

To the University Community:

The document below explains the University of Pennsylvania operating budget for Fiscal Year 1987-88, adopted by the Trustees on June 19, 1987. The consolidated budget for the University, including the Health Services areas, totals over \$959 million in expenditures.

The budget is in balance for the thirteenth straight year. In presenting this budget, it is important to recognize the considerable efforts of many people and groups in the University that helped shape this budget. Most critical were the Academic Planning and Budget Committee, the deans, directors and senior budget officers throughout the University, as well as senior University officials. The effort of the staff in the Executive Office of Resource Planning and Budget was, also, essential.

—Glen R. Stine, Executive Director,
Resource Planning and Budget

Outline Budget for FY1987-88

The fiscal year 1987-88 operating budget for the University of Pennsylvania totals \$959 million in expenditures. This represents a 7% increase over the current fiscal year 1986-87 budget. The health services component of the budget (the Hospital of the University of Pennsylvania and the Clinical Practices of the University of Pennsylvania) have budgeted a total of \$366 million in expenditures or an increase of 4.9%, while the balance of the University's budget totals \$593 million, or 8.2% above last year.

Major highlights of the budget include:

- Continued funding growth for University priority objectives such as undergraduate education, research capacity and deferred maintenance.
- A balanced budget for the thirteenth straight year, even with the provision for a declining rate of increase in tuition charges and real growth in faculty and staff salaries.
- Percentage increases in restricted fund areas that exceed the unrestricted funds growth rates.
- Anticipated balanced performance in all twelve schools, five resource centers and four major auxiliary enterprises, as well as the University as a whole.
- After a number of years of positive performance, a small deficit is anticipated in the HUP budget. CPUP continues to show overall positive performance.
- The opening of several new major facilities over the course of the fiscal year.

This University budget is the culmination of much discussion throughout the campus. Particularly critical is the work of the Schools, Resource Centers, Auxiliary Enterprises and Administrative areas to state their plans, priorities and prospects for the fiscal year. This information, along with basic assumptions and planning parameters, was reviewed with the Academic Planning and Budget Committee, chaired by the Provost. The Council of Deans held several sessions to review the priorities and financial projections of the University. The President and Provost have also held extended discussions with numerous other groups on campus.

Characteristics of the University Budget

There are many ways to display the University budget. The pie graph below shows the proportion of the budget that the major organizational units represent. On an annual basis, with the relative size remaining fairly constant, the growth in the last ten years of the Health Services areas has exceeded the rest of the University by a significant margin. During the last two years, however, other portions of the budget have grown faster than the Health areas, reflecting the significant change in the economic environment for health care. Within other areas of the budget, the direct expenditures of the Schools have grown at a rate faster than any other organizational unit for each of the last four years.

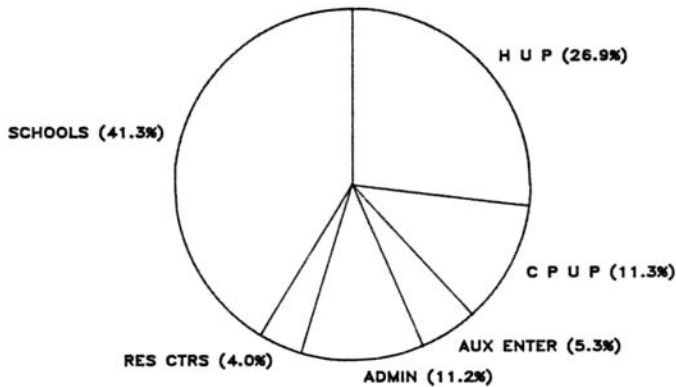
The second graph displays revenue sources for the Fiscal Year 1988 budget in the University without Health Services. Last year, concern was expressed about the impact of potential new regulations from the federal government governing indirect costs (shown as Sp Prog Unr). These proposed regulations were modified after the presentation of that budget document, and the resulting change meant a much smaller loss in the University's ability to recover indirect costs than originally anticipated. Unfortunately, the modification left at least one School, Engineering, worse off for FY1987 than had been projected, while other major Schools were able to improve their position. For FY1988, the changes in the revenue are highlighted in Schedule A, (see page iii). The fastest growth items are in anticipation of the opening in January of the Wharton Executive Education Center (WEEC), which is shown as an item in Other Rest. on Schedule A, and in Sales and Gift revenues on this graph. If the effect of the WEEC are removed, the overall revenues for the University are increasing at a rate that is slower by about 1% than for FY1987 and continues the trend toward slower revenue growth that has been forecast in each of the last four years. With this trend, the acceptable margin for error becomes increasingly narrow.

A total of \$519 million goes toward funding the University's Schools and Resource Centers (the University Libraries, Museum, Annenberg Center and Intercollegiate Athletics). Of these funds, 83% is used to

FY1988 TOTAL UNIVERSITY BUDGET

UNRESTRICTED & RESTRICTED EXPENDITURES

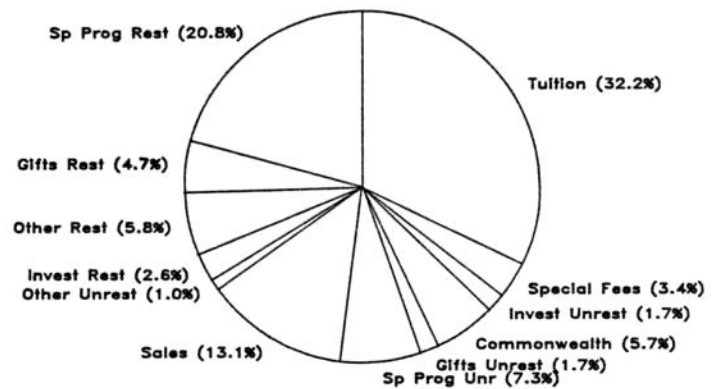
(\$959 million)



FY1988 REVENUE BUDGET

EXCLUDING HEALTH SERVICES

(\$593 million)



provide direct support to Schools to fund their major academic objectives. As Schedule C shows, (see page iv) the budgets of the various Schools vary greatly in size from \$3 million in Social Work to \$136 million in Arts and Sciences. These direct expenditures are a function of the teaching, research, and service budgets of each school, plus an amount of subvention added from general University resources. The graph below shows the relative expenditures by major type for the Schools and Resource Centers. Though allocated costs are growing in the FY1988 budget, it is primarily due to the shift of the Library to an allocated Resource Center. However, in the future, as new space is added and as energy costs again begin to rise, it is expected that these costs will grow as a relative portion of the budget.

Major Objectives For the FY1988 Budget

The most important feature of any budget is what it seeks to accomplish. For the University of Pennsylvania, the continuing growth of the budget relative to most measures of inflation has allowed the University to implement programs and activities that are important steps toward achieving significant objectives. The most important of these objectives are found in the various planning documents of the University, the most significant of these being "Choosing Penn's Future," published four years ago. That document stressed the following key goals:

- 1) The University should be committed to real growth in faculty salaries and to the enhancement of the recognized quality of the faculty.
- 2) The University should maintain the quality and diversity of its student body, and should continue its need-blind admissions policy.
- 3) The University should strengthen undergraduate education as a specific objective of the entire institution.
- 4) The University should enhance its research capacity and make more competitive its ability to attract sponsored support.
- 5) The University should become more competitive with peer institutions in special areas related to its basic missions, including increased funding for graduate fellowships.
- 6) In the process of stressing student diversity, the University should be increasingly aware of the burden that increases in tuition and other fees have on students and their families.
- 7) The University should continue to provide for balanced annual budgets and for the development of continuing financial strength of the whole institution.

Since the publication of that document, several other objectives have been identified in various University documents as critical. These objectives include:

- 1) The University should develop and implement a program that seeks to alleviate the major deferred maintenance on campus.
- 2) The University needs to be increasingly aware of both the opportunities and needs that the changes in technology have on the research and teaching infrastructure of the campus.
- 3) The five year planning processes have identified for each School and Resource Center critical priorities that must be recognized and, where possible, supported in the University budget.

As in past years, the University's budget process has identified specific budget allocations toward achieving these priority objectives. For example, the budget provides again for the establishment of a faculty salary reserve to insure that the University improves its competitive salary position, and it enlarges its commitments to graduate fellowships by 21% making the growth in commitment up a total of 165% over five years. In research areas, funding is provided for programmatic capital improvements in labs and computer facilities, and to provide partial support to Research Assistants. Funding for undergraduate education continues through the second year grants from an undergraduate education development fund, through increased support to the freshman year programs and continued renovations in the Quad. Deferred maintenance efforts have been enhanced by the provision of \$6.6 million in direct support which was partly funded through a 20% escalation in net space allocations, and also by the major renovations in Furness, Chemistry and utility systems designated to start during the Fiscal Year.

The enlarged University commitments to these priorities, however, can also be seen. The budget recognizes the new initiatives to support the recruitment of 50 extraordinary scholars over the next several years. It also supports, in administrative areas, the beginning planning for a major campaign. A portion of the salary reserve, as well as other salary support, is to be identified by schools to support excellence in teaching. The merging of the Research Fund with the Research Foundation has been institutionalized through a growing allocation in the operating budget. The University seeks also to provide better service and enhance student diversity by becoming a direct lender through the Guaranteed Student Loan program and a revamped financial aid policy.

These major objectives are the major influence on budget planning. But, as with most complex entities in modern society, the University is also influenced by certain critical environmental factors, some of which impose a significant new burden for the FY1988 budget. For example, the declining value of the dollar means an extraordinary increase in the cost of foreign book and journal purchases in the Library system. While the budget provides for an increase in the publications budget of the Library of over 14%, no significant change in the number of publications purchased is expected. Other factors that had a significant influence on the University budget include:

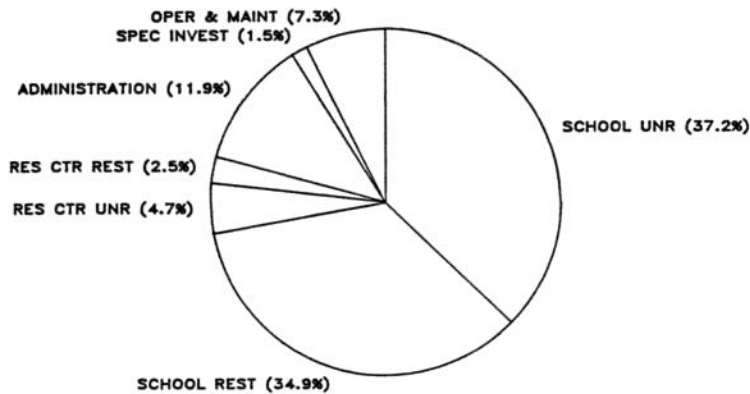
- 1) The changes in the salary market within Philadelphia and, in a few select cases, in the nation have a major effect on staff salary increases.
- 2) Governmental regulations controlling the care of research animals and certain other environmental concerns are imposing significant escalations on expenditures for these areas. The budget contains a significant percentage increase to allow a change in the procedures for handling hazardous materials, which are often critical to research efforts.
- 3) Continuing extraordinary increases in the cost of providing adequate insurance coverage.

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FY1988 ACADEMIC BUDGET

UNRESTRICTED & RESTRICTED EXPENDITURES

(\$538 million)



4) On the positive side, the University has realized major savings because the drop in the interest rate allowed the University to refinance both a major hospital bond issue and the University's general bond issue. The decline in the interest rate, however, also means a reduction in the income earned by the University on short term investments, and this has a negative effect on available unrestricted revenues for general University purposes.

5) The combination of excellent portfolio management, which continues to place the University endowment return in the top 5 percentile among peer institutions, the continued implementation of a reduced spending rule to allow for significant reinvestments of the returns, and major escalations in the stock market have yielded an increased rate of spendable income on continuing shares of over 13%. Fiscal Year 1988 is the second year in which the University is sustaining a spending rule of 5.5%.

6) The decline in oil prices, over the last several years, allowed the University to recognize lower energy costs, even with campus use of electricity and steam continuing to grow.

In addition, the University continues to seek reduced costs escalations through better management. The most notable of these efforts is in the costs of employee benefits where the rate charged to the various budgets of the University will be reduced, as it was this current fiscal year, from 28% of salaries and wages to the equivalent of 27%. Had the rate remained the same as in FY1986 (29.9%), the University would be spending about \$11.5 million more for employee benefits than it expects to in FY1988.

On the revenue side, the University budget plans for another record year of income from gifts to be applied to the budget. Recent performance in annual giving has led to a substantial increase in the unrestricted gift budget as well. To date, the anticipated potential losses of gift income due to tax reform have not been significant.

Enrollments are planned at the current year's levels for most of the Schools and programs. In several professional schools, this has meant recognizing a relative decline in tuition revenues, due to shortfalls of students in the current year, though all of these programs are making special efforts to insure continued enrollment levels for the upcoming year. Undergraduate admissions are currently showing a freshman yield rate significantly higher than the budget. If these yields are realized in the fall, some adjustments to tuition revenues in several Schools may have to be recognized.

Early budgets proposed by the Reagan administration call for research to grow at rates much higher than the University budget anticipates. Our basic goal remains to increase the University's relative share of the available federal pool of funds and to increase private research support. For federal financial aid, we do not anticipate the major reductions that have been proposed, nor do we expect a major funding increase. For the near term future, the budget forecasts needed aid increases coming from the unrestricted budget.

As in every year, when the budget is presented, the state appropriations process is not yet concluded. In recent years, the University has benefited

both from increases in general appropriation items to the whole University and specific schools, and from a number of new line items. The initial state budget proposed by Governor Casey provides the basic University and School line items with a 5% increase, but removed a number of the additional items that had been added in recent years. If that budget were actually passed, a significant effort to rebudget the School of Veterinary Medicine and the Morris Arboretum would be needed. In all probability, final state funding will not be known until July 1.

Auxiliary enterprise budgets are not growing at the rates of past years partly due to reduced rate increases in student charges. In addition, the budget recognizes a lower occupancy rate in the Graduate Tower residences. Having identified that rate as a significant factor, the Residential system has implemented major changes in both its fee structure and marketing program for these dorms. This summer the system will also complete another phase of a three year upgrade program of one of the Towers. Thus, over several years, it is expected that the occupancy levels will increase to a more reasonable level. The Dining Service will start major renovations to 1920 Commons funded through past savings. Parking plans to start garage construction at 34th and Chestnut.

The University Hospital budget is premised on a 115 adult admissions increase over projected FY1987 levels. Though gross charges will increase 9%, available revenue will increase at a substantially slower rate due to lowered rates of Medicare reimbursement and more limited price increases from Blue Cross and Medicaid. The opening of the Founder's Pavilion (Phase IV) and extraordinary cost increases for Nursing Services will add significant additions to operating expense for the year. Capital expenditures are being held to limit operating losses.

Conclusion

As in past years, the University budget has been developed and balanced through a complex set of procedures and processes. The rate of growth in the budget has allowed the University to be in a position to

Schedule A

University Operating Budget Fiscal Years 1987 and 1988

(in thousands of dollars)

Revenues	FY 1987	FY 1988	Percent
Unrestricted	Budget	Budget	Change
Tuition and Fees	198,037	210,970	6.5%
Commonwealth Appropriation	31,524	33,408	6.0%
Investment Income	9,779	10,227	4.6%
Gifts	9,703	10,199	5.1%
Indirect Cost Recoveries	39,761	43,203	8.7%
Sales and Services	66,390	74,689	12.5%
Other Sources	5,543	6,018	8.6%
Total Unrestricted	360,737	388,714	7.8%
Expenditures			
Unrestricted			
Compensation			
Salaries and Wages	161,499	169,726	5.1%
Employee Benefits	42,262	39,789	-5.9%
Total Compensation	203,761	209,515	2.8%
Current Expense			
Energy	21,378	19,965	-6.6%
Debt Service	18,243	17,126	-6.1%
Deferred Maintenance	2,790	3,395	21.7%
Current Expense & Equipment	78,909	98,588	24.9%
Total Current Expense	121,320	139,074	14.6%
Student Aid			
Undergraduate	20,894	22,151	6.0%
Graduate and Professional	14,762	17,974	21.8%
Total Student Aid	35,656	40,125	12.5%
Total Unrestricted	360,737	388,714	7.8%
Restricted	Projected		
Grants & Contracts	117,910	123,254	4.5%
Endowments	14,260	15,631	9.6%
Gifts	22,951	25,043	9.1%
Other Restricted	31,876	40,244	26.3%
Total Restricted	186,997	204,172	9.2%
Health Services	Projected		
Hospital of the University of Pennsylvania	246,201	257,775	4.7%
Clinical Practices	102,691	108,331	5.5%
Total Health Services	348,892	366,106	4.9%
Total University Expenditures	896,626	958,992	7.0%

progress on a number of its most critical objectives and priorities. This was not done without foregoing other objectives and lesser, but still, important priorities. The rate of growth also reflects the implementation of a number of new enterprises, such as the resale of long distance services at discounted rates to students through PENNTREX and the Wharton Executive Education Center. These activities bring with them both substantial new revenues and expenses. The regulatory environment, critical infrastructure initiatives, such as the computer communications network, and changes in the nature and complexity of major parts of the University are all involved in bringing about major changes in the University's financial picture. Additionally, funds have been used from the unrestricted budget to offset slowed support from other sources, such as in the case of student financial aid support from the federal government. It is, thus, too simple to state that student tuition increases are the primary funding source for budget balance. The University continues to make investments in new initiatives to enhance the University's academic

and financial well-being and to provide fixed cost relief. The funding for the capital campaign initiative is an example. The increased complexity in a number of technology areas brings with it new revenue opportunities through an increased number of grants or potential licenses. The University efforts to service these activities are also being enhanced. In a few areas, we have sought to increase the number of students enrolled. The ability to take advantage of a number of cost cutting opportunities, such as the debt refinancing, and to better leverage our available resources are critical reflections of the capacity of the administrative areas of the University to move forcefully when opportunities present themselves.

Thus, the budget for FY1988 will again place the University in the positive position as a first choice institution. Funds are being allocated on a systematic basis reflecting careful institutional planning decisions. The budget has been able to take advantage of many critical opportunities, reduce the rate of increase in charges to students, and still remains balanced.

Schedule C

UNIVERSITY OPERATING BUDGET BY CENTER, FISCAL YEAR 1988

(in thousands of dollars)

	REVENUES						EXPENDITURES							
	Direct		General University Resources				Total	Direct		Allocated Costs			Total	
	Unrestricted	Restricted	Program Special	Program Regular	Financial Aid	University Bank		Unrestricted	Restricted	Administrative Service Centers	Net Space	Library		
Schools														
Annenberg School	897	7,509		521	40	5	8,972		7,509	1,026		52	385	8,972
Arts and Sciences	74,554	37,677		22,244	1,794		136,269	68,660	37,677	22,091		780	7,061	136,269
Dental Medicine	13,739	6,789	981	2,985	126	(88)	24,532	13,062	6,789	4,052		143	486	24,532
Education	5,286	1,574		634	134	1	7,629	4,689	1,574	1,028		23	315	7,629
Engineering	14,447	12,239		4,830	241	(19)	31,738	13,060	12,239	5,149		165	1,125	31,738
Fine Arts	6,667	1,665		3,480	160	(52)	11,920	7,405	1,665	1,855		77	918	11,920
Law	8,995	935		1,547	199	99	11,775	8,610	935	2,062		82	86	11,775
Medicine	31,111	78,538	4,196	2,067		56	115,968	15,940	78,538	18,389		556	2,545	115,968
Nursing	5,949	3,152		322	136	139	9,698	5,038	3,152	1,369		36	103	9,698
Social Work	1,346	586		1,458	29	(92)	3,327	1,955	586	352		8	426	3,327
Veterinary Medicine	16,291	8,713	13,302	1,252		(114)	39,444	23,986	8,713	6,136		245	364	39,444
Wharton	44,241	28,401		3,987	927		77,556	37,539	28,401	8,718		245	2,653	77,556
TOTAL	223,523	187,778	18,479	45,327	3,786	(65)	478,828	199,944	187,778	72,227	2,412	16,467	478,828	
Resource Centers														
Annenberg Center	1,622	63		891			2,576	1,954	63	515		44		2,576
Intercollegiate Athletics	1,463	938		4,440			6,841	4,196	938	1,636		71		6,841
Interdisciplinary	590	9,566		4,331	12		14,499	3,668	9,566	1,236		29		14,499
Library	65	1,005					1,070	12,110	1,005	4,449		199	(16,693)	1,070
Museum	1,288	1,699	180	3,099			6,266	3,121	1,699	1,099		121	226	6,266
TOTAL	5,028	13,271	180	12,761	12		31,252	25,049	13,271	8,935	464	(16,467)	31,252	
Admin. Service Ctrs.														
Student Services	14,022	1,265					15,287	14,022	1,265					15,287
General Administration	1,456						1,456	21,275		(19,819)				1,456
General Expense	4,148	682					4,830	33,381	682	(29,233)				4,830
Oper. and Maintenance							0	36,941		(36,941)				0
Net Space							0	3,395			(3,395)			0
TOTAL	19,626	1,947					21,573	109,014	1,947	(85,993)	(3,395)		21,573	
Gen. Univ. Resources	88,995		(18,659)	(58,088)	(3,798)	65	8,515	8,515					8,515	
Auxiliary Enterprises														
Residences	23,544	1,176					24,720	22,050	1,176	1,181		313		24,720
Dining	11,068						11,068	10,710		320		38		11,068
Bookstore	13,480						13,408	13,309		163		8		13,480
Parking	3,450						3,450	3,192		224		34		3,450
TOTAL	51,542	1,176					52,718	49,261	1,176	1,888	393		52,718	
Total Unrestricted	388,714						388,714	391,783		(2,943)	(126)	0	388,714	
Total Restricted		204,172							204,172				204,172	
Health Services														
Hospital of Univ. of Pennsylvania		257,734					257,734		255,380	2,272		123		257,775
Clinical Practices		113,199					113,199		107,657	671		3		108,331
TOTAL		370,933					370,933		363,037	2,943	126		366,106	
Total University	388,714	575,105	0	0	0	0	963,819	391,783	567,209	0	0	0	958,992	