savings that will permit the University to pursue new initiatives.

V. Outlook for the Future

At the end of the Priorities Committee process, the Committee reviews projections that extrapolate their recommendations for an additional three years beyond the immediately upcoming budget year. While these projections, by their very nature, cannot have the same precision and detail that characterize the deliberations concerning the current budget year, they do help to ensure that the immediate budget decisions are considered in the context of longer-term trends rather than solely in the context of a particular set of factors affecting one year. This year’s projections do not take into account changes in the operating budget that will result from the addition of 500 undergraduates to the student body. President Tilghman has established a task force that will conduct a separate budget planning process to review the financial implications of the increase in the student body.
The primary purpose of the projections is to provide a general indication of the future financial situation under a given set of assumptions. Projections can help the Committee detect in advance problems we might wish to avoid and also may lead us to take different actions now, either by altering budget recommendations or by recommending special studies or other extra preparation to address specific uncertainties or problems prior to next year’s budget process. Projections also serve as a point of departure for discussions of the following year’s Committee. Like any exercise in forecasting, such projections are always subject to a considerable degree of uncertainty, particularly because many of the items about which we make assumptions are not under the control of the University. Projections nonetheless represent a valuable and necessary tool in our financial planning.

Each year, the projections tend to combine mechanical extensions of current trends and policies with educated guesses about how the future might be different from what we are expecting for the upcoming year. The following assumptions are continuations of budget trends:

- Tuition, room and board charges rising at 4.5 %
- Salary increase pools comparable to those for 2003-04
- General inflation ranging in different areas from 2 – 5% (with general operating inflation being at the low end and library acquisitions being at the high end)
- Growth in Annual Giving receipts of approximately 3%
- Increases in a variety of central service-type income operations of 2% to 3%
- Sponsored Research growing at 5% in FY04 and beyond
- The percentage of students on financial aid for the three succeeding entering classes is estimated at 52% -- a sharply higher percentage on aid than had been
expected last year at this time and a slight increase from the 51.2% of the current year

- Continued modest growth in the number of faculty, consistent with historical trends, with half of these coming in the form of endowed chairs

- Gifts of $10 million to create new endowments each year in relief of general funds.

In addition to these factors that extrapolate essentially linearly, there are as usual a few that do not. As we bring in successive classes at the assumed 52% on aid, they will be replacing graduating classes that average 44% on aid. Thus, by the fall of 2005, the year before the first cohort of the planned additional 500 students arrives, we will have roughly 235 more students qualifying for aid than we had projected one year ago. The incremental costs associated with this much higher fraction of students on aid will be offset primarily by continuing to reallocate funds formerly designated for the accelerated funding of our short-term debt. The estimated costs of plant operation and maintenance for several new buildings coming on line over the next three years also have been factored in. For the largest of these, the Carl Icahn laboratory housing the Lewis-Sigler Institute (in genomics), we have also included an estimate of new sponsored research funding, growing incrementally over three years, that will be generated by the new research groups occupying that space. We have also added a programmatic contingency of $500 thousand each year starting in FY05.

The results of applying these assumptions to our current budget model are two years of modest surpluses (less than $500 thousand) followed by a few years of slight deficits. The results return to a balanced budget when the projections are continued further into the future. These projections, it is important to emphasize, are primarily extrapolations of current
assumptions. We have tried to make them neither unduly optimistic nor pessimistic. On the one hand, there is considerable uncertainty about energy prices, health costs, likely investment returns, and the health of the economy in general with its potential impact on Annual Giving and other income streams. On the other hand, we know that short-term deficits in the $1-2 million range could be managed without significantly affecting current budget priorities or our long-term financial health through some combination of selective deferral of capital projects, tighter control of vacancy savings, a modest reduction of salary pools, and the judicious use of reserve funds.

While we are encouraged that our primary recommendations look sustainable in the long run, we must also repeat last year’s caution that it would be naive to be confident that all future Committees will be as fortunate as this one in the amount of flexibility they may have.

The generosity of our alumni and friends coupled with the careful management of our endowment have provided Princeton with a very strong financial base from which to face the future. This tradition must be carried forward because the University has ambitious plans to continue to recruit and retain the best possible faculty and staff, to provide enhanced student aid, and to offer the highest quality educational experience. Extensive renovations and new capital projects also are underway and will continue for many years to come. This combination of commitments means that, for the foreseeable future, additional funds will be available only for similarly high priority goals.