

The Preliminary Budget for FY 1991—An Overview

Several of Penn's peer institutions—Columbia, Johns Hopkins and Cornell among others—have announced that they will be in deficit for the 1990 fiscal year.

But Penn projects a balanced budget, both this year in performance under the \$1.133 billion budget for FY1990, and in the FY1991 preliminary budget now nearing completion.

Recently in a Q & A after Provost Michael Aiken presented the preliminary budget to departmental chairs and Senate Executive Committee members, one faculty member wanted to know why, when more heavily endowed schools are going into deficit, Penn isn't.

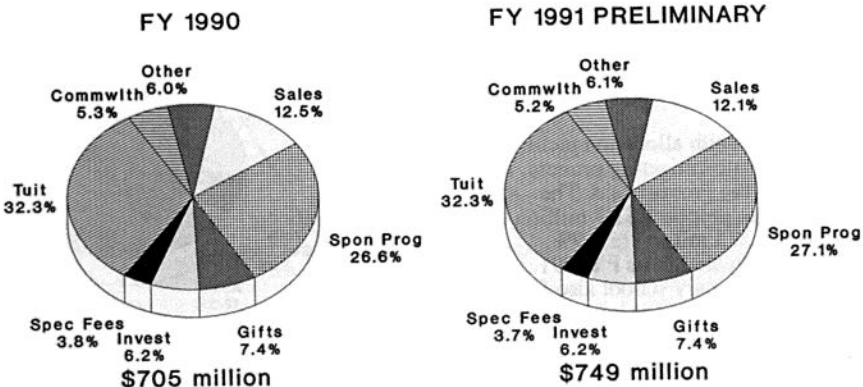
"I think it's because we budget differently, and we plan," said President Sheldon Hackney. Short-term planning, long-term planning (not only centrally, but within the schools and centers) and staying within budget each year as mandated by the Trustees, means that "we are squeezing each dollar as we go along. It's certainly not because we are richer," he said.

Or, as the Provost put it in his opening remarks, "hard choices" are made throughout the process to optimize every dollar with one purpose: to protect the fundamental goals of the University. Those goals, he recalled, are to achieve excellence in

- undergraduate programs,
 - graduate programs,
 - research, and
 - public service;
- while keeping in mind the two essential requirements of academic excellence:
- the quality of the faculty and
 - the quality of the students.

Throughout the past decade, planning has been shaped by these goals, starting with the identification of University priorities in the "Penn's Future" series (i.e., undergraduate programs, financial aid, research and faculty salaries), through the five-year plans of the 12 schools, and into the current University-wide efforts summed up in the Ten Working Groups' recent reports (*Almanac* December 5, 1989 with addenda February 13, 1990).

Revenue Budget Excluding Health Services



The Revenue Side

Emphasizing that the real effects of the Campaign for Penn will not begin to be felt for another two to three years—except for gifts for current programs that are already having a positive impact—the Provost pointed out that while revenue continues to grow overall, the rate of growth of income for schools and resource centers has been slowing from a high point of 14% in 1987 to a projection of about 7% in the 1991 budget.

And, the shape of growth, as well as its rate, is changing—especially the relationship between tuition and sponsored research, the two items that fund about 65% of educational and general expense.

Tuition is declining as a proportion of income (32.3% in 1991, down from 36.2% in 1989). The decline is not only in comparison with the anomalous "bulge" of 1987 when matriculation rates exceeded predictions by 200 students, but reflects a conscious process of containment of costs to undergraduate and graduate students. (See page IV for details on next year's tuition.) Less intentionally, tuition revenue from part-time and summer

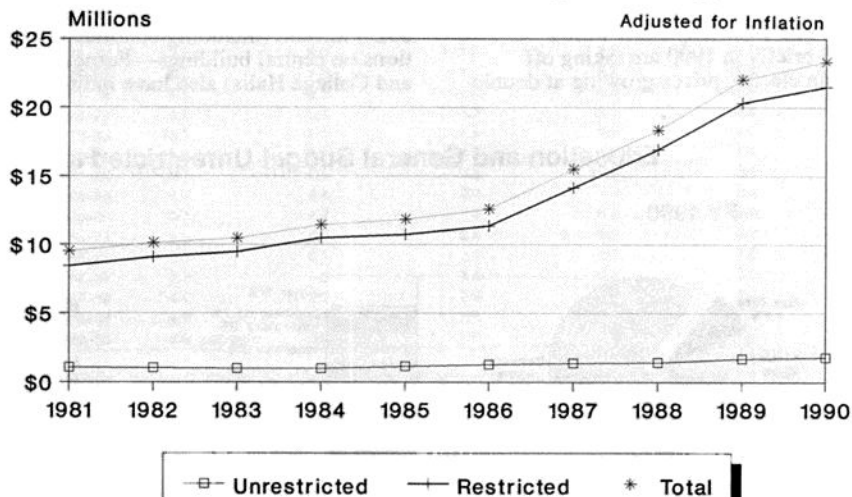
tuition is down because of shrinkage in enrollment.

Meanwhile sponsored research, despite stringencies upon federal agencies, is both growing in dollars (in January 1990 the year-to-date total was \$109 million, up \$4 million from January 1989) and increasing as a percentage of revenues. Its contribution to the total revenue budget (excluding HUP and CPUP, the Clinical Practices of the University) in 1991 is projected at 27.1%, up from 26.6% in 1990. The Provost credited the strong competitive showing of Penn researchers to a concerted effort to construct and upgrade facilities—of which still more are needed to maintain the upward direction in the future.

Endowment income has also been rising—but, he cautioned, *restricted* income is rising faster than unrestricted (see chart below). Schools are now being counseled in strategies to make the most of restricted funds (which include endowed chairs, restricted program and fellowship funds) to free up unrestricted dollars.

The proportion of investment income in

Endowment Income for Schools by Source Type



the revenue budget is expected to grow in the future, as new endowment is added, and assuming continued outstanding performance of the Associated Investment Fund. But for now, endowment income is projected as providing 6% of revenue in 1991 as it did in 1990. Other Income that is increasing in proportion to the budget as a whole includes CPUP contributions to the medical school, and the veterinary school's contract revenues from other states.

The Commonwealth allocation picture, in this stage of the state budgeting process, is "not promising," the Provost said. The Governor's budget proposes \$1.7 million less than the \$17.275 million (a 3.9% increase) Penn anticipated in its FY1991 planning. The veterinary school also faces a loss of \$689,000 compared to what it has budgeted for 1991. Though in many years there have been restorations as the state's budget took firmer shape, Dr. Aiken said, this seems less certain than ever before, because Commonwealth reserves are down, and a tax increase is unlikely.

The Expense Side

In this presentation the Provost left out, for now, both HUP and Clinical Practice figures (their budgets come later in the cycle), concentrating on the Educational and General Budget presented on this page.

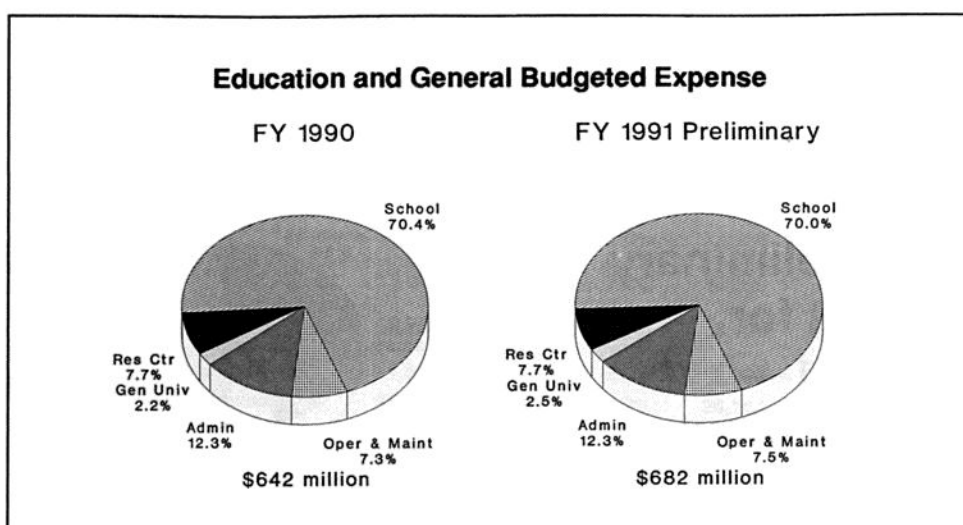
He noted that the University budget as a whole is relatively insulated against any shortfalls in the health area, because the health services have not exhausted their reserves.

The Educational and General Budget, cover all 12 schools, plus resource centers such as the Libraries, the Annenberg Center, recreation and athletics, and the University Museum; operations and maintenance (O&M); and the slice of the pie labeled administration.

An important clarification on the allocation for administration was that the word means two different things: one-third of the administrative slice goes to operate the central administration and offices reporting to it, while the other two-thirds provides shared all-University services such as public safety, environmental safety programs, and the like.

What costs are rising? Utilities, operations and maintenance, public safety, and environmental/regulatory costs, to name a few.

Steam and electricity costs which stabilized briefly in 1990 are taking off again, with electric prices growing at double-



digit rates. The FY1991 budget shows an increase of 13%, or \$2 million.

With each new facility added or significantly updated, not only utilities but other operating and maintenance costs go up accordingly. Penn is keeping an eye on these in relation to capital plans for the future, the Provost said. For example, even if a \$30 million Campus Center is paid for wholly by gifts, the O & M budget could be impacted to the tune of \$1 million to \$1.5 million a year. Similarly, construction costs of a Life Sciences complex, at \$80 million to \$100 million, would be raised as capital funding—but the recurring costs of O&M will have to be funded by unrestricted income.

The University voluntarily, but necessarily, increased public safety spending by \$1.1 million in the FY1991 budget, Provost Aiken said, in addition to measures already taken by the University to provide for improved lighting and escort service, expanded patrols and the hiring of more officers.

Some additional forms of spending are mandated by government safety regulations on asbestos, and on radioactive and other hazardous wastes. These are budgeted \$350,000 higher in 1991. Substantial additional costs, not yet known will come from the City of Philadelphia's mandate on recycling.

Deferred maintenance capital projects of \$32.8 million (including continued restorations on central buildings—Furness, Logan and College Halls) also have indirect impacts

on the operating budgets through allocated costs and debt service. The FY 1991 budget provides \$6.55 million for these purposes.

Two centers to which allocations are rising—but not fast enough in the Provost's view—are libraries and computing. These and central funds for graduate fellowships were at the top of his list for enhancement.

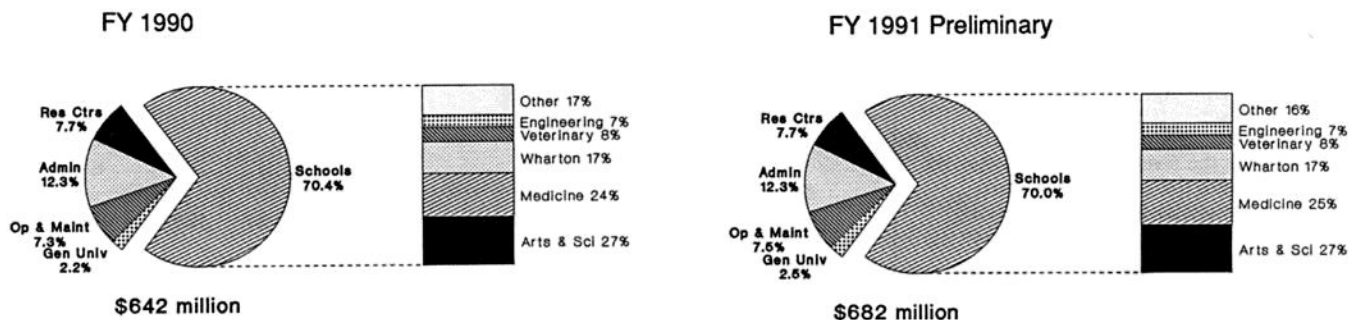
Despite substantial increases [see below] over the past six years, the Libraries need both real growth in acquisitions, and major investments in new information technology. The allocated portion of the Libraries are given an 8% increase in FY 1991 but needed more, he added.

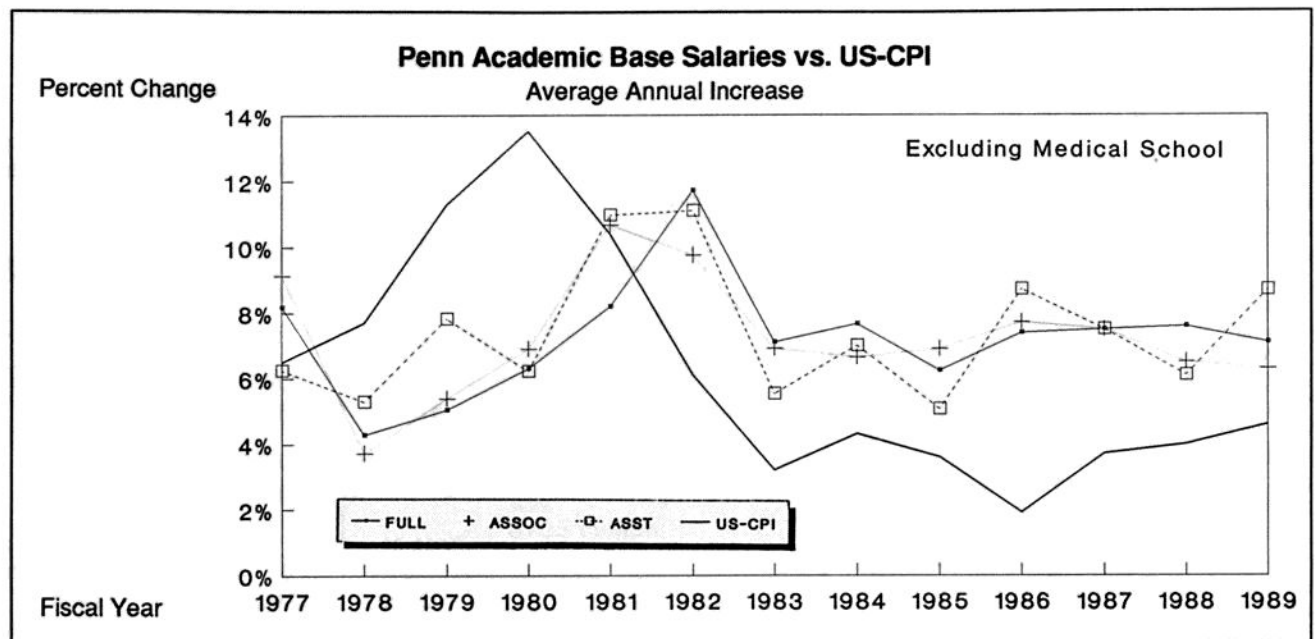
Academic and administrative computing needs a major infusion of \$10-15 million, the Provost said, to modernize the computing architecture—and he visibly chafed at the likelihood that income projections would not change enough to be able to start that investment in the coming year.

Increases in Library Allocated Funds		
	\$Millions	% Increase
FY 1985	13.2	
FY 1986	14.3	8.3
FY 1987	16.1	12.6
FY 1988	16.8	4.3
FY 1989*	18.5	10.1
FY 1990*	20.0	8.1
FY 1991*	21.6	8.0

* Excludes one-time commitments

Education and General Budget Unrestricted and Restricted Expenditures





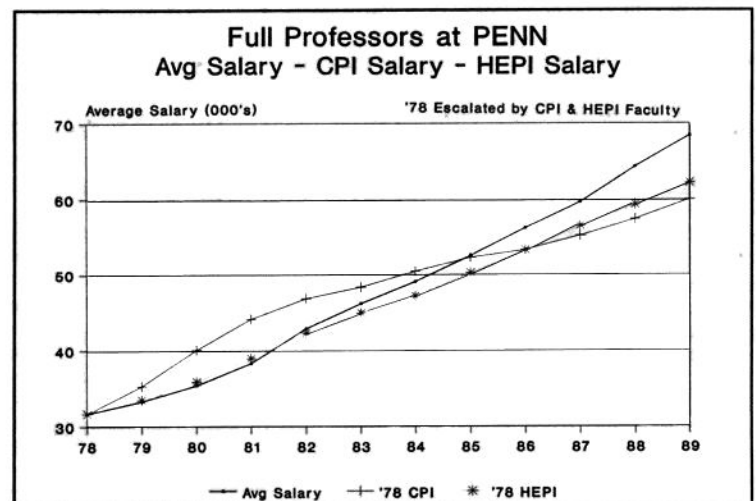
Competitive Salary Markets

During the decade of the seventies, faculty salaries lost ground compared to the rate of inflation, and in comparison to peer institutions. (See graphs and tables, this page.) Over the past ten years Penn, like other universities, has been providing increases beyond inflation in order to catch up. The effort now, Dr. Aiken pointed out, is to *maintain* the competitiveness of Penn's faculty salaries.

For 1991, the Provost projected an allocation of \$1,050,000 in Faculty Reserve Funds to aid in this effort.

Administrative salaries are maintaining "a reasonable market position overall," he said after the meeting, but clerical and secretarial salaries are "falling significantly short of meeting the competitive market." To address this, a Salary Management Initiative developed over the past two years is to continue. (In this program, managers are counseled to weigh the centrality of jobs and productivity of individuals on a five-part scale and to distribute their overall budgeted percentage differentially rather than across-the-board.)

(article continues next page)



Changes in Faculty Salaries and the Consumer Price Index, 1971-72 to 1989-90

	Average Increase in CPI (%)	Average Increase in Monetary Salary (%) (a)	Average Increase in Real Salary (%) (b)	Full Professors at Penn	
				Average Increase in Monetary Salary (%)	Average Increase in Real Salary (%) (b)
1972-73	4.0	4.1	0.1	5.2	1.2
1973-74	9.0	5.1	-3.6	5.6	-3.4
1974-75	11.1	5.8	-4.8	6.2	-4.9
1975-76	7.1	6.0	-1.0	2.2	-4.9
1976-77	5.8	4.7	-1.0	8.2	2.4
1977-78	6.7	5.3	-1.3	4.3	-2.4
1978-79	9.4	5.8	-3.3	5.0	-4.4
1979-80	13.3	7.1	-5.5	6.3	-7.0
1980-81	11.6	8.7	-2.6	8.2	-3.4
1981-82	8.7	9.0	0.3	12.0	3.3
1982-83	4.3	6.4	2.0	7.7	3.4
1983-84	3.7	4.7	1.0	6.3	2.6
1984-85	3.9	6.6	2.6	6.9	3.0
1985-86	3.0	6.1	3.0	7.0	4.0
1986-87	2.2	5.9	3.6	6.1	3.9
1987-88	4.2	4.9	0.9	7.9	3.7
1988-89	4.6	NA	NA	6.4	1.8
1989-90	5.0 estimate	NA	NA	7.2	2.2

Sources: William G. Bowen and Jules Ann Sosa, *Prospects for Faculty in the Arts and Sciences*, (Princeton University Press, 1989), p. 148.

Penn Full Professor Salaries: The Office of Institutional Research, University of Pennsylvania.

(a) Measured in current dollars. All academic ranks in all institutions reporting comparable data for each of the periods since 1971-72.

(b) The average increase in real salaries is the percentage increase in monetary salary less the percentage increase in the Consumer Price Index.

Tuition and Financial Aid

Tuition is not, as sometimes charged, either the first or the last thing set in the budget process, Provost Aiken emphasized. A major influence on this year's determination to contain the rise in tuition was pressure from a variety of constituencies, and Penn—like most other universities—is responding.

For FY 1991, undergraduate tuition goes up 6.9% at Penn, and the General Fee 6.4%, for an overall increase of 6.7%. However, with lesser increases in the cost of rooms and meals, the overall cost of a year's attendance goes up only 6.4%, as shown in the first table at right. Graduate tuition goes up by the same percentages, also shown. (Professional students' tuition and fees go up differentially as set by their schools, and are not yet announced.)

As shown in the second table at right, this year's tuition-and-fee increase of 6.7% is down from last year's 7.3%, and down significantly from the double-digit increases applied in the early years of the eighties.

Rises in tuition always increase the amount that must be found for financial aid, the Provost noted, and Penn has been steadily absorbing more of the financial aid increases as Federal financial aid has declined. Fortunately, the Provost said, some of the wherewithal has come from increases in endowment and gift-supported aid, and Penn's need-blind admissions policy has not been compromised.

Proposed Undergraduate Tuition and Fees For Academic Year 1990-1991

	1988-89		1989-90		1990-91
	\$		\$	Change	\$
Undergraduate Tuition	11,678		12,553	7.5%	13,420
Mandatory Fees					
General Fee	1,072		1,147	7.0%	1,220
Technology Fee	250		250	0.0%	250
Total Tuition & Fees	13,000		13,950	7.3%	14,890
Residential Cost					
Double Room/Quad	2,766		2,980	7.7%	3,159
Dining Cost					
15 Meal Plan	1,882		1,995	6.0%	2,095
Total Undergraduate	17,648		18,925	7.2%	20,144

Proposed Graduate Tuition And Fees For Academic Year 1990-1991

	1988-89		1989-90		1990-91
	\$		\$	Change	\$
Graduate Tuition	12,708		13,662	7.5%	14,608
Mandatory Fees					
General Fee	792		848	7.1%	902

Undergraduate Tuition and Fees at Penn: FY 1982 - Projected FY 1991

Year	Tuition	Change in Tuition	General Fee	Change in Fee	Technol- ogy Fee	Total	Change in Total
FY82	6,315	15.0%	585	14.7%	0	6,900	15.0%
FY83	7,320	15.9%	680	16.2%	0	8,000	15.9%
FY84	8,125	11.0%	755	11.0%	0	8,880	11.0%
FY85	8,790	8.2%	810	7.3%	0	9,600	8.1%
FY86	9,525	8.4%	875	8.0%	0	10,400	8.3%
FY87	10,258	7.7%	942	7.7%	0	11,200	7.7%
FY88	10,968	6.9%	1,008	7.0%	0	11,976	6.9%
FY89	11,678	6.5%	1,072	6.3%	250	13,000	8.6%
FY90	12,553	7.5%	1,147	7.0%	250	13,950	7.3%
FY91	13,420	6.9%	1,220	6.4%	250	14,890	6.7%

Undergraduate Financial Aid Federal and University Funding

